Higher Education: The Importance and Urgency of Reform

Symposium on Institutions of Higher Education:
Financial Viability and COVID-19

Philadelphia, PA (Virtual)

May 12, 2021

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President and Chief Executive Officer
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Opening Keynote

Good morning! It's great to be here. And a special thanks to our staff at the Philadelphia Fed who organized this symposium, our distinguished panelists, and, of course, all of you for taking the time to join us.

As a recovering academic, I'm particularly excited about today's program. The future of higher ed is obviously of personal importance to me … but it's not just that. It's also crucial to the future of our country. We've assembled a terrific assortment of panelists today, who will — I am sure — provide unparalleled insight into the challenges and opportunities facing the sector. How lucky we all are to be here … in some form.

But now, before we begin, I have to say something I never needed to say in my lecture hall days. That's what we call the standard Fed disclaimer: The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

Higher Ed's Economic Footprint

The Philadelphia Fed has invested significantly in research in higher education and education finance over the past couple of decades. Our interdisciplinary, applied research group, the Consumer Finance Institute, which is sponsoring this event, is just the most recent strategic initiative in this area.

Our Bank's strong interest in the subject is partly geographic. Now, some may like to call the Boston area the "Athens of America," but here in Philadelphia, we are at least Alexandria. Some 80 colleges and universities populate the Greater Philadelphia area. The two largest employers in the region are universities and their associated health systems — the University of Pennsylvania and Thomas Jefferson University. These anchor institutions — comprising both eds and meds — are of vital economic importance to the District we serve at the Philadelphia Fed.

But that does not make us unique — far from it, in fact. And for all its civic virtues, higher education is also an *industry* whose economic effects are felt coast to coast.

Indeed, in the fall of 2019, there were approximately 4,000 postsecondary educational institutions in the U.S., counting both four-year and two-year institutions and nonprofits as well as for-profits.

Their economic impact is, quite obviously, sizable. The National Center for Education Statistics counts more than 4 million people employed in higher education. Those employed in the higher education sector earn higher-than-median wages.

Nor can we forget the students and the value they bring to the communities where they study and socialize. As of last fall, 19.7 million students were enrolled in America's colleges and universities, 12 million of whom were attending full-time. Right around now, as the academic year draws to a close, colleges and universities are getting ready to confer 1,988,000 bachelor's degrees, 983,000 associate's degrees, 833,000 master's degrees, and 187,000 doctorates. That's a whole lot of people entering the workforce better prepared than they were before.

And then there are the millions of Americans whose livelihood depends indirectly on higher education. Think of the restaurants, coffee shops — and, let's be honest, grungy bars — that cluster near campuses, as well as the legions of suppliers of books, accommodations, transportation, furniture, utilities, technology services, and so much more, that depend on colleges and universities. There's a reason the notion of the "college town" evokes thriving small businesses and vibrant communities. Colleges and universities have a serious multiplier effect.

All of which is to say, the economic impact of the higher education sector is felt by far more than the already massive numbers of people who are employed or enrolled in it. The entire country is touched by it.

Furthermore, for all its problems — many of which we will delve into today — higher education, in all its forms, remains a critical rung on the ladder to the middle class in this country.

A bachelor's degree is worth $2.8 million on average in career earnings, according to Georgetown University's Center on Education and the Workforce. Bachelor's degree holders earn 31 percent more than those with an associate's degree and 84 percent more than those with a high school diploma. Moreover, this so-called college premium has risen in recent decades. In 1999, bachelor's degree holders earned just 75 percent more than those with a high school diploma. The earnings gap between those with degrees and those without is only rising.

And that is precisely why today's symposium on the financial viability of the higher education industry is so important. The financial health and stability of these institutions is of the greatest import not just to educators and students, but to all of us.

I can't wait to hear from our panels of state education leaders, researchers, and college and university presidents. I only wish we could be serving lunch. And I'll be back later to speak more on today's topic and open up the Q&A.

So again, thanks so much for joining us and a warm welcome on behalf of the Philadelphia Fed. And now, I'd like to turn things over to Rajeev Darolia of the University of Kentucky, who will lead our first panel.

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Closing Keynote

Hello again! What a great program this has been. I want to say thank you, again, to the organizers of this symposium, the panelists, and all of you for joining us.

Also, I'm not sure if I *want* to say this, but I know I have to. It's a rerun of what I said this morning: The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

Today's presentations have underlined two fundamental facts about the higher education sector that indicate why we are approaching a crisis point. One: Higher education is, as I sketched out a bit this morning, *deeply important* to the civic and economic life of our country. And two: That very system is in peril.

Trends Before the Pandemic

Even before the pandemic, long-standing secular trends were threatening the industry. One was the ever-increasing cost of a college education, whose persistent rise in tuition and fees has been outpacing inflation for decades. Low productivity growth has been a primary driver of this phenomenon.

Closely related has been the explosion of student debt. The more expensive education has become — and the less support the public sector has offered to students — the more they have had to borrow to finance their education. Americans now owe more than $1.7 trillion in student loans, far outpacing credit card debt and second only to mortgages in total borrowing.

Demographics threaten the industry, too. The traditional college-age segment is actually in decline. Those enrolled in higher education institutions now tend to be older and have lower incomes than before. It's something to marvel at: College education has become more expensive at a time when the customer base has become less able to afford it.

Technological advances, meanwhile, have brought forth increased competition to the traditional higher ed sector. Low-cost, easily accessible online education represents a severe threat to an industry with high fixed costs. This is especially worrisome when, as we heard from one of our panelists today, the quality of online education as a complete substitute for in-person learning remains questionable.

There were bright spots like health care. As the country ages and medical technology advances, universities with medical campuses attached have prospered. But for the most part, the trends were grim.

The COVID-19 Effect

And as we've learned today, COVID-19 has only served to strengthen those forces that are threatening the higher education industry as we know it. Cost pressures are intensifying at campuses from coast to coast. Online distance learning brought on by the pandemic may have only served to further undermine the value proposition of expensive traditional institutions. And unlike in prior downturns, enrollment at community colleges has actually fallen during the pandemic as people have had to juggle family and job responsibilities under unprecedented strain.

More pain is, unfortunately, almost certainly on the way. My colleagues at the Philadelphia Fed, using historical data on how states responded to previous economic downturns and contemporaneous measures of the severity of the pandemic and its economic effects, have projected revenue shortfalls of between $70 billion and $115 billion over the coming five-year period across the sector. Our researchers forecast that 80 percent of all institutions will face revenue shortfalls, with HBCUs, public colleges, and institutions with fewer than 1,000 students facing the heaviest fiscal burdens.

The truth is, far from being the "unkindest cut," state governments have shown little hesitance to cut spending on higher education. Nor are the cuts precisely aligned with revenue declines. To take a hypothetical situation: A fall of 10 percent in tax revenues could lead to a 15 percent slash in higher education spending, for instance. Unlike K–12 education or roads and bridges, higher ed makes an easy target.

I recall vividly learning this firsthand when I was president of the University of Delaware (UD). A powerful state legislator had called me into this office in Dover to let me know our appropriation would be slashed even though that would mean, by necessity, a hike in tuition. A little later on that same day, I sat in a public hearing while that very same legislator attacked me for … raising tuition.

So there's your poli-sci lesson for the day.

A Call for Action

As we emerge from this pandemic, I want to call on federal and state governments — and American society — to recommit to public postsecondary education, which remains *the* indispensable tool for economic and social mobility and to educating our citizenry. Higher education is, as I stated earlier, an *industry*. But it is also a public good.

I am not — and I stress *not* — calling for blank checks. Colleges and universities need to meet the public sector halfway. They must urgently bend the cost curve. For society to recommit to them, it is incumbent on *them* to change.

I also want to stress that this commitment must extend beyond traditional four-year colleges — and their football programs. Many state legislators seem more concerned with sports than anything else in education.

The country should be investing in the totality of post-high school training and education.

New Models

Indeed, there are now many exciting alternatives to traditional four-year colleges or even community colleges. Coming from a former university president, this probably sounds like Ronald McDonald admonishing you to lay off the french fries. But the truth is that many Americans don't need a traditional four-year college degree to enjoy a prosperous life. What they need are the skills that will propel them into middle-class jobs. For my dad, my uncles, and my brother, that was pipefitting. And for many, that's still a great option. For others, it will be something else.

Many skills today are gained through a variety of short-term programs that do not lead to degrees but can provide marketable new skills. These courses can be as short as two months, and workers — many of whom are in their midcareer and are looking to retool, stand to benefit. (The quality of these programs can vary widely, however.)

According to a recent Georgetown University study, these can make a meaningful difference in enrollees' careers: Certificates in engineering technologies can lead to high earnings, as do those in fields like information technology and legal studies. Indeed, the study found some certificates can yield earnings that rival those of bachelor's degrees in other fields. My electrician happens to live in my neighborhood, and he owns his own business and makes a great living without a four-year degree.

Short-term credentials can be gained in many venues, from traditional community colleges, to private academies like computer-coding boot camps. The training can be done both online and at brick-and-mortar institutions.

Of course, even as we look for creative ways to employ short-term programs as an alternative to traditional degrees, we must ensure equal opportunity to *all* types of degree and non-degree programs. We must not allow for a two-tiered system of higher education to flourish, with low income and minority students funneled into experimental programs while facing barriers to obtaining traditional degrees. There are also public–private partnerships designed to provide pipelines of talent to the private sector. The way the latter works is that companies essentially outsource a portion of their employee training to outside vendors, using a “pay for success” model. That means the company reimburses the entity that paid for the training in the first place — say, the local publicly funded job board — if the new hire hits certain benchmarks, like staying on the job for six months. It can be an effective way to entice corporations to hire from populations they may find too risky or for which they lack sufficient familiarity, particularly those in underserved communities. The workers will benefit, of course, but so will the companies that will have access to an undertapped pool of talent.

Four-Year Schools

For many others, a four-year degree is still going to be the best option. But these institutions require a radical overhaul.

Begin by asking: What value proposition do universities offer? Fundamentally, they are offering something quite profound. Rather than a certain set of skills or a discrete body of facts, universities instead are pitching the promise of critical skills to learn *how* to learn for a lifetime.

A few years ago, I authored a paper examining the systems that universities use to deliver this education.

On most campuses, I recounted, classes are scheduled three days a week for an hour each day, twice a week for one-and-a-half hours, or once a week in three-hour blocks. Room assignments are optimized to fit these scheduled slots, and classes are scheduled to meet student demand — although often class times are more likely to reflect faculty preference. Classrooms are designed to meet the schedule, which in turn is derived from optimizing the use of classrooms.

In sum, the entire system on a college campus is designed to optimize teaching, where teaching is defined as being in a classroom, for example, twice a week for one-and-a-half hours at a time. Over the decades, we have built optimized *teaching factories.*

But what if, I asked, rather than design teaching factories, universities instead focused on creating learning-centric institutions? Institutions that are efficient — and by definition — affordable.

It could mean replacing vestigial general education requirements — which are too often in place to protect privileged fiefdoms in various academic departments — with intelligently designed common core programs like those in place at some of our country's most prestigious universities and colleges.

It could mean the selective and intelligent use of technology to achieve economies of scale as Arizona State University, Georgia Tech, and others are doing with quite impressive results. But universities must keep in mind that online education is a means, not an end in and of itself.

It could mean mergers and acquisitions. Here in Philadelphia, Saint Joseph's University and the University of the Sciences are proposing to merge, a move that will promote efficiency and bolster the combined schools' presence in health sciences, a major growth industry.

It could mean rethinking the structure of university faculty and contemplating, rather than simply loading up on teachers' assistants, the use of full-time nontenured faculty to reduce labor costs.

The health-care industry is an interesting example: It has successfully reduced costs using nurse practitioners in the place of physicians for many routine tasks. It has also embraced telemedicine, particularly during the pandemic.

It could — and should — mean all of the above, and much more that I haven't even contemplated, because time is of the essence and the pressures are very real and only set to worsen.

There are also great opportunities to more closely integrate four-year and community colleges in ways that promote efficiency and better serve students. Everyone in higher education knows that far too many students, through no fault of their own, enter demanding institutions without adequate preparation.

Many of these students have unfortunately attended high schools that left them ill prepared for college-level work or have had life challenges that have left them unprepared for the demands of a selective college or university. That can be disastrous, because once a student falls behind academically, it's very, very difficult to catch up.

At UD, the Associate in Arts Program not only provides a pipeline of students into the university, but it also makes sure they are poised to succeed once they get there.

The way the Associate in Arts Program works is this: UD courses are taught by UD faculty in small classes in Delaware Tech buildings throughout the state. (Delaware Tech is the state's public community college.)

Students receive an associate's degree in University Studies by earning credits in the core courses that are required of all undergraduates, and then, they transition to UD's main campus to earn their bachelor's degree. Most full-time students receive money from the state to cover their tuition, demonstrating the potential for meaningful state support for well-designed programs. The program is high touch, with small class sizes and lots of interaction between faculty and students.

I'm thrilled to report that 64 percent of students in the program graduate with their associate's degree within three years — well above the national average of around 33 percent. Of those, 88 percent go onto the main campus at UD, and nearly 80 percent of those graduate with a bachelor's degree.

Because the program is taught by UD faculty, the transition from an associate's to bachelor's degree becomes something approaching seamless. A member of the English faculty who is teaching in the Associate in Arts Program knows exactly what her students are prepared for once they enter an English course on the main campus.

Why We Learn

You know, a long time ago, when people used to ask me what they should study, I would tell them to follow their passion. I realize now that this was precisely the wrong answer.

Now I say, pick a subject you find really difficult. And study that.

Because ultimately, the purpose of education is not simply to learn *what* you need to know, but more fundamentally *how* to think. That's just as true for somebody earning an electrical engineering certificate as it is for another person pursuing a philosophy doctorate.

It's also true for me: I benefited from a great education in engineering and economics at the University of Pennsylvania, and now I'm a central banker, formulating monetary policy. My education didn't just teach me how to build roads and bridges, it taught me how to *reason*.

A society where people know how to reason — how to think — strikes me as one that is bound to be a successful one. Higher education's value is not just the economic boost it provides to our country, though that is incredibly important. Its value also lies in teaching our fellow Americans how to think.

So again, thank you everyone for being here today. And now I'm happy to take a few questions.