

Roger W Ferguson, Jr: The importance of education

Remarks by Roger W Ferguson, Jr, Vice Chairman of the Board of Governors of the US Federal Reserve System, at the commemoration of Black History Month, The Johns Hopkins University Applied Physics Laboratory, Maryland, 24 February 2006.

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I am pleased to have the opportunity to be part of the Applied Physics Laboratory's commemoration of Black History Month. Your theme, "Celebrating Community: A Tribute to Black Technical, Educational, and Social/Civic Institutions," aptly highlights a number of the key building blocks that have enabled many African Americans to fulfill their personal dreams. In that regard, I would like to focus my talk today on education--its importance and its ongoing role in economic achievement.

As members of an organization dedicated to cutting-edge scientific research and development, you undoubtedly deeply appreciate the ongoing need for our nation's workforce to embody advanced levels of training. Investment in human capital--as we economists like to call it--is critical to generating products and services with high economic value. Today, much of that high-value output demands workers with the creativity, cognitive abilities, and skills to interact with challenging technologies. In addition, ongoing innovation requires workers to be flexible and to be willing to view education as a life-long commitment. In short, an educated workforce is a must if our economy is to continue to enjoy significant gains in productivity and living standards.

At the same time, the link between education and individual economic success is well documented. An investment in education is associated with a higher probability of employment. For African Americans, a college degree can substantially narrow the longstanding gap between their labor market experiences and those of whites. Last year, for example, when the national unemployment rate averaged 5.1 percent, the jobless rate for black adults (25 years and older) with a bachelor's degree or higher was 3.5 percent; for white adults, the jobless rate was 2 percent. For persons with only a high school diploma, both the rates of joblessness and the disparity between the rate for blacks and that for whites were greater: an unemployment rate of 8.5 percent for blacks versus 4 percent for whites.

Perhaps more indicative of the economic value of education, workers with college degrees earn an education premium, and that premium has risen over the past twenty-five years. Most economists have found that an additional year of schooling typically raises an individual's earning power between 8 and 15 percent. Recent studies show that four years of college boost earnings about 65 percent.¹

Clearly, economic achievement and educational achievement are intertwined. For that reason, education is at the heart of efforts to promote equal opportunity for all Americans. We have made some progress in opening doors to education for African Americans; we must make more.

As I reflect on the educational attainment of black Americans, I would say that the news is still mixed. The percentage of African Americans aged 25 to 29 who have completed high school or obtained a GED remains on an uptrend. But the improvements slowed over the 1990s, and in 2004 it remained, at close to 89 percent, short of the rate for non-Hispanic white youth, which was just over 93 percent.²

One important factor in the uptrend in high-school completion has been a corresponding downtrend in the high-school dropout rate for African Americans. Here again, however, the improvement has been slower recently than in the 1970s and 1980s. In 2003, 6.3 percent of black students in grades 10 to 12 left school during the year--down from the over-the-year dropout rate of 9.7 percent in 1981 but little changed from the rate in 1991.³ For white high schoolers, the dropout rate between 2000 and 2001 was 4.1 percent.

¹ Robert Topel, "[The Private and Social Values of Education \(891 KB PDF\)](#)," Federal Reserve Bank of Cleveland Conference on Education and Economic Development, November 19, 2004.

² Mary Ann Fox, Brooke A. Connolly, and Thomas D. Snyder, "[Trends in the Well-Being of American Youth \(592 KB PDF\)](#)," U.S. Department of Education, National Center for Educational Statistics (November 2005).

³ Philip Kaufman, Martha Naomi Alt, and Christopher D. Chapman, "[Dropout Rates in the United States: 2001 \(369 KB PDF\)](#)," U.S. Department of Education, National Center for Educational Statistics (November 2004).

Economists have identified a number of reasons for the racial gap in dropout rates, including lower expected returns to education because of discrimination in the job market and the lower quality of schools attended by blacks. Clearly, raising the quality of our elementary and secondary schools is a longstanding goal, and the potential economic and social payoffs seem likely to be high. Research has shown that improving school conditions in the South from the early to the middle part of the twentieth century contributed significantly to greater school completion rates by African Americans.⁴ Other findings suggest that the support and encouragement that students receive from their families and communities can also help keep students engaged in school. In recent years, a number of economists, including staff members of the Federal Reserve Bank of Minneapolis, have argued that intensive pre-school programs can help to build important noncognitive skills, such as persistence and motivation and, as a result, have large private and public net benefits.⁵

Of course our job is not done when our students reach high school graduation--indeed, in today's economy, it is only just beginning. Our goal must be to see that our investments in motivating and educating students in our homes and in the elementary and secondary schools provide the students with the ability to pursue the advanced education and training that today's labor market values so highly.

Certainly, the trends in college-attendance by blacks have been positive in recent years, but compared with the uptrend in high-school completion, progress in college completion among African Americans has unfortunately been relatively slow. The percentage of the black population aged 25 to 35 that has completed four years of college more than doubled between 1970 and 2000, from 6.5 percent to 15 percent. However, completion rates for young white adults, which were already much higher, climbed even more rapidly--to almost 33 percent in 2000.⁶

The difference in college completion by race reflects both lower rates of college enrollment and lower rates of graduation by African Americans. Of African Americans aged 18 to 24, the percentage enrolled in college is 10 percentage points lower than the percentage of non-Hispanic whites enrolled.⁷ The difference in graduation rates for those students who enroll in college is particularly striking. Of those students who enrolled as first-time students at a four-year institution in the 1995-96 academic year, approximately 62 percent of whites had completed a bachelor's degree by 2001, whereas only 43 percent of blacks had done so.⁸

Researchers offer several potential explanations for the difference in college graduation rates by race. The extent to which family income or borrowing costs significantly constrain the decision to enroll in college has been hotly debated by economists.⁹ The common ground in the debate seems to be that needy students who are capable should be helped financially. But money alone is not the answer; students must receive the support, encouragement, and preparation from their teachers, families, and communities that will make the transition from high school to college successful. Research has shown that blacks have a higher rate of college attendance than whites and a similar rate of college completion when the comparison is made across individuals with similar educational achievement in

⁴ David Card and Alan Krueger, "[School Quality and Black-White Relative Wage Differentials](#)," *Quarterly Journal of Economics*, 1992.

⁵ James J. Heckman and Pedro Carneiro, "Human Capital Policy," in James J. Heckman and Alan B. Krueger, eds., *Inequality in America: What Role for Human Capital Policies?* (The MIT Press, 2003), and Rob Grunewald and Arthur Rolnick, "[A Proposal for Achieving High Returns on Early Childhood Development](#)," Federal Reserve Bank of Minneapolis, May 2005.

⁶ Yolanda Kodrzycki, "[College Completion Gaps between Blacks and Whites: What Accounts for the Regional Differences](#)," *New England Economic Review*, Federal Reserve Bank of Boston, First Quarter 2004.

⁷ U.S. Census Bureau of the Census, Education and Social Stratification Branch, Current Population Survey Report, Historical Tables, [Table A-5a \(Excel file\)](#).

⁸ U.S. Department of Education, *Digest of Education Statistics*, [Table 311](#), National Center for Educational Statistics, 2004.

⁹ Refer to, for example, Thomas Kane, "College Entry by Blacks Since 1970: The Role of College Costs, Family Background, and the Returns to Education," *Journal of Political Economy*, October 1994; J. Bradford DeLong, Claudia Goldin, and Lawrence F. Katz, "Sustaining U.S. Economic Growth," in Henry J. Aaron, James M. Lindsay, and Pietro S. Nivola, eds., *Agenda for the Nation* (The Brookings Institution, 2003); Steven V. Cameron and James J. Heckman, "Can Tuition Policy Combat Rising Wage Inequality," in Marvin Kosters (ed.), *Financing College Education: Government Policies and Educational Priorities* (American Enterprise Institute, 1999).

high school.¹⁰ This finding provides yet another reason for greater investment in the quality of secondary schools. Such investment may increase not only rates of high-school graduation but also rates of college completion.

As I noted earlier, the linkage between education and economic opportunity is typically measured by the relationship between education and earnings. Earnings are an important measure of one's success in the labor market, but broader measures of income and ultimately net worth are even more significant yardsticks for gauging the financial health of households. The Federal Reserve's Survey of Consumer Finances, which collects data every three years on the balance sheets of American families, provides comprehensive information on household income, assets, and liabilities.¹¹ Data from the most recent survey show that, from 2001 to 2004, real (that is, inflation-adjusted) family income was little changed for both African American and non-Hispanic white households. And the gap between median incomes for the two groups remained quite large. Specifically, the median income of black households was about \$29,000--only 58 percent of the median for non-Hispanic white households. The gap was somewhat narrower among households headed by an individual with a college degree; median income for African American households in this group was close to \$54,000--75 percent of the median for non-Hispanic whites. Although black households have gained ground over the past decade, income inequality continues to be a concern. Lower income makes it more difficult for black families to acquire assets and to create wealth.

The 2004 results show that economic progress for blacks, as measured by real net worth, has been substantial over the fifteen years that the surveys have been conducted. Real median net worth for African-American households in 2004, at \$20,400, was more than three and one-half times as great as it was in 1989. That said, the wealth gap between blacks and non-Hispanic whites, whose median real net worth stood at \$140,700 in 2004, remains sizable. A substantial part of the wealth gap between black and non-Hispanic white families is associated with their ownership of assets. Although the racial wealth gap is significant at the top of the wealth distribution, a more important difference is that a much greater proportion of African-American families than whites have zero or near-zero real net worth.

The increase in ownership of nonfinancial assets for black households in recent years occurred primarily in residences, other real estate, and privately held businesses. Because none of these types of assets is owned by a large share of black families, any wealth gains arising from them will not be widely distributed across black families. Nonetheless, blacks continued to make progress in homeownership in 2004. As is the case regardless of race, the home is typically a family's largest and most important asset. Homeownership is one of the cornerstones of wealth creation and is generally associated with a range of socially desirable outcomes, including better schools, less crime, and greater neighborhood stability. For these and other reasons, increasing the rate of homeownership has been a longstanding national priority. Of course, because we are interested not simply in homeownership or the value of homes but in net worth, an important consideration in terms of wealth creation is the amount of equity that families have in their homes--that is the difference between the value of the home and any debt secured by it. Over the most recent survey period, during which property values have risen rapidly, the median value of home equity for African-American homeowners increased an impressive 24 percent.

Business ownership, too, remains an important avenue of wealth creation for African Americans. The median net worth of black families with business assets was about \$174,000 in 2004, a level more than eight times the median net worth for all black families. Furthermore, the survey results show far less inequality in median net worth and income between black and non-Hispanic white business owners than between black and non-Hispanic white families overall.

All told, the findings from our most recent survey, along with the other trends that I discussed earlier, highlight noticeable gains in the economic well-being of African Americans. However, they also clearly show that much more needs to be accomplished, and I believe that education is the key to further progress.

¹⁰ U.S. Department of Education, "[Educational Achievement and Black-White Inequality](#)," National Center for Education Statistics, July 2001.

¹¹ Brian K. Bucks., Arthur B. Kennickell, and Kevin B. Moore, "[Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances \(444 KB PDF\)](#)," *Federal Reserve Bulletin*, February 2006.

Given the importance of education in today's economy, I was encouraged to see that the Applied Physics Laboratory is committed to a number of programs that engage minority students at all levels of schooling. These programs are aimed at developing a commitment to lifelong learning--beginning with an introduction to math, science, and technology in our primary and secondary schools. In light of the differences in college completion rates I noted earlier, I was glad to see that APL offers internships for talented minority undergraduates in computer science and engineering that give them opportunities to do research and to be mentored by professionals in their fields and that it provides support for graduate study in engineering.

I was also interested to learn that many of your undergraduate interns are students from historically black colleges and universities (HBCUs). To borrow a phrase from Juan Williams, those very special institutions have for decades had as their central mission helping African Americans "find a way or make one."¹² And, even though black enrollment at other colleges and universities has risen over time, HBCUs continue to account for more than one-fifth of all bachelor's degrees awarded to African Americans.¹³ Among those schools and their graduates are many with a longstanding commitment to scientific and technical education, dating from George Washington Carver's tenure at Tuskegee to Julian Earls' work at NASA. In this region, we are fortunate to have a fine group of HBCUs: Howard and Morgan State, both highly regarded across a range of curricula; Bowie State, which specializes in training black students for masters degrees in computer science; Maryland Eastern Shore, with its emphasis on marine and environmental science; and Coppin State, known for its nurturing of students as they build the fundamental skills that allow them to move on to more-advanced work.

Although most of my remarks today have centered on the economic value of education, I want to emphasize that a good education is much more than just the classroom-based learning of facts, or even the skill of critical thinking. Formal education is just the starting point for a lifetime of learning and doing. And a truly outstanding education is one that instills in students moral values and ethical behaviors. In striving to encourage our students to do "well," we must not forsake our responsibility to give them a solid grounding in those topics that will help them do "good." You may be surprised to hear that even the economics profession--well-known for its hard-headed assumption of rational actors pursuing their own self interest--has in the past few decades focused on the role of moral and cooperative behaviors in leading to better economic outcomes. The accounting and corporate governance scandals in recent years have revealed how costly such unethical and opportunistic business dealings can be, potentially to all of us.

Let me close by saying that the economy of the United States depends greatly on an educated workforce--one with the skills to tackle new ideas and new technologies, one in which morals and ethics are deeply instilled, and one with a love of learning, exploring, and questioning that lasts a lifetime. The African-American community's commitment to education as a path to equal opportunity dates back at least to Frederick Douglass. We all must resolve to keep that longstanding commitment strong.

¹² Juan Williams, *I'll Find a Way or Make One: A Tribute to Historically Black Colleges and Universities* (HarperCollins, 2004).

¹³ Stephen Provasnik, Linda L. Shafer, and Thomas D. Snyder, [Historically Black Colleges and Universities, 1976 to 2001](#), U.S. Department of Education, National Center for Education Statistics, September 2004.