"Is College Still Worth the Cost" Presentation
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I am here to represent the students' point of view: How they approach the question of college costs and how the current system can too often deter them.

One of the hundred or so people I interviewed for Generation Debt was Cindy, age 31. She grew up in Arkansas, one of five children of a single mother on public assistance. At the age of 17 she left home and moved to Atlanta, where she eventually enrolled at a four-year public university. Still under 24, she was officially considered a dependent student, and therefore qualified for less federal aid. Cindy initially borrowed about $6500 in student loans, and worked two jobs, 45 hours a week, while studying full-time for a bachelors' in business administration. After nearly two years of this grueling schedule, stress-related ailments landed her in the hospital, and without health insurance from either of her jobs, she ran up thousands of dollars in medical expenses. Meanwhile, she missed a semester of college and her unpaid student loans went into default. "I pretty much gave up at that point and got married instead," she said.

When I talked to her, Cindy had moved back to Arkansas. Divorced, she managed a small business, earning around $20,000 a year. Her original $6,500 student loan, after ten years in default, has accumulated to $10,000-plus with interest and fees. She says she "lives in fear" of having her wages garnished, and often gets nasty calls from collectors.

"I regret with all my being having ever gone to college," she told me. "I just ask that you not use my real name. There is a certain feeling of shame at having defaulted on my student loans. After all, it's the taxpayers' money–something a collections agent didn't hesitate to point out to me in a very demeaning way. His exact words were, which I have not forgotten years later, 'Good honest taxpayers have to foot the bill for deadbeats like you who refuse to pay their student loans.' My purpose for going to college was to avoid just that and not end up, like my mother, on public assistance. Unfortunately, it didn't work out as I had planned."

To me, the central question, in talking about whether college costs too much, is how many students are ending up like Cindy? How many will regret having ever gone to college?
Certainly, as I discuss in my book this is the first era where we're asking a majority of students to take on very large costs in order to go to college. Two-thirds of all students are borrowing, compared to less than half in 1993. Borrowing levels are higher for lower-income students, and average graduating loan burden is growing—reported at between $19,200 and $23,485 for 2004 depending on who you ask.

Yet as we can see, this is not a question that can be answered with reference to specific amounts of money. It is first and foremost a question of risk.

We often talk about college as an investment, and particularly now that the majority of federal student aid comes in loans. What is not so often emphasized is that the current system is an investment on the part of three parties: lender, borrower and government--each incurs risk, each puts up capital, each expects a return.

Now looking at college costs from this perspective, as a public good as well as a private good, to me it's a false question whether college is still a good idea or a good investment for the individual, on average. Clearly it is. And students realize that.
But since the federal government is by far the decisive player in the student aid game, the one that makes the rules, the question is this: Is the federal government making the best use of its investment to accomplish its goals—a fair playing field for all to make good on our promise to be the land of opportunity, taking advantage of the best talent the country has to offer, and economic competitiveness through an increasingly educated populace? I would argue that the overly complicated, debt-based education financing system we have works against these goals.

And this in turn, because most of student aid comes in the form of loans, these problems arise in large part because of the way the student loan program works. There are two federal student loans program. In the direct loan program, the federal government lends money directly from the treasury—this program serves about 25% of schools. Currently the risks and rewards of guaranteed loans, the majority of the federal student loan program, those made by banks, are split unevenly. The lenders' risk is much smaller than with regular commercial loans: The government guarantees 98% of the value of defaulted loans, and also guarantees a certain rate of return. Reward: huge profits. Sallie Mae was identified in the 2005 Fortune 500 as the second most profitable company in the United States with over 36 percent return on revenues – compared to a median return of 4.6 percent for the nation's 500 biggest companies. We can certainly ask whether the department of education can continue to afford to subsidize a private industry that is apparently doing so well.

The government's risk is also small: default rates have bottomed out at 5% in the past few years and their power to recover the loans through the existing tax and benefits systems is huge. The government's reward is as we have discussed: Better citizens, more economically competitive.

The students' risk, however, is considerable: a) First, the chance of not finishing college once they start and b) the chance of not earning enough money after graduation to cover cost of repayment. How great are these two risks? They are large, and they increase with the amount of financial burden that a student takes on.

To take the second risk first, the question of whether college is "worth it" is often boiled down to just one figure: the $1 million bonus in lifetime earnings that accrues on average to those with a college degree. However, as Robert Shireman of the Institute for College Access and Success points out, this is an example of the tyranny of averages. Fewer than half of college graduates earn the million-dollar bonus or more. Plus, past performance is no prediction of future results. In fact, the 2006 Economic Report of the President says that the real earnings of college graduates actually fell more than 5 percent between 2000 and 2004. From 1975 to 2004 the average earnings of college graduates rose, but by less than 1 percent per year.

To me, however, the even more compelling case is Cindy's— the question of will you take a loss on even your attempt at getting a college degree? There is far too little attention paid to the output of the education system--outcomes and graduation rates.

The US Department of Education last week release d a report showing that just 35 percent of first-time, full-time college students who plan to earn a bachelor's degree reach their goal within four years, and just 56 percent achieve it within six years. That's just over half. Above six years, you're looking at long-term effects of lost wages, impaired productivity, less-than-full engagement in the workforce—a yo-yo effect. The New York Times reported last year that one out of three young people in their 20s is a college dropout.

Not everyone who has only some college ends up like Cindy. But their earnings on average are much closer to the earnings of high school graduates than to the earnings of college grads. According to a May 2005 report by the National Center for Public Policy and Higher Ed, borrowers who do not complete their degrees are 10 times as likely to default on their loans and twice as likely to be unemployed as those who do.

And this is the crucial irony, or catch-22 : Because of the student aid system we have, with its high upfront costs, students from below median income backgrounds both take out bigger loans and have a higher risk of not completing college-because they are going part time, working more hours, and all of this interferes with their campus engagement.
So these factors tend to compound each other. And the outcome is as follows.

Need-based aid isn't doing it. In 2000, the gap between whites and blacks in college attendance was 11 percentage points; in 1972, the gap was only 5 points. The disparity between Hispanics and whites was 13 points in 2000, compared with 5 points in 1972. (Reauthorization of the Higher Education Act: Issues and Options, Thomas Wolanin, 2003)
If you come from a family earning in the bottom one-quarter, your chance of getting to college is 1 in 17. If you're from the richest quarter, your chance goes up to 1 in 2.
According to Department of Education Data, "unmet need" totaled $31 billion in 2003-2004. And the poorer your family, the more unmet need you have on average. Public college students from a family with a household income of $62,240 or less face an average of $3,986 a year in unmet need. Public college students from families with a household income of $34,288 or less faced an average of $4,990 a year in unmet need. And according to a 2003 report for the Congress, about 2 million college-qualified young people will opt out of college altogether by the end of this decade.

What does that mean for the US, the federal government, as an investor in higher education aid? Well, we're clearly not keeping the promise that there should be a level playing field for kids to get to college. We've also, crucially, ceded our position as the world's education leader. Despite the outlandish amount of money it spends per student, our country is falling behind internationally in educational achievement. Since the mid-1970s we have gained only a few percentage points in the percentage of people in their 20s with a bachelor's degree, now around 29 percent. (Ed Attainment in the US, US Census, 2003)

Organization Economic Cooperation & Development fall 2005 report "Education at a Glance 2005": Compared to 35 years ago, we have dropped from first to 9th among developed countries in the percentage of high school grads, and from first to 7th among developed countries in the percentage of college grads, both bachelor's and associate's degrees-Canada, Japan, Korea are far ahead of us, Scandinavia, Belgium, and Spain are right where we are.

And then for sheer numbers, we have of course China and India. China produced about 3.3 million college graduates in 2005, India 3.1 million (all of them English-speaking), the U.S. just 1.3 million. In engineering, China's graduates numbered over 600,000, India's 350,000, America's only about 70,000. ("Is America the World's 97-lb Weakling?" Fortune, July 2005)

The answer to this problem is not just more money. We spend—this is government and private spending alike--$20,545 per student at the post-2nd level, twice as much as the OECD average.

The answer I believe lies in the sources and distribution of this money.

A September 2005 report by Alex Usher, of the internationally based and funded Educational Policy Institute, called Global Debt Patterns, compared student loan policies in Australia, Canada, Germany, The Netherlands, New Zealand, Sweden, the UK, and the US.
It explained how the governments of other countries use strategies to help student loan borrowers repay their debts and protect them from some of the risks of long-term, unmanageable debt. And each of these proposals are on the table as possible reforms to the US system.

These include
1) Of course, more need-based aid—larger grants, or making college free to students below a certain income. The maximum Pell grant is $4,050, and this is going to be the sixth consecutive year that it hasn't risen. That pays for less than 1/3 of costs at the average public university.

2) Subsidizing the interest to a greater extent The United Kingdom charges zero real interest, tying loans to the rate of inflation. Starting July 2006, the US will charge a fixed rate of 6.8% interest on most student loans.

3)Income Contingent repayment If Cindy was in Australia, Germany, New Zealand, or the UK she wouldn't owe anything on her student loans.
In the UK's new system, they pay 9% of income above the threshold. This ensures that no one is shackled by their debt. In the US, borrowers with low incomes have very limited options for delaying or reducing payments. And Debt Forgiveness. 25 years in Sweden and the UK, 15 in the Netherlands, and 20 in Germany.
http://educationalpolicy.org/publications.html .

(4) Most important of all: MAKE THE SYSTEM SIMPLE, UNDERSTANDABLE, fixed low rates. UK System: No upfront payments, you don't start paying back until you graduate. Goes a long way to reduce debt aversion. With that kind of provision Cindy might have gone back to school.

While recognizing that each system has its strengths and weaknesses, Global Debt Patterns concluded "In the worst-case scenario of having low income and high debt, the US is clearly the worst place to be—in no other country to repayments of students in this position exceed 6 percent of income, while in the US the proportion can be as high as 15.3%."

When evaluating the justice of any system, you must put yourself in the position of the least fortunate person in that system—someone like Cindy. And student aid reform is a lucky instance where doing the right thing is also efficient, effective, and good for the country.