Education and U. S. Economic Growth

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How Does the Plateau of Educational Attainment Fit into Growth Forecasts?

• Update on productivity growth
• Education is just one of the headwinds that will cut the future growth rate by more than half
• Orders of magnitude: how the educational headwind compares to the others. What’s the cumulative impact?
• What are the ingredients of the education headwind?
• What should be the ingredients of the policy debate?
Comparing Industrial Revolutions

The graph compares two time periods:
- 1891-1972: 2.36
- 1972-2012: 1.55
Labor Productivity vs. MFP? Makes No Difference
Divide Post-1972 at 1996, 2004
Headwind: Education

Actual Values

1.5%
Headwind: Inequality

Actual Values

0.8%
Components of the Education Headwind

• Higher Education
  – Cost inflation, worse than medical care
  – $1 trillion in student debt
  – Four-year completion rate in US is 15 points less than Canada
  – Completion rate: US has slid from #1 to #15

• Secondary education
  – PISA test scores, US ranks 25, 30, 32
  – Worst drop-out rates among 30 developed nations
  – Chicago elementary school example
Declining Social Mobility

• Familiar advantages of high-ability, high-income households to provide a head start for their children
  – Education funding based on local property taxes
  – Music lessons, tutoring for SAT scores, legacy advantages
  – Less influenced by college cost inflation

• Disadvantages of poverty households
  – Unwed mothers, no fathers, no books, TV as baby-sitter
Policy Directions

• College cost inflation
  – Not mainly due to instructional expenses
  – Study Canada, how higher education is financed
  – Model: Cutler JEP on Canadian medical care

• Drop-outs and lack of transfer of human capital within poverty population
  – Heckman: early childhood intervention has by far the highest benefit to cost ratio
  – vs. Wall Street Journal “Head Start is a 45-year failure”