Investing in brains

Should the economic squeeze mean cuts, reform or more spending on education?

IN CALIFORNIA the students are revolting—not against their teachers, but in sympathy with them. The state’s governor, Arnold Schwarzenegger, has cut $1 billion, some 20% of the University of California’s budget, as he tries to balance the state’s books. Fees may rise by a fifth, to over $10,000. Support staff are being fired; academics must take unpaid leave.

That is part of a global picture in which cash-strapped governments in the rich world are scrutinising the nearly 5% of GDP they devote to education. Those budgets may not be the top candidates for the chop, but they cannot fully escape it.

Just before Christmas the British government said it planned to reduce spending on higher education, science and research by £600m ($980m) by 2012-13, just as a chilly job market is sending students scurrying to do more and longer courses. The trade union that represents academic staff claims that up to 30 universities could close with the loss of 14,000 jobs. A House of Commons select committee is investigating the effects on British science.

Even where education spending has not been slashed, it may face a squeeze as short-term stimulus spending ends. America’s $787 billion Recovery Act passed by Congress nearly a year ago included $100 billion for education. More than half is to be spent this year, meaning that the budget will have to be cut in 2011. A study by the Centre for the Study of Education Policy at Illinois State University, published on January 18th, found that half of American states will have spent all of their stimulus money for education by the end of July. Cuts will follow. Privately funded schools and colleges have seen their endowments and donors’ enthusiasm wither.

Elsewhere, the cuts are less severe. Japan, for example, is reducing university spending by a flat 1% over each of the next five years. In France President Nicolas Sarkozy last month announced plans to borrow money to finance a €35 billion ($50 billion) spending plan, the lion’s share of which will go to universities. Though that is only a temporary boost, and the money will have to be repaid, it highlights the hopes that governments place in education’s role in future economic growth.

Believers in that will welcome a new study from the Organisation for Economic Co-operation and Development (OECD), a rich-country think-tank. It provides new evidence of the link between educational attainment and prosperity. To be published on January 27th, the study,
entitled “The high cost of low educational performance”, compares international data on 15-year-olds’ cognitive skills—how they apply their science, maths and reading abilities—with their countries’ economic growth.

Admittedly, the real picture is more complicated than some in the education lobby would concede. The OECD study does not link education spending to economic success—or even to educational outcomes. What it does show is that good exam results tend to be followed, a few years later, by small but measurable improvements in economic growth. That does not convince sceptics such as Alison Wolf, author of a book called “Does Education Matter?”. She describes the OECD study as “ridiculously superficial”. Education may be something fun and desirable that countries spend more on as they get richer, rather than being the engine of economic growth.

Just supposing...

Assuming the relation between test scores and future growth is indeed causal, the OECD study also works out the economic benefits of improving cognitive skills by the equivalent of nine months’ worth of schooling. That is a reasonable target: Poland’s education reforms between 2000 and 2006 brought slightly more than that gain. Over many decades, the small rise in average growth rates this could bring makes a big difference—a stonking $115 trillion in extra wealth for its member countries by 2090, the OECD reckons. A more ambitious target, such as getting educational attainment up to Finland’s stellar levels, would mean even bigger gains.

That would require a huge and unlikely shake-up in school education in the rich world. And reforms are even more badly needed in poor countries (see article). But big changes are likely in higher education, which is more sensitive to market pressures.

British universities are right to be worried. Bahram Bekhradnia of the Higher Education Policy Institute, in Oxford, says they are worst-placed to cope with the cuts. Unlike their continental European competitors, they have already diversified their revenues by charging fees. Raising them further will be hard. But they could become more efficient. At Britain’s independent University of Buckingham, the vice-chancellor, Terence Kealey, cheekily welcomed the spending cuts and the two-year undergraduate degree courses that may result. His university had been teaching such courses for years, he noted.

The squeeze on state spending in higher education offers big opportunities for private-sector providers. These already compete strongly in offering professional qualifications. Colleen Graffy, a London-based law professor with Pepperdine, a not-for-profit Californian university, says the private sector is more innovative in designing courses and more flexible in providing them. Alan Jenkins of Kaplan (owned by the Washington Post group) looks forward to a “more level playing field” as the state subsidy drops. And the University of Phoenix, America’s largest private education provider, has sharply increased enrolments, from 384,000 to 455,000 in the past year. It is also talking to the Californian authorities about providing education online. The state’s ability to supply education is one thing. Demand for it is another.