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The Countercyclical Relationship Between the Economy and Higher Education

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In the last century, the world has seen a wave of economic change: rapid growth, recessions, stock market highs, the The Great Depression, and everything in between. As the global economy ebbs and flows, all businesses — privately or publicly-owned and government-run — are impacted as a result. However, unlike many of the world's largest companies, data shows that a recession can actually yield positive effects for colleges and universities.

2%
INCREASE

IN ENROLLMENT AT U.S. POSTSECONDARY INSTITUTIONS DUE TO A 1% INCREASE IN THE UNEMPLOYMENT RATE BETWEEN 1968 - 1988

Conventional wisdom holds that enrollment trends, one major success metric for colleges and universities, are countercyclical to the economy. Between 1968 and 1988, a 1% increase in the U.S. unemployment rate led to a 2% increase in enrollment at U.S. postsecondary institutions.*

Effects of a recession or economic downturn on higher education lingers for the surrounding three years. Overall enrollment in these institutions grows during the year leading up to a recession, remains strong during the recession itself, and begins to slow down a year or so after the recession has ended.

During all recessionary periods between 1969 and 2009, the average annual enrollment growth for all postsecondary degree-granting schools corroborated this hypothesis. In the year prior to a recession, annual enrollment was down to 4.3%, and rose to 4.4% during the recession, then to 4.9% the year after. However, data bookending the three-year recession shows a stark contrast.

* 2003 OXFORD ECONOMIC PAPERS

1.3% DECREASE

IN ENROLLMENT GROWTH TWO YEARS AFTER THE RECESSION

Two years prior to the recession, the average annual enrollment growth was at 2.8%, and two years after the recession, enrollment growth dropped to 1.3%. In a healthy economy, the opportunity cost to attend school is too great. This rings especially true for non-traditional students who do not follow the typical pathway of highschool to college.*

However, enrollment isn't the only data point to show the economy's impact on academic institutions. Graduation rates, interest in school, budgets, and education benefits are impacted by an improving or struggling economy.

To fully understand how the economy impacts higher education, we must examine the positive and negative effects of both an improving economy and an economic downturn.

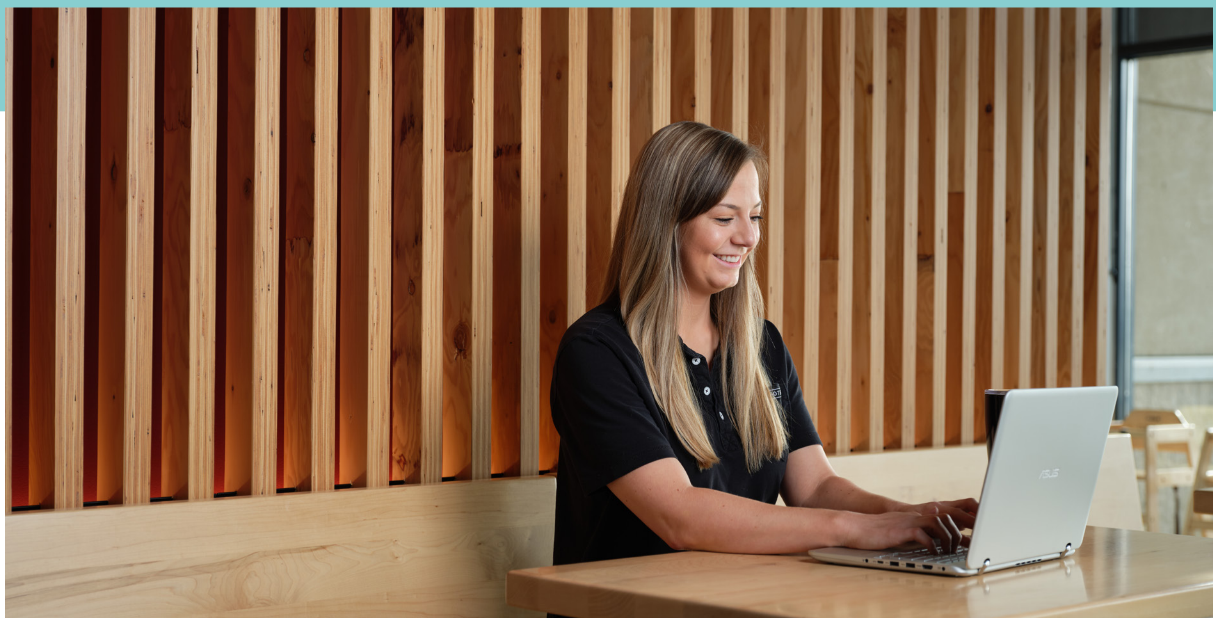
* BMO CAPITAL MARKETS, U.S. DEPARTMENT OF EDUCATION NATIONAL CENTER FOR EDUCATION STATISTICS, AND NATIONAL BUREAU OF ECONOMIC RESEARCH

The positive effects of an improving economy

An improving economy has positive effects for education, similar to the job market and stock market and so on. While data is not entirely conclusive, it appears that an improving economy demonstrates faster completion and graduation rates, when compared to those in a recession. It's possible that fewer students are forced to work — or work as often — while in school, which leads to an increased focus on academics.

For students with loans, a healthy economy leads to lower default rates, which is encouraging for anyone considering going back to school as well as students that already have loans.

It's good news for the job market as well. As expected, in a healthy economy both job placement rates and graduate starting salaries improve. While this is directly beneficial for recent graduates, academic institutions have impressive data points for both attracting new students and retaining current ones.



ALYSSA R. / BRANDMAN UNIVERSITY STUDENT

Upfront tuition payments for employees from their employers, in the form of education benefits, are another component of the larger job market. Employers' ability to offer education benefits is often dependent on budget, profit, and economic stability. Tighter labor markets, a consequence of an improving economy, often result in increases to tuition reimbursement programs, especially those focused on working adults.

The negative effects of an improving economy

Interestingly enough, a stable, well-performing economy can also negatively impact many components of higher education. When markets are improving, the rate of enrollment growth actually decelerates because the opportunity cost of attending school increases.

To break this down in a different way, there is more money to be made in a healthy economy, and therefore many prospective students feel their time would be better spent in the job market. In the same vein, the attrition (dropout) rates increase because students are able to find work and desirable jobs without higher education.

It's worth noting an economy with low unemployment does not just impact students' perception of higher education. In the same tight labor market that benefits any prospective employees, academic institutions may struggle to recruit and retain quality faculty members.

The positive effects of an economic downturn

Here lies one of the paradoxes of higher education: In a worsening economy, where jobs and livelihoods and stock markets suffer, higher education comes out on top.

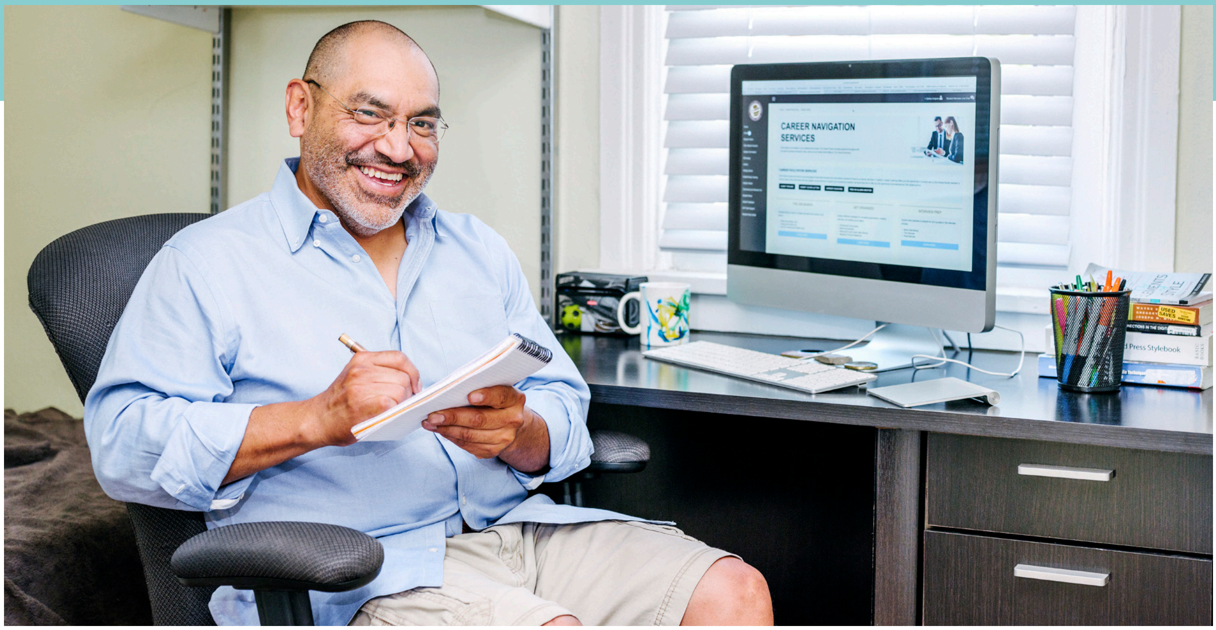
1.5X INCREASE

IN NONTRADITIONAL STUDENT ENROLLMENT DURING A RECESSION

The same opportunity cost addressed earlier in an improving economy, weighing working with attending school, is now in reverse. In a struggling economy, many prospective students that have trouble finding high-paying jobs turn to school. Enrollment rates in the three years surrounding a recession — the year prior, during, and after — increase. Adult students are more likely to turn to school during this time than when the economy is performing well: During a recession, the increase in nontraditional student enrollment — students over the age of 22 — is 1.5 times the increase in traditional student enrollment.*

In an economic downturn, the job market leaves a lot to be desired. Since many available jobs provide inadequate stability, students are now more interested than ever in pursuing an education to cultivate the necessary skills for more stable, long lasting jobs in the future. Lower attrition rates in a worsening economy can be attributed to fewer job alternatives.

* COUNTERCYCLICALITY OF COLLEGE ENROLLMENT TRENDS; MARK KANTROWITZ



CARLOS G. / CSU GLOBAL GRADUATE

The for-profit education sector, defined by its goal to maximize profit for shareholders, is affected by an economic downturn similarly to its non-profit counterparts. However, as a result of its business model, for-profit schools have increased flexibility when it comes to managing the effects of a recession. While higher enrollment rates can pose a challenge for non-profit schools unequipped to deal with sudden student growth, most for-profit institutions have the ability to allocate funds for the addition of more classroom space.

The negative effects of an economic downturn

Similar to the impact on most businesses, an economic downturn can be very taxing on academic institutions. First and foremost, the general population may have restrictive budgets that do not provide the financial means for schooling.

Completion rates decline and slow down in an economic downturn as students are forced to work part-time owing to need and tuition hikes. Academic institutions struggle to attract and retain students because job placement rates decline along with graduate starting salaries — two critical data points from a university's marketing.

As it relates to education benefits, loose labor markets tend to make leading organizations feel as though tuition reimbursement programs are not necessary. For working adults, this often makes higher education unaffordable.

The periods accompanying a recession impact higher education in a myriad of ways — not all good and not all bad. Yet in a prospering or suffering economy, there are a few acyclical components of higher education that remain consistent.

1 Financial aid is a critical part of encouraging many students to invest in higher education, regardless of the market.

For prospective students, the decision to go to college is often determined by its opportunity cost. Investing in education must outweigh what the job market currently has to offer and financial aid will always help to tip the scales in favor of academic pursuit.

2 Continuing education is always a good idea:

There's no better investment return than college: An investment in a college degree delivers an inflation-adjusted annual return of more than 15%, significantly larger than the historical return on stocks (7%) and bonds, gold and real estate (all below 3%).*

For each additional year of completed schooling, an individual's earnings increase, on average, by roughly 11%.**

Simplistically, in an improving economy, employees increase their chance of receiving a promotion or a raise by investing in degrees and credentials. In an economic downturn, the same employees may need additional education to find new roles or even keep their current ones.

The state of the economy matters to higher education. Whether during a recession or stock market high, academic institutions adapt to fund programs, pay faculty, and above all else — find a way for students to enroll, excel, and graduate. While the opportunity cost to go back to school also swings based on the economy, the value of higher education remains nonnegotiable: **It's priceless.**

* RESEARCHERS MICHAEL GREENSTONE AND ADAM LOONEY
** 2006 PAPER BY ECONOMISTS AT THE FEDERAL RESERVE BANK OF CHICAGO