

# POLITICAL ECONOMY

IN THE CAROLINAS

## LONG- AND SHORT-TERM EFFECTS OF THE CORONAVIRUS ON HIGHER EDUCATION IN THE UNITED STATES

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In the past year and a half, universities have experienced a great deal of upheaval. They were among the first institutions to respond to the threat of the novel coronavirus, sending students home for spring break in March 2020 and telling them to stay there indefinitely. Some campuses have still not fully reopened. But despite these sweeping short-term changes, the long-term effects will not be as dramatic. For the most part, COVID-19 is simply accelerating changes that were already underway. That is not to say that COVID-19 hasn't had significant effects on colleges and universities; it has affected every aspect of the business of higher education. Those effects can best be observed by separately considering postsecondary enrollment, finances, and delivery.

### I. STUDENT ENROLLMENT IN POSTSECONDARY EDUCATION

Student enrollment declined 2.5 percent from fall 2019 to fall 2020, but the decline was uneven across sectors and across institutions. “Undergraduate enrollment was the primary driver for this decline, decreasing 3.6 percent or over 560,200 students from 2019,” the National Student Clearinghouse reported. Public two-year institutions suffered the largest decline: 10.1 percent. Enrollment at public four-year institutions increased by 0.2 percent from 2019 to 2020. And nonprofit institutions, capitalizing on their established online model, saw an increase in enrollment of 5.3 percent (National Student Clearinghouse Research Center 2020).

But even these aggregate figures only tell part of the story. Schools in regions where

COVID-19 was widespread at the time of enrollment decisions were more affected (Mulholland 2020). Using county-level data, Mulholland finds that “a one standard deviation increase in deaths per 100,000 is associated with a 61 percent increase in the probability that a school reports available seats for first-year students, housing, and aid.” Expensive nonelite universities also took a hit. This is borne out by reports from universities in Washington, DC, and the Northeast; for example, on September 14, 2020, *Bloomberg* published an article titled “George Washington Enrollment Drops 17% in Pandemic Setback” (Lorin 2020).

The number of international students studying in the United States fell precipitously because of travel restrictions. According to student-visa records, the number of international students studying in the United States fell 18 percent in 2020. The number of visas issued for newly enrolled international students decreased 72 percent (US Department of State 2020).

Most declines were in the freshman class. In surveys, students reported they were merely postponing college, not forgoing it entirely. According to a survey by Junior Achievement and the PMI Educational Foundation, roughly half (49 percent) of the high school graduating class of 2020 said their plans for after high school changed as a result of the pandemic. Of those whose plans changed, almost a third (32 percent) expected to delay their start date for college (Junior Achievement USA 2020).

But until fall 2021 enrollment figures are released, the results of this postponement won't be known. Many students who plan to take a year off before enrolling in

postsecondary education never enroll at all. Two 2005 studies suggest that “students who delay enrollment are 64 percent less likely than their ‘on-time’ peers to complete a bachelor’s degree and 18 percent less likely to complete any college credential” (Bozick and DeLuca 2005, Cataldi et al. 2005).

There are reasons to believe, however, that the coronavirus gap year is different from other cases of postsecondary postponement. Namely, high school seniors had different motives, amidst the pandemic, than usual for postponing college: concerns about personal safety and online delivery of college courses, and the inability to fully engage in campus life. It is likely that students who deferred enrollment for those reasons will enter college in fall 2021.

## **II. UNIVERSITY FUNDING: THE GOOD, THE BAD, AND THE UGLY**

When universities sent students home in March 2020, they started a cascade of financial losses across multiple revenue streams. As students left campus, athletic and performing arts events were canceled. Students demanded refunds for room and board. Parking decks, bookstores, and food courts sat empty. Summer courses were underenrolled or canceled, and state legislatures duly decreased their enrollment funding. Donors, unsure about universities’ actions and denied their usual perks, withheld donations. Investment revenue cratered.

A little more than a year later, the *Chronicle of Higher Education* estimated that universities suffered a “14-percent aggregate decline in revenues across fiscal years 2020 and 2021” (Friga 2021). When the National Association of Independent Colleges and Universities surveyed its members in December 2020, 93

percent had lost room and board revenue, 90 percent had lost revenue from summer programs, 87 percent had lost revenue in auxiliary services, and 85 percent had lost revenue from tuition and fees (NAICU 2021).

Some public colleges and universities lost state funding because of the pandemic. Often, the loss in funding was directly attributable to enrollment declines since state funding is tied to student credit hours. In other cases, states cut appropriations across the board because of decreases in tax revenue. New census data show that state tax collections declined 5.5 percent in FY 2020 (Walczak 2020). However, actual losses will likely be lower after accounting for delayed tax filing deadlines that will shift income to the current tax year. Some public universities prospered during the pandemic. Across the Carolinas, state funding to universities grew from FY 2019 to FY 2020 (New America 2021).

Private gifts and grants also saw a downturn during the pandemic. A survey of 104 US and Canadian colleges and universities conducted in early 2021 revealed that donations were down at 54 percent of institutions; the median institution experienced a 9.4 percent decrease in the value of new gifts and pledges. More than a quarter of colleges saw fundraising revenues decline by more than 30 percent from 2019 to 2020 (Martin 2021).

The 2020 NACUBO-TIAA Study of Endowments revealed that college endowment income suffered as well, although returns were still positive. In FY 2020, endowment returns averaged 1.8 percent, considerably lower than 2019's 5.3 percent. The historical target rate of return for university endowments is 7.5 percent

(NACUBO 2021).

To offset these losses and provide relief for COVID-19-related spending, Congress included colleges and universities in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was passed on March 27, 2020. Approximately \$14 billion was allocated to the Higher Education Emergency Relief Fund and administered by the Office of Postsecondary Education. A portion of the funding was designated as emergency financial aid grants to students. The remainder was divided between institutions and programs and could be used to offset coronavirus spending (US Department of Education, Office of Postsecondary Education 2020).

Congress provided a second round of funding to universities in the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), which was signed into law on December 27, 2020. The CRRSAA authorized \$81.88 billion in support for education (US Department of Education, Office of Postsecondary Education 2021). At universities where enrollment decreases were not significant, federal relief was more than enough to keep universities in the black. The sixteen-university University of North Carolina (UNC) system, for example, ended FY 2020 with \$12.4 billion in revenues and \$11.7 billion in expenses (UNC System Board of Governors Committee on Budget and Finance 2021) despite heavy losses in auxiliary services and steep increases in some categories of operating expenses.

### **III. HIGHER EDUCATION DELIVERY: THE ZOOM CLASSROOM**

When universities sent their students home in March 2020, they scrambled to deliver

classes online—including labs, recitations, and discussion groups that translated poorly to a virtual environment. Unsurprisingly, students responded poorly to such makeshift virtual learning; they didn't like "Zoom U." A survey conducted as part of the Excellence in Virtual Education (EVE) project revealed that 65 percent of respondents (college and university students) disliked virtual learning environments (EVE Project 2021). Students also discovered for themselves what brick-and-mortar universities have been touting all along: that engagement in university life is easier when students and faculty are together in person. Many students complained that they were having to pay full freight for what they saw as a watered-down experience.

As a result of these complaints, some students who might have chosen a brick-and-mortar school prior to COVID-19 instead opted to attend an online for-profit university. After all, if there are no benefits from going to a traditional campus, why pay for it? And why take classes that were never designed to be online in the first place? Cellini (2020) observes, "The combined effects of a pandemic-induced recession, campus closures, and the deregulation of the for-profit sector under the Trump administration have created a perfect storm for a resurgence of the for-profit sector."

#### **IV. LONG-TERM EFFECTS OF THE CORONAVIRUS PANDEMIC**

As the pandemic wanes, enrollment numbers will likely increase slightly from 2020 and return to their former trajectory: a slow decline. Even before the pandemic, college and university enrollment had been decreasing, mostly because of demographic changes. The large millennial cohort of

students was followed by a much smaller Generation Z cohort. Kearney and Levine (2020) note, "The Great Recession led to a large decline in birth rates, after a period of relative stability. In 2007, the birth rate was 69.1 births per 1,000 women ages 15 to 44; in 2012, the rate was 63.0 births per 1,000 women. That nine percent drop meant roughly 400,000 fewer births." And since 2012, birth rates have not recovered. Colleges and universities will begin to feel the effects by 2025.

For some schools, the combination of the coronavirus and demographic changes will shrink enrollment too much for operations to continue. Twelve school closures or mergers were announced in 2020, roughly twice the usual number, and two more in the first three months of 2021 (Higher Ed Dive 2021). While many of these colleges and universities would have closed regardless, the coronavirus pandemic likely hastened their demise.

It's also likely that some changes will become permanent. Some students will decide they like online education and will continue to take courses online, either at a conventional university or at an all-online for-profit institution. Some schools and faculty members that were not offering many online courses before the pandemic will realize there are benefits to online education and continue to offer at least some courses virtually. And universities will rethink the way they charge students for distance education. Already, the UNC system has moved to create standard definitions of distance education across its sixteen institutions, with an eye to making tuition and fees more predictable for online students (UNC System Board of Governors Committee on Budget and Finance 2021). A

major change may be international-student enrollment, as there are early indications that it will rebound in fall 2021, though no data yet exist.

The coronavirus pandemic may also accelerate the trend of tuition cuts and freezes. The adoption of online courses and changes to campus life during the pandemic focused students' and parents' attention on the value of their tuition expenditures. This heightened attention to value and schools' increasing need to compete for students will put downward pressure on tuition. Some small private schools, such as St. John's College in Maryland and Belmont Abbey College in North Carolina, had already slashed tuition prior to the pandemic. Public universities in North Carolina, Virginia, and Wisconsin have frozen tuition. Purdue University is in its thirteenth year of tuition freezes. This trend will likely continue after the pandemic.

Some sources of university funding are already bouncing back to their pre-pandemic levels. But there are still many unknowns. If the economy remains weak, some states may have to further cut their appropriations and donations, and endowment revenue may remain below historical levels.

Even before COVID-19, higher education was undergoing major changes. The rise of virtual education, increasing consumer choices, and demographic decline combined to force changes at colleges and universities across the country. The shock of the pandemic has only highlighted and accelerated those changes. As the pandemic draws to an end, universities will continue to evolve, contract, or close.

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