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READING A COMMISSIONER

A Review of *Going Broke by Degree: Why College Costs Too Much*

By Rupert Wilkinson

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Richard Vedder, Distinguished Professor of Economics at Ohio University, has been described as the most "outspoken (and most entertaining) member" of that fractious body, the U.S. Secretary of Education's Commission on the Future of Higher Education (Lederman, 2006, ¶13). Two years before the Commission's final report in September 2006, Vedder published his own book-length critique of American higher education: *Going Broke by Degree: Why College Costs Too Much* (Vedder, 2004).

Vedder's book has much to say about financial aid and college pricing. While making numerous proposals for controlling the cost escalation that seems to turn so much of financial aid into a desperate effort to keep up, he claims that financial aid itself helps cause the escalation. It should be noted that the national body to which he was appointed—the Commission on the Future of Higher Education--was much concerned with quality and accountability in higher education as well as access and student aid. Turning the tables and holding this commissioner accountable for the quality of his own quality of work, we can ask ourselves, did he write a good book?

The short answer is no. *Going Broke by Degree* is laden with contradiction, gaps in the exposition, relevant research ignored, error, and a style that moves between a general, breezy readability and sudden, unexplained jargon.

And yet Vedder's book has value. Deploying an ingenious array of studies, it challenges the conventional wisdom that more public investment in higher education will necessarily benefit the economy. And several of his specific proposals for containing college costs and prices—especially his ideas about reducing program duplication between campuses—deserve serious thought.

The nub of Vedder's thesis is this: shielded from market discipline by government and private subsidies, colleges do not spend their money as efficiently as business firms. Instead, they have been allowed to develop bad and lax practices. They have cut faculty teaching loads while "cross-subsidizing" research—too much of it trivial—with funds from undergraduate tuition. Campus administrators and professional support staff have multiplied far more than faculty, but the privilege of faculty tenure balkanizes the university into fiefdoms that resist the efficient reallocation of resources. While politically correct conformity flourishes, students are mollycoddled with luxurious facilities and slack academic demands.

As a result of all this, a state whose public spending on higher education grows more as a proportion of personal income per capita than a similar, neighboring state is likely to see *less* economic growth—less increase in per capita income—than its neighbor. Despite the employment and quality of life produced by academic communities, state spending on other sectors is more economically productive.

If higher education does not shape up, Vedder warns, other sources of further education and research, including for-profit colleges and high-tech business, will make serious inroads into the markets of public and nonprofit private colleges, depriving them of tuition revenue and research grants.

In the absence of radical shifts in higher-education funding, Vedder would have the states direct their subsidies more selectively to reward reductions in bureaucracy and promote cost containment. Ideally, though, Vedder would switch virtually all state subsidies into tuition vouchers for students, scaled according to their incomes. Armed with these vouchers and existing federal and other aid, students would vote with their feet, exerting consumer pressure on state colleges to deliver better service at lower cost.

The case for vouchers, in various shapes and forms, is not new, but Vedder does not argue it well. For one thing, it is not clear how his scheme would treat private nonprofit colleges, since the state appropriations to be replaced by the vouchers would go almost entirely to state institutions. Initially, it seems, the vouchers would be usable only at state and community colleges, although Vedder does not say this explicitly. Ideally, Vedder declares he would like to privatize the public colleges and end direct subsidies of colleges by public and private donors in favor of student vouchers. But would he really want to eliminate all private donations and legacies to colleges? And how would he achieve this awesome feat?

In the absence of radical shifts in higher-education funding, Vedder would have the states direct their subsidies more selectively to reward reductions in bureaucracy and promote cost containment.

Still more confusingly, having criticized private as well as public subsidies for reducing consumer "price sensitivity" and thus encouraging price rises, Vedder accepts the role of private philanthropy in saving something precious but vulnerable like a classics department.

Vedder's difficulties with vouchers reflect his general muddle about financial aid. He says repeatedly that all student aid from outside the colleges, including federal loans and tax credits, drives up college prices on the general economic principle that subsidized demand causes price rises. Why then would not vouchers do the same? If there is a difference, Vedder does not explain it. Nor does he mention the studies prompted by Education Secretary William Bennett's charge in the 1980s that expanded federal aid, increasing student purchasing power, was captured by colleges in the form of higher prices. The studies, on balance, have largely discredited Bennett's claim (Wilkinson, 2005, pp 57-58; Long, 2006, pp 3-5).

Vedder's treatment of the huge growth in student loans is also inadequate. He presents student loans as an easy ride, with "below-market interest rates" and "generous pay-back provisions," noting that some are "even forgiven." His comments do not consider that the prospect and burden of debt can dampen demand for college by deterring students from applying, especially those in low-income families. On the contrary, he briskly avers that many students in their late teens do not understand or worry about "meeting debt obligations" (Vedder, 2004, pp. 20-21).

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In discussing grant aid awarded by colleges themselves, Vedder focuses mainly on private, nonprofit colleges. Scholarships, he aptly notes, are a form of price discount. Using intimate customer information provided by student statements of financial need, colleges can fine-tune their price offers to different individuals, whereas even the airlines (whose multitude of fares is often likened to college pricing) can only "price discriminate" between broad categories of customers.

In both colleges and airlines, varying the price can increase revenue. Vedder recognizes what college presidents have known from at least the early nineteenth century: if you have unfilled capacity, need-based scholarships can operate like any commercial discount, increasing enrollment (sales) and revenue. It is better to get that extra student who is paying something—even if it is only room and board—than to have no student.

To have this effect, the scholarships do not actually have to be need-based, but Vedder does not observe this. Instead his discussion of non-need-based merit scholarships is concentrated on colleges with differing but high academic selectivity, as if unselective colleges do not give merit-based awards.

Unfortunately for Vedder's exposition, he depicts a situation in which Columbia University and Northwestern University decide to whom they should give big merit scholarships on the basis of students' academic records. Anyone who studies financial aid is aware that Columbia does not give merit-based aid. The Ivy League universities, including Columbia and some other institutions with very high selectivity and strong traditions of need-based aid, eschew buying talent with merit scholarships and can afford their principles. Northwestern, for its part, has resisted giving academic merit awards despite strong competition from peers who give them. It does now fund some limited National Merit awards and some merit awards in music. (Vedder should have known this: he is a Northwestern alumnus.)

As Vedder observes, the many colleges that do give merit-based awards tend to award them to students who will raise the student body's quality, as measured by SAT/ACT scores and high-school class rank, and so, hopefully, improve the college's ratings in *U.S. News & World Report* and other influential ranking sources. The same often applies to the "preferential packaging" of need-based aid (more grant, less loan or work-study) for more desired students, although Vedder does not address that.

Vedder should recognize that colleges—especially nonprofit private ones—have two markets: a customer market and a donor market.

There is an important difference here between higher education and most commercial business. Some of a college's student *customers* are also *suppliers,* providing quality, diversity, and other characteristics that the college prizes. These characteristics may have market value in that they attract other students (customers), but they will also fit the college's educational purposes: good students and diverse students contribute to the campus environment. Vedder says little about the educational and social purposes of financial aid given by colleges. This may explain why he overlooks the unique customer/supplier feature of colleges, though the chapter in which he discusses college admissions and financial aid—titled "The New Peculiar Institution"—focuses on what is unusual about higher education compared with commercial business.

Despite his free-market preferences, Vedder does not always approve when colleges act like market operators by trying to increase their revenue as much as possible with various spending purposes. He rightly perceives that scholarships enable colleges to raise the full tuition charged to their wealthier students by providing financial aid discounts to those who cannot pay the full price. Vedder implies that this is price gouging. He also does not note that merit scholarships go disproportionately to richer students.

On the subject of admissions and alumni, Vedder gives short shrift to the market economics he usually espouses. Using Daniel Golden's *Wall Street Journal* exposes, he cites vivid, and indeed shocking, examples of admissions preferences for alumni and other families likely to give big money to the college. As he and others have observed, this belies the "concept of meritocracy" to which modern American higher education subscribes (Vedder, 2004, p. 75; Golden, April 2003, p. A1; Golden, Oct. 2003, p. B1).

As an economist, however, Vedder should recognize that colleges—especially nonprofit private ones—have two markets: a customer market and a donor market, in somewhat the same way that business corporations have investor markets as well as customer markets. In the donor market, colleges compete with other charitable enterprises for money that enhances programs and, in their case, funds scholarships, which is a favorite object of college donors. Admissions tips to alumni "legacies" and "development admits" (children of likely big donors) are part of the process. Vedder may not like it, but he should recognize the tension between market and meritocracy. I suspect he does not see it like this because he views college donations not as a market matter but as "third-party" subsidies, i.e., external to what colleges get paid by their student customers. In fact they are both.

In the case of expanding college bureaucracy, Vedder again neglects a market factor. He gives compelling figures showing that the number of administrators and non-faculty "professionals" per hundred students (full-time equivalents) nearly doubled between 1976-77 and 1999-2000 whereas faculty grew by nine per cent. He has no real explanation for this except to guess that much of it went on research support. Robert Zemsky, another higher education commissioner, and two co-authors give a better picture of this in their book, *Remaking the University: Market-Smart, Mission-Centered* (Zemsky, Wegner, and Massy, 2005). They attribute the growth of college administrators to office empire-building, encouraged in turn by faculty abandonment of student advising to support staff and by student demand for more services.

In other words, the growth of administration decried by Vedder is in part a response to the very market forces (customer demand) that he venerates. Likewise, the new dorms and fancy student centers, which Vedder sees as wasteful luxuries, are part of what colleges do to compete for business. Vedder also neglects the market in proposing an increase in full-time faculty teaching loads. The proposal has merit (dare I say it) but does not address the fact that many colleges *compete* for good faculty via teaching and research conditions, not just remuneration.

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When Vedder does apply market principles, the result can be unfair and possibly self-defeating. His handling of career-long faculty tenure is a case in point. Vedder admits he is "highly ambivalent" about the tenure system. While agreeing that it protects "free speech and expression," he also believes that it enables entrenched professors to "block new initiatives and to maintain costly, outmoded programs" (Vedder, 2004, p. 217) His solution: make tenure an optional benefit that a qualifying professor can buy. Vedder says nothing about the regressiveness of this solution, which would clearly favor wealthier faculty who are most able to buy tenure. And it would still enable key faculty to entrench themselves and their courses.

Perhaps the strongest chapter of the book is the one that takes us through state-based studies of higher education's economic payoffs, both for graduates and for society (what economists call "externalities"), and the relationship between state investment in higher education and economic growth, already summarized above (Vedder, 2004, chapter 7). Vedder does not deny the payoffs of higher education, but he issues salutary warnings. He observes that some of the increasing income difference between graduates and non-graduates may be due to what others have called a "sheepskin" effect or "credentialism"—the initial career advantages of being able to show employers a college degree rather than the education itself. It may also be that college graduates earn more because of the kind of people who go to college and graduate; social scientists in the field call this the "alpha" effect. Unfortunately, Vedder does not mention studies that have tried to explore the extent and limits of these factors (e.g., Park, 1993; Leslie and Brinkman, 1994).

On the general relationship between higher education and economic growth, Vedder notes that some of the relationship may be a reverse one. He speculates that college-educated people tend to move to areas with high economic growth. He might also have observed that richer communities tend to want more higher education.

Like Alison Wolf, the British educationist and labor economist, Vedder warns that just because higher education has appeared so far to assist economic growth in both our countries does not mean that putting more and more people through college will go on growing the economy (Wolf, 2002). There is a limit, even in a "knowledge economy," to how many graduates the economy needs. Vedder argues indeed that the relationship between a state's economic growth and the graduate proportion of its adults is weakening. For those of us who want to equalize educational opportunity, there is a lesson here. It has always been tempting to try to justify principles of social fairness by hard-headed economics and to claim, in this case, that extending higher education to more and more people will benefit the whole economy. The principle of social fairness, however, should stand on its own feet. Whatever proportion of adults goes to college, equalizing the opportunity to get there and the financial burdens thereof should make its own appeal to democratic justice.

Vedder is not much into this. Although he supports need-based aid, his reform agenda does not include provision for helping disadvantaged students with college potential to realize that potential—and he is no friend of affirmative action. Still, his book makes one think about these issues. More generally, too, for all its flaws, perhaps indeed because of them, *Going Broke by Degree* provokes thought about the peculiar nature of modern American higher education and its mixture of mission, self-interest, and market influences.

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