

State Investment in Higher Education: Effects on Human Capital Formation and Long Term Outcomes

- The US higher education sector is dominated by public institutions that rely heavily on state funding.
- State support has been declining over time:
 - ▶ 39% of total expenditures in 1990, 33% in 2000, 26% in 2005, and 18% in 2016.
- Reductions in state appropriations can reduce return to postsecondary investments and increase stratification in the higher education sector.

State Appropriations Per Student Have Declined



What We Do

- We present the first evidence in the literature on the effect of state appropriations on long-run student outcomes.
- We use a novel dataset constructed from a new data merger of education and credit records:
 - ▶ New York Fed Consumer Credit Panel (CCP): Credit histories from 5% of US population and household members sourced from Equifax.
 - ▶ Enrollment records from the National Student Clearinghouse (NSC).
- We use a shift-share instrument to overcome the endogeneity of state appropriations.
 - ▶ State-wide changes in appropriations have a larger effect on institutions that historically rely more on state funding.
 - ▶ Examine shocks that occur while students are enrolled in college.
 - ▶ Separately examine 2-year and 4-year sectors based on sector of first enrollment.
- Focus on outcomes for ages 25-30 and 30-35.

Findings and Conclusions

We study the effect of changes in state appropriations on students short term educational and long term financial outcomes.

An increase in state appropriations leads to:

2-Year	4-Year
<ul style="list-style-type: none">· Higher likelihood of BA and post-baccalaureate degrees· Higher student debt originations (due to increased educational attainment)· Lower likelihood of student loan delinquency and default· Higher likelihood of owning a car and home· Lower likelihood of mortgage and auto loan delinquency· Increases in credit score· Improvement of the quality of the neighborhood· Mechanism: tuition declines and educational expenditures increase	<ul style="list-style-type: none">· Lower student Debt originations· Shortening the time to Degree· Little effect on other outcomes (inc Bachelors degree) · Mechanism: tuition declines

Declines in state appropriations can lead to a widening of educational and economic inequality