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## ISSUES IN HIGHER EDUCATION: THEIR POTENTIAL IMPACT ON THE LONG ISLAND ECONOMY

Long Island's economy is becoming more highly specialized in industries requiring advanced business, professional and technical skills. The business and non-profit communities rely on local colleges and universities to produce a workforce with the requisite education and skill sets. Today, the stock of educated workers is not keeping pace with the demand for them. This has become a problem both on Long Island and nationally. Resulting worker shortages in a broad range of critical skill occupations are impeding economic growth. This article discusses the challenges facing today's institutions of higher education and documents the role of Long Island's colleges and universities as economic "drivers".



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### Higher Education and the Economy

In order to sustain and improve living standards in an economy predicated on advanced professional, technical and business services, today's workers need more education and training than ever before. This is manifested in the fact that the wage gap between high school and college graduates has widened considerably in recent decades. Today's four-year college graduates earn 75 percent more than high school graduates. Twenty-five years ago, the gap was only 40 percent. Yet, for the first time in our history, the current generation of American-born men will not have substantially more education than their fathers did. Today's young women do have more schooling than their mothers, but the improvement is not enough to offset the lack of educational progress among men.

At the start of the 20th Century, most Americans received only eight years of education. By the end of the 1920s, more than half of all teenagers went to high school. If past educational progress had continued apace, approximately half of all young Americans would be graduating from college today. However, today only 30 to 35 percent graduate from college. Several other coun-

tries, including Belgium, Canada, Ireland, Japan, Korea and Sweden, have surpassed us in terms of the proportion of 25-to-34-year olds with college degrees. America's failure to generate enough educated workers portends serious problems for U.S. economic competitiveness.

There are several explanations for the lack of educational progress in recent years. The falloff in the number of U.S. births is one cause. Even if a higher proportion of young people were to attend college, they would be fewer in number because fewer of them were born. America's high dropout rate among high school students is also a contributing factor. Today, one in five 18-year olds fails to graduate from high school, a ratio that has remained stubbornly constant for the past four decades. Of the two-thirds of new high school graduates who do enter college, many drop out before completing even a two-year degree or certificate. Only 63 percent of entering freshmen graduate from college within six years and fewer than 50 percent of black and Hispanic freshmen do so.

These problems require multifaceted solutions. A high-quality pre-kindergarten education for all

students, particularly those from disadvantages backgrounds, would be helpful. There is an urgent need to improve education at the K-through-12 level because academic standards in the early grades have a bearing on a student's success in higher education. The No Child Left Behind Act is a step in this direction. It seeks to raise achievement levels for all students and at the same time close the educational gap between minority and white students. The Act, which requires that all students be brought to proficiency in reading and math by 2014, has raised the educational achievement of some students. However, the law allows each state to set its own standards and implement its own accountability measures. As a result, proficiency standards can vary greatly from state-to-state. Improving the quality of K-through-12 education would most likely result in higher high school graduation rates. If more students graduate from high school, attendance at community and four-year colleges would also increase, enabling more young people to obtain marketable skills. There is also a need to reduce the high college dropout rate.

One solution would be to make a college education more affordable.

### **Making College More Affordable: The Student Loan Crisis**

College costs are rising because colleges need to build science centers, improve health and other student services, update on-campus computer services, attract top quality faculty and maintain small class sizes in order to remain competitive. In the case of some state institutions, tuition increases reflect the need to offset the loss of state support. Because a college education has become more expensive relative to a student's ability-to-pay, today's college graduates leave school with more debt than ever before. The College Board estimates that the median debt level of bachelor's degree recipients was \$19,300 as of the 2003-04 academic year. The burden of college debt often prevents young graduates from choosing lower-paying occupations that serve the public interest, jobs as teachers, nurses or social workers.

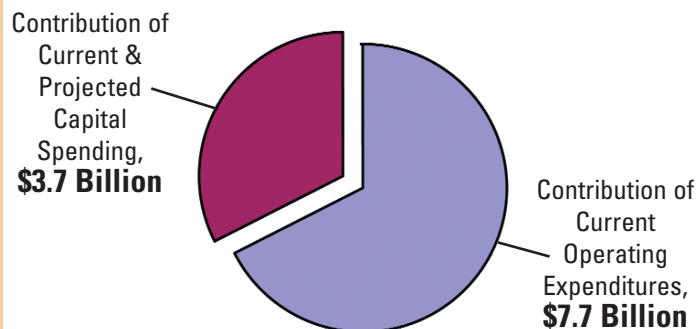
A generation ago, college students relied primarily on federal grants and federally guaranteed loans to bridge the gap

between the cost of a college education and what they could afford to pay. The federal government currently dispenses more than \$90 billion annually in student grants, loans and other aid. However, this funding now covers a smaller proportion of the cost of a college education. Last year, the federal government gave \$12.7 billion in Pell grants to more than five million students from lower-income families. Unlike loans, Pell grants need not be repaid. However, whereas Pell grants covered almost 60 percent of the cost of attending a public four-year college in 1986, they paid for only 33 percent of the cost of four years at a public institution in 2005. Some \$28.8 billion in federally subsidized Stafford loans, which carry a fixed interest rate of 6.8 percent, currently go to 5.4 million student borrowers. An estimated 75 percent of students holding Stafford loans come from families with annual household incomes below \$67,000. Whereas Stafford loans go directly to students, federal PLUS loans are available to parents of undergraduate students and to graduate students themselves.

For many students, federal loans and grants are no longer sufficient to cover their college costs. As a result, many of

them have turned to private loans that are not regulated by the U.S. Education Department. Private loans, which totaled about \$17.3 billion during the 2005-06 academic year, have tripled in the past five years. Unlike federal loans, whose interest rates are capped, private loans carry variable rates as high as 20 percent. Whereas federal loans cap the amount that can be borrowed for four years of college to \$17,125, private loans have no safeguards to prevent students from overextending themselves. Moreover, many private loans do not permit prepayment of principal unless the student liquidates the entire loan. Also, it is virtually impossible to discharge private student loans through bankruptcy proceedings. The net result is that some students become indebted for life. The student loan crisis is probably worse on Long Island than in other parts of the country because the government's formula for determining how much federal aid students can get does not account for regional differences in the costs of housing, energy, insurance, sales and property taxes. Such costs are higher on Long Island than elsewhere.

### **Contribution of Local Colleges and Universities to Long Island's Gross Metropolitan Product, 2006-07 Academic Year**



### **Reaction to the Student Loan Crisis**

An estimated 400,000 students who are qualified to attend a four-year college fail to do so each year because of financial constraints. This not only limits their future earnings, but can also have a negative impact on U.S. economic competitiveness. Legislation currently before Congress seeks to remedy this situation. It would halve interest rates on federally subsidized undergraduate loans from 6.8 to 3.4 percent, increase the maximum Pell grant from \$4,050 to \$5,100 and forgive student loans of public-sector employees after ten years. The legislation would also forgive all outstanding student loans that are more than 25 years old and would cap loan repayments at 15 percent of a borrower's monthly discretionary income. To

pay for these changes, the Federal government would eliminate the subsidies it currently pays to large student lenders such as the Sallie Mae Corporation, which currently manages \$150 billion in student loans.

Another solution would be to expand the Federal Direct Loan Program, which omits the middleman and allows the government to give direct loans to students. Direct lending would make student loans both cheaper and less cumbersome. Since 1994, the U.S. Education Department has given colleges and universities a choice between the traditional Family Education Loan Program, under which the government guarantees loans from eligible banks and other lenders, and the direct loan system. The direct loan program is significantly cheaper for the federal government, which currently pays a subsidy of 1.7 percent on its direct loans as compared with 7.5 percent on its guaranteed loans. The U.S. Office of Management and Budget projects that if the \$76 billion in federally-guaranteed student loans were transformed into direct loans, the U.S. government would save \$4.5 billion in subsidies. This would make it possible to expand the Pell Grant program for needy students.

U.S. colleges and universities have also reacted to the student loan crisis by attempting to make college more affordable for qualified students. Some have frozen their tuition or guaranteed that

Table 1

### The Economic Dimensions of Long Island's Institutions of Higher Education, 2006-07 Academic Year

Indicator	Number/Amount
<b>Number of Students</b>	<b>155,804</b>
<b>Number of Employees</b>	<b>35,968</b>
Full-Time Employees	20,737
Part-Time Employees	15,231
<b>Operating Expenditures</b>	<b>\$3,503,288,845</b>
<b>Current &amp; Projected Capital Spending</b>	<b>\$1,796,328,280</b>
Expected Cost of Capital Projects in Progress	\$573,539,750
Expected Cost of Anticipated Capital Projects 2006-2011	\$1,222,788,530

Source: LIRACHE

their tuition will not rise during the four years in which the student is enrolled. This makes the cost of a college education more predictable. Others have substituted grants for loans. Some schools offer a combination of grants and student employment to eliminate the need for loans. Colleges are also offering more merit scholarships, which effectively discount tuition by between 10 and 50 percent. Still others have revised their financial-aid formulas to reduce the share of college costs that families are expected to bear.

Families are preparing well in advance to send their children to college by setting aside tax-free dollars in various 529 savings plans. Such plans contained approximately \$91 billion in assets at the end of 2006 and industry

sources expect this amount to rise to \$228 billion by 2010. New York is one of thirty-one states that allow residents a tax deduction for money set aside in its 529 plan. Single filers qualify for a deduction of up to \$5,000 annually, joint filers for a deduction of up to \$10,000. Other savings vehicles can also be used to pay for college. These include a Roth IRA and a Coverdell Education Savings Account. The Hope tax credit allows filers to deduct \$1,650 from their taxes for the first two years of college. There is also an annual Lifetime Learning credit equivalent to 20 percent of the first \$10,000 of college expenses. However, both the Hope tax credit and the Lifetime Learning credit are phased out as income rises.

Table 2

### The Secondary Economic Impact of Direct Spending By Long Island's Colleges and Universities During the 2006-07 Academic Year

Indicator	Impact of Operating Expenditures	Impact of Current & Projected Capital Spending	Total Impact
Direct Expenditures	\$3,503,288,845	\$1,796,328,280	\$5,299,617,125
Gross Output Increase	7,708,286,446	3,713,369,820	11,421,656,266
Net Output Increase	4,204,997,601	1,917,041,540	6,122,039,141
Earnings Increase	2,594,535,719	1,156,476,147	3,751,011,865
Employment Increase	81,916	28,544	110,460

Source: RIMS II Input-Output model based on LIRACHE data

### The Economic Importance of Long Island's Institutions of Higher Education

The role of colleges and universities in producing an educated workforce is well understood. Much of Long Island's future economic progress will depend on the continued ability of its colleges and universities to produce a steady stream of educated workers. However, Long Island's institutions of higher education are also important economic entities that contribute materially to Long Island output, earnings and employment. Nassau-Suffolk's colleges and universities enrolled almost 156,000 students during the 2006-07 academic year. They also employed a total of almost 36,000 persons, 58 percent of whom worked full-time. Equally important, Long Island's colleges and universities injected more than \$3.5 billion into the Long Island economy in the form of operating expenditures during the 2006-07 academic year. Their current and projected capital expenditures through 2011 will amount to almost \$1.8 billion. (See Table 1)

Direct spending by these institutions is only the "tip of the iceberg" in terms of their overall impact on the Long Island economy. Their direct spending, much of which remains within the Long Island economy, undergoes several rounds of "respending" so that the final economic impact represents a multiple of the original expenditure. This is the so-called ripple or multiplier effect. This secondary impact was estimated by applying appropriate multipliers from a regional input-output model of the Long Island economy (RIMS II) to direct college and university spending. This model was developed by the Bureau of Economic Analysis of the U.S. Commerce Department and is specific to Long Island. Multipliers for higher education were applied to college operating expenditures. Multipliers for construction were applied to current and projected capital

expenditures by local colleges and universities. The findings, summarized in Table 2, indicate that direct operating expenditures of \$3.5 billion contribute a total of \$7.7 billion to Long Island's output of goods and services. This is equivalent to a net output increase of approximately \$4.2 billion. Almost \$1.9 billion in current and anticipated capital expenditures contribute a total of \$3.7 billion to Long Island's output of goods and services. This is equivalent to a net output increase of more than \$1.9 billion. Thus, college and university spending during the 2006-07 academic year contributed about \$11.4 billion to Long Island's output of goods and services either directly or indirectly. Nassau-Suffolk's total output of goods and services, its gross metropolitan product, is about \$134 billion. In effect, spending by Long Island's institutions of higher education accounts for 8.5 percent of Long Island's gross metropolitan product either directly or indirectly. This spending also has a significant impact on local earnings and employment. It causes Long Island earnings to increase by almost \$3.8 billion and is responsible for the creation of more than 110,000 secondary jobs within the Long Island economy.

### Conclusions

In recent decades, Long Island's economy has shifted from one based on good-production to one in which advanced services play a key role. This shift has underscored the vital role that local colleges and universities play in producing well-educated workers who can add value to the local economy. Long Island's colleges and universities have also become significant economic entities that contribute materially to Long Island's output of goods and services, its earnings and its employment base.

Higher education is currently at a crossroads. The cost of a quality education is escalating at a time when the ability-to-pay of students and their families has diminished. Given the positive societal benefits associated with an educated populace, expanded public support for higher education seems warranted. Congress appears to be moving in this direction by making federal grants and federally guaranteed student loans more available and more affordable. Universities themselves are helping to make college more affordable by offering more merit scholarships and other student aid. Long Island's future economic competitiveness depends on the success of these efforts.

**Enrollment at Selected Long Island Colleges & Universities, 2006-07 Academic Year**  
(No. of Students, Unduplicated Head Count)

