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**New York State Network for Economic Research (NYSNER)**

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*Prepared remarks, in response to Jaison R. Abel, economist, Federal Reserve Bank of New York, "Human Capital and Economic Activity in U.S. Metro Areas: A Focus on New York State" and John Porter, associate provost for institutional research, The State University of New York, "Higher Education Enrollment Trends During Recessions"*

Good afternoon, everyone. It's a pleasure to be here today as the discussant for this session. In my role, I want to direct our attention to one overarching question, namely: "In light of what Jaison and John have told us, what are the policy questions and outcomes on which we should be focusing?"

Turning to today's discussion, from my perspective, I would like to offer four additional observations:

- First, New York's economy has been permanently altered over the past year. And, the landscape will be rearranged once again as New York State grapples with a four-year Budget deficit approaching \$38 billion.
- Second, as John has said, colleges and universities are intricately linked to their communities as employers – making the health of each imperative.
- Third, at the same time, individual families have seen a decline in household net worth, and in personal savings as a percent of disposable income. This makes decisions about paying for college difficult, particularly for increasing numbers of first-generation students.
- Finally, New York faces twin challenges when we look at the pipeline through which our colleges will one day welcome students:
  - Even though the overall state population grew by 5.2% since 1995, kindergarten enrollment is down by 37,000 students or 13.5%. Data from the New York State Education Department shows that 2009 is the high water mark for the number of high school graduates, at least for the next 10 years.
  - Meanwhile, fewer than half of New York's students of color graduate from high school within four years. The graduation rate for our Hispanic and Black students has improved, but still falls short of the national average (9 and 4 percentage points, respectively) – even as the completion rates for White students exceed the national figures.

If challenging times present us with opportunities, we surely have opportunities in abundance! Fortunately, higher education is one of New York State's great strengths and now, more than ever, it should play a significant and central role in shaping our future. Our colleges and universities are home to the thinkers, researchers, educators and

innovators who will play a vital role in defining the new technologies, in finding solutions to our energy dependency, and in training the new workforce needed for our state to be competitive in the future.

They are the source of the ideas and the creativity we need to shape the new economy – the “bold steps” the Governor and the Legislature are seeking to diversify our economy. What’s more – and, as one, I need to speak up for economics majors and others studying the liberal arts disciplines – we are also broadly preparing an enlightened citizenry that will help to reinforce the very foundation of a democratic society.

This afternoon we are focused on human capital, which Nobel Laureate Gary Becker tells us includes all forms of schooling – “a computer training course, expenditures on medical care, and lectures on the virtues of punctuality and honesty.” These “raise earnings, improve health, or add to a person’s good habits over much of his lifetime” and are “called human capital because people cannot be separated from their knowledge, skills, health, or values in the way they can be separated from their financial and physical assets.”<sup>1</sup>

We know that a multitude of benefits flow from New York’s institutions of higher education into nearly every aspect of life in our state – from improved health care and national security to technology innovations and greater civic engagement. College graduates volunteer more, vote more often, and participate more in their communities. A college education is also the most effective way of transcending distinctions – of race, ancestry, or wealth – that can fragment our society.

A recent report by the Organisation for Economic Co-Operation and Development or OECD<sup>2</sup> provides evidence that governments yield significant financial returns on the funds allocated for higher education. (By the way, John’s analysis echoes prediction in that report, namely that the recession will lead students to stay in school.) In an interview with *The Chronicle of Higher Education*, the head of the OECD unit that prepared the report said, “In virtually every country, the public benefits of higher education outweigh the costs.”<sup>3</sup>

When factoring in the social benefits of a college education – coupled with the link between specific knowledge stocks and GDP as Jason has shown us – I would argue that the investments in higher education that we as a state and nation make yield a real “talent dividend” that benefits us all. Strictly from an economic point of view, the person who earns a college degree is on track to earn more, which in turn, yields greater

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<sup>1</sup> Becker, G. S., “Human capital,” *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/Enc/HumanCapital.html>, accessed September 12, 2009

<sup>2</sup> “Summary of Key Findings: Education at a Glance 2009,” <http://www.oecd.org/dataoecd/1/28/43654482.pdf>, accessed September 12, 2009

<sup>3</sup> Labi, A. (September 8, 2008) “Across 30 Nations, Public Spending on Higher Education Pays Off, Report Says,” *The Chronicle of Higher Education*, <http://chronicle.com/article/Across-30-Nations-Public/48323/>, accessed September 12, 2009.

resources for government to allocate to the state's and nation's priorities. Then, there are the additional benefits to society that I mentioned earlier.

Looking at the near future, next week, the House is slated to take up President Obama's plan for federal student aid, and soon the Senate will add its perspective. On the state level, the Division of the Budget is already working to craft the fiscal plan for SFY 2010-11 – while it addresses budget gaps in the current year. So, what are the policy questions and outcomes on which we should be focusing?

I want to open our discussion with three considerations for public policymakers in the state:

1. The federal government has recognized the “stimulus” power of higher education and has increased funding in critical areas of student access and university-based research including Pell Grants, the College Opportunity Tax Credit, improved veteran benefits, and the budgets of NIH, NSF, and NASA. The state, too, must direct funding to critical-need areas to help recovery and to promote growth. The OECD report points out that investing in student aid and access to higher education yields a significant public rate of return. Foremost, we must ensure that all who have the desire and preparation to attend college have the means to do so. We need to renew our commitment to state student aid through grants, scholarships and low-cost loans. These types of expenditures are investments in human capital.
2. We must also continue to support outreach so students complete high school college-ready, both through federal-state partnerships such as the Gaining Early Awareness and Readiness for Undergraduate Programs, also known as GEAR UP and the new College Access Challenge Grants.
3. Finally, part of our attention must be directed to programs that increase the synergy between campus and community through job creation and development. By funding college and university research, we can help to spur economic development.

At a time when we need creative thought and action, higher education is the key. I thank Jaison and John for sharing their research with us and welcome your comments.