

Something For Nothing

You seldom encounter an economist who tries to sell you something for nothing. Unless, that is, you start talking about education. One of the fundamental revolutions in economics in the past two decades has been the ability of economists to identify the effects of education on the vitality and well-being of a region from a financial perspective.

Note that I am not referring to how much more an *individual* earns after she invests in an extra year of education. The critical issue for economists has become how much *a region as a whole* benefits when a resident invests in an extra year of schooling.

Let's look at the numbers: the US Census Bureau reports that investing in a Bachelor's degree increases an individual's average lifetime earnings by about one million dollars. That amount sounds staggering. And it is, although it represents only the *personal gain* that accrues to the particular individual over many years. However, viewed at the state level a one percent increase in bachelor degree holders is associated with a \$823 increase of *all* workers' median incomes. In Washington State, for example, this would equate to an astounding \$1.4 billion increase in state income (that is $\$823 \times 1,735,245$ - which is the total working population in the state).

There is also a very direct, positive impact from state funded education. Case Study: "Washington State Employment." The *Seattle Post Intelligencer* declared dramatically on August 1, 2005, that "state government's hiring [is] outpacing population growth." Washington's educational institutions seemed to be the major contributor (behind prisons) to bloated state employment. The article stated that college and university employment had grown 24 percent when population had increased by only 12 percent!

The article neglected to clarify that *every employee* who works at Washington's educational institutions is recorded as a "state employee" no matter who funds the position. And another little known fact is that only a fraction of these jobs are paid for by the state! Let me be specific: in 2005, University of Washington had 31000 "state employees" but only 9400 were actually paid for by Washington State. The rest were funded either by private or federal dollars. What a bargain investment! The UW created 22,000 jobs through its excellence in research (via private and public research grants), and the enterprises it has spawned. Oh, and by the way, they also educated 40000 students at the same time.

So why is it so difficult to gather momentum to fund more BA slots in Washington State? Perhaps because educational investment does not pay immediate returns (it takes time to get educated and start being more productive in the labor force). This time delay makes greater education expenditures a tough sell with the legislature. Legislators are already in a bind - they are currently looking for ways to pay for ballooning prison populations, runaway healthcare premiums, and transportation expenditures while the Washington State constituency is using referendums to limit spending. Support your legislator and tell them if you - and your kids - would like to earn more!

Today, Washington's deficit in Bachelor degree production is made up by out of state recruiting and relocating. At first sight that seems like an ingenious solution. That way the

State does not have to pay for educating our great work force right? In other words, why produce BAs in Washington State, when we can just import them? Propositions that involve harvesting without sowing are usually too good to be true, and this is no exception.

Washington currently ranks 49th (!) in the nation for BAs produced at public universities. At the same time, industries that hire predominantly BAs grow six times faster than those that rely on high school or AA degrees. If the state does not increase its local BA production, Washington kids will soon be left with only two options: to move away and pay high, out of state tuition (if they are not among the few lucky ones who get the ever more competitive local spots) or to forgo the necessary degree. Either way there are severe demographic implications: as sectors that demand BAs expand and local BAs become relative scarce, these sectors will turn to intellectual imports. Washington then relies on well-educated individuals to move to the state to work in its highest paying economic sectors, those with the best employment prospects.

We can provide the support to all our native sons and daughters to fill these jobs as well. It pays. More data that speak to the vitality of the region as it relates to education is posted at the UW Economic Policy Research Center's website depts.washington.edu/eprc/education.

(C) Theo Eicher. Theo S. Eicher is Professor and Robert R. Richards Distinguished Scholar at the University of Washington, Department of Economics.