

CLMS BRIEF 3: Adjusting for Inflation

**Estimates of the Annual Nominal Budgetary Costs of Delivering  
Adult Basic Education Services to 20 Million Adults in 2020**

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## Introduction

In its final report to the nation on its multi-year deliberations, the National Commission on Adult Literacy recommended a substantial expansion in the number of adults that would be served by the adult education system between 2008 and 2020.<sup>1</sup> The Commission recommended that 20 million adults be served by the nation's adult education system in 2020, a near four fold increase in enrollments. Given the average cost per enrollee of \$1,000 in recent years, the 20 million enrollment would require a real dollar outlay of \$20 billion in 2020 assuming no increase in real annual costs per enrollee.

Over the 2008-2020 period, the annual cost of delivering adult basic education services will rise in nominal or current dollar terms due to inflation. This brief research paper is designed to provide estimates of the annual nominal budget that would be needed in 2020 to serve 20 million participants. Our calculations are based on alternative estimates with respect to the annual rates of inflation that will face adult basic education agencies over the next 12 years, but they assume no increase in real annual costs per participant.

Each year, the U.S. Department of Commerce's Bureau of Economic Analysis provides estimates of the annual percentage point change in prices of the wide array of final goods and services that comprise the nation's Gross Domestic Product (GDP).<sup>2</sup> We have analyzed BEA data on these price changes for all goods and services entering the GDP, for expenditures on goods and services by state and local government, and expenditures on education services by private households across the country. The values of the price indices for each of these three categories of expenditures in calendar years 2000 and 2007 are displayed in Table 1. The value of the price index in 2000 is set at 100. For all final goods and services (both private and public, by households, firms, and government agencies), the price index rose by just under 20% or by 2.6% per year between 2000 and 2007. However, the prices of services bought by state and local government and educational services bought by consumers have consistently over recent decades risen at a more rapid pace than the average set of goods and services in the GDP. The prices of state and local government purchases rose by 34% or 4.3% per year between 2000 and 2007

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<sup>1</sup> See: National Commission on Adult Literacy, Reach Higher America: Overcoming Crisis in the U.S. Workforce, Council for Advancement of Adult Literacy, New York City, 2008.

<sup>2</sup> The Bureau of Economic Analysis actually produces these inflation estimates on both a quarterly and an annual average basis.

while the prices of private educational purchases increased even more rapidly by 5.4% per year over the same seven year period.<sup>3</sup>

Table 1:  
Trends in the Prices of Goods and Services Comprising the Gross Domestic Product, State and Local Government Expenditures, and Private Educational Services, 2000 to 2007 (2000 = 100)

Sector	(A) 2000	(B) 2007	(C) Percent Change, 2000- 2007	(D) Annual Compound Growth Rate in Prices
Gross Domestic Product	100.0	119.7	19.7%	2.6%
State and Local Government	100.0	134.4	34.4%	4.3%
Educational Services	100.0	144.9	44.9%	5.4%

Given the fact that the prices of delivering ABE services will come closer to the prices faced by state and local government and by private households for educational services, we applied the annual compound growth rates for prices in these two sectors to the likely price trajectories that will be faced by adult basic education agencies over the next 12 years. In Table 2, we provide estimates of the annual nominal costs of providing ABE services to 20 million adults under two alternative inflation assumptions. We believe these two estimates should be thought of as conservative since they assume no increase in annual hours of service for the average ABE participant over this period. Intensity increases would likely cost more but would likely lead to higher mean gains in reading, math, and English language proficiencies.

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<sup>3</sup> These private educational services include tuition and fees for pre-school, private elementary and secondary high schools, and universities and colleges.

Table 2:  
Converting \$20 Billion in Expenditures On Adult Basic Education Services in 2008 To Its  
Nominal Dollar Equivalent in 2020 on Two Alternative Assumptions About Annual Prices  
Increases (in Billions)

Price Increase Measure	(A) 2008 Expenditures	(B) 2020 Equivalent in Nominal Dollars
State and Local Government Expenditures	\$20.0	\$27.8
Private Education Expenditures	\$20.0	\$33.3

Under our first scenario, prices of adult basic education services would rise at the same annual rate as average state and local government purchases. Under this scenario, \$27.8 billion would be needed in 2020 to finance the services to 20 million adult basic education participants (Table 2). Under our second scenario, prices of adult basic education services would rise at a more rapid rate, equivalent to the increase in prices of private expenditures on education. Under this scenario, \$33.3 billion would be needed to finance the delivery of adult basic education services to 20 million adults.

Most of the cost data submitted by state adult basic education agencies to the federal government exclude joint costs, in-kind costs, and volunteer time of staff in providing ABE. Knowledge of the true resource costs of providing ABE services and the cost effectiveness of alternative basic education strategies would be helpful in gauging the real dollars needed for the ABE system to deliver the required high quality and effective services recommended by the national commission.