

Education: Smart investment during an economic downturn



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In today's global environment, knowledge is increasingly recognised as one of the main driving forces for economic growth and social development. Education plays a major role in generating and disseminating knowledge and in building technical and professional skills. During an economic downturn, the importance of education is even greater. As economies move out of recession, societies need an increasingly skilled workforce to restructure the economy. Hence, more incentives should be put in place in order to encourage school leavers to remain in education.

Higher demand for higher education

Young people who exit school at the minimum leaving age without a job are more likely to become unemployed in the long-term.* Recent findings from the Bureau of Labor Statistics highlighted that the unemployment rate for people over 25 without a bachelor's degree in the U.S. has increased much more rapidly, and to a much higher level, than for those who have a bachelor's degree or higher.

Individuals who lose their jobs, or fear to do so in declining economies, see a university or college degree as a means to improve employment prospects. A recent report from the Organisation for Economic Co-operation and Development (OECD) shows that higher education not only provides less vulnerability to unemployment but also offers a significant financial advantage, worth on average £113,000 extra in lifetime earnings for men and £81,000 for women.

This is why demand for higher education generally goes up during economic downturns. Over the past year the US college and university market has been fuelled by a surge in enrolments from college-age students and those returning to university. Over the next few years, a massive wave of 20.4 million young adults who were born between 1989 and 1993 is likely to push college enrolments to record levels. For profit institutions such as DeVry, Apollo and Strayer, which provide a wide range of degrees online and on campus, reported solid revenue growth with enrolment increasing at a double-digit rate for all business segments.

Strong college enrolment growth also boosted the sales of educational publishing. According to the Association of American Publishers (AAP), the Higher Education market grew 11% in the first eight months of this year. Major publishers such as Pearson and McGraw Hill showed strong performances in their higher education business which helped offset tumbling sales in other business including the elementary-high school market.

Fiscal deficits and education budget

In spite of surging demand and enrolment growth in higher education, the education sector is not immune from the economic recession. Almost every state in the U.S. has introduced budget cuts as a result of the recession and education is one of the most severely effected areas. Education is an easy target, accounting for nearly 21% of states spending - in major states such as California, Florida and Alabama the education budget has been cut by almost 15%.

In particular, state spending for textbooks was dramatically reduced. California recently decided not to adopt new textbooks until 2013 and other states similarly delayed the purchase of new textbooks. According to AAP data, the US School publishing market declined in value by 21% in the first eight months of 2009. The U.S. textbook market is worth almost US\$10 billion which accounts for 41% of the total domestic book market. This year's new textbook market is estimated to be worth only US\$500 million, compared to a previous forecast of nearly US\$900 million.

The serious threat of education budget cuts at the state level was recognised by the Obama administration and a considerable amount of funding (US\$115 billion) was allocated to increase federal spending for education as a part of US\$787 billion stimulus plan. The core of education stimulus is the State Equalization Fund of US\$44.5 billion pledged to help states restore previously abandoned programmes, and in turn saving the jobs of thousands of teachers and school employees. Even though over US\$50 billion has already been authorized to local schools, those funds are not resulting in incremental textbook buying, as schools are primarily using the funds to limit teacher reduction and reduce other cuts in ongoing education programmes.

Opportunities rising from the digital shift

It is also noteworthy that the US government's stimulus package has set aside a separate pot of US\$650 million specifically for educational technology. The money goes to the Department of Education's Enhancing Education through Technology program, from which states get the funds and distribute them to school districts to improve academic achievement through the use of technology. Even though budget cuts have led to the reduction of traditional textbook purchases, most US states are moving towards using their textbook budget allocation on electronic textbooks and instructional materials, which provide more flexibility and are easier to modify and update. Digital textbooks or e-books, are now widely recognised as a viable alternative to schoolbooks.

The digital transformation of textbooks doesn't end with e-books. It also causes educational business models to shift from classic textbook publishing to digital teaching and learning systems. These create a more engaging digital curriculum with interactive games, assessments and curriculum planning tools. This year, this swing toward digital products has accelerated thanks partly to the stimulus funds. Pearson, one of the first companies to offer digital educational products, is well-positioned to take advantage of the digital transformation. Such products now account for a third of Pearson's total educational sales, and has helped it to gain market share in both school and college markets. Other publishers such as Houghton (not listed) and McGraw Hill have also started offering a range of digital services including teacher's editions, homework managers and online modules. UK-based educational technology company RM is also well positioned. As a long term partner for schools in the UK, this company has a good reputation for its unique know-how and quality service that helps schools to successfully integrate technology into their learning and teaching systems.

Recession-proof education in Korea

Korea is one of the highest ranked OECD countries in terms of the proportion of its population who attain upper secondary education (97%) and for its share of spending on tertiary education. As a result of fierce educational competition, intense pressure to get into good colleges and a thriving private education market for teenage students, spending on education has been proved nearly recession-proof. According to a report from the Bank of Korea, this year Korean households' spending on education – already much higher than spending in other OECD countries (U.S. 2.6%, Japan 2.2%, UK 1.5%)* – didn't diminish but slightly increased to 7.4% from of 7.3% last year. Korea also offers good investment opportunities through pure education players such as Megastudy, a provider of online classes and study aids for scholastic assessment tests, and Woongjin ThinkBig, which provides in-home and after-class tutoring services and publish books.

As Benjamin Franklin said, "An investment in knowledge always pays the best interest." We just need to use knowledge to invest smartly in an economic downturn.

*OECD, Education at Glance 2009

** <http://joonggangdaily.joins.com/article/view.asp?aid=2911433>

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