

GETTING WHAT YOU PAY FOR

Higher Education and Economic Development

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Introduction

Legislators are becoming increasingly aware of the important link between higher education's effectiveness and the state's economic strength. They are concerned about mediocre student outcomes in the higher education system and worry about the lost wages and revenue of students who drop out of the system before getting a degree. As state budgets tighten and less state funding is available for higher education, legislators want to ensure that funds are wisely invested and wisely spent. As states plan for jobs that will drive the economy in the future, they are looking to higher education to train and produce the workforce needed for these jobs.

As a result, many states are approaching higher education policy as an investment strategy. An investment in a strong, accessible, and high-quality higher education system is an investment in the economic development of the state, with significant payoffs down the road. Indeed, a state can benefit from wise investment in its human capital. When all citizens have the opportunity and resources to succeed in the education system, the state reaps the rewards of an educated and productive citizenry. The benefits of a highly educated citizenry include improving the state's economy, meeting future workforce needs, and improving the state's quality of life.

Higher education has often been primarily valued as a benefit for the individual, but an educated citizenry significantly benefits the state. That is the fundamental principle behind the higher education-economic development linkage.

Consider the following:

- ▶ Over a lifetime, a college-educated individual earns about \$1 million more than a person without a college degree (about \$450,000 more in today's dollars). This translates into increased tax revenue for the state.
- ▶ The gap between the median earnings of college graduates and the median earnings of high school graduates has increased significantly over the past 30 years.
- ▶ People with higher education also experience improved health, are more involved in voluntary organizations, and give more to charity than their less-educated counterparts – all of which is good for the economy.
- ▶ Unemployment rates are lower for adults with higher levels of education all across the country. The differences vary significantly by state and are larger in states with higher overall unemployment rates.
- ▶ A person who does not complete high school has only a 50 percent chance of becoming employed.
- ▶ Growth in per capita income has been more rapid in metropolitan areas, where high proportions of adults have four-year college degrees.
- ▶ The incarceration rate of adults with some college education is about one quarter of that for those with only a high school degree. It costs about \$26,000 a year to maintain a prisoner; public four-

year colleges spend about \$25,000 per student per year; public two-year institutions spend about \$9,000 per year per student.

- ▶ The government spends between \$800 and \$2,700 per year less on social programs for individual 30-year-old college graduates than for high school graduates of the same age, gender, and race.¹
- ▶ Estimates from a RAND study suggest that, overall, every dollar spent on equalizing college entrance rates across racial/ethnic groups would yield between \$2 and \$3 in public savings, with a third to a half of the benefits coming from savings on social programs and the rest from increased tax revenues.²

These are just some of the ways legislators can consider the return on investment for the state every time a citizen is successful in the education and higher education systems. Undereducated citizens and nonworkers cost the state more in terms of public services, lost wages, and lost revenue - in other words, lost economic productivity. As states face tight fiscal times in which little new revenue for higher education will be available, legislators are looking for strategies that will improve the productivity of the education system (that is, more students earning more degrees) and maximize the return on state investment.

State Policy Strategies

Below are some of the policy levers states are using to develop higher education policy that is linked to and coordinated with state economic development policy.

High School Reform

Improving high school graduation rates includes providing better supports for potential dropouts and employing successful early identification and intervention strategies. Research shows that “college ready” and “work ready” are the same thing.³ In other words, a state can set high school standards that all students – regardless of whether they want to go to college or work upon graduation – need to meet. Most states are deciding that in today’s global economy the standards necessary for all students to be successful are the same or very similar. For instance, beginning with the class of 2011, all Indiana high school students will be

required to complete the Core 40 college and work readiness curriculum.

States also are incorporating more opportunities for students to prepare in high school for a career. Many students drop out of high school because they are primarily interested in going to work after high school, and high school opportunities do not fit their needs and interests well. Incorporating more options for students to pursue career and technical training in high school has proven to be a successful strategy for engaging these students. At least 13 states have implemented legislation to require development of graduation and post-high school plans for all students. A number of states have recently invested in strengthening the rigor of their career and technical education programs. Several states, including Virginia and Washington, have passed comprehensive legislation to help high school students obtain industry certification.

K-16 Policy

A high school diploma alone is not sufficient – some form of postsecondary education is needed. That is why many states are looking for ways to better link K-12 and higher education policy as one continuous system and better prepare students for college. Nearly all the states have dual enrollment programs which give high school students the opportunity to take courses at postsecondary institutions. Programs like Advanced Placement and International Baccalaureate also provide opportunities for high school students to earn college credit. States still are making adjustments to their dual enrollment programs to ensure that access is available to the greatest number of students possible and that credits earned will transfer to state community colleges and institutions of higher education. Several states have begun the process of implementing statewide high school academic standards for college readiness by aligning coursework, testing, and graduation requirements. About half of the states have implemented formal P-16 education councils or commissions.

Community Colleges

Community colleges are the primary higher education institutions associated with workforce development, but they are often overlooked as an asset for maintaining and growing a skilled

workforce. The nation's 1,200 regionally accredited public two-year colleges enroll almost half of all American undergraduates (6.6 million or 46 percent). They award degrees to many of the nation's skilled and high-demand workers, including more than 50 percent of all new healthcare workers. Also important to workforce development are the noncredit courses and programs they offer, geared to meeting emerging workforce demands by providing skills that fit both employer and student needs. Policies, such as the development of articulation arrangements between community colleges and four-year institutions, can help ease transfer for students between institutions and ensure that credits already earned are not lost but count toward a degree.

Adult Learners

Educating adults must be part of both state postsecondary and state economic development strategies. All states will need to do better in improving overall education attainment, but a focus on traditional students – those between 18- and 24-years-old – will not be sufficient. In order to make significant improvements in its educated citizenry, and thus its overall economic development, states also will need to focus on adult learners. These students – or potential students – are ages 25 and older. Some already are in the workplace and may require new or additional training. Others may have no college degree or certification. Still others may have earned significant postsecondary credits but not enough to actually complete a degree. Kentucky is targeting these adults as part of its strategy to improve adult literacy and double the number of working-age Kentuckians who hold bachelors degrees by 2020. This strategy is considered to be vital to raising the state's standard of living to the national average.

Nationally, about 43 percent of postsecondary students are adults between the ages of 25 and 44. Ninety million adults participate in formal or informal education. The state investment in these students can lead to significant economic returns. Many of these adults are receiving funding for retraining from employers, often with incentives from state policy. Does your state support this?

International Competitiveness

States will find it increasingly difficult to compete in the global economy without significantly improving the number of college degrees and certificates earned.

While the citizens of the United States are still among the best educated in the world, other countries are doing a better job of improving the educational attainment of their younger generations. The U.S. now ranks 10th among industrialized countries of the world in the proportion of the population age 25 to 34 with an associate's degree or higher.⁴

For the first time in our history, the younger population overall will be less well educated than the older generation. At the same time this trend is occurring in the United States, other countries are significantly improving their educational attainment levels. A continuation of this trend puts the United States at significant risk for future global competitiveness.

Focus on Underserved Students and Growing Populations

The fastest-growing populations – particularly Latinos and African Americans – are the populations that have been served the least effectively in higher education. Many states – particularly border states – are facing significant increases in these populations. Policymakers in these states realize that there are real economic development implications for not ensuring access and success in higher education for them. Developing college awareness programs that target these students, focusing need-based aid on traditionally underserved students, and rewarding institutions for successfully graduating these students are effective policy strategies.

The Aging Population and Retirements

The current population is aging. Halfway through the 21st century, close to 82 million Americans will be age 65 or older. As the population ages, they will place a greater strain on state Medicaid systems, and states may be tempted to borrow from postsecondary education to balance state budgets. At the same time, this population will be retiring and the state economy will lose their contributions. States will want to ensure that new workers are well

educated and well trained so the state economy can remain strong.

Engaging Business in Policy Analysis and Development

In this global economy, states often appear to be more like countries – that is, states have begun to specialize in certain skills and industries and to compete with each other for human and other resources. Many higher-paying current and emerging jobs will require advanced skills that can be achieved only through postsecondary education. Your business community can be an important resource in helping identify higher education reform. For example, what do business leaders find lacking in current college graduates? How do business leaders view their role in providing employee training and retraining opportunities in the higher education system? How do business leaders view the growing economic and job needs of the state? Sound policy considers the role higher education can and should play in these areas.

A Focus on Workforce Development

State policy focused on developing the workforce is a powerful strategy linking higher education and economic development. By workforce development we mean the spectrum of state policies that align to ensure that all citizens receive an education and gain the skills necessary to be employed and contributing members of society.

In legislatures, higher education and economic development policies are often made by different people in different committees at different times with little if any coordination. Legislatures are beginning to find ways to bridge the two conversations more strategically and to make policy connections. For example, North Dakota's interim committee on higher education recently met with the interim committee on workforce development to identify common interests and coordinate policy.

State legislatures can ensure that higher education institutions are vital players in state economic development strategies. Contributing to the state's economic development and diversification should be a clearly articulated policy priority for higher education.

When all citizens have the opportunity and resources to succeed in the education system, the state reaps the rewards of an educated and productive citizenry, which include meeting future workforce needs, improving the state's economy, and improving the quality of life for the state's residents.

About the Author

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Endnotes

¹ College Board, *Education Pays* (Washington DC: The College Board, 2007).

² G. Verney, R.A. Krop, and C.P. Rydell, *Closing the Education Gap* (Santa Monica, CA: RAND Corporation, 1999).

³ ACT, *Ready for College and Ready for Work: Same or Different?* (Iowa City, IA: ACT, 2006).

⁴ Organisation for Economic Co-operation and Development (OECD), *Education at a Glance 2008: OECD Indicators* (Paris: OECD, 2008).

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