



Education as the key to opportunity and upward mobility

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It is generally agreed that the most important social mobility function a government can perform – or promote – is education. In an open society, education gives each citizen the opportunity to advance on his or her own merit. Income can sustain a person's material life, but education can empower that person to shape and control one's life. But despite this importance, the American educational system is failing many young people. It is particularly failing the young people who need it most – the poor and disadvantaged.

The problems of the public school system

The woes of public education are well publicized, but still there is little reform. According to economist John Bishop, the middle class's economic problems have followed a decline in high school verbal scores, which dropped sharply between 1962 and 1980 and have not improved since. As the federal government recently reported, student vocabulary scores on the National Assessment of Educational Progress continue to show no improvement.

At the primary and secondary level, government education spending has soared over the past decades, and yet student performance has not improved. Youth from poor and minority households continue to drop out of school at alarming rates, and many of those who do graduate from public high schools do not have the skills to continue their education or acquire a job with any meaningful future prospects.

There are many reform proposals being debated, just as there are many examples of how successful such reforms could be. In charter schools across the country, for instance, students are vastly outperforming their public school counterparts. But because of opposition from teachers' unions, the charter school movement faces a battery of obstacles. Union opposition has also made it very difficult for the regular public school systems to fire incompetent teachers.

Moreover, public educational spending may not be as focused as it should be. According to the 2012 report "The School Staffing Surge," the U.S. spends more than other nations on nonteaching staff. Between 1970 and 2010, for instance, nonteaching staff positions increased

138 percent nationally, while teaching positions increased 60 percent and student enrollment increased less than 8 percent.

The high costs of higher education

The crisis of higher education is intimately tied up with its soaring costs. And to fund these costs, tuition has also soared. Tuition at public four-year colleges has nearly quadrupled since 1980. To pay this tuition, students have gone into severe debt. And with this debt has come default.

Student borrowers are increasingly falling behind in their loan payments. The New York Federal Reserve has found that almost 30 percent of student loans are now delinquent. More than 600,000 borrowers who graduated in 2010 had defaulted by 2012, according to Education Department data. This was the sixth consecutive year of rising defaults.

Delinquency and default rates are higher for student loans than for other types of lending. Partly this reflects the nonexistent credit standards for these loans, which allow students with a high probability of dropping out of college to borrow on the same terms as good students.

According to the Federal Reserve, educational debt has surpassed every other borrowing category except home mortgages, reaching some \$1.3 trillion this year. In the class of 2014, the average borrower had a debt of \$33,000. And research from the Pew Research Center indicates that 20- and 30-year-olds are delaying marriage and childbearing because of their student loan debt.

Debt-enticing government policies

The federal student loan program not only leads to increasing loan defaults, it also entices young people to incur unmanageable debt to fund financially suspect endeavors. In 2012, 681 public colleges had graduation rates of less than 25 percent. Nationally, only a little more than half of all college students graduate within six years – and all the people who start college but never graduate will earn substantially lower wages than those with degrees, which then makes their student-loan debt all the more burdensome. Moreover, 45 percent of those who did graduate in 2012 had jobs that did not require a degree, according to Federal Reserve data. And the 2013 unemployment rate of recent college graduates exceeded that of the general population.

As a result of the disconnect between college degrees and job openings, there are now over 115,000 janitors, and a million retail sales clerks, with bachelor's degrees or more. The costs of college are rising, just as job opportunities at the margin are worsening, which means that many college grads end up not only wage-poor but deeply in debt. Although 30 percent of the adult population have college degrees, only 20 percent of jobs require college degrees, according to the Department of Labor. Moreover, those with some college but no degree now earn about as much as their high-school-educated peers.

Government encouragement of students to incur debt to attend college resembles the housing

bubble, where the government induced poor people to take out mortgages they couldn't afford. Likewise, the student loan debt is being increasingly held by unemployed or underemployed college graduates. And the effective delinquency rate on student loans is now as high as it was on *subprime mortgages* at the height of the housing crisis.

Federal programs have been successful at one thing: increasing enrollment, notwithstanding the relevance or applicability of the educational program into which a student is enrolled. Student loan programs encourage students to pursue any degree, regardless of price. This creates an open invitation to incur an indebtedness unconnected to a later ability to repay the loans.

Through the student loan program, the federal government and higher education institutions effectively partner to expand the number of young people becoming indebted tuition-paying students. Naturally, given this unrestricted availability of cash at such an early age, students grab it and head to college. But in the end, the students end up holding all the debt, which exists regardless of whether the student actually graduated or pursued a course of study that qualified him or her for a decent job. College students, for instance, are increasingly taking on debt for high school-level remedial-education courses that do not even count toward a degree. They spend loan dollars for such courses, despite evidence that these courses are ineffective and contribute to higher dropout rates. Although any high school graduate can enroll in college and receive federal aid, disadvantaged students unprepared for college face an uphill climb. They end up using their federal loans to enroll in remedial courses that do not count toward a degree and are a notorious dead-end for many students.

The failure to reach those in need

Not only is there serious doubt as to whether the federal student loan money is being effectively spent, but there is much evidence that the program is failing those low-income young people it was designed to help. Only about 7 percent of recent college grads come from the bottom income quartile, compared with 12 percent in 1970 when federal aid was scarce. Thus, a smaller proportion of college graduates now come from low-income backgrounds than did so before federal financial-aid programs became so large.

According to the Educational Longitudinal Study, which followed high school sophomores from 2002 to 2012, only 14 percent of students from the lowest socioeconomic quartile had attained a bachelor's degree or higher after 10 years. Another study found that 5 percent of low-income eighth graders born in the 1960s earned a bachelor's degree, compared to 9 percent of those born in the 1980s. That's only a four percentage point increase, despite the vast increase in student loan funding since 1980. So while the promise of a college degree for low-income youth was used to justify an expansive federal college access agenda, this agenda has not delivered on its promise. What it has delivered is increasingly unmanageable *student debt*.

Publicly funded grants and loans provide almost no information about the value or quality of different programs. Critical information for low-income consumers – the graduation rates of Pell Grant recipients, for instance, or graduates' post-graduation earnings and employment rates – is

not generally available. Consequently, lacking the data necessary to make sound choices throughout the college selection process, a large percentage of students are mismatched – attending an institution that does not match their academic qualification.

President Obama proposes to address the ever-mounting student debt by easing loan repayment terms and forgiving outstanding loan balances after 20 years. But this proposal only makes the situation worse, encouraging students to borrow more, knowing there is a good chance they will not have to repay it all, and hence further increasing the default rate. And this proposal will continue to fuel a rise in tuition, since the easier it is for students to get tuition money, the more colleges will charge. Nor will this approach do anything to discourage students from taking majors that do not have any chance of financial payback.

The perverse effects of federal spending

Federal spending on college aid now amounts to \$170 billion a year, compared with \$10 billion in 1970. But this program has had a perverse effect, contributing significantly to rising education prices and costs. Increases in federal financial aid have enabled universities to raise their tuitions, knowing that federal loans would support those increases without decreasing the supply of students.

Before the late 1970s, federal financial-aid programs were modest in size. Correspondingly, annual tuition increases were roughly one percentage point more than overall inflation. Since 1978, however, during the era of rapidly growing federal loan programs, annual tuition increases have been three to four times that of the pre-1978 period.

In 1964, federal student aid was a mere \$231 million. By 1981, spending had increased to \$7 billion on loans alone, an amount that doubled during the 1980s and nearly tripled in each of the following two decades. But this growth in federal loans and subsidies has enabled universities to greatly expand their operations in ways that have not necessarily helped students – e.g., constructing expensive but under-utilized buildings and hiring an army of high-paid administrators, unrelated to the primary academic mission, to manage their bloated bureaucracies.

Moreover, federal loan programs may have actually eroded the quality of instruction. More college students qualify as only marginally literate today than did a generation, in part because aid programs have induced more academically marginal students to attend college, leading to a dumbing-down of instructional content.

The lack of job skills

All the focus on the costs of college and the amount of student loan debt obscures another issue relating to education. This involves the lack of job skills. Even during the recession, while millions of workers were unemployed, millions of job openings were going unfilled. In 2012, while the unemployment rate was over 8 percent and millions more had dropped out of the labor

force, a Manpower Development Group survey found that nearly half of employers reported difficulty in filling job openings. Nearly half of these employers said the reason was a lack of technical competencies or hard skills. This lack of skills could be remedied by vocational, technical, or apprenticeship training. But this kind of skills training isn't being provided by four-year colleges.

There are currently no federal tax incentives that reward companies for taking on apprentices. Furthermore, state and federal regulations governing providers of postsecondary education make it difficult to offer customized skills training that evolves with labor market demand.

To get access to federal aid, education providers must be accredited – but to get accredited, they have to offer degrees. Job skill courses don't cost much, but neither are they eligible for any kind of public subsidies, making it difficult for them to compete with traditional degree programs that are eligible for federal student aid. But the problem with accreditation regulations geared to traditional degree programs is that they focus totally on inputs – e.g., number of courses taken, number of years enrolled – whereas skills training focuses on outcomes – e.g., the acquired ability to perform and hold certain skilled jobs.

Proposed education policies

At all levels of education, but particularly at the primary and secondary levels, conservatives advocate policies directly focused on *student learning*. Whereas the liberal approach is often on the teacher or institutional level – e.g., focusing primarily on teacher salaries and tenure, and levels of government spending on public education – the conservative approach is more directly on the intellectual, emotional and personal development of the student. For this reason, conservative policies try to inject competency or merit parameters into every aspect of education policy – e.g., a performance-based pay structure to reward excellent teachers, and elimination of the "last in, first out" approach that disregards teacher quality in layoffs.

But this conservative approach often conflicts with the stands of teachers' unions, which push for ever-increasing teacher salaries while resisting any weakening of teacher tenure, even for poorly performing teachers. Indeed, there is a concern about how much unions really care about what is happening in the classroom. For instance, Sydney Morris and Evan Stone launched Educators 4 Excellence after learning that in the United Federation of Teachers' 2010 leadership election 65 percent of the votes were cast by retirees or non-classroom personnel.

School choice for all families

Conservatives also advocate school-choice and voucher programs that would give all students, regardless of family income, the same chance to attend the school of their choice as that enjoyed by the wealthy. As it now stands, the public school system is one of inherently unequal opportunity. The wealthy elite can attend any school they choose, but the poor and middle class are stuck with the public schools assigned to them, regardless of the quality of that school. Furthermore, the morass of regulations stymie local schools, and particularly private schools,

seeking to reach out to a poor and middle class community. Accreditation mandates and caps on the number of allowable charter schools can all work to reduce the supply of alternative or improved schools for the poor and middle class.

Charter schools have a proven success record. Eighty percent of the charter schools in New York City outperformed their comparable public schools. The 6700 students at New York's 22 Success Academy Charter Schools are overwhelmingly from poor, minority families, and yet scored in the top one percent in math and the top seven percent in English on recent tests.

Over the past 15 years, the number of states with private-school choice programs grew from 4 to 19, and the number of enrolled students has gone from 29,000 to 308,000. The data consistently shows that voucher recipients or school-choice students academically outperform their public-school counterparts. Nonetheless, both teachers' unions and the Democratic Party oppose voucher programs. In 2013, the Obama Justice Department sued to block Louisiana's voucher program on the grounds that it violated 40-year-old federal desegregation orders, even though ninety percent of the beneficiaries of the scholarships awarded under the Louisiana program were African-American. And New York mayor Bill De Blasio blocked an attempted expansion of a Success Academy middle school in Harlem that wanted to increase its enrollment by 194 students, all of whom were low-income minority students attending a Success Academy elementary school – even though on state assessment tests, 80 percent of those students passed the math test and 59 percent passed the English test. At the traditional middle school that most of the students would be forced to attend if they could not enroll in the Success Academy middle school, just 5 percent of students passed the math test and 11 percent the English test.

Another conservative proposal, again focusing on the developmental needs of students, involves providing skills training that is otherwise not available in the traditional school curriculum. This could be done, for instance, through release time from high school to take a course in certain job or vocational skills from a training center run by an industry group. In coming years, according to the *Wall Street Journal*, close to half of all U.S. jobs will require more than a high school education but less than four years of college – and most will involve some sort of technical or practical training. Although many high schools and community colleges teach job skills, most of those programs use outmoded techniques or steer young people to industries that aren't growing. The best way to stay current in such education is to partner with an employer who can provide training in skills that are actually in demand.

An example of a more flexible and accommodating of skills training approach can be found in a program called Mobile Outreach Skills Training (MOST), which works with businesses searching for skilled workers and dispatches mobile classrooms to provide on-site training. In contrast to traditional government job-training programs, MOST asks companies what they need and then trains workers to do that job. It costs MOST about \$7000 to train a worker, whereas government costs run in the six figures. MOST's retention rate is 96 percent of people on the job after six months; for the government, it is 14 percent.

Student-loan reform

In higher education, the federal student-loan program is in dire need of reform. The current system has encouraged colleges to raise tuition while providing little incentive for colleges to monitor student achievement. Reforms must motivate colleges to control costs. New and more flexible accreditation standards and procedures should also be implemented so as to allow new higher education institutions to compete with existing ones. And instead of just focusing on traditional four-year institutions, financial aid programs should also support occupational opportunities like high quality apprenticeship programs that provide the non-college-bound with valuable job skills.

Transparency reforms should require universities to disclose information on how their graduates fare in the labor market and whether those graduates are able to repay their loans. Such disclosure would obviously help students and parents make more informed decisions on where to enroll and which majors are most likely to pay off. With no current underwriting standards of any kind, federal loans provide no signal as to the expected value of a given program.

Due in part to a 2008 law that prohibited the federal government from collecting data on all college students, colleges do not adequately provide information on the proportion of students who graduate on time and the percentage of those who earn enough to pay back their loans after graduation. These information gaps would be less problematic if the accreditation agencies held colleges accountable – but rather than protecting consumers, the accreditation process actually keeps poor-performing colleges in business.

Under the current system, poorly performing colleges that would never pass muster in a functioning market are rarely stripped of their access to federal aid, even though they saddle students with debt that far outweighs the value of their training. The goal of any higher education reform should be to *change the incentives* that allow colleges to survive and even thrive, regardless of the quality of their education.

The answer is not to eliminate all federal aid, I believe – although that would certainly lead to a drop in prices – because without any aid, many low-income students who would benefit from higher education could not afford it. A better way to improve the system is to make colleges more accountable when it comes to student loans.

Unaccountability was what led to the financial crisis – mortgage lenders who made risky loans removed themselves from the risks of those mortgages when they bundled and sold them to unsuspecting investors. So under the lesson that those who make or contribute to the risk should bear the risk, colleges should be made responsible for a certain percentage of the loans on which their students default. A second way to make colleges accountable and to empower students is to require colleges to disclose the information that students need to make informed decisions.

Of course, the best education policy might be policies to strengthen the two-parent family. All the evidence reveals that children of married parents do better on every measurement of educational performance. People may disagree as to exactly why this is so, but no one can

dispute that, for whatever reasons, children of married parents do much better educationally. Character and self-discipline, which are key determinants to educational success, are best learned in a family setting. And yet, so much of our educational policy ignores these student traits and focus only on government spending and teacher union demands.

The misdiagnosis of liberal proposals

In their educational policies, liberals seem wedded to the idea that everything must go through and be run by the government. This was revealed in President Obama's decision announced early this year to start taxing college-saving accounts, including the popular "529" accounts. This action would adversely affect the savings of millions of Americans trying to save for their children's education. Many of the 529 plans are owned by young parents, and the average balance in a 529 account is about \$21,000 – enough to cover about two years' average tuition, room, and board at a public four-year university.

Another indication of the exclusive focus on government-run education is Obama's proposal to make two years of community college free to all students. But despite costing the government \$60 billion over ten years, this proposal greatly misses the mark, since it seeks to cram even more students into problem-plagued programs.

According to a study by Complete College America, almost 52 percent of first-year students attending two-year colleges were in need of remediation, and less than 10 percent of the community-college students who enroll in remedial courses end up completing a degree in three years, which is even lower than the already dismal 13.9 percent three-year-completion rate among students who need no remediation. Furthermore, most low-income students already attend community college tuition-free. As Neal McCluskey of the Cato Institute notes, families earning less than \$65,000 actually pay no tuition out of pocket, after accounting for existing grants and scholarships. So more federal spending will not expand enrollment from this group. Consequently, the cost of community college is way down the list of barriers to low-income students completing a degree.

President Obama's proposal drastically alters the historic nature of the federal financial-aid system, which has always allowed students to take their grants and loans to an institution of their choosing. Obama's proposal now has the federal government dictating where students will attend school, should they wish to obtain certain federal aid. This shifts America's higher education system toward a more centrally-managed one, entrenching federal control over community colleges.

The proposal also may do nothing to improve the job picture for all those students who will be able to attend a free community college. The Bureau of Labor Statistics projects that 17 percent of new job openings will require an associate degree or some college through the year 2022. However, the percent of the workforce already possessing an associate degree or some college is 28. This discrepancy means that anyone who gets an associate degree or some college will only have a 60 percent chance of finding a job, according to Bureau of Labor Statistics. But Obama's

\$60 billion proposal will simply entice more students into community college, further increasing the supply of potential workers with a community college degree, without regard of whether they'll be able to get a job afterward.

Instead of focusing so much attention on community colleges, policy makers should think about another source of training that has a much greater chance of preparing students for existing jobs – e.g., expanding apprenticeship training, in which schools partner with employers to offer students a combination of vocational education, formal work-based learning, and paid-employment opportunities. Robert Lerman of the Urban Institute has found that these programs increase earnings far more quickly than do community-college programs, while costing substantially less. This type of training can be particularly useful to students from disadvantaged backgrounds, many of whom grow disillusioned with formal education, choosing instead to grab low-wage employment at the first opportunity. But the low-wage work available to high-school dropouts rarely offers a path to middle class stability.