



The Iowa Policy Project

20 E. Market St. • Iowa City, Iowa 52245 • (319) 338-0773
www.IowaPolicyProject.org

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THE PRICE OF PRESCHOOL AND COST OF LOSING IT *Choices Surrounding Iowa's Investment in Early Childhood Education*

Four years ago, Iowa lawmakers created the Statewide Voluntary Preschool Program for Four-Year-Old Children in response to challenges faced by thousands of Iowa families. Costs of quality preschool education strained budgets for many thousands of Iowa families, and put preschool out of reach for thousands more. Other Iowa families, isolated by geography, lacked access to any preschool, let alone quality preschool.¹



The Statewide Voluntary Preschool Program aimed to remedy those problems. But preschool access was not the only goal of the legislation. Rob Grunewald, a Federal Reserve Bank of Minneapolis economist who studies early childhood education, visited Iowa before the 2007 legislative session, touting the fiscal benefits of investing in high-quality preschool.² Grunewald encouraged his audience to think of early childhood education as an economic development program. Proponents of the program latched on to research indicating the long-term fiscal value of a high-quality preschool program.³

Research suggests that preschool programs have a significant return. The findings of this research suggest that Iowa should be strengthening its investment in early childhood education, not cutting it. This policy brief reviews the fiscal implications of early investment in Iowa's children, and how this choice stacks up against other spending choices, such as tax breaks for corporations.

The History of Iowa's Preschool Program

Iowa's Statewide Voluntary Preschool Program for Four-Year-Old Children (preschool program) was created in 2007, to help all families, regardless of income, provide quality pre-kindergarten education to their young children. By the 2010-11 school year, 325 of Iowa's 361 school districts had received funding from the state and were participating in the program either with school district preschool programs, or by passing funds on to participating community preschools.

The program provides all Iowa 4-year-olds — regardless of income level — with up to 10 hours per week of preschool instruction with a licensed teacher. In addition, participating preschools must provide opportunities for family involvement beyond the 10 hours spent in the classroom, a key component of many of the most successful preschool programs.⁴

Since the creation of the program, preschool enrollment at public schools has steadily increased. For the 2010-2011 school year, an estimated 19,799 Iowa children will be served by the Voluntary Preschool Program; an additional 5,000 students participate in the program, with funding from other sources.⁵ During the 2006-07 school year, by contrast, only 8,255 preschoolers were enrolled in a preschool program at a public school, and just 263 school districts offered preschool.⁶ Numbers for overall preschool enrollment in the state are not available, as the majority of preschools are privately run.

Because the program has only been operation for three school years, there is little information on its impacts. However, what little information is available at this early point is encouraging. Across the board, students from

the preschool program were more likely to be rated as “proficient” in early literacy skills as kindergartners. Overall, 65 percent of those students were rated as proficient in the Dynamic Indicators of Basic Early Literacy Skills assessment, compared to 57 percent who had not attended the program. Among lower-income children, the effect was even greater — 56 percent of children in poverty who had attended the program were proficient compared to 46 percent of children in poverty who had not attended the program.⁷

Early Childhood Education as Economic Development

A growing body of literature suggests that investment in early childhood education has one of the highest measurable returns to the public of any investment — public or private.⁸ Grunewald and another economist at the Federal Reserve Bank of Minneapolis, Arthur J. Rolnick, have suggested that early childhood development programs should be at the top of state and local governments’ economic development plans.⁹

Unlike state and local governments’ traditional economic development programs, which include corporate tax breaks, tax credits, and other forms of subsidization, investment in early childhood education has a measurable return on investment over a given number of years. In comparison with early childhood education investment, “[t]he case for [corporate tax] subsidies is short-sighted and fundamentally flawed,” Rolnick and Grunewald wrote. “From a national perspective, jobs are not created, they are only relocated. From a state and local perspective, the economic gains are suspect because many would have been realized without the subsidies.”¹⁰

Iowa, like nearly every other state in the nation, has a host of economic development programs. They came under some scrutiny in 2009 after the film tax credit scandal. Governor Culver commissioned experts to review the state’s existing tax-credit programs.¹¹ Though the commission issued a set of robust recommendations,¹² the Legislature made only cosmetic changes to Iowa’s current tax credits.

Unlike traditional and frequently questionable economic development programs, early childhood education has been shown time and time again to have a strong public return. Public school preschool programs have not been provided uniformly in Iowa, and the 2007 program is too young for a review of results. Similar programs, however, have been in place in other states. One program, the Perry School in Ypsilanti, Michigan, followed students from enrollment at age 3 or 4 up until they reached age 40. During their preschool years, Perry students were in classrooms for 2½ hours a day with a certified teacher and a ratio of six children to one teacher. In addition, each child had a daily 1½-hour home visit from teachers. Over those spans of 36 or 37 years, the Perry program has an estimated 12 percent rate of return to society.¹³ The individual participants experienced better grades throughout their schooling experience, were more likely to graduate high school than their peers, and had higher earnings than the control group.¹⁴

But the bulk of the benefits of the program accrued to the public. Participants were less likely to enroll in costlier adult education programs, were far less likely to have committed crimes, and were less likely to rely on public support programs. Each participant who did avoid crime and was not churned through the criminal justice system saved the state \$70,381.¹⁵

The Perry School is not the only example, nor need it be the only model for a high-quality preschool program. Other early childhood education programs have been shown to have high rates of return on investment over the long term.¹⁶ Rolnick and Grunewald compare the return on early childhood education with real-world examples from their home city of typical economic development strategies, such as tax increment financing to develop retail areas and help corporations relocate within the state. “From the state’s point of view, if the subsidy is simply moving businesses within the state, the public return is zero. If the subsidy is required for the business to survive, the risk-adjusted public return is not merely small but could be negative.”¹⁷

A recent study compared the economic effects of traditional economic development programs and investment in early childhood education.¹⁸ A high-quality early childhood education program¹⁹ yields higher rates of return to the state and individual participants over the long-run than traditional economic development programs. Over the long run, a universal, high-quality preschool program would increase the employment rates of state residents by 1.3 percent — more than twice the rate of traditional economic development programs.²⁰ Every dollar invested in a universal, high-quality preschool program increases the present value of real earnings by \$2.78.²¹

In his *Enriching Children, Enriching the Nation*, economist Robert G. Lynch estimates that a high-quality pre-kindergarten program that served both 3- and 4-year-olds would yield relatively quick budgetary savings.²² By one estimate, a high-quality preschool program would begin to pay for itself — through reduced special education costs and reduced juvenile justice costs, among others — in just nine years in Iowa.²³ Within 42 years, the total benefits of such a program — reduced crime rates and justice system costs, higher earnings by participants and thus higher tax revenues, higher workplace productivity rates, savings from reduced grade retention and special education usage, etc. — would outweigh costs by a ratio of 8.4 to 1.²⁴

Iowa's Preschool Program contains some of the features of high-quality and high-yielding programs and lacks other such features. It puts Iowa children in front of a certified teacher and allows for parental involvement outside of the 10 hours of weekly classroom instruction. Yet it is only targeted at 4-year-olds, while many of the documented successful programs included both 3- and 4-year-olds. Similarly, the programs with the highest rates of return have been targeted to serve low-income families and neighborhoods.²⁵ Iowa's program, alternatively, is open to all Iowa 4-year-olds, regardless of income. These key differences suggest that the return on Iowa's current preschool investment is not likely to match the large returns of the seminal research without taking measures to strengthen it.

Like any education program, Iowa's preschool program comes with a price tag. Iowa's present preschool program will cost an estimated \$64 million in 2010-11,²⁶ and a projected \$69 million in Fiscal Year 2012 and \$75 million in FY13 if continued in its current form.²⁷ Further investing and strengthening the program, to comply with the features of some of the successful, documented programs, would undoubtedly add to that price tag. But Iowa is currently spending millions of economic development dollars on programs that have questionable long-term value at best. Iowa's five largest corporate tax credits will cost upwards of \$195 million and \$200 million in FY12 and FY13, respectively.²⁸

A principle of fiscally responsible government is to do what works and stop doing what doesn't work. Quality early childhood education has been shown to yield significant benefits to the individual participants, to society and to state budgets. The benefits of traditional economic development programs, on the other hand, are short-term, at best, and highly suspect in general.

Conclusion

By working further toward universal preschool for 4-year-olds, Iowa lawmakers can maintain and strengthen investment in a concept that has been shown to work. It is an investment that research shows is more likely to pay off for individuals, the public at large, and the state's budget than traditional economic development strategies of tax breaks for businesses.

¹ Rod Boshart, "Senate sends preschool bill to Culver," *The Gazette*, April 19, 2007. <http://nl.newsbank.com/nl-search/we/Archives?p_action=doc&p_docid=118A0F099F81A0C8&p_docnum=1>.

² Karen Mracek, "Early education yields high return," *The Gazette*, May 3, 2006. <http://nl.newsbank.com/nl-search/we/Archives?p_action=doc&p_docid=11166BFE625EB4C0&p_docnum=1>.

³ "Study: Iowa's preschool investment pays off," *The Gazette*, June 29, 2007. <http://nl.newsbank.com/nl-search/we/Archives?p_action=doc&p_docid=1198E495F8141058&p_docnum=1>.

⁴ James J. Heckman and Dimitriy V. Masterov, "The Productivity Argument for Investing in Young Children," Working Paper 5, Invest in Kids Working Group, Committee for Economic Development, October 4, 2004. <http://jenni.uchicago.edu/human-inequality/papers/Heckman_final_all_wp_2007-03-22c_jsb.pdf>.

⁵ Statewide Voluntary Preschool Program for Four-Year-Old-Children, Fact Sheet. Iowa Department of Education. Accessed February 7, 2011.

<http://www.iowa.gov/educate/index.php?option=com_docman&task=doc_download&gid=10874&Itemid=1507>.

⁶ PK-12 enrollments by district, grade, race, and gender for the 2000-2001 through the currently available school year, Iowa Department of Education. Accessed February 7, 2011.

<http://www.iowa.gov/educate/index.php?option=com_docman&task=cat_view&gid=391&Itemid=1563>.

⁷ Statewide Voluntary Preschool Program for Four-Year-Old-Children, Fact Sheet.

⁸ For a review of much of this literature, see Heckman and Masterov.

⁹ Arthur J. Rolnick and Rob Grunewald, "Early Childhood Development: Economic Development with a High Public Return," December 2003. <http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3832>.

¹⁰ Rolnick and Grunewald.

¹¹ See “IFP: Tax Credit Review Panel ‘Did Its Job,’” Iowa Fiscal Partnership. January 8, 2010.

<<http://www.iowapolicyproject.org/2010docs/100108-IFP-cred-stmt.pdf>>.

¹² State of Iowa Tax Credit Review Report, Tax Credit Review Panel, January 8, 2010.

<http://www.dom.state.ia.us/tax_credit_review/files/TaxCreditStudyReviewReportFINAL1_8_2010.pdf>.

¹³ Rolnick and Grunewald; Heckman and Masterov.

¹⁴ Early Childhood Education: Investing in Quality Makes Sense,” Research Points: Essential Information for Policy, American Education Research Association, Fall 2005.

<http://www.aera.net/uploadedFiles/Journals_and_Publications/Research_Points/RPFall05.pdf>.

¹⁵ Rolnick and Grunewald.

¹⁶ Heckman and Masterov.

¹⁷ Rolnick and Grunewald.

¹⁸ Timothy J. Bartik, “The Economic Development Benefits of Universal Preschool Education Compared to Traditional Economic Development Programs,” Report prepared for Committee for Economic Development, 2006.

<<http://research.upjohn.org/reports/41>>.

¹⁹ To generate rates of return to early childhood education, Bartik had to make some assumptions about the universal program in his model. Bartik assumes that the program is universally free to 4-year olds, though only about 70 percent of four-year olds participate. Each student is in a classroom three hours a day for 175 days of the year. The program is modeled on Chicago’s Child-Parent Centers. The net cost of this program would be \$4,234 in 2004 dollars.

²⁰ Bartik.

²¹ Bartik.

²² Robert G. Lynch, *Enriching Children, Enriching the Nation: Public Investment in High-Quality Prekindergarten*,” Washington, D.C.: Economic Policy Institute, 2007.

²³ *Enriching Children, Enriching the Nation: Iowa Summary*, Economic Policy Institute, Accessed January 24, 2011.

<<http://www.epi.org/page/-/old/books/enriching/states/ia.pdf>>.

²⁴ *Enriching Children, Enriching the Nation: Iowa Summary*.

²⁵ For a review of the research literature, see James J. Heckman and Dimitriy V. Masterov, “The Productivity Argument for Investing in Young Children,” Working Paper 5, Invest in Kids Working Group, Committee for Economic Development, October 4, 2004. <http://jenni.uchicago.edu/human-inequality/papers/Heckman_final_all_wp_2007-03-22c_jsb.pdf>.

²⁶ Statewide Voluntary Preschool Program for Four-Year-Old-Children, Fact Sheet.

²⁷ Notes on Bills and Amendments: Appropriations Adjustments Bill: House Study Bill 1. Fiscal Services Division, Iowa Legislative Services Agency, January 12, 2011. <http://www.legis.iowa.gov/DOCS/NOBA/84_HSB1_HSub.pdf>.

²⁸ Historic Preservation and Cultural and Entertainment District Tax Credit, Research Activities Credit, Iowa Industrial New Jobs Training Program (260E), High Quality Job Creation Program, and Enterprise Zone Program. Tax Credit Contingent Liabilities Report, Iowa Department of Revenue, December 2010. <<http://iowa.gov/tax/taxlaw/1210RECRpt.pdf>>.

The Iowa Policy Project

The Iowa Policy Project is a nonprofit, nonpartisan organization that promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa’s people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, the Iowa Policy Project advances accountable, effective and fair government. IPP reports are available to the public at www.iowapolicyproject.org.

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