

Educational Spending as Economic Development

Executive Summary

A major leverage point in improving employment, consumer demand, and investment is through state investments in quality PK-12 education. Research is clear that areas with higher and more targeted investments see significant long-term returns in terms of economic capacity, human capital, wages, and tax revenue, along with a host of social benefits including a ‘multiplier effect’ on local jobs, increased property values, reduced social and judicial costs, and community revitalization. In short, “Jobs follow better schools.”

PK-12 Investments lead to long term economic development through:

- Enhanced workforce participation, productivity, and talent retention
- Increased residential property values and tax base
- Reduced social and judicial costs

Policy Actions / Options

- Support weighted student-based funding
- Offer tax credits for education donations
- Establish state matching fund programs for local bonds
- Offer tax incentives for corporate partnerships

Benefits outweigh costs of PK-12 Investments

There is a clear, empirical link between quality education and worker productivity towards capital development. The long-term economic benefit of educational spending generally outweighs any local loss of revenue from marginally higher taxes on consumers. Indeed, studies have shown that **each additional year of school has shown to improve long term economic growth roughly 10%**.¹ This rate of return is even greater for lower income students, who, for a 10% increase in per-pupil-expenditures will see about 7% higher wages and a 3-4 percentage point reduction in the likelihood of adult poverty.²

opportunity costs to districts in terms of a decline in comparative productivity and a shift in businesses and quality workers towards better educated areas. Overall, research suggests a high economic return on education investments by increasing wages and reducing incidents of poverty, with one study concluding well-funded education provides “**a benefit-cost ratio of about 3.**”³

Return on Investment for K-12 Education

For every dollar spent on K-12 Education, a return is realized of:



Even though these investments may impose short term costs via taxes and reduced spending power of consumers, the return in capital production is significantly greater than the cost in the long term through higher wages and property values. Additionally, poorly funded education systems impose additional

Well-funded schools boost property values

The real estate market is closely tied to—and directly measures—local school expenditures. Higher school expenditures “...substantially increase median housing values and residential rates.”⁴ For example, prior studies have found that **for every additional dollar in educational spending, real estate valuations rise by \$20**,⁵ another found that for every additional \$500 in per-pupil expenditures there is a 2.2% increase in home values.⁶

Indeed, home buyers are willing to pay higher prices for homes and higher taxes for better schools. Research has shown that **a 5% increase in test scores leads to a roughly 4% increase in home values.**⁷ Many homebuyers pay close attention to school ‘report card’ scores. Research has shown that a home near an “A” rated school can be priced up to 14%

higher than an identical home near a “B” rated school.⁸

School Spending Attracts and Retains Consumers, Businesses, and Jobs

Poorly supported education is considered a major barrier for new business investments. Per-pupil expenditures, as well as school quality ratings, are major indicators in business location determinations, with spending being considered a main factor in determining a community’s quality of life. There is a clear link between keeping or relocating businesses to areas with better schools, with professionals consistently rating public education at or near the top of the list of reasons to relocate, giving credence to the adages that “**Jobs will follow better schools.**”⁹

PK-12 Investments Have Significant Impacts on State and Local Economic Growth

Investment in public schools makes states and localities more economically competitive. Research supports the idea that improved local education spending can result in improved gross state product. It is well known that areas with higher human capital grow faster. Part of this is due to the ‘multiplier effect’ of educational investments on the broader economy. **Better funded schools hold more capital locally, supporting additional industries in the service, finance, real estate, and construction industries.** This also funds local efforts in support services in safety, counselling, health, psychological services, staff

development programs, and repair & maintenance. Indirectly, quality schools also draw business and retail establishments to nearby locations.¹⁰

High Leverage Policy Options

There are many creative options to improve investments in schools both at the state and local level. The most overarching is a **needs-based student funding formula**, where students with additional resource needs (e.g., low income, special education, gifted) are given a ‘multiplier’ of funds that ensures schools with more resource-intensive students are still well funded. As noted, proper expenditures in low income or resource heavy areas tend to have greater payoffs.

A second strategy is to establish **state matching fund programs for school bonds**. Here, when a district passes a bond measure for specific needs (e.g., new facilities), a state matching program may offset the local burden, which can incentivize improved educational buy-in from communities with less initial tax revenue for education. Similarly, ensuring and encouraging **tax credits for education donations** can provide a means to increase scholarship opportunities or provide targeted education funds.

Finally, offering tax incentives to foster **corporate partnerships** with local schools can incentivise improved training opportunities to help both improve local education and ensure a strong labour pool to keep companies invested in the area.

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¹ George Psacharopoulos and Harry Anthony Patrinos, “Returns to Investment in Education: A Decennial Review of the Global Literature,” *Education Economics* 26, no. 5 (September 3, 2018): 445–58, <https://doi.org/10.1080/09645292.2018.1484426>.

² Diane Whitmore Schanzenbach et al., “Fourteen Economic Facts on Education and Economic Opportunity” (The Hamilton Project, 2016), <https://www.brookings.edu/articles/fourteen-economic-facts-on-education-and-economic-opportunity-2/>.

³ Robert G Lynch, “The Economic and Fiscal Consequences of Improving U.S. Educational Outcomes” (Washington Center for Equitable Growth, 2015), <https://equitablegrowth.org/achievement-gap/>.

⁴ Jonathan Weiss, “Public Schools and Economic Development: What the Research Shows” (KnowledgeWorks Foundation, 2004), https://www.isd742.org/cms/lib/MN01909691/Centricity/Domain/853/weiss_bookEconomic%20Benefit%20Schools.pdf.

⁵ Lisa Barrow and Cecilia Elena Rouse, “Using Market Valuation to Assess Public School Spending,” *Journal of Public Economics* 88, no. 9 (August 1, 2004): 1747–69, [https://doi.org/10.1016/S0047-2727\(03\)00024-0](https://doi.org/10.1016/S0047-2727(03)00024-0).

⁶ Sandra E. Black, “Do Better Schools Matter? Parental Valuation of Elementary Education*,” *The Quarterly Journal of Economics* 114, no. 2 (May 1, 1999): 577–99, <https://doi.org/10.1162/00335399556070>.

⁷ Phuong Nguyen-Hoang and John Yinger, “The Capitalization of School Quality into House Values: A Review,” *Journal of Housing Economics* 20, no. 1 (March 1, 2011): 30–48, <https://doi.org/10.1016/j.jhe.2011.02.001>.

⁸ David N. Figlio and Maurice E. Lucas, “What’s in a Grade? School Report Cards and the Housing Market,” *American Economic Review* 94, no. 3 (June 2004): 591–604, <https://doi.org/10.1257/0002828041464489>.

⁹ Weiss, “Public Schools and Economic Development: What the Research Shows.”

¹⁰ Marion Davin, “Public Education Spending, Sectoral Taxation, and Growth,” *AMSE School of Economics Working Papers* Vol. 124, no. 4 (November 7, 2014): 553–70, <https://doi.org/10.3917/reep.244.0553>; Philip Decicca and Harry Krashinsky, “Do Differences in School Quality Generate Heterogeneity in the Causal Returns to Education?,” *NBER Working Paper Series*, 2020, <https://doi.org/10.3386/w27089>.