The Five Challenges of Higher Education in America:
The Macroeconomy, the College Experience, Student Debt, Stagnant Salaries, Increased Connectivity

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Abstract

Centuries of market evidence reflect the phenomenon that all industries experience natural cycles consisting of expanding and contracting periods. For over fifty years, driven initially by the influx of the baby boom generation and then later socio-economic forces of a post-industrial economy, higher education experienced an ongoing expansionary period. While higher education is an atypical industry in that it offers relatively inelastic services, it is not infinitely inelastic and, unlike some industries, is highly regulated. This article addresses five common challenges that American universities, especially Liberal Arts colleges, face. These include: the macroeconomy, offering a college experience, student debt levels, stagnant post-college salaries, and the abundance of free information, relating to education.

Keywords: inelastic services, moral hazard, workforce participation, student loans, debt

1.0: Introduction

Within the last few years, higher education's expansionary period has stalled, making many people believe that it is finally entering a period of contraction or stagnation. Since 2012, Moody's Investor's Services, Inc., the credit-rating agency, has forecasted a negative outlook on higher education due to "declining tuition revenue, a stagnant job market, and an uncertain regulatory environment."[1] Much of this stagnation is attributed to ongoing cost increases originating from the creation of America's national financial aid system. Since President Lyndon Johnson signed the Higher Education Act of 1965 as part of his "Great Society" to finance the college education of tens of millions of baby boomers, tuition and education-related costs have consistently outpaced inflation. For example, according to the Bureau of Labor Statistics and the U.S. Census Bureau, higher education costs grew by over 1000% from 1976 to 2010 while commodities increased by 280% and home prices at 400%. In 1987, the Secretary of Education William Bennett cited the correlation between increasing financial aid and rising tuition rates. He observed that prior to introducing federal financial aid, cost rates did not increase greater than inflation. This correlation between financial aid (including loans) and tuition increases has continued unabated. Though some debate to proportional impact that financial aid causes to increasing costs, the upward trend (including revenue) is unsustainable.

2.0: Materials and Methods

This paper presents and examines each of the five key challenges for American higher education cited in the Introduction section. Since each key challenge is identified and analyzed separately, the result and discussion section is divided into five portions. Key facts, examples from a literature review, and quotes from governmental and private sector reports are cited to re-enforce portions of this analysis. Two tables of economic figures are also provided to illustrate some of the present problems. Much of the data is taken from U.S. government sources between 2010 and 2017.

[1] Belkin, 2013.

3.0: Results and Discussion, the Macroeconomy Challenge

Knowing that a corrective cycle[2] is inevitable, enrollment in higher education cannot perpetually grow with tuition levels that outpace overall inflation rates. As these costs have climbed, according to Reason magazine, parents and students are beginning to view college more as a consumable service rather than an obligatory rite of passage into professional adulthood.[3] This perceptional shift to a consumable service means that parents and students are seeking a better "rate of return" from a college degree. Moody's in a 2013 report cited that a stagnant job market and much uncertainty have caused many parents and potential students to become less certain and much more cautious in selecting a college.[4]

In recent decades, employers gradually devalued generalist or traditional Liberal Arts diplomas and began preferring specialized, technologically and mathematically-based degrees. New higher wage jobs according to the Bureau of Labor Statistics are usually in a hi-tech area, medicine, science, and mathematics (i.e., the STEM group). Carnevale of Georgetown University stated that not only are STEM jobs among the easiest to obtain for graduating students, these employees are often quickly promoted into management and do not stay "in the lab," meaning that the demand for these jobs is higher than the market directly reveals. Once promoted into management, "Liberal Arts" skills such as analytical writing become desirable. This frequently happens roughly five to ten years into the career, meaning that students often will get their career break by first pursuing a STEM job and then can later apply "Liberal Arts" skills.[5]

Declining enrollment is largely attributed to an aging population, resulting in fewer high school graduates today than in previous years.[6] In 2011, the number of graduating high school students in America peaked and is not expected to return to that level until 2024.[7] The lack of growth from inflowing high school graduates has already heightened competition between existing institutions, especially small private colleges. Between 2010 and 2012, 249 private schools (more than 25% of the total) experienced enrollment declines of more than 10%.[8]

A second recent macroeconomic factor is a decline in household wealth and wages. During the Great Recession,[9] average U.S. household wealth dropped by nearly 50% and overall wages declined (see Table 1).[10] The loss of significant amounts of equity in many homes shook many households to their very core. Furthermore, more households are led by single parents with fewer financial resources.[11] Consequently, fragile economic conditions within the last decade undermined traditional parental support, especially among middle-class families. Sallie Mae, for example, estimated that parents set aside an average of just under $20,000 for each child's college fund.[12]Meanwhile, between 2000 and 2010, the annual estimated cost of tuition, room and board for four-year public institutions jumped by 84% to $15,918. During that same period, private institutions costs rose 49% to $32,617.[13]

Table 1 shows how the Great Recession resulted in considerable wage stagnation for households (which includes recent college graduates). Economist and former Harvard President Larry Summers told the IMF Economics Forum that it's possible the U.S. economy is in "secular stagnation"[14] similar to what Japan has experienced since 1990. If this is true, new college grads might be facing a lackluster job market for the foreseeable future. Seeing questionable short-term results from obtaining a college degree may cause students and their parents to reconsider pursuing a higher education, at least through traditional means. Online options and shorter-term vocational programs have become more attractive.

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[2] See Kondratieff Cycles.
[3] Reason, 2013.
[4] *Ibid.,* 2013.
[5] *Ibid.,* 2013.
[6] The Wall Street Journal, Nov. 9-10, 2013.
[7] *Ibid,* 2013b.
[8] *Ibid,* 2013.
[9] *Ibid., 2012.*
[10] U.S. Census Bureau, 2012.
[11] Ibid., 2012.
[12] Struck, 2013.
[13] Sallie Mae, 2013.
[14] Summers, 2013.

3.1: Results and Discussion, the College Experience Challenge

Today's college student expects a more affluent lifestyle in conjunction with their increased costs. A self-perpetuating mechanism exists in that higher educational costs cause students and parents to expect a better quality experience, which in turn, contributes to increasing future costs. Student university life is no longer perceived to be a period of materialistic hardship as experienced decades ago. This trend appears somewhat irreversible because many college students refuse to live like traditional students and will use financial aid (particularly student loans) to emulate their middle or upper-middle class upbringing. Since little accountability exists for how loan disbursements are managed by individual students, much of their money is often unwisely spent.

Robert A. Howell, Distinguished Visiting Professor of Business Administration at Dartmouth College, explained that universities are challenged with a shrinking, increasingly more selective domestic market that also demands premium services. Pressures to improve and maintain high quality physical assets (i.e., renovating student unions, upgrading dorms, updating campus amenities, expanding campus-wide recreational options) have contributed to escalating costs and increasing staffing. Howell told the Wall Street Journal: "There has been an *explosion* in the number of support staff in many institutions: Deans, officers for a variety of social initiatives, personnel to support all the extra facilities and services provided to the students, marketing and admissions staff, administrative support, and career-placement staff. This adds considerably to the overhead."[15]

Since private colleges are not state funded, they face greater challenges in offering a satisfactory college experience. As quality of service has become more critical, smaller colleges are merging to combine resources to survive. The Wall Street Journal reported that 45 schools merged between 2010 and 2013 in comparison to only 16 between 2006 and 2009.

3.2: Results and Discussion, the Student Debt Level Challenge

The Federal Reserve Bank of New York reported that in 2009, for the first time, total student loans surpassed auto loan debt.[16] In 2013, the Wall Street Journal reported that student loans eclipsed credit card debt in total value.[17] By 2016, the total student debt had reached $1.31 trillion and grew at the rate of $31 billion in its last quarter.[18]

In 2015, about 68% of graduating college students had student loans.[19] According to the U.S. News and World Report, Davies and Harrigan at George Mason University claim that federal government financial aid programs have created the conditions for the wholesale failure of student loans in similar ways as to what happened with the home mortgage debacle.[20] For example, in 1972, student loan options were expanded when Congress established Sallie Mae, which encouraged banks to issue more college loans. Since the 1970's, legislation continued expanding loan options to meet accelerating financial demands. For example, the Affordable Care Act of 2010 authorized the government to directly issue student loans while using its origination fees to cover healthcare costs (effectively taxing students' loans).

During the Obama administration (2009-2017), the Treasury Department also encouraged the Federal Reserve to keep lower interest rates, which reduced the cost of issuing and using student loans. For example, the Federal Reserve's "cheap" money during their Quantitative Easing Programs allowed more borrowing with the intent of stimulating the economy. Such spending, when applied to a single service or a related cluster of goods and services, inevitably results in an inflationary effect best described as Grisham's Law, which states that cheap money contributes to soaring prices.[21] George Leef wrote in *Forbes* that rising college costs have many similarities with the housing bubble.[22]

[15] Aziz, 2012.
[16] New York Federal Reserve, Microeconomics, 2017.
[17] The Wall Street Journal, Nov. 9-10, 2013.
[18] https://www.forbes.com/sites/zackfriedman/2017/02/21/student-loan-debt-statistics-2017/#1ff2cd785dab
[19] The Institute for College Access and Success, 2017.
[20] Davies and Harrigan, 2012.
[21] Oxford Dictionary of Economics, 2013.
[22] Leef, 2013.

According to Zach Friedman in *Forbes*, in 2016 the average amount of student loan debt has increased to $37,172,[23] prompting some to question whether a college education is a worthwhile investment. Between 2001 and 2015, the percentage of incoming students relying on loans grew from 47 to 68%.[24] While tuition and education-related costs continued climbing, the student loan default rate reached 27%, or almost $300 billion in default status. Furthermore, a 2012 New York Federal Reserve Liberty Street report[25] suggests that official student loan delinquencies are likely to be "twice as high as estimated," because "about half of these loans are currently in deferment, in grace periods, or in forbearance…therefore temporarily not in the repayment cycle."[26] According to an Education Sector report found that borrowers who dropped out are four times more likely to default on their loans.[27] A 2011 study by the Harvard Graduate School of Education showed that only 56% of students entering four-year programs graduate within six years.[28] For-profit colleges have only a 22% graduation rate.

Unlike mortgages which are secured debt and can be liquidated or discharged, student loans are non-secured debt and can almost never be forgiven in bankruptcy cases. Students cannot sell back an education because it is an intangible asset. Repayment must be done through earned income, which has become stagnant, less reliable, and more difficult to obtain than in years past. Furthermore, since student loan payments are not tax deductible, and the interest deductions are restricted to modest income levels, more successful students are subject to higher taxes if they pay off their debts earlier than if they paid them over many years.[29]

The growth of student loan debt is also partially encouraged by Federal laws that prohibit lenders from denying loans based on the borrower's credit, age, disability status, intended field of study, or employment prospects. Knowing that there is no possibility of having to pay it back, some disabled and older students can deliberately maximize their student loan debt. Between 2011 and 2016, student loan debt balances grew for all ages, on a percentage basis, 60 to 69-year-olds had the largest increase in student loan debt (89.6%).[30] In effect, these elderly students can augment their Social Security Disability and general Social Security income with excess student loan funds. According to the Congressional Budget Office, the number of Americans claiming Social Security Disability continues to climb, which indicates that there will be more disabled students in the future willing to take advantage of the financial aid moral hazard. If this happens, more loans will be issued to people who will not participate in the future workforce.

3.3: Results and Discussion, the Stagnant Post-College Salaries Challenge

Since the Great Recession, new job growth has been anemic. Though the official unemployment level is supposedly under 5%, it does not include the number of working age people who have dropped out of the workforce. The unemployment rate counts part-time, temporary, and underemployed workers as employed, meaning that a recent college graduate working five hours a week at a fast food restaurant is not unemployed. In 2013, nearly half of the employment growth was in part-time or temporary positions.[31] The proportion of new jobs created that are only part-time or temporary has never been so high.[32]

Almost all students expect a college degree will permanently increase their earning potential,[33] indicating that not enough are aware of the dire consequences of selecting majors with poor job prospects. According to the U.S. Bureau of Labor Statistics, "there are a million retail-sales clerks and 115,000 janitors with four-year degrees. In 1970, just two-tenths of 1% of taxi drivers had college degrees.

[23] Friedman, Zach. "Student Loan Debt In 2017: A $1.3 Trillion Crisis." Forbes. February 21, 2017.
[24] Harvard, 2011, and the New York Federal Reserve, 2016.
[25] http://libertystreeteconomics.newyorkfed.org/2012/03/grading-student-loans.html
[26] The Federal Reserve Bank of New York. Center for Microeconomic Data, 2017.
[27] Aronowitz, 2013.
[28] Harvard, 2011.
[29] In many cases, higher income graduates are better off contributing earnings to tax-deferred retirement accounts than paying down student loan debt because they would use more income that is highly taxed to retire the debt early.
[30] Friedman, Zach. "Student Loan Debt In 2017: A $1.3 Trillion Crisis." Forbes. February 21, 2017.
[31] Morici, 2013.
[32] *Ibid.*, 2013.
[33] *Ibid.*, 2013.

Fifteen percent of the taxi drivers have college degrees now." The U.S. Commerce Department estimates that median wage levels, after adjusting for inflation and taxes, has been flat in most occupations since 1997.[34] In addition, college graduates are also taking longer to find suitable jobs, or ones that fit with their field of study. The Chronicle of Higher Education estimates that a typical post-graduation job hunt has grown from 3 months in the 1990s to almost a year by 2012.[35] More graduates are also returning to live with their parents while they job hunt.[36]

According to the U.S. Census Bureau, the distribution of wages of newly created jobs is yielding an alarming divergence between those who are highly skilled and those who are not perceived as valuable by employers.[37] While employers may claim to value many of the implicit skills obtained from undergraduate studies (i.e., writing composition and analysis), most seek direct experience and skills in their job advertisements.[38] Since employers often assume that well-qualified employees already have acquired strong traditional Liberal Arts skills, they focus on direct experience related to the job description.[39] Consequently, the proportion of Liberal Arts graduates who remain relegated to working in service jobs that pays half, or a third, of their STEM colleagues, will grow as the global trend of disintermediation continues to shrink the proportion of middle-income positions.[40] Meanwhile, for the foreseeable future, the number of STEM jobs are expected to grow.

Table 2 shows the divergence between private college costs (roughly a 55% increase from 1991 to 2008) and full-time graduate earnings (a 10% increase during that same period). These trends demonstrate the increased skepticism in pursuing a college education. The perceived rate of return is clearly diminishing.

3.4: Results and Discussion, the Increased Connectivity Challenge

The increasingly connected world places the quality and the daily operations of institutions under greater scrutiny. For example, the internet greatly enhances how students communicate with each other about the quality, or lack of quality, of an educational experience at an institution than in years past. The power of "word of mouth" has become electronic, twenty-four hours, and widespread through tweeting technology, Facebook, text messaging, and other forms of nearly instantaneous communication. Colleges can reap the benefits of trends in their favor, but may also be harmed quickly by rumors or scandals.

The internet allows an abundance of information to flow freely and often free to its multitudes of recipients. While the explosion of the information sector has generally positively transformed most people's lives, the learning process is increasingly taken for granted. More people are less willing to pay for knowledge that they perceive could, or should, be free. For example, MOOCs and other online offerings could behave as substitute goods, resulting in some potential students to question, or to refuse, to pay tens of thousands of dollars for formal university courses. Though some vocational subjects (i.e., those in healthcare) are still critically important and less unaffected by current trends, many non-vocational subjects are vulnerable to virtual competition from the internet.[41]

The increased connectivity contributes to minimizing traditional geographic constraints, resulting in a collapsed space; meaning that colleges can expect more students to both arrive from and depart to farther distances. While sitting in their dorm, students can do virtual tours and directly communicate to personnel at other colleges about the prospects of switching schools. In financial and billing matters, institutions can no longer expect to as effectively disguise their total costs of attendance as they had in the past because students can more efficiently communicate cost discrepancies to each other. These cost differences between attending different institutions are becoming more transparent because of communication technology. In addition, students are more likely to transfer out of an institution because of increased access of information on other colleges in comparison to the past.

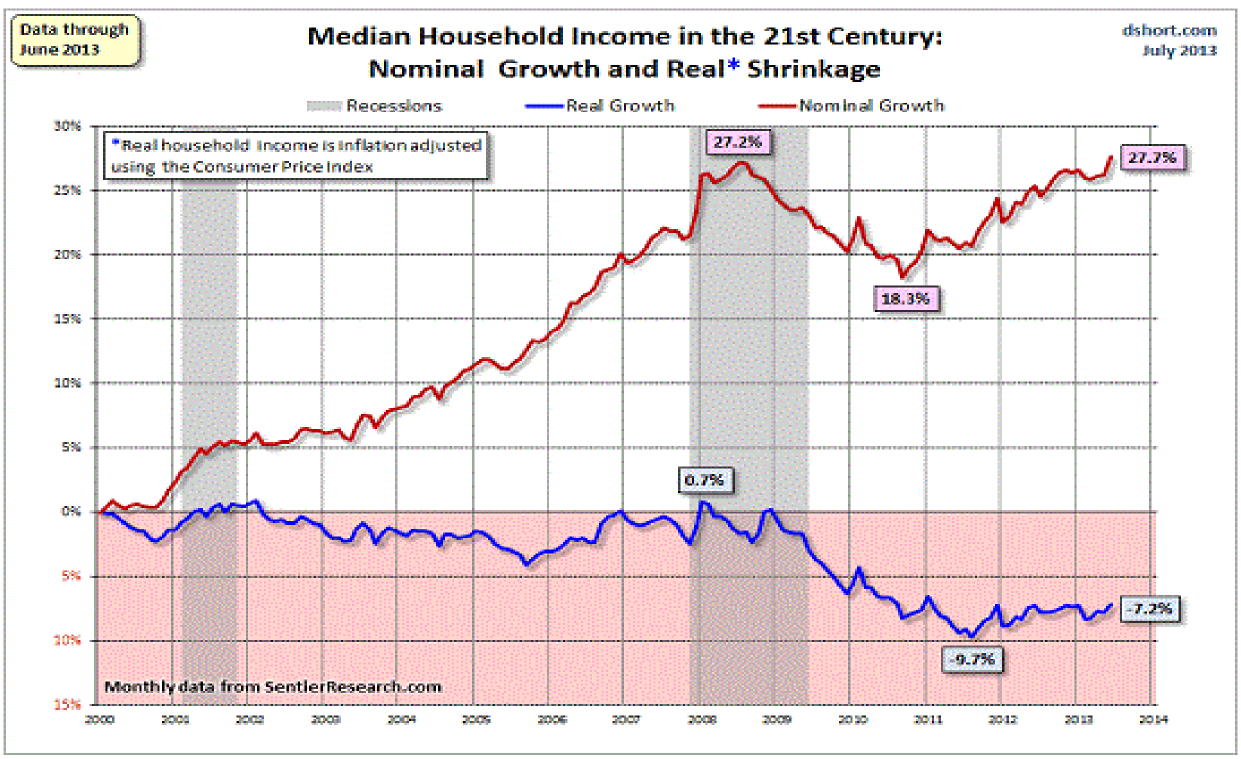
[34] *Ibid.*, 2013.
[35] *Ibid.*, 2013.
[36] *Ibid.*, 2013.
[37] U.S. Census Bureau, 2012.
[38] Forbes, 2013.
[39] Fortune, 2013.
[40] U.S. Census Bureau, 2012.
[41] Aziz, 2012.

4.0: Conclusion

In conclusion, these five challenges (the macroeconomy, the college experience, student debt, stagnant salaries, increased connectivity) directly affect university recruitment, enrollment, retention, and job placement strategies. Given trends and patterns of recent decades, these challenges are long-term. Enrollment and financial growth are still achievable, if universities embark on a proactive path. Liberal Arts colleges particularly need to provide a clear, compelling case to parents and students that their education experience will lead to better employment prospects and an improved quality of life. Offering and expanding Adult-education and "lifelong learning" programs might also help offset some of the negative effects of a demographic decline. Increasing international programs and boosting the foreign student population, especially from recently prosperous and demographically younger Asian countries, could offset some declines in domestic demand and might stabilize enrollment and revenue.[42]

Since this generation of college students are facing the possibility of starting adult life with crippling debt levels, they will likely be more receptive to acquiring internships that can lead to post-college employment. Integrating internships into required components for graduation and discouraging students from working in jobs that are irrelevant to their career goals should eventually help boost the perceived value of a college degree. The creation of higher wage jobs is expected to continue in specific STEM fields.[43] Problems persist within universities. For example, older faculty members, especially in non-STEM fields, may be unable to relate to the job market challenges that these students face because their post-college experience was remarkably different. Short-term institutional interests such as creating and promoting unemployable degrees ignore long-term problems.[44] These five challenges will invariably force difficult curriculum and administrative decisions. Institutions incapable of adapting to these challenges, face an uncertain future.

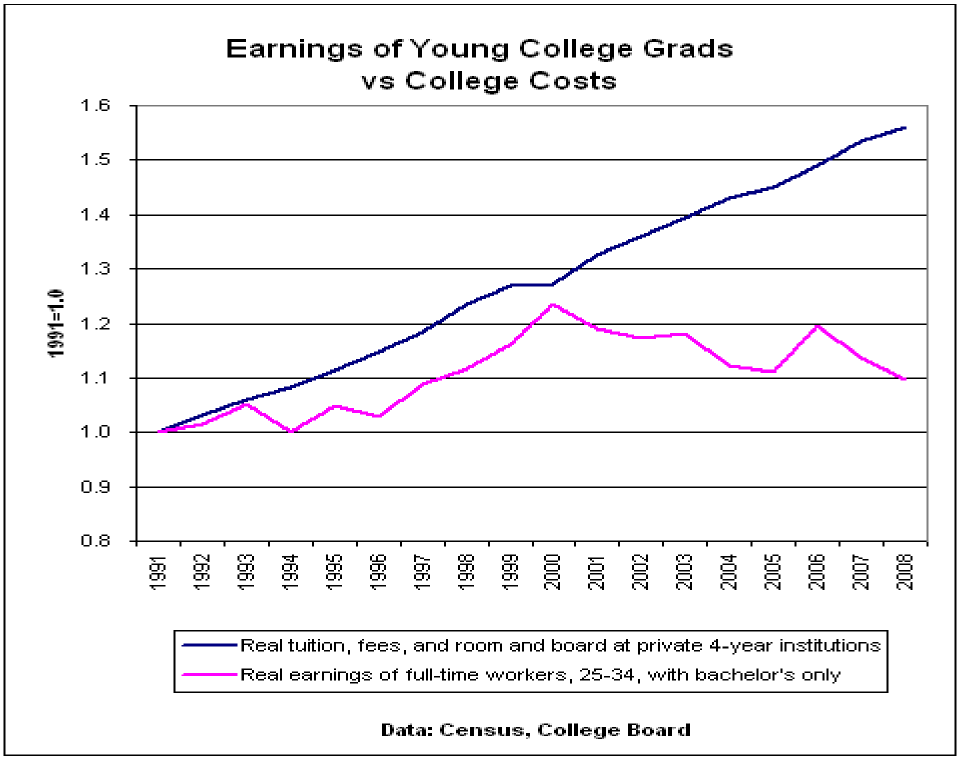
Table 1.



Source: dshort.com, July 2103.

[42] *Ibid*, 2013.
[43] Carnevale, 2013.
[44] Hazlett, 2012.

Table 2.



Earnings of Young College Grads vs College Costs
1991=1.0
1.6
1.5
1.4
1.3
1.2
1.1
1.0
0.9
0.8
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Real tuition, fees, and room and board at private 4-year institutions
Real earnings of full-time workers, 25-34, with bachelor's only
Data: Census, College Board

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