

Abstract

This study provides a cost-benefit analysis of expanding access to universal preschool education. We focus on a Spanish reform that lowered the age of eligibility for publicly provided universal preschool from age 4 to age 3. We extrapolate the benefits in terms of maternal employment and child development using 'natural experiment' evidence on the causal effects of this reform. In our base line estimation the benefit-cost ratio is around 4, indicating sizeable net societal benefits of the preschool investment. Our results show that the child development effects are the major determinant of the cost-benefit ratio; the employment gains for parents appear to play a minor role. Sensitivity tests show that, although the size of the societal gains is rather uncertain, in most scenarios the expansion of preschool generates positive societal returns. Furthermore, as sufficient high quality levels of preschool are required to generate significant improvements in (non-)cognitive skills of children and thereby long-run benefits for society, our cost-benefit analysis provides support for investing in high-quality preschool.