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HIGHER EDUCATION REFORM:
AFFORDABILITY, ACCOUNTABILITY AND VALUE

A CONVERSATION WITH PURDUE UNIVERSITY PRESIDENT
MITCHELL E. DANIELS, JR.

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Welcome and Moderator:

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Keynote Speaker:

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P R O C E E D I N G S

MR. CHINGOS: Good afternoon and welcome to Brookings. My name is Matt Chingos. I'm a Senior Fellow here at Brookings and Research Director of our Brown Center on Education and Policy. It's my great privilege to introduce our featured speaker for today's event. Mitch Daniels is the twelfth president of Purdue University, a position he's held for two years. The Purdue presidency is just the latest in President Daniels' long distinguished career in both the public and private sectors. For the eight years prior to coming to Purdue, as I'm sure most of you know, he served as Indiana's governor. His successful 2004 bid for the governorship was his first run for any elected office and his 2008 reelection was the biggest landslide in the state's history. Now keep in mind that 2008 was also the year when President Obama won Indiana, yet President Daniels, running as a Republican, got more votes than any candidate in the state's history. President Daniels has focused on getting the fiscal house in order, both as Indiana governor and Purdue president. During his time as governor, Indiana went from bankruptcy to a triple A credit rating, and one of his first actions as Purdue president was to freeze tuition for at least three years. I imagine that his willingness to take on hard fiscal issues as both governor and university president comes out of his prior experience as a corporate executive and as Director of the Office of Management and Budget under George W. Bush. So I'm excited to hear what President Daniels has to say about higher education reform today. So please join me in giving him a warm welcome. (applause)

MR. DANIELS: Well like you, I look forward to our conversation, the one that Matt and I and we'll all have very quickly, but I'm glad that, to try to get us started with a few observations. I would start by affirming what I hope most people here believe which is that in an era in which American leadership has been challenged in certain dimensions, that the quality of our higher education institutions as a collective is clearly

the finest in the world and that this is a very important part of our future prospects, and really needs to be promoted, protected, strengthened wherever possible.

I think most of you -- I could be wrong, would agree with me that notwithstanding its evident quality, our higher education sector is under challenge itself and is undergoing a period of turmoil and change of the kind we've not seen. Questions are being asked that I don't recall anyone asking until the last decade or so. Are too many young people going to college? Are they learning anything meaningful while they're there? What's a diploma really worth? Is it evidence, meaningful evidence of readiness for work, readiness for citizenship? And threaded through all those questions, why does it cost so darn much? And are we pricing, particularly low and moderate income citizens out of what has been seen as the passport to a successful life and career?

At Purdue University we take these questions very seriously. We're a land grant school and still passionate about our assignment in the moral act now approaching a century and a half ago to -- we were planted around the country by Abe and his allies to do two things. One was to specialize in teaching the tools of a growing, that would foster a growing economy and a spreading middle class, so in the language of the day, agriculture and the mechanic arts. The language has changed; the nature of those sectors has changed, but the assignment we don't think has. And so we are still a very, we would say, STEAM centric school -- Science, Technology, Agriculture, Engineering and Math, comprise a higher percentage of all our undergraduate diplomas than all but a couple schools in the country.

But the second assignment of course was to broaden access to public education, to throw open the gates which had previously only, primarily admitted the children of the privileged and the wealthy and the land grant unit system certainly has

done that. And yet today, along with the rest of the fabric of higher education, we've seen run ups in costs that are truly astonishing no matter how many times you look at them. Everyone knows the rate at which health care spending has increased and surpassed any other part of the economy except for two main cost items. The only two that have gone up faster than health care are college tuition and college room and board. And there are a lot of analyses, a lot of diagnoses of why that's happened. We can talk about it, but it's a brute fact of life, and so people now rightly are concerned and rightly asking all those questions. At least at Purdue, we think those questions are legitimate. And we feel an institutional responsibility to do what we can about it. There are ways in which public policy could help. I've just come from the Hill where I was part of annual testifying on ways the Higher Education Act could be reauthorized and in helpful fashion. Sometimes when I'm using the lazy man's version of public speaking and bring some slides along, I start with this picture, this photograph of this nerdy looking guy, grainy black and white photo, he's standing in front of an ivy covered wall, and I'll ask if who knows. Now in this room, somebody probably would, but in most rooms, no one's sure. And I say, okay, well this is Joseph Schumpeter. He's the Austrian economist who taught the world about creative destruction, how even the most successful businesses and sometimes business sectors can be suddenly violently even, undone by new technology, or new business models. And I take the audience quickly through a tour of why no one should imagine that the sector of higher education should be uniquely immune to the phenomenon that has visited itself on blacksmiths and candle makers and film photography companies and big box book stores, a process which we're all familiar with, which seems to be accelerating now. And there are many reasons to believe that unless the right adjustments are made and I just think, we believe that it's imperative that higher ed make necessary modifications or modernizations to maintain its openness to the

millions of young people who will need to go through it and who we will need as a society to successfully traverse through a post-secondary education. So at Purdue we speak these days about higher education at the highest proven value. And so we'll work on, first of all, both sides of the fundamental equation of life, about the equation of value, quality over price, so we're investing in quality, trying to control price. We did act to freeze tuition and then extend that freeze for two more years at least and try to force ourselves to live within that limit. We have reduced the price of room and board, in two steps, by ten percent, and it will be frozen again for next year. And we've acted on the third item, on the expense statement of all the students I visit with, textbooks. We've acted on that in a way as well. So total cost of attendance at Purdue is down for the first time since measurements were taken, down for the last two years. Yet we know it's still an expensive item. We still worry about the number of our students who must borrow in order to finance their education. Total debt of our undergraduate population is down 18 percent the last two years, which amounts to 40 million dollars, which is a good start, but there's -- it's still an issue we worry about. I should tell you that by the latest data, probably the single most important data point, and that field to me is the default rate, so any debt is bothersome or worrisome, but the debt you worry about is the kind that people cannot finance, cannot pay back based on the lives they lead after school. Our default rate among our graduates is now down around one percent, just over one, which is, you know -- zero is the goal. But one is not bad, and it's an improvement.

The thing we have to keep our eye on as many of you will know, is those who enter our school and don't finish. And we're trying to drive that to zero also. This is one of the main assignments of all of us in higher Ed these days. But what those default rates, while not high, are significantly higher than those who actually finish and graduate. And I'm pretty sure that would be a common pattern across all our sister institutions.

So we are -- I've talked about proven value and I'll make that the last point. Higher Ed has been such a fortunately insulated sector, that seems to me, for so very long. When I'm being a wise guy about this, I'll say things like, and I'll say it for instance to a business audience, I'll say, now here's the business you should have gone into. You're selling something that people have come to view as an absolute necessity. You have total pricing power. Year after year after year you can just dial up the price of the product and there's not elasticity. In other words, price goes -- it's better than that. It's better than zero elasticity. When the price goes up, you not only don't drive customers away, to some less expensive competitor, in the absence of any hard evidence about the quality of the product, they have assumed that a higher price meant it was better. And you know, I say, who gets to do business that way? And my wife said, Tiffany's. And I said okay, but not many people. And on top of that, as if that weren't enough to assure your success, you've got the whole card is that some third party, much like in health care, is paying for much of this, and subsidizing the heck out of the service you're selling and insulating the consumer at least temporarily, in the case of loans, from the cost of what they're buying. Now that is a sure fire formula for extraordinary run up in costs and we shouldn't be surprised we've seen it. But it seems to us at Purdue, first of all this is wrong, and certainly if you're a land grant school, you should find this very problematic. Maybe we all should.

And secondly, that game could not go on much longer. So we got off the tuition escalator, are trying a somewhat different course. We make no pretense that we've done anything greatly dramatic or, and we're not preaching to anyone else. We're pursuing what we think is the right path for our university at this point in its history. But I do believe that many of the same problems and questions we're wrestling with are general application and it's great that Brookings and so many other places of intellectual

excellence are studying these problems too. We read your work product very carefully and hope you'll keep it coming. (applause)

MR. CHINGOS: So you talked today a bit about what you're doing at Purdue.

MR. DANIELS: Mm-hmm.

MR. CHINGOS: A three year, at least, tuition freeze, looking for cost cutting, worrying about quality. What do you think that means for other institutions? I mean, I'm sure you'd like it if other institutions on their own went and did that. Should we just expect them to do it to compete with Purdue and other institutions or is there a role for the government to try and bring about some of the kind of change that you've done voluntarily?

MR. DANIELS: Do I think that the -- even in a sector that's had the advantages that I just outlined, Matt, competition has arrived, has begun to arrive and you know, a record percentage the last year, I think it's now the last two years, a record percentage of applicants turned down or passed over their first choice school that accepted them, 46 percent of the entering class last year, went on to a second choice. Why -- in almost every case, the issue was cost. So I think that cost sensitivity has finally begun to arrive and likewise, sadly, we're starting to see what many have predicted will be a sweeping shakeout. I'm a little skeptical about that, but I think it's not a surprise that we're beginning to see some schools consolidating or some schools disappearing and I just hope it doesn't run too far, but I think that the belatedly, despite all the protective layers of insulation, that competition has come. And I didn't take time in the little opening there, but I think likewise, there will be a lot more demand for proof of efficacy so to speak, and you know at Purdue, we went out to do that, wound up in an interesting project with the Gallup organization and at Purdue, something called the Gallup-Purdue

index, some of you may have seen. It's gotten a lot of attention. It was the biggest survey ever of college graduates. And the sample was huge enough to slice it in almost every which way. And a lot of interesting things came out of it, such as, it made almost no difference where you went to school. It made much more difference how you went you school. And we learned some things about, most of which match your common sense about what kind of higher education is most associated with later success, financial and non-material. But I don't think any regime of government price controls would be either wise or necessary.

MR. CHINGOS: So if we're going to move from a system that you talked about earlier in which colleges compete on price but in a bad way where prices go up because that's a signal of value, to a world in which colleges actually compete on value itself, right -- on some ratio between quality and cost. Obviously we need better measures of quality in order to do that. So what should those measures look like? Is there a role for the government, perhaps for the federal government there?

MR. DANIELS: Yeah.

MR. CHINGOS: I mean, you've voluntarily done this Purdue-Gallup index but do we need something that's comparable across a broader range of institutions?

MR. DANIELS: Yeah, I think so. And done well, I think it would provide a real service. And there's some motion in this direction, but simple and transparent information about the all in costs of each school, about the output of each school, the default rate I think is a pretty good one to have on the dashboard and if no one else will organize it, I'd not be opposed at all to federal government. I'm not sure that -- I applauded the spirit for instance of the suggestion of when it came, but I don't know that anyone can conjure a federal rating that we'd have greater confidence in than the ones

that have been out there, the very imperfect ones that have been out there previously.

MR. CHINGOS: How about labor market outcomes? Is there a role for the federal government to, using the vast database that they have, to be able to say that the kids from engineering at Purdue, X percent got jobs and here's what their earnings look like and --

MR. DANIELS: No, sure, that's right, and we have bits and pieces now. It would be very nice to have one standard reliable and comprehensive or complete figure like that. I do want to add, I learned this from the people at Gallup. That may be the single best indicator, but there are other things. Other things do matter. There are other things that can be reliably measured that speak to health status, and that speak to the degree of social engagement, both at work and in the community.

MR. CHINGOS: A lot of colleges and universities don't feel -- don't take that view.

MR. DANIELS: Yeah.

MR. CHINGOS: They don't think that, maybe they don't want the information out there, and I can think of a lot of different reasons. So what do you say to them, or what do you think of about sort of the politics of how we --

MR. DANIELS: Yeah.

MR. CHINGOS: You clearly think that's --

MR. DANIELS: It probably depends on what you think. It does depend on what you suspect the outcome will be. I mean we had a lot of anecdotal and fragmentary evidence that boiler makers were doing great in later life. You know, employer surveys and things like this -- look at the placement rates, which is another reasonably easy thing and important thing to measure. What percentage of every departing class secured some sort of employment? You know how bad that's looked

lately. When I meet the parents of freshmen you know, around orientation, like last fall, I said now, I consider it our assignment here to deliver an education so rigorous and so thorough that your kid doesn't move back in the basement. All the parents clap. But as you know, an astonishingly high percentage of recent graduates are either unemployed or employed in jobs that labor economists don't believe require a four year degree and then many of them have not become independent yet. I'll never forget that the year our first of our four daughters was born, the hot book of the year, and everybody gave it to the new parents, was a book called Fatherhood by Bill Cosby. It was just funny little observations but the only one I remember was a chapter called, never let them back in the house. And it was funny, but it's not so funny now.

MR. CHINGOS: So, since we're in D.C. I want to talk about federal policy a little bit more. You kind of touched on some areas where the federal government maybe could do more on information, perhaps less ratings not being the way to do. How about more in general? Before the event, we talked a little bit about the regulatory burden. I know you also have some positions on student aid, student aid policy. I'm particularly interested to hear your thoughts on loan policy. You raise this concern that the availability of loans makes it possible or easier for tuition inflation, right? But at the same time, it's kind of this chicken and egg problem, right?

MR. DANIELS: Right.

MR. CHINGOS: Where it ensures access as tuitions go up but it also makes it easier for tuitions to keep going up.

MR. DANIELS: Right. Yeah, that's a hard subject. I'll just say in general and I did accept an invitation to come speak on one side of the Hill and spoke to some individuals on the other side yesterday. And I am optimistic about really the bipartisan spirit that seems to be there to seize the moment and reauthorize the Higher Education

Act, try to do it in ways that address some of these problems and let's hope this is going to be one of those areas where folks who differ about other things might get together. I think there is general agreement that we have too many different loan programs that are very complicated. I've taken to carrying around the famous FAFSA -- I don't even know the acronym. I forget what it stands for, but you all know what it is. It's like one of those old sets of computer paper, you know, that were -- it's like eight pages, you hold it up, you have to be seven feet tall.

MR. CHINGOS: Longer than a tax return.

MR. DANIELS: Yeah. And depending who you listen to, it either has 110, 108 or 103 questions on it. And many people think that you can get by with a single digit and there are ways to even use prior year tax information, dramatically simplify the process for the students, from the students' standpoint, and from the college standpoint. It would be much better to be spending all that time counseling students about not taking on too much debt for instance, which works, when done well, then, in compliance. I just don't think it's even debatable, but there's the accretion of all these regulations is now a real problem and is not serving any genuine public interest. Then there's been some really good work done in the American Council on Education, at Congress' invitation, did a really good sum up of both some of the biggest individual problems, where the redundancies are, where the superfluous regulations are, where the most burdensome ones are, and I do hope that there will be a thorough housecleaning of that. By one estimation done at Vanderbilt, 11 percent of the cost of the entire university was tied up in compliance, most of it federal. I can't find -- I've looked at it, I can't find a big flaw or hole in what they did there. They left their medical school out and so forth. I don't think it's a huge exaggeration. If it's even close, I mean that's a staggering number. By another study, one third of the run up -- everybody agrees that administration has grown much

faster than teaching or research, and no one reason, but by one study, a third of the increase in administrators has gone straight to compliance. So there's a real opportunity, if we could, if the Congress could take this opportunity to alleviate that.

MR. CHINGOS: So those of us in D.C. tend to focus on federal policy because it happens here and we sometimes forget that a lot of the action on education, higher education in particular is at the state level. So I'd be interested in drawing on your experience as a former governor and as university president. I'd be interested in hearing how your perspective maybe has shifted from a governor who has to balance the budget and deal with all these competing interests to a university president who presumably, you now care more about higher education than you have to worry less about everyone else in the state.

MR. DANIELS: Well, my views haven't shifted that much. I was and enthusiast for higher education in the last job, and made an unsuccessful attempt. It was one of the bigger disappointments of eight years where we got a lot of things done. But one of the bigger disappointments was, I presented twice to our legislature a plan that would have resulted in, by far the biggest infusion of money into higher education in Indiana than anybody had ever considered. Would have been, by our estimate, a billion dollars, which is a lot in our context. And it was fiscally responsible. There was a moment when we thought we had a revenue source to pay for it. So I didn't need any convincing about the importance of higher Ed and particular to our state. We have if anything, an over capacity of college seats. We have not only two big ten universities in a modest sized state, but a lot of other state schools, and a lot of the private schools you know, that were founded by churches and other things, during the nineteenth century, are in our part of the country. There's a lot of choice out there, and yet we have a very unacceptably low rate of college attainment. So I didn't need much persuasion about

that, but what I did learn was that the enthusiasm many of us feel for this is not as widely shared as I thought. I could not get that plan -- by the way, in its first iteration, I suggested half the money go for, in essence, excellence investments, in new faculty, in research and so forth, and the other half go for student assistance, to boost -- Indiana does have one of the stronger state scholarship programs around, and we were going to boost that. That didn't fly. So second time around, I'd tried something much like what's on offer in Tennessee right now, which was, okay, how about we provide two years at the then rate of tuition at our community college system on means tested basis, to every Indiana high school graduate up an income scale, and couldn't sell that either. I'll never forget --

MR. CHINGOS: Why couldn't you sell it? Because folks didn't want to spend the money or --

MR. DANIELS: Well, no. You know we had a revenue source. We were going to create a new revenue source associated with our lottery basically. That should not have been the concern. There just wasn't, again, the same appreciation. We got more work to do there. It was a big learning experience for me. I thought well heck, we can pass this. Because first of all, I'll get the sort of folks who wear my uniform, I can get most of them. And universities, a lot of their communities are represented by folks at the other party, so they'll bring a few votes. I brought the university presidents together, their eyes got big. They never imagined such a thing. They weren't worth a single vote. I didn't get anything. So live and learn.

MR. CHINGOS: I'd imagine you're worth more than a single vote as the current university president?

MR. DANIELS: Well I'd like to think that those who are from our area now appreciate the value of what we're doing. But the only other thing I'll on that,

because it's a very good question. Having sat in the chair -- yesterday, I had an interesting visit that ACE put on with Janet Napolitano. We were governors at the same time and wound up in higher ed almost at the same time and so they -- I thought they got rid of freshman hazing, but anyway, they made us get up there and talk about what's it like to come in from a different direction. And she and I talked about the fact that we've been where you have to balance all the interests and try to make some judgements about how everything fits together. And so now when I talk to our legislators I'm not -- when we went on the first time and told them that we were going to freeze tuition, that very natural, probably first question was, well is this contingent on some level of state funding increase? And I said no it isn't. We're going to do this because we think it's the right policy and we think there's a great case for what we're doing, and merits, investments, continued investment by the state. But we'll do it. You've got a job to do and we're not going to tell you how to do it. That's still opposition.

MR. CHINGOS: Before we turn to audience questions, I want to ask you one final question about what you're doing at Purdue to improve the quality of teaching. Research universities, there's a lot of focus on the quality of the research. When we say that American universities are the best in the world, I think a lot of times, a big part of what we're talking about is the quality of the research that comes out, the quality of the graduate programs. Whereas when you turn to undergraduate education, at least if you look at the educational attainment of people say 30 to 40 years old, it doesn't look so good in the U.S. compared to some other countries. So I've always wondered how much that has to do with the quality of teaching. I know you've had some initiatives around Purdue around that.

MR. DANIELS: Yes well we're trying. If you ask faculty at a research institution like ours, they will almost always say that they have trouble separating the

subjects. They believe very ardently that doing their research makes them a better teacher and vice versa. And I take them at their word about that. Now, what we're doing a lot about, we're trying to, is to experiment and move quickly, at least by higher ed standards, to take advantage of what is being learned about teaching, and about the new ways in which old technology for instance can enable teaching. We think we have changed more of our courses, including a lot of our core courses that many students take, to one flavor or another of the so-called hybrid models, and there's a spectrum of those. But the probably easiest describer of those in which the lectures are online, available at the time and place of the student's choosing, available to be watched more than once, if he didn't catch it the first time, and then the classroom experience, it's sort of like lectures in the residence hall, homework so to speak in the classroom, that's why they call it a flipped arrangement. We're doing a lot of that. We're gathering a lot of data that we were chosen for one of these first in the world grants by the administration for our work in this area. And we're gathering a lot of data that so far seems to suggest, one, the students do learn more effectively in these different modes as opposed to the old sit in a room with hundreds of people, go do some homework and maybe have a session with some smaller group and then take a test. So that's -- and we also find that the students are attracted to this. They say they're more engaged in the work and like it better. So that's one example. We're also trying to move into an era of faster time to degree. I set up two prizes a year ago. Found out that the single best way to try to get things moving on campus is bribery, you know you got to put some money up there -- so half a million dollar prize for the department that came up with the best three year degree program. Our Brian Lamb School of Communication produced five of them and then a second for the best competency based program, that is proceed at your own rate, not on a fixed calendar basis, and the entire college is trying to transform itself to do that, our

college of technology. None of these is revolutionary. They've all been done elsewhere or being tried elsewhere but again, I just think any of us in higher Ed right now got to be open to these things and actively experimenting to see if we can't improve and then validate the quality of the teaching that goes on.

MR. CHINGOS: Just in time to degree seems obviously partially linked to cost reduction --

MR. DANIELS: Right.

MR. CHINGOS: Both for students and for the state that's providing subsidies. How about the use of technology? Have you also found that's a way to deliver instruction more efficiently?

MR. DANIELS: Yeah, I wouldn't say we're that good at it yet. Maybe nobody is really good at it yet but I know it can work. I was on the board of Western Governors University -- WGU, years ago, long before I imagined this happening. And that's a very successful model that many of you know all about but that's a totally online program and with -- it aims, its average student at least in our state, as we grew it in our state, was 36 years old, more likely to be a female and minority than the population at large. And they have very good rates, both of degree completion and of successful placement thereafter. So we know it can work. And we're scrambling to innovate. This is a classic, if Schumpeter were with us, his intellectual progeny are with us, and a lot of them say, well, this is what every incumbent business thinks it can do. It can coopt enough of the new technology and the new, whatever the challenging model is, that it can absorb it and move forward, and never works, they would say. We're trying to find out. I tell our folks that we have to pass the pajamas test. Because there are some very smart people out there saying, why would you spend a lot of money and move somewhere for four years and take up residence, when I can bring the best teachers in the world, right

into your living room. Just sit there in your bathrobe and you know, get it on the cheap. So I don't think that's right, at least in many many disciplines but the challenge is that you take as full advantage as you can of whatever opportunities those technologies do provide. And then, have something that's demonstrably superior and worthy of the cost, which is still going to be very expensive.

MR. CHINGOS: Let's take some audience questions. Darrell, in the back.

SPEAKER: So I'm curious about your thoughts on technology in terms of how you think these tech trends are going to influence higher Ed. So let's say five to ten years from now, what do you think a college and university is going to look like in light of these tech changes? Are they going to be really different? Is it going to be more of the hybrid model, just kind of extended more broadly? What do you see in the future?

MR. DANIELS: Yeah, Darryl, I don't pretend to know. But yes, I think so. I do think that the new cliché is the sage on the stage. I do think that this thousand year old model is probably going to give way in large part due to technology. You know on our campus now, every time I see these stats, I think there must be something I'm not understanding. But the average student has two point something, three devices turned on at any given time. I mean this is -- they inhabit a different world than you know, most folks, all but the youngest in this room probably are familiar with. And so without question, the nature of courses, the nature of textbooks already changing, it probably needs to change more rapidly, will be very very different. We are building now what we believe will be, we hope will be, sort of the classroom building of the future. And there aren't any giant lecture halls. There are rooms that can be very flexibly reconfigured for projects and you know, questions that might be assigned to groups to work out to see if they can apply the learning that they allegedly got over that hand held device sometime

in the days before.

MR. CHINGOS: Right here.

MS. MAINE: Thanks President Daniels. Lucinda Maine with the Association of Colleges of Pharmacy, of which you have a fabulous one. I'm curious. We feel vulnerable because of the changing demographics in our K-12 pipeline and some of the concerns about the quality of K-12. And would you just reflect on that please?

MR. DANIELS: Yeah, Lucinda, first of all, let me say that pharmacy, and we do have, we think, an outstanding pharmacy school, is probably one of those disciplines, it would be very hard to learn that in your pajamas. And so just an observation. We think there will still be a very strong pharmacy school and a very rigorous one at Purdue and elsewhere a few years from now. But no, I said I guess, and I think I answered a question from a member this morning. I initiated regular meetings with the seven presidents of Indiana public universities in my last job and they hadn't been doing that, but then I thought we should, because it was so central to the state's future. And at the very first meeting, I innocently said, I don't have a big agenda here, I just want to know how we can work together. What's the best thing that the state of Indiana could do to assist you in your work? And without a moment's hesitation, my Purdue predecessor said improve K-12. And then everybody else nodded to that. And it's obvious I guess, but a sad truth that this really is the first problem that we face. And we have -- it's addressable. Progress has come but it's come very very slowly. I'm optimistic in the case of Indiana but we got a long way to go. Indiana was second to Tennessee in improvement when Arnie Duncan released I think the most recent national test comparisons and lots of positive direction but we're coming off too low a base. We still have a lot of students emerge from high school clutching something they call high school diploma, who turns out, are not ready for -- they're not only not ready for Purdue, they're

not ready for even post-secondary work. And in Indiana, the assignment of remediation and all associate degrees have been given to our community colleges and they've got their hands full. Anybody in that room knows how to successfully do the work of remediation in math and reading, please so indicate, because a lot of really good people have been working on that around the country and it's had a lot of success.

MR. CHINGOS: Back here on the aisle -- gentleman.

SPEAKER: Yes, thank you very much. Full disclosure -- my daughter is a graduate of the Krannert School so we're very proud.

MR. DANIELS: Oh, right.

SPEAKER: You have a boiler maker in the house.

MR. DANIELS: Yeah.

SPEAKER: My question is about student aid policy. Right now I think we have just about a trillion dollars out in loans and we have a direct loan program. Just those numbers by itself -- it's not sustainable. Because if that bubble pops, it will be worse than the housing bubble. So I'd like to get your views on that.

MR. DANIELS: Yeah, no, thank you, you're right. I think the last number I saw was 1.2, a very high percentage of that is already in default and when you look at more recent borrowers, it's worse than that. Federal government just quietly, if something like this can be quiet, wrote off 21 or 22 billion dollars -- biggest single write off as I understand it in federal credit history and that's just the beginning. No, a lot of these, unless the national economy begins to grow at a rate faster than it has, begins to absorb more of these borrowers and at better and better paying jobs, I think, I'm afraid that you're right and we will see enormous amounts of that wind up on the taxpayer. I think that you know, none of this is invisible to the Congress. I think that you'll probably see a movement not only to simplify the loan programs that we have, but maybe move more of

the dollars into the Pell Grant system. And that's probably a good idea. We need to concentrate more of these dollars on those families least able to afford college now. But it's a very legitimate concern.

MR. CHINGOS: Right here.

SPEAKER: Thank you for addressing that and I also want to applaud Purdue's very low default rate. That's very impressive. But you know other institutions can't say the same. So my question is with increasing Pell Grants and those kinds of things, you're helping future students. But what about those current borrowers, with the crushing student debt? Would you support like, for example, re-financing student loans, which currently isn't available to student loan borrowers?

MR. DANIELS: I don't know. You know, it's obviously under discussion. It was batted around a little bit at the committee meeting I just came from. I mean it is just another way to dump it on the taxpayer, a write down. I just -- if you're going to do anything like that, it ought to be in some way means tested. We are just not in a position as a society to continue subsidizing middle and upper class citizens as many of our entitlements now do. And no one -- we seem to be exhausted with the topic but the overall problem of our national debt is not getting better. It's getting a lot worse. The rate at which the existing entitlements, to say nothing of any new ones that somebody might -- some are proposing, are a real problem for higher ed because as they consume more and more and more of the budget, there's not much left for the discretionary programs, and those programs that invest in the future. So we're borrowing today not for investment but for consumption. We're squeezing investments we could be making in higher Ed, research, being another important example, basic research and so I'd be very careful exacerbating that problem.

MR. CHINGOS: I'll throw my two cents on this one because it's

something I've written about.

MR. DANIELS: Uh-huh.

MR. CHINGOS: And one of the problems of taking that policy approach of reducing interest rates across the board --

MR. DANIELS: Yeah.

MR. CHINGOS: Is a lot of the debt is held by very high income.

MR. DANIELS: Yes it is.

MR. CHINGOS: Households.

MR. DANIELS: Yes it is.

MR. CHINGOS: So if you looked in 2010, the top quarter of families in terms of income, helped 40 percent of student loan debt. So the biggest benefits go to the wealthiest folks. So I'm sympathetic to your point, which is if we're going to do this, we got to means test it to the folks who are actually struggling.

MR. DANIELS: Absolutely Matt. And I happen to think that has to become our approach to any such open ended program. You know there's a long history here. People are very savvy. In a very savvy way have always made these things available to all thinking you building a political or bullet proof political constituency. Well it worked, but it worked so well, we're going broke as a country. And what we have to, I think, migrate to is a general policy that says, if there's a social goal as important, as all these things are one way or another, protection of the elderly, the disabled veterans, students, then we got to start with those least able to afford it and in that way, try to have an overall program that we can all afford.

MR. CHINGOS: What do we do about the political difficulties of taking on people who maybe they feel they're middle class but they're actually upper middle class or affluent. I mean, look at the debacle over the 529 proposal, right? The president

proposed to get rid of this tax benefit that went largely to wealthy families and there's this huge uproar. You know we have these tax credits --

MR. DANIELS: Yeah, well it's not a little -- yeah --

MR. CHINGOS: That go primarily to higher income families.

MR. DANIELS: Well I felt a little differently about that one. In the first place, it is used, certainly in our state. Our state has one of the more generous state matches for that, so maybe that bends my thinking a little bit. But it is used by middle income people. And the last thing I think we should do in this society these days is discourage more saving. And anyway, and then finally, it was sort of the pull out the rug problem. You encourage people to go do this and they save and save for years, and then suddenly you turn around and double cross them and I don't -- that's --

MR. CHINGOS: Why couldn't we put an income cap on it though/

MR. DANIELS: Well --

MR. CHINGOS: Millionaire, you don't get it.

MR. DANIELS: It's not -- you could, but again, anything ought to be prospective only if you're going to do that.

MR. CHINGOS: Right, of course.

MR. DANIELS: So you know --

MR. CHINGOS: More problems that --

MR. DANIELS: You've asked one of the central -- this is the central issue. I'm not trying to broaden the discussion to cosmic proportions here, but this is really the central issue facing us as a democracy. This is how the cynics have always said democracies will perish. And you know, I for one, don't believe that the American public are permanently unable of making a mature decision here that, you know -- the folks you are talking about have been misled actively for a long time to believe that they

already sort of prepaid for these things. They're only getting back what they paid for. We all know that's not how they're constructed. Today's taxpayers pay for yesterday's. And no one I know consciously would be comfortable knowing they are plundering their own children and the next generation, but that's what we're getting ready to do. Every time I look out at a commencement audience, I'm thinking about that that percentage of our students who are leaving with some student debt, hoping that they'll all be able to pay it off and all that. My second thought is about the national debt which is a big multiple of whatever they borrowed, that every single one of them is leaving with. And that's ultimately -- there's a generationally injustice here that needs to be addressed and that I still believe one day, while there's time, we can do it in a democratic fashion.

MR. CHINGOS: We got a question behind our last questioner.

MR. ROWLETT: Hi, thank you so much for -- first, my name's Isaac Rowlett with Public Agenda. I have a question about performance based funding. I know that Indiana has what are sometimes called outcomes based funding, right, but I know Indiana has I think a six percent base --

MR. DANIELS: Up seven, but yeah.

MR. ROWLETT: Is it up seven? Okay. And I'm curious about your perspective on, there's a national debate at the moment about the desirability of performance based funding. Curious if you'd comment on that.

MR. DANIELS: No, I think conceptually we have to hit, it's a good idea to head this way. I say this by the way. I don't think we've got it figured out yet at all in Indiana. It produces some perverse outcomes. I'll just tell you that as the top rating right now, the Indiana formula is going to penalize Purdue University even though I think folks in our state would say that they, decision makers in our state would say well that's not what we intended. You know you're a STEM based highly technological school; you're

producing exactly the kind of graduates we want. They're succeeding. You're spinning off research and businesses. You know, the whole story. So that, you know, I think it's in its infancy, in our state and elsewhere. But I think the general idea of examining outcomes; we should be doing this across the board in public policy and reinforcing what works, rotating resources from those things that don't work. It's absolutely, should be the essence of high quality public decision making and I think it does apply in the context that you're asking.

MR. CHINGOS: Time for one more question, can we have one maybe in the back? Let's take one way in the back since I've been favoring the front.

SPEAKER: Hi. Thank you for the speech. I'm a student from Columbia. I'm studying economics and education. And I have a question for international students actually. I know Purdue has one of the largest international student populations. I wonder how do you see like international students pay almost three times as the state students. How do you -- do you feel like it's possible still to attract high quality students without, and giving them a scholarship?

MR. DANIELS: Thank you. Yeah. No, I mean it's a very very pertinent question. And the questioner is exactly right. If you walked on our campus this afternoon, one of six undergraduates, and four of ten graduate students you would encounter are from a different country. About 40 -- so that's about 17 or 18 percent of our undergrads, and yes it's true that they pay more or less three times the tuition, as do students from Illinois or California for that matter. Rough justice in that. The families of our instate students have been paying taxes all their lives, in part to support our university, so that's -- there's a rationale of course. Well all I can tell you is that we have experienced this year a -- by a huge margin, 15 percent I guess, record applications. And they have been extraordinarily strong internationally. In fact the rate of increase is

higher internationally than it is domestically. We have a long proud tradition, principally in Asia, but internationally at Purdue and I believe a justly earned strong reputation, so for the moment at least, we are, people seem, in large numbers, seem to believe that the value of the education available at Purdue is worth it. But it's a subject we look at all the time. What's the right balance? We see huge value in having these international students. I'm constantly urging them and our domestic students to take advantage of the opportunity. I say you can learn a lot about the world before you ever leave this campus, if you just make enough friends who came from India or China or South America, and they're all right here. So they bring great diversity to our campus. They're high quality, very diligent students. We're proud to have them. Like the rest of life, it's a matter of finding the right balance. But we don't and probably won't be offering financial assistance and especially not while the demand is as high as it is now.

MR. CHINGOS: Sorry we don't have more time for more of your excellent questions, but thank you for coming and please join me in thanking President Daniels. (applause)

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