



# Investing in Human and Social Capital: New Challenges

ISSUES FOR DISCUSSION

OECD Education Ministerial Meeting  
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## Theme 1

### Tackling the effects of the crisis on education

#### The issue

Education systems all over the world are facing direct and indirect effects of the global financial, economic and increasingly also social crisis. These effects take multiple forms, not all of which are negative, but their overall impact on the education systems herald a challenging period of transformation.

A lack of hard evidence and reliable data hinders our analysis of the impact of the crisis on education. One of the characteristics of the current recession is its speed with which traditional data collection strategies are hard pressed to keep up. There are also huge differences between countries and even within countries. Nonetheless, the general direction of the transformation under way is clear, and it is a certainty that economic recovery will not suffice to mitigate the social and fiscal consequences of the crisis nor their impacts on the education system. At the same time, education and training could well be a central element of the recovery strategy of countries.

#### The challenges

##### *Public expenditure*

Available data indicate that most OECD countries are facing fiscal problems that will force governments to reign in public spending, including on education. Cuts fall mostly in the higher education sector, as well as on capital investment and infrastructure in school education. But other levels and sectors in the education system may be affected as well. Vocational Education and Training (VET) and Early Childhood Education and Care (ECEC) in particular are vulnerable sectors.

Cutbacks in national education budgets have, so far, been limited in overall size and relative impact, but they can have large consequences on institutions, staff and quality of educational provision, through reductions in teaching and support staff, larger class sizes, suspended construction and lesser maintenance of educational buildings.

##### *Private income*

The impact of the financial and economic crisis on the private income generation of educational institutions, especially in higher education, has been quite significant and highly visible in the media. US higher education institutions have faced significant drops in endowment income, donations, pension funds and other sources. Apparently, the crisis has not caused a similar decline in philanthropy and annual giving. Higher education

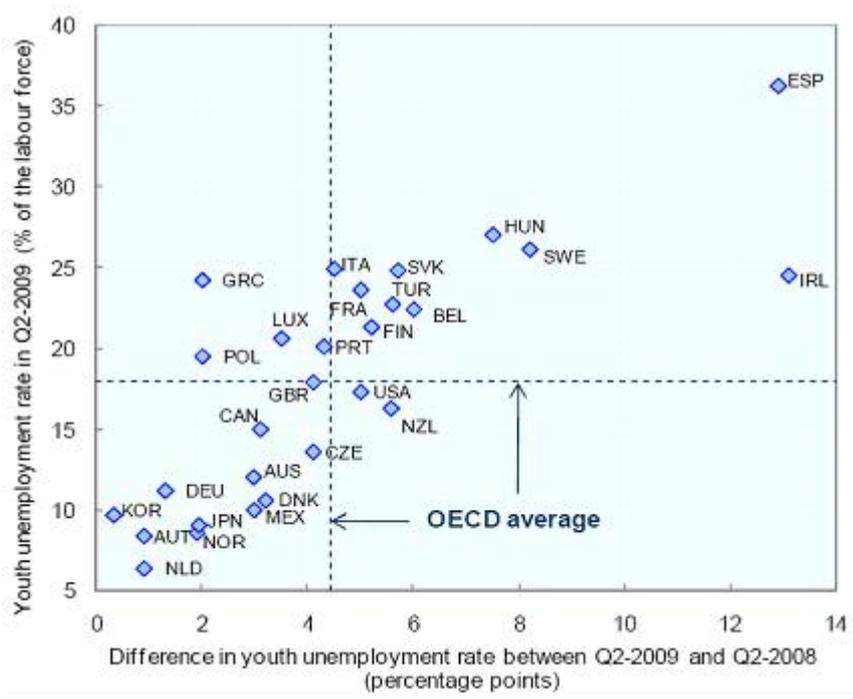
institutions in other countries do not depend as heavily upon endowment and philanthropy as sources of income (and are less transparent about it), but given the increasingly widespread practice of investing in financial assets, many are likely to have suffered losses in 2008-09.

In many countries, higher education institutions have reacted to shrinking budgets by increasing student fees. In several cases this is accompanied by declining grants and less generous student support systems. Student loan systems are affected, mainly where they are privately organised. The crisis also hits the first generation of highly indebted graduates who come to a labour market characterized by high youth unemployment, which in turn affects their capacity to repay loans and the future financial solvency of loan systems.

**Students**

One of the most dramatic consequences of the recession is the sharp deterioration of the labour market, especially for young people. The steep rise in youth unemployment obliges young people to stay in or enter the education system, but offers poor prospects for finding a job after graduation. Unemployed workers and people in weak economic sectors are also looking to education and training opportunities to improve their position on the labour market.

**Deterioration of youth (15-24) unemployment rate in 2008-09**



Source: Scarpetta, S., A. Sonnet and T. Manfredi (2010), “Rising Youth Unemployment During The Crisis: How to Prevent Negative Long-term Consequences on a Generation?”, OECD Social, Employment and Migration Working Papers, No. 106, OECD Publishing. doi: 10.1787/5kmh79zb2mmv-en

Predictions are that it will take a long time to improve the outlook for employment. Previous recessions have shown that it can take 7 years or more after economic recovery

for the labour market to return to pre-crisis employment levels. Even if opportunity costs of education are low, and even if the competitive advantage of better qualifications remain high (and even increase over time), long-term youth unemployment risks undermining the aspiration levels of young people and their trust in social institutions. The drop-out problem may become more serious in times of crisis, whereas it is particularly important for countries to improve the qualification level of the labour force. In the OECD area, the youth (15-24) unemployment rate rose by 6 percentage points in the two years to the end of 2009, to reach almost 19%. There are currently nearly 15 million youth unemployed in the OECD area, about four million more than at the end of 2007.<sup>1</sup> Figure 1 shows the increase in youth (15-24) unemployment rates in the early phase of the recession. Spain and Ireland had exceptionally high youth unemployment rates, but many other countries also faced rates over 20% in mid-2009.

### *Staff*

The most visible and immediate consequences for staff working in education institutions are the increased risk of redundancy, decreasing salaries and deteriorating working conditions as a result of higher class size and cuts in equipment and infrastructure expenditures. In some countries, teachers have had to accept significant salary cuts. Temporary staff are facing massive lay-offs. Several surveys among teachers' unions conducted by Education International - the international federation of teacher unions have indicated widespread fears of job losses, decreased salaries, benefits and pensions, increased working hours and larger class sizes. Yet, the recession can also have more positive consequences for the education labour force. In the recent past, several countries have faced teacher shortages and a decline in the quantity, and quality of teacher training applicants, but many countries now report increases in student intake in their teacher training colleges.

## Policy responses

Governments have reacted in different ways to mitigate the impact of the financial, economic and social crisis on their education systems. Some of the policy responses may run in opposite directions, but are not mutually exclusive. In fact, even in the very same country several policy responses may be observed simultaneously.

### *Investing in education as part of stimulus measures*

To a large extent, the education sector has benefitted from various measures included in countries' stimulus packages introduced by countries: protecting funding levels by other levels of government, making infrastructure investments which also include educational buildings, or introducing specific measures to invest in skills development, research and innovation.

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<sup>1</sup> OECD (2010), Rising youth unemployment during the crisis: How to prevent negative long-term consequences on a generation? OECD Social, Employment and Migration Papers, no. 106, April 2010 [DELSA/ELSA/WD/SEM(2010)6]

### ***Cutting education budgets as part of fiscal consolidation***

Given the need for fiscal consolidation and to reduce the level of public debt, further budget reductions for education are to be expected in the coming years. Most countries try to target those parts of the education system that appear to have less immediate impacts on core functions (such as educational infrastructure and administration). Yet, in several countries, budget cuts in core functions cannot be avoided, thereby affecting schools, teachers and educational delivery.

### ***Meeting increased demand and preparing for the post-crisis economy***

Some countries have introduced policies designed to invest in human capital precisely in this time of crisis, in order to prepare for the post-crisis economy and to be in a better position compared to competitors when the knowledge-intensive economy gathers strength. Such investments are mostly targeted at innovation-oriented components of educational systems. In higher education, some countries are developing specific policies to take advantage of opportunities that arise as a consequence of the global crisis. Examples include policies to convince researchers who went abroad to work in other countries and are laid off to return to their home country; or policies to strengthen the attractiveness of universities for international students who are looking for other opportunities. Increased global competition in attracting talent also creates opportunities for countries to strengthen their relative position on the global market for high-skilled professionals.

### ***Pushing for higher efficiency, innovation and equity in education***

There are clear signals in several countries that the crisis and the difficult budget situation are seen as an opportunity to ask rather fundamental questions about the efficiency and productivity of educational systems, to make a case for more innovation in education and to effectively address equity issues in education systems. Increasing internal efficiency could improve the outputs and outcomes of education for the same or lower investment. Innovation, including increased use of technology, is also seen as a way to steer educational delivery modes into more efficient directions. Last but not least, some countries are acutely aware of the risk that budget cuts in education will disproportionately harm those who are most vulnerable and are, therefore, investing in policies to improve equity in learning opportunities and learning outcomes.

## **Questions for discussion**

1. How is the recession and fiscal consolidation affecting the delivery and quality of education and training, and what specific policies or programmes have countries initiated to address these challenges and improve the efficiency of the educational sector?
2. How can education ministers maintain the level of investment in education and training needed for sustainable economic recovery and social progress?
3. What are the long-term effects of the social crisis on aspiration levels, motivation and learning attitudes, especially among the most vulnerable students?