Talking Points
For use by school leaders in papers or presentations
about important issues related to public education

Economics of Education

Key Message:
Quality schools are the best investment we can make for the future.

Often, especially in uncertain economic times, we think of our schools more in terms of how much public education costs rather than how much it contributes to our prosperity. In fact, our public investment in schools significantly influences our future economic success.

Early Childhood Education
The return on the investment in early childhood education is between $8 and $16 for each $1 invested, depending on the quality of the program and the specific children included.

High School
A high school graduate is likely to earn about $7,000 more per year than a non-graduate.

Post-Secondary
A person with a college bachelor’s degree will earn an average of $21,000 more annually than a high school graduate.

To quantify the monetary value of a public education, Virginia Beach City Public Schools in Virginia hired an economist to develop approximate monetary values of their school outcomes, including: 1) the economic value of degrees awarded by public schools; 2) the reduction of future public costs associated with graduates of public schools; and 3) the economic impact on local wealth of successful public schools. The findings were compelling. Their investment in public schools is associated with the following:

- Increased property values of between $2.8 and $9.5 billion
- Increased lifetime earnings of each graduation class of $800 to $900 million as a result of earning a high school diploma.
- Reduction in public crime costs and public health costs of between $260 and $280 million (in 2011) when compared to those who do not complete high school
- Increased local wealth wherein every $1 spent in the district’s operating budget resulted in another 53 cents spent in the regional economy. Likewise, every job in the school district was associated with an additional 0.64 regional jobs. Similar results were found for the capital budget. Every $1 dollar spent was associated with another 55 cents spent in the regional economy. Every $1 million spent in the capital budget was associated with 12.6 regional jobs.

*Taken from “Quantifying the Successes of Public Schools,” Michael L. Walden, Economist, and James Merrill, Superintendent of Virginia Beach City Public Schools, *School Administrator, June 2012*

The current school funding structure fails to address some key issues. For example, what resources are required to meet a standard of educational adequacy and/or excellence? How do we define academic adequacy or excellence? Which quality of public education does Minnesota want? Does the public have a shared understanding of the “basic funding formula” and the difference between per pupil unit (PPU), average daily membership (ADM) when calculating revenues? Should inflation be calculated using the
consumer price index (CPI) or the implicit price deflator index (IPD)? How do we measure outcomes and identify the value of them? Each of these issues is a piece needed to complete the puzzle and build consensus around school funding and policymaking.

In a Minnesota 2020 (MN2020) survey, conducted at the end of the 2010-2011 school year, 93% of superintendents answered “no” when asked if the current education funding model is good for schools. They believe the current system is underfunded, too dependent on local property taxes, and does not promote continued or improved quality.

The 2013 basic education funding formula provides $5,224 per pupil unit. That means that nearly every Minnesota school district will receive less state aid, after adjusting for inflation, per-pupil unit in 2013 school year than the districts did in 2003 (using the IPD index). According to the Minnesota Department of Education (MDE), state aid to school districts has dropped in the past ten years by 13.3% after accounting for inflation.

To analyze the authentic costs and outcomes of our schools, one must also look at the context within which today’s teachers teach and students learn including diversity, socioeconomics and accountability.

- **Diversity** – In the last ten years, student diversity has increased and the number of minority students has risen 7.7 percent to a total of 26.2% of the students in our schools. Also, as of 2009 14.5% of Minnesota students required special education services.
- **Socioeconomics** – The number of children living at some level of poverty as measured by participation in free and reduced lunch programs has risen 10% since 2002, now including about 37% of public school students.
- **Accountability** – Costly mandates, standards, testing, curriculum, and public expectations have expanded, often without the resources to support them.

There is no “black hole” in education spending.

- According to usgovernmentspending.com and the U.S. Census Bureau, 31 states spend more money as a percent of their Gross Domestic Product (GDP) on education than does Minnesota.
- After adjusting for inflation, school revenues have decreased over the past ten years.
- According to the U.S. Census Bureau 2009 data, Minnesota ranked 46 among the 50 states in the amount they spend on school administration.
- We rank 19th in average teachers’ salaries even though the quality of our teachers ranks among the top in the nation.
- Minnesota learners exceed national achievement scores in National Assessment of Academic Progress (NAEP) fourth- and eighth-grade testing in reading and math and national graduation rates according to the Federal Education Budget Project, New America Foundation.

Although funding for education is less about dollars and cents than it is about our students and our futures, it is significant to note that the monetary return on our investment is as real as the human return.

For further Minnesota Department of Education school budget information go to:

- http://education.state.mn.us/MDE/Accountability_Programs/Program_Finance/Forecasts_Governors_Budget/index.html
- Note: The Minnesota Department of Education uses the Implicit Price Deflator as an inflation calculation. Its numbers are pegged to 2003 dollars