Overview

On 16 February 2022, the OECD Secretary General, Mathias Cormann, opened a virtual *High-Level Seminar on Value for Money in Post-COVID School Education* that brought together high-level decision makers from Ministries of Education and their counterparts from Ministries of Finance, including several Vice-Ministers and Directors-General. The event was convened at the initiative of the French authorities, under the auspices of the OECD Directorate for Education and Skills and the OECD Economics Department on the one hand, and the government of France on the other.

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This High-Level Seminar emerged from the acknowledgement that as OECD countries emerged from the COVID-19 pandemic severely indebted, having spent billions of USD to support healthcare systems and the economy, they owed it to future generations to invest in their future to compensate for the debt incurred.

Indeed, the fiscal response of OECD governments to the COVID-19 crisis has been swift and strong. Across the OECD, governments have committed billions to support public health systems, prevent business failures and shield households from the impact of the crisis. Substantial resources will continue to be needed for the health sector and the economic recovery over the coming years, hence finance ministries will be faced with complex choices in seeking to balance short-term and long-term economic and social goals. As other areas of public policy, education is likely to face growing pressure for cost containment and trade-offs in future budgetary discussions.

On the positive side, from an economic perspective, sustained high-quality education constitutes a long-term investment in the knowledge, skills and competencies of people, which leads to higher productivity, earnings and quality of life for individuals. At the macro level, a well-educated workforce is a key factor in achieving greater aggregate productivity, innovation and long-term economic growth. Beyond these direct economic benefits, there are also a wide range of broader social returns to education, many of which are crucial to make individuals and societies more resilient to respond to future emergency situations such as the COVID-19 crisis. These include better public health and citizenship outcomes as well as the ability to adapt to change and respond creatively to disruptions. Taken together, these direct and indirect benefits of education make a strong case for public support to education.

But education has suffered during the pandemic, questioning how to use this crisis as a stepping stone to rethink education systems and adapt them for the future…

Yet, education has suffered during the pandemic and comes out of it facing a number of traditional and more recent challenges (OECD, 2021[1]) (De La Maisonneuve, Egert and Turner, 2022[2]).

In many systems, mass school closures during the first stages of the pandemic affected the most vulnerable students, thus exposing and amplifying enduring challenges of equity. The pandemic has also underlined some important shortcomings of past education, with so many youths and adults lacking basic critical thinking and information literacy skills, and being lured by disinformation and manipulative complot theories. Last but not least, the pandemic has also emphasised the importance of the socialisation function of education, and the need to support not only the cognitive development of students, but also the development of a range of social and emotional skills, values and attitudes to prepare them to thrive in adverse circumstances.

Students have not been the only education stakeholders to suffer. During the pandemic, teachers have put in massive effort to maintain some education continuity for their students, investing time to train in using digital technologies, responding to new demands such as providing socio-emotional support to their students and devising catch up strategies for those who had fallen behind. But the well-being of educators themselves has become an issue, as many came out of the pandemic drained by two years of education disruptions, high workloads and exposure to the virus, leading some to leave the profession and fuelling teacher shortages in many countries.

As education systems returned to some form of normality in early 2022, education policy makers worldwide were therefore pondering how to use this crisis as a stepping stone to rethink their education systems in order to adapt them to the world of tomorrow and enhance their efficiency.

This reflection takes place in a context of mounting pressure to enhance efficiency in public spending…

Ensuring value for money and efficiency in public spending is a growing imperative, as there will be many competing demands on public budgets in the coming years. Indeed, the *High-Level Seminar on Value for Money in Post-COVID School Education* was held on 16 February 2022, at a time when OECD countries were emerging from the pandemic, and support to the economic recovery, healthcare, ageing and green transition expenditure were the top priorities of policy makers. But this tight budgetary context was exacerbated less than a week later with Russia's war of aggression against Ukraine on 24 February 2022, and its economic, social and geopolitical implications. Seven months down the road, it is now clear that this external shock will have a long-lasting impact on the global economy and OECD countries.

The September 2022 OECD Economic Outlook reviewed some of the short- and medium-term impacts of the war in Ukraine (OECD, 2022[3]). For a start, the conflict and its many ramifications have stalled the momentum of the global economy, which was bouncing back from the COVID-19 outbreak. GDP growth is projected to slow in both 2022 and 2023 in most G20 economies. The war has also accelerated inflation, first and foremost on energy prices, but also for metal and food products, which Ukraine was a large exporter of. Disruptions to supply chains, which were already prevalent in the aftermath of the pandemic, have worsened initially, although there are now signs that bottlenecks are easing. Coupled with the tripling of energy prices over the past year and the possibility of an energy crunch in Europe during the Winter 2022-23, this could hinder industrial activity and continue fuelling inflation, especially for energy-intensive sectors. Meanwhile, nominal wage growth failing to keep pace with inflation, combined with rising interest rates to lower inflation, are putting pressure on household real disposable income in many OECD economies, curbing private consumption growth.

These recent developments could have long-term effects, not only for OECD economies, but also for public budgets as described in various recent reports and analytical pieces (Rogoff, 2022[4]; OECD, 2022[3]):

- First, stalled economic growth in many OECD economies can be expected to dampen fiscal revenues, depending on the extent to which higher-than-expected inflation-related revenue gains compensate the slowdown of economic activity (OECD, 2022[3]). Should the decrease in fiscal revenues materialise, this could fuel public deficits and the public debt burden.

- Indeed, in a context of high inflation, raises in interest rates to curb it down translate into higher public debt service costs for governments.
- High inflation on energy and some commodities' markets will also require public support to cushion the immediate impact of higher food and energy costs for consumers and businesses. As of September 2022, the OECD reported that several large European countries have already announced successive support packages that cumulatively amount to 2% of GDP, or more, and are likely to continue well into 2023 at least. Additional support measures for next year have already been announced in Germany, France, and the United Kingdom (OECD, 2022[3]).
- In relation to energy, the Ukraine war and its ramifications has exposed the dependence of European economies on Russian energy. Climate change (IPCC, 2022[5]), combined with the sudden drying of Russian energy flows, is now forcing OECD governments, especially in Europe, to accelerate and fast-track their energy transition. This will require investments in greener energies and energy efficiency, including clean energies, greener transports and buildings energy efficiency. Public spending will be needed to advance, support and incentivise the energy transition, e.g. for the renovation of public buildings, low-carbon energy and transport infrastructures, and steering private investments through tax incentives or financial support (International Energy Agency, 2022[6]).
- In the industry sector, major supply chains disruptions during the pandemic and since the invasion of Ukraine have raised discussions on relocating some strategic industries (e.g. pharmaceutical products or semiconductors) in advanced economies. Proponents of such strategies emphasise the need to make supply chains more resilient to external shocks, while others underline that such a move would take time, be costly and deglobalisation forces also entails risks on geopolitical stability (Rogoff, 2022[4]). At any rate, this would likely incur costs to public finances.
- Another emerging priority for public finances relates to military and defence expenditure, following several decades of decrease since the end of the Cold War in 1990. There is now emerging evidence of growing military expenditure in the new geopolitical context (Clements and Gupta, 2022[7]) (NATO, 2022[8]).
- Last but not least, social expenditures are likely to remain high priorities for public budgets in managing the consequences of the economic downturn for workers, as well as the refugee crisis.

Taken together, these forces might jointly translate into greater competition for public funds and a tighter budgetary environment. Clement and Gupta emphasise the challenging environment facing policy makers, given the post-COVID-19 fiscal consolidation context. They argue that "*the scope for raising taxes in (advanced) economies is non-existent (…) one potential option would be to restrain the growth in age-related spending on health and pensions, but this would require politically difficult reforms that are unpopular with a key electoral group. The other step would be to save resources by curtailing relatively inefficient programmes. This too will be difficult*" (Clements and Gupta, 2022[7]). Rogoff reaches a similar diagnosis: "*with an apparent end to the peace dividend that has long helped finance higher social expenditures, rebalancing fiscal priorities could prove quite challenging even in advanced economies*" (Rogoff, 2022[4]).

This context makes the search for efficiency gains in public spending both timely and relevant.

The efficiency imperative will impact education as well

Given the many benefits of education for the economy and society at large, investment in education should remain a crucial element in the economic and social recovery from the COVID-19 crisis. This is evidenced by the European Parliament call on EU member states to spend at least 10% of the *NextGenerationEU* recovery plan and stimulus package funds on education (European Parliament, 2021[9]).

But in a context of competing budgetary priorities and fiscal consolidation, ensuring value for money in its use is also increasingly imperative. The pressure on policy makers to enhance the efficiency of public spending is likely to affect all sectors in the coming years, including education. Education ministries will need to be able to make a good case for educational expenditure, demonstrate their efficient use of resources and search for ways to deliver greater value for money. Preparing for the aftermath of the COVID-19 crisis and Russia's war of aggression against Ukraine will require building on successful innovations emerging from the pandemic and refocussing educational priorities to where investment adds most value.

This report on *Value for Money in Education: smart investments, quality outcomes, equal opportunities* aims to inform some of the choices that policy makers will face in the years to come. There is a need to better understand the diverse benefits of investments in quality education, for the economy, but also for society, and therefore how to foster excellence as well as equity in educational opportunities irrespective of personal contexts. This requires rethinking how investments in education are channelled to where they have most impact and engaging more systematically into policy evaluation in the education area. Indeed, international comparisons suggest that large education budgets alone do not guarantee better performance, and beyond a certain level of investment, enabling all students to succeed hinges more on the ability to direct resources effectively to where they matter the most.

Determining the optimal allocation of resources involves an ongoing reflection on educational priorities and policies that are attuned to governance arrangements at different levels of the school system. The successful implementation of such policies requires careful policy design, effective communication and inclusive stakeholder involvement. Education ministries are uniquely positioned to address these challenges, connect resourcing strategies to educational priorities, and build strong partnerships to work towards them. Finance ministries, on the other hand, can play a key role in supporting education ministries with relevant expertise during the budgeting process, including to identify potential efficiency gains and work towards aggregate fiscal integrity. At times of increased fiscal scrutiny, strengthening the collaboration between ministries of finance and ministries of education is therefore more important than ever.

But in addition to inter-sectoral collaboration, there is also a lot that countries can learn from each other and international collaboration in terms of making effective spending choices in education. This report provides some promising directions and showcases policy examples that can be a source of inspiration for policy makers in their efforts to enhance both equity and efficiency in their education systems and meeting the key challenges facing them.

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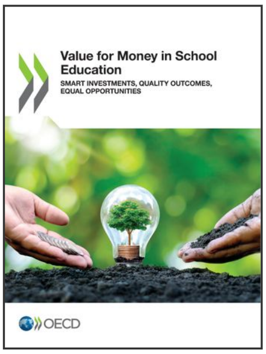

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