

## **Issues 2016: Will Free Tuition Increase the Number of College Graduates?**

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### **The Narrative**

“If college is essential for building a career and being a full participant in our democracy as high school once was, shouldn’t it be free, paid for by public dollars, and treated as a right of all members of our country?”—National Education Association<sup>1</sup>

“I’ve come around to the idea that the correct tuition for qualified students at public colleges and universities is \$0.”—Matt Yglesias, Vox<sup>2</sup>

“It is time to build on the progressive movement of the past and make public colleges and universities tuition-free in the United States—a development that will be the driver of a new era of American prosperity.”—Senator Bernie Sanders<sup>3</sup>

### **In Reality**

Free college is unlikely to increase postsecondary educational attainment because quality, not cost, is the main obstacle to getting a college degree. Low-income students in the U.S. already pay, on average, no net tuition to attend community colleges—yet barely a third graduate.

There is also a risk in moving toward a tuition-free system for public colleges and universities: it would leave these institutions solely dependent on taxpayer dollars. If public budgets fail to keep pace with the increased demand and rising costs, colleges will be forced to limit the number of students they can accept, or sacrifice the quality of instruction, or both. Heightened competition for spaces could crowd out lower-income students from higher-quality public institutions that now accept them. There is even some evidence that free tuition would steer students toward lower-quality institutions.

### **Key Findings**

International comparisons render as dubious the assumption that free tuition in the U.S. would lead to higher numbers of college graduates.

- The percentage of 24–35-year-olds who attain a postsecondary degree is higher in member countries of the Organisation for Economic Co-Operation and Development (OECD) (including the U.S.) that charge tuition (43%) than in those that offer tuition-free college (38%).

- Within the G-7, the four countries that charge college tuition have higher attainment rates (Japan, 59%; Canada, 58%; United Kingdom, 48%; United States, 46%) than those that don’t (France, 44%; Germany, 28%; Italy, 24%).

- Low tuition price caps forced colleges in England to ration the available spaces. When the caps were lifted, institutions raised tuition fees by 87% between 2006 and 2012—yet college enrollment grew by 20%, and applicants from the most disadvantaged backgrounds grew by 53%.<sup>4</sup> By contrast, when Scotland eliminated tuition fees in 2007, low-income enrollment rates grew only one-tenth as quickly as in England.

While tuition is not the major obstacle to attaining a college degree in the United States, capping tuition can reduce access to college and distort the choices that students make about what institutions to attend.

- Half of students in the bottom income quintile pay no net tuition to attend public universities.
- Federal grants already make tuition free, on average, for low-income students at community colleges, yet just one-third of students from the bottom quartile of the income distribution who started at a community college in 2003 had finished a degree or certificate by 2009.
- When Massachusetts offered free public college to students graduating in the top 25% of their high school class, researchers found that students enrolled in lower-quality institutions in order to save money on tuition, lowering overall college completion rates.

### **On the Record**

“There is little reason to believe that free college would increase the number of students who would graduate, and reason to fear it would reduce the quality of, and access to, a college education. This could hit low-income students the hardest.”

Advocates for “free college” claim that fully subsidizing public tuition is necessary to avert a student debt “crisis” that is crippling college graduates and reducing access. Critics dispute whether there truly is a crisis, pointing out that the majority of college graduates are more than able to repay their student loans.<sup>5</sup> Critics are also quick to emphasize that “free college” isn’t free; it simply shifts the cost from students to taxpayers, creating a new entitlement projected to cost more than half a trillion dollars.<sup>6</sup> Supporters counter that this investment is worth it because it will enable more low-income students to earn degrees and pay dividends to the taxpayer through a more educated populace and greater economic growth.

Left out of the debate: when public colleges and universities do not charge tuition, they become solely dependent on taxpayer funding. The cost of higher education has been rising well above inflation for decades, and reducing tuition prices to zero would almost certainly increase enrollment demand. If taxpayer generosity lags behind cost increases, colleges will be forced to either ration access or decrease the quality of their educational offerings, undercutting the hope that free college will lead to more students receiving degrees.<sup>7</sup>

This matters because the quality of a college matters more than the price of tuition for student success. Most low-income students already pay no net tuition to attend community college, yet only about a third graduate within six years.<sup>8</sup>

More than half of the countries in the OECD offer free college. They have higher levels of enrollment than the United States but lower levels of postsecondary educational attainment.<sup>9</sup> Overall, the average attainment rate in the OECD countries with free college is 38%. In countries that charge tuition, the rate is 43%. Among the most developed nations, the G-7, those where students are charged tuition (Japan, 59%; Canada, 58%; United Kingdom, 48%; United States, 46%) all have higher levels of postsecondary educational attainment than those where tuition is free (France, 44%; Germany, 28%; Italy, 24%).<sup>10</sup>

International comparisons dispel the assumption that free college necessarily leads to higher postsecondary attainment. But this analysis can't take us much further than that. However, if within the same country, one region made college free and another increased the price of tuition, the results could tell us much more.

This was the case in the United Kingdom about a decade ago. In 2006, England decided to raise the cap on tuition fees; in 2007, Scotland abolished student tuition. Tuition fees in England rose by 87% from 2006 to 2012. No longer forced to ration access, England saw enrollment grow by 20% and applicants from the most disadvantaged backgrounds grow by 53%. In Scotland, low-income enrollment rates grew only one-tenth as quickly as in England.<sup>11</sup> This may be because while tuition was made free, students still had to pay for living expenses, and grant aid to defray overall costs for low-income Scottish students fell to half the value offered in England. One economist calculated that the net effect of free tuition was a £20 million-a-year (US\$ 30 million) transfer from poor students to their richer classmates.<sup>12</sup>

Making college tuition free is, at best, a very inefficient redistributive measure. Half of the U.S. students coming from families in the lowest 20% of the income distribution currently pay no net tuition to attend public universities.<sup>13</sup> Free tuition would provide substantial benefit to students from middle- and upper-income families while providing many low-income students with no economic benefit and leaving them on the hook for tens of thousands of dollars in room and board costs.

There may be another unintended consequence of free college tuition. A growing literature on college “undermatch” shows that similarly qualified students who attend lower-quality colleges tend to graduate at lower rates.<sup>14</sup> Free college could encourage widespread undermatching from higher-quality private institutions that would still charge tuition to lower-quality public institutions that would not. When Massachusetts offered free public college to students graduating in the top quartile of their high school class, two researchers at Harvard found that students were “remarkably willing to forgo college quality for relatively little money”—in other words, free tuition encouraged them to enroll in worse colleges. Many of those who did “lowered their college completion rates by using the scholarship.”

In a higher-education landscape that eliminated tuition from public colleges and universities, undermatch would affect students across the income spectrum, but there's reason to fear that it

would hit low-income students hardest. This would be partly because they may be more sensitive to the additional room and board costs than students from more affluent families; and partly because free college would draw many higher-income, highly qualified students to apply and enroll in flagship state universities, increasing competition for high-quality seats and potentially crowding out lower-income students.

Free college would be an expensive public investment, and it might not help the educational prospects of low-income students. A better approach would be to focus more on grant aid for low-income students, reform student loan repayment to lower the financial risk of attending college, provide students more information on the expected outcomes of attending college A or college B, and give colleges an incentive to see their students succeed by giving them a financial stake in whether students are able to pay back their debt.<sup>15</sup> Creating high-quality higher-education opportunities is far important to students than making tuition free.

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<sup>1</sup> Max Page and Dan Clawson, “It’s Time to Push for Free College,” National Education Association, <http://www.nea.org/home/62740.htm>.

<sup>2</sup> See <http://www.vox.com/2016/3/10/11194158/bernie-sanders-free-college>.

<sup>3</sup> See [https://www.washingtonpost.com/opinions/bernie-sanders-america-needs-free-college-now/2015/10/22/a3d05512-7685-11e5-bc80-9091021aeb69\\_story.html](https://www.washingtonpost.com/opinions/bernie-sanders-america-needs-free-college-now/2015/10/22/a3d05512-7685-11e5-bc80-9091021aeb69_story.html).

<sup>4</sup> Nicholas Barr, “Financing Higher Education: Principles and an Outline of the Story in England,” in “Restructuring Student Loans: Lessons from Abroad,” sponsored by the Education Policy Initiative, Gerald R. Ford School of Public Policy at the University of Michigan, Washington, D.C., June 13, 2016, <http://edpolicy.umich.edu/files/barr-financing-education-england-june-2016.pdf>.

<sup>5</sup> Discussed in Max Eden, “Is There a Student Debt Crisis?” Manhattan Institute, June 2016, <https://www.manhattan-institute.org/html/issues-2016-student-debt-crisis-8966.html>.

<sup>6</sup> See Laura Meckler, “Hillary Clinton’s Free College-Tuition Plan Short on Specifics,” *Wall Street Journal*, Aug. 14, 2016, <http://www.wsj.com/articles/hillary-clintons-free-college-tuition-plan-coming-up-short-on-specifics-1471167001>.

<sup>7</sup> See Andrew P. Kelly, “The Problem Is That Free College Isn’t Free,” *New York Times*, Jan. 20, 2016,

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<http://www.nytimes.com/roomfordebate/2016/01/20/should-college-be-free/the-problem-is-that-free-college-isnt-free>.

<sup>8</sup> See U.S. Department of Education, National Center for Education Statistics, 2003–04 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09), <http://nces.ed.gov/datalab/tableslibrary/viewtable.aspx?tableid=8159>.

<sup>9</sup> Ibid. When making international comparisons, it is necessary to keep in mind that postsecondary educational attainment is not strictly equivalent to, say, graduation from a U.S. college or university. OECD data on educational attainment also reflect postsecondary vocational degrees.

<sup>10</sup> OECD, Population with Tertiary Education, 2016, <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>. The OECD defines population with a tertiary education as “those having completed the highest level of education, by age group. This includes both theoretical programmes leading to advanced research or high skill professions such as medicine and more vocational programmes leading to the labour market.”

<sup>11</sup> See “A costly promise: Scrapping tuition fees has helped rich students at the expense of poor ones,” *The Economist*, Oct. 3, 2015, <http://www.economist.com/news/britain/21670045-scrapping-tuition-fees-has-helped-rich-students-expense-poor-ones-costly-promise>.

<sup>12</sup> Lucy Hunter Blackburn, “The Fairest of Them All? The Support for Scottish Students in Full-Time Higher Education in 2014–2015,” University of Edinburgh, Center for Research in Education Inclusion and Diversity, February 2014, [http://www.docs.hss.ed.ac.uk/education/creid/Projects/34ii\\_d\\_ESRCF\\_WP3.pdf](http://www.docs.hss.ed.ac.uk/education/creid/Projects/34ii_d_ESRCF_WP3.pdf).

<sup>13</sup> Author’s calculation, using data from the U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Survey, <https://nces.ed.gov/surveys/npsas>.

<sup>14</sup> See Andrew P. Kelly, Jessica S. Howell, and Carolyn Sattin-Bajaj, eds., *Matching Students to Opportunity: Expanding College Choice, Access, and Quality* (Cambridge, Mass.: Harvard Education Press, 2016), <http://hepg.org/hep-home/books/matching-students-to-opportunity>.

<sup>15</sup> See Max Eden, “A Much Better Way for Higher Education,” *U.S. News and World Report*, June 22, 2016, <http://www.usnews.com/opinion/articles/2016-06-22/paul-ryan-should-learn-from-jeb-bushs-higher-education-reform-plan>.