Meltdown in Higher Education:
This Has Never Happened Before

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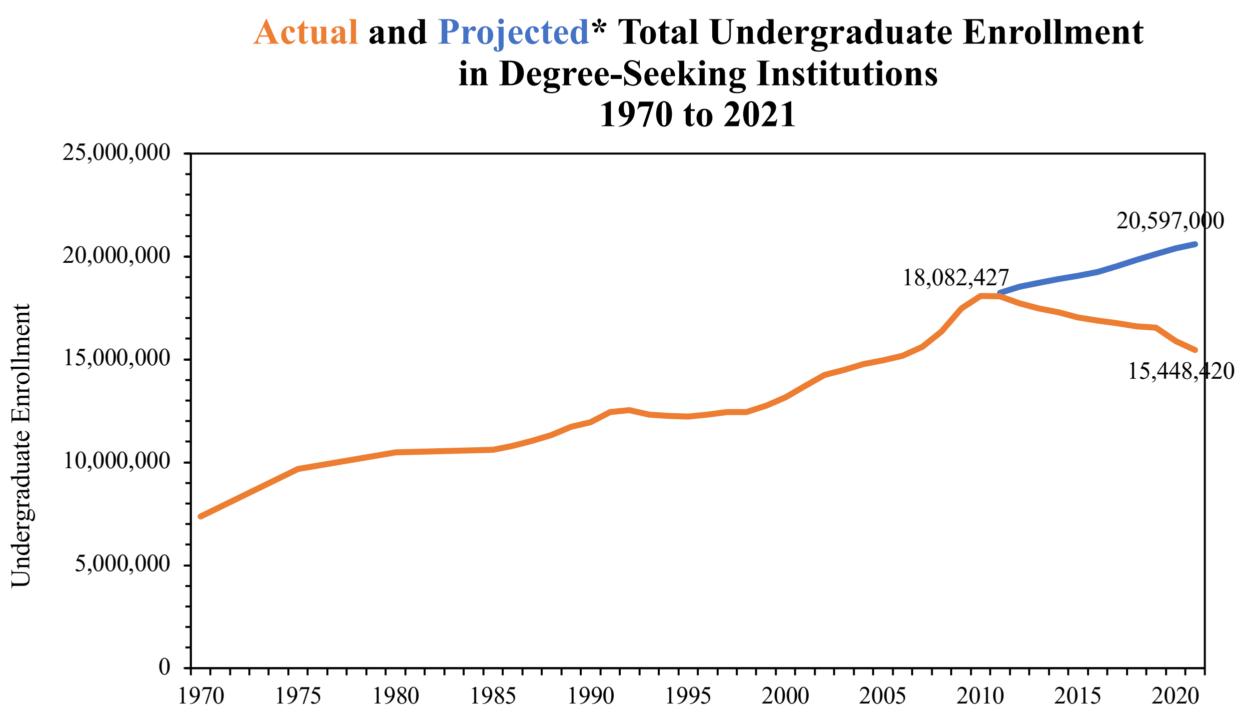
In 2021 there were 15.4 million undergraduate students enrolled in American higher education according to the National Center for Education Statistics. Back in 2012 the NCES had projected there would be 20.6 million undergraduates enrolled by 2021. Between 2010 and 2021 5.1 million students that had been expected in college decided not to enroll. They were not denied admission by institutions. Nor was this decline driven by declining demographics. These 5.1 million students *chose* not to enroll in college. This has never happened before.

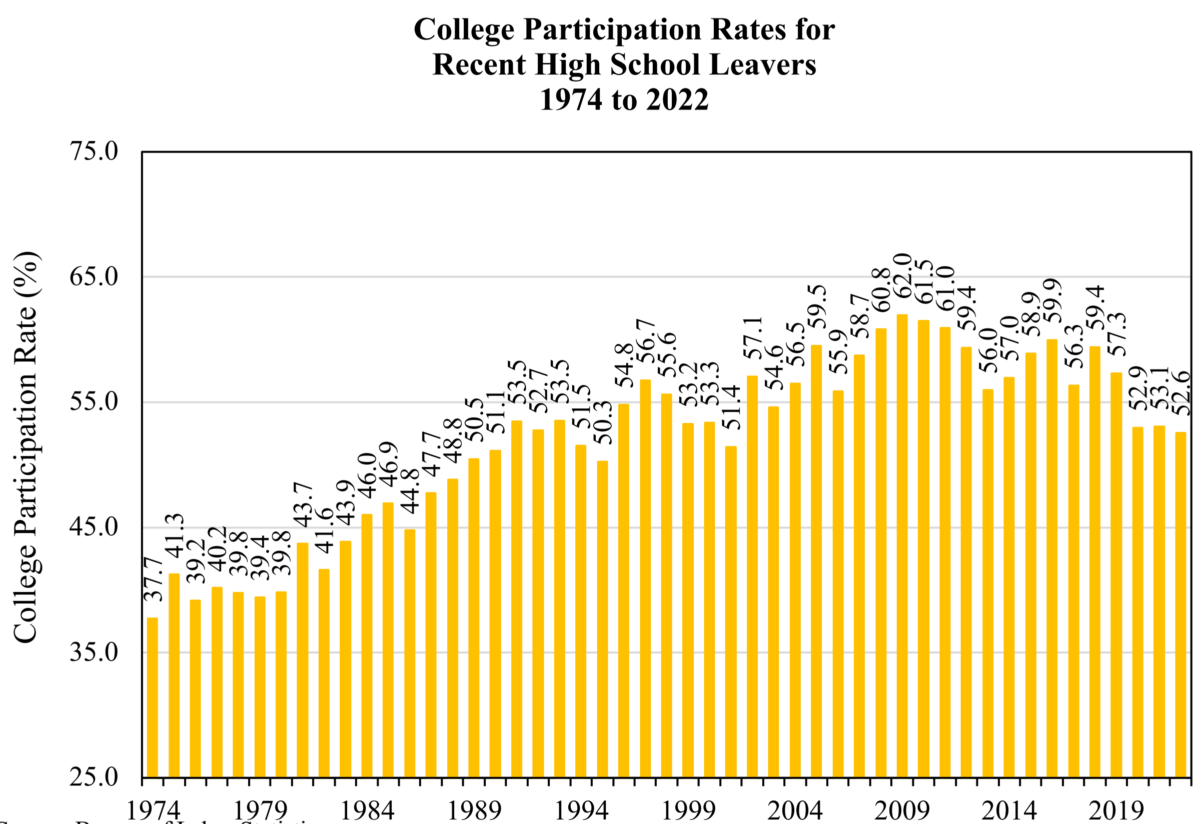


*NCES Projections of future enrollment in 2012
Source: NCES/IPEDS

The consequences of this staggering 5.1 million student loss have had predictable and measurable consequences on the national's higher education system. Higher education in the United States is now in full-scale meltdown. Since about 2010 while undergraduate enrollments have been steadily and substantially declining, funding has been shrinking, faculty are being laid off, programs are being eliminated and campuses have been closing.

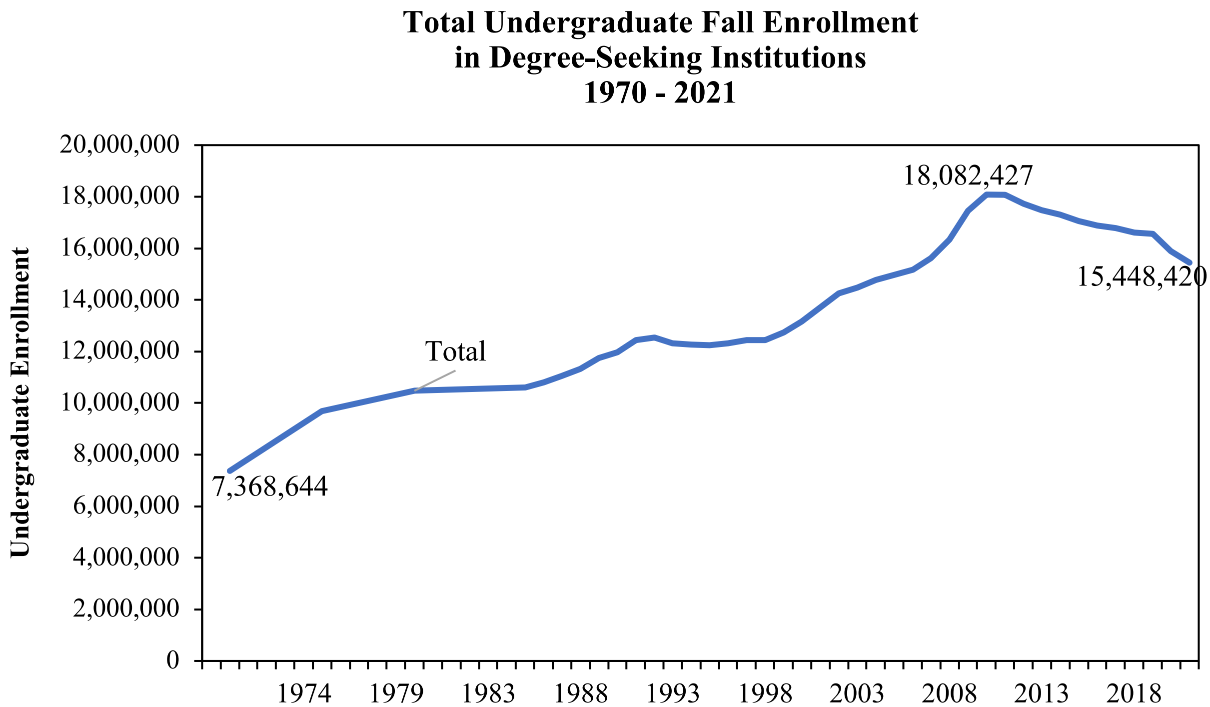
Over the last decade:

- College participation rates for recent high school leavers have declined from 62.0% in 2009 to 52.6% in 2022. Compared to the 2009 rate, 332,500 fewer high school graduates enrolled in college after high school. This has never happened before.



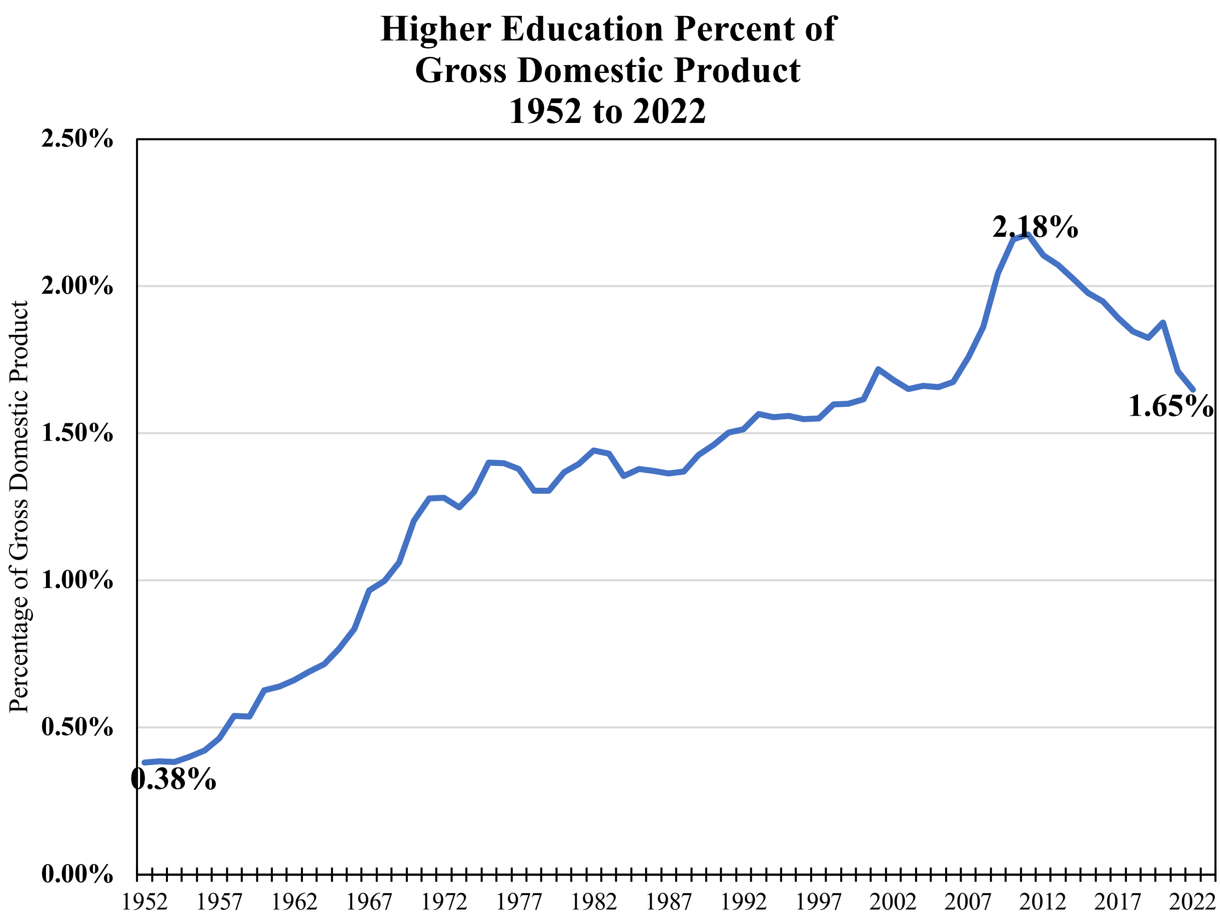
Source: Bureau of Labor Statistics

- Undergraduate enrollments are down 14.6% or 2.6 million students, from their peak of 18.1 million in 2010, to 15.5 million by 2021. This has never happened before.



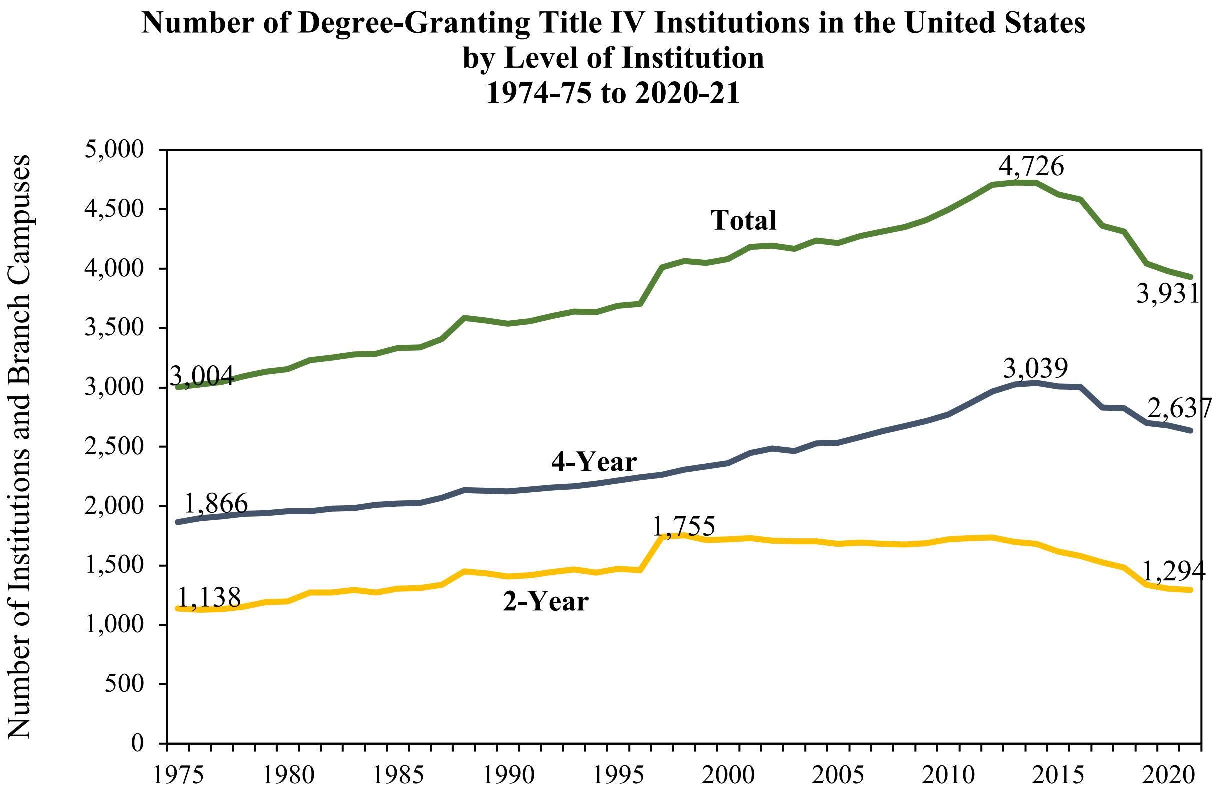
Source: NCES/Digest of Education Statistics

- Government and private investment in higher education is down from 2.18% of Gross Domestic Product in 2010 to 1.65% by 2022, a reduction of $135.8 billion in annual investment by 2022 compared to 2010. This has never happened before. If the trend of the last 12 years persists, higher education's share of the nation's economy will reach zero in 2048.



Source: National Income and Product Accounts

- The number of colleges and universities and their branch campuses is down 16.8% from 4726 in 2012 to 3931 in 2020. This has never happened before.



Source: NCES/Digest

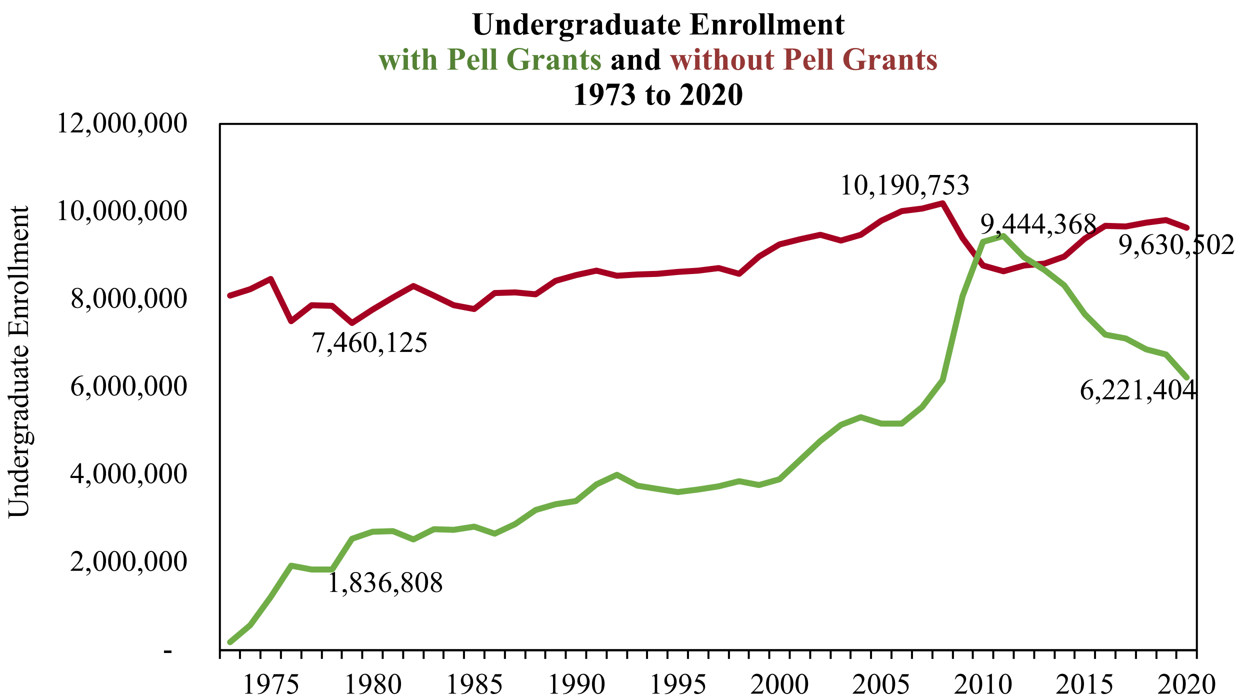
A meltdown like this has not happened since World War II and is unprecedented in modern peacetime. At a time when higher education is more important to our country's future than it has ever been, higher education is now falling apart.

Changing Policy, Programs and Funding

The key to understanding this breakdown in higher education is to begin with analysis of enrollments stratified by income.

- Between 2010 and 2020 the number of undergraduates with Pell Grants (serving low-income, financially very needy students), *declined* by 3.0 million students or 33.0%, from 9.1 million to 6.1 million students.
- During the same period, the number of undergraduates without Pell Grants from higher income backgrounds *increased* by 793,000 students or 8.8%, from 9.0 to 9.8 million.

The meltdown in undergraduate enrollment results exclusively from the loss of students from low or lower middle-income backgrounds.

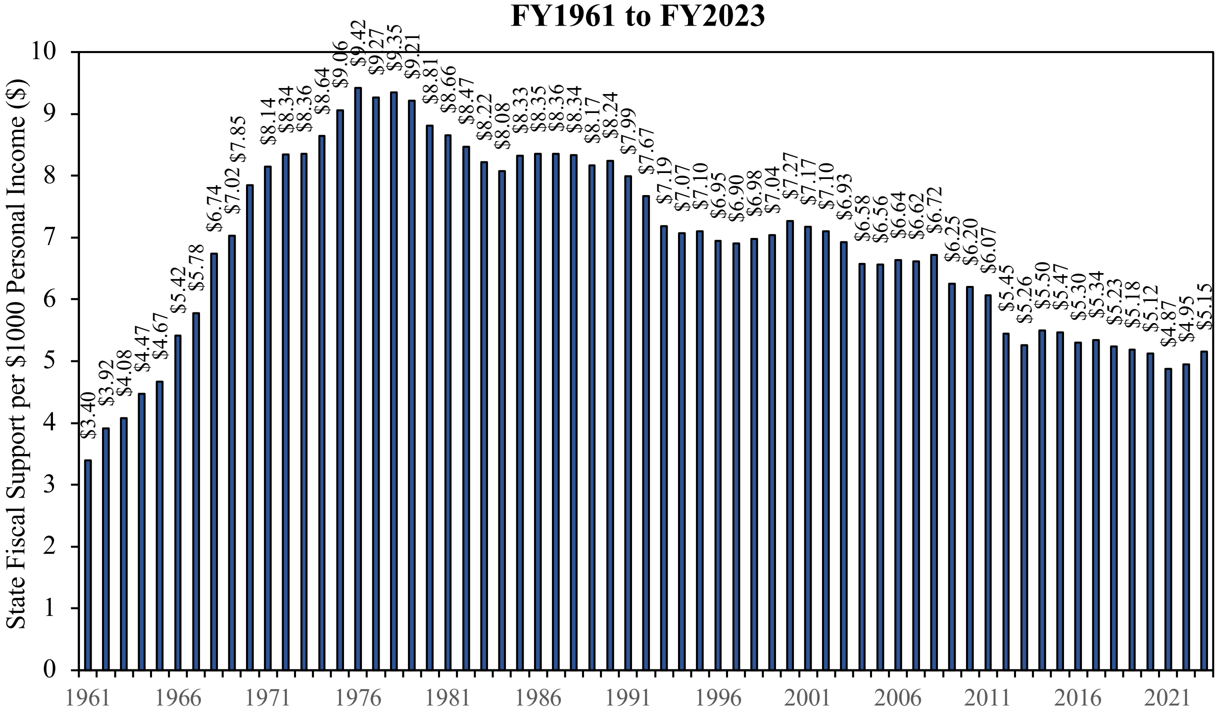


Source: OPE & Office of Federal Student Aid

The enrollment meltdown is the result of state and federal policy, program and funding choices that began in the mid-1960s that have priced students from low-income backgrounds out of higher education.

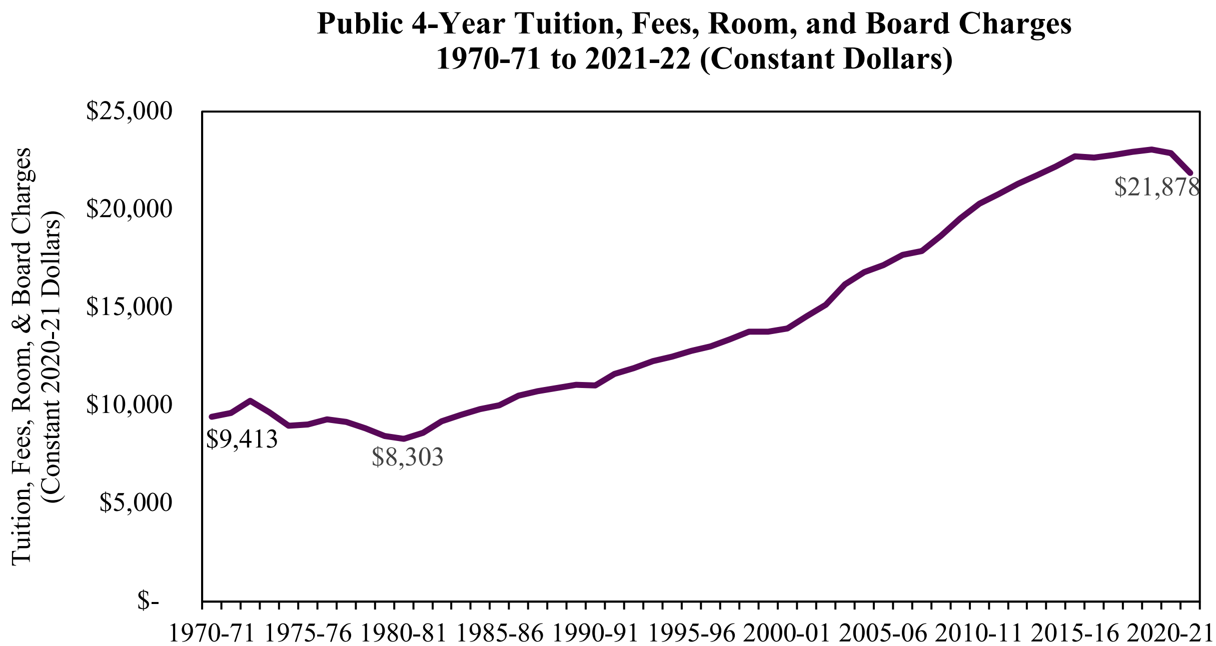
- Historically, higher education was primarily a private or state responsibility. State funding of higher education kept tuitions charged to student relatively low. Until 1980 institutional charges to students were declining in constant dollar terms.
- Beginning in the mid-1960s and especially in 1972, the federal government created new financial aid programs targeted to help students from low-income backgrounds pay college costs to broaden opportunity for higher education. The Pell Grant program came out of this effort.
- In response to the federal infusion of need-based financial aid, states began to defund public institutions in the late 1970s. Current state investment effort in higher education is now about 52% of what it had been 45 years earlier. The 2022 state investment effort in higher education is about $96 billion below the state effort made in 1976.

State Fiscal Support for Higher Education
per $1000 of Personal Income
FY1961 to FY2023



Source: BEA, SHEEO, and Grapevine

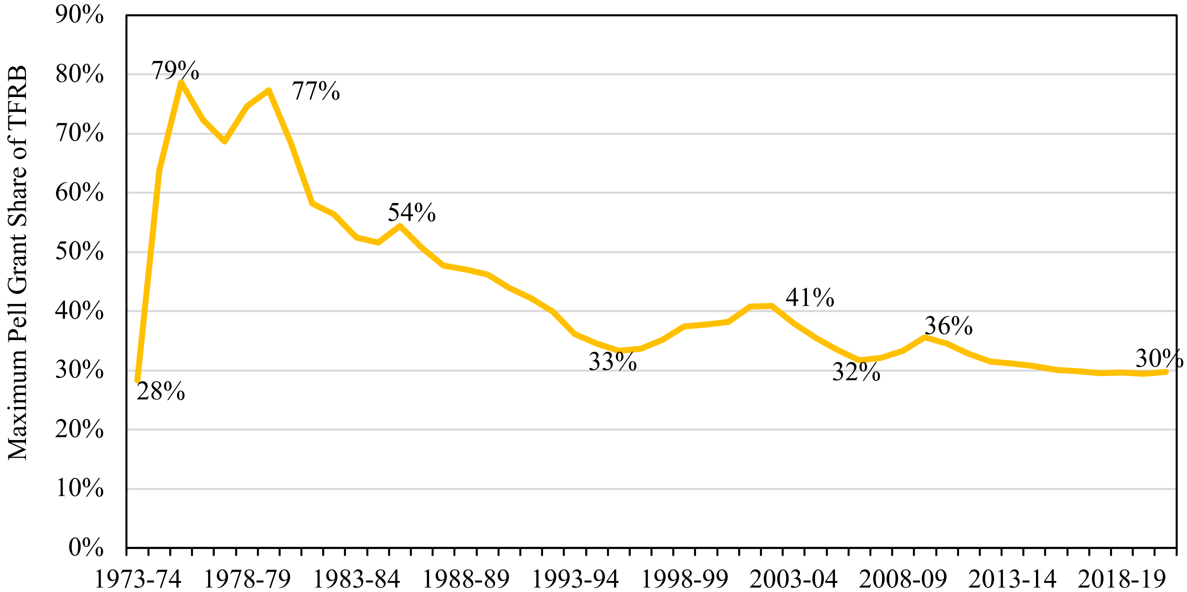
- State defunding of higher education was followed immediately by public institutions increasing charges to students to replace lost state financial support. Tuition, fee, room and board charges to students increased by about 175% in constant dollars between 1980 and 2021.



Source: NCES/Digest of Education Statistics

- The escalation of state charges to students was not matched by increases in the federal Pell Grant program. The maximum Pell Grant for the neediest students that covered 70% to 80% of public university institutional charges in the 1970s covered just 30% by 2020. The same grant that covered 35% to 38% of institutional charges in private 4-year institutions in the 1970s covered 14% by 2020.

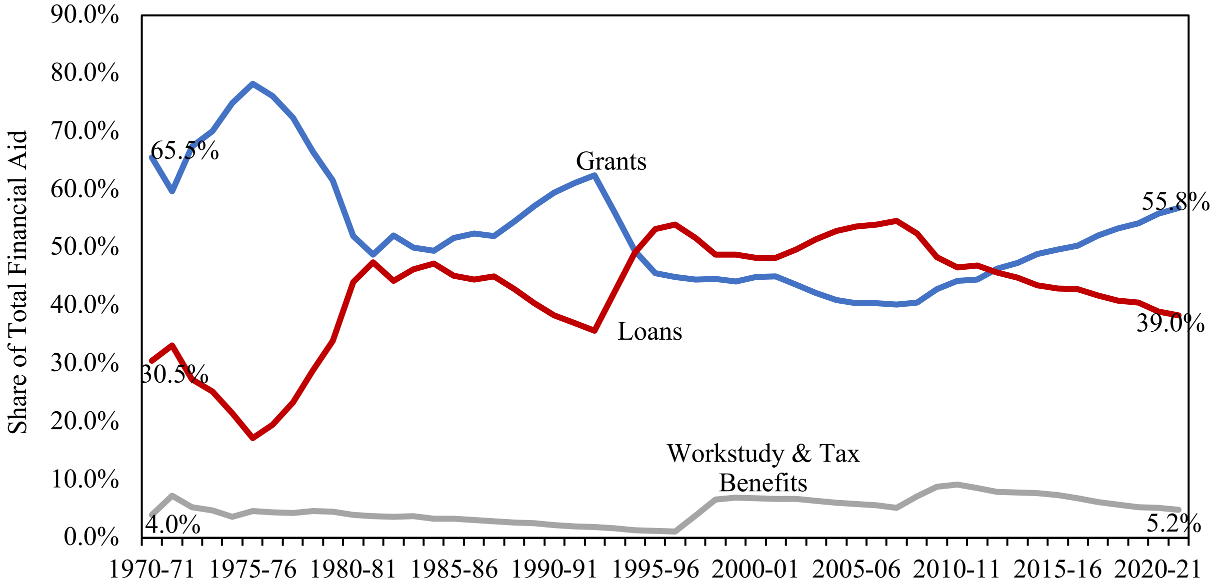
Pell Grant Maximum Award as a Share of Average Tuition and Required Fees and Dormitory Room and Board Charges at Public 4-Year Institutions 1973-74 to 2020-21



Source: Digest of Education Statistics

- The last financing option for needy students became education loans to pay college attendance costs—loans that required repayment of principal with high interest after college.

Share of Total Financial Aid by Aid Type
1970-71 to 2021-22*



*Data for 90/91 and later are for undergraduates only.
Source: College Board

Financial Barriers

Financial barriers to higher education for students from lower income backgrounds emerged and grew. Since about 2010 these growing barriers are blocking student opportunity to get a higher education.

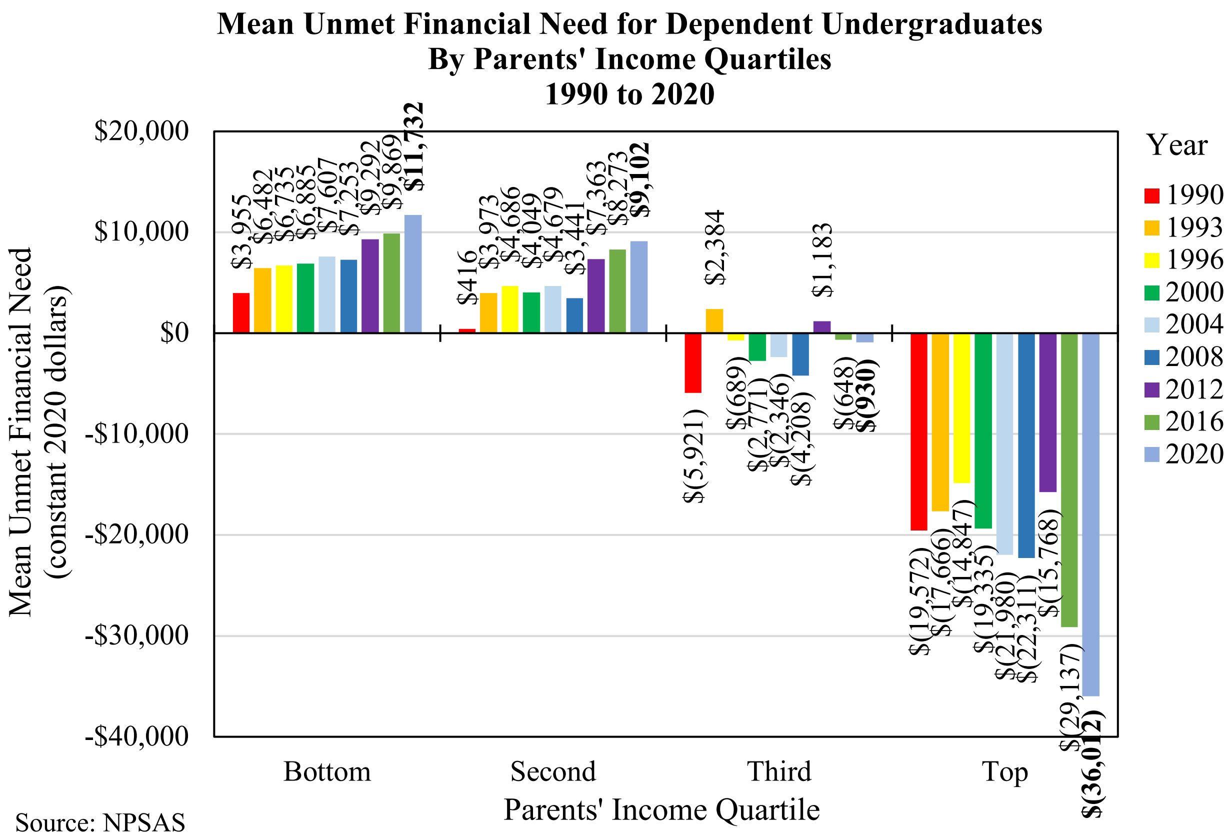
We have been studying the financial barriers to higher education for undergraduate college students for more than 50 years. These financial barriers include unmet financial need, student work-loan burden, and net price to family. Here data from the National Postsecondary Student Aid Studies (NPSAS) is used to measure these financial barriers. Currently comparable and useful NPSAS data are available for 9 study years between 1990 and 2020.

Most important, we analyze these financial barriers by quartiles of family income. Until they turn 24 students are treated as dependent family members for financial aid purposes—parents have the first obligation to pay the costs of college attendance for their children to the extent they are judged able to do so. The determination of student need for financial aid begins with a federal assessment of each family's ability to pay for college from their own income and assets. This assessment is currently being substantially revised. But basically this assessment expects students from low-income families to provide little or no resources to support the higher education of their children. This assessment also expects students from higher income families to pay college attendance costs first from their own income and assets.

Unmet financial need. Unmet financial need is the difference or gap between the student's demonstrated financial need calculated by federal formula and all financial aid received by the student. The financial barrier of unmet financial need was calculated from the National Postsecondary Student Aid Study (NPSAS) for a dependent undergraduate student, enrolled full-time, for a 9-month academic year, at a single institution by quartiles of family income.

- For a dependent student from the bottom quartile of family income (below $37,000 in 2020 dollars) the average unmet financial need increased from $3955 in 1990 to $11,732 in 2020 in constant dollars.
- For a student from the second quartile of family income ($37,000 to $83,000), average unmet financial need increased from $416 in 1990 to $9102 by 2016 in constant dollars.
- For a student from the third quartile of family income ($83,000 to $146,000) there was no unmet financial need.

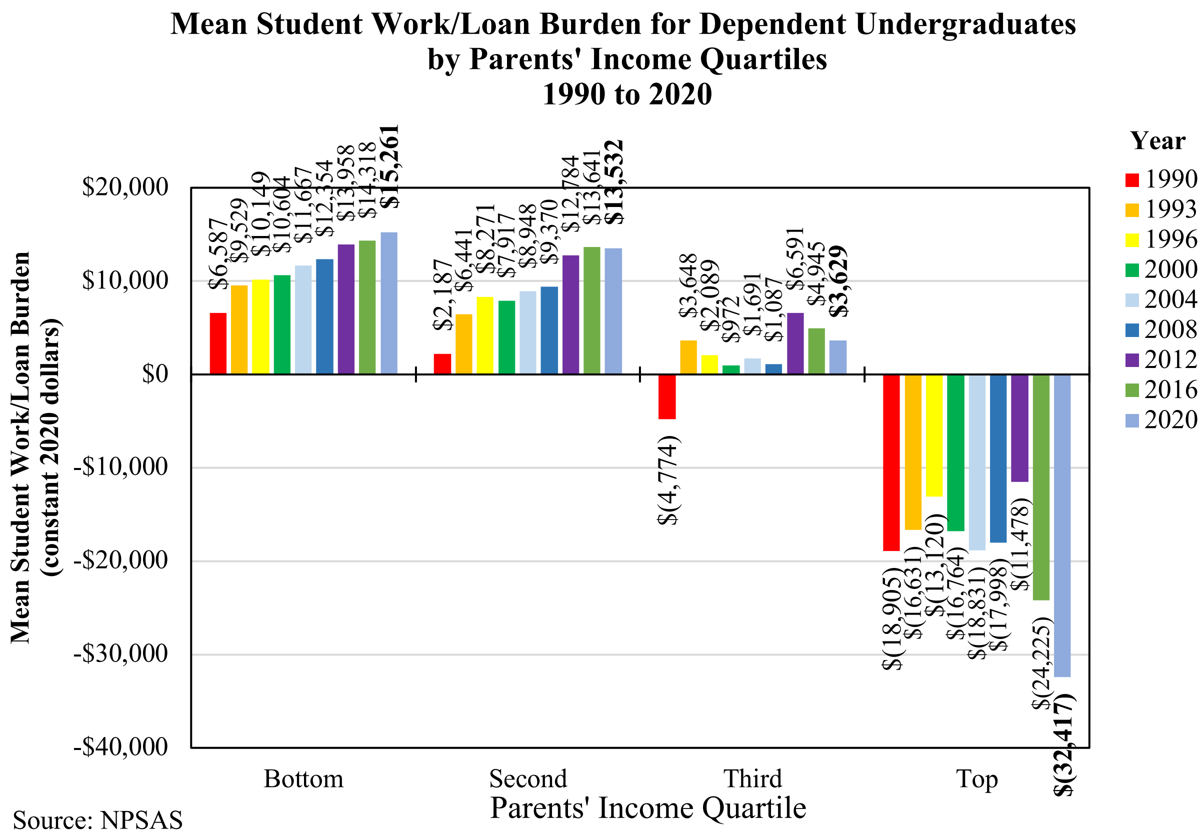
- For a student from the top quartile of family income (above $146,000) the sum of the family contribution and financial aid exceeded costs of attendance by $19,572 in 1990. This grew to $36,012 by 2020.



As the data make clear, unmet financial need barriers occur only among students from the bottom half of the family income distribution. These are the students that have been increasingly turning away from higher education since about 2010. The financial barriers to higher education that most adversely affected the bottom quartile population in 1990 grew to encompass the second quartile population as well by 2020. By about 2009 these growing barriers were impacting the college enrollment of half of the students coming out of high school. And by 2020 a third of this population had come to decide that college was not affordable for them. They chose not to continue their educations after high school and instead try to start their adult lives with a high school degree.

Student work-loan burden. Student work-loan burden is unmet financial need plus education loans and earnings from college work-study. This pattern amplifies the pattern of unmet financial need by adding education loans and earnings from employment. Across the quartiles of family income:

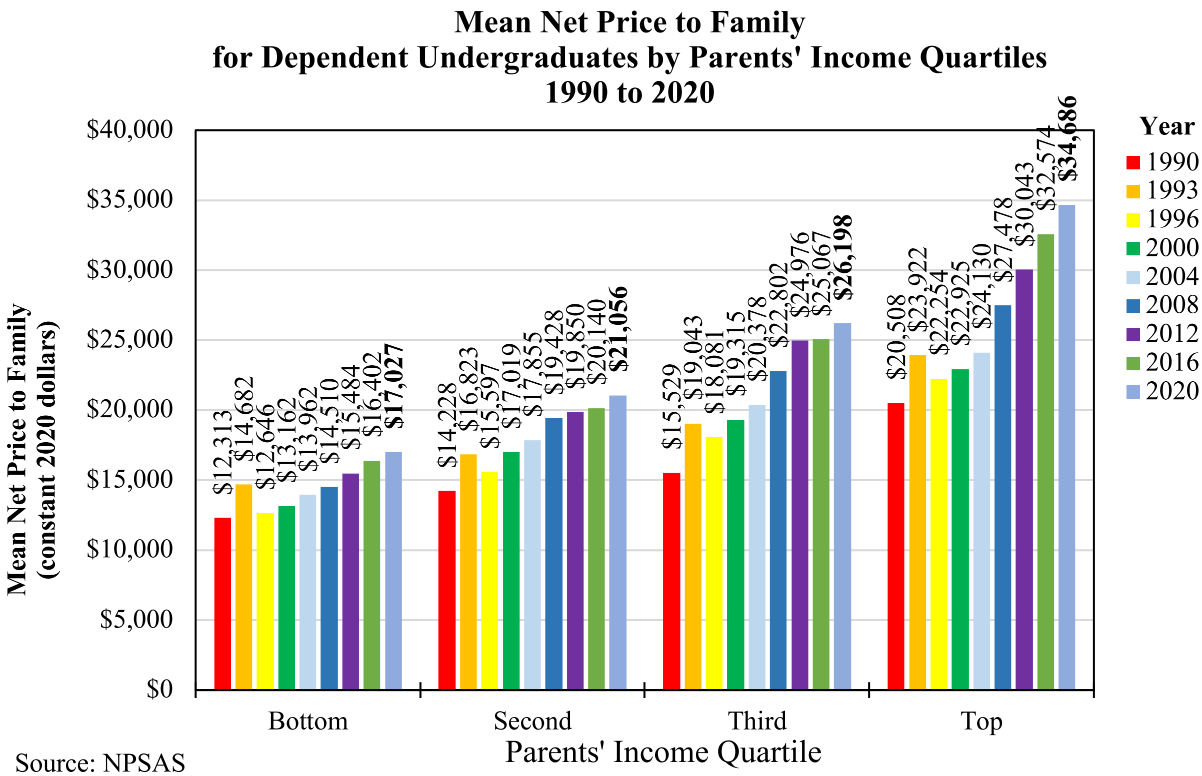
- In the bottom quartile of family income, the student work-loan burden increased from $6587 in 1990 to $15,261 by 2020 in constant dollars. This was an increase of $8674 or 131.7%.
- In the second quartile of family income, the student work-loan burden increased from $2187 in 1990 to $13,532 in 2020 in constant dollars. This was an increase of $11,345 or 518.7%.
- In the third quartile of family income, the student work-loan burden was -$4774 in 1990. By 2020 this had grown to +$3629.
- There is no student work-loan burden in the top quartile, and there never was.



Net price to family. The net price to family of higher education is costs of attendance less all gift financial aid (grants, scholarships, waivers). This is a popular measure used by economists but it is too gross and in its gross form misleads. We use this measure across quartiles of family income:

- In the bottom quartile, the net price to family increased from $12,313 in 1990 to $17,027 by 2020 in constant dollars.
- In the second quartile of family income, the net price to family increased from $14,228 in 1990 to $21,056 by 2020 in constant dollars.
- In the third quartile of family income, the net price to family increased from $15,529 in 1990 to $26,198 by 2020 in constant dollars.

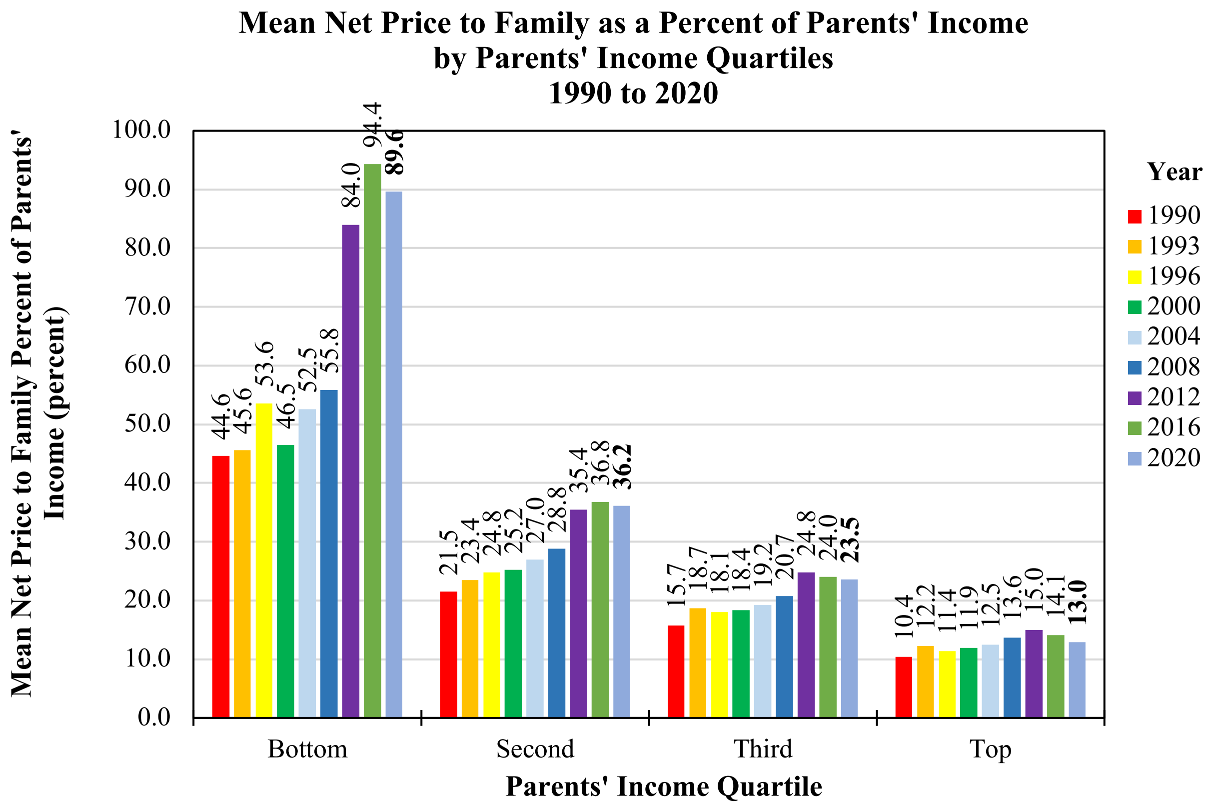
- In the top quartile of family income, the net price to family increased from $20,508 in 1990 to $34,686 in 2020 in constants dollars.



Net price tax rate. The net price tax rate is the net price to family divided by family income. This control for family income illustrates the full and growing regressivity of the system of financing higher education opportunity over the last 30 years.

- In the bottom quartile of family income, the net price share of family income increased from 44.6% in 1990 to 89.6% by 2020. These families are often zero Expected Family Contribution according to (the old) federal need analysis.
- In the second quartile of family income the net price tax rate increased from 21.5% in 1990 to 36.2% by 2020.

- In the third quartile of family income the net price tax rate increased from 15.7% in 1990 to 23.5% by 2020.
- In the top quartile of family income the net price tax rate increased from 10.4% in 1990 to 13.0% by 2020.

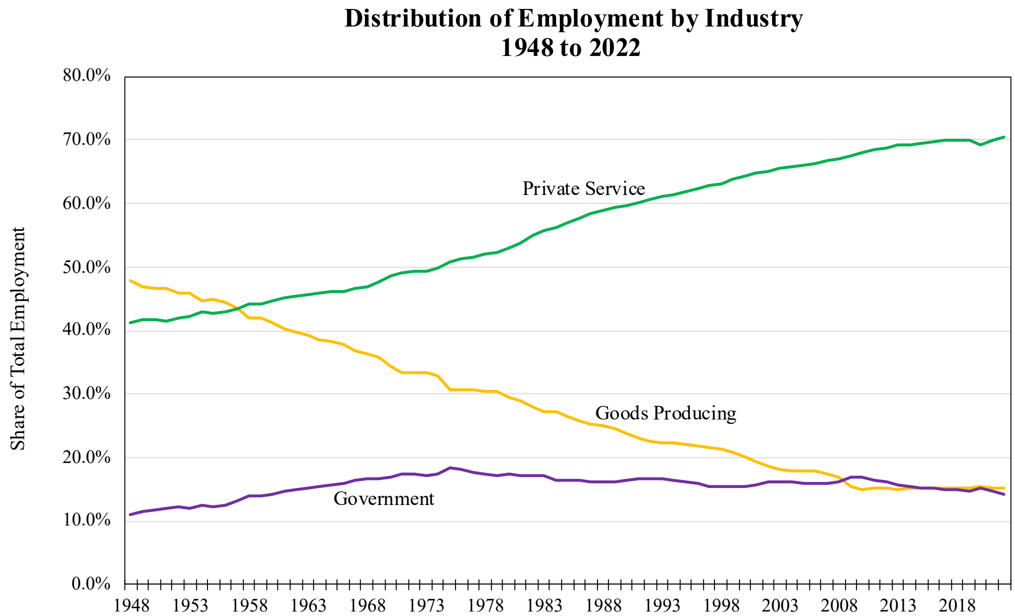


Source: NPSAS

Changing World

Since World War II the economy of the United States has been transformed, from goods production to service provision. Goods producing industrial employment that was 48% of all jobs in 1948 shrank to 16% by 2020. Private sector service providing industrial employment that was 41% in 1948 grew to 69% by 2020. Employment has been lost in industries like manufacturing and agriculture that heretofore had not required a college education.

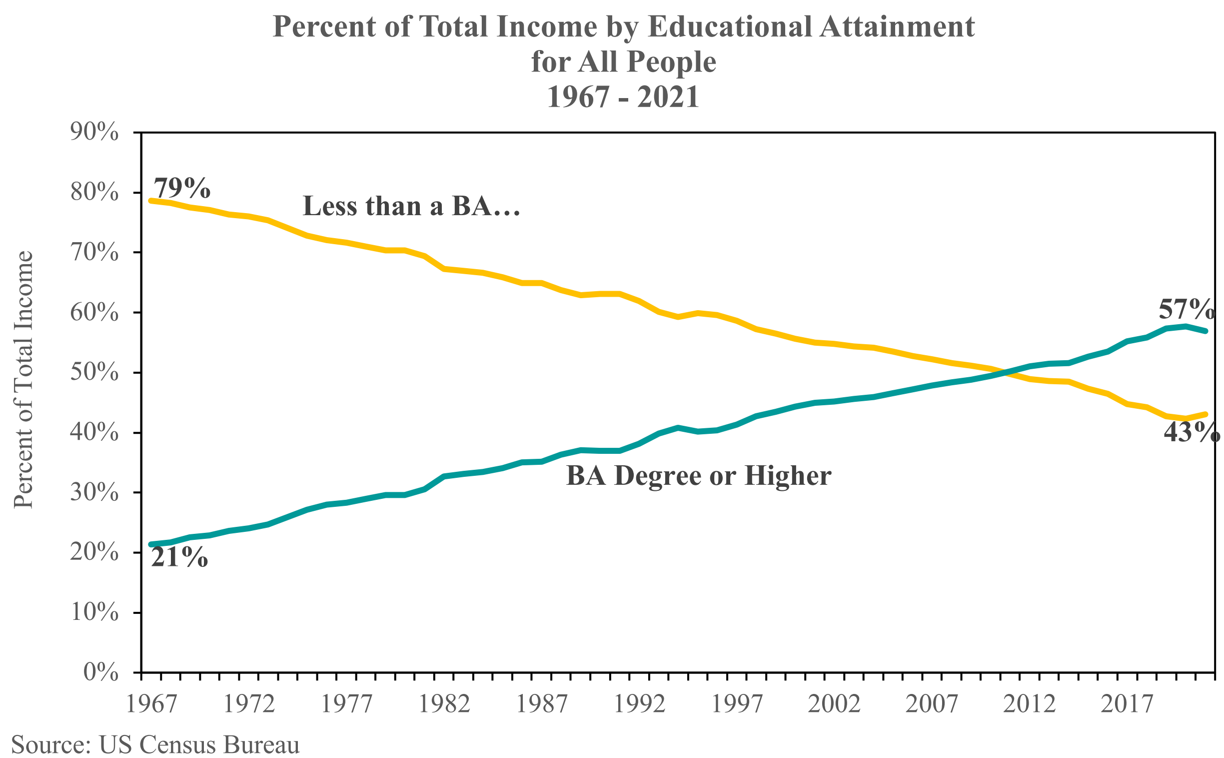
Employment has gained in industries like education and health services, business and professional services, leisure and hospitality and other service industries.



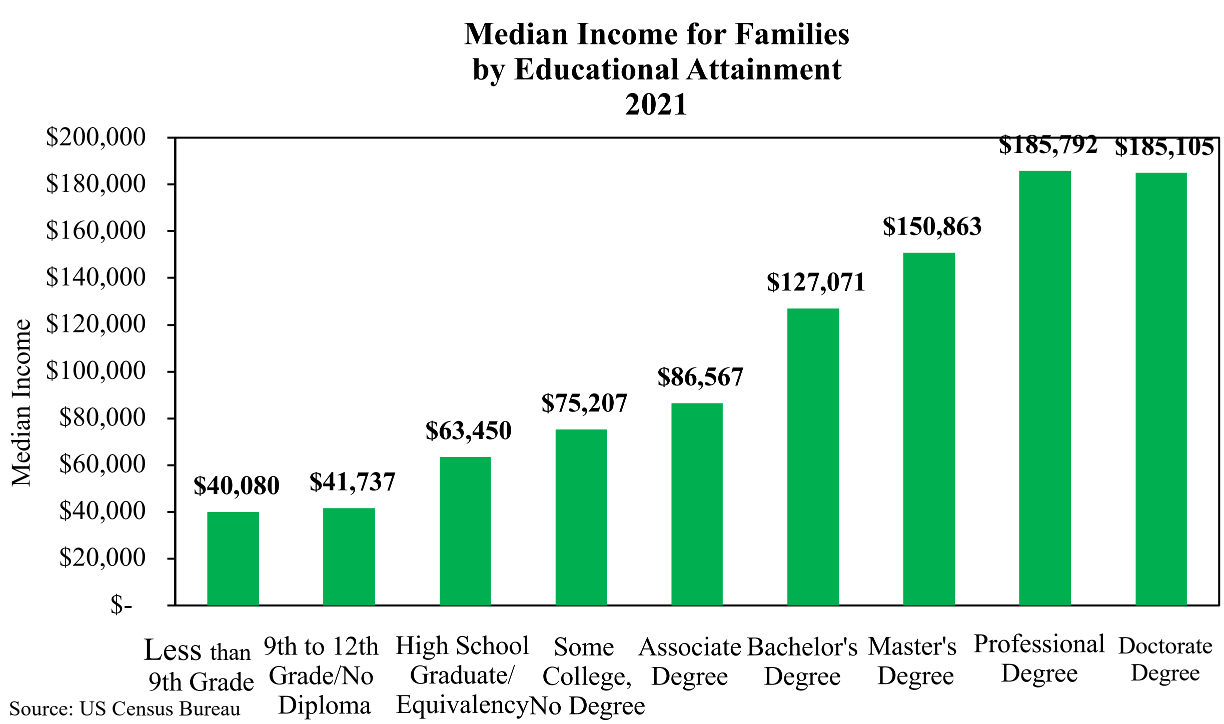
Source: Bureau of Labor Statistics

The service industries' pay scales are determined by educational attainment. More education produces more income and all of the benefits that income provides.

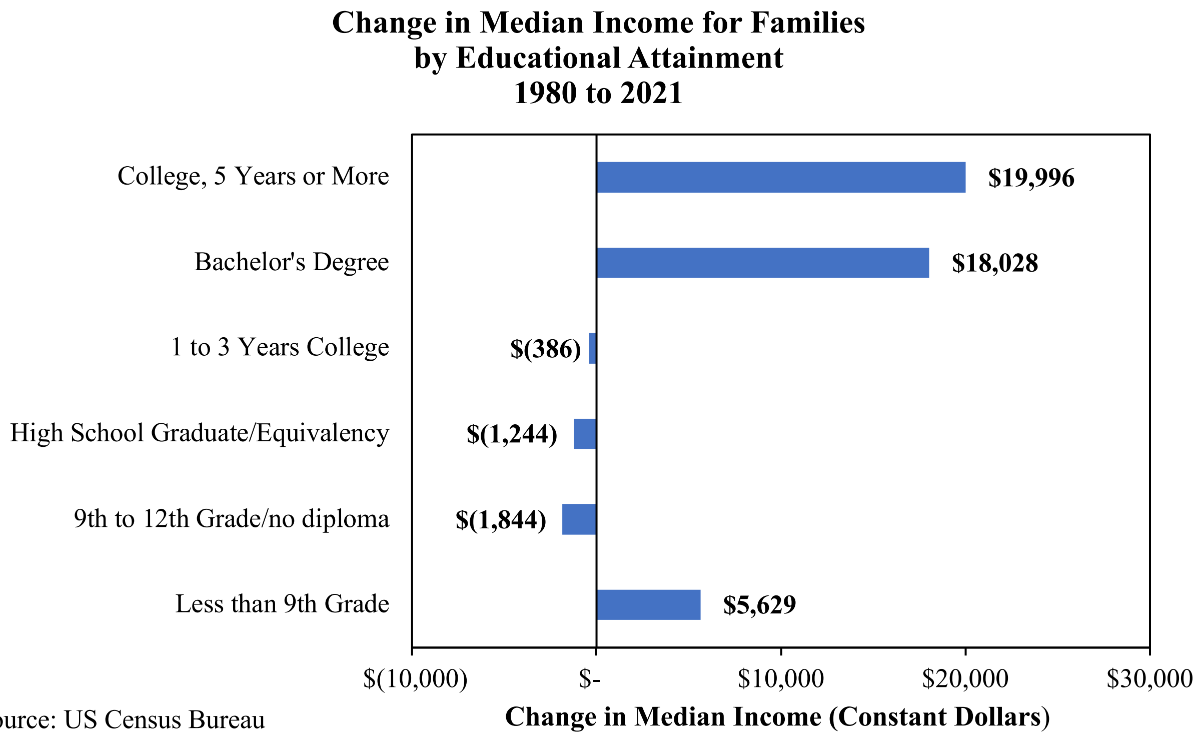
The restructuring of the economy from goods production to service provision after World War II was accompanied by a redistribution of income earned by all people in the economy. The share of all income earned by people with less than a bachelor's degree declined from 79% in 1967 to 43% by 2021. During this same period the share of all income earned by people with a bachelor's degree or more rose from 21% in 1967 to 57% by 1921.



Another way to express the importance of education to income is shown in the following chart.



While the chart is clear, compelling, and self-explanatory, the following chart is just as important. Over the last 40 years, while the economy has lost jobs in goods producing industries and gained jobs in service providing industries, the only winners have been those with a bachelor's degree or more from higher education. While these results are for families, they also hold for households, individuals, men, women, whites, blacks, Asians and Hispanics.



Source: US Census Bureau

Policy, Programs and Funding

Education is a fundamental economic and social investment in the future. This holds for every level of education from kindergarten through graduate and professional. This holds for individuals, for their families and the communities where they live and work. This holds for the states and the nation. The welfare of the populations of the future is determined by today's education investments just as our welfare today has been determined by the investments of past generations in our education and welfare today. Curtailing education investment through funding and enrollment will diminish our future.

The meltdown of higher education since 2010 has already produced an irretrievable and substantial dent in our country's economic, social, and political future. The meltdown is also fueling the social, political and economic polarization that is ripping the country apart. That damage will grow year after year until it is addressed. It is an inevitable and predictable consequence of the public policy, program and funding choices made mainly by states to defund higher education since the late 1970s and being pursued even today.

We could--if we chose--make different policy, program and funding choices. Just as we have made bad choices, we could make other, more productive choices. There are two issue areas requiring new public policy, programs and funding to restore higher education opportunity: college affordability and tax law.

College affordability. To restore college affordability for students from lower family income backgrounds, financial barriers to higher education must be substantially reduced or eliminated altogether. To accomplish this we propose for discussion a Pell Grant maximum award set each year at the average annual cost of attendance at a public 4-year university.

According to the National Center for Education Statistics, the national average cost of attendance for first-time, full-time undergraduate instate students living on campus at public 4-year institutions for 2021-22 was $26,756. This consists of:

- Tuition and required fees: $9678
- Books and supplies: $1216
- Room and board: $11,520
- Other*: $3614

*Includes: laundry, transportation, entertainment, furnishings, loan fees, dependent care, study abroad, and disability expenses.

This award should be funded by federal and state sources on a 50:50 basis. State defunding of higher education must be reversed. And that reversal should redirect restored state funding to their own financially needy students and not used to finance the higher educations of students from wealthy families that have no financial need.

Tax law. Currently private colleges and universities qualify for tax exempt status simply by being an education institution. This status has enabled some institutions to accumulate enormous profits (called endowments) that are not taxed as profits. Many of these best known private colleges and universities enroll very few students from low-income family backgrounds--they enroll mainly students from wealthy families. That is: these institutions enrich the already rich and impoverish those born into low-income family backgrounds by not enrolling and educating them. These profit-driven institutions (but ostensibly not-for-profit) feed the enormous income inequality that is dividing and polarizing society and challenging the foundations of our democracy.

We propose that existing tax law regarding tax exempt status for private colleges and universities be amended to require tax exemption to be "earned" according to the share of their undergraduate student body receiving federal Pell Grants. For example: If nationally 35% of undergraduates hold Pell Grants then any institution that enrolled 35% or more of its undergraduates with Pell Grants would qualify for 100% tax exemption. If another institution had 10% of its undergraduates with Pell Grants, then just 10/35=28.6% would be exempted from federal income taxes. The rest of the institution's income would be taxed as profit for the for-profit business that it is.

These two issues call for a national, bi-partisan commission to address and propose to Congress a rewriting of the nation's higher education finance laws. The higher educational financial structure must be completely redesigned to restore college affordability by removing financial barriers to higher education. And the tax laws must not reward colleges and universities for enriching those born into affluence and denying their educational services to others born into lower income backgrounds.