AMERICAN COMPASS POLICY BRIEF NO. 8 V.1.1 NOVEMBER 16, 2022

AMERICAN COMPASS

Self-Financing by Colleges

PLACE HIGHER EDUCATION'S RISKS ON INSTITUTIONS, NOT STUDENTS

WHAT'S THE PROBLEM?

Policymakers have promoted **"college-for-all"** and offered **open-ended subsidies** to finance attendance.

Colleges and universities have **rapidly increased tuition costs** and welcomed students **without concern for whether they will benefit**.

Most students who enroll either fail to complete or else land in **jobs that do not require their degrees**.

Public higher ed spending and student debt have exploded, but **young Americans are not seeing improved educational outcomes or prosperity**.

RESPONSIBILITY FOR OUTCOMES

America's "college-for-all" mythology has produced a perverse financing system for higher education. Because policymakers regard a college education as the key to opportunity, they have made it a public obligation to facilitate any student attending any school, regardless of cost. Colleges and universities receive their money up front, regardless of the outcomes they deliver for students.

The results have been disastrous. College spending has exploded, with public higher education spending per student increasing by 50% from 1993 to 2018, and non-instructional costs have been rising three times as fast as instructional costs. Student loan debt became the nation's largest form of non-mortgage debt, growing from $260 billion in 2004 to $1.53 trillion in 2020. And yet, colleges fail to serve most Americans. Only half earn even a community college degree. Fewer than one-in-five Americans move smoothly from high school to college to career: Students are more likely to drop out of college, or else land in a job that does not require their degree.

WHAT'S THE SOLUTION?

Colleges dependent on their alumni's future earnings would face a new set of incentives to reduce costs and focus on outcomes. A compelling rationale exists for public support of higher education, but it should come as a flat grant regardless of what the institution charges.

Congress should:

- Amend the Internal Revenue Code to eliminate the various federal credits, deductions, and savings plans for education expenses, including the American Opportunity Tax Credit, the Lifetime Learning Credit, the Tuition and Fees Deduction, 529 Plans, and the Student Loan Interest Deduction, which primarily benefit high-income households.
- Amend Title 20, Chapter 28 of the U.S. Code to eliminate federal education loan subsidies, which assert an open-ended public commitment to financing anything a university can think to charge for.
- Replace these tax benefits and loan subsidies with a single federal grant worth 50% of the in-state tuition at the median state's four-year public university.
- Establish a loan facility to support colleges and universities in transitioning to self-financing their product.

YOU GET WHAT YOU PAY FOR

Many sellers provide financing for the purchase of their own products, from cars to capital goods and sometimes real estate. Colleges and universities should do the same for the costs not covered by a standard federal student grant.

They are best placed to understand the risks students face on the road to success, and thus to make wiser decisions lending to them than any other institution can. And if colleges and universities complain that having financial skin in the game simply cannot work, they are really admitting that *their* models do not work. They, not their students, should suffer the consequences.

FREQUENTLY RAISED OBJECTIONS

"THIS WILL MAKE COLLEGE UNAFFORDABLE FOR THOSE WITHOUT MEANS"

Loaning large amounts of taxpayer money to teenagers with uncertain prospects and no collateral was never a wise idea. Absent federal subsidies, schools whose programs cost substantially more than the typical state university will have to provide the financing for those costs and have confidence that the investment will yield a worthwhile return. Where this is the case, all students will continue to have access. Where it is not, the programs will rightly fail.

"IF COLLEGES ARE INCENTIVIZED TO ONLY OFFER EDUCATION IN WELL-REMUNERATED FIELDS, IT WILL KILL THE LIBERAL ARTS"

Liberal arts programs that produce graduates able to repay the cost of those programs will deservedly thrive. Liberal arts programs whose graduates cannot or will not pay their cost should wither. The public will continue to subsidize state university systems and attendees at all higher education programs. But no institution is entitled to open-ended subsidies or to operate without accountability for the outcomes achieved by students.

"THIS WILL BANKRUPT COLLEGES AND UNIVERSITIES"

A shift to self-financing would initially require institutions without large endowments to borrow working capital with which to finance their educational offerings. Most institutions have sufficient fixed assets to secure the needed loans—and the federal government could play a role assisting with that financing in the short-term. In the long run, linking the economic viability of a higher education program to the success of its students is a feature, not a bug.

KEY FACTS

1 in 5 — Young Americans who go smoothly from high school to college to career[1]

$2.30 — Dollars that private four-year colleges spend elsewhere, for every dollar spent on instruction[2]

$9,268 — Median in-state tuition for a public four-year institution[3]

2nd — U.S. rank in per-student spending on higher ed (behind only Luxembourg)[4]

$400B — Estimated cost of President Biden's student loan forgiveness plan[5]

FURTHER READING

Oren Cass. "The Banality of Student Loans."
***American Compass,* 2022.**
An in-depth white paper making the case that student debt does not deserve its "sacred status" and should be dischargeable in bankruptcy.

"A Guide to College-for-All."
***American Compass*, 2022.**
A data-driven overview of the "college-for-all" model's failure.

Mike Reeser, Texas State Technical College.
"Colleges Should Only Succeed When Students Do."
***American Compass*, 2022.**
A case study highlighting a higher education funding model that ties institutional incentives to student success.

ABOUT AMERICAN COMPASS

Our mission is to restore an economic consensus that emphasizes the importance of family, community, and industry to the nation's liberty and prosperity. American Compass is a 501(c)(3) non-profit organization.

For more information, visit americancompass.org

[1] American Compass analysis of U.S. Department of Education and Federal Reserve Bank of New York data.
[2] National Center for Education Statistics.
[3] National Center for Education Statistics.
[4] OECD iLibrary. "Education at a Glance 2021: OECD Indicators."
[5] Congressional Budget Office. "Costs of Suspending Student Loan Payments and Canceling Debt."