

Policy Focus

Student Loans and College Affordability

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

Paying for college is a significant burden on Americans today. College student loan debt now [surpasses \\$1 trillion](#). That's more than Americans owe on their [credit cards and car loans](#), and that amount is projected to [grow \\$100 billion annually](#). The average college senior's debt burden now [exceeds \\$25,000](#).

Meanwhile, the unemployment rate among recent college graduates reached a [record high of 9.1 percent in 2010](#), making it [difficult to repay loans](#). Student loan default rates are [rising](#), from 7 percent in 2009 to nearly 9 percent 2010. This translates into [more than 320,000 defaults](#) out of nearly 4 million student borrowers.

College loan debt hurts both individual students and the national economy. Yet recent laws to make college affordable, including making the U.S. government the sole student loan provider, ignore the problem of rising college costs and inefficiency. In fact, because they allow colleges to capture these additional subsidies (rather than pass them on to students), these government efforts may actually make the problem worse.

Rather than having federal subsidies chase rising college costs, policymakers should focus on reforms that will give potential students more information about the real benefits and costs of a pursuing a degree, and encourage educational institutions to become more efficient at controlling costs and providing students the skills they need for careers after college.

WHY YOU SHOULD CARE

College students and their families need effective, affordable higher education options, but available evidence indicates that postsecondary productivity is poor and subsidizing student loans may be making the problem worse.

- **High College Costs:** The [median cost of a degree](#) at four-year institutions is just over \$68,000, and \$57,200 at two-year institutions. Given high college graduate unemployment rates, many Americans wonder [if the investment is worth it](#).
- **Parents are Tapped Out:** What middle-income families pay for college has been [steadily rising](#) from close to \$17,000 in 2007-08 to nearly \$23,000 in 2009-10—putting college out of financial reach for many families.
- **Taxpayers on the Hook:** The estimated \$1.4 trillion in direct federal student loans that is expected to be outstanding by 2020 will amount to [roughly 7.7 percent of gross debt](#). Federal student loans are burdening taxpayers and adding to our high national debt.

Americans deserve better! There is no reason for college to be such a burden on American families. Better policies can encourage the creation of affordable options that give students the skills they need.

MORE INFORMATION

Government Efforts to Make College More Affordable

Policymakers have long debated how best to make college more affordable. For example, in 2007, Congress passed the [College Cost Reduction and Access Act](#), which cut interest rates on federal student loans from 6.8 percent in 2006 down to 3.4 percent in 2011.

Absent Congressional action, the 3.4 percent interest rate would have expired on July 1, 2012. President Obama warned that if Congress did not extend this lower interest rate, “the average student with federal student loans will rack up an additional \$1,000 in debt over the coming year... more than 7 million students will suddenly be hit with the [equivalent of a \\$1,000 tax hike](#).”

In reality, no loans issued before July 1 would have been affected, but on June 28, Congress extended the 3.4 percent interest rate for an additional year as [part of the highway funding bill](#). White House Press Secretary Jay Carney said in response, “We’re pleased that the Senate has reached a deal to keep rates low and continue offering hardworking students a fair shot at [an affordable education](#).”

This extension was just the latest in a series of Congressional actions that were supposed to help make college more affordable. The [Ensuring Continued Access to Student Loans Act of 2008](#) increased the maximum annual unsubsidized Stafford loan amounts for undergraduates by \$2,000. It also raised total loan limits from \$23,000 to \$31,000 for dependent undergraduates and from \$46,000 to \$57,500 for independent undergraduates.

More significantly, in 2010, the [Student Aid and Fiscal Responsibility Act](#) (SAFRA) changed the law so that instead of the federal government acting as a guarantor to private lenders if students defaulted, the federal government is now the sole direct lender for student loans.

Thus, in the past five years alone, the federal government has increased annual and aggregate student loan amounts, mandated low interest rates on select student loans, and taken over direct student loan lending. So why is college still so expensive?

Government Subsidies Actually Contribute to Higher College Costs

Extending the 3.4 percent interest loan rate is projected to save students [about \\$7](#) or [\\$8](#) a month, possibly even [\\$9](#) or [\\$10](#). Yet it will cost taxpayers [\\$6 billion](#) and still do virtually nothing to make college more affordable.

College tuition prices alone have been increasing about [twice the general inflation rate](#)

going back to 1958. Examples of administrative and [other forms of higher education bloat](#) are plentiful. A recent analysis by the University of Arkansas' Jay Greene indicates that over a fifteen-year period postsecondary administration grew [more than twice as much as instructional staff](#). This is significant since dozens of [mid-level](#) and [senior-level](#) administrative positions command six-figure salaries, compared to the relative handful of [faculty positions](#) that do.

Meanwhile, six-year college completion rates at public four-year institutions have remained [just below 55 percent](#) for a decade. The four-year rate has been stuck [around 30 percent](#). Thus that millions of students are spending and borrowing tens of thousands of dollars pursuing degrees, but often wind up with little more than years' worth of bills.

Increased federal subsidies did little—if anything—to [make college affordable](#) since those subsidies barely keep up with steadily rising costs. In fact, a [strong case](#) can be made that federal loans and aid likely [fueled this situation](#). That's because there is no incentive for colleges to keep costs down or operate more efficiently as long as government continues to subsidize them with taxpayer dollars. Understanding some higher education funding basics helps.

On average, [public, four-year institutions](#) receive nearly \$37,000 annually per undergraduate, consisting of roughly: \$11,400

in self-generated income and gifts; \$8,000 in government grants and contracts; \$7,400 in tuition; about \$1,000 in other revenue, and local, state, and federal appropriations make up the remaining \$9,100.

Higher education officials often blame higher costs for students on reduced state funding. The American Council on Education (ACE), for example, recently argued that state budget cuts are responsible for tuition inflation. Since 1990, the Cato Institute's Neal McCluskey could find only "two academic years in which colleges' per-capita tuition increase simply made up for state-subsidy losses: 2004-05 and 2010-11. Every other year [tuition rose well in excess of subsidy losses](#), ranging from a 1 percentage point net gain in 1992-93 to 7 points in 2007-08."

Other experts agree. Robert E. Martin and Andrew Gillen of the Center for College Affordability and Productivity explain:

Despite vast increases in financial aid over the years, the cost of attending college has continued to soar. It appears that colleges [often deliberately raise their prices when aid is available](#), in essence "capturing" the aid. The end result is that higher financial aid does not produce an improvement in college affordability but rather an increased ability on the parts of colleges to fund other programs which are not related to fulfilling their educational missions...[The] growth in colleges' costs and associated spending is the main obstacle for

improving college affordability and that while external factors do contribute to the increase in costs for colleges, it is the decisions of colleges themselves that are the main driver of higher costs, particularly the desire to increase prestige.

Martin and Gillen found that if colleges actually did use financial aid to lower costs for students, a typical four-year college degree would cost families about \$3,500 less, and overall higher education spending would be [\\$59 billion less](#) each year.

Better Incentives Improve College Affordability

There are better ways to make and keep college affordable. Rather than tinkering around with selective loan interest rates, the policy focus should be on changing the incentives so that colleges work to keep costs down.

Demand Transparency. Requiring taxpayer-subsidized institutions to provide [accurate, actionable information](#), including details about how their graduates fare in the [job market](#), would help students and their families make better informed decisions about the value of college and encourage colleges to act more economically. All postsecondary institutions participating in federal financial aid programs are now required under the [Higher Education Opportunity Act of 2008](#) to post a [net price calculator](#) on their websites to help students and their families determine how much they will have to pay for degrees. Families

should also have information about post-degree employment rates and average earnings.

Adopt an Outcomes-Based Funding

System. Rather than fund colleges based on how many students they enroll, state and federal policy makers should explore funding them [based on how many students actually complete their degrees](#). Colleges could also receive funding based on how much institutional aid they award to low-income students.

Require Competency-Based Programs.

Unlike traditional degree programs based on credit hours and seat time, competency-based programs allow students to progress at their own pace taking as much time as they need to demonstrate specific knowledge- and skills-based proficiency. Currently, federal financial aid is tied to credit hours, which [stifles innovation](#) and options for students—particularly students who are working and attending school to acquire additional skills to improve their income potential.

Foster Meaningful Competition for Students.

Allowing [innovative](#) alternative higher-education providers—including online course providers—to operate introduces powerful pressure on all institutions to be [efficient](#). Competing for students and their education dollars shifts responsibility where it belongs: on institutions themselves to eliminate waste and improve program efficiency.

Business Should Directly Finance Their Future Employees. Sometimes referred to as

[human capital contracts](#), this financing structure allows [investors to finance](#) college students' education in exchange for a portion of their incomes after graduation. Students would sign performance contracts with the future employers who would pay for their college degree in exchange for a specified number of years of work after graduation.

How Typical American Families Pay for College

Paying for college is a big stretch for most students and families. Here is how most make it work.

- Students pay 30 percent of the total college bill using savings, income, and loans.
- Parents pay 37 percent of the total college bill (that's down from 45 percent four years ago).
- More than one-third (35 percent) of students used loans to help pay for college: 25 percent borrowing through federal loans only, 9 percent using a mix of federal and private loans, and 1 percent using only private loans.
- Families also limit how much they spend on college: Nearly seven-in-ten families eliminate potential colleges for cost reasons, focusing instead on lower-cost institutions.
- Virtually all families (97 percent) report using other cost-savings measures, such as having students live at home, having a roommate, and reducing other spending.

It shouldn't be so hard! Reforms to how we finance higher education and encouraging greater innovation and efficiency would make colleges more affordable, and make sure that students get an education that will help create a brighter future.

WHAT YOU CAN DO

You can help keep college affordable for all students and fight needless, government micromanaging of our educational institutions!

- **Get Informed:** Learn more about student loans policy! Visit:
 - [Independent Women's Forum](#)
 - [College Navigator](#)
 - [FinAid!](#)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved

● **Become a Leader in the Community:**

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

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