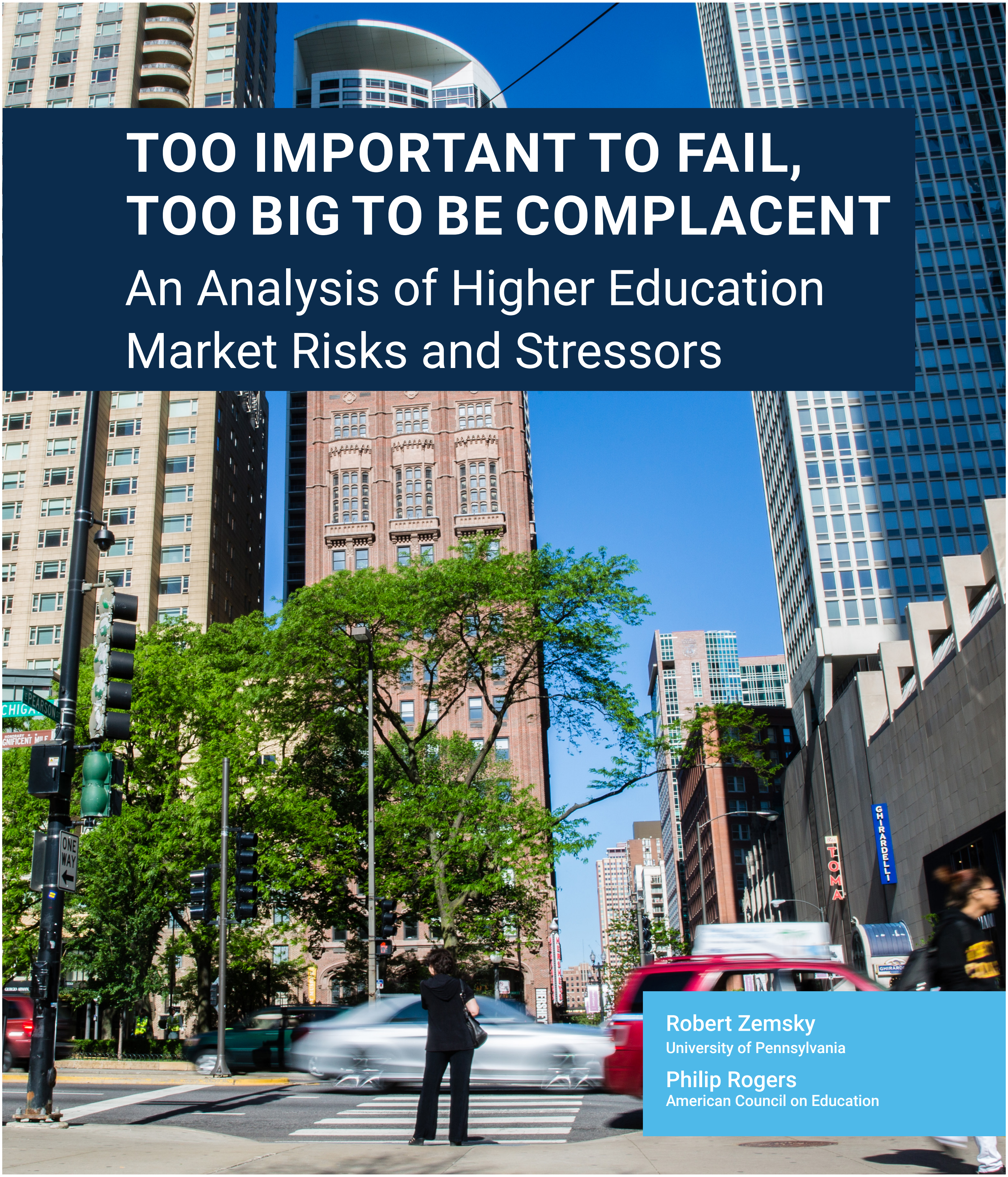

TOO IMPORTANT TO FAIL, TOO BIG TO BE COMPLACENT

An Analysis of Higher Education Market Risks and Stressors

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Predicting collegiate closures is a media parlor game that helps neither students nor institutions. What we need instead is a full and frank discussion rooted in the facts of the matter. The place to start is with a better, more nuanced understanding of the market for an undergraduate education. Not-for-profit colleges and universities are not businesses, but they are enterprises subject to the shifting currents of a consolidating market in which the rich are getting richer and the big are getting bigger.

It's a Winners Market

The basic seams that organize the market are well known. Prestige matters. Rankings matter. Geography and history play important roles in defining an individual institution's competitive place. The market is also becoming more rather than less fixed, making it increasingly likely that richer and bigger institutions will reap the benefits of further market consolidations. There is little in the available market data to suggest a different future, only that institutions at the top of the market will likely substitute future growth in volume for past growth in price.

The losers in these markets are easy to spot. The dominant features reflected in the data from institutions in trouble are the relentless downward slopes of the graphs charting the size of their first-year classes, their market (as opposed to sticker) prices, and their ability to retain the students they enroll. The industry's losers owe their bad luck to a grab bag of unexpected consequences. For most four-year public institutions, their states have erected the most troubling barriers, almost exclusively in the form of declining state appropriations—and in a few cases, an elimination of appropriations due to legislative and political deadlocks. But there are other causes as well, including risky pricing strategies that yield ever higher discount rates with little or no increase in new enrolling students. The most unfortunate institutions have suffered a double blow—higher discount rates that yield less tuition income per student coupled with enrollment declines yielding ever fewer new students and substantially less net tuition income. Most losers have also experienced financial shifts large enough that budget reductions alone are unlikely to yield sufficient savings to offset losses in revenue from declining enrollments and discounted prices.

The other truth that looms now is how relatively few actual losers there are among the nation's not-for-profit two- and four-year colleges and universities, public as well as private. Our estimate, based on an analysis of eight years of IPEDS data for just over 2,300 institutions, is that less than 10 percent face market stresses—severe enough to make them candidates for either closing or merging.[1]

Institutions on the Bubble

The next 20 percent of the market consists of institutions that are genuinely struggling but not in immediate danger of closing. What is most surprising about these institutions is the constancy of the challenges they face. Four-year institutions in this bottom tier of the market find themselves trapped with market prices that are too high and enrollment shortfalls

1 The market estimates presented in this paper are drawn from *The College Stress Test* by Robert Zemsky, Susan S. Shaman, and Susan C. Baldridge (Johns Hopkins University Press, forthcoming in January 2020).

that make further discounting problematic. For public institutions, there is the specter of continuing declines in public funding. Even struggling private institutions in this part of the market will be impacted to the extent they are dependent on state-funded student aid programs that may now be equally at risk.

For baccalaureate institutions, the remaining challenge involves retention. At the top of the market, 90 percent or more of each first-year class are expected to transition to second-year status. On most other campuses, however, there is a real gap between that expectation and the reality of education programs that are proving less and less attractive. In 2016, more than half of all baccalaureate institutions lost 25 percent or more of their first-year students in their first year.

A slightly different picture of the market emerges when the focus shifts from asking how many institutions are likely to close to asking how many students are currently attending institutions at risk of closing. All told, the 2,320 institutions for which it was possible to calculate a measure of their market risk in 2016 enrolled 13,016,205 undergraduates—41 percent in two-year public institutions, 42 percent in four-year public institutions, and 17 percent in four-year private not-for-profit institutions. Just over half of these students attended institutions facing no more than minimal market risk, roughly a third attended institutions experiencing moderate risk, and fewer than 7 percent attended institutions facing the threat of near-term closure. That means relatively few students in general are likely to be displaced as a result of institutional closings.

More than Just the Market—Value, Equity, and Opportunity

The ongoing national conversation focused on affirming and strengthening higher education's value proposition—combined with a deepening commitment to equity and inclusion—reminds us that solving the market challenge cannot be a singular, all-encompassing goal. Institutions are taking incoming fire from all angles, including frequent attacks on scientific evidence and undisputed facts that have left society searching for answers to negative narratives about the value of higher education. A survey commissioned by the American Council on Education (ACE) noted that nearly half of voters believe a college degree is less economically valuable than it used to be, and a majority of respondents suggested that college graduates are not ready to enter the workforce.

Gallup data found that only 48 percent of American adults have strong confidence in higher education—which was down from 57 percent in 2015 (Jones 2018). While a clear majority of parents in the ACE survey expressed a desire for their children to go to college after high school, the National Center for Education Statistics estimates that nearly 950,000 individuals in the U.S. graduate (or leave) high school annually, but do not enroll in postsecondary education. There is an abundance of evidence, however, confirming that a college degree is indeed worth the investment. Students with a college education have higher lifetime earnings, are more engaged in their communities, and are more likely to have enhanced personal health outcomes. Better communicating higher education's value proposition is a vital contextual factor that places added pressure on institutions in the midst of an already tight market.

Similarly, the commitment to equity and inclusion in U.S. higher education is calling attention to a set of critical indicators that demonstrate the importance of equitable access to opportunity and social mobility. Colleges and universities—regardless of market position—are being called upon to steer their institutions to be champions of equity, access, and completion. In fact, pursuing this goal is an imperative in order to achieve the vision of a vibrant democratic society that expands knowledge and economic progress for all. We know, for example, that low-income and first-generation students are less likely to pursue and complete postsecondary education, especially compared with students from more prosperous backgrounds. And as the U.S. population has grown—and will continue to grow—more racially and ethnically diverse, higher education institutions have an obligation to promote public policies and institutional practices that offer affordable, high-quality, and flexible education opportunities for all.

In a landmark ACE publication titled *Race and Ethnicity in Higher Education: A Status Report,* data confirm that "too many black students fare poorly in America's postsecondary education system," especially when considering persistence rates, dropout rates, borrowing rates, and debt burdens. Even in the best case scenario, significant differences exist by race with respect to where students pursue their degrees, leading to stark distinctions in social mobility within the labor market. The study noted that larger shares of students of color enrolled in, and completed degrees at, for-profit institutions—and Black students were much less likely than any other racial or ethnic group to attend a selective institution (Espinosa et al. 2019).

The same question rings true for how these students are affected by institutions facing market risk. How likely is it, for example, that students of color, students with limited economic resources (Pell eligible), or students 25 years and older currently are attending two- or four-year institutions that face substantial to severe market risk? No one should be surprised at the answer. Across higher education's three principal sectors—public four-year, private not-for-profit four-year, and public two-year—African American students in 2016 were the group most likely to attend an institution at substantial risk. African American students were two-and-a-half times more likely to attend an institution at substantial risk than Hispanic students. Compared with Asian students, African Americans were more than three times more likely to enroll in an institution facing substantial enrollment risk.

At the baccalaureate institutions most at risk, upwards of 40 percent of their enrollments were Pell recipients. Two-year public institutions were the most dependent on the Pell program. However, a community college's risk score was not a predictor of the proportion of Pell grantees among them as was an institution's degree of risk a predictor of the proportion of Pell grantees among students attending a baccalaureate institution.

The distribution of students 25 years and older tells a slightly different story. Adult students are slightly more likely to attend a baccalaureate institution facing substantial risk. In the community college sector there are more adult students, and they are more evenly distributed in terms of those facing substantial market risk.

The distribution of these three categories of students (students of color, Pell eligible, older) among colleges and universities at risk create what can best be described as a policy conundrum. The market now clearly advantages institutions that are big and rich, all other things being equal, which might lead some to conclude that it would make sense to let market forces trim higher education's roster of underperforming undergraduate institutions, particularly considering the dismal failure of past public initiatives to reshape the market for an undergraduate education.

But all other things are not equal—and they do in fact matter. If the market is allowed to prune higher education of its less successful enterprises, the result could be a system that is more hostile to African Americans, less attractive to students who qualify for Pell awards, and to a lesser extent, less welcoming to adult learners.

Strategic Options, Starting with a Reconsideration of Price and Costs

Relatively few variables comprised the market analysis this paper draws upon, suggesting that there are a limited number of strategic options available to institutions facing substantial market risk. The first option is to reconsider prices and costs. The surest sign of an institution heading for serious trouble was declining first-year enrollment coupled with an increasing discount rate. Short-term and episodic increases in non-merit-based financial aid were not stabilizing enrollments, and they were yielding annual budgets shorn of important operating funds. What isn't working for many institutions is the decades-old practice of having a high sticker price that is then ameliorated for almost all students—in many institutions truly all undergraduates—with generous amounts of student financial aid. The solution, a growing number of institutions have now concluded, is a tuition reset that involves moving from a high-sticker largely discounted market price to what might best be described a reality pricing in which there is a lower sticker price and less student aid.

Most tuition resets have occurred in the last five years, making it difficult to judge whether or not the pricing changes are yielding increased enrollments and net tuition revenue sufficient to cover operating costs. The few studies that we do have suggest why a tuition reset seems like such an exciting idea until the moment of truth arrives. The implementation is necessarily complex, the risks are often understated, and a positive result is anything but guaranteed. On the other hand, resetting tuition is a strategy that can buy time, perhaps as much as five years—and it's possible that being engaged in the issue helps focus a campus's attention on just how perilous the future might be.

We suspect that in the long run even a fundamental change in pricing policy is not likely to protect those institutions at substantial market risk. The alternative is to reduce instructional expenditures per student by at least 20 percent principally by changing how the undergraduate curriculum is delivered. Doing so, however, would require faculty accepting a substantial increase in faculty productivity as reflected in a decreasing faculty-to-student ratio. In this domain there are even fewer examples of successfully implementing strategies that work. One we do know about is the story of a major public university putting in place a host of electronic courses that teach introductory material. In this case, robust incentives, including a 5 percent increase in base pay, proved attractive to the faculty. The extra costs associated with creating the necessary electronic courseware were absorbed by the tuition revenue supplied by new and part-time students attracted by the lower price.

The Importance of Retention

The other important lever identified by market analysis is first- to second-year student retention. Ten percent of four-year institutions lose more than a third of their first-year students in their first year. Most strategies for increasing student retention have focused on improving student support services and expect little of the faculty beyond staying on message. Much more will be required of faculty and the curricula they deliver. Currently, the curriculum is conceived as a sort of funnel: students start with broader "general education" courses, and eventually come to specialize in a major area of study. And for many, a good general education is understood to be the hallmark of a liberal education. Students are encouraged to explore a wide range of topics to provide a broad intellectual context for their more specialized future major. Most efforts aimed at reforming general education have sought to strengthen its commitment to intellectual exploration and, not incidentally, to lessen the degree to which the general education curriculum serves as an academic bazaar in which faculty, particularly from under-enrolled departments, recruit new majors.

Strategies for reforming general education now abound. Particularly interesting from our perspective is a reform package that included a student survey on which just half of the survey's respondents agreed that their general education was a "valuable component" of their undergraduate educations. Even fewer said that the general education curriculum provided a "foundation for success in my major." Perhaps in the unkindest cut of all, less than half agreed with the statement that the university's general education requirements were "clearly understood and explained by academic advisers across campus." The most specific as well as most repeated comment was that the general education curriculum was "a waste of time and money." The second most common complaint was that the general education requirement "is very disorganized and does not link to a major." Some of the students' comments were wonderfully prescient in their estimate of the faculty's commitment to a well-formed introduction to the liberal arts. As one student put it, too much of general education does nothing "more than keep particularly irrelevant courses funded and tired faculty continually employed."

Would a national survey of undergraduates replicate the finding that a majority of undergraduates believe their gen-ed curriculum to be a waste of their time and their money? Those saying yes would likely be students who start their college studies needing to be convinced their educations have value. For many of these students, gen-ed is not what they want, and at many institutions, a third or more of them will not be around to start their sophomore year.

Might it not be better to tie these students' first year explicitly to their interests, which are increasingly vocational? Could they start with a true introduction to their preferred major? Could the first year focus on practical learning skills that have a post-graduation payoff in the labor market: writing, statistics, and problem solving (perhaps better labeled as puzzle solving)? It is a program labeled by one institution now considering such a change as "flipping the curriculum." Start practical and skill-centered, but insist that students spend a good portion of their junior and senior years engaged in a broad, probably self-designed, exploration of topics outside, but ideally connected in meaningful ways to, their majors.

Worth Talking About

Each of these ideas is worth talking about. What is required, as we noted at the opening of this paper, is a full and frank discussion of alternatives—a discussion that is fact and evidence based and that explicitly builds on a better, more nuanced understanding of how the market for an undergraduate education distributes enrollments in this, the third decade of the twenty-first century.

We also know that resolving the market challenges cannot be a stand-alone indicator for mitigating institutional risk. The future of higher education depends on a deeper understanding of value, equity, and opportunity within the context of the students we serve. In a speech commemorating ACE's centennial celebration, President Ted Mitchell called for higher education to better frame the value proposition for our industry:

> What makes this particularly vexing and important to address, is that higher education has never been more important to individuals, communities, our economy, and our democracy. We know that postsecondary education creates an enduring wage premium for individuals. We know that postsecondary education will be necessary for the vast number of jobs created in the future. We know that higher education is linked to greater civic participation, personal health, and general well-being. We know that university research fuels innovation and economic growth . . . not to mention protecting the planet and enhancing public health. We know that our artists and social scientists enrich our culture while they help us make sense of it.

Our hope is that a purposeful examination of higher education's market challenges and value proposition will yield a robust conversation important to our country's future. If that dialogue is rooted in the data that drive the market and the evolving context in which our nation's colleges and universities operate, then it is certainly a phenomenon worth talking about.

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