

How Public Education Enhances Business Competitiveness, Improves People's Economic Well-Being, and Provides a Sound Return on Taxpayers' Investment

Economic Development, Business Attraction

Firms report that the quality of available labor outweighs all other concerns when making location decisions. The Federal Reserve Bank of Boston's Robert Ady examined the experience of over 2,000 firms that had relocated during the previous five years, finding that "the single most important factor in site selection today is the quality of the available workforce. Companies locate and expand in communities that can demonstrate that the indigenous workforce has the necessary skills required by the company or that have the training facilities to develop those skills for the company." Seventy-two percent of office firms, which include the technology and business service firms that states try to attract, reported that finding qualified labor was their number one consideration when relocating, while only 5% of these firms said that taxes was the major consideration.

<i>Cost Factor</i>	<i>Manufacturing (%)</i>	<i>Office (%)</i>
Labor	36	72
Transportation	35	0
Utilities	17	8
Occupancy	8	15
Taxes	4	5
<i>Total</i>	<i>100</i>	<i>100</i>

Ady, March/April 1997, "The Effects of State and Local Public Services on Economic Development," *New England Economic Review*.

In a separate study of the location decisions of New Economy firms, the U.S. Economic Development Administration found that "in the New Economy, knowledge, rather than natural resources, is the raw material of business" (US EDA, 2002, *The Importance of Quality of Life in the Location Decisions of New Economy Firms*). In 2006, Former Treasury Secretary Henry Paulson told a Columbia University Business School audience that the best approach to helping workers move up the economic ladder is to give people access to first-rate education so they can acquire the skills needed to advance (<http://www.ustreas.gov/press/releases/hp41.htm>).

Taxes Matter, But Other Things Matter More

According to the U.S. Bureau of Economic Analysis, in 1997 American corporations paid \$61 billion in state and local taxes on business profits. This amount comes out to 0.5% of their total business expenses. By contrast, and far more important, business' outlay for employee compensation was 52.6% of total expenditures (US BEA, "National Income and Product Accounts, State and Local Government Current Receipts and Expenditures," <http://www.bea.gov/national/>).

Return on Taxpayers' Investment

Investing in public education is not only good for employers and the people involved, it also produces a great return on taxpayers' investment. The long-term average return on common stocks (before the recent market collapse) was 6.3%, including both dividends and price changes (Niederhoffer and Castaldo, 2004, "Long-term Returns," <http://www.dailyspeculations.com/scholarly/LongTermStockReturns.html>). Meanwhile, the American public's fiscal return on investment in elementary and secondary education is estimated by the Organization of Economic Cooperation and Development to vary between 13.1% and 14.2%, including additional tax revenues from improved earnings minus the public's costs of providing the related educational services (OECD, 2006, *Education at a Glance*).

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Additional Tax Revenue Associated with Additional Education

Increased educational attainment is directly linked to increased earning ability and the associated higher levels of tax contributions.

<i>Annual Income Taxes Paid by Education Attainment</i>	
Dropout	\$3,374
HS diploma (but no higher)	\$7,040
HS and higher (everyone with HS or above)	\$11,747

Rouse, 2007, Consequences for the Labor Market.

Reduction in High School Dropouts = Reduction in Crime

High school dropouts experience greatly reduced employment opportunities and often face bitter economic challenges in life, and they are much more likely than the general population to turn to crime. A 2007 University of California–Berkley study found that a 1% increase in the high school completion rate for men age 20 to 60 would save the nation as much as \$1.4 billion a year in reduced costs from crime incurred by victims and society at large. This would save every taxpayer as much as \$2,100 a year for each additional high school graduate (Moretti, 2007, *Crime and the Costs of Criminal Justice*).

Savings on Public Health Care

High school dropouts on average have less healthy diets and lifestyles, are less likely to take advantage of preventive health care, and are much less likely to have private insurance. Their first encounter with health care is often the publically funded and very expensive emergency room. Each additional graduate will save taxpayers approximately \$39,000 in publically provided health care costs (Muennig, 2007, *Consequences in Health Status and Costs*).

Overall Savings from Dropout Prevention

According to Clive Belfield, City College of New York economics professor, and Henry Levin, Columbia University economics and education professor, the lifetime public savings to taxpayers from changing a high school dropout to a high school graduate is \$209,200.

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