

Message from the Interim President

Why Education Matters to the Richmond Fed

Why isn't the United States producing more college graduates? That's the question asked by Urvi Neelakantan and Jessie Romero in this year's *Annual Report* essay. It might seem like a surprising question—after all, the share of the adult population with a college degree is at its highest point ever. But there is reason to believe the supply of college graduates isn't keeping up with our economy's demand for them.

One piece of evidence is the growth and persistence over the past several decades of the “wage gap”—the difference in earnings between workers with and without a four-year college degree. Economists have found that for much of U.S. history, differences in earnings can be explained by the basics of supply and demand. A consistently higher “price” for the labor of more-educated workers thus suggests that the demand for educated workers is outstripping the supply.

Why does that matter? Education has important implications for economic growth and continued improvements in our standards of living. In large part, growth is driven by increases in productivity, which in turn depend on the skills and knowledge we possess—what economists call “human capital.” Human capital can be acquired in many ways, but education is a key component. Data suggest that productivity growth has been slowing since the early 2000s, and one factor might be slower growth in the United States' stock of human capital. In short, failing to meet our economy's demand for skilled workers might be hindering economic growth.

Of course, education also has important implications for the lives of individuals. On average, college graduates earn more money than nongraduates, and they are more likely to be employed. College isn't necessarily the right path for everyone, but it's essential to identify any barriers that might prevent some students from achieving their full potential.

An additional concern is the high proportion of students who enroll in college but do not graduate. A variety of factors contribute to students leaving college, but, as Urvi and Jessie discuss, a key factor seems to be inadequate preparation during students' K-12 years. The authors also discuss how K-12 preparation varies with socioeconomic status and how “school-choice” initiatives are intended to provide more children with access to high-quality schools.

Education is incredibly complex—no single solution will be right for all students, and no single essay can hope to cover all possible solutions. Continued research is vital to our society's well-being, and we hope you find this year's essay an interesting and informative introduction to the topic.

Additionally, new to this year's *Annual Report* is “Bank at Work,” which highlights the Richmond Fed's three primary functions as well as its community outreach work and support services. The article may introduce you to our roles and responsibilities or simply serve as a reminder of the services performed by our Reserve Bank and the Federal Reserve System.



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