NEW REPORT FROM TREASURY, EDUCATION DEPARTMENTS: THE ECONOMIC CASE FOR HIGHER EDUCATION

"*We can't allow higher education to be a luxury in this country. It's an economic imperative that every family in America has to be able to afford." - President Barack Obama, February 27, 2012*

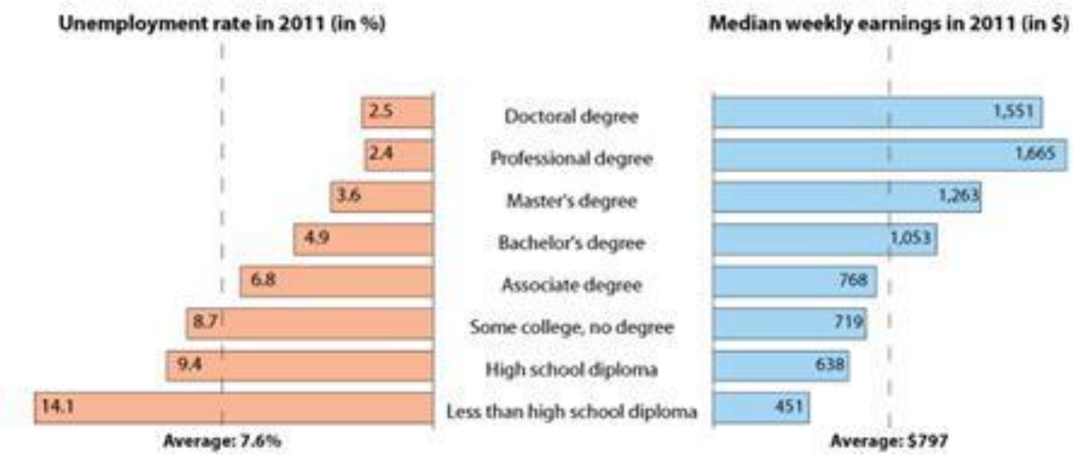
In his State of the Union address, the President called on Congress to keep interest rates low for the 7.4 million borrowers who are expected to take out subsidized Federal student loans next year. If Congress does not act, interest rates on new subsidized loans will double, increasing from 3.4 percent to 6.8 percent on July 1.

This analysis, prepared by the Department of the Treasury, with the Department of Education, examines the economic case for higher education. The data and analysis confirm that higher education is critical for socioeconomic advancement and an important driver of economic mobility. Moreover, a well-educated workforce is vital to our nation's future economic growth and competitiveness. As state budgets have repeatedly come under stress, state support for higher education has declined as a share of funding for public higher education. Hence, students and their families increasingly count on education grants and affordable loans through Federal financial aid. However, the Federal government can't address this issue alone. The President has also called on states and colleges to come together around our shared responsibility for college affordability.

The economic returns to higher education are large and have increased dramatically in recent decades. Higher education provides a pathway for individual economic advancement as well as mobility. Key findings demonstrate that:

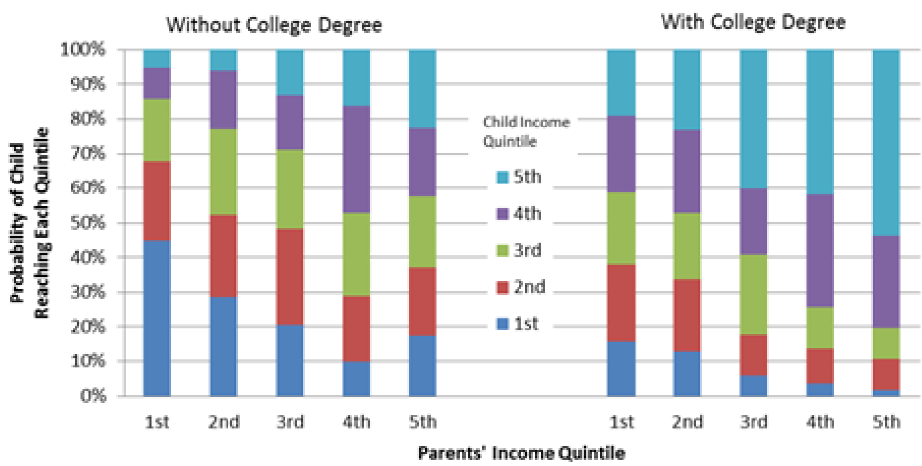
- There is substantial evidence that education raises earnings. The median weekly earnings for a full-time, full-year bachelor's degree holder in 2011 was 64 percent higher than those for a high school graduate ($1,053 compared to $638, as shown in Figure 1).
- The earnings differential grew steadily through the 1980s and 1990s. Recent evidence suggests that today's earnings gap is the highest it has been since 1915, the earliest year for which there are estimates of the college wage gap.
- Higher education is important for intergenerational mobility, as shown in Figure 2. Without a degree, children born to parents in the bottom income quintile have a 45 percent chance of remaining there as adults. With a degree, they have less than a 20 percent chance of staying in the bottom quintile of the income distribution.

Figure 1: Education Pays



Notes: Bureau of Labor Statistics (2012).

Figure 2: Intergenerational Mobility

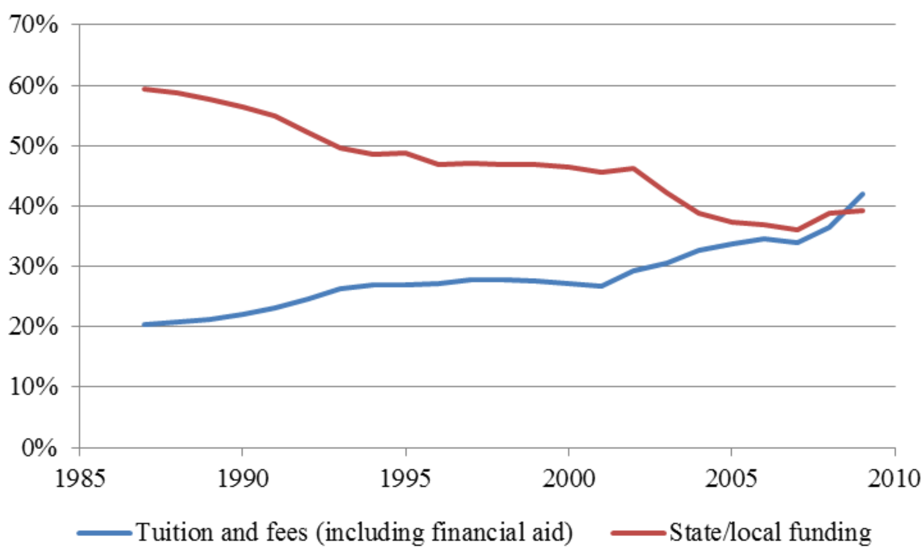


Notes: Brookings analysis of the Panel Study of Income Dynamics (Isaacs, Sawhill, & Haskins, 2011).

State funding support for public higher education, which enrolls the vast majority of students, has declined rapidly as a share of their revenue since the 1980s. Faced with declining support from state governments, public institutions have turned to tuition, which has become an increasingly important source of funding. Recently, President Obama challenged governors across the nation to do their part to help educate our nation's students.

- State and local funding for public four-year institutions of higher education has declined from almost 60 percent of their revenue in the late 1980s to slightly below 40 percent in recent years.
- Public institutions have become more reliant on tuition as a revenue source. Recently, over 40 percent of public institutions' revenue has come from tuition, including Federal financial aid, up from just 20 percent in 1987.
- In the aggregate, the increase in tuition funding is almost identical in size to the decrease in the share of revenue which came directly from state and local governments, as shown in Figure 3. Recently, tuition revenue surpassed state and local government support as the largest source of funding for public four-year institutions for the first time.

Figure 3: Share of Revenue at Public Four-Year Institutions

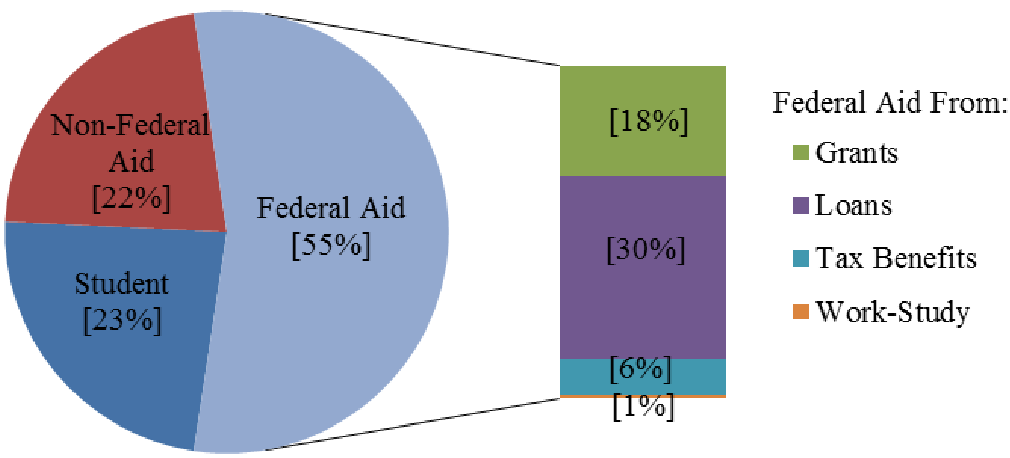


Notes: Based on data from IPEDS and the Delta Cost Project. Total revenue decreased in recent years in part due to falling endowments. As a result, even though government support became less generous during this period, it still increased slightly as a proportion of total revenues.

Additionally, Federal financial aid plays an important role in covering the cost of higher education. Pell Grants help to make college more affordable for students who come from middle-class and working families, while the Stafford program provides loans to enrolled students and their families to ensure that access to higher education is within reach.

- Federal financial aid represents 55 percent of all financial aid to undergraduates at two- and four-year institutions.
- The two largest components of Federal financial aid are Pell Grants and Stafford loans. Economic evidence suggests that increased grants and affordability of student loans both increase college-going.
  - Pell Grants provide eligible undergraduate students with grants for higher education. The Obama Administration has increased the maximum Pell Grant by over $900 and provided support to more than 3 million additional students.
  - Stafford loans are part of the Federal student loan program for undergraduate and graduate students. Forty-four percent of all Stafford loans are subsidized, meaning that students do not pay interest while in school; for unsubsidized loans, the student is responsible for paying interest while still enrolled.

Figure 4: Aggregate Spending On Undergraduate Education (2009-2010)



Notes: From Table 1A of *Trends in Student Aid 2011* (Baum & Payea, 2011).

With middle-class families facing greater financial stress and more students than ever trying to achieve their educational goals, access to higher education should be a national priority, not a luxury. This report demonstrates the economic case for higher education as a source of both economic opportunity and mobility. Where we make our investments demonstrates our priorities. In order to ensure access to higher education, we must all do our part toward our shared responsibility to make these critical investments in today’s students and tomorrow’s workers.