THE GREAT COST SHIFT

HOW HIGHER EDUCATION CUTS UNDERMINE THE FUTURE MIDDLE CLASS

John Quinlerno

Demos
MARCH 2012
ABOUT DEMOS
Demos is a non-partisan public policy research and advocacy organization founded in 2000. Headquartered in New York City, Demos works with policymakers around the country in pursuit of four overarching goals—a more equitable economy with widely shared prosperity and opportunity; a vibrant and inclusive democracy with high levels of voting and civic engagement; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

ABOUT THE AUTHOR
John Quinnterno is a principal of South by North Strategies, Ltd., a research and communications consultancy specializing in economic and social policy. Quinnterno is an expert in issues of state-level labor market analysis, regional development, community college policy, workforce development, and social insurance.

He is a graduate of the University of Notre Dame and the University of North Carolina at Chapel Hill. Quinnterno resides in Chapel Hill, North Carolina.

ACKNOWLEDGEMENTS
South by North Strategies, Ltd. prepared this report for the Economic Opportunity Program of Demos. The principal author was John Quinnterno. Rebecca Clendenin provided editorial assistance. Lucy Mayo and Viany Orozco of Demos oversaw the project’s development. Jane Wellman of the Delta Cost Project and Tamara Draut, Catherine Ruetschlin and Joseph de la Torre Dwyer of Demos also reviewed the report and offered thoughtful feedback. The Kresge Foundation.

Demos’ work on higher education is made possible by the generous support of the Bill & Melinda Gates Foundation and The Kresge Foundation.

Demos

DEMOS MEDIA
Communications Department
Lauren Strayer
lstrayer@demos.org
(212) 389-1413
EXECUTIVE SUMMARY

Just as a postsecondary education has become essential for getting a decent job and entering the middle class, it has become financially out of reach for many of America’s young people. The cost of going to school has increased exponentially over the past twenty years, while financial aid policies have increasingly abandoned students with the greatest financial need. As a result students and their families now pay—or borrow—a lot more for a college degree.

This report examines how state disinvestment in public higher education over the past two decades has shifted costs to students and their families. Such disinvestment has occurred alongside rapidly rising enrollments and demographic shifts that are yielding larger, more economically, racially, and ethnically diverse student bodies.

This pattern of state disinvestment and increasing costs threatens not just the future well-being of individual students, but also our nation’s longstanding commitment to equal access to higher education regardless of one’s socioeconomic background, as increasing costs are pricing low-income students out of an education. It also threatens the future economic health of states, as insufficient financial support contributes to low rates of college completion, depriving states of the educated workforces needed to thrive in the 21st century economy. In short, state disinvestment in public higher education has exacted a high toll on individual students, their families, and society at large, particularly during the 2000s, the period when the sizable “Millennial” generation began to reach college age. To reverse these trends, policymakers and administrators must alter course and renew their support for public higher education.

This report casts a spotlight on the alarming but frequently overlooked pattern of state disinvestment in public higher education by reviewing funding trends from 1990 onward. The study traces trends in the size and composition of the young adult population and analyzes patterns in state support for public higher education over the past two decades. Trends in tuition and financial aid are also examined and policy recommendations are presented for ways to renew America’s commitment to nurturing a strong and inclusive middle class through investments in public higher education.
KEY HIGHLIGHTS OF THE REPORT INCLUDE:

COLLEGE POPULATION TRENDS
* Compared to the generation that came of age in the 1990s, the current population of young adults is much larger in size, much more racially and ethnically diverse and more apt to enroll in college.

  * In 2010, the United States was home to 30.7 million young adults between the ages of 18 and 24, up from 26.7 million in 1990.

  * In 1990, 71.7 percent of young adults were White; 13.5 percent were African American; and 11.6 percent were of Hispanic origin. By 2010, persons of Hispanic ethnicity accounted for 20.1 percent of the young adult population, African American persons 12.3 percent, and White persons 57.2 percent.

  * Public institutions have played an important role in serving the growing numbers of undergraduate students. Public institutions absorbed 65.6 percent of the undergraduate enrollment increases that have occurred since 1990.

STATE INVESTMENT IN HIGHER EDUCATION
* A review of financial data from 1990 onwards suggests that structural change in state support for higher education is underway.

  * While state spending on higher education increased by $10.5 billion in absolute terms from 1990 to 2010, in relative terms state funding of higher education declined. Real funding per public FTE dropped by 26.1 percent from 1990-1991 to 2009-2010.

  * After controlling for inflation, states collectively invested $6.12 per $1.000 in personal income in 2010-2011, down from $8.75 in 1990-1991, despite the fact that personal income increased by 66.2 percent over that period.

  * Over the past 20 years there has been a breakdown in the historical funding pattern of recessionary cuts and expansionary rebounds. The length of time for higher education funding to recover following recessions has lengthened for every downturn since 1979 with early evidence suggesting that the recovery from the Great Recession will be no different.

PATTERNS IN TUITION AND FINANCIAL AID
* As state support has declined, institutions have balanced the funding equation by charging students more. Between 1990-1991 and 2009-2010, published prices for tuition and fees at public four-year universities more than doubled, rising by 112.5 percent, after adjusting for inflation, while the real price of two-year colleges climbed by 71 percent.

* In many states, the tuition increases of the past 20 years have occurred alongside expansions in statesponsored financial aid programs. Between 1990-1991 and 2009-2010, the aggregate investment in state grant and loan programs more than tripled, rising to $10.8 billion from $3.5 billion. However, an increasing percentage of that aid is taking the form of merit-based aid which is awarded without regard for students’ financial situations.
CHALLENGES FOR STUDENTS, FAMILIES, AND STATES

• The steady escalation in college prices has occurred alongside stagnant incomes for most American households. Median household income in the United States in 2010 was just 2.1 percent higher than in 1990.

• To bridge the gap between cost and financial aid, increasingly students are borrowing from federal loan programs and private sources like banks. The volume of outstanding student loan debt has grown by a factor of 4.5 since 1999.

POLICY RECOMMENDATIONS

This report demonstrates that states have reached a turning point in their relationship to public higher education, and the policy choices of the next few years will determine the extent to which public institutions of higher education continue to function as a bridge to the middle class for young adults, especially for those from low- and moderate-income backgrounds. Public leaders should consider the following recommendations when weighing investments in public higher education.

• State leaders should invest more of their wealth in higher education, especially given the growth in student enrollments—growth that will not abate anytime soon.

• State leaders should reform their tax system to ensure that funding for higher education will not continue to get squeezed out of their budgets.

• State leaders should prioritize funding for institutions that educate the largest fraction of college students in funding decisions. Similarly, public leaders must recognize the extent to which student bodies have changed. A different student body requires different sorts of services and supports.

• State leaders must recognize that any specific percentage reduction in state aid requires much larger percentage rises in tuition. Such increases price low- and moderate-income students out of higher education.

• States leaders should align investments in higher education with the goal of completion.

• State leaders should reorient their financial aid policies back toward need-based aid.

• State leaders should steer students toward more affordable sources of debt like the federal student loan program.