2 Econ Professors Cite Student Borrowing as Contributor to Rising Tuition

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WASHINGTON — Increased student borrowing, more generous financial aid and the increased value of a college degree have all conspired to drive up tuition, two economics professors argue in a new paper released Tuesday.

"Our model assumes that colleges effectively collude with each other, which would exaggerate some of these effects," said one of the co-authors, Grey Gordon, an assistant professor of economics at Indiana University Bloomington. "Those who act like monopolists get a lot of tuition out of students if they really want to go to school."

Gordon made his remarks Tuesday at the American Action Forum, a nonprofit that purports to advance the "center-right policy debate" on various issues.

He was joined by co-author Aaron Hedlund, an assistant professor of economics at the University of Missouri.

Gordon and Hedlund spoke of colleges spending on "quality-enhancing activities" to attract high-achieving students.

"Colleges want a good student body and they want to have a high reputation," Hedlund said.

In their paper, titled "Accounting for the Rise in College Tuition," the two maintain that the combined effect of all policy and nonpolicy factors that they studied generate a $6,300 increase in yearly net tuition. Whereas average net tuition stood at $5,700 in 1987, today it is about $11,000, their study states.

The study, which examined tuition increases from the years 1987 through 2010, claims further that:

- Increased student borrowing enabled by expansions in financial aid explains nearly $3,400 — or more than 50 percent — of the increase in tuition.

- More generous grant aid contributes $1,300 — or more than 20 percent — to the rise in tuition.
- Pressure on enrollment from the increased value of a college education is responsible for $1,250 — or nearly 20 percent — of the increase in tuition.

The economists argue that the "expansion in borrowing limits has profoundly impacted the amount of student debt and default."

"Had these expansions not occurred, yearly student debt would be nearly $2,100 lower, the ratio of students borrowing and the amount they borrow would be 26 percent lower, and the two-year default rate would be cut by more than half," their paper states. "At the same time, colleges would spend $3,600 less per year on activities they deem as quality enhancing."

One estimate puts the current average student debt at just under $29,000. The federal education department — which no longer releases two-year default rates — calculates the three-year default rate at 11.8 percent.

Andrew P. Kelly, director of the Center on Higher Education Reform at the American Enterprise Institute, said at the forum that he thought the paper went too far in suggesting that more financial aid "causes" a rise in tuition. Rather, he said, it's more likely that expanded aid "enables" colleges to increase tuition — which is in line with the Bennett Hypothesis, an idea advanced in a 1987 *New York Times* op-ed by by then-Secretary of Education William Bennett that "increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions."

Neal McCluskey, director of the Center for Educational Freedom at the Cato Institute — a thinktank that espouses free markets and limited government — said colleges often respond to increased financial aid by decreasing their own institutional aid or redirecting it to high-achieving students to achieve higher status in college rankings.

"I think there's a lot of substitution going on where you take federal money and reduce state or institutional money," McCluskey said. "It's critical that we continue to emphasize this is a problem."

McCluskey said that he favored eliminating subsidized student loans altogether and turning Pell Grants into loans.

"Why should someone get a big increase in earnings and not have to return the money" to the taxpayers? McCluskey asked.

"Ultimately, what we need people to do is pay for college with their own money or money they get from other people, charity."

Kelly suggested the "shared income approach" in which a private lender would front students money for tuition in exchange for a share of their future income — an approach being tried later this year at Purdue University.

Chad Miller, director of education policy at the American Action Forum, wrote in a paper released this month that “simply restricting access” to federal aid programs is “not likely to be successful.”

“Policy makers should look to slow tuition hikes, perhaps through growing dual enrollment programs or enacting policies that increase the availability of advanced placement and international baccalaureate credits,” he wrote in a paper released in conjunction with the Gordon and Hedlund paper.

Gray said part of the solution to increased tuition is that students should have more transparency when it comes to selecting a school. He said students should be able to enter their high school GPA, SAT score, and other information and be able to see their chances of dropping out.

“That’s huge problem,” Gray said. “Fifty percent of people don’t complete school in six years.”

He also said students should be able receive information on what they can expect to earn upon graduation. The projected dropout risk and earnings data could potentially shift the focus away from physical amenities on campus — a major factor in how students choose schools — and toward things that will actually increase their earnings potential down the line, Gray said.

McCluskey found fault with that approach, arguing that it could potentially designate a particular college as being no good when the problem may lie with the students.