

HANDOUT 4

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Higher Education's Faulty Economics: How We Got Here

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As the presidential primary season goes into full swing, candidates in both parties are championing a number of ideas designed to address the higher education affordability crisis. The proposals run the gamut—from federal measures to impose greater accountability on universities, to income-based repayment of student loans, to community college for free, and to four-year college for free.

But while the proposals differ, their differences are less important than what they share. What they all have in common is a fundamental misunderstanding of what's driving the crisis that all sides seek to solve.

They fail to understand that the factors composing the dilemma we face—tuition hyperinflation, burdensome student-loan debt, and poor student learning—are to some extent branches of the same tree, whose roots are found in the well-intentioned but what has proved to be catastrophically naïve assumption that virtually all high school graduates should go to college. Charles Murray has written eloquently on this topic in his book, *Real Education*, which I reviewed [here](#).

We can see the destructive effects of the college-for-all agenda when we look more closely at each of the elements of our higher-education crisis mentioned above—affordability, debt, and poor student learning.

When it comes to the increasing unaffordability of higher education (average tuitions have risen 440 percent in the past quarter century, far outpacing contemporaneous increases in general inflation), there is a growing consensus that the policies of the federal government itself have caused a good deal of the unprecedented spike. How? A recent study by the Federal Reserve Bank has confirmed what former U.S. Secretary of Education saw nearly thirty years ago, when he observed that increases in government subsidies to college students allow colleges and universities “blithely” to hike tuitions. The Federal Reserve Bank has found that every new dollar of Pell Grants or subsidized student loans results in universities raising tuitions between 55 and 65 cents.

What led the federal government to adopt and then repeatedly expand taxpayer subsidies for student loans? Without them, the country could not hope to reach its new goal of ensuring that all who want to go to college could afford to do so. This began as the more reasonable and defensible goal of subsidizing able students who were poor. But the subsequent iterations of the loan-subsidy program have expanded it to include a good number of students from families who are not poor. In time, the flawed premise animating these programs metastasized to such an extent that the results have been no less than scandalous. A recent report on the practices of Georgetown University makes this point. The elite law school counsels its students on how to manipulate the Income-Based Repayment Plan to shift large portions of their student-loan debt onto the backs of taxpayers.

Bearing this in mind, the crisis of crushing student-loan debt comes better into focus as both a cause and an effect of tuition hyperinflation. It exists as an effect because would-be college students and their parents, struggling to keep pace with rising tuitions, have been forced to borrow at historic proportions. Today, for the first time in our history, total student-loan debt, which stands at \$1.2 trillion, exceeds total national credit-card debt, and this in a country fairly addicted to credit cards. It exists as a cause for the reasons stated earlier: When more money is in the hands of consumers, they will buy more; when they buy more, sellers will raise prices. Yet this simple fact of economics appears lost on those who have criticized Bennett's hypothesis for nearly three decades—and appears still lost on those whose “solution” to the debt crisis is to quench the fire by dousing it with ever-greater quantities of inflammable student-loan subsidies, paid for by federal taxpayers.

In short, when the national goal became college for virtually everybody, it sent millions more flocking to college campuses than had previously been the case. This increased demand, enabled by federal subsidies, could not help but to produce the sharp increases in tuitions—and with them, a concomitant increase in debt—that students and their parents have suffered under since.

But the drive to make college accessible for virtually all high school graduates has had an even more profound, and more destructive, consequence than the financial quagmire described above. The most tragic effect has been the decline in student learning. Sending millions more students to college has proved to cost more than mere money. As Murray accurately notes, a genuine liberal arts and sciences core curriculum—a staple of higher education institutions up until roughly fifty years ago—is too difficult for more than about 20 percent of high school graduates. What, then, to do when the goal became sending far more than this percentage to college? Inevitably, this could not be accomplished without

lowering standards. Today, most universities have abandoned a required core curriculum, replacing it with “cafeteria-style” education—a little of this, a little of that, but nothing by way of a unified vision of the good life at which liberal education had aimed in the past.

The heartbreaking results of this lowering of standards have been documented in Arum and Roksa’s *Academically Adrift*, which should have stirred higher education more than it did when it revealed that 36 percent of college students nationwide show little or no increase in fundamental academic skills—critical thinking, complex reasoning, and clear writing—after four years invested in college.

Other national, longitudinal studies confirm the dramatic decline in university standards. For example, in the early ‘60s, college students studied an average of 24 hours a week alone. Today, that number has slipped to 14. Equally alarming, these less-diligent students receive historically high grades. Fifty years ago, “A” grades went to 15 percent of college students nationwide. Today, an A is the most common grade given in college (43 percent). Moreover, 73 percent of all grades awarded today are either A’s or B’s. Given these lax standards at universities, it is unsurprising that Arum and Roksa found what they did.

But even this massive, decades-long, watering-down of college curricula and grading standards has not succeeded in fulfilling the unfulfillable vision of college for all. Consider these facts: Roughly half of all who enroll in college never graduate. Of the half who do, we know from *Academically Adrift* that 36 percent fail to demonstrate any substantive increase in learning. This means that, of all the students who enroll in college, only 32 percent succeed in acquiring both a degree and the knowledge that a degree is meant to signify.

As bad as these statistics are, they barely communicate the true human toll exacted by our utopian project. Today, those without college degrees feel like

second-class citizens. With this has come a denigration of the mechanical and other talents needed to succeed at skilled trades, which, on average, can pay well.

Worse, those students who, contrary to their interests and aptitude, feel compelled by public pressure to attend college, only then to drop out, suffer a double-blow. They are left not only demoralized by their “failure,” but also often find themselves burdened with student-loan debt, which is all the more difficult for them to repay because they do not have a degree.

Higher-education reformers look at this bleak picture and wonder why all the ostensible solutions to the higher-education crisis serve only to double-down on the misguided premise that produced the crisis in the first place. Until and unless we jettison our utopian expectations, increasing numbers of students will continue to pay more and more and learn less and less.

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Higher Education Reform Is Reliant on Government Bodies

Thomas Lindsay | Director of the Center for Higher Education, Texas Public Policy Foundation

As the presidential nomination races for both the Democratic and Republican parties get underway, public higher education has once again emerged as a topic of interest and debate. The role of elected officials in the oversight of higher education is regularly evolving and changing, but today but state and federal government bodies have a great deal of sway in the management of postsecondary institutions. In this interview, Thomas Lindsay discusses the role of federal and state governments in postsecondary reform and shares his thoughts on the need for change at public higher education institutions.

The EvoLLLution (Evo): How active a role should the federal government take in reforming higher education?

Thomas Lindsay (TL): This is the 50th anniversary of the Elementary and Secondary Education Act—the beginning of an increased federal role of what under the constitution is exclusively the responsibility of the individual states. The results are mixed at best and perhaps even poor when we look at the statistics and the gains that have been made or not made over the last few years of federal involvement. We've increased access but there's no evidence we've increased student success or learning outcomes. It's time for us as a country to take another look at our very well intentioned program begun 50 years ago and ask whether or not America's founders had it right when they placed responsibility for education within the individual states themselves.

Evo: Conversely, how active should states be in pushing reforms for public higher education, especially when it comes to the administration and management of public education?

TL: Under the constitution, it's entirely the responsibility of the states and after all, we're talking about public, taxpayer-funded higher education. What I'm proposing would not apply to private universities. If you step back and look at

higher education in the United States, you get a distressing picture. We know from the Collegiate Learning Assessment that 36 percent of college students across the country, after four years in education, show little to no increase in critical thinking or complex reading and writing skills. That's disastrous because we know that half the students never finish. Of the other half that do finish, we know from *Academically Adrift*, that only 64 percent of them get the learning that you would hope to acquire in college. Therefore when you step back, you see that under the current system only 32 percent of those who start college come away with both a degree and the learning that a college degree is meant to signify. That's a broken system.

We have other indicators. We know from studies of grade inflation that in the early 1960s, 15 percent of all grades given were A's, today that number has nearly tripled—43 percent of all grades given in college across the country are A's. In fact, an A is the most common grade given in college. We see that students are studying about half as much as they used to but they're getting triple the number of A's.

Higher education reformers like us see this as a broken system and say we just can't continue to do more of the same.

Evo: What are some of the most important changes that higher education institutions can or should make?

TL: As a former university professor and administrator, I can tell you that universities cannot be reformed from within. This means that the only alternative to change them is to somehow incentivize reform from the outside and we're doing this through government bodies, be they state or federal. The best that we can hope to do under that current circumstance is to better inform prospective students and their peers about their choices—the investment they are about to make in education, what the likely learning outcomes are, what the likely competitiveness outcomes are, what the student loan is going to entail and what an average starting salary is projected based on the major they have chosen.

In Texas we have a transcript transparency policy. On all official transcripts for students from public higher education institutions here in Texas, next to the letter grade that each student receives on the course will be the average grade that the professor gave to the entire class. Employers have been complaining for a couple decades that transcripts have become virtually meaningless. This

transcript transparency measure would at least tell graduate school admissions committees and prospective employers what the grade meant.

Monetary inflation devalues the dollar. Grade inflation devalues the transcripts.

Evo: What impact would a national roll-out of the America's College Promise plan have on higher education in the United States?

TL: The President's proposal for free community college is very well intentioned, but I don't think it would have very much effect. The majority of the students who attend community college in this country right now—roughly 8 million students—are from low-income families. As such, they are already eligible for already existing federal programs and state programs that cover the whole cost of community college tuition.

That said, even though that money is already available from the students that go to community college, statistics show that only about half of these low-income students are getting full tuition waivers right now. When you look further at it, what you see is that while these students qualify for federal Pell Grants, which give them up to \$5,730, those funds unfortunately at this point don't get used. The problem here is that since the money already exists but only half of the students are using it, the President's program is redundant.

Evo: What impact does the federal government truly have on higher education?

TL: On the one hand, the federal government has a great impact on higher education. Were it not for federally subsidized student loans, we would not be suffering the tuition hyperinflation and its crushing student loan debt that we're currently experiencing. Back in the 1980's, then-Secretary of Education William Bennett issued what has since come to be called the Bennett Hypothesis. He said increasing the federally subsidized student loans every year will allow the universities to increase tuitions because they know the dollars are there. When you look at the accompanying numbers, it's pretty clear in the last quarter century, tuitions nation-wide have increased 440 percent—almost four times the rate of general inflation.

As a result of these historic tuition increases, students and their families are amassing historic debt, which now is close to \$1.3 trillion. For the first time in our history, student loan debt trumps even national credit card debt.

So, does the federal government have a big impact on higher education? Absolutely. Has that impact been beneficial? That's another question.

Evo: To your mind, what higher education issues should be top of mind for the candidates in both parties pursuing a nomination for presidential candidacy?

TL: The public's focus, understandably, has been on the economic aspect, but there's a deeper crisis that is plaguing higher education in the United States. We're beginning to see some federal measures to try to address it and that is the crisis of academic freedom. Academic freedom is something that we cherish so that we can speak our minds and investigate truths that are sometime uncomfortable without political interference. It's to protect the academy from politics and politicians. What do you do when those who would suppress speech, stifle debate, come from within the university themselves? That's the new crisis we have encountered. With the speaker dis-invitations, the trigger warnings, the restricting of free speech to tiny free speech zones on campuses, this is the deepest crisis facing US higher education. It's the universities themselves that are clamping down on free speech. Now we've come to the bizarre upside down situation where we now need to look to the political branch to force universities to rise above politics.

In addition to restoring academic freedom on our public college and university campuses, I would hope that the candidates in both parties would address the need to give public colleges and universities more "skin in the game" when it comes to outcomes. That is not to say that colleges and universities should be held responsible—and have their federal funds tied to—student employment post-graduation, which is a largely a function of the macro economy, and hence largely beyond schools' control. But what is under their control is the "academic value-added" while students are enrolled on their campuses. Therefore, focusing performance-based funding on gains in the CLA during college would be something I'd like to see all the candidates address.

Up until now, virtually all of the performance-based funding proposals nationwide focus on graduation and completion. But, given that we now know from *Academically Adrift* that 36 percent of students nationwide show little-to-no increase in fundamental academic skills, as measured by the CLA, after four years invested in college, any policy that incentivizes enhanced graduation and completion does not get to the root of the problem, which is poor student learning. Indeed, defining and rewarding "performance" merely as graduation

and completion threatens to dilute further the already-lackluster learning that is going on at too many colleges and universities.

This interview has been edited for length.