PART I

Prelude

Tempting as it always is to put the best possible face on most everything, there are times for candid and forceful self-appraisals. It is in that spirit that we offer our sense of the all-too-limited success that American higher education is having today in meeting pressing national needs (its great accomplishments notwithstanding). It is also true, as we have said in the preface, that public discussion often exaggerates, if it does not misstate entirely, issues that lend themselves to hyperbole.

There is no denying the fact that our country faces pressing needs. These include achieving higher levels of educational attainment, in large part by raising stagnant completion rates, reducing long time-to-degree, reversing unacceptable disparities in outcomes related to socioeconomic status, and responsibly addressing concerns about affordability that have been driven by both cutbacks in government support and the limited success of higher education in finding effective ways of reducing costs while maintaining educational quality. Disparities in outcomes by socioeconomic status are, of course, serious matters in their own right in a country that supposedly puts a high value on social mobility and should be genuinely concerned about opportunity for all. Moreover, we do not think aspirations for higher levels of educational attainment overall can be satisfied without substantial progress in meeting the educational needs of students from low-income and otherwise disadvantaged families.

Organization of the Book

In part I (this prelude) we provide a framework for thinking about the issues before us.

In part II we assemble as much evidence as we can to document the seriousness of these interconnected issues—which too many in higher education seem reluctant to acknowledge, much less attack effectively. William "Brit" Kirwan, who recently retired as chancellor of the University System of Maryland, shares this concern. In an "exit" interview, he observed: "All of higher education, maybe with a few exceptions [the extremely well-endowed private institutions], is going to be in for a very difficult time in the coming decade. University leaders and boards are not doing enough to come to grips with what universities will be facing in the coming years."[1] We agree. We believe that leadership, at both administrative and board levels, is too often reluctant to consider the major changes—in teaching methods, for example—needed to improve how instruction is delivered and how costs are controlled. There is also much room for progress in deciding how student aid funds are allocated.

In part III we discuss an "agenda for change"—approaches to consider in the search for ways to ameliorate, if not solve, these

[1] Kellie Woodhouse, "A Career's Worth of Change," *Inside Higher Ed*, July 14, 2015, available at https://www.insidehighered.com/news/2015/07/14/exit-interview-outgoing-university-system-maryland-chancellor-brit-kirwan.

problems. Faculty, no less than administrators and trustees, need to be apprised of these challenges; they need to become active participants in finding educationally and financially responsible solutions. There is much that can be accomplished. Alexis de Tocqueville, in his famous *Democracy in America* (1835), observed: "The greatness of America lies not in being more enlightened than any other nation, but rather in her ability to repair her faults."[2] However true this may have been in the early part of the nineteenth century, we fervently hope that it is true today.

Framework for Analysis

It is useful to begin by describing the general framework within which we are thinking. The higher education system is a means of investing in human capital or, more ambitiously, in human improvement. Like any investment, investment in human capital involves paying present costs to gain future benefits. The most important resource here is the time of the students themselves, who need to devote sustained effort to the process of acquiring new skills and learning new things. Student time can be used most effectively when it is complemented with other resources—teachers and facilities—that can make learning opportunities more effective.

There is probably no better-documented finding in the social sciences than that education pays. Studies across a wide variety of countries, with differing economic systems, examining different levels of education and employing a range of statistical techniques, have shown with mind-numbing consistency that the earnings differential between people with more education versus

[2] Alexis de Tocqueville, *Democracy in America*, vol. 1, chapter 8.

those with less education more than compensates students for the investment in time and money they make (or society makes on their behalf) in becoming more educated.[3]

Impressive as the data collection efforts and analytical advances underlying these studies have been, to us the most persuasive evidence of the persistent high value of investments in education comes from the study of US economic history. Claudia Goldin and Lawrence Katz tell the story of the United States' world-leading investments in education beginning early in the nineteenth century and persisting through the expansion of college opportunity in the 1960s.[4] The United States, for example, invested heavily in expanding high schools at a time when European countries thought that such further education should be restricted to a narrow elite. Katz and Goldin marry this story of expanding educational opportunity to the parallel story of the relentless advance of technology over the same period and show how technical advances increase the demand for education and the productivity of educated labor, resulting in a growing economy and a healthy economic return to educational investments. Katz and Goldin attribute the lagging performance of the US economy since the 1980s in large part to slowed expansion of educational attainment in the United States.

The persistent increase in demand for educated workers in the face of a slowdown in the growth of supply of educated workers has meant that the rate of return to education—particularly to higher education—has in recent years risen to levels much

[3] A valuable introduction to the voluminous literature on returns to education can be found in Dominic Brewer and Patrick McEwan, eds., *Economics of Education* (San Diego, CA: Elsevier Press, 2010).

[4] See Claudia Goldin and Lawrence F. Katz, *The Race between Education and Technology* (Cambridge, MA: Harvard University Press, 2008).

higher than ever before. Avery and Turner estimate that the economic return to a college degree tripled for women between 1965 and 2009 and rose nearly as fast for men.[5]

Of course, a high average return to investments in education does not mean that every person who goes to college will benefit. We know that gains are substantially greater for those who complete a degree or program than for those who drop out, and we know as well that many factors other than college attendance affect lifetime earnings. We also embrace the truth that the benefits of education extend well beyond those of a bigger paycheck or even a financially better-off society. Few Americans, however, have the luxury of divorcing their plans for education from their concern for a secure livelihood or for a more prosperous society.

It's important to be clear that, from the perspective of society as a whole, the cost of today's investments must be borne *now*, as they are made. In the classic metaphor, if we want more guns, we must have less butter—and there is no magical way to import guns or butter from the future to avoid present sacrifice. As a society we have to decide how much by way of present consumption goods we are willing to give up in order to have a better future—the same trade-off we struggle with when we decide to devote present resources to improving physical infrastructure or when a corporation decides to invest in developing new products with its earnings rather than paying a higher dividend.

When we adopt this basic investment perspective and look at the matter from a society-wide point of view, fundamental questions to consider include these: How much should we invest? In

[5] Christopher Avery and Sarah Turner, "Are Students Borrowing Too Much—or Not Enough?" *Journal of Economic Perspectives* 26, no. 1 (2012): p.165–92.

whom should we invest? How can we make these investments as cost-effective as possible? And finally, how should the cost or sacrifice these investments require be shared across society?

These are core questions that our society needs to address as we look to the future. Yet much public discourse seems almost designed to avoid addressing these questions directly and instead gets "lost in the weeds." Distractions abound. For example, we talk less about how much society should invest in post-secondary education than about how we should *finance* the investment. To be sure, the distributive questions about who will bear the costs and who will gain most from the benefits of the investment are important—as well as often divisive. Still, the question of the right level of total investment is ultimately more consequential, even as it is tied in subtle ways to the financing questions. But all too often these discussions create the impression that if we can just be clever enough in devising financing schemes, we can make the cost of the investment disappear. Not true!

Somebody has to bear these costs when they occur. Very few recent high school graduates have, on their own, the wherewithal to cover their own full-time college expenses, including living expenses (take these as a proxy for forgone earnings) while they are going to school.[6] Those who start or return to college later in life rarely have substantial assets of their own to

[6] The idea of paying for college by going to school part-time and working part-time doesn't really solve the problem. Pay from a part-time job is likely to start and stay low, while productivity as a student—and the likelihood of finishing the job—probably go down when you string out the effort over more years. Also, delaying entry to the labor market while earning a college degree costs years of increased earning power. "Self-financing" in this way has downsides reminiscent of those associated with saving up to buy a house with cash.

draw on when studying. Thus, most college costs have historically been borne by other people in two basic ways:

1. Older adults may make gifts to the younger generation by covering their tuition and living costs, thus lowering their own consumption levels (or reducing accumulated savings) in order to enable members of the younger generation to have better lives. Relatively well-off parents may do this for their own children, citizens may pay taxes that allow governments to do it through taxes and appropriations, and the philanthropically inclined may do it through gifts to colleges and universities.
2. Alternatively, older adults may pay students' tuition and living expenses in exchange for promises that the students will pay them back later, out of the presumably higher earnings that a college education will bring them. In that case, the older (lending) generation accepts a reduction in current consumption to produce an investment return but gets paid back later out of the returns the education has provided to the younger (borrowing) generation. We are familiar in the United States with students borrowing as individuals, either from the federal government or from banks; in some countries, the intergenerational transfer happens collectively, as through a "graduate tax," a surcharge imposed on college graduates to pay society back for the government-provided education they received earlier. (In several US states, governors have floated this idea under the banner of "Pay It Forward.")[7]

[7] As of August 7, 2014, some version of "pay it forward" legislation had been introduced in twenty-two states, but it has so far not been enacted into law anywhere. Note that the generation voting on such legislation gets a benefit later generations

These two options, and combinations of them, are the *only* options for paying for college as long as the expenses of college (including the costs of living) exceed the amount that students can pay out of their own earnings while devoting the bulk of their time to learning. Either the present adult generation picks up the tab for the next generation's education (as well-off parents commonly do for their children) or the present adult generation loans students the money to pay for their education in exchange for the students' promise to pay the money back. In an ongoing society where the bulk of people go to college, these two systems actually look broadly similar in many ways—fifty-year-olds are either paying their parents' generation back for the education they received or they are paying their own children forward by covering the costs of their college education. Either way, it's people in their peak earning years who pay the cost of college. Of course the details matter, mostly in terms of how the benefits and costs are distributed across the population and in terms of who gets to go to college. But no matter how much we struggle over financing mechanisms, they won't help us answer the question of how much of an investment in education we as a society should make; nor will they ever eradicate the reality that investing in education requires sacrifice.

Sacrifice to what end? We must keep a strong focus on the fact that the purpose of education beyond high school is to equip people to lead more productive and rewarding lives. It is what students accomplish in college that matters. It is the knowledge and skills they gain that contribute lasting value to their lives. We are economists, but we certainly do not believe that earnings

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miss out on. Members of the first generation already have their education and so don't have a graduate tax imposed. It's the students in school when the legislation passes that are the first who have to pay back for their education.

are the only measure of education's value, or that they are always the most important. There is good evidence that people emerge from college more civic-minded, more adept at parenting, and more likely to manage their health ably than others are.[8] Still, earnings really do matter, and one thing students (not to mention parents) expect from college, and should expect, is that it will help them build successful careers.[9] This is especially important for first-generation and disadvantaged students.

The earnings evidence tells us unequivocally that what matters for students' lives is not starting college but finishing successfully—completing a degree or certificate. It is what students accomplish in college—the skills they master and the knowledge they acquire—that justifies both the social and the private investment that college demands. Just getting in the door or even sticking around for a year or two adds much less value.

We worry that the great emphasis on access and affordability in current public policy discussions may drown out the need for a strong focus on the effectiveness of colleges in educating the students who enroll. We find it unsettling that there are four-year colleges in this country that continue to be accredited and receive public financial support where as few as 10 or 15 percent of their students complete degrees. It is particularly demoralizing to realize that many students leave these colleges not only with no degree but also with significant debt. As we explain later, these are the students who are most likely to default on

[8] Sandy Baum and Kathleen Payea, *Education Pays: The Benefits of Higher Education for Individuals and Society* (New York: College Board, 2004), available at www.collegeboard.com/prod_downloads/press/cost04/EducationPays2004.pdf.

[9] Growing availability of earnings data has led some analysts and observers to slide from the reasonable wish that a bachelor's degree should provide access to good jobs to the foolish and destructive idea that students should choose colleges and majors with the aim of maximizing their post-college earnings.

their loans. However, the first order of business is not to make these places cheaper so students can drop out debt free but instead to make them substantially more effective in producing satisfied graduates.

In our view, the leading question about college finance is not how to make college appear to be free but how to share the costs equitably and aim the resources where they are most needed. The leading question about college enrollment is less about getting people to start college and more about getting a broader range of Americans to succeed in obtaining an education that will serve them well for many years to come.