

# Inquiring Minds - December 28, 2018

Moderator: Melissa Butler

## Should College Be Free?

If we really want to make America great, we need to reclaim our educational advantage. Just as in the 20<sup>th</sup> century, Americans embraced the idea of free public education thru high school, in the 21<sup>st</sup> century we need to extend that idea to post-secondary education. But how do we go about doing that? Increase federal and state funding for students? Rely on generous donations from the private sector to help make college affordable? Expect students to finance their education on their own, through family funds, student loans, etc.? During his 2016 campaign, Vermont Senator Bernie Sanders proposed making a college education tuition and debt free. In the absence of any such national initiative, Duncan and Bridgeland point to state and local programs to make college affordable. But are these schemes counterproductive, as Christopher Denhart suggests, because they distort market incentives?

In this session, we'll discuss the pros and cons of free education for all and alternatives for making college affordable.

Arne Duncan and John Bridgeland "Free college for all will power our 21st-century economy and empower our democracy" *Brookings: Brown Center Chalkboard*, Sept. 17, 2018

Education beyond high school is essential for Americans to prosper in the 21st century. Looking into the past, we have seen the majority of those earning a college degree or other postsecondary credential achieve higher earnings, quality of life, civic engagement, and other positive outcomes. Looking ahead, we see a new future where the vast majority of jobs will require some level of postsecondary education. From either perspective, it's clear that "college for all" should become our national aspiration. The question is how best to achieve that goal.

Many of the success stories that produced these good outcomes for individuals and our country are the result of Americans who got their postsecondary education and training for free in the 1940s, 50s, 60s and 70s. The Rice Institute, now Rice University in Texas, was free to its students until the 1960s. SUNY and CUNY in New York State were virtually free until the 1980s. The same was true for the University of California, the California State Universities, and the California Community Colleges. Many states made sure that the returning World War II veterans and the next two generations had access to a free postsecondary education.

And it shouldn't be a surprise that our nation's economy boomed, along with America's civic health. In fact, when President Franklin Roosevelt signed the GI Bill in 1944 and President

Eisenhower signed the National Defense Student Loan legislation in 1958, millions of veterans, women, and minorities came to college because they could afford it and knew their education beyond high school would make a significant difference in their future livelihood. They bought cars, took out home loans, worked hard, and advanced in their careers. They weren't burdened by enormous college debt. At the same time, trust in one another and key institutions, as well as civic habits of volunteering, voting and charitable giving, were also on the rise among this Greatest Generation. During this era, the U.S. was first in the world for its college graduates, outpacing Germany, the U.K., and other OECD countries.

By the new century, our educational advantage had clearly slipped. President Bush's higher education commission highlighted the fact that after decades of progress, other countries were outpacing the United States in educating more of their citizens to advanced levels. President Obama—who also recognized that we had lost our way, that we were 12th in the world in higher education attainment, and that we had mounting student debt exceeding the ability of students to pay off their loans—pointed to a North Star for America to regain its place by making a college education within reach for all hardworking students.

During that same time, following his service as county mayor of Knoxville and implementing the Knoxville Promise, Gov. Bill Haslam (R-Tenn.) launched the Tennessee Promise—a commitment that every high school graduate could obtain at least a free community college education. Since then, Tennessee has added Tennessee Reconnect for adults to obtain a free postsecondary education in fields to help grow their regional economies across the state. Tennessee has some early outcomes of success, as do many other Promise programs across our nation.

OECD now reports that the United States is 10th in the world in postsecondary attainment; we're making progress, but not nearly fast enough to regain first place.

Today, escalating college costs, stagnant college graduation rates, and the growing \$1.5 trillion in college debt has been put on the backs of our nation's students and families. Far too many are dimming their hopes for an affordable, quality education beyond high school.

These students need help, and local community and state leaders have stepped up to the challenge in the absence of a federal redesign. To date, these leaders have established more than 200 tuition-free, college Promise programs, including governors and legislatures in 23 states that have enacted variations of free community college.

We shouldn't stop here, but must continue to advance these programs coast to coast. Imagine making the first two years of college free for every American willing to put in the effort, work hard, and help grow the economy through their skills and talents. And imagine the impact of more Americans giving back to their communities and country.

Today, the need for a college education is not just for young people in the decade following high school graduation, as it was for many Baby Boomers and Generation Xers. Acquiring a

postsecondary education and continuous learning will be a basic necessity for the millions of Americans whose jobs will increasingly disappear in the global economy, including from robotics and artificial intelligence. Even many of Peter Thiel's chosen young entrepreneurs who were famously encouraged to drop out of college and start their own businesses returned to postsecondary education to develop new skills and build on their careers.

We must also recognize that the "college for all" goal cannot be narrowly defined to a four-year degree. Rather, postsecondary education can also lead to certificates and open doors to thousands of well-paying jobs, including engine-maintenance technicians, plumbers, electricians, dental hygienists, and radiologic technicians that will move them and our economy forward.

Of course, a percentage of jobs will go to doctors, lawyers, and entrepreneurs who will earn advanced degrees, but even they will be displaced or replaced if they don't keep up their skills and credentials going forward. New York University just made medical education tuition-free for its students. States and localities should continue to innovate with different models to expand such opportunity beyond this smaller pool.

Various models of free college are sweeping the country in our local communities and states, led by governors and mayors from both parties collaborating with leaders in chambers of commerce, community foundations, and nonprofit organizations.

We can fulfill President Obama's vision to lead the world in educating our people by accelerating the creative initiatives of Gov. Haslam and the thousands of others who know that the nation's investment in education beyond high school will provide a remarkable return that will drive our nation forward. Given the challenges facing our economy and democracy, we don't have a moment to lose.

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Christopher Denhart, "There Is No Such Thing As A Free College Education," *Forbes*, Oct. 3, 2014.

Following Wednesday's decision to overturn tuition and fees in Lower Saxony, Germany, all universities will now be tuition free. According to *The Times, Europe*, Germany will now be 100% free of charge to students, national and international, as political figures call tuition fees "socially unjust."

Dorothee Stapelfeldt, senator for science in Hamburg, states “Tuition fees are socially unjust” and that “they particularly discourage young people who do not have a traditional academic family background from taking up studies.”

Germany, in 2006, lifted a universal ban on tuition and fees, which led to the charging of tuition in seven states. This decision fully retracted that earlier ban.

According to the Organisation of Economic Co-operation and Development (OECD) Germany has the second highest income tax burden of all OECD’s 34 countries. Of course this is not surprising considering Germany is the father of “Sozialstaat” or in English “Social State” founded in 1870 under Then Chancellor Bismarck’s reforms.

Add on more state subsidies to keep higher education free, and the 2012 tax burden figure of 49.8 percent of income is sure to increase.

### **TINSTAAFL**

There Is No Such Thing As A Free Lunch. And there is also No Such Thing As A Free Higher Education (TINSTAAFHE). Higher education, especially in science-heavy Germany, is incredibly costly to run and maintain. In a typical economic model for financing higher education, the consumer (student) would pay for the good that it consumes (education) and the research that researchers do would lead to innovations that have positive economic impact on society, therefore paying for themselves.

We have departed from this free market, “sustainable,” model globally, and rely heavily on federal subsidies to keep universities afloat. CCAP has argued that these federal monies have largely led to increases in the cost of higher education, which has over time compounded, translating into higher tuition fees. It is clear in the United States, with annual tuition fees in the \$40,000s or \$50,000s and millionaire university presidents, that federal subsidies have led to outrageous increases in university spending, as universities, administrators, and faculty enjoy the benefits of captured student loan and grant moneys.

Sooner or later this “free” higher education will feel less and less free as increasing taxes will likely drive the most educated, highest earning, most able Germans away from Germany and into societies where they can take home a greater percentage of their pay. This will then reduce the tax cache and start to decrease the deficit more than the added tax revenues from a more professional society will add to them.

Perhaps I’m underestimating Germans, though. Nationalistic pride is historically important, and they recently won the World Cup in “Fußball.” It is noteworthy that Germany has had its highest net immigration in recent years, though migration away from Germany was up 11 percent in 2013 over 2012.

## **Third Party Payments**

Third-party payments lead to many unintended negative consequences. Recently, the Association of American Physicians and Surgeons asserted that the third-party payment system is key to the increasing cost of health care. The same can be said about any industry that the consumer is not directly paying for the good consumed, including higher education.

The problem arises from the “Moral Hazard” associated with not paying for services. Because students are not sensitive to the costs associated with an additional year of higher education they will consume more of it. Progressive politicians may consider more higher education consumed a good thing, but I’m not talking about more students — which has other problems associated that I discuss below — but the same students taking longer to finish.

The United States has seen the rise of the five-year degree. Of the 60% of students who graduate from public schools in the U.S., over half take longer than four years to graduate. Compare that with private institutions (there are natural differences in students at each type of school that pay a role) which see 80 percent of its graduates out in four years. Their sensitivity to the marginal cost of that fifth or sixth year factors into their decision to consume.

If everyone decided to take an extra year to graduate, because it was free, the burden of higher education on the public coffers would increase by 33% (if they took four as opposed to the European norm of three years to finish). Graduation rates are already a problem in Germany, which is known for its “Dauerstudenten” or “eternal students.” As The Local reports, German students fail to graduate on time, and the average graduation age (following master’s degree) is around 28 years old.

Third-party payments can decrease academic quality. Students, less sensitive to costs, are less likely to hold a university accountable for an education that they aren’t paying for. Again we can look to the United States education system as an example: Public K-12 education has been criticized for its declining standards and educational outcomes, while the private K-12 system continues to flourish. As the product of a public K-12, I can say with certainty that parents of my classmates did not care as much as the parents of friends that were paying tuitions in the 5 to 10 thousands of dollars annually. To be sure, public education plays an important role to provide educational options to all, but the quality falls when students and parents are not as ardent about academic standards due to cost insensitivity.

## **Progressive Payback System**

Progressive tax systems generally have nothing to do with economic progress. Tax the rich more, tax the poor less. While reducing the relative tax burden on the poor helps them, it discourages economic mobility into a higher bracket, further innovation, and others.

Students will not be paying for this higher education, the taxpayer will. Attention students, you are the taxpayer. Eventually you will have to pay this back in the form of increased taxes (perhaps after you graduate on your 28th birthday).

Repaying this tuition will not be equal for all parties, and perhaps it shouldn't be. It costs more to train an engineer than it does an English (or German) teacher. Technologies are costly, equipment, more expensive instructors etc. However, say two students both graduate in economics. They take the same courses from the same instructors at the same time, but after graduation one takes a job as a statistician for the government, being compensated a fraction of what his classmate who goes on to become the CFO of a major company makes. They "purchased" the same good, i.e. the economics degree training, but that training costs the CFO multitudes more than it does the Statistician.

### Underemployment of College Graduates

According to recent Federal Reserve Bank of New York, the Underemployment rate of recent college graduates is around 46%. A 2012 CCAP study shows similar findings. According to the Office of National Statistics, nearly half of graduates in the United Kingdom were working non-graduate jobs. Such figures suggest that too many are being funneled into higher education already. No tuition education will only increase the underemployment problem.

With so many unintended negative consequences, it is important to ask whether free education is the best use for public German funds.

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