

# WebMemo



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## Ways to Make Higher Education More Affordable

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President Obama has proposed a new plan to cap student loan payments at 10 percent of the borrower's discretionary income. Borrowers with incomes below 150 percent of the federal poverty line (or approximately \$33,000) would be required to make no payment, and the balance of a borrower's loan would be forgiven after 20 years for a private-sector worker and 10 years for a government employee.

Since college borrowers willingly take out loans in order to obtain a college degree, it is unclear why the federal government would choose to reduce their payments. This proposal would further shift the burden of paying for postsecondary education from the student or borrower—the person who directly benefits from the college degree—onto taxpayers. In 2005, the Census Bureau reported that the annual earning of a worker with a college degree is roughly double the yearly income of a person who only earns a high school degree. The majority of American adults do not have college degrees. Shifting the burden of student loan repayments from college graduates onto taxpayers, many of whom did not attend college, raises serious questions about equity.

**Increasing Subsidies, Increasing College Costs.** Total federal student aid (including grants, loans, and tax benefits) was \$117 billion during the 2008–09 academic year—a 99 percent increase over 10 years.<sup>1</sup> Nevertheless, paying for college remains a challenge for students and families.

The cause of the affordability problem is ever-increasing college costs. The price of college tuition

and fees grew by 439 percent since 1982—more than four times the growth rate of inflation (consumer price index: 106 percent) and almost twice the cost of medical care (251 percent).<sup>2</sup>

Some economists contend that the consistent growth in government spending on student aid is a key factor that has allowed colleges to increase their spending and, ultimately, raise tuition prices and other costs.<sup>3</sup> This suggests that increasing student aid has made students less sensitive to price increases and facilitated continuous growth in tuition cost.

In this respect, the Obama Administration's new proposal to reduce the amount that borrowers are required to pay on their student loans would not address the root cause of the college affordability problem. In fact, it would likely exacerbate it. Aspiring students would be more likely to take out larger loans and, therefore, may be less sensitive to college tuition costs. Aspiring students may also become more likely to take out loans they ultimately will be unable to afford, increasing instances of default, in turn driving up costs.

**A New Solution: How Online Learning Can Lower College Costs.** Rather than continuing to expand federal subsidies for college students and student loan borrowers, policymakers and the

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private sector should focus on strategies to lower college costs. A promising strategy is to strengthen competition between higher education providers by harnessing the power of technology and on-line learning.

This is already happening in K–12 education. Increasingly, states and school districts are using technology or online learning to improve the delivery and efficiency of elementary and secondary education. As many as 1 million children around the nation are participating in some form of online learning.<sup>4</sup> Today, 27 states offer statewide virtual schools that allow students to take classes online, and 24 states and the District of Columbia allow students to attend a virtual school full time.<sup>5</sup>

For years, many higher education institutions have offered instruction online. But these universities for the most part compete with traditional higher education institutions. However, two trends have the potential to change that.

First, an increasing number of higher education institutions are placing course content—including lectures and instructional materials—online for free. For example, the Massachusetts Institute of Technology is now putting virtually all course content online for free through its OpenCourseWare initiative.<sup>6</sup> The Web site has reportedly received 90 million visits from virtually every country.<sup>7</sup>

Many other universities are also placing instructional content online. The Apple iTunes program,

for instance, offers a “university” section that offers free downloads of lectures from many universities, including Yale, Stanford, UC Berkley, Oxford, and Cambridge.

Second, credit-by-examination programs are on the rise.<sup>8</sup> These programs, similar to Advanced Placement and the College-Level Examination Program, allow students to earn college credits by studying and completing an exam remotely. Through these types of programs, a student can earn college credit through self-study at a fraction of the cost of a traditional college course.

These two trends could dramatically lower tuition costs and other student expenses. Moreover, if more students pursue these opportunities, other important aspects of college instruction could be replicated in an online setting.

For example, online tutoring programs for K–12 and postsecondary education are already common. If more students enrolled in credit-by-examination programs, many online tutoring options could quickly become available to replicate the kind of individualized instruction that a student may expect in a traditional college setting.

**Ways to “Pop” the College Tuition Bubble.** These trends have the potential to dramatically lower costs and pop what some observers have called the “college tuition bubble.”<sup>9</sup> This presents policymakers and the private sector with a better strategy to solve the college affordability problem.

1. College Board, “Trends in Student Aid: 2009,” at [http://www.trends-collegeboard.com/student\\_aid/pdf/2009\\_Trends\\_Student\\_Aid.pdf](http://www.trends-collegeboard.com/student_aid/pdf/2009_Trends_Student_Aid.pdf) (January 26, 2010).
2. National Center for Public Policy and Higher Education, “Measuring Up 2008: The National Report Card of Higher Education,” at <http://measuringup2008.highereducation.org/print/NCPPHEMUNationalRpt.pdf> (January 11, 2010).
3. For example, see Andrew Gillen, “Financial Aid in Theory and Practice: Why It Is Ineffective and What Can Be Done About It,” Center for College Affordability and Productivity, April 2009, at [http://www.centerforcollegeaffordability.org/uploads/Financial\\_Aid\\_in\\_Theory\\_and\\_Practice.pdf](http://www.centerforcollegeaffordability.org/uploads/Financial_Aid_in_Theory_and_Practice.pdf) (January 28, 2010); Richard Vedder, “The Real Cost of Federal Aid to Higher Education,” Heritage Foundation Lecture No. 984, January 12, 2007, at <http://www.heritage.org/Research/Education/hl984.cfm>.
4. Dan Lips, “How Online Learning Is Revolutionizing K-12 Education and Benefiting Students,” Heritage Foundation Backgrounder No. 2356, January 12, 2010, at <http://www.heritage.org/Research/Education/bg2356.cfm>.
5. *Ibid.*
6. For more information, see “MIT OpenCourseWare,” at <http://ocw.mit.edu/OcwWeb/web/about/about/index.htm> (January 26, 2010).
7. MIT OpenCourseWare, “Site Statistics,” at <http://ocw.mit.edu/OcwWeb/web/about/stats/index.htm> (January 26, 2010).
8. Dennis Carter, “‘Credit by Exam’ Expands Student Options,” eSchoolNews.com, November 13, 2009.
9. Murna Desmond, “The Coming College Bubble?,” *Forbes*, October 23, 2008.

- *Lower costs by improving efficiency.* Colleges and universities should improve efficiency for students by lowering costs—such as by offering online instruction and credit-by-exam options.
- *State governments can encourage innovation.* States with multiple public postsecondary institutions could expand course offerings throughout the state through online learning or even offer content online for free—allowing people from all walks of life to benefit from the state’s higher learning offerings. States could also expand credit-by-examination options at its state universities.

**Benefits for Students and Taxpayers.** Over time, low-cost online learning could dramatically improve access to higher education and yield significant cost savings. In addition to the estimated \$117

billion that the federal government spends on student aid, state and local governments currently spend approximately \$192 billion on colleges and universities per year.<sup>10</sup>

Decades of increasing government subsidies for student aid have failed to solve the problem of college affordability. President Obama’s newest plan for subsidizing student loan borrowers—shifting the costs from the student onto taxpayers—would not address the root problem: out-of-control college costs. Instead of continuing to increase government spending and subsidies, policymakers should focus on strategies that lower college costs.

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10. National Center for Education Statistics, “Digest of Education Statistics 2008,” Table 8, at [http://www.nces.ed.gov/programs/digest/d08/tables/dt08\\_028.asp?referrer=list](http://www.nces.ed.gov/programs/digest/d08/tables/dt08_028.asp?referrer=list) (January 26, 2010).