

Cold Truths for Warm Hearts

Some Economics of Higher Education

Amid the various contemporary pitched battles on college campuses over athletic scandals, Title IX and sexual harassment, diversity and inclusion, trigger warnings and safe spaces, new items have surfaced recently: free tuition, canceling student debt, eliminating required SAT/ACT tests for applicants, and how to slow the steeply rising price of higher education. For many, if not all, of these issues, it is important to bear in mind the direction in which roads paved with good intentions may lead. Often these earnestly-proposed public policies can have unintended consequences that their social-reformer sponsors did not anticipate, and thus end up being counterproductive and harmful. And it's hard to avoid the economist's dictum—"there's no free lunch."

BY ALLEN R. SANDERSON

During the 2016 presidential campaign, Bernie Sanders, Hillary Clinton and other liberal politicians called for major new subsidies for health care, prescription drugs, and college. The 2020 scrum redux. But in the end, someone has to pay professors' and administrators' salaries, for campus and classroom upkeep, and to cover athletic department outlays. Moreover, the primary beneficiaries of "free" tuition at public universities will be the sons and daughters of the more well-heeled state residents.

The same is true of holding tuition at state flagship universities well below costs. It represents a massive transfer to the rich, whose children are more likely to be enrolled there. Much better to raise tuition to levels comparable to those of the private institutions and then offer need-based financial aid. (Note that a recent change among some private colleges and universities to discontinue factoring home equity into the calculation of a family's financial circumstances, and thus a student's financial aid award, ends up being another subsidy to the wealthy—especially when a savvy parent knows how to move money around.)

These proposals are all essentially regressive in nature, something liberals should run from, not endorse; for in the end they will result in redistributions to the upper-middle class.

The impact of loan forgiveness programs and eliminating student indebtedness, at the moment a figure that totals about \$1.4 trillion nationally, are similar. While progressives line up behind these proposals, the primary beneficiaries—drum roll—will, again, be upper-income families; after all, they are disproportionately represented on campus and are the students far more likely to graduate and slide into gainful employment.

And for these initiatives – zero tuition and no indebtedness — one has to ask why the government should engage in these questionable intergenerational transfers. After all, today's undergraduates will most likely be economically better off than their parents and grandparents (aka current taxpayers).

A better approach? A fairly old idea dating back to Milton Friedman in the 1950s: income-share agreements (ISA, or HCC—Human Capital Contracts—in the U.K.) These are structured contracts between a student and a sponsoring investment group that would front the money for a student to pay for college in exchange for a percentage of the person's future income. Led by former Indiana governor and now Purdue University president Mitch Daniels, a few private lenders have delved into these risk-sharing programs in recent years.

In the market basket of goods and services used by the Bureau of Labor Statistics (BLS), the government agency that produces monthly the most commonly used inflation measure, the CPI (Consumer Price Index), three "goods" lead the pack in terms of 21st-century price hikes—cigarettes, health care, and college tuition. There is one paradoxical but reasonably good guess as to one cause of the third item: financial aid. A recent New York Federal Reserve Bank study showed that for every dollar increase in federal financial aid given to college students, their tuition went up by 65 cents. Our universities are very good at raising tuition commensurate with outside grants available to their students; they don't leave much money on the table.

Two more hearts-in-the-right-place actions: Dropping required SAT/ACT scores for admission. Intended as an effort to reach deeper into and broaden and diversify applicant pools, this may well work to the disadvantage of minorities. Studying for and producing decent results on standardized test has long been a way to demonstrate—"signal" in economic jargon—one's natural ability and motivation, and a way to overcome the real or imagined deficiencies in one's academic preparation to date. Not having to go that extra mile will hurt, not help, many of these talented teens.

Second, many nonprofits offer students unpaid summer internships. These experiences can be a valuable line item on a student's résumé, but the fact that they are unpaid dissuades

financially-strapped students from accepting them. Again, the winners are students from families that can more easily pay the fall's tuition bill.

In all of these examples, having a big heart may not cut it in Econ 101. □

