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RESTORING THE TRUST FOR FAMILIES AND WORKING-AGE AMERICANS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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RESTORING THE TRUST FOR FAMILIES AND WORKING-AGE AMERICANS

WEDNESDAY, SEPTEMBER 21, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:00 a.m., in Room 210, Cannon House Office Building, Hon. Tom Price, [chairman of the committee] presiding.

Present: Representatives Price, Rokita, Cole, Woodall, Sanford, Brat, Grothman, Yarmuth, Pascrell, Ryan, Moore, Castor, McDermott, Pocan, and Norcross.

Chairman PRICE. This hearing will come to order. We want to welcome everybody to the Budget Committee and our hearing entitled Restoring the Trust for Families and Working-Age Americans. For over a year, the House Budget Committee has been engaged in an initiative called Restoring the Trust for All Generations. Today's hearing is the fourth in this series of hearings this committee has held to advance this initiative.

Restoring the Trust is an effort to raise awareness among both our colleagues in Congress and probably, most importantly, the American people that we represent about the serious fiscal and policy challenges facing our Nation's health, retirement, and economic security programs.

These are programs that are funded automatically without any annual appropriation or necessarily any congressional oversight. They are what is known in this town as "mandatory spending." It means that the money continues to be spent and is increasing and will continue to increase until Congress and the President agree to reform the programs.

The unchecked growth and spending in this area, whether it is Medicare or Medicaid, or Social Security, or numerous Federal housing, education, and safety net programs is eating up a larger and larger portion of the Federal budget. It is crowding out other government functions, other national priorities, and contributing substantially to the budgetary imbalance that has our national debt over $19 trillion and climbing. As we have discussed in this committee previously, in addition to the fiscal challenges, we know that these programs are not necessarily serving the beneficiaries all that well.

At the same time, and perhaps less appreciated, is the fact that many of these programs create substantial distortions and foster perverse incentives in the private market in areas like education, health care, and housing. Those distortions drive up the cost of goods and services for all Americans.

For many working age Americans and their families, they may have no direct interaction with these automatic spending programs, but these programs and government policies generally are increasing demand for services while simultaneously limiting supply, and results in prices that are outpacing wages, and that hits the middle class particularly hard.

In today's housing market, affordability is the missing element. The fundamental problem is a supply/demand imbalance that works against families struggling to afford the mortgage or rent as home values appreciate faster than wages and inflation. The average family's housing cost rose 63.3 percent between 1997 and 2015. According to the U.S. Census Bureau, home ownership rates are at their lowest level in 50 years and currently equal the same level of 62.9 percent that was achieved in 1965.

In higher education, evidence points to Federal student aid distorting demand, and it has been linked to rapid rises and increases in tuition. A 2015 study conducted by the Federal Reserve Bank of New York reports a passthrough effect on college tuition from increased Federal student aid. For every additional dollar in subsidized loans, tuition increases by an estimated $0.65, and for every additional dollar in Pell Grants, tuition increases by $0.55.

More generally, our current education system contributes to higher costs by stifling innovation; innovation that could offer flexible, customized, and more affordable education experiences catered to the lives of working students with families who are seeking to realize their full academic potential.

Washington's current approach to health care clearly has, under the assumption of knowing what is best for patients across America, has restricted them to health programs that are an unsustainable path while driving up costs. According to the Kaiser Family Foundation, the average premium in America has increased 61 percent in the last decade. Similarly, deductibles have increased more than 250 percent, meaning increased out-of-pocket expenses for individuals and families. Thanks to heavy-handed governmental intervention in the Nation's health care, costs for families continue to rise without gains in quality or value.

Furthermore, competition and innovation are stifled, and providers spend nearly as twice as much time completing paperwork as they do caring for patients, lending itself to a paper-centered system as opposed to patient-centered healthcare delivery system. In short, the status quo is not working. However, positive solutions can be discovered in the private sector and successful government programs. We should work to advance free market policies that will foster competition. In order to have a well-functioning marketplace, it is necessary to allow entrepreneurs to meet the demands of consumers, creating better products for lower prices through innovation. In short, allowing America to work.

To provide views on these issues of critical importance to so many Americans, we have a wonderful panel of witnesses with us today. We want to welcome each and every one of you. Edward Pinto, the resident fellow and co-director of the International Center on Housing Risk at the American Enterprise Institute; Dr.

Keith Smith, managing partner and co-founder of the Surgery Center of Oklahoma; Dr. William Spriggs, chief economist at the AFL–CIO; and Dr. Thomas Lindsay, co-director of the Center for Higher Education at the Texas Public Policy Foundation.

I want to thank you all for being here and for being willing to share your insights and your firsthand knowledge about how our Nation's automatic spending programs are impacting the lives and livelihoods of families and working age Americans. We look forward to your testimony, and I am pleased to recognize the gentleman from Kentucky, Mr. Yarmuth.

[The statement of Chairman Price follows:]

Good morning.

For over a year, the House Budget Committee has been engaged in an initiative called *Restoring the Trust for All Generations*. Today's hearing is the fourth in a series of hearings this committee has held to advance this initiative.

Restoring the Trust is an effort to raise awareness among both our colleagues in Congress and, more importantly, the American people we represent – about the serious fiscal and policy challenges facing our nation's health, retirement, and economic security programs. These are programs that are funded automatically without any annual appropriation or, necessarily, any Congressional oversight. They're what is known in this town as "mandatory spending". It means that the money continues to be spent, and is increasing, and will continue to increase, until Congress and the president agree to reform these programs.

The unchecked growth in spending in this area – whether on Medicare, Medicaid, and Social Security or numerous federal housing, education, and safety-net programs – is eating up a larger and larger portion of the federal budget. It is crowding out other government functions, other national priorities, and contributing substantially to the budgetary imbalance that has our national debt over $19 trillion – and climbing.

As we have discussed in this committee previously, in addition to the fiscal challenges, we know that these programs are not necessarily serving their beneficiaries all that well. At the same time – and perhaps less appreciated – is the fact that many of these programs create substantial distortions and foster perverse incentives in the private market in areas like education, health care, and housing. Those distortions drive up the cost of goods and services for all Americans. For many working-age Americans and families, they may have no direct interaction with these automatic spending programs. But these programs and government policies generally are increasing demand for services while simultaneously limiting supply, and results in prices that are outgrowing wages. That hits the middle class particularly hard.

In today's housing market, affordability is the missing element. The fundamental problem is a supply-demand imbalance that works against families struggling to afford the mortgage or rent as home values appreciate faster than wages and inflation. The average family's housing costs rose 63.3 percent between 1997 and 2015. According to the U.S. Census Bureau, homeownership rates are at the lowest level in over 50 years ago, and currently equal the same level of 62.9 percent that was achieved in 1965.

In higher education, evidence points to federal student aid distorting demand, and it has been linked to recent rapid increases in tuition. A 2015 study conducted by the Federal Reserve Bank of New York reports a pass-through effect on college tuition from increased Federal student aid. For every additional dollar in subsidized loans, tuition increases by an estimated 65 cents – and for every additional dollar in Pell Grants, tuition increases by 55 cents. More generally, our current education system contributes to higher costs by stifling innovation – innovation that could offer flexible, customized, and more affordable education experiences catered to the lives of working students with families who are seeking to realize their full academic potential.

Washington's current approach to health care has – under the presumption of knowing what's best for patients across America – restricted them to health programs that are on unsustainable paths while driving up costs. According to the Kaiser Family Foundation, the average premium in America has increased by 61 percent in the past decade. Similarly, deductibles have increased more than 250 percent, meaning increased out-of-pocket expenses for individuals and families. Thanks to heavy-handed government intervention into the nation's health care, costs for families continue to rise, without gains in quality and value. Furthermore, competition and innovation are stifled, and providers spend nearly twice as much time completing paperwork as they do caring for patients – lending itself to a *paper-centered*, rather than a *patient-centered* health care delivery system.

In short, the status quo is not working. However, positive solutions can be discovered in the private sector and successful government programs. We should work to advance free market policies that will foster competition. In order to have a well-functioning marketplace, it is necessary to allow entrepreneurs to meet the demand of consumers – creating better products for lower prices through innovation – in short, allowing America to work!

To provide their views on these issues of critical importance to so many Americans, we have as our witnesses Edward Pinto, Resident Fellow and Codirector of the International Center on Housing Risk at the American Enterprise Institute; Dr. Keith Smith, Managing Partner and Co-Founder of the Surgery Center of Oklahoma; Dr. Thomas Lindsay, Director of the Center for Higher Education at the Texas Public Policy Foundation; and Dr. William Spriggs, Chief Economist at the AFL-CIO.

Thank you all for being here and for being willing to share your insights and first-hand knowledge about how our nation's automatic spending programs are impacting the lives and livelihoods of families and working-age Americans.

And with that, I yield to the Ranking Member, Mr. Yarmuth.

Mr. Yarmuth. Thank you very much, Mr. Chairman. Good timing on your part. Welcome to all the witnesses. We look forward to hearing from you. Two weeks ago, we had a discussion on the future of Medicaid and Medicare. There was widespread agreement on the problem that we have to find long-term solutions to providing quality care while reducing unnecessary spending. We had very different views on how to solve that problem, but at least we started from the same place.

Today, we start from very different places. This is not a hearing on improving the way the Federal Government helps most American families obtain quality housing, health care, and education for American families while reducing unnecessary spending. This is about a hearing about whether the Federal Government can have any productive role, or make any sound investment, in these areas.

Some of the suggested solutions are extreme even for this Congress, and I would guess even too extreme for some of my colleagues on the other side of the aisle. We will have this debate today and discuss think tank theories about the economy and free market principles. As an exercise, that is fine, but we already know what works in the real world. We know the investments in housing, health care, and education help American families build better futures while spurring economic growth for our Nation. It is not academic theory. It is the reality of the last 7 years. Just look at the facts.

President Obama inherited the weakest economy since the Great Depression. Hundreds of thousands of jobs were being lost each month, and millions of American families rightly feared for their economic future, but through swift action and smart investment, we have turned that around. We are now in the fourth longest economic expansion in American history, with 15 million new private sector jobs and an unemployment rate that has been cut in half.

Last week, new Census Bureau data proved that we are still on the right path. In 2015, median real household incomes rose by the fastest rate on record with the highest growth for those lower on the income scale. The poverty rate dropped significantly and the percentage of Americans with healthcare coverage is now at its highest rate ever. This is great progress, but there is so much more work to be done. Our economy still largely benefits the wealthy few at the expense of the middle class and those struggling to get by.

I would suggest that we attack these problems by building on the successes of the last 7 years and continue providing better opportunities to American families and workers. Let's invest in infrastructure, education, and R&D to create good, high paying jobs and boost the productive capacity of American workers for years to come. Let's give American families help now by raising the minimum wage, increasing access to affordable childcare, providing paid sick leave, and family and medical leave, and guaranteeing a secure retirement.

Let's make their worries our priorities. That is what the American people want. They do not expect us to agree on everything, but on minimum, they want us to try and find common ground on ways the Federal Government can make their lives better. History proves the Federal Government has an enormous potential to make lives better. I hope going forward we can agree to start from there. Thank you, and I yield back.

[The statement of Mr. Yarmuth follows:]

Yarmuth Opening Statement

Thank you very much, Mr. Chairman. Good timing on your part. Welcome to all the witnesses. We look forward to hearing from you. Two weeks ago, we had a discussion on the future of Medicaid and Medicare. There was widespread agreement on the problem that we have to find long-term solutions to providing quality care while reducing unnecessary spending. We had very different views on how to solve that problem, but at least we started from the same place.

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Chairman PRICE. Thank you, Mr. Yarmuth. We appreciate your opening statement. I want to, once again, welcome all of the witnesses. Mr. Pinto, Dr. Smith, Dr. Spriggs, and Dr. Lindsay, thank you for appearing before us today. The committee has received your written statements, and without objection they will be made a part of the formal hearing record. You each will have 5 minutes to deliver your oral remarks, and Mr. Pinto, you may begin when you are ready.

STATEMENTS OF EDWARD J. PINTO, J.D., RESIDENT FELLOW/CODIRECTOR, INTERNATIONAL CENTER ON HOUSING RISK, AMERICAN ENTERPRISE INSTITUTE; G. KEITH SMITH, M.D., MANAGING PARTNER/CO-FOUNDER, SURGERY CENTER OF OKLAHOMA; THOMAS LINDSAY, PH.D., DIRECTOR OF THE CENTER FOR HIGHER EDUCATION, TEXAS PUBLIC POLICY FOUNDATION; WILLIAM SPRIGGS, PH.D., CHIEF ECONOMIST, AFL–CIO.

STATEMENT OF EDWARD J. PINTO

Mr. PINTO. Thank you, Chairman Price and Ranking Member Yarmuth. Thank you for the opportunity to testify today. The committee's goal of restoring trust for all generations is to be applauded; however, as the committee has observed, it is regrettable that government programs developed over 8 decades to meet worthy aims are now failing the very people they were intended to serve.

My research has found that the same is to be true with respect to decades of ill-conceived housing programs. In most cases, these policies increase housing demand, but do little or nothing about supply. When supply is increased, it drives up prices, layers the subsidies that are used, and a host of unintended consequences result.

First and foremost, it yields higher prices and higher rents particularly for low income or minority households, the very ones these programs were designed to assist. Today's subsidy laden, government-centric, finance system is something I called an "economics-free zone." I call it that because it is indifferent to supply and demand. As a result, housing has become less, not more, affordable and less, not more, accessible.

Turning to the home loan market, 60 years of affordable housing policies have failed to achieve its two primary goals: increasing home ownership and achieving wealth accumulation for low and middle income borrowers. The chairman has already noted that today's home ownership rate of 62.9 percent is the precise same as 1965, and not much higher than 1960 or 1957.

Further, we have not been successful at building wealth for the very groups these policies were aimed to help. This is primarily due to excessive leverage, namely low down payments, 30-year mortgages that have a lot of debt leverage in terms of income. Home buyers have become addicted to debt very much like the Federal Government.

Federal lending policies rely on higher level debt to finance home buying by households with limited financial means. The debt is used to finance a single asset, one that is highly illiquid and has volatile prices and large transaction costs. This means they start with little equity and build more equity very slowly.

It gives them little protection against life's vicissitudes and volatile home prices, and the debt-inflated prices themselves create price volatility, and we just went through a cycle of that—I would only point out that in 1954, interest rates and financing costs were about the same as today, 4.5 percent including the mortgage insurance premium, yet the size of homes have doubled, house prices have gone up much faster than incomes. The only way that happens is to increase leverage, and FHA has done that with a vengeance.

The government policies create debt and fuel wealth, not wealth supported by real income growth. The result, we saw, was catastrophic, and it was due to these low down payment loans that are prone to default. Before this expansion leverage, FHA's foreclosure rate just about rounded to zero, and yet the home ownership rate was, as I said, about the same as today. Over the period of 1975 to 2013, this is after the leverage started getting added to the housing finance system, FHA borrowers would suffer 3.4 million foreclosures.

There were 3.4 million claims to FHA. Before that, these numbers literally were very low. One in eight such buyers suffered that result, and it is even higher in low income and minority households. The entire market since 1975 has experienced eleven to twelve million foreclosures. As troubling, the reliance of government loan policy on excessive household debt crowds out the ability to save for one's retirement and pay for one's children's post-secondary education.

As I said, total debt to income ratios have risen. Today, 1 in 6 FHA buyers have a total debt income ration, pre-tax, of 50 percent or more. We all know how this works. You are buying a home. You are told you can get approved for a loan of this amount based on your income. They are all calculated on a pre-tax basis.

The focus is not on how much you need to put forward on retirement. Not what your children are going to need to go to post-secondary education 20 years from now. It is focused on what is the maximum amount of house you can buy today. No consideration is given to these other items, and I have two charts included that describe that.

As you craft solutions, please keep these facts in mind. Wealth is the antidote for poverty. We have focused on redistribution, not wealth. Wealth equals one's accumulated savings for 50 years. Government policies have ignored wealth, focusing on income transfers. The racial wealth gap is 3 times larger than the racial income gap, and middle income and working class families need a straight broad highway to wealth building. I have laid out alternatives in my written testimony, and I submit those to your consideration. Thank you.

[The statement of Mr. Pinto follows:]

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Statement before the House Committee on Budget
On "Restoring the Trust for All Generations"

Restoring the Trust for Homebuyers and Renters

Edward J. Pinto
Co-director, International Center on Housing Risk
Resident Fellow

September 21, 2016

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

Hearing before Committee on Budget
U.S. House of Representatives

Submitted testimony by Edward Pinto, Co-director, International Center on Housing Risk and resident fellow of the American Enterprise Institute.

Chairman Price and Ranking Member Van Hollen, thank you for the opportunity to testify today.

The Committee's goal of Restoring the Trust for All Generations is to be applauded. We can all agree on the goal of fostering a Nation "where the greatest number of American dreams may be realized".[1] But, as the Committee has observed, it is regrettable that "government programs developed over the past eight decades to meet these worthy aims are now failing the very people they were intended to serve."[2]

My research has found the same to be true with respect to decades of ill-conceived housing programs. In most cases these policies increase housing demand but do little or nothing about supply. When supply is increased, it is requires layers of subsidies and leads to a host of unintended consequences. The result: higher home prices and rents, particularly for low-income and minority households, the very ones these programs profess to help.

Today's subsidy laden, government-centric housing finance system creates an "economics free zone", indifferent to supply and demand [It's Time to Put the Market Back in Housing Finance, Unaffordable Affordable Housing]. An alphabet soup of agencies has promoted a massive liberalization of mortgage credit backed by countless trillions of dollars in lending. At the same time, layers of subsidies combined with federal, state, and local regulations act to drive up costs while simultaneously constraining supply.

As a result housing has become less, not more affordable, and less, not more accessible. [How housing policies have made housing unaffordable]

Turning to the home loan market. Sixty years of affordable homeownership policies have failed to achieve two primary goals – increasing homeownership and achieving wealth accumulation for low- and middle-income homeowners. Today's homeownership rate of 62.9 percent is the same as in 1965 and we have not been unsuccessful at building wealth for the income groups these policies were aimed to help.[3] This is primarily been due to a reliance on low-down-payment, 30-year mortgages and other highly leveraged lending. These debt-based policies have driven up home prices faster than incomes, making homes less, not more, affordable.

The cause is straightforward. Just like the federal government, home buyers have become addicted to debt. Federal lending policies use highly levered debt to finance home buying by households with limited financial resources. This debt is used to finance a single asset—one that is highly illiquid and volatile with large transaction costs. High leverage means homeowners start with little equity and build

[1] Budget Committee, U.S. House of Representatives, 2015, Restoring the Trust for All Generations
[2] Ibid.
[3] Between 1989 and 2013, median wealth for households in the 40th to 60th percentile has decreased from $76,100 to $61,800, while median wealth for households in the 20th to 40th percentile has decreased by more than 50 percent, from $44,800 to $21,500.

additional equity very slowly, giving them little protection against both life's vicissitudes and volatile home prices. Even worse, debt-inflated prices are subject to great price volatility.

The 30-year loan is a relatively new phenomenon (not becoming commonplace until the late 1950s for Federal Housing Administration loans and the late 1960s to early 1970s for conventional loans). Low-down-payment loans are also relatively new.[4]

This can be demonstrated by comparing home financing in the mid-1950s to today. While the annual mortgage rate plus mortgage insurance premium is about the same—4.5%, financed homes have about doubled in size, and home prices have gone up much faster than incomes.[5]

This outcome requires increasing leverage and lots of it. Comparing FHA lending in 1954 to today:

- Loan terms have increased from 21 years to 29.5 years
- Down payments have decreased from 19 percent to 4 percent
- Housing debt-to-income ratios have increased from 16 percent to 28 percent

With home prices increasing faster than incomes, they became *less* affordable, moving the dream of sustainable homeownership and reliable wealth building further away for low- and moderate-income families. The government created debt-fueled wealth, not income-supported wealth, and the result was catastrophic.

This is because low-down-payment, slowly amortizing loans are prone to default. Before this expansion in leverage, the FHA's foreclosure start just about rounded to zero—yet the homeownership rate was at about today's level. Over the period 1975 to 2013, FHA homebuyers would suffer from 3.4 million foreclosures--one in eight such buyers. The entire market has experienced 11 to 12 million foreclosures over the same period, with low-income owners bearing the brunt of the impact.

We all know why this happens. Government involvement in housing finance sets in motion political pressures for increasingly risky lending, such as "affordable loans" to constituent groups. The liberalization of credit terms creates demand pressure that easily becomes capitalized into higher prices when undertaken in a seller's market. This is happening again today. The actual beneficiaries of these price inflating policies tend to be the government mortgage complex – real estate brokers, builders, building labor, the suppliers of building materials, speculators and community advocacy groups.

Equally troubling to this Committee should be the reliance of government loan policies on excessive household debt which crowds out the ability to save for one's retirement and pay for ones children's post-secondary education. Just like housing debt-to-income ratios mentioned earlier, total debt-to-income ratios (Total DTI) have also risen dramatically. Today, FHA homebuyers have an average Total DTI of 41 percent, with 1- in- 6 at 50 percent or above. We all know how this works—you are buying a home and told you can get approved for a loan of such-and-such amount based on income. These debt ratios are calculated on a pre-tax basis and the focus is on maximizing the amount of home you can buy.

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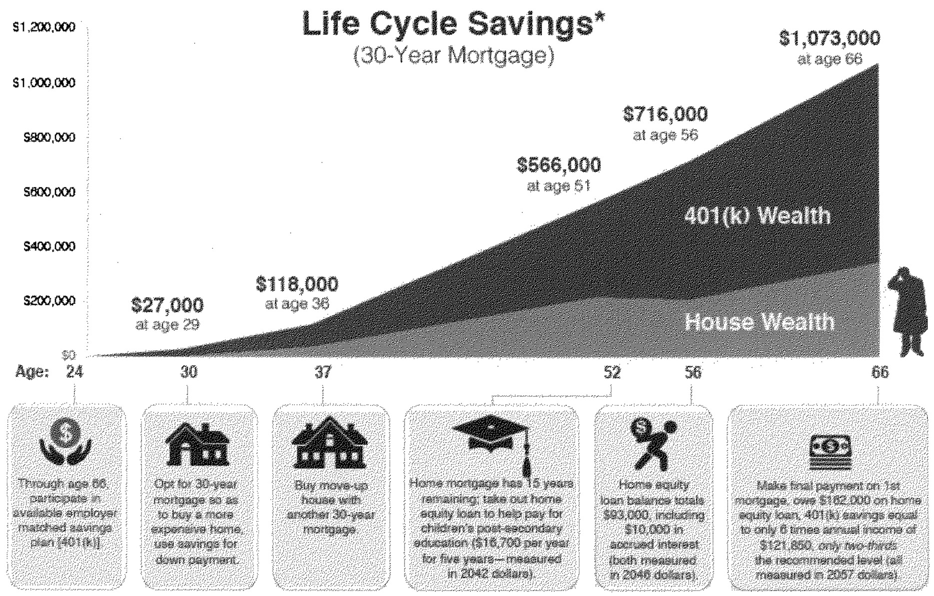
[4] From 1946 to 1954, FHA loans averaged about 21 years; by 1960, they averaged about 28 years. Low-down-payment loans are also relatively new. From 1939-1954, FHA loans had an average loan-to-value ratio of about 80 percent. By 1966, FHA's average had risen to 93 percent. A similar upward trend occurred in the Veterans Administration and conventional markets.
[5] Inflation adjusted construction cost per square foot has stayed about the same.

No consideration is given to retirement savings or education expenses and the contributions these make towards wealth building.

Inadequate Life Cycle Savings where household starts own 401(k) contributions and employer match at age 24; uses 30-year mortgages for home purchase

Result: wealth build-up only two-thirds of that needed for comfortable retirement with substantial amount still owed on home mortgage, much of it used to finance children's education.

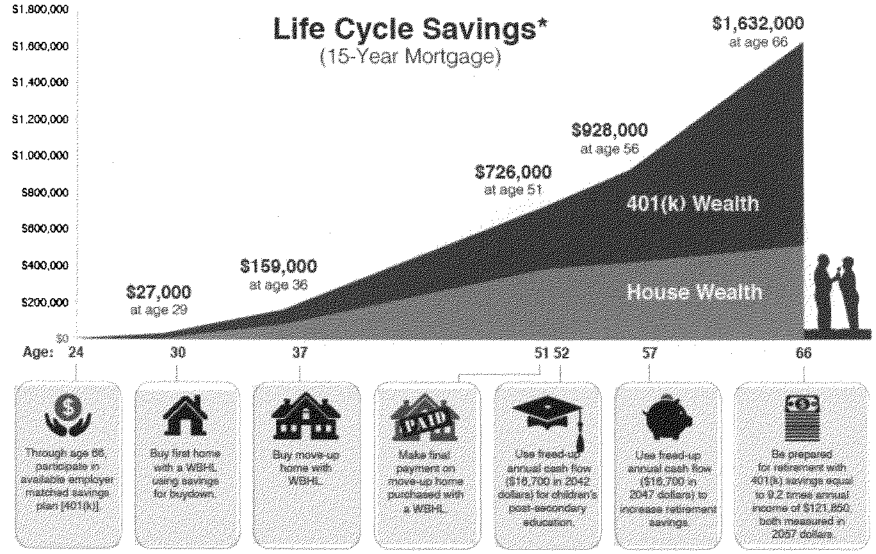


Infographic on wealth accumulation for a head of household starting at age 24 and has income at that age and beyond that is equal to the median US household income by the age of the household head. US Census Bureau data for 2013 household income by age of household head is used to estimate median household income in that year. This estimate is then adjusted for inflation of 2% to begin the simulation in 2014. The same inflation adjustment is applied to each subsequent year as the head of household ages. Home purchase at age 30 is financed with 30-year mortgage with 95% financing. House price is assumed to appreciate 2% per year, and expenses connected with the sale of the first home at age 36 equal 10% of sale price. For purchase of move-up home at age 37, borrower is assumed to take out a privately insured 30-year loan with a down payment of 13%; this down payment exhausts accumulated home equity on first home. Children's higher education expenses are assumed to begin at age 52 and continue through age 56. Since 30-year mortgage continues for 15 more years, home equity is tapped to pay for these education expenses. For the 401(k) calculation, the household head is assumed to contribute 4% of pre-tax earnings from age 28 through age 66, matched by a 4% employer contribution. At age 67, the household head is assumed to retire, at which point the 401(k) contributions end. 401(k) account balances are assumed to earn an annual return of 5.5% based on a review of retirement planning advisories published by Aon Hewitt (which uses a 7% return) and Fidelity (which uses 5.5%) in terms of how much accumulated savings (excluding home equity) are needed at retirement at age 67. Aon Hewitt and Fidelity recommend 9.4 and 8.7 times final pre-retirement salary respectively. All dollar amounts, ages and life events are illustrative only.

Wealth Building Life Cycle Savings where household starts own 401(k) contributions and employer match at age 24 and uses Wealth Building Home Loans for home purchase

This approach optimizes the combined wealth building capacities of defined contribution plans and home ownership

Result: a big boost in overall wealth-building ($1,632,000 and $1,073,000) by age 66. Household has adequate retirement savings, owns home free and clear, and paid parental portion of education expense.



I try to keep these key facts in mind when developing policy solutions. First, wealth is the antidote for poverty. Second, wealth equals one's accumulated savings. Third, for fifty years government policies have ignored wealth building, and focused on income transfers. Fourth, the racial wealth gap is three times larger than the racial income gap[6]. Fifth, middle-income and working class families need a straight, broad highway to wealth building. Finally, while leverage can help, it must be used in moderation

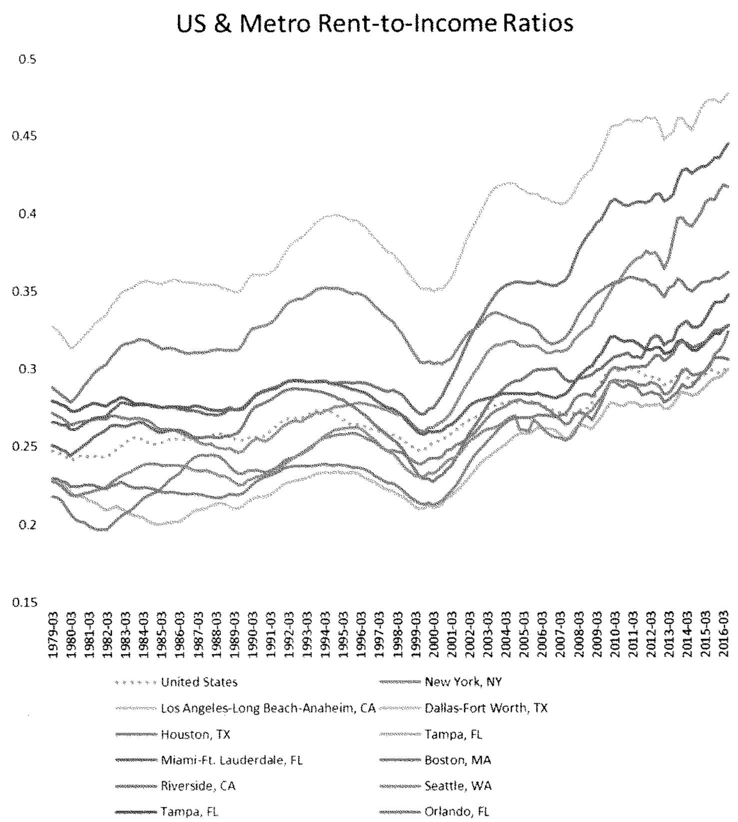
There is an alternative that takes all these into account. For most low- and middle-income families, the recipe for wealth building over a lifetime is to buy a home with a 15- or 20-year term mortgage that builds wealth rapidly [The Wealth Building Home Loan Builds Equity Fast], invest in a defined contribution retirement plan (ideally with an employer match) and use the freed up cash flow after the shorter term loan is paid off to invest in children's education and add to retire savings. Additionally, the home mortgage interest deduction should be restructured to provide a broad, straight path to debt-free homeownership. Today's tax code and underwriting polices work promote a lifetime of indebtedness by incentivizing homeowners to take out large loans for lengthy terms so as to maximize both the amount of home and the value of the deduction. Instead, both should be reoriented toward promoting reliable wealth building and debt extinguishment. Finally, my colleague Steve Oliner and I have developed *LIFT Home, the Low-Income, First-Time Homebuyer tax credit* designed specifically to build wealth. These steps would replace self-defeating affordable housing practices with policies capable of meeting the wealth building challenges of the 21st century. [It's Time to Put the Market Back in Housing Finance]

Turning to the rental market.

The case against current US multifamily housing policy is similar. There have been at least 42 major congressional enactments of Federal rental housing programs since 1932 (see Appendix A).[7] All promised to address pressing problems of the day. Consider the Housing Act of 1949 which set a national housing goal, to be realized as soon as feasible, "of a decent home and suitable living environment for every American family" or the Housing and Urban Development Act of 1968 which called for "implementation of a 10-year plan for the elimination of all substandard housing."

Yet, as this next chart demonstrates, rents have become increasingly less affordable, not more affordable:

[6] *Less than Equal: Racial Disparities in Wealth Accumulation,* Signe-Mary McKernan, Caroline Ratcliffe, Eugene Stanley, and Sisi Zhang, Urban Institute, April 2013.
[7] Sources: Edson, Affordable Housing— An Intimate History, 2010 and the Congressional Research Service, A Chronology of Housing Legislation and Selected Executive Actions, 1892-2003, https://www.gpo.gov/fdsys/pkg/CPRT-108HPRT92629/html/CPRT-108HPRT92629.htm



Federal, state, and local policies increase apartment construction costs. Eight of the 10 metros with the lowest multiples of 2015 median rent and median household income had less restrictive land-use regulations. Thirteen of the 15 metros with the highest multiples of 2015 median rent and median household income had more restrictive land-use regulations.[8]

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[8] Demographia.com and author.

Multifamily debt (in 2010 dollars) is rising much faster than the number of total units because of liberal financing from Fannie Mae, Freddie Mac, FHA, and Ginnie Mae, as well as highly accommodative monetary policy.[9]

The numerous Congressional multifamily enactments over 84 years have failed the very people they were intended to serve. Yet, recently there has been a flurry of legislative proposals to add yet more housing subsidies to the housing sector, already one of the most heavily subsidized. For example, Senator Maria Cantwell (D-WA) and Senate Finance Committee Chairman Orrin Hatch (R-UT) introduced the Affordable Housing Credit Improvement Act of 2016 on July 14 of this year. This legislation would raise the cap on the Low Income Housing Tax Credit (LIHTC) allocation authority by 50 percent (to about $15 billion annually).[10]

There is an alternative. Market-based rental housing solutions are needed to bring rents back in line with median incomes and improve accessibility. Existing subsidized programs should shift to the "Blight Preventer" Loan. We need to shift from the current debt- and government-centric finance system to a rental housing market where supply is permitted and encouraged to meet demand. [It's Time to Put the Market Back in Housing Finance]

This quote from Milton Friedman appears on the Committee's website: "One of the greatest mistakes is to judge policies and programs by their intention rather than their result."

Let me conclude with a quote from the FHA in 1936:

"To many people, 'Mortgage' became just another word for trouble—an epitaph on the tombstone of their aspirations for home ownership."[11]

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[9] Paul Bubny, "CRE Debt Increase Hits 8-Year High (http://www.law.com/sites/paulbubny/2016/03/15/credebt-increase-hits-8-year-high/?slreturn=20160419120431)," Law.com, March 15, 2016.

[10] While the Low-Income Housing Tax Credit (LIHTC) is the primary means of promoting the construction of "affordable" apartments, it's expensive and opaque. New LIHTC credits currently total $10 billion annually, funding about 100,000 LIHTC units. These units have high construction costs (estimated $175,000 to $200,000 per unit). These units serve few low-income tenants; 80 percent are either extremely low income (area median income less than or equal to 30 percent) or very low income (area median income from 31 to 50 percent); only 7 percent have an area median income greater than 60 percent but less than or equal to 80 percent (Furman Center for Real Estate and Urban Policy. 2012. "What Can We Learn about the Low-Income Housing Tax Credit Program by Looking at the Tenants? (http://furmancenter.org/files/publications/LIHTC_Final_Policy_Brief_v2.pdf)" New York: New York University.). These units benefit from layers of subsidies, driving subsidy costs to $12,000 per unit, raising questions about unfair distribution of scarce resources. Subsidy layers include government-aided financing, state and local subsidies, and rental assistance (e.g., Section 8 and Housing Choice Vouchers) targeted to very low and extremely low income households.

The LIHTC program risks repeating the same errors as previous housing subsidy programs: (i) tenants are overwhelmingly minority households (61 percent), and nonelderly units are concentrated in metropolitan statistical area census tracts with high minority concentrations (Office of Policy Development and Research. 2016. Data on Tenants in LIHTC Units as of December 31, 2013 (https://www.huduser.gov/portal/sites/default/files/pdf/LIHTC-Tenants-2013.pdf), Washington, DC: US Department of Housing and Urban Development), and (iii) many developments face fiscal challenges to avoid blight that sets in after 16 to 20 years.

[11] Federal Housing Administration, "How to Have the Home You Want," 1936.

Appendix A: Federal rental housing programs enacted since 1932[12]

1932: Emergency Relief and Construction Act - the government's first major involvement in the housing field.

1933: National Industrial Recovery Act - Section 202 established the Public Works Administration which was authorized to build or finance public housing,

1934: National Housing Act established the FHA (including Section 207 Multifamily Insurance)

1934: National Housing Act authorized National Mortgage Associations (pursuant to this authority, the Federal National Mortgage Association was chartered on February 10, 1938, as a subsidiary of the Reconstruction Finance Corporation),

1937: United States Housing Act established Public Housing Authority,

1942: Section 608 authorized FHA mortgage insurance for rental housing for war workers,

1949: Housing Act – set national housing goal--realization as soon as feasible of the goal of a decent home and suitable living environment for every American family,

1949: Housing Act – Title I authorized Slum Clearance and Urban Redevelopment, also authorized a major expansion of public housing program including a shift to a focus on high-rise buildings,

1949: Housing Act – added Section 515 authorizing rural housing assistance,

1950: Housing Act amended Section 213 expanding cooperative housing mortgage insurance program, 1954: Housing Act added Section 220 for the prevention and rehabilitation of slums

1954: Housing Act added Section 221 to provide FHA mortgage insurance for low-cost housing for families displaced as the result of governmental action,

1959: Housing Act added Section 202 authorizing direct Federal loans for elderly rental housing,

1965: Housing and Urban Development Act added Section 23, a new program of rent supplement payments,

1966: Demonstration Cities and Metropolitan Development Act authorized Model Cities Program,

1968: Housing and Urban Development Act added Section 236 a new program of rental housing assistance for lower-income families,

1968: Housing and Urban Development Act created GNMA and FNMA as separate entities,

1968: Housing and Urban Development Act created Title IV--the New Communities Act,

1968: Housing and Urban Development Act created Title V which authorized the Urban Renewal Neighborhood Development Program,

[12] Sources: Edson, Affordable Housing— An Intimate History, 2010 and the Congressional Research Service, A Chronology of Housing Legislation and Selected Executive Actions, 1892-2003, https://www.gpo.gov/fdsys/pkg/CPRT-108HPRT92629/html/CPRT-108HPRT92629.htm

1968: Housing and Urban Development Act created Title XVI--Housing Goals and Housing Reports (implementation of a 10-year plan for the elimination of all substandard housing and the realization of the 1949 national housing goal),

1968: Housing and Urban Development Act added new rural housing interest- reduction programs,

1969: Tax Reform Act added favored tax treatment for affordable housing projects,

1970: Emergency Home Finance Act authorized creation of Federal Home Loan Mortgage Corporation, 1970: Housing and Urban Development Act authorized Experimental Housing Allowance,

1970: Housing and Urban Development Act authorized Prevention of Housing Abandonment Programs,

1974: Housing and Community Development Act authorized Section 8 new construction and existing programs,

1974: Housing and Community Development Act created Community Development Block Grant program

1977: Housing and Community Development Act created Urban Development Action Grant Program,

1977: Housing and Community Development Act created Community Reinvestment Act,

1978: Housing and Community Development Amendments authorized Housing Assistance Programs providing further assistance (now known as the ``Flexible Subsidy'' program) for financially-troubled rental projects assisted by Sections 221(d)(3) or Section 236 mortgage-interest reduction programs or Rent Supplement payments,

1980: Housing and Community Development Act added a new Section 14 to the United States Housing Act of 1937 to provide a Comprehensive Improvement Assistance Program for existing public housing, 1983: Housing and Urban-Rural Recovery Act authorized experimental rental assistance in the form of a voucher,

1983: Housing and Urban-Rural Recovery Act established Rental Housing Rehabilitation and Development Grant Program,

1983: Housing and Urban-Rural Recovery Act authorized Housing Development Action Grant Program,

1986: Tax Reform Act authorized the Low Income Housing Tax Credit Program,

1987: Stewart B. McKinney Homeless Assistance Act,

1987: Housing and Community Development Act included Emergency Low Income Preservation Act, 1989: Financial Institutions Reform, Recovery, and Enforcement Act authorized Federal Home Loan Bank System Community Investment and Affordable Housing Programs,

1990: Cranston-Gonzalez National Affordable Housing Act enacted HOME Investment Partnerships Act, 1992: Federal Housing Enterprises Financial Safety and Soundness Act established GSE Affordable Housing Goals,

1994: Riegle Community Development and Regulatory Improvement Act established the Community Development Financial Institutions Fund, 2008: Housing and Economic Recovery Act establishes the Housing Trust Fund.

2008: Housing and Economic Recovery Act establishes the Housing Trust Fund.

Chairman PRICE. Thank you very much. Dr. Smith, you are recognized for 5 minutes.

Mr. SMITH. Thank you. Thanks for having me. While everyone agrees there is something terribly wrong with the healthcare delivery system——

Chairman PRICE. Do you want to turn on your mike, please?

Mr. SMITH. Oh sorry. Is that better?

Chairman PRICE. Perfect.

STATEMENT OF G. KEITH SMITH

Mr. SMITH. While everyone agrees there is something terribly wrong with the healthcare delivery system in this country, it is becoming increasingly clear the problem represents not the failure of the free market but the absence of the free market. This is highlighted not only by burdensome regulations, but also by the difficulty in obtaining pricing information prior to receiving a healthcare service. In contrast, the plastic surgery and Lasik markets, neither of which is distorted by third-party payment government or private, have traditionally displayed pricing and have shown lower prices and higher quality over time.

It is my opinion, the focus on the lack of insurance coverage rather than the cost of care represents a significant distortion by governments at all levels and is a distraction from the powerful, but simple solutions to high cost, spot equality, and poor access that the free market can provide. I believe the transparent pricing of healthcare services will eliminate most of the distortion and fog attached to this industry, government-generated or otherwise. As Dr. Jane Orient has remarked, "It turns out that coverage is not care." Indeed, the first patients to respond to our putting prices online at Surgery Center of Oklahoma were Canadians.

Canadians have coverage after all, just poor to no access to the care that many of them require. The most common Canadian patient story we hear remains the woman tired of receiving blood transfusions, waiting interminably for a curative hysterectomy. It is instructive that one of the fastest growing parts of our business is the patient with an ACH exchange plan. Their plight is similar to the Canadians after all, for they have coverage, but they have poor access to care. Shockingly, they have a better out-of-pocket experience paying our full website fee than meeting their deductible and co-pay using their insurance. Like many Canadians, they have discovered the only single payer upon which they can truly rely is themselves.

While the Surgery Center of Oklahoma was the first to publish online pricing for surgical care, we have been joined by many others, almost all of whom coordinate and share insights through the Free Market Medical Association, a group which seeks to connect buyers and sellers of healthcare services without the distorting influences typically involved. This price transparent, and therefore market-based approach, has led many otherwise price gougers to match our pricing rather than risk patients traveling, for instance, to Oklahoma City for their care and lose the business. Our price is typically 1⁄6 to 1⁄10 of what traditional hospitals charge represent what we believe it costs to render care without the fluff to build an empire and provide fat administrative salaries.

Patients from all over the country have saved tens of thousands of dollars by coming to the Surgery Center of Oklahoma and by not coming to the Surgery Center of Oklahoma, but leveraging a deal in their home town using our pricing. I have changed the pricing at the Surgery Center of Oklahoma twice in the 8 years that our prices have been posted online, and in both instances, have lowered the prices, both times as a result of the action of my competitors. This highlights my firm belief that market pricing cannot be the result of top-down, central planning but rather emerges from competitive activity.

Our prices, it should be noted, are bundled, including all aspects of care, and are less than Medicaid currently pays the not-for-profit facilities in our area. Imposed, top-down pricing is always too high or low it seems, predictably leading to a surplus of unneeded services or shortages of needed services. Electronic medical records, coding and reporting mandates, combined with low, formulaic pricing have had an intense, and combined have had a distorting effect on healthcare markets and access to care in certain specialists.

As you can imagine, our model has proven attractive to the poor, the uninsured, those with high deductibles, foreigners unable to access care, cost-sharing ministries and charities, who found that they can purchase 3 cochlear implant procedures at our facility for the price of one at the not-for-profit hospital across town and by the same surgeon, I would note.

Our model has been widely popular with self-funded ERISA health plans who are seeing their actual yearly costs fall while achieving steerage to facilities like mine by waiving all employee out-of-pocket expense including travel expenses. The health plan of the employees of the State of Oklahoma is the latest ERISA plan to sign up and actuaries anticipate a $200-million savings for the State in its first full year of implementation.

Keep in mind that without this arrangement, the deductibles and co-pays would have made access to these life-changing surgeries prohibitive for many of these families. In December, we often have the privilege of hearing patients say that they are going to have Christmas this year at the result of waiving their out-of-pocket expense. This arrangement has preserved the budget priorities of these families that would otherwise have been usurped by price gougers in the industry.

Finally, I would like to comment about the relationship of price and quality. High healthcare prices are simply an indication of the absence of market competition where quality is likely stunted due to a lack of fear of competition. Lower and falling prices are an indication that newcomers are entering a healthcare marketplace.

Additionally, attaching a reasonable price to surgical procedure indicates the caregivers at that facility have predictable results and know what they are doing. In the absence of a vibrant market, you get what you pay for simply does not apply.

[The statement of Mr. Smith follows:]

Dr. Keith Smith Testimony
Restoring the Trust for Families and Working-Age Americans
House Budget Committee
September 21, 2016

While everyone can agree that there is something terribly wrong with the healthcare delivery system in this country, it is becoming increasingly clear that this problem represents not the failure of the free market, but rather the absence of the free market. This is highlighted not only by burdensome regulations but also by the difficulty in obtaining pricing information prior to receiving a healthcare service. In contrast, the plastic surgery and Lasik markets, neither of which is distorted by third party payment, government or private, have traditionally *displayed* pricing and have shown lower prices and higher quality over time. It is my opinion that the focus on the lack of insurance coverage, rather than the cost of care, represents a significant distortion by governments and is a distraction from the powerful but simple solutions to high costs, spotty quality and poor access the market can provide. I believe that the transparent pricing of healthcare services will eliminate most of the distortion and fog attached to this industry, government generated, or otherwise.

As Dr. Jane Orient has remarked, it turns out that "coverage is not care." Indeed, the first patients to respond to our online pricing were Canadians. Canadians have coverage, after all, just poor to no access to the care many of them require. The most common Canadian patient story we hear remains the woman tired of receiving transfusions, waiting interminably for a curative hysterectomy. It is instructive that one of the fastest growing parts of our business is the patient with an ACA exchange plan. Their plight is similar to the Canadians, for they have coverage, after all, but they have poor access to care. Shockingly, they have a better out of pocket experience paying our full website fee, than meeting their deductible and co-pay using their insurance. Like many Canadians, they have discovered that the only single payer upon which they can truly rely, is themselves.

While the Surgery Center of Oklahoma was the first to publish online pricing for surgical care, we have been joined by many others, almost all of whom coordinate and share insights through the Free Market Medical Association, a group which seeks to connect buyers and sellers of healthcare services without the distorting influences typically involved. This price transparent and therefore market based approach has led many otherwise price gougers to match our pricing rather than risk patients traveling, for instance, to Oklahoma City for their care. Our prices, typically 1/6th to 1/10th of what traditional hospitals charge, represent what we believe it costs to render care, without the fluff to build an empire and provide fat administrative salaries. Patients from all over the country have saved tens of thousands of dollars by coming to the Surgery Center of Oklahoma, and by not coming to our facility, but leveraging a better deal in their hometown, using our pricing.

I have changed the pricing at the Surgery Center of Oklahoma twice in the eight years we have been online, in both instances, lowering them, and both times as a result of actions of my competitors. This highlights my firm belief that market pricing cannot be the result of top down, central planning, but rather emerges from competitive activity. Our prices, it should be noted, are bundled, including all aspects of care and are less than Medicaid currently pays the not for profit facilities in our area. Imposed, top-down pricing is always too high or too low, it seems, predictably leading to a surplus of unneeded services or shortages of needed services. Electronic medical records, coding and reporting mandates, combined with low, formulaic pricing have had an intense and distorting effect on healthcare markets and access to care and certain specialists.

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Finally, I would like to comment about the relationship of price and quality. High healthcare prices are simply an indication of the absence of market competition, where quality is likely stunted due to a lack of fear of competition. Lower and falling prices are an indication that newcomers are entering a healthcare market place. Additionally, attaching a reasonable price to a surgical procedure indicates that the caregivers at that facility have predictable results and know what they are doing. In the absence of a vibrant market, "you get what you pay for" simply does not apply.

Chairman PRICE. Thank you, Dr. Smith.
Mr. SMITH. Thank you.
Chairman PRICE. Dr. Spriggs, you are recognized for 5 minutes.

STATEMENT OF DR. WILLIAM SPRIGGS

Mr. SPRIGGS. Thank you, Chairman Price, and thank you, Ranking Member Yarmuth for this opportunity. To restore the trust of the American people, we must restore what the government does. From 1946 to 1979, the wages of Americans grew with their productivity. Income gains were roughly equally shared by each quintile of the income distribution.

That was the result of deliberate Federal policies to invest in the American people, to invest in America, and to aim those policies at shared prosperity. The American people want you to invest in them. The best investment anyone can make is in the American people and in American children in particular. It will always, always pay to bet on American children. There are lots of key programs that the government put in place that made this happen.

We invested in our GIs returning from WWII. We gave them opportunity for higher education and for home ownership. That transformed America. It gave us the middle class. We learned, when they were puny like my dad when he volunteered before WWII, they were underweight, young men, that we needed to invest in feeding our children, and the national student lunch program is a huge investment in making sure that our children are healthy. That changed everything.

We invested in making sure that the labor market was fair by having hands-off and keeping the National Labor Relations Board apolitical so that our unions could grow and our workers could fairly bargain over the increase in productivity, and each administration up to 1979 fought to raise the minimum wage, and it was a bipartisan vote. The majority of Republicans and Democrats voted to raise the minimum wage. It was not a partisan issue.

Under Republican President Dwight Eisenhower, in response to Sputnik, he got the Democratic Senate, in less than one year in response to Sputnik, to put in place the National Student Loan Program, and that launched not only the scientists who got us the Internet, got us personal computers, but it also meant that we had teachers to train those people, and President Eisenhower invested in America.

He built the Interstate Highway System, which transformed America and gave us higher productivity. President Johnson added by adding Head Start, a program which pays for itself in the gains of the earnings of children who go through that program. Medicare and Medicaid. Young women who have had access to Medicaid when they were young have higher earnings, have more education, and the young people who have had access to it end up with higher earnings paying back and higher taxes, the way that we get to afford these programs.

Now, what economists are finding out is that the reason these programs worked is that inequality hurts growth. Inequality hurts growth for a number of reasons, but one of them, the IMF found, was that if income growth goes to the top 20 percent, you really slow growth. In the United States the top 20 percent control over half the income. They spend over, well over, a half of the money on education, well over a half of the money spent on housing. That distorts prices. In a free market, it is $1, one vote, not one person, one vote, and suppliers will always chase the dollars. That makes tuitions go up. That makes housing prices go up. Umbrellas do not cause rain.

We have the government having to chase these price tilts in order to make sure that everyone can benefit from them. The one sure way we have learned from the OECD studies for why inequality hurts growth, is because it hurts human capital formation. At high levels of inequality, the bottom 40 percent simply do not get enough education. Invest in Americans. That is how you make the economy grow and get their trust back.

[The statement of Mr. Spriggs follows:]

Statement of William E. Spriggs

"Government support of middle income America: Americans need a Raise"

Testimony prepared for

The House Committee on the Budget

114th Congress, Second Session

Hearing on

Restoring the Trust for Families and Working-Age Americans

September 21, 2016

Thank you to Chair Tom Price and Ranking Member Chris Van Hollen for this invitation to give testimony before your committee today on issues of restoring faith by families and working Americans that its government is on their side. I am happy to offer this testimony on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States.

From 1946 to 1979, the wages of American workers grew with their productivity. And, income gains were roughly equally shared by each quintile of the income distribution. There were many federal policies that invested in the American people and put the government on the side of raising wages. In sum, these policies promoted shared prosperity, so incomes grew at each income quantile. Economists are converging on a consensus that equality promotes faster economic growth. And, equality provides the basis for enhancing social mobility and a more meritocratic society.

Several key federal programs stand out for enhancing shared prosperity. The GI Bill gave many World War II veterans access to college by paying their tuition and giving them living stipends; and home ownership through reduced down payments and low interest loans—two tickets to the middle class.

The introduction in 1946 of federal legislation to establish a national school lunch program decreased the food insecurity of children. Participation of children in interventions to address basic food needs has been shown to improve the health of children and have lasting impacts on educational attainment.[1]

During this period, broad political consensus maintained a neutral National Labor Relations Board that maintained balance in labor management relations. The period allowed for the continued ability of workers to exercise their right to organize. So, during this period, the share of workers who were organized rose, as did their diversity. At higher levels of union density all workers benefit, both union and non-union in striking deals to divide the benefits of rising productivity.[2]

Each President during this period signed legislation to raise the minimum wage and keep all wages in step with general growth in productivity and wage gains. This spread the benefits of increases in productivity to the wages of the lowest quantile; insuring that work paid. Increases in the minimum wage are linked to reducing food insecurity and lowering low-birth weight and premature births for less educated women.[3]

Republican President Dwight Eisenhower, when the former Soviet Union launched Sputnik in October 4, 1957, got the Democratic Senate to pass legislation in less than one-year to launch the National Defense Student Loan program that assured American students could borrow enough money to cover an Ivy League education at interest rates below the prime rate. Students who were supported by the loans but accepted jobs in K-12 education had their loans forgiven. American became the world's most educated country with the highest share of its workforce

[1] Craig Gundersen, Brent Kreider and John Pepper, "The impact of the National School Lunch Program on child health: A nonparametric bounds analysis," *Journal of Econometrics,* Vol. 156 (January 2012): 79-91; Peter Hinrichs, "The effects of the National School Lunch Program on education and health," *Journal of Policy Analysis and Management,* Vol. 29 (Summer 2010): 479-505.

[2] Daniel Tope and David Jacobs, "The Politics of Union Decline: The Contingent Determinants of Union Recognition Elections and Victories," *American Sociological Review,* Vol. 74 (October 2009): 842-864; Jake Rosenfeld, Patrick Denice, and Jennifer Laird, "Union decline lowers wages of nonunion workers: The overlooked reason why wages are stuck and inequality is growing," Economic Policy Institute, (August 30, 2016) at http://www.epi.org/files/pdf/112811.pdf

[3] George Wehby, Dhaval Dave and Robert Kaestner, "Effects of the Minimum Wage on Infant Health," National Bureau of Economic Research, NBER Working Paper No. 22373 (June 2016); William M. Rodgers III, "The Impact of the 1996/97 and 2007/08/09 Increases in the Federal Minimum Wage on Food Security," manuscript, Rutgers University (September 2015) at https://www.researchgate.net/publication/266023361_The_Impact_of_the_199697_and_20070809_Increases_in_the_Federal_Minimum_Wage_on_Food_Security

holding college degrees. The NDSL provided the money for the teacher corps that then produced the inventors of the personal computer and internet.[4]

President Eisenhower also launched one of the largest peace time government programs in creating our current modern interstate highway system. Not only did this create many middle class construction jobs, it vastly improved America's infrastructure and lowered transportation and production costs for American business. It spurred the expansion of new industries like motels and reduced the isolation of rural communities.

In the 1960's, President Lyndon Johnson expanded the role of the federal government in investing in the early education of America's children. The Head Start program, launched in 1965 has proven to be a valuable program in changing the long-run prospects for children from low-income families: increasing their success in school, earnings in adulthood and lowering criminal activity.[5]

Also in 1965, President Johnson put in place Medicaid and Medicare. Medicaid has been shown to increase the educational attainment and earnings of women who had greater access to Medicaid as children, and boosts the taxes paid by young adults who were helped by Medicaid.[6] Medicare ended racial segregation in the provision of health in the United States, improved the lives of older Americans and began narrowing the life expectancy gap between whites and African Americans.

These investments in American children and the American people, and the investment in public infrastructure, put the federal government clearly on the side of empowering Americans to achieve a high level of productivity. It provided American corporations the largest pool of

[4] Public Law 85-864 (September 2, 1958) https://research.archives.gov/id/299869; Saul B. Klaman, "The Postwar Pattern of Mortgage Interest Rates," in Saul B. Klaman (ed.) *The Postwar Residential Mortgage Market* (Princeton University Press, 1961) sited from: http://www.nber.org/chapters/c2341.pdf, University of Pennsylvania, University History, Tuition and mandated fees, Room and Board and other educational costs at Penn since 1900: 1950-1959 web page: http://www.archives.upenn.edu/histy/features/tuition/1950.html

[5] Patrick Kline and Christopher Walters, "Evaluating Public Programs with Close Substitutes: The Case of Head Start," National Bureau of Economic Research, NBER Working Paper No. 21658 (October 2015); Hilary Shager, Holly S. Schindler, Katherine A. Magnuson, Greg J. Duncan, Hirokazu Yoshikawa and Cassandra M. D. Hart, "Can Research Design Explain Variation in Head Start Research Results? A Meta-analysis of Cognitive and Achievement Outcomes," *Educational Evaluation and Policy Analysis*, Vol. 35 (March 2013): 76-95.

[6] David W. Brown, Amanda E. Kowalski and Ithai Z. Lurie, "Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts?" National Bureau of Economic Research, NBER Working Paper No. 20835 (January 2015).

highly educated and healthy workers to propel American growth. And, the government was clearly on the side of American workers in getting their fair share of the increased productivity. Wages that rose with productivity insured all the correct market signals in the labor market would encourage Americans to make the investment in their skills. And, by keeping unemployment rates low, fiscal and monetary policy gave incentives to firms to train workers, invest in their productivity and aim at retaining those workers.

Since that era, most of those policies have been undermined. In the 1980s and again in the 2000s the NLRB too often took positions favorable to management to limit workers organizing; raising the minimum wage went from a bipartisan effort to a partisan battle; the wages for the middle stagnated and the wages at bottom fell. Profits as a share of national income rose, but taxes from corporate America shrank, putting more of the nation's tax burden on workers as the wage share of national income fell. Once the United States stood out for its highly educated work force, as recently as 1995 ranking first for the share of workers with college degrees, but by 2012 the United States ranked 19th among 28 advanced economies.[7] In 1975 state and local governments provided 63% of all expenditures on higher education, by 2010 that figure fell to 34.1% resulting in a trend of ever rising tuition for individual students.[8]

Americans see politicians that argue for tax breaks for the top 1%, and a retreat on policies to invest in them while their wages stagnate and corporations are given support to suppress those wages, hours and working conditions. This is a great source of cynicism as they no longer believe in "trickle down" economics.

Now most economists agree. The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) find that income inequality hurts growth.

The IMF finds that near term growth over the business cycle, roughly five years, is slower and of shorter duration in those advanced economies where net income inequality is higher (net income inequality is defined as market-based income (wages, rents, profits and interest income or gross inequality) net of income transfer programs (taxes, safety-net and other redistributive

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[7] Liz Westin, "OECD: The US Has Fallen Behind Other Countries in College Completion," Business Insider (September 9, 2014) at http://www.businessinsider.com/r-us-falls-behind-in-college-competition-oecd-2014-9
[8] Thomas Mortenson, "State Funding: A Race to the Bottom," American Council on Education (Winter 2012) at http://www.acenet.edu/the-presidency/columns-and-features/Pages/state-funding-a-race-to-the-bottom.aspx

programs)).[9] There are various reasons for this. At high levels of inequality, those at the bottom of the income distribution are more vulnerable and lack resiliency to absorb downward shocks in income. They also become highly leveraged to keep up when the economy expands, increasing systemic risks for the economy. Importantly, they find that redistribution of income has no effect on growth, but inequality does. This means that concerns that safety-net programs slow growth by reducing labor supply and effort is not shown in the data. But, the effects of inequality do show. So, the net benefit of redistribution that lowers inequality is clear.

Focusing on income distribution more specifically, the IMF finds that when growth goes disproportionately to the top 20% of the income distribution that national income growth—GDP per capita—falls. Clearly, policies that aim to increase the post-tax income of the top do not trickle down; they instead slow overall growth. They further find that programs that increase access to education and health in particular, that help the middle class and the poor specifically, reduce inequality and spur growth.[10] And, that labor market policies that do not exclude the poor from accessing middle income jobs spur growth. In short, the very policies pursued by the United States across Democrat and Republican Presidencies during the 1946 to 1979 era.

The IMF further investigates and finds that the growth in inequality is mainly driven by gains at the top 10% and is tied hand-in-hand with a reduction in share of workers in labor unions to bargain for a higher share of gains for the middle and the lowering value of minimum wages that protect earnings at the bottom. The report also found evidence that declining top marginal income tax rates increases inequality, as does financial deregulation. Technological change was not a driving force.[11]

The OECD research finds a sizable impact on growing inequality and slowing growth. In particular, the decline in the share of income for the bottom 40% of income distribution hurts growth the most. The OECD finds a clear link between the shrinking income share of the bottom 40% and a drop in educational investment. Clearly, rising inequality can be mitigated by

[9] Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, "Redistribution, Inequality, and Growth," IMF Staff Discussion Note, SDN/14/02 (February 2014) at https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf

[10] Era Dabla-Norris, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka and Evridiki Tsounta, "Causes and Consequences of Income Inequality: A Global Perspective," IMF Staff Discussion Note, SDN/15/13 (June 2015) at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

[11] Florence Jaumotte and Carolina Osorio Buitron, "Inequality and Labor Market Institutions," IMF Staff Discussion Note, SDN/15/14 (July 2015) at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf

increasing public investment in education targeted toward the bottom 40 percent. They also find that policies that can increase women's labor force participation, like supporting child care, paid sick days and family leave, also reduce inequality and promote growth. And, raising labor standards to reduce non-standard and irregular work, reduces poverty and inequality and promotes growth.[12]

OECD also finds that increased centralized bargaining structures, like those that can come from higher labor union density, help to reduce the risk of extreme failures from economic shocks. And, it is also the case that higher minimum wages reduce the risks of very negative extremes from economic shocks,perhaps explaining stability in the United States economy during the 1946 to 1979 period.[13]

The evidence from the IMF and OECD that has been built on a growing economic literature on the effects of inequality are reassuring in understanding what helped form greater political and social cohesion in the United States from 1946 to 1979 when U.S. productivity, income growth and educational attainment led the world. The loss of faith of American workers in the system has risen with policies that have promoted inequality, that reversed patterns of investing in America and Americans and led to rising inequality that has slowed economic growth. There can be little social cohesion when policies consistently favor those at the top, as they do not help growth.

The path forward to restoring trust in the political system is clear: restore policies aimed at investing in the education and health of the American people, aimed specifically at the middle and bottom of the income distribution; increase investments in public infrastructure to help keep the economy efficient; raise the minimum wage to keep all wages moving with productivity growth; enhance policies to help increase the quality and supply of labor by investing in education; create policies for paid sick days and family leave; expand support for child care to all families; and restore full access to American workers to organize. Increasing equality also increases social mobility, which helps maintain social cohesion. Those are the policies that built

[12] OECD, *In it Together: Why Less Inequality Benefits All*, (OECD Publishing: Paris, 2015) at http://www.keepeek.com/Digital-Asset-Management/oecd/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en#.V-FiwCgrKhc

[13] Aida Caldera Sanchez and Oliver Roehn, " How do Policies Influence GDP Tail Risks?" OECD Economics Department Working Paper (forthcoming)

trust in our political system, and renewing and updating those policies is the key to rising wages, and a government that is pro-growth.

Chairman PRICE. Thank you, Dr. Spriggs. Dr. Lindsay, you are recognized for 5 minutes.

STATEMENT OF DR. THOMAS LINDSAY

Mr. LINDSAY. Thank you, Mr. Chairman, members of the committee. I appreciate your extending me the opportunity to present my research on the question of how we might increase opportunity for everyday Americans through higher education. I am encouraged by the growing bipartisan consensus on the need for higher education reform, and my research conducted on this question, points to the need to promote greater innovation and higher education delivery through fostering greater competition among higher education providers.

This country embarked long ago on a very well-intentioned set of Federal policies aimed at increasing college access for which all are to be commended for their earnestness. Nevertheless, as with all policies, there have been unintended consequences. The work ahead of us must consist in no small part in moderating some of these policies in order to better align higher education demand with supply as well as to better balance student access with success. The need to improve our Federal policies is seen by the following facts.

Over the past quarter century, average college tuition nationwide has jumped 440 percent, nearly 4 times the rate of the CPI over the same period. To attempt to pay for these historic increases, students and their parents have amassed historic debt. At roughly $1.3 trillion, student loan debt now exceeds even national credit card debt for the first time in our history, and this in a country fairly addicted to credit cards. The problem here is not a lack of government spending. The Federal Government has been very generous. In fact, the United States spends twice as much on higher education as the average OECD nation. This is not a money problem. Rather, when we look at the students today who graduate, and as I said, only half the students who enter college today graduate.

Of those who do graduate, 36 percent we know from studies, show little to no increase in critical thinking and writing skills, those skills that a degree is meant to signify. Moreover, when it comes to student loan debt and defaults, 70 percent of student loan defaults come from those who do not finish college. Low graduation rates increase defaults. Even sadder today, a smaller percentage of recent college graduates comes from the bottom 25 percent of income distribution than was the case in 1970, when these generous Federal programs began.

So, from these points, what we see is this, half the students who attend college never graduate. Of the half who do, only 64 percent attain any significant learning. What that means is that today, only 32 percent of students who enter college both graduate and do so with the learning that a college degree is meant to signify, meaning the odds are 2 to 1 that you will not get both. That is a scandal, but there is good news. There are solutions available to us.

In Texas, in 2014, we launched the Affordable Baccalaureate Degree Program. It can cost half as much as a traditional degree. You can finish it sometimes twice as quickly even if you come into college with no credit. You can get a degree in 3 years for between $13,000 and $15,000. Clearly, you cannot do this with all degrees. You cannot do this with a biology degree or a philosophy degree or engineering, but you can do it with applied degrees, and that is what these programs aim at. And there is something that we all need to take account of.

When we talk about college today and what we can do to help college students, we think of the four-year residential campus where students are attending full time. That is no longer the case. Only 1 in 5 college students fits that description. The new majority of students seeking some sort of education after high school, be it a two-year degree, a four-year degree, or a certificate, are non-traditional students, meaning they are over twenty-five, and/or working full time, and/or with families of their own to support.

The traditional models that have worked for us in the past simply cannot address their needs. There are other recommendations I would like to make, and I would be happy to offer them during Q&A. They are contained in my written statement. Thank you very much.

[The statement of Mr. Lindsay follows:]

To: Rep. Tom Price, M.D., Chairman, House Committee on the Budget

From: Thomas K. Lindsay, Ph.D.

Date: 19 September 19, 2016

RE: Written testimony submitted for September 21, 2016, committee hearing on "Restoring the Trust for Families and Working-Age Americans"

Outline of Problems and Solutions Discussed in Research

The Problems:

1. Tuition Hyperinflation/Student-Loan Debt
2. Bennett Hypothesis
3. Administrative Bloat
4. Grade Inflation
5. Poor Student Learning
6. Lack of Accountability/Trans-parency

Reforms:

- (Addressing Problems1-2) **Affordable Baccalaureate Programs**
  a. Online
  b. Competency-based
  c. Roughly half the price of traditional education
  d. Target: non-traditional & veteran students
- (Addressing Problem 3) **10% across-the-board cut in administration**:

a. GWU's former president Trachtenberg: "20% administrative cuts plus 20% increase in teaching productivity"

b. Cuts achieved primarily through attrition

- (Addressing Problems 4-6) **Contextualized Grading**: makes transcripts more meaningful for prospective employers

- (Addressing Problems 4-6) **Required Collegiate Learning Assessments** in 1st & 4th Years

- (Addressing Problems 4-6) **Informed Student Document**:

  a. comparative graduation rates

  b. comparative net tuition costs

  c. comparative loan-debt (by major)

  d. comparative starting salaries-by major

- (Addressing Problems 4-6) **Performance Based Funding**

  a. growing trend nationwide

  b. emphasis has been on graduation and completion rates

  c. *to prevent dilution of standards*: marry graduation rates with learning outcomes (through the CLA)

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Thank you for extending me the opportunity to present my research on the question of how we might increase opportunity for everyday Americans through higher education. My research conducted on this question points to the need to promote greater innovation in higher-education delivery through fostering greater competition among higher-education providers.

In addition to publishing research on this issue over the past five years, I also spent the quarter-century prior serving as, first, a university professor, and then, a college dean, provost, and president. I also had the opportunity to survey the national higher-education landscape while serving as the deputy chairman of the National Endowment for the Humanities (2006-2008).

To summarize my views, this country has embarked on very well-intentioned federal policies aiming to increase college access, for which all involved are to be commended for their earnestness.

Nevertheless, as with nearly all government policies, there have been some negative, unintended consequences. In my view, the work ahead of us must consist in no small part in moderating some of these policies in order to better align higher-education demand with pricing, as well as to better balance student access with success.

What follows is derived from my published research, all of which can be accessed at www.texaspolicy.com. For the sake of clarity, I have reprinted below a number of my articles published in *Forbes*, for which I serve as a regular contributor. All of these editorials stem from my published research.

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Here are the facts regarding public higher education in the United States today:

- Over the past quarter-century average college tuition prices nationwide have jumped 440 percent. This rate of increase is nearly four times that of the C.P.I. over the same period.
- To attempt to pay for these historic increases, students and their parents have amassed historic debt. At roughly $1.3 trillion, student-loan debt now exceeds even total national credit-card debt for the first time in our nation's history.
- Half of those who enroll in college fail to graduate.
- Of those who do graduate, 36 percent show little-to-no increase in the critical-thinking and writing skills that a degree is supposed to signify.
- The two points immediately above ([1] only half of students graduate and, [2] of the graduating half, only 64 percent attain significant learning, the result is this: Only 32 percent of all students who enter college both graduate and do so having received the learning that a college degree is supposed to signify. This is a scandal.
- In the early 1960s, college students studied on average 24 hours a week, whereas today they spend only 14.
- Nearly half of recent college graduates are underemployed.

- Finally, grade inflation is real, rampant, and ravaging grading standards. In the 1960s, 15 percent of college grades nationwide were A's. Today, that percentage has tripled: 45 percent of all grades today are A's. In fact an A is now the most common grade given in college. Roughly three-quarters of all grades are now either A's or B's.

Higher-education researchers read the statistics above as a warning sign, which we would do well to heed.

The irony here is that much of our crisis was not only caused by us but done with our best intentions. Moreover, as the crisis has grown, a number of elected officials and policymakers have begun championing various ideas designed to address higher education affordability. The proposals run the gamut—from federal measures to impose greater accountability on universities, to income-based repayment of student loans, to community college for free, and to four-year college for free.

But while the proposals differ, their differences are less important than what they share. What they all have in common is a fundamental misunderstanding of what's driving the crisis that all sides seek to solve.

They fail to understand that the factors composing the dilemma we face—tuition hyperinflation, burdensome student-loan debt, and poor student learning—are to some extent branches of the same tree, whose roots are found in the well-intentioned but what has proved to be naïve assumption that virtually all high school graduates should go to a traditional four-year college.

We can see the destructive effects of the college-for-all agenda when we look more closely at each of the elements of our higher-education crisis mentioned above—affordability, debt, and poor student learning.

When it comes to the increasing unaffordability of higher education (average tuitions have risen 440 percent in the past quarter century, far outpacing contemporaneous increases in general inflation), there is a growing consensus that the policies of the federal government itself have caused a good deal of the unprecedented spike. How? A recent study by the Federal Reserve Bank has confirmed what former U.S. Secretary of Education saw nearly thirty years ago, when he observed that increases in government subsidies to college students allow colleges and universities "blithely" to hike tuitions. The Federal Reserve Bank has found that every new dollar of Pell Grants or subsidized student loans results in universities raising tuitions between 55 and 65 cents.

What led the federal government to adopt and then repeatedly expand taxpayer subsidies for student loans? Without them, the country could not hope to reach its new goal of ensuring that all who want to go to college could afford to do so. This began as the more reasonable and defensible goal of subsidizing able students who were poor. But the subsequent iterations of the loan-subsidy program have expanded it to include a good number of students from families who are not poor. In time, the flawed premise animating these programs metastasized to such an extent that the results have been no less than scandalous. A recent report on the practices of Georgetown University makes this point. The elite law school counsels its students on how to manipulate the Income-Based Repayment Plan to shift large portions of their student-loan debt onto the backs of taxpayers.

Bearing this in mind, the crisis of crushing student-loan debt comes better into focus as both a cause and an effect of tuition hyperinflation. It exists as an effect because would-be college students and their parents, struggling to keep pace with rising tuitions, have been forced to borrow at historic proportions. Today, for the first time in our history, total student-loan debt, which stands at $1.3 trillion, exceeds total national credit-card debt, and this in a country fairly addicted to credit cards. It exists as a cause for the reasons stated earlier: When more money is in the hands of consumers, they will buy more; when they buy more, sellers will raise prices. Yet this simple fact of economics appears lost on those who have criticized Bennett's hypothesis for nearly three decades—and appears still lost on those whose "solution" to the debt crisis is to quench the fire by dousing it with ever-greater quantities of inflammable student-loan subsides, paid for by federal taxpayers.

In short, when the national goal became college for virtually everybody, it sent millions more flocking to college campuses than had previously been the case. This increased demand, enabled by federal subsidies, could not help but to produce the sharp increases in tuitions—and with them, a concomitant increase in debt—that students and their parents have suffered under since.

But the drive to make college accessible for virtually all high school graduates has had an even more profound, and more destructive, consequence than the financial quagmire described above. The most tragic effect has been the decline in student learning. Sending millions more students to college has proved to cost more than mere money. A genuine liberal arts and sciences core curriculum—a staple of higher education institutions up until roughly fifty years ago—is too difficult for more than about 20 percent of high school graduates. What, then, to do when the goal became sending far more than this percentage to college? Inevitably, this could not be accomplished without lowering standards.

The heartbreaking results of this lowering of standards have been documented in Arum and Roksa's *Academically Adrift*, which should have stirred higher education more than it did when it revealed that 36 percent of college students nationwide show little or no increase in fundamental academic skills—critical thinking, complex reasoning, and clear writing—after four years invested in college.

Other national, longitudinal studies confirm the dramatic decline in university standards. For example, in the early '60s, college students studied an average of 24 hours a week alone. Today, that number has slipped to 14. Equally alarming, these less-diligent students receive historically high grades. Fifty years ago, "A" grades went to 15 percent of college students nationwide. Today, an A is the most common grade given in college (43 percent). Moreover, 75 percent of all grades awarded today are either A's or B's. Given these lax standards at universities, it is unsurprising that Arum and Roksa found what they did.

But even this massive, decades-long, watering-down of college curricula and grading standards has not succeeded in fulfilling the unfulfillable vision of college for all. Consider these facts: Roughly half of all who enroll in college never graduate. Of the half who do, we know from *Academically Adrift* that 36 percent fail to demonstrate any substantive increase in learning. This means that, of all the students who enroll in college, only 32 percent succeed in acquiring both a degree and the knowledge that a degree is meant to signify.

As bad as these statistics are, they barely communicate the true human toll exacted by our utopian project. Today, those without college degrees feel like second-class citizens. With this has come a denigration of the mechanical and other talents needed to succeed at skilled trades, which, on average, can pay well.

Worse, those students who, contrary to their interests and aptitude, feel compelled by public pressure to attend college, only then to drop out, suffer a double-blow. They are left not only demoralized by their "failure," but also often find themselves burdened with student-loan debt, which is all the more difficult for them to repay because they do not have a degree.

The good news is that there are solutions available to us now through which we can arrest tuition inflation and lower student-loan debt. The first solution was born in my home state of Texas and can be easily replicated nationwide. Here I refer to the Texas Affordable Baccalaureate Program.

In 2014, three higher-education partners—Texas A&M University-Commerce, South Texas College, and the Texas Higher Education Coordinating Board (THECB)—launched the "Texas Affordable Baccalaureate" (TAB) Program, Texas's first public university bachelor's degree combining online learning and competency-based standards. Its new degree in Organizational Leadership can cost as little as $750 per term and allows students to receive credit for as many course competencies as they are able to master. Although the program aims first at returning adults, those entering with no previously earned credits can acquire their degree in three years at a total cost of between $13,000 and $15,000. At the other end of the spectrum, adults entering with 90 credit hours already earned can finish their degree in as little as a year and at a total cost of between $4,500 and $6,000.

Given the excitement over the first Affordable Baccalaureate Degree Program, it was only a question of time before it expanded beyond the campuses of A&M-Commerce and South Texas College.

That time came this January, when AT&T President, Dave Nichols, Texas State Comptroller, Glenn Hegar, and the THECB chairman, Bobby Jenkins, announced that AT&T would be contributing an additional $400,000 to THECB's College for All Texans Foundation to fund expansion of the TAB program from its current two campuses to ten, with the intention of enrolling more than 21,000 students over its first five years.

Under the new AT&T grant, public institutions of higher education in the state will compete for start-up funding for a TAB program of their own. Commenting on the new funding initiative, THECB's Jenkins noted, "Expansion of the TAB program is a key to achieving the state's "60x30TX" higher education goals for completion, marketable skills, managing student debt, and ensuring that at least 60 percent of Texans ages 25-34 will have a college degree or certificate by 2030." Most importantly, Jenkins added, "the TAB program, with its competency-based model, allows our institutions to serve the non-traditional students that are the new majority in higher education, such as military veterans, older, working students and Texans with some prior college credit but no degree."

Jenkins's latter point is noteworthy, because it is far from common knowledge. We still tend to think of college-going students as consisting predominantly of 18-22-year-olds who attend a residential campus fulltime. This is no longer the case. Today, the majority of those seeking some sort of postsecondary education—be it a two-year degree, a four-year degree, or a certificate—are nontraditional students. They are over the age of 25 and/or working fulltime and/or supporting families of their own. For this, the new majority, access to a traditional college education can be difficult if not well-nigh impossible.

In addition, the TAB program looks to be tailor-made for veterans, whose military training often satisfies a number of competency-based criteria. In short, under the TAB Program, veterans will be able to get their degrees more quickly and universities will be able to lessen the financial burden they bear in teaching them.

On a number of fronts, then, the expansion of the TAB Program is encouraging news for Texans. And as the program begins it expansion across Texas, it is reasonable to expect that the other 49 states will sit up and take notice.

Eight Suggested Reforms in Light of the Above

- The U.S. Congress should consider requiring all public universities to offer Affordable Baccalaureate Degrees as a certain percentage of their total course offerings. This should become a prerequisite for further federal funding for each school. (See my article on the subject, below, for greater detail.)
- The U.S. Congress should require all federally-funded public universities to share "some skin in the game" when it comes to student success (see my article on this subject, below, for greater detail). Until this happens, schools will have little incentive to focus on anything more than what currently is the primary component of federal funding—the number of students enrolled.
- To ensure transparency in grading standards, the U.S. Congress should require all federally-funded public universities to introduce "contextualized transcripts." These would give prospective employers a much clearer sense of where students excelled in college. (See my article on the subject, below, for greater detail.)
- To better inform students and their parents, Congress should require all federally-funded public universities to provide "Informed Student Documents" on their applications. These documents would provide:
  a. comparative graduation rates
  b. comparative net tuition costs
  c. comparative loan-debt (by major)
  d. comparative starting salaries-by major.
- The Congress should consider eliminating or scaling back both Income Based Repayment and student-loan forgiveness, except in any case where the school has been convicted of

fraudulent treatment of its students. (See my article on the subject, below, for greater detail.)

- The Congress should craft legislation that redistributes some of its existing funding to community colleges, in order to encourage more students to attend community college.
- The Congress should revise the criteria by which regional accrediting boards rank schools. The current focus is on inputs, not outcomes. The outcomes listed above should be incorporated into the standards by which accrediting bodies judge schools.
- In addition to the suggested reform immediately above, the Congress should pass legislation making it easier for higher-education innovations (especially online learning and competency-based programs) to enter the field. Currently, the accrediting bodies are acting too slowly (as is the U.S. Department of Education) to expedite these cost- and time-saving innovations. Accreditation should be a vehicle that fosters competition among schools. Currently, it stifles it, and thus stifles needed innovation.

FEB 22, 2016

A Small Nonprofit's Big Remedy for the Plagues of Today's College Students

(Forbes)

Tom Lindsay

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

Debt and dropout rates are the twin plagues of today's college students, both in Texas and across the nation. Nationally, the *Wall Street Journal* reports that the average college graduate will owe $35,000 in student-loan debt (see graph below). Here in my hometown of Austin, Texas, only 49% of those who start college complete their degree.

If you are an adult working a job and attending community college in Texas, your chances of graduation are even slimmer. If you can somehow manage to go to school full time while holding down a job, there is less than a 15% chance that you'll ever earn your degree. If you need to go to school part-time—as 80% of community college students do—then your odds drop significantly. Nationwide, more than 30 million adults have earned some college credit but have failed to complete their degree.

So, it is notable that a small nonprofit in Austin has developed what they see as a vaccine for the modern plagues of debt and dropout.

"None of our students owes college debt," said PelotonU's Director of College Completion, Sarah Saxton-Frump, "and 83% of our students are on track to earn their Bachelor's degree on time. This, while all of them also hold down jobs and go to college."

How does the PelotonU model work? The school pairs students with high-quality online universities and provides consistent in-person college coaching. PelotonU staff meets biweekly with first-year students to walk through academic and non-academic barriers to graduation. This all occurs at a physical office, where students have the dedicated space and peer support to help them reach their goals.

Key to the approach is working with regionally accredited, non-profit, competency-based universities like Western Governors University and College for America at Southern New Hampshire University.

"PelotonU spends $2,500 per year, per student in direct service costs and also offers scholarships to ensure that tuition is affordable," said Hudson Baird, Executive Director of PelotonU. "This is the cheapest education option in the city."

Students range in age from 18 to 65, but share in common a motivation to earn a degree and an employer who supports their efforts. For example, Patrick Crawford, the general manager of a Dunkin' Donuts store in Austin, completed his high school degree but stalled at the community college level. He had all but given up on finishing his education when Dunkin' Donuts told him about PelotonU.

"The dream of returning to school was always with me, but I felt it was truly a dream," he said. "Finding the time and money for school was something I'd need to win the lottery to be able to afford. Who knew my lottery ticket would be named PelotonU? The support PelotonU offers in time, money, and mentorship is invaluable, and makes going to school possible for me."

Crawford adds that he "would like to mention the 'College Experience' that [he] did not receive when [he] went to community college. Before, it was all I could do to finish my projects and make it to class, but at PelotonU, I am immersed in the experience of what I perceive going to a four-year school straight out of high school would be like."

This is one aspect of its program that PelotonU particularly prides itself on. Face-to-face mentorship, the presence of other PelotonU students, and a flexible curriculum all provide social reinforcement – the "College Experience."

"This is the least expensive and most effective college education option in the state," said Rex Gore, co-founder and board member, "and one that will get even more affordable and effective as PelotonU grows."

Those who follow higher education will recognize this sort of argument. Ideally, innovative programs like PelotonU improve as they grow, discovering new efficiencies that are not possible when a small program is first developed. This, then, is the challenge facing PelotonU: whether it can scale.

As a nonprofit startup, PelotonU currently relies on donations and sponsors. Moving forward, it plans to work closely with universities to provide funding for its ongoing services. Recent trends in Texas higher education in support of innovative solutions for addressing the college affordability crisis lend credence to PelotonU's confidence in its ultimate scalability.

The College Credit for Heroes program, which awards competency-based credit to military veterans, began in 2011 through partnering with four Texas colleges. By the end of 2013, the program had reached agreements with thirty institutions of higher education in the state, including the entire Texas A&M System. The College for All Texans Foundation recently announced that its Texas Affordable Baccalaureate Program, which, like PelotonU, leverages emerging technology and innovative practices to dramatically reduce college costs, plans to expand from two schools to 10.

In the midst of our national student-debt crisis, this diverse array of programs designed to address college affordability gives students and parents a reason to hope for better days ahead. And for taxpayers, the emergence of nonprofit organizations like PelotonU will be especially encouraging. In light of the Federal Reserve Bank of New York's recent report outlining the significant role the federal government has played in driving up the price of tuition, PelotonU stands out as a private attempt to solve a problem that that public sector, acting alone, both created and allowed to fester for decades.

In short, PelotonU represents a bold alternative to a system of higher education in which costs have spiraled out of control even as students feel they get less mileage out of a college degree. And as the success of such alternatives grows, so will the number of students who not only succeed in enrolling in college, but also in completing their degrees without being forced to wear the straitjacket of debt.

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JAN 30, 2016

Pricing Revolution: Texas Expands its Affordable Baccalaureate Degree Program

(Forbes)

Tom Lindsay ,

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

In his 2011 State of the State Address, then-Texas-Governor Rick Perry issued a bully-pulpit challenge to the Lone Star State's public universities. He asked them to create bachelor's degree programs that cost no more than $10,000 in tuition, fees, and books. He also asked that ten percent of Texas public university degrees awarded reach this price point. How would it be accomplished? Perry advised schools to reduce costs through offering some classes online as well as through awarding course credits based on competencies acquired outside the classroom, such as during military service and/or previous employment.

Note well that the governor did not ask that the price for the new degrees total no more than $10,000 for only *one academic year*, but rather, for *the full four years* of a bachelor's degree program.

Perry's challenge was met with a mixture of disbelief and derision. The chairman of the Travis County Democrats called Perry's idea "preposterous," adding that "nobody in higher education believes that is even possible." The president of the Texas Conference of the American Association of University Professors, wondered, "Do you really want a stripped-down, bare-bones degree?"

There was a basis for their skepticism. In 2011, the average Texas public university student was paying roughly $27,000 for tuition, books, and fees for four years, and prices looked only to be going up further.

That was then. But this is now. Unlike the defenders of the higher-education status quo, prospective college students and their parents—who have suffered from a quarter-century of tuition hyperinflation and burgeoning student-loan debt—thought a proposal like Perry's might be exactly what was needed. A contemporaneous Pew study found that 57 percent of prospective students believe a college degree no longer carries a value worth the cost. Seventy-five percent of respondents deem college unaffordable.

Some in Texas public higher education recognized the public's angst. So, one year after Perry's speech, roughly a dozen programs sprouted up around the state, all purporting to answer the governor's call.

Then, in 2014, three higher-education partners—Texas A&M University-Commerce, South Texas College, and the Texas Higher Education Coordinating Board (THECB)—launched a program that fully met the governor's vision: the "Texas Affordable Baccalaureate" (TAB) Program, Texas's first public university bachelor's degree combining online learning and competency-based standards. Its new degree in Organizational Leadership can cost as little as $750 per term and allows students to receive credit for as many course competencies as they are able to master. Although the program aims first at returning adults, those entering with no previously earned credits can acquire their degree in three years at a total cost of between $13,000 and $15,000. At the other end of the spectrum, adults entering with 90 credit hours already earned can finish their degree in as little as a year and at a total cost of between $4,500 and $6,000.

Given the excitement over the first Affordable Baccalaureate Degree Program, it was only a question of time before it expanded beyond the campuses of A&M-Commerce and South Texas College.

That time came last week, when AT&T President, Dave Nichols, Texas State Comptroller, Glenn Hegar, and the THECB chairman, Bobby Jenkins, announced that AT&T would be contributing an additional $400,000 to THECB's College for All Texans Foundation to fund expansion of the TAB program from its current two campuses to ten, with the intention of enrolling more than 21,000 students over its first five years.

Under the new AT&T grant, public institutions of higher education in the state will compete for start-up funding for a TAB program of their own. Commenting on the new funding initiative, THECB's Jenkins noted, "Expansion of the TAB program is a key to achieving the state's "60x30TX" higher education goals for completion, marketable skills, managing student debt, and ensuring that at least 60 percent of Texans ages 25-34 will have a college degree or certificate by 2030." Most importantly, Jenkins added, "the TAB program, with its competency-based model, allows our institutions to serve the non-traditional students that are the new majority in higher education, such as military veterans, older, working students and Texans with some prior college credit but no degree."

Jenkins's latter point is noteworthy, because it is far from common knowledge. We still tend to think of college-going students as consisting predominantly of 18-22-year-olds who attend a residential campus fulltime. This is no longer the case. Today, the majority of those seeking some sort of postsecondary education—be it a two-year degree, a four-year degree, or a certificate—are nontraditional students. They are over the age of 25 and/or working fulltime and/or supporting families of their own. For this, the new majority, access to a traditional college education can be difficult if not well-nigh impossible.

Moreover, in 2014, according to THECB estimates, 3.1 million Texans between the ages of 25 and 64 had earned some college credits but no degree. For this large demographic, the expansion of the TAB Program might prove a godsend and, in the process, bolster the state's progress toward its 60X30TX goals.

Expansion of the TAB Program should also help alleviate somewhat the fiscal pressure on the state's budget produced by the Hazlewood Exemption Act, which offers veterans, spouses, and their dependent children up to 150 credit hours of tuition exemption, including many fee charges, at Texas public institutions of higher education. In the last Texas legislative session, concern over the cost of this program led to efforts to cut back benefits.

The efforts failed. However, expansion of the TAB Program will reduce the costs borne by public universities, and thus by the state's taxpayers. Although schools offering the TAB Program will continue to shoulder all the expenses of the Hazlewood Exemption, these schools spend significantly less to educate TAB students than they do traditional students. In addition, the TAB program looks to be tailor-made for veterans, whose military training often satisfies a number of competency-based criteria. In short, under the TAB Program, veterans will be able to get their degrees more quickly and universities will be able to lessen the financial burden they bear in teaching them.

On a number of fronts, then, the expansion of the TAB Program is encouraging news for Texans. And as the program begins it expansion across Texas, it is reasonable to expect that the other 49 states will sit up and take notice. As I have argued elsewhere, a higher-education revolution could well be in the making.

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OCT 25, 2015

Disconnect: American Higher Education versus the American People

(Forbes)

Tom Lindsay ,

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

A *Washington Post* op ed displays with unusual clarity the growing disconnect between the higher education establishment and the society it serves.

Penned by Hunter Rawlings, the op ed, titled, "College is not a commodity: Stop treating it like one," seeks to correct "most commentary on the value of college," which is "naive, or worse, misleading." For Rawlings—president of the Association of American Universities and former president of Cornell and the University of Iowa—the problem is that "most everyone now evaluates college in purely economic terms, thus reducing it to a commodity like a car or a house."

Such an economic focus, writes Rawlings, "while not useless, begin[s] with a false assumption." If society now insists on treating "college as a commodity," it needs to grasp the fact that "[u]nlike a car, college requires the 'buyer' to do most of the work to obtain its value. The value of a degree depends more on the student's input than on the college's curriculum." However, "most public discussion of higher ed today pretends that students simply *receive* education from colleges the way a person walks out of a Best Buy with a television."

Rawlings identifies those he believes to be responsible for these skewed education priorities "[g]overnors and legislators, as well as the media, treat colleges as purveyors of goods." He blames this mindset for the ills from which higher education currently suffers. He criticizes the drive to measure college "outcomes" for its effect at making students "feel entitled to classes that do not push them too hard, to high grades" and to their perceived right not to have to study material that might make them feel "uncomfortable." "Trigger warnings," "safe rooms," and commencement speaker dis-invitations are, he holds, the "pernicious" products of the college-as-commodity conviction. So also is the focus on graduation rates and time to degree, which falsely assumes that these metrics *"depended entirely upon the colleges and not at all upon the students."*

However, countless public opinion surveys demonstrate that the American people do not recognize the campus world that Rawlings paints. And it is the public—those who toil and save in the hopes of attaining a degree—and not, as Rawlings would have it, merely politicians and pundits, who are demanding greater accountability on outcomes from our colleges and universities. This is evidenced by the fact that politicians from both parties, and across the ideological spectrum—Democrat President Obama, Republican former Texas governor, Rick Perry, socialist Bernie Sanders, etc.—their profound political differences notwithstanding, all agree on the urgent need to better monitor what our taxpayer-funded institutions of higher learning are providing for the money spent. The politicians are simply responding to powerful public sentiments, "leading from behind," as it were.

A national Pew survey discloses that 57 percent of prospective college students believe college is no longer worth the tuition it charges. Seventy-five percent of respondents believe a college degree is simply unaffordable. In my home state of Texas, a survey by Baselice and Associates was commissioned by the Texas Public Policy Foundation. It found that seventy-one percent of voters believe the state's colleges and universities can improve teaching while reducing operating costs. Ninety percent of voters surveyed believe there should be measurements in place to determine the effectiveness of the education delivered and material learned by students at colleges and universities.

Based on this public polling, are the American people merely as deceived (and deceiving) as Rawlings charges the political and media class to be? Is the public blind too to the fact that, as Rawlings puts it, "[g]enuine education is not a commodity, it is the awakening of a human being"?

Unfortunately, this disconnect between the higher-education establishment and the American people is far from new and—if Rawlings's well-intentioned response is any indication—appears only to be growing. Last year's *Inside Higher Ed* survey of chief academic officers revealed that ninety-six percent believed their universities "were doing a good job." However, their confidence stands in sharp contrast to how business leaders and the general public regard the matter. In a Gallup survey, only 14 percent of the American public, and only 11 percent of business leaders, strongly agreed that graduates have the necessary skills and competencies to succeed in the workplace. "It's such a shocking gap, it's just hard to even say what's going on here," remarked Brandon Busteed, who serves as executive director of Gallup Education.

Rawlings interprets this gap between the higher-education establishment and business leaders/the American people as only symptomatic of the latter's ignorance of the fact that college is not a commodity and its resulting disregard of college's distinctive purpose—"the awakening of a human being."

However, the data on higher education support the public's discontent. Moreover, the data speak directly to Rawlings's proper focus—the central task of "awakening" students' minds. Rawlings rightly advises that students need to work hard in order to get the most out of college. At the same time, we need to take account of the role that universities have been playing in incentivizing less-than-hard work on the part of students. Consider college grading standards over the past half-century. Rojstaczer and Healy's analysis demonstrates that, in the early 1960s, 15 percent of college grades nationwide were A's. Today, the percentage of A's has nearly tripled, to 43 percent. In fact, an A is now the most common grade given in college nationwide. A's and B's today constitute 73 percent of all grades. Rawlings correctly cautions students that they "need to apply themselves to the daunting task of using their minds," but grade inflation teaches students precisely the opposite. Our colleges must recognize their responsibility for grade inflation, which devalues student transcripts in the same manner, and for the same reason, that monetary inflation devalues our currency.

Worse, while students have been enjoying nearly a tripling in the percentage of A's given by professors, their study times have dropped. Fifty years ago, students studied an average of 24 hours a week. Today, that number has dropped to 14.

The consequences of rewarding students more A's for less homework could have been predicted. The landmark national study of collegiate learning, *Academically Adrift*, shocked the higher education world when it discovered that 36 percent of today's college students demonstrate little-to-no increase in critical thinking, complex reasoning, and writing skills after *four years* invested in college.

Polling shows that everyday Americans are keen to this decline in standards, as well as to the historic increases in tuition, but they continue to send their children to college, because it is still deemed indispensable for a good job. That is, the public's perception that college is overpriced and of poorer quality than in the past leads it, falsely but understandably, to conclude that college is a mere commodity.

When we realize that students today are studying less but receiving more A's, and this despite the fact that over one-third of them fail to increase their general collegiate skills during college, it becomes time for universities to bear some responsibility. Rawlings's admonitions to students to study harder is necessary though not sufficient. Our universities also need to step up and reestablish an atmosphere that demands greater rigor. Given human nature, students generally will do no more than is asked of them in college in order to graduate. Too many of our universities are asking too little; and they're getting it.

However, in the final count, we must concede that efforts to improve American higher education are to some extent beyond the capacities of both universities and their students. Both suffer from the societal project that goes under the name of "college for everybody." When we as a nation decided to send more students to four-year colleges than the roughly 20 percent of high school graduates who can truly handle genuine college work, we simultaneously gave birth to the dilemmas outlined above: tuition hyperinflation; crushing student-loan debt; grade inflation; reduced study time; and poor student learning. I flesh out these contentions here.

So, Rawlings is to be commended for reminding students to work hard. And reformers are right to admonish universities to restore standards. But both efforts will be swimming upstream so long as too many students are going to college.

College is not a commodity. So understood, college is not for everybody.

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JUL 19, 2015

Sorry, But 'College Is Too Expensive' Is Not A 'Myth'

(Forbes)

Tom Lindsay ,

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

In a recent editorial, U.S. Senator, Lamar Alexander (R-TN), offers a sensible proposal designed to help make college more affordable and, with it, reduce student-loan debt. His scheme, to give universities "skin in the game" when it comes to student-loan debt, should be taken seriously, given his wealth of experience in higher education—as current chairman of the Senate's education committee, past secretary of the Department of Education, and past president of the University of Tennessee. Unfortunately, beneath Alexander's reasonable proposal and sterling résumé lies a less-than-reasonable attachment to the very policies—federally subsidized student loans and Income-Based Repayment plans—that are in no small part responsible for the college-affordability crisis.

Or is there a crisis? The title of Alexander's piece, "College is Too Expensive? That's a Myth," denies it. Affording college, says the senator, is "easier than most people think." The real problem, he argues, is that "some politicians and pundits" assert that "students can't afford a college education. That's wrong." Why? According to Alexander, "Pell grants, state aid, modest loans, and scholarships put a four-year public institution with the reach of most." How?

Alexander correctly notes that community colleges are "free or nearly free for low-income students." The national average for tuition at these schools is $3,300 a year, and federal Pell grants, which need not be repaid, "also average, $3,300." Nationwide, four-year public universities, on average, charge tuition of $9,000. However, for these institutions, in addition to Pell grants, states granted "$11.2 billion in financial aid in 2013, 85 percent in the form of scholarships, according to the National Association of State Student Grant and Aid Programs." Given the plethora of funding sources, he concludes, "The reality is that, for most students, a four-year public institution is also within financial reach."

Others take issue with the senator's cheerful scenario, suggesting that he is out of touch with the average American. They point to the fact that it is not, as Alexander alleges, only "some politicians and pundits" who "say students can't afford a college education." It is the American people themselves—and a lot of them, at that. A nationwide Pew study finds that 57 percent of prospective students believe a college degree no longer carries a value worth the cost. Seventy-five percent of respondents declared college simply unaffordable.

A 2012 study conducted by the educational lender Sallie Mae suggests that the public's discontent is likely only to intensify, as *vox populi* translates into economic decision-making. The study provides evidence that outlooks and behaviors about how—and how much—to pay for college are shifting. The report finds that the amount paid for college had fallen in each of the prior two years. "American families reported taking more cost-saving measures and more families report making their college decisions based on the cost they can afford to pay." The primary means by which this trend in cost-cutting is occurring is through enrolling in less-expensive colleges and universities and/or living in the parents' home.

It is hard to fault students and their parents for their perception when one examines the harsh reality they face. In the past quarter-century, tuitions have risen 440 percent, roughly four times faster than general inflation over the same period. As a result, students and their parents have amassed historic debt in an effort to keep pace with tuition hyperinflation. Today, student-loan debt stands at nearly $1.3 trillion, which, for the first time in history, exceeds total national credit-card debt. How did we get to this point?

Nearly thirty years ago, then-U.S. Secretary of Education William Bennett foresaw this crisis when he offered what has since come to be called the "Bennett Hypothesis," which asserts that increases in government aid to college students enable schools "blithely" to increase tuition without fear of repercussion. Bennett's hypothesis has been debated ever since, but, just recently, the Federal Reserve has weighed in with a study that should remove any lingering doubts on the subject. Increasing federal student aid was found only to incentivize schools to hike tuitions further, thereby substantially nullifying any beneficial effects for students. Specifically, the study finds that every dollar of additional Pell Grants or subsidized student loans results in tuitions being raised between 55 cents and 65 cents.

This is where Sen. Alexander's well-intentioned proposal falls down. All of his cited examples of programs that help make college "affordable" take the form of government subsidies—that is, of tax increases—on the larger society, which is already laboring under an $18 trillion national debt. Sen. Alexander's proposals do little to get to this, the source of the problem, which is having government in the student loan business at all.

We see this when we examine Sen. Alexander's attempt to show that not only public but also private universities "help make a degree affordable." The private university he selects to make his case, Georgetown, could not be more unfortunate, for Georgetown has been shown to be gaming the student-loan system to allow it to raise tuitions at the taxpayers' expense. Manipulating the Income-Based Repayment plan, Georgetown counsels its law students who go on to work for the government or a non-profit entity on how to avoid tens of thousands of dollars of student-loan debt. Who picks up the bill for these college elites? The taxpayers. The result? According a *Washington Post* report, "the federal government . . . [is] paying almost $160,000 to students at an elite law school."

Shockingly, Sen. Alexander cites approvingly the income-based-repayment plan that makes possible Georgetown's entirely legal but nonetheless galling gaming of current federal regulations.

To his credit, the senator includes a proposal to "require colleges to share in the risk of lending to students. This will ensure that they have some interest in encouraging students to borrow wisely, graduate on time, and be able to pay back what they owe." This is a sound idea, but, given the dysfunction and perverse incentives that have been shown to lie at the heart of the subsidized-loans and income-based-repayment philosophy, it cannot be reasonably expected to substantially solve either tuition hyperinflation or its concomitant, crushing student-loan debt. Instead, we can expect to see tuitions and debt climb ever higher every time the federal government raises taxes to make college "more affordable." We can then expect this to be followed by more government "solutions" to the problem that it created, solutions that will only inject into the larger society the metastasizing malignancy afflicting the federal government's higher-education funding policies.

In short, if we continue with the same policies of increasing government support for higher education—through both subsidies for student tuition and income-based-repayment plans—we can expect only more of the same—higher tuitions, higher student-loan debt, higher taxes ("paid for" through debt) and more cries to "make college affordable." Sen. Alexander is on the right track in chasing for a solution to the college-affordability crisis. But, by remaining in thralldom to the current big-government paradigm, he is only chasing his tail, which he—and we—will be condemned to continue to do until and unless we purge this failed paradigm and embrace more realistic solutions to education funding, among them, easing bankruptcy requirements for loan-burdened students as well as the senator's proposal to make universities feel some of the pain of their students' exorbitant student-loan debt.

So, Sen. Alexander, "college is too expensive" is, unfortunately, far from being a "myth."

Instead, the myth is this: "We are from the federal government, and we're here to help."

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MAY 31, 2015

The U.S. Senate Pushes To Give Universities More 'Skin in the Game'

(Forbes)

Tom Lindsay

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I cover higher education, culture, and the intersection of the two

"We'll get it done this year," predicted U.S. Senator Lamar Alexander (R-TN) when asked whether Congressional efforts to pass the reauthorization of the Higher Education Act would be successful. Alexander, who chairs the Senate education committee, plans to have legislation up for a vote after the Senate returns from its August recess this year. To this end, he has proposed a number of thoughtful reforms aimed at making our universities more accountable for student failures.

The need for such reforms—and more—is clear to all who have observed the trajectory of American higher education over the past fifty years: skyrocketing tuitions, crushing student-loan debt, poor student learning, and high college-graduate underemployment.

Alexander's recent report, "Risk Sharing/Skin in the Game," cites the "unintended consequences of coupling universal access with generous, easy-to-obtain government financing," which may contribute to our "environment of over-borrowing and pricing that is becoming increasingly disconnected from a student's ability to repay." The existing federal framework rewards universities "for volume (number of students enrolled and associated loan and grant monies)." However federal policies enforce "few, if any, consequences for institutions that leave students with mountains of student debt and defaulted loans." Although Alexander does not intend Congress to move away from its "focus on ensuring access," the country is entitled to expect that its publicly-funded colleges and universities "maintain a greater stake in," or become "better aligned with, their students' success, debt and ability to repay."

The evidence grounding Alexander's critique is compelling. The latest data from the U.S. Department of Education reveal that "more than 1800 colleges have default rates above 15 percent" (the national average is 13.7 percent). Moreover, "nearly one out of every three borrowers defaulted on their federal student loans at more than 200 colleges." This distressing news is made all the more distressing when we reflect on the fact that nearly all of the Obama Department of Education's indignation has been directed at for-profit colleges, which educate only roughly ten percent of postsecondary students (and which cost taxpayers less to support than non-profit schools). Meanwhile, up until now, the terribly underperforming non-profit schools have suffered no comparable federal intervention.

The lack on the part of universities of what Alexander labels "skin in the game" contributes to the fact that there are today roughly seven million borrowers who are in default on their student loans, which total approximately $99 billion. A study by the New America Foundation finds that the average amount of each defaulted loan is $14,000—by no means trifling—which "damage[s] credit ratings with consequences for purchasing a car or a home, and wage and tax refund garnishment."

High default rates are in part the product of low graduation rates at many colleges. "Approximately 70 percent of borrowers who default on their loans withdrew from college before completing their program." After suffering the demoralizing experience of trying college and failing, student-loan borrowers must attempt to repay their loans lacking the higher income that customarily comes with a college degree. With this, we have insult added to injury.

Alexander's critique is true enough, but how to remedy this in an age that appears driven by the utopian goal of providing "college for all"? His answer: "skin in the game" for higher education. "Colleges and universities [should] assume a liability based on some factor related to their former students' repayment of federal student loans." He cites former U.S. Secretary of Education Bill Bennett's proposal that each school pay "a fee for every one of its students who defaults on a student loan, or have a 10 to 20 percent equity stake in each loan that originates at its school." Bennett's solution was echoed by a recent report in *The Economist*, which argues that, if universities "were made liable for a slice of unpaid student debts—say 10% or 20% of the total—they would have more skin in the game."

In short, concludes Alexander's report, "the risk of enrolling a student would be shared among all those who finance a student's education: the student, the federal government, and now, the institution." Doing so would guarantee that schools finally "have a clear financial stake in their students' success, debt, and ability to repay their taxpayer-subsidized student loans."

Alexander's proposal carries a bracing shot of economic reality. But does it go far enough? Higher education analyst Richard Vedder has his doubts. Although he welcomes the Senator's proposed reforms as necessary first steps, he worries that they "do not even touch the largest single policy mishap — the totally dysfunctional federal student financial-aid programs." Tuition hyperinflation, Vedder argues, began when "federal student-loan and grant programs started to become large in the late 1970s." Since then, schools "have effectively confiscated federal loan and grant money designated for students and used it to help fund an academic arms race that has given us climbing walls, lazy rivers, and million-dollar university presidents — but declining literacy among college students and a massive mismatch between students' labor-market expectations and the realities of the job market." Vedder reminds us that, "before these large programs began, we did not have nearly half of college graduates taking jobs usually filled by those with only a high-school education. . . ."

Vedder also reminds us of an even more disquieting fact. When they began, "the primary goal of the federal student-aid programs was to improve access to college for lower-income persons." But the result has been a "total failure: *A smaller percentage of recent college graduates come from the bottom quartile of the income distribution today than was the case in 1970*," when these programs began." Accordingly, only by "rethink[ing] financial aid" can we hope to achieve "real, effective reform."

Vedder is correct. And I would not be surprised to learn that Senator Alexander agrees with him, but deems real, systemic solutions to our systemic crisis beyond the realm of the politically possible at this point.

I would add that the college accountability, tuition hyperinflation, and student-loan debt crises are as much effects as they are causes. The deepest cause, which Charles Murray lays bare in his book, *Real Education*, is our educational romanticism, according to which many in our society today believe that virtually all high-school graduates should go to college. Once students who really could not master college-level work began to arrive in droves, with easy-federal-loan-money in hand, it was not difficult to forecast what the results would be: lower college-completion rates, ever-higher tuitions and debt, and diluted education quality.

Until we address this, the deepest driver of our discontents, we will have to rest content with the doubtless serious but less-transformative solutions Senator Alexander proposes.

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MAY 11, 2015

The Future of an Illusion: The Higher-Ed 'Funding Cuts' Myth

(Forbes)

Tom Lindsay

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

For years now, students, parents, and taxpayers have worried over college-tuition hyperinflation and its concomitant, massive student-loan debt. And for good reason. Over the past quarter-century, average tuition prices have increased 440 percent—far more than the Consumer Price Index and even health-care costs over the same period. In an attempt to foot the ever-higher bills for college, students (and their parents) have burdened themselves with historically high student-loan debt. At roughly $1.2 trillion, student-loan debt stands above total national credit-card debt for the first time in history.

Just as often as we hear the dismal facts about the growing unaffordability of college, we hear from defenders of the higher-education status quo that the fault lies not with universities but with stingy state lawmakers, who, we are told, have been "cutting funding for schools."

But this mantra could be on its way out. In a recent *New York Times* editorial, Paul Campos, a University of Colorado, Boulder law professor, offers what deserves to be the final word on the "funding-cuts-made-us-raise-tuitions" myth. And what a myth it is, as he demonstrates compellingly in the piece: "It is a fairy tale in the worst sense, in that it is not merely false, but rather almost the inverse of the truth."

To begin, Campos reveals that public funding for higher education is "vastly larger" now than it was during the alleged "golden age of public funding in the 1960s." While the U.S. military budget is roughly 1.8 times larger than it was fifty years ago, during the same period, "legislative appropriations to higher education are more than ten times higher." Tuition hyperinflation, rather than being a direct effect of "funding cuts," instead "correlates closely with a huge increase in public subsidies for higher education." To make this point more concrete, he reminds us that, "if over the past three decades car prices had gone up as fast as tuition, the average new car would cost more than $80,000."

Doubtless, a portion of the increased spending in higher education can be accounted for by the rise during the last two decades in the percentage of the population attending college, which Campos recognizes. Hence, although state funding for higher education has risen far faster than inflation, dollars appropriated *per student* are now less than they were "at their peak in 1990."

Nevertheless, Campos is right to remind us that "appropriations per student are much higher than they were in the 1960s and 1970s, when tuition was a small fraction of what it is today." Moreover, "by 1980, state funding for higher education had increased a mind-boggling 390 percent in real terms over the previous twenty years." But did this "tsunami of public money" help reduce tuition? No. "Quite the contrary."

Campos derides as "disingenuous" those defenders of the higher-education status quo who label a "large increase in public spending a 'cut' . . . because a huge programmatic expansion features somewhat lower per capita subsidies." Here he provides another illustrative example: If the government had doubled the number of military bases since 1990, "while spending slightly less per base," the charge that "funding for military bases was down," although such funding "had nearly doubled, would properly be met with derision." And yet this is precisely the narrative governing current discussions of the relation between government funding and tuition increases.

My own analysis of the relation between state funding and university tuitions and fees in Texas, the nation's second largest state, echoes Campos's findings. According to data provided by the Texas Higher Education Coordinating Board, between 2000 and 2010, state funding for Texas public higher education dropped 15.9 percent on an inflation-adjusted, per-fulltime-pupil basis. During the same period, Texas university tuition and fees rose 76.1 percent. The truth behind the "funding-cuts-made-us-raise-tuitions" myth, then, is this: There has been a mild decrease in state funding that has been accompanied by a wild increase in university tuitions and fees.

Lest his analysis be smeared as "professor-bashing," Campos is quick to point out that teachers are not the ones getting fat on this deal. Far from it. Fulltime faculty salaries today are, "on average, barely higher than they were in 1970." Where, then, is all the taxpayers' money going? Between 1993 and 2009, administrative positions increased at "ten times the rate of growth of tenured faculty positions." A study of the California State University System finds that, while fulltime faculty members increased "from 11,614 to 12,019 between 1975 and 2008, the total number of administrators grew from 3,800 to 12,183—a 221 percent increase."

Campos's focus on the role of administrative costs is supported by the findings of Benjamin Ginsberg's research, published in his 2011 book, *The Fall of the Faculty: The Rise of the All-Administrative University and Why It Matters.* In a *Washington Monthly* piece titled, "Administrators Ate My Tuition," Ginsberg presents the book's highlights. "Forty years ago," he writes, "U.S. colleges employed more faculty than administrators. But today, teachers make up less than half of college employees." Adjusting for inflation, from 1947 to 1995, "overall university spending increased 148 percent. Administrative spending, though, increased by a whopping 235 percent. Instructional spending, by contrast, increased only 128 percent, 20 points less than the overall rate of spending increase."

Ginsberg also finds that senior administrators have done particularly well of late. From 1998 to 2003, deans and vice presidents saw their salaries increase as much as 50 percent. "By 2007, the median salary paid to a president of a doctoral degree-granting institution was $325,000. Eighty-one presidents earned more than $500,000 and twelve earned over $1 million." Surveying these increases, a *Chronicle of Higher Education* report notes the difficulties that public university CEOs face when arguing that their "budgets have been cut to the bone . . . while at the same time acknowledging their rarified personal financial circumstances in states where layoffs, program closures, and pay reductions have been all too common."

Although Campos grants that arguments might be made to defend both the boom in college enrollment and "even the explosion in administrative personnel," he finds "no valid arguments" by which to justify the "recent trend toward seven-figure salaries" for senior administrators.

Equally indefensible is the claim offered by some of these same highly-paid administrators that "tuition has risen because public funding for higher education has been cut."

One can only hope that the evidence provided by Campos, Ginsberg, and others will drive a stake through the heart of the "funding-cuts-made-us-raise-tuitions" myth. But don't count on that happening just yet. The myth, Campos concludes, is as "ubiquit[ous]" as it is illusory. As long as it continues to be an unquestioned staple of the media narrative, there will be a future for this illusion, and with it, the discontents driven by disinformation.

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SEP 30, 2015

Finally, Bipartisan Agreement on Why College Is So Expensive

(Forbes)

Tom Lindsay,

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

At long last, the reality and destructiveness of administrative bloat on America's college campuses has come to be recognized across party and ideological lines.

Or so it would appear from last week's essay in the left-wing magazine, *The Nation*. There, Michelle Chen penned a piece titled, "Why Is College So Expensive if Professors Are Paid So Little?"

To be sure, Chen's target in her essay is not administrative bloat, per se, but, instead, the plight of adjunct college teachers, for which she recommends unionization of faculty (a project with which I disagree, but that is a subject for another article). In addressing the phenomenon referred to as the "adjunctification" of college faculty, Chen cannot help but to focus on administrative bloat, and for the same reason that bank-robber Willie Sutton provided for his choice of vocation: "Because that's where the money is."

Yes, and quite a lot of money it is that has found its way to administration in the prior few decades, as Chen demonstrates. And here she comes to echo a proposition that higher-education reformers have been trumpeting for years: The excessive growth in college administrative budgets is among the most significant factors driving tuition hyperinflation (a 440% increase in average tuitions nationwide in the past 25 years) and crushing student loan debt (which now stands at $1.2 trillion—for the first time in our history, student loan debt exceeds total national credit card debt).

In her search for remedies to provide better salaries, security, and status for adjunct professors, Chen finds that "the hyperinflated price tag of college has funneled toward another aspect of the higher education system: driving funds into administrative offices." Citing a report from the SEIU, she detects a "pattern 'reflected in increases in the numbers of administrative positions, increase in those salaries, and increases in the percentage of college budgets going to these [administrative] functions.'" Citing numbers reminiscent of Benjamin Ginsberg's 2011 study, *The Fall of the Faculty: The Rise of the All-Administrative University and Why It Matters*, Chen notes that, a quarter-century ago, American campuses housed "twice as many faculty as administrators on average." But today, "the ratio is roughly equal."

From where has all the money come to fund this unprecedented growth in administration? First and foremost, it has come from students, their parents, and state and federal taxpayers. At the same time, the administrators' new feast has been prepared on the backs of hungry faculty: "Just 20 percent of the teaching workforce in 2013 were permanent of tenure track. About half worked part-time or as adjuncts, often stitching together temporary gigs at different institutions." In a *Washington Monthly* essay spinning off of his book, Ginsberg adds, "College administrations frequently tout the fiscal advantages of using part-time, 'adjunct' faculty to teach courses. They fail, however, to apply the same logic to their own ranks. Over the past thirty years, the percentage of faculty members who are hired on a part-time basis has increased so dramatically that today almost half of the nation's professors work only part-time. And yet the percentage of administrators who are part-time employees has fallen during the same time period."

So, the bottom line is this: In order to fund rising college administrative budgets, not only are students and taxpayers paying more, but many on the faculty are receiving less—through being "adjunctified." Chen points to the illustrative case of the California State University System, which, between 2004 and 2013, increased its full-time teaching staff 8 percent, "but the population of full-time-equivalent students simultaneously jumped by 20 percent." The costs and effects of burgeoning administrative budgets are more than financial. Students are losing the opportunity to learn under a full-time professor, and faculty are losing salary, security, and a say in their university's affairs through being relegated to part-time status.

Chen states the problem well. However, in her quest to advance her case for unionizing faculty, she implies but then loses sight of the better solution before her eyes: It is time to make across-the-board cuts in university administrative budgets and then return those funds to their proper focus—teaching and learning. With more money available for teaching, universities would not need to rely as much on adjuncts as they do presently. This would clearly be a boon to student learning as well as to faculty remuneration and independence.

Another measure that would improve the situation would be to have more full-time college professors teach more classes. In the past half-century, American universities at all levels of selectivity have increasingly set their sights on the "Research University Model" exemplified by Harvard (which itself copied this model from the German universities in the latter part of the nineteenth century). As a result, the most productive researchers teach fewer classes as a "reward" for their scholarly excellence. While this can be justified in a number of cases, the problem that has developed is that too many lower-tier universities, in their quest to become Harvard, have lowered the average teaching load generally so that they can be more attractive to talented prospective faculty researchers whom they seek to recruit to their campuses. As a former university professor and administrator, it has been my experience that roughly half of the faculty, once having received tenure, do little by way of subsequent publications to justify a lower course load. Were university leaders to make these underperforming researchers teach, say, one more course per semester, this too would enhance the student-learning experience and lessen the reliance on adjuncts. Moreover, these increases in teaching productivity would help to bring tuition prices down.

Finally, aside from concern over the effects of tuition hyperinflation on their students and adjunct faculty, universities should have another motivation for shrinking administrative bloat—

their own preservation. Last Friday, Moody's Investor Service released a report forecasting that a growing number of small private universities will be forced to close in the coming years, due to financial instability. And Moody's does not spare public college and universities in its prediction of trouble down the road. Although political considerations often dictate that public universities will be less likely to close than private ones, Moody's predicts that failing public institutions will be forced to merge with larger state systems.

Before the bankruptcy notices begin to arrive at their doors, many American colleges and universities need to look at where they can cut excess spending and pass these savings on to their students and faculty.

A good place to start would be campus administrative budgets.

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NOV 28, 2014

How the 'College-For-Everybody' Agenda Harms both Students and the Economy

(Forbes)

Tom Lindsay

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

Many in higher education worry continuously over the fact that only roughly half of students who enroll in college ever graduate, and that those who do graduate often take more than four years to do so. But few seek to go to the roots to attempt to discover the ultimate causes explaining these depressing statistics. One of the few who makes such an attempt is Charles Murray, whose contrarian explanation is, "Too many people are going to college."

Regardless of whether one agrees with its conclusions, Murray's *Real Education*, published in 2008, has received far less attention than the gravity of its arguments merits. *Real Education* defends what he deems are four simple truths about education, but truths that cannot be said publicly without engendering the wrath of a culture fallen prey to what he labels "educational romanticism." They are "(1) ability varies; (2) half of the children are below average; (3) too many people are going to college; and (4) America's future depends on how we educate the academically gifted."

The American education system, says Murray, "is living a lie. The lie is that every child can be anything he or she wants to be." The lie is bipartisan, he argues; it spans both Republican and Democratic Party platforms, its unrealistic assumptions driving and distorting both K-12 and higher-education policy.

In higher education, the vision "that everyone should go to college"—like all well-intentioned projects suffering only tenuous connections to reality—asks "too much from those at the bottom, . . . the wrong things from those in the middle, . . . and too little from those at the top."

How many students, then, should go to college? In answering, Murray makes a key distinction—between "college-level instruction in the core disciplines of the arts and sciences" versus "the courses (and their level of difficulty) that are actually offered throughout much of the current American college system." The difference between the two is large and widening. If getting a diploma proves the ability to "'cope with college-level material,'" then "almost anyone" can succeed who merely "shops for easy courses in an easy major at an easy college." However, once we shift our focus to "college-level material traditionally defined, the requirements become stringent," and toward satisfying this stricter demand, "no more than 20 percent of all students" qualify.

But if this is true, what of democracy's rightful wish to see as many as possible benefit from a liberal education that fulfills John Stuart Mill's vision of engendering "capable and cultivated human beings"? Murray agrees that more students should receive the "basics of a liberal education." Nevertheless, the place for most students to do this is, he argues, in elementary and middle school, not college. K-8 education should seek to inculcate the core knowledge described in E.D. Hirsch's *Cultural Literacy*—knowledge that "makes us Americans together rather than hyphenated Americans."

Murray's critique is not "the same as saying that the average student does not need to know about history, science, and great works of art, music, and literature." Instead, he urges that we "not wait for college" to teach these subjects. In college, the study of these subjects should go much deeper; it should require close, careful reading of the foundational texts that constitute what Matthew Arnold called "the best that has been said and thought in the world." For example, reading "the *Odyssey* in ninth grade is nothing like reading the *Odyssey* in a good college course."

However, "most students at today's colleges choose not to take the courses that go into a liberal education because the capabilities they want to develop lie elsewhere"—a fact that "colleges do their best to avoid admitting." Instead, under universities' "distribution requirements" (the sham version of a core curriculum), students can fulfill their humanities and literature requirements through taking courses such as Indiana University's "History of Comic Book Art"; Dartmouth's "Rock Music from 1970 to the Present," and Duke's "Campus Culture and Drinking," to mention a few. Worse, the elite Brown and Vassar require *no* core courses, casting 18-year-olds into an endless abyss of "choice," with neither compass nor yardstick.

Because universities are "no longer in the business of imparting a liberal education," it follows that those students lacking the capacity for and/or interest in a genuine core curriculum should have "better options than going from high school to college."

But what of the need for even these students to attend college to enhance their capacity to make a living? Murray responds that four-year brick-and-mortar residential colleges are "hardly ever" the best places to "learn how to make a living." To begin, for most vocations, excluding fields such as medicine and law, four years of class work is not only "too long" but "ridiculous." For many of such students, two-year community college degrees and online education provide "more flexible options for tailoring course work to the real needs of the job."

Moreover, the brick-and-mortar campus is becoming "increasingly obsolete." The "Internet is revolutionizing everything"— university libraries have lost their indispensable character, and both faculty research and faculty-student interaction no longer require the "physical proximity" that brick-and-mortar campuses make possible.

But what of the "wage premium" reaped by college graduates? For Murray, high-school graduates who pursue the B.A. primarily to boost their earning power are "only narrowly correct." Doubtless, B.A.-holders earn more on average than those without degrees, but this due in part to a "brutal fact." Given the increase in the number of college graduates over the past half-century (more than a third of 23-year-olds now hold B.A.s), "employers do not even interview applicants" without degrees. "Even more brutal," the B.A.'s comparative advantage "often has nothing to do with the content of the education" received. The average employment gains of college graduates must be weighed against the fact that "wages within occupations form a distribution." Therefore, a student with average academic skills but exceptional "small-motor skills and special abilities" is more likely both to earn more and to be happier as, say, an electrician than as a mediocre middle-manager.

In addition to being happier as an electrician, this student would benefit from the fact that "there has never been a time in history when people with skills not taught in college have been in so much demand at such high pay as today." In fact, as in the case of the proficient electrician, the wages of top performers in a plethora of occupations not requiring a B.A. are "higher than the average income for many occupations that require a B.A."

Murray presents a higher-education system in which too many students are forced to spend too much time chasing their tails. His thesis that too many are going to college today goes no small distance toward explaining why roughly half of those who enroll in college fail to graduate. It goes a long way toward explaining why, of those who do graduate, 36 percent show little-to-no increase in the critical-thinking and writing skills that a degree is supposed to signify. It goes a long way toward explaining why, in the '60s, college students studied on average 24 hours a week, whereas today they spend only 14. Finally, it goes a long way toward explaining the rampant grade inflation perpetrated by universities eager to "accommodate" the masses of new students in college who can't cope there. In the '60s, 15 percent of college grades nationwide were A's. Today, that percentage has nearly tripled: 43 percent of all grades today are A's. In fact an A is now the *most common grade* given in college.

Higher-education reformers read the statistics above and pronounce higher education broken. If they hope to fix it, one indispensable step is to face Murray's thesis without blinking.

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Higher Education's Faulty Economics: How We Got Here

(Forbes)

Tom Lindsay

CONTRIBUTOR

I cover higher education, culture, and the intersection of the two

As the presidential primary season goes into full swing, candidates in both parties are championing a number of ideas designed to address the higher education affordability crisis. The proposals run the gamut—from federal measures to impose greater accountability on universities, to income-based repayment of student loans, to community college for free, and to four-year college for free.

But while the proposals differ, their differences are less important than what they share. What they all have in common is a fundamental misunderstanding of what's driving the crisis that all sides seek to solve.

They fail to understand that the factors composing the dilemma we face—tuition hyperinflation, burdensome student-loan debt, and poor student learning—are to some extent branches of the same tree, whose roots are found in the well-intentioned but what has proved to be catastrophically naïve assumption that virtually all high school graduates should go to college. Charles Murray has written eloquently on this topic in his book, *Real Education*, which I reviewed here.

We can see the destructive effects of the college-for-all agenda when we look more closely at each of the elements of our higher-education crisis mentioned above—affordability, debt, and poor student learning.

When it comes to the increasing unaffordability of higher education (average tuitions have risen 440 percent in the past quarter century, far outpacing contemporaneous increases in general inflation), there is a growing consensus that the policies of the federal government itself have caused a good deal of the unprecedented spike. How? A recent study by the Federal Reserve Bank has confirmed what former U.S. Secretary of Education saw nearly thirty years ago, when he observed that increases in government subsidies to college students allow colleges and universities "blithely" to hike tuitions. The Federal Reserve Bank has found that every new dollar of Pell Grants or subsidized student loans results in universities raising tuitions between 55 and 65 cents.

What led the federal government to adopt and then repeatedly expand taxpayer subsidies for student loans? Without them, the country could not hope to reach its new goal of ensuring that all who want to go to college could afford to do so. This began as the more reasonable and defensible goal of subsidizing able students who were poor. But the subsequent iterations of the loan-subsidy program have expanded it to include a good number of students from families who are not poor. In time, the flawed premise animating these programs metastasized to such an extent that the results have been no less than scandalous. A recent report on the practices of Georgetown University makes this point. The elite law school counsels its students on how to manipulate the Income-Based Repayment Plan to shift large portions of their student-loan debt onto the backs of taxpayers.

Bearing this in mind, the crisis of crushing student-loan debt comes better into focus as both a cause and an effect of tuition hyperinflation. It exists as an effect because would-be college students and their parents, struggling to keep pace with rising tuitions, have been forced to borrow at historic proportions. Today, for the first time in our history, total student-loan debt, which stands at $1.2 trillion, exceeds total national credit-card debt, and this in a country fairly addicted to credit cards. It exists as a cause for the reasons stated earlier: When more money is in the hands of consumers, they will buy more; when they buy more, sellers will raise prices. Yet this simple fact of economics appears lost on those who have criticized Bennett's hypothesis for nearly three decades—and appears still lost on those whose "solution" to the debt crisis is to quench the fire by dousing it with ever-greater quantities of inflammable student-loan subsides, paid for by federal taxpayers.

In short, when the national goal became college for virtually everybody, it sent millions more flocking to college campuses than had previously been the case. This increased demand, enabled by federal subsidies, could not help but to produce the sharp increases in tuitions—and with them, a concomitant increase in debt—that students and their parents have suffered under since.

But the drive to make college accessible for virtually all high school graduates has had an even more profound, and more destructive, consequence than the financial quagmire described above. The most tragic effect has been the decline in student learning. Sending millions more students to college has proved to cost more than mere money. As Murray accurately notes, a genuine liberal arts and sciences core curriculum—a staple of higher education institutions up until roughly fifty years ago—is too difficult for more than about 20 percent of high school graduates. What, then, to do when the goal became sending far more than this percentage to college? Inevitably, this could not be accomplished without lowering standards. Today, most universities have abandoned a required core curriculum, replacing it with "cafeteria-style" education—a little of this, a little of that, but nothing by way of a unified vision of the good life at which liberal education had aimed in the past.

The heartbreaking results of this lowering of standards have been documented in Arum and Roksa's *Academically Adrift*, which should have stirred higher education more than it did when it revealed that 36 percent of college students nationwide show little or no increase in fundamental academic skills—critical thinking, complex reasoning, and clear writing—after four years invested in college.

Other national, longitudinal studies confirm the dramatic decline in university standards. For example, in the early '60s, college students studied an average of 24 hours a week alone. Today, that number has slipped to 14. Equally alarming, these less-diligent students receive historically high grades. Fifty years ago, "A" grades went to 15 percent of college students nationwide. Today, an A is the most common grade given in college (43 percent). Moreover, 73 percent of all grades awarded today are either A's or B's. Given these lax standards at universities, it is unsurprising that Arum and Roksa found what they did.

But even this massive, decades-long, watering-down of college curricula and grading standards has not succeeded in fulfilling the unfulfillable vision of college for all. Consider these facts: Roughly half of all who enroll in college never graduate. Of the half who do, we know from *Academically Adrift* that 36 percent fail to demonstrate any substantive increase in learning. This means that, of all the students who enroll in college, only 32 percent succeed in acquiring both a degree and the knowledge that a degree is meant to signify.

As bad as these statistics are, they barely communicate the true human toll exacted by our utopian project. Today, those without college degrees feel like second-class citizens. With this has come a denigration of the mechanical and other talents needed to succeed at skilled trades, which, on average, can pay well.

Worse, those students who, contrary to their interests and aptitude, feel compelled by public pressure to attend college, only then to drop out, suffer a double-blow. They are left not only demoralized by their "failure," but also often find themselves burdened with student-loan debt, which is all the more difficult for them to repay because they do not have a degree.

Higher-education reformers look at this bleak picture and wonder why all the ostensible solutions to the higher-education crisis serve only to double-down on the misguided premise that produced the crisis in the first place. Until and unless we jettison our utopian expectations, increasing numbers of students will continue to pay more and more and learn less and less.

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Chairman PRICE. Thank you, Dr. Lindsay, and thank you to all of you for your testimony. I think it was really helpful in framing the discussion, and let me put up the first slide, please. I want to talk very briefly about the goals that we have, because I think that one of my goals is to make certain that we recognize that we are all trying to push in the same direction. We all want housing that is appropriate and affordable for folks. We want health care that is of the highest quality and available for individuals who want education that allows each and every American to realize their dreams.

So, the question is not what the goals are. The question is, are we doing, as a Federal Government, the right thing that allows those goals to be accomplished, and if you look at this slide. This is the last 30 years and the increases in family spending on housing and health care and education compared to inflation, so the average increase for those items ought to basically track inflation unless there is something else going on.

Housing and health care and education obviously are increasing significantly greater than inflation, so there is something else going on, and that is what I would hope that we concentrate on, so let me drill down a little bit on this.

Mr. Pinto, you talked about the area of housing right now, government-centric housing finance system that creates economic free zone, and you talked specifically about the challenges in the area of the home loan market, in the area of the rental market. Take a few minutes and expand on what the solutions that we could look at here to make it so that that kind of economic-free zone does not exist.

Mr. PINTO. Okay. Thank you, Mr. Chairman, for that question. The problem is we have a debt-centric approach, so the income tax deduction subsidizes debt. The government, through all of the housing finance agencies and the guarantee agencies, subsidize debt, and this drives up the prices. Of the things you have up there, the thing they all have in common is an excess of government involvement, and in the case of housing and education, it is debt-driven, so the solution is to rely on less leverage, so you have to start with the income tax code and reduce the incentive to take out debt and have an interest deduction for that, and replace it with paying down the debt so that you are building equity in the home. You cannot rely on the price appreciation. We saw what happened there.

The second thing would be for low-income individuals. What we have done is a whole host of programs that funnel the money through a lot of third parties, either private sector or adversary groups. That is where the money groups and various government entities. We need to have the money go, as a rifle shot, directly to the consumer, so one of the things that we have proposed is a wealth building home loan, which would replace the 30-year loan with a small down payment, which virtually everybody has today, with a 15- or 20-year loan with actually no down payment.

Then, use that money that would have gone for the down payment to lower the interest rate along with other things to increase the buying power to be almost equivalent to what the 30-year loan is. And then for a low income person, for a household, you can add what we call the LIFT home, low-income first time home buyer tax credit, so instead of having these tax deductions that run for 30 years, and the more debt you take out, the more benefit that you get, and if you are low income, you do not actually get any benefit from that, you can target that to a low income individual and say, "We will give you an amount. 3 percent. Say $6,000. It is one time. You have to take out a shorter term loan." You now have the wealth building. You put them on a path to wealth building.

The next house they buy 5 or 6 years down the road, they do not need any assistance, and if you couple that with savings for retirement, if you couple that with you pay off the loan by the time your children are 18 years old, all of a sudden, you have solved the education problem and other things.

Chairman PRICE. Oh wow. Yeah. Exactly. I was really struck by your comment that the wealth gap is three times greater than the income gap. So Dr. Smith, let me switch. My pension is to talk about medical care and health care itself, but I want to talk about the finances, and you were so low key in your presentation, it was wonderfully stimulating and, I think, a very striking story.

Let me read a couple of the sentences from your testimony, "Our prices. Your prices. Typically, 1⁄6 to 1⁄10 of what traditionally hospitals charge what we believe to be the cost to render care, and then once again, our prices, it should be noted, are bundled including all aspects of care and are less than Medicaid currently pays to not-for-profit facilities in your area." How on earth can you do this? Where are your costs being saved? Where are you margins being cut?

Mr. SMITH. Well, fortunately the question I am asked with less frequency is that question, how can we be so inexpensive? Increasingly, the question is being asked of the price gougers, you know, why can you claim to not make a profit and charge 10 times what those guys do across town? The answer is, the prices that we have online are what we believe that cost to take care of patients, and we are making money, so what is not included is, you know, buying expensive advertising.

It is not buying billboards, buying out physician practices, buying out competitors, buying all of the practices of rural physicians so that the, you know, local/rural hospital can be brought to their knees and purchased cheaply by the big, corporate hospitals. We do not do any of that. We just take care of patients, and that is what we believe it costs to do that.

Chairman PRICE. If you could put up the slide on healthcare inflation, please, because I think it is really striking. Here is the healthcare inflation since 1965 compared to regular inflation CPI: 668 percent for regular, and 2100 for health care. What are the hurdles that are preventing the regular doc out there taking care of patients to do what you are doing?

Mr. SMITH. You know, many of the hurdles are local and State hurdles at the government level. There are Federal hurdles in that there are so many strings attached to accepting Federal money, and the electronic medical record mandates. Those sort of things just drive up the cost of a practice to insane levels, but certificate of need laws are a real problem. The Federal Government, I think, has backed out of that, but some States keep these certificate of need laws so that entrepreneurs and newcomers cannot enter the marketplace.

There is also the Federal prohibition on physicians owning and controlling facilities like mine, and that has always been a problem that Washington has addressed with prohibiting physician ownership of facilities, but traditionally, physicians have a hard time participating in the bankruptcy of their patients with institutional charges from facilities they own, so there is an accountability there that is lost with the prohibition on physician ownership. I think that ought to be at least looked at.

Chairman PRICE. Right. Remarkable story, and I would urge my colleagues to take a peek at it, because $1/6$ to $1/10$ of the prices that are being charged by competitors in your area with as high quality or higher quality. Great, great story. Thank you.

Mr. SMITH. Thank you.

Chairman PRICE. Dr. Lindsay, I have just a few minutes left, but I want to touch on your notation in the area of education. Talk about tuition hyperinflation and the burdensome student loan debt, and we have got a slide on the level of student loan debt that is now exceeding $1.2 trillion, higher than credit card debt in this country, higher than loans for automobiles. And you talked a lot about the problem, but I want to give you a couple of minutes—a minute and a half—to talk about what are the solutions to reverse that.

Mr. LINDSAY. Sure. The problem has been, in part, a consequence of our very good intentions, and about 45 years ago, it became a part of a natural mantra that virtually all high school students should go to a four-year college. Now, we know that as today, as we have moved from an industrial economy to an information economy, that indeed, at least 60 percent of high school students are going to need to get some sort of education after high school, be it 2 year, 4 year——

Chairman PRICE. Talk about the hyperinflation of tuition, because I am intrigued.

Mr. LINDSAY. Yeah, well, you know, looking at your graph on healthcare costs. As bad as the healthcare cost increase, student loan debt and tuition have increased at twice the rate of healthcare costs during that same period. As you mentioned earlier, the Federal Reserve Bank has found that Federally subsidized student loans are a big part of the driver of tuition hyperinflation. Every time this body increases Pell Grants by $1, universities charge $0.55 in tuition.

Every time this body increases Federally subsidized loans by $1, universities raise tuition $0.65. So, again, the problem is we have very good intentions, but we need to inject some economic reality into what we are doing, because while our intention has been to help students, in fact, and as I said, the odds today under the current system are two to one against a student both graduating and getting the learning that a degree is meant to signify. We can do better.

Chairman PRICE. Yeah. Thank you. I appreciate that, and I would draw folks' attention to your entire written testimony, because it really is remarkable. Mr. Yarmuth, you are recognized. Mr. McDermott, you are up.

Mr. McDERMOTT. Thank you, Mr. Chairman, Mr. Yarmuth. Dr. Smith, I am fascinated by your testimony, as like Dr. Price, I am also a physician. How big an emergency room do you have at your surgical center?

Mr. SMITH. We do not have one.

Mr. McDERMOTT. So everything is done electively?

Mr. SMITH. For the most part.

Mr. McDERMOTT. I went online with your name. Keith Smith, and I looked for your prices. I was trying to see where the transparency was, and I could not find it. So explain to me, if I am a patient, and I am in Oklahoma City, and I need a gall bladder done, how do I find out what you charge for gall bladders?

Mr. SMITH. All of our prices are at SurgeryCenterOK.com. Laparoscopic cholecystectomy is $5,865 for surgery, anesthesia, and facilities. All supplies.

Mr. McDERMOTT. I am just a plumber. I work for the school district, and I want to find out this. Where do I go when I get online?

Mr. SMITH. On a search engine.

Mr. McDERMOTT. I am just an ordinary Joe.

Mr. SMITH. I think some of the Google search. For instance, terms, affordable surgery, you know, upfront pricing for health care, those kinds of things. We treat patients from all 50 States. Except for Hawaii.

Chairman PRICE. But you gave your website, did you not?

Mr. SMITH. Yeah. SurgerycenterOK.com.

Mr. McDERMOTT. I got to go on Google, and I just say——

Mr. SMITH. Affordable surgery, yeah.

Mr. McDERMOTT. And I will find it?

Mr. SMITH. Surgical pricing. That is how patients most of the time—they find us. Yes. The two States that send us more patients than any other States outside of Oklahoma are Alaska and Wisconsin. It is amazing just even the small procedure like a carpal tunnel release. Someone will come see us from Anchorage or Boise, Idaho and travel because their travel cost added to our price is still far less, multiples less, than they would have paid——

Mr. McDERMOTT. But you are saying that is if everybody in the country would go to Affordablehealthcare.com and pick out their surgery, we could reduce all the problems in health care or most of the problems, or?

Mr. SMITH. Yeah, it is increasing that one of the problems is there is not a consumer market, and the ACA has changed that in some ways because the deductibles are so high. As I said in my remarks, many of the procedures on our website are less than patient's deductibles, so they can actually buy their surgery out-of-pocket for a better price than having used their benefit paying deductible.

Mr. McDERMOTT. Let me ask you a personal question.

Mr. SMITH. Yes, sir.

Mr. McDERMOTT. You do not have to answer. Have you ever had an emergency surgery or had any emergency medical problems?

Mr. SMITH. I have not.

Mr. McDERMOTT. You have not? So you are saying to somebody who has a kidney stone, they should go online when they have a kidney stone and ask, "Where is the affordable place? The best place to get that done in Oklahoma City?" The answer that you provide or that you are presenting here——

Mr. SMITH. The plan that I am presenting is the beginning, and that is 90 percent of health care, which is purchased, which is elective, one of the most exciting developments is that a full-service hospital is now working with us to price exactly what you have described, and that is tiered visits in the emergency department. They also are pricing maternity care where almost any imaginable maternity visit and care can be priced. There are some that cannot, and for that uncertainty, that is why we have insurance. That is why we should have insurance, is for the uncertainty.

Mr. MCDERMOTT. So you believe in insurance?

Mr. SMITH. Not the way it is currently. Currently, it just represents pre-paid care.

Mr. MCDERMOTT. I will give you a case. My son had a second child, and the child stopped moving around inside his mother, and so the doctor said, "Come on down to the emergency room, and we will take a look." Now, they are driving down this highway in California. They are not going to be sitting on their computer figuring out which is the cheapest place to get a C-section or whatever is going to be necessary when they get to the emergency room.

They do not know what is necessary. They are not doctors or anything, so they are just driving down there, because the doctor said, "Come on in." How does this work for that kind of thing? What should my son have in your system? He is going to have all the prices on his computer for elective stuff, but what about the emergency stuff? How is he going to know that?

Mr. SMITH. And, again, this is a new concept, and I really should not be here. All I do is say, "Here is what I do, and here is how much it is." That is what every other industry in this country does, so it is new, and there are more and more full-service hospitals that are becoming intrigued and interested with the idea of telling people up front, you know, "Here is what I do, and here is how much it is."

For an example, an emergency C-section at a hospital that we work with in Oklahoma City, they have given me prices for that, and that includes the ER, that includes the C-section, that includes the pediatrician, and it is probably about $12,000, by the way.

Mr. MCDERMOTT. So everybody would be able to—I mean, what you are talking about is a system where we are all online, and——

Chairman PRICE. Gentleman's time has expired. Mr. Cole, you are recognized for 5 minutes.

Mr. COLE. Thank you, Mr. Chairman. I want to thank you very much for the hearing. This is very fascinating stuff, and I want to thank our witnesses for their presentation. Dr. Smith, as a fellow Oklahoman, I am very impressed and very pleased with your business model. If I am correct, you do not take any Federal payment for any of the services. Is that correct?

Mr. SMITH. Correct. We see Medicare patients, but we do not accept any money from the government.

Mr. COLE. Can you quickly tell us what were the reasons that you came to that decision that it was really better from your standpoint not to be involved directly involved in something like Medicare?

Mr. SMITH. There are just too many strings attached going way back to how the stark laws affect physician-owned facilities, all of which have very unintended consequences and all of which would prevent this successful model like ours. I also am a firm believer in that rational pricing emerges from competitive activity, and the idea that prices can be dictated from on high is just wrong.

I mean, the prices are either too high or too low. They are always wrong. If they are too low, then there is rationing. Either soft or hard rationing results. And if the prices are too high, then you wind up with a bunch of stuff going on that perhaps is unnecessary.

So, to accept Federal money is to legitimize that pricing, and we just do not do that. I have talked to patients directly, eye to eye, and if they are having trouble that month, I do not charge them at all. It is just the way my great uncle practiced in Chickasha, Oklahoma. You just deal with people as individuals, and if they are able to pay our website fee or some portion of it, then we deal with them on an individual basis.

Mr. COLE. Do you think that the model that you have would be transferable to something like primary care or other branches of medicine as opposed to just elective surgery?

Mr. SMITH. Yeah. Primary care is probably the area where it applies most perfectly, and the direct primary care movement here in the United States is one of the most exciting parts of this free market movement led by Dr. Lee Gross from Sarasota, Florida and also by Dr. Josh Umbehr from Wichita, Kansas. His model is called Atlas MD, and it is the perfect solution for patients that have chronic disease management issues. Patients will pay a subscription price of $50 to $70 a month, and they have unlimited access to primary care, so for the diabetic, hypertensive with a foot ulcer that needs to be seen every 7 to 10 days, that is perfect for them.

Mr. COLE. That is amazing. Do you find that the model that you have is being replicated other places? Do you get a lot of contact from other physicians or physician-owned facilities about what you do, and are you seeing this spread at all?

Mr. SMITH. Yes. We have started an association, the Free Market Medical Association, because it has become so widely popular. People are interested in our model because it feels like the right thing to do, and then there are other people who are interested in the model because it scares them, and they have lost a lot of business to us in Oklahoma City. So, the Free Market Medical Association is a very vibrant and growing organization, and we had our last annual conference in Oklahoma City at the Historic Skirvin Hotel, and sold it out. I do not think we will be able to have it there again. It is a very vibrant movement.

Mr. COLE. Well, I would love to contact you some time and just come by and see your facility.

Mr. SMITH. I look forward to it.

Mr. COLE. Very impressed. In the limited time I have left, Dr. Lindsay, if I could move to you. I actually chair the subcommittee where we do Pell Grants, so your testimony was wonderful to me, and let me ask you this. One of the things we see is a problem sometimes is that a lot of States really have pulled back in the degree to which they support students, and a lot of that cost has shifted to the Federal Government. Does your experience suggest that is the case?

Mr. LINDSAY. Yes, sir. When you look at the numbers as the role of the Federal Government is increased, the contribution that States can make is decreased not only because the Federal Government has taken it over, but also because the States have big items in their budgets such as Medicaid. So, here you have two Federal policies dueling with each other.

Mr. YARMOUTH. Excuse me, member, but the causation runs the other way. It is the state——

Mr. COLE. Well, if I could ask my questions, I am about out of time here so I would prefer to choose the witnesses I would like to question. Thank you very much. I am out of time so I will yield back, but thank you, Mr. Chairman.

Chairman PRICE. Gentleman yields back. Mr. Pascrell, you are recognized for 5 minutes.

Mr. PASCRELL. Thank you, Mr. Chairman. We have heard our witnesses and some of our colleagues that government is the problem most of the time. That the solution to best aid working families is to tear it down. The government that is. Well, what happens when we leave private industries to set the rules of the road? Are they really better at investing in the economy and in the working men and women of our society? Do they, left to their own profit-seeking motives, protect the vulnerable? And there are many vulnerables here. Not just people who are incapacitated. Vulnerable means a lot of things, a lot of groups.

We used to have less regulated capitalism in the early part of the 20th century and we saw children working in factories and men, women, and children alike losing limbs and lives in hazardous workplaces. And let me interrupt what I am saying here to say that the comments to me about higher education are something to be considered. And housing, something to be considered. All of you, I believe—I have read your documentation—all of you make good, good suggestions and some of them are debatable. That is what democracy is when we, you know, practice it. But you will have to admit that the progressive movement ushered in child labor laws.

And somebody did not wake up one morning and say, "Let's have child labor laws." There was a reason for them and it built up, and it built up. And the best changes came when there was bipartisan support. The best changes. Labor unions advocated for an 8 hour workday. So, I do not know if it is a good idea if we leave everything to the private sector to decide what is good and what is bad.

And this thing about regulations is the most mythical part of the center of destroying the American government. It is mythical when you look back at even the number of pages that are set aside for human regulation 20 years ago and this President of the United States who has been accused of everything but the plague. That is probably coming. We created government agencies like the FDA to regulate our food and meat production. Food safety is a major issue. When we talk about trade deals it is a big, big issue.

Today, we have workplace safety laws and agencies like OSHA to inspect for hazards on the job. You do not have to go any further than look at the regulations that we have been—oh my god, at the banking industry. When the guy that is getting a bonus of $120 million is standing up and saying, “Well, we got rid of those 5200 clerks in that bank and that is going to solve everything.”

I put money into that bank. I got money in that bank. I am going to take it out. You want citizen advocacy, we will have it. I do not care what area you are talking about. Health care, financial, workplace. Prior to Medicare, about half of seniors did not have health insurance. In my district, now with Affordable Care Act we are down fairly low, 9 to 10 percent. I am sure it is the same with many people around here.

So, the government has no part in anything. The government has no part in helping the police and fire. That is a local issue. Without social security, 44 percent of our seniors would be living in poverty. And yet, we want to now privatize. We want to distort what social security was all about. Thankfully, today because of that program only nine percent do live in poverty. Seniors. That is too many. Government—the people's representatives did that. Not a corporation, not an economic theory, an honest to goodness government.

Chairman PRICE. Gentleman's time has expired.

Mr. PASCRELL. And I hope we have a second round.

Chairman PRICE. Mr. Blum, you are recognized for 5 minutes.

Mr. BLUM. I would like to yield my time back to the chairman.

Chairman PRICE. Mr. Brat, you are recognized for 5 minutes.

Mr. BRAT. Yeah, I was a professor for the last 18 years before I got this new job and so I would just kind of like to go down the line. I was very interested in some of the education comments and what the kids are actually getting when they are done at the end of the road from everybody. There is a lot of talk on the money. Our chairman showed some of the inflation statistics, et cetera. We are investing $12,000, $13,000, $14,000 per kid for 13 years right now, currently.

I was just in a jail 2 days ago with heroin addicts, 40, and they were all telling me what they want in terms of education and it was shocking. They want a moral component. They said, “No counselor ever spent any time with me as a person.” They said, “Everybody is talking about tests and isosceles triangles and whatever, and no one gave me any hope as a human being. What am I aiming at? What is my career? What is morally good? What is a good life?” And, so I am just curious on your comments.

I follow—Deirdre McCloskey is one of my economists here. She has got a six-volume set that shows that modern economic growth began in about 1700. Why then, when all human history made $500 bucks a year? She said that, “That is when moral language changed such that we started calling the businessman and businesswoman morally good.”

And so, I am just curious on if you have got any comments. Just real quickly going down at the end of K through 12, kids do not know what a business is, right? I mean, I taught freshman in college. They do not know what a revenue is from a cost from a price from a whatever. And a lot of them will not go to college and they are stuck.

So, first of all, the business aspect, are we teaching is business morally good or morally bad? Are we aiming our kids at something they think is morally bad? And then the moral component. Any comments you have? Just 30 seconds each or a minute each would be great. Yes, Dr. Pinto.

Mr. PINTO. Thank you for that question. For me I have to bring it back to housing and you mentioned, Dr. Smith, Sarasota. There is a free market movement going on there in multifamily housing that has been going on for about 10 or 12 years. We have been studying it for about 6 months. We have a conference on it in about two weeks and it is called Economical Housing by Design. The subsidy programs are affordable housing buy subsidy. Spend $200,000 a unit for a rental unit and then subsidize it for the next 15 to 20 years. Incredibly expensive.

The alternative is to put higher density, put lower cost housing, smaller units, that is what the people, our service workers, need. And then, the management runs it and you can have rents that they can afford and you put it near where they are working. That is going on in Sarasota. We want to make that a model for the rest of the country. People start out and then they can move from an efficiency to a one bedroom, two bedroom, and buy a house. We used to do that 50 years ago. We got away from it. We locked people away in subsidized housing and that is the end of it.

Mr. BRAT. Good. Dr. Smith.

Mr. SMITH. Yeah, the leader in teaching medical students about free enterprise, about mutually beneficial exchange without distorting third parties is the Benjamin Rush Institute, and they are almost heroic in their efforts to bring this message to medical students. The other leader, I would say, in education of physicians who many times have no business or economic training at all, is the Association of American Physicians and Surgeons. And they have been the leaders in that area for quite some time to preserving the sanctity of the relationship between the doctor and the patient, but also to hammer home the idea that an exchange between two individuals, if it is mutually beneficial, is moral by nature.

Mr. BRAT. Right, and thank you. And doctor, 30 seconds and 30 seconds. Sorry to be so quick.

Mr. SPRIGGS. So, what happened is because States cut back on their support for education and turned it into a free market. Colleges of course will chase the dollars, as is the way you do it in the free market. That increased tuitions because I want students who will pay and they all have Harvard's model. Harvard follows the top one percent. What happens to their incomes? Their incomes have been going up much faster than inflation, much faster than the average American.

Mr. BRAT. Thank you.

Mr. SPRIGGS. The Federal Government then has to catch up to help out the other students.

Mr. BRAT. You believe in equity. Let's do it. Here we do, doctor.

Mr. LINDSAY. Sir, with regard to the moral component of education, it is sad. Over the last 50 years, universities have largely abdicated their prior responsibility for civic education. According to the U.S. Department of Education statistics today only one in three college students graduates having even taken one course in American government so they do not get a serious treatment of why equality? Why inalienable rights? Why government by consent?

Chairman PRICE. Gentleman's time has expired.

Mr. BRAT. Sorry for the 30 seconders.

Chairman PRICE. Mr. Pocan, you are recognized for 5 minutes.

Mr. POCAN. Sure, thank you, Mr. Chairman. So, I have some questions for Dr. Lindsay, but I have to admit I am going to go real quick first too, if I can, Dr. Smith. Your concept intrigued me and I did find your website right away, by the way. The prices, it took one simple search. So, let me go back to—Mr. McDermott was talking about examples.

So, I worked at an auto parts manufacturer and my job got sent to Mexico. I have been out of work for a little while. I have got a torn rotator cuff. I call you guys up. But if I understand right from the other question, you do not take Medicaid or Medicare? So how does that individual access, if they do not have the savings to do that, how do they access your model?

Mr. SMITH. The patients that come see us usually with the help of their family and friends can afford our prices because they are low and in some cases there have been surgeries financed at our facility by church bake sales, so.

Mr. POCAN. Okay, so, I do not mean these words wrong, but kind of survival of the fittest as opposed to someone who might actually need the service. They are going to have to go to other models then at that point. How about the example of the school teacher that Mr. McDermott started talking about? If they come in, now they have got insurance and the one thing I did see also on your site is this little asterisk after every price and there is a disclaimer. It says, "Note if you are scheduled for surgery at our facility and we are filing insurance for you, the prices listed on this website do not apply to you." So what does that mean?

Mr. SMITH. That means we take a lot of risk dealing with the insurers who on the front end will say, "Yes, we will pay for this cochlear implant surgery." And we will have all the documentation. We will do that surgery; buy a $25,000 implant and place in a child. And then the insurance company will say, "Sorry, we are not paying."

Mr. POCAN. What happens to the price for that individual? Because it says, "Those prices do not apply to you." What do you do to the price?

Mr. SMITH. The prices you see on our website are what we extend to anyone who is paying us.

Mr. POCAN. So if you have insurance it says, "These prices do not apply to you," what does that mean for that individual?

Mr. SMITH. We do not file very many insurance claims.

Mr. POCAN. Okay, I think that answers my question. Thank you very much.

Mr. SMITH. I am sorry.

Mr. POCAN. No, no problem. So, Dr. Lindsay, so one of the questions that came from Mr. Cole about the State support and I agree, I have seen that happen in Wisconsin and across the country, in 2008 in the crash. There was an article in the New York Times a couple of years back. Most States have started putting some money in. States like Wisconsin have unfortunately not yet. But that has made tuition go up and that is one of the bigger drivers.

You said you thought it was financial aid, but I am looking at a report from the Institute for College Access and Success and they say specifically, if I could just read this, “A number of the Nation’s most respected experts in higher education public policy have reviewed the research and found no convincing causal relationship between Federal aid and college prices.” What are you referencing that is different?

Mr. LINDSAY. Yes, sir. Thank you for the question. More than 30 years ago, then Secretary of Education William Bennett said that growing subsidies would allow colleges, “Blithely to increase tuitions without fear of repercussions.”

Mr. POCAN. Okay, so I think I got it, this study versus a 30-year-old comment from Dr. Bennett.

Mr. LINDSAY. For 30 years, academics did studies of that and said, “Oh no, no correlation.” Now I am an academic, we had an interest in saying no correlation. But nevertheless, the Federal Reserve Bank of New York, last summer really settled this issue. There should not be any more debate about this. Nor should there be this false charge out there which we hear every day.

Mr. POCAN. So there is no academic organization or institution that has information that says there is a link to tuition and financial aid. Just a yes or no.

Mr. LINDSAY. Sir, if you see the Federal——

Mr. POCAN. I have a few more questions.

Mr. LINDSAY. Take a look at the Federal Reserve Bank.

Mr. POCAN. I will take that as a no. So let me ask you a question again about the lack of support. So when you look at public versus private institutions, especially you have seen all the stuff we have had with some of these private colleges for profit that 90 percent of their money is coming from the Federal Government or more. Is there a difference in distinction you see in that model versus the public institution model and other private college models?

Mr. LINDSAY. All of us are sad to see that some private for profits have engaged in fraudulent practices. Nevertheless, only 10 percent of students get postsecondary education from for profits. The real problem that we have to address if we are going to help the majority is to address public higher education.

Mr. POCAN. Got it. In the last 42 seconds I think I have left, so one of the things that we have been looking at is trying to make it less expensive for students. They do not have to have so much in debt. You know, one of the things we have said is refinancing student loans. You know, you have these weird rates that are out there. But upfront, an idea that if you increase financial aid through work studies the average student might work 10 or 15 hours a week relive the university of some of those costs of that work and then do the university, and then get that as the financial aid. So they essentially can leave with no debt out of a 4 year program. What is your quick opinion on that?

Mr. LINDSAY. Certainly, I have no objections to that, but I think that is nibbling at the edges. There are netter solutions.

Chairman PRICE. Gentleman yields back. Mr. Stanford, you are recognized for 5 minutes.

Mr. STANFORD. Thank you, Chairman. Okay. I guess first question would be on housing so I am going to come to you. Andres

Duany is a land planner/architect. He has done some interesting thing in this movement called new urbanism, and its basic premise is, "Much of our zoning is based on the industrial age and revolution. We are going to put the factory over here and the houses over here and we separate everything." And yet that is not how our country developed, right? If you look at places like Charleston or Savannah, it was all sort of thrown in there together and oftentimes you lived above where you worked.

And why do we not go a bit more back to that? You had a granny flat in the back. Grandmom came to live in the back. When grandmom died you could rent the house, the little unit out. And this idea of mixed use. Are there two municipalities out there that from the standpoint of code, because much of it is driven by zoning, the government dictates in essence higher pricing on housing? Are there two municipalities that you would recommend for me to do further study on places that have got it right in your view?

Mr. PINTO. Thank you for that question. So, new urbanism has now been replaced by sort of the founder of it, with lean urbanism. And that is because the founder of new urbanism said it became too over burdened with excessive regulations and driving the costs up. And so now it is lean urbanism. We have looked at it, so Bradenton, which is just north of Sarasota, this developer that I mentioned.

After Bradenton heard about this in the newspaper, approached—it was actually Manatee County where Bradenton is located, approached the developer and said, "We have this Knight's Inn that has 240 units and there is five acres or four acres next to it. Could you come in and do something?" And so within less than a year he purchased that building, it got rezoned, converted.

He is in the process of converting 240 units to efficiencies. He has already converted 120 that rent for $625 furnished with utilities and then he is going to build about 130 units new, two bedrooms on the four acres. It is located downtown Bradenton close to service jobs and——

Mr. STANFORD. The bottom line is Bradenton is——

Mr. PINTO. Bradenton is one example. We are working with other localities. I did meet with a city in South Carolina.

Mr. STANFORD. Okay. How about the micro homes? You know, it is an RV, it is a trailer, but no, it is a home. I love the concept. I love, you know, the idea of smaller is better. Is there a municipality that has it right with regard to micro homes and——

Mr. PINTO. I have looked a little bit at that. Again, the other answer, it is a little bit of nibbling around the edge. I think you are better off looking at efficiencies at 300 to 400 square feet and one bedrooms at 400 to 500. Those sound small today, but those were the norm back 56 years ago before the Federal Government pumped everything up.

Mr. STANFORD. Okay. Going over to the world of education. When I wore a different hat in South Carolina, I dealt with the happy index extensively and the point, the phenomenon that you have pointed out, which is the proportionate raise in tuition based on the amount of new money we seem to put in at State level. Is there a State in your view that has it most right with regards to terms trying to correlate inflation with the pricing of their higher education system?

Mr. LINDSAY. Well, sir, I do not want to—just because I am from Texas, talk about Texas, but we have been trying to address this problem and I hope that what we are doing can be instructive. The problem is that we are expecting too many students to go to four-year traditional colleges. That is not helping them. That is why you have two to one odds of failing today if you start college. We are looking at, and have begun to expand across the State, what we call the affordable baccalaureate program, which as I mentioned in my opening remarks, can cost half as much as a traditional degree and can be completed quicker.

Now, these are not degrees in biology or philosophy as I mentioned, but we have to bear in mind the new majority of students out there today seeking our help are non-traditional students. And for them, these affordable baccalaureates which use online learning, competency-based criteria; that is their only ticket to the American dream.

Mr. STANFORD. I see I have 6 seconds. I would love to ask a question but I do not think that is permitted. Thank you, Mr. Chairman.

Chairman PRICE. Thank you, gentleman. Time is expired. Ms. Castor, you are recognized for 5 minutes.

Ms. CASTOR. Well, thank you Mr. Chairman and thanks everyone for being here today to talk about how we lift the American workers and American families. I think it is important to reflect that this country has made it through a very remarkable time. We have bounced back from the worst recession in our lifetimes thanks to American workers and a lot of the recovery act policies that invested in American families and small businesses. Just think about this, it was less than 10 years ago that people were losing their homes. They were losing their jobs.

The unemployment rate in Florida topped out at a little over 11 percent. We are already down at 4.7 percent in our unemployment rate in Florida where we have a real boom and bust cycle. It hit us particularly hard, but here all across the country the unemployment rate is down to 4.9 percent. We have more than cut the unemployment rate in half. We have created over 15 million private sector jobs just since 2010.

Then think about, did you ever think you would see gas prices at $2 a gallon for so long? I mean, in the Tampa Bay area I represent, we have been hovering at a little over $2 per gallon now for many months at the same time that we have been able to double our clean energy production.

The Affordable Care Act has been a godsend for working families, and in Florida we have a very competitive marketplace now with healthcare.gov. 1.7 million Floridians now have access to the health insurance that they did not have before because for too long a time we allowed companies to discriminate against people who had preexisting conditions like asthma or diabetes or a cancer diagnosis; 1.7 million Floridians. So, the uninsured rate now, we know is at its lowest level in the history of the country. And most people still have private insurance through their employer.

In Florida, 60 percent do, and their premiums and co-pays and cost increases are now at the lowest level that they have been in many years so that is good news. And, if you have been fortunate enough to have money in the stock market over the past decade you have done very well. The stock market has practically tripled.

But, we still have this problem with how we increase wages and income for families. The good news was the Census Bureau said last week real median household incomes grew by 5.2 percent over the last year. The number of people in poverty fell by 3.5 million. That was the largest one-year drop since 1968. But we have got to do so much more. We have got to build on this success.

And Dr. Spriggs, I love it that you say we have got to invest in the American people. We have got to invest in this country. And there are a couple of things that just really stick out. We have got to improve our infrastructure in this country. And I wonder if you could comment on that, Dr. Spriggs. I look back at home we have so many needs in our roadways, our water systems, our waste water systems. Interest rates are low. Would not this be a good time to invest in our communities back home and create jobs?

Mr. SPRIGGS. Absolutely, Congresswoman. Right now we are running a deficit in our infrastructure because it is deteriorating. So, if you look at it from a net perspective, you are running negative. We are leaving to our children the debt of repairing infrastructure that our parents and grandparents paid for. So, we are not leaving them the legacy that we were left with. We are leaving them the debt of trying to fix it.

That is not right. And at the moment, there is a consensus among economists that the one thing missing from this recovery was further fiscal stimulus whether you look at the father of expectations or someone on the other side of economists like Krugman. Nobel laureates all agree that we need this stimulus. The IMF has been urging the United States at these low interest rates, invest. Make the investment in your infrastructure. The OECD is telling us, invest. And we are not responding. The Budget Committee has a responsibility for the full employment of Americans through the Humphrey Hawkins Act and that is a responsibility we should take seriously.

Ms. CASTOR. Well, my neighbors back home see this and they see those low interest rates and they understand this would be a great time to invest in our communities. And then the other thing I hear is that people are clamoring for more modern workplace policies. Family Medical Leave has been very popular, and it has sustained a lot of folks. But we have got to do more on sick leave, paid family and medical leave, and good childcare. How would that improve our——

Chairman PRICE. Gentlelady's time has expired.

Ms. CASTOR. Well, maybe you can reply back to the committee on that topic for workforce.

Chairman PRICE. There will be questions for the record that you are welcome to offer. Mr. Palmer, you are recognized for 5 minutes.

Mr. PALMER. Thank you, Mr. Chairman. Got a couple of questions then I want to make some comments. It has been mentioned how well the economy has been doing. I would just like to point out that under this administration the economy will have averaged

1.55 percent growth through two terms and it will be the first administration, I believe, in the history of the United States which there was never even one quarter in which the economy grew at least three percent. One out of every six working age males are unemployed. And in terms of the unemployment rate, I do not think they count people who simply quit looking for work. And we could go on.

Mr. Spriggs mentioned infrastructure. We passed an $860-something billion stimulus bill back early in the first term of this administration. And various reports have indicated just over 3 percent of that actually went to infrastructure when it was supposed to be shovel-ready jobs. So we had an opportunity to do something about infrastructure but chose to spend the money elsewhere. So, I take some exception to that. And then we were talking about Head Start.

The government's own studies indicated that Head Start, by the time kids reach the fourth grade show no impact. And regard overall to education, one of the issues, Dr. Lindsay, that I have with what is going on in higher education is the amount of money that States and parents and students are having to spend on remedial education. I think it is about 30 percent of the students who enter college today are having to take remedial courses and that is basically taking a high school course but paying for it at college cost. You want to comment on that?

Mr. LINDSAY. Yes, sir. This is a consequence of our notion that virtually all high school students should attend a 4 year college and that is just not the case. We are not serving them. So it seems to me the question is not whether to invest in the American people. The question is, what policies by which we invest in them help them?

And with the best of intentions over the last 40 years the growth of Federal involvement in higher education has now helped them. I mean, think about the fact that today a smaller percentage of college graduates come from the bottom 25 percent of income than in 1970 when these programs started. So no one here is talking about whether we should invest or not invest in the American people. Let's do it in a way that actually helps because when 68 percent of students either do not graduate or graduate not having attained the learning that a college degree is meant to signify that constitutes a scandal.

Mr. PALMER. In my district we have a couple, two or three centers, technology-related, vocational related for high school students in Blount County in particular. You have got young people graduating from high school that know how to weld and their first jobs are earning $50,000 to $60,000 a year. And the thing that I have tried to emphasize is that those students can go into those jobs but they could still go to a 2 year college or they could go to college later. It gives them a chance to earn money and save up, pay for their education. Because, as I found out, the more mature you are the better student you become. But these are people that are starting businesses.

Mr. LINDSAY. No, that is right. With the exception fields like law, medicine, engineering——

Mr. PALMER. Well, we need more lawyers.

Mr. LINDSAY. With the exception of those fields, most students—I mean, 4 years is much too long. Much of this can be done at the community college level. And we have been hearing things about free community college. Let me tell you, in 2014, the average Pell Grant was $3,300. The average community college cost was $3,300 so we have got that already. As I said, the problem has not been a lack of generosity. Quite the contrary. We spend twice as much per student investing in their higher education than the average OECD nation.

Mr. PALMER. Well, I am the first person in my family on either side to do to college. My dad was a logger. He had about an eighth grade education. That is what I spent my summers doing and it was a lot of motivation to go to college. Dr. Smith, quickly, opting out of government funding with health care has greatly improved your practice and pricing structure. You mentioned the electronic medical records coding, reporting mandates combined with low and formulistic pricing that had a distorting effect on healthcare markets and access to care and certain specialists. Can you speak to that? And I would like for you also to speak to ICD10 and the prospects of ICD11.

Mr. SMITH. Well, any mandate where, you know, physicians have to spend money that they do not think they ought to spend is a problem. It increases the cost of practicing medicine.

Chairman PRICE. Dr. Smith, I am going to have to have you answer that question for the record afterward. Mr. Yarmuth, you are recognized for 10 minutes.

Mr. YARMUTH. Thank you, Mr. Chairman. It has been a very interesting conversation. I am not sure that we have figured out a way to restore the trust for families and working age Americans yet in the hearing. But maybe there is some ideas that can work. You know, we debate all the time in this committee essentially what the priorities of government should be. That is basically what this committee is about.

We debate it through a budgetary process and then we debate it in hearings such as this. And, over the last few years there has been a substantial difference in the attitudes of Republicans and Democrats as to what the thrust of our spending should be. And, as we have mentioned many times before—Dr. Spriggs, as you mentioned in your testimony, we Democrats are pushing for investment in infrastructure and investment in education, research and development and so forth. Things that traditionally have provided stimulus for the economy and I think have improved people's lives.

On the other hand, we have proposals from the Republican side, first, I guess, formulated when Paul Ryan was chairman of this committee and he proposed budgets that took a very different path.

And now we have the better way. His plan as Speaker, which among other things would reduce the amount of non-discretionary spending in this country to its lowest level as a percentage of the economy and the budget in modern history. So, Dr. Spriggs, I ask you, I know a lot of the times we get the argument from the other side, that, "Yeah, we would like to do a lot of these things, but we have a lot of debt and we cannot afford it." Would you discuss the downside of not investing in infrastructure and education and research and development?

Mr. SPRIGGS. Well, the growth of the United States was so phenomenal because we did make the investment in our people. So, you look at our public land grant colleges. One of the things we have left out in discussing what education does is that our education system included providing the research for our growth. Those land grant colleges insured that American farmers would be the most productive and when you look at the results they have continued to be the most productive because of the research that takes place. Unfunded research. And that is the difference between a high education and a low cost education.

It is an investment that gave us Hewlett-Packard, that gave us Google. All of those things were possible because of the way we run in the United States our higher education. It is not a glorified high school. So, that investment pays off. Whether it is Medicare and what happens to extending the work life of seniors or Medicaid and giving young people the entry to have a healthy life and to have more education, to seek more education, to inspire them to be doctors.

All of this plays a role and it has paid off. The research on Head Start has new findings against what the government initially found because we have done better research as economists. And that is what happens when you have researchers who get supported.

So, our better research has indicated that Head Start, in fact, does have lasting effects because the earlier study did not consider that Head Start has spawned lots of preschool programs. And that earlier research looked at Head Start ignoring that people were also getting other program and support. So when you actually looked at it more carefully, we have found that Head Start pays off through the life of the person and most importantly when it comes to State costs, it reduces the criminal justice system costs because we know that Head Start and investments at a younger age does reduce criminal activity. So, all of this points to the success of these investments.

Mr. YARMUTH. Thank you. I want to talk about the union situation in the country. You work for the AFL–CIO and it seems to me you can pretty much track the growth and income disparity in this country not necessarily by race or gender but just by income, rich and the poor, with a decline in union representation in the country. Could you discuss the impact of unionization and the declining unionization on kind of the general welfare and income levels of the country?

Mr. SPRIGGS. Yes, and the International Monetary Fund, which is not union-supported at all or union friendly has looked at this in a comparative way, so we can see what has happened for countries that have seen declines in union density. And they found the most strong relationship between declining union density and growth and inequality particularly for people who are the top one percent.

So, in other words, what happens is when you do not have workers at the table being able to negotiate with their boss about what happens to this productivity increase it goes to the boss.

It does not get shared by the workers. When you look at it in the United States, as you mentioned, the graph just pops out. That is the way the graph looks—declining unionization, growth of income at the top 1 percent. There is a perfect correlation. Non-union workers hurt because of that. The wages of non-union workers are seven dollars off from what they would be per hour depending upon their education level and even greater for those with less education. So, the wages of non-union workers are hurt when workers are not organized. So, it increases inequality and it hurts non-union workers as well. So, it is very important that we maintain our commitment to Americans having the right to organize.

Mr. YARMUTH. I thank you for your answer. A couple of things I wanted to follow up on the statements that have been made by the various witnesses. Dr. Lindsay, you compared twice what we spend in the United States to what is spent on higher education in OECD countries. Could you point to any one of the OECD countries that you would prefer be the system we use versus theirs?

Mr. LINDSAY. Sir, my point in drawing out attention to that fact is this—this is not a money problem, right? And so I was not saying that—that was not an invidious comparison. My point is this—we are, the Federal Government has been very generous in investing in Americans' education. My point is we can do it better because I do not think any of us—sir, I am sure you are not happy. When these Federal programs began in the early 70s, as I said, today fewer students graduate from the bottom 25 percent of income than in 1970 when these programs began. I do not question the intentions.

Mr. YARMUTH. I understand that. Because in most of the OECD countries higher education is free, correct?

Mr. LINDSAY. You know, I am glad you raised that point because we hear that all the time. We think, "My goodness, I want to move there." But you know what? No more than 20 percent of those students go to college. In Europe they track. Meaning, at a very young age you are told, "You are not going to a liberal arts college. You are going into the trades." So, when we say it is free it is not free for everybody. It is free for the 10 to 20 percent that qualify through the tests. So, thank you for giving me that opportunity.

Mr. YARMUTH. You are welcome. No, I do not think it makes any point one way or the other, but glad that you cleared that up. Because I do not think there is much value in a comparison to OECD countries because they are very different systems.

Mr. LINDSAY. No, the value of the comparison is this: We do not have a money problem. What we have is a priorities problem.

Mr. YARMUTH. Thank you for that. Dr. Smith, just one question. I will be a little bit snarky here, but, you know, oftentimes we hear about the sanctity of the patient-doctor relationship and from what you are telling me is that the patient-doctor relationship is irrelevant to the patient getting care in your situation. They go online; they have no relationship with you. They decide basically on price to come to your service and they do not have any idea who you are, so I just want to throw that out there. But that is not the question that I want to ask.

Just in terms of solutions to our healthcare challenges—and everybody agrees we have tons of them. And I actually have raised points before in hearings about the fact that you can get a colonoscopy for $600 or $700 in a freestanding clinic and the same thing is $4,000 in a hospital and what sense does that make? It makes no sense.

Particularly, if the government is paying for it. But, is it not true that the vast majority of costs in the system writ large are treating cancer, diabetes, heart disease, Alzheimer's? These are hundreds of billions of dollars a year that the system is trying to deal with. And those are diagnoses that would have no relevance to the type of system you are talking about?

Mr. SMITH. I am not an economist so I do not have any idea whether those figures are right or not. I do not know.

Mr. YARMUTH. Yeah, well, generally speaking they are right. I will yield back, thank you.

Chairman PRICE. Gentleman yields back. Mr. McClintock, you are recognized for 5 minutes.

Mr. MCCLINTOCK. Thank you, Mr. Chairman. I thought Mr. Pascrell made the best point of the day in defense of the free market when he said, "I have got money in that bank. I am going to take it out." I mean, is that not the ultimate consumer protection? The ability to say, "No, your prices are too high. No, your service is not adequate. No, I will take my business down the street to somebody who can provide me a better service at a lower cost."

Is that not how we punish bad actors in a free market? And is that not the ultimate punishment that they go out of business? And we reward good actors by giving them our business. Now, Dr. Smith, your patients choose you. They do not have to go to you for services, correct?

Mr. SMITH. That is correct.

Mr. MCCLINTOCK. Why do they choose you?

Mr. SMITH. People that search online are many times initially attracted to the price because otherwise they find their care unaffordable in their local market.

Mr. MCCLINTOCK. So, better service at a lower price they come to you. Is that not a good thing?

Mr. SMITH. It is the market at work, we believe.

Mr. MCCLINTOCK. Will and Ariel Durant in their history of civilization asked the question, "What makes Ford a good car?" Chevrolet. Competition. The fact that there is somebody down the street doing the same thing and is competing for people's free choice for where to go. But, I saw that the Kaiser Foundation has just estimated that in some 30 percent of American counties, people will have no choice over their Obamacare policy.

They have to choose only one plan. That is not a choice at all. In 60 percent of markets they will have a choice between two plans and that is all. That is not much of a choice at all and I wonder what will happen to quality if people cannot move their business from people who are doing lousy service to people who are doing good service.

Mr. SMITH. And just as powerful as competition's effect on the marketplace, which drives quality up and prices down in every industry—just as powerful is the lack of fear of competition. And that is——

Mr. MCCLINTOCK. Now, the price you cited to Mr. McDermott was around $5,000 for a procedure. His question is, "Well, what if you cannot afford that?" I am wondering what is the difference between paying you $5,000 for the procedure and having Obamacare policy with a $5,000 deductible? Aren't I out of pocket $5,000 in either case?

Mr. SMITH. Yeah, and many of the procedures on our website are less than the deductibles for many of the ACA exchange plans. So, people's out of pocket experience is actually superior paying for the entire procedure at our place.

Mr. MCCLINTOCK. And would it not also make more sense to put health care back within the financial reach of Americans? I mean, we give these huge tax breaks to companies so they will go out and make a choice for their employees that their employees are stuck with. Their employees lose if they lose their jobs. Why do we not give those same tax breaks to the employees themselves so they can afford to go out and make their own choices for the best services at the lowest price? Does that make more sense to you?

Mr. SMITH. Yes. And a consumer market is full of people who actually care what things cost, but if they do not know what it costs then there is a lack of price transparency then they are at a real disadvantage. That is why I think that we need to focus more on what does this cost not does everyone have coverage.

Mr. MCCLINTOCK. I want to go to Dr. Lindsay for a second. The two areas when the government has been helping people the most has been helping them to afford their health care and helping them to afford and education. And it strikes me those are the two areas of the economy where prices are growing much faster than inflation.

Last time I checked, health care was growing at twice the rate of inflation. Tuition is growing at four times the rate of inflation. And from your testimony, I seem to take from this the fact that as we throw more money into the system the universities accept that by raising their tuitions.

And the more they raise their tuitions, the more we have to help students try to afford those tuitions by doubling Pell Grants, by dangling all you can borrow loans in front of students. And the more we do that the higher the tuitions go and we are in a negative feedback loop.

Mr. LINDSAY. Yes, sir. Exactly. It is just simply an economic fact.

Mr. MCCLINTOCK. What is the biggest cost driver in education?

Mr. LINDSAY. Federally subsidized student loans.

Mr. MCCLINTOCK. Those student loans, and I think I have the distinction of having one of the highest parent plus loan balances in the entire Congress. This is a cause near and dear to me. Does this not make it virtually impossible for students to qualify for consumer loans or for mortgages? Is that why we are seeing young people start families later? No longer able to afford to buy. They are now renting. And consumer spending being extremely sluggish because they cannot qualify for consumer loans in an economy where two thirds of economic growth depends upon it.

Mr. LINDSAY. Exactly.

Chairman PRICE. Gentleman's time as expired. We will take that as a statement instead of a question.

Mr. MCCLINTOCK. One with which I agree.

Chairman PRICE. Exactly.

Mr. MCCLINTOCK. The answer was exactly.

Chairman PRICE. There you go. Mr. Norcross, you are recognized for 5 minutes.

Mr. NORCROSS. Thank you, Mr. Chairman. I got to say, this is probably the most entertaining committee hearing I have been since sitting on Budget Committee. Sort of remarkable. And I would like to thank all of those testifying today. But I hear, live where you work. We are talking about Potterville here again. I think the only place you get to live where you work for free is in Congress when you live in your office. But that is a different story. I guess we will not go into that.

I have to disagree with my colleague who we got sworn in together, Congressman Brat, when he says, "If you do not go to college you are stuck." No you are not.

You have choices. Those who go to serve our military, service to our country, is of great value. Those who go to the other four-year college called an apprenticeship, that is great value. You know, in this country versus Europe and many others it is somehow if you do not go to college you are less than. No they are not. They are great people living a great dream whether they were coal miners or truck drivers. That is exactly quality, accessible, affordable, flexible college.

What I want to talk about what we are seeing here and hearing here today. It literally is a tale of two countries. I think the data speaks for itself. We can interpret it very differently and I agree with my colleagues on this side of the aisle that the facts are irrefutable and you are not changing those. You heard it mentioned where we were a half a dozen years ago and where we are today.

There is a recovery. It is who is enjoying it or who can enjoy it? The disparity in wages has grown exponentially from those who are working with their hands and those who are running the companies. Fifteen million jobs, that is pretty good. But those are jobs that are much less than when they started, and that tends to be one of the concerns that I am dealing with middle class.

So, when they make a choice to do to college can they afford to send their kids there or are they saddled with a quarter of a million dollars of debt? I think we get back to a much more flexible system that addresses the real core issues of what is going on is probably the most important thing that we can do. But, when it comes to the comments, Dr. Smith, it is an interesting model. I just wanted to ask one quick question. You post the prices. Do you have specials like twins today get half price off? Do you do things like that?

Mr. SMITH. Let me write that down. That is a——

Mr. NORCROSS. Okay, we would be interested in that. You do not have to answer that. Dr. Spriggs, minimum wage. There is a number of bills. I have one to increase that to $15 an hour by 2024, gradual increase and then to incentivize it with tax credits. My colleague Congressman Pocan, Senator Sanders joined together in a second bill called the Workplace Democracy giving the NLRB the ability to have essentially a check off, and certify those who are willing to come together to try to make it easier to form unions. There is a concern that the recovery is not felt by all. How do you think these two bills if they were to be enacted and signed into law would impact the economy?

Mr. SPRIGGS. Well, they would help to restore fairness to the economy to make sure that rises in productivity by workers show up in their paycheck. You know, the market is a wonderful way to allocate resources, but it only means something if you have the resources to respond to the market. Having lower health care does not mean anything if I cannot afford $5,000. Having affordable housing that is dictated by prices from the top does not mean anything if I cannot afford housing.

So, we have to address what happens to the wages of workers. So, pushing wages up from the bottom to ensure that even those at the bottom enjoy productivity growth is necessary. That is one of the keys we learned from the period from 1946 to 1979. And then, making sure that those in the middle can negotiate fairly with their boss.

I am more productive. Do I not get to share in this productivity? That makes all the difference in the path and study after study is pointing this out by economist. That the economy becomes more stable because higher minimum wages mean that those workers are more resilient and can respond to market pressures. And the ability to negotiate wages mean that wages can be more flexible so we can have a more efficient labor market. So, we see that as more efficient.

Mr. NORCROSS. Thank you. I yield back.

Chairman PRICE. Gentleman's time is expired. Mr. Woodall, you are recognized for 5 minutes.

Mr. WOODALL. Thank you, Mr. Chairman. Thank you for holding the hearing. Mr. Yarmuth mentioned in passing that he was not sure we reestablished any trust here today. I came in late, and so I may have missed a more cynical part of this panel. But I have got to tell you, when you, Dr. Lindsay, are focused on trying to get folks not just with access to education, but access to education that benefits them long term. When you, Dr. Spriggs are trying to tie workers' wages to their productivity and life folks up out of poverty.

When Dr. Smith has taken something that is impossible to understand and impossible to afford and trying to deal with both of those issues at the same time. And when Mr. Pinto is telling folks that maybe we have been complicit in turning something that was supposed to be a wonderful opportunity into a terrible burden, that is exactly what folks back home want us to be talking about and I cannot believe that there is not just a little bit of agreement here, but a lot of agreement. That is what I want to focus my question on. Dr. Lindsay, I agree with you about the Stafford loan program. My question is, who on the left would work with us?

When I go into a high school today and say, "Who wants all the free money you can borrow and a degree in art history? Or who wants a co-op program, a work-study program, you want to graduate with employer experience and no debt?" Who on the left would work with us to redirect these Federal incentives to putting real people in real jobs?

Mr. LINDSAY. Well, sir, I think there is a growing bipartisan consensus. I mean, you have seen candidates on the left and the right. President Obama, former Texas governor Rick Perry, could not be as different in politics, but they all agree that we have to reform our policies to better serve college students. Meaning, to help them find gainful employment after their degree.

And so; therefore, I think the time really could not be better than right now to start to go back and recognize that with the best of intentions we have produced some consequences that do not help the intended beneficiaries. I mean, there was an AEI study by Jorge Klor de Alva. He found that under the current system average working people pay more to support elite institutions of higher education than they do for the schools to which they are likely to send their own kids. I mean, the average school gets $2,000–$3000 in support. The elite institutions get $12,000 to $13,000 per student.

Again, in another well-intentioned income based repayment and loan forgiveness you probably saw the Washington Post report last year. They now counsel their students at Georgetown Law School on how to game the income based repayment and loan forgiveness plan so that, says the Post, "Tax payers are transferring $160,000."

Mr. WOODALL. I will not say that you are not dealing with reality. We are slipping back into cynicism. Because that is what folks worry is happening. The same thing is true with Mr. Pinto's topic. I live in one of the densest Congressional districts in the State of Georgia. You cannot find an efficiency in my district. It is not for sale, and if I call my bank they are going to say, "Rob, we stopped doing loans for houses under 600 square feet. We do not do those any longer." Who on the left, Mr. Pinto is going to help me? Instead of having, as I do in my district, a 2000 square foot house with 14 people living in it. A 3000 square foot efficiency with two people living in it? Who on the left will partner with me to make that happen?

Mr. PINTO. I cannot name anyone offhand. But I can think about it but I cannot name anyone offhand.

Mr. WOODALL. Because the whole discussion we are having is how do we love people? How do we support people? How do we advantage our neighbor? And I believe that is a unifying statement, and I struggle with that in the housing industry as much as anywhere. Dr. Smith, I love what you are doing. I love my medical savings account. My Obamacare plan keeps getting canceled, and I sign up for a new one and it get canceled, and I sign up for a new one, but I am trying to say in the medical savings account space, yes.

Telling someone they have a card that gets them care with a $9,000 deductible is not valuable in my district and I know that we can bring costs down if we understood it more. What is going to drive more of your peers to adopt that model? How do we get more folks to do what you are doing, which is to give me access to information as a consumer?

Mr. SMITH. What is driving more people to do it now is losing patients to facilities like mine that are not price gouging. In answer to your other question, there was not a single vote in the Oklahoma legislature, Democrat or Republican against this initiative with this new no out of pocket for the teachers and State employees in Oklahoma plan. So, there is bipartisan support and there should be for cheaper and better.

Mr. WOODALL. There is a lot here today for us to work on, Mr. Chairman, thank you for holding the hearing.

Chairman PRICE. I thank the gentleman. His time is expired. Mr. Ryan, you are recognized for 5 minutes.

Mr. RYAN. Thank you, Mr. Chairman. Several of the issues you talked about I would be happy to work with you on. I think that would be great and I will even come to your district and spend time with you because I am sure that would benefit you politically as well for you to be with me in your district. Mr. Smith, before we get into the deep policy, as a member from Ohio and an Ohio State football fan, I want to say I am sorry about your loss on Saturday. I am sorry Mr. Cole is not here to share with him the Ohio State-Oklahoma game.

Several questions I have because I really think that there are some issues here that we should be able to hammer out. I think that every member—and when I was not here I was watching in the back—has made some really good points on college costs, making sure the Pell grants that we send down to the schools actually hit home and actually reverberate in the household and increase or lessen the dependence that families are spending on some of these programs. The student loan issue is a huge one. And I think there does need to be some controls on our colleges with us just sending them money and tuition keeps going up, and I will say it as a Democrat, the bureaucracy of the universities growing in a way that is not as focused.

And maybe we do need to look at how schools in States can focus on specialties. I want to give Dr. Spriggs a minute to talk about the higher education costs because I know that it has been brought up and I want to give you a minute to just kind of express your opinion about what has been stated with the panel so far.

Mr. SPRIGGS. So, previously our model was that we wanted as much education as possible and our States made heavy investments to make that possible, and make it affordable. So not only did we get affordable, but high-quality colleges. One of the big trade surpluses for the United States comes from our universities because of the research that takes place there that we have all benefited from, and given us the innovation that has led our Nation.

We have de-invested, we have taken them from being public to private, and that market competition, more than anything else, has lowered the access to low income students because, if I am the university, and you are going to tell me, "I am not supporting you anymore," we had a drop from 1975 of 63 percent State support to today where it is under 33 percent.

I am going to want students who can pay. I am going to want out-of-state students. I am going to want foreign students. I am going to want to teach classes with teaching assistants. I am going to want to have as many classes as I can, done in some inexpensive way. I am going to have adjunct professors everywhere, right? I will lower my cost, and I will cut access because I do not want low income students, and I will raise the price because I am chasing dollars, and those in the top 20 percent spend much more on education than everybody else.

So that distorts the market. That is the distortion that we have allowed to take place. We went from a public commitment to, "It is free-market, and that means I am a business now. I am not into caring about whether or not——"

Mr. RYAN. Right, and I appreciate that and I think that is a great point, Mr. Chairman. This is a great hearing, and I think that is a great point. So we need to sit down and figure out how, because only 20 percent of the people are using it. It is the high 20 percent end. People have got some money—is distorting the market, and we send money that is distorting in its own way. We are trying to help kids, but it is not getting to exactly where we want it to get. So I appreciate that and I agree with you with 1,000 percent.

Because I only have 40 seconds left, I think this model in Europe is a good one. I think what Germany does is great. I think we need to get kids on a track, starting as early as possible, and that means stem education. That means home economics 2.0. That means workshop 2.0 in our high schools that are gone, to get kids on a track to go into the trades; to get a skill, so when they are 18 years old, they are not living in our basements because they do not know what to do or they end up, worst-case scenario, like you said, Dr. Lindsay, both in debt, and not with a college degree.

But that is going to take us sitting down. They are doing it in South Carolina because they have so many German companies that have moved into South Carolina. They are starting to implement this model. This is something that is not heavy lifting for us to create some incentives, Mr. Chairman.

Chairman PRICE. I appreciate that.

Mr. RYAN. And I hope, because I know you are an open-minded guy.

Chairman PRICE. I appreciate you coming. Thank you.

Mr. RYAN. Let's do this.

Chairman PRICE. Gentleman, your time has expired.

Mr. RYAN. Let's do this, even though I am complimenting you, I cannot get more time? No?

Chairman PRICE. I have tried that and that would set a bad precedent.

Mr. RYAN. I want a change of the rules here.

Chairman PRICE. Mr. Grothman, you are recognized for 5 minutes.

Mr. GROTHMAN. Okay, first, Dr. Smith, before I got here, you apparently said the two States that flow into your clinic from other places are Alaska and Wisconsin. I was just wondering why Wisconsin? What do you attribute that to?

Mr. SMITH. There is a large group of farmers there, I understand, who do not believe in insurance or participating in insurance schemes is moral, and, for whatever reason, they found us and I believe the market there has some of the highest prices in the country.

Mr. GROTHMAN. Okay, so that is what you are getting. You asked these people what they were doing before you and they said, "I do not have any insurance or I am part of this—" I know there are some Christian groups out there that have their own kind of pools that they go. That is where you are getting people from, okay, interesting.

Next question I have: with regard to making it more difficult to realize the American dream, part of that is unquestionably education costs. We have gone out of control and, by the way, Dr. Spriggs, I will say: when I tour the places where they have apprentices or pretty much the construction trades, I would talk that up more.

I mean, a lot of the people in the trades in Wisconsin are making a lot more money than these people who are going to college, and I would not emphasize college as much. We need more people in the trades so I think they are, quite frankly, more productive in our society, and doing better than a lot of these people who went to college. It just seems to me obvious: We have too many people going to college.

But I am going to ask you guys a question on two things that I think is, in part, contributing to the stagnation in wages. In America, first of all, we have embarked on a policy of discouraging work. The most recent policy there was Obamacare, in which, talking to a CPA a couple of weeks ago, in which we have these steps at which you lose your Obamacare subsidy as you work harder, and, you know, the CPA tells me nothing surprising.

Obviously, the people who voted for Obamacare want to discourage people from making more money. Okay, they wanted to stunt their economic growth because when you get to these steps, maybe you lose a $5,000 subsidy and, of course, who wants to go above that, and I do not know if that was intentional. It seems so obvious. I would think it was intentional, but it is true that other income transfer payments, earned income tax credit, food stamps, low income housing: all were designed by people who want to discourage people from working. I would like some of you guys to comment on that in the degree to which, to a certain extent, are lower incomes because we are discouraging people from getting past first base by setting up——

Mr. SPRIGGS. Well, Congressman, no, and in a short answer. What workers are confronting is, in the trades as you mentioned, that Congress is quite willing to have H2B visas for skilled workers to come into this country, and undercut the wages of skilled Americans who need the jobs. So we have H1B visa workers who will come and undercut Americans who borrowed money to get degrees in stem. So if Congress wants to be on the side of American workers, let's be on the side of making investment and letting the price of work go up.

It is not the workers who do not want higher wages or the workers who do not want to work up to the higher wages. It is these kind of policies that put wage caps in the competition that Americans face, and you are right. Apprenticeship programs work. Unionized apprenticeship programs are the best, and we are the, the AFL–CIO, the largest producer and provider of job training in the United States, other than the United States Army. So you are absolutely right. That is a path that Americans can take. But we have to protect them by not having H2B visas——

Mr. GROTHMAN. Well, I will agree with you there. That was my question, Dr. Spriggs, but I will agree with you that when we decide who we are going to vote for the next election, we should make sure we do not have another President who goes overboard in allowing too many people in the country.

Mr. PINTO. So, to specifically answer your question, a colleague of mine, Maura Corrigan, who was the head of the Department of Social Services in Michigan for 4 years, up until a couple of years ago, added up all the means tested programs, and I think there were 80 something of them, and only two or three have a work requirement. One of them she got added for the Department of Agriculture food stamps with the help of a Democratic senator from Michigan, and so that is really at the base of this; is that you have all of these programs that are not means——

Mr. GROTHMAN. I am not just saying a work requirement. I mean, there is a work requirement: The more you work, the more you lose.

Mr. PINTO. They are not even required to work in order to get the means tested assistance.

Mr. GROTHMAN. Okay, I guess we are out of time.

Chairman PRICE. The gentleman yields back. Thank you. Ms. Moore, you are recognized for 5 minutes.

Ms. MOORE. Thank you so much Mr. Chairman. Now just let me say upfront that I really regret that other responsibilities took me away from attending the entire meeting, and so I do ask the distinguished panel to forgive me if my questions or comments seem to be a little off base from just the lack of opportunity to have heard you all the way through. I just want to be clear. I do not have my bifocals on, so it is hard to see, but you are Attorney Pinto, right?

Mr. PINTO. I have a J.D., yes.

Ms. MOORE. J.D., okay, and so that is M.D. Dr. Smith, Dr. Spriggs, and Dr.——

Mr. LINDSAY. Lindsay.

Ms. MOORE. Dr. Lindsay, right. So, okay, I want to get into the whole thing about educational opportunity.

We often hear about how only 5 percent of the world's population lives in the United States; 95 percent live out in the world, so we have lost a lot of the manufacturing; the kinds of jobs that uneducated, low income people can do. And even when we talk about technical manufacturing in my district, these are very high-end, new kinds of technologies that require education. So I am a little bit confused about this. What I have heard since I have been sitting here; this sort of, you know, denigration of higher education.

I am one of those people, you know, the eighth of nine children, born poor, on the welfare. I had a baby out of wedlock, who benefited from getting a bachelor's degree, and so I guess I am just a little curious to ask the panel, so when you start talking about how the country will not benefit by increasing educational opportunity, that is confusing for me, since it seems to me that we are going to retain hegemony in the world by producing the, you know, the Apples and the Googles and the kinds of technologies that require higher education. We will start with you, Dr. Spriggs.

Mr. SPRIGGS. Well, yes.

Ms. MOORE. I see none of you guys chose to go to technical college but, anyway, go on.

Mr. SPRIGGS. Well——

Ms. MOORE. And none of you people over here either.

Mr. SPRIGGS. When the United States was building up this record on productivity increase, we were number one for college education, for a college educated workforce. We have slipped to number 17, and that risks our position. That risks our ability to make the innovations, and the investment we made in those universities provided the innovation, not only from the students, but the innovation from the professors.

So my alma mater, my graduate alma mater Wisconsin, your State, has made huge contributions because of the investment in that kind of research and so, yes, it pays off——

Ms. MOORE. Okay, thank you, Dr. Spriggs. I do not have much time, Dr. Lindsay. Would you just please just give me a 20 second rebuttal why—especially when you say, you know, like I know black people would not get to go to college if we had to rely on tests and so forth. Give me your 20 second rebuttal to why we do not need people to go to college.

Mr. LINDSAY. I know less than you how to increase educational opportunity. My point is that most of the jobs today do not require a 4 year traditional degree.

Ms. MOORE. Okay, even though most of those jobs are in the emerging world. Let me ask you just a little bit about infrastructure. Dr. Lindsay, we are talking about housing. I think in your testimony you said that, basically, it was kind of poor people wanting housing and that is sort of the reason we had the housing crisis. Do you see where appraisers, credit agencies, subprime lenders, the toxic loan packaging; where these basically criminal and immoral activities had more to do with it than, say, the GSCs or people wanting housing, people who exploited poor people?

Mr. LINDSAY. Representative, I know you addressed me, but I do not think you intended to about housing.

Ms. MOORE. Who did I intend? Oh, Dr. Pinto. That is right.

Mr. PINTO. Okay.

Ms. MOORE. I mean, J.D. Pinto.

Mr. PINTO. Yes, thank you.

Mr. PINTO. So in my view, and I have researched this extensively, is the housing crisis was formed and created and resulted from housing policies promoted and implemented by the Federal Government, led——

Ms. MOORE. But not by appraisers and subprime lenders?

Mr. PINTO. Let me just finish, and led by HUD, FHA, national home ownership strategy, Fannie Mae, Freddie Mac, and the private sector followed along, and the appraisal process, I will say, in the United States is completely broken, but that is also part of Fannie Mae/Freddie Mac——

Chairman PRICE. Your time has expired. Mr. Rokita, you are recognized for 5 minutes.

Mr. ROKITA. I thank the Chairman. Mr. Pinto, would you like to continue on? Anything else you want to add to that response?

Mr. PINTO. Thank you. And this all started in the latest cycle, in the early 1990s when Congress passed the so-called Safety and Soundness Act for Fannie Mae and Freddie Mac. We know how that turned out, and included in that was the affordable housing requirements, and that built up over about a 12- or 13-year period, including the private sector, which was brought into this by HUD.

All of that is well-documented, and we ended up increasing that leverage, as I described in my testimony, and the result was 8,000,000 foreclosures. It was the result of errant housing policies.

Mr. ROKITA. Thank you, Mr. Pinto. I appreciate that. I apologize, as well, for not being here for the entire hearing. I was at an education—helping chair an education subcommittee hearing. So I have that on my mind, so I am going to switch over to Dr. Lindsay here for a little bit.

It seems, I know. Federal policy over the last several decades is such that it focused on enrolling students in college and what is the result, and what is your reaction to that?

Mr. LINDSAY. The result is that half of the students who start college today fail, and of those who do graduate only 64 percent of them show this substantial increase in learning that a college degree is meant to signify, which means that the odds are two to one against you if you start college today, that you will get both a college degree and the learning it is meant to signify. That is not what all of these programs intended to do.

It is one of the sad, unintended consequences of Federal involvement, and the worst consequence of all, we all want to see those at the lowest income levels be able to rise. That, through education, that is the American dream, but almost 50 years later fewer college graduates are coming from the bottom 25 percent of income than in 1970 when these large programs began.

Mr. ROKITA. Say that one more time, please.

Mr. LINDSAY. Today, fewer college graduates are coming from the lowest 25 percent of income distribution than was the case in 1970 when these large, Federal programs began.

Mr. ROKITA. That is amazing. I do not think that I have spent a good deal of my day in education policy. I do not know that I have heard it stated like that.

Mr. LINDSAY. Yeah.

Mr. ROKITA. I appreciate that very much. I am going to put up a slide here, hopefully soon. Yes, thank you guys very much.

Student loans themselves, $1.6 trillion, if you aggregate all that stuff. That is how much of the household debt student loans consume. It is my contention that these same policies, Dr. Lindsay, that you are talking about that have put "more money on the education street," for example, have done nothing really but increase college and university budgets, perhaps professor salaries and the like, and that is what is really driving our debt. More access to the cash means budgets and everything go up. You know, that is just the layman's interpretation of what I see on that committee on almost a weekly basis. Do you agree or disagree?

Mr. LINDSAY. Yes, sir, I think you are correct. Government funds have increased the demand, but there has not been a comparable increase in the supply because of strangling government regulations that limit the innovations that are out there that are the good news, and that can make higher education more affordable.

Mr. ROKITA. So as a result, some have come up with some what others would call radical proposals for, not necessarily getting the government out, all of that would be the effect of it, but making the government loaning of money in this space unneeded. They are not going to work for every student or every discipline, but one in particular I subscribe to; there are others, is called ISAs or income sharing agreements and, again, some say that is pretty controversial. Honestly, it is not a setup question. I just want your opinion on concepts like that, and you can describe the concept or I can.

Mr. LINDSAY. Yes, income sharing agreements are contracts between future employers and students who get their education subsidized by the employer. It costs taxpayers zero dollars. I also think that, in addition to that, I mean, right now under our Federal program, the people on the hook are the students and their parents and the taxpayers, right? Let's put the universities in that mix.

Mr. ROKITA. Right, exactly, some skin in the game.

Mr. LINDSAY. Some skin in the game, and, you know, these ideas are getting growing bipartisan support; that for each student who defaults, that the universities pay a certain percentage for each student default in their college every year. That would give them that skin in the game to be more careful with students and also, perhaps, to focus more on teaching. Because we know from every study that universities trying to become Harvard always try to offer lower teaching loads to full-time faculty. I was a faculty member for 20 years.

Chairman PRICE. The gentleman's time has expired. Time for questions is complete, and I want to ask Mr. Yarmuth if he has any closing remarks?

Mr. YARMUTH. Thank you, Mr. Chairman. I want to thank the witnesses. I agree with many of the comments my colleagues have made about how interesting this hearing has been, and while I joked a little bit about not restoring trust through this hearing, I think I did not really mean that there are not ideas here that I think could, if implemented, or if pursued to some kind of a finality at the Federal level, might not help restore trust. So when Mr. Woodall, for instance, asked who on the left, I assume he would consider me on the left, as Mr. Ryan.

I think the idea for coming up with policies that would incentivize development of smaller apartments that are available to lower income people: I think it is a great idea. All of these things, I think, would work; many of the things that Dr. Lindsay talked about. Yeah, you know, I speak a lot about the fact that Harvard Business School, at least last time I checked, did not have an accounting professor on their faculty because they decided the best accounting professor in the country was at Brigham Young University and they use his work through digital means.

So I think each one of these areas, whether it is housing or education or, well, we have talked a lot about health care in the last 6 years, and the investments that Dr. Spriggs talked about are all things that deserve a lot more conversation, and I think that if we do that and can act in a bipartisan way to make sense of some— ,just one final comment.

When I talked about the colonoscopy disparity in price between freestanding clinics and hospitals, this was in a Ways and Means Committee hearing years ago, the answer I got was, "Well, if you take that income stream away from the hospital, then they are going to have to find ways to charge more for other things." Well, I said, "That is not a reason. That is just evidence of a broken system."

So I think when we go through all of these areas we can see Federal policies that are not performing in the way they were originally intended. We are not creating the right incentives and I think we ought to spend a lot more time, as a body, working on those things and, if we did, I think we would find opportunities for bipartisan cooperation. And that would be a wonderful thing. So, thank you, Mr. Chairman for the hearing, and I yield back.

Chairman PRICE. I thank the gentleman, and I just want to thank the witnesses. I was a little curious that some of the comments took a turn toward unions, and I would be remiss if I did not mention the Employee Rights Act that we have offered. I was stunned to learn that only 6 percent of union members currently have ever voted to be in a union. So we talk with folks back home. None of us are opposed to unions. We just think that workers need to have consent to be in the union. So we think it is important to have elections. We think it is important to have secret ballot elections for union formation and an appropriate time to notice all those things. So I just wanted to mention that, as our friends on the other side talked about unions.

I also wanted to just highlight a particular article that I noted from last April from the Guardian and I, without objection, I will insert in the record. It is titled "L.A. Unions Call for Exemption from $15 Minimum Wage That They Fought for," and I was curious to read this. This is an article that highlights the battle that folks are having for a $15 minimum wage, but then members of the AFL–CIO union in L.A. are fighting to exempt their union from the $15 minimum wage so that they can undercut the folks who are going to be required by the State to have a $15 minimum wage. I found that curious.

But I want to get back to this slide that I started with and, hopefully, the common ground. The inflation that the American people have seen over the last 30 years has been 128 percent increase over that period of time. But the three things that have outpaced inflation—housing and health care and education—are the things that all Americans have to deal with, and I would think that there ought to be commonality in trying to answer the question why?

Why is that the case, and so I am somewhat curious for my friends on the other side who seem to scoff at some of the evidence that I think has been put before us on why that is the case. I would think that we ought to be listening and saying, "Okay, cannot we make it so that the American people have a greater opportunity to use their disposable income in a more responsible way by making certain these costs are held down;" that we are not gaming the system from the Federal Government's standpoint if, in fact, that the Federal Government involvement in this is pumping up prices for folks on things that they have to spend money on. Why would we continue to allow that from a public policy standpoint?

So I think the testimony that we have heard here today has been extremely enlightening. I want to thank each and every one of you for coming today. I think you have helped us have a conversation and, hopefully, initiate a bipartisan conversation and more bipartisan activity so that we can come to some policy agreements on how to move forward and make it so that the American people are able to utilize their finite resources that they have in a much more responsible way, without the influence of the Federal Government in a way that distorts how much money they are going to have to spend for these three particular items.

So with that, we have completed this hearing. I want to thank you all again; Mr. Pinto, Dr. Smith, Dr. Spriggs, and Dr. Lindsay for your time today. The committee has received your statements, and we will allow each member to notice that they may submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record, and any member who wishes to submit those questions or extraneous material, for the record, may do so within 7 days. Thank you all so much. This hearing stands adjourned.

[Whereupon, at 12:19 p.m., the committee adjourned subject to the call of the chair.]

This document is being submitted by Chairman Thomas Price on behalf of the National Multifamily Housing Council and the National Apartment Association. This submission does not constitute an endorsement of the recommendations provided in the document by either the House Committee on the Budget or by Chairman Thomas Price.

theguardian

LA unions call for exemption from $15 minimum wage they fought for

Union leaders say measure could allow for better deals between businesses and labor, with benefits making up for potential lower wages

Jana Kasperkevic

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Los Angeles city council will hear a proposal on Tuesday to exempt union members from a $15 an hour minimum wage that the unions themselves have spent years fighting for.

The proposal for the exemption was first introduced last year, after the Los Angeles city council passed a bill that would see the city's minimum wage increase to $15 by 2020. After drawing criticism last year, the proposed amendment was put on hold but is now up for consideration once again.

Union leaders argue the amendment would give businesses and unions the freedom to negotiate better agreements, which might include lower wages but could make up the difference in other benefits such as healthcare. They argue that such exemptions might make businesses more open to unionization.

Because the California governor, Jerry Brown, signed a law raising the state minimum wage to $15 an hour by 2022, workers who are part of the union would see their wages increase eventually - potentially two years later than those who are not part of union.

How it came to be

The amendment was originally proposed by Rusty Hicks, executive secretary-treasurer of the Los Angeles County Federation of Labor, AFL-CIO. AFL-CIO is the largest federation of labor unions in the US, with about 12.5 million members. Hicks is also the co-convener of the Campaign to Raise the Wage.

At the time of its passage, Hicks lauded the $15 minimum wage.

"We are one step closer to making history in Los Angeles by adopting a comprehensive minimum wage policy that will change the lives of hundreds of thousands of hard-working Angelenos," said Hicks. "The city council's action today creates a path for workers to succeed and gives our economy the boost it needs to grow."

Hicks did not respond to a request for comment.

The proposal, however, has come under fire from both the workers and the businesses.

"It's pretty hypocritical for unions to push a $15 wage law and then exempt themselves from the policy," Matt Haller, senior vice-president of communications and public affairs at the International Franchise Association, said.

Considering the outcry, Hicks issued another statement last year saying that issues were "in need of further review". He also pointed out that other cities in California, including San Jose, Oakland, Richmond, San Francisco, Los Angeles and Long Beach have included similar clauses exempting unions in their wage bills.

Even as unions have argued that these clauses make businesses be more open to unionizations, the US Chamber of Commerce has described them as "escape clauses". According to Haller, such exemptions are not likely to inspire more businesses to unionize.

"There is a reason union membership continues to decline - they've failed to provide a value proposition for joining to employees at the retail level. Employees see right through the millions of dollars unions are spending on [public relations] campaigns to attack employers who pay good wages and provide opportunities for advancement," he said.

In 2015, about 14.8 million workers belonged to labor unions. In 1983, when the US Department of Labor first began tracking the number of workers who belonged to labor unions, the union membership rate was 20.1%. Last year, it was 11.1%.

"At the end of the day, entry-level employees want to get ahead and create a pathway to the middle class for themselves and their families, not give money out of their paycheck to support the union political agenda," said Haller.

Right-to-work on the rise

States have increasingly been revisiting laws that require employees at unionized workplaces to pay a portion - described as fair share - of union dues even if they do not want to belong to the union. In February, West Virginia became the 26th state to pass a right-to-work law, which says that no employee can be required to pay any portion of union dues if they do not want to.

At the moment, Wisconsin's right-to-work law is heading to the state's supreme court, where experts expect it to be upheld. On Friday, California teachers asked the US supreme court to rehear their case, Friedrichs v California Teachers Association, about why they should be exempt from paying any portion of their dues. The highest US court heard the case in January before the death of justice Antonin Scalia. The eight justices deadlocked in a four-to-four vote last month - meaning that the decision from a lower appeals court that allowed unions to continue to collect mandatory "fair-share" fees was upheld.

What do they want? $15 and a union

Even as some workers have been fighting not to have to pay any union dues, the labor movement in the US has hoped that the Fight for 15 movement will help increase union membership. At rallies, often organized with help from labor unions like SEIU and AFL-CIO, workers can often be heard chanting demands for a $15 an hour wage and the right to unionize.

An analysis by the anti-union not-for-profit group the Center for Union Facts found that SEIU had spent about $20m on Fight for $15 in 2015. It spent about $16.4m on workers' organizing committees, while advocacy groups like the Economic Policy Institute and National Employment Law Project received $150,000 and $195,000 respectively. Berlin Rosen, a public relations consultancy group handling press for the Fight for $15 movement, received $1.7m in 2015. That's up from $1.3m in 2014, $848,000 in 2013 and $393,000 in 2012.

Speaking with the Guardian in April 2015, Mary Kay Henry, international president of the SEIU, said that the Fight for $15 campaign was worth the investment.

"There is not a price tag you can put on how this movement has changed the conversation in this country. It is raising wages at the bargaining table. It's raised wages for 8 million workers," she said. "I believe we are forcing a real conversation about how to solve the grossest inequality in our generation."

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