
Economic Policy Institute

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INVESTMENT IN EDUCATION BEST ROUTE TO STRONGER, FAIRER ECONOMY

Report Shows How Schooling, Training Feed Economic Development

As state and local governments make tough funding choices with tight budgets, a new Economic Policy Institute report shows adequate and effective funding of education is the best way to achieve faster growth, more jobs, greater productivity, and more widely shared prosperity. *Smart Money: Education and Economic Development*, written by economic development expert and researcher William Schweke, uses a compelling body of research to show how increased investment in preschool, primary and secondary education, and colleges provides concrete returns to economic development through increases in productivity, learned skills, technology and workers' average earnings.

At a time when our knowledge-based economy demands increasingly higher skills to stay competitive, support for well-resourced schooling and training is key, Schweke says. This strategy is also an important tool for advancing economic equality. As more public school students are poor, minority, or new immigrants, they need good education as a foundation to avoid many social problems stemming from poverty and inequality, and to eventually become productive, highly-skilled workers.

Smart Money notes that many state and local governments have, for example, cut education and other services while investing in programs such as tax incentives to lure companies like Wal-Mart with expectations of an economic boom. The problem is that local resources are often shortchanged and some of the companies attracted by these programs provide mostly low-income jobs that ultimately don't improve the local job market or worker livelihood.

"If our goal is an economic climate that provides good jobs, decent living standards, entrepreneurial workers and a competitive edge over other countries, then investing in education is the single most important thing we can do," said Schweke. "Education should be thought of in terms of productivity, innovation, and the growing of wealth."

Smart Money examines nearly 180 studies that show the relationship between education investment and quality and economic development, emphasizing, for example, how schools provide not just greater knowledge but also an improvement of the lives of current and future workers. Some of the book's findings include:

- Those with less than a high school diploma saw their mean family income *decline* by 14% between 1979 and 1995, but college graduates' mean income *rose* 14%.
- A Bank of America and United Way report found the public saves \$7.16 for every original dollar invested in high-quality child care.

-More-

- A state's economic performance correlates to past investments in such areas as education, according to a state report card assessment by the Corporation for Enterprise Development. Eight out of 11 states with the highest grades for local investment received an "A" or "B" in overall economic performance.
- Community colleges, often a haven for minority and lower-income students without access to four-year universities and colleges, help to increase salaries. Men and women with an associate's degree earn 18% and 23% more, respectively, than their counterparts who are just high school graduates.
- The corporate Committee on Economic Development found that investing \$4,800 per child in preschool education can reduce teenage arrests by 40%.

Recently, some businesses and local governments have acted on the idea that education and social service investment produces good economic benefits. Bank of America, for example, invested \$50 million over five years to improve pre-kindergarten programs, citing that early enrichment in brain growth, language development and motor skills will produce better students. Moreover, a few state governments have responded to calls for more education investment. Arkansas, for example, ended a special session this year on education reform with the General Assembly approving a sales tax that will add a projected \$338 million to education coffers. Virginia's General Assembly in June adopted a \$1.4 billion tax plan, which called for new sales, tobacco and real estate deed taxes that would put more revenue into school systems and other services.

The goal should not be to throw more money at education with no direction, Schweke argues, but to use funds wisely. *Smart Money* suggests many options, such as: reforming state tax codes and business tax incentive programs so that corporations provide a fair share of revenue for education and other essential local services; investing more state and local money in community and technical colleges, which can provide training and skills not just to students but also to older workers who have to keep up with new technologies and requirements in the job market; investing more in early childhood education; and reforming school funding so that spending disparities between local school districts don't exacerbate inequality.

"Investing wisely in education yields real results for workers, business and society in general," said EPI President Lawrence Mishel. "If people coming into the workforce do not have what it takes to succeed in today's economy, unemployment and poorly paid jobs will be a permanent obstacle to true economic success."

William Schweke is research director for the Corporation for Enterprise Development, a nonprofit organization that creates economic opportunity by helping the poor save, invest, succeed as entrepreneurs, and participate as contributors to and beneficiaries of the economy.