

Higher Education Committee  
Friday May 7, 2004

### **Presenters**

Art Rolnick from the Federal Reserve Bank of Minneapolis  
Tom Gillaspay, State Demographer

### **Presentation**

#### **Art Rolnick:**

Topic: Economics of Higher Education – Higher Ed has been a major force behind success of MN economy, and will be more important in the future

Evidence of contribution:

- Terry Fitzgerald Paper
  - o Business cycles in MN compared to national cycle
  - o Trend rate of growth in MN comparable to national trend
  - o 1920-2000
    - In 1920, MN well below national average and stayed below until 1957
    - 1957- today outperformed national economy
    - Now top five or six
  - o What happened in 1957 to trigger change?
    - Human capital and quality of workforce/education
    - Well below average pre-57, above post-57
    - 1957 and after, more emphasis on education, more investment, etc.
  - o Not just a correlation
    - International evidence suggests that quality of workforce matters

What does the future hold?

- Going forward?
  - o Market signal
    - 20-25 yrs ago, education premium (value of 4yr degree relative to a high school degree) was 40%
    - Now, education premium is close to 80% and growing
    - Inequality gap caused by education gap
    - Market signaling that it wants skilled, educated workers
  - o Encourage growth and measure economy by quality of workforce

Policy Issues:

Education as a public good

- Possible problems
  - o State government investing in high-risk business
  - o When government gets into funding/subsidizing research, the government really just does what the private sector would do anyway
- Focus on the public good nature of education
  - o We all consume without reducing its good

- Education has this public good aspect
  - Good for democracy
  - Good for strong economy
- University produces a public good that the market won't do enough of on its own
  - Some spillovers, the stronger the research university, the more spill-over
- Provide incentive to professors to focus on education (i.e. less private consulting)

#### Tuition

- No problem with rising tuition for average student as long as there is support for low-income students
- There is some market failure, so we need to finance education (i.e. low interest rate loans, tuition scholarships)
- Private gains/incentive is significant, so for equality it should be relatively easy for good students across demographics to get a good education

#### What was it about the industrial revolution that brought this great increase in income?

- New technology creates new incentives/rewards for skilled workers/human capital
  - Size of families decreased (invest more per child)
- Worldwide there is a tremendous return to investment in human capital

#### Questions:

- How much should be put into different sectors of public good (i.e. early childhood vs. elderly)
  - Extraordinary return on investment in early childhood
  - Look at rate of public return (12% for early childhood)
- Geographical research: are there different approaches to rural vs. metro?
  - Rural development all about workforce development
  - Moving companies to out-state not the way to do it, rather make sure that their options for education are as good or better
- Reconcile arguments: greater return of investment vs. research that in fact k-12 investment doesn't lead to more learning
  - Not just money
  - Parent involvement is key
  - Need competition, accountability, room for experimentation
  - Propose voucher system for at-risk families, market driven, pay for results
- Concerned that high tuition/high aid system would stifle more humanities driven courses. Students will follow trendy/high income paths
  - Type of public education called for is a rounded education, not just specific business/skill driven education.
  - Data doesn't support students following such trends
    - With huge rise in tuition, no large drop in liberal arts
  - Basic research component allows community to experiment

- What does the literature say on direct funding for university vs. individual funding
  - o Bias is more for direct funding to the university because of rate of return
- The line seems to be blurred between education and technology and business. Where is the line of basic research?
  - o Continuum that varies by field. President of University, deans, dept. heads have to make this distinction
  - o May have to experiment
  - o State should look at providing infrastructure for basic research
- Once a student gets the education, what's the impact of loans owed?
  - o Most successful economies are those that have lots of borrowing/lending
  - o More students going through college BECAUSE of loans is great considering the education premium
- We need a mechanism for who gets funded. How will the best rate of return be found?
  - o Without basic research element, let the student/family choose
  - o It is important, however, to provide infrastructure for basic research

### **Tom Gillaspy**

State Demographer

Presentation available online

Five categories and demographic trends that will impact higher education in MN

- Diversity
  - o Part of MN success dissolves if we look across groups
  - o Minority population is growing rapidly, mostly because we are so far below national averages for diversity
  - o Younger groups have net inflow, tend to bring children
  - o Younger populations are becoming more diverse
  - o Most growth last decade in college-age population was in populations of college
  - o Major change in cultural, ethnic, religious, language, etc. makeup in education system
    - St. Paul, 41% is ESL
    - Worthington has second highest rate at 39% (not just metro)
  - o Much of our apparent preeminence has to do with our racial/ethnic disparity
  - o Enrollment in higher ed
    - Some groups have less rates of high school graduation
    - Latino 13%
- Distribution

- New suburbs receiving most of the growth
- Growing faster than all of our neighboring states
  - Most growth is in Twin Cities 13-county metro area, but outside I-494/694 beltway
- Much of the prairie has been declining over a long period of time
  - Most non-metro counties are either declining or growing very slowly
  - Metro counties are growing very rapidly
- Labor Force
  - Importance of higher education to the well-being of the state/economy
  - Labor force is aging
    - Slower growth of labor force in future
  - Growth will come from increased productivity, not through growth in labor force
  - Personal payback to higher ed is very large
    - Married couples tend to have same level of education – further exasperates differences of income
  - Projection for 2010
    - Growth will slow
    - Peak workforce somewhere around 2015 most likely
  - Higher education workforce is also aging
    - Will higher ed also face a retirement boom in the next decade?
    - Median age of post-secondary teachers is 43
- Trends in College age population
  - Large decline in college age population in the 80s brought about an emphasis on lifetime learning
    - Enrollments didn't drop as sharply as expected, but they still dropped
  - Population diversity will increase
  - K-12 enrollments have started to decline
  - Enrollment in higher ed goes across age groups, but largely 18-24
  - Interstate migration also affects enrollments
    - Lots of movement both ways in college undergrad
    - Substantial inflow among grad degree programs
  - After 2010 we will flat-line enrollment levels
- General issues of an aging society
  - Most future growth will be middle-aged to older population
  - Likely to change budget and society priorities
    - Offer opportunities for higher ed for training volunteers, new careers, learning for fun
  - Tendency for health care costs to eat up everything else
  - Reinvest in middle age and older people

Questions:

- Islands of growth in southwest – any correlation with higher ed?

- Lyon County Southwest state
- Nobles county poultry processing
- Health care costs eating everything up, should we look at this?
  - Yes, this is one of the most important factors to look at
  - We have remarkable access to health care
- What is growth rate of population in MN compared to US? It seems that most growth is among older people in US
- Are there strategies to incorporate in-migration from other states and other countries, and out-migration when factoring in rural communities and aging populations?
  - We have generally taken migration as just something that happens
  - MN has always had large immigration
  - Potential for labor shortage
  - Quality of labor force includes people moving in with high level of skills, there may be some ways to attract them, and it is important to train them
- Challenge to communicating to a diverse workforce language-wise
- We need to understand the problems of ethnic disparities
- Can we sum up the two major problems facing higher education as: The education of a diverse population and the re-education of older workers?
  - Yes

### **Proposed agendas for next meetings**

Next meeting Friday, May 21

- HESO office presentation
- For-profit sector

June 3

- Business group expectations
- Recommendation: Business groups as a producer of education, not just as a consumer

Requests:

- What have other states/countries done to address this issue?
  - Best practices review
- Impact of international students
- Need to come up with thoughtful, vivid, innovative
- Clearer plan needs to be imposed
- Need more diversity in group

Small group to work on 'Vision'

Small group to work on 'Assessment'

Small group to work on higher education issues re: communities of color