

# The Takeaway

Policy Briefs from the Mosbacher Institute for  
Trade, Economics, and Public Policy

## Preschool for All?

### Simple Keys to Maximizing Return on Investment and Avoiding Unintended Consequences

LORI TAYLOR

Director, Mosbacher Institute

*Like most state governments, Texas makes substantial investments in young children. Last year, more than 240,000 children received pre-kindergarten (Pre-K) or early education services through the Texas public school system, while the Texas Workforce Commission financed child care for more than 125,000 low income children.<sup>1</sup>*

Investments in the education of young children can have strikingly large returns. James Heckman, who won the Nobel Prize in economics in 2000, argues persuasively that the potential returns to investments in young children dwarf the returns to investments in older children or to investments in traditional economic devel-

opment initiatives such as sports stadiums and office towers.<sup>2</sup> Closer to home, a recent study by graduate students at the Bush School of Government and Public Service found that each dollar invested in a full-day, high-quality Pre-K program (which means a program with certified teachers, low pupil-teacher ratios and a



#### WHAT'S THE TAKEAWAY?

The long-term benefits of high-quality Pre-K programs can be substantial.

Public Pre-K programs, which do not partner with private programs, are likely to

- Raise the cost of child care
- Reduce employment
- Increase taxpayer costs
- Burden already crowded public schools

Public-private partnerships are the best option for maximizing the return on state investments in Pre-K.

*...each dollar invested in a full-day, high-quality Pre-K program could generate \$3.50 in benefits to the state as a whole.*

curriculum that emphasizes reading and mathematics) could generate \$3.50 in benefits to the state of Texas as a whole.<sup>3</sup>

The potential returns to an investment in Pre-K education are not guaranteed, however. Errors of implementation can eat away at the expected benefits of any Pre-K proposal. To get the biggest bang for its educational buck, Texas—and indeed every state—needs to focus its attention on high-quality Pre-K education, delivered through a system of public and private partnerships.

### Quality Counts

A focus on high-quality Pre-K is essential because most of the long term returns to investments in young children come from improvements in their cognitive abilities, increases in their educational attainment, and reductions in their need for remedial educational services. Research demonstrates that children who receive high-quality Pre-K instruction outperform their peers on all of these dimensions. There is no evidence that children in low-quality programs show similar improvements.

### Impact on the Child Care Industry

A focus on public partnerships with the child care industry is also essential because most of the near term returns to investments in young children come from the implicit value of the child care and the expected increases in the employment and earnings of parents. Pre-K initiatives that lack strong ties to the childcare industry can lead to higher child care costs, reduced employment, and lower lifetime earnings for parents with younger children.

The road to such unintended consequences is fairly straightforward. Preschoolers are the bread and butter of the child care industry. Given the child/caregiver ratios required for a child care license in the state of Texas, the cost of caring for an infant is roughly three times the cost of caring for a preschooler.<sup>4</sup> The difference in tuition for these two groups does not even begin to cover the difference in costs. Rather than the legitimate 300 percent, surveys suggest that tuition rates are no more than 50 percent higher for infants than they are for preschoolers. The maximum rates used by the Texas Workforce Commission (TWC) to reimburse child care centers typically offer less than a 26 percent premium for infants.<sup>5</sup> Because high-quality care for infants and toddlers is so labor intensive, the tuition paid by the parents of very young children may not even cover the wages for the staff needed to care for them. Tuition payments for older children—particularly preschoolers—make up the difference and cover the rent.

Pulling preschoolers out of the child care system would unbalance this equation. Tuition revenues would no longer cover the full costs of operating a child care center, and some centers would be forced to close. Tuition rates would have to rise in those that remain. Thus, the parents of infants and toddlers would necessarily face sharp reduc-

tions in the affordability and availability of high-quality child care. Because child care costs have a large influence on the employment decisions of mothers, the resulting reductions in maternal employment and earnings could be substantial.

Many low income parents receive child care subsidies from the TWC and would be at least partially insulated from any increase in child care costs. However, the TWC has a waiting list with an average of 24,500 eligible, low income children on it, and those parents have no protection from higher child care costs.<sup>6</sup> Households which are not eligible for TWC assistance would also bear the full brunt of any increase in the cost of child care.

#### Other Unintended Consequences

Another unintended consequence of pulling preschoolers out of the child care system would be the increase in cost to the Texas taxpayer. The TWC estimates that it spent \$70 million in general revenue funds and \$412 million in federal funds on child care subsidies for low income families during the 2013 fiscal year, and another \$48 million in funds from the Texas Department of Family and Protective Services on child care for foster children.<sup>7</sup> Even a modest 5 percent increase in the average cost of child care would force the state to pay an additional \$26.6 million per year, just to maintain the same level of coverage. The only alternative would be to allow the TWC waiting list to balloon to nearly 30,000 low income children, thereby pushing the burden of higher child care costs off onto those least able to afford it.

Last, but not least, pulling preschoolers out of the child care system would not be a cost-effective use of facilities. Many public schools are already bursting at the seams. Expanding public preschool programs would require them to build new buildings or rely heavily on portable classrooms.

Meanwhile, space in licensed child care facilities would sit empty. It makes infinitely more sense to expand and improve the quality of the services within existing structures and institutions than to replicate the existing facilities on public school grounds.

*...a modest 5 percent increase in the cost of child care would force the state to pay an additional \$26.6 million per year, just to maintain the same level of coverage.*

#### Avoiding the Pitfalls through Public-Private Partnerships

Delivering high-quality Pre-K through public-private partnerships is more than just a theoretical ideal. The Texas Kindergarten Readiness System (KRS, formerly the Texas School Readiness Certification System) evaluates the effectiveness of pre-kindergarten, Head Start, and community-based licensed childcare programs in preparing children for kindergarten. In 2011-12, hundreds of Head Start or licensed childcare classrooms were designated as Pre-K Centers of Excellence by KRS, clearly demonstrating that public schools are not the only viable sources of high-quality Pre-K instruction in Texas.

## Conclusions

The evidence suggests that the long-term benefits of a *high-quality* pre-kindergarten program are substantial, regardless of whether the program is provided by a public school, a Head Start program, or a child care center. The near-term benefits, however, can be very sensitive to setting. If public pre-kindergarten programs crowd out the private child care industry, many of the near-term gains to the parents of four-year-olds could be offset by losses to the parents of children three-years-old or younger. Therefore, maximizing the return on Texas' pre-kindergarten investments means following two simple, but essential, rules:

1. Don't settle for mediocrity. Quality costs more, but only high-quality pre-kindergarten programs have a demonstrated, long-term impact on student abilities, achievements, and earnings.
2. Don't cause undue harm to the child care industry. Wherever Head Start programs and licensed child care centers can meet quality standards, they should be part of the state's Pre-K investment portfolio.

**Lori L. Taylor**, the Director of the Mosbacher Institute, holds the Verlin and Howard Kruse '52 Founders Associate Professorship at the Bush School. She is the author of numerous articles on public sector productivity and regional differences in the cost of education.

### Sources:

- <sup>1</sup> *Texas Academic Performance Report*, Downloaded May 5, 2014 from <http://ritter.tea.state.tx.us/perfreport/tapr/2013/state.pdf>; *Texas Workforce Commission Operating Budget for Fiscal Year 2014*, Downloaded April 21, 2014 from <http://www.twc.state.tx.us/business/fmhc/operating-budget-14.pdf>; and *Texas Department of Family and Protective Services Legislative Appropriations Request for Fiscal Years 2014 and 2015*, Downloaded May 5, 2014 from [https://www.dfps.state.tx.us/About\\_DFPS/Financial\\_and\\_Budget\\_Information/2014\\_15\\_LAR.asp](https://www.dfps.state.tx.us/About_DFPS/Financial_and_Budget_Information/2014_15_LAR.asp)
- <sup>2</sup> "The Dollars and Cents of Investing Early: Cost-Benefit Analysis in Early Care and Education," by James Heckman, Rob Grunewald and Arthur Reynolds. *Zero to Three*, July 2006: pp. 10-17.
- <sup>3</sup> *A Cost-Benefit Analysis of Universally Accessible Pre-Kindergarten Education In Texas*, by Elisa Aguirre et al., May 2006. Downloaded May 5, 2014 from <http://bush.tamu.edu/research/capstones/mpsa/>.
- <sup>4</sup> 2012 Texas Child Care Market Rate Survey. Downloaded May 5, 2014 from <http://www.twc.state.tx.us/svcs/childcare/child-care-market-rate-survey.html>.
- <sup>5</sup> Ibid.
- <sup>6</sup> Texas Workforce Commission Freedom of Information request.
- <sup>7</sup> *Texas Workforce Commission Operating Budget for Fiscal Year 2014*.

## ABOUT THE MOSBACHER INSTITUTE

The Mosbacher Institute was founded in 2009 to honor Robert A. Mosbacher, Secretary of Commerce from 1989-1992 and key architect of the North American Free Trade Agreement. Through our three core programs – Integration of Global Markets, Energy in a Global Economy, and Governance and Public Services – our objective is to advance the design of policies for tomorrow's challenges.

### Contact:

Jennifer Moore, Assistant Director | The Mosbacher Institute for Trade, Economics, and Public Policy

Bush School of Government and Public Service  
4220 TAMU, Texas A&M University  
College Station, Texas 77843-4220

Email: [bushschoolmosbacher@tamu.edu](mailto:bushschoolmosbacher@tamu.edu)  
Website: <http://bush.tamu.edu/mosbacher>

The views expressed here are those of the author(s) and not necessarily those of the Mosbacher Institute, a center for independent, nonpartisan academic and policy research, nor of the Bush School of Government and Public Service.