Testimony of

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on

Innovations in College Affordability

to

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Chairman Harkin, Ranking Member Enzi, and distinguished members of the Committee, thank you for the opportunity to speak today about innovations in college affordability. My name is Kevin Carey, and I am the policy director of Education Sector, a non-partisan education policy think tank based here in Washington.

The topic of today's hearing is a crucial one because, as we all know, the price of higher education in America is spiraling out of control. Over the past 10 years, public university tuition grew by an average of 5.6 percent above inflation every year. As a result, student loan debt is at an all-time high and access to college is threatened. Students and families can't afford to pay these bills and, increasingly, neither can the American taxpayer. Annual federal financial aid to higher education has increased by over $100 billion in just the past decade. We can't just keep shoveling money into a system that consumes resources at an ever-faster clip. Innovation is needed, and needed badly.

I would like to start by making a distinction between two elements of affordability: college *costs* and college *prices.* These terms are often used interchangeably, but they actually represent very different things. College costs are what colleges spend to educate students. College prices are what students pay to attend school. **We need innovation in both college costs *and* college prices in order to fix the affordability problem.**

This will require new federal policies that open up the higher education market to innovative, low-cost, high-quality providers—including organizations that look very different from traditional colleges and universities. It means we need much more information and transparency in the market for students and parents struggling to choose the school that is best for them. And it demands a more active federal role in regulating an industry that cannot regulate itself.

Colleges like to argue that college costs cannot be seriously restrained. Higher education is an inherently labor-intensive industry, they say, and thus subject to the immutable laws of economics. If we want college students to get a good education, we are told, we have no choice but to keep writing ever-larger checks, forever.

This is nonsense.

Colleges are not--alone among all human institutions--exempt from the need to become more efficient. Other industries have been transformed by managerial innovation and the power of information technology. Colleges, too, can take these opportunities to reduce costs.

We know this because many colleges are doing it already. Some of them are represented here today. Let me describe a few others. Virginia Tech is one of the nation's finest engineering schools and a leader in technology-based innovation. In the late 1990s, it completely changed the way students learn introductory mathematics. Instead of sitting in a lecture hall once or twice a week, students go to a computer laboratory that's open 24 hours a day, seven days a week, where they work through carefully designed problem sets that provide customized feedback and access to video, text, and other materials. Tutors are on staff to help students who need it. As a result, Virginia Tech has cut its labor costs dramatically for courses like Linear Algebra and Calculus. Crucially, student learning results stayed the same, or improved. This is not a new experiment or obscure institution; a major research university has been teaching this way for over a decade.

And it's not alone. The non-profit National Center for Academic Transformation has helped *hundreds* of two- and four-year colleges use technology to redesign their courses. Some are fully online, but most are hybrids--a combination of technology and personal instruction. Many of these colleges have cut their costs dramatically, in some cases by over 50 percent. More important, student learning results have consistently improved.

We all know there's a terrible college drop-out problem in this country. These innovations help students pass courses that are often a major barrier to graduation. **Colleges can cut costs *and* improve learning simultaneously**.

Of course, technology isn't the only way to cut costs. Many colleges and universities have been around for a long time. They've become bloated, cumbersome, and inefficient. It's hard for organizations like that to reform themselves. Like any industry, higher education needs new, efficient competitors to challenge old ways of doing business.

Recently I visited one such organization, a new branch campus of the University of Minnesota, in Rochester. Rather than lay out a smorgasbord of academic offerings, this university has only three majors, all in health sciences. The brand-new, state-of-the-art classrooms were built in renovated commercial space that used to house a food court. Instead of building dorms, the university negotiated group rates in apartments. There are no elaborate fitness facilities--students work out at the "Y." All the professors, including those on the tenure track, teach undergraduates in small classes. The university partners with local industries such as IBM and the Mayo Clinic to provide its students with access to labs, experts, and internships. The library has no books, just computers and wi-fi. If students like college football, they can drive to the Twin Cities or watch TV.

All of this costs the Minnesota taxpayers a fraction of what it takes to build and maintain a traditional university. And students are getting a great education.

Other cost-reducing innovations have happened at the system level. A few years ago, the University of Maryland system took a hard look at itself. Buildings were sitting half-empty on Monday mornings and Friday afternoons because students and professors don't like to attend class then. Some students were taking too long to graduate. Faculty workloads were too low and utility costs were too high. So system leaders put their heads together and saved millions of dollars through joint purchasing, improving classes where many students were dropping out, and working with faculty to increase the number of credit hours professors teach.

Meanwhile, some of the nation's leading universities are developing even more radical innovations.

Learning scientists at the Carnegie Mellon University Open Learning Initiative have created sophisticated online classes that use "cognitive tutors" and virtual laboratories to teach subjects including Statistics, Biology, Chemistry, and Logic. Initial studies suggest that students learn *more* in these environments than in traditional, sit-down courses.

In another example, just a few weeks ago, MIT announced the creation of a new initiative called "MITx," a next generation of online courses designed in consultation with some of the greatest scientists in the world.

The up-front development costs for Carnegie Mellon and MIT are not inconsequential. The best online courses offer much more than some lecture notes or videos on YouTube. But once the courses are developed, it costs the university very little to serve additional students. The more students who enroll, the lower the cost per student becomes.

And the Carnegie Mellon and MIT initiatives have more in common than being developed by two of the world's great research universities. They carry the same price to the student: zero. Both Open Learning Initiative and MITx courses are free.

This shows the crucial distinction between *cost* and *price*.

There are many things colleges can do to reduce costs that they are not doing. For every Virginia Tech using technology to cut costs and improve learning, there are hundreds of universities teaching math the same old way. The University of Maryland example is the exception, not the rule.

But other cost-cutting strategies are widespread. We know, for example, that in recent decades, colleges have been steadily replacing expensive academic labor with cheap academic labor. In 1975, one-third of faculty were adjunct or part-time. Today, over two-thirds of faculty are adjunct or part-time, and these workers are often paid little salary and no benefits. Whether or not this is a cost-cutting innovation, it is definitely a successful cost-cutting *strategy.*

And yet at the very same time, college prices have been rising dramatically. The cost of educating students is going down even as the price students pay to be educated is going up. Why?

The answer lies with policy. Cost-reducing innovation is mostly a matter of practice. *Price*-reducing innovation is mostly a matter of policy.

Some of that policy is financial. There is no doubt that colleges have raised their prices in recent years because states reduced their subsidies for higher education. Some states have hacked hundreds of millions of dollars from public university budgets, and universities have responded by reducing access to courses and imposing dramatic price increases on students and parents. They're counting on the fact that families will still scrimp and save to send their children to college--and that the federal government will come through with more financial aid. Many of your colleagues in state legislatures are passing the higher education bill to you.

In Maryland, state lawmakers rewarded the more efficient university system with enough money to keep prices stable even as other states were causing tuition to skyrocket. Some states are experimenting with performance-based funding, while others are creating early college high schools that allow at-risk students to earn college credits, for free, before matriculation.

But overall, in a time when the nation needs more well-educated workers and citizens than ever, state financial trends are moving us in the opposite direction. President Obama's proposed Race to the Top for higher education is one way to address this problem. States need strong incentives to maintain their commitment to higher learning.

But it's also important to note that, over the long term, college prices have gone up in good economic times and bad. **When state funding goes down, college gets more expensive. When state funding goes up, college gets more expensive.**

Why do colleges always raise their prices? The simple answer is: because they want to, and because they can. Most colleges are non-profit. But that doesn't make them indifferent to money. Colleges and universities enjoy a great deal of autonomy and they operate with strong desires. What they desire most are fame and prestige. Both of these can be bought.

For example, *U.S. News & World Report* ranks colleges by, in part, how much money they spend per student. A college that discovered innovative new ways to reduce costs and passed those savings on to students in the form of reduced prices would see its ranking fall. Unsurprisingly, nobody ever does this.

Colleges are also ranked according to their students' average SAT scores. As a result, colleges are increasingly spending their financial aid dollars recruiting high-scoring, well-off students, instead of giving aid to needy students. They, too, are counting on the federal government to make up the difference.

Colleges do much more than educate students. They are centers of research and scholarship. They provide community services and sports entertainment. They pay the salaries of administrators who are in charge of setting prices. All of these things are expensive and can be funded from student tuition.

This explains why colleges desire to constantly raise prices. It doesn't explain why they get away with it. That question goes to the peculiar market and policy environment in which colleges and universities operate.

During their three-decade-long price-raising spree, colleges and universities have benefited from a number of underlying economic and demographic trends. First, the value of a college degree—what economists call the "wage premium"—has increased substantially. As well-paying blue-collar and less-skilled jobs have disappeared from the economy, the gap between what college graduates make and what everyone else makes has widened. During the recent great recession, college graduates were much less likely to lose their jobs and those who were unemployed were more likely to get their jobs back.

Parents and students realize this. People keep paying ever-rising college prices because: What other choice do they have?

Colleges have also enjoyed a surge of new students from the children of baby boomers, a demographic bulge that has given higher education institutions more customers than they know what do with. In other words, the value of college is rising, demand for college is rising, and the population of customers for college has been rising.

In a normal market, this would be an opportunity for new firms to grab market share, particularly if existing firms are inefficient and over-priced. But with a few exceptions, states stopped building new public colleges and universities in the 1970s. Major new private universities are a thing of the past. And while a number of for-profit colleges have entered the market, they have, for the most part, not chosen to undercut traditional colleges on price.

Nothing can change college's desire for money. What can change is their ability to act on that desire in the form of steep tuition hikes. **There are three main ways public policy can create stronger incentives for colleges to keep prices down—three kinds of price innovation.**

<u>**The first kind of price innovation is about who gets to be a college--or, more specifically, who gets to be a provider of higher education.**</u>

Consider the company Straighterline. It was created by an education entrepreneur and is located here in the Washington, D.C. area. Straighterline offers online courses to students for a flat subscription rate of $99 a month plus a one-time charge of $39 per course, for all the courses students can take. They can enroll in accounting, statistics, calculus, biology, and other introductory classes. The textbooks and course materials all come from the same major commercial publishers that regular colleges use. Individual tutors are available, online.

Straighterline's prices are so low because, as I noted earlier, once you make the initial investment in online course development, the cost of serving additional students is very small. And also because Straighterline isn't paying the sunk costs of maintaining football stadiums, research departments, vice-provosts, and so on.

Straighterline currently serves several thousand students and is growing. This education comes at no cost to the American taxpayer because students aren't allowed to use federal financial aid to take Straighterline courses.

That's also the problem. Straighterline is a victim of higher education regulation. Not the kind of regulation that traditional colleges like to complain about, where they are required to disclose basic information about themselves in exchange for billions of dollars in federal funds. This is the regulation that traditional colleges cherish -- regulation that protects them from competition from innovative companies like Straighterline.

Federal financial aid like Pell Grants and subsidized loans can only be spent at accredited colleges. Who controls the accreditation process? Existing traditional colleges and universities. What incentives do they have to allow innovative low-cost competitors into the market? None. What incentives do they have to keep them out? Many. And the more expensive traditional colleges get, the bigger those incentives grow.

Straighterline has managed to make a business by laboriously forging partnership agreements with accredited colleges who agree to accept their credits. But this just illustrates the absurdity of the system.

The higher education market needs many new, high-quality, low-price competitors to act as a counter-weight to traditional colleges and universities bent on increasing prices forever. To be sure, students also need consumer protection. One kind of innovative affordability policy would open up the federal financial aid system to low-price entrepreneurs who are willing to be transparent about and accountable for the quality of the services they provide. **This policy would include educators and companies who only provide individual *courses.*** If you can specialize by providing the world's greatest college calculus class, and only that, why should you be excluded from the system?

This kind of experimentation could also make space for courses like those developed by Carnegie Mellon and MIT. **When it comes to innovations in college affordability, nothing is more innovative than "free."**

More broadly, when the federal government invests in education resources, those resources should be made available to the public, for free, under an open license. The departments of education and labor are currently collaborating on just such an effort focused on training workers in community colleges. These materials will be available for educators to use and improve, and for entrepreneurs to repurpose and sell.

<u>The second kind of price innovation is transparency.</u> Choosing the right college is very difficult. It's a source of much anxiety for students and parents, and for good reason: you can get it wrong. A bad choice can leave students with years of lost time and mountains of debt.

Yet there is very little reliable, comparable information available to students about college *value*--the combination of quality and price. How much do students actually learn while they're in college? What kind of jobs do they get when they graduate? The answers to these and other important questions are largely unknown. Markets only work well if consumers have access to the all information they need to make smart choices. Because the higher education market lacks this information, many of the available choices are poor.

This, too, contributes to higher education price inflation. If customers lack objective information about quality, they assume that price *is* quality. The most expensive colleges are seen as the best colleges, by definition. This creates further incentives for colleges to charge higher prices, particularly at the top end of the market. Higher education begins to resemble a luxury good. As former George Washington University President Stephen Joel Trachtenberg once admitted, "You can get a Timex or a Casio for $65 or you can get a Rolex or a Patek Philippe for $10,000. It's the same thing," Except the federal government isn't spending vast amounts of money to help students buy over-priced watches. And the norms and values established at the high end trickle down through the entire system.

The federal government is well-positioned to improve the higher education market by mandating the disclosure of more information. This is a proper, limited role for the government to play. The Securities and Exchange Commission doesn't tell companies how do to their business, but it does tell them to file honest quarterly earnings reports, because without that information, the capital markets don't work. Why should colleges and universities, which enjoy far *greater* public subsidies than do publicly-traded companies, not have to do the same? If private companies can report earnings, colleges can report their success in helping students learn and prosper.

If students and parents have more information about value, colleges won't be able to get away with increasing prices while giving quality short shrift. I encourage the federal government to create more transparency in the higher education market by actively providing students, parents and guidance counselors with basic consumer information about prices, learning results, graduation rates, and employment outcomes, for all colleges, for-profit and non-profit.

The third kind of price innovation is more direct intervention. I know most federal policymakers are wary of this, and rightly so. The strength of the American higher education system lies, in part, with its diversity and independence. Nobody wants the

U.S. Department of Education to take over our colleges and universities; it would do this badly.

At the same time, it's simply not acceptable to continue spending tens of billions of taxpayer dollars every year on an unaccountable higher education system that has shown no willingness or ability to restrain prices. The system will not change of its own accord. Vague promises and good intentions will not suffice.

One way to move in this direction would be through competitive grant programs that reward states that implement a comprehensive higher education reform agenda, including boosting graduation rates, encouraging innovation, focusing attention on student learning, and keeping prices affordable for all students. States are and will remain key players in higher education policy. The best should be recognized and supported in their efforts.

In summary, college affordability is a crucial problem for the nation to address. The nation's economic competitiveness and civic character depend on giving every student who is willing to work hard access to higher education. If current trends continue, that opportunity will be lost for many. Something has to change, and soon.

Kevin Carey is the policy director of Education Sector, a non-partisan think tank in Washington, DC. His research areas include higher education reform, improving college graduation rates, community colleges, and higher education affordability. Carey has published articles in magazines including *The New Republic, Washington Monthly, American Prospect,* and *Democracy*. He writes a monthly column for the *Chronicle of Higher Education* and teaches education policy at Johns Hopkins University. Carey holds a bachelor's degree in political science from Binghamton University and a master of public administration from Ohio State University.

Summary of Testimony from Kevin Carey to the U.S. Senate Committee on Health, Education, Labor and Pensions, February 2, 2012

The price of higher education in America is spiraling out of control. Loan debt is at an all-time high and many students and families can no longer pay the college bill. Neither can the American taxpayer—annual federal aid has ballooned by over $100 billion in the last decade. Innovation is needed, and quickly.

There are two elements of college affordability: *cost* and *price*. Costs are what colleges spend to educate students. Prices are what students pay to attend college. We need innovation in both cost *and* price to fix the affordability problem.

We know that colleges can reduce costs because some are doing so right now. Virginia Tech used technology to revamp its math courses over a decade ago, dramatically reducing costs while improving student learning at the same time. Hundreds of other colleges are using similar methods to redesign courses. The newest University of Minnesota branch campus has a lean, student-focused cost structure. The University of Maryland system collaborated to cut costs system-wide. Carnegie Mellon and MIT are developing next-generation online courses that will be offered to students around the world, free of charge. These and other examples show that colleges can be more efficient without sacrificing student learning.

Yet these innovations are not widespread, and other cost-cutting measures, like the increased use of adjunct and part-time faculty, have not resulted in lower prices for students. That's because while costs are a function of practice, prices are a function of policy. In recent years, state tax and budget policies have led to slashed higher education budgets and resulting tuition hikes. But the price problem is not merely cyclical: for thirty years, colleges have raised prices beyond inflation in good times and bad. Colleges do this because they want to, and because, in the current policy environment, they can.

We can't change colleges' desire for money from tuition increases, which is useful for buying prestige and other things they covet. We can change their ability to raise tuition, by implementing three policies focused on price innovation:

1) Bypass the existing accreditation system, which is stacked against innovation, and allow high-quality, low-cost entrepreneurs who are willing to be transparent about and accountable for quality access to the federal financial aid system.

2) Create more transparency in the higher education market by actively providing students, parents, and guidance counselors with consumer information about college prices, learning results, graduation rates, and employment outcomes.

3) Reward states that implement a comprehensive higher education reform agenda that encourages greater college completion, innovation, and investment in higher learning.