
Public Financing for Pre-school Places Still Pays Off: a cost-benefit analysis²

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Summary

- The long-term shortage of places in Czech kindergartens has continued for the last ten years, although it has been decreasing thanks to demographic development and new alternative child groups. However, the need for pre-school places has again skyrocketed due to the wave of immigration from Ukraine following its military invasion by Russia in February 2022. There has been a significant drop in the number of births over the last few years, which will reduce the mismatch between supply and demand again in a few years. At the same time, however, it remains the case that the mismatch between supply and demand is a localised phenomenon with limited links to national developments.
- This cost-benefit analysis of the financial costs and benefits of running nurseries quantifies the amount of money lost by the Czech public budgets as a result of the shortage of pre-school places. We estimate that the net return to public budgets from one additional child placed in a kindergarten is approximately CZK 46,000 per year. This is mainly due to the higher income tax and insurance contributions collected by the working parent, mostly the mother, as a result of the nursery school places. The positive net returns are even under very conservative assumptions. The net returns are even higher if secondary and long-term effects are taken into account, including the investment costs of building the nurseries. The investment costs are relatively low compared to the operating costs because they are spread over a long period of the nursery's place in operation.
- The analysis does not take into account other potential public and private benefits, such as easier planning and reconciliation of parental and working life, higher fertility rates, higher household incomes and living standards, less dependence on welfare benefits, or better socialisation and school readiness of children.

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- There are a number of reasons for the persistent local shortage of pre-school capacity:
 - First, the representation of many municipalities does not sufficiently monitor demographic trends and residential development in a timely manner and does not sufficiently translate them into pre-school capacity.
 - Second, although additional children in kindergarten represent a net financial gain for public budgets, this gain is not realised by municipal budgets but by central budgets. On the contrary, the construction costs are charged to the municipal budgets. The fact that, while the costs are well visible, the returns are much less so. This significantly reduces the incentives of municipalities to address pre-school capacity.
 - And thirdly, although the investment cost per pre-school place spread over a long period comes out as low, the immediate level of investment costs is an insurmountable obstacle for most smaller to medium-sized municipalities. In fact, the chances of obtaining subsidies are relatively low and the possibilities of credit financing for municipal construction are limited, given the governance of municipalities by elected representatives.