

Cutting public spending for education is the worst austerity policy

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I. The roots of the current crises

The current sovereign debt crises and the unavoidable necessity of budget consolidation are not results of the failure of the free market economy but of the incompetency of the policy makers to manage the economy in a proper way.

Ruthless striving for power and its retention at any price is one of the sources for irresponsible political response.

Outstanding economists defined five criteria set out in the Treaty of Maastricht that must be met by European countries if they wish to adopt the European Union's single currency, the euro. The politicians from the Euro zone member countries have already adopted the "Maastricht Criteria".

But instead to stick strictly to these criteria the most of the same politicians have began irresponsible spending to secure the electorate's favor. Decidedly the devastating financial crisis has caused explosion of the budget deficit and dramatic increase of the sovereign debt. But the role of the politicians for the violating fiscal discipline cannot be ignored.

The sustainability of the Euro zone will depend not only on reestablishing the fiscal discipline according to the Maastricht criteria, but on the introduction of a new market regulation, incorporating social and environmental criteria.

The efficiency of the new market regulation will depend on the grad of appropriateness of the enforcement mechanisms in case of violation.

A common fiscal policy in the Euro zone without economic competence and capacity is doomed to failure. Rigid austerity policy on national level is one of the most important preconditions for securing global financial stability but it causes severe loss of purchasing power and thereby sets an uncontrollable recession curve in motion, which oscillates between currency stability and inflation.

An introduction of common economic policy requires an adaptation of the Treaty of the European Union. Otherwise the announced "Fiscal pact" will remain no more than a declaration of intent without a disciplining power.

Otherwise the introduced austerity measures could prove to be ineffective, the high contributions of the population in vain and the social costs too high.

Cutting public spending for education could cause extremely negative direct and indirect implications on various economic and social sectors not least because of the time lag of the implications.

II. Public spending for education and its implications on economy and society.

A. Direct Implications of Public Spending for Education

Economies with sufficient human capital tend to be more innovative and with higher productivity. The higher the qualification of the working population, the greater the potential for scientific and technological change, and the more positive is the overall social and economic development.

Those countries that have a high standard of cognitive skills of the population are at an advantage in times of crisis. The successful rebuilding process after the Second World War serves as a persuasive example for it.

1. Personal benefits for the working population

Most recent research in Austria provides evidence for a strong correlation between educational level and personal income. Every additional school year respectively year of training effects a 7 percent average increase of the net hourly wage.

The income of employees with a university degree is up to 80% higher than the income of those without a degree in upper secondary education.

The initial formal education plays an extremely important role since failures at this level leave no or very limited opportunity for catching up. The “Life cycle skill formation-thesis” of Flavio Cunha suggests that further education and training pay off for those who already have a high level of qualification.

Informal education as a way for acquisition of professional skills is of great importance especially for people with insufficient formal education.

Stronger involvement of low-skilled workforce in training and lifelong learning could be also an efficient way for limiting the negative impact of the population aging in Europe.

2. Macroeconomic implications of spending for education

The benefits for the state and society as a whole

From state’s point of view the social implications of the education are of greater importance than the benefits of the education for every citizen.

In this sense a comparison of additional public spending for education with higher fiscal revenues is of a great interest. A study conducted by WIFO, an Austrian economic research institute came to a conclusion that the social benefits of one additional year of education and training are higher by 1 per cent than the individual benefits.

The aggregate return of public spending for the society

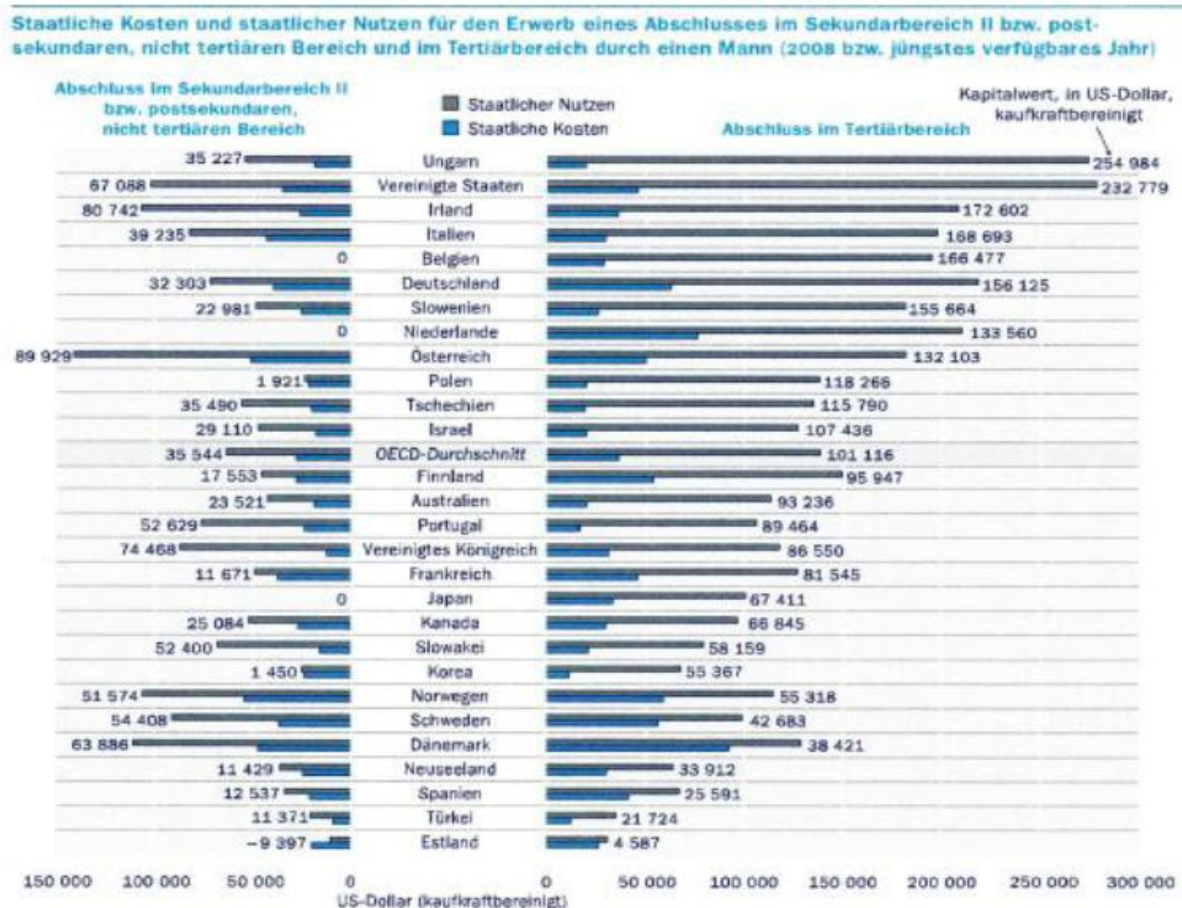
Comparative analysis of the interaction between cognitive skills and economic growth provides reliable tool for estimation of the benefits from educational reform programmes.

With other words, such analysis shows the lost could be expected as a result of not improving education.

3. Better education and higher qualification as driver of the economic growth and prosperity

OECD has recently published the findings of its study on the financial incentives for investments in education.

Staatliche Kosten - investment of the state Staatlicher Nutzen – benefit for the state



Averaged annually created new value by a male person with secondary or post-secondary, different from the university education in the 28 OECD-countries accounts for 388,300 US-dollars. New value created by a female person with the same educational background is 250,700 US-dollars.

The net return on public investment in tertiary, university education for a male person accounts for 100,000 US-dollars in average and is nearly three times higher than the investment. For a female person the return is double so high than the investment.

The additional personal income as a result of university education for a male person accounts for 340,000 US-dollars and for a female person respectively 233,000 US-dollars for women.

The loss of income during the university education is an essential part of the total investment. Higher income as a result of better education secures higher fiscal revenues thus reducing the need for social welfare transfers.

In almost all countries under review the rate of return on public investment in education of a person with upper secondary or post-secondary, different from university education is positive.

The average benefit for the state is more than double than the investments in education in upper secondary or post-secondary, different from university education sector.

The benefit for the state in the sector of tertiary, university education is sufficiently higher, partly due to the contribution by the students in covering a part of their educational costs.

Existing opportunities for higher return on investment in education

OECD study “The high economic costs of inadequate education”, using simulation calculations on three scenarios for the future, demonstrates the impact of investments in education on the gross national product.

These virtual scenarios are limited to using only measurable parameters. Only parts of the educational process could be quantified.

OECD study demonstrates enormous benefits of investments in education.

At the same it clearly shows the enormous damage which could arise if they’ll be cut and remain insufficient.

Scenario 1: Increase of the PISA performance by 25 points

An increase in the school performance by only 25 points in the next 20 years is a modest goal. This is less than Poland has achieved between 2000 and 2006. But if all OECD countries achieve this goal, this would result in a higher economic output of 115 trillion US-dollars (about 84 trillion euro).

In Austria, for instance, the increase of the economic output will account for 900 billion US-dollars (about 659 euro).

Scenario 2: All OECD countries achieve the Pisa performance level of Finland

If all OECD could achieve the Pisa performance level of Finland this would result in an increase of the economic output of is 260 trillion US-dollars (about 190 trillion euro). Only in Germany the increase will account for 16 billion U.S.-dollars (about 11.7 billion euro) and in Austria for 1.4 trillion US-dollars (about 1 trillion euro).

Scenario 3: Each OECD country achieves 400 PISA performance points

The ambitious goal of improving the school performance to the level of 400 PISA points would result in additional increase of the economic output of nearly 200 trillion US-dollars (about 146 trillion euro) compared to the increase according to Scenario 2.

The used forecasting models are based on the assumption of improvement of the school performance by more learning. They do not implicate how schools should be reformed and economic and educational policy accordingly adjusted.

OECD study and its findings demonstrate the enormous losses for the economy and the society in the case of inactivity.

4. The contribution of investment in education to employment and to strengthening the purchasing power

Unemployment rate of young people (15-24 years of age)

Jugendarbeitslosenquote (15-24 Jahre) im internationalen Vergleich

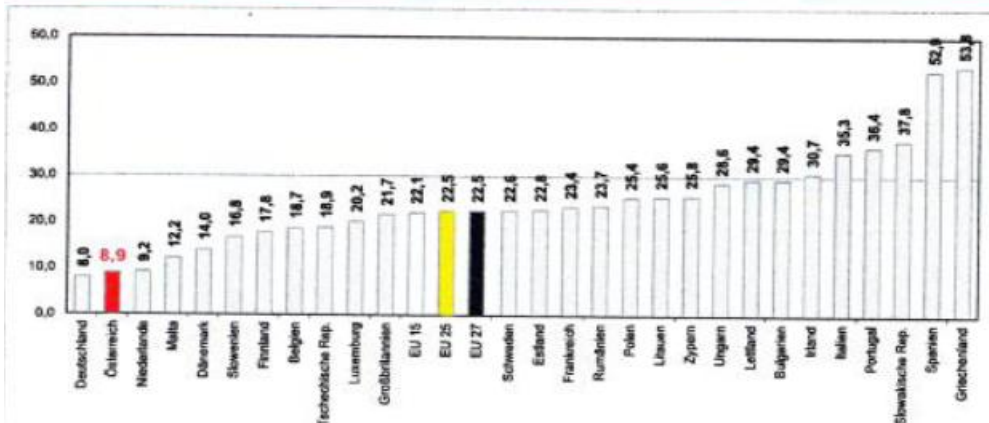
Letztverfügbare Monatswerte

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	Insgesamt		Männer		Frauen		aktuelle Daten von
	Jul.12	Veränd. zum Vorjahr ^a	Jul.12	Veränd. zum Vorjahr ^a	Jul.12	Veränd. zum Vorjahr ^a	
EU 27	22,5	+1,2	23,2	+1,4	21,7	+0,9	07/2012
EU 25	22,5	+1,3	23,2	+1,5	21,7	+1,0	07/2012
EU 15	22,1	-1,5	23,0	+1,7	21,0	+1,2	07/2012
Österreich	8,9	+1,3	9,2	+1,4	8,6	+1,2	07/2012
Belgien	18,7	-1,2	19,3	+0,8	18,5	-0,8	07/2012
Dänemark	14,0	-0,8	15,1	-1,5	14,2	+2,5	07/2012
Deutschland	8,0	-0,6	8,8	-0,5	7,1	-0,6	07/2012
Griechenland	53,8	+11,2	47,0	+10,7	61,5	+11,0	06/2012
Spanien	52,9	+6,0	53,8	+5,1	51,9	+7,0	07/2012
Frankreich	23,4	+0,9	23,9	+2,5	22,7	-1,1	07/2012
Irland	30,7	+1,0	36,8	+1,6	24,5	+0,5	07/2012
Italien	35,3	+7,5	33,0	+6,4	36,0	+5,1	07/2012
Luxemburg	20,2	+2,6	20,1	+4,3	20,3	+0,8	07/2012
Niederlande	9,2	+1,7	8,2	+1,0	10,3	+2,6	07/2012
Portugal	36,4	+7,0	35,0	+7,3	38,0	+6,5	07/2012
Finnland	17,8	-2,3	18,4	-3,8	17,2	-0,9	07/2012
Schweden	22,6	+0,9	24,0	-0,2	21,1	+2,0	07/2012
Großbritannien	21,7	+1,2	24,5	+2,0	18,4	+0,2	05/2012
Zypern	25,8	+4,8	24,6	+2,4	27,2	+7,4	06/2012
Tschechische Rep.	18,9	+0,6	19,8	+1,4	17,6	-0,5	07/2012
Estland	22,8	+0,7	27,9	+4,1	17,0	-3,1	06/2012
Ungarn	28,6	+3,1	30,8	+4,7	26,0	+1,2	06/2012
Litauen	25,6	-6,8	30,9	-3,0	19,0	-11,3	07/2012
Lettland	29,4	-2,8	28,1	-3,0	30,9	-2,7	06/2012
Malta	12,2	-1,6	13,5	-1,3	10,7	-1,9	07/2012
Polen	25,4	-0,2	22,6	-0,2	29,3	-0,2	07/2012
Slowenien	16,8	+2,4	15,3	+1,5	18,5	+3,2	06/2012
Slowakische Rep.	37,8	+4,1	37,3	+4,1	38,5	+4,0	07/2012
Bulgarien	29,4	+5,7	29,7	+5,6	29,0	+5,9	07/2012
Rumänien	23,7	+0,6	23,7	+0,9	23,8	+0,7	03/2012

Quelle: Eurostat Abfrage vom 31.08.2012



In countries with high percentage of young people with at least a degree of secondary level II the youth unemployment rate is relatively low by European standards. The stronger this educational degree is backed by professional qualification, the easier is the access to the labour market or to further education at post-secondary or tertiary level. The result is a lower rate of unemployment. Austria could serve as a good example for that.

Higher employment rates, especially among young people contribute to better economic performance and higher fiscal revenues.

Therefore it's unsurprisingly that such countries as Spain, Portugal, Greece, but also Ireland with high youth unemployment rate face great difficulties during the current sovereign debt crisis at least to the fact of a relatively low rate of diplomas in the upper secondary sector and/or a low ISCED rating.

B. Indirect implications of investment in education on the society

It's a common knowledge that education is an important factor for the prosperity of the society and for the well-being of every individual. Even classical scripts provide evidence of the conviction of the ancient people that education is decisive precondition for fulfilled life. Policy makers, teachers and parents know the advantages of the education and its positive impact on the society. Findings of recent research also provide strong evidence of correlation between education and economic and social benefits. However, it's extremely difficult to quantify them, in some cases even impossible.

1. Active participation in social life and economic development

People with a higher level of education are more active in social life and content to live their life.

“International Civic and Citizenship Education Study”, conducted by OECD has founded out that students of lower secondary level (grade 8), who are familiar with the concept of citizenship have a positive attitude towards the claim of ethnic minorities for equal treatment. They are also more resistant to extreme populist tendencies.

2. Social integration

The active use of the right to vote is one of the most important evidences of a functioning democracy. In OECD countries there are substantial differences in voting behaviour of people with different level of education.

Election turnout of adults (25- to 64 year olds) with a high level of education is by 14.8 per cent higher than of people with low level of education.

In regard of election turnout of younger adults (25- to 34 year olds) this deference is even higher - 26.8 per cent.

3. Health

The higher the educational level of the individual, the higher is his health consciousness. Education is an important indicator of life expectation. According to 15 OECD countries data a 30-year-old man with tertiary education can expect to live another 51 years in average. At the same time a 30-year-old man with secondary education can expect to live only another 43 years.

Higher education enables stronger sensitivity to environmental issues and more specific knowledge of adverse developments and their impact on the health.

Higher educated people demand more investments in security of the working conditions as an effective measure against workplace accidents and related high medical follow-up costs.

4. Limitation of the negative implications resulting from population decline in the industrialized world

Finally it should be stressed that all above-mentioned positive effects can contribute to the prolongation of the working life, thus reducing the negative effect from the population decline that is in progress in most European countries.

III. Conclusions

Very often in public discussions about education no difference is made between justice and social equity. The right to become educated can be guaranteed only by equal access to education. From legal point of view this right is at the same time a social obligation to make all existing education systems available to everyone in accordance with his abilities and talents.

However, education should not be degraded to a single commodity in a market economic sense. Regrettably very often the education is treated by some European politicians as useful market commodity playing important role in the social and economic life. Therefore most recommendations address organisational issues and efficiency of education.

Education should not only be put into the framework of statistics and rankings such as PISA, TIMSS and others.

But “Education is more”. Life has delivered sufficient evidence for that since this matter was discussed for first time during an EU education minister conference in October 1998 in Baden near Vienna.

“People all over Europe are more than human capital!”

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WIFO: Wirtschaftsforschungsinstitut Österreich, Bildungserträge

WKO: Wirtschaftskammer Österreich, Beschäftigungsstatistik

AKÖ: Arbeiterkammer Österreich, Statistisches Jahrbuch