



CONVERSATIONS *with* THE FED

Falling Short: Why Aren't We Meeting the Economy's Demand for College Graduates?



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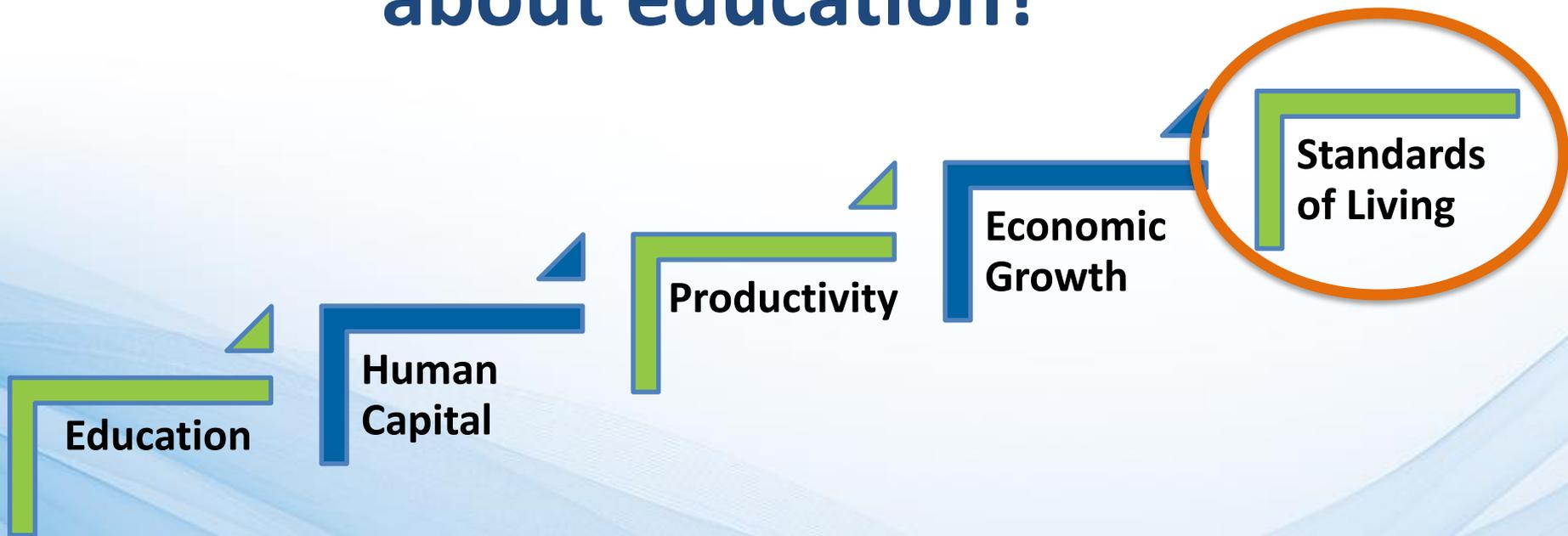
**Executive Vice President and
Director of Research**

Federal Reserve Bank of Richmond

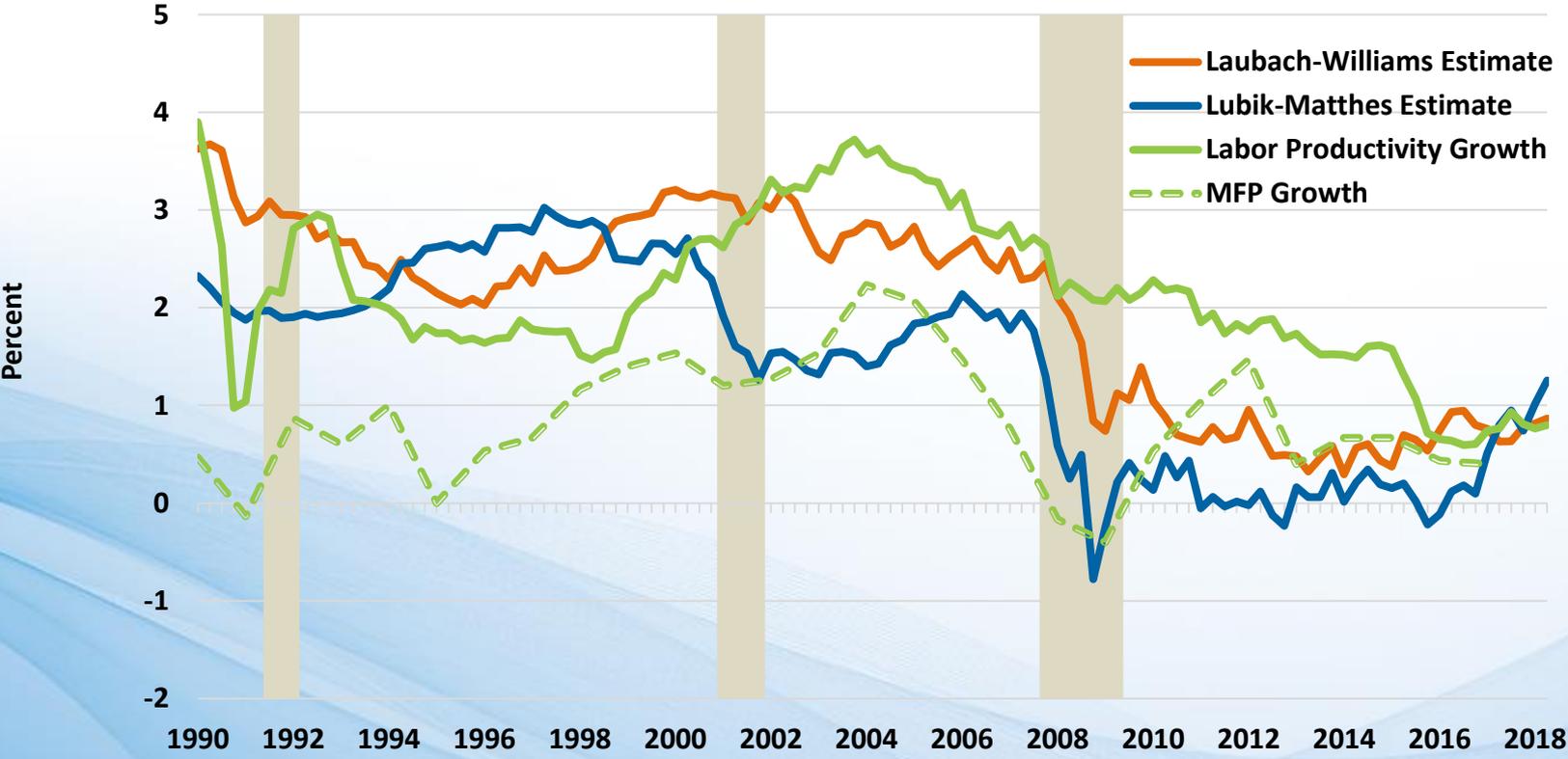
Three Topics

- 1. Evidence on the demand for college graduates**
- 2. The links between SES and college enrollment/completion**
- 3. What we know (and don't know) about helping students succeed along the path that's best for them**

Why does the Fed care about education?

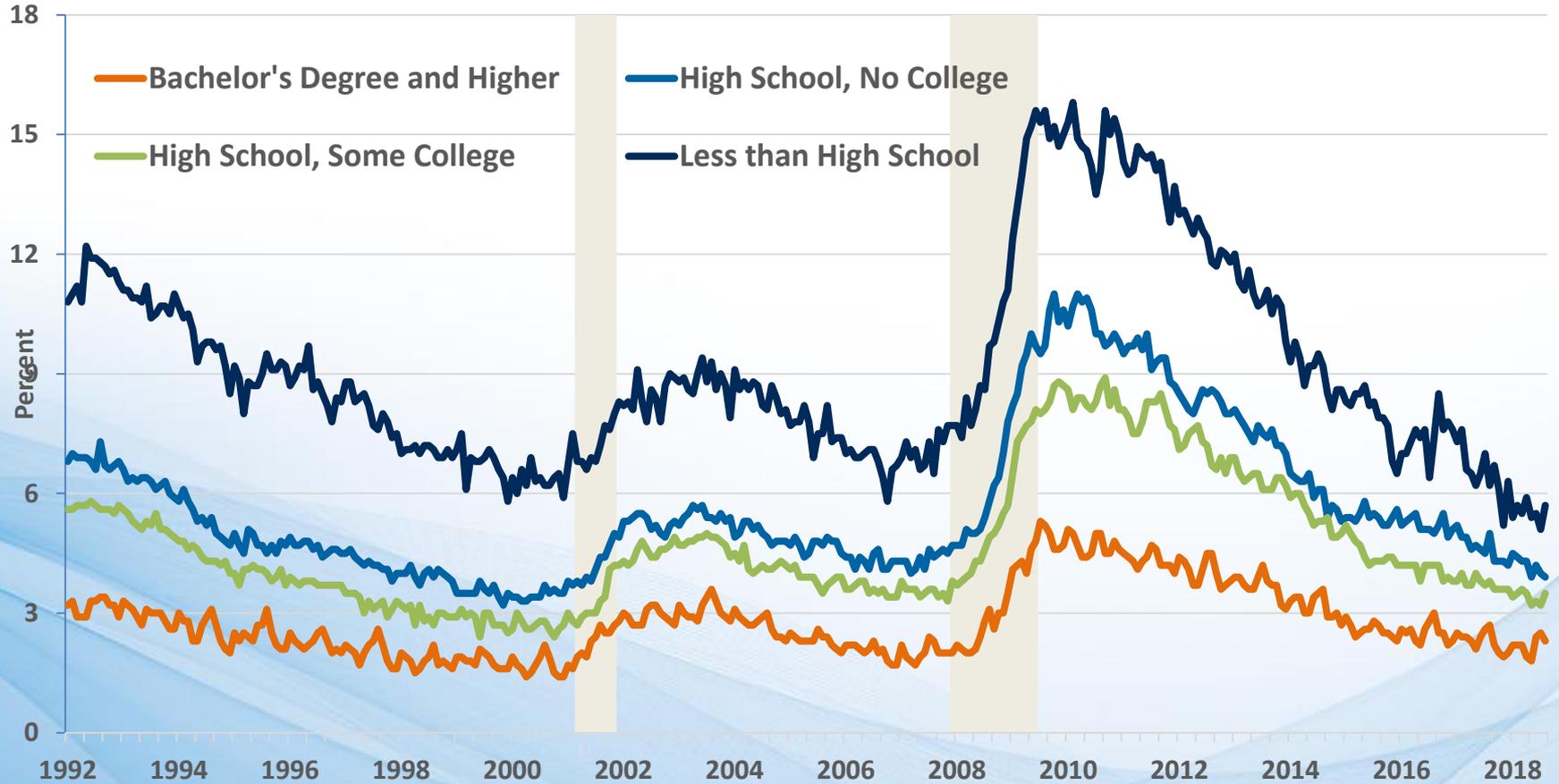


Slower productivity growth implies a lower “natural” rate of interest, closer to the “ZLB.”



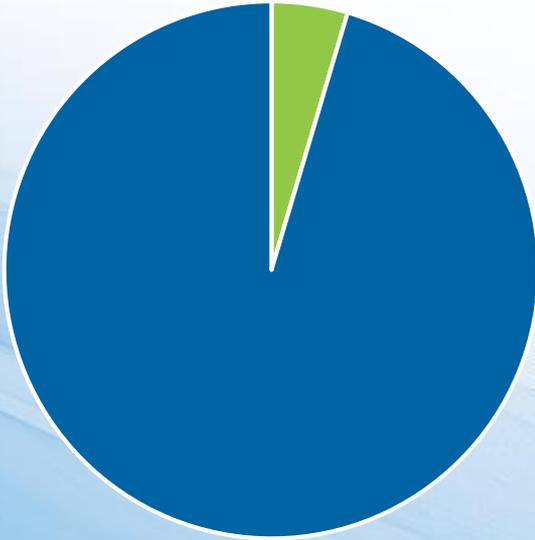
Sources: NY Fed; Richmond Fed; BLS via FRED

Education inoculates against unemployment.

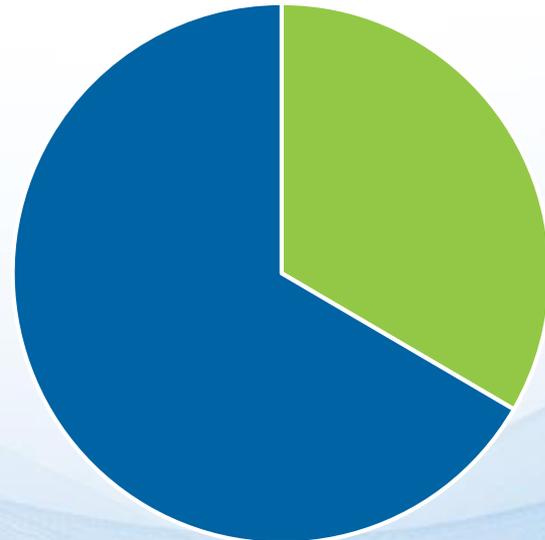


How can we be “falling short” when we have more college graduates than ever before?

In 1940, less than 1/20 of the adult population had a bachelor's degree.

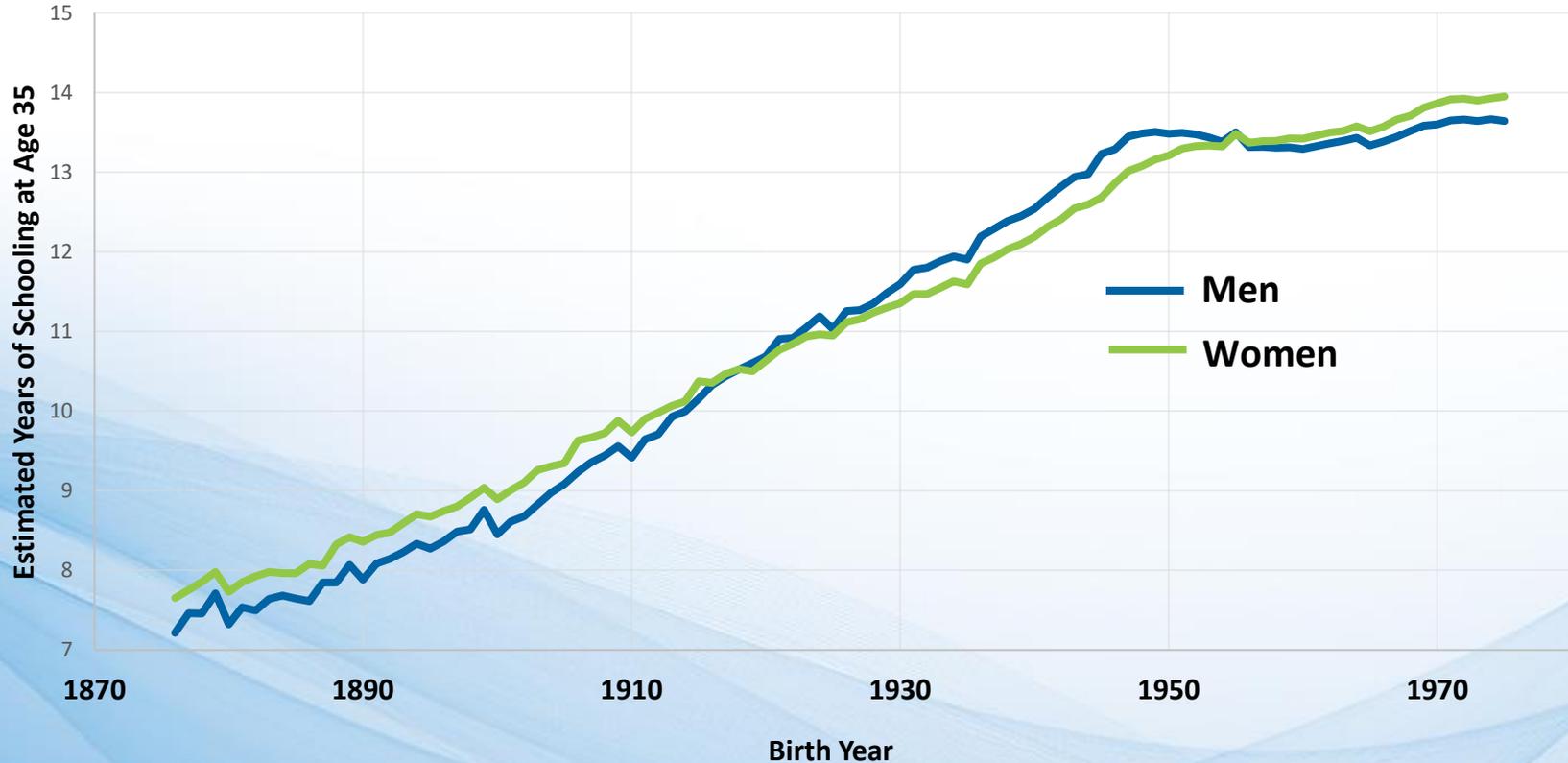


In 2016, more than 1/3 of the adult population had a bachelor's degree.

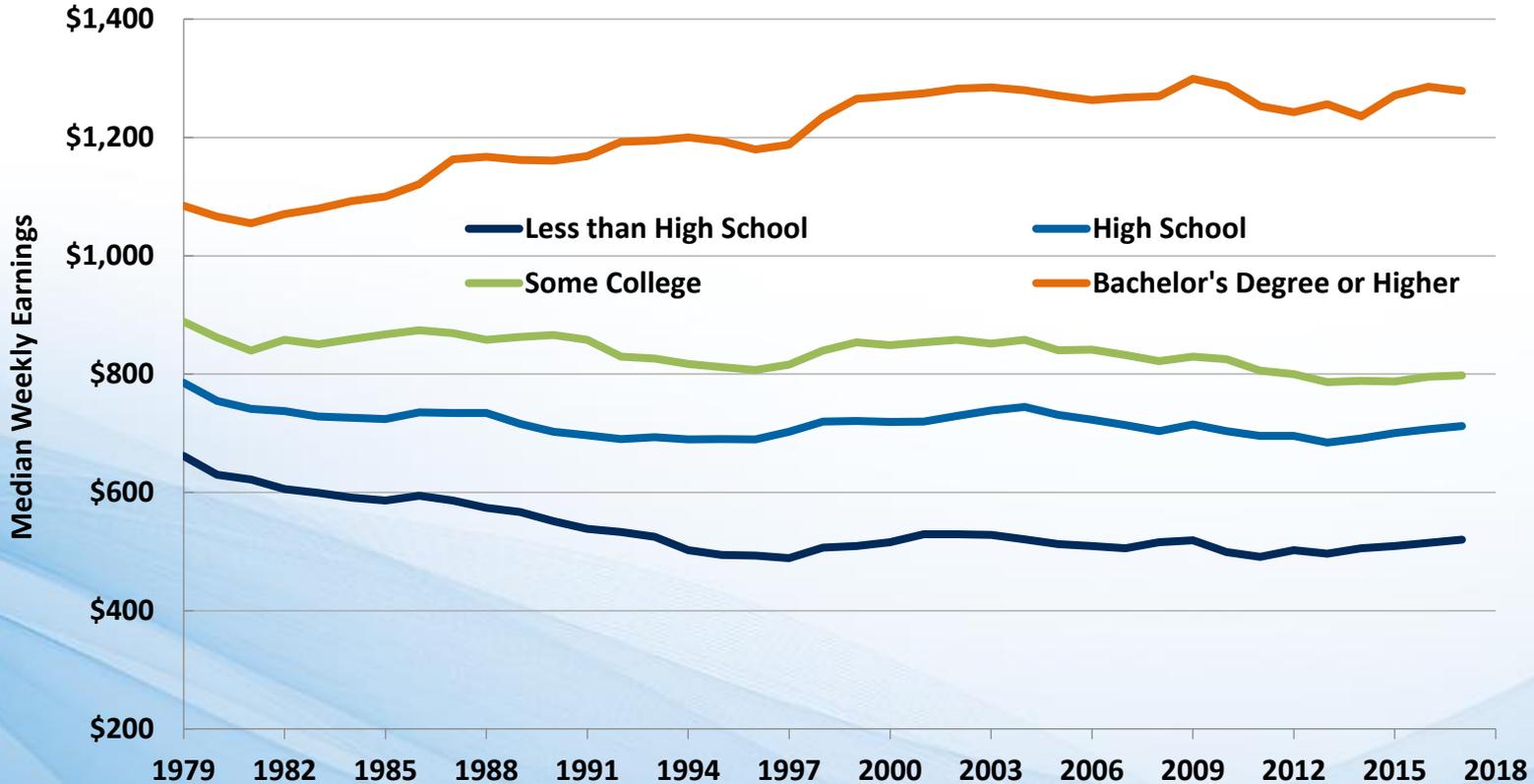


Growth in educational attainment slowed way down.

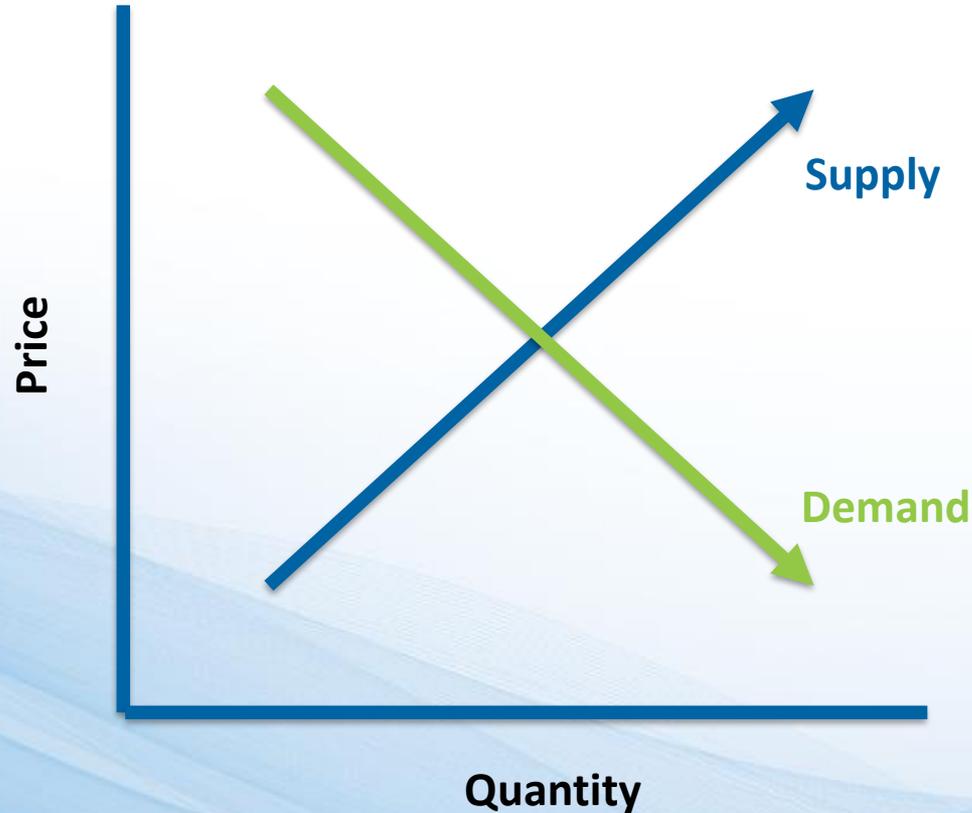
Years of Schooling by Birth Year



The “college premium” is large and persistent.

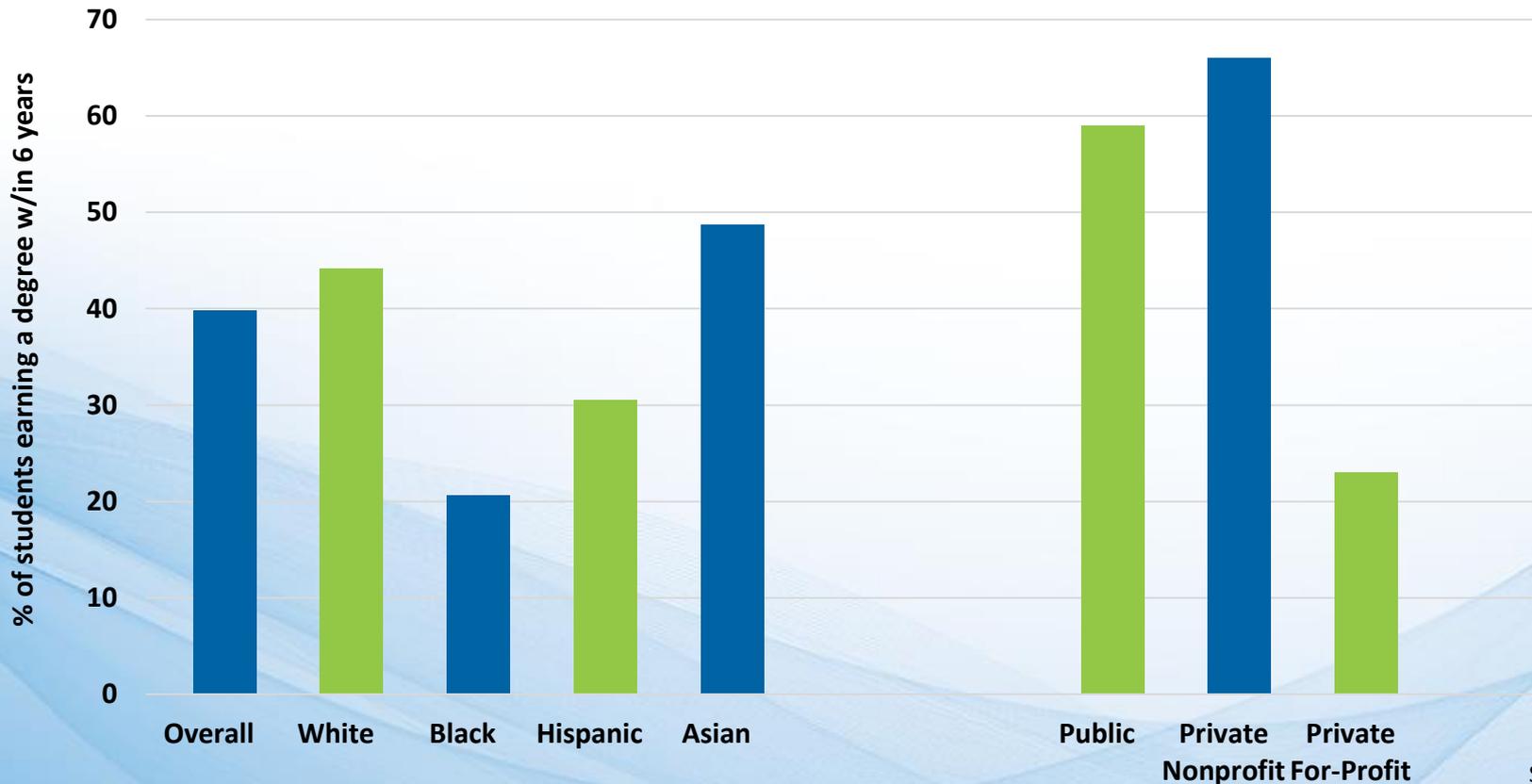


We all remember the basics of supply and demand.

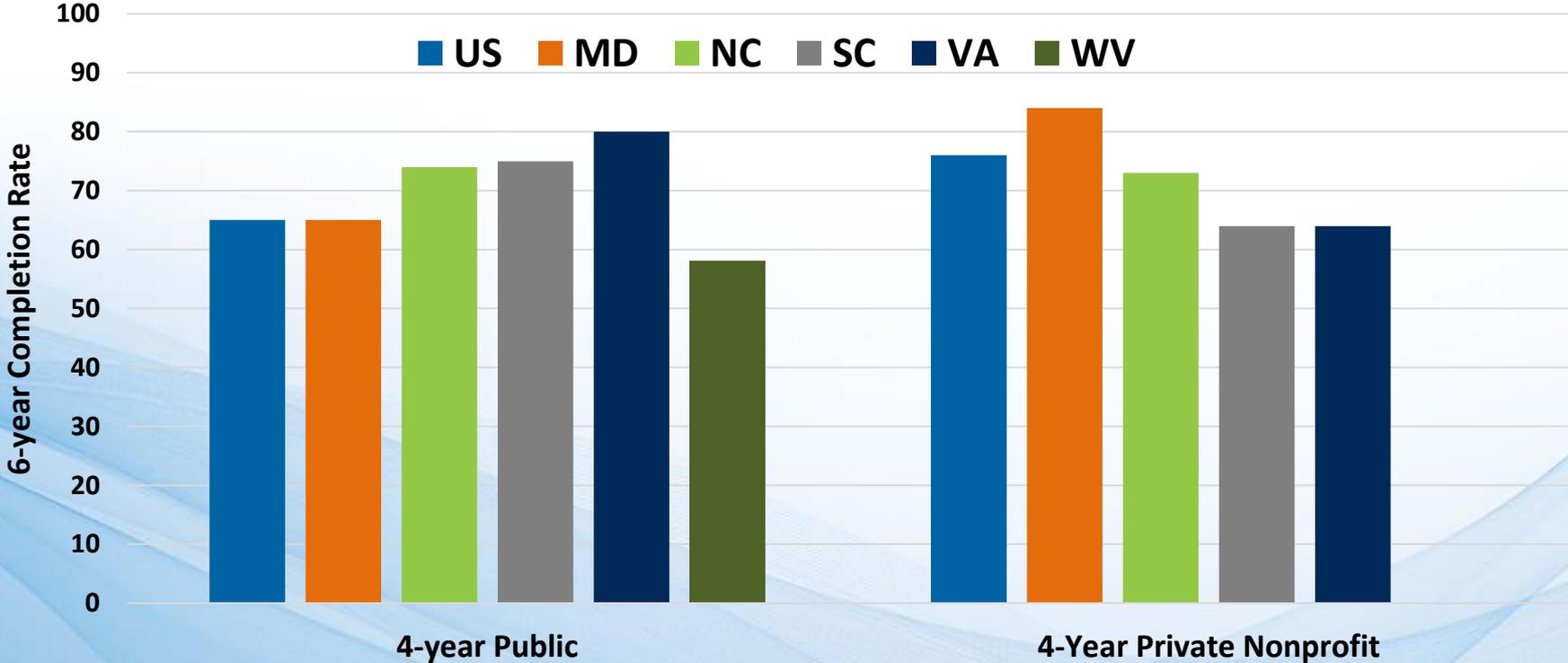


Where's the bottleneck?

College completion rates are low, particularly for some groups (and at some schools).



Fifth District states do a little better, and a little worse, than the country as a whole.



Source: National Student Clearinghouse Research Center

Noncompletion is important! It means that:

- Many students might **rationally decide not to enroll** in the first place (Athreya and Eberly 2016)
- A 10% percent increase in the college premium **does not equal** a 10% increase in their expected return (Athreya and Eberly 2016)
- Students with fewer resources might have a lower **“belief threshold”** for dropping out (Ozdagli and Trachter 2015).

Why are some students less prepared for college?

(Preparation: “Knowledge about college” and academics)

More money, more options.

- **School assignment depends on neighborhood.**
- **Schools affect housing prices.**
- **Property taxes help fund schools.**
- **Wealthier parents can afford to move to more-expensive neighborhoods with higher-quality schools (or send their kids to private school).**

It makes a difference.

- **Students in the most and least socioeconomically advantaged school districts perform an average of **four grade levels apart** (Reardon 2016).**
- **Differences in public education financing help explain **one-third of the difference in earnings inequality** between the U.S. and Norway (Herrington 2015).**

What makes a school high quality?

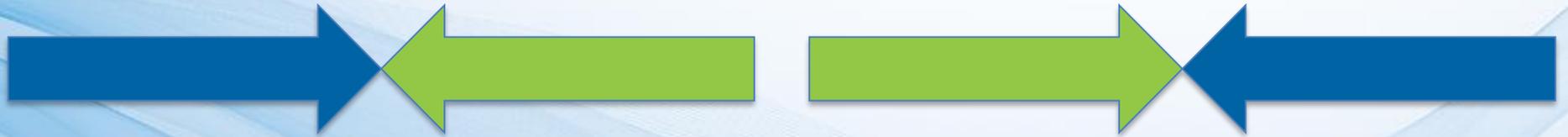
It depends.

“School choice” attempts to **break the link** between SES and school assignment.

- Open Enrollment
 - Allowed in some form in most states, with eligibility restrictions
- Vouchers
 - Programs in 12 states and Washington, D.C.
- Charter schools
 - Allowed in 42 states and Washington, D.C.
 - Enrollment  from 900K to 2.7M between 2004/05 and 2014/15

Selection effects: the bane of researchers everywhere.

Did the new school make the child a better student, or were better students more motivated to try to attend the new school?



College for everyone?

Not necessarily.

How to Tackle the Healthcare
Worker Shortage

Shortage of skilled trades w/
builders

*Shortage of Auto Mechanics
Has Dealerships Taking Action*

...its Roanoke
Construction Labor Shortage
Creates Increasingly Lucrative
Career Paths

Plumber shortage threatens America's building
industry

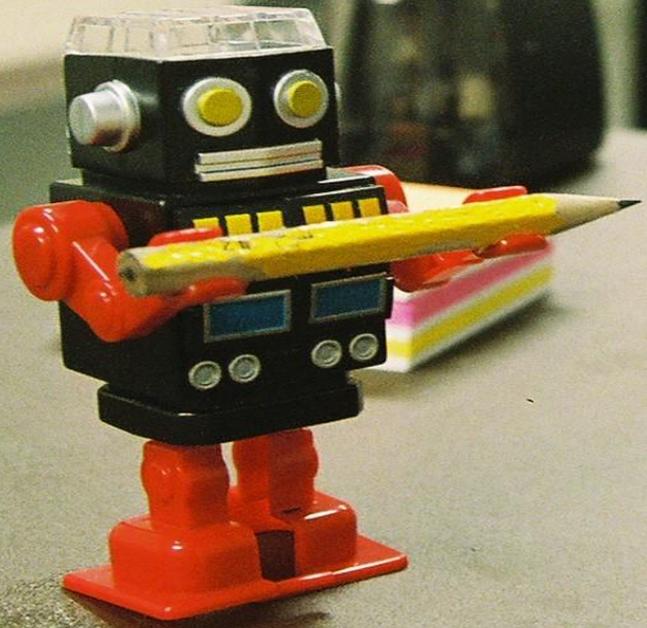
Community college is a valuable option...

- It's a low-cost way for students to **learn** about how prepared they are for a 4-year college and **improve** that preparation.
- Community colleges can be more **nimble** in response to the needs of local employers.

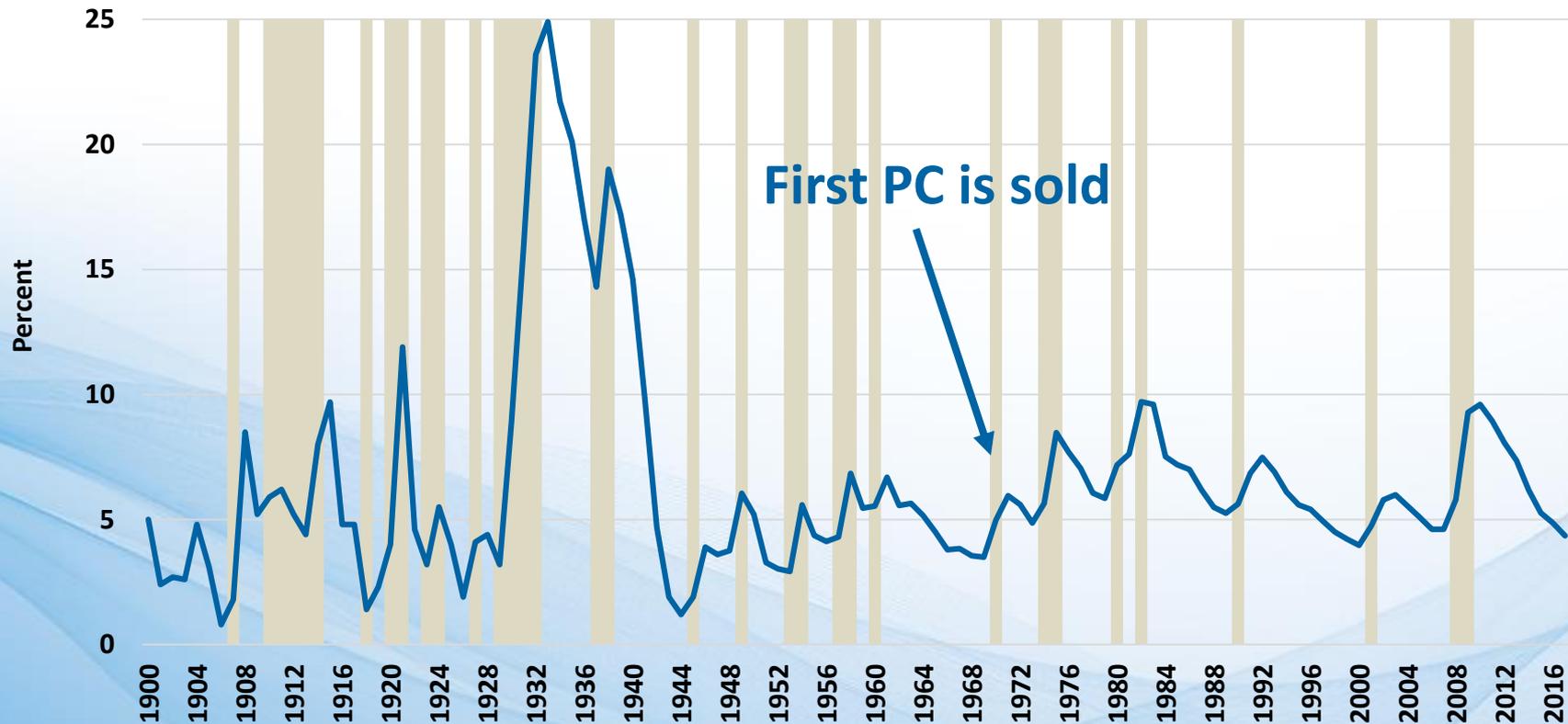
...with some caveats.

- The earnings gap between 2-year graduates and 4-year graduates is large.
- There's some risk to providing workers with a narrower skill set.
- “Tracking” students and workers might require rethinking our social safety net.

When are the robots coming?



Aggregate unemployment varies with the business cycle, not with technological change.





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