

# Colleges in Crisis

## Is This the End of Higher Ed as We Know It?

All college students remember the day they received their acceptance letter. An envelope or email arrives, and young pupils feel like they've taken the next step toward their future. Wherever you go in the world, high-school students fortunate enough to afford college or receive scholarships have spent countless hours on standardized tests, extracurricular activities, and application essays. As the global economy has become more service-oriented, the demand for higher education has skyrocketed.

College campuses have also become ever more impressive, with state-of-the-art labs, exceptional athletic facilities, and dormitories that can sometimes rival 5-star hotels—more “resort” than “resident hall.” The University of New South Wales in Australia has spent \$360 million on new facilities, while Ohio State University in the U.S. has a \$220 million *annual* athletics budget.<sup>1</sup>

Colleges are not just places where professors in tweed blazers pontificate on the nuances of Keynesian economics; they are also places where students worldwide can spend upward of \$80,000 a year for the “college experience.” Suddenly this experience has either halted or changed drastically as the Covid-19 pandemic grips the global economy.

The hallowed halls of learning, bustling with activity just months ago, are now mostly empty. Colleges are facing a crisis in which most are unable to have students on their campuses; they are struggling with revenue loss from international students deferring admission and resorting to online learning, which poses a threat to their long-term sustainability. In this article,

we dive into college finances, investigate the acute impacts of Covid-19, and end with hope for the future.

### CASH FLOWS AND COLLEGES

While credit analysts attempt to understand corporate cash flows, we seek to lift the veil on college finances. College finances are unique. Most businesses do not raise charitable funds, build endowments, rely on public funding, and provide room-and-board services.

«EVEN FOR PUBLIC INSTITUTIONS, WHERE GOVERNMENT ALLOCATIONS PROVIDED 41% OF REVENUES, TUITION AND FEES STILL ACCOUNTED FOR 20% OF REVENUES.»

U.S. colleges generated revenues of \$671 billion in 2017–2018, putting the college industry in the same league as commercial banking and supermarkets with annual revenues of \$682 billion and \$681 billion, respectively.<sup>2</sup> Breaking down those revenues, tuition and fees accounted for 31% of private non-profit institution revenues. Gifts, grants, and other revenue sources accounted for 32% of the revenues. Even for public institutions, where government allocations provided 41% of revenues, tuition and fees still

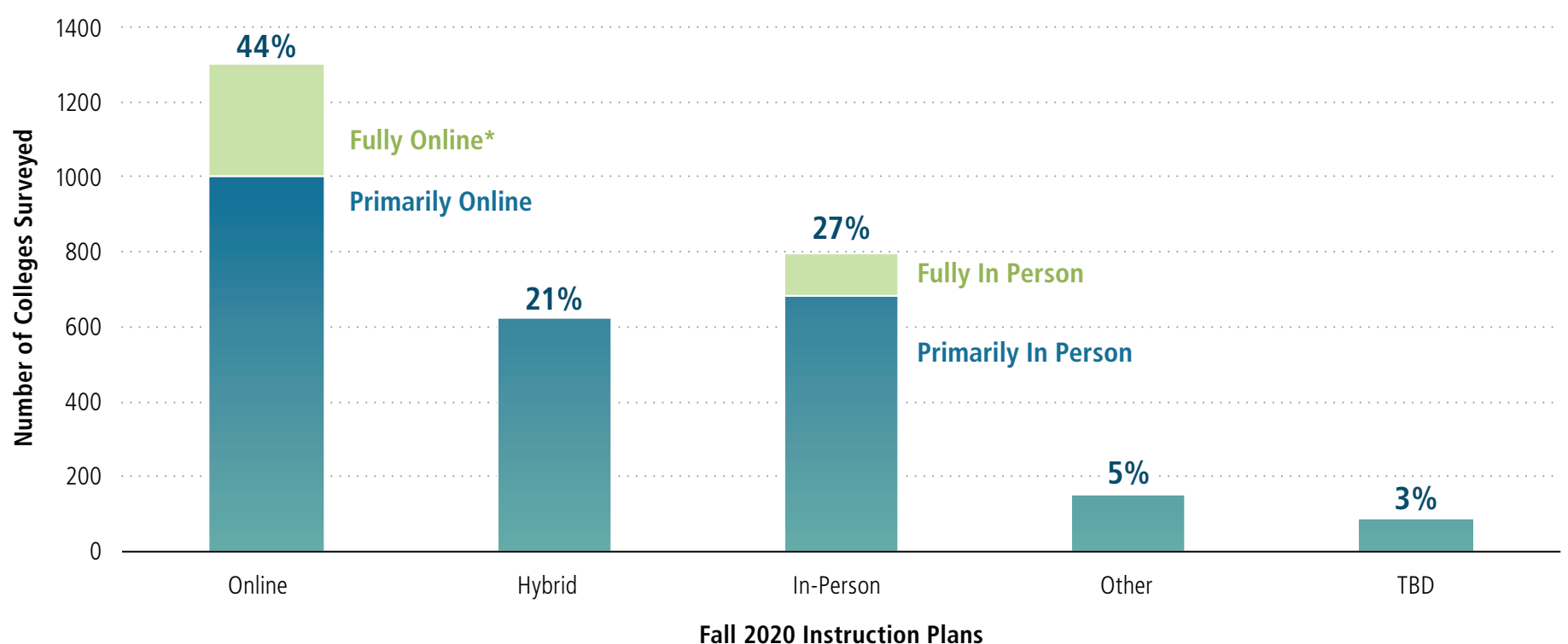
accounted for 20% of revenues. Colleges also have endowments that produce investment returns, accounting for 18% of private non-profit colleges' revenues. While this diversified base of funding insulates colleges from business cycles, Covid-19 has created a perfect storm that has hurt every facet of college financing globally.

### EPIDEMIOLOGY IMPACTS ENROLLMENT

The aptly named *College Crisis Initiative* surveyed almost 3,000 U.S. colleges and universities and found that 44% planned to be primarily or fully online during the Fall 2020 semester (see Fig. 1). Another 21% planned a hybrid model, where some courses and classes are taught on campus with online availability (e.g., certain vocational degrees require in-person training). Classrooms remain empty in a majority of U.S. colleges. While data collection was limited to colleges outside the U.S., 42% of survey respondents indicated that they planned for online or hybrid learning.

The prevalence of online learning means more students will forgo their fall study plans rather than miss out on the in-person experience that has become an increasingly important aspect of campus life. According to the *American Time Use Survey* (see Centerpiece for how people spend their time), full-time college students spent just 3.5 hours on an average weekday studying—less than the 4 hours spent on leisure and sports.<sup>3</sup> It's unsurprising then that 67% of U.S. institutions expected enrollment declines in the Fall 2020 semester as students take a gap year or wait to return to school for “the full college experience.”

fig 1. ZOOM UNIVERSITY: FALL 2020 CAMPUS PLANS FOR U.S. COLLEGES



Source: The College Crisis Initiative @ Davidson College

\*Fully online = no students on campus, Primarily online = some courses in person

**«HIGHER EDUCATION HAS BECOME A GLOBAL INDUSTRY, WITH AMERICA, AUSTRALIA, CANADA, AND THE UNITED KINGDOM ATTRACTING 5 MILLION INTERNATIONAL STUDENTS EVERY YEAR, COMPARED TO 2 MILLION IN 2000.»**

**EDUCATION AS AN EXPORT**

Globally, the impact is even more severe when one considers the impact of international students' enrollment. Higher education has become a global industry, with America, Australia, Canada, and the United Kingdom attracting 5 million international students every year, compared to 2 million in 2000.<sup>4</sup> In Australia, international students account for 27% of overall enrollment (see Fig. 2).

As the share of international students has grown, so has its impact on college revenues. Leading Australian universities relied on international students for more than a third of their income. In Canada, McGill University charged international students more than 17 times what domestic students paid. Even in the U.S., where international students make up just 5% of overall enrollment, they contribute \$41 billion annually to the U.S. economy. As an industry, that puts higher education exports right between pharmaceuticals and telecommunication.

**«AS OF JULY, GLOBAL WORLD TRADE VOLUMES HAVE RECOVERED TO “JUST” 6.6% BELOW LAST YEAR’S LEVELS. MEANWHILE, THE NUMBER OF COMMERCIAL FLIGHTS WAS STILL 50% BELOW JULY 2019 LEVELS.»**

The impact of international students is evident in the extreme actions some colleges' took to keep these students enrolled. In the U.S., a consortium of schools sued the federal government to reverse a policy that would have denied student visas to students whose schools went fully online. In the U.K., one university considered chartering a jet for 300 or so students from India, later scrapping the plans when the pandemic worsened.

**«WHILE MOST BUSINESSES HAVE BENEFITTED FROM CUTTING BACK THEIR SPENDING ON EMPLOYEE LUNCHES AND COFFEE AS THEY ENGAGE IN REMOTE WORK, COLLEGES HAVE BEEN HURT BY THE PHYSICAL ABSENCE OF STUDENTS WHO ARE STILL ENROLLED.»**

Covid-19 and the travel restrictions that have come with it have meant that many international students are pushing back their plans to study abroad. In a recent poll, 40% of international students said they would cancel or defer their plans.<sup>5</sup> As of July, global world trade volumes have recovered to “just” 6.6% below last year's levels. Meanwhile, the number of commercial flights was still 50% below July 2019 levels.<sup>6</sup> Many have obsessed about the trade in goods during the shutdowns, but it is the trade in higher education that should concern college economics professors.

**AUXILIARY AND ATTENDANCE**

When classes are remote, there is little need for food in cafeterias, and dormitory revenues dry up as students work out of their childhood bedrooms

(see the impact of changing food consumption patterns in “I, Lettuce”). While most businesses have benefitted from cutting back their spending on employee lunches and coffee as they engage in remote work, colleges have been hurt by the physical absence of students who are still enrolled. Auxiliary services like room and board are a key source of college revenue.

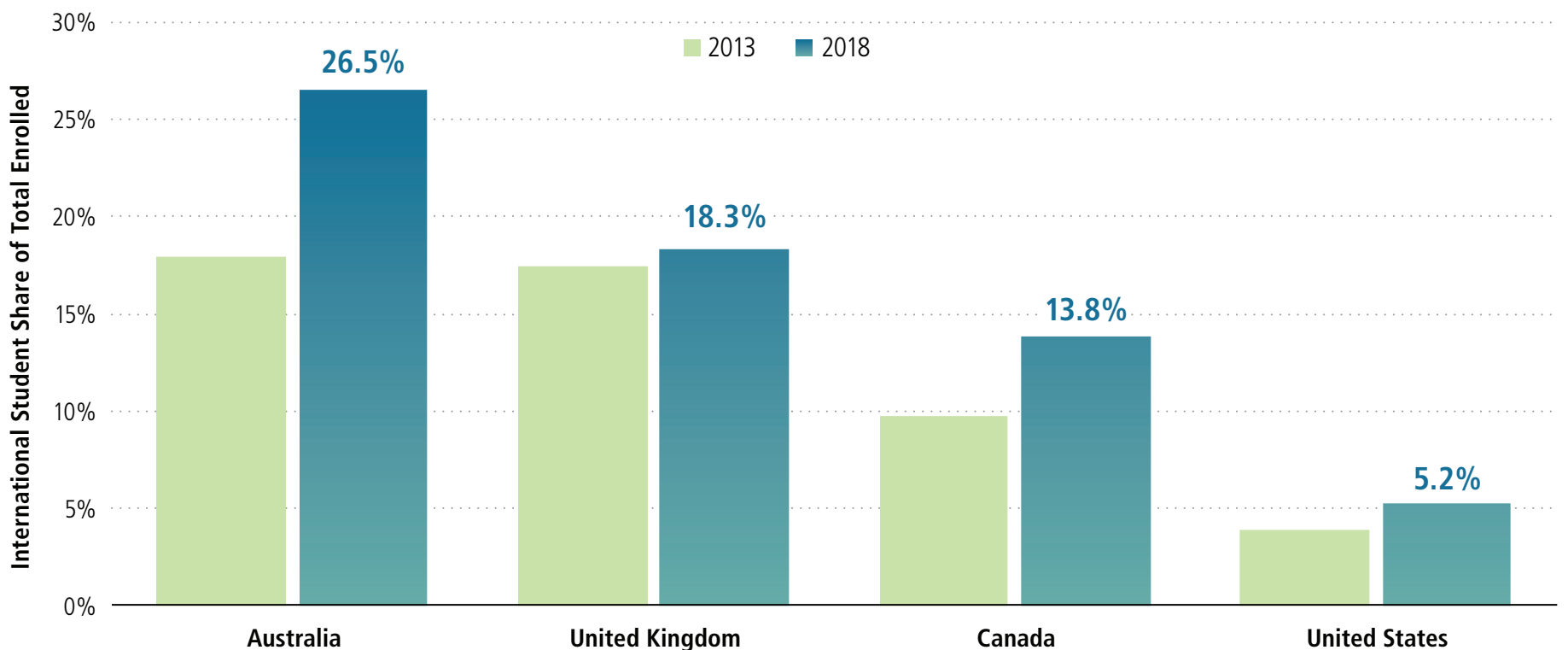
In the U.S., tuition and fees often include the amount charged to students for their dormitories and cafeteria meal plans. On average, in 2017-2018 private colleges in the U.S. charged \$45k in tuition and another \$13k in room and board! After all, the state-of-the-art gyms, gourmet food, and picturesque campuses cost money to maintain! At public colleges, the average tuition

was a more manageable \$18k, but room and board added another \$11k.<sup>7</sup>

While not all students utilize room and board, fees collected from these services are especially important for public colleges because they charge less for tuition. Previously, some universities could convince or force students to study on campus for the “residential experience,” but today they must entirely forgo this revenue source. Additionally, unlike businesses that can offload unproductive assets in times of lagging demand, college campuses are less likely to sell their dormitories.

Room and board is not the only auxiliary service colleges have lost due to Covid-19. Consider, as well, campus security parking citations, bookstore sales, event space rentals, and so on. We haven't even touched on athletic revenues. According to

fig 2. GLOBAL GOOD: INTERNATIONAL STUDENTS SHARE OF OVERALL ENROLLMENT



Source: Food Marketing Industry Speaks (1995-2016)  
\*Data for 2017 is interpolated

the American Council on Education, auxiliary revenues totaled \$45 billion for U.S. colleges and universities in the 2017 fiscal year. Unfortunately, these revenue sources will not return without in-person attendance.

### IS THIS REALLY THE END?

This is not the first time people have predicted the end of college as we know it. In 2012, the *New York Times* published a story entitled “The Year of the MOOC,” in which “MOOC” means “massive open online course.” A MOOC company founder called it the “year of disruption.”<sup>6</sup> The death of universities never materialized, however, and most schools continued with the status quo, adopting the technology to their benefit—until 2020.


**«COURSERA, A POPULAR MOOC PLATFORM, ADDED 10 MILLION USERS BETWEEN MARCH AND MAY, SEVEN TIMES THE AMOUNT ADDED DURING THE SAME TIME LAST YEAR.»**

This year has been the real year of disruption for MOOCs. Coursera, a popular MOOC platform, added 10 million users between March and May, seven times the amount added during the same time last year.<sup>8</sup> Even colleges that were apathetic toward online learning were forced to swim with the shifting current.

Despite MOOCs’ recent popularity, a recent survey by OneClass found that 75% of college students were unhappy with their “Zoom University.” We are optimistic, however, that the pandemic and massive online learning shift will create more inexpensive online program opportunities that will not necessarily cannibalize the in-person university experience. If you are an international student unable to afford plane tickets and room and board, why not study and develop skills from your own home?

Some universities have already considered this. The largest computer science program in the U.S. is online, hosted by Georgia Tech, and launched in 2014.<sup>9</sup> Concerns that the same program offered online for a sixth of the cost would lead to the downfall of the in-person program were wrong. Specifically, the university found “virtually no” overlap between applicants for both programs, discovering that they were catering to a completely new market.

The democratization of education was MOOCs’ ambitious goal. Maybe the pandemic will lead us there as more universities all over the world create online programs. Those who still value on-campus learning environments should remember that universities survived many pandemics, wars, MOOCs, and their own online programs before this. If students only spend 3.5 hours a day

studying, they will likely soon return to campus for the other 85% of their day that made up their true college experience. 

**«A RECENT SURVEY BY ONECLASS FOUND THAT 75% OF COLLEGE STUDENTS WERE UNHAPPY WITH THEIR “ZOOM UNIVERSITY.”»**

### SOURCES

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