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The Importance of Education: An Economics View

Educational attainment and success affects more than just income

By Michael Greenstone & Adam Looney

November 5, 2012

It's not headline news that educational attainment is highly correlated with income: College graduates typically earn more than less-educated Americans. What is often less discussed is that education is significantly linked to many other outcomes in life, including whether a person will get married and his or her life expectancy. More disturbingly, the gap between more- and less-educated Americans is getting bigger—in some cases, much bigger.

The Hamilton Project, an economic-policy group at the Brookings Institution, released a paper in September titled "[A Dozen Economic Facts About K-12 Education](#)" to help illustrate the growing importance of education on Americans' wellbeing. We found that although the benefits of education have increased over time, measures of educational attainment and achievement have stagnated, meaning that many of our nation's young people are not receiving the skills they need to thrive in the modern economy.

The project's findings focus on three key areas: the disparity in outcomes between more-educated and less-educated Americans; weaknesses in America's K-12 education system; and several promising interventions that could serve as a starting point for education reform.

By exploring the gap in outcomes between more-educated and less-educated Americans, we see how improving education can benefit both individuals and society. Data show that Americans who do not graduate from high school earn less and are much less likely to have jobs than their more-educated peers. On a more personal level, less-educated Americans are less likely to marry and more likely to raise a child in poverty, which reduces the prospects for intergenerational mobility.

In addition to personal costs, individuals with lower levels of education are more likely to impose costs on society. Tellingly, the percentage of Americans without a high school diploma who currently are institutionalized is nearly three times higher than 40 years ago, while the number of institutionalized college graduates has not changed. For Americans ages 25 to 64, the vast majority of the institutionalized are in prison, indicating a dramatic divergence in incarceration rates between those with more and less education. An adult without a high school diploma is also almost 20 times more likely than a college

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Throughout the past several decades, U.S. college-graduation rates have plateaued, while rates in the rest of the world have increased. And so, while older Americans are among the most educated in the world, young American workers now rank 15th in college-completion rates compared with their peers in other countries in the Organization for Economic Cooperation and Development.

Our failure to increase Americans' education levels has also translated into declining wages for many Americans. For example, the annual earnings of the median man in the United States have declined by roughly 19 percent over the last four decades. Further, although the median two-parent American family saw earnings increase 23 percent between 1975 and 2009, this was only because of longer work weeks as total hours worked jumped 26 percent.

Additionally, a growing gap in achievement among students is resulting in a society where opportunities are not equally shared, and education is no longer the great equalizer it once was for our nation. Though there is no difference, for example, in achievement between black and white children at early ages, by the time black students enter school their test scores are lower, and they continue to lose ground throughout their schooling.

Improving K-12 education in the United States is therefore imperative to building a foundation for broad-based economic growth. New economic evidence points to a variety of promising approaches, none of which is a silver bullet, but each of which can help pave the way toward a broader solution. Policymakers should look to targeted practices in successful charter schools, which have shown dramatic improvements in student achievement and could provide lessons for the broader education community.

Small-scale interventions also present opportunities for raising student achievement through cost-effective organizational changes. Such interventions as later starting times and after-school enrichment programs can be effective methods for bettering student outcomes. And, focusing on the basics, there is clear evidence that great teachers have a strong impact on students. In fact, being taught by a better teacher for just one year can increase a student's lifetime earnings and probability of attending college.

A strong education system has been the backbone of the American Dream—providing each generation with the opportunity to do better than the last. Indeed, our country was built on improvements in education. Over the last three or four decades, however, test scores have stagnated, as have rates of high school and college completion. The consequences of this can be seen in the declining living standards of many Americans.



—Gregory Ferrand

"By exploring the gap in outcomes ... we see how improving education can benefit both individuals and society."



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single-minded focus. A failure to do so will leave too many Americans behind in an increasingly competitive global economy.

Michael Greenstone is the director of the Hamilton Project at the Brookings Institution, in Washington. He is also a senior fellow there and the 3M professor of environmental economics at the Massachusetts Institute of Technology. From 2009 to 2010, he served as the chief economist on the White House Council of Economic Advisers. Adam Looney is the policy director of the Hamilton Project and a senior fellow at the Brookings Institution. He was the senior economist for public finance and tax policy with the Council of Economic Advisers in 2009-10 and worked previously at the Federal Reserve Board. The paper, "A Dozen Economic Facts About K-12 Education," can be found at www.hamiltonproject.org.

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