ERIC HANUSHEK: Hello. I am Eric Hanushek from the Hoover Institution at Stanford University, and I am here with my colleague, Ludger Woessmann, from the University of Munich. Recently, the Organization for Economic Cooperation and Development released our study on the relationship between education and economic growth. They did this at our important meeting of the World Economic Forum in Davos Switzerland. Ludger, you and have I have been working on this problem for a while, but aren't you still surprised at how difficult it is to get policy makers to pay attention to these important issues?

LUDGER WOESSMANN: Yes. That is right. Actually, all nations really have always expressed a very important commitment to the issue of education quality, but when it comes to school policy and real change to it, you don't see much. Maybe that is because actually most of the gains that you would get from such reforms, are far into the future — politicians and parents today may really underestimate the full ultimate gains that we can get from such reforms.

ERIC HANUSHEK: Well, maybe our attempts to bring future gains back to present day will help because the numbers we get from simple policies like, making the U.S. or Germany look like Finland have remarkable impacts on our economies.

LUDGER WOESSMANN: That is right. So, actually, in recent years, economists have become very interested in why some countries grow so much faster than other countries. And so, these analyses usually at least one measure of human capital, as we often put it, is in there, and initial results have been very disappointing. But there human capital is just measured by educational attainment — years of schooling of the adult population — and there you don't see a strong connection to economic growth.

ERIC HANUSHEK: Well, I don't think it takes much motivation to convince people of that. In fact, measures of what people know are much better than how long they spend in school. No one would believe that a year of schooling in Peru is the same as a year of schooling in Germany.

LUDGER WOESSMANN: Right. And, interesting enough, if you use these kinds of measures in the analyses, the results change fundamentally, and we find actually that the schools of the population is probably the driving factor for economic growth of countries. That is the result of a very basic, but very powerful statistical model where we relate the economic growth of countries over the long run, between 1960 and 2000, to the initial level of income of the country, to the initial years of schooling, and to this new measure of people's knowledge in math and science that we have derived from 13 different international student achievement tests taken over this period. Now, what we find is first of all, that such a model explains most of the differences in economic growth across the countries. And that these test score measures of the knowledge of the people is the driving factor indeed. And, finally, once you actually control for the effect of the knowledge, simple years of schooling actually do not add at all to explaining economic growth — meaning that just sitting in the classroom without learning really is of no economic value.
ERIC HANUSHEK: Well, maybe we can convince people about the importance of this by indicating the magnitude. We did simulations of a reform policy for schools that would, over a 20-year period, bring each of the OECD countries up to the level of Finland. The chart that I am showing you now, in fact, gives an indication of how important that is. What we have had to do is take future gains in income that come way out in 2050 and beyond, and bring them back to the current day in present value terms so we can compare them to other spending that we’re making in the economy. When you do this, the chart indicates first, Finland doesn’t gain at all because they are already Finland. But, Japan and Korea gain a little bit — they are close to Finland in terms of academic achievement. But the United States, which is a ways away from Finland in terms of achievement today, would gain a stunning six plus times of its current GDP, or gross domestic product, from this improvement in our schools. That for the United States, amounts to $103 trillion dollars.

LUDGER WOESSMANN: Right, and for the 30 OECD countries in total it is even more — it is $260 trillion U.S. dollars. That is so much more than any of the current packages to fight the recession would be worth, or what we are currently discussing on U.S. healthcare reform spending. And also, actually, we looked at some other reforms as well. If you would just lift the bottom part of the population and make sure that every person has at least a minimum skill level that would amount to more than $70 trillion U.S. dollars for the U.S. alone, and again, maybe $200 trillion U.S. dollars for the whole of the OECD. Such large gains, I am old enough to really push the case for school reform. I don’t know what else could do that.

ERIC HANUSHEK: Well, Ludger, I have to thank you for coming over from Germany to the United States and to Stanford to help try to get this message out. Hopefully we can make some progress convincing policy makers here and elsewhere that this is worth it.