The Daily Dish

If Halloween Is Approaching…

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | OCTOBER 27, 2016

On Wednesday one of President Obama's advisors on Obamacare, Jonathan Gruber, called for stricter penalties on individuals who do not sign up for health care. Gruber argued that if the mandate penalties were heftier more people would enroll in plans rather than choosing to pay the mandate penalty. Currently, those who do not have insurance pay a fine of either $695 or 2.5 percent of their income, whichever is greater.

A new survey released on Tuesday found that consumer confidence fell in October. According to data released by The Conference Board the Consumer Confidence Index in October hit 98.6 which is short of the 101.5 expectation from economists. The report found that only 26.2 percent of those surveyed said that business conditions were "good," a decrease of 2 percent from September. The number of people who said jobs were "plentiful" also decreased in October to 24.3 percent, down from 27.6 percent in September.

Eakinomics: If Halloween Is Approaching…
It is time for the annual release of the College Board's "Trends in Higher Education" report on college tuition. As reported by Bloomberg, "Tuition, fees, and room and board at private nonprofit colleges rose 2.6 percent on average, when adjusted for inflation, to $45,370 this academic year, according to a report released on Wednesday by the College Board. In-state students at four-year public colleges saw costs climb 1.8 percent, to $20,090—the first time they've topped $20,000 after adjusting for inflation".

We've heard this story many times before. Indeed, Bloomberg went on to note: "Families and lawmakers are increasingly worried about mounting student debt burdens and the possibility that middle-income Americans may soon be priced out of college—*despite* tens of billions of dollars in aid from schools, government agencies, and other providers" (emphasis added). Yes, this is an annual concern, but the economics are backward (i.e., not Eakinomics).

To begin, there is no evidence of being "priced out of college". The total number of graduating high school seniors keeps rising; 3.5 million now compared to 2.8 million in 2000. And a greater fraction of those graduates are enrolling in college; 68.4 percent now compared to 63.3 in 2000. Assuming there is a relatively fixed supply of college classrooms, the demand keeps rising. Why? Because of those "tens of billions of dollars in aid". Indeed, research presented at AAF indicates that roughly 90 percent of the rise in tuition can be traced to increased demand and federal aid and loan financing of it. Put simply, if one wants lower prices, there are two routes: (1) increase the supply of it, or (2) improve the competition so that prices are driven down to costs. The traditional federal policies do neither of these.

One might hope that the lesson would be learned, but the evidence from the campaign trails suggests not. Hillary Clinton proposes to make 4-year public colleges tuition-free (for in-state students with incomes below $85,000) and community college free to students of any income. Donald Trump argues that schools be required to use more of their endowment funds to help pay tuition. In short, both propose to continue to throw money at the problem, subsidize demand, and do nothing to increase supply. The result will be more — not less — upward pressures on tuition.

No reason to await the tuition price details in the 2017 report with bated breath. The outcome is baked in the cake.