

THIRTY-SIX STEPS



The Path to Reforming American Education

By Richard K. Vedder

December 2014



A policy paper from the
Center for College Affordability and Productivity

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About the Author

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Center for College Affordability and Productivity

The Center for College Affordability and Productivity (CCAP) is a non-partisan, nonprofit research center based in Washington, D.C. 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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Foreword

American universities, though politically liberal leaning, are fundamentally conservative organizations when it comes to their own operations, being often fiercely resistant to change. I found that out when I served on the Spellings Commission on the Future of Higher Education, a group that made some modest but seemingly feasible suggestions for reform, but changes that were (and are) fiercely resisted in the higher education community. I informally called one highly respected (in the higher education community centered around 1 DuPont Circle in Washington, D.C.) higher education leader “Dr. No,” since he opposed virtually every good idea that was proposed.

Nonetheless, reform is going to come to higher education, if for no other reason than that market forces, whose power to allocate university-related resources has been muted by government subsidies, are going to force change. The following is a list of specific changes that would be beneficial if implemented. Few of them will happen without fierce resistance from the higher education community, but progress cannot be made if we are unwilling to confront problems. I leave it to others to fashion the political strategy necessary to achieve the needed reforms.

After some internal debate, I decided to write a study without the usual footnotes citing scholarly studies. However, I have included a bibliographical section that references key sources used in preparing this work. This is not meant to be a comprehensive *tour de horizon* of higher education research, but rather a foundation of studies for the interested reader.



Introduction

The Keys To Reforming American Higher Education

This study is an enumeration of 36 things that could be done to make American higher education better. Some of the 36 “steps” discussed below are vastly more important than others. A fundamental reform of the federal system of student financial aid, for example, is far more important than changing the way the federal government provides overhead funds on research grants. I place an asterisk by the 10 steps that I think are most important for the reader who wants to read a condensed version of this study.

While college leaders proudly proclaim that “American universities are the best in the world,” and have some evidence to support the claim, the fact remains that higher education in America is a troubled enterprise. There is evidence that suggests schools are failing their most important (and will be referenced as such in this study) mission: educating undergraduate students. Costs are rising at an unsustainable rate. Scandals and corruption mire big time intercollegiate athletics. A large portion of students fail to graduate even in six years. Students are increasingly taking jobs for which high school training is perfectly adequate. The problems are seemingly endless.

But it is easy to pontificate about what colleges and, in some cases governments, should do to make American higher education better. It is much, much harder to make it happen. This is not primarily a treatise outlining a political strategy or analyzing campus politics—that is for others to do. As it is now, it is very difficult to envision universities reforming themselves—the culture of invention and change is not well established. Nonetheless, let me introduce three key “I” words that are important in finding a way to affect solutions: information, incentives, and innovation.

Information

Universities are in the business of creating knowledge (information) and distributing it, yet they do a deplorable job of providing and expanding knowledge about themselves and what they do. For example, below we discuss the possibility of offering a three year bachelor’s degree. Vital information in evaluating that idea includes: at the margin, determining what increases in learning, critical thinking and writing skills, leadership development, and the like come from the fourth year of college. To my knowledge, almost no one has ever measured the marginal contribution to these important things at every stage of the college career. Do students “learn” as much in their senior year as in their freshman, sophomore, or junior years—who knows?

Sometimes colleges have information but do not distribute it because it is potentially embarrassing, or because the school might look less good than some of its competitors. Many schools use the valuable



National Survey for Student Engagement (NSSE) instrument—telling how engaged students are in the college experience. But usually they do not publish the outcomes; perhaps from fear that competing peer institutions might publish results that look much better. Schools also are lukewarm about collecting good data on the postgraduate outcomes of their students, learning, for example, how their anthropology majors fare in the real world compared with those majoring in accounting, engineering, or history. Entering students don't know what percent of their instruction will be by graduate students with limited capability as opposed to full professors with fine language skills and deep knowledge of the subject matter. They don't know what amount of their tuition fees goes to support such non-instructional activities as intercollegiate athletics. Above all, desired outcomes are ill-defined and even less measured. Did Harvard have a good year in 2014? Who knows? How can you improve productivity (outputs divided by inputs) if you cannot even measure those outputs or outcomes?

Incentives

Things don't get done unless people want them to be accomplished. There must be incentives. In much of higher education, incentives are very weak or even are perverse in nature. For example, department chairs and other mid-level university administrators typically try hard to expand their budgets—to spend more on any given activity. They try to *lower* productivity—use more resources to do the same thing. Bigger budgets mean more staff, easing the load on existing personnel. Since sometimes the boss's compensation depends in part on evaluations from his or her faculty employees, a unit head that keeps his staff happy by not overworking it might get bigger salary increases. In private for-profit businesses, the incentives generally work in the opposite direction. The employee who lowers costs by being the manager who does more with less, increases profits, which often results in bonuses, promotions, and salary increases. There are strong arguments for making higher education more like the private sector by introducing incentives for greater efficiency.

Those incentives already exist to a considerable extent in the for-profit college sector, a part of higher education that is under heavy attack currently by the Obama Administration. This, to me at least, is highly unfortunate. At the very minimum, public policy should be neutral towards institutions that have market-based incentive systems in place.

Several of the 36 steps mentioned below are essentially attempts to incentivize more efficient behavior in higher education. For example, an honest cost-benefit analysis of faculty workloads would conclude that teaching loads should generally rise. Yet professors prefer to spend time outside of the classroom, either performing research or enjoying leisure. So, as we suggest below, bribe professors—raise their compensation for teaching relative to present levels and, implicitly, relative to so-called research of tangential social value.

Innovation

Universities are enormously resistant to change. I have half-jokingly observed that, with the possible exception of prostitution, teaching is the only profession that has had absolutely no productivity advance in the 2,400 years since Socrates taught the youth of Athens. Yet if we know what we are doing as a consequence of having good information, and if incentives are in place, usually innovation will occur. If, for example, university leaders are financially rewarded by using effective on-line technologies to instruct students at a



lower cost, they will push hard to adopt the technology. If research shows that the on-line approach leads to greater learning, and campus decision-makers have appropriate incentives, they will accelerate the use of the new technology.

Are Colleges Learning Communities or Country Clubs?

The father of modern sociology, Emile Durkheim, said well over 100 years ago that the purpose of education was “the socialization of human beings.” As modern day sociologists Richard Arum and Josiph Roksa have amply demonstrated in *Aspiring Adults Adrift*, the major preoccupation of college students is not academic matters like acquiring knowledge or building critical reasoning skills, but rather making friends, having fun, and enjoying campus recreation. In a recent study for the National Bureau of Economic Research, Brian Jacob, Brian McCall, and Kevin Stange empirically demonstrate that universities do a better job of attracting students, on average, by spending on student amenities (e.g., luxury housing and food facilities, nice recreational facilities with climbing walls, and even “lazy rivers” where students can relax while floating) than on beefing up the academic programs.

In short, we are in the era of the “countryclubization” of higher education—pandering to student wants. This study assumes that the optimal strategy for higher education from the standpoint of broader social goals is to improve the effectiveness of the academic mission through teaching and research. A good case can be made that the declining academic performances of colleges are in part deliberate—colleges are using marketing strategies that crowd out concern for academics in order to make students happy and lure more of them. Indeed, some aspects of the decline in higher education—rampant grade inflation comes to mind—may be largely a direct consequence of the desire to please students and to facilitate their partying and socializing.

Higher education always has had a consumption as well as investment function. Certainly, other things being equal, it is desirable to have students who enjoy their college years as opposed to having the students detest them. But it is quite another matter to subsidize the consumption spending of mostly middle class persons at a time when the nation cannot live within its means (witness the federal budget deficits), and has other collective needs that arguably are much more important. The decline in the power of the faculty relative to the administration that Johns Hopkins political scientist Benjamin Ginsberg so effectively laments (*The Fall of the Faculty*) has no doubt facilitated the declining emphasis on academic values.

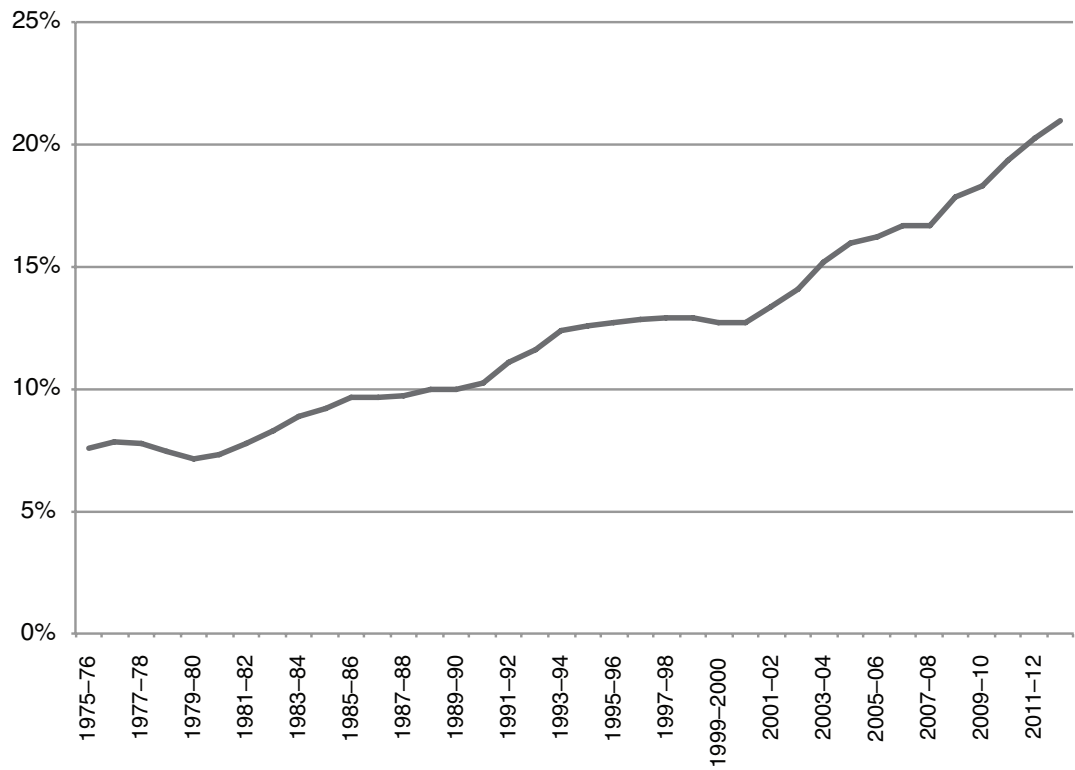
The 36 Steps to Higher Education Reform in America

(most important steps are denoted by an asterisk *)

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FIGURE 1:
TUITION AS A PERCENT OF MEDIAN HOUSEHOLD INCOME



Source: U.S. Census Bureau and Department of Education. Author's Calculation



★*Step One:*
Reduce or Reverse the Growth in Higher Education Costs

To most Americans, the biggest problem with contemporary American higher education is that it is too expensive. Costs to customers, and to a lesser extent society as a whole, of colleges and universities are rising faster than the rate of inflation and, indeed, faster than incomes (see Figure 1). If tuition fees over the last 36 years had grown at the rate they had in the half century or so before 1978, fees at American universities today would be about half as high as they actually are. This fee explosion is simply not sustainable indefinitely—at some point university costs will have to rise less rapidly than incomes (or equal to income growth). The burden of college costs historically was met by students and their parents paying fees from their earnings and accumulated savings. When costs rose to the point where that was no longer possible, people began to borrow more for college, to the point now there is at least \$1.2 trillion in student debt outstanding—more than debt on credit cards.

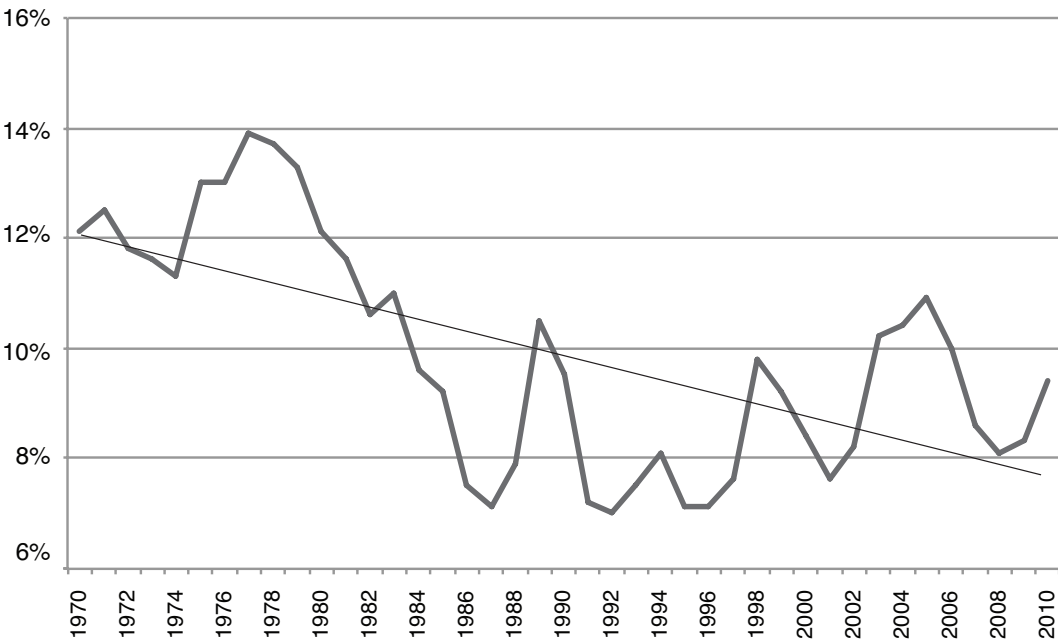
It is easy enough to identify this problem, but how do you solve it? There is no silver bullet solution. And some “solutions” likely will cause more problems. For example, price controls (tuition caps) can create the impression that college costs are no longer rising, but often schools can evade these caps by enacting non-controlled new fees, by reducing the quality of educational services, or through other corner cutting ways.

A big part of the solution (maybe as much as one-half of it) lies in dramatically reforming the system of federal student financial aid, discussed below. Beyond that, the solution lies in the three “I” words “information,” “incentives,” and “innovation.” If students, their parents, taxpayers, and other decision-makers (e.g., members of boards of trustees) have full, complete information about what the costs and benefits are, they can better engage in comparison shopping, finding the school that delivers the most value per dollar spent. There is little price competition in higher education: ever hear of a college having a sale on its services? We never hear of promotions like “Pay before July 15 and you will save 10 percent on your fall semester tuition fees.” If colleges had to tell students, for example, the average tuition discount, the average earnings of recent graduates, or how much “value added” in terms of critical thinking skills occurs, colleges would be forced to be more competitive on price.

While for-profit enterprises have enormous financial incentives to reduce costs and to expand the desirability of their services, thus expanding profits, that is not the case with the not-for-profits that dominate higher education. Much more use of financial incentive payments is thus desirable. Purdue president Mitch Daniels does this. If a dean cuts his/her college’s instructional costs while learning outcomes improve, he/she should get a hefty bonus. Soaring costs and languishing outcomes should be the grounds for dismissal or no salary increase. If the incentives are there, educational leaders will use innovations, such as MOOCs and other electronic technologies, to reduce costs while maintaining or improving quality.

* denotes a most important step

FIGURE 2:
BOTTOM FAMILY INCOME QUARTILE: SHARE OF BACHELOR'S DEGREES AT AGE 24



Source: Postsecondary Education Opportunity. PEO. postsecondary.org



**Step Two:*
Radically Revise the Federal Student Financial Aid System

Along with colleagues at the Center for College Affordability and Productivity Christopher Denhart and Joseph Hartge, I have analyzed the federal student financial aid system. We have demonstrated that it suffers from at least eight defects: it has contributed significantly to the rise in college prices and costs (discussed above), failed to increase the proportion of college graduates from low income backgrounds, contributed to the underemployment of college graduates (discussed more below), imposed significant financial burdens on borrowers and taxpayers, lowered the quality of higher education, possibly contributed to falling household formation and birth rates, led to high loan delinquency rates partly because colleges have no “skin in the game,” and probably have contributed to the decline in the rate of savings in the United States.

In short, the *Law of Unintended Consequences* is at work. The hypothesis that federal aid programs have increased fees is understood by the public and supported by empirical evidence, but some of the other effects, such as the impact of student aid programs on *reducing* the share of bachelor’s degree holders at age 24 from low income groups, are intuitively less obvious but nonetheless supported by factual evidence (see Figure 2).

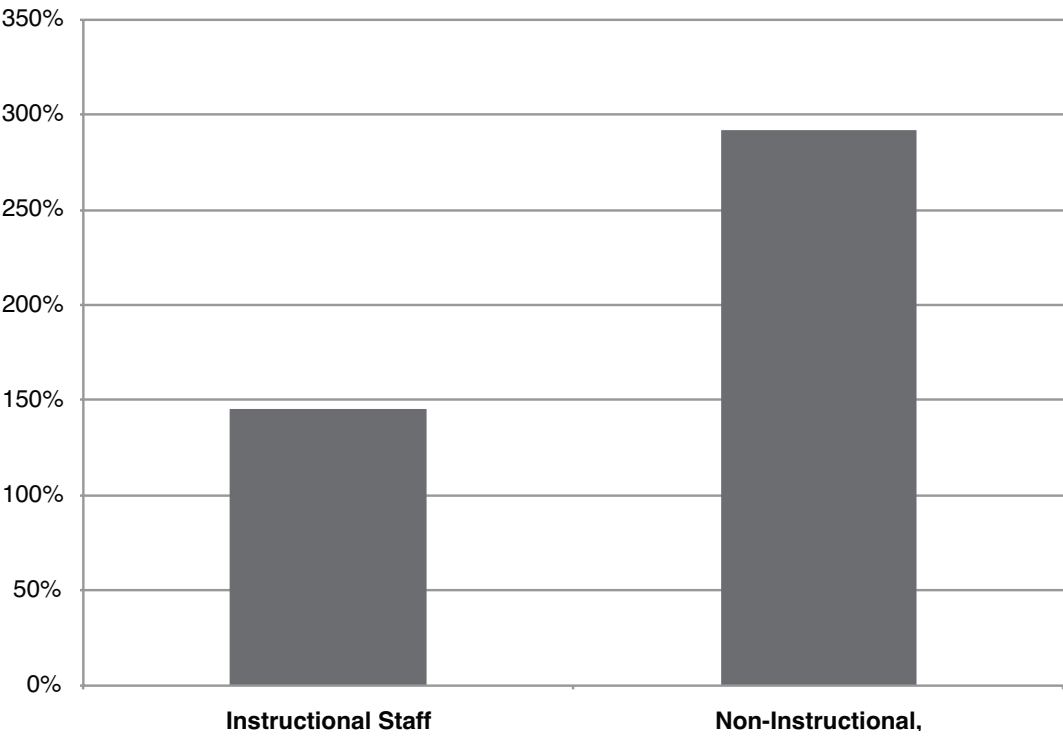
The question then becomes: if the federal student financial aid system has deleterious effects, how do we change it? In a perfect world, a good case can be made to end all federal student assistance programs. If on net these programs have made college more costly and have helped finance an academic arms race that benefits colleges and their staffs more than students, why not simply eliminate them? Yet millions of Americans currently in school depend on grants or loans to finance their education. It would be highly disruptive and arguably unfair to eliminate the programs. Political support makes eliminating these programs all but impossible.

A more realistic goal is to significantly downsize the programs, by perhaps 40 percent from their current magnitudes. Over-half of that can come by eliminating the PLUS loan programs that go largely to parents of students, including some with relatively high incomes, as well as federal tuition tax credits, that are widely acknowledged to benefit affluent families whose children would attend college anyway. Student loans for graduate and professional education also need reform and greater limits. Academic performance standards and time limits (e.g., five years for baccalaureate programs) on loans would restrict eligibility in a manner that would reduce abuses of the current system.

The goal would be to return to a system that provides aid to *truly* poor students with academic potential. The multiplicity of programs could be eliminated, perhaps going to one voucher-like grant program (a modest modification of the existing Pell Grant), as well as a simple loan program. Further, the complicated FAFSA form should be eliminated, as is discussed later.

* denotes a most important step

FIGURE 3:
PERCENT CHANGE IN UNIVERSITY STAFF BY TYPE, 1976 TO 2011



Source: U.S. Department of Education, National Center for Education Statistics. Author's Calculation



Step Three:
Reduce University Administrative Bureaucracies
(Non Instructional Staff)

Over time, a smaller proportion of university resources go for actual instruction. The long-run trend has been for universities to substantially expand their administrative staffs. Since the mid-1970s the non-instructional, professional staff has seen a near quadrupling, while instructional staff has grown more modestly (see figure 3). While some of the increased administrative staff provide services that may enhance the educational mission, universities have created large numbers of what Ginsberg calls “deanlets” (associate deans, vice provosts, public relation specialists, sustainability coordinators, student services administrative assistants, etc.).

The growth in administrative staff has added to university costs and reduced the emphasis on academic issues. Often, the creation of an administrative bureaucracy has slowed down decision-making, and has led to non-faculty members making inappropriate academic decisions that misallocate resources. University decision-making gets bogged down in “governance” issues, where decisions are made slowly, and often in a way that provides an uneasy compromise between various points of view but is clearly non-optimal from the standpoint of an efficient use of resources.

The failure of universities to par administrative staff arises from peculiarities of governance and the perverse working of incentives. In the private sectors, managers (administrators) are incentivized to keep staffs lean and mean; to reduce bureaucratic obstacles to making swift and bold decisions. In the not-for-profit university sector that dominates American higher education, however, administrators are not rewarded for cutting costs, and the additional personnel ease the burden on managers (who have others to do some of the less appetizing dimensions of their jobs). Incentives exist to expand, not reduce staff. Again, the use of market-like incentive schemes can alter that calculus. Incentive payments to senior administrators who reduce administrative costs is one way to approach this issue. Tying state subsidies to a percentage of operating expenditure going toward instructional staff is another.

Growth of administrative staff relates to the growth in catering to the consumption needs of students. Expansion of intercollegiate athletics has also increases non-instructional staff. As the faculty becomes an increasing minority of campus, administrators have seized control of decision-making, treating the instructional staff as mere employees, not a group that directs curricular development. In some regards the faculty is part of the problem too, but the de-emphasis on their role has contributed to the downplaying of the core academic mission.

Step Four:
Facilitate Greater Use of Free or Low Cost
Electronic Courses

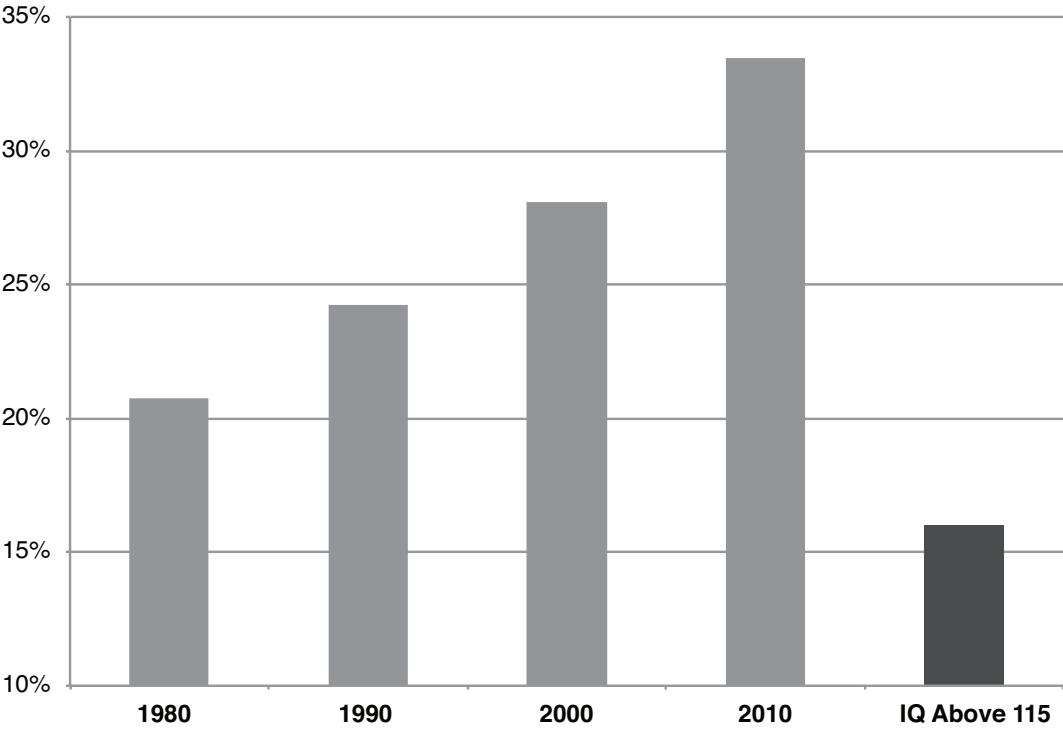
I repeat what I have claimed many times “With the possible exception of prostitution, teaching is the only profession that has had no productivity advance in the 2,400 years since Socrates educated the youth of Athens.” While that always gets a few laughs, it is mostly correct: in most fields, the use of technology and new forms of capital have reduced labor costs and allowed for cheaper and often superior quality goods and services. The development of the internet and associated computer technologies has allowed for superb professors to reach out to large audiences at relatively low prices. Indeed, the evolution of massively open on-line courses (MOOCs) offers the prospect of high quality instruction in truly “higher” forms of education at little or no cost to the recipient of the services.

Since their advent a few years ago, MOOCs have provided free or low cost, high value instruction to many students through such providers as Coursera, EdX, and Udacity, as have other free or very low cost instruction produced by such providers as the Saylor Foundation. Research has shown that on-line instruction has the potential of equaling or exceeding traditional teaching methods in terms of learning outcomes, and optimizing economies of scale can lower the cost of degrees. On-line instruction can be used in non-traditional ways to promote high quality, relatively low cost education with a residential component, such as the new for-profit Minerva University.

Yet there are several issues that limit the growth of this promising innovation. First, students crave certification of competency—the ultimate piece of paper, the diploma, which signals that an individual has achieved a certain relatively high level of erudition and ability to think critically. They want their MOOCs incorporated into the package of courses that indicate a person has what we call a bachelor’s degree. Yet there are obstacles to achieving that. Some of those obstacles are legitimate problems, such as the need to provide verification that the student studying via a MOOC is the same person certified as having completed the course. There are issues relating to the taking of exams, although these problems can be resolved technologically, as they are for students taking, for example, the Graduate Record Examination.

There are other, non-technological, obstacles to be overcome. For example, accrediting agencies usually “accredit” degrees but not courses. Degrees are offered by packagers (universities) who provide courses and certify student competency and the course appropriateness. The course provision and packaging functions should be separated, and the near-monopoly status that the single provider university has over course provision should be ended. Similarly, archaic accreditation procedures must be reformed (discussed below). Blending material from MOOCs and other low cost on-line instructional aides with traditional in person teaching has the potential of letting students have their cake and eat it too—some of the benefits of human interaction with a professor, along with exposure to great teachers via well-crafted on-line materials. This can allow professors to serve more students (since they are doing less lecturing), lowering per student instructional costs.

FIGURE 4:
PERCENT OF US POPULATION (18-24) ENROLLED IN HIGHER EDUCATION



Source: U.S. Bureau of the Census



**Step Five:*
Raise Admissions Standards: Improve Quality,
End Underemployment

The mantra of political leaders, university presidents, and high school guidance counselors has been “you will be a failure in life if you don’t go to college.” Yet, over 40 percent of those entering four year schools full-time fail to graduate in six years. This leaves these students with debt burdens, no salable vocational skills, and the psychological perception that they are failures in life.

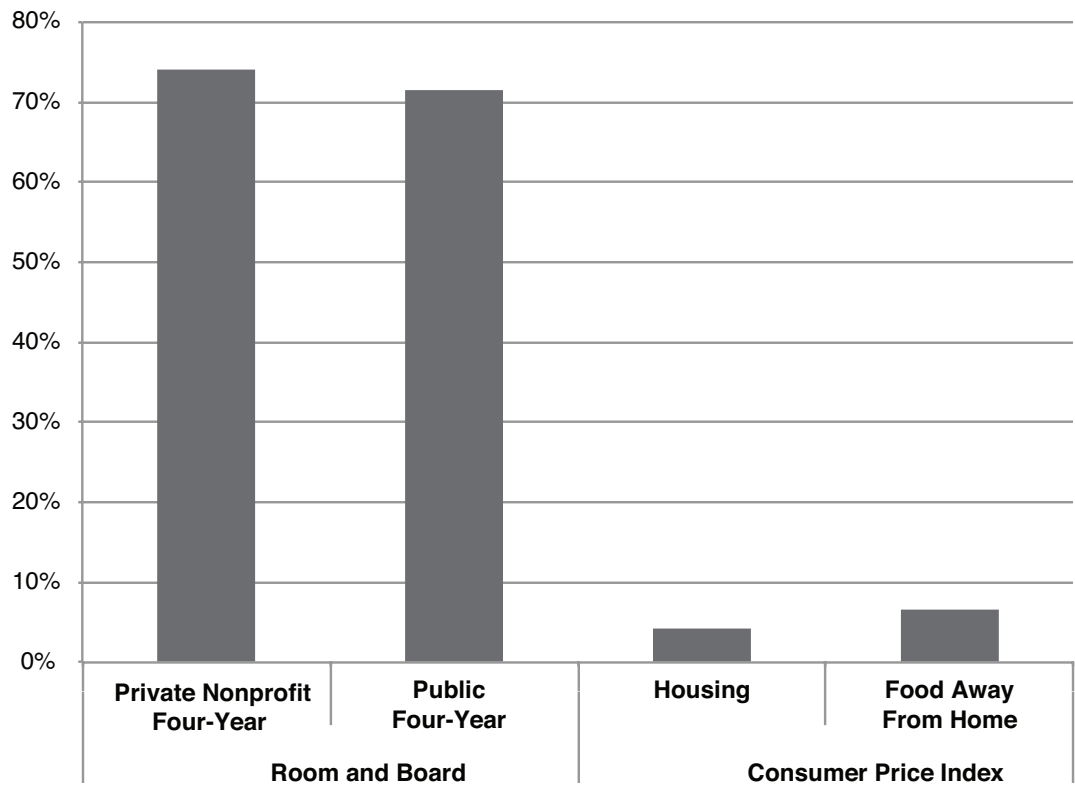
Charles Murray observes in *Intelligence and College* that in 1972, according to the Wechsler Adult Intelligence Scale, the median IQ of a college graduate was 115. Not so today—the proportion of young adults attending college far exceeds the population of those with such high IQs (only 16% of the population has an IQ above 115) (see Figure 4). As a consequence, universities dumb down the curriculum having students take less intellectually demanding subjects; a smaller proportion of students study engineering or philosophy than did in 1970 (Figure 12 below). Colleges lower grading standards to keep the dropout rates from getting even higher than the current scandalously high levels. The colleges also demand less in the way of high school preparation, creating a domino effect that allows academic standards to decline in the K-12 school setting. As Richard Arum and Josipa Roksa demonstrated in their magisterial *Academically Adrift*, there is good evidence that college seniors have typically only marginally better abilities to think critically than college freshmen.

Aside from leading to inferior academic quality, turning colleges often into merely high schools for older students, the excessive growth in enrollments has led to a huge mismatch between the number of graduates and the increase in the number of jobs truly requiring baccalaureate training. Now over 15 percent of taxi drivers have bachelor’s degrees, and there are more degree holding retail sales personnel than there are soldiers in the U.S. Army. More and more college educated Americans are “underemployed.” We are not underinvested in higher education, in some regards, we are overinvested.

While schools with the highest reputation and wealth thrive in large part by being selective—turning students away—far more schools are incentivized to try to maximize enrollments, taking in ever larger number of tuition paying students. We have many good sized institutions, for example, that fail to graduate over 75 percent of full-time students from bachelor’s degree programs in six years (including many not-for-profit state universities). We need to incentivize schools to turn down individuals with low probability of academic success. One way to do this, discussed below, is to require colleges to bear some of the taxpayer cost of student loan default—that is, have some “skin in the game.” Federal financial aid should be restricted or eliminated for students with poor academic records. More students should be encouraged to attend lower cost and academically less rigorous community colleges and career training programs (e.g., learning to be a welder or a hairdresser). Recent Federal Reserve Bank of New York data show job creation has been relatively robust in these positions not requiring a bachelor’s degree. However, those excelling academically in the non-bachelor’s degree schools, showing a high probability of success at the more expensive four year institutions, should be allowed then to transfer to them readily.

* denotes a most important step

FIGURE 5:
**PERCENT GROWTH IN REAL COST OF ROOM AND BOARD
VS. GROWTH IN REAL COST OF HOUSING AND FOOD AWAY FROM HOME, 1976 TO 2013**



Sources: The College Board, Trends in College Costs; U.S. Bureau of Labor Statistics, Consumer Price Index; Author's Calculation



Step Six: Reduce the Financial Burden of Runaway Room and Board Charges

A large proportion of students attending college live away from home. Indeed, a good case can be made that a significant portion of the learning experience associated with college comes from the non-instructional living experiences associated with college residential life. That is the view of many recent college graduates who emphasize their socialization experiences in interviews about their college years. There is some evidence that students who live on campus do better academically than those who commute to school. The residential students also develop lifelong friends and business contacts better than commuters, often serving them well long after college graduation.

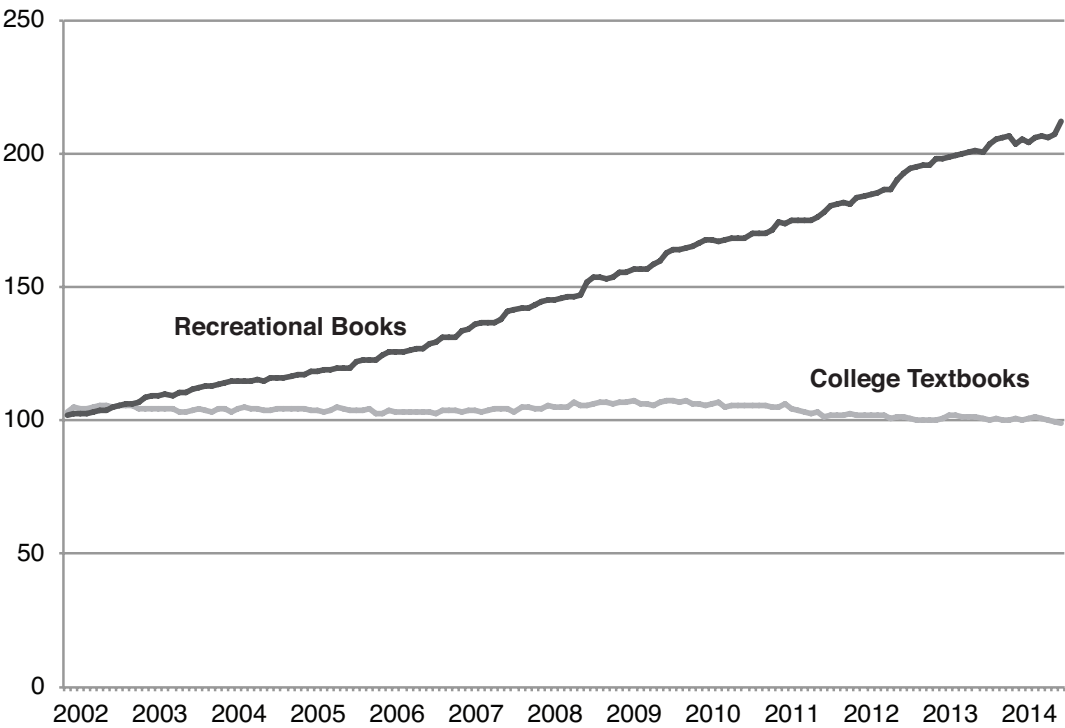
With all of this in mind, many colleges require freshmen, and often sophomores, to live in university owned and/or operated housing, and eat in university dining halls. One would expect in this dimension of university life, costs would NOT be rising much faster than the overall inflation rate, or at least the rate of price increases in food and housing in the non-university private economy. But the reality is quite different; room and board charges have increased far more than food and housing prices (see Figure 5) and at many state universities exceed the in state tuition fee.

There are three possible explanations for this. First, the quality of college food and housing services has improved over time relative to that in the general economy. A college dorm room today is nicer than in the 1960s or 1970s: it is more likely air-conditioned and bathrooms afford more privacy. Second, universities are less efficient than private providers in the market economy in providing services. Hotel and restaurant chains that specialize in those services are more efficient than universities whose expertise lies in educating. Third, universities have monopoly power over students, especially those required to live in university housing and eat university food for the first and sometimes second years. This, what economists call a “tie in sale,” gives universities the power to raise room and board charges rapidly as a secondary (and somewhat more disguised) way of extracting more income from students.

All three explanations contribute to the rising cost. In order to lure students, universities want a more attractive living environment (including recreational centers with climbing walls, fancy student union buildings, and even golf courses). Usually private providers of food and housing are a bit more efficient and can therefore keep prices down. And certainly universities use their monopoly power to their advantage.

I suspect the Bennett Hypothesis (federal student financial aid programs have led to accelerated tuition fees) applies to room and board charges, though this has never, to my knowledge, been tested empirically. Students borrow up to the “cost of attendance,” which colleges augment by higher room and board charges only partly justifiable on grounds of higher quality. Questions do arise: why should universities be in the non-instructional business of providing food and housing? Why should universities get tax exempt financing of food/housing facilities when the private sector cannot? Universities should return to job one: educating students.

FIGURE 6:
CHANGE IN CONSUMER PRICE INDEX FOR COLLEGE TEXTBOOKS
RELATIVE TO RECREATIONAL BOOKS, 2002 TO 2014



Source: U.S. Bureau of Labor Statistics, Consumer Price Index



Step Seven: Stop Soaring Textbook Prices

The problem of soaring prices is not confined to services provided directly by colleges and universities. In particular, the prices of textbooks have risen astronomically in recent times (see Figure 6). A trade book whose size would typically lead to a \$40 list price typically would be four times as expensive if it were a textbook of comparable size and production costs. Professors adopt textbooks for their courses without, typically, even knowing (and in some cases, probably, caring) what those costs are. Over the course of a year, many students spend well over \$1,000 on textbooks. If the rate of textbook inflation over the last 30 years had equaled that of the inflation in the price of books of a non-instructional nature, students would save conservatively \$500 annually.

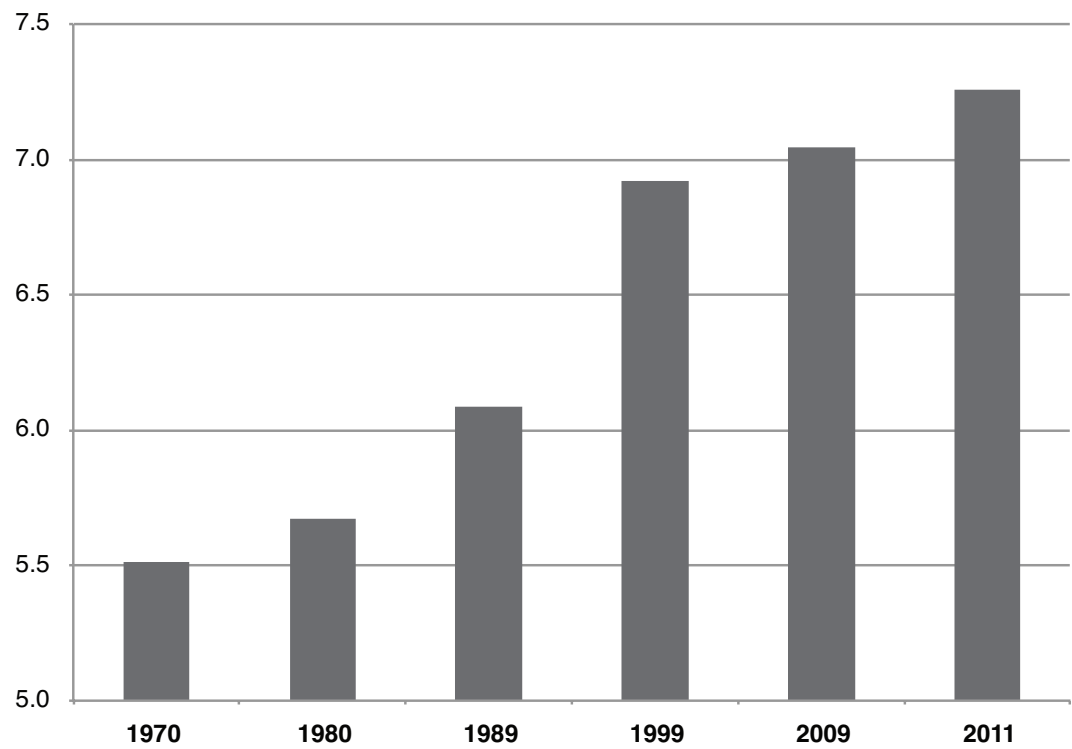
Textbooks are produced by private companies; college inefficiency cannot be blamed for soaring costs. These companies also produce far less costly recreational books of fiction and nonfiction for the general public. Why, then, are costs rising so much? Again, the one thing that distinguishes buyers of textbooks from purchasers of other books is that over the past few decades, textbook buyers have increasingly borrowed money from the federal government to cover “costs of attendance,” where one of those costs is textbooks. The aforementioned Bennett Hypothesis may apply to textbook prices as well.

Textbook sellers have a rather unique monopoly power. A professor tells students, “You must buy Book A by Author B.” There is only one producer of the book. Book availability is vital to good performance in a course whose tuition fee typically is several times the cost of the book. In such a situation, students typically complain bitterly—but buy the book.

There are ways, however, that textbook costs can be substantially reduced. One is an old-fashioned approach: buy used copies of the book. With the expansion of on-line book sales this approach has remained popular. Some books are available at somewhat lower costs as e-books. Some schools have begun book rental programs. University initiatives with publishers and/or retailers are promising with, again, Purdue University leading the way. Purdue formed a partnership with Amazon that calls for the provision of books to students for close to 30 percent below standard retail prices, with the possibility of delivery of the books to the students’ residences.

Particularly interesting is the free textbook movement, supported by several philanthropic endeavors. Two examples are the Ten Million Minds Foundation and Open Stax. These organizations are providing quality textbooks for many survey type courses. This movement needs to be expanded, but faces professorial resistance. Professors feel they should choose textbooks, regardless of price. An incentive based solution would be to give professors a textbook budget (paid for from student tuition fee funds)—and docking their pay if they exceed it. Albeit, this would raise a firestorm of protests.

FIGURE 7:
TOTAL INSTRUCTIONAL STAFF PER 100 TOTAL ENROLLMENT, 1970 TO 2011



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



Step Eight: Incentivize Higher Labor Productivity

It takes more labor to educate 100 students than it did 45 years ago in 1970 (see figure 7). Much of that rise comes from part-time instructional staff increase, but the argument that productivity increases in American higher education are stagnant to negative is likely valid. During that same period, the average productivity of labor in the American economy approximately doubled—the average widget-maker today produces twice the output of his predecessor in the 1970s. Yet in higher education, that is not the case: the average worker provides educational services to fewer, not more students. To be sure, higher education does other things: research, run medical centers and hospitals, provide sporting entertainment, etc. The quality of educational services has undoubtedly changed, although in which direction I am not sure. This complicates the measurement of productivity change, but one thing is for sure: productivity in higher education is falling relative to that in the rest of the economy.

Labor is the predominant resource used in universities. By increasing labor productivity the college cost expansion will slow, stop, or even reverse. The problem: there are essentially no incentives within the academy to promote productivity enhancement. As college finances deteriorate over time with stagnant enrollments universities will be forced to innovate.

There are many simple things schools can do to lower labor costs. Bribing faculty members to teach more is one alternative. Suppose a professor teaches two sections of a class with 35 students each for two semesters a year, and she is paid, counting fringe benefits, \$105,000 a year (about \$80,000 before benefits). That works out to \$750 per student. Now, suppose the professor is offered a \$15,000 bonus if she would teach three sections of 40 students each for both semesters. The professor now teaches 240 students annually for \$120,000 in compensation. This reduces cost per student by one third to \$500. More aggressive use of overload pay can decrease instructional costs per student dramatically. Take another example: a dean of a major unit of the university makes \$150,000 annually, with three associate deans making on average \$100,000. Total cost of these employees is \$450,000. Suppose one associate dean leaves. Suppose the provost or president approaches the dean with the following proposition: you can replace the leaving associate dean and maintain the status quo, or you can find ways to do without that position and we will increase your pay to \$175,000 annually, and that of the two remaining associate deans to \$110,000. Many deans would take that deal, reducing the administrative bureaucracy in the process—and saving \$55,000 a year—a 12 percent reduction.

More incentive payment schemes like this could produce a win-win situation. Total costs fall per student, reducing tuition hikes. Employees voluntarily agree to changes that increase their salaries. The only caveat: if there is a real deterioration in the quality of learning, this may be a bad idea. But very often, the research lost from higher teaching loads is of trivial value—a largely unread paper in some “Journal of Last Resort.” The reduction in administrative staff might improve efficiency by eliminating a layer of management, and reducing time spent in meetings among others.

Step Nine: *Facilitate Year Round Schools*

There are two large wastes of resources associated with higher education that can be fixed overnight with a very low tech, low cost solution. First, human resources are wasted: students increasingly spend five or more years to get an advertised four year degree. Not only does that increase the direct financial outlays of students perhaps 25 percent above expectations, but there are even larger hidden opportunity costs: students graduating a year late typically lose a fair amount of money from not working that extra year, an income available to the student graduating in four years.

The second big waste comes from the massive underutilization of facilities. The largest single dimension of that underutilization comes from operating at less than 50 percent—more often 25 percent—of capacity in the summer. For at least three months a year, classrooms, offices, and laboratories are unused. The costs associated with that underutilization are hidden, but are nonetheless real: buildings cost large sums of money, both to build and to maintain. Depreciation alone on buildings, (rarely accounted for using the questionable university accounting techniques, techniques that would land private companies in jail) is sizable. If a campus has 12 similarly sized instructional buildings used nine months a year, it is getting the equivalent of nine buildings year-around usage out of its facilities. But what if the school operated year round, it could get along with three fewer buildings, saving millions of dollars. Universities are piling up dangerous amount of new debt to finance capital facilities, many of which would be unnecessary if existing buildings were used more.

The move to year round schools can offer some of the instructional salary economies discussed above. If a school moves from two to three semesters (or three to four quarters), professors can be offered the option to teach year round for some percentage increment of pay (still getting four to six weeks of vacation a year). Done properly, this would lower instructional costs per class and optimize utilization of capital facilities.

Unfortunately, neither students nor faculty want year round schools—at least at current compensation and subsidy levels. George Washington University president Stephen Joel Trachtenberg aggressively pushed the concept for years, but was rebuffed by his university colleagues, for example. Schools that have offered three year degrees usually get few takers. But that is in part a function of the perversities of current incentive systems.

A more legitimate concern to going to a three year degree relates to student internship programs and the like. These programs provide a means for students to start moving into the adult world of work, and for employers to size up potential future employees. It is difficult, although not impossible, to have students graduate in three years, take a full traditional load of courses, and also have time for meaningful internship experiences (with a three semester a year system, a student could complete eight semesters of study—the standard for a bachelor's degree—and still have one semester free to complete an internship, perhaps two-thirds of the way through the program).

Step Ten:

Incentivize Greater Space Utilization

The use of facilities year round is one way to better utilize the physical capital resources of universities, but it not the only one. Buildings are largely deserted on the weekends, evenings, and on long breaks during the year. Moreover, classrooms are seldom utilized on Fridays, at 8:00 a.m., or late in the afternoon. Students and faculty alike prefer to teach or attend class between 10 a.m. and 4:00 p.m. Mondays through Thursdays—24 hours of the 168 hours in every week. If anything, the situation is worse regarding faculty offices. I would suspect that the typical faculty office is occupied fewer than 10 hours each week, and a professor in his office 20 hours weekly is relatively rare. Buildings are not free—they require massive capital outlays and, properly maintained, large sums to keep operating. Yet colleges are extremely wasteful in using them.

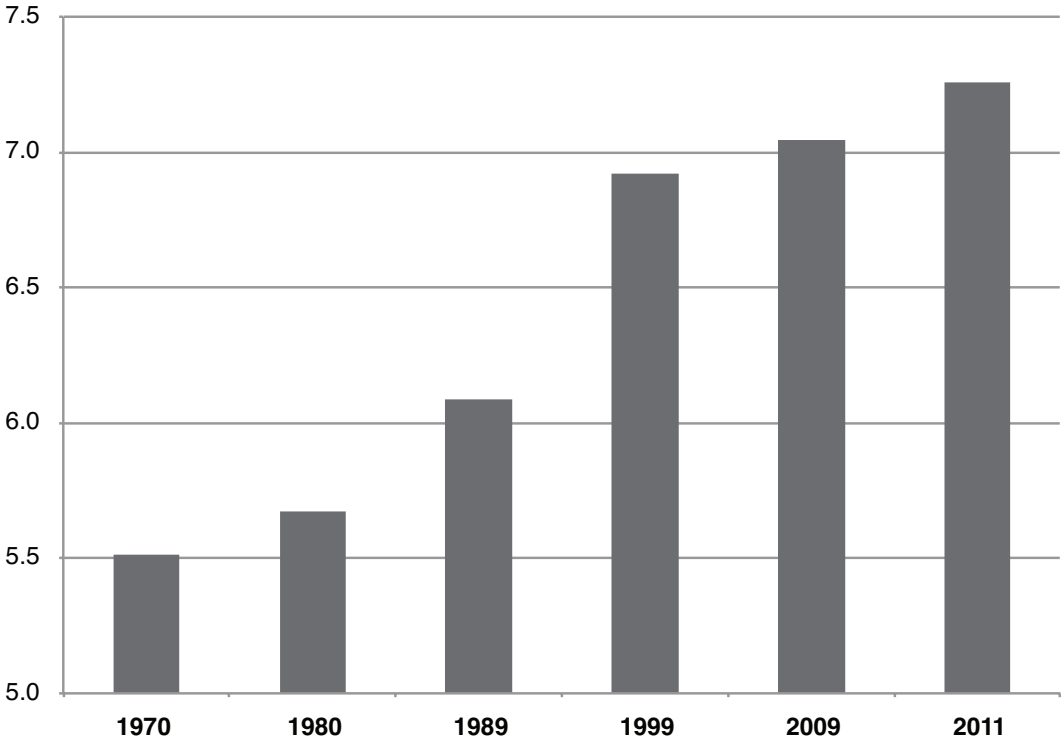
What can be done? One promising idea is to use market principles in space allocation. Give each unit in the university a nice allocation of dollars which they can use to rent space. Classrooms used on Saturdays or at 8:00 p.m. in the evening perhaps would be available rent free, but the same rooms at 10 a.m. on Monday and Wednesday mornings would be, say, \$1000 per semester. An alternative approach might be utilized for large lecture halls used by several academic departments. Auction off the space. Departments would bid on the use of the space, using budgeted funds. A unit that wants to hire more staff to meet crushing student demand might rent cheap space in the evenings and on Friday, using unallocated budgeted funds for space instead to meet personnel needs.

Implicit in this discussion is the idea that ultimately departments and other units do not “own” buildings. All buildings are “owned” by the university, and the central administration rents out space to various users. Often a department will occupy a building, have its enrollment and staff decline, but still claim ownership to the building even though other rapidly growing units have a better claim on some of its space. The market approach would help provide a means to reallocate resources over time.

Indeed, the concept of renting space can be extended to individual faculty members. Give each faculty members a budget, from which he or she rents an office, pays for the use of secretarial services and photocopying, travel expenses, and perhaps even a parking space. A faculty member who wants a nice private office will pay a high rent, forcing him or her to have less secretarial access or a parking place more distant to the office. A faculty member who infrequently uses the office might share an office with a colleague, but have prime parking and heavy use of secretarial services, or the ability to take an extra business-related trip each year.

To be sure, there are limits to the market approach, and finding the optimal pricing arrangements is something of a trial and error process (like pricing in the private for-profit economy). Sometimes private donors build a facility specifically for the use of a single department, so the use of a rental scheme might lead to violations of donor intent. The market model, in short, may need to be modified to fit historical and legal constraints.

FIGURE 8:
PERCENTAGE OF TOTAL STUDENTS ATTENDING FOR-PROFIT INSTITUTIONS, 1990 TO 2012



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



**Step Eleven:*
End Discrimination Against For-Profit Schools

One of the most striking developments in higher education in the past generation has been the growth of for-profit schools, increasing from barely one percent of enrollments to perhaps 10 percent until recent declines (see Figure 8). The for-profits have a different model and different goals. They are laser focused on students, having zero research or public service function. Their success depends on student satisfaction—they are nearly 100 percent tuition driven. While “private,” they benefit enormously from the federal student financial aid programs—most of their students have federal student loans and/or Pell Grants.

The for profit schools have come under withering attack during the Obama years, and some administration officials have shown naked hostility to this segment of higher education. It is true that a disproportionate number of students at for-profit institutions default on student loans and/or fail to graduate. That, however, is primarily, perhaps entirely, a function of the fact that students attending these institutions are very largely non-traditional adult students, often with a mediocre secondary school background, working part or even full time while in school. The for profit student body typically has a large portion of minority students, and those who are first generation college students, groups with historically low rates of academic success.

The Obama Administration has imposed all sorts of burdensome rules that disproportionately impact for-profit schools. For example, it has attempted to impose state authorization requirements that prohibit on-line educational companies from operating in any state without specific state authorization. This is an expensive burdensome requirement that, in my judgment, is borderline unconstitutional, in that it impedes the free flow of interstate commerce.

The most important rule, however, relates to “gainful employment.” The Obama Administration has implemented rules on for-profit institutions that could lead to denial of federal funds to students if the school fails to meet certain minimal standards regarding the employment of their students. The principle of relating the provision of federal funds to student performance is a good idea, as is the general principle that schools should have some “skin in the game”—some financial consequences if student post-graduate performance is abysmal. But the new “gainful employment” rules *do not apply to all schools—mainly for-profit institutions*.

Why? Why should the organizational structure of the school matter in determining whether student aid will be offered? The federal government rightly should not want to throw money down a rat hole—giving students loans that are seldom repaid. Earlier, we urged for the adoption of some academic performance standards with respect to student loans. But the singling out of students attending for-profit schools is discriminatory and highly unfair, creating an unequal playing field. In reality, there are a number of publicly subsidized universities where the four year graduation rate is below 10 percent, and where at least three out of every four students never graduate. Why should these schools be treated differently than the for-profit schools? The for-profits provide education at a lower cost to society per student than other schools, are generally highly efficient, and provide many students with precisely the educational benefits that they desired. Hence the war against these institutions seems ill-advised.

* denotes a most important step

Step Twelve:
Reduce Non-Academic Activities and
Remove Their Tax Exempt Status

Colleges and universities have two fundamental missions: creating and disseminating knowledge. Knowledge creation comes from research, while the dissemination function requires teaching. Everything else schools of higher education do are things that could be done by other types of institutions—they are not unique to higher education. Yet universities find themselves doing other things, things not directly related to the core teaching and research missions, things that often distract university leadership from achieving excellence.

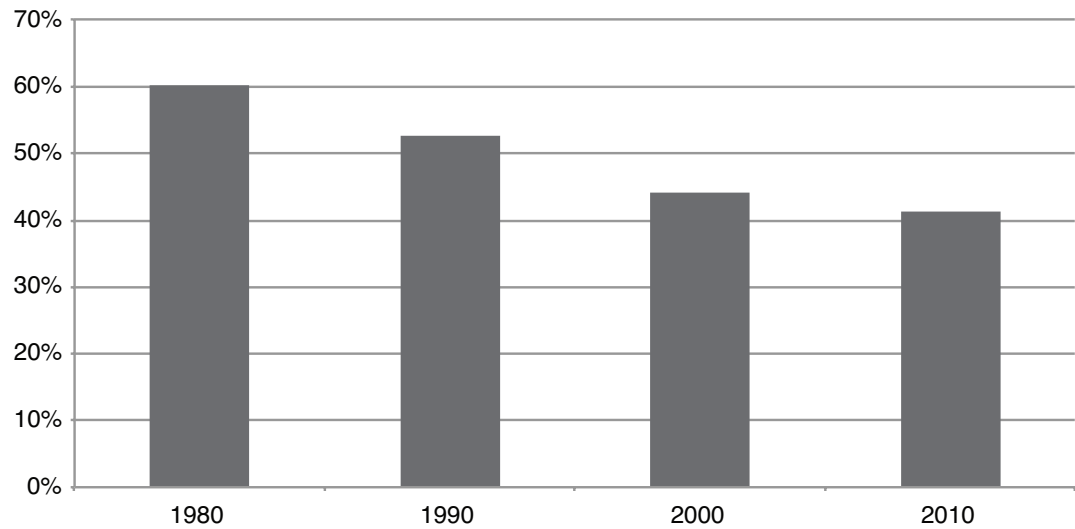
What are these “things?” Several dozen schools have large hospitals and clinics related to their medical schools, often spending as much money as the rest of the university combined. While there is a historic tie between the teaching mission and the practical experience gained in university hospitals and clinics, many universities operate hospitals and clinics with only the most nominal ties to the medical school’s teaching or research mission. An argument can be made that commercial medical operations, such as clinics serving the general public, should be maintained in separate legal entities, albeit with teaching and research ties to the university’s medical school.

More commonly, universities operate residence and dining halls, run conference centers, offer concerts and theatrical productions and, certainly not least, run commercial athletic operations. The latter get a good deal of public attention, and with good reason (as will be discussed more below). But what are the public policy arguments for providing public subsidies in the form of cash or tax preferences to build new or renovated football stadiums used for ball throwing contests perhaps seven times a year, particularly when the subsidies help construct luxury sky boxes allowing wealthy donors to watch football games in comfort, drinking and munching on food while protected from the harsh climate? Removing federal tax exempt status for these socialization activities would, in a small way, reduce the excessive expansion of the consumption dimension of higher education, returning it part way towards its original mission.

Tax exemptions apply not only to provisions of the federal tax code relating to income taxation, but also to state and local tax privileges. For example, should commercial food and beverage operations of state university facilities be subject to sales taxation? In the interest of fairness, the answer is “yes,” since providing food at, say, university conference facilities, has nothing directly to do with disseminating or creating knowledge. Similarly, property tax exemptions, arguably valid for classroom and laboratory facilities, are less legitimate for university housing and food facilities and make almost no sense with respect to such things as university golf courses that are open for recreational use by the general public.

Universities receive subsidies and favorable tax treatment because it is perceived that the provision of higher educational services is a public good, with positive spillover effects to all of society, or that universities are instruments in promoting equal economic opportunity. Whatever the virtues of these subsidies and tax privileges (and I increasingly question even these), they do not pertain to non-educational, commercial activities, and give universities advantages over similar providers who are subject to taxation.

FIGURE 9:
**PERCENT OF TOTAL REVENUE FROM STATE APPROPRIATIONS
AT PUBLIC 4-YEAR INSTITUTIONS, 1980 TO 2010**



Source: Illinois State University Grapevine Dataset of State Appropriations; U.S. Department of Education Statistics, Integrated Postsecondary Education Data System



Step Thirteen:

Promote the Privatization of Some State Universities

“State” universities are institutions that receive subsidies for operations from state governments. They were created to serve dual purposes: first, to promote the positive externalities that higher education provides; and second, serve as an engine of economic and social mobility. While some evidence suggests these positive spillover effects are overstated, the first purpose would support the use of public funds for education. The second “American dream” argument, suggests higher education attainment affords greater economic opportunities, thus we should support it as a means of decreasing income inequality.

Historically, state governments provided a large portion (e.g., 40 to 60 percent) of university operating budgets. In modern times, however, state government support has not grown enough to finance the academic arms race pervading contemporary America, and the state government share of budgets has fallen (see Figure 9). Moreover, a strong argument can be made that healthy competition in higher education would be better served if subsidies were given to *students* in the form of vouchers or state scholarships rather than directly to universities. If students controlled these funds, their importance to university leaders would be enhanced, increasing the emphasis on teaching and reducing the volume of effort on producing trivial research.

Already, some universities chaff from a combination of a lack of large-scale state support and “not-for-profit” regulations that thwart optimal decision making. Schools like the University of Virginia, the University of Michigan, and the University of Colorado generally get 10 percent or less of their funding from state governments. Their governing boards are largely political appointees with too short of terms to permit effectiveness. The schools feel constrained on the number of out-of-state students they can admit in some cases and the tuition fees they can charge. Prevailing wage laws in many states force state schools to use expensive labor on capital construction projects. In short, the benefits of state government support have declined over time, while the costs associated with that support have increased. Still, both tradition and the short-term fiscal woes associated with losing even only 10 percent of revenue have to this point been sufficient obstacles to prevent privatization.

Yet I believe a path to privatization is possible; one that is minimally disruptive and maintains the tradition that states help low income students overcome financial barriers to college. Universities could move to a “state assisted” or “charter university” status, gradually having appropriations reduced. In the meantime, savings from reduced appropriations could go to support voucher programs enabling low income students to attend any of the state’s state or state-assisted universities. Eventually, the vouchers could be extended to allow students to attend any institution, either public or private, in-state or even in other states.

Research shows that, other things equal, student outcomes are better in private than state institutions—lower dropout rates, for example. Merely changing the designation from “state” to “state-assisted” in itself should have little impact, but the freedom that universities gain from reduced state control ultimately should lead to better student outcomes, with a lower burden on taxpayers. Thus taking the “charter school” concept used successfully at the K-12 level and extending it to some state supported universities makes a good deal of sense.

Step Fourteen:
Use Variable Pricing of University Services:
Professors Charge Fees?

In the first great work in economics, *The Wealth of Nations* (1776), Adam Smith states that “In the university of Oxford, the greater part of the...professors have...given up altogether even the pretence of teaching.” The reason, Smith makes clear, is that professors previously levied fees directly on their students, but now the university was doing that. Previously, professorial income depended on good teaching drawing in paying students; by 1776 (and now), the professors were paid whether or not they did a good job in the classroom. This observation is very relevant to modern day universities. Schools levy a large fee for a package of courses that students take. Why not, collect fees by the course—and in part, at least, allow professorial income to depend on the amount of fee income collected? This could be part of a scheme to “unbundle” the packaging of higher education discussed elsewhere in this study.

Usually universities charge all students the same fees (although they give tuition discounts in the form of scholarships). Why? Some are taking expensive courses, others cheap ones. Some take courses in the summer when there is underutilization of resources. Why not charge lower tuition then? Some students take high demand, costly programs with waiting lists to get in classes: why not charge higher fees? Why not lower fees for areas of low demand, say where class sizes are unreasonably small? Why not charge low tuition fees for courses taught by relatively low paid adjunct faculty members meeting in the evening or on Saturday, when space is grossly underutilized?

The advantages of variable pricing are enormous. If tied into employee compensation, it can be used as a way to improve outcomes—get professors to prepare more for class, for example, or make their material more relevant and compelling. It can assist in utilizing space more efficiently, and solving problems of either under or over capacity. Moreover, the concept can be extended to other fees. Most universities charge students more for desirable housing, and offer alternative meal plans with different pricing. But even here, more can be done, raising prices on high demand rooms and lowering prices on rooms that are the last to be filled.

Interesting issues arise. Usually tuition fees are similar or identical for undergraduate and graduate students, despite the fact that graduate instruction is more costly. Admittedly, that cost is partly offset by graduate students providing low cost undergraduate instructional services. Often schools charge much higher fees for professional schools (e.g., medical or law schools), and sometimes MBA programs. Why stop there?

A related issue concerns the bundling of services. If you want to buy instructional services, you have to buy food and housing services. You have to pay “activity fees” for use of certain facilities, such as the student union building or recreational center, whether you use them or not. A case can be made to price these services separately.

One problem with all of these ideas is their complexity. There would have to be a lot of trial and error pricing; market activity is a discovery process. Uniform sticker prices for tuition do allow students to engage in comparison shopping between institutions with ease, although schools could report their average tuition fees to partly alleviate this problem.



Step Fifteen:
Provide a Legal Environment Enabling
Income Share Agreements

While the need for financing of college would be dramatically reduced if college tuition fees had not risen so much, in reality they have, and many Americans are scared to borrow large amounts to finance college, given reports of high student loan defaults, and underemployment of recent graduates. Moreover, the federal government's exposure regarding student loans—over a trillion dollars—poses some broader macroeconomic risks to society. Alternative financing solutions are needed.

Enter Income Share Agreements (ISAs), also known as human capital contracts. Here is how they work: an entrepreneur offers to finance a certain amount of a student's college costs, in return for a share of the earnings of the student in the years after graduation. In a sense, a student is selling (actually renting) a share of his or her "human capital" (earnings capacity) for a fixed number of years. The terms of the ISA will vary with the perceived potential gains to the investor. A petroleum engineering graduate from M.I.T. who receives \$75,000 towards his college costs might be able to pay 10 percent of his earnings for 15 years after graduation, while a social work graduate of the University of Illinois at Chicago might have to pay 18 percent of her earnings for 25 years for a similar sized ISA.

Indeed, the variability in loan terms is one of the advantages of the ISA: it provides us with a market assessment of the value of different degrees, schools, or majors. The information that it provides would likely lead students to reallocate their efforts towards areas that society finds more rewarding. The students also do not have the worry over a debilitating debt obligation. The risk associated with financing college is shifted from the student to the investing entrepreneur. ISAs are no magic bullet or panacea: if the cost of college keeps rising relative to incomes, the burden of financing college will remain large, and even clever financing arrangements cannot change that reality.

ISAs are legal today, and several entrepreneurs have explored their possibilities. Yet there are some legal uncertainties about their use. Proponents like Miguel Palacios argue that federal legislation is necessary to support their implementation, including legal provisions allowing the enforcement of the terms of the agreements.

There are some state-proposed schemes that bear some resemblance to private ISAs: they involve state funding of college attendance in return for a share of post-graduate income; the idea first attracted attention in Oregon. The proposals, however, have suffered by offering unrealistic repayment plans, with the same terms for all majors, which, implicitly would lead to subsidization of some fields of study relative to others. Allowing private funding and negotiation of terms would lead to a more efficient market solution.

Some veteran observers of financial markets are skeptical of ISAs, and with some reason. This is an untested approach, and the time between the initial investment and the payoff is quite long (at least four years of college plus some time getting started on employment). Given lack of historical experience, there probably would be some mispricing of ISA contracts at the beginning. Still, the concept is a legitimate one, and entrepreneurial experimentation should be welcomed and encouraged.

Step Sixteen:
More Aggressively Utilize Economies of Scale

Having literally thousands of distinct institutions of higher education is both a blessing and a curse. It allows enormous choice for students, since schools have diverse philosophies and approaches to learning, but that can lead to some inefficient duplication of effort. Too often colleges and universities only a few miles apart have similar services that could well be provided jointly. Libraries are a good example. Many urban areas have a multiplicity of universities with libraries stocking the same books. University A will buy a book for \$40 that only two people look at over a five year period, while University B, ten miles away, buys the same book that only one person explores in the same period.

Much more can be done to conserve resources and obtain economies of scale. A long standing example is the Claremont Colleges in California. Five separate small undergraduate colleges—Pomona, Claremont McKenna, Scripps, Harvey Mudd, and Pitzer—and two graduate schools—Claremont Graduate School, and Keck Graduate Institute—have adjacent campuses. Each school has a distinctive character—Harvey Mudd, for example, is an engineering school, while Scripps has a strong fine arts curriculum. Yet the schools all share the same library, and students at one school can take courses at other institutions.

The Claremont example could be extended much further. Georgetown University and George Washington University are about a mile apart—why do each have their own libraries? Couldn't they operate a joint recreational center, perhaps one-half mile from each campus? The Detroit metropolitan area has at least five state universities: the University of Michigan at Ann Arbor, Oakland University, Eastern Michigan University, Wayne State University, and the University of Michigan at Dearborn. Aside from the question: why are there multiple college campuses located in some cases just miles apart, can't the schools at least cooperate with regard to provision of some services, common purchasing of supplies, etc.? On some Saturday afternoons, over 110,000 watch football at the famous Big House at the University of Michigan, while six miles away 4,000 watch Eastern Michigan play another game (and Eastern Michigan loses about \$20 million annually on its intercollegiate athletic programs). Is this optimal?

There are many areas where cooperation can lead to efficiencies. Some state university systems are jointly purchasing needed supplies, reducing costs. The internet has allowed for enormous economies in libraries, with institutions like JSTOR providing academic journals to individuals at their own computers, and robust interlibrary loan programs have the potential of greatly reducing the purchase of books, an archaic practice in a digital age.

Related, universities can save money by contracting out services to private, specialized, and efficient organizations. Many schools already contract out food and some maintenance operations. They could expand this much more to include housing and business (information technology, payroll) areas. Outsourcing remedial academic functions, which fall outside the scope of what universities traditionally provide, would lead to additional savings.

**Step Seventeen:*
Eliminate or Reshape Academic Accreditation

Accreditation originally served a useful purpose: it provided information to students, their parents, donors, and taxpayers about the soundness of the academic programs at institutions of higher education. There were (and are) various shady “schools” that virtually sold diplomas, and reputable schools wanted customers to know that respected third parties (accreditation agencies) considered their schools to be of reasonably high quality. Yet times have changed. Accreditation carries little weight—extremely high and extremely low quality schools get the same approval. Accrediting agencies have often used input rather than outcome-based measures, and have used their powers to restrict entry of new schools, and to restrict the supply of graduates (the American Bar Association, the accrediting agency to law schools, has been accused of this). Accreditation agencies are riddled with conflicts of interests—schools sit on the boards of the agencies that certify the approval of their own accreditation. Sometimes agencies have used their powers to promote causes that have little or no relevance to the quality of the institution.

Let’s return to first principles. Why do we need to require schools to be accredited? If accreditation is predominantly about providing information, why not develop a highly transparent and uniform information system that assesses the success of institutions in educating students? Some of this information (e.g., graduation rates, retention rates) is already available, but why not obtain and publish data on, say, recent alumni satisfaction with their college experience, post-graduate vocational success (including earnings), the value added to critical thinking and writing skills while in college, etc.? In short, provide a more comprehensive version of what magazine based college rankings attempt to do. Consumers could use this information to make more informed decisions. The information system could substitute for accreditation: schools would get, perhaps, an overall quality score that gives much more information than the current binary system where you are either accredited or not: Harvard’s accreditation score might be 96, while nearby Suffolk University receives a 67. The system could be run by existing accreditation agencies—or others. I have often suggested Underwriters Laboratories, an organization known for its quality “accreditation” of appliances for their safety.

Today, the federal government uses accreditation as a financial aid screening device. But that function could be separated from accreditation. Schools failing to meet certain criteria (e.g., having a four year graduation rate of less than 10 percent) could be denied student access to federal financial aid. Or, much better yet, the federal government could simply tie aid to the accreditation score of schools.

Even this proposal is not without concerns. The criteria used to evaluate quality are necessarily somewhat subjective. The Obama Administration hopes to have its own ranking system, but in a perfect world competing rankings using alternative criteria would give consumers more information—they can pick the assessment approach that best fits their own philosophy. And, if the other recommendations here were adopted, the critical role of federal student financial aid with respect to accreditation would be reduced significantly.

* denotes a most important step

★*Step Eighteen:*
More Transparency Regarding Learning and Outcomes

Building on the previous point, colleges, in the knowledge business, are almost anti-knowledge when it comes to some aspects of their own operations and performance. They publish the good news about themselves, and suppress the bad. They complain about private efforts to assess their performance, such as magazine ratings. Yet a more optimal allocation of resources is likely to occur if the purchasers and providers of higher education services are fully informed.

To be sure, some things colleges do are difficult to measure. Any single test of student knowledge and/or critical reasoning skills will be imperfect given the vastness of the stock of knowledge, ideas, and creative endeavors accumulated over the ages. Nonetheless, colleges have made no serious attempt to try to, for example, measure the knowledge accumulated during the college years by administering examinations at the beginning and end of the college experience. Moreover, some usual information that many colleges gather, such as the results on the National Survey of Student Engagement (NSSE), is not widely publicized. NSSE gives useful information on student work effort both in and out of the classroom. For example, are students writing long papers? Is the atmosphere at College X more or less conducive to learning and intellectual development than at College Y? How much time do students spend on leisure? NSSE gives information that answers these questions.

Universities do not want prospective students to have comprehensive consumer information for fear that they will not stack up to peer institutions. Therefore, they must be nudged to adopt information-providing reforms. The IRS has the most comprehensive salary data amassed. They could report collective (not individual) information on the earnings of alumni say 2, 5, and 10 years after graduation, if colleges provided them relevant Social Security numbers. The best data would include all of those who were first year college students at each institution, including those who dropped out, giving a fuller picture of the experience of those matriculating. The data could be disaggregated by major or fields of study. The proposal would require new legislation, opposed bitterly by both the colleges and the IRS, but it would be very useful information to prospective students trying to do a cost-benefit analysis on the desirability of attending a given college.

There is other information that colleges suppress. Campus crime data are not uniformly reported and often account only for crimes reported to campus police. It would be useful for each college to provide information on student success classified by the student's high school performance (as measured by grades or rank in class) and/or performance on examinations such as the SAT or ACT, allowing students to assess the probability of their college success. Alumni satisfaction and performance data could be useful: how are recent graduates doing, and what aspects of their college life did they like, and where do they think weaknesses lie?

* denotes a most important step



★*Step Nineteen:*
Raise Academic Standards

As stated above, one of the unintended consequences of a vast federal student financial assistance program has been a lowering of academic standards; a reversal of that program's growth will help provide opportunities to raise academic standards. Too many students graduate from college barely functionally literate. Critical reasoning skills show little improvement, and a large proportion of college students are illiterate regarding our civic institutions and heritage. Over 40 percent of full-time bachelor's degree candidates fail to graduate in *six* years. Colleges knowingly admit many students whose prior records indicate a high probability of failure. Why admit them in the first place? Are you doing a favor to students by admitting them when they likely will fail to graduate, using large amounts of resources to educate them (including often ineffective remedial education courses), when, for less money and with much greater probability of success, they can receive technical training in a non-degree postsecondary program that provides them with a useful vocational skill?

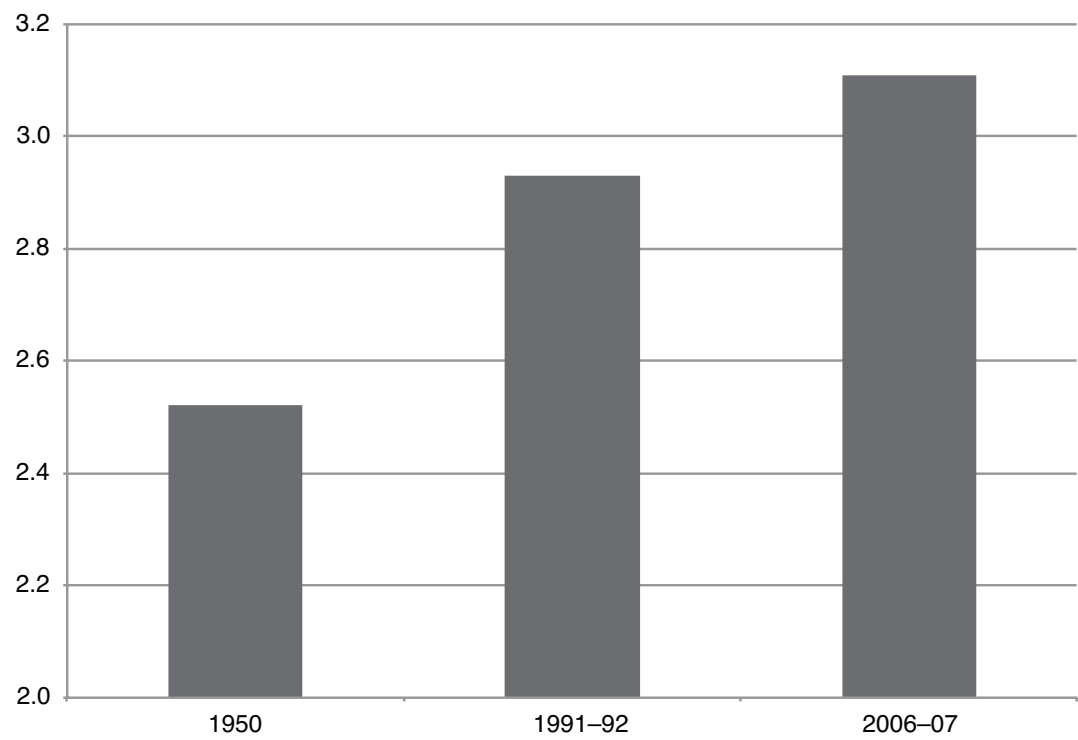
How do you raise standards? Ultimately, that is for the colleges to decide, not government agencies. As a general rule, do not admit students to a four year college from the bottom quartile of their high school graduating class, and rarely admit those below average (bottom half). Be very reluctant to admit students with ACT composite scores of, say, 18 or less. Where risks are taken in admissions, alert students to the high probability of failure—maybe even admit some students already on academic probation, with real possibilities of being dropped after one semester of poor performance—say less than a “C” average. Force colleges admitting marginal students who default on loans to pay some of the defaulted amount—incentivizing colleges to raise admission standards.

Demand more of students in class. Increase student workloads—make them read and write more, and give more demanding examinations. Incentivize faculty to be tough. Give bonuses to professors mentoring extraordinary scholars, such as winners of Rhodes or Marshall Scholarships. Schedule more classes on Fridays. Give prestigious and generous monetary awards for outstanding student academic performance. Spend more resources (effort and time) on student performance and less on politically correct initiatives.

Doesn't this clash with the goal of accessibility and equal educational opportunity for all? There is no reason that, within the context of high academic standards, efforts cannot be made to attract students of limited financial means and counsel those who would be first generation college students on their appropriate postsecondary educational choices. Many students currently admitted incur large debts and end up perceived by themselves and/or others as failures—unable to compete at the collegiate level. We can reduce those hardships by making higher education truly *higher*—by only admitting students in the first place with a reasonably good chance for academic success. This will help with the major problem of postgraduate underemployment—the large number of college graduates taking low paying relatively unskilled jobs. To be sure, this policy also might lead some *colleges* to fail—but “creative destruction” is an important positive part of American economic life, and there is no good reason it should not apply to the weakest of our academic institutions.

* denotes a most important step

FIGURE 10:
GRADE POINT AVERAGE AT 70 UNIVERSITIES: 1950s, 1991–92, AND 2006–07



Source: *The Teachers Record*, “Grading in American Colleges and Universities” March 04, 2010



**Step Twenty:* *Eliminate Grade Inflation*

A major reason academic standards have declined in America is that students do not have to work very hard to get a good grade. The proportion of students receiving an “A” grade is often 40 percent or more, with grades of “D” or “F” rarely given. Empirical evidence suggests that in the 1950s, the typical grade point average was about a 2.5, equivalent of a student with four courses receiving two grades of “B” and two of “C” (see Figure 10). Today, the typical GPA is roughly 3.10—three grades of “B” and one grade of “B+.” The ability of employers and graduate schools to assess student academic performance is impaired if everyone gets high grades.

Two main factors no doubt have spurred this inflation. First, the advent of student evaluation of professors around 1970 has increased pressure on instructors to be popular with their students. A host of evidence shows that professors can buy popularity by awarding high grades. Since student evaluations are taken seriously at many schools in assessing professors for salary increases, promotion, and the granting of tenure, teachers seeking job security and higher incomes tend to give relatively high grades.

A second factor in rising grades is the increase in the proportion of marginal students, students who 30–40 years ago likely would not have attended college. The variation in quality from the best, average, and poorest students has grown at all but the most selective universities. At first blush, it would seem that should *lower* grade point averages—you have more academically poor students. Yet the generous use of “D” and “F” grades to these students would lead to large increase in already high student dropout rates—exceeding 40 percent of matriculating students. Colleges accordingly have lowered minimal standards, allowing students who previously would receive “F” grades to be rewarded with “C” or “D” grades, enabling more of them to meet minimal graduation requirements. Students, like all humans, respond to incentives, and do not work more than required to be considered a “good” student. If previously it took 10 hours of work per week to earn an “A” grade, but now it only takes six hours, students will work the minimal six hours. The typical student today works one-third less on academics than his counterpart of 50 years ago, but earns significantly higher grades.

Since individual professors fiercely guard their prerogative to grant grades, it will take institutional changes to constrain professorial tendencies to grade too easy. Some schools have put a quota on “A” grades. Others have implemented a rank in class requirement—not only does the faculty give grades, they also provide ordinal rankings of students. Colleges could give departments a maximum permissible GPA for all students studying each subject, and then faculty committees could decide how to stay within the prescribed maximum, maintaining faculty control of grading subject to the grade maximization rule. The federal government could tie aid to the success that schools have in ending grade inflation—incentivizing a movement towards a grading system that provides graduate schools and employers with much better information on which students excel, and which ones exhibit marginal performance.

* denotes a most important step

★*Step Twenty One:*
Eliminate Speech Codes, and Other Barriers
to Free Expression

One thing that distinguishes great universities from other human communities is that in a truly vibrant collegiate environment, people can express themselves freely—say whatever they have on their mind without fear of punishment. There are some limits to this: even on university campuses, it is wrong to say things that are likely to cause death or injury to others—yelling “fire” in a crowded theater, for example. Campuses are places where ideas and creative expression should not be constrained by orthodox behavioral strictures. It is the introduction of new ideas and modes of expression that help develop and challenge the mind, to make persons inquisitive, informed, and discerning in their assessment of human behavior. Free expression is critical to a vibrant “marketplace in ideas” that well-functioning college campuses claim to be.

Yet in the last twenty years, this tradition has been challenged, and even replaced by almost the opposite: the idea that some forms of peaceful expression are somehow offensive to some and therefore improper, and that universities have the duty to restrict “unacceptable” or “uncivil” forms of behavior. This view is prevalent in student affairs departments, but can also be found among faculty.

This push to enforce political correctness has led to “speech codes,” that forbid the use of “hurtful,” “degrading,” or “insulting” speech. These codes have been found unconstitutional in a number of cases, violating the First Amendment right to free speech. Some campuses have implemented “free speech zones,” enforcing a civility code over the rest of campus in an attempt to comply with—or sidestep—the First Amendment. On other campuses, speakers who appear to be likely to voice controversial views are shouted down by protesters, or have their invitations withdrawn by university administrators.

Universities talk constantly about their commitment to diversity, which is a code expression referring mainly to heterogeneity with respect to race, gender, and sexual orientation. Yet they suppress the most vital diversity to universities—diversity of ideas.

Speech suppression is a cardinal offense—striking at the very heart of the ideal of the university. Those perpetrating the suppression of ideas should be punished. Penalties for violations of free speech should be large, victims of such oppression should be generously compensated, and university administrators and faculty attempting to curtail the legitimate expression of others should be fired. State governments might pass legislation denying funding to universities found guilty of suppressing the First Amendment rights of members of the university community.

This, of course, is not to deny the need to enforce laws that outlaw certain unlawful forms of expression—acts of sexual violence, drug dealing, and murder are three examples. But even here, the heavy-handed insistence of the U.S. Department of Education for colleges to use very low standards in evaluating guilt in sexual misconduct cases is a violation of due process, and should be reversed.

* denotes a most important step



Step Twenty-Two: Radically Reshape Commercialized Intercollegiate Athletics

The United States is the only major country in the world where commercialized intercollegiate athletics exists. Indeed, even non-revenue sports teams are rare at colleges and universities around the world. Yet athletic competitions provide enormous entertainment worldwide. The commercialization of American collegiate football and basketball has occurred because Americans love to watch these sports and can enjoy them at low cost from the comfort of their own homes.

Even 100 years ago, college football games sometimes drew large crowds and generated excitement, but modern technology starting with radio and television, with rising disposable incomes, increased leisure time, a growth of a large college alumni base, and other factors have led to extraordinary revenue growth. The pressure on star athletes to perform has meant their role as students has been downplayed. Seasons have grown longer with increased commercial revenues. Schools vie for athletic greatness, but suffer from what might be called the iron law of sports: every game that produces a winner also produces a loser. The nationwide win-loss collegiate record is .500.

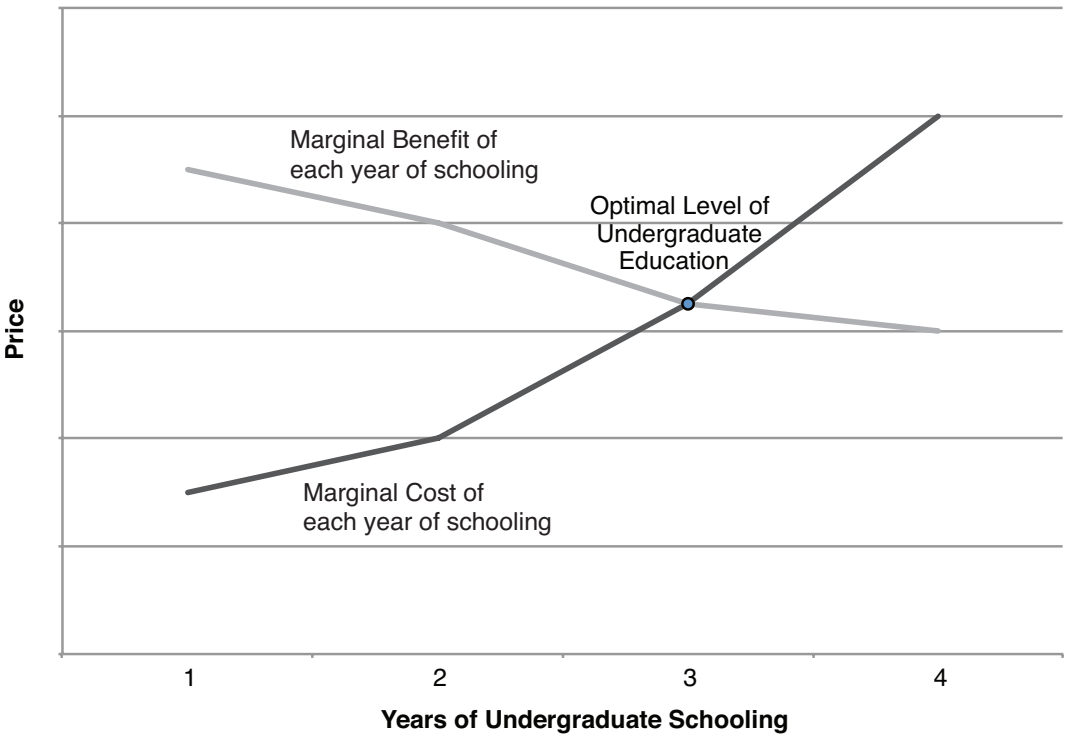
As revenue reaches into the billions, successful coaches can literally add millions in revenues to a school—and therefore they often earn five or ten times the amount of their nominal bosses, the university president. Player “earnings” are suppressed by the NCAA and conferences, often amounting to a very small fraction of what compensation would be in an unconstrained labor market. Coaches and schools cheat to get an advantage, not only schools of marginal academic records but also ones with distinguished academic pedigrees, such as the University of North Carolina. Most second tier Division 1 schools are wannabe athletic powers, and university subsidies of \$15 or \$20 million annually are common in dozens of schools in this category.

In short, commercialized college sports are becoming moral cesspools, financial albatrosses, and major distractions from the academic missions of universities. They make colleges seem less noble, less concerned about eternal truths and the expansion of the frontiers of knowledge, and make them more expensive. Reform is needed.

The ultimate reform would be to decouple commercial sports from universities, perhaps by creating privately owned teams that rent stadium space and naming rights from universities, where the players may, or may not, have student ties to the institution, but may be paid whatever the market dictates. This would keep the reality of “college” sports but would largely divorce the colleges from active involvement, except in a landlord capacity (perhaps university endowments might have a partial ownership interest as an investment as well). A top flight collegiate football team might be worth several hundred million dollars in an initial stock offering.

There are less radical reforms that would be improvements over the status quo, although will be hard to implement, given political pressures, without a strong push from the outside—the courts, federal legislation, etc. Salary caps for coaches, cost of attendance allowances for athletes, limits on the number of contests and the size of football/basketball squads, more rigorous academic standards, tying coach salaries to academic accomplishments more, are just a few suggestions. Profitable sports should arguably pay a “tax” to support the academic mission.

FIGURE 11:
MARGINAL COST AND BENEFIT OF EACH ADDITIONAL YEAR OF UNDERGRADUATE EDUCATION



Source: Model based on author's theoretical construction.



Step Twenty-Three:

Promote the Greater Use of Three Year Bachelor's Degrees

As indicated earlier, there are significant savings in both capital costs to universities and to individual students from compressing the college degree into a shorter time horizon. There are, however, two different approaches. One is to keep the number of courses required to earn a bachelor's degree about the same—the equivalent of full time study for eight semesters (between 120 and 128 credit hours) or twelve quarters (180 to 192 credit hours). The other is to adopt the European style bachelor's diploma involving a somewhat smaller amount of classes, perhaps six semesters of full time study. (A move to certifying subject competency strictly on the basis of examination regardless of the number of hours in class is another reform worth considering as well.)

The economic issue is: what are the costs and benefits of the fourth year of academic study? Is Figure 11 an accurate depiction of reality? Typically, the cost of educating college seniors is somewhat higher than, say, freshmen and sophomores, because advanced students are likely to be in smaller classes for major students taught by highly paid tenured faculty. But what are the benefits of the senior year? One school of thought is that the senior year is where students really start building on their general education skills, taking capstone courses that bring together much of what they learned in college and preparing them for the real world. The senior year is a transition year, where students spend a fair amount of time interviewing for jobs. Yet another school would argue that diminishing returns set in to learning—most of what you learn in a major field of study is learned after 21 to 24 semester hours, and the extra 15 or so semester hours of coursework in the major in the senior year adds little. This coursework is mostly tangential material of little practical use outside the small percentage of majors who do graduate work and specialize in the field professionally.

After a half century of teaching, I am unsure which perspective is more correct. In some cases the fourth year is valuable, and in others it is not. Perhaps that makes the case for having a menu of three and four year degrees available to students. The European experience hints that likely most would ultimately gravitate to the four year degree—in Europe many get a three year bachelor's degree and then do an additional two years for a master's degree. Indeed, that might be the optimal solution in the U.S. as well.

The point is, however, we are doing little experimentation with alternatives. In part, it may be a three year degree is perceived as a watered down, inferior, option. In part, it may be that schools are loathe to give up some tuition revenue. In part, it may be because accreditation agencies will not accredit schools with shortened degrees—the agencies are controlled by schools seeking to maintain status quo. Perhaps this obstacle alone is huge, but even if it is, that would not preclude schools from offering three year degrees containing the traditional four year curriculum, where students attend school for perhaps two of the three summers, still allowing for some modest length internship opportunities that help provide students with an entrée into post-graduate employment. The “socialization” dimensions of higher education also likely will lead to student resistance to a shorter degree—they enjoy the fun, the social interaction of the college years and don't want to give it up.

Step Twenty-Four:

End Negotiable Federal Research Overhead Payments

Many important prestigious research universities in America depend on the receipt of federal research dollars. At some schools like Johns Hopkins University, federal research money accounts for as much revenue as tuition. Universities clamor to get more research dollars, and an analysis of data shows that the more research-intensive universities have fared better financially over the last generation. For example, salaries of professors have increased more at universities with large federal research grants than other institutions. Federal research grants are lucrative for schools arguably, too lucrative.

Only about 60-65 percent or so of all federal research grant funds going to a university goes to support the research—the salary of the principal investigators and related research personnel, equipment, travel, etc. The remaining amount is payment for institutional overhead—support services provided by the university including heat, electricity, and administrative staff supporting the research mission. The research overhead rate—the percentage tacked on to the amount given directly to the researchers to spend—is negotiated individually for each university—and rates in excess of 50 percent are the rule, not the exception.

This system of negotiable research overhead has many perverse incentives. Schools amass large administrative bureaucracies and then convince the federal granting agency to give them a generous research overhead amount to cover “administrative support.” As previously indicated, there has been a huge increase in non-instructional professional staff at universities. The system of federal research funding encourages schools with research orientations to increase their bureaucracy and bill the federal government for a share of the costs. In making research grant decisions, peer scientific reviewers evaluate the merit of the research idea, paying little or no attention to the costs, including the administrative overhead. Because of the lucrative nature of this system, administrations pressure their faculty to submit federal research proposals, often at the expense of time spent on undergraduate teaching.

What changes should be made? There are two approaches, either one of which would be a strong improvement on the status quo. The first approach, which I first introduced a decade ago in *Going Broke by Degree*, would be to adopt the lowest overhead rate currently prevailing in major research universities as a uniform national ceiling. Tell schools that they have to meet the non-research based expenses of the lowest cost major U.S. university research provider. If schools are unwilling to meet that standard, they can simply not apply for funds (my guess is that applications for research grants would show little if any decline).

An alternative approach would be to require that in evaluating research proposals that, in addition to primary evaluation on the basis of scientific merit, some portion of the evaluation be based on the size of the requested overhead amount. The more requested the fewer points awarded for efficiency in overhead provision. Universities greedy in the amount of sought overhead jeopardize the probability the grant would be funded. This introduces a modest element of cost consideration into the evaluation of research proposals.

Step Twenty-Five: End the “Publish or Perish” Environment at Most Schools

As I have said, universities are concerned with the creation as well as dissemination of knowledge. Knowledge creation requires research. That said, two other realities need emphasizing. First, diminishing returns set in with respect to most academic research—at the margin, the 100th article written on some topic is likely to add less insight than the first or second article. Second, there is a finite quantity of good, incisive researchers, which means that some universities will never be great research institutions, have scholars of particularly high research renown, and, appropriately, need to emphasize research productivity a good deal less than the nation’s leading research institutions.

Some disciplines experience immense over exhaustion of research topics. For example, Mark Bauerlein of Emory University has studied research in English departments. He once noted that over a quarter of a century period, well over 20,000 articles had been written on William Shakespeare—an average of two or three a day. What, at the margin, can be said new or insightful about the Bard? Bauerlein, in a Center for College Affordability and Productivity study, showed that even scholars specializing in English literature rarely cited the work of professors in four representative research-oriented English departments. In short, much research is seldom read, rarely cited, and adds trivial amounts to our stock of knowledge.

Yet many faculty feel compelled to do such research. Research output is key in tenure decisions, establishing a culture of “publish or perish” among new academics. In order to promote research, teaching loads have fallen. At the top universities, a six hour (two course) load is considered heavy, and professors who teach a total of four classes a year with an average of 20 students per class are considered to have a burdensome teaching load. In some departments in my discipline of economics, the load for many faculty members is one course per semester or three courses a year. A three course annual load means the faculty member is in class perhaps 135 hours a year. Since the typical American worker historically works perhaps 1,700 hours a year, professors spend a very small percentage of their work-related time instructing students. This means tenure track faculty members are expensive—they earn good salaries but teach few students. This leaves adjunct faculty and graduate students to handle a large percentage of the teaching.

Aside from the prestige of achieving some measure of national recognition from research, publishing faculty earn more. But aside from perhaps 100 or so universities enrolling perhaps 10 or 15 percent or so of all students, most schools are not likely to be serious centers of knowledge creation—and should reward faculty mainly on their primary job—educating students, mostly undergraduates. Teachers who mentor outstanding students (e.g., Rhodes Scholars winners) should receive special recognition and financial rewards. Those introducing low cost but effective on-line courses should similarly receive generous financial rewards and promotion. To be sure, great teachers do need to keep up on developments in their field, sometimes aided by doing some original research. But, teaching loads can be increased and teachers still remain aware of developments in their field, lowering costs and improving educational outcomes. The opportunity cost of writing for obscure journals is high.

Step Twenty-Six: Incentivize Good Teaching and Academic Advising

The corollary to the previous point is that merit pay differentials in higher education are largely research-based. There are two somewhat legitimate reasons why research is rewarded more than teaching. First, research outcomes are often more readily measurable than teaching outcomes—we can count the papers and books that are written, citations by other scholars, and the research grants that are garnered. Those receiving research grants are rewarded, because not only does their research add prestige, but universities benefit financially, especially given the generous provision of overhead funds by the federal government, which was previously discussed.

Measuring good teaching is harder, and it is true that good teachers in a conventional classroom setting acquire a local, campus-wide reputation, while good researchers whose work is recognized internationally receive a geographically broader reputation that enhances their power in academic labor markets. That said, the reality is colleges put little effort into measuring and assessing good teaching, excessively relying on student evaluations of professors. We can measure knowledge gained through testing; we can measure a student's critical thinking and reasoning skills and drive in other ways, including, ultimately the post-graduate success of students. We can give recent (say two to five years beyond graduation) students a post-graduate assessment of instruction, including the bottom line question: "name the two or three professors who most impacted your life in a positive way?" And, conversely, "which professors did you find least helpful to positively impacting your life?" And then we could give meaningful rewards to those professors who inspired and motivated their students the most. My sense is that liberal arts colleges with little research emphasis already take the evaluation of teaching function somewhat more seriously than research universities.

As little as the rewards on many campuses are for good teaching, the rewards for the good advising of students are even less. There are two types of advising: the strictly academic guidance given students about which courses to take to meet university graduation requirements, and the broader based advice given students regarding career choices, including such ancillary tasks as writing recommendations for students, helping them obtain internship opportunities, etc. From my experience, I have come to believe that this advisory role is particularly important. Also, some professors offer special educational opportunities for students at their own initiative, including, for example, study abroad programs which broaden the horizons of emerging young minds; important in this age of globalization. This sort of initiative needs to be rewarded.

A related issue is: should all professors allocate time in similar ways? Typically, the teaching load of tenure track faculty is fairly similar, with arguably not enough recognition that the strengths of faculty regarding teaching and research differ. Low teaching loads are universally desired, in large part because teaching is little rewarded. If teaching was treated with the same respect and monetary recognition as research, there would be less resistance to have teaching loads among professors vary more substantially than is typical today, say between three and nine hours a week in the classroom (one to three courses).



Step Twenty-Seven: Revisit the Length and Content of Professional Education

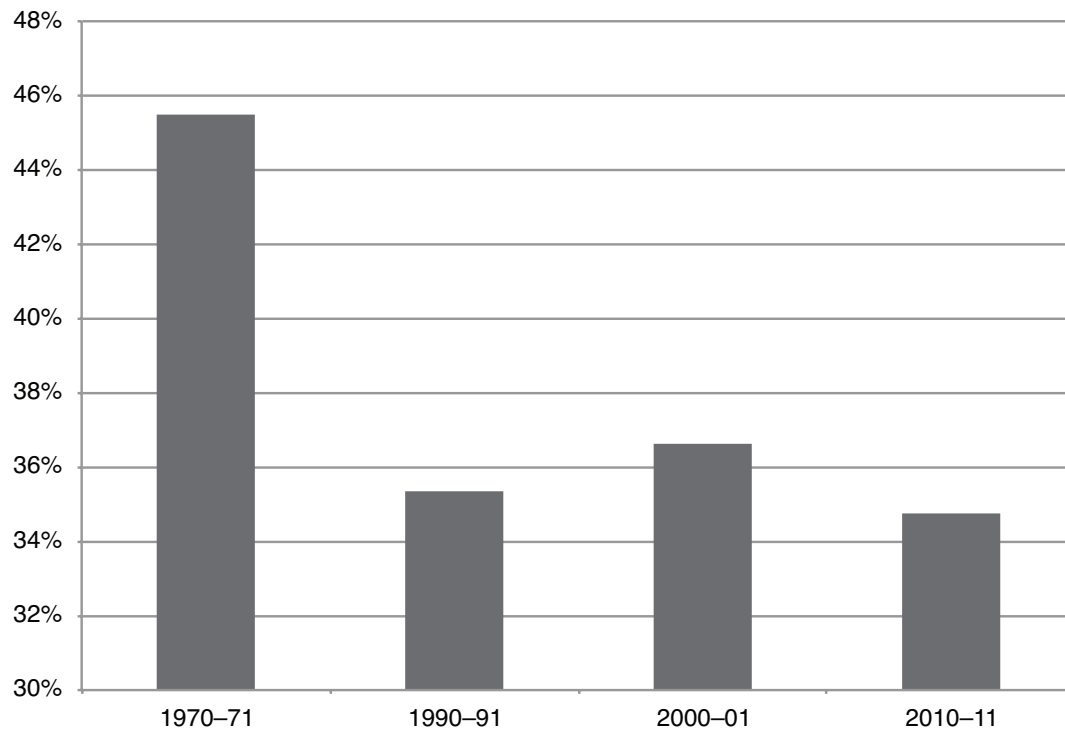
Large universities devote a large portion of their resources to professional education or vocational based advanced degrees for those already holding bachelor's degrees. The best examples are law and medicine. Medical schools and their associated clinics and hospitals intertwine commercial operations—the for-fee provision of health care, with learning—teaching medical students how to become good physicians. It is argued, I suspect correctly, that hands-on training and guidance by senior physicians is an important component in becoming a good doctor. This applies to other health care professions, such as dentistry, pharmacy, veterinary medicine and nursing. With law schools, the approach is different, with learning more based on reading and studying legal concepts, cases, court decisions, etc., with a good deal of classroom interaction between student and professor, but little or no “hands on” experience. Other post-graduate vocationally oriented programs, such as MBA (Master of Business Administration) programs, tend to more closely resemble the law school approach, with business schools often relying heavily on case studies.

The one common feature of all these professional programs is that they are expensive. The ratio of students to faculty is relatively low, and faculty members are highly paid. Student loan debt loads for law and medical students very commonly exceed \$100,000. At some universities with large medical centers, the medical school spends as much money performing its services as the entire rest of the university combined.

This raises the question: does professional education need be so expensive? Do we provide the optimal amount of training for students? Have we overinvested in some forms of professional education, most conspicuously law schools? The answers to these questions no doubt vary with the type of education. Starting with law schools, the core legal concepts are developed in the first year, students study additional material in fields that interest them in the second year, but many would argue that the third year is more problematic. Diminishing returns set in. Should the third year have more of an internship/residency approach like that used by medical schools? Should students work in legal clinics, perhaps dispensing advice to low income persons, under the watchful eye of law school professors? Or, why not simply make law degrees two year programs, reducing the per student costs by one-third and enormously reducing the debt burden faced by new graduates? Most fundamentally given the recent plunge in law school applications, do we need as many law schools as we currently have? Or, why shouldn't students go to law school after a good secondary education, skipping a bachelor's degree, as is often the case in other countries, including Great Britain?

With medical schools, what is the optimal length of post-degree training? Do we really need long residency periods for all doctors? Should we turn more primary care over to nurse practitioners with lower cost training? Should students be encouraged to enter medical school after three (or even two) years of undergraduate training, instead of after the bachelor's degree, thereby significantly reducing training costs? As health care absorbs 17 percent of national output, removing barriers to entry, and increasing the supply of personnel has significant macroeconomic implications.

FIGURE 12:
PERCENTAGE OF TOTAL DEGREES CONFERRED, CONFERRED IN LIBERAL ARTS AND SCIENCES



Note: Data through 1990-1991 are for institutions of higher learning, while later data are for associate or higher degrees and participate in Title IV federal financial aid programs.

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

Step Twenty-Eight: Stop the Erosion of the Liberal Arts and General Education

In both *Academically Adrift* and the sequel, *Aspiring Adults Adrift*, Richard Arum and Josipa Roksa raise important questions: are college students gaining large amounts of needed skills while in college, and are they being prepared for life—in the workplace and beyond. Grade inflation has contributed to a “revolution of lowered expectations” where students study and learn little. Students do not gain important skills like how to write well and engage in complex thinking and problem solving. Yet part of the problem is that students increasingly are studying mush. They are spending less of their limited academic time studying those things that expand the mind and critical thinking skills, and material that enhances appreciation of the common values that bind us together as a nation, and that enhance our understanding of our heritage. Most of that comes from the study of what is broadly termed the liberal arts.

The “market share” of liberal arts study in American higher education has declined significantly (see Figure 12). The percent of time spent taking courses in the main-line humanities (e.g., literature, composition, philosophy, foreign language study), social sciences (economics, psychology, political science, and history), and math and science has declined, while the share spent taking courses in, say, marketing, outdoor recreation, or communication studies has grown. It is argued that these latter type courses better prepare students for the world of work. It is true that taking practical courses with a strong direct vocationally skill component is often valuable (indeed, that applies to virtually all areas of engineering). Also, it would be wrong to conclude that all courses in the classical liberal arts disciplines are good and rigorous, and other classes are mediocre and devoid of challenging intellectual content. Nonetheless, we have veered too far away from recognizing the indirect but real benefits of the liberal arts, not only for the purposes of making better citizens and enhancing lifetime intellectual stimulation and enjoyment, but also for vocational advantages as well. Arum and Josipa found, for example, that critical reasoning skills tended to be more enhanced for graduates in liberal arts areas.

Data gathered by organizations like PayScale.com are at least mildly supportive of the notion that the liberal arts disciplines are not bad for vocational choice. Mid-career philosophy majors make as much as business majors, for example, and majors in history earn as much by mid-career as many more vocationally oriented majors. Graduates of prestigious liberal arts colleges like Swarthmore, Williams, or Amherst do well in their post-graduate life, even though few of them have much training in the more vocationally oriented majors that often dominate public universities.

Some federal and state programs overtly favor students majoring in the STEM disciplines—science, technology, engineering, and mathematics, some of which are disciplines incorporated into standard liberal arts programs, some of which (e.g., engineering) are not. The tendency for policymakers to favor “practical” disciplines over such fields as philosophy or English literature may be unfortunate, failing to realize that critical reasoning skills useful in on-the-job training often are nurtured by these so-called “impractical” majors.

★*Step Twenty-Nine:*
Create a National Exit Examination

There was a time when only the brightest few Americans earned a college degree, and even the worst students of that few were intellectually superior to the non-college educated average American in areas of literacy, communication, and analytical problem solving. That is not true today. The intellectual quality of graduates varies immensely. Moreover, there are some individuals, some of them genuine polymaths, who lack a college degree but who have very impressive intellectual qualities. It is now difficult if not impossible to separate the very bright and motivated from those lacking those characteristics based on college degrees alone.

While a national exit examination is not a panacea for all the problems confronting higher education, it would prove very useful. The form of the test could vary, as could its name and use. It might even be the National College Equivalence Examination, used as the GED exam is used to determine high school diploma equivalency. As I envision it, the exam could be taken by anyone, regardless of age or educational background, and administered by a well-respected agency: the College Board, the ACT, the Educational Testing Service, the administrators of the NAEP exam, even Underwriters Laboratories. My preference would be for it not to be run by a governmental agency, as that enhances the probability that the examination would become politicized.

Here is a very specific suggestion for a three hour test. The first one-half of the examination would be a test of critical reasoning and writing competency, relying on students writing short essays in which they solve a particular problem based on facts presented to them. This is the format of the Critical Learning Assessment (CLA), and I see no reason why this widely used test could not be used.

The second half of the exam would be a 75 question multiple choice test of general knowledge. Most of the questions (say 55 or so) all students would take. I would envision a test that includes four to ten questions on a series of topics: history, philosophy, political science (including basic foundational texts such as the Constitution or the Federalist Papers), economics, literature, mathematics, and the natural and physical sciences. These are core “liberal arts” areas of study. Most of the remaining questions, say, 15 or 16, would test competency in the student’s major area of study. The few remaining questions would test basic competency in some foreign language of the student’s choice: French, German, Spanish, Mandarin Chinese, Japanese, Latin, etc.

A well-educated person (a strong writer with high analytical problem solving skills, scientific knowledge including algebra, chemistry, etc., and an understanding of our history, culture—the things that bind us together as people) would do well. Most individuals will be weak on one or two areas (not everyone, for example, studies physics or is well acquainted with American literature), but should have enough background in most topics to do well. This test would resemble the Foreign Service Exam, and could serve as a benchmark to measure the quality of a graduate. Variants on the model above might work even better, such as having a separate 1-2 hour test measuring competency in the student’s favorite or major area of study.

* denotes a most important step



Step Thirty: Reevaluate Academic Tenure

From the 17th through the early 20th century, professors at American universities were largely employed at will: they could be relieved of their responsibilities at any time. While some were dismissed, a majority of faculty members served long tenures, much like how non-tenured workers at American private businesses often spend an entire career with a company even though they could legally be discharged at almost any time. Tenure is an innovation introduced during the last century.

There are two arguments for academic tenure. First, some professors say controversial, unpopular things that powerful forces within or even outside the university do not like. Stifling these dissenting views robs colleges and universities of a diversity of ideas that adds to their vibrancy, and prevents students from a healthy assessment of alternative perspectives on life and artistic expressions of it. Second, tenure can be viewed as a fringe benefit, somewhat akin to a concierge-quality health care package, that makes the academic life more attractive to talented people. Faculty members will at times forego several thousands of dollars annually for the job security that tenure provides. This security allows universities to pay their staff less in base salary than if staff worked on an employment at will basis. Some would say then that “tenure pays for itself.”

Yet there are negative aspects that offset these advantages. First, widespread use of tenure makes it difficult for universities to reallocate faculty resources in response to changing academic needs. Over time, the demand for courses in Mandarin Chinese might soar, while German and Latin enrollments sharply decline, leaving schools with Latin professors with 10 students a term, and Chinese professors with more students than they can effectively teach. Second, some professors’ teaching ability deteriorates with age, and they teach long past their prime. Third, this job security often leads faculty to be disrespectful of broader university objectives, to be arrogant, and to lead unproductive and costly crusades on a host of campus issues. Campus governance becomes complicated and costly, and needed hard-headed decisions are often foregone so as not to offend powerful tenured faculty. Lastly, and arguably most important, the incentives for professors to work hard at teaching, advising, research, and university service are sharply reduced if they know that they cannot be fired except in extraordinary circumstances.

Because of the costs outlined above, university administrations have reduced the proportion of the faculty holding tenure. Tenure is dying a slow, stealthy death. Yet there are compromise solutions that maintain some First Amendment protections for faculty while easing the fixed costs. One approach is to go to renewable long term (five or even seven year) contracts, explicitly forbidding nonrenewal on the basis of legitimate controversial views. Another is to offer faculty two options: a tenure track option at a lower salary, or the five year contract approach at higher compensation. This highlights the cost of tenure and would reduce its use. The tenure track option would appeal to the risk averse professor, afraid that his ideals or work ethic may lead to termination.

Step Thirty-One:
Rationalize and Expand Transfer of Credit
Between Institutions

The school is the monopoly provider of student curricular and many extra-curricular services, and it behaves as such, pricing its services above marginal cost. Students weaken this monopoly power with the ability to transfer to another school. However, transfer students face significant negative incentives to transferring. They lose a good deal of credit because the new institution's curriculum does not perfectly match the first school's, and the new school insists that courses counting towards graduation meet its unique requirements.

Lowering these transfer costs is important for fostering competition and in letting students make appropriate choices. Changing life circumstances (financial, relational, vocational etc.) often lead students to want to transfer schools. Particularly important are transfers from two to four year colleges of students receiving Associate degrees.

A legitimate concern regarding transfer credit relates to academic quality and rigor. Rigor, on average, at two year institutions is less than in four year degree programs, leading the latter to refuse to accept credit from community colleges. Clearly the goal of ease of credit transfer and the financial savings and enhanced competition associated with it have to be weighed against the impact that substantial ease of transfer has on the quality of the learning experience.

Another key dimension in reducing barriers to inter-institutional mobility relates to high school students. We arbitrarily say "Enter college at age 18 after finishing high school," when, for some bright students, college can begin much earlier (my own son successfully took his first college course at 13). Advanced Placement (AP), International Baccalaureate (IB), and dual enrollment allow some students to graduate earlier. These innovations, with many others including the CLEP (College-Level Examination Program) of the College Board, are underutilized. Many participating institutions award college credit for passing these tests which can reduce time in college and tuition payments significantly. Along this thread, many schools have poorly publicized placement exams that can allow students to test out of general education courses whose material they've already mastered. Standardizing the transferability of these kinds of credit hours would allow for increased student mobility and competition.

Colleges "package" learning into bundles that lead to degrees. But colleges could become merely knowledge providers, with others bundling courses together, often from many institutions, into packages that at some point are certified as equaling bachelor's degrees. Maybe the College Board, ACT or Underwriters Laboratories should certify when a student's learning capability is worthy of a bachelor's degree—allowing students to submit credit from a multitude of both traditional and on-line institutions (discussed above in step 4). This approach could be combined with a national exit examination, discussed previously, to provide qualitative information on newly certified graduates. Students could take the courses that provide them the most good from multiple providers, enhancing competition, academic quality, and almost certainly lowering academic costs.

Step Thirty-Two: End or Reform Affirmative Action

The landmark civil rights legislation of the 1960s was an important step toward the full realization of the American dream (no one should be denied opportunity because of the color of their skin). It was a noble attempt to achieve Martin Luther King Jr.'s ideal that persons should be evaluated not by the color of their skin but the content of their character. At the time, discrimination against blacks was pervasive. Encouraging admission of non-white students, having more women teach, and encouraging minority contractors to offer construction services were legitimate, arguably even noble goals.

Yet affirmative action moved from providing equal opportunity to upholding practices involving judging admissions and hiring practices based on the color of skin, not the content of the student's character, or educational preparation. The *Griggs v. Duke Power* decision provided judicial mandates for moving in this direction. Colleges quickly jumped on and pushed these policies as promoting equal opportunity and to expand minority presence on campuses.

A special case relates to historically black colleges and universities (HBCUs). These schools served an important role in educating African Americans in the 19th and 20th centuries. However, with increasing open-mindedness and progress toward equal civil liberty, and large increases of African-American enrollment in other schools, the case for subsidizing the HBCUs has diminished. Further, many face declining enrollments and financial hardship.

There is mounting evidence that race based admission and hiring policies have had some negative unintended consequences, and that their primary rationale has diminished since the 1960s. Addressing the latter point first, while racial division still exists in this country (the Ferguson, Missouri altercation is just one example) we are increasingly open-minded and tolerant of racial diversity. We are a nation with an African-American president elected by a white majority. Further, African-Americans are represented in many of the highest public (e.g., Secretary of State, Supreme Court justice) and private (e.g., the CEOs of companies like American Express, Xerox, and Merck) offices.

Regarding the first point, often special preference treatment of blacks has led to bad outcomes. Richard Sander and Stuart Taylor in their book *Mismatch* demonstrate how black law school students often struggle to graduate and fail the bar examination at a dramatically higher rate, because they are ill prepared for law school given their much less impressive academic background. Jason Riley makes a similar point regarding blacks with respect to undergraduate admission in his new book *Please Stop Helping Us*, as did earlier Abigail and Stephen Thernstrom (*America in Black and White*) and others.

The affirmative action bureaucracy at many schools is huge, costly, and impedes actions to promote greater learning and efficiency. Consideration of "Color of one's skin" in admission violates not only acceptance by merit, but Dr. Martin Luther King, Jr.'s call for racial equality. There are more effective, efficient, and moral ways to close the achievement gap than by implementing diversity quotas on campuses.

*Step Thirty-Three:
Strengthen the Role of Trustees;
Reform University Governance*

Who “owns” or is at least the ultimate decision-maker in universities? Almost always it is a board of trustees, sometimes called regents, governors, visitors, or other names. Universities are given many special privileges that provide them some independence from the rest of society; independence promotes academic freedom and a free marketplace in ideas. Yet university communities need oversight and need to be accountable like any other organization. Persons who love the institution but bring an outside perspective can play an important role in assuring that the school conforms to the wishes of its key outside constituencies, including taxpayers, private donors, alumni and the broader public.

Some governing boards micromanage, interfering in day-to-day decisions, such as who the football coach should be or what color a certain building should be painted. But more often, boards of trustees are the opposite: boards that rubber stamp the actions of the administration; boards that are viewed as fundraisers and cheerleaders rather than outsiders providing providential oversight; and boards whose only consequential role is to select top administrators. These boards often fail to meet their fiduciary responsibility to the general public.

Recently, the American Council for Trustees and Alumni (ACTA) together with a commission chaired by former president of Yale University, Benno Schmidt, and including 20 prominent university leaders and other leaders in business and politics, issued a report, *Governance for a New Era*, calling for more active and involved trusteeship. The Schmidt report argues that while faculty should play a key role in determining the curriculum and some related matters, ultimately the governing board must make the decisions regarding academic programs, and should oversee the long term plan for university development.

Boards are often denied information, getting only the good news. The larger problems of personnel issues, critical problems identified by accreditors, and other matters are not mentioned. Any important information received by the president or other key officials should be available to the trustees. Governing boards are often too large—ones of over 15 members are too unwieldy to be able to work efficiently, while ones of seven or less risk failing to consider alternative perspectives on institutional policies. Terms of less than, say, six years, are too short, and while term limits might make some sense, it is important that trustees be able to maintain the long term goal horizon, and the possibility to serve for a decade or more is important. Additionally, it is ill advised to simply hand out trusteeships to the top donors, who provide important financing of the university’s goals, but little in defining those goals. Trustee selection based on monetary contributions is usually a mistake.

Reform of campuses to obtain better efficiency, more learning, and other desired outcomes must be initiated in large part outside the academy itself, but by those familiar with higher education and sympathetic to its goals.

Step Thirty-Four:
Allow Employees the Right to Work
Without Forced Unionization

This point applies only to some schools, those with collective bargaining agreements between unions and the institution. In particular, I am concerned about schools where the faculty is unionized. While I do not object to the right of a faculty member to join a union, the reality is that schools with faculty unions are generally undistinguished institutions. If one were to look at the top 50 schools in either the newest *US News & World Report* or *Forbes* rankings you will likely not find a single school where the tenure track faculty is unionized.

One explanation: Unions tend to oppose things such as merit pay that are designed to promote excellence in higher education. The largest unionized environments (California State University and State University of New York - SUNY - systems) have, in some instances, developed a reputation for high quality instruction. However, highly unionized institutions in general have adversarial environments that are inconsistent with a collegial model more conducive to academic excellence and harmony. No school perceived as being truly great has unionized its tenure track faculty.

Unionization is governed both by the National Labor Relations Act of 1935 and by state labor laws. Some states, notably Wisconsin, have reduced the ability of unions to force public employees to become members and/or pay dues. Some 24 states have adopted right to work laws that prohibit coercive union membership. The harm that unionization has caused in K-12 education is well documented—an inability to fire incompetent teachers, the lack of provision for merit in teacher evaluation, the use of political power by unions to prevent voucher funding and charter schools, etc.

The problems in higher education with unionization are smaller, but largely because the sector is still largely non-unionized, and court decisions have generally restricted the unionization of employees in private schools that enroll about one-fourth of college students. As higher education faces the reality of an unsustainable business model and an inability to continually raise prices in coming years, there may be moves by faculty to try to forestall change through unionization. That could become a significant impediment to true reform.

Step Thirty-Five: Increase Teaching Loads

One of the dirty little secrets of higher education is that teaching loads have fallen over time. In the mid-20th century, at high quality research oriented universities, tenured faculty often taught six hours a week, with some teaching perhaps six hours one semester, and nine the second. At mid-quality, less research oriented universities and at most liberal arts colleges, professors taught at least nine hours a week, and in many cases, twelve. At my own university, considered mid-quality and less research oriented, the full-time teaching load when I began in the mid-1960s was nine hours weekly (only recently reduced from 12), whereas now it is six. At top research universities today, a three hour teaching load is average.

The teaching load reductions are justified as a means of allowing professors to do more research. Given the proliferation of academic journals, it is no doubt true the total production of scholarly research has expanded substantially over time, although it is unclear that output per faculty member has grown so dramatically. But as indicated before, there has been no good attempt to assess the value of the incremental research, and there is considerable evidence that much of it is little read and of tangential interest to even the academic world, much less the broader society in which we live.

Tenured faculty members are expensive, particularly when one adds in extensive fringe benefits that most receive. Even in the low paying humanities and fine arts disciplines, the marginal cost of a senior faculty member often exceeds \$100,000 a year, and in many disciplines the figure is higher. Suppose a department offers 60 courses annually. With professors teaching two classes a semester, it needs 15 faculty members to meet that obligation. With a three class per semester load, it only needs 10 to teach those classes—one-third less. The potential financial savings long term from higher teaching loads are therefore enormous. If faculty compensation is one-third total budgets, the potential to cut university costs in the long run by over 10 percent are obtainable simply by the low tech solution of asking faculty to teach more, and easing the expected quantity of research output a bit. (Speaking personally, I was able to produce a good deal of published research, including several books, when my teaching load was 8 or 9 hours of week rather than six—utilizing summers, weekends, and perhaps 15 hours weekly during daytime working hours).

Another way to increase teaching loads is to increase class size. We teach too many narrowly specialized courses in obscure fringes of the profession (but also what the professor enjoys teaching) that have low enrollments. Moreover, professors have been reluctant to move to high tech ways of increasing class size, especially internet based teaching. As indicated before, incentives to change that are needed. Also, in their effort to contain instructional costs, university administrators at many schools have substituted lower-cost adjunct, graduate student and retired personnel to teach courses. Higher teaching loads for regular faculty would help maintain their role as the prime providers of instructional services.



Step Thirty-Six: Abolish the FAFSA Form

The FAFSA (Free Application for Federal Student Aid) serves as the gatekeeper to the financial aid that most students rely on to finance college. The form historically has been over 100 questions long, asking many detailed, intrusive personal questions about family finances, such as income levels, mortgage payments, family debts, child support, bank accounts and stocks, etc. The purpose of the form is to allow the federal government and schools to offer assistance to those needing it the most, with the form being vital in determining the magnitude of assistance.

Many observers of student financial aid, such as Professor Sue Dynarski of the University of Michigan, have argued that the complexity of the FAFSA form is unnecessary in targeting aid to the most needy. Indeed, the form is so complex that it stops some from applying for aid or attending college, mostly deterring students from low income backgrounds. While some attempts at simplification have been made, the question arises: why do we need the form at all?

It is technologically possible, but not currently legally permissible, for filers of U.S. income tax forms to give permission to the IRS to release income tax returns to schools requesting them for purposes of calculating financial aid. There are only two vital questions that can pinpoint with relatively high accuracy a family's financial need regarding a child entering college: the family's income and the family size (arguably including the age of other dependents). A postcard-sized form would work if IRS involvement is prohibited.

Would abolishing the FAFSA form reduce college access? I don't think so. I think it would increase applications from low income individuals for whom the form itself is an impediment. For those wanting to improve economic opportunity through education, abolishing the FAFSA is a positive step. There is a good case that can be made not only to abolish the FAFSA form, but to prohibit colleges whose students receive federal assistance from asking for any sort of personal financial information. When you go to a car dealer, the dealer does not force you to tell him or her your income and net worth before he or she tells you the price of the vehicle. The FAFSA form allows colleges to set high tuition fees and then aggressively discount them to meet the sensitivity of different customers to price. This has aided and abetted tuition price inflation and the corresponding academic arms race with its fancy buildings, bloated bureaucracies, and sky-high presidential salaries.

What about the poor? Individuals and foundations could still create scholarships for the needy, and require that they provide financial information—but this would be independent of the college itself. Private charitable scholarship aid would rise robustly with such a system.

Appendix A:

12 Expressions That Help Explain Rising College Costs

The single biggest problem with American higher education is that it is too costly, and many of the 36 steps outlined above stem from that reality. While factors like rising federal student aid payments go a long way in explaining increasing higher education costs, the culture of higher education and its distinctive ways of doing business also help explain the cost explosion. Below, in about 30 words, I offer twelve expressions useful in understanding why college is so costly.

1. Third Party Payments

A large part of the bills in higher education are financed by third parties—neither the consumer nor the producer of collegiate services. The federal government, state governments, endowments, and private donations are important. When someone other than the user is paying the bills, those bills tend to explode since the buyer is not sensitive to price. That has happened with medical care, and also with higher education. As tuition fees rise as a percent of total revenues, the sensitivity of customers to tuition fees has probably shown some increase.

2. Lack of Information

Many people are misinformed about college choices. For example, they choose college A over college B despite the fact that students at college A tend to fare poorly in the labor market after graduation. If better information were available, customers, donors, taxpayers and others financing higher education would make more informed decisions. Competition would rise. Colleges either do not collect needed information, fail to publish it, or, in the case of labor market information, outsiders like the federal government have been slow in overcoming the information gap.

3. Not for Profit

About 90 percent of students enrolled in higher education attend institutions operating on a not-for-profit basis. These institutions lack the powerful market-driven incentives generated from profits to reduce costs and/or improve product quality. While there are arguments for having not-for-profit organizational structures, the partial insulation from market forces dulls the drive to operate in an efficient fashion.

4. Bottom Line

There is no well-defined “bottom line” in higher education. It is hard to achieve one’s goal(s) if that goal is hard to measure. Did Harvard have a good 2013-14 academic year? Who knows? The private sector can measure success painfully well—in stock prices, profits, etc. In higher education, a universally accepted “bottom line” is only found in intercollegiate sports and a few other extracurricular activities. Magazine rankings have substituted for a surrogate bottom line, but often achievement of high rankings is enhanced by engaging in large amounts of spending, increasing costs.

5. Resource Rigidities

Many costs in higher education are fixed, and not easy to reduce in the short run. One major reason is academic tenure (outlined in step 30). It is difficult for universities to reduce programs with little enrollment or demand and shift resources to new areas because of the inability to shed unneeded faculty. Tenured faculty members sometimes become unproductive from age or declining incentives to teach well or do meaningful research. Also, capital costs are high—expensive buildings are underutilized often much of the year, and it is difficult to alter the physical plant to meet changing needs.

6. Barriers to Entry

It is not easy to enter the higher education business. New schools need to be accredited, for example, and accreditation agencies are controlled by existing schools. There are severe conflict-of-interest issues relating to accreditation criteria. In some ways, these agencies act like cartels impeding new entrants. Also, federal and state rules can stymie legitimate innovation and market entry, such as proposed “state authorization” rules requiring that all on-line providers obtain permission from all 50 states if they want universal U.S. coverage.

7. Governmental Support and Control

Public universities receive state appropriations but are often hampered by inefficient, “one size fits all” government restrictions, over such issues as admissions (what percent of enrollments out-of-state students may be), composition of the governing board, or rules on paying “prevailing wages” on new construction. While some state coordinating boards usefully prevent wasteful duplication by ambitious universities, sometimes they breed inefficiency. Even private schools face expenses related to federal rules on everything from laboratory safety to student disciplinary procedures to affirmative action.

8. Price Discrimination

Universities engage in more extensive price discrimination than virtually any other economic endeavor, with the possible exception of medical care. While price discrimination sometimes serves a useful purpose, the ability of colleges to use financial information on potential customers allows them to set very high sticker prices, charging whatever the traffic will bear for wealthy customers desperate for admission, and offering others deep discounts. This leads to high tuition fees in general, and increases total university spending from what a system of fixed fees with little or no discounting would entail.

9. Rent-Seeking

People in higher education are human, and the notion that they are all altruistic individuals seeking to educate young minds and serve society through cutting edge research is simply a myth. Indeed, because of practices like tenure, academics are emboldened to pursue their own self-interest aggressively. Rent-seeking occurs when someone is paid more than necessary to provide the desired good or service. Many in higher education are collecting vastly more than necessary to secure their services, and the recent explosion in pay of senior university personnel, including presidents, is a manifestation of this.

10. Blurred, Multiple Missions

Universities (as opposed to small liberal arts colleges, community colleges, or for-profit institutions) have many functions. They teach undergraduates, graduate students, professional students; they do research, sometimes under contract to others; they often run large entertainment businesses (especially sport teams); they are in the food, lodging and sometimes conference center business. The multiplicity of functions often distracts schools from their original or core mission (generating and spreading knowledge). This makes it hard to measure overall institutional success, and often leads to neglecting the core undergraduate teaching function.

11. Cross-Subsidization

The multiplicity of missions lead schools to tax some operations (taking some of the revenues attributed to them) in order to subsidize others. Two operations that are sometimes heavily subsidized are graduate education and intercollegiate athletics. Graduate students seldom pay more, and often effectively less, tuition fees than undergraduates, but it is vastly more expensive to educate them. Wannabe national athletic powers similarly drain academic operations financially in the hope of obtaining national attention. These realities may support the more aggressive use of differential tuition fees for differing academic programs.

12. Ownership and Governance

Who owns and “governs” universities? It is often murky, with trustees (the legal owners), senior administration, faculty, prominent alumni and sometimes even students thinking they have a role in final decision-making, if not outright control of the institution. This leads to in-fighting, usually leading to “shared governance,” which often means decision-making by committees, searches for compromises instead of bold solutions, and an aversion to program efficiency and innovation.

Appendix B:

Additional Readings and Sources

If I had to pick only two books to read to get a good perspective of the major issues confronting American higher education, I would, quite immodestly, first select my own *Going Broke By Degree: Why College Costs Too Much* (Washington, D.C.: AEI Press, 2004), and then, to learn about the outcomes of higher education, I would read Richard Arum and Josipa Roksa, *Academically Adrift: Limited Learning on College Campuses* (Chicago: University of Chicago Press, 2011). The sequel volume, *Aspiring Adults Adrift: Tentative Transitions of College Graduates* (Chicago: University of Chicago Press, 2014) is also interesting.

Another *tour de horizon* of higher education that is surprisingly good and objective is by former Harvard president Derek Bok, *Higher Education in America* (Princeton, N.J.: Princeton University Press, 2013). Also interesting by Bok is his *Universities in the Marketplace: The Commercialization of Higher Education* (Princeton: Princeton University Press, 2003). Another former university president's perspective is found in Frank H.T. Rhodes, *The Creation of the Future: The Role of the American University* (Ithaca, NY: Cornell University Press, 2001). An assessment of the future of higher education is found in Frank Newman, Lara Couturier, and Jamie Scurry, *The Future of Higher Education: Rhetoric, Reality, and the Risks of the Market* (San Francisco: Jossey-Bass, 2004). For a very good recent account of the historical development of American universities, see Roger L. Geiger, *The History of American Higher Education: Learning and Culture from the Founding to World War II* (Princeton: Princeton University Press, 2014).

For an interesting critique of modern higher education by a widely followed governmental commission (on which I served as a member), see The Secretary of Education's Commission on the Future of Higher Education (The Spellings Commission), *A Test of Leadership: Charting the Future of U.S. Higher Education* (Washington, D.C.: U.S. Department of Education, 2006). For an assessment of the Spellings Commission, see Brent D. Ruben, Laurie Lewis, and Louise Sandmeyer, *Assessing the Impact of the Spellings Commission: The Message, the Messenger, and the Dynamics of Change in Higher Education* (Washington, D.C.: National Association of College and University Business Officers, 2008).

For additional analyses of rising college costs, read Ronald Ehrenberg *Tuition Rising: Why College Costs Too Much* (Cambridge, MA: Harvard University Press, 2000), or Robert B. Archibald and David H. Feldman, *Why Does College Cost So Much?* (New York: Oxford University Press, 2011). A related work is Ronald Ehrenberg, ed., *What's Happening to Public Higher Education: The Shifting Financial Burden* (Baltimore: Johns Hopkins University Press, 2007). For an earlier (1977) generally positive critique of the economics of higher education, see Howard R. Bowen, *Investment in Learning: The Individual and Social Value of American Higher Education* (Baltimore: Johns Hopkins University Press, Updated Edition, 1997).

For additional critiques of the content and outcomes of higher education, four books from an earlier generation still have relevance for today: Charles Sykes, *ProfScam: Professors and the Demise of Higher Education*

(Washington, D.C.: Regnery, 1988), Roger Kimball: *Tenured Radicals: How Politics Has Corrupted Higher Education* (New York: Harper Collins, 1990), Martin Anderson: *Imposters in the Temple: The Decline of the American University* (New York: Simon and Schuster, 1992), and Thomas Sowell, *Inside American Education* (New York: Free Press, 1992). The number of books critiquing higher education has exploded in recent times. Three good examples include the very important Charles Murray volume *Real Education: Four Simple Truths for Bringing America's Schools Back to Reality* (New York: Crown Forum, 2008), Mark C. Taylor, *Crisis on Campus: A Bold Plan for Reforming Our Colleges and Universities* (New York: Alfred A. Knopf, 2010), and Jackson Toby, *The Lowering of Higher Education in America: Why Financial Aid Should Be Based on Student Performance* (Santa Barbara, CA: Praeger, 2010). A slightly less critical but still useful work is Robert Zemsky, *Making Reform Work: The Case for Transforming American Higher Education* (New Brunswick, NJ: Rutgers University Press, 2010). The criticism of universities is international: see, for example James Stanfield, *The Broken University* (London: ASI Research, 2009).

As higher education costs rise, more authors are pondering what we can do about it. A couple good examples are Joshua C. Hall, ed., *Doing More with Less: Making Colleges Work Better* (New York: Springer, 2010) and Andrew P. Kelly and Kevin Carey, eds., *Stretching the Higher Education Dollar: How Innovation Can Improve Access, Equity and Affordability* (Cambridge, MA: Harvard Education Press, 2013). A short study from the Center for College Affordability and Productivity (that I direct) is *25 Ways to Reduce the Cost of College* (Washington, D.C.: Center for College Affordability and Productivity, September 2010), available at <http://centerforcollegeaffordability.org>.

A large number of books address specific issues relating to higher education: questions relating to accessibility, equity, graduation rates, affirmative action and intercollegiate athletics are five examples. Two important books that received huge attention and are full of interesting statistics, but are somewhat flawed in my judgment because of subjective biases of the authors that prevent a full, balanced presentation, are William G. Bowen, Matthew M. Chingos, and Michael S. McPherson, *Crossing the Finish Line: Completing College at America's Public Universities* (Princeton: Princeton University Press, 2009) and Claudin Goldin and Lawrence F. Katz, *The Race Between Education and Technology* (Cambridge, MA: Harvard University Press, 2008). A book dealing with issues of fairness and representation of all groups in university life is William G. Bowen, Martin A. Kurzweil, and Eugene M. Tobin, *Equity and Excellence in American Higher Education* (Charlottesville, VA: University of Virginia Press, 2005).

Steps 1–16: Additional Readings on the Economics of Higher Education

A word about higher education data: a large percentage of the metrics used to reach the conclusion in this paper comes from statistics gathered from the IPEDS (Integrated Postsecondary Education Data System) database of the U.S. Department of Education. The data are published in various forms, but most comprehensively in the *Digest of Education Statistics*, available at <http://www.nces.ed.gov/programs/digest>. There are several smaller specialized data sets of use. For example, the “grapevine” data historically collected by Illinois State University and now published by in cooperation with SHEEO, the State Higher Education Executive Officers Association (www.sheeo.org) provides information on state appropriations for public universities. Educational attainment data compiled by the U.S. Bureau of the Census are useful in a number of contexts, and we also have relied heavily on the U.S. Department of Labor, Bureau of Labor Statistics (BLS), for jobs information, including the estimated educational attainment level associated with various



occupations. Steps 5 and 6, on room, board, and textbook costs, rely very heavily on the Consumer Price Index. See <http://www.bls.gov> for more details on BLS data. The Federal Reserve Bank of New York has done excellent work regarding federal student loans, and I view their data as superb and indispensable.

My prior work, usually with colleagues at the Center for College Affordability and Productivity (CCAP), informs much of the first 16 or so of the steps outlined above. Four examples of my CCAP studies include *Overinvested and Overpriced: American Higher Education Today* (2007); *Twelve Inconvenient Truths about American Higher Education* (2012); with Christopher Denhart and Jonathan Robe, *Why Are Recent College Graduates Underemployed? University Enrollments and Labor-Market Realities* (2013); and with Christopher Denhart and Joseph Hartge, *Dollars, Cents, and Nonsense: The Harmful Effects of Federal Student Aid* (2014). All are available through the CCAP web site at <http://www.centerforcollegeaffordability.org>. The CCAP perspective on accreditation is found in Andrew Gillen, Daniel L. Bennett, and Richard Vedder, *The Inmates Running the Asylum? An Analysis of Higher Education Accreditation* (2010).

There are, of course, other works beside the CCAP publications and the over 20 books listed above. One of my favorite books on higher education, for example, is Benjamin Ginsberg's *The Fall of the Faculty: The Rise of the All-Administrative University and Why It Matters* (New York: Oxford University Press, 2011). On funding college student costs, see Miguel Palacios, *Investing in Human Capital: A Capital Market Approach to Student Financing* (Cambridge, U.K.: Cambridge University Press, 2004) for a different perspective, discussed in Step 15. Many of the 36 steps in this study involve changing the allocation of resources (e.g., steps nine and ten on space utilization). Universities are anti-innovative groupings of peoples, and the *process* for effecting orderly change is important. One book I have liked dealing with that is Robert C. Dickeson, *Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance* (San Francisco, CA: Jossey-Bass, 2010).

Several of the 36 steps relate to admissions (number 5 especially). The admissions practices of the more selective universities have been analyzed extensively. My favorite book here is Daniel Golden, *The Price of Admission: How America's Ruling Class Buys Its Way into Elite Colleges and Who Gets Left Outside the Gates* (New York: Random House, 2005). A superb historical account is Jerome Karabel, *The Chosen: The Hidden History of Admission and Exclusion at Harvard, Yale, and Princeton* (Boston, MA: Houghton Mifflin, 2005).

Interest in massively open on-line courses (MOOCs) has risen and declined with time. See for example, Laura Pappano, "The Year of the MOOC," *New York Times*, November 2, 2012, available at http://www.nytimes.com/2012/11/04/education/edlife/massive-open-online-courses-are-multiplying-at-a-rapid-pace.html?pagewanted=all&_r=0, as contrasted to Rebecca Koenig, "Optimism About MOOCs Fades in Campus IT Offices," *Chronicle of Higher Education*, October 1, 2014, accessible at <http://chronicle.com/blogs/wiredcampus/optimism-about-moocs-fades-in-campus-it-offices-survey-finds/54705>.

Steps 17–36: Additional Readings on on Curricular and Other Aspects of Higher Education

Several of the 36 steps are related to academic quality considerations (e.g., Steps 19 and 20). Some consider the advent of grade inflation and the watering down of courses to be a consequence of widespread use of student evaluations. On this point, see Louis Goldman, "The Betrayal of the Gatekeepers: Grade Inflation," *Journal of General Education* 37 (1985): 97-121, and Peter Sacks, *Generation X Goes to College*

(Lasalle, IL: Open Court, 1986). A superb review of student evaluations is by Michael Huemer, “Student Evaluations: A Critical Review,” accessible at <http://spot.colorado.edu/~huemer/sef.html>.

A more fundamental objection to higher education on curricular content grounds was raised by Allan Bloom in his best-selling book *The Closing of the American Mind: How Higher Education Has Failed Democracy and Impoverished the Souls of Today's Students* (New York: Simon and Schuster, 1987). More recently, a former dean of Harvard College, Harry Lewis has criticized modern liberal education; see Harry R. Lewis, *Excellence Without a Soul: How a Great University Forgot Education* (New York: Public Affairs, 2006). A searing critique of modern universities is found in Andrew Hacker and Claudia Dreifus, *Higher Education? How Colleges Are Wasting Our Money and Failing Our Kids—And What We Can Do About It* (New York: Henry Holt, 2010). The latest critic from the Ivy League is William Deresiewicz. See his *Excellent Sheep: The Miseducation of the American Elite and the Way to a Meaningful Life* (New York: Free Press, 2014). An earlier Deresiewicz article went viral: see his “Don’t Send Your Kids to the Ivy League: The Nation’s Top Colleges Are Turning Our Kids into Zombies,” *New Republic*, July 21, 2014, accessible at www.newrepublic.com/article/118747/ive-league-schools-are-overrated-send-your-kids-elsewhere.

For a reminder of how far American higher education has changed from its original lofty goals, see John Henry Newman, *The Idea of a University*, originally published in 1852, and available at www.newmanreader.org/works/idea/. The National Association of Scholars has done an exhaustive analysis of curriculum and practices at one prestigious liberal arts college, with troubling results. See their *What Does Bowdoin Teach? How a Contemporary Liberal Arts College Shapes Students* (New York: NAS, 2013).

On intercollegiate sports, there is a voluminous literature. Five readings capture the sense of the problem: Murray Spurber, *Beer and Circus: How Big-Time College Sports Is Crippling Undergraduate Education* (New York: Henry Holt, 2003); James J. Duderstadt, *Intercollegiate Athletics and the American University: A University President's Perspective* (Ann Arbor: University of Michigan Press, 2003); William G. Bowen and Sarah A. Levin, *Reclaiming the Game: College Sports and Educational Values* (Princeton, N.J.: Princeton University Press, 2003); B. David Ridpath, *Tainted Glory: Marshall University, The NCAA, and One Man's Fight for Justice* (Bloomington, IN: Universe Books, 2012); and Taylor Branch, “The Shame of College Sports,” *The Atlantic*, September 7, 2011, accessible at <http://www.theatlantic.com/magazine/archive/2011/the-shame-of-college-sports/308643/>.

On infringements of free speech, the organization with the greatest involvement and expertise is the Foundation for Individual Rights in Education (FIRE). See, for example, their December 18, 2012 “New Report: Three-Fifths of Colleges Seriously Restrict Free Speech on Campus,” accessible at <http://www.thefire.org/new-report-three-fifths-of-colleges-seriously-restrict-free-speech-on-campus/>. See also Greg Lukianoff, *Freedom from Speech* (New York: Encounter Broadside, 2014).

Opinions are sharply divided on tenure, and I can understand both sides of the argument. For a pro-tenure perspective, see Ryan C. Amacher and Roger E. Meiners, *Faculty Towers: Tenure and the Structure of Higher Education* (Oakland, CA: The Independent Institute, 2004). For the opposite (anti-tenure) view, see Naomi Riley, *The Faculty Lounges: And Other Reasons You Won't Get the College Education You Pay For* (Chicago, IL: Ivan R. Dee, 2011). As mentioned above, The American Council of Trustees and Alumni study *Governance for a New Era* (Washington, D.C.: ACTA, 2014) is excellent.

Several books mentioned in Step 32 on affirmative action portray in my judgment the crux of the problem with affirmative action rules. See Stephen and Abigail Thernstrom, *America in Black and White: One*



Nation, Indivisible (New York: Simon and Schuster, 1998), as well as their *No Excuses: Closing the Racial Gap in Learning* (New York: Simon and Schuster, 2003); Richard Sander and Stuart Taylor, Jr., *Mismatch: How Affirmative Action Hurts Students It's Intended to Help, and Why Universities Won't Admit It* (New York: Basic Books, 2002), and Jason Riley, *Please Stop Helping Us: How Liberals Make It Hard for Blacks to Succeed* (New York: Transactions Books, 2014). For an opposing view, the classic work is William G. Bowen and Derek C. Bok, *The Shape of the River: Long-Term Consequences of Considering Race in College and University Admissions* (Princeton, N.J.: Princeton University Press, 1998).

