CRUSHED

HOW STUDENT DEBT HAS IMPAIRED A GENERATION AND WHAT TO DO ABOUT IT

David E. Linton

FOREWORD BY JOHN KATZMAN

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Dedication

First, to my parents—without whom I would not have learned the value of an education—I am immensely grateful for your guidance and support. I am exceedingly fortunate that, unlike most in my generation, I completed my postsecondary education without student debt. Thank you!

Second, to my children, Matthew, Joshua, and Leah—without whom I would not be so concerned about the cost of college—I wish you to be good, brave, and happy. Watching you grow has brought me immense joy, and I hope one day you might dust off this book, browse through it, and ask me why it does not have more pictures.

Finally, to my readers—without whom this book would have no utility—I appreciate you have decided to spend your personal time reading this work and I hope you gain insight that may improve your (or your children's) educational outcome.

Contents

Foreword

I have been involved in higher education for decades. As the founder and CEO of The Princeton Review, 2U, and now Noodle, I've gotten to know hundreds of administrators and professors. With few exceptions, they are smart, honest, hard-working, and committed to the public good. They compete hard with one another, if in an appropriately collegial way. This competition has led to significant advances in the "student experience," including an expansion of course offerings and an explosion in peripheral services offered by colleges and universities, but few administrators or their respective boards have focused on efficiency or cost rationalization. As a result, tuition has risen at a rate commensurate with the breadth of services offered by universities, but not necessarily at a rate commensurate with the value of the education.

I met David Linton a couple of years ago and I was skeptical that another set of eyes on college finance would help solve the problem. I warmed to *Crushed* as it clearly described the scope and impact of the student debt problem and its burden to both students and society. David discusses in clear terms how we got into this mess, and he explains what parents and students should know before enrolling in college. As a businessman who works with colleges, what gets me excited about *Crushed* is the analysis of various policy proposals. David provides creative ways to mitigate and eventually eliminate runaway tuition inflation and the overwhelming stock of student debt. As a parent, I appreciate how David answers head-on all the questions I (and others) have about college:

- Is it worth it?
- Who should go to college, and when?
- What are the common pitfalls parents and students make, and how can you avoid those mistakes?
- How can you (or your child) get the most out of college?

It's reasonable to question if college is worth it. After all, it is one of the most expensive things you'll ever purchase. David addresses this question in a more nuanced way, but the simple answer is yes. As he notes, it's still a compelling

return on students' time and (usually) money by measures as diverse as economics, health, and happiness—especially if a student picks a good school that aligns their interest and opportunity. But as David notes, this is true *on average*, and generally only if a student completes their degree without assuming a crushing debt load in the process.

Whether you're a parent facing the cost of educating your family, a higher education administrator, or a policymaker wrestling with the public good, the question is where to go from here. Most important, how do we make a great college experience less expensive, and who and how do we best pay for it? David comes at these issues as a gifted economist. *Crushed* is politically neutral, unbiased, calm, and balanced; he has no ax to grind. Armed with a truckful of data, he's keen to offer insight that will improve student outcomes and will answer a lot of questions you probably have.

Unsustainable things always seem to stick around much longer than we think they will. As we approach $2 trillion in student debt, it's clear that we need to do something different for both students and society. *Crushed* offers solutions, all of which are thoughtful and reasonable, and some of which might work.

—John Katzman, founder of The Princeton Review

Introduction

IT'S PERSONAL

Juli immigrated to the United States as a child. Interested in interior design, as a high school senior Juli and her parents toured the New England Institute of Art (NEIA), a for-profit institution in Brookline, Massachusetts, a suburb of Boston. While there, Juli and her family were led to believe that the NEIA would be instrumental in allowing Juli to secure an internship and full-time employment at graduation; thus, she could go on to achieve the American dream of home ownership and financial security. Juli was a good candidate for admission to the NEIA, but not for the reasons that she assumed at the time. Because Juli's parents were of modest means and because her family had little knowledge of the American postsecondary education system, Juli's family would likely receive Pell Grants and could be convinced to assume federal student debt. Consequently, that's what happened; in what Juli describes as a high-pressure situation, Juli asked her father—who didn't speak English—to cosign student loan documents. Juli graduated on time with a degree in interior design in 2012, but she was unable to find work in her chosen field. The NEIA meanwhile stopped enrolling students in 2015 and closed in 2017. Now, after 10 years, Juli is still struggling to repay student loans and has been unable to work as an interior designer, in part because her diploma is of dubious value now that the NEIA is no longer an accredited college.

James' parents didn't go to college, but the idea that a college degree was the path to financial success was taught to him from an early age. In high school, James wasn't a great student but he scored well on standardized tests. He was initially hesitant to go to college—what would he study, and how would he afford it? After learning about the GI Bill, James joined the Air Force in 1997, and after serving four years was honorably discharged. James then chose to attend a small college in South Carolina. Each semester's tuition at the time was only $2,200, which was fully covered by the GI Bill. However, by the time he graduated, the tuition has risen more than 100 percent to $4,500 per semester,

which wasn't fully covered by his government allowance. So, James borrowed $15,000 and graduated in 2007 with a BS in Management. James got a job but was laid off in 2008 during the Great Recession. He found employment again, but was laid off a second time shortly thereafter. During these periods, he got behind on his payments and began incurring penalties and significant interest charges. He later defaulted on his debt, which after 10 years grew to over $60,000. James reports that his credit is ruined, he's regularly hassled by collections agencies, and that he doesn't believe he can achieve any of his personal goals including financial security. This has all taken a major toll on his mental health leading to thoughts of suicide.

After graduating from college, Haylee took a job with a local government. Haylee assumed significant student debt to pay for college, and her plan to repay her debt was to enroll in an income-driven repayment plan in order to maintain eligibility in the Public Service Loan Forgiveness (PSLF) program. This government program would allow her to jettison her remaining student debt after ten years of (or 120) consecutive on-time student loan payments. After graduating Haylee contacted her servicer, FedLoan, and confirmed that her loans qualified for the PSLF program and that she was on her way to full loan forgiveness. However, after three years of payments, Haylee received a note from FedLoan indicating that her loans may be eligible for PSLF, something she thought (correctly) she already knew. Confused, she contacted her servicer and was (mis)informed that to be eligible for forgiveness, she would have to consolidate her loans. However, by doing this, she also consolidated loans that already had 32 qualifying payments, meaning her payment history would *restart*. She wasn't informed of this at the time. Now, despite having been misinformed regarding her loan forgiveness eligibility, and despite adhering to all criteria as disclosed to her, she finds she's starting over with respect to her student debt payments. With $85,000 in debt, she fears she won't be able to buy a home, get married, have kids, or live on her own.*

IT'S MASSIVE

Juli, James, and Haylee's stories are not unique. In fact, they are in the majority. The College Board estimates that 55 to 57 percent of bachelor's degree recipients have student debt at graduation (depending on the type of school). The average balance of student debt at graduation is $26,700 if the student attended a public four-year school, and $33,600 if the student attended a private four-year school.[i] That's pretty high, but it may be worse; the Institute of

* These student debt stories, and many others, can be found at www.studentdebtcrisis.org/stories/.

College Access and Success estimated that in 2016, the share of people who have student debt at graduation is closer to 66 and 68 percent for public and non-profit schools, respectively. For-profit schools have even worse statistics with an estimated 83 percent of students graduating with student debt, and the average student balance at graduation was $39,900.[ii] And those are the lucky students! Why? The College Board figures hide a dirty secret: they are estimating the amount of debt *at graduation*. However, these figures don't include the students that fail to earn a degree but assume debt along the way. That's a nontrivial population; nearly one in three students entering a public four-year program, and nearly three in four students entering a for-profit program, will fail to earn a degree![iii] Most of those students took on debt as well, and now they have little to show for it.

This issue is massive. There are roughly 43 million people with student debt in the United States.[iv] Just to wrap our heads around that number, there are more student debtors than residents of Florida (21.8 million), Texas (29.5 million), or California (39.2 million).[v] There are more student debtors than registered Independents (34.7 million) or Republicans (35.7 million), and almost as many student debtors as registered Democrats (48.0 million).[vi] There are more student debtors than Americans who live in the largest 25 American cities *combined* (38.6 million).[vii] And how much debt do they have? Around $1.8 trillion. Just to wrap our heads around *that* number, $1.8 trillion is roughly the entire annual economic output of Texas ($1.8 trillion), New York ($1.8 trillion), and greater than all of the New England states combined ($1.1 trillion).[viii] There is more student debt than credit card debt ($890 billion) or auto loans ($1.5 trillion).[ix]

And this problem is impairing a generation of young adults. The studies that have connected student debt to impaired student outcomes can fill a small library. Student debt has been linked to delayed household formation, delayed home purchases, delayed marriages, delayed family formation, fertility issues, lower entrepreneurship and economic dynamism, greater economic inequality, impaired career choices, lower job satisfaction, and damaged physical and mental health. I summarize many of these findings later in this book.

IT'S PREDICTABLE

Berkshire Hathaway Vice Chairman Charlie Munger is credited with saying, "Show me the incentive and I'll show you the outcome." To this, he added in a 2020 interview, "If you have a dumb incentive system, you get dumb outcomes."[x] To anybody who is adversely impacted by student debt, it is self-evident that the current postsecondary education system, with its associated on-demand student debt system, is dumb. Really dumb.

At the beginning of the process of writing this book, a colleague asked me why I thought I was qualified to write it. To be fair, my stint as an adjunct professor at a large university was relatively brief, and I am an investment manager by education and trade. To my colleague, I responded: I'm not an academic, reporter, or tragic victim of this system (as most contributors to this topic are)—I'm an economist. So, why does being an economist make me qualified to write on this topic? Because, if we're going to figure out how we got into this mess and what we need to do about it, we need calm, rational, thoughtful analysis paired with actionable solutions. And how do we get this kind of analysis and potential solutions? We, my dear reader, have to employ a process that I call the *economic method*, which is the economic cousin of the scientific method.

When fully analyzing a system and employing the economic method, any economist who is worth his or her salt begins by measuring outcomes. Then, we ask, "Is this outcome *optimal*?" We generally define optimal as leading to the highest amount of *utility* or happiness among people. So, if we measure an outcome that's not optimal, our focus turns to identifying how we arrived at an outcome. A foundational assumption in the economic method is that all outcomes are driven by incentive structures. So, to address a poor outcome, we must identify every stakeholder and identify each stakeholder's incentive structure. If we want to get a different outcome, we simply need to thoughtfully change the incentives in a targeted manner.

For this book, I analyzed the incentives and motivations of students, parents, guidance counselors, endowments, university faculty, university boards, banks, and politicians. I then asked (as Charlie Munger described), "Are these good or *dumb* incentives?" Unfortunately for America's youth, there is a whole host of misaligned (i.e., dumb) incentives. Of all the aforementioned stakeholders, few if any are incentivized to ensure that students graduate on time, with little or no debt, and with degrees that elevate their economic opportunities. On the contrary—student outcomes of secondary or tertiary consideration and incentives are aligned to maximize the quantity of students graduating with student debt. Don't believe me? Then ask yourself, "Why are there 44 million indebted Americans with $1.8 trillion in student debt?"

IT'S CORRECTABLE

Altering outcomes by influencing economic incentives has a proven track record of success. How does this look in practice? There are two approaches—tax (disincentivize) what leads to bad outcomes and subsidize (incentivize) what leads to good outcomes. Consider the following two examples. California

considers smoking to be a public health nuisance, yet, while smokers primarily impact their own health, they also consume a disproportionate amount of healthcare services, which creates a financial burden on nonsmokers. So, in 1998, California voters passed a $0.25 tax on each pack of cigarettes, with the objective of reducing smoking. The following year, cigarette sales fell by 9.4 percent and continued to decline in subsequent years.[xi] The tax functioned as a disincentive to engaging in a behavior that caused public harm, and it worked. Conversely, financial incentives can lead to a dramatic increase in activity. In 2005, in an attempt to increase all forms of domestic energy consumption (as reliance on foreign oil was a geopolitical concern), Congress passed the Energy Policy Act. This act included a provision that created a 30 percent tax credit on residential and commercial solar systems. In other words, for every $100 spent on installing solar panels, a person or business could deduct $30 from their year-end tax bill. Following the creation of this subsidy (positive incentive), the solar panel industry experienced a major surge in growth. Solar installations increased at an average rate of 77 percent *per year* from 2006 to 2012, and the total workforce in the United States who were employed in the solar industry jumped from under 20,000 to nearly 120,00 over the same period.[xii]

That's interesting, but what does this have to do with the student debt crisis? The answer is that legislative solutions have the ability to dramatically eliminate the use of student debt for future generations if the legislation effectively realigns stakeholders' incentives. Policy reform must ensure that the government, banks, students, and universities are all incentivized to create a well-educated, debt-free, highly productive, equitable society. In order to do this, each and every stakeholder in the postsecondary system must gain when this objective is achieved and share in the pain when this objective is not achieved. The thoughtful and appropriate policy solutions proposed in this book will take years (or even decades) to manifest in the form of superior outcomes, but these policy solutions have the potential to ensure that student debt becomes a relic of a bygone era.

What if you're picking up this book because you want to gain a better understanding of the American postsecondary education system? Or, if you want to know what you should and should not do when it comes to applying to college? Then you're in luck. As a father of three (likely) college-bound kids, I wrote the final chapter explaining what I learned while researching this topic, and how I will guide my kids when we decide on their postsecondary path.

Thank you for your time. We can achieve great things when we work together, and by picking up this book, you're contributing to an effort to end our *crushing* student debt crisis.

About the Author

David E. Linton is an author and economist. Mr. Linton is a Faculty Lecturer at the University of Texas McCombs School of Business, where he teaches Investment Management, and he is a former professor at the University of Southern California's Marshall School of Business. His first book, *Foundations of Investment Management*, has become a mainstay among aspiring professionals who want to bridge the gap between an academic understanding and the practical application of investment management strategies.

Mr. Linton is currently a senior portfolio manager at a multinational financial technology firm where he shares responsibility for the management of both corporate and customer cash assets. Previously, he was the director of Portfolio Construction and Manager Research at Pacific Life Fund Advisors LLC. Prior to this, Mr. Linton was a vice president and portfolio manager at PIMCO.

This book has free material available for download from the Web Added Value™ resource center at *www.jrosspub.com*

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Downloads for *Crushed* include the figures and tables from the book, including supporting data.

Part I

How Did We Get Here?

1

A Brief History of the Growth of the American University System

WHY REVIEW HISTORY?

The crisis of insolvency, stunted career trajectories, delayed household formation, and mental health issues directly attributable to student debt is unique to this generation. There are no empirical data we can examine to calculate the long-term adverse effects of this phenomena because never before has so much debt been assumed by so many young adults. With respect to the university system, both the breadth of course offerings at universities, as well as the percentage of the population that has obtained or attempted to obtain an advanced degree, is greater than at any time in history. So, what is the point of reviewing the history of the American university system? We will find no robust discussions of student debt in the dusty archives of university libraries, nor will we find policy solutions in the Library of Congress.

The answer to this question is: A review of the history of the American university provides both context and the intuition regarding the trajectory of the American university system, its costs, and the debt assumed by its students. In addition, to determine the magnitude of the student debt problem, diagnose its cause, and offer solutions, we must first closely examine postsecondary education in the United States. More specifically, what is the cost of a university degree? Is this excessive? Is it sensible to ask students to assume debt to achieve this degree? How have both the cost of a postsecondary degree and the value it confers to its recipient changed over time? Where are we headed? And, if you're a parent or a policy maker, what should you know or do?

However, if we hope to fully answer these questions, we should consider digging even deeper—we must begin with a discussion of the university itself. Specifically, what purpose do junior colleges, colleges, and universities serve? Do these institutions serve their students or their societies, and are students expected to utilize the knowledge they gain to advance themselves, serve society, both, or neither? And most important, are institutions of higher learning upholding their tacit societal contract, and if not, why? While we can answer these questions without a review of history (I answer these questions at the end of the chapter), a review of history adds helpful context and color to later discussions.

While readers who are most interested in policy solutions to the student debt crisis and parents who are looking to advise their children are welcome to skip over this chapter, those who follow me from the beginning will emerge with a far greater understanding as to how we got here and what we can and should do about it.

COLONIAL PERIOD THROUGH THE CIVIL WAR

Higher education in America began in 1636 with the establishment of Harvard College in Cambridge, Massachusetts. Within years of having settled in Massachusetts Bay, the English Puritans turned their attention to the establishment of a university. According to American historian Samuel Morison, "Enthusiasm for education was one aspect of that desire to know and do the will of God that bound the puritans together . . . their Congregational churches must have a learned clergy, cost what it might." In addition to Theology, early disciplines at Harvard included Rhetoric and Logic, Ethics and Politics, Arithmetic and Geometry, as well as the study of Latin, Greek, and Hebrew.[i] In fact, while the emphasis on the training of a learned ministry continued to be viewed as *essential* in the early days of Harvard College, by the 1660s the expectation was that the university would address a broad range of the needs of the colony.[ii]

The second institution of higher education that was founded in the American colonies was the college of William and Mary, chartered in 1693. Named in honor of the reigning monarchs King William III and Queen Mary II, this institution is located in Williamsburg, Virginia. Alumni of William and Mary include sixteen members of the Continental Congress (including George Washington and Thomas Jefferson), and four signers of the Declaration of Independence, earning it the nickname: *the Alma Mater of the Nation*.[iii] On the eve of the Revolutionary War, the number of institutions of higher

learning in the Thirteen Colonies had grown to nine while its population was estimated at 2.5 million people.[1,iv] There were also around 3,000 living college graduates, meaning about 11 in every 10,000 people had college degrees.[v] Figures 1.1 and 1.2 chart the growth of degree-granting postsecondary institutions as well as the number of living baccalaureate graduates as a percentage of the population.

The Revolutionary War years were a challenge for U.S. colleges; Nassau Hall at Princeton was occupied by both the British forces and the continentals, the President at King's College (later Columbia University) was run out of the city by an angry mob, and William and Mary College was closed during the siege of Yorktown with one of its buildings set on fire by French forces. However, once the war ended, interest in higher education returned and from 1782 to 1802, nineteen colleges that are still in existence today were chartered.[vi] The success of the American Revolution, acceptance of European Enlightenment ideas centering on the sovereignty of reason and the de-emphasis of the divine, and a general decline in the religious orthodoxy among the newly established United States of America all contributed to a rethinking of the purpose of American colleges.

According to American Historian Frederick Rudolph, "colleges were now serving a new responsibility to a new nation: the preparation of young men for responsible citizenship in a republic that must prove itself, the preparation for lives of usefulness of young men who also intended to prove themselves."[vii] The first institution among the colonial colleges to revise its curriculum to reflect this shifting viewpoint was the college of William and Mary. Four years *prior* to the war's conclusion, then Virginia Governor Thomas Jefferson put forward a series of proposals for the college including the establishment of a professorship of law and policy (public administration), anatomy, medicine, and chemistry. By reshaping its faculty and curriculum, Jefferson hoped visitors would be free from "the royal prerogative, or the laws of the kingdom of England; of the canons or the constitution of the English church."[viii] Many colleges adopted similar changes to their curriculums in the years following the American Revolution. Yet, while educational focus of the American college would move away from educating graduates to serve congregants, this does not mean that colleges would educate young men to serve only themselves. On the contrary, at the birth of the nation, a higher calling remained embedded within the fabric of the colleges throughout the country,

[1] The U.S. Census Bureau estimates that there were 2.2 million people in 1760 and 2.8 million people in 1770. However, the first census was conducted in 1790. The statistic of 2.5 million people appears on the U.S. Census Bureau website.

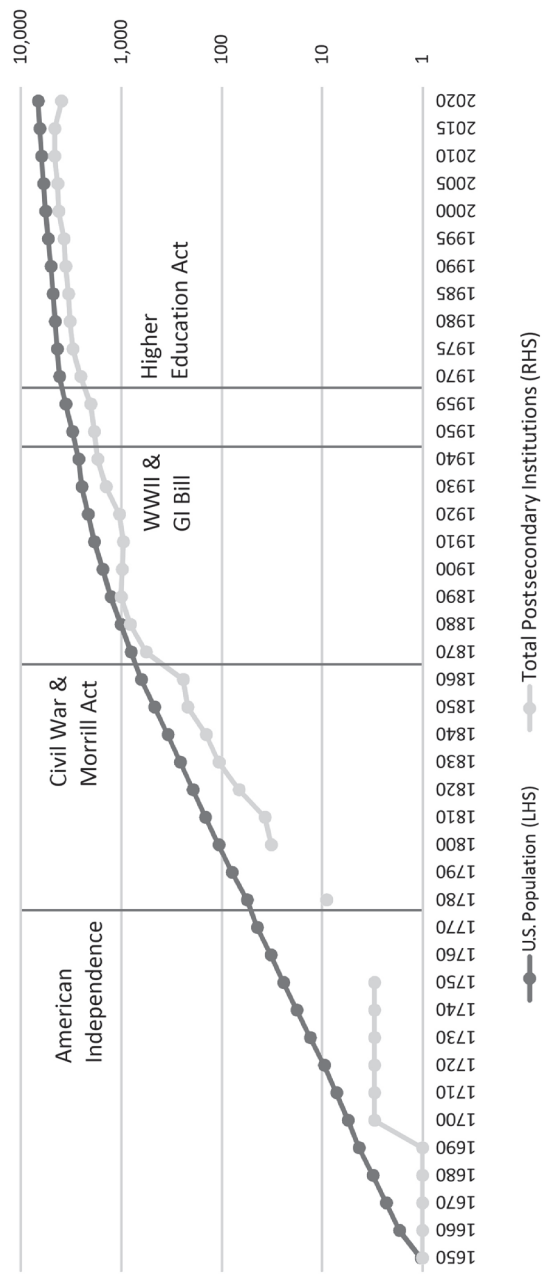

Figure 1.1 U.S. Population and Total Postsecondary Institutions.

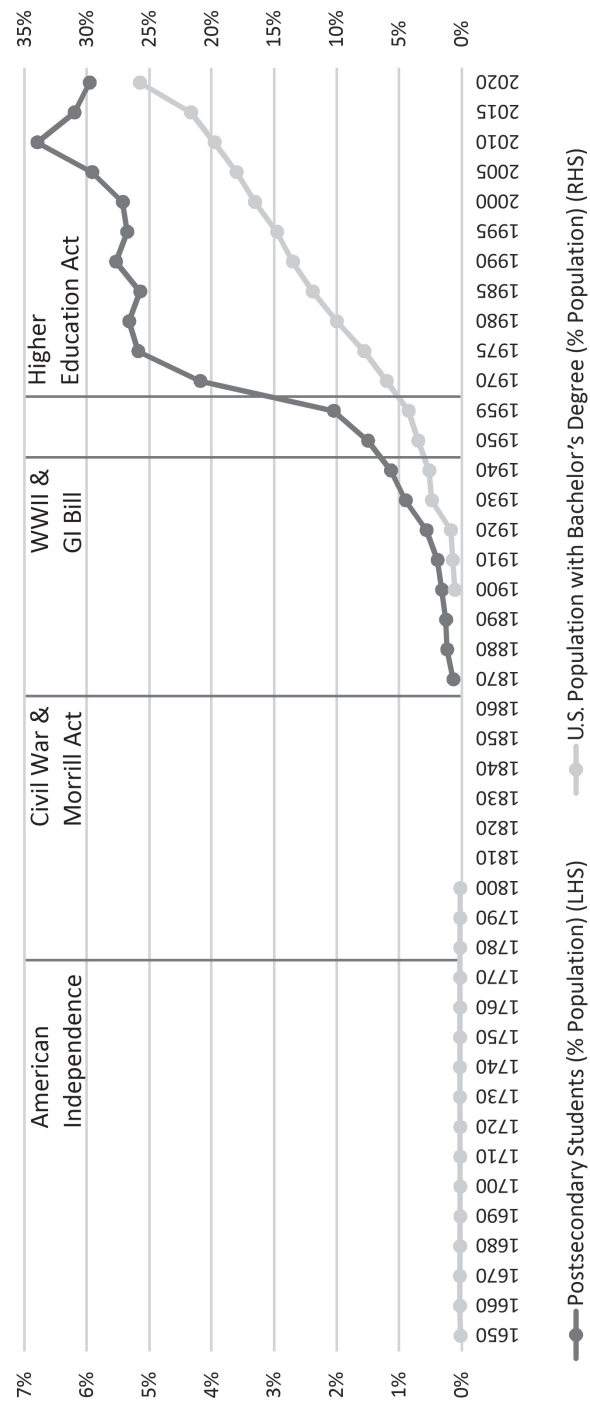

Figure 1.2 Postsecondary Students and Holders of Bachelor's Degrees (% of U.S. Population).

with universities expecting their graduates to still serve society (although not necessarily from an altar).[ix]

The charting of new colleges in the early 1800s continued with zeal as the U.S. population rapidly grew; across the country, America opened the doors of higher education in the same spirit as canal-building, farming, gold-mining, and other activities that echoed the belief in endless progress. Frequently, as towns grew on the western frontier, colleges were chartered not by local necessity, but with the hope of either spreading Western theology or recreating New England-type towns.[x]

THE CIVIL WAR THROUGH WWII

By 1860, the number of operating colleges in the United States had grown to around 250.[xi] With 31.4 million[xii] people in the United States, this equates to approximately one institution of higher learning for every 125,000 people—up from one institution for every 277,000 people at the beginning of the Revolutionary War. A college degree was still largely unobtainable for anyone but the children of the wealthiest, those fortunate to find a benefactor, or those entering the clergy. In fact, the requirement of proficiency in Latin and Greek as a prerequisite for admission generally functioned as an insurmountable barrier for most Americans. However, if knowledge of dead languages functioned as a barrier to entry, the cost of the education generally did not. In 1851, the first president of the University of Michigan, Henry Tappan, observed, "We have cheapened education—we have reduced it to cost—we have put it below cost—we have even given it away. The public has given money so liberally, and made education so nearly gratuitous, that, taking Harvard College as an illustration, every graduate costs the public nearly one thousand dollars."[xiii] Similar to conditions during the Revolutionary War, the Civil War adversely impacted institutions of higher learning. Washington and Lee College (then Washington College) located in Lexington, Virginia, was damaged by Union forces who destroyed books and laboratory equipment, defaced buildings, and stole property.[xiv] Meanwhile, Emory University in Atlanta, Georgia, was closed in 1861; its campus was later used as a Confederate hospital and then occupied by Union forces near the war's conclusion.[xv]

In the years following the Civil War, colleges again began to rethink their purpose and utility in the country. While the Protestant Second Great Awakening (early 1800s) had been the impetus for opening new colleges and infusing religion into their curriculum, the pendulum reversed direction following

the Civil War as the nation rebuilt. At the time, many leaders of new and existing institutions believed that the current curriculum was "too narrow, elementary, or superficial." There was a general desire to move away from the sectarian and toward the democratic. In addition, insufficient attention was given to research and topics that were both technical and practical. Only in the South were colleges simply content to maintain operations after having lost students, faculty, and financial support.[xvi]

The desire to increase both the availability of and the usefulness of the college education was codified in the Morrill Act of 1862—named after Representative Justin Smith Morrill of Vermont. This act was instrumental in shaping the trajectory of college education in America in the post-Civil War era with the United States becoming a global leader in technical education within 50 years of the bill's passage.[xvii] At the time of the bill's passage, the federal government was cash-poor but land-rich; so, the solution to enable the federal government to support institutions of higher learning was the distribution of federal land to be used for the establishment of colleges. Under the act, each eligible state received 30,000 acres of federal land for each member of congress the state had as of the census of 1860. Ninety percent of the capital raised by the sale of the land would seed each college's endowment, which was mandated by law to fund the college in perpetuity at a rate of five percent.[xviii] A further condition of this grant was that the college curriculum must reflect the occupational needs of the growing country—farming and engineering.[xix]

Between 1862 and 1879, 26 land-grant institutions were established,[xx] and the number of students graduating with engineering degrees began expanding dramatically; by 1910, Americans who earned an engineering degree had grown from 87 to around 2,100 per year. By comparison, in 1911 the 11 technical schools in Germany graduated approximately 1,800 engineers per year.[xxi] While the study of engineering flourished during that time, many remained skeptical of the usefulness of attending college to study agriculture.[xxii] While new colleges rapidly opened their doors in the post-Civil War years, existing institutions of higher learning continued to evolve. The most material development was the pivot away from a predefined (generally classical) curriculum to which students must strictly adhere and toward a more flexible elective curriculum. The most vocal (and successful) proponent of this evolution was Charles Eliot, president of Harvard University from 1869 to 1909. The rationale for the elective system was a combination of necessity, principle, and preference.[xxiii] Across the nation, other institutions reconsidered their own course requirements and began adopting elective systems.[xxiv]

In total, 432 colleges and universities were established from 1860 to 1899—186 of those institutions (151 private) opened from 1860 to 1879, and 246 of

them (197 private) opened from 1880 to 1899.[xxv] By 1900, the number of colleges in the United States expanded to 977.[xxvi] Meanwhile, the number of living baccalaureate graduates had grown to over 400,000, which equated to roughly 53.5 graduates per 10,000 people.[xxvii] While the percentage of Americans with college degrees was still limited (0.5% of the population), the college system had evolved dramatically by 1900. No longer designed to educate future clergy and/or the wealthiest Americans in the classics, colleges dramatically expanded their curriculums to ensure both greater societal relevance and utility. Yet, for all the benefits this evolution would confer to its students and the society, this transformation came with a loss of both purpose and identity among colleges themselves.[xxviii]

Enrollment in colleges and universities continued at a remarkable trajectory, growing five-fold from 1890 to 1940. Class sizes grew rapidly to accommodate the increase in enrollment, with the average number of students at public universities growing from 415 to 2,810 between 1897 and 1934 while the average number of students at private universities grew from 256 to 858 during the same period. Public institutions experienced a disproportionate share of the growth in enrollment, owing in part to state support and lower tuition expenses.[xxix] Female enrollment also expanded during this period with women comprising 40 percent of the 1939 fall enrolled class.[xxx] As enrollment and course offerings expanded rapidly, the American institute of higher education continued to evolve and become distinctly *American*. Universities in Europe generally took three forms: the classical studies of British universities, the scientific training of French grand ecoles, and the graduate and research institutes of Germany. By contrast, the American university combined each of these components and served a multitude of simultaneous functions. Furthermore, during that period, independent schools of theology and denominational institutions continued to decline in popularity while a majority of the professional schools (those educating primarily lawyers, dentists, pharmacists, and doctors) closed and were replaced by departments that were serving the same function at larger universities.[xxxi] While completion of secondary education and entrance exams remained the primary barriers of entrance to a university, the explicit cost of higher education was not prohibitively high. In-state tuition plus fees for undergraduates in 1933 was $61 at public sector institutions and $265 at private institutions.[xxxii] By comparison, a contemporary estimate of household income in 1930 in the United States was $2,438.[xxxiii] Meanwhile, from 1902 to 1940, total state and local government expenditures supporting higher-education institutions increased from 1.3 percent to 3.1 percent of total government expenditures.[xxxiv]

Johns Hopkins University, established in 1876, is considered the first research university in the United States. When the university first opened its doors, nearly its entire faculty had studied in Germany.[xxxv] Despite the growing success and prestige of research produced by Johns Hopkins prior to WWII, university reforms centered on broadening curriculum and not on enhancing research efforts. As such, only four of the 92 Nobel Prizes awarded between 1901 and 1931 were won by Americans.[xxxvi] However, this began to change in the 1930s. The ascendence of Nazi Germany generated an exodus of well-educated Jewish faculty from some of the world's most prestigious institutions, including the University of Berlin and University of Göttingen. Most of these faculty came to America and propelled forward American higher education standards.[xxxvii] So, while the American university was not widely respected internationally among scholars and researchers, the foundation had been established that would turn select American universities into the world's leading research institutions following WWII.

Another concurrent development that would shape the American university was the Great Depression. Beginning in 1929 and lasting approximately a decade, the Great Depression was a global phenomenon among developed countries that was characterized by a dramatic decline in income, tax revenue, prices, international trade, and an increase in unemployment. Meanwhile, many universities cut expenses; in 1933, Marietta professors proposed and received a salary cut of 50 percent. In response, the student newspaper wrote that the faculty had "come a lot nearer to a common feeling with the students. Now everyone on campus can admit quite freely that he is broke."[xxxviii] Meanwhile, social criticism became increasingly popular among students who were disillusioned with the state of the global economy. Students joined picket lines, organized labor unions, pledged not to go to war, criticized their schools' endowments for holding investments in companies considered predatory, and engaged in a variety of other extracurricular activities and demonstrations.[xxxix]

Despite the economic hardships created by the Great Depression, and despite the disillusionment that students felt toward their country and established institutions, enrollment did not decline during the Great Depression, nor did a great number of universities close. While some students postponed or ceased their university studies, others remained in college longer or earned master's degrees. In fact, the number of institutions of higher education grew by 299 to 1,708 between 1930 and 1940 while the total enrollment of students grew by roughly 400,000 to 1.5 million during the same period.[xl] By 1940, over 3.4 million Americans had college degrees, which was 258 graduates per 10,000 residents, up from 71 per 10,000 in 1910.[xli]

POST-WWII THROUGH THE 1970s

On December 8, 1941, Harvard University President James B. Conant spoke before a large audience in Sanders Theatre. He proclaimed, "The United States is now at war . . . We are here tonight to testify that each one of us stands ready to do his part in insuring that a speedy and complete victory is ours. To this end I pledge all the resources of Harvard University."[xlii] The motivations for such a proclamation were likely two-fold: (1) a patriotic desire to demonstrate loyalty to the American war effort and (2) a realization that Harvard would need to quickly adapt to the changing needs of the country or else it would face financial ruin. Harvard was not unique in this assessment, as WWII would reduce civilian enrollment by over 60 percent, rob schools of faculty, and generate other financial strains. However, despite the existential threat the war posed, a vast majority of colleges were able to adapt and survive. Hundreds of colleges that participated in training programs conducted by the Army, Navy, and Army Air forces, continued to operate (albeit with some financial strain). Meanwhile, over two-thirds of the few colleges that did not participate in government programs also survived; institutions that were forced to close were mostly small liberal arts colleges.

During this time, curriculums changed to better suit the needs of the military. For example, in addition to offering German, colleges added courses in Chinese, Russian, and Japanese. Liberal arts studies declined in favor of applied studies or the application of disciplines. Summer vacations were eliminated by many colleges by transitioning to a trimester system; students not enrolling in the third trimester had extra time to work (i.e., support the war effort) during the summer. Universities also became highly active in research. Prior to WWII, most university research was privately funded and was medical in application. However, during WWII (and beyond) university research departments received significant federal support in order to address material wartime needs. During this time, American universities developed synthetic rubber, advanced dehydration processes to store and transport food, developed new technologies to mass produce penicillin, developed pesticides to eliminate mosquitoes and combat malaria and other diseases, just to name a few.[xliii]

One full year prior to V-J Day, marking the conclusion of the war, President Roosevelt signed into law the Serviceman's Readjustment Act of 1944, colloquially known as the *GI Bill*. Proposals for what became the GI Bill were put forward by both a committee of college presidents as well as the American Legion, the non-profit organization formed in 1919 that advocates for veterans. Motivations for passing the GI Bill were many and included both a desire to reward servicemen for their sacrifice, dramatically increase the educational attainment of the population, increase the long-term productivity

of the country, and avoid a dramatic surge in unemployed veterans following the war's conclusion. With respect to this final objective, the GI Bill would be a mechanism for keeping veterans out of the labor market until the economy could fully absorb them.

Benefits offered by the GI Bill to all servicemen who had served at least 90 days included subsidized low-interest mortgages, subsidized low-interest loans to start a business, and most famously, monthly payments to subsidize the cost of attending high school, college, or vocational school. An annual living stipend was increased in 1945 to $780 ($65 per month) for single veterans and $1,080 ($90 per month) for married veterans. In addition to this, veterans received $500 per year toward tuition and other educational expenses.[xliv] These figures may seem modest today; however, at the time, these figures far exceeded the cost to attend most universities. For example, in 1944 quarterly tuition, room, and board fees were as follows: University of Kansas ($225), University of California ($238), Northwestern University ($461), and Stanford University ($353). A few opponents of the GI Bill noted that many colleges responded to the increased willingness and ability to afford higher tuition by raising their tuition to the maximum allowable under the GI Bill (this is a recurring theme that we'll examine in the next chapter). Others at the time noted that veterans generally attended the most expensive college to which they had gained admission, while some veterans purchased unnecessary supplies if their $500 education stipend hadn't been exhausted. Regardless of any inefficiencies caused by this program, it was highly effective in increasing college enrollment. In the autumn of 1946, over one million veterans enrolled in college while over 2.2 million veterans (about one in eight) attended college by 1956 when support from the GI Bill concluded.[xlv]

Between 1940 and 1950, the number of Americans with a bachelor's degree increased by 1.9 million to 5.3 million, and the number of living graduates per 10,000 increased from 258 to 351.[xlvi] A majority of the post-WWII increase in enrollment were men, and by 1950 approximately 70 percent of students were male (up from 60%) in 1940, thereby temporarily reversing a trend toward parity between the genders.[2,xlvii] While the magnitude of the impact that the GI Bill had in college enrollment can be debated, what cannot be debated is how the dramatic increase in college enrollment and the coincident evolution in the political and societal view of college forever altered the trajectory of postsecondary education in the United States. In July of 1946, President Truman appointed a commission to "reexamine our system of higher education in terms of the objectives methods, and facilities; and in the light of the social role it has to play."[xlviii] Just over one year later, the first of the commission's

[2] By 1980, women had achieved parity in college enrollment.

six-volume report was returned to the president. Titled *Higher Education for American Democracy*, its recommendations included:

> *. . . the abandonment of European concepts of education and the development of a curriculum attuned to the needs of a democracy; the doubling of college attendance by 1960; the integration of vocational and liberal education; the extension of free public education through the first 2 years of college for all youth who can profit from such education; the elimination of racial and religious discrimination; revision of the goals of graduate and professional school education to make them effective in training well-rounded persons as well as research specialists and technicians; and the expansion of Federal support for higher education through scholarships, fellowships, and general aid.*[xlix]

In response to both the surge in post-WWII enrollment as well as the recommendations found in the *Higher Education for American Democracy* report, many states passed bills expanding existing institutions, built branch (satellite) campuses for existing universities, increased funding for research at universities, and many created statewide coordinating governing boards for universities and colleges.[l] Between 1940 and 1960, the number of institutions grew by 296 to 2004 (+17%), while fall enrollment grew by 2.1 million to 3.6 million (+144%).[li]

In 1958, the National Defense Education Act (NDEA) was signed into law; this act was passed in response to the successful launch of Sputnik by the Soviet Union as well as a countrywide shortage of mathematicians and engineers. This act provided funding to colleges to expand science, mathematics, and foreign language instruction; it also provided loans to students as well as national defense fellowships.[lii] The program was highly successful at increasing the educational attainment of students in the field of language and moderately successful at increasing the number of mathematicians. In 1960, universities conferred 5,405 (1.4% of total) foreign languages bachelor's degrees nationwide, while in 1970, universities conferred 20,895 (2.6% of total) degrees. By contrast, in 1960, universities conferred 11,399 (2.9% of total) mathematics bachelor's degrees nationwide, while in 1970, universities conferred 27,442 (3.5% of total) degrees.[liii]

Six years later, with support in both houses of Congress, President Lyndon B. Johnson began passing a series of major spending programs addressing medical care, urban development, rural poverty, transportation, and education. Known as the *Great Society* agenda, this domestic agenda aimed to improve and advance all areas of American life; policy initiatives included a "war on poverty," the creation of Medicare and Medicaid, further expanding welfare benefits, and increased spending on elementary through postsecondary

education (to name a few).[liv] As part of the Great Society agenda, the Higher Education Act (HEA) of 1965 was drafted "to strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education."[lv] In practice, this bill provided significant taxpayer support to implement many of the policy recommendations found in the *Higher Education for American Democracy* report from twenty years prior. Following its adoption, the HEA became the main legislative tool through which Congress now directly impacts higher education because every institution that receives federal funds must adhere to all its terms and conditions. The Act has been reauthorized roughly every five years since 1968, with the exception of 2014 through today.[lvi]

In the first of its eight titles (sections), the 1965 HEA appropriated a modest $25 million its first year and $50 million thereafter for grants used by states to "strengthen community service programs of colleges and universities." Other appropriations included grants to improve college libraries (Title II), support smaller colleges that are struggling financially (Title III), support the training of teachers who work in low-income areas (Title V), and make improvements to college campuses through building remodels, acquisition of equipment (Title VI), and expansion enrollment capacity (Title VII).[lvii] During the HEA's second reauthorization in 1972, Title IX was added; this addition corrected an oversight from the Civil Rights Act of 1964 whereby discrimination based on sex was prohibited in employment and public accommodations; however, this prohibition did not extend to education institutions. In 1964, women were underrepresented among university professional staff, comprising only 22% of its workforce.[lviii] The text from the Educational Amendments of 1972 reads: "No person in the United States shall, based on sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving Federal financial assistance."[lix] Title IX did not reference college athletics (for which it is well known today).[3]

Perhaps the most impactful component of the 1965 HEA that directly contributed to today's student loan crisis (which we will explore more fully in Chapters 2 and 5) was Title IV. This title provided $70 million in grants to be offered to high school students who were qualified to enter college but lacked the financial means to pay for it. The Title further charged states with administering one or more programs to ensure students had access to student loans that carried a federal guarantee. The loan sizes (offered on an annual basis) were $1,500 for graduate students and $1,000 for all other students,

[3] May 20, 1974, Senator Tower (R-Texas) introduced an amendment to exempt revenue-producing sports from being included in the determination of Title IX compliance. The amendment was rejected.

with a maximum balance of $7,500 and $5,000, respectively; the interest rate on loans was capped at either six or seven percent. Since these loans were federally guaranteed, the federal government offered to repay the lender in full should a borrower default, become permanently disabled, or die.[lx] Certainly, the framers of this act were well-intentioned and believed (rightly so) that the extension of federal guarantees to student loan administrators would expand the availability of loans to students. The framers also correctly ascertained that this extension of credit would enable students who might otherwise not attend college to earn an advanced degree; as shown in Figure 1.2, enrollment in higher education more than doubled between 1960 to 1970![lxi] However, as we will explore later, this Act has had several unintended consequences which have enabled the rapid growth in both college tuition expenses as well as the stock of debt utilized to pay college-related expenses.

THE 1970s THROUGH THE 2020s: GROWTH OF COMMUNITY, PUBLIC, AND PRIVATE COLLEGES

Growth of Community Colleges

While not a focus of this chapter, community colleges (also called junior colleges) currently occupy a highly relevant place in American higher education. Beginning in the early 1900s, many administrators in higher education believed universities should either enhance their offerings by providing courses that are relevant to professionals, while other administrators thought it wise to split the curriculum between *junior* (first two years) and *senior* (second two years) students. By differentiating between two- and four-year colleges, as summarized by President Harper of the University of Chicago, "many students who might not have the courage to enter upon a course of four years' study would be willing to do the two years of work before entering business or the professional school."[lxii] Under President Harper in 1900, the University of Chicago became the first institution of higher learning in America to award an associate degree, which was conferred after two years of study.[lxiii] Most junior college proponents believed junior colleges should offer terminal programs (i.e., students would receive no further education upon completion) and provide instruction in agriculture, technical studies, manual training, and arts. With this curriculum in mind, two-year community colleges would offer a *middle ground* between manual labor and highly-trained professionals.[lxiv] As such, these colleges were generally career-oriented, with applicable terminology including *vocational, semiprofessional*, and *occupational*. Community

colleges rapidly gained popularity, with the total number of two-year colleges increasing from eight in 1900 to 207 by 1922—and later, 719 in 1965.[lxv]

In 1965, the HEA directed states to create higher-education coordinating commissions in order to qualify for various grants. States responded by organizing commissions that were charged with creating uniform standards for curriculum, student access, and areas of focus. In addition, at this time, community college missions were defined to provide services for both prebaccalaureate and occupational aspirants, meaning some students could attend community college for three clearly defined reasons: to earn an associate (2-year) degree, to gain occupational training without earning a degree, or to earn credits that they could transfer to other state universities in order to earn a bachelor's degree. Commissions ensured few barriers existed to entering a community college; most were open to students who hadn't finished high school while other state educational commissions focused on ensuring community colleges would be opened within reasonable commuting distance of population centers. State commissions further ensured community colleges were supported with state funding (usually around 50%).[lxvi] In the twenty years following the passage of the HEA of 1965, the number of public 2-year colleges grew from 452 to 1,067 while the number of private 2-year colleges fell from 267 to 155.[lxvii] As of 2022, there are 1,042 member institutions of the American Association of Community Colleges. 2019 fall enrollment included 10.3 million people, of which 60 percent of students were enrolled in classes that can be used for "credit" (i.e., credits can be used toward an associate or bachelor's degree). Community colleges remain heavily subsidized, with only 25 percent of their revenue coming from tuition. The balance is from federal (13%), state (34%), local (21%), and other (7%) sources.[lxviii]

Growth of Public and Private Colleges

In the years following the passage of the HEA, enrollment in institutions of higher learning swelled more rapidly than at any time in the history the United States. In 1969, fall enrollment reached 8.0 million—up from 3.6 million in 1959. Meanwhile, the number of institutions grew from 2,004 to 2,525.[lxix] This rapid growth created several problems for both the colleges and their students. Many college campus facilities became overcrowded, resulting in insufficient student housing and an increased use of large lecture halls.[lxx] Meanwhile, student satisfaction with their experience declined. Criticisms at the time included irrelevant or outdated course requirements, neglect of undergraduate teaching in favor of focusing on graduate education or research, and an increasingly *impersonal* nature of the college experience.

Other criticisms at the time were political in nature and mirrored general societal dissatisfaction with the United States' involvement in Vietnam. As a result, students increasingly looked to their institutions to enable broader societal change while simultaneously demanding that universities provide students with more autonomy and control.[lxxi] This confluence of forces led to many large antiwar protests on college campuses, which sometimes led to tragic results. In May 1970, four students at Kent State University were killed and nine seriously injured by the Ohio National Guard while they attended an antiwar protest. In response, student protests around the country erupted with over 900 campuses experiencing walkouts and millions of students participating in generally nonviolent demonstrations.[lxxii]

Following these demonstrations, governors and state legislators began to lose confidence in American colleges and universities. In less than ten years, colleges lost much of the luster they had gained the prior generation and were now seen less as a critical source of innovation and societal advancement and more a source of political liability. This change in attitude, combined with recessions in 1969–1970 and 1973–1975, led to a tapering of financial support for higher education. While university enrollment continued to expand, reaching 11.6 million by 1980, both the rate of enrollment growth as well as the founding of new institutions significantly slowed. By the early 1980s, on the heels of higher enrollment but less governmental support, many colleges found both their facilities and budgets stretched.[lxxiii] In response to these (and other) growing concerns, the Secretary of the U.S. Department of Education created the National Commission on Excellence in Education with the aim of evaluating primary through postsecondary education in the United States. In 1983, the committee produced the report titled *A Nation at Risk: The Imperative for Educational Reform*.

This scathing report identified over a dozen issues concerning proficiency in language and mathematics, declining standardized test scores, poor critical reasoning skills, increased remedial training requirements, and a lack of schooling in areas relevant to the growth of technology. The report also noted "the *average citizen* today is better educated and more knowledgeable than the average citizen of a generation ago—more literate, and exposed to more mathematics, literature, and science . . . . Nevertheless, the *average graduate* of our schools and colleges today is not as well educated as the average graduate of 25 or 35 years ago, when a much smaller proportion of our population completed high school and college."[lxxiv] Likely not lost on the drafters of this report was that the average fall college enrollment in the United States had grown from 3.6 million to 11.6 million (+222%) between 1959 and 1979;[lxxv] so, while the HEA had opened the floodgates to those interested in earning a bachelor's degree, the quality of the education had suffered as a result. So,

while the *A Nation at Risk* report recommendations focus largely on secondary education, there was one notable recommendation for postsecondary institutions: *raise your standards*. The report specifically stated that colleges should "adopt more rigorous and measurable standards, and higher expectations, for academic performance and student conduct, and that 4-year colleges and universities raise their requirements for admission. This will help students do their best educationally with challenging materials in an environment that supports learning and authentic accomplishment."[lxxvi]

Following the report, enrollment in colleges and universities continued to increase, albeit at a slower pace. In response to student feedback and concerns among state and federal legislatures, college administrators spent the subsequent decades "upgrading." This included significant building projects, hiring more faculty and administrators (thereby improving the student-to-faculty ratio), expanding and modernizing their curriculums, investing in the "college experience," and raising the price of tuition. Established colleges and universities also became increasingly competitive with respect to freshman class SAT scores, high school GPAs, and other extracurricular activities. In short, colleges became what we know them to be today: a diverse body of institutions (some large, some small), generally competitive to enter and increasingly diverse with respect to their offerings, geography, and experience. And, most important, with respect to the focus on this book, they became increasingly expensive. In fact, for the first time in the history of postsecondary education in America, the cost of the education became the primary impediment to colleges achieving their objectives of advancing both students and society.

Growth of For-Profit Colleges

In 1970, for-profit colleges were fringe players in the arena of U.S. higher education. These institutions nationally enrolled fewer than 20,000[lxxvii] students and primarily offered vocational training. This changed following the 1972 reauthorization of the HEA, in which Congress substituted the word "postsecondary education" for "higher education" in Title IV (the section that details the conditions of federal grants to cover tuition expenses).[lxxviii] This change in language expanded the institutions that students could attend when qualifying for federal financial aid to include non-baccalaureate degree and vocational programs.[lxxix] This was a watershed moment for these institutions; many for-profit institutions raised tuition to coincide with the amount of available government aid. Meanwhile, for-profit institutions began sending recruiters to unemployment lines, welfare offices, and low-income housing projects in search of students. Successful enrollment led to a monetary reward

for the recruiter. About half of the student enrollments were low-income individuals, which contributed to staggering default rates. However, as the for-profit institutions were insulated from the financial hardships attributed to student loan defaults, their economic incentive remained of maximizing their enrollment irrespective of students' outcomes.[lxxx]

Between 1970 and 1982, enrollment in for-profit institutions grew tenfold to 177,000, and then grew another elevenfold by 2010, reaching a maximum enrollment of 2 million students.[lxxxi] In 2014, the U.S. Department of Education (DOE) detailed new rules to protect students from enrolling in poor-performing for-profit programs. In their public statement, the DOE highlighted several concerns including: attending a two-year for-profit institution costs a student four times as much as attending a community college and more than 80 percent of students at for-profit institutions borrow while less than half of students at public institutions do. In addition, students at for-profit colleges represented only 11 percent of the total higher education population, but were responsible for 44 percent of all federal student loan defaults at the time.[lxxxii] Finally, as shown in Figure 1.3, graduates of for-profit institutions were more likely to borrow, borrowed larger amounts, and defaulted more regularly than students who had graduated from public or private non-profit institutions.[lxxxiii,lxxxiv]

". . . more than 80 percent of students at for-profit institutions borrow while less than half of students at public institutions do. Additionally, students at for-profit colleges represented only 11 percent of the total higher education population, but were responsible for 44 percent of all federal student loan defaults at the time."

Beginning in 2015, the DOE required students from for-profit institutions to regularly achieve "gainful employment" upon graduation; otherwise, the for-profit institution would risk losing access to taxpayer-funded student aid programs. The DOE defined *gainful employment* as annual student loan payments of graduates would not exceed 20 percent of his or her discretionary income or eight percent of his or her total earnings. At the time, the DOE estimated that 99 percent of the for-profit institutions would fail this accountability standard.[lxxxv] Since then, enrollment in for-profit institutions has (fortunately) waned, with enrollment falling more than 50 percent to 982,410 in 2019.[lxxxvi] Possibly putting new wind into the sails of for-profits, in July 2019, Education Secretary Betsy DeVos issued a repeal of the Gainful Employment requirements, effective July 1, 2020.[lxxxvii] Following this announcement, the

College Type	Share of BA Recipients with Student Loan Debt at Graduation in 2016	Average Debt for BA Recipients with Loans at Graduation in 2016	Annual Default Rate in 2017
Public	66%	$26,900	9.3%
Private (Non-Profit)	68%	$31,450	6.7%
Private (For-Profit)	83%	$39,900	14.7%

Figure 1.3 Student debt at graduation and default following graduation, by college type. *Source*: https://ticas.org/files/pub_files/qf_about_student_debt.pdf. Per student debt figures: The Institute for College Access & Success. Annual default rate: U.S. Department of Education.

American Federation of Teachers (AFT) filed a lawsuit against Secretary DeVos (AFT v. Devos) in defense of the Gainful Employment regulation.[lxxxviii] In October 2021, Secretary of Education Miguel Cardona filed a brief stating that the Biden administration would not reinstate the Gainful Employment requirement. The primary reason he provides is the DOE no longer has the data and analytical systems needed to calculate the debt-to-earnings ratios; as such, the DOE couldn't administer the rule even if it wanted.[lxxxix]

FOUNDATIONAL QUESTIONS AND ANSWERS

At the beginning of this chapter, I posed this series of questions: what purpose do junior colleges, colleges, and universities serve? Do these institutions serve their students or their societies, and are students expected to utilize the knowledge they gain to advance themselves, serve society, both, or neither? Finally, are institutions of higher learning upholding their tacit societal contract, and if not, why? My proposed policy solutions address what I believe to be incentive misalignment among college stakeholders, which has led to an explosion in student debt. But, if we are to enact policies that align incentives among schools, banks, students, and others, we need to agree on the overarching goal of the postsecondary educational system. And to do that, let's start by answering these foundational questions.

What Purpose Do Junior Colleges, Colleges, and Universities Serve?

Since the founding of the first American college in 1636, state legislatures, faculty, administrators, and students have respectfully disagreed over the fundamental purpose of college. Should college offer training that would enable

their students to better produce goods and services of monetary value, or should college offer training that would enable students to elevate society in a manner that can neither be measured nor taxed? Interestingly, while opinions regarding college and its role in society have evolved over the years, the diametrically opposed philosophies regarding the purpose of college have remained constant.

While there is no correct answer regarding what the primary purpose of college is, it is helpful to identify how the pendulum has swung over the centuries between the two dichotomous philosophies. In the pre-revolutionary war era, colleges educated two groups of people: future clergy and the sons of wealthy families. Most colleges at that time insisted their students should serve society, and there remained a tacit contract that graduates would carry the burden of elevating society—be that through work in the clergy or governmental administration. The religious revival of the early 19th century also saw a period of expansion of colleges with congregations heavily supporting these institutions. Meanwhile, in the post-revolutionary and civil war eras, a greater emphasis was placed on the accumulation of skills relevant to nation building. Following the 1944 GI Bill, the 1958 NDEA, and lastly the 1965 HEA, government support enabled the rapid expansion of higher education while also impacting its mission; right or wrong, taxpayer support brought with it the expectation that students would exit these institutions having acquired marketable skills. These skills would enable students to be able to better produce goods and services of value to the nation, thereby increasing the future tax base. As a result, government support of higher education could be rationalized not as an expense, but rather as an investment. So, *what purpose do junior colleges, colleges, and universities serve*? They exist to impart knowledge and skills that enable graduates to elevate both themselves and our society.

The next question was: *are students expected to utilize the knowledge they gain to advance themselves, serve society, both, or neither?* For much of their existence, colleges and universities were institutions that were available to only to the wealthiest of Americans. While their cost was not intended to be prohibitive, requirements of proficiency in Greek, Latin, and mathematics served as a barrier to entry for all but the most fortunate to have received a formal and complete secondary education. Therefore, all those who graced its halls of institutions of higher learning knew that they owed most, if not all, of their opportunity to attend college to their position at birth. For this reason, institutions regularly instilled in their students a sense that with their position came responsibility, both to God and their fellow Americans. Graduates were expected to become "public servants," serving in positions of authority within the government, and could therefore steer society from atop a political structure. Others were expected to serve society by spreading the gospel.

However, the confluence of three societal changes would erode both the purpose of college as well as the expectations that colleges placed upon their students. An increase in secularism as well as the eventual establishment of separate seminary schools caused colleges to drift away from both religious instruction and religious motivation. Separately, the growth of the American Republic and expansion of voting rights increased the inclusiveness of government, thereby reducing the need for colleges to produce "public servants." Finally, government support for higher education generated pressure for colleges to produce a "return" for the government "investment," otherwise, the support may wane. Taken together, colleges have always professed their expectations that students both advance themselves and serve society; however, the emphasis on public service has significantly waned. Rather, those who are considering college and the governmental representatives who support the institutions largely focus on the cost-benefit analysis of tuition and forgone earnings versus future income and tax receipts. Thus, college graduates and public officials today generally emphasize personal, and not societal, advancement following the completion of a postsecondary education. As noted by American Historian Frederick Rudolph in his book *The American College & University*: "In time colleges would be more concerned about the expectations of their students than about the expectations of society. In time going to college would come very close to being an experience in indulgence rather than an experience in obligation."[xc]

Finally, *are institutions of higher learning upholding their tacit societal contract, and if not, why?* Today, institutions of higher education are *not* upholding their societal contract[4] and are in dire need of reform. While the knowledge a student can acquire while earning an associate or bachelor's degree is of immense value, the fact remains that over 40 million adults have student debt and would be in a far better situation to advance themselves and society if that debt had not been assumed. There is no doubt that colleges would argue that this means states need to support the schools more; however, as will be shown in subsequent chapters, this isn't necessarily true. Instead, colleges and universities have been responding to perverse incentives, which has crushed a generation of students and impaired their ability to elevate themselves and their country. What are those incentives, and why is college so expensive? Let's find out.

[4] This is not to say that school administrators, trustees, and faculty are bad people, have committed a crime, or should be ashamed. The objective of this book is not to place blame on any group for the current state of affairs; rather, this book is intended to be an honest assessment of our system and offer solutions for improvement. No one group can be blamed for the crushing stock of student debt, and no one group can solve this issue.

FIGURE SOURCES

- *U.S. Population. 1650–1800.* Walter Crosby Eells: Baccalaureate Degrees Conferred by American Colleges in the 17th and 18th Centuries (Washington, 1958). Table 4: Ratio of Living Baccalaureate Graduates to Total Population 1650–1950.
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