

KNOWLEDGE ECONOMY

Invest in opportunity



The economic case
for investment in education

THE ECONOMIC CASE FOR INVESTMENT IN EDUCATION

The argument for investment in education is evidenced by a significant body of research which highlights the economic value of education, these benefits include:

Boosting employment and the economy

- Students aged 19+ in further education generate an additional £75bn for the economy over their lifetimes.¹
- The value of education related exports to the UK economy was £14.7bn of which £8.2bn was higher education. Higher education institutions create directly and indirectly around 670,000 jobs.²
- In 2000-10, more than half the annual GDP growth in the UK on average was related to labour income growth among those with higher education. In the UK, labour income growth among higher education graduates contributed 1.08% in annual GDP growth of 1.66% on average in 2000-10. By contrast labour income growth among those educated to upper secondary or post-secondary non-tertiary level of education contributed only 0.06% on average in annual GDP growth over the same period, and those whose level of education was below this actually made a negative contribution to GDP growth.³
- Large advantages continue to accrue to both individuals and the public from higher levels of education. The earnings premium from tertiary education is large and has grown further over recent years. Tertiary graduates also generate an extra £55,000 by paying higher income tax and social contributions – far outweighing the public cost of their education.⁴
- Studying for vocational qualifications in adulthood at all levels are associated with an increase in the probability of employment for those individuals who left schooling without qualifications.⁵ In 2002 it was found that:
 - for women, compared with women who left school without qualifications and did not acquire any further qualifications, those who achieved Level 1, 2 and 3 vocational qualifications were respectively 16, 19 and 19 percentage points more likely to be employed in 2002; and
 - for men, compared with men who left school without qualification and did not acquire any further qualifications, those who achieved Level 1, 2 and 3 vocational qualifications were respectively four, 10 and 12 percentage points more likely to be employed in 2001.

Colleges and universities support their national and regional economies

- Universities and colleges act as anchor organisations in their local economies; highly unlikely to relocate, they play a distinct role in creating the long-term conditions needed for economic growth.⁶
- Recent research by Universities UK has indicated that, for every £1 of income for the higher education sector, it generates £2.52 in output, including job production and export earnings. From an income of £23.4 billion, the higher education sector generates about £59 billion of output through direct and

secondary effects, generates about 2.6% of UK jobs, and earns about £5.3 billion in exports.⁷

- FE participants that started a qualification in 2008/09 will generate an additional £75bn for the economy over their working lives, over and above what they would have contributed if they had not achieved these qualifications.⁸
- The ‘knock-on’ effects the colleges generate an additional £9.1bn in other industries throughout the UK, with the majority (£8.7bn) accruing to industries in England.⁹
- Universities and colleges are frequently one of the largest employers in their area, universities, in particular, can boost consumer spending through student numbers, boosting local business, and can have an important impact on housing and tourism. The off-campus expenditure of international students and visitors made a further £2.4bn contribution to GDP in 2008.¹⁰

THE COST OF UNDER-INVESTMENT

Being NEET is costly

- The Audit Commission conducted research to compare the experiences of young men born in 1970 who experienced being not in education, employment or training (NEET) to the experiences of their peers who had been in education, employment or training throughout their late teens.¹¹ The results highlighted that these men were:
 - four times more likely to be out of work
 - five times more likely to have a criminal record;
 - six times less likely to have qualifications, and
 - three times more likely to have depression.

The York University Department of Social Policy and Social Work and Department of Health Sciences projected the direct and indirect lifetime costs of the 2008 cohort people who were NEET as follows:

	Opportunity costs	Public Finance Costs
Short term (age 16-18)	£2 billion	£2 billion
Medium term (age 19-59)	£20 billion	£11 billion
Long term (age 60 and over)	-	<£1 billion
Total	£22 billion	>£13 billion

The cost of youth unemployment

- The cost of educational underachievement in the UK is estimated as £22bn for a generation. This calculation is based on the estimated lifetime cost of an individual not having qualifications (£45,000) multiplied by the number of young people in the population who have no qualifications. It takes into account evidence that there are high wage returns for those who stay in education – at least 10 per cent on average.¹²

- In addition to the cost to the individual, there is the cost to the economy of lost productivity. A conservative estimate for this is approximately the same amount per week again. An upper bound figure for lost productivity is £133m, making the upper estimate for youth unemployment £155m a week.¹³
- The Prince's Trust has estimated the Exchequer costs of youth unemployment per week.¹⁴

^a Labour Force Survey (2010)

^b Office for National Statistics (2010)

Government Office region	Unemployed 20-24 ^a (n)	Maximum lost productivity per week (£)	JSA claimant count 24 and under ^b (n)	JSA total region (£)	Maximum total lost to the economy
Northern Ireland	13,600	3,563,200	19,165	993,705	4,556,905
Scotland	36,200	9,484,400	38,355	1,988,707	11,473,107
Wales	27,500	7,205,000	23,815	1,234,808	8,439,808
England	431,700	113,105,400	344,845	17,880,213	130,985,613
Total	509,100	133,384,200	426,185	22,097,692	155,481,892

- In 2009, the percentage of people aged 16-24 with no qualifications in England, Wales, Scotland and Northern Ireland respectively was 11%, 12.4%, 9.2 % and 19.3%.¹⁵
- The cost of youth unemployment in the UK is estimated in this report in terms of productivity loss and Job Seekers Allowance. There is a cost to the taxpayer of £22m a week in terms of Jobseeker's Allowance.
- The Total Place project for Coventry, Solihull and Warwickshire (CSW) conducted research which found that whilst Coventry and Warwickshire had one of the lowest NEETs figures regionally of 1178 young people (aged 16-19), and each person experiencing being NEET cost £30,000 per annum, equating to over £35m every year. This figure does not include young people that are 'not known'.¹⁶

Notes

- ¹ AoC, (2011), College Key Facts, available at <http://www.aoc.co.uk/en/research/college-key-facts.cfm>
- ² <http://news.bis.gov.uk/Press-Releases/Past-Olympians-and-pilot-of-world-s-fastest-car-join-forces-at-showcase-for-best-of-British-education-67dfd.aspx>
- ³ Table A10.1, OECD, (2012), Education at a Glance, available at: http://www.oecd.org/edu/EAG%202012_e-book_EN_200912.pdf
- ⁴ OECD, (2012), Education at a Glance: OECD indicators 2012, United Kingdom country note, available at: OECD, (2012), Education at a Glance: OECD indicators 2012, United Kingdom country note available at: <http://www.oecd.org/edu/EAG2012%20-%20Country%20note%20-%20United%20Kingdom.pdf>
- ⁵ Sabutes, R., (2008), Impact of Lifelong Learning on Poverty Reduction, IFLL Public Value Paper 1, NIACE, p.14 available at: <http://www.niace.org.uk/lifelonglearninginquiry/docs/Public-value-paper-1.pdf>
- ⁶ (Kelly et al 2009) in McNeil, C and Silim, A., (2012), Further Higher?, IPPR and UCU available at http://www.ucu.org.uk/media/pdf/m/o/further_higher_report_final.pdf
- ⁷ Universities UK, (2009) The impact of universities on the UK economy: fourth report, Available at: <http://www.universitiesuk.ac.uk/Publications/Documents/EconomicImpact4Full.pdf>
- ⁸ BIS, (2011), Measuring the Economic Impact of Education, available at: <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/m/11-816-measuring-economic-impact-further-education.pdf>
- ⁹ Kelly, U., McLellan, D., McNicol, I. (2007) Unpublished paper: The Economic Impact of the Expenditure of the English Further Education Sector, University of Strathclyde
- ¹⁰ (Kelly et al 2009) in McNeil, C and Silim, A., (2012), Further Higher?, IPPR and UCU available at: http://www.ucu.org.uk/media/pdf/m/o/further_higher_report_final.pdf
- ¹¹ Audit Commission, (2010) Against the Odds, available at: <http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/NEETsAgainsttheodds.pdf>
- ¹² Prince's Trust, (2010), The Cost of Exclusion, available at: http://www.princes-trust.org.uk/pdf/COE_full_report.pdf
- ¹³ Prince's Trust, (2010), The Cost of Exclusion, available at: http://www.princes-trust.org.uk/pdf/COE_full_report.pdf
- ¹⁴ Prince's Trust, (2010), The Cost of Exclusion, available at: http://www.princes-trust.org.uk/pdf/COE_full_report.pdf
- ¹⁵ Prince's Trust, (2010), The Cost of Exclusion, available at: http://www.princes-trust.org.uk/pdf/COE_full_report.pdf
- ¹⁶ <http://www.cswp.org.uk/visit-our-blog/entry/neets-still-too-high.html>