Give Our Kids a Break: How Three-Year Degrees Can Cut the Cost of College

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Introduction

The American higher education system is the finest in the world. Our universities and colleges are unmatched, and we have more highly rated schools than all of our competitors combined.[1] Students from across the globe continue to flock to American universities, while the competition among U.S. students for slots at our elite schools is tougher than ever.

What's more, since end of World War II access to college has grown substantially as more and more young people pursue the dream of earning a college degree. Enrollments at U.S. colleges and universities has more than doubled since the 1980s, and the number of bachelor degrees awarded over the same time has grown by more than 75 percent.

The costs of postsecondary education are now higher in the United States than anywhere else in the world, and they are mounting beyond the reach of average American families.

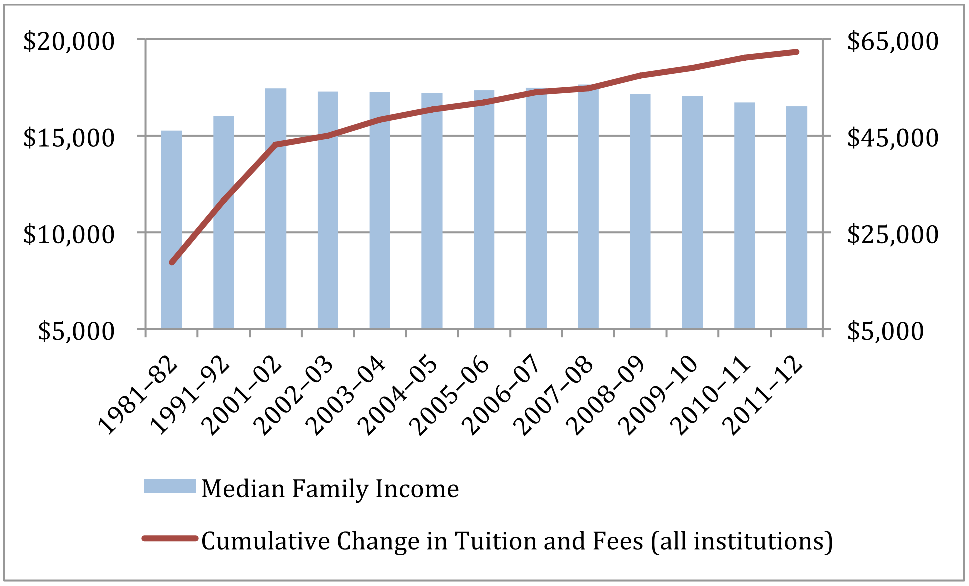
For most graduates, a college degree remains the key to financial success. Even after the economic collapse of 2008 and the ensuing Great Recession, income and wealth for those holding a college degree has outpaced those without. Among those currently aged 25 to 32, median annual earnings for full-time working college-degree holders are $17,500 greater than for those with only high school diplomas. The earnings premium enjoyed by college graduates has risen for each successive generation since the latter half of the 20th century. By way of illustration, in 1979 the gap for that same age cohort was far smaller at $9,690.[2]

But there are cracks in the fiscal foundations of higher education, and they are growing wider. Like a water leak in the ceiling, the problem is getting bigger and the damage is getting more expensive to fix each year we do not act.

The problem is money—specifically the ever-growing pile of cash students need to pay for college and graduate school.

The costs of postsecondary education are now higher in the United States than anywhere else in the world, and they are mounting beyond the reach of average American families. As Table 1 underscores, the cumulative change in tuition and fees at all types of higher education institutions has grown (in constant dollars) by 129 percent since 1981. Median family income, of course, has not kept pace, growing only 11 percent over the same period. In 1981, annual college tuition and fees represented 18 percent of median family income. Today, that same figure is fixed at 37 percent.

TABLE 1: Cumulative Change in Tuition and Median Family Income



Source: U.S. Census.

What may be of even more concern is that there seems to be a growing disconnect between price and quality. If you count room and board, there are now 50 colleges and universities that charge over $60,000 a year to attend.[3] While many of the schools on the list are considered elite, a majority of them do not even make the cut of the top 100 universities, according to a recent study by the Center for World University Rankings.[4]

As a result of exponential increases in tuition and fees, student loan debt has skyrocketed, tripling since 2004 to $1.1 trillion and surpassing both outstanding auto and credit card debt in the United States.[5] This level of debt seriously threatens the long-term viability of the U.S. economy, as fewer college graduates will be able to buy a home (and those that can will most likely delay), save adequately for retirement, or afford to send their own children to college.

As student debt levels rise to record highs, the ability of college graduates to pay off their loans is declining. Recent college graduates experienced a serious decline in average annual real earnings as a result of the Great Recession. From 2007-2012, college graduates, up to age 34 and working full-time, saw a drop in average real earnings of about $3,300.[6]

This triple whammy—out-of-control college costs, record levels of student debt, and declining real earnings for college graduates—has made the higher education financing system unsustainable. At some point, policymakers will have to act, and they have a choice. Either they can intervene now, while the problem is still manageable, or they can wait until later when the inevitable crash comes. When that happens, the combination of student defaults, bank losses, and colleges on the brink of financial collapse will no doubt require another bailout from Washington.

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Amid the partisan dysfunction in Washington, there seems to be little appetite for taking on the crisis in higher education. But even if that were not the case—even if there were better prospects for real reform—none of the leading reform plans are equal to the trifecta of challenges we face: 1) slowing down college cost growth and reducing student debt burdens; 2) increasing college access and improving completion rates; and, 3) ensuring America continues to have the best colleges and universities in the world.

Fortunately, there is a two-part policy response that can address all three of these imperatives: **The Three-Year Degree** and the **Simplified Higher Education Grant**.

The Three-Year Degree

The Three-Year Degree is a policy change that a number of other countries are considering and that a handful of universities and colleges are already offering.[7] The Three-Year Degree would require colleges and universities to make a earning a bachelors degree in three years the norm. Combined with a proposal to simplify and streamline a number of existing grant programs and tax incentives into a single grant (SHEG) worth $3,820, these two reforms would cut the financial burden for enrolled students by as much as 34 percent at private institutions to as high as 57 percent at public/in-state institutions, *with no new federal spending*.

A number of schools offer students the option of graduating within three years in order to save time and money. For a short period around the end of 19th to the beginning of the 20th century, Harvard University sought to reduce the time to degree completion, leading a significant share of its students to finish in three years.[8] Today, the list of schools that offer a three-year option include Bates College, St. Johns University, and Wesleyan College.[9]

In Europe, several countries are moving to three-year bachelors and one-year masters degrees.[10] As part of an effort to harmonize their higher education systems, a number of European Union nations have signed onto the Bologna Process, which among other things proposes to phase out five- and four- year bachelor's degrees and replace them with three-year degrees.[11]

The three-year degree also has its champions in Congress. Senator Lamar Alexander, the former Republican Governor of Tennessee and Secretary of Education under President George H.W. Bush, has offered a proposal to encourage American schools to offer undergraduates a path to a degree in three years.

Nevertheless, despite its ability to cut the cost of college for students without diminishing the revenue base for schools, the three-year degree remains a rarity. Why? Most schools do not advertise the option extensively, and existing requirements are not designed in a way to make it very appealing to the typical student. It's time for that to change—and for several reasons:

- **A 25 percent cut in tuition and fees.** For students, finishing college in three years would provide a 25 percent reduction in tuition and fees. These students would see total savings on average of $8,893 for those attending four-year public schools (in-state) and a $30,094 reduction for those at four-year private institutions.

TABLE 2: Average Published Charges (Tuition and Fees) for Full-Time Undergraduate 2013-2014

School Type	Tuition and Fees	Room and Board	Total Charges
	2013-2014	**2013-2014**	**2013-2014**
Public Two-Year In-State	$3,264	$7,466	$10,730
Public Four-Year In-State	$8,893	$9,498	$18,391
Public Four-Year Out-of-State	$22,203	$9,498	$31,701
Private Nonprofit Four-Year	$30,094	$10,823	$40,917
For-Profit Four-Year	$15,130	—	$15,130

Source: The College Board, Annual Survey of Colleges, October 2013.

- **Lower student loan costs.** Nearly 70 percent of bachelor degree holders have taken out student loans, and the debt burden averages out to $29,400.[12] For 2014, the interest on direct subsidized loans is 4.66 percent. Assuming someone borrows $29,400 at the 4.66 rate over 120 months, the interest owed would amount to $7,505. That's a hefty sum. But consider what happens under the three-year degree model: even assuming the same interest rate, the total interest owed for that same student should drop to about $5,629, a savings of $1,876.
- **Increased access to and maintenance of revenue levels for higher performing schools.** Some reform proposals would cut or eliminate student aid and loans, or put a hard cap on college costs. These proposals might restrain costs but would also cut school revenues, leading many to reduce aid

to needy students, and others to close their doors altogether. The end result: less access to college.

- **Speeding the transition.** To make college more affordable to low- and middle-income families, the federal government should work to make the three-year degree the norm, rather than just an option. Washington could speed the transition by tying federal student aid to those who attend schools that adopt the three-year degree.

But wouldn't shaving a year off college also mean giving colleges a financial haircut? Not necessarily. Colleges could increase the number of students in each incoming class by 33 percent given that annual class capacity would be greater with the elimination of the 4th year (see Table 3). While suffering transition costs over the initial three years, many schools, particularly the most attractive ones in the top two-thirds of college rankings, would eventually be made whole under the Three-Year Degree.

The best private and public institutions could accept 33 percent more freshman each year.

For example, assume there is a top 25 liberal arts college in Pennsylvania with a total of 2,100 undergraduate students. The total number of students is divided equally among the four years (525 per year). If the college were to shift to three-year bachelors, it could now increase its annual class size to 700 students, thus maintaining its total student population for any given year at 2100 students.

TABLE 3: Sample Class Size Before and After Implementation of Three-Year Degree at College Assuming 2100 Undergraduates

	Year 1	Year 2	Year 3	Year 4	Total Student Population
Student Breakdown Four-Year Bachelors	525	525	525	525	2100
Student Breakdown Three-Year Bachelors	700	700	700	0	2100

Source: Author calculations.

One positive effect of this proposal is that, assuming schools do in fact increase their class size given their excess capacity, more slots would open up at higher performing colleges and universities. The best private and public institutions could accept 33 percent more freshman each year.

On the other hand, less prestigious schools might lose good students, and overall, could see their enrollments decline, assuming that the number of students applying stays the same. However, one economic effect of creating more slots across all institutions of higher learning is that demand may increase among high school graduates seeking to go to college. This could create a spike in applications that could alleviate the strain on mid-tier institutions.

There are some other potential downsides to a Three-Year Degree system. Some have argued in the past that three years isn't long enough for some students to mature and fully reach their potential in college.[13] Others have qualms that the compressed sojourn in college will force cuts in certain types of courses and lessen the quality of degrees. It seems improbable, however, that young Americans can't thrive if they don't spend four full years in undergraduate study. Furthermore, fierce labor market competition has impelled more college graduates to seek post-graduate education in masters, doctoral, and certificate programs In 2012, 1.7 million students enrolled in a graduate program, and since 2002, the number of students going on to seek masters, doctorates, and certificates has grown annually at 4.5 percent.[14] By comparison, four-year colleges graduated 1.8 million students in 2012. Given that trend, it makes sense to acknowledge that college is increasingly a stepping stone to post-graduate study or more specialized training, not the end of the educational road for young Americans.

How schools move to the three-year model would be left up to them and their regional and state accreditors. Some schools could require students to attend two summer semesters. Others could shift to a trimester system that begins in August and ends in June. Another approach would be to have courses meet more regularly and adjust the credit hours.

To ensure that schools don't simply raise tuition prices to four year levels while providing just three years of college, participating colleges and universities would have to agree to not raise tuition and fees (including school housing) beyond what they charge for three years at today's prices (both sticker and median). In addition, annual tuition increases would be limited by some agreed upon formula that tracks just slightly above the rate of inflation. To ensure fairness, future increases could be determined by a review commission made up of federal, state, and local officials, university and college presidents, as well as student representatives.

While increasing capacity eventually will help make the schools whole, future price limits will force many to rethink their budgets and spending practices. The biggest cost drivers for schools are salaries/compensation and upkeep for physical plant. Ben Ginsberg of Johns Hopkins University noted in his book "The Fall of Faculty" that the explosion of costs in many cases tracks back to the dramatic expansion in administrative and professional staff at many schools. According to Ginsberg, the growth in the ranks of administrators (85 percent) and associated professional staff (240 percent) has far outstripped the increase in faculty (51 percent) between 1975 and 2005.[15]

Simplified Higher Education Grant

The federal government could also help reduce school costs by looking at how to streamline regulations and paperwork. Since the 1960s, schools at all levels have been enmeshed in bureaucratic mandates and rules. One of the biggest culprits is federal support for higher education.

Federal student aid is a mishmash of programs spread across 10 different tax incentives (not including breaks for popular 529 plans), grant programs, and loans. This welter of subsidies costs a lot of money—around $83 billion a year to administer. The biggest is the student loan program, which under federal accounting rules is actually considered a revenue producer for the federal government. Consolidating all the higher education tax breaks, Pell Grants, and Work Study funding (the student loan program would remain as is) into a single grant for 85 percent of those who earn admission to an accredited college or university (the amount of students receiving federal financial aid currently), would accomplish two progressive goals. First, it would vastly simplify the business of applying for and using student aid and make public subsidies more transparent. Second, merging all these funding streams would enable Washington to provide every eligible student (currently 18 million) with federal aid worth $3,820 annually.

TABLE 4: Federal Support of Higher Education (FY 2013)

Type of Program	Cost
Federal Education Tax Benefits[16]	31.8 billion
Pell Grants[17]	35.2 billion
Work Study	1 billion
Supplemental Education Opportunity Grants	.7 billion
TEACH Grants	.03 billion
Aid for Institutional Development	.6 billion
Aid for Hispanic Institutions	.2 billion
IEFLS	.074 billion
TRIO	.8 billion
GEAR UP	.3 billion
Institute of Education Sciences	.5 billion
Veterans and Military Educational Benefits	12 billion
TOTAL	**83.2 billion**

Source: Congressional Budget Office and President's 2014 Budget Request.

How Three-Year Degree & SHEG Compare to Current System

The Three-Year Degree and SHEG will not only save students money, but will increase access to America's leading colleges and universities.

Putting it another way, a student going to a public school would now pay $26,679 for a bachelors versus $35,572 under the current system. Combined with a SHEG of $3,820, those students would only have to cover out of their own pockets $15,219 in tuition and fees for all three years.

While the total value of the SHEG at $3,820 is of course lower than the current maximum Pell Grant of $5,730, it is greater than the average Pell Grant, which is currently estimated at $3,651.[18] It is important to note that only a small portion of the 9 million Pell Grantees receive the maximum Pell Grant, even if they qualify.

Furthermore, if you add the SHEG and the savings from the Three-Year Degree, *the combined value would be worth nearly $8,000 per student, considerably more than the maximum Pell Grant of $5,730*. Table 5 shows how students at both four-year public and private institutions would fair under the new system.

TABLE 5: Reduction in Student Expenditure with Three-Year Degree/Simplified Higher Education Grant

School Type	Total Tuition and Fees Current System[19]	Total Tuition and Fees Three-Year Degree	Simplified Higher Education Grant[20]	3-year Cost to Student[21]
Public Four-Year In-State	$35,572	$26,679	$11,460	$15,219
Public Four-Year Out-of-State	$88,812	$66,609	$11,460	$55,149
Private Non-profit Four-Year	$120,376	$90,282	$11,460	$78,822

Source: Author calculations. Includes data from the College Board, Annual Survey of Colleges, October 2013.

Conclusion

For generations of Americans earning a college degree was considered the surest way to achieve the American Dream. But the rising cost of college and the tremendous debt burden it will place on our children is now threatening to derail that track to prosperity. While many policymakers have focused on ways to augment financial aid, the question of how to cut the actual cost of getting a degree has been largely ignored. We can no longer afford to discount that crucial second question. Fortunately, the Three-Year Degree and SHEG will not only save students money, but will increase access to America's leading colleges and universities.

Endnotes

1 Within top 100 according to Center for World University Rankings 2014.

2 Danielle Kurtzleben, "Study: Income Gap Between Young College and High School Grads Widens", *US News and World Report*, February 11, 2014.

3 Peter Jacobs, "There are now 50 Colleges That Charge More Than $60,000 Per Year", *Business Insider*, July 10, 2014.

4 Center for World University Rankings 2014, http://cwur.org/2014/.

5 Maia Woluchem and Taz George, "Is Student Debt Hindering Homeownership?" Urban Institute, July 17, 2014.

6 Diana G. Carew, "Jobs and Wages for Young Americans: Is Recovery Coming," Progressive Policy Institute, January 2014.

[7] Marcella Bombardieri, "Wesleyan bucks trend, lets students graduate in 3 years," *Boston Globe,* April 6, 2014.

[8] Daniel Hurley, Thomas Harnisch "The Three-Year Bachelor's Degree: Reform Measure or Red Herring?" American Association of State Colleges and Universities, September 2012.

[9] Marcella Bombardieri, "Wesleyan bucks trend, lets students graduate in 3 years," *Boston Globe*, April 6, 2014.

[10] William Baldwin, "Paying for College: Lower Cost Degrees in Europe," *Forbes*, February 28, 2013, http://www.forbes.com/sites/baldwin/2013/02/28/lower-cost-college-degrees-in-europe/.

[11] Aisha Labi, "In Europe Skeptics of New 3-Year Degrees Abound," *Chronicle of Higher Education*, June 11, 2009, http://chronicle.com/article/In-Europe-Skeptics-of-New-/44467/.

[12] Mark Schneider, "Are Graduates from Public Universities Gainfully Employed? Analyzing Student Loan Debt and Gainful Employment," American Enterprise Institute, May 2014.

[13] Lamar Alexander, "Why College Shouldn't Take Four Years," *Newsweek*, March 13, 2010.

[14] Leila M. Gonzales, Jeffrey R. Allum, Robert S. Sowell, "Graduate Enrollment and Degree: 2002 to 2012," Council of Graduate Schools & Graduate Record Examinations Board, 2013.

[15] Ben Ginsberg, The Fall of the Faculty, Oxford University Press, 2011.

[16] Includes the following tax incentives/expenditures:

- Exclusion of scholarship and fellowship income (normal tax method)
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- American Opportunity Tax Credit/Lifetime Learning
- Deductibility of student-loan interest
- Deduction for higher education expenses
- Exclusion of employer-provided educational assistance
- Parental exemption for students aged 19 through 23
- Exclusion of Earnings of Qualified Tuition Programs (529 Plans)
- Exclusion of Interest on Coverdell's
- Exclusion Discharged Student Fees

[17] May 2013 Baseline Pell Grant program, Congressional Budget Office.

[18] "Federal Education Budget Project – Background and Analysis," New America Foundation, 2014.

[19] Assumes 4 years of tuition and fees.

[20] 3-year value of grant. Annually the grant is worth $3952 in current dollars.

[21] Does not include living expenses. Cost to student based assuming Three-Year Degree model and Simplified Higher Education Grant.

About the Author

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