

# The Higher Education Money Pit

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The common assumption among policymakers is that, in order to maintain its higher living standards against emerging markets competition, the United States must invest more in higher education. To achieve this, the government has instituted a massive student loan guarantee program, with over \$1 trillion outstanding and an average of \$25,000 in debt for every graduating student with debt. Yet millions of students continue to graduate with degrees that have no obvious real-world benefits. There's a disconnect here, and it is beginning to appear that the current U.S. obsession with higher education is misguided.

The traditional idea of higher education was to train the literate for the Church, whether Catholic, Episcopalian or other Protestant. However a hundred years ago, for the elite on both sides of the Atlantic, a very different approach had been devised. This was best illustrated in Evelyn Waugh's immortal "Brideshead Revisited" in which the protagonist Lord Sebastian Flyte wanders round Oxford with a teddy bear, drinking champagne, eating quail's eggs and occasionally throwing up onto other students' carpets. Americans will scoff at this depiction, but really the Harvard of Theodore Roosevelt was not very different, except in that it involved the occasional life-threatening game of football.

Flyte's Oxford was not intended to train him for real life, it was intended as a highly enjoyable 3- or 4- year holiday before real life intruded. For the middle classes whose fathers were not Marquesses — a majority at Oxford even in Flyte's time; there are only 34 Marquesses — the system applied a gloss of social polish and connections that was useful in later life, but did not impart more than a modicum of knowledge. Certainly the education provided was not expected to involve a huge amount of work, or to be useful in a subsequent career.

This changed after 1945 in the United States and from around 1960 in Britain, as a higher percentage of the population experienced a college education (in the United States often financed by the post-World War II "G.I. Bill" and in Britain essentially free, with only a modest means-tested contribution, under the 1944 Education Act). The increased access of the masses to college education produced a greater competitiveness at the top colleges, so that when I went to Cambridge in 1968-71 access was more competitive and more work was expected from students than had been the case thirty years earlier.

Even then however access to top colleges was less competitive than it is today. While I was expected to have a reasonable mastery of Latin in the entrance examination there were no probing "essays" in the application, and my interview at Trinity College consisted of a most enjoyable discussion about the career of the cricketer Jack Hobbs. (I aced it by remembering that he amassed 197 first-class centuries not 198, with the two scored on the unofficial India tour of 1925-26 not counting. Presumably as I was to study Mathematics such statistical precision was thought valuable!)

Currently, not only are almost all students expected to get a college degree, but those of superior abilities are expected to carry on for a Master's degree, a PhD, or two Master's degrees, with the second being in business, law or journalism, according to the student's future activity. The excessive credentialism of the U.S. system was exemplified at a medical conference I attended recently, where the attendees were surprised how many Chinese doctors were prepared to engage in primary medicine, but then explained patronizingly that many Chinese doctors had only an undergraduate degree. It occurred to me at that point that U.S. medical costs could be sharply reduced and quality improved if primary physicians, the principal point of contact with most patients, could be qualified in four years instead of ten.

Similarly from the 1890s, the American Bar Association began to press states to require that lawyers attend not only an undergraduate program but a three-year law school in order to pass the state bar exam; currently all states but California, Vermont, Virginia and Washington require this. As with doctors, the cost of legal services could be drastically reduced by eliminating this requirement of no less than seven years of college study to enter what is in most cases a fairly intellectually undemanding profession.

The rising tide of credentialism may however have peaked for two reasons: the excessive cost of college education and its diminishing quality. First, there is considerable evidence that finance availability is pushing up college costs. As college funding has become more readily available, it has reduced the financial pressure on colleges, since few of their students are today paying their way from part-time jobs and parent cash flow. Huge endowments in the Ivy League, which allow those elite colleges to provide full scholarships for students, focus the competition between colleges ever more closely on league table "prestige" rather than costs.

Within the colleges themselves the ranks of college administrators have exploded (as is also the case in the medical profession, equally insulated from market forces). So have their earnings — according to the New York Times, in the decade between the 1999-2000 and 2009-10 college years, the average college president's pay at the 50 wealthiest universities increased by 75%, to \$876,792, while their average professorial pay increased by only 14%, to \$179,970. (Average college tuition costs increased by 65% and consumer prices by 31% during that decade.) That's precisely the opposite of what you'd want to happen if you were concerned about college productivity and cost.

For the very brightest students, or those from really good schools, the appeal of the Ivy League may remain overwhelming. The knowledge that only four years' moderate attention to politically correct drivel will get you a piece of paper that more or less guarantees you a six-figure salary thereafter is for most rational kids a very good reason to attend an Ivy League college and major in one of the softer arts or social sciences subjects.

For those of a mathematical, scientific or technological bent, however, the Ivy League is much less attractive; you will

have to work much harder, and when you graduate you will be subjected to competition from innumerable Third World students on H1B visas, making the average salary for even Ivy League science graduates far below those available in law or medicine. What's more, most undergraduate courses in science are now so far from the technological cutting edge that the student will have to waste several more years in a Masters program before arriving at a point where he is actually useful to potential employers.

For these science-oriented students, or for others of high intelligence with an independent bent, the Internet has opened a new opportunity. Many college courses are now available online, either for free or for a small fraction of the \$5,000 they would cost as part of private college major. For example, I recently came across the 24 video lectures comprising the Yale course on Game Theory, a relatively new area of economics I wish I understood properly.

For students with initiative this brings the possibility of obtaining a college education through internet courses, perhaps at a higher level than that of second-tier colleges and certainly at a far lower cost. This would enable them to avoid the rigidity of many college degree programs, which include requirements for all kinds of irrelevant basic level courses taught by teaching assistants in classes of 300. Students who don't like to waste their time will thus welcome the opportunity to obtain an education consisting only of courses that are directly useful, plus some sidelines that are intellectually fascinating or culturally enriching.

As has been well advertized, the internet billionaire Peter Thiel has been encouraging this trend, providing \$100,000 fellowships to students who drop out of college and start a small business. That doesn't necessarily provide the students concerned with an education, and it raises the question of what they will do for a living if their start-ups don't work, as inevitably many won't if recession intervenes. However the website uncollege.org, run by Thiel Fellow Dale Stephens, provides resources to those wishing to educate themselves, without necessarily becoming tech entrepreneurs. Of course many such educations will be incomplete, leaving the students concerned culturally deprived, but a conventional degree in computer science or sociology isn't what our parents would have called a proper education, either!

Students who self-educate will find it difficult to get jobs in large companies or the federal government, which will remain wedded to possession of the right pieces of paper. For many students with low self-confidence, this may be a decisive factor; even if they cannot get into Yale, the degree from a second-tier college will give them much greater job security than if they had self-educated. However students with high levels of ability and self-confidence will take their chances; there are enough small companies and entrepreneurial opportunities around that securing a steady desk job with GE or the federal government may not seem all that attractive.

The current credentialism model faces another problem: the credentials go out of date. With longer lifespans and inadequate social security systems, this is an increasingly serious defect. For liberal arts majors, the need to re-train may not be extreme. However for majors in any technical subject, including many of the social sciences and business, educations obtained 30 or even 40 years ago may have become utterly useless. Moreover even large companies have considerably shorter lifespans than in past generations and their demise generates involuntary workforce churn. Thus many will find themselves needing to retrain at the age of 45 or 50 in order to enter a different field, or simply in order to make themselves competitive again in their own field. 4-year degrees or even 2-year Masters programs will be impossibly expensive for such people, who generally will have families and mortgages to support. Again, the availability of self-education over the Internet will offer them new possibilities, far more convenient than overpriced executive education programs.

From the above, the market share of conventional four year colleges is likely to go into sharp decline in the years ahead. Provided policymakers have the sense to stop subsidizing student loans with state guarantees and special provisions to survive bankruptcy, the banks will become much less willing to encourage the young and feckless to over-extend themselves in this way. Students will once again exert pressure on colleges to reduce their fees, and will choose cheaper state schools and programs that allow them to work their way through college.

The principal losers from this change will be academic administrators. Colleges that employ a full staff of diversity officers and pay their presidents \$1 million will find the free market blowing a very cold wind indeed. Meanwhile students' educational experiences beyond high school will become far more diverse, and in some cases very much better suited to the lives they choose to lead. The for-profit education sector, currently rightly despised as low-quality, will extend itself to offer higher-quality packages at costs far below those of conventional non-profit colleges.

It can't happen too soon. Like any other overstuffed, over-subsidized bureaucracy, America's colleges have got it coming!

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