Opportunity & Inclusive Growth INSTITUTE

FEDERAL RESERVE BANK of MINNEAPOLIS

# Higher Ed, *Who Pays?*

**Thank you for joining us.**

The conference will begin at 10:00 AM CT.

To ask questions, use the Zoom Q&A feature.

Share your thoughts on Twitter with ***#WhoPays***.

OIGI SPRING 2020 CONFERENCE

HOSTED BY THE UNIVERSITY OF MINNESOTA ECONOMICS DEPARTMENT

Opportunity & Inclusive Growth INSTITUTE
FEDERAL RESERVE BANK of MINNEAPOLIS

# *Introductory Remarks*

**Neel Kashkari**
*President & CEO*
Federal Reserve Bank of Minneapolis

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# *Panel 1:* Trade-offs in Financing Higher Education

**Rachel Dinkes**
American Institutes for Research

**Dominique Baker**
Southern Methodist University

**Adam Looney**
University of Utah & Brookings Institution

**Rajashri Chakrabarti**
Federal Reserve Bank of New York

**Devinder Malhotra**
MN State Colleges and Universities

**Ray Boshara**
Federal Reserve Bank of St. Louis

***Submit questions to panelists using the Q&A feature***

# Higher Ed, *Who Pays In Other Countries?*

Rachel Dinkes, PhD | RDINKES@AIR.ORG

| | |
|---|---|
| **Group 1**: No tuition fees and generous student supports systems | **Denmark, Finland, Norway, Sweden** |
| **Group 2**: High tuition fees and well-developed student support systems | **USA, Australia, Canada, New Zealand, UK** |
| **Group 3**: High tuition fees and less-developed student-support systems | **Chile, Japan, Korea** |
| **Group 4**: Low or moderate tuition fees and less-developed student-support systems | **Austria, France, Italy, Spain, Switzerland** |

# Types of Support

**Loans**
- Mortgage-Style
- Income Contingent

**Grants**

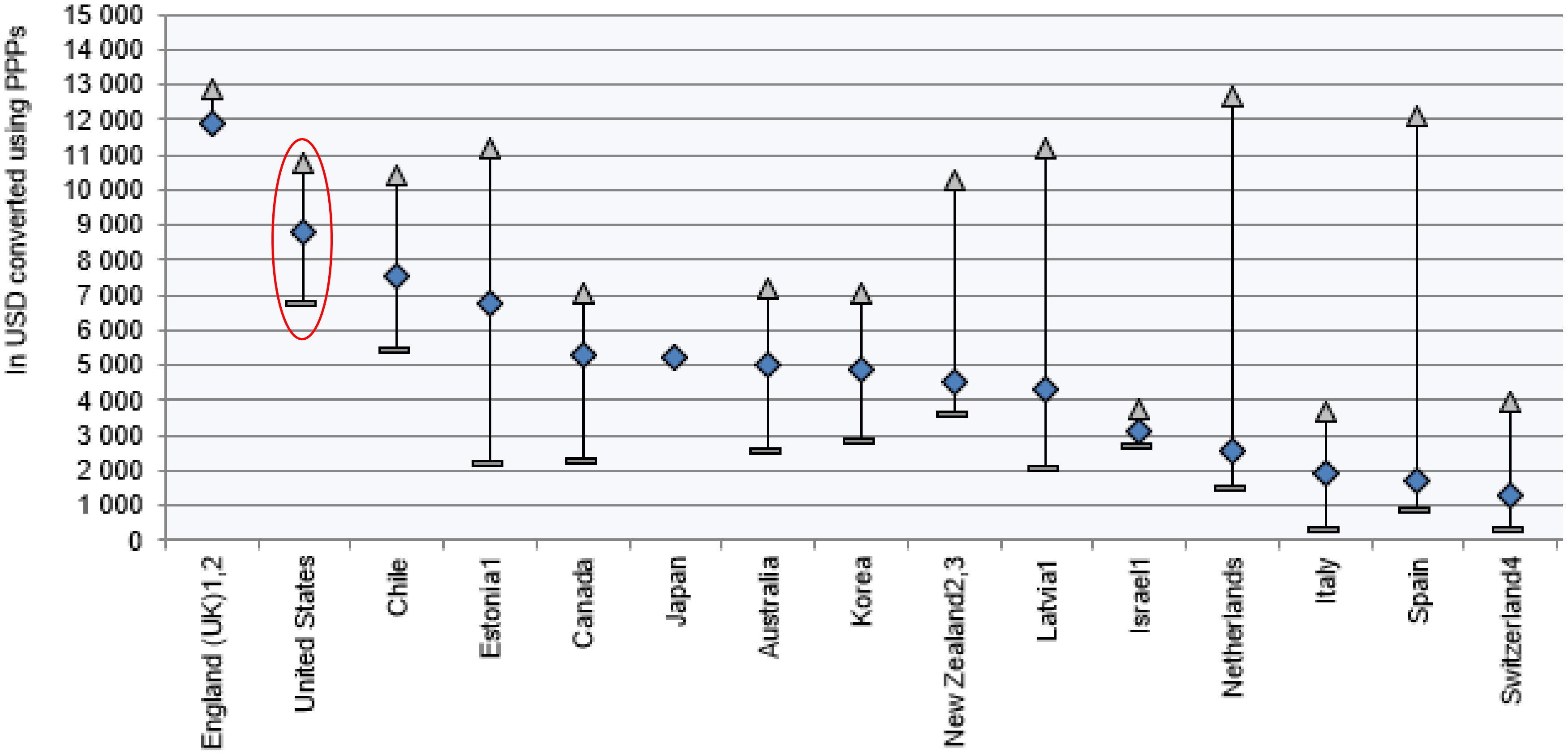
**Scholarships**

# What Do They Pay In Other Countries?

**<u>Tuition Fees for Bachelor's Degrees</u>**

- ❑ 1/3 of countries have no fees
- ❑ 1/3 of countries have low fees (below USD $2,600)
- ❑ 1/3 of countries have high fees (range from USD $3,000 to $9,000⁺)
- ❑ Differentiation by degree level

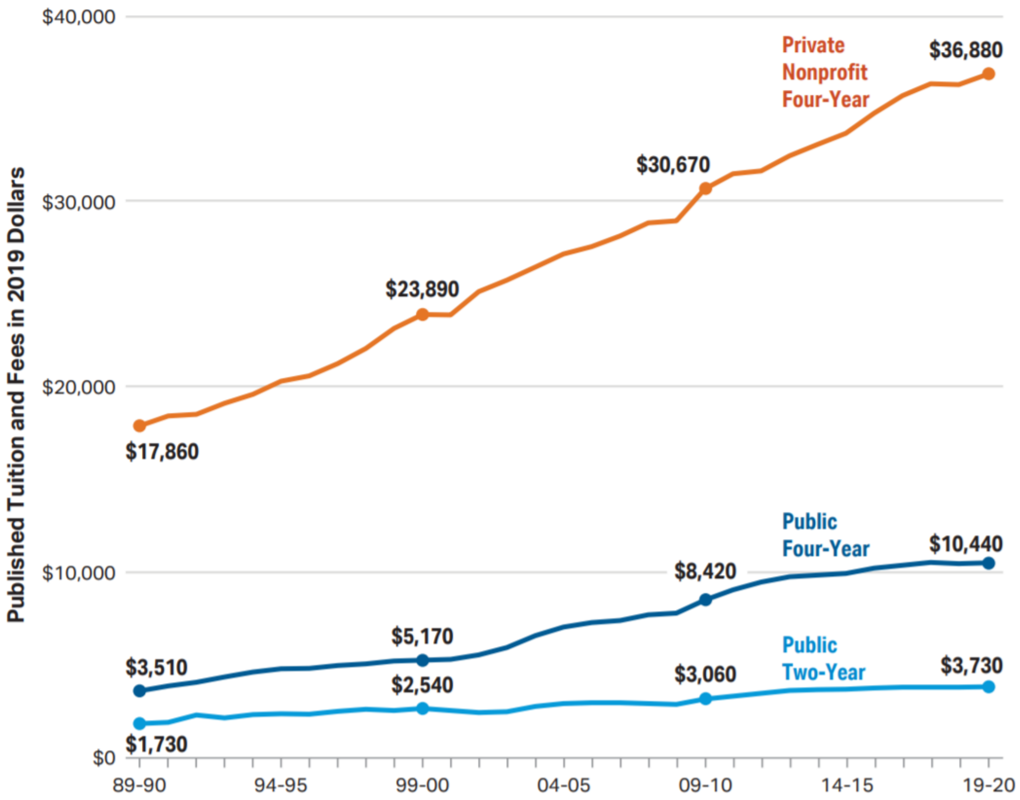
# Min, Max, and Average Annual Tuition Fees Charged by Public Institutions For National Students at Bachelor's or Equivalent Level (2017/18)




Thank you! Rachel Dinkes, PhD | RDINKES@AIR.ORG

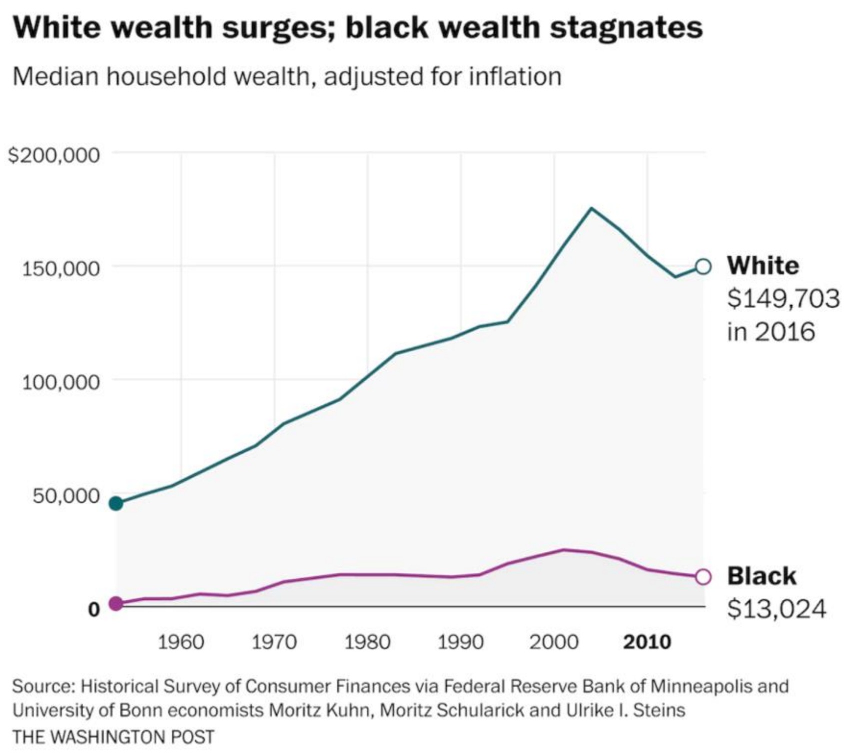
# Why do we need public funding in higher education?

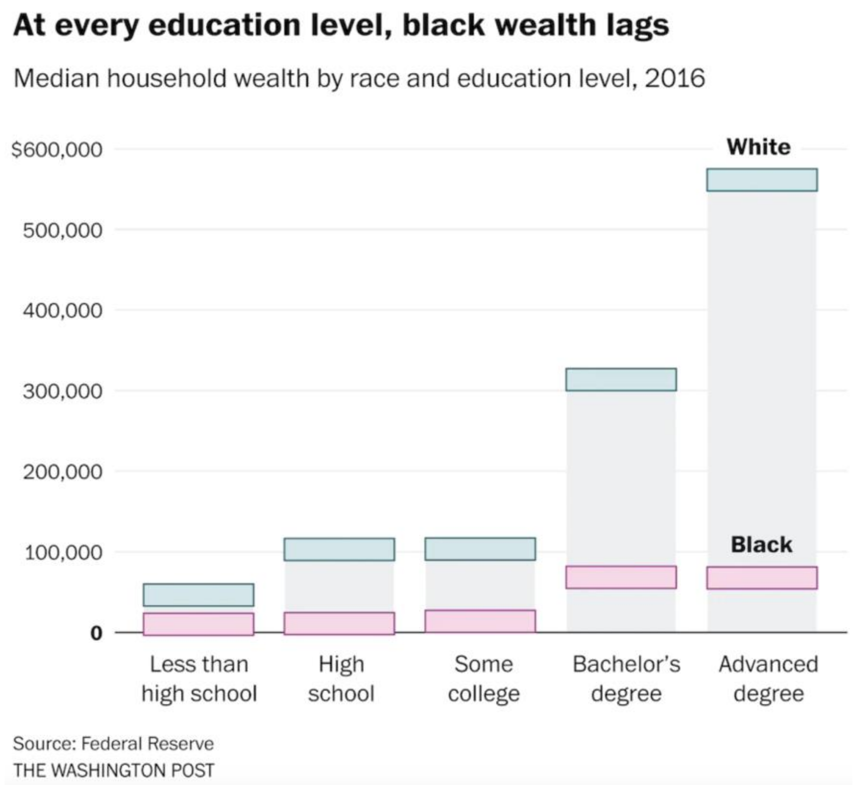
**FIGURE 3** Average Published Tuition and Fees in 2019 Dollars by Sector, 1989-90 to 2019-20




https://research.collegeboard.org/pdf/trends-college-pricing-2019-full-report.pdf

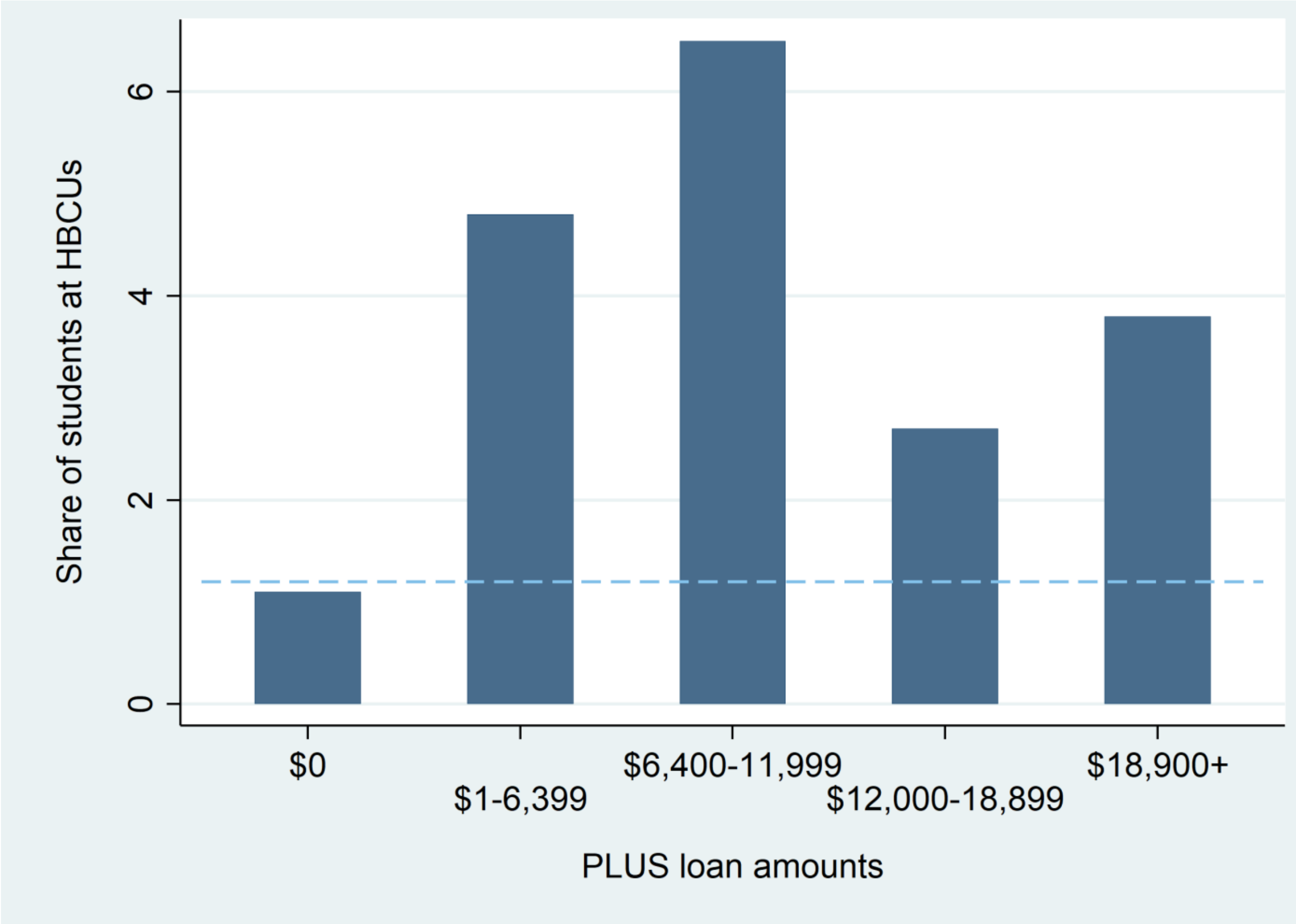
# Who has access to private funding?



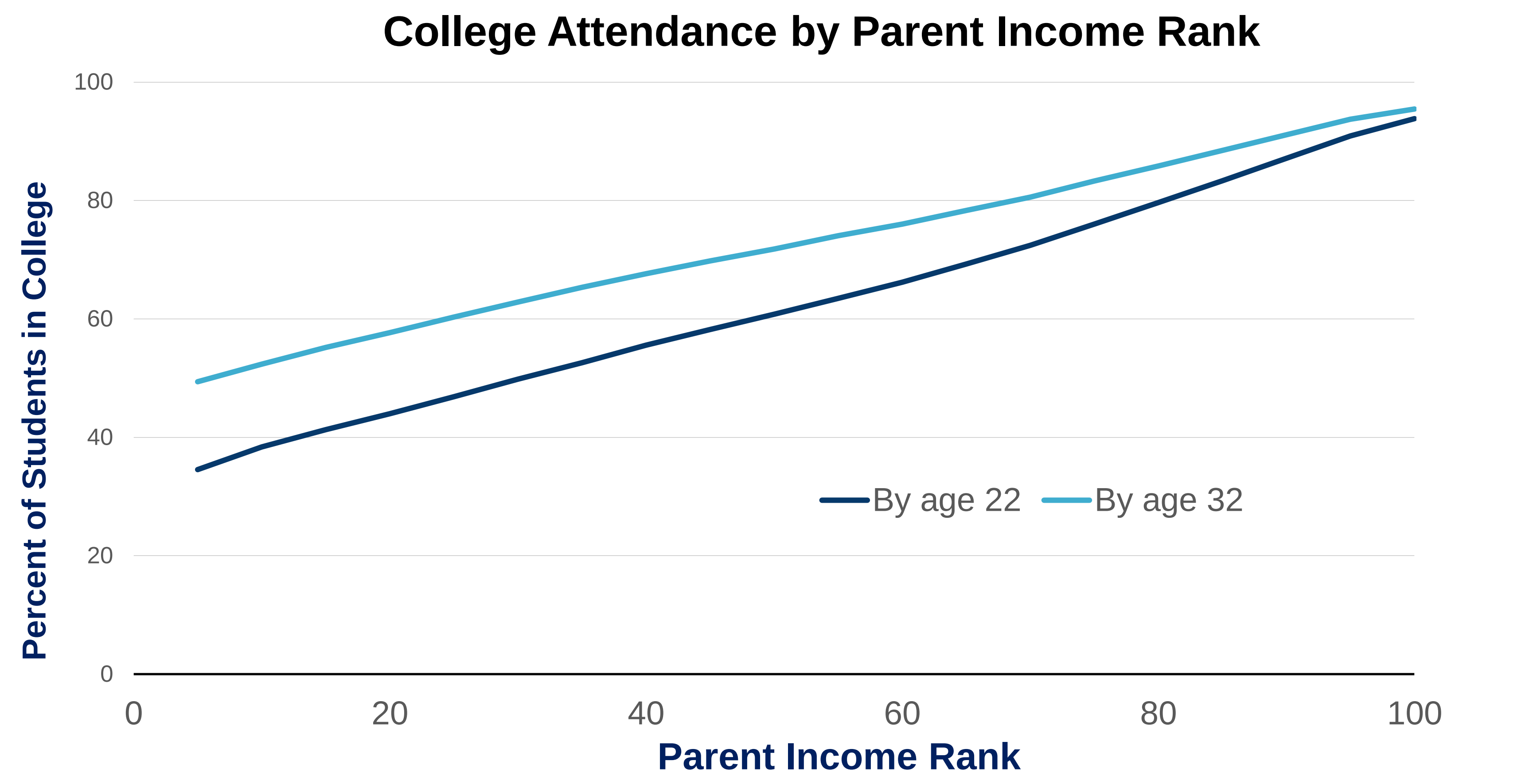

https://www.washingtonpost.com/business/2020/06/04/economic-divide-black-households/

# What happens when we remove access to public money?




Author's calculations of NPSAS 2016 data using PowerStats

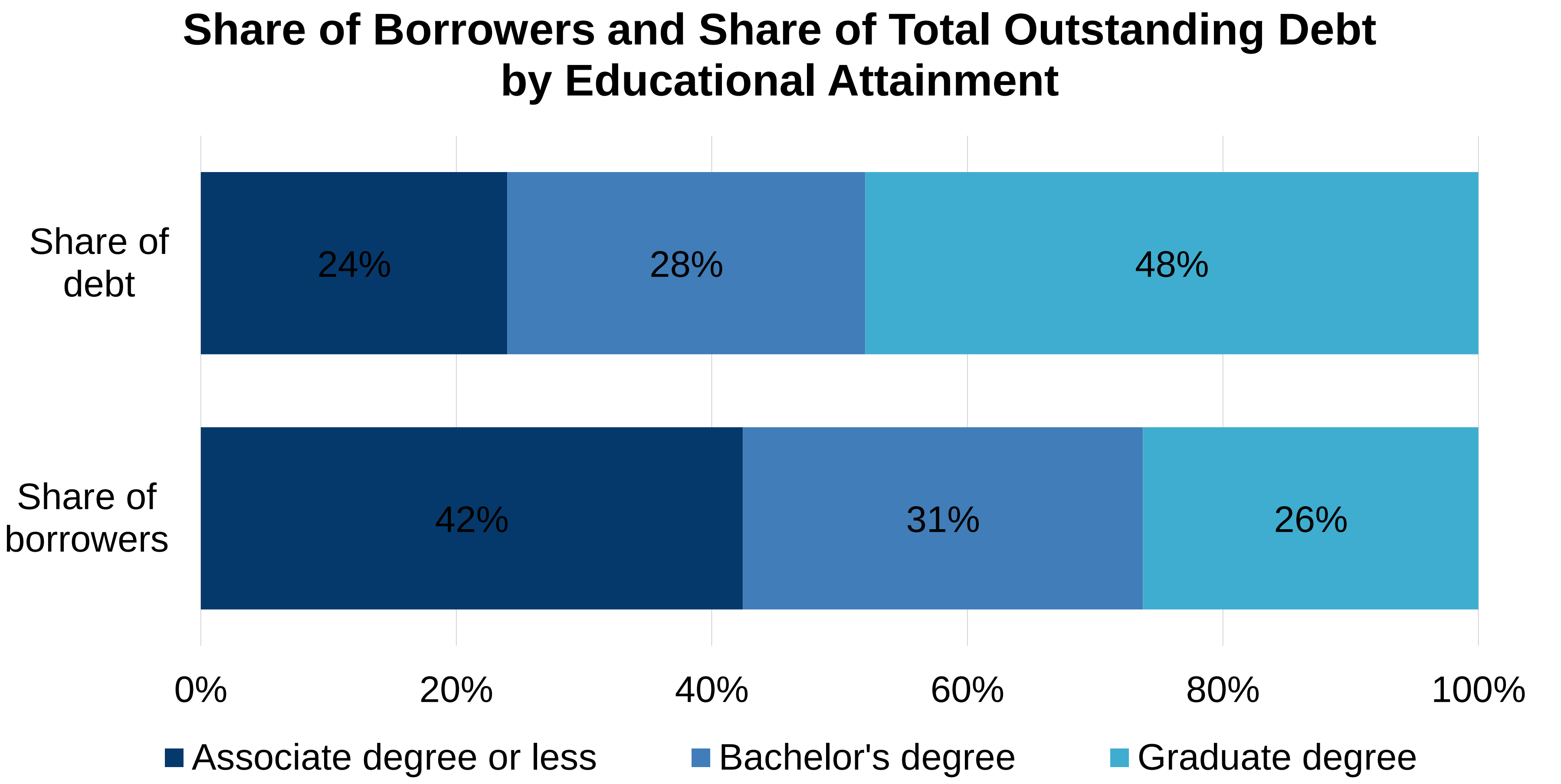
# Public financing reduces disparities in access to college and educational investments




*Source: Mobility Report Cards (Chetty et al. 2017)*

# But replaces progressive private payments

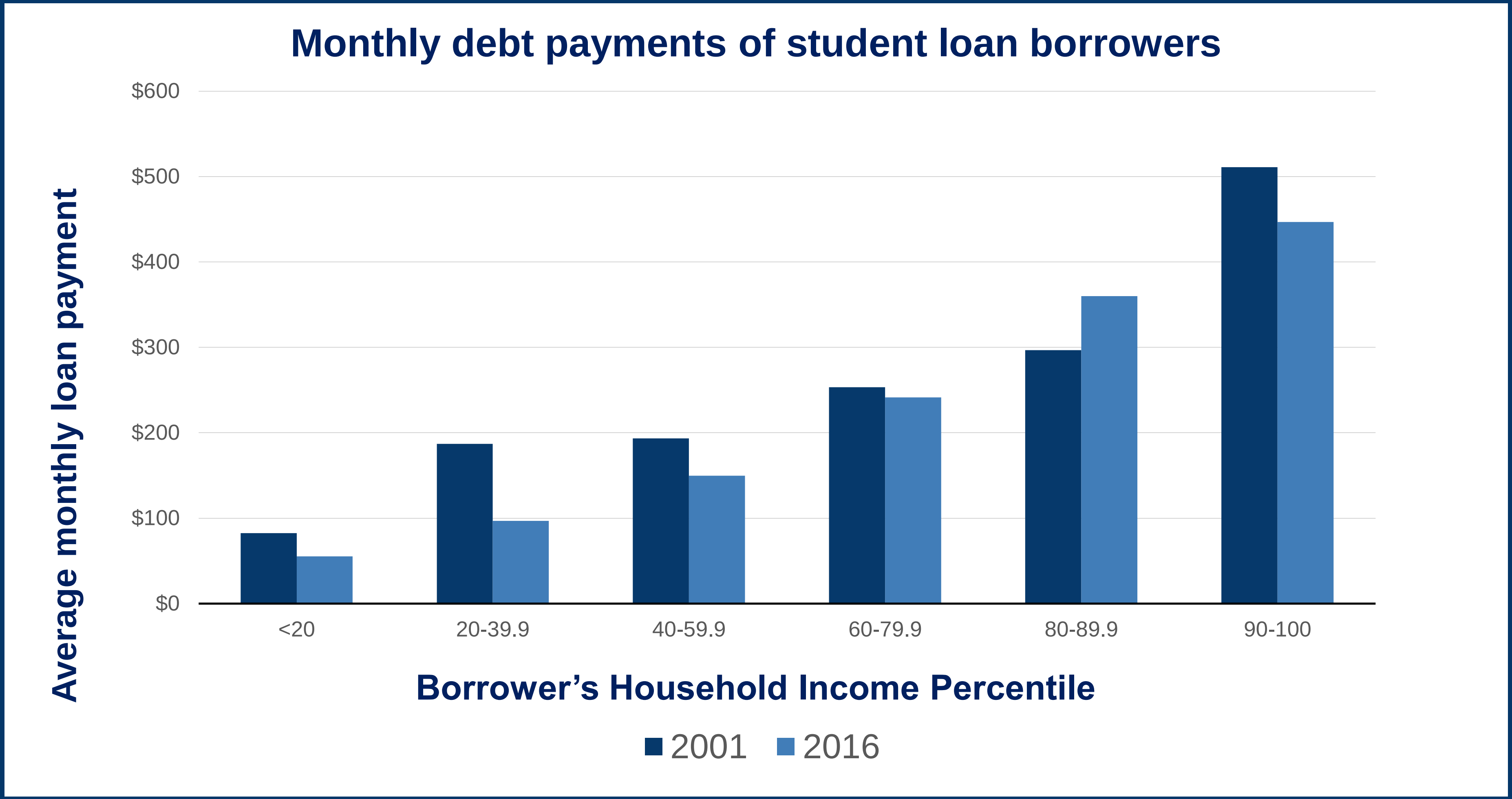
## Example: Most debt is owed by high-income/educated




*Source: Survey of Consumer Finances; Urban Institute*

Economic Studies at BROOKINGS

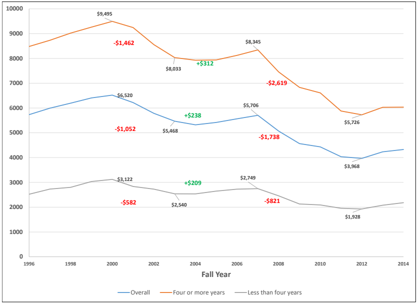
# Better: Target aid and opportunity more precisely
## Good example: Income-based repayment plans



# State Investment in Higher Education: Effects on Human Capital Formation and Long Term Outcomes

- The US higher education sector is dominated by public institutions that rely heavily on state funding.
- State support has been declining over time:
  - 39% of total expenditures in 1990, 33% in 2000, 26% in 2005, and 18% in 2016.
- Reductions in state appropriations can reduce return to postsecondary investments and increase stratification in the higher education sector.

**State Appropriations Per Student Have Declined**



# What We Do

- We present the first evidence in the literature on the effect of state appropriations on long-run student outcomes.
- We use a novel dataset constructed from a new data merger of education and credit records:
  - New York Fed Consumer Credit Panel (CCP): Credit histories from 5% of US population and household members sourced from Equifax.
  - Enrollment records from the National Student Clearinghouse (NSC).
- We use a shift-share instrument to overcome the endogeneity of state appropriations.
  - State-wide changes in appropriations have a larger effect on institutions that historically rely more on state funding.
  - Examine shocks that occur while students are enrolled in college.
  - Separately examine 2-year and 4-year sectors based on sector of first enrollment.
- Focus on outcomes for ages 25-30 and 30-35.

# Findings and Conclusions

We study the effect of changes in state appropriations on students short term educational and long term financial outcomes.
An increase in state appropriations leads to:

| **2-Year** | **4-Year** |
|---|---|
| · Higher likelihood of BA and post-baccalaureate degrees<br>· Higher student debt originations (due to increased educational attainment)<br>· Lower likelihood of student loan delinquency and default<br>· Higher likelihood of owning a car and home<br>· Lower likelihood of mortgage and auto loan delinquency<br>· Increases in credit score<br>· Improvement of the quality of the neighborhood<br>· **Mechanism:** tuition declines and educational expenditures increase | · Lower student Debt originations<br>· Shortening the time to Degree<br>· Little effect on other outcomes (inc<br>Bachelors degree)<br><br><br><br><br>· **Mechanism:** tuition declines |

Declines in state appropriations can lead to a widening of educational and economic inequality

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# *Panel 1:* Trade-offs in Financing Higher Education

**Devinder Malhotra**
*Chancellor*
Minnesota State Colleges and Universities

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# *Panel 2:* Weighing the Alternatives

**Beth Akers**
Manhattan Institute

**Lesley Turner**
Vanderbilt University

**James Kvaal**
The Institute for College Access & Success

**Susan Dynarski**
University of Michigan

**David Deming**
Harvard University

**Danielle Douglas-Gabriel**
Washington Post

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**Beth Akers**

*Senior Fellow*

Manhattan Institute

# Failures of the Status Quo

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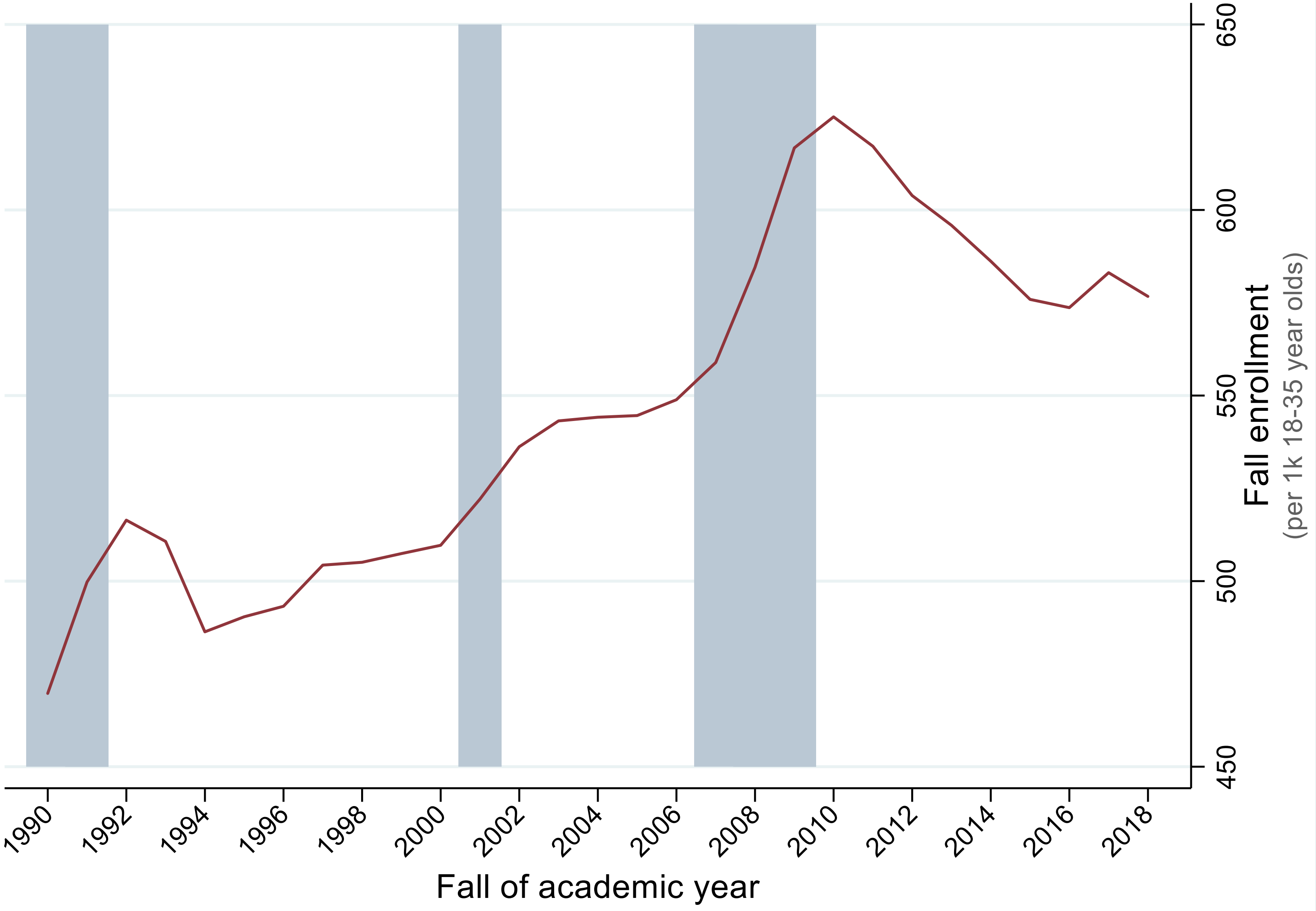
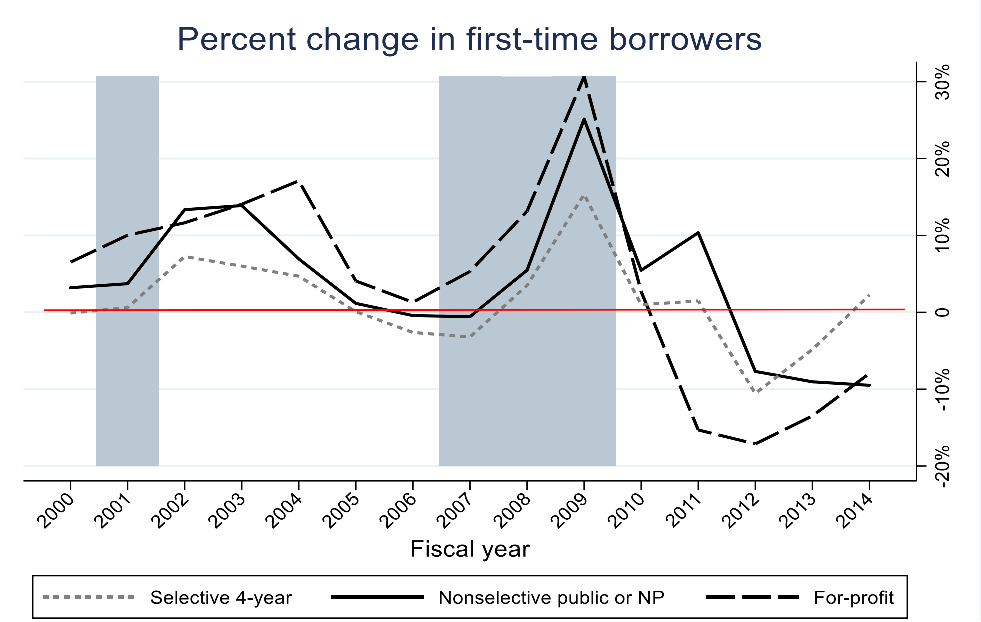
# College enrollment grows during economic downturns

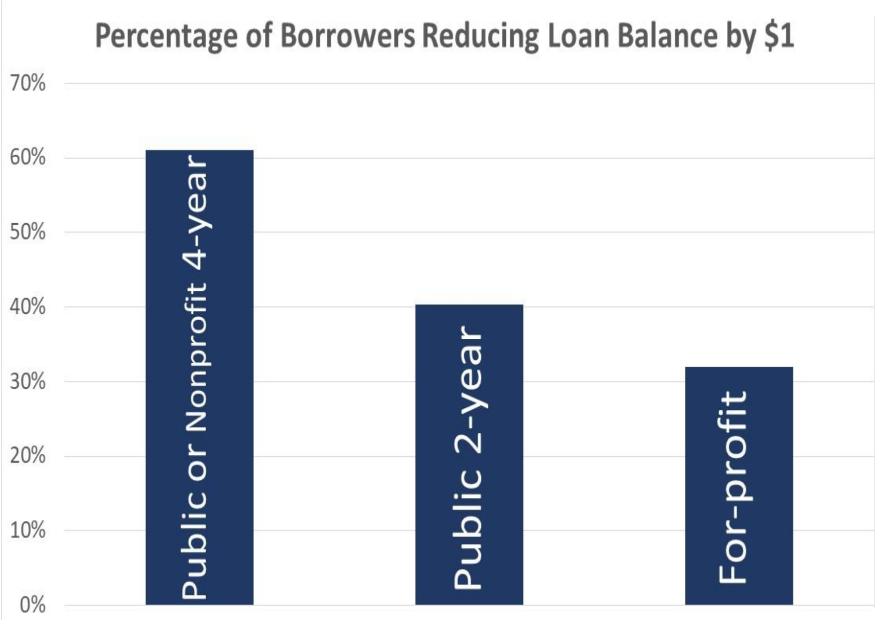


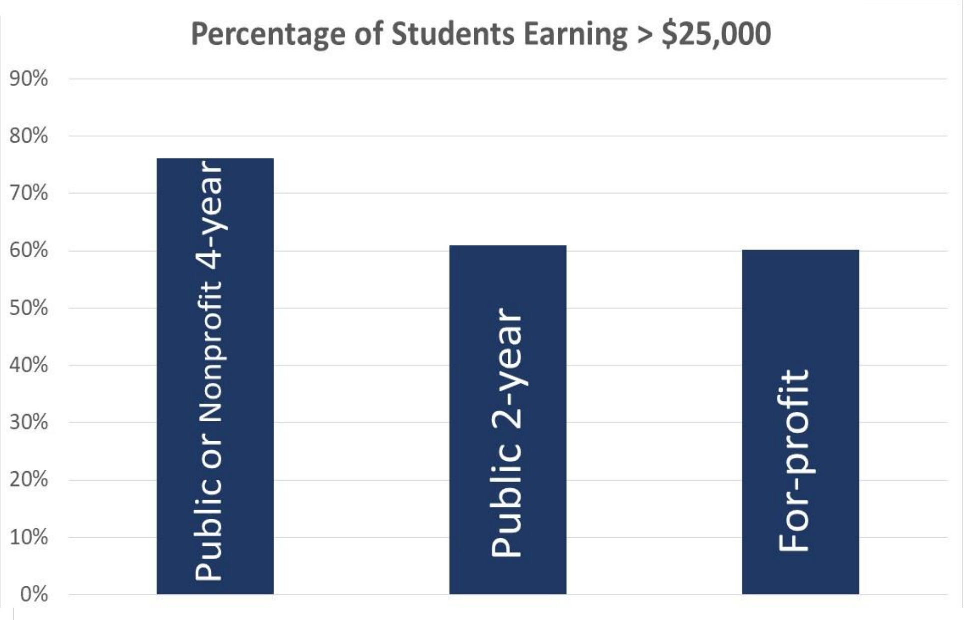

*Source:* Digest of Education Statistics, Table 303.25; March CPS

# Effects are largest for open access institutions…




# … where students fare worse, on average



# Principles to Consider for Accountability Metrics

1. Simple and easily understood by prospective students.
2. Linked to unambiguously good student outcomes.
3. Difficult to manipulate.
4. Minimum threshold(s).
5. Measured quickly enough to protect most students from low-quality schools and/or programs.

# Income-Driven Repayment: Promising but Complex

| FIGURE 1: SUMMARY OF INCOME-DRIVEN REPAYMENT PLANS[10] | | | |
|---|---|---|---|
| REPAYMENT PLAN | ELIGIBILITY | MONTHLY PAYMENT | FORGIVENESS AFTER |
| Revised Pay As You Earn (REPAYE) | All Direct student loan borrowers.[a] No partial financial hardship (PFH) requirement[b] | 10% of discretionary income[c] | 20 years if repaying only undergraduate debt; 25 years if repaying any graduate debt |
| Income-Based Repayment (2014 IBR) | Borrowers who took out their first federal student loan on or after July 1, 2014, and have a PFH | 10% of discretionary income, up to the fixed 10-year payment amount | 20 years |
| Pay As You Earn (PAYE) | Direct student loan borrowers[a] who took out their first loan after September 30, 2007 and at least one loan after September 30, 2011, and have a PFH | 10% of discretionary income, up to the fixed 10-year payment amount | 20 years |
| Income-Based Repayment (Original IBR) | All federal student loan borrowers (Direct or FFEL) with a PFH | 15% of discretionary income, up to the fixed 10-year payment amount | 25 years |
| Income-Contingent Repayment (ICR) | All Direct Loan borrowers.[d] No PFH requirement | The lesser of: 20% of discretionary income and 12-year repayment amount x income percentage factor | 25 years |

TICAS

# Loan Forgiveness Fails to Reach Eligible Students

| | |
|---|---|
| Public Service: | 99% applications denied |
| Death and Disability: | 72% eligible disability applications fail |
| Closed School: | 53% eligible borrower fail |
| Borrower Defense: | 140,000 pending applications |
| Bankruptcy: | Considered nearly impossible |

Sources: NPR, 9/21/2018; NPR, 12/4/2019; U.S. Department of Education, 6/16/2016; U.S. Department of Education, 4/30/2020.

# Should We Cancel All Debt?

- According to proponents:
  - ✓ Equitable complement to free college.
  - ✓ Targeted forgiveness programs are broken.
  - ✓ Targeting based on income overlooks racial issues.
  - ✓ Worthy goal to build middle-class wealth.

- On the other hand:
  - ✓ Free college will not eliminate borrowing for living expenses.
  - ✓ While there are gaps, many borrowers have substantial economic means.
  - ✓ Pell Grants are more economically and racially progressive, while also increasing educational attainment.

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# *Paying the Price:* What's at Stake for #RealCollege Students in Today's Policy Debates

**Sara Goldrick-Rab**
Temple University

**Rachel Croson**
University of Minnesota

**Jordan Matsudaira**
Teachers College, Columbia University

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**Abigail Wozniak**
*Director & Senior Research Economist*
OIGI & Federal Reserve Bank of Minneapolis

# *Conclusion*

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