

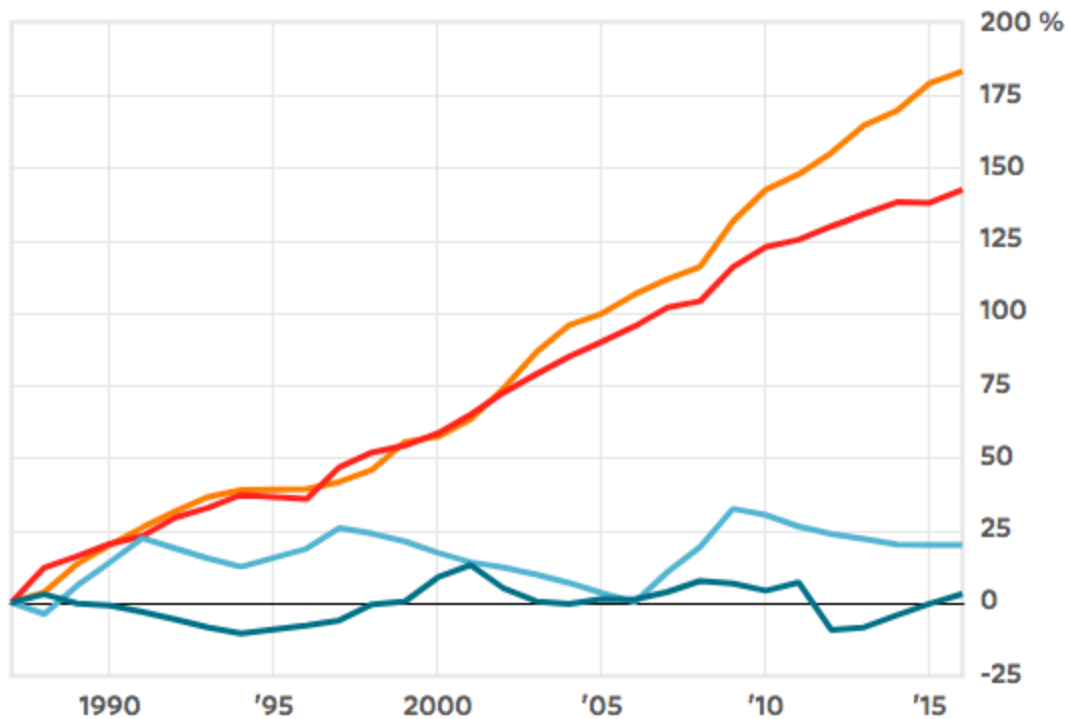
Free College – Publicly Funded Higher Education

Over the course of a few decades, college tuition, as well as many other costs associated with the college experience have become quite expensive as 45 Million Americans owe a cumulative \$1.5 Trillion in Student Loans. Older generations suggest that students should be working their way through school just as they did. There is just one problem with that philosophy. The rate at which college expenses are increasing are outpacing the PayScale of most jobs available to the typical college student.

Tuitions rise, salaries don't

Percentage change since 1987, adjusted for inflation

— Early Career Salary — Minimum Wage — Private University
— Public University



Source: National Center for Education Statistics; National Association of Colleges and Employers; U.S. Department of Labor

From the graph above we can see how college tuition has outpaced income potential for young working Americans, both college bound and not. It is interesting to note that up until 1997, working and going to school was a viable option to most students as wages did appear to be somewhat keeping pace. After that, the number of hours someone would need to work would be too much for a full-time college student and would be detrimental to their studies.

As costs grew, the call for help began to get louder and louder and in 2010, we got a system where the government took over the student loan process and began loaning the money to students themselves, cutting out the banks and other money lending institutions and then sold the loans to private companies such as Nelnet, CornerStone, Navient and many more. This was sold to the public by President Obama as a way to reduce costs and help the American public attend college at a more affordable price. The reality of the situation is much different. The Congressional Budget Office raised its forecast for the costs of the loan program by \$27 Billion which is a 30% increase over the old system which had been in place since 1965.

Loans are easier to get nowadays. But they are more expensive, and the Obama Administration has even made it easier to for students to avoid paying the loans back in full as Obama expanded the “Pay As You Earn” Program. A program that caps the amount you are forced to pay which is 10% of your income and anything left after 20 years is forgiven. In 2015, the Federal Reserve Bank of St. Louis found that there is a 27.3% delinquency rate among student loan borrowers which is up from 11% in 2001. It is also worth noting that this delinquency rate is also the largest amongst any other loan type, including Credit Card and Car loans. The balance of these loans is growing around \$100 billion a year and these costs will eventually end up on the shoulders of the taxpayers and \$1.5 Trillion is going to be a tough pill to swallow.

There must be a better way, right? Why don't we just do what Europe does and make college tuition free? Surely this would be much cheaper and relieve student's money troubles if we just make the colleges stop charging Tuition. Well, this does not make it cheaper, it just changes who is paying. In Europe, they levy taxes to help cover these costs and not so surprising, the subsidy the schools are getting is not enough. Germany saw a 22% increase in enrollment as soon as tuition was dropped and over time has seen a 37% increase in costs to taxpayers. England has a similar problem and it led to a limit on the number of students that are accepted and that has led a drastic increase in the discrepancy of high- and low-income students earning college degrees. The number of high- and low-income students earning degrees in England is 2 to 1. France is seeing that they have a near 50% fail or drop rate within the 1st year as students are not motivated to stay as the workload increases. Why would they be, they are not paying for it?

One reason they thought they could handle the costs is the fact that these countries already have higher taxes than the US and a much smaller college student population. As noted in the previous section, Germany saw a significant increase in enrollment but no change in funding. 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.

When you are not involved or directly affected by the costs, people are often encouraged to consume more. Every extra year of study costs the taxpayer an extra 33% to produce 1 college graduate, according to the German Minister of Education. So, while it is well established a college graduate earns more than a non-college graduate, the rate of return drops when the students are staying in school beyond the designated 4 years. According to the US Department of Education, only 33% of Public College Students Graduate within 4 years. And 57% graduate after 6 years. This drop in ROI, is due to lost time in the workforce, which includes experience and lost wages. But this also includes the additional resources

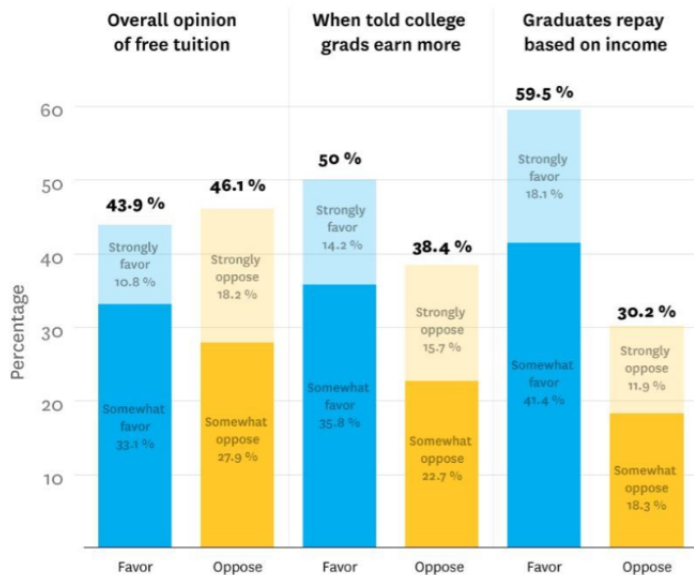
required to carry these other 42% of graduates. They will use an average of 66% more money and other resources over there 4-year counterparts.

Not only is the overall cost skyrocketing, but the quality is dropping. England and Poland saw significant increases in not only quality but ease of access once tuition was reinstated. Germany’s Minister of Education has also commented that many classes are not being taught by professors but by other students as the schools lack the money to secure professors’ long term.

If the US were to implement this system as Europe has, we can expect higher costs and lower quality graduates. If we experience some of the same setbacks, we can expect up to 13% of the money spent to be wasted as we can expect that upwards of 50% will fail or drop out in the first year. Only 33% graduate on time and only 57% graduate at all. I am sure this number will change as the fail rates catch up (50+57=107...Makes no sense). This is in addition to the 37% increase in costs and a 22% jump in enrollment. The worst part is Germany has been having trouble in recouping the costs and retaining its investments as 11% of college graduates move out of Germany to seek careers.

The sad part is we are not done with the financial disaster that is Free College because this is only a portion of the spending involved with college. Students in Europe do not take out loans for tuition but for general living expenses. They rack up \$30-40k in private loans to pay for rent, utilities and food. The worst part is many do not have to pay all these loans back so much of this money also gets passed to the taxpayer.

Below is the result of a poll in Germany concerning their feelings regarding tuition free college. The graph is rather self-explanatory as it shows a breakdown of how strongly people feel about the tuition issue. With 46% opposed to the idea in general, it is important to note that when presented with the idea that college graduates earn more and end up paying more taxes, 50% become favorable towards the idea of keeping college tuition free. According to the report that goes along with the survey, as the people got older, the more likely they are to oppose the Tuition Ban and in other words, now that they have gotten their education for “free” let everyone else pay for their own.



Source: Ifo Center for the Economics of Education

Now that we have covered many of the ideas around the college graduate in general, we should examine some specific cases or concepts. Let us examine underemployment. Underemployment is the idea that the person is in a job that does not offer them the income level associated with the knowledge or skill level of the employee. A common example is a college graduate working in a grocery store. The job does not require a degree and the person is potentially being underutilized. They are also taking a job away from a non-college graduate who now must settle for an even lower paying job and now they are potentially underemployed as well. And estimated 43% of college grads are underemployed during their 1st post college job and according to the BLS, 33.8% of all college graduates are underemployed for their careers.

According to a Strada Education Network Study, nearly 51% of college graduates regret the decisions they made regarding their college education. Nearly 36% would choose a new major if they could. Most of which cited one important factor as to why. They picked a major they were excited learning more about, and they focused everything they had into learning about it. But they would have learned about these passions throughout life anyways as it was important to them. They would have picked majors that boosted their job opportunities as well as their income potential. The poll found that there were two groups of students that were more satisfied with their educational decisions. One included students who completed trade, technical or work-related study programs. And the other included students who specialized in science, technology, engineering or mathematics, an area known in American education as STEM. The poll also found that individuals with higher student loan debt are more likely to say they would change at least one educational decision.

As a summary, people who went to college/trade school to build a career tend to be happier and more successful than those who went to learn more about a passion. According to the Department of Education, Tuition costs the 19.6 Million college students about \$78 Billion annually. With a 22% enrollment increase, that would be about 24 million students. A 37% costs increase puts that figure at \$107 Billion. Then add the 42% of graduates that take 6 years, and this figure grows to \$138 Billion a year. Using Europe's own experiences and applying them to what we might expect to happen here. Up to 50% of students will fail in their first year meaning about 1/8th or 12.5% of the money is wasted. 11% will migrate to other countries and 34% will be underemployed throughout life. That makes about 57.5% of the money invested each year wasted.

Why should we move to this system? It is more expensive and terribly inefficient. We would end up wasting more money than what the students currently spend on tuition. I think before anyone goes to college, they need to consider what exactly they are hoping to achieve by going and weigh the risks accordingly. I think a lot of the people who support the idea of free college are people who got degrees in questionable fields and now feel like society owes them a do-over. We need to figure out how to keep college costs down not just pass them on to everyone else. That does not lower costs. Maybe Universities should stop offering 132 Majors when 80% of their students are coming for the same 10-12 majors and the rest are just filler courses.