

They Said It...

“It is time to build on the progressive movement of the past and make public colleges and universities tuition-free in the United States—a development that will be the driver of a new era of American prosperity.”¹

BERNIE SANDERS

“No family and no student should have to borrow to pay tuition at a public college or university.”²

HILLARY CLINTON

Reality Check

Federal subsidies have driven college tuition sky-high, while reducing colleges’ incentives to ensure that students graduate—and graduate with degrees that employers value. ‘Free’ tuition will make such problems worse.

Preston Cooper, Policy Analyst,
Manhattan Institute



Only One-Third of College Enrollees End Up in Jobs Requiring College Degrees

Preston Cooper

In Reality

America’s higher-education system is failing students: fewer than three in five who start college finish; fewer than three in five who finish end up in a job requiring a college degree. Pushing more students into college is thus a poor use of such students’ time, as well as a poor use of taxpayers’ money. The most likely result of expanding enrollment in colleges that consistently fail to graduate students or produce graduates with in-demand skills will be a dramatic erosion of the earnings premium of college degrees—further weakening the return on investment for individuals and society.

Key Findings

- Only 52 percent of U.S. students who enroll in college graduate within six years.
 - ◆ At all four-year universities, the figure is 59 percent; at those with open enrollment, 34 percent.³
 - ◆ At two-year colleges—often the focus of efforts to expand access to higher education—the figure is 40 percent.⁴
- Nearly half—44 percent—of recent college graduates from four-year institutions are underemployed.⁵
 - ◆ While unemployment rates for college graduates are low, “underemployment”—holding a college degree but working in a job that does not require one—is far higher.
- Only 33 percent of enrollees in four-year colleges emerge with a degree *and* a relevant job.
 - ◆ Results for two-year colleges are even worse.
 - ◆ Graduation rates have edged up slightly over the past two decades, but underemployment rates have not improved.
 - ◆ Countries with free college, such as Denmark and Norway, see more students go to college (48 percent and 46 percent, respectively, compared with 39 percent in the U.S.),⁶ but their graduates earn only 12 percent and 7 percent more than workers with a high school degree or equivalent (compared with 65 percent in the U.S.).⁷

On the Record

“America’s higher-education system is broken and serves most students poorly: pushing more low-income students through it will help neither the system nor the students. Overall graduation rates are remarkably low and dip even lower at the less selective colleges that new students brought into the system would likely attend. Graduates, meanwhile, are often unable to find jobs suited to their degrees. Colleges must be held accountable for the career and financial results that they produce for their students. Reform is needed. But flooding the system with more federal subsidies will considerably worsen, not improve, the situation.”

Preston Cooper, Policy Analyst, Manhattan Institute

The state of U.S. higher education has emerged as an issue of contention in the country's 2016 presidential race, with candidates on both sides of the aisle offering proposals to reform how Americans finance college. And with good reason: since 2000, in-state tuition at public four-year universities has risen 50 percent in real terms,⁸ while total outstanding student loans have doubled in the past ten years, to surpass \$1.3 trillion.⁹ These figures have prompted calls for greater federal funding¹⁰ and even a guarantee of “free” college.¹¹ But insufficient federal funding is not the problem—indeed, increasing it will make U.S. higher education worse.

Low Graduation Rates

A key goal of reducing or eliminating college costs is to boost enrollment among low-income students: when Scotland, for instance, abolished university tuition fees in 2001, the number of applications jumped by a quarter.¹² But applying to or matriculating at a school is not the same as attaining a degree. At America's four-year institutions, only 59 percent of students graduate within six years.¹³

This low rate is not driven by for-profit colleges, as some assert: public four-year institutions have a six-year graduation rate of 58 percent, in line with the national average. Among community colleges, which many proposals would make free, the six-year graduation rate is 40 percent—even after accounting for students who transfer to other colleges.¹⁴ Across all two- and four-year colleges, the weighted-average graduation rate is just 52 percent.¹⁵

U.S. college graduation rates have edged up slightly over the past two decades. For those entering four-year institutions in 1996, only 55 percent graduated within six years.¹⁶ But the marginal students encouraged to apply by newly free or debt-free college¹⁷ are likely to attend less selective colleges, where graduation outcomes are even worse. Among four-year colleges with acceptance rates of over 90 percent, the six-year graduation rate is only 47 percent. For colleges with open admissions, 34 percent graduate within six years.¹⁸

Failing to graduate is itself a key cause of financial hardship. Among students who attend public four-year institutions, the student loan delinquency rate for those who do not graduate is 41 percent. Those who attain a degree, despite having significantly higher student loan balances, have a delinquency rate of 10 percent.¹⁹

Underemployment

Today's college graduates face a weak labor market. True, the unemployment rate among graduates is currently lower than that of the population as a whole.²⁰ Yet a far more pressing problem for graduates is underemployment. According to the Federal Reserve Bank of New York, the underemployment rate among college graduates is about 33 percent. For recent college graduates—those aged 22–27 whose outcomes most closely reflect those who might enter college now—underemployment is 44 percent.²¹ If only 59 percent of four-year college enrollees graduate and only 56 percent of those graduates find a job requiring a degree, then college investment is delivering its expected return for only one-third of enrollees.

Some of the jobs that underemployed college graduates fill pay well; but the share of underemployed recent graduates in well-paying jobs has fallen sharply, from 51 percent in 1990 to 36 percent in 2012. More important, the students did not need their college degrees to obtain such jobs—making their enormous personal investment (and, potentially, that of taxpayers) a poor one.

One cause of underemployment is that students frequently pursue degrees with little economic value. Indeed, there is little correlation between the popularity of a college major and how well it pays: lucrative majors, such as petroleum engineering, attract few students, while low-paying ones, such as psychology and education, are highly popular.²² Field of study is strongly associated with college-graduate underemployment. For recent graduates, only 20 percent of engineering students are underemployed; among leisure and hospitality students, 63 percent.²³

Colleges get paid regardless of whether they churn out degrees in English or engineering, creating little incentive to guide students toward career-friendly study paths. Reforms to higher education must address how colleges equip their students for the job market, not simply subsidize the printing of diplomas.

Supply-Demand Mismatch

Government student-aid programs seek to increase the supply of college graduates regardless of whether the labor market requires more employees with college degrees. When the supply of graduates increases faster than employer demand, college graduates' earnings premium falls.²⁴

Consider Denmark and Norway, countries with free college systems where the age-adjusted share of the population with a college degree is 48 percent and 46 percent, respectively—compared with 39 percent in the U.S.²⁵ Nevertheless, American colleges offer graduates a better investment: Americans aged 25–34 with tertiary education earn 65 percent more than Americans with only a high school degree, compared with 12 percent (Denmark) and 7 percent (Norway).²⁶

Recent improvements in America's high school graduation rate illustrate a similar pattern. Though more students now earn high school diplomas, standards have declined, leaving many students unprepared for college or a career. There, too, the solution is not simply to churn out more graduates but to improve the quality of U.S. high schools.²⁷

Conclusion

Advocates of federally funded “free” or “debt-free” college assert that society, as well as the affected individuals, would benefit from moving more students through higher education. Instead, experience in the U.S. and elsewhere suggests that the opposite would happen: more students would enroll in college; a high percentage (a higher percentage, quite possibly, than now, as more ill-prepared students enrolled) would continue to drop out; wage premiums for graduates would decline; colleges that desperately need to improve outcomes for students would face even fewer incentives to reform; and taxpayers would foot a skyrocketing bill.²⁸

Endnotes

- ¹ See https://www.washingtonpost.com/opinions/bernie-sanders-america-needs-free-college-now/2015/10/22/a3d05512-7685-11e5-bc80-9091021aeb69_story.html.
- ² See <http://www.politico.com/story/2015/08/hillary-clintons-350-billion-plan-to-kill-college-debt-121210>.
- ³ See https://nces.ed.gov/programs/coe/indicator_cva.asp.
- ⁴ See http://www.aacc.nche.edu/Publications/Reports/Documents/Enrollment_AwardData.pdf.
- ⁵ See https://www.newyorkfed.org/research/current_issues/ci20-1.html.
- ⁶ Table A3.1a. See <http://www.oecd.org/edu/Education-at-a-Glance-2014.pdf>.
- ⁷ Table A6.1. See [http://www.oecd.org/edu/eag2013%20\(eng\)--FINAL%2020%20June%202013.pdf](http://www.oecd.org/edu/eag2013%20(eng)--FINAL%2020%20June%202013.pdf).
- ⁸ See <http://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-and-room-and-board-over-time-1975-76-2015-16-selected-years>.
- ⁹ See <http://www.federalreserve.gov/releases/g19/current/#fn11b>.
- ¹⁰ See <https://www.hillaryclinton.com/briefing/factsheets/2015/08/10/college-compact>.
- ¹¹ See <https://berniesanders.com/issues/its-time-to-make-college-tuition-free-and-debt-free>.
- ¹² See http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2481553.
- ¹³ See https://nces.ed.gov/programs/coe/indicator_cva.asp.
- ¹⁴ See http://www.aacc.nche.edu/Publications/Reports/Documents/Enrollment_AwardData.pdf.
- ¹⁵ This figure is calculated by multiplying the shares of undergraduate students at four-year colleges and two-year colleges by their respective graduation rates. See http://nces.ed.gov/programs/digest/d14/tables/dt14_311.15.asp.
- ¹⁶ See https://nces.ed.gov/programs/digest/d14/tables/dt14_326.10.asp.
- ¹⁷ Students who attend “debt-free” colleges might, hypothetically, still be charged tuition but would nevertheless graduate debt-free.
- ¹⁸ See https://nces.ed.gov/programs/coe/indicator_cva.asp.
- ¹⁹ See <http://www.federalreserve.gov/econresdata/notes/feds-notes/2015/trillion-dollar-question-what-predicts-student-loan-delinquency-risk-20151016.html>.
- ²⁰ See <http://www.bls.gov/news.release/empsit.t04.htm>.
- ²¹ See http://www.newyorkfed.org/research/current_issues/ci20-1.pdf.
- ²² See <http://www.economics21.org/commentary/college-majors-law-supply-preston-cooper-10-25-2015>.
- ²³ See http://www.newyorkfed.org/research/current_issues/ci20-1.pdf.
- ²⁴ See <http://www.nber.org/papers/w12984.pdf>.
- ²⁵ Table A3.1a. See <http://www.oecd.org/edu/Education-at-a-Glance-2014.pdf>.
- ²⁶ Table A6.1. See [http://www.oecd.org/edu/eag2013%20\(eng\)--FINAL%2020%20June%202013.pdf](http://www.oecd.org/edu/eag2013%20(eng)--FINAL%2020%20June%202013.pdf).
- ²⁷ See <http://www.nytimes.com/2015/12/27/us/as-graduation-rates-rise-experts-fear-standards-have-fallen.html>.
- ²⁸ See, e.g., <http://www.msnbc.com/msnbc/clintons-sweeping-new-debt-free-college-plan>. Bernie Sanders has estimated that his plan to eliminate tuition at public colleges and universities would cost \$750 billion over ten years. The size and frequency of government cost overruns suggests that the ultimate price tag would be far higher.