Monday, September 14, 2009
Education Spending Bad for the Economy?

Will the billions of dollars of federal stimulus funneled to education improve economic output? The answer might surprise you. This blog entry from September 9 by Andrew Coulson (available below) cites a 2008 study that concluded that increased education spending is "associated with lower subsequent economic growth." (I'm spending some time slogging through the study.)

Improved academic achievement (knowledge and skills), not schooling is what improves economic growth.

It's a fascinating conclusion.

This chart which looks at education spending and student achievement (NAEP scores) over the past thirty-three adds some fuel to the stimulus fire.

Tomorrow morning, the president's Council of Economic Advisers will release a report assessing the short and long-term effects of the stimulus bill on the U.S. economy. As with previous iterations, this report will attempt to forecast overall effects of the stimulus across its many different components and the different economic sectors it targets. In doing so, it ignores the clearest research findings available pertaining to a key portion of the stimulus: k-12 education.

The president has committed $100 billion in new money to the nation's public school systems, and required that states accepting the funds promise not to reduce their own k-12 spending. The official argument for this measure is that higher school spending will accelerate U.S. economic growth. But a July 2008 study in the Journal of Policy Sciences finds that, to the authors' own surprise, higher spending on public schooling is associated with lower subsequent economic growth. Spending more on public schools hurts the U.S. economy.

How is that possible? There is little debate in academic circles that raising human capital — improving the skills and knowledge of workers — boosts productivity. So an obvious interpretation of the JPS study is that raising public school spending must not increase human capital. While this possibility surprised study authors Norman Baldwin and Stephen Borrelli, it is consistent with the data on U.S. educational productivity over the past two generations.

Since 1970, inflation adjusted public school spending has more than doubled. Over the same period, achievement of students at the end of high school has stagnated according to the Department of Education's own long term National Assessment of Educational Progress. Meanwhile, the high school graduation rate has declined by 4 or 5%, according to Nobel laureate economist James Heckman. So the only thing higher public school spending has accomplished is to raise taxes by about $300 billion annually, without improving outcomes.

The fact that more schooling without more learning is not a recipe for economic growth is confirmed by the independent empirical work of economists Eric Hanushek and Ludger Woessmann. Their key finding is that academic achievement, not schooling per se, is what matters to economic growth.

Based on this body of research, the president's decision to pump $100 billion into existing public school systems is likely slowing the U.S. economic recovery.