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Making college more affordable

With tuition skyrocketing, we need bold changes to improve access to higher education

By Richard Vedder

Wisconsin is justly proud of its universities. The University of Wisconsin-Madison is ranked by the London-based Times Higher Education as the 50th-best university in the world and the fourth-best U.S. public university east of the Mississippi River. *U.S. News & World Report* rates UW as the 11th-best public university in the United States, tied with the University of Illinois at Urbana-Champaign.

Yet until Gov. Scott Walker's tuition freeze took effect in the 2013-'14 school year, tuition had been soaring, up 118.7% in the previous decade — an extraordinary 8.1% a year. For average citizens, attending even public universities is becoming a large financial burden.

This is a nationwide phenomenon: College tuition has risen more than any other component in the Consumer Price Index, with the possible exception of health care costs.

Why? Universities are truly America's "peculiar institutions," organized in a medieval manner with a culture resistant to change. They are highly dependent on third parties — the federal and state governments and private philanthropy — to pay the bills. As with health care, when someone else is financing much of the enterprise, users are less sensitive to costs, and the opportunity for waste, fraud and abuse grows.

Three explanations are frequently offered for rising college costs.

The human factor

The first, originally attributed to Princeton economist William Baumol decades ago, is that higher education is a service industry in which it is virtually impossible to gain efficiencies by substituting machines for humans.

Teaching is like theater: It takes as many actors to

perform "King Lear" as when Shakespeare wrote it 400 years ago. While there is a grain of truth to this (I teach the same number of students the same way I did 50 years ago), there are two flaws in this argument.

First, technology *does* allow lower instructional costs, with online teaching in particular. Second, the vast increase in personnel at universities has largely gone for non-instructional hiring, especially bureaucrats swelling administrative staffs.

Reduced funding

A second argument is familiar in Wisconsin: Politicians are reducing appropriations, so tuition must be increased to cover the revenue shortfall. Again, there is some truth to this, but there are two big flaws here as well.

First, tuition has risen over the years at private schools (Marquette

University, Lawrence University and Beloit College, for instance) almost as much as at public institutions, yet private schools don't receive state appropriations. Second, even in the era when appropriations were rising, state university tuition was still increasing faster than overall inflation.

Financial aid program

The third explanation is usually attributed to former U.S. Education Secretary Bill Bennett, who argued that the vast federal student financial assistance programs enacted after 1970 led colleges and universities to raise tuition in order to capture the federal monies for themselves.

Meticulous new studies from the National Bureau of Economic Research and the New York Federal Reserve Bank confirm the "Bennett Hypothesis." From 1938 to 1978, before federal student financial aid was

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extensive, I estimate that college tuition rose typically about 1% a year, after adjusting for inflation. That was less than the rate of inflation, so the burden of financing college actually fell a bit.

From 1978 to 2015, the era of exploding federal funding, tuition rose over 3% a year, faster than income growth. If tuition since 1978 had risen at the pre-1978 rate, today it would be only about half as high as it is. We would not have a \$1.3 trillion student debt problem.

Federal financial aid was designed to improve college access for low-income students. The tragic irony is that the proportion of college graduates from the bottom quartile of the income distribution is lower today than in 1970. High college sticker prices have scared away lower-income kids disproportionately.

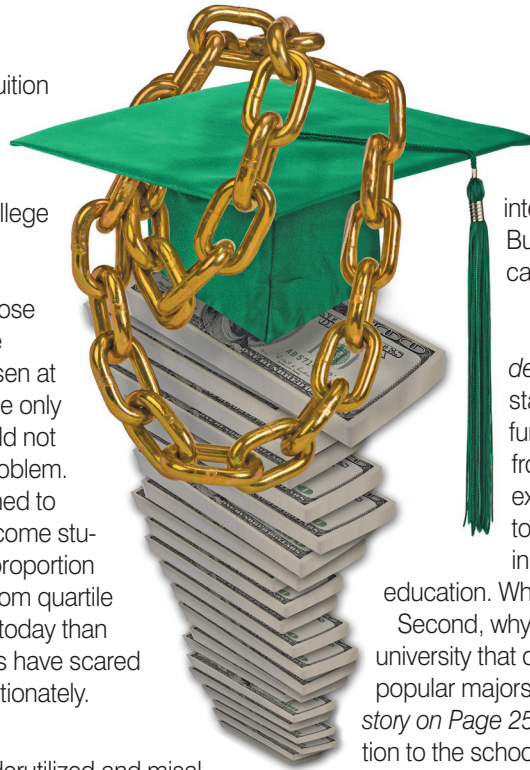
Resources misplaced

College resources are vastly underutilized and misallocated. Classrooms and offices are often largely empty several months a year, not to mention on weekends. Professors have scandalously low teaching loads at Madison and probably at other UW schools, ostensibly to allow them time to write papers that almost no one reads for the *Journal of Last Resort* or its equivalent.

Data from the U.S. Bureau of Labor Statistics and the University of California-Los Angeles' Higher Education Research Institute suggest that the typical college undergraduate spends fewer than 30 hours a week on academic pursuits for maybe 30 weeks a year — fewer hours than the typical eighth-grader spends. Administrators have hired armies of expensive, but mostly unnecessary, assistants to help do the bureaucratic heavy lifting.

A campus "Edifice Complex" has led to the construction of luxury dorms, classroom buildings and recreation facilities, adding to costs. Intercollegiate athletic costs are exploding, increasingly requiring institutional subsidies. Accreditation thwarts innovation and creates barriers of entry into providing education services. Salaries of university presidents and coaches have soared, raising questions about the legitimacy of the tax-exempt status of universities. Food and lodging costs are rising far more than in the general economy. Why? Inefficiencies? Monopolistic exploitation of students? And as evidenced recently at UW, faculty fight fiercely to maintain tenure — lifetime employment contracts.

The governor has proposed modest reforms that have promise. For example, why not have college students attend school, say, 45 weeks a year — three 15-week semesters (giv-



ing them *only* seven weeks' annual vacation) — and graduate in three years?

That could even allow a one-semester internship to prepare for the real world of work. But even bolder reforms are in order: Tuition cannot rise faster than income forever.

Let me suggest three ideas.

First, why shouldn't the state fund *students*, not *institutions*? Remove or reduce state subsidies for universities, and use those funds to give generous vouchers to students from lower-income families and to students excelling academically, with lesser amounts to others. Aid can be targeted to those most in need. This concept has worked in K-12

education. Why not in higher education?

Second, why not start a free or low-cost state online university that offers several hundred courses in perhaps 25 popular majors, taught by first-rate instructors? (*See related story on Page 25.*) Have the state give its own accreditation to the school, whose students would not be eligible for federal student loans (avoiding the hassles of dealing with the accreditation cartel). For an investment of \$25 million to \$50 million, it is doable. Students could combine a year or two of courses with traditional instruction at conventional universities to earn a degree at a lower cost. Better yet, have the state contract out the instruction to respected private providers of education services.

A test for proficiency

Third, inaugurate a Wisconsin College Exit Examination. Devise a three-hour test, the first half of which would be an examination of critical reasoning and writing skills (the Collegiate Learning Assessment would work), and the second half would be perhaps a 100-question test of basic knowledge in important disciplines — history, civics, economics, mathematics, chemistry, geography, philosophy, etc.

High scorers would receive a "Certificate of College Equivalency from the State of Wisconsin." The top 10% would receive a \$5,000 check and notification of superior performance. This would stimulate test-taking and probably employer acceptance of the test. Students, in theory, could take the test at any time — even after one or two years of college.

College diplomas are pieces of paper costing \$100,000 or more. Their purpose is to demonstrate competency to employers. Devising really good tests that measure the same thing would be infinitely cheaper and would conserve resources.

As a nation, we face a long-term funding crisis — our federal unfunded liabilities are tens of trillions of dollars. That is going to reduce the ability of states to fund heretofore routine functions, such as state universities. It is time to institute reforms. WI