Written Testimony of
Mitchell E. Daniels
President, Purdue University
Before the U.S. House of Representatives
Committee on Education & Workforce
Subcommittee on Higher Education and Workforce Training

March 17, 2015

Chairman Foxx, Ranking Member Hinojosa and members of the Subcommittee on Higher Education and Workforce Training, thank you for the opportunity to testify before you on the critical issues facing higher education. I am Mitch Daniels, President of Purdue University, a land grant institution founded in 1869 in West Lafayette, Indiana. The university proudly serves Indiana, as well as the nation and the world. Academically, Purdue's role as a major research institution is supported by top-ranking disciplines in pharmacy, business, engineering, and agriculture. More than 38,000 students are enrolled from all 50 states and 130 countries.

In January of 2013, I sent a letter to the Purdue community in which I wrote: "I doubt that even the most focused and specialized of Purdue researchers has failed to notice the criticisms and the sometimes apocalyptic predictions swirling around higher education these days. They come from outside observers and lifelong academics and from all points of the philosophical compass."

To anyone hoping that such turmoil in the once-secure world of American higher education would be short-lived, the months since brought no comfort. In 2014, total national enrollments fell by more than a percentage point for the third straight year. Community colleges and proprietary schools were hit the hardest, but no sector was immune. Even some Ivy League universities saw a drop in applications.

A host of schools, public and private, reported severe financial problems. Moody's found that one in ten four-year universities is facing "acute financial distress," and downgraded the credit rating for dozens of them, and for the sector as a whole. Public support for higher education, cut dramatically in many states over recent years, is far from a complete explanation, but has contributed: Funding is down 20% in Nevada, 28% in New Hampshire, and 32% in Arizona, since 2008, for instance.

As one consequence, tuition levels and student debt continued their ascents, although at slower rates than in the recent past. Tuitions still outpaced inflation, and a record number declined admission to their first-choice school for cost reasons.

The class of 2014 was labeled "the most indebted ever," with more than 70% leaving school with loans averaging an all-time record of $33,000. The problem is not offset by increases in earning power: While student debt jumped 35% between 2005 and 2012, the median starting salary dropped by more than 2%. Historically high percentages are unemployed, and a discouraging 44% of recent graduates are working in jobs that do not require a college degree.

Even though the debt balloon is a fairly young phenomenon, several damaging results are already evident. Research from the Pew Research Center and Rutgers shows that today's 20- and 30-year-olds are delaying marriage and delaying childbearing, both unhelpful trends from an economic and social standpoint. Between 25% and 40% of borrowers report postponing homes, cars and other major purchases. Half say that their student loans increase their risk of defaulting on other bills. Strikingly, 45% of graduates age 24 and younger are living back at home or with a family member of some kind, according to a researcher at the Pew Research Center.

Other new evidence shows that it's not just consumer spending that these debts are denting, but also economic dynamism. A variety of indicators suggest that the debt burden is weighing on the engine that has always characterized American economic leadership — and the factor that many have assumed will overcome many structural and self-imposed challenges — our propensity to innovate and to invent new vehicles of wealth creation.

But more alarming to me than any of those statistics was a finding by Gallup in October. The percent of Americans who believe that a college degree is "very important" has plummeted, from 75% in 2010 to 44% today. With critics relentlessly pointing out the lack of results or demonstrated quality to justify the soaring costs, this stunning diminution is unlikely to reverse as quickly as it came.

Such concerns have given rise to a new class of higher education skeptics. It's now common to hear questions asked about higher education that few used to ask. Is a degree really worth it? What does a diploma really mean? Are universities teaching the skills society needs? Is university research addressing the world's greatest challenges? How can today's levels of student debt be justified?

At Purdue we take these questions seriously. We've responded by prioritizing affordability, accountability and quality, or as we describe it, "higher education at the highest proven value."

At Purdue, prioritizing affordability started with a philosophical shift in how we budget. Instead of determining how much we want to spend and then asking parents to adjust their budgets, we now do the opposite. For the first time in nearly four decades we froze tuition, and then we did it again in the two subsequent years. I like to reflect on the fact that the freshmen who started with me at Purdue will graduate without ever seeing a tuition increase. Since they arrived on campus, these students also saw their room and board costs go down and they can now save about 30% on textbooks through a first-of-its-kind partnership with Amazon.

Another tack has been to aggressively teach students about the dangers of over borrowing. Instead of relying on a single person, we employ 18 student peer counselors who repeat that message all over campus. From before students arrive to the day they leave with their degrees, we coach our Boilermakers on the prudent use of loan dollars. We have a preliminary default rate of just over 3%, but among those who graduate, it's around 1.5%.

Our collective efforts have begun to make a detectable difference. The overall cost of attendance at Purdue has gone down the last two years, for the first time on record. Total debt has dropped 18%, or some $40 million, in those same two years, such that now our graduates with debt owe amounts well below the national average.

In the area of accountability, we partnered with the Gallup organization to craft the largest database ever assembled to evaluate the life success of American college graduates. We then followed this national survey of 30,000 graduates with a survey of Purdue alumni so that we could benchmark against the national results.

Meanwhile, we are moving forward with a plan to measure the growth of our students in the four years they are here. We first piloted a test that measures the critical thinking skills of a sample of incoming freshmen. We will soon retest these students as they graduate in order to prove what we already know anecdotally, that a Purdue education is highly valuable when it comes to developing intellectual ability.

These moves to address affordability and accountability have gone hand in hand with major investments in the quality of our teaching and research. These investments include transforming our College of Technology into a Polytechnic Institute, augmenting our plant science and drug discovery research, growing our computer science program (the first in the nation), and expanding our engineering program. Within a few years, we will contribute at least 5% annually to the national call to graduate 10,000 new engineers a year.

Throughout this growth, we will maintain the rigor that has always characterized a Purdue education. Grade inflation is a phenomenon that never arrived at Purdue. Our average GPA climbed less than one tenth of a point in the last 35 years while an average school's GPA inflates by more than that every decade.

Among our investments in quality is a goal to be the national leader in modernizing our approach to teaching. This includes "flipping the classroom," a pedagogical strategy that allows students to watch lectures as homework online and then use classroom time for hands-on group projects and teacher assistance. The strategy combines the best of both online and traditional instruction, and we've proven empirically that it leads to better learning outcomes. The Department of Education recently gave us a vote of confidence through a "First in the World Grant" that will allow us to expand the program and to help other universities learn from our success.

While the goals of affordability, accountability and quality remain works in progress, Purdue is doing its part. We will continue to do so as a matter of permanent policy and not a one-time gesture.

Still, not all the blame for the public's loss of confidence in higher education should fall to colleges and universities. Overcoming public doubt will require the federal government to bear some of the burden of reform. It's my great hope that this Congress will have the courage to see the challenges, and to treat reauthorization of the Higher Education Act as an opportunity for reform.

My remarks today will only barely wade into the many ways scarce education dollars are squandered and innovation inhibited by the regulatory burden placed upon higher education. And I will leave for another day a discussion of how serious reform of the K-12 system is necessary to ensure college readiness — an important topic for this Congress to consider.

My principal message to this subcommittee is that the country needs a reauthorization of the Higher Education Act that will:

- Reduce the costs of higher education's regulatory burden
- Simplify and improve financial aid
- Create an environment more conducive to innovation in higher education

Regulatory Reform
Federal regulation of higher education is so expansive that it touches literally every employee and impacts every student. Purdue is so heavily regulated that we can only estimate how much more expensive tuition is because of compliance costs.

As this subcommittee is aware, an exhaustive study by the Boston Consulting Group of Vanderbilt University found that 11% of its budget goes towards compliance. I would estimate that as a public university, our compliance costs are much higher than our private institution peers. Even a conservative application of Vanderbilt's 11% figure to Purdue's budget would mean that our institution pays over $200 million in compliance costs a year, enough to fund 20,000 full-tuition scholarships for our resident students.

Financial Aid
The most costly federal regulations stem from the current financial aid system. At Purdue we spend several million dollars in financial aid compliance costs each year.

But the financial aid system is more than a regulatory burden. It also is far too complex. Each year an estimated 2 million students nationwide who qualify for Pell Grants never complete the Free Application for Federal Student Aid (FAFSA). One reason is that the FAFSA is unnecessarily redundant and complex. Recent efforts to couple the application with automatically retrieved IRS data are a good start, but only a start. Eliminating the FAFSA altogether and relying on tax data and a simple form would be even better. At a minimum, reducing the number of questions from the current amount, 108, is an obvious course of action. Surely, we can do without questions on clergy living allowances, untaxed health savings accounts and college savings. The many questions about assets serve mainly to add complexity and penalize families who plan ahead.

Basing decisions on a prior-prior year (PPY) basis would enable better alignment of the application process with existing IRS data. The current system, which uses the previous year's financial records, is prone to delays and complications that result from the routine tax process. Switching to PPY would allow time for tax forms to be processed, corrected and analyzed before admissions decisions are made and FAFSA applications are due. It would be advantageous both in terms of financial planning and connecting the application to existing data.

Flexible Pell Grants

Purdue is moving boldly to create opportunities for students to graduate in less time. Last fall we created our first three-year degree program. Students studying any of the five degrees in the Brian Lamb School of Communication can take the same number of credit hours and still graduate one year faster. The program will save students $10,000-$20,000 dollars in tuition costs and even more in opportunity costs as graduates enter the workforce sooner.

Our longer term strategy is to shift to a trimester schedule that leaves behind the outdated agrarian calendar. With tremendous assistance from our faculty, who offered an unprecedented number of required or popular courses, summer credit hour enrollment has risen 19% in the last two years at Purdue. This result did not happen easily, and ran counter to a national trend.

If this growth can be sustained and our switch to a trimester is successful, our students will need more liberty to use federal financial aid year-round. The current limitations on when federal aid can be used inhibit promising programs to alleviate student debt and to better use campus facilities in the summer months.

Competency-based Education

Last fall, Purdue launched the nation's first competency-based education program located on a major research campus. This program, housed in the new Purdue Polytechnic Institute, allows students to progress as they develop mastery. The first graduates of this program will emerge with proven competencies, not merely seat time. Employers will not have to guess whether these students really are ready for the market.

Despite our optimism, the Purdue Polytechnic Institute has been inhibited by the inflexibility of the federal definition of student progress. Nationally, this is the largest roadblock to more widespread use of competency-based programs. A redesign of financial aid so that it is separable from semesters or credit hours would free institutions like Purdue to maximize the potential of these nascent programs.

Income Share Agreements
At Purdue we are interested in programs that would allow investors, perhaps devoted alumni, to fund a college student's education in exchange for a small share of the student's future income. Such arrangements would create incentives for organizations to support students with mentoring and career counseling without putting tax dollars at risk. However, widespread use of income share agreements is not realistic without legal clarity and adjustments to the regulation of student data. Therefore, Congress should act to provide sufficient protections and regulatory guidance for investors, students and borrowers interested in such arrangements.

Accreditation Reform
Purdue pays $150,000 a year in direct accreditation fees, but we pay much more in the significant staff and faculty hours that go into accreditation documentation. The extent of these costs is difficult to estimate, because they are spread so vastly throughout our organization. It's common for universities to report that reaccreditation expenses can reach $1 million and can take nearly three years to complete.

Specialized program accreditation adds another layer of cost and complexity. At any given moment, Purdue is likely to have at least one accreditation process ongoing with one of the 17 different accrediting agencies we work with, whether it's in pharmacy, engineering, veterinary medicine, or another specialized program.

The penalty for non-compliance, a loss of federal aid, would be so severe, that institutions have no choice but to go along with the process, no matter how burdensome or costly it becomes.

Meanwhile, the barriers to entry created by this system make it next to impossible for new players in the higher education market to generate serious competition. An alternative path to federal aid eligibility would benefit higher education startups and improve competition. For existing institutions, a streamlined process would allow more resources to go to student support and instruction. Less reliance on bureaucratic reviews and more measurement of student growth, reported through relevant, transparent data holds the most promise.

Conclusion
The United States is often praised for having the best higher education system in the world. I agree, and believe this leadership is central to our ongoing national success. But if we are to maintain our current advantage, we will need to make changes, starting now. It's an opportunity not to be missed.