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Written by William P. Hoar on August 22, 2016
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Correction, Please!

Beware the High Cost of Free College

Item: *Hillary Clinton, in her official website for her presidential campaign, promotes "a comprehensive plan to put higher education within reach for all Americans, and take on the crisis of student debt." The site quotes her remarks on June 22, 2016, in which the Democrat candidate calls for making "debt-free college available to everyone."*

Under Hillary Clinton's plan are the following:

Every student should have the option to graduate from a public college or university in their state without taking on any student debt. By 2021, families with income up to $125,000 will pay no tuition at in-state four-year public colleges and universities. And from the beginning, every student from a family making $85,000 a year or less will be able to go to an in-state four-year public college or university without paying tuition.

All community colleges will offer free tuition.

Everyone will do their part. States will have to step up and invest in higher education, and colleges and universities will be held accountable for the success of their students and for controlling tuition costs.

Item: *The online Huffington Post for July 6, 2016, reported: Clinton's plan "incorporates a major plank of Sen. Bernie Sanders' (I-Vt.) platform and is a direct result of the private meeting Clinton had with the Vermont senator in June, the campaign said. Clinton's new proposals move her beyond previous statements that she would try to make college 'as debt-free as possible' and toward making 'debt-free college available to all.'"*

Correction: If you wanted to downplay this drastic reversal by Clinton, you might say she was just "changing" her plan, as if she found a more comfortable pair of shoes. However, it would be a more straightforward account if you put it this way: In an attempt to pander to millennials who have been loath to back her, the Democratic presidential candidate is now embracing notions that she repeatedly ridiculed when they were pushed by her avowed socialist opponent.

Even an NBC News story favorable to Hillary Clinton found it necessary to admit, begrudgingly and a bit down into the article, that during the primaries, "Clinton often mocked Sanders' free college plan as too expensive, saying she didn't want taxpayers to pay for Donald Trump's kids' education."

For what it's worth, Trump's children (less the youngest 10-year-old boy) graduated from private universities and wouldn't have been eligible under Sanders' plan.

And since this is an education piece, here's a little lesson that is often overlooked among reformers of public education: The use of other people's money does not make it "free." It might be immediately cheaper to the particular student getting the subsidy, but it would be paid for by all of us, including the 70 percent or so of the American population without a college degree.

When "someone else" is paying, neither the supplier nor the immediate recipient of the subsidized good or service is likely to pay much attention to costs. Without price discipline, costs tend to skyrocket. This is what has occurred over the years with U.S. healthcare. Doctors and patients (or students and college administrators) are apt to let the other guy (be it the government or some faceless insurance company) worry about the tab.

Yet, the expenses are real. The estimated cost of the early iteration of the Clinton college con job was pegged at about $350 billion over its first decade; the Sanders addition supposedly would add around $100 billion to that total. Keep in mind that is the lowballing guess before it inevitably climbs in practice.

The estimates over the latest Clinton proposal (were it to be instituted, which is hardly preordained) have been varied. Megan McArdle, a columnist for *Bloomberg View*, writes about the expensive new entitlement and finds that, "as far as I can gather," it would be "about $450 billion over 10 years. Or maybe $520 billion."

It is, as McArdle says, supposed to be "paid for by 'closing high income tax loopholes,' including limiting deductions for folks whose income puts them in the 33 percent tax bracket: about $190,000 for singles and $215,000 for married couples. Well, I shouldn't quite say 'paid for'; this math comes up a bit short. But what's $50 billion or $100 billion among friends?"

Which of these deductions would be hit? McArdle answers: "practically all of them," citing facts from Tax Policy Center, specifying:

All itemized deductions (except for charitable contributions), tax-exempt state and local bond interest, employer-sponsored health insurance paid for by employers or with before-tax employee dollars, health insurance costs of self-employed individuals, employee contributions to defined contribution retirement plans and IRAs, the deduction for income attributable to domestic production activities, certain trade or business deductions of employees, moving expenses, contributions to health savings accounts and Archer MSAs, and interest on education loans.

You will not be surprised to discover that these details are not on the Clinton website, not even in the fine print. Free is expensive these days. The webmaster probably couldn't afford more fine print.

There was one quite prominent person who did recognize and admit that such a plan was "unworkable and unaffordable." We read about this astute observer not that long ago in the *Washington Post* and *New York Times*, among other papers. The name might ring a bell: Hillary Rodham Clinton.

More recently, another *Times* piece observed that this college proposal still faces a number of political hurdles. Clinton, as the paper said on July 6,

previously raised questions about that aspect of Mr. Sanders's plan, saying it gave states the ability to opt out, just as some had done with Medicaid expansion. As recently as this spring, Mrs. Clinton scoffed at the idea that Republican governors like Scott Walker of Wisconsin — who has slashed state spending on the University of Wisconsin — would ever go along with Mr. Sanders and support state matching funds to qualify for his proposed federal tuition grants. She was almost surely right — and on Wednesday, a spokesman for Mr. Walker said the governor would not go along with her plan, either, seeing it as costly and ineffective.

As it is, federal aid has long been driving up the price of colleges and universities in this country, a trend that has become widely known in education circles as the Bennett Hypothesis — after William Bennett, the former secretary of education, who first wrote about it in 1987.

Neal McCluskey, director of the Cato Institute's Center for Educational Freedom, also discussed this general phenomenon in March in the *Austin American-Statesman*. Washington has been throwing tax money for decades into a variety of education assistance programs. Accordingly, as McCluskey remarked, this has allowed "colleges to raise their prices at rates far in excess of household income and even health care, and [encouraged] students to demand ever-greater luxuries. Use other peoples' money and your incentives to demand efficiency wither."

Recent studies document this cause and effect, and include two completed last year by the Federal Reserve Bank of New York and the National Bureau of Economic Research (NBER). The former, "Accounting for the Rise in College Tuition," authored by Grey Gordon and Aaron Hedlund, modeled the boost in tuition since 1987, taking into account general changes in costs, earnings, and federal student loans. The authors found: "From 1987 to 2010, sticker-price tuition and fees ballooned from $6,600 to $14,500 in 2010 dollars. After subtracting institutional aid, net tuition and fees still grew by 78%, from $5,790 to $10,290. To provide perspective: had net tuition risen at the rate of much-maligned healthcare costs, tuition would have only reached about $8,700 in 2010."

The NBER study was mentioned by Binyamin Appelbaum in the *New York Times* in July. As he summarized, that analysis

found that colleges pocketed up to 60 cents from every $1 increase in subsidies, either by increasing tuition or by cutting their own aid packages. The government pumps in money, and the colleges soak it up.

"The basic economics are pretty straightforward," said Taylor Nadauld, a finance professor at Brigham Young University and a co-author of the study. "Colleges have the opportunity to extract money from the federal government, and they do it."

All the extra funding and higher expenditures do not necessarily go to "education," however broadly defined. Consider the revelations about rising tuitions, as made last year in an article by Paul Campos, a University of Colorado law professor. He disputed the contention made by legions of college administrators about how public funding has supposedly been slashed:

In fact, public investment in higher education in America is vastly larger today, in inflation-adjusted dollars, than it was during the supposed golden age of public funding in the 1960s. Such spending has increased at a much faster rate than government spending in general. For example, the military's budget is about 1.8 times higher today than it was in 1960, while legislative appropriations to higher education are more than 10 times higher.

… The astonishing rise in college tuition correlates closely with a huge increase in public subsidies for higher education. If over the past three decades car prices had gone up as fast as tuition, the average new car would cost more than $80,000.

Sadly, the higher spending has also been accompanied by other deleterious results — including producing college graduates considerably less literate than their predecessors, even though it costs at least twice as much for a four-year degree (in cost-adjusted dollars) than it did in 1975. An expert who has documented this development is Richard Vedder of Ohio University's Center of College Affordability and Productivity.

The New York Federal Reserve and his research center, as Vedder noted last year in a piece in *Forbes*, both independently estimated that "nearly half of recent college graduates are under-employed, taking jobs previously held by high-school diploma holders." And as he put it, some of the increase in enrollments "involves students lacking the ability to master high-level rigorous work that is the hallmark of 'higher' education. This has led to grade inflation and a lowering of academic standards."

As you might expect, when it comes to subsidies, there are winners and losers. The original Bernie Sanders program would have made those states that already had invested a lot in higher education into net losers, even as it would have rewarded those that have been "underfunding." He is a socialist, after all. However, congressmen from "losing" states are not likely to be enthusiastic about this aspect of the approach.

College administrators, on the other hand, have been on the winning side. Some, especially those in the leadership, are essentially lobbyists, hanging around state houses and Washington, D.C., for handouts. Professor Campos is probably not on their Christmas lists. If he is, he is no doubt going to receive white elephant gifts, especially since he also publicly exposed the extent that administrative staff have burgeoned on campuses. At colleges, as he explained, a "major factor" that has been

driving increasing costs is the constant expansion of university administration. According to the Department of Education data, administrative positions at colleges and universities grew by 60 percent between 1993 and 2009, which Bloomberg reported was 10 times the rate of growth of tenured faculty positions.

Even more strikingly, an analysis by a professor at California Polytechnic University, Pomona, found that, while the total number of full-time faculty members in the C.S.U. system grew from 11,614 to 12,019 between 1975 and 2008, the total number of administrators grew from 3,800 to 12,183 — a 221 percent increase.

Meanwhile, the Clinton plan would make community colleges as "free" as high schools are today. This is part of what has become the movement to turn the government K-12 system into a K-14 system.

If you think community colleges have problems now, imagine how wondrous things will be when they have to comply with the endless edicts and policies all wrapped in red tape of the federal bureaucracy.

Of course, even if such plans were implemented, community colleges really would not be free. Rather than being locally operated and financed, the U.S. taxpayers would get the bill. With a national debt driving toward $20 trillion, the country can't afford a new program totaling $450 billion, or likely much more, that will make matters worse. Here's a caveat for any emptors who might exchange their ballots for this phony promise: You young beneficiaries would pay the price for the rest of your lives.