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Education Is the Key to a Healthy Economy

If we fail to reform K-12 schools, we'll have slow growth and more income inequality.

By GEORGE P. SHULTZ AND ERIC A. HANUSHEK

In addressing our current fiscal and economic woes, too often we neglect a key ingredient of our nation's economic future—the human capital produced by our K-12 school system. An improved education system would lead to a dramatically different future for the U.S., because educational outcomes strongly affect economic growth and the distribution of income.

Over the past half century, countries with higher math and science skills have grown faster than those with lower-skilled populations. In the chart nearby, we compare GDP-per-capita growth rates between 1960 and 2000 with achievement results on international math assessment tests. The countries include almost all of the Organization for Economic Cooperation and Development (OECD) countries plus a number of developing countries. What stands out is that all the countries follow a nearly straight line that slopes upward—as scores rise, so does economic growth. Peru, South Africa and the Philippines are at the bottom; Singapore and Taiwan, the top.



Associated Press

West Elementary in Sycamore, Ill.

The U.S. growth rate lies above the line because—despite the more recent shortcomings of our schools—we've long benefited from our commitment to the free movement of labor and capital, strong property rights, a limited degree of government intrusion in the economy, and strong colleges and universities. But each of these advantages has eroded considerably and should not be counted on to keep us above the line in the future.

Current U.S. students—the future labor force—are no longer competitive with students across the developed world. In the OECD's Programme for International Student Assessment (PISA) rankings for 2009, the U.S. was 31st in math—indistinguishable from Portugal or Italy. In "advanced"

performance on math, 16 countries produced twice as many high achievers per capita than the U.S. did.

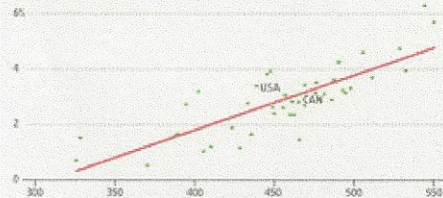
If we accept this level of performance, we will surely find ourselves on a low-growth path.

This doesn't have to be our fate. Imagine a school improvement program that made us competitive with Canada in math performance (which means scoring approximately 40 points higher on PISA tests) over the next 20 years. As these Canadian-skill-level students entered the labor force, they would produce a faster-growing economy.

How much faster? The results are stunning. The improvement in GDP over the next 80 years would exceed a present value of \$70 trillion. That's equivalent to an average 20% boost in income for every U.S. worker each year over his or her entire career. This would generate enough revenue to solve easily the U.S. debt problem that is the object of so much current debate.

With Knowledge Comes Growth

Annual growth rate of GDP per capita (left scale) vs international mathematics test scores (bottom scale), 1960-2000



Source: Eric A. Hanushek & Ludger Woessmann: "The High Cost of Low Educational Performance," (OECD, 2010)

The drag on growth is by no means the only problem produced by our lagging education system. Greater educational disparity leads to greater income-distribution disparity. If we fail to reform our K-12 education system, we'll be locking in inequality problems that will plague us for decades if not generations to come.

Take our own state of California. Once a leader in education, it is now ranked behind 40 other U.S. states in math achievement, placing it at the level of Greece and foreshadowing a bleak future of ballooning debt and growing income disparity.

But the averages mask the truly sad story in the Latino population, soon to become California's dominant demographic group. Hispanics attending school in California perform no better than the average student in Mexico, a level comparable to the typical student in Kazakhstan. An alarming 43% of Hispanic students in California did not complete high school between 2005 and 2009, and only 10% attained a college degree.

Anyone worried about income disparity in America should be deeply disturbed. The failure of the K-12 education system for so many students means that issues associated with income distribution—including higher taxes and less freedom in labor and capital markets—will be an ever-present and distressing aspect of our future.

Examples abound of the ability to make sharp improvements in our K-12 system. By not insisting on immediate and widespread reform we are forgoing substantial growth in our standard of living. The problem is obvious. The stakes are enormous. The solutions are within our reach.

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