Middle-class families are stuck between three contradictory trends when it comes to higher education. First, the cost of college has grown more quickly than just about any other good or service in the economy, and has left the median income in the dust. Between 1982 and 2013, published tuition and fees at public four-year colleges nearly quadrupled after adjusting for inflation; at private colleges, costs grew by a factor of 2.5 (see Figure 1).

In the past, a responsible middle-income family could reasonably expect to pay college tuition out of pocket without resorting to loans. Those days are over. College costs now eat up a quarter to a third of family incomes among those in the middle, even after accounting for grants and scholarships, and student debt is on the rise among middle-income families. The average borrower now owes about $28,000, and delinquency rates on student loans (12 percent) are higher than they were at the height of the economic crisis (less than 10 percent).  

Second, the payoff to a college degree has not kept pace with tuition costs. The earnings of recent college grads have declined since the early 2000s, and research from the New York Fed has found that nearly 45 percent of recent college graduates were underemployed in 2012. Students and families are paying more for a smaller return.

Third, even though costs are up and value is down, some form of post-secondary education—not just a bachelor's degree—is more important than ever to economic success. That's because workers with only a high-school diploma have done even worse in the labor market than recent college graduates. Their job prospects and wages have declined significantly over the past three decades, meaning the college wage premium has remained robust.

Even though costs are up and value is down, some form of postsecondary education—not just a bachelor's degree—is more important than ever to economic success.
College also helps keep people in the middle class. Research from the Pew Project on Economic Mobility has found that children born to parents in the middle-income quintile had a 39 percent chance of falling to the lowest two quintiles as adults if they did not earn a postsecondary degree. Those with a college degree had only a 22 percent chance of falling out of the middle, and they were 22 percentage points more likely to reach the top two quintiles as adults.4

These trends add up to a sorry choice for most middle class families: help your children invest in an overpriced and undervalued degree, or watch them languish in low-wage jobs if they forego college altogether.

Conservatives typically respond to these data by arguing that “college” is no longer worth it and warning that “too many people go to college.” They are almost certainly right: many students would be better served by alternatives to the bachelor’s degree-like occupational training or apprenticeship programs.

Yet these criticisms are tone deaf when it comes to the anxieties of middle-income families. These families do not see college graduates working low-wage jobs as
proof that college isn’t worth it, but as evidence of an even scarier proposition: “If my kid fails to go to college, they won’t even be able to get a low-wage job.” What these families need is a more affordable and effective set of post-secondary options, not an explanation that none of their options are promising.

Creating such options will require a fundamental shift in our approach to higher-education policymaking, a change that conservatives can foster. Much of the blame for our current predicament lies with well-intentioned policies originally designed to expand opportunity and protect consumers. Generous federal loan programs, particularly those available to parents, encourage enrollment at any college and at any price, providing little incentive for colleges to keep their tuition low or make sure their students are successful. Meanwhile, though advances in technology could increase access and reduce the cost of education, federal rules governing access to student aid programs create high barriers to entry that keep low-cost competitors out of the market.

Alas, most Democrats ignore these structural problems, choosing instead to pour more student-aid money into the system. Each time they do, affordability improves momentarily, only to be washed away by subsequent tuition increases. For instance, between 2008 and 2012, spending on the Pell Grant program doubled, and the size of the maximum grant grew by $1,200. Yet by 2012 the purchasing power of the Pell Grant had reached an all-time low.5

Conservatives have rightly questioned the “college for all” agenda, the profligate spending on college campuses, and the liberal politics of faculty and administrators. But up to now, they have not laid the groundwork for a broader reform effort. Thankfully, that is starting to change.

Reining in problematic student-loan policies and clearing out the regulatory thicket that surrounds colleges is necessary but not sufficient. Also essential is an aggressive supply-side strategy that creates space for entrepreneurs—both within the current system and outside of it—to offer post-secondary options and financing tools that are more affordable, efficient, and better tailored to students’ needs. To see what that agenda should involve, we should begin with a snapshot of where we are and how we got here.

**Middle-Income Families and the Rising Cost of College**

In some ways, middle class families are the “canaries” in the college-cost “coalmine.” They fall between low-income families who are eligible for need-based grants and subsidized loans and more affluent families that are able (and willing) to pay high tuition prices and benefit most from higher education tax benefits. As such, middle-income families are among the most likely to feel the pinch of high tuition prices.

To get a sense of how much middle class families are paying and borrowing for college, I used the latest installments of the National Postsecondary Student Aid Study (NPSAS), a federal survey of college students that asks about family income, tuition prices, and financial aid. I divided the samples into three income
groups: low (1st to the 33rd percentile), middle (34th to the 66th percentile), and high (67th through 99th percentile). The discussion here focuses only on the middle category.

Figure 2 displays the net price of tuition, after accounting for grants and scholarships, as a percentage of family income for middle-income respondents in 2004, 2008, and 2012. Data are for four-year colleges only, and are disaggregated by private and public colleges. The figure shows a clear upward trend since 2004, with middle-income families now paying 25 to 40 percent of their annual incomes to attend college. Remember, this is after accounting for any grants and scholarships that students receive.

**FIGURE 2: Net price of attendance as a percentage of family income for middle-income students (2004–2012)**

How are middle-income families paying for these increasing costs? By taking on student loans. In 2012, 66 percent and 78 percent of middle-income undergraduates attending public and private four-year colleges (respectively) borrowed to attend. Across all students in the survey, average debt balances grew by 25 to 30 percent between 2004 and 2012.

Perhaps more troubling: parents are also going into debt to finance their children’s education, taking on increasingly large federal loans through the Parent PLUS program. Parent PLUS allows parents with a child in college who pass a basic credit check to borrow up to the cost of attendance (minus any other aid received) at a 6.4 percent interest rate. These loans have no aggregate lifetime limit, meaning that as long as a parent has a child in college, he or she can borrow to cover any out-of-pocket costs, year in and year out.
Figures 3 and 4 show the increase in Parent PLUS borrowing among middle-income families. Figure 3 reveals that a higher percentage of parents are borrowing PLUS loans than before, while Figure 4 shows that those balances have grown by roughly 30 percent across both sectors. While these numbers may not look high compared to the six-figure debts that captivate the popular media, keep in mind that many of these parents have only a few years of work left ahead of them. As balances grow, so too will delinquencies and defaults.
In short, the federal government has become the primary financier of higher education and the gatekeeper for new entrants and competitors, but federal policies act mostly to prevent experimentation with new approaches and to inflate prices. It is time for reform.

Families recognize that they are paying far more for the same product, raising questions about whether college investments are “worth it.” A 2011 Pew survey found that 57 percent of survey respondents saw the value of college as “fair or poor,” and that 75 percent disagreed with the statement “Most people can afford to pay for college.” As Peter Wehner’s introduction to this volume points out, middle-class families are particularly anxious about their ability to pay for college.

Two aspects of federal higher education policy have helped drive these trends. First, easy credit from federal loan programs has given colleges little reason to worry about increasing tuition. Second, regulatory policies have limited price competition by keeping potential competitors out of the market.

Ironically, the current struggles of middle-class families are partly the result of shortsighted federal efforts to help them. The early federal student-aid programs were targeted toward low-income students. Prior to 1978, federal student loans were need-based and not available to families with incomes above a certain threshold. States were the main funders of higher education.

The Middle Income Students Assistance Act (MISAA) of 1978 changed all that. For the first time, middle- and upper-income students were eligible for guaranteed federal student loans, a decision that changed the trajectory of the federal role in financing higher education and the trend in college costs. Families now had access to easy credit to pay the cost of college, and loan amounts were pegged to the cost of attendance, providing colleges with little reason to worry about increasing tuition.

Then, in 1980, Congress created PLUS loans, opening the floodgates even further. These loans carried loan limits, but in 1992 Congress eliminated these limits and (as noted above) allowed parents who passed a credit check to borrow up to the cost of attendance each year with no lifetime cap.

Whether or not the expansion of these loan programs “caused” increases in tuition, they certainly changed the incentives for colleges. By the 1980s, private colleges began to increase their tuition prices apace, building lavish campuses to attract students. To compete for the best students, top public colleges soon followed suit. And as federal aid increased, states gradually began to spend less on their public higher education systems, confident that federal student loans would fill in any gaps. The result: higher tuition, higher debt, and no discernable increase in quality.

The problem is not just the easy money, but the lack of price competition. Federal regulations governing eligibility for student aid have kept new providers out and propped up high-priced, low-quality incumbents. Under the Obama administration, federal regulators have defined what constitutes a “credit hour” and tried to force online providers to be authorized by each state where they
serve students, both of which circumscribe what is possible.  

Likewise, in order to access federal money, colleges must be accredited. But accreditation is a peer-review process that is not well suited to quality control. Faculty members from other campuses visit a college, evaluate its offerings and faculty, and then decide whether to certify it as a quality institution.

In other words, the regulators are the regulated. Accreditation agencies subsist on fees from the campuses they evaluate and use faculty from one accredited institution to assess another. Accreditation reviews also enshrine the traditional college model because they focus on things like faculty credentials, facilities, and even the number of books in the library. This system simultaneously keeps shoddy colleges afloat while barring new providers who might generate price competition.

In short, the federal government has become the primary financier of higher education and the gatekeeper for new entrants and competitors, but federal policies act mostly to prevent experimentation with new approaches and to inflate prices. It is time for reform.

**A New Approach to Higher-Ed**

We cannot spend our way to college affordability. Simply investing more in student aid is like bailing out a sinking boat with a Dixie cup. You might be able to stay afloat for a little while, but eventually you go under.

But we can do much more to cultivate the kind of competitive higher education market that can rebuild and sustain the middle class. Five opportunities stand out.

1. **Reform student loans.** Student lending is on an unsustainable path, and PLUS loans are particularly problematic. They are the ultimate Pyrrhic policy: They solve families’ liquidity problems in the present but almost ensure that more families will have even bigger liquidity problems in the future (because of the likely effect they have on tuition). These programs need to be reined in. Eliminating PLUS loans entirely and substituting new options described below would be the boldest solution, but it would also be politically difficult. At the very least, imposing reasonable loan limits would improve the incentives for both schools and borrowers.

More broadly, existing loan programs give institutions no “skin in the game.” Policymakers could provide colleges with a direct stake in the success of their students by requiring them to pay back a percentage of any defaulted dollars. Such a policy would encourage colleges to guide students to programs that are likely to provide a positive return. It would also have them share some of the risk that students and taxpayers now bear on their own.

2. **Create space for new financing options.** In place of Parent PLUS loans, policymakers should create space for market-based financing instruments like Income Share Agreements (ISAs). Under an ISA, private investors fund students in return for a share of their income over a fixed period of time. These agreements are not loans in that there is no outstanding balance. If graduates do better than expected, they pay more, but they will pay less—perhaps nothing at all—if higher wages do not materialize.
Because ISA investors only earn a profit when a student is successful, they offer students better terms for degree programs that are expected to be of high value. This process gives students strong signals about which institutions and fields are most likely to help them be successful.

Legislators who wish to support the development of ISAs should set out to clarify the legal and regulatory status of these products, set limits on existing loan programs, and create the data infrastructure necessary to process contracts.¹⁰

3. Break down barriers to entry. The components of a college degree—content, instruction, and assessment—are more readily available than ever before. Online delivery, competency-based education, and short-term career training could dramatically reduce the cost of a postsecondary education. Yet regulatory barriers like accreditation and federal rules keep promising innovations out of the higher education market.

As was the case for airlines, trucking, and telecommunications, higher education needs a deregulatory agenda that breaks down these barriers to entry. Rather than trying to hammer an antiquated accreditation system into something well suited to innovative ideas, policymakers should instead develop a new, parallel pathway to the market.¹¹ This could mean a new accreditation agency that is designed to certify innovative programs (as Senator Rubio, among others, has proposed), or it could mean devolving accreditation power to a new set of actors (like state governments, as Senator Mike Lee has proposed).

Whatever the approach, these new pathways could allow low-cost education and training providers—many of which will look nothing like a college—to compete with incumbent colleges on an even playing field. In this new market, students could accumulate low-cost credits from different online providers at a fraction of what it costs to take a traditional college course, forcing existing institutions to lower their prices or lose market share. This is the kind of competition that could bend the cost curve.

4. Support occupational opportunities. Conservatives warn that the “college for all” mentality has led many students down a blind alley when they would have been better off learning a trade. This is correct: The BA is not the only path to the middle class. Evidence suggests that many short-term sub-baccalaureate programs—like occupational certificates and associate’s degrees—can provide a significant wage premium.¹² Yet these programs are still treated as an option of last resort by high schools, federal policy, and families themselves. The federal apprenticeship program is a particularly telling example. The Department of Labor currently runs a highly successful registered apprenticeship program, but we spend almost nothing on it and it has few political champions.¹³ In fiscal year 2013, the federal government spent about thirty times as much ($839 million) on ineffective college access programs (TRIO) as it did on the registered apprenticeship program ($28 million).¹⁴

The best way for conservatives to counterbalance the “college for all” agenda is to support and tout occupational options like apprenticeships and job training.
5. **Promote Data and Transparency.**

This reform agenda will work best if built on a foundation of data and transparency. Today’s higher education market does not function as efficiently as it could because consumers lack clear, comparable information about the value of particular programs at particular institutions. How do graduates fare once they enter the labor market? Are they able to pay back their loans? Without answers to these questions, students cannot know *a priori* which options are worth investing in, and far too many choose programs that are unlikely to pay off. Schools with pitiful labor market outcomes are able to stay in business, and taxpayers and policymakers have no way of knowing whether public investments are reaping a return.

These information problems are self-inflicted. The federal government is uniquely positioned to collect and make available the kind of data that consumers need—a database that merges postsecondary records with wage and employment information of graduates. Unfortunately, in 2008 Congress explicitly banned federal agencies from creating this kind of database. Most congressional Republicans on the education committees have supported the ban from the start, though leaders like Majority Leader Eric Cantor and Senator Marco Rubio have recently come out in favor of data and transparency.

Better data on postsecondary outcomes can lay the groundwork for other reforms. Information on the wage premium attached to various occupational programs could show families that the path to the middle class does not always require a BA. These data would also help ISA investors tailor contracts to reflect likely outcomes, and allow innovative programs to compete on a level playing field with more traditional offerings.

Republicans have every reason to be concerned that collecting these data will enable Democrats to build them into a ham-handed, arbitrary accountability scheme. But congressional policymakers can easily place prohibitions on how the data are used without prohibiting the collection and dissemination of the data itself. These data are a public good, and families, taxpayers, and policymakers would be better off if they had access to them.

In all of these ways, reformers can help modernize America’s system of financing higher education and open far wider the gates into the middle class. Today’s accreditation system stands in the way of experimentation with new models and approaches; the lack of data about outcomes makes it nearly impossible to evaluate the options that do exist; and the broken federal loan system enables even failing institutions to continuously increase costs. It is a classic example of a system built to resist innovation and improvement. But by applying core conservative insights about how to turn failing systems around, policymakers can offer middle-class families more options, more control, and a far better shot at the American dream.

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Andrew P. Kelly is the director of the Center on Higher Education Reform and a resident scholar in education policy studies at the American Enterprise Institute.
The Problem: The anxieties and worries of Middle America  
PETER WEHNER
2. James Carville and Stan Greenberg, It’s the Middle Class, Stupid (New York: Plume, 2012), 34.
6. Carville and Greenberg, 49.
8. It is worth noting the party and ideological self-identification of these respondents: Thirty-four percent identified themselves as Democrat, 25 percent Republican, and 35 percent independent, but 39 percent said they were conservative, 22 percent liberal, and 35 percent moderate.

The Solution: A conservative governing vision to restore America's promise  
YUVAL LEVIN
1. So, for instance, Paul Krugman can write: “Start with the proposition that there is a legitimate left-right divide in U.S. politics, built around a real issue: how extensive should we make our social safety net, and (hence) how much do we need to raise in taxes? This is ultimately a values issue, with no right answer.” Like many on the Left, he takes the essential question of our politics to be exactly how much of the Left’s agenda should be adopted. (“The Closing of the Conservative Mind,” New York Times, May 25, 2013, http://krugman.blogs.nytimes.com/2013/05/25/the-closing-of-the-conservative-mind/)
2. As former representative Barney Frank put it at the Democratic National Convention in 2012, “There are things that a civilized society needs that we can only do when we do them together, and when we do them together that’s called government.” Similarly, in his second inaugural address, in 2013, President Obama sought to depict individual action as the only alternative to government action, saying: “No single person can train all the math and science teachers we’ll need to equip our children for the future, or build the roads and networks and research labs that will bring new jobs and businesses to our shores. Now, more than ever, we must do these things together, as one nation and one people.”

Health-care reform to lower costs and improve access and quality  
JAMES C. CAPRETTA


6. The credits in the Republican Senators’ plan are also income-tested and phase-out altogether for any household with income above 300 percent of the federal poverty line.

7. The Burr-Coburn-Hatch plan leaves the PPACA’s Medicare changes in place, but that should not be construed as an endorsement of those provisions. Senator Coburn, for instance, has backed significant, market-based Medicare reforms in the past that would displace the need for the PPACA provisions. The 2017 Project plan would repeal the PPACA’s Medicare cuts.


Tax reform to strengthen the economy and lighten the burdens families bear

ROBERT STEIN


K-12 Education reform to give the next generation a chance to thrive

FREDERICK M. HESS


3. Ibid.


Higher-education reform to make college and career training more effective and affordable

ANDREW P. KELLY


7. The state authorization regulation was thrown out by the DC Circuit in June 2012.

8. For an exploration of this idea, see Alex Pollock, “Fixing Student Loans: Let’s Give Colleges Some Skin in the Game,” The American, January 26, 2012.

9. Senator Marco Rubio recently proposed “student investment plans” that function like ISAs.
10. For a detailed discussion of policy recommendations, see Miguel Palacios, Tonio DeSorrento, and Andrew P. Kelly, “Investing in Value, Sharing Risk,” American Enterprise Institute, February 25, 2014.


Safety-Net Reforms to Protect the Vulnerable and Expand the Middle Class  SCOTT WINSHIP


3. For one, the poverty line is adjusted upward each year to account for the rise in the cost of living in a way that overstates that increase. Today’s poverty line is a better standard of living than those of the 1960s. And the definition of income used in the official poverty rate actually excludes benefits from some of the most important anti-poverty policies expanded or established in the past fifty years. Left out are food stamps, Medicaid, Medicare, school breakfast and lunch subsidies, housing assistance, and tax benefits like the Earned Income Tax Credit.


The CPI-U-RS shows greater inflation than other indices such as the Bureau of Economic Analysis’s “Personal Consumption Expenditures,” or PCE, deflator (preferred by the Federal Reserve Board and the Congressional Budget Office) or the “chained CPI” (which, like the PCE, better accounts for consumers’ ability to substitute goods and services for one another when relative prices change). To adjust the Wimer et al. poverty rate for 1967, I first compute the odds of being below rather than above the poverty line in 1980 and in 2010 using the Wimer et al. measure, then I compute the ratio of these odds. I do the same using another poverty measure estimated by Bruce Meyer and James Sullivan that relies on a cost-of-living adjustment more similar to the PCE and chained CPI. The odds ratio in the Meyer/Sullivan paper is 1.25 times the odds ratio from the Wimer et al. paper. I then compute the odds ratio for 1967 and 2012 using the Wimer et al. measure, multiply it by 1.25, and multiply that by the odds of being in poverty in 2012 to get the new odds of being in poverty in 1967. Finally, I compute the new percentage from the new odds. See Bruce D. Meyer and James X. Sullivan, “Winning the War: Poverty From the Great Society to the Great Recession,” Brookings Papers on Economic Activity 45(2) (2012): 133–200.

5. See also Meyer and Sullivan, “Winning the War.”


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You constantly hear about how conservatives have no ideas. The best thing about this book is you can slap the people who say such things with it. A close second: They can read it to discover how wrong they are.

JONAH GOLDBERG | EDITOR-AT-LARGE, NATIONAL REVIEW ONLINE

America’s middle class needs expanded opportunities, not more government. Room To Grow explains how unleashing the power of the free market can help Americans find good jobs, affordable health care, and more opportunity all around.

LARRY KUDLOW | CNBC’S SENIOR CONTRIBUTOR

Progressive policies have degraded the promise of a free and prosperous future for every American. The only antidote to poisonous progressivism is constructive conservatism. In Room To Grow our greatest contemporary thinkers and practical policy makers have produced a positive agenda all Americans can rally around to restore our birthright.

MARY MATALIN

We don’t need higher taxes and bigger government to make health care or college affordable or address other middle-class concerns. Room To Grow shows that there is a robust conservative agenda to fix these problems. Bad news for President Obama.

GROVER NORQUIST | PRESIDENT, AMERICANS FOR TAX REFORM

These all-star contributors are among the brightest lights in the modern conservative movement. These essays should be required reading for free enterprise advocates and anyone who aspires to build a better world through policy.

ARTHUR C. BROOKS | PRESIDENT, AMERICAN ENTERPRISE INSTITUTE

Room To Grow fills an important gap in our current political debate: Who speaks for the middle class? It offers conservative solutions to the problems and challenges facing the American middle class rather than simply lamenting the failures of liberalism. This book offers a positive, conservative alternative on a range of issues – K-12 and higher education, energy, taxes, health care, job creation, the social safety net, regulations and family. Room To Grow proposes solutions that are principled, ambitious, creative, and timely, particularly with middle class Americans in mind.

WILLIAM BENNETT

The maintenance of limited government presupposes a flourishing civil society and especially a culture that supports families. Room To Grow shows how creative conservative policies—policies that honor the integrity and respect the legitimate autonomy of families and other institutions of civil society—can revive the American spirit.

ROBERT P. GEORGE | MCCORMICK PROFESSOR OF JURISPRUDENCE AND DIRECTOR OF THE JAMES MADISON PROGRAM IN AMERICAN IDEALS AND INSTITUTIONS, PRINCETON UNIVERSITY

For too long, conservatives have offered populist rhetoric without having a fully-formed populist policy agenda to match. If they embrace these ideas, they will deserve the majority they want to regain.

ROSS DOUTHAT | OP-ED COLUMNIST, THE NEW YORK TIMES

Finally—a middle class agenda conservatives can champion.

KATE O’BEIRNE