Student debt must be addressed in the election

Dr. Aldemaro Romero Jr.
Letters from Academia

One of the major challenges facing higher education is financial stability and that is true whether it is a public or a private institution. We have always known that private colleges and universities are tuition dependent. That is, their cash flow requires a strong input of money from tuition and fees. Because of the constant decrease in public funding we are seeing a wave of "privatization" of public institutions, making them more and more dependent on tuition and fees just as their private counterparts. As the joke goes, public institutions have been transforming themselves from being state-funded to state-assisted to state-located.

So it is only logical that public colleges and universities look into increasing their enrollment of students. The problem is that in many states we are seeing a demographic "deflation" where the number of high school graduates is either flat or decreasing. In competing for new students, these institutions have been engaged in practices such as offering in-state tuition to out-of-state students. This practice, as I have explained in a previous article in this column, is not only ethically dubious for the state's taxpayers, but also self-defeating in the long run. At the end of the day we end up with a lot of institutions vying for the same pool of students and receiving a net loss of income.

Another tactic that some institutions have tried since the 1980s is the "Chivas Regal effect." Chivas Regal is a scotch whisky usually associated with quality and endorsements by high profile celebrities such as Frank Sinatra and his "rat pack." As the story is told in marketing courses, this brand of liquor, facing sluggish sales in the early 1950s, decided to increase its price without changing its product. This tactic was based on the idea that people would believe that "you get what you pay for," and then pay a higher price for what they believe is higher quality. And it worked. Sales went up and established Chivas Regal as a brand of high quality, popular whiskey.

This tactic, which has also been widely used in the restaurant business, has been employed by colleges and universities with the idea that higher tuition will project the image of providing higher quality education, thus enhancing their ability to recruit students. This was viewed as a win-win tactic: more students and more money by each student. Although this practice was initiated by private institutions of higher education, I am afraid that some public ones that are allowed to set their own tuition and fees will follow the same path.

This phenomenon among institutions of higher education was studied by researchers who published their analysis last January in the journal "Administrative Science Quarterly." Using data from the "U.S. News & World Report" annual rankings of private colleges and universities from 2005 to 2012, they showed that a typical response by many of these institutions when they sharply lose status in these rankings was to increase their tuition. In other words, the Chivas Regal tactic. The use of this tactic was particularly true among those institutions that appeal widely to college applicants and whose rivals are relatively more expensive.

This approach reveals a number of fractures in the administration of higher education. First is the increasing dependence of what colleges and universities do with the unscientific rakings of popular magazines such as the "U.S. News and World Report." Once again, many forget that the real measure of quality in higher education is how well we prepare students to be successful in the real world. Rankings by commercial magazines never really measure that and are more a publicity stunt than a real measure of academic quality. This shows the proclivity of many college administrators to use gimmicks when under pressure.

Second, this adds to the criticism that colleges and universities charge too much for the services they provide. This further casts a bad shadow on the reputation of these institutions while fueling political demagoguery about higher education. Higher education already is getting a very bad wrap in the media and in public opinion for us to create further damage to ourselves.

Third, this approach further increases a terrible national problem we are facing – escalating student debt. According to the Web site collegedebt.com and many other sources, the current cumulative student debt in the U.S. is nearly $1.4 trillion. Just to give an idea of how gigantic that debt is, credit card debt is about $882 billion and for auto loans, $750 billion. The fact that we are facing stagnant salaries only makes things worse since that weakens the ability for the population in general to pay back their loans.

According to MarketWatch, student loan debt is growing at a rate of nearly $3,000 every second. About 36,000 Americans lost a portion of their Social Security checks in 2013 due to an unpaid federal student loan, and that is only the federal part of it. Many students also own significant debt to other sources.

Although higher education institutions always try to pretend that they maintain high ethical values, the increase of their tuition and fees to restore their cash flow is an amoral solution to the problem. Instead, they should be more vocal about insensitive budget cuts, more prudent about escalating costs and more entrepreneurial about ethical ways to improve their finances.

In any case, given that this is a national problem with many ramifications, voters this November will have to look into which of the candidates and parties offer real solutions to this issue. Otherwise, the social and financial consequences to the country can and will be as severe as many others we are facing today. It is time to include the issue of student debt in the national political conversation. And we don't need to do it over a drink of whiskey.

Dr. Aldemaro Romero Jr. is a writer and college professor with leadership experience in higher education. He can be contacted through his website at: http://www.aromerojr.net