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Does state preschool crowd-out private provision? The impact of universal preschool on the childcare sector in Oklahoma and Georgia

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ABSTRACT

Universal preschool policies introduced in Georgia and Oklahoma offer an opportunity to investigate the impact of government intervention on provision of childcare. Since Georgia used a voucher-like program and Oklahoma utilized its existing public schools, the two states offer a case study of how government provision compares to government subsidization alone. Using a synthetic control group difference-in-difference estimation framework, we examine the effects of universal preschool on childcare providers. In both states there is an increase in the number of formal childcare centers. With the voucher-like program in Georgia, the overall increase in care is partly driven by an increase in the supply of formal childcare in the private sector and partly driven by new publicly-provided preschools. However, there is substantial crowd-out of private consumption of preschool. In Oklahoma, where universal preschool is publicly provided, the increase in the number of childcare providers occurred only in the public sector. The expansion of publicly-provided care seems to be driven largely by movement of employees from private centers to public settings. As such, this case-study comparison suggests that government subsidization through funding was more effective at expanding preschool than government provision.

1. Introduction

In both the 2013 and 2014 State of the Union addresses, President Obama put forward a proposal for Preschool-for-All, a federal program to incentivize state universal preschool programs like those in six states, including Georgia and Oklahoma. In 2012, over 40 states had state-funded preschool programs and collectively these states spent over $5 billion on preschool programs (Barnett et al., 2012). Proponents argue that, by providing equal access to high-quality preschool for all children regardless of their families' income, universal preschool will equalize early childhood development opportunities and improve life outcomes for children. Opponents are concerned that a universal program will serve mostly to supplant private spending on preschool and that publicly provided preschool programs will crowd-out private providers from the childcare market (Burke, 2010; Whitehurst, 2014).

In this paper, we examine the effects of a state's introduction of universal preschool policy on the number of childcare providers. To answer this question we use a differences-in-differences framework, incorporating both traditional and synthetic control group methods. We utilize two unique administrative datasets, one drawn from tax records on businesses operating in the childcare industry and the other from reported state spending and enrollment in universal preschool in Georgia and Oklahoma. Identification stems from comparing the supply of formal childcare in states with universal preschool to that in states without universal preschool before and after the universal preschool policies were introduced.

These two states' universal preschool policies offer a novel and rich opportunity to investigate the impact of government subsidies on the private sector (Levin and Schwartz, 2007). The programs are large in scope, generally providing preschool services to all families with age-eligible children who want to enroll. Importantly, the programs we study, those in Georgia and Oklahoma, were introduced suddenly and widespread care quickly became available. In both cases the universal program was a distinct shift from the previously existing government subsidized preschool programs providing care

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to low-income families on a much smaller scale. Moreover, the childcare market is an interesting setting to examine how public subsidization affects private provision because the childcare sector is a mixed market (with public formal providers and both private formal and private informal providers), has low barriers to entry, and is relatively less concentrated than other industries.

Although the universal preschool policies in the two states are generally similar, they differ in one important dimension. Georgia's program operates much more like a voucher system, where any type of provider can apply to run a universal preschool classroom (provided they meet certain requirements) and will receive funding directly from the state. The Oklahoma system, on the other hand, operates largely through the public school system because the funds flow through the local school districts, which can either provide preschool themselves or contract out with local providers. Although there are other differences between Georgia and Oklahoma that may also lead to differential effects of a universal preschool program, we use the comparison of effects in the two states as a case study for comparing government provision (as in Oklahoma) to government funding alone (as in Georgia).

Basic economic theory predicts that government provision of a good should result in decreased private expenditures on the good and may result in less overall consumption than government subsidization through funding alone (Peltzman, 1973). This is because when the government provides a specific amount or type of a particular good or service, there may be additional costs to consumers (above the market price) of purchasing additional units. Consider the case we study here, universal preschool, where the government provides a set amount of care (3 or 6 h a day). In order to obtain daycare for a full workday shift (8 h), parents have to piece together multiple arrangements, which may be more costly than the hourly cost of childcare (e.g. because of transportation costs). On the other hand, if the government only provides partial care, the private sector may survive if parents demand full workday care and private centers adjust to the new environment (e.g. by providing transportation or operating for different hours). Moreover, with government provision a new competitor to the private sector is introduced. This addition may crowd out private provision of a good relative to an environment where the good is provided through private consumption and government funding. Therefore, despite being partly motivated by the goal of increasing the supply and use of a good, government provision may result in less use of a good, in part because of its effects on private providers.[1]

We find that in Georgia, there is an increase in the number of childcare centers and employees. Of interest is whether the increase is driven by pure expansion of the sector or if there is crowd-out, i.e. displacement of childcare that would have been provided in the absence of government intervention.[2] We find that the overall increase in care is partly driven by an increase in the supply of formal childcare in the private sector and partly driven by new publicly-provided preschools.[3] This makes sense, given that the government allowed both public and private providers to receive universal preschool funds. However, even though the formal childcare sector expanded, we estimate that at least 60% of the publicly funded universal preschool in Georgia took place in pre-existing private childcare settings. As such, there is substantial crowd-out of private consumption of preschool, a finding that is corroborated by evidence on enrollment (Fitzpatrick, 2008; Cascio and Schanzenbach, 2013).

Meanwhile, in Oklahoma, universal preschool increases the number of formal childcare centers, but has little effect on the number of employees. The increase in the number of childcare centers is driven by expansion in the public sector only, which concords with the flow of funds from the state to public schools. Our results suggest that the resulting competitive pressure of this public sector expansion leads to little decrease in the number of private providers, but may have pulled workers from the private childcare providers into public preschools.[4] Using the results for employees, arguably a more direct measure of the size of the childcare market given caregiver-to-child staffing requirements, our estimates suggest that government provision crowds out about 10% of the market. These results are consistent with the Peltzman (1973) hypothesis that government provision will result in less expansion of a market (relative to government subsidization).

In the next section, we describe the universal preschool programs in Georgia and Oklahoma. In Section 3, we detail the data we use to answer each of the above questions. In Section 4, we describe our research design and the results for each question in turn before concluding the paper in Section 5 with a discussion of the implications of our results for policy.

2. What is universal preschool?

Before detailing our analyses, it is worthwhile to describe the universal preschool programs that we study in more detail, particularly because the implementation of universal preschool has been somewhat different across states. Georgia's Lottery for Education Act, passed in 1992, instituted a lottery which funds both the HOPE scholarship program and a pre-kindergarten initiative for four year olds.[5] While initially both programs targeted low- and middle-income households, by 1995, when lottery revenues exceeded expectations, the programs had expanded suddenly to include all age-eligible residents. In 2010, approximately 55% of four year olds were enrolled in Georgia Pre-Kindergarten (GPK) at a total state cost of $341 million. In 1998, the Oklahoma legislature expanded its existing means-tested Early Childhood Program for Four Year Olds (ECPFYO) to include all age-eligible children regardless of income. By 2010, enrollment in the program reached 71% of four year olds and cost $167 million.[6] Fig. 1 details how enrollment in these programs grew.

In both states the programs are voluntary, free, and available to all children irrespective of family income. They operate for the length of the school year, but Georgia mandates a 6.5 h day while Oklahoma offers both half- (2.5 h) and full- (6 h) day options.[7]

[1] Government intervention is sometimes also motivated by increasing the quality of the good or service consumed. In what follows, we abstract from possible changes in the quality of childcare due to a lack of data. Understanding whether government funding and provision have differential effects on childcare quality is a valuable avenue for future research.

[2] Efforts to find empirical support of the theoretical notion of crowd-out have been both relatively limited and mixed in their findings (Cutler and Gruber, 1996; Card and Shore-Sheppard, 2004; Gruber and Simon, 2008; Payne, 2009).

[3] In the working paper version of this paper, we confirmed the results of these state-level analyses with market level analyses. These more micro-level analyses also allow us to examine how the effects of universal preschool differ across communities with different populations. For example, we find that universal preschool had its largest effects on the formal childcare sector in the most rural areas and in places with low pre-existing levels of supply, a finding that may help direct policymaking efforts aimed at expanding the childcare sector. More information on the market-level analyses and their results can be found in Bassok et al. (2013).

[4] Our results are consistent with child care workers shifting from the private to the public sector. However, it may also be the case that in part, the drop in private sector employment is driven by centers reallocating resources towards serving more four year olds and fewer children 0–3, since regulations require lower teacher–child ratios for these young children. This is consistent with recent findings from Bassok et al. (2014) who provide suggestive evidence that Florida's Universal Preschool program may have reduced services for infants and toddlers.

[5] The HOPE scholarship has received much more attention from politicians and economists than its sister program, Georgia Pre-K. For examples, see Dynarski (2000) and Long (2004).

[6] http://nieer.org/yearbook/pdf/yearbook.pdf (March 13, 2007).

[7] Both options in Oklahoma are free to parents but reimbursement rates to providers depend on the length of care provided. Both states encourage centers to offer additional care (after set program hours and during the summer). However, neither pays the cost of this "supplemental" care.