

EconoFact Chats: Challenges to Higher Education in the COVID-19 Era

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Michael Klein:

I'm Michael Klein, Executive Editor of EconoFact, a non-partisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

Colleges and universities are facing unprecedented challenges this year. After a spring semester that was cut short by the COVID-19 crisis, administrators struggled with the decision of how to proceed this fall. Some colleges have moved to a hybrid of in-person and online learning. Others have chosen online learning only. And some have switched from their initial plans of partly residential to fully online as COVID cases have emerged. Underlying all of this is the precarious financial position of many colleges and universities, which predated the pandemic. My guest today is Nathan Grawe of Carleton college. Nathan is an expert in the economics of higher education. His 2018 book *Demographics and the Demand for Higher Education* provides an analysis of the challenges facing many colleges and universities as birth rates fall, especially among groups that traditionally have sent their children on to higher education. Nathan, welcome to EconoFact Chats.

Nathan Grawe:

Thanks Michael.

Michael Klein:

Nathan, in recent weeks, where you've seen many colleges and universities going to great lengths to implement plans to bring students back to campus, some remain on that path as of today while others, like the University of North Carolina, Michigan State and Notre Dame, have been forced to abort those plans. In the midst of the pandemic, why are so many institutions working so hard to bring students back to campus?

Nathan Grawe:

I think primarily the answer is a strong belief in the power of a residential education, that it really matters to have students in the classroom with peers and professors working on learning new ideas. In particular, we also saw in the spring when there was the shift to online learning, that that shift raised equity concerns. Not all students had access to strong internet connections or equipment to make those connections work well, and so I think there's a real concern about how online education works, at least for these institutions that are primarily at residential campuses.

Michael Klein:

Now Nathan, as economists, we think there's some financial background to this as well, right?

Nathan Grawe:

Absolutely. And while I know that something to even raise these questions raises some ethical questions, I think we usually think in terms of trade offs. And here, there are some real concerns. As you mentioned,

institutions, some of them are facing some existential questions and institutions that own dorms are effectively landlords that in the spring and now many of them in the fall aren't collecting any rent. In addition, there's concern that some students might not return if institutions move online. A Simpson Scarborough survey recently suggested that 40% of first year students who said they intended to go to a residential four year college are now not likely to attend anywhere. Now of course, even if you move to bring students back to campus, that doesn't mean they'll come. There are a large number of students who are also skeptical about returning to campus. But you can see the challenge then that institutions face both in terms of the room board charges, but their tuition as well.

Michael Klein:

So obviously, we all hope that this ends soon, but it may not. Even if we do see a vaccine testing and an ability for colleges to return to something like normal, what will be the effect this year financially for colleges, pedagogically for the way in which higher education is delivered and in the public's view of the value and the worth of higher education?

Nathan Grawe:

Yeah, that's really the \$64,000 question.

Michael Klein:

So \$64,000, you mean tuition and room and board, right?

Nathan Grawe:

Well I think that's a little bit overstated for, say, a public institution. But honestly, I don't know that we will know the answer to your question for a number of years. How will this all shake out? We can take some informed guesses though. So pedagogically for instance, we're experimenting in a massive way right now with online education at the high school level and at the college level. I think for some students, they'll have negative experiences which will reinforce their desire to go to a residential campus with a more personal touch. And yet for other students, even though online education has been well developed for over 20 years now, they'll have their first experiencing seeing how this might be a solution for them. So I think we're going to see some shakeout, but it'll go in a lot of different directions.

Michael Klein:

Yeah. Also as a professor, I've noticed that being forced to do this, I incurred what we call a fixed cost. So now I'm more likely to do it in the future as well.

Nathan Grawe:

Absolutely.

Michael Klein:

What about the financial aspect of it, Nathan?

Nathan Grawe:

Yeah. Well the financial aspect, as you noted in your introduction, really predates the COVID crisis. This COVID crisis may however hasten a shakeout. So depending on which experts you talk to prior to the COVID outbreak, 10 to 25% of schools were at serious risk for closure. And in addition to these schools that are in serious risk of closure, most analysts say there's maybe another third that are just perpetually struggling. They might not have prior to COVID been at that existential point, but they were nonetheless

at real risk. [inaudible 00:06:00] in fact downgraded higher ed. They noted in 2016 that a third of rated schools had run a deficit.

Michael Klein:

So Nathan, let's just start with some basic facts here. How many colleges and universities are there in the United States?

Nathan Grawe:

Yeah. If we look at all higher ed institutions, it's more than 4,000, about a third of which are two year, about two thirds are four year. There's really a great diversity, which is an asset to our system. We have students with different needs and we have institutions with very different skillsets. 40% are public, 60% are private. About one in five are for-profits. We've got a lot of diversity in a large number of institutions.

Michael Klein:

So even before the pandemic, there was this wave of college closings or merging with other institutions, right?

Nathan Grawe:

There was. We'd seen about five private institutions close every year. And that most recently has jumped to about 30 in the last year for data that we have.

Michael Klein:

And this closing is an important issue obviously, but it threatens not just some colleges, but a wider range I imagine, right?

Nathan Grawe:

Yeah. That's the concern, that those 30 are representative of a much larger group.

Michael Klein:

And what's happening now? Is it that the demographics have changed? Are there fewer students going on to college? I thought there were more high school graduates going on to college. There was a case a generation or two ago.

Nathan Grawe:

Yeah. And if we look at that time scale, that's exactly right. We've had tremendous growth and consistent growth. In fact, from 1954 to 2013, in each of those years, you could have looked back five years before and seeing that you had more enrollments than you'd had earlier. But something did change and so in 2014, we've for the first time broke that rule. Now there are fewer students enrolled and in fact, we're more than a million students down in total enrollments over the last few years. Now, some of this is just recovery from the great recession. When you have a great recession like event, a lot of people go back to college and the recovery brought people out of higher ed to some degree. But we've also seen the effects of lower birth rates. It's catching up to us because obviously if you don't have kids, you don't have a market for higher ed.

Michael Klein:

And in your book, you focus on the demographics and the way they've contributed to the precarious position facing many colleges and universities. You develop an index, you call it the Higher Education

Demand Index. Can you explain a little bit what that measure is and how it helps us understand the challenges higher ed faces today and into the future?

Nathan Grawe:

Yeah. So as I mentioned, we've seen this decline in fertility recently following the great recession. We saw fertility rates drop dramatically and it's been persistent. We continue to see a downward slide. This is layered on top of longstanding demographic trends. We've seen a shift because of differential birth rates by race, Hispanics have more babies than non-Hispanic whites for instance. Immigration moves a certain group of people, Hispanics and Asians disproportionately into a part of the country, the South and Southwest in particular. And we see migration patterns. And so my question was how do these demographic changes play out in the next 15 or 20 years, given that we know that groups go to college at different rates? How can we bring in that information on the different probabilities of college attendance to understand what these demographic trends mean for higher education going forward?

Michael Klein:

And it tends to be the case that people go to colleges and universities close to where they live, right?

Nathan Grawe:

Absolutely. About 80% of students in fact attend instate.

Michael Klein:

And so with your demand index, what is it showing?

Nathan Grawe:

So it'll show several things. When I looked at data put together by the Western Interstate Commission for Higher Education, they forecast the number of high school graduates. And one thing that we see is that the decline in fertility rates, which currently nationally has led to a plateau in the number of young people and will soon lead to a decline, those issues really can't be avoided. I hope that when we accounted for the probability of college going, maybe I didn't have to contend with those demographic changes. But because so many students go off to college these days, higher education demand, broadly speaking, more or less follows population. But that's not true for all institutions. We do see, for instance, that the rising share of young people who have parents who went to college means that we might anticipate greater demand going forward for selective institutions.

Michael Klein:

So the things that seem to matter are how many potential students there are, and that's not just 18-year-olds, but it can be broader than that, where they live, what their incomes are, if there's a tradition of going to college, which is measuring whether or not their parents went to college and so on. And when you put all this together, it doesn't paint a very rosy picture for higher education does it?

Nathan Grawe:

It doesn't. I mean I think when we think about where we've come from with this history of growth, a lot of us have created processes that are built on the expectation of growth. And right now, we're in this plateau and soon headed toward decline and that raises some real challenges.

Michael Klein:

So if we contrast this with the 1990s, we saw a decline in births in the 1970s. So by the time those children were ready to go to college in 1990s, it was actually a good time for higher education. Why is it different now?

Nathan Grawe:

I think it's not entirely different, though there are some important differences. So why not entirely different? Even if you look back to that 1990s episode and you're exactly right about the demographic trends then, and there were concerns in the 1980s, much like the ones I'm selling you today, so it's a really good question to ask. We did see a decline, a noticeable decline in the number of first time fall enrollees. So we did see some of this effect, but that was overwhelmed by a rising number of adult learners. And I think when we think about that, we have to recognize that the economy bailed us out. At the same time that we were going through this demographic transition, we saw skill bias technical change.

Michael Klein:

Which means that if you had higher education, you were making better wages than if you didn't. So it really paid off to go to college, right?

Nathan Grawe:

Exactly. The returns to gaining a college degree went through the roof. And so not only did that push some additional young people to seek out a college degree, the college attendance rate increased among traditional aged students. It also drew back in a large number of adult learners. And so we have to ask ourselves whether we think returns to education are going to go through the roof again, I don't know that anybody who does that work thinks we necessarily should hope for that in the next decade. And I think we also have to recognize that because college attendance rates are so much higher today than they were then, and we already have expanded into the adult learner market, there's a question of whether we can pull the same lever twice.

Michael Klein:

So the adult learners, you're suggesting it's not just the number of 18-year-olds, but colleges might have to expand who they think they're going to be teaching.

Nathan Grawe:

Exactly. Economists might think of us as diversifying your portfolio. If I serve only the traditional aged market, then I face some additional risks that I can mitigate if I were to reach out to adult learners, for instance.

Michael Klein:

Well what's going to happen to the prospects of those who will be the first in their families to attend college? Or the closing of many institutions? A lot of the places that are in a more precarious position tend to serve first generation students. Is that correct?

Nathan Grawe:

That's right. In fact I read a book this spring called *The College Stress Test* that made that point that the institution's most at risk of closure disproportionately serve underrepresented student groups. And so if we just continue forward in higher education doing the same things we've done in the past, there's a real concern that whatever financial shakeout we see from COVID and from these bigger trends will disproportionately hurt groups that we don't want hurt.

Michael Klein:

And then given the skill values premium, what you said, the fact that when you go to college, you do better. The shutting off of these opportunities for people from traditionally underrepresented groups has implications for the persistence of inequality in the advance of people in traditionally underrepresented minorities.

Nathan Grawe:

Absolutely, huge implications. And not only in that generation, but when we think about intergenerational education patterns that you'd mentioned earlier, it can create a cycle that persists for many generations. I think we don't have to just accept this. We can think about A, institutions that remain open, expanding access initiatives, and B, what might we do policy-wise to prop up those institutions? So for instance, recently we saw legislation that gave more secure funding to historically black colleges and universities, something that might be viewed as a way to push against the concerns that we're talking about here.

Michael Klein:

So which of the colleges and universities are going to be hit harder than others? I imagine Harvard doesn't have to worry about surviving. I'm hoping that my home institution and yours doesn't have to worry as much. But what's going to determine, or which types of colleges and universities are going to be most at risk?

Nathan Grawe:

Yeah. So I think you're absolutely right. We can start with institutions that have large endowments probably are sweating a lot less than others. But there's also this sense that because the number of young people who have parents with attachments to higher education is increasing, selective institutions look to be better situated than institutions that serve. It's a regional public institution, this serves the larger public. In addition, there are distinct regional patterns. So institutions that are located out West and in the Southeast are going to have a much easier path than those that are in the Great Lakes in the Northeast.

Michael Klein:

Because of the demographic shifts and number of students who are in those regions and the tendency for people to go to colleges near where they live, right?

Nathan Grawe:

Exactly. I think the other thing to consider is how your institution responds to change will also matter. So institutions that find it very difficult to consider changing themselves, to meet new markets, older students, different degree programs, and the like, will find it harder to navigate this time when there are just fewer students to go around.

Michael Klein:

So a lot of the challenges that you outline, Nathan, are based on falling enrollments and consequently declining tuition revenues. How important is tuition for the operation of colleges and universities? Does it make up the vast bulk of their revenues every year?

Nathan Grawe:

Yeah. It's really important. Not surprisingly, it differs by type of institution. So for instance, a private bachelor's institution, tuition will make up about 60% of educational expenditures. By contrast, if we look at a public associate's degree, a school or a two year college, tuition only makes up about 35%.

Michael Klein:

Yeah. But for those, as we know, the state and local finances plummeting with the recession, that's going to really hurt them as well, right?

Nathan Grawe:

Exactly. So they might not be sweating what's going on with family's ability to pay, but they definitely have to be concerned about how the COVID recession affects public finance. We know from past recessions that states have generally pulled back from their support of public higher education as state budgets have gotten tighter.

Michael Klein:

The United States is seen as a world leader in higher education, and we've attracted students from all over the globe. So the pool of potential college students for the U.S. is not just 18-year-olds or even older people in the U.S., but worldwide, the population of people who want higher education. Can this help offset the domestic demographic problems facing colleges?

Nathan Grawe:

Absolutely. And I hope it does. But I think there are reasons for caution. So first, just to give a little bit of the context here, public universities get about one quarter of their total net tuition revenue from these schools. That's in part because international students don't receive the same financial aid that domestic students do generally.

Michael Klein:

[inaudible 00:17:32] much less than one quarter of the population, but because they receive less financial aid, they pay a disproportionate share of the tuition.

Nathan Grawe:

Exactly. And I think the other thing that we have to recognize is that it's been a growing population. It's grown faster than the domestic market. But in the three most recent years for which we have data, which runs through the 18/19 year, the number of new international undergraduate enrollments have fallen each year for a total decline of 10%. We're just facing stiffer competition from Canada and the United Kingdom, from China and India. And of course on top of all of this, we have COVID, which is wreaking havoc on international markets in the short run. And it raises questions about whether as international students find new ways to fill their demand for higher education, will those new ways be persistent or will we be able to rebound after the COVID crisis is done?

Michael Klein:

So traditionally, as we were mentioning, the U.S. has been seen as this world leader in higher education, and that has spillover effects for the United States because it brings in foreign students who help pay a disproportionate share. But also the United States, by having such great educational systems, there are a lot of spillovers like more innovation, entrepreneurs, people who are well-educated and then can contribute a lot to society. So is that then imperiled by the United States becoming less of an attractive place for higher education?

Nathan Grawe:

Yeah, it may be. I recently saw an estimate that one in four startups in the United States were founded or co-founded by a former international student. If we don't have as many international students, will we

have this pool of innovators and tech leaders that have really transformed the American economy in the last decades?

Michael Klein:

These are all incredibly challenging things that we're facing now with COVID. But as you're suggesting, Nathan, these did not start with COVID and it probably won't end once we have vaccine and testing and so on either. It'll be a persistent challenge for the economy, one that we'll importantly have to face.

Nathan Grawe:

Exactly.

Michael Klein:

Thank you very much for speaking with me today. I found our conversation really interesting and illuminating.

Nathan Grawe:

Yeah. Thanks so much. You're welcome.

Michael Klein:

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