

Twelve Inconvenient Truths about American Higher Education

By Richard Vedder

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Center for College Affordability and Productivity

The Center for College Affordability and Productivity (CCAP) is an independent, nonprofit research center based in Washington, DC that is dedicated to researching public policy and economic issues relating to postsecondary education. CCAP aims to facilitate a broader dialogue that challenges conventional thinking about costs, efficiency and innovation in postsecondary education in the United States.

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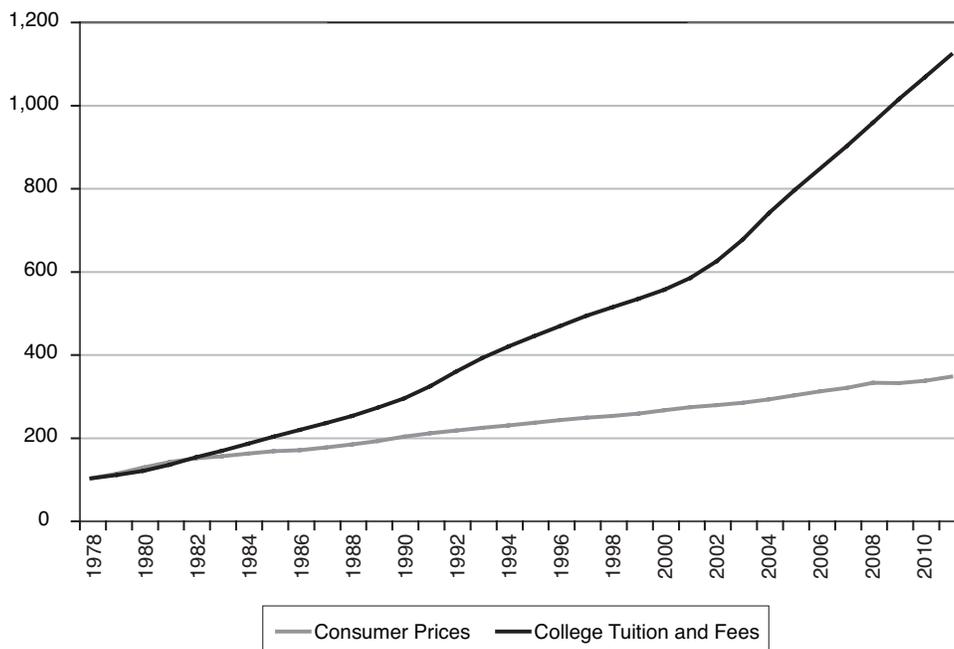
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American universities, we are often told, are the best in the world. Rankings of schools worldwide done by organizations in both China and Great Britain consistently are dominated by U.S. institutions. More than half of the top 100 schools (and eight of the top 10) in the Shanghai rankings, for example, are American schools. A huge portion of Nobel Prize award winners are individuals with close associations with American universities. Foreign students flock to America to derive the benefits of U.S. institutions of higher education. College graduates, on average, command significant pay premiums over those with lesser education. On the surface, it seems like we have a great high education system that works beautifully. But below the surface, there are a large number of flaws in the system, so I would like to address what can be called the “12 inconvenient truths about American higher education.”

Inconvenient Truth #1: High Costs

By any measure, American colleges are expensive and growing more so all the time. Tuition fees have risen at well over double the rate of inflation, and adjusting for inflation, tuition charges are over double what they were a generation ago (see Figure 1). Indeed, tuition fees are rising faster than family incomes. While it is possible for the price of something to rise indefinitely even adjusting for overall inflation—witness the price of tickets to Shakespeare’s plays in London, which no doubt has been rising for 400 years—price increases greater than *income* are *not* indefinitely sustainable. For example, students attending four year public universities in 2010–11 paid 7.9 percent more (for in-state students), and 6.0 percent more (for out-of-state students) than the previous year. The following year, average in-state tuition went up 8.3 percent while average out-of-state rate rose 5.7 percent, at least double the inflation rate for those two years.¹

FIGURE 1: INFLATION IN CONSUMER PRICES AND COLLEGE TUITION AND FEE (1978=100)



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics



Defenders of higher education say the true price of college has grown less because of rapidly growing student financial aid, and has, in any case, been offset by the substantial earnings advantage that college graduates have. Yet much of the increased student financial aid is financed by taxpayers, imposing a cost on society. The burden of rising college costs remains, but the incidence has shifted somewhat. Over the long run, the reality is that even after allowing for financial aid, the cost of college has increased dramatically for society as a whole, and some for students as well (and not all students get financial aid). A half century ago, say when John F. Kennedy was president in 1962, a penny of every dollar of resources spent in America went for higher education, and now it is well over triple that.

Space does not allow for a detailed discussion of why this is so, although some economists have tried.² A large part of college costs are paid, at least initially, by third parties—government grants, private scholarships, other endowment funds and gifts, and federal student loans. When someone else is paying the bills, the customer is less sensitive to price—for similar reasons health care costs have gone up a lot. Also, most of higher education is non-profit in nature, and the discipline and incentives markets impose to be efficient and cut costs are missing. Similarly, there is no well-defined “bottom line” in higher education: it is hard to improve productivity and efficiency if the “output” is ill-defined and poorly measured. Many have noted that the quest for high magazine rankings (the closest thing there is to a bottom line in American higher education today) leads to an academic arms race that emphasizes spending more and more funds.³

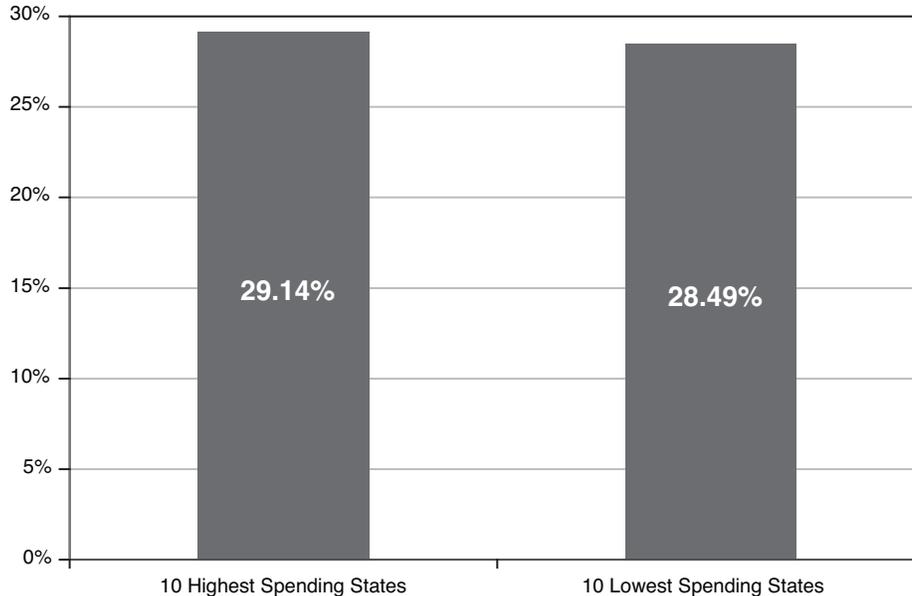
Inconvenient Truth #2: Not Engine for Growth

It is an article of faith amongst top politicians, university presidents and other opinion leaders that universities are an engine for economic growth. According to this view, investing in higher education is like investing in highways, power plants, software development or other productive things—only it is better, with a very high rate of return. Governors say we must spend more on our universities to promote higher growth of incomes and jobs.

It is a nice theory, and no doubt we are probably better off having colleges and universities than not having them at all. A lot of innovation has been spurred by having educated persons who understand often complex technical scientific matters that are better understood by having a college education. But the evidence does NOT support the conclusion that more public spending on higher education promotes economic development.

In a book I wrote several years ago and in subsequent writings, I have empirically demonstrated that states that spend more on their state universities actually have lower rates of economic growth than those spending little.⁴ For example, in modern times Massachusetts has generally spent little on its state universities, but has had high rates of economic growth. Figure 2 compares the 10 states spending the largest proportion of their state personal income on higher education in 2000, and comparing it with the 10 states spending the least. Contrary to what conventional wisdom and the arguments of the Higher Education Establishment state, the high spending states did not have materially superior growth.

**FIGURE 2: REAL GROWTH IN PER CAPITA PERSONAL INCOME (1990–2010)
AND HIGHER EDUCATION APPROPRIATIONS***



SOURCES: *The Chronicle of Higher Education*, U.S. Department of Commerce, Bureau of Economic Analysis

NOTE: *Numbers are the median figures for each of the 10 states.

More cautiously, I would say that the empirical evidence suggests that spending more on these schools does little to impact economic growth. Why? To fund universities, we take resources from a highly efficient private sector disciplined by competitive market forces, and give those resources to a highly inefficient sector where market forces are subdued by the effects of third party subsidies, especially from governments. The law of diminishing returns is also at work: a little higher education is highly productive, but at the margin more higher education in a society already with a large college educated population likely is far less productive, as discussed in greater detail below.

It is worth emphasizing here how completely different universities are from the rest of American society. In the typical American town or even in Havana or Beijing, an hour is 60 minutes. In most universities, an hour is 50 minutes. In the real world, a year is 12 months, but in higher education, it is, at most, nine months. In the real business world, for example, restaurants, success is gained by winning more customers—that is McDonald’s great strength. In universities, success is usually increased by turning customers away. There is no Admissions Committee that says whether you are accepted into McDonald’s or not, even if you can afford to pay for the product.

Inconvenient Truth #3: College Degrees Don't Guarantee Success

High school students are told that they will not be successful in life unless they attend college. To quote from one July 2009 speech by President Barack Obama, “. . . when we have placed our bet for the future in education, we have prospered as a result. . . . That is why, at the start of my administration I set a goal for America: by 2020, this nation will once again have the highest proportion of college graduates in the world.”⁵ The unspoken assumption is that possessing a college degree is a ticket to a comfortable middle class life—if not better.

That assumption historically was largely true, but it is increasingly not the case. We are turning out far more college graduates than the sum total of jobs in the relatively high paying managerial, technical and professional vocations that historically were where college graduates took jobs. Today, we have over 16,000 parking lot attendants with bachelor’s degrees, not to mention over 83,000 bartenders and 115,000 janitors (see Table 1). More than 15 percent of taxi drivers now have a four year college degree or more. Altogether, there are, as of 2008, some 17 million college graduates in jobs that the U.S. Department of Labor tells us require less than a college education.

**TABLE 1: PERSON’S WITH AT LEAST A BACHELOR’S DEGREE WORKING IN JOBS
REQUIRING LESS THAN A BACHELOR’S DEGREE**

| Occupation | Percent with at least Bachelor’s | Number with at least Bachelor’s |
|---|-------------------------------------|------------------------------------|
| Customer service representatives | 22.0% | 481,206 |
| Secretaries and Administrative Assistants, Except Legal, Medical, and Executive | 16.8 | 341,410 |
| Waiters and waitresses | 14.3 | 323,223 |
| Executive secretaries and executive administrative assistants | 16.8 | 207,665 |
| Receptionists and information clerks | 13.0 | 136,305 |
| Janitors and cleaners, except maids and housekeeping cleaners | 5.0 | 115,520 |
| Laborers and freight, stock, and materials movers, hand | 5.2 | 107,546 |
| Bartenders | 16.5 | 83,028 |
| Heavy and tractor-trailer truck drivers | 5.0 | 80,240 |
| Landscaping and grounds-keeping workers | 6.8 | 78,302 |
| Carpenters | 7.3 | 73,124 |
| Amusement and recreation attendants | 23.5 | 61,406 |
| Food preparation workers | 7.0 | 56,959 |
| Construction laborers | 5.6 | 55,933 |
| Telemarketers | 18.0 | 52,326 |
| Postal service mail carriers | 13.5 | 42,755 |
| Electricians | 7.1 | 40,967 |
| Hotel, motel, and resort desk clerks | 17.1 | 38,903 |
| Flight attendants | 29.7 | 26,879 |
| Parking lot attendants | 12.9 | 16,138 |

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics



Arguably, we are *over-invested* in higher education. A bar wanting to hire a bartender may get 15 applications, three from college graduates, and to reduce the costs associated with determining which potential employee will be a more ideal hire, it simply limits the search to those with a college degree or more, even though one can easily make a margarita or Long Island iced tea without a degree in chemistry. We are engaging in credential inflation, where people go to school for ever more years simply to get a chance at jobs for which much of that education is useless. Perhaps by 2025, you will need a bachelor's degree to be a janitor, or maybe even a master's degree in janitorial studies.

We have a perverse application of what is called Say's Law (named after a French economist of two centuries ago), namely: "supply creates its own demand." Colleges have supplied far more graduates than truly needed to meet the need for those highly skilled jobs traditionally requiring a college diploma. Therefore, employers now are demanding greater credentials, simply because it helps them winnow down the list of applicants, lowering the information and transactions costs associated with hiring new employees. It is a good deal for employers: future employees spend often \$100,000 or more for the piece of paper (diploma) certifying employment competence, while the employer search costs are negligible by comparison.

Inconvenient Truth #4: College Students Work and Learn Little, Party Hard

One of the dirty little secrets about higher education is that a lot of persons engaged in collegiate studies do not work terribly hard. There have been time use surveys of college students that show that, on average, full-time students spend less than 30 hours weekly attending class, doing reading assignments, writing papers, or preparing for examinations.⁶ Since the typical student is in school at most 30 weeks a year, that means she or he is spending about 900 hours on studies. Add in the time she or he works a job, maybe 400 or 500 hours, the typical student is working or studying perhaps 1,300 or 1,400 hours a year, at the same time on average their working parents are spending far more time, often 1,800 or even 2,000 hours at work. I might add the same thing can be said of some faculty members. Data from the University of Texas and other institutions show many professors teach large numbers of students and garner research grants, but also a considerable number, on paper at least, seem to do little teaching or research (some are doing administrative work, but we have witnessed an excessive growth there as well).⁷

As a consequence of this, a large portion of college students appear to be learning little. Richard Arum and Josipa Roksa in their magisterial book, *Academically Adrift*, give evidence that the typical senior graduating from college has gained little in the way of critical learning skills while in college. The Adult Literacy Survey of the U.S. Department of Education has shown a worrisome decline in literacy amongst college graduates. All of this is happening in part because of declining academic standards. In 1960, the average grade was between a B- and C+, now it is between a B and B+.

At the same time, college kids spend a large (and increasing) amount of time on recreational pursuits. A good case can be made that college is increasingly sort of a country club with elaborate recreational and living facilities but also with a curious mix of academics and hedonistic excesses, where booze, drugs, and sex claim at least equal time with academic studies.

Inconvenient Truth #5: Undergraduate Students Are Often Neglected

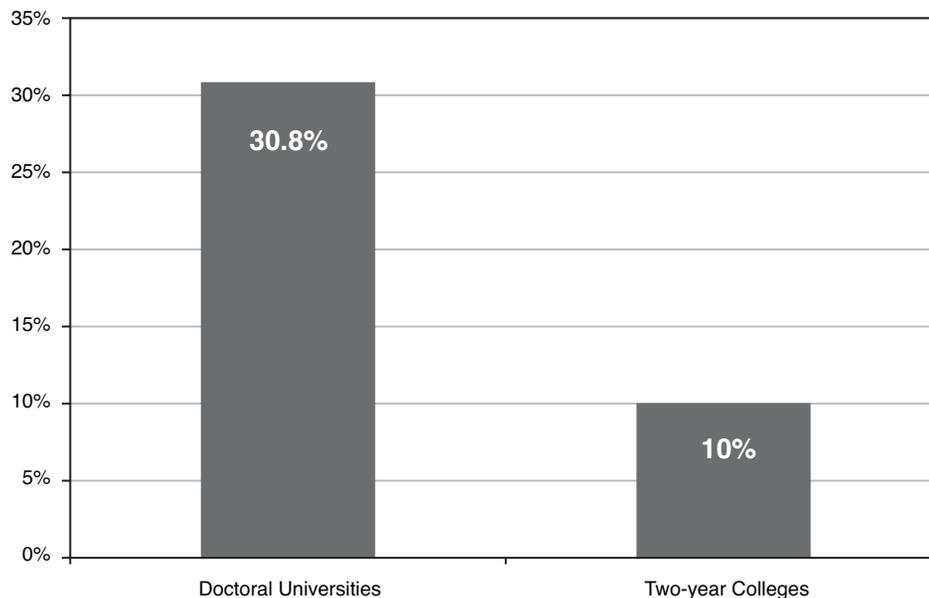
A large proportion of college students attend universities which have undergraduate, graduate, and often professional schools (e.g. schools of law or medicine). At most of these schools, vastly more resources are showered on the graduate and professional students than the undergraduate ones—indeed, often a good deal of undergraduate teaching is done by relatively low paid graduate students, or by adjunct professors with little enduring commitment to the institution.

Indeed, this practice is reinforced sometimes in state universities by funding formulas. In the state of Texas, for example, universities receive over 30 times as much funding for some professional students in pharmacy compared with lowly freshman undergraduates. There are large numbers of very highly paid professors who have few students, most or all of them at the graduate level, while lower paid professors do the predominant amount of undergraduate teaching.

My research center, the Center for College Affordability and Productivity, ranks undergraduate education at 650 colleges and universities for *Forbes* magazine. On average the private liberal arts colleges with no graduate programs fare better in terms of providing students with things they want than do the larger universities with graduate programs, I think mainly because they devote their resources and attention almost exclusively to undergraduate students, while the research universities are enthralled with enhancing faculty prestige through publications and institutional support by winning research grants.

One thing is for sure: reward systems strongly favor individuals who emphasize research over teaching (see Figure 3). Average salaries for faculty at top research universities have grown more than three times as fast as average faculty salaries at schools emphasizing teaching; salaries in four-year schools have gone up more than those in two-year institutions where there is no research expectation.

FIGURE 3: REAL GROWTH IN AVERAGE FACULTY SALARIES (1979–80 TO 2009–10)



SOURCE: U.S. Department of Education, National Center for Education Statistics.

One area of woeful neglect at most universities (although not as much at liberal arts colleges) is undergraduate student advising. There are big rewards to faculty associated with prolific research output, and sometimes modest sized rewards for excelling in teaching, but there are usually few incentives for professors to sit and talk to students about the courses they are taking, their career and graduate school options and about the myriad of other issues that college graduates must face in making the vital transitions from childhood to being responsible adult citizens.

Like all generalizations, this one has exceptions. There are some professors who care deeply about their undergraduate students. Also, the traditional liberal arts colleges, community colleges and many for-profit schools do not have the research and other missions that often detract from helping undergraduate students.

Inconvenient Truth #6: Most Students Do Not Graduate On Time

The bachelor's degree is almost universally advertised in America as being a four year degree. In financial planning for college, most folks assume the student will graduate in four years. The reality, however, is different. Less than half of entering full-time students at so-called four-year colleges, in fact, get their degree in that time span. Even more appallingly, over 40 percent have not received a degree after six years. As the data in Table 2 show, graduation rates do vary considerably with the type of school.

TABLE 2: STUDENTS STARTING SCHOOL IN 2002: COHORT GRADUATION RATES

| CONTROL AND LEVEL OF INSTITUTION | 4-YEAR GRAD RATES | 5-YEAR GRAD RATES | 6-YEAR GRAD RATES |
|-------------------------------------|----------------------|----------------------|----------------------|
| All 4-Year Institutions | 36.37% | 52.32% | 57.18% |
| Public Institutions | 29.86 | 49.23 | 54.90 |
| Private Not-for-Profit Institutions | 51.02 | 61.33 | 64.61 |
| For-Profit Institutions | 14.22 | 17.23 | 21.99 |

SOURCE: U.S. Department of Education, National Center for Education Statistics.

A numerically important category of young Americans has emerged: persons who start college but fail to complete a degree, but who have run up a meaningfully sized debt in the process. While part of the blame probably falls on mediocre quality primary and secondary schools, some of the problem occurs because we push lots of students to go to college who have little prospect for success.⁸ The four year graduation rate reported by the federal government at schools such as the University of Texas at El Paso or Chicago State University is less than 10 percent. One might reasonably ask, why do we continue to fund such institutions and students with poor academic prospects?

The four-year graduation rate is dramatically higher at private not-for-profit schools relative to public ones. This is probably in part because when tuition fees are relatively high, there is enormous incentive to graduate on time. Also, the higher four-year graduation rates of private schools means that stated tuition fees often grossly overstate the higher cost associated with private higher education.

It is interesting to note that while, for many Americans, attaining the bachelor's degree is now a five year commitment, in Europe that degree now is usually completed in three years. While higher education

researchers investigate all sorts of obscure phenomena, it is noteworthy that little or no work is done calculating the marginal learning and other effects of each year of college. Does the third year add as much to a student's critical thinking skills, maturity, knowledge, leadership qualities, etc., as the second year? How does the fourth year compare with the third?

Two further points. It is true that the federal data on graduation rates are skewed by significant problems, including, for example, a failure to trace transfer students. But also it is true that the long time to graduation problem is not confined to undergraduates. Arguably the biggest scandal in higher education is the fact that in many disciplines, such as the humanities, it takes on average about eight years to complete a Ph.D. It did not use to be that way (I completed my Ph.D. in less than three years in the 1960s), and almost certainly there is enormous waste of resources with the way we conduct graduate education in the United States.

Inconvenient Truth #7: Colleges Hide Vital Information from Consumers

Did Michigan State University (MSU) have a good year in 2011? Who knows? Do we know whether its seniors have more knowledge of basic facts than its freshmen? Do we know whether critical thinking skills improved in the years at Michigan State? Do we know how many hours students were engaged in academic pursuits or partying, or even whether they liked their experience at MSU? Do we have any idea what the typical earnings of a MSU graduate are five years after graduation? How do they compare with peer Big Ten institutions like the University of Michigan or Indiana University? These are things that those financing the operations of MSU, and particularly its prospective students and their families, would benefit from knowing.

There is an abysmal lack of transparency in higher education. We have good test instruments that can help answer several of the questions above, and the IRS or Social Security Administration could tell us about earnings of graduates but do not. Hence the "bottom line" is often determined by magazine rankings, which are arbitrary and depend much on the amount and quality of the inputs used. It is the equivalent of evaluating restaurant quality by the price paid for the food used, rather than by how customers enjoy the experience. Moreover, the best school for one student, given her tastes, academic aptitude, financial condition, and so forth, may not be the best school for others.

Often college and university trustees do not get accurate information on campus issues. Was Professor X's firing for allegedly questionable conduct justified, or was he a really a courageous whistleblower trying to curb dubious campus behavior? What is the salary of the football coach relative to the college president? What percent of the budget goes for direct instruction as opposed to student services, administration, campus maintenance, and so forth?

The lack of information impedes good decision-making. In the traditional for-profit private sector, the powerful bottom line of profits is an informational device that propels all sorts of decisions, reinforced by an incentive system that rewards good performance and punishes poor outcomes. But how can a Provost or Dean decide whether to use scarce resources to expand the accounting department or English department? He or she knows enrollment data for each unit, and personnel costs, but does he or she know what the vocational success rate of accounting graduates is relative to English majors? Does he or she know which unit is truly performing first-rate research? Often, the person is largely in the dark, so oft-times poor resource allocation decisions are made out of ignorance.

Inconvenient Truth #8: Freedom of Expression Is Curtailed

Colleges and universities are supposed to be citadels for the free expression of ideas—their independence from politics is premised on the desire to protect academic freedom. Yet many schools, allegedly in the interest of promoting tolerance and diversity, restrict constitutionally protected forms of behavior, especially free speech.

Examples abound. I know of a student who was going to be disciplined because he displayed links on his personal web site to pro-traditional marriage sites, being told he was showing signs of homophobia, which was inconsistent with the values that the Resident Life Office were trying to instill in students under its tutelage. In a celebrated case at the University of Pennsylvania, a student was severely punished for yelling “Water Buffalo” to a group of noisy students outside his window, as the administration decided that “water buffalo” was a racially pejorative term. Speech codes attacking allegedly “hurtful” verbal expression are clearly violations of the First Amendment rights of university participants. It is shameful that institutions devoted to the free uninhibited inquiry about various aspects of the human condition should be aggressive in trying to limit that inquiry to “politically correct” forms of expression.

Freedom of expression is also limited by the nearly 100 percent left-wing political perspective in many academic departments, and clear evidence that more conservative professors are discriminated against in hiring decisions. For example, a major libertarian foundation (the Charles Koch Charitable Foundation) has been attacked for its efforts to install market-oriented professors in several universities, and there has even been controversy over lectures it sponsors on campuses. Other universities have ignored donor intent and turned conservative research centers into ones with a more leftish orientation. Racial diversity is prized, but intellectual diversity is suppressed.

The lopsided leftish political orientation is breathtaking in some departments and institutions. For example, one study by Christopher Cardiff and Daniel Klein of 13 California schools showed overall there were five times as many professors registered as Democrats and Republicans, but in sociology the ratio was 44 to 1, and in all the “soft” liberal arts fields combined, it exceeded eight to one.⁹ Is it possible that as a consequence of this, sometimes students are not adequately exposed to alternative, say market-oriented, perspectives on issues that might deserve at least some attention? I think the answer is yes.

A further manifestation of this trend is for university presidents to issue statements committing their universities to positions on issues where there is clearly room for debate and disagreement. One example is the “American College and University Presidents’ Commitment,” where well over 600 presidents proclaimed that “we recognize the scientific consensus that global warming . . . is largely being caused by humans. We . . . recognize the need to reduce . . . global emission of greenhouse gasses by 80 percent by mid-century.” In reality, there are divergent opinions regarding these issues. Is a university scientist who has a different view being insubordinate and subject to discipline because she differs from the “party line?” Universities should be market-places for ideas, not the regulator of what type of ideas are acceptable.

Inconvenient Truth #9: Colleges Are Not a Force for Income Equality

One of the major justifications of governmental support of higher education is that government subsidies are needed to increase participation by lower income Americans in college, in order to increase income equality and promote the American Dream. It is an article of faith that state universities do this. The evidence, however, tells us something different.

In 1970, before we had much of a federal student loan program and before Pell Grants even existed, a larger proportion of college students were from lower income backgrounds than is true today. In 1970, when we spent less than half the proportion of our income on higher education than we do now, measured income equality in the U.S. was far *higher*. More higher education has been associated with less, not more income equality.

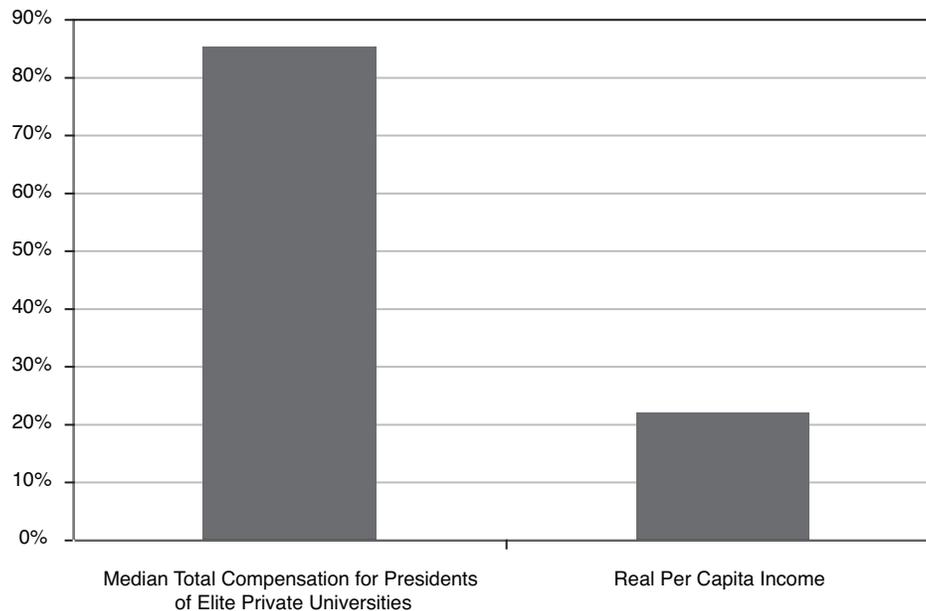
Moreover, within higher education, the gap between the haves and have-nots among schools has grown. The elite private schools that draw lots of affluent students have had far greater increases in spending than the public schools, and not a single public school is in the top 20 on either the *U.S. News* or *Forbes* list of top American colleges today. Moreover, even some state universities are becoming elitist havens for the rich—the proportion of students receiving Pell Grants at the University of Virginia is lower in some years than it is at Harvard, for example.¹⁰

Daniel Bennett and I have been exploring the college attainment and income equality issue empirically with a massive set of panel data with 1,750 observations, looking at every state for every year from 1970 through 2004. While our research is still ongoing, even after introducing other control variables that might explain variations in inequality over time and space, we generally find that income inequality is increased with the proportion of the adult population that has at least a bachelor's degree.

Inconvenient Truth #10: Colleges Are Run to Benefit Staff, Not Students

While the title to this “inconvenient truth” may be a bit of an exaggeration (most college personnel genuinely also want to improve the lot of students, I suspect), a good case can nevertheless be made that a lot of what goes on at colleges these days is designed more to make life easier and more prosperous for the employees and occasionally the alumni than for the students or even funders of research grants. Not only are we in the era of multi-million dollar football coaches, but also the age of the million dollar college president (see Figure 4 for the rising in college president salaries over time) and one-third of a million dollar college professor. Teaching loads have fallen significantly over time, supposedly to support research, but much of that research is trivial extensions of minor esoteric explorations of issues of little interest to anyone, even to fellow academics.

FIGURE 4: REAL GROWTH IN MEDIAN TOTAL COMPENSATION OF PRESIDENTS OF ELITE PRIVATE UNIVERSITIES AND U.S. PER CAPITA INCOME (1996–2008)

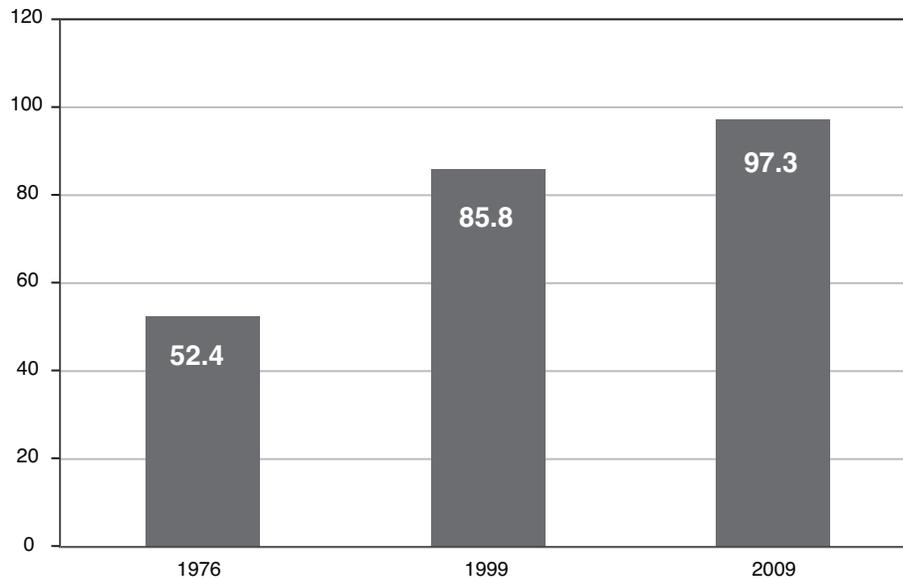


SOURCES: *The Chronicle of Higher Education*; U.S. Department of Commerce, Bureau of Economic Analysis

NOTES: The elite private universities included in the sample (n=33) are the institutions (classified as “Research Universities—Very High Research Activity” by the Carnegie Foundation) which were included in *The Chronicle of Higher Education*’s 2010 survey of executive compensation at private institutions of higher education.

Administrators hire more and more assistants to do the heavy lifting for them. As Figure 5 shows, the number of administrators and other professional employees has grown dramatically relative to the size of the faculty. But even the faculty members often teach what they want, when they want, and even sometimes to whom they want, rather than the mainline survey material most needed to be taught. Thus on many campuses, it is rare to see a classroom being used on Fridays, at 8 a.m. in the morning, or in the evening. Vast capital resources (buildings) are wasted and terribly underutilized so that the staff and students can perform their duties when they want—Monday through Thursday between 10 a.m and 4 p.m., typically.

FIGURE 5: NON-FACULTY PROFESSIONAL EMPLOYEES PER 100 FACULTY



Source: U.S. Department of Education, National Center for Education Statistics, author calculations

University presidents succeed by raising bushels of money which are distributed, almost like bribes, to various constituent groups to make them happy—faculty members by giving them good salaries, low teaching loads and good parking; administrators by giving them high salaries and lots of assistants to do the real work; alumni by having good athletic teams playing in fancy facilities; and students by having easy grading, little demanding coursework, and access to lots of booze and sex.

Inconvenient Truth #11: Federal Student Financial Aid Doesn't Work

Federal student financial assistance programs began to either help economically disadvantaged students or to promote study of certain fields, such as math and science after the Soviet Union's launching of Sputnik in October 1957. The evidence is they have really done little in achieving either of these objectives, but probably have contributed measurably to the rise in college costs. Moreover, the programs are Byzantine in their complexity, and the mere application for assistance until very recently has involved completing a form of over 100 questions that scared off many potential low income students.

Moreover, the programs provide perverse incentives. A poor student receiving Pell Grants who hangs out around college for six years gets perhaps twice as much money as an otherwise identical student who is at the top of her class and, by going to summer school and working hard, graduates in three years. Students who have little probability of succeeding in college are treated the same as those whose previous records indicates a high likelihood of success. Academic distinction or excellence is ignored and even punished.

Not only is academic performance ignored, but so is any sort of consideration of risk of loan default.

Federal student loan interest rates are set below what they would be in a freely competitive market. There is no variation in interest rates with perceived differences in risk. Very similar to the problems of the housing bubble and the related financial crisis, lenders (colleges) bear none of the risk of lending to customers who they know from past experience have a very high probability of defaulting on their loan.

The fact that the federal government has recently largely squeezed out private lenders who traditionally provided some counseling of borrowers means we now largely have a one-size-fits-all approach, often with no knowledgeable individuals assisting students making major decisions regarding borrowing. The fact that loans are not dischargeable in bankruptcy means that student loan debt potentially has very long term deleterious implications on the large numbers who either fail to graduate from college or who end up taking relatively low paying jobs.

Compounding everything else, the federal government, in effect, is often borrowing money from Chinese lenders to relend to often middle class students with a dubious prospect of repayment. A strikingly large proportion of subsidized student loan money goes to persons from families with incomes well above the median of the American population. One study estimated that over half of so-called unsubsidized (actually, less subsidized) Stafford loan payments for dependent students go to those from families with over \$80,000 a year in income.¹¹ Aside from all of that, this program has adverse macroeconomic implications: it contributes measurably to America's highly precarious financial situation arising from irresponsible federal borrowing.

Inconvenient Truth #12: Intercollegiate Athletics Is Costly and Corrupt

The tragic scandal at Penn State, which the Associated Press ranked the sixth biggest news story of 2011, is probably the most outrageous but by no means the only example of college sports run amuck. To be sure, lots of so-called minor sports involve healthy athletic competition at reasonable costs, and those programs have several positive virtues for participants and others, such as improved health, discipline, leadership skills, campus esprit de corps and arguably other desirable things. But the commercialization of football and basketball has a corrupting influence.

We punish kids and schools for selling a few hundred dollars of medals or rings that the athletes earned, while the coaches earn multi-million dollar salaries derived from the labor of skilled athletes. In many cases athletes receive well under 10 percent of what they would have received if they sold their services in an open market. Middle aged men, usually white, exploit younger, vulnerable persons who are often black. And attempts to stop this lead to harsh attacks from the NCAA. One almost senses that the NCAA is to the welfare of college athletes what the Taliban has been to women rights. In no other major nation in the world do universities have such highly commercialized intercollegiate athletic programs.

Using honest accounting, only a handful of college sports programs break even. Even at so-called Division 2 and Division 3 schools, costs of intercollegiate athletic programs are rapidly rising, as schools think having successful sports program is a necessary condition to greatness. And little is done. Ohio State has been punished more in the last year for allowing players to earn a little extra money than Penn State, where blatantly illegal and immoral activity was apparently occurring, if grand jury indictments are any indication.

At some aspiring schools, there is, in effect, an "athletics tax" on students in the form of sizable fees. For example, at Eastern Michigan University, athletic subsidies have recently exceeded \$20 million a year,

or over \$1,000 a student, whereas only six miles away, at the University of Michigan, the highly successful sports programs loses little money, so per student subsidies are small. Yet Michigan is largely a relatively elite school with far fewer lower income students than its more down market neighbor Eastern Michigan. In effect, not only is there an “athletics tax”, but it is often highly regressive, hurting lower income students disproportionately.

What To Do?

It is easier to identify problems than solutions. What do we do about all of this? There have been lots of groups seeking reform. I was a member of a well-publicized national commission (the Spellings Commission) a few years ago on the future of higher education that made some modest, but generally useful, suggestions for change, but relatively little was actually done.¹² When people try to even criticize operations of universities, the reaction is often ferocious. After the Center for College Accountability and Productivity issued a report that was deemed critical of faculty work practices at the University of Texas, an irate Texas alumnus made a public records requests of my activities at Ohio University, I suppose to intimidate me, and a prominent Texas politician told me that she was put under considerable pressure by University of Texas supporters not to appear on a panel with me to discuss higher education issues in Texas. It seems at times the strategy is to ostracize, intimidate and personally attack those who suggest change is needed so as to reduce criticism.

I think reform in higher education will come from a variety of pressures. First, although markets in higher education are subdued in their role in enforcing efficient behavior because of distortions from massive government subsidies and other third party payments (e.g., private philanthropy), they do have some influence, and it is growing as more of higher education is student financed. When the price of something rises, people seek substitutes, be they cheaper forms of traditional higher education or even non-degree alternatives such as other forms of certification of work competency. Groups such as the Khan Academy, the Saylor Foundation, open source projects at M.I.T. and other schools, and the alternative certification/ testing partnership of StraighterLine with the Educational Testing Service and the Council on Aid to Education all are doing innovative things that have considerable promise in exerting pressures to reduce or reverse the college cost explosion. The rise in costs is clearly unsustainable, and changes will be forced on the academy.

With traditional, residential-based higher education, we might see such things as an end to faculty tenure, the reduction in the administrative morass, increased intelligent use of modern technology, higher teaching loads, using facilities 12 months a year, a review of library acquisition costs and other reforms carried out in desperation to keep costs down. Perhaps the three-year bachelor’s degree idea will gain popularity. Important pressure to make higher education more efficient is now coming from the for-profit sector, whose market orientation incentivizes it to operate efficiently, and have a laser-like interest in improving the academic experience of students (or, at least, student perceptions of that experience). While the Obama Administration has shown considerable hostility towards this segment, given its high levels of efficiency and student orientation, I think it has a bright future.

But remember, for many college is as much a consumption as an investment good, and many students go to college to learn—but also to have fun, make friends, and enjoy life. The “country-clubization” of higher education will continue on campuses appealing to the affluent, and an academic arms race to provide bigger and better recreational facilities and other amenities will only reverse if incomes themselves

start falling rather than rising over time (admittedly, they have risen very little in the past decade).

But change will take time and will be bitterly resisted by campus interest groups, especially the faculty of traditional schools and perhaps others, including influential alumni. Government, for good or ill, and I think mainly for ill these days, funds a lot of higher education. Reform of the student financial assistance program, for example, is something requiring federal action. State governments can change university funding formulas to increase incentives to lower dropout rates, get kids through school in four years, and to better utilize facilities that lie empty a scandalous amount of time. They could, for example, move to giving scholarships (vouchers) to non-affluent students, while reducing or eliminating direct institutional subsidies. They could give scholarships good only in months of the year when schools are traditionally idle or operating way below capacity. Through the power of the purse, governments could, in theory, put an end to such dubious practices as grade inflation, or low teaching loads to promote very marginal research. On the latter point, the number of scholarly papers written on William Shakespeare since the mid-1980s is somewhere between 21,000 and 35,000, depending on whom one asks.¹³ Is there really that much more we can add to our knowledge of the Bard, and at the margin is it that useful to society? The same can be said, no doubt, of many other forms of academic research.

Reform will not be effective, I think, unless attention is placed on the three “I’s”: information, incentives, and innovation. You cannot make something more efficient or effective if you cannot measure outcomes, or the costs of inputs used in obtaining those outcomes. Colleges need to become immensely more transparent. Accreditation reports, for example, now given only to the universities, should be fully disclosed to the public (and the accreditation process itself needs to be seriously reassessed).¹⁴ Outcomes should be better measured, involving some increased testing to be sure. Trustees need to get information from multiple sources on campus so they don’t get a one-sided picture of what is going on.

We need to provide monetary incentives for good performance, but also punish those whose mistakes or inattention are costly to an institution. As the proportion of students studying in for-profit institutions increase, some of this increased emphasis on incentives is happening automatically, but traditional schools can become more active in rewarding progress as measured by performance indicators. Innovation involves, in part, the use of new technologies to more aggressively to cut costs, including faculty expenses. But it also involves rethinking such things as the financing of higher education. Are massive public subsidies justified for what is, to a considerable extent, a private good that primarily benefits the recipients (students)? If so, would it not be better to give money to students, letting them choose their school, rather than give funds to institutions? I think the answer is probably yes, as it would stimulate competition for students and reduce their comparative neglect. Should the federal government role in student financing be downsized and changed? Again, I think the answer is almost certainly “yes.” Maybe we should let students sell equity in themselves (human capital contracts) instead of relying so heavily on borrowing. Certainly, we should end or reduce dangerous monopolistic, bureaucratic federal control.

In the long run, higher education will run more efficiently, offer better outcomes, and require a smaller proportion of society’s resources if we accept the reality that most—if not all—the benefits from it accrue to those buying its services. In short, we should move towards a strategic retreat in governmental involvement, and allow market forces to operate more robustly. The strength of American higher education lies in its diversity, which in turn reflects the fact that it has not been centrally controlled, an attribute that seems increasingly under attack.

If one looks at American universities a century ago, they were small (10,000 or fewer students each) and served a single digit percentage of the population. Federal research grants did not exist, nor was tenure an

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established institution. It was a radically different environment from what exists in higher education today. So it will be in the future. The more things change, the more they remain the same. One thing is for sure: One way or another, American universities are going to change, and a lot, in the next generation.

Notes

1. Sandy Baum and Jennifer Ma, “Trends in College Pricing: 2010” (College Board, 2011), available at: http://advocacy.collegeboard.org/sites/default/files/2010_Trends_College_Pricing_Final_Web.pdf.

2. For example, see Ronald Ehrenberg, *Tuition Rising: Why College Costs So Much* (Cambridge, MA: Harvard University, 2002); Richard Vedder, *Going Broke By Degree: Why College Costs Too Much* (Washington, D.C.: AEI Press, 2004), and Robert B. Archibald and David H. Feldman, *Why Does College Cost So Much?* (New York: Oxford University Press, 2011).

3. For a more detailed explanation of rising costs, see Richard Vedder, “Over Invested and Over Priced: American Higher Education Today” (Washington, D.C.: Center for College Affordability and Productivity, November 2007), available at: http://www.centerforcollegeaffordability.org/uploads/Over_Invested_Final.pdf.

4. See Vedder, *Growing Broke By Degree*. Another author who has expressed skepticism about the economic growth/education relationship is Alison Wolf, *Does Education Matter? Myths about Education and Economic Growth* (London: Penguin Books, 2002).

5. See The White House, “Excerpts of the President’s remarks in Warren, Michigan today and a fact sheet on the American Graduation Initiative,” July 14, 2009. Available at: http://www.whitehouse.gov/the_press_office/Excerpts-of-the-Presidents-remarks-in-Warren-Michigan-and-fact-sheet-on-the-American-Graduation-Initiative, downloaded January 31, 2012.

6. There is a Time Use Survey conducted regularly by the U.S. Department of Labor, but also findings from the National Survey of Student Engagement and the Higher Education Research Institute at the University of California at Los Angeles; the surveys are remarkably consistent on this point. For some discussion of this, see Richard Arum and Josipa Roksa, *Academic Adrift: Limited Learning on College Campuses* (Chicago: University of Chicago Press, 2011), p. 97. See also Philip Babcock and Mindy Marks, “The Falling Time Cost of College: Evidence from Half a Century of Time Use Data,” *The Review of Economics and Statistics*, 93(2), May 2011, pp. 468–478.

7. Richard Vedder, Christopher Matgouranis, Jonathan Robe. “Faculty Productivity and Costs at The University of Texas at Austin” (Washington, D.C.: Center for College Affordability and Productivity, May 2011), available at: http://www.centerforcollegeaffordability.org/uploads/Faculty_Productivity_UT-Austin_report.pdf.

8. Many have written extensively about the negative implications of this. Two excellent studies are Charles Murray, *Real Education: Four Simple Truths for Bringing America’s Schools Back to Reality* (New York: Crown Publishers, 2008), and Jackson Toby, *The Lowering of Higher Education in America: Why Financial Aid Should Be Based on Student Performance* (New York: Praeger, 2009).

9. Christopher F. Cardiff and Daniel B. Klein, “Faculty Partisan Affiliations in All Disciplines: A Voter-Registration Study,” *Critical Review* 17 (2005), pp. 237–255.

10. For some further support of the position here, see Charles Murray, *Coming Apart: The State of White America, 1960–2010* (New York: Crown Forum, 2012).

11. Government Accounting Office, *Postsecondary Education: Multiple Tax Preferences and Title IV Student Aid Programs Create a Complex Education Financing Environment*, Testimony of Michael Brostek before the Senate Finance Committee, December 5, 2006, p.8, available at <http://gao.gov/new.items/d07262t.pdf>, and National Center for Education Statistics, 2007–08 National Postsecondary Student Aid Study (NPSAS:08), April 2009, available at <http://nces.ed.gov/pubs2009/2009166.pdf>.

12. U.S. Department of Education, *A Test of Leadership: A Report of the Commission Appointed by Secretary of Education Margaret Spellings* (Washington, D.C., 2006).

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13. For one estimate, see Mark Bauerlein, “Professors on the Production Line, Students on Their Own,” AEI Future of American Education Project, Working Paper 2009–01 (Washington, D.C.: American Enterprise Institute, 2009).

14. Andrew Gillen, Daniel Bennett, and Richard Vedder, “The Inmates Running the Asylum? An Analysis of Higher Education Accreditation” (Washington, D.C.: Center for College Affordability and Productivity, October 2010), available at: <http://centerforcollegeaffordability.org/research/studies/the-inmates-running-the-asylum>.