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Empowering families to invest in higher education

Inversant Podcast Series: College (Un)affordability, Student Debt, and Solutions

Podcast Episode 2: Why college tuition is rising and how can we curb it?

Speakers:

- Robert Kelchen, Assistant Professor of Higher Education Department of Education Leadership Management and Policy- Seton Hall University
- Bob Hildreth, Founder & Chair of Board- Inversant
- Jon Tapper, Co-Founder- Melwood Global

Transcript:

CHARLIE: Welcome to Inversant's podcast series, where Bob Hildreth, Inversant's founder, economist, and philanthropist talks with experts on a variety of topics surrounding college affordability. This podcast is sponsored by Inversant, a nonprofit organization based in Boston dedicated to ensuring that every family has the resources and understanding they need to achieve in their quest for higher education.

-musical intro-

JT: Hi and thank you for listening. My name is John Tapper from Melwood Global. Today, Bob Hildreth, the founder of Inversant, is joined by Professor Robert Kelchen, who is an expert in college finance. Robert is an Assistant Professor at Seton Hall University, and has obtained a strong name in college finance, not only because of the many papers he has published in scholarly journals, but because of his many media appearances. In fact, he was recently selected as one of the fifteen most indispensable academics on Twitter by the Chronicle of Higher Education.

Professor, I want to start with you if I can. What would you say are the main reasons behind the steady increase in college tuition? Do the reasons vary according to the types of institution, whether they're public or private, profit or nonprofit, community college or junior college?

RK: It's a range of factors that are behind the increase in tuition. Well, one factor that's looked at a lot is state funding for higher education, where state funding has kept up with inflation but hasn't kept up with enrollment growth. But if that was the main factor, you would see private college tuition holding steady, and it's obviously not. So public

funding is a contributing factor. One factor that gets talked about a lot is federal financial aid availability. This goes back to the late 1980s under Reagan Secretary of Education Bill Bennett, who actually advised the Trump campaign for a while. And what he talked about was since the federal government provides both loans and grants, when they make more money available, tuition goes up. There's some evidence to support this, particularly at more selective and expensive colleges, but again this doesn't appear to be *the* driving factor either. Some of it's due to benefits for faculty and staff members; salaries, not quite as much, salaries are generally keeping up with inflation but that's about it, and then some of it's also changing wants and needs of students, where you didn't have things like student services, recreation centers or fancy dorms 40 years ago, but because what students want, and in some cases what the new generation of students need, like additional academic advising, that also drives up the price tag. It's hard to pin on one factor, and it's really just a perfect storm of factors all coming together.

JT: Great, thanks Professor. What about you, Bob? What one factor or several factors do you think you can ascribe this to?

BOB: Thanks. The first thing I want to do is to thank Robert for being here. I got involved with the problems of increasing tuition because we were trying to raise savings from low-income families, and the more money we raised, the more we realized we were chasing our tails because tuition kept going up too. And you have a more macro approach, in that you actually look at this, and the factors that are involved across the country, and so I think it's a good combining of viewpoints. Certainly I agree and have heard of the points that the professor just made, and all of them are valid. I'm an economist, I think you are an economist as well, Professor, and I see basic capitalism and subsidies as a driver of behavior. And when I say the subsidy, I mean how much money does the federal government transfer over to colleges in financial aid, and you start affecting the behavior of all of the prime actors. So you can imagine a state representative would say 'Hey, I can get away with murder here. If I don't support my state colleges, the federal government will, through increasing their transfer of federal loan dollars.' Equally, the board and the president of a college, when they get together

every year, will say 'Well, should we increase tuition?' and the answer they come up with is probably affected by the fact that 50% of that increase could well be met by increases in federal government loans, as the students react to the increase by borrowing more.

JT: Professor, what do you think about this? Does the easy availability of student loans create these perverse incentives?

RK: I think it helps to contribute, but the challenge in trying to identify the effect here is first of all, the amount of money that undergraduates can borrow hasn't changed since 2007, 2008, and even then it only went up fairly modestly. The big change is really with income-based repayment for student loans, where all of a sudden, if you're making low to moderate incomes, you may not have to pay back all of your loans. And that removes some of the incentives for both students to mind how much they're borrowing, as well as for colleges to watch their tuition.

JT: So given all the factors that both of you just talked about, what are the best proposals or what is the best solution to make college more affordable for students today?

RK: I think that technology has to be an aspect of this, and some of it is, online classes can help for certain people, but to this point, there's not a lot of convincing evidence that online education is really that much less expensive. There are a few programs that are starting to show that, but the startup costs to going online are large. What technology can also do is it can help streamline academic advising, facilities usage, so we can try to get the most out of every person that we have. Ultimately, the difficult thing given that we like having more one-on-one interaction in education than other fields, therefore we cannot get as efficient as, say, fields like stockbroking, where all of a sudden you're not talking to a person in most cases, machines are doing everything. And they can use their highly skilled labor more efficiently than we can in the education world.

JT: So Bob, what do you think about that? Making college more efficient, can we curb tuition increases that way?

BOB: Absolutely. And I think first off, that colleges are using technology rather begrudgingly. We can look, I guess, first, at what happened to MOOCs (Massive Open Online Courses)to show you the obstacle of getting efficiencies through that. Colleges were very quick in responding, and they said, 'Hey, we don't want to lose tuition dollars to somebody else's famous professor, we have famous professors! So we will first deny any student the ability to gain credit for somebody else's university's famous professor through technology, and every not-for-profit that I speak to tells me that there's no way to— it's not much cheaper using technology. I find that a little bit hard to believe, because the for-profits apparently *are* gaining some economies. But the problem is, you see the limits—look at the graduation rates of the for-profits. Everybody is right to say that when you're dealing with low-income students, for-profit are, excuse me for saying it, are probably ripping them off. So I think part of it is that a lot of low-income, ill-educated students find absolutely no traction with the technology mode.

RK: So it's worth noting that for-profits are serving a lot of adult students who may not have grown up with technology in the same way, and that in-person education may very well be better for them. But in-person education also is not a possibility, they can't take a class an hour away at nine o'clock at night, for example.

BOB: Right.

RK: So the question is, is online education better than nothing, for certain students?

BOB: Do you know if for-profit institutions are finding some economies, or is it that they're finding some economies at courses that are presented at such a low bar that they get away with it?

RK: I think there's evidence of some economies are scalable from some of the big for-profits, but as well as some of the non-profits, like Arizona State Online, Western Governors, Southern New Hampshire, that have thousands of students online, and then there's expensive infrastructure to pay off just because of economies of scale. But the

challenge is that so many colleges are trying to get into the online education game and that it seems like you have to have thousands of students for it to really be a worthwhile endeavor. But there just aren't as many online students to go around at this point for every college to satisfy these goals.

The other option is you use it just, really, to generate revenue, not caring as much about cost, you have, say, hybrid programs, where maybe it's 2/3rds online and 1/3rd in person. Your per-student cost may not go down, but if you're charging enough money, it can make sense for you.

JT: Is there any way to decrease tuition right now, and if not, does this mean young adults will continue to shoulder a considerable burden of debt?

RK: There's more pressure to try to freeze tuition, and you're seeing public colleges in more states like Indiana and Wisconsin working to hold the line on tuition increases for multiple years. But lowering tuition is a more difficult thing to do, because things like facilities cost and healthcare cost keep going up. Now for private colleges, you're seeing a small number of colleges lower their sticker price of tuition. They're not necessarily lowering the net price that students pay after grants, but they look more affordable this way. Now for the typical undergraduate student, I'm not as concerned about them taking out $20-30,000 in debt, particularly because at the undergraduate level, that much debt can be put into an income-based system where if they don't do well, the student doesn't bear the risk, the taxpayer will end up bearing some of the risk, but it's much less than for a grad student who borrows $100-150,000 in grad PLUS loans.

BOB: Robert, you're spot on; the fact that the fellow with the $35,000 average loan in America *is* paying it back, certainly it's easier now with the income-based. Most of the defaults and delinquencies are occurring at the 1,000 - 5,000 dollar level among low-income students who often don't complete college and default on very small sums of money. So that actually offers some promise in going into the system and tinkering with the system. Student loans should be replaced, at the lower income level, with grants, that would take care of a lot of the default program, but in general I think it goes right

back to higher tuitions. Now we have tuitions at $67,000, $68,000, among those top 50 colleges, we could see them at sticker prices of $100,000?

RK: I think it's definitely possible, and they could raise their sticker prices to $200,000 and they'd still have enough seats or enough people filling the seats.

BOB: Absolutely

JT: And is it just a supply and demand problem like you said, if there are people willing to pay at $200,000, or is the incentive not to contain costs?

RK: Or what some colleges even do is they will raise tuition higher for others and then subsidize low income students. That's known as a high tuition/high aid model. The challenge then is getting low-income students to be aware that if you apply and get in, you can probably go for free.

JT: When Trump won on November 8th, the idea of debt-free universities pretty much took a backseat for let's assume at least four years, but Professor I'll start with you, if you want to be realistic, which proposals do you think are most likely to be picked up by a Trump administration?

RK: It's a little hard to tell compared to a normal Republican because Trump has said some things that may not toe the typical conservative party line, but typically I think we'd be looking at more market-based kinds of strategies. He's talked about trying to tax wealthy colleges' endowments, which kind of gets at the populist base of his campaign, that's probably unlikely given how few colleges out there that that would actually hit, and how strong they are at lobbying. It's something about having colleges bear some of the risk of student loans, I think is a fairly likely thing to see. The idea's gotten bipartisan support, we're starting to see some more ideas about how to structure a risk-sharing system, including a bunch of new papers that just came out through the Center for American Progress.

JT: What do you think about that, Bob?

BOB: Well I think that most of the market-driven ideas will be bad for diversity. We have to remember that the degree of diversity we have in our colleges today is an artificially government-induced level, through financial aid and student loans, income-based

repayment systems, I don't know if diversity will continue to go up with market-based solutions.

RK: I'm not entirely sure about that at this point, it seems like the Trump educational focus right now is so much on K-12 education,

BOB: Yes.

RK: That they may be willing to listen to some less conventional ideas, and again the details matter so much and we just don't have them. For example, the Trump plan on income-based repayment for student loans. Pay back 12.5% of your income for fifteen years. That could be a much more generous plan than what we have now, or it could be a much less generous plan depending on some of the details like is there still a Public Service Loan Forgiveness Plan? Does it take out income above the poverty line? Will anything left at the end be taxable? Those are things that we just don't know yet, and it's hard to tell what a Trump policy might end up looking like.

BOB: And I would only add to it that we really don't know what the life cycle of the income-based program itself is going to look like.

RK: Yeah, and it's something that if it was addressed five years ago, according to federal accounting it would not have cost that much because they only operate on a ten-year budget window, even though we know that we'll see these costs in twenty years, they aren't reflected in official budget estimates. But now we're getting closer to more loans being forgiven, and now the price tag for fixing that is getting larger, and my expectation is they—one year at a time, have basically waivers that would forgive year-by-year, which is both a terrible way of making policy and the way the federal government usually does things.

BOB: [laughter] That's right. I just wanted to ask your opinion, you know here in Massachusetts, Senator [Elizabeth] Warren is always saying that the federal government is ripping off students by making a ton of profits off of them. Forgive me, but I'm an old banker, and I've been through many a debt refinance in Latin America, and the only way banks like Citibank got through them is the government insisted you put reserves

against all your bad debt. Should the federal government be putting reserves against the student loans—bad debt?

RK: I think that's an interesting idea, something I've never thought about before, but I'm very skeptical of claims that the federal government is making profits off student loans, just because the life cycle of these loans is so long, and because they're very sensitive to changes in income, changes in interest rates, and changes in the economy. Not to mention which accounting standard you want to use, and if you want to get a bunch of DC policy people stuck for hours, you can get into fair value versus FDRA accounting, but we don't have time for that today thankfully.

BOB: [laughter]

JT: Thank you, Professor. And just to wrap up with a final question, in your opinion, what is the most pressing higher education issue that needs to be addressed today?

RK: I think the most pressing issue that we have to address soon is looking at income-based repayment for student loans. My biggest concern is that because graduate students are more adept at using the income-based system and they can take out so much more in federal loans, that eventually the price tag for income-based repayment will get too large, and legislators will shut down the entire system, even though it has the potential to really benefit undergraduates with a small amount of debt. The report that came out of the GAO [Government Accountability Office] that showed something like $108 billion estimated higher loan forgiveness. That's something that got politicians' attention, and the Department of Education and policymakers need to think about how to preserve some of the protections for the immediate students, while potentially cutting back on the largest subsidies to higher income graduate students.

JT: Great. Bob, what do you think about that?

BOB: I agree, I think the biggest crisis going forward is going to be in the federal deficit. And if the deficit hounds were to win, one easy and very typical government approach is to just put a bar, and lop off anything above that bar. And I think that if they were to do that, that then financial aid would be hurt, and a lot of colleges, the ones that are

financially at the bottom, would be hurting for certain if the government changed the rules in the coming eight years, and so I think that's the biggest issue.

JT: Well Professor, thank you so much for joining us here today, we truly appreciate it, and I just wanted to ask if you had any final thoughts on this subject, particularly on college financing and affordability.

RK: Congress has put together some interesting proposals to simplify financial aid, that really could move forward in a Higher Ed Act reauthorization, it would be nice to see Congress taking the lead through legislation instead of the Department making the first move.

JT: Great, well Professor thank you so much for joining us, I really appreciate it.

JT: Today we were joined by Professor Robert Kelchen, who is an expert on college finance. Robert is an Assistant Professor at Seton Hall University. Please stay tuned for more Inversant podcasts.