

LEGISLATIVE
PRINCIPLES
SERIES

NUMBER 10

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Ten Principles *of* Higher Education Reform

By Richard Vedder
and Matthew Denhart



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Series Preface

Welcome to the latest installment in The Heartland Institute's *Legislative Principles* series. Each booklet in this series presents a set of principles central to the debate about a major public policy issue. Each principle, in turn, is carefully documented to enable readers to find the original sources, many of which are on The Heartland Institute's Web site (www.heartland.org). An electronic version of this booklet, also posted on Heartland's Web site, has links to the URLs of many of the sources cited.

By design, most of The Heartland Institute's publications focus on news and contain factual accounts about current events, policies, and legislation. The booklets in the *Legislative Principles* series, on the other hand, set forth enduring principles that are likely to remain valid and relevant to legislative policy in the next decade. They can help busy legislators rapidly prepare themselves to discuss and even propose new legislation in areas they may not ordinarily follow closely.

This particular booklet was written by Richard Vedder and Matthew Denhart of the Center for College Affordability and Productivity. The two have written extensively on the need for, and specific ways to accomplish, higher education reform.

We hope the *Legislative Principles* series forms a mini-library for elected officials, their staff, and concerned citizens. Kept on a desk or in a drawer, the booklets can form a ready reference on major legislative issues and policies. We also hope you will distribute copies to friends and colleagues who share your interest.

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Herbert J. Walberg
Series Editor and
Chairman, The Heartland Institute

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Introduction

Do we need ten principles of higher education reform?

The dissemination and expansion of knowledge is important to the advancement of our civilization and our nation's economic productivity, yet the cost of that effort is considerable and rising dramatically. Better efficiency in delivering higher education would increase the nation's economic growth and living standards.

The United States spends more than \$430 billion annually on various forms of postsecondary education—the equivalent of 3 percent of the nation's total economic output—triple the proportion of a half-century ago (Digest 2009a). This chapter offers innovative ways that higher education, also known as postsecondary education, could be reformed to improve outcomes and lower costs. "Postsecondary education" is defined rather broadly, referring to American degree-granting colleges and universities.

There is a widespread feeling that university training is important for economic success at the individual level as well as to the nation, yet increasing evidence suggests U.S. institutions of higher education are less efficient and decreasingly effective at creating the foundations for such success:

- The cost of obtaining a four-year degree has more than doubled since 1975 in inflation-adjusted dollars (Digest 2009c).
- Statistics from the 2003 National Assessment of Adult Literacy suggest college graduates have a lower level of reading comprehension than their counterparts of a decade ago (NAAL 2003).
- Although difficult to quantify, by any reasonable measure productivity in higher education is at best stagnant, and probably falling (Vedder 2004).

- The typical college student of today spends about 30 percent less time on academic pursuits than his or her counterpart of a half-century ago, as grade inflation makes it easier to seem to perform well with less work (Babcock and Marks 2010).
- 42 percent of students enrolling in bachelor's degree programs full-time fail to earn a degree within six years (Digest 2009b).
- Falling teaching loads have led to a proliferation of articles published in obscure academic journals that few persons read (Bauerlein *et al.* 2010).
- Universities devote more of their budgets to non-instructional pursuits than previously, including swollen and well-paid bureaucracies, country club-like recreational facilities, and research that has low value outside the academic community.
- The effort to have everyone obtain a college degree has led to many workers becoming over-trained for the low-skill jobs they take after graduation.
- Students are burdened with excessive debt from college training, sometimes larger than can be sustained on their modest post-college incomes.

Can something be done to reverse these trends? Adherence to sound principles can lead to reforms of higher education that make it more affordable, more productive, more efficient, and more useful to society. Alternatives to existing modes of educational delivery can and are being developed, including training more appropriate for the aptitudes and interests of students. The ten principles that follow show how our higher education system can be restructured to provide a better education to Americans at a lower cost.

Recommended Reading: Richard Vedder, *Going Broke by Degree: Why College Costs Too Much* (Washington, DC: AEI Press, 2004); Richard Vedder, "Over Invested and Over Priced," Center for College Affordability and Productivity, 2007.

1. Reduce Third-Party Payments.

Ending government subsidies to higher education and removing tax breaks for third-party subsidization would more directly align the costs of higher education to the benefits of those who attend.

When someone other than the customer is paying the bills, a producer has little incentive to cut costs or even make the customer happy. Consumers in such circumstances have little power over producers. This happens in both health care and in higher education. Customers pay some of the costs of education, but much is paid through government subsidies, loan programs, private gifts, and the like. Because of this reliance on third-party payments, spending on higher education has soared, just as it has on medical care.

Government and private subsidies to colleges are often justified on two grounds. First, it is argued that higher education is a “public good” that confers benefits not just on the individual educated but on the broader society as well. However, the empirical evidence relating to these positive spillover effects is murky at best, with some of it even suggesting government subsidies have an important negative spillover effect: lower rates of economic growth (Vedder 2004). Second, subsidy proponents contend higher education is a means to achieve the American Dream, to ensure that anyone, no matter their economic or family circumstances, can succeed in the United States. Yet here too the evidence that third-party payments have brought about educational equality is scant. Among all college students earning bachelor’s degrees, the proportion of those from families in the bottom quartile of income has increased negligibly compared with 40 years ago, despite large increases in federal student aid in the form of Pell Grants and college loans (Mortenson 2009).

There is little doubt that, on average, college graduates benefit from having their degrees, with the earnings differential between

college graduates and high school graduates averaging well over 60 percent since 1980 (O’Keefe and Vedder 2008). Given that higher education is a good investment for many, why not let students pay the costs, just as we do with other personal investments?

As state government budgets get squeezed by rising Medicaid, corrections, and other costs, many states are starting to resist new higher education spending. In fact, perhaps the time has come to begin to privatize some public universities. Institutions such as the universities of Colorado, Michigan, and Virginia now get 10 percent or less of their budgets from state appropriations (IPEDS 2008). Why not phase out the state subsidies altogether?

Another big subsidy is the tax breaks for those who give money to a college or university, even if the money goes to fund non-educational facilities such as stadium renovations or luxury dormitories. Removing this tax break and lowering tax rates for everyone is a much more direct way to facilitate economic growth. In addition, tax-incentivized private giving has increased the resource gap between elite private and public colleges and has indirectly contributed to rising costs through the “academic arms race” of schools spending ever-larger amounts of money to entice good students to attend.

As paradoxical as it may seem, the best thing taxpayers can do for higher education could be to stop funding it. A system that relied more on tuition and profits, and less on government subsidies and tax-advantaged charity, would be more efficient and more responsive to the needs of its customers.

Recommended Reading: Richard Vedder, “Over Invested and Over Priced,” Center for College Affordability and Productivity, 2007; Armen Alchian, “The Economic and Social Impact of Free Tuition,” *New Individualist Review*, 1961.

2. Fund Students, Not Institutions.

Giving subsidies directly to students would create much-needed competition among institutions, forcing them to be more conscious of student needs and budgets.

Government subsidies given directly to schools do not target assistance to those students needing support the most. Most third-party support for higher education, other than that explicitly targeted for research, assumes funds will be used to enhance the quality or reduce the cost of the undergraduate experience. Yet that assumption is often wrong. Undergraduate students are neglected at many institutions, particularly research universities, where the emphasis is on graduate and professional education and research (NSSE 2010). The proportion of resources going for undergraduate instruction has been on the decline (Delta 2009).

If subsidies were given directly to students, not schools, the balance of power would change. Students would gain the power to direct the subsidies to the schools that best serve their needs. Instead of going begging to state legislators, university presidents would have to pay more attention to the students themselves. Vouchers given to students can be limited to four years, creating incentives for students to graduate in a timely manner. They can be made progressive, allowing larger sums for poorer students and eliminating subsidies for students who would go to college without a grant. Bonuses can be given for excellent academic performance, and penalties assessed for poor performance.

The Pell Grant has some aspects of a voucher, but it suffers from major limitations. It rewards low-achieving students as much as good ones, instead of targeting funds to those most likely to succeed. It probably contributes to the rising completion time for those who graduate, and even to higher dropout rates by enticing students with little prospect for academic success to attend college (CCAP 2010). In addition, the funds are sent to schools for administration. It would empower students more if vouchers,

usable only for higher education expenses, were made available directly to the students themselves—which would be easy to do in this era of modern computer technology (CCAP 2010).

A good voucher approach would allow students to attend institutions other than state-supported ones—traditional private schools, for-profit institutions, and specialized career colleges that offer certificates for learning specific skills rather than diplomas. Such vouchers thereby would enhance competition for students and make universities more dependent on revenues generated from consumers than from the political process.

Recommended Reading: Milton Friedman, “The Role of Government in Education,” Chapter 6 of *Capitalism and Freedom* (Chicago, IL: University of Chicago Press, 1962); Andrew Gillen, “Financial Aid in Theory and Practice,” Center for College Affordability and Productivity, 2009.

3. Increase Transparency.

Competition among providers requires transparency in gathering and reporting data on student performance, research output, and institutional finances.

Making informed judgments about the value of an institution of higher education or college degree without good information on costs and performance is impossible. Did Harvard have a good year in 2010? Who knows? Do its senior students know more than its freshmen? Is the research of its humanities faculty read by many people, and has it materially improved our understanding of the human condition?

Do students graduating from Harvard get good jobs, and does that vary greatly by major? Does it cost more to educate a historian than a sociologist? How much time do students spend studying, as opposed to partying or other nonacademic pursuits? How much of the university's resources are used for Ph.D. training relative to undergraduate learning? How do its performance measures compare with five years ago, or with competing institutions such as Yale and Princeton? By and large, the answers to questions like these are unknown.

With only a few exceptions, all postsecondary institutions receive significant amounts of government or private philanthropic aid. Yet those subsidies are provided blindly, with taxpayers getting little information about how efficiently their hard-earned money is being used. Colleges often have information from instruments such as the National Survey of Student Engagement (NSSE 2010) or the Collegiate Learning Assessment (Collegiate n.d.) that provide valuable information on how students use their time or how much critical thinking skills they have obtained. This information is rarely shared with the public, however. Similarly, information on the postsecondary occupational success of students by institution is available—the Internal Revenue Service and Social

Security Administration have it, for example—but it is either not compiled or just not published.

Likewise, there is a lack of precise information on faculty teaching loads, the salary and fringe benefits of key employees, and the allocation of resources among undergraduate and graduate teaching and nonteaching activities. Extremely costly nonacademic facilities receive little evaluation on cost-benefit grounds. Princeton, for example, recently constructed Whitman College, a residential housing facility for 500 undergraduates, for a cost of \$136 million. Meg Whitman received federal income tax deductions for her family's gift of \$30 million for naming rights (Marks 2002). Was that a good investment?

States could readily obtain and publicly report performance and cost data on their institutions. Some institutions have started making some of this information available themselves. The University of Pennsylvania, for example, has an excellent alumni survey that details factors such as graduates' average salaries, how they landed their first jobs, and average salaries while on student internships (Matgouranis and Denhart 2010). Cornell University has a similar survey (Cornell 2010). However, these voluntary efforts are very limited, leaving students and the public with little useful outcomes-based information about higher education.

Given that they support public universities and community colleges, state governments have a responsibility to collect and report the data needed to hold higher education's leaders accountable for results. Simply supplying students and their parents with accurate outcomes information would force the state's colleges and universities to be more responsive to students.

Students and their families who were really in charge of their spending on higher education increasingly would demand this information. In addition, making institutions directly accountable to students would allow the state to reduce its oversight role—thus saving taxpayer dollars and reducing government intrusion.

Recommended Reading: Derek Bok, *Our Underachieving Colleges* (Princeton, NJ: Princeton University Press, 2006).

4. Don't Push College on Everyone.

Traditional four-year degrees are not the best option for everyone. Alternative postsecondary training programs may be suitable for many Americans.

A major effort of politicians from President Barack Obama on down at both the federal and state levels has been to increase college enrollments, arguing that the percentage of young adults with college degrees is lower in the U.S. than in many other nations (Obama 2010). It is argued that increases in college attendance will increase worker skill levels, “human capital,” and the rate of economic growth.

This attempt to increase postsecondary enrollment has at least three major drawbacks. First, there are wide variations in human cognitive skills and motivation. Many of those who choose not to pursue postsecondary education do so for a perfectly rational reason: They consider it unlikely that they will succeed. Even among those already going to college, nearly half drop out, and others take longer to get a degree than anticipated (Digest 2009b). Expanding the pool of those entering college also will increase the number of college dropouts.

Second, as greater numbers of less academically qualified persons enter college, remedial education costs will rise and the standards of rigor will decline in order to maintain respectable graduation rates. Data already show declining literacy skills among the nation's college students (NAAL 2003).

Third, Bureau of Labor Statistics job projections suggest most new jobs created over the next decade will *not* require skills acquired in traditional college or university programs (Occupations 2010). For example, some 461,000 new home health aides, 375,000 new retail salespersons, and 233,000 new truck drivers will be needed by 2018; those are skills best learned mostly on the job or in specialized postsecondary career schools, not through a college degree program (Occupations 2010).

The United States is beginning to accumulate large numbers of college-educated people who perform jobs for which they are overqualified. Currently, more than 13 percent of the nation's parking lot attendants and more than 14 percent of our hotel clerks have at least a bachelor's degree (Occupation Profiles 2010). "Credential inflation" has led many people to pursue degrees to try to stay ahead of other applicants, even though the jobs do not require such training (Vedder *et al.* 2010).

The use of postsecondary education vouchers would provide greater incentives for students to attend nontraditional schools such as for-profit schools, including those offering short (perhaps six months) training in skills such as truck driving or plumbing. For many, a six-month course in learning how to drive large semi-trailer trucks is likely to have a bigger payoff than a four-year course resulting in a bachelor's degree in, say, sociology. Less debt is incurred, the probability of successfully completing the program is greater, and the postgraduate earnings are likely to compare favorably with the four-year college alternative.

Recommended Reading: Charles Murray, *Real Education: Four Simple Truths for Bringing America's Schools Back to Reality* (New York, NY: Crown Forum, 2008); Richard Vedder, "From Wall Street to Wal-Mart: Why College Graduates Are Not Getting Good Jobs," Center for College Affordability and Productivity, 2010.

5. Promote Lower-Cost Alternatives.

Traditional four-year institutions are expensive. Students can obtain quality degrees at a lower cost by exploring alternatives.

Higher education costs per student are higher in the United States than in any other major country. Within the United States, some students are educated for less than \$10,000 a year annually, whereas for others costs in excess of \$100,000 are commonplace (IPEDS 2008). Public policy has actually provided more subsidies and recognition to the high-priced schools (elite private institutions and flagship public research universities) than to others (Digest 2009d).

In addition, accreditation proves a major barrier to entry to for-profit firms and other less-expensive alternatives (see Principle 10 below). On top of that, proposed federal regulations would require government regulators in each state to approve online instruction within the state. Yet there is evidence that online education very often is better than traditional classroom instruction (U.S. Dept. of Education 2009). Private online programs cost state governments nothing at all and would cost relatively little under a voucher plan.

Some of the proposals discussed above (reduction in third-party payments, the use of student vouchers) could help reduce the excessive public investment in exceedingly costly schools. States giving vouchers might make them usable only at relatively lower-cost community colleges and proprietary institutions for students whose academic profile suggests a high probability of academic failure in four-year schools. This would reduce the financial exposure of taxpayers in cases where students fail to take advantage of the academic resources provided them. Students completing courses with a satisfactory academic record at, say, community colleges could then receive vouchers for an additional two years at a four-year university.

States moving to student-centered funding of higher education might consider funding Higher Education Investment Accounts for

eligible students. For example, each student who performs satisfactorily could withdraw up to \$20,000 over a lifetime, at a rate not to exceed \$5,000 a year, from his or her account. Those attending a community college that costs \$3,500 in tuition for two years and then for two more years at a four-year school costing \$6,000 annually would need a total of \$19,000. The program could allow them to keep all or a portion of the amount below \$20,000 after graduation, giving students an incentive to attend low-cost schools and finish their studies.

The greatest inefficiencies today arise from the various federal financial assistance programs. The negative unintended consequences of such programs cancel out any contributions they may be making toward their ostensible objective: more access to higher education among lower-income Americans (Gillen 2009). Pell Grant recipients who attend a low-cost community college may receive a grant of, say, \$2,500, but would get \$5,000 if they attended an expensive school, giving them a strong incentive to opt for higher-priced institutions. Student loans are even worse in this regard, with the size of the loan (and the implicit government subsidy) directly proportional to school costs.

A strong case can be made that the current federal program should be eliminated entirely. Despite their proponents' stated intentions of making college more affordable, existing federal financial aid programs have contributed significantly to the higher education cost explosion in recent decades (Vedder 2004).

If eliminating federal financial aid programs is politically infeasible, the Pell Grant at least should be converted into a fixed-sum voucher. The amount of this voucher should not vary depending on the tuition price of an institution, and therefore would give recipients an incentive to choose lower-cost alternatives instead of expensive four-year universities or liberal arts colleges.

Recommended Reading: "25 Ways to Reduce the Cost of College," Center for College Affordability and Productivity, 2010; Richard Vedder, *Going Broke by Degree: Why College Costs Too Much* (Washington, DC: AEI Press, 2004).

6. Emphasize Instruction.

Costs will continue to rise until frivolous activities subside in favor of a tighter focus on undergraduate instruction.

Most comprehensive universities, and even some liberal arts colleges, engage in many activities unrelated to the academic enterprise. They operate restaurant and lodging operations, conference centers, hospitals, entertainment enterprises (notably intercollegiate athletics), and recreational facilities such as golf courses and weight/conditioning operations, etc.

These ventures have very little to do with the twin goals of any university: the dissemination (teaching) and production (research) of knowledge. On average, universities are not as effective and efficient as private restaurant and lodging companies at food and housing services. To their credit, many schools have outsourced these activities. But they could, and usually should, outsource building maintenance, the teaching of remedial courses, the running of hospitals, and myriad other things they now do (CCAP 2010).

Also, much of the so-called “research” done by higher education institutions is of dubious value. A significant decline in teaching loads has occurred over time to allow time for more “research,” and the number of academic journals has multiplied several-fold (Vedder 2004). As a consequence, diminishing returns to research have set in: More than 35,000 articles have been written about William Shakespeare since 1950; have the last 34,000 of those articles really added much to our understanding of either Shakespeare or the advance of Western civilization (Bauerlein 2010)? Weren’t 1,000 articles enough?

Research should be subject to cost-benefit scrutiny, and that examination almost certainly would lead to some increase in teaching loads, allowing for a reduction in college costs (fewer faculty members would be needed to provide any given amount of instruction). Having aid money follow the student instead of being

given directly to institutions would help ensure that such research would be concentrated on areas that enhance learning and increase the educational value to the students instead of merely being conducted for the professional advancement of college professors.

A special issue is intercollegiate athletics. Some would argue it has contributed to the downplaying of academics. One school recently cancelled classes for two days to be sure all students could attend the school's football bowl game (Low 2010). Other legitimate issues include the overpaying of coaches and the underpaying of student athletes (Vedder and Denhart 2009).

Those issues aside, intercollegiate athletics are increasingly a financial burden, particularly on schools with aspirations of being athletic powers but without much commercial appeal—there are many schools where athletic subsidies absorb 10 percent or more of state appropriations or, alternatively, of tuition and fees (Denhart and Vedder 2010). The athletic cartel (the National Collegiate Athletic Association, or NCAA) has worked to raise costs. Federal government policy treating gifts to intercollegiate athletics as a charitable, tax-deductible contribution has condoned and abetted the intercollegiate athletics “arms race.”

It is time now for a new, collective effort to contain exploding athletic costs, perhaps by ending the tax-deductibility of gifts earmarked for athletic programs, divesting commercial sports from university operations, or by multiuniversity agreements to contain costs and redirect commercial sports revenues to core academic activities. In any case, government budget and tax policies should be changed to stop encouraging the waste of resources on intercollegiate athletics.

Recommended Reading: Harry Lewis, “Excellence Without a Soul: How a Great University Forgot Education,” *Public Affairs*, 2006; Richard Arum and Josipa Roksa, *Academically Adrift: Limited Learning on College Campuses* (Chicago, IL: University of Chicago Press, 2011); Andrew Hacker and Claudia Dreifus, *Higher Education?* (New York, NY: Times Books, 2010).

7. Restructure University Ownership and Governance.

University management structures need to be simplified, which can be encouraged through student-centered aid and the consequent emphasis on delivering real educational value.

Most American universities are organized on a management model developed in the Middle Ages and essentially unchanged for more than a century. It is not clear at all who “owns” the university and who has the right to govern it. This vagueness leads to costly, often delayed, and timid decision-making (Vedder 2004). Bold innovations are stifled by the politics associated with operation by committees containing members of all interested groups.

At a typical university, the president raises funds to placate the needs of the faculty (high salaries, low teaching loads, good parking), students (decent housing, low work expectations, plenty of free time, and easy access to recreational facilities), alumni (good football and basketball teams, a nice alumni/conference center), senior administrators (high pay and perks such as international travel, a fancy office, and lots of assistants to do the heavy lifting), trustees (nice perks, luxurious facilities for meetings, appearances of institutional success), etc. The president is not an entrepreneur but instead a person who cajoles funds from third parties to pay what economists call the “economic rents” (payments beyond what is necessary to provide the service) to all those who could create trouble.

“Shared governance” is much revered by faculty, but it adds vastly to administrative costs and stifles innovation and change. Shared governance is a byproduct of academic tenure, where faculty members with lifetime appointments face little consequence from trying, often successfully, to obstruct changes that might reduce their power or influence or increase their teaching load. Most university decisions are made by committee, and implicitly various interest groups represented on the committees usually have

some limited sort of veto power, forcing compromises that are often costly (adding faculty in department A as a condition of approving new programs for department B) and illogical on any rational cost-benefit ground.

One promising development, however, can reduce the governance problem: market-based higher education. For-profit colleges are growing rapidly, gaining market share to the point that in some cases they are forcing traditional universities to at least partially abandon the inefficiencies of the current management model (Bennett *et al.* 2010). Institutions such as Apollo Corp. (University of Phoenix), Kaplan Higher Education, Bridgepoint Education, and other companies have clearly defined ownership and management. Institutional priorities are concentrated on improving the bottom line (profits, perhaps stock price or market share), something traditional schools do not do as there is no clearly defined bottom line (Bennett *et al.* 2010). Removing barriers to the spread of market-based education and letting that sector absorb future enrollment increases would reduce the ownership/governance problem discussed above.

The for-profit higher education industry has recently been demonized by a federal investigation that has questioned the large debts accrued by students and their lackluster graduation and loan repayment rates. Such criticisms may be warranted, but the investigation has missed the larger point: *all* postsecondary institutions should be accountable on these issues, and in many cases traditional nonprofit institutions are worse offenders than the for-profits.

Recommended Reading: Robert Zemsky, *Making Reform Work: The Case for Transforming American Higher Education* (Chapel Hill, NC: Rutgers University Press, 2009); Daniel L. Bennett *et al.*, “For-Profit Higher Education: Growth, Innovation, and Regulation,” Center for College Affordability and Productivity, 2010.

8. Raise Academic Standards.

Low standards and grade inflation are damaging the educational quality of U.S. higher education institutions and creating a culture of mediocrity.

Today's college students, on average, learn less than those of preceding generations. In part this is a consequence of a dysfunctional and costly system of government primary and secondary schools, but partly it is a result of the low academic standards of many colleges.

The U.S. Department of Education's Adult Literacy Survey shows declining literacy among college graduates (NAAL 2003). The Intercollegiate Studies Institute Survey of Civic Knowledge suggests seniors typically know little more than freshmen about basic facts and principles concerning our economy, government, and historical evolution (American Civic 2010). Data from time use surveys show students today typically study vastly less than their counterparts of a half-century ago (Babcock and Marks 2010).

An analysis of data about more than 2,300 undergraduates at 24 institutions found 36 percent experienced no significant improvement in learning over four years of schooling; more than 45 percent showed no significant improvement in a range of skills such as critical thinking, complex reasoning, and writing during their first two years of college (Arum and Roksa 2011). Scholarship from earlier decades also suggests there has been a sharp decline in both academic work effort and learning.

The Washington Post (Washington Post 2005) reported far fewer students "are leaving higher education with the skills needed to comprehend routine data, such as reading a table about the relationship between blood pressure and physical activity, according to the federal study conducted by the National Center for Education Statistics." In 2008 the National Survey of Student Engagement found 43 percent of U.S. higher education students

spent ten hours or less per week “preparing for class (studying, reading, writing, doing homework or lab work, analyzing data, rehearsing, and other academic activities).” Seventeen percent spent *five* hours a week or less, and half of all college seniors have never written a paper 20 pages or longer while in college (NSSE 2008).

The “What Will They Learn?” project of the American Council of Trustees and Alumni extensively documents the watering-down of general education requirements at U.S. colleges and universities. According to the project’s Web site, “While most colleges today claim they are providing a strong core curriculum, in fact, they do so in name only. Instead of a limited number of courses, broad-based in focus, institutions now typically demand that students take courses in several wide subject areas – the so-called distribution requirements.” (ACTA n.d.)

Better academic performance, as measured by grades, is associated with greater postgraduate earnings (Stinebrickner and Stinebrickner 2008). However, grade inflation has reduced college work effort and almost certainly learning (Babcock and Marks 2010). Accordingly, it would not be overly intrusive for governments to deny vouchers to students attending institutions where the aggregate undergraduate grade point average is greater than, say 3.00, and perhaps allow only a half-voucher for schools where the average GPA is between 2.80 and 2.99. Using the voucher amount to create incentives for the reintroduction of more rigorous curricula, grading standards, and core education requirements probably would help improve overall academic performance by U.S. higher education institutions.

Holding colleges accountable for maintaining high standards is difficult, largely because of the lack of transparency and failure to measure academic progress discussed earlier. For that reason, value-added measures of academic performance are needed, and third-party financial support should be dependent on demonstration that colleges are positively adding to the learning, critical thinking skills, or other desired qualities expected in a college graduate. The standards movement within K-12 education led to some improvement in learning outcomes, a lesson that could be learned profitably by universities.

Recommended Reading: Philip Babcock and Mindy Marks, “Leisure College, USA: The Decline in Student Study Time,” American Enterprise Institute, 2010; Richard Hersch and John Merrow, *Declining by Degrees: Higher Education at Risk* (New York, NY: Palgrave Macmillan, 2005); “Literacy of College Graduates Is on Decline,” *Washington Post*, December 25, 2005; Philip Babcock, “Real costs of nominal grade inflation? New evidence from student course evaluations,” *Economic Inquiry*, 48, 2010.

9. Measure Institutional Success by Student Performance.

Introducing market principles into higher education will provide the necessary incentives for faculty and administration to concentrate on making students’ financial investment pay off.

The private business sector has achieved productivity growth averaging 2 percent per year ever since 1870. An important reason is that the private business sector is disciplined by market forces. Reducing costs and improving product quality enhances profits, and thereby stock prices, employee bonuses, the value of stock options, etc. Being efficient increases the income and wealth of managers and key employees, as does improving the quality of the product offered to consumers.

Those market incentives are muted or totally absent in higher education. A typical department chairman of a university wants to increase his budget. That typically increases the cost per unit of outcomes delivered. There are few or no incentives to cut costs. Classrooms are poorly utilized because there are no incentives to use them during less-desirable times (early mornings, late in the afternoon, evenings, Fridays, or in the summer). Professors continue to teach unpopular courses that they like, rather than what students want. Administrative staffs are decreasing at large

corporations but increasing in universities, because the latter have few incentives to economize (Bennett 2009).

Market principles can be introduced more extensively into the academy, and government aid should encourage this. One method of introducing market forces is the outsourcing of services to competitive private companies. In addition, universities can introduce internal markets by, for example, renting space to departments, with rental prices set to encourage non-peak use. Tuition charges can be made to vary by the costs of instruction and the popularity of course offerings. Courses taken in the evening or on weekends can be priced lower than those taken in prime-time from Monday through Thursday.

More radically, colleges could move back to a professorial compensation model praised by Adam Smith in 1776, in which students directly pay professors (who in turn remit some of the funds to the university for administrative, academic support, and facility services), so that instructor compensation increases with the number of students taught and the popularity of the instruction. Alternatively, colleges could contract with groups of professors operating private firms to provide, say, political science instructional services, instead of paying salaried professors individually.

Students who do well academically are already rewarded by merit scholarships, but the more aggressive tying of student financial assistance to student performance is a means of reducing dropouts and lengthy periods to degree completion. This is very easily done with a voucher program, which can use financial incentives to promote worthwhile goals such as timely graduation or good academic performance.

Recommended Reading: “25 Ways to Reduce the Cost of College,” Center for College Affordability and Productivity, 2010.

10. Reduce Barriers to Entry and Encourage Accreditation Reform.

Reforming the accreditation system would allow more competitors to enter the higher education market by reducing barriers to entry.

Starting a college or university is not easy, especially given state and federal government obstacles to entry into the higher education business. Most important, students cannot get federal loans or grants to attend non-accredited schools.

The key problem is that accreditation tends to be based on inputs—spending money—instead of outputs, the demonstrated proof that students are actually receiving a beneficial education. The cost of meeting accreditation standards is often very high, measured in millions of dollars (Gillen *et al.* 2010). Small entrepreneurs are essentially frozen out of competition, which reduces incentives for efficiency in the system. In addition to accreditation rules, many states require schools to get approval from state governments in order to be licensed to operate. For online companies operating in all 50 states, these costs can amount to millions of dollars.

What is the point of these regulatory barriers? “Accreditation” serves as an informational and quality control device: It endorses a school as being of decent quality and financially responsible, not a diploma mill offering nothing in return for tuition payments. Yet are accrediting agencies really needed for that? People buy all kinds of big-ticket items that are not “accredited,” including houses, cars, and expensive electronic devices. Magazines or agencies such as *Consumers Report* or J.D. Powers and Associates help consumers assess the quality of products and services offered for sale. There is no huge problem with unscrupulous or unreliable auto manufacturers. Some currently available consumer protection devices, such as bonding requirements, probably could provide some of the safeguards expected of accreditation.

As stated earlier, a reliable, easy to use, and relatively uniform system of data on both the performance and financial conditions of undergraduate institutions could go a long way toward doing the job of accreditation. No large school, to our knowledge, ever lost accreditation on the basis of poor academic quality. The accreditation label thus says very little about the quality of an institution, yet accreditation often is costly to obtain because schools have to meet costly input-based criteria (for example, a certain percent of the faculty possessing Ph.D. or other terminal degrees) (Gillen *et al.* 2010). While reformers are calling for accrediting agencies to emphasize outcomes and not inputs, that goal has not been fully realized.

Continued third-party financial payments to institutions to cover instructional costs are of dubious value. But if such payments are going to occur, they should be related to aggregate student outcomes, such as the income and job prospects of graduates, or the proportion of graduating students scoring well on the Graduate Record Exam (GRE), Critical Learning Assessment, or some other instrument. Colleges and other institutions should compete to achieve these outputs and be rewarded if they succeed, without the formality of accreditation getting in the way.

Recommended Reading: Andrew Gillen *et al.*, “The Inmates Running the Asylum? An Analysis of Higher Education Accreditation,” Center for College Affordability and Productivity, 2010; Anne Neal, “Dis-Accreditation,” *Academic Questions*, 2008; George Leef and Roxana Burris, “Can College Accreditation Live Up to Its Promise?” American Council of Trustees and Alumni, 2002.

Conclusion

Higher education has been notoriously resistant to reform. Tenured faculty bitterly resist major changes, and they often have the power to veto them. University presidents wanting a peaceful and successful career engage in large-scale spending to placate various constituencies. Decisions are made slowly and timidly, and innovation is discouraged. As a result of these impediments to change, calls for reform usually are just that: calls or pleas, nothing that results in tangible constructive action.

In the short run, the aftermath of the financial crisis of 2008 and accompanying recession have left both governments and universities weakened. Most state governments face huge potential budget deficits, making them eager to cut costs. Those financial pressures are on governments as well as universities, making them more vulnerable than usual.

For the longer term, the aging of the population and soaring health care costs are causing huge fiscal pressures at both the federal and state levels. Current budget deficits are unsustainable, meaning federal fiscal constraint is likely to be reestablished to some degree in the near future. A reduction of government third-party payments to higher education seems more feasible than usually would be the case.

Cheerleaders for higher education who argue that expanding universities is vital to our nation's economic vitality are exaggerating and overstating their point. It is true that well-educated persons are important human resources in a sophisticated, advanced economy and that innovation based on research is needed for economic growth. However, the evidence shows the nation's higher education institutions are not turning out well-educated persons.

We spend hundreds of billions of dollars on universities every year, so making more efficient use of those resources should be a significant national goal. Implementing the ten reforms discussed here is a necessary, if not sufficient, step toward achieving that goal.

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Additional Resources

- *PolicyBot*, The Heartland Institute's free online clearinghouse for the work of other free-market think tanks, contains thousands of documents on higher education issues. It is on Heartland's Web site at www.heartland.org.
- www.schoolreform-news.org, a Web site devoted to the latest news and commentary about education policy issues, including higher education reform. Read headlines, watch videos, or browse the thousands of documents on education policy reform available from *PolicyBot*.
- *School Reform News*, a monthly publication from The Heartland Institute, focuses on elementary and secondary education but at times addresses higher education. Subscribe online at www.heartland.org.

Directory

The following national organizations support higher education reform and are good sources of additional research and commentary on this issue.

American Legislative Exchange Council, www.alec.org

American Enterprise Institute, www.aei.org

American Council of Trustees and Alumni, www.goacta.org

Cato Institute, www.cato.org

Education Sector, www.educationsector.org

Foundation for Individual Rights in Education, www.thefire.org

Intercollegiate Studies Institute, www.isi.org

John William Pope Center for Higher Education Policy,
www.popecenter.org

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