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How Rising College Costs and Student Debt Contribute to a Social-Mobility 'Crisis'

By Vimal Patel JULY 08, 2019

At a time when higher education's worth is already under a microscope, soaring college costs and student-debt levels threaten to further undermine public support of the sector. How did higher education get here?

Old Dominion U.
James V. Koch, a professor of economics and president emeritus at Old Dominion U.

That's what James V. Koch, a former president of Old Dominion University, wanted to explore in his new book about four-year public institutions, *The Impoverishment of the American College Student,* to be released on Tuesday by the Brookings Institution Press.

Koch spoke recently to *The Chronicle* about why the costs of public higher education have ballooned over recent decades, how colleges can keep student debt from spiraling out of control, and why debt cancellation is a bad idea. The interview has been edited for space and clarity.

Q. What inspired you to write a book about college affordability and student debt?

A. We are approaching a crisis situation in the United States with respect to the ability of individuals to move upward in society. I would not blame all of that on higher education, but higher education is a major part of the problem. I wanted to thoroughly dissect the data and generate something that would be reasonably definitive in saying, This is the situation. Here's how we got here. And here's what we can do about it.

Sustaining the College Business Model

Q. Many of the causes of rising tuition and fees are widely known, such as decreased public support, administrative bloat, amenities expansion, and rankings competition. You mention one cause that is a little more complex: the role of federal student financial aid. How does that work?

A. This remains a somewhat-controversial area. But recent research leads to the conclusion that additional federal financial aid may stimulate institutions to increase tuition and fees more than they might have. In a sense, it's a variation of the third-party-payer problem that we see in medicine: When someone else is paying the bill, we don't pay quite as much attention to the price.

In higher education, when students have the federal government assuming some of the responsibility for the cost of their education, and the institutions know they're going to get these dollars to support the students they enroll, this gives them much greater leeway to increase prices because they have confidence that the federal government is going to bail them out.

Q. What's the solution to that? Reduced federal financial aid?

A. That wouldn’t make us better off. We’d be worse off. But I think it would be useful for each institution to have some skin in the game. If I’m a for-profit institution, for example, for the last few decades I could do my very best to make sure that students borrowed the most money possible so they could pay their tuition today. If a student defaulted, the institution bore no responsibility for that, and didn’t have to pay anything as a consequence. It would be a good idea to have institutions bear some responsibility so that if a student defaults, they have to pay back some portion of that.

Q. It seems as if canceling student-loan debt would have been a fringe issue even just a few years ago, but it’s now part of mainstream political debate. How did we get here?

A. In 2017 one out of every six student debtors was in default. And only 45 percent were paying on time. This is problematic. My wife and I were able to go to school in the 1960s, and through scholarships, summer jobs, and jobs on campus went through our undergraduate careers with very little debt. A typical person just can’t afford to do it that way today.

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In 2000 the number of work hours required per typical private-sector employee to pay for average tuition and fees was 250. In 2016 it was 447 hours. Pretty clearly, the ability of Joe Lunchbucket to pay for higher education has declined. Many of the presidential candidates have picked up on this. People are straining and hurting, and they’re defaulting on their debt, or not attending school at all, or attending part time and running into a variety of problems.

Q. Is debt cancellation the answer?

A. I don’t think so. It would set into motion a series of behavioral disincentives that would maybe cause us to end up being worse off. If institutions know that student debt is going to get canceled, that reduces the inhibitions they might have toward increasing their prices. Why control prices if someone is going to come in and take care of the problem for you?

“If they know they don't have to save, they won't.”

Further, if I saved money for my children to go to school and you haven’t, and if you go into debt, then I’m being penalized for having been rational and having saved. It’s a disincentive that we don’t want to put in front of parents in the future. If they know they don’t have to save, they won’t.

Q. Are American colleges engines of social mobility?

A. Yes. But not as much as they used to be. In my book I talk about some individuals who moved up through the ranks from poverty. Since I’m in Montana right now, one such individual is Mike Mansfield, who was a U.S. senator and Senate majority leader for many years as a Democrat. Mike Mansfield dropped out of high school and worked in the copper mines of Butte. He was able to propel himself out of that, go to the University of Montana, and went on to his career.

Q. Is something like that less likely today?

A. Absolutely. Raj Chetty and the people at Harvard track economic mobility. They have lots of numbers showing that the ability of someone to move from the lowest income quintile to the highest income quintile has declined over time. Some of the institutions that thought they were good at it aren’t really very good at it after all. Institutions can do better if they wanted to, but for a variety of reasons, they don’t.

Q. What are some of those reasons?

A. Who wants to be the president who presides over the decline in the *U.S. News & World Report*’s annual rankings? You might be a better institution because of it, but it would look as if the institution had deteriorated.

Q. You write in your book that student debt held by households increased by 322 percent from 2004 to 2017, even after factoring for inflation. Is higher education’s business model sustainable?

A. Yes and no. It depends on what kind of institution you are. The University of Michigan last year got something like 60,000 undergraduate applications, so they have price-making power. They have brand identity. They can do pretty much what they want, and students are going to pay.

Career-Ready Education

But if you’re talking about a regional state college like Western Illinois, they’re in a completely different environment. They don’t have the price-making ability or prestige, and there are all sorts of other things happening, so life is very difficult for them. The business model does not work well for some institutions, but it works very well for others.

Q. How do we make college more affordable?

A. Every tuition and fee increase at a public institution is approved by a board of trustees or regents. Usually the votes are unanimous. I was president for 15 years, so I sang some of the same songs that presidents and administrators sing these days [when they want tuition hikes]. Presidents end up co-opting their boards. They give them tickets to all the events. They do all kinds of things that make the board members feel good and make the board members feel this is really important and that they need to do what the president asks them to do.

Q. So you think boards should be doing a better job of holding the line on tuition increases?

A. Yes. Part of the problem is they get appointed by governors or elected officials and think they're supposed to be advocates for the institution rather than representing the public and taxpayers and students. They become advocates for the institution and perhaps even the president rather than saying, We're here to represent citizens and taxpayers and make sure the university is doing what it should be doing for society at large.

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