Statement of

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Director, Education Policy Program
New America

Before The

Committee on Homeland Security and Governmental Affairs
United States Senate

For the Hearing

"A Review of the Department of Education and Student Achievement"

Presented

Wednesday, September 30, 2015

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Chairman Johnson, Ranking Member Carper, members of the committee: On behalf of New America, thank you for the opportunity to discuss higher education.

Why has college become so expensive?

Since 2008, the popular answer to that question has been, "Because recession-wracked states slashed public funding for higher education, creating deficits that colleges filled by shifting the tuition burden to parents and students and thus the federal government in the form of increased appropriations for Pell grants and student loans."

That answer is accurate (although more for some states than others.) But it is not complete, in part because it doesn't apply to private and for-profit colleges, and in part because it ignores the fact that colleges have been steadily raising tuition much faster than inflation for the better part of four decades, in bad times, good times, and all times in between.

Why did they do that? In short, because they wanted to, and because they could.

There is no mystery as to why colleges want more tuition revenue. Everyone wants money. The real question is why were they *able* to do it then, and do it still. To answer that, and the corollary question of whether there is something the United States Congress can do about it, it helps to go back to the beginning of the modern era of federal financial aid policy, the 1972 amendments to the Higher Education Act, which established the system of need-based vouchers--Pell Grants--and student loans that we still have, in modified form, today.

Back then, there were approximately 1,430 public two- and four-year colleges in America. Today, there are 1,625, an increase of about 14 percent. The number of traditional private nonprofit colleges, meanwhile, has barely changed. We mostly stopped building them in the 19th century.

Yet, since 1972, the number of students enrolled in American colleges and universities has grown from 9.2 million to over 21 million, an increase of 111 percent.

So we begin with simple supply and demand: We have more than doubled the number of college students over the last four decades, while keeping the number of public and nonprofit colleges almost the same.

College enrollment surged in part because the population grew. But it was also driven by seismic changes in the American economy. In many regions, the blue-collar economy collapsed or was radically transformed. A high school diploma was no longer enough to earn a middle class wage. So students flocked to the only institutions that were legally allowed to sell tickets to the prosperous whitecollar economy: colleges and universities. The gap in wages between people with college degrees and people without them widened into a chasm.

If a service becomes much more valuable, the number of customers for the service increases, and the number of organizations allowed to sell those services stays the same, prices will go up.

Why didn't new colleges spring up to meet that demand? Because the old colleges were protected from competition by a combination of regulatory barriers and public subsidies. To legally offer college degrees and receive federal financial aid, colleges must have accreditation. The accreditation process is managed by associations of existing colleges. Standards for accreditation are based on how existing colleges operate--the kinds of people they hire, the degrees they offer, the way they manage their libraries, departments, and programs.

Accreditation defines away the possibility of radical innovation. Imagine if, back in 2007, the Apple corporation had to get permission from a trade association of existing mobile phone manufacturers in order to sell the iPhone. That's the way higher education works today.

Other factors exacerbated this problem. States were subject to the same rising healthcare costs afflicting the rest of society. Many states also chose to cut taxes and increase spending on incarceration. Higher education budgets were squeezed.

Colleges were also subject to little accountability or market discipline when it came to their core mission of teaching undergraduates. No one publicly tracks how much students learn at different colleges. Until just two weeks ago, when the U.S. Department of Education released such data, there was no consistent information about how much graduates of different colleges earned in the labor market, and very little information about their ability to pay back student loans.

As a result, the market for higher education is not driven by the basic value proposition of benefits weighed against costs. Instead, colleges compete for status, based on expensive things that have little to do with student learning: intercollegiate athletics, research prowess, Olympic-caliber gymnasiums, and luxury dorms. In a time when more people than ever need an affordable college education, the influential *U.S. News & World Report* rankings reward colleges for denying students admission and increasing the amount of money per-student they spend.

At the trend-setting high end of the market, higher education has become what economists call a "Veblen good"--an expensive luxury item like a Rolex or a Rolls Royce, where demand goes up as the good becomes more expensive, not down. This sets benchmarks for salaries and amenities that cascade down through the market.

College administrators do not sit down every year, determine how much it costs to provide students with a high-quality education, and set tuition accordingly. Instead, they sit down every year and determine the largest tuition increase that the private market and political economy will bear, and then spend that money on what administrators care about most. Increasingly, they are spending it on themselves. The ratio of administrators to students has risen over time, even as a greater share of classes are taught by adjunct, not tenured, professors.

Higher education has also, uniquely among major information-focused industries, avoided almost entirely the disruptive pressures of information technology. Today, most colleges offer some form of hybrid or fully online courses, and millions of students are enrolled. Yet colleges charge the same tuition as for in-person classes, even though online classes are much cheaper to provide at scale.

All of this happened during a time of stagnant incomes for middle-class households--the same families that were sending children to college for the first time. The yawning difference between what college costs and what families have in their bank accounts has been filled by debt, most of it issued or guaranteed by the federal government.

And while the college debt conversation often focuses on undergraduates, a significant part of the growth in the nation's $1.2 trillion outstanding student loan bill has been driven by graduate school debt. In part, because even an associate's or bachelor's degree isn't good enough for some jobs now. And in part because, unlike undergraduates, there is no hard limit on how much federal money graduate students can borrow, up to and including their cost of living.

What, if anything, can Congress do about this?

Many federal lawmakers are appropriately cautious about interfering with an industry that has long been seen as a global leader and which has traditionally been the responsibility of state governments and private markets.

However, there are some important things that only the federal government can do. And now that the U.S. Department of Education is the single biggest financier of higher education, providing $165 billion per year in grants and loans, plus tens of billions more in tax credits, the question is not whether there will be a strong federal role in higher education. There is one. The question is whether that role will continue to be limited to providing blank checks to organizations that are steadily pricing the middle class out of higher education, and thus the American dream.

The federal government should not tell colleges how to teach. It can, however, expand the definition of who gets to be a college, and help consumers make better choices about which colleges to attend.

Higher education is a national--and increasingly, international--market. Most students are mobile students, earning credits from multiple institutions and often crossing state lines. The rise of national online colleges has accelerated these trends. Only the federal government can provide consistent information about college outcomes to students, parents, and policymakers nationwide.

Yet during the last reauthorization of the Higher Education Act, in 2008, language was included at the behest of industry lobbyists to prevent the U.S. Department of Education from modernizing its higher education information systems in a way that accounts for student movement between institutions. These incumbent-protection provisions, which shield colleges from scrutiny and accountability, should be repealed.

The federal government should also expand its longstanding commitment to university-based research to include more research about universities. We spend billions of dollars to develop cutting-edge technologies and explore the mysteries of the universe but virtually nothing to evaluate the effectiveness of a massively subsidized industry that is crucial to our nation's future economic and civic prosperity.

Finally, and most importantly, we must create more room for higher education innovation by allowing entrepreneurs to compete on a level financial playing field with established colleges. In the long run, the higher education cost problem cannot be solved with price controls and public subsidies alone. We also need greater productivity through the creation of new organizations built from the ground up with the growing capacities of information technology in mind.

This does not mean giving short shrift to consumer protection. Many students have been defrauded in recent years by organizations that sacrificed learning to the bottom line. But those abuses were a function of not too much regulation or too little regulation but the *wrong kind* of regulation. All of the worst offenders were working inside of the existing accreditation system, taking full advantage of its lack of focus on student learning results or economic and civic outcomes, overcharging students for worthless degrees.

Instead, the federal government should experiment with giving public, non-profit, and for-profit organizations that may look nothing like traditional colleges equal access to federal funds, in exchange for being held rigorously accountable for outcomes defined not by government bureaucrats but by employers and members of the academy.

Without such changes, colleges will continue to increase tuition, because they want to, and because they can.