UNDERSTANDING THE RUNAWAY TUITION PHENOMENON: CREDENCE GOODS IN AN AGE OF SKEPTICISM

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Credence Goods in an Age of Skepticism

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There is a mess in higher education; it is of relatively recent origin; it is extremely serious and could lead to industry-wide retrenchment and numerous business failures; it is not likely to get better by itself; it's not obvious how to fix it; and a growing number of respectable people are beginning to question whether it's worth fixing anyway. Actually, that's a fair appraisal for any one of several different and not necessarily related messes in higher education; this paper is primarily concerned with only one of them, tuition. Going to college or graduate school has become expensive. As a result, there has been unprecedented borrowing by young people to pay for it. Though we don't have past experience to go on, it is reasonable to fear that because such big debt burdens are being assumed so early in life by so many members of the birth cohorts of the mid-1980's to mid-1990's, the risk-taking behavior of an entire generation—their inclination to engage in socially useful projects that entail risk—will shift in an undesirable direction.[1] Family formation and home ownership may be postponed. And there are increasing doubts, of a kind not much heard in the past, whether the end product—a college or graduate or professional school education—is (or will turn out to be) worth it.

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[*] Professor of Law, Antonin Scalia Law School, George Mason University. This paper responds to the invitation of my colleague Todd Zywicki to participate in a symposium he was organizing on behalf of our Law & Economics Center on consumer issues in higher education. His idea at the time, I believe, was that because I had served the previous ten years as dean of our law school I might be able to supply what amounts to color commentary, and perhaps some expertise on the matter of pricing an educational product, a matter to which to which law school staff and I had given careful study over some years. Other than in that one narrow area, I can hardly claim expertise about the economics, or law and economics, of higher education. I have used the opportunity to contribute to the symposium to begin acquiring some and have cast the result into an unfamiliar, but nevertheless ancient and highly respectable literary form, namely, a soliloquy. Accordingly, what follows is partly an argument and partly an exercise in thinking out loud in order to straighten out others' misconceptions and, no doubt, set out some misconceptions of my own for others to straighten out.

[1] Brent W. Ambrose, Larry Cordell, and Shuwei Ma, "Impact of Student Loan Debt on Small Business Formation," Federal Reserve Bank of Philadelphia, Working Paper No. 15-26, July 2015: "We find a significant and economically meaningful negative correlation between changes in student loan debt and net business formation for the smallest group of businesses, those employing one to four employees. This is important since these small businesses depend heavily on personal debt to finance new business formation." The authors might have added that it's important for another reason, too: small businesses of this kind have been the source of most of the new job creation in the national economy. People who have, in the past, rolled the dice on a start-up of their own are now, laden with non-dischargeable liabilities, slouching off to the cubicles of established businesses instead - if they're finding jobs at all.

During the 2016 presidential election we heard a good bit about higher education, and some of what was said will probably make its way into legislation. If the usual pattern holds, even more money will be supplied to the system, and various onerous additional burdens will be placed on colleges and universities by regulatory authorities, including, one supposes, price controls in one form or another. It is depressing to think of mobilizing lots of expensive effort to deal with a problem that as yet has not even been decisively diagnosed. What is 'the" problem? Is it "access," i.e., young people prepared and motivated who simply can't afford to go to college? As far as I can tell, that's a minor problem if not a non-problem at this point, but that of course wouldn't stop politicians from spending lots of money on it if doing so would help them get whatever they're trying to get. Or is the problem that once students get to college, they're not being assigned the right readings and are not acquiring the right knowledge? I'm pretty sure this second issue will always be worth at least some careful reflection because teaching and learning are activities we can always do better even if we're doing them well already. But are we doing them well already? I doubt it, but we ought to resist answering such questions with a parade of anecdotes about ridiculous courses or addled professors. Less is actually known about this subject than one would wish to know before proposing large solutions. Anyway I'm not going to be writing any prescriptions about that. My aim with this paper is much more limited. Given the implications of ballooning debt loads on young people, I wanted to understand what is causing this to happen, and how it relates to tuitions, which have been exploding at more or less the same rate as has student debt. Wholly apart from the cosmic question of how loading up young people with big debts is apt to affect the virtue of the polity, there is the mundane matter of how we're going to finance higher education. The current financing arrangements are unstable and therefore unsatisfactory. A large fraction college and university bills are paid with tuition revenues financed with student debt. Both have been increasing at a nearly exponential rate (which can't be sustained obviously), which places the higher education enterprise in jeopardy of some kind, the details of which are unpredictable but undoubtedly serious and potentially painful. It matters because higher education in the 20th century became, and for all its foibles remains, one of America's greatest good works, creating and sustaining dozens of world-renowned research universities, many hundreds of excellent if less-famous schools, and democratizing undergraduate, graduate, and professional training so that nearly anyone who can do the work can take the shot.

One often hears of a "bubble" in higher education,[2] for which we can thank Glenn Reynolds,[3] who writes about it often and well. It's a useful figure of speech for calling attention to a situation that can't go on indefinitely,[4] maybe less so for getting people to care, or anyway to care about the right things. Hardly anyone expects formal higher education to disappear in a "pop" like the South Seas Bubble or Beenz.com. A lot of the industry's invested capital, indeed, ought to be quite safe—it will be if it's covering sound bets about what kinds of educational experience will continue to be valuable to people on into the future.[5] But the whole business is headed for the landfill unless the broad general public—the taxpaying public—carries on believing that the spillovers of higher education in the nature of public goods are largely positive.

Management of public perceptions on this matter is actually a crucial if often unarticulated piece of the industry's business model. College and university budgets more or less assume that their market tuitions will cover only a portion of the cost of production of the educational services they are supposed to buy. That means they assume subsidies—from private donors or from the government. Do people in general still think that the spillovers of higher education have a positive rather than negative value? It's certainly what they used to think. Mid-twentieth century, hardly anyone respectable in this country would have publicly doubted that the cultural, economic, social and civic emanations from colleges and universities were good goods if not national treasures. I doubt whether people still completely believe this. Attitudes began to change noticeably around the Vietnam War time when colleges and universities became

[2] The late Professor Charles Kindleberger more or less owns this general topic thanks to his widely read *vade mecum* on the subject, now out in its seventh edition. Robert Aliber and Charles Kindleberger, *Manias, Panics and Crashes: A History of Financial Crises*, 7th ed. (New York: Palgrave MacMillan, 2015).

[3] Prof. Reynolds' *Instapundit* blog regularly covers issues of higher education financing, and his spirited 2012 book *The Higher Education Bubble* (New York: Encounter Books, 2012) and more recent *The Education Apocalypse: How It Happened and How to Survive* (New York: Encounter Books, 2015) have completed the work of mainstreaming the idea.

[4] Reynolds often repeats Herbert Simon's Law: "a state of affairs that can't continue, won't."

[5] Sincere apologies for the coinage; "educational experience" admittedly has the whiff of edu-crat jargon. Regrettably no better term is at hand. "Education," all by itself, is apt to be understood in a sense more narrow than I mean. By "educational experience" I intend to reference the fairly complex bundle of private goods typically bought with college tuition: human capital development opportunities, social capital development opportunities, assortative mating opportunities, other kinds of socialization including parties, personal growth opportunities, employment counseling and placement services, and no doubt I've left things out. There was a time, only a few years ago, when one heard a great deal about how all of that was fated to be replaced any minute now with Massive Open Online Courses (MOOCs). That prediction, implausible at the time, is heard more seldom now. MOOC's are potentially useful things, no question, but like that far more "disruptive" technology from the fifteenth century, BOOKs, MOOCs look more like they will enhance and strengthen, rather than destroy, formal higher education.

hubs of an angry counter-culture. Some of those old estrangements seem never to have gone away, and some new ones may have accumulated since. The general public isn't favorably impressed when it sees university presidents and other leaders quavering and stammering like the flak catcher in Tom Wolfe's old essay[6] when confronted with demands to police people's speech on and off campus, or to fine-tune institutional policy for exacting political correctness while making no real effort to denounce acts of vandalism, threats, "hate" hoaxes and so on.[7] The "monoculture" of political sensibilities and commitments in many of the learned disciplines is not new news, but it has been increasingly noticed and it increasingly rankles.[8] No one seems to have much confidence that schools will be able to straighten things out for themselves, handicapped as most of them are with obsolete (or anyway poorly functioning) structures of governance and institutional organization that blunt accountability for the effective use of resources and more or less guarantee a lack of mission focus. Bit by bit, old reservoirs of good will that higher education built up with the general public over decades and centuries are drying up. One should not be surprised by increasing skepticism about the claim that there is a crying public need for more college than market tuition will pay for.

The sheer magnitude of the tuition problem is daunting—student debt has grown very rapidly in the last generation and it now exceeds a trillion dollars, a lowball number, actually, because it doesn't count intra-familial transfers but only loans that are visible to the Federal Reserve. The best depiction I have seen is in Figure 1, which has been widely circulated on the Internet. The graphic originates with someone at American Enterprise Institute, but once you apprciate what it's saying, you might think of the lobby card of a horror movie (a horror movie for wonks, to be sure). If there were such a film, would be called "The Ascent of the Brown

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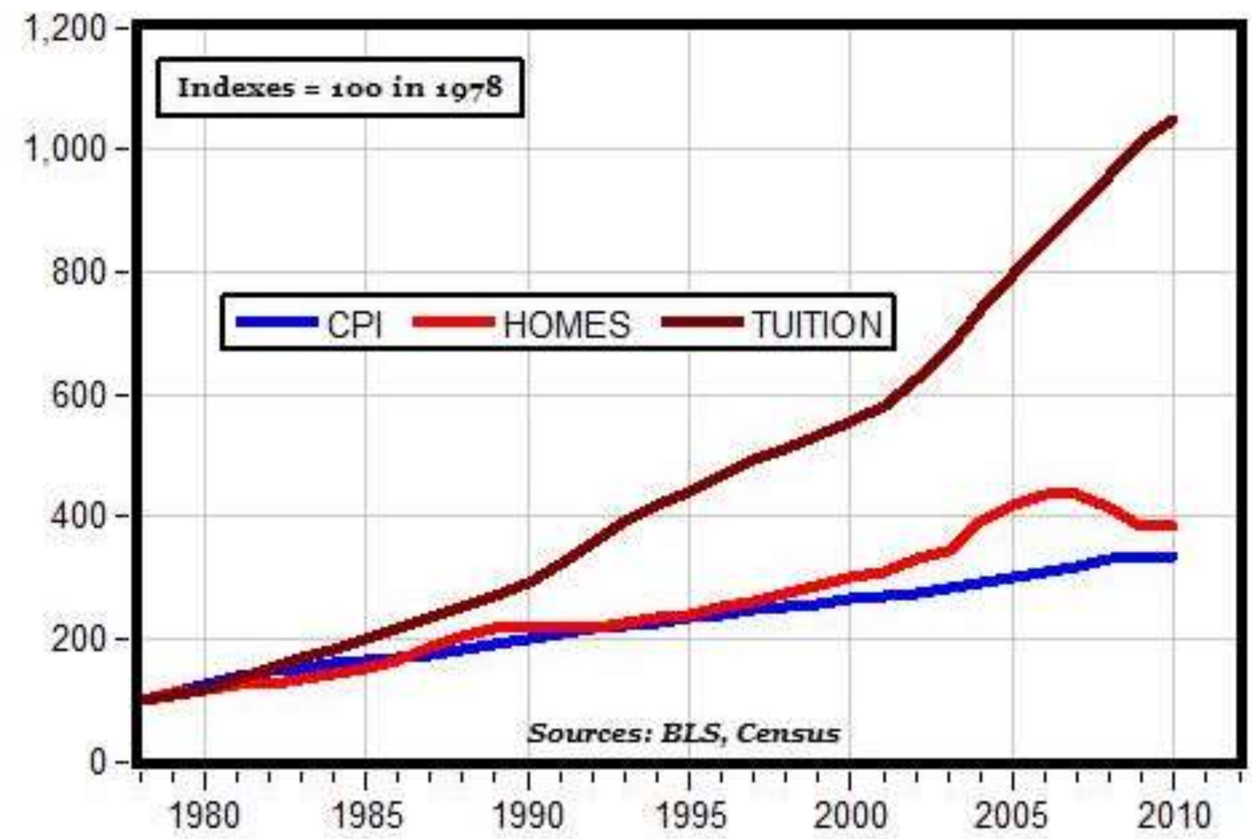
[6] Tom Wolfe, RADICAL CHIC & MAU-MAUING THE FLAK CATCHERS, Farrar, Straus and Giroux (1970).

[7] Bradley Campbell and Jason Manning, "Microaggression and Moral Cultures," *Comparative Sociology* 13 (2014): 692-726.

[8] José L. Duarte, et al., "Political Diversity Will Improve Social Psychological Science," *Behavioral and Brain Sciences* 38 (January 2015): 1-13; Scott Jaschik, "Moving Further to the Left," *Inside Higher Ed*, October 24, 2012, https://www.insidehighered.com/news/2012/10/24/survey-finds-professors-already- liberal-have-moved-further-left; Daniel Klein and Charlotta Stern, "Professors and Their Politics: The Policy Views of Social Scientists,"*Critical Review* 17 (2005): 257-303 http://www.criticalreview.com/2004/pdfs/klein_stern.pdf; Stanley Rothman, April Kelly-Woessner, and Matthew Woessner, *The Still Divided Academy* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 2011); George Yancey, *Compromising Scholarship: Political and Religious Bias in American Higher Education* (Waco, TX: Baylor University Press, 2011); James Lindgren, "Measuring Diversity: Law Faculties in 1997 and 2013, *Harvard Journal of Law & Public Policy* 39 (2016): 89-151. . available at SSRN: http://ssrn.com/abstract=2581675; *but see*, Neil Gross and Solon Simons, eds., *Professors and their Politics* (Baltimore, MD: Johns Hopkins University Press, 2014).

Line." You can't see that the line is brown in this black-and-white production, but it is brown, and ascending very sharply. I will make reference hereafter to the ascent of the brown line as I try to explain it (to myself if not the reader). Project that curve out a few decades as it equals, and then surpasses, and then becomes a multiple of the gross world product, on track to re-enact the Blob That Ate Everyone.[9]

Figure 1



Tuition vs. Consumer Price Index and House Prices, 1978-2012

Source: http://mjperry.blogspot.com/2011/07/higher-education-bubble-college-tuition.html

What could explain this weird picture? There's no shortage of theories, some of which I will mention. But I might as well say at the outset that all but one are mistaken—what explains

[9] R.L. Stine, *Classic Goosebumps: The Blob That Ate Everyone* (New York: Scholastic, Inc., 1997).

the tuition picture is government subsidies; the other theories are mistaken, and I will do my best to exorcize them. The name of the correct theory is the Bennett Hypothesis, so-called because it was propounded by then-Secretary of Education William Bennett. Whether the Bennett Hypothesis is indeed correct has been a matter of controversy for at least thirty years, but the evidence for it at this point looks good enough to persuade an open-minded skeptic.

The other side of the argument is that, on the contrary, tuition goes up for reasons of its own, and the wherewithal to finance it has to go up too unless higher education is to be the preserve of only the wealthiest families. No one has suggested the supply of subsidized loans and the increase of tuition aren't related phenomena. Both things have been increasing more or less simultaneously, which has made it difficult to say whether increasing tuitions are causing increasing loans, or whether it's the other way around. Lucca, Nadauld, and Shen[10] have a recent

[10] They find that each dollar of Pell Grants (which are targeted to low-income students) is associated with a 55-cent increase in tuition. Federally subsidized student loans with dollar caps and income caps produce 70 cents of tuition increase for every 1 dollar loaned. Unsubsidized loans, available to all income groups but with higher interest rates, produce 30 cents of tuition increase for every dollar loaned.

The authors helpfully stress that this is tantamount to borrowing seventy cents and paying back a dollar, with interest. David O. Lucca, Taylor Nadauld, and Karen Shen, "Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs," Federal Reserve Bank of New York Staff Reports, no. 733,July 2015. The Lucca, Nadauld and Shen paper identifies a larger pass-through effect than Andrew Gillen found in his 2012 paper on the subject, "Introducing Bennett Hypothesis 2.0," Center for College Affordability and Productivity, February 2012 (Gillen's data did not attempt to solve the simultaneity problem beyond showing that it was plausible to think that the causal arrow runs from loans-to-tuition rather than tuition-to-loans). A recent paper by Grey Gordon and Aaron Hedlund, "Accounting for the Rise in College Tuition," NBER Working Paper No. 21967, February 2016, *http://www.nber.org/chapters/c13711.pdf*, finds that most of the blame for tuition increases can plausibly be laid at the door of subsidized student loans. Earlier work by Singell and Stone found Bennett-type tuition effects from Pell Grants in highly ranked college programs though not elsewhere. Larry D. Singell and Joe A. Stone , "For Whom the Pell Tolls: The Response of University Tuition to Federal Grants-in-Aid," *Economics of Education Review, 26* (2007): 285-295.

Virginia Postrel helpfully called attention (posting December 8, 2011) to the analogy between the loans-inflate-tuitions story and work by Austan Goolsby showing that investment tax credits primarily enrich equipment manufacturers and not the businesses that were the intended target of the subsidies. She also mentions the observation that farm subsidies push up the price of farmland. Robert B. Archibald and David H. Feldman do not dwell on the debt-to-tuition causal arrow in *Why Does College Cost So Much?* (New York: Oxford University Press 2011), but they seem to assume it. Andrew Gillen has now provided a penetrating analysis, "Why Does Tuition Keep Increasing?," September 2015, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2663073, which agrees with the analysis I offer in this paper on all essential points, documented with the latest IPEDS data.

Beyond all that evidence (and it is not slight), I have an additional reason to credit Bennett, arising from personal experience. It's impossible for me, as I think about this causation question, to blot out of the memory of a number of conversations with other law deans on this subject, nor my service on an Association of American Law Schools committee a number of years ago. The question on everyone's mind has been how to keep the student loan pipeline flowing so as to allow us to bring tuitions into line with needed investments for the sake of educational quality. (This is a perfectly respectable way to talk about schools' hunger for cash—nor does the recapitulation of the problem in affective language alter its substance). That's how everybody talked about the paper which persuasively sorts out what's causing what; together with other evidence mentioned in the footnotes, there no longer seems much good reason to doubt that the Bennett Hypothesis is basically correct.

Whether there are good reasons for doubt or not, doubted the Bennett Hypothesis will surely be, because if correct it raises by implication the question whether the offending federal subsidies should continue. Federal loans involve annual outlays of hundreds of billions of dollars. Colleges and universities wind up with most of that money. As they see it, that has to continue. The money may not already have been printed, but lots of it has already been spent at least implicitly, baked into budgets which depend on enrollment assumptions which depend on student loans. Enrollment assumptions roll out into staffing and facilities plans, hard and expensive to unwind. If the federal student loan money dried up—indeed, if the flow of cash merely paused for any length of time—it would be the end of the world, at least approximately, for many schools.

Not only do I hold with the Bennett Hypothesis, I am pretty surely among the most precisian members of the congregation. According to me, one shouldn't say that government loans "contribute to" or are "a" cause of runaway tuitions, but that they are *the* cause—the one and only thing that deserves to be blamed for the problem. The correct statement of the problem requires a bit of simplifying pugnacity, notwithstanding that everything does, in one way or another, have multiple, indeed myriad causes. But pretending complexity in the case of runaway tuitions only invites misdirection. We do not say of a man who got drunk and fell into the water that he drowned because he did not have gills, though it's true and, after a fashion, causal. It's misdirection to bring gills into the discussion, we shouldn't do it even if there's a sense in which it's true. For the same reason, we shouldn't say that the tuition spiral actually is at bottom caused by more than one thing. If we do, it will mainly serve to procrastinate confronting the thing that really does matter.

problem; no one was under the illusion that the tuition subsidies were ultimately meant to subsidize anyone but *us*. I wouldn't expect others who haven't shared these experiences to be influenced in the same way as I am, or even to take my word for it, but connecting the loan-to-tuition phenomenon isn't rocket science. The big problem with making the connection out loud is that enormous rents are at risk if the wrong sort of people—people on the House Appropriations Committee especially—come to believe it. Under the circumstances, virtuosity is to be expected from educators in not-seeing things or at obscuring them with nuance and more nuance. Nuance is the last refuge of a rent-seeker.

During many booming years of the 1980's and after, the business plans of many colleges and universities had been tacitly based on the indefinite persistence of fast growth in demand for higher education, something that schools could take advantage of in several ways (typically, higher enrollment, greater selectivity, or a mix). Fast growth through this period was not continuous and uninterrupted, but as a trend it was unmistakable, and one of the dominant facts of life through practically the entire careers of the now receding generation of senior academic planners and administrators—up until 2008 or 2009 when the financial crisis hit. After the Great Wring-Out of those years, the owl of Minerva finally arrived—late as usual—and as usual, with bad news. Constantly increasing enrollment while constantly increasing tuition was no longer going to be a tenable plan. The Day of Plan B was dawning. But it wasn't obvious what, in concrete terms, Plan B was going to entail. In many ways trying to figure this out is still where we are. The patterns of the previous 25 years and the assumptions on which they rested and which they gave rise to have proved hard to get away from. As the country moved from financial crisis to recession and then a diffident recovery, nominal tuitions seldom receded and in many cases crept higher, which meant bigger bills for individuals in school (or their families) arriving at the same time that labor markets were yielding stagnant returns to people lucky enough to have jobs. Congress responded, as it had done before, by facilitating more below-market credit "in order to help students go to school"; schools responded—as they had done before—by raising tuitions in order to capture most of that new cash. What was going on?

A sense that there was rat-race or hamster-wheel operating here had been building for a generation at least. The first big indictment of the problem was drafted by an anonymous headline writer at the New York Times in 1987. Tuitions going up? Blame greed.[11] Because simple explanations usually beat complicated ones, it's tempting to just leave it there. But of course it won't wash, didn't then and doesn't now. It isn't that colleges aren't greedy, but that everybody is. Nor did they wait for some reason till 1987 to become greedy; they always were. The same could be said for everybody else as well. This is one of the Seven Deadly Sins we're talking about here, abiding attributes of universal human nature, not some will-of-the-wisp that comes and goes. If all it took to generate phenomena like the brown line was greed, then the

[11] William J. Bennett, "Our Greedy Colleges," *New York Times*, February 18, 1987.

brown line would describe the price of *everything*. Let us confidently put this unhelpful idea to one side.

One hears other possible candidates for explaining the brown line that in the end fare no better than greed. One that was suggested to me over coffee by an interested and sympathetic friend of mine, was that maybe there wasn't really a puzzle to be solved after all. Why shouldn't you expect to see tuition spiking, he asked, if there's continually increasing demand for the product? Isn't that just good old supply-and-demand in action? The main, visible products of higher education—bachelor's, master's, doctoral and professional degrees—have become more and more valuable to their possessors in recent years because it helps them find and keep jobs and to get paid more, which should, in turn, feed back into increasing demand still further. So there you have it. Something—a college degree in this case—has become more and more valuable, so we who sell that product can and do sell it for more and more money. Out of this self-reinforcing loop pops the brown line. Mystery solved. University leaders want to tell a different story about the ascent of the brown line. Public colleges and universities—two-thirds of the higher education market as measured by enrollment—were always supposed to depend on state legislatures covering a major portion of their cost of operation. But for the last 20 or 30 years, state legislatures—almost all of them and to roughly the same extent—have been backing off of these longstanding prior commitments to higher education. State subsidies that might at one time have covered two-thirds or more of schools' operating budgets have dwindled to covering one-third or less (at my school, for example, it's less than 25%). In most cases, these subsidies are the only large source of recurring revenue that a school would have apart from tuition. The unavoidable arithmetic of this situation is that as subsidy dollars diminish, tuition dollars must step up to take their place. Hence the ascending brown line. Mystery solved. Another much-trafficked explanans for soaring tuition—probably the most oft-repeated of the lot—is schools' poor management of their costs. Without the disciplining factors that hold for-profit businesses in check, colleges and universities spend—that is, waste—prodigious sums, on "gold-plating" and "featherbedding." "Gold-plating" means: spending too much money on physical plant embellishments; "featherbedding" means: spending too much money on non-essential personnel and consultants whose functions are extraneous to the actual education of students. Gold-plating and feather- bedding have to be paid for by someone. Guess who. Mystery solved.

None of these talking points works. Soaring demand certainly doesn't, even though there has been plenty of it over the past generation. Enrollments grew by more than two-thirds in the 30 years following 1980, while the population as a whole increased only about half as fast.[12] But just as theory would predict, increasing demand called forth increasing supply. Over that same 30 years, the number of degree-granting institutions in the United States, including branch campuses, grew by 42%.[13] Many schools already in existence were in a position to add capacity if they didn't have excess capacity to begin with, and therefore could (as many did) increase enrollments. More schools; more seats—no reason for any demand-driven price increases in higher education, and certainly no reason for anything like the brown line.

"Appreciating value of the product" doesn't work either. There can be little doubt that, at least if the metric is "degree earned," higher education is indeed valuable (and, depending on how and what one measures it might show up as increasingly valuable relative to uncredentialled states of being). Having a degree adds to lifetime earnings both through increasing a person's rate of compensation and workforce persistence, and does so in a more or less proportional fashion. Masters, doctoral, and professional degrees each confer an increment of benefits that seem, on average, to exceed their costs. So what has that to do with the price of tuition? The value of a product—to the purchaser—doesn't determine the price at which it can or should be sold.[14] Showing that the value of higher education has been increasing (as apparently has been

[12] 11.4 million students were enrolled in college in 1980, 20.3 million in 2010. United States Census Bureau, "CPS Historical Time Series Tables on School Enrollment," Table A-6, http://www.census.gov/hhes/school/data/cps/historical/.

[13] National Center for Education Statistics, *Digest of Education Statistics: 2015*, Table 317.10, https://nces.ed.gov/programs/digest/d15/tables/dt15_317.10.asp?current=yes.

[14] Paul Taylor, et al., "Is College Worth It?" Pew Research Center, May 16, 2011, surveying the views of the general public and college presidents on a number of college-pertinent matters, is generally informative on the subject, with graphs and tables. My own helpful answer to whether it's worth it is, it depends. "Go to college" may be good advice or bad advice, depending on the individual in question. People are different, after all. My Economics Department colleague Alex Tabarrok has long held college- skeptical views, but even he doesn't dispute that going is a smart choice for some students (him, for example – he could never have made it as a *barista*). (See "College Has Been Oversold," *Marginal Revolution*, November 2, 2011, http://marginalrevolution.com/marginalrevolution/2011/11/college-has-been-oversold.html. Everyone acknowledges that college graduates' earnings on average exceed those of college drop-outs and non-attenders. Not everyone is on the same page about what causal stories should be read off those facts. Some widely reported studies about the labor market value of higher education fail to make clear the extent to which an individual's

the case through most of the past century or more) doesn't justify the inference that sellers would be in a position to grab that increment of value for themselves. All else equal, the price of something that trades in a market, be its value great or small, should rise if it becomes relatively more scarce in relation to other things for sale in the market, and fall if it becomes relatively more abundant. The value of the thing to its prospective buyer— and its price, that is, how much the seller can get the buyer to pay for it—are entirely different subjects.[15] The brown line depicts

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decision to attend college resembles a gamble. It isn't smart to gamble looking only at the size of the pot. The probability of winning has to be weighed too, and also the badness of the consequences that would follow for a particular individual from rolling snake-eyes.

College-bound students spend a lot of time, typically, thinking about where they should go and what they should, but seldom do so in a detached, analytical manner. . Nothing deserves to be called "college planning" that doesn't take into account how a potential applicant stacks up with some reference group on a number of key attributes that enable or hinder success. There's no reason to think that in general, potentially college-bound students subject themselves to any such process of self- examination (as distinct from just drifting along with life's currents and eddies, what most of us do most of the time). The implication is that there will inevitably be many unplanned matriculancies every year, some number of which will be unfruitful just because they were unplanned.

By college age, people have plenty of highly germane predictive information about themselves (how smart/talented/magnetic am I, really? What do I really like doing?), to help them decide what, in all good sense, they ought to do. Do they use it? "The contempt of risk, and the presumptuous hope of success, are in no period of life more active than at the age when young people choose their professions." Adam Smith, *Wealth of Nations*, (Book I, Chapter 10, part 1.) We should expect young people especially to downplay or ignore as much of that information as conflicts with the plans/hopes/dreams they have for themselves, which may have reached them by a road that took little account of the probability of getting what they believe they want. They may thus lead themselves (or be led) to overvalue training and education unsuited to their particular temperaments or capacities, and to point themselves down a path that leads away from the opportunities that would give their best talents greatest scope. If college is wrong for them, it obviously hurts their chances of getting the degree.

Leaving a four-year college without a degree in hand in general kills the economics of the deal; students who borrow a lot of money and then don't get a degree will in most cases have made an expensive mistake. (It would, furthermore, be the same mistake even if it didn't involve borrowed money, because of the opportunity costs, of savings and of time, that were "borrowed" from more valuable options.) Human autonomy and liberty are important enough values that we consider it right to let people make their own mistakes if they insist on doing so, and then they must live with the consequences. But from common knowledge of human vanity and the judgment limitations it often introduces, one might think this a constructive place to introduce a Thaler-Sunstein "Nudge" (Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (New Haven, CT: Yale University Press, 2008)). There is in fact, and unhelpfully, a good deal of nudging going on – most of it clueless nudging. Instead of encouraging young people facing a high-stakes decision to carefully consider the odds, it encourages them to bet the hand *without actually looking at the cards*. It is not only cash grants and subsidized loans without underwriting standards that are of concern here, but also social suasions and moral applause. Iconic figures from politics and show business – at one time these domains actually were considered separate – proclaim from the housetops that *everyone should go to college*, or, a sometimes-heard variant, *anyone who really tries can do or can be anything he or she wants*. It is fatuous to pretend this is good advice for everyone, or to imply that those for whom it is not good advice are for that reason less worthy of concern than anyone else.

[15] Smith pointed out that "value" is given two distinct meanings, "value in use" being one and "value in exchange" the other. Book I, *Wealth of Nations*, chapter 4. He illustrates the distinction by pointing to diamonds and water, the former being only trivially useful (a "superfluity" he says) but for which things can be readily exchanged, and the latter indispensably useful but which can seldom be exchanged for anything.

a price. What an explosive increase in the price of some commodity should lead us to suspect is some kind of scarcity-inducing kink somewhere in the supply line. Yet instead of scarcity we find increasing abundance—more colleges, higher enrollments, plenty of competition, and plenty of room for all of these to increase. Nothing, in other words, to explain the brown line.

Academic leaders' favorite explanation leans on the continual erosion of state support for higher education over most of a generation. Though this concern is specific to state schools, public higher education is by far the largest segment of the industry, so their shared predicament is fairly seen as belonging in common of the sector itself. As previously mentioned, the business model of public colleges and universities counted on state subsidies for at least half, and in many cases more than half, of the cost of their operations, with tuition revenue answering for most of the residue. When state subsidies started tapering off in the late 1980's, tuitions escalated *pari passu*. This increase was everywhere defended as unavoidable and inevitable—dollars that disappear from the "subsidy" column *must* be replaced with dollars from the "tuition" column: hence the increasing prices.

This bad explanation trades on an equivocation between two different senses of "must." That public subsidies have been shrinking in relation to schools' budgets is true, and that this shrinking blows up the long-subsisting business model is also true, but the next move is false. When one source of expected revenue goes down, it is not the case that another source "must" go up except in a trivial, bookkeeping sense (i.e., holding all else constant books won't balance without the dollars required to balance them). But it is not actually necessary to hold all else constant. No one other than regulated monopolies and governments gets to jack up prices *ad libitum* to cover up some bookkeeping embarrassment. In a competitive environment, as far as I understand it, jacking prices up above the market shouldn't lead to a seller getting more money, it should lead to the seller getting no money, because the customers will defect. That means businesses whose income is diminishing or whose costs are increasing or whose expectations have been disappointed will have to deal with the resulting shortfalls from reserves either of cash or credit, and if that turns to be impossible, too bad. Bankruptcies happen; not every story has a happy ending. The "dwindling subsidies" explanation, in other words, doesn't actually explain anything but instead raises a further mystery. If a seller finds itself able to get more money by charging more for its product, why would it wait for a financial crisis before raising prices? Why wouldn't it raise them as soon as it could? What have cuts in subsidies to do with one's ability to raise prices? This whole line of argument fails.

Cost-related explanations for the brown line are the ones most often heard. It's easy to see why. Not only are they intuitively grasped, they lend themselves to amusing, sometimes lurid real-life examples. The basic idea is that colleges and universities must be especially bad at controlling costs for some reason, leading them to waste so much money that they have to charge ever-higher prices to make up for it. The antidote to this state of affairs, often mentioned as a corollary, is that in order to avoid charging ever-higher prices, colleges and universities have to get good at controlling costs, or at least get average at it. It is in this connection that one usually hears the evergreen bromide that an educational institution should be "run like a business."

The claim that poor control of costs leads to ever-escalating prices isn't plausible, but because nearly everybody believes it I will pretend, *arguendo*, that there's something to it. My difficulty in considering whether the claim might be cogent is aggravated by the conviction that it couldn't possibly be. That is because all cost arguments trip over the logical disconnect prefigured in the preceding paragraphs. To generalize the point made there: higher costs don't necessarily mean higher prices. And products costing a lot to make won't fetch higher and higher prices just because they cost more and more to produce (nor will products with low production costs necessarily be sold more cheaply). Cost and price are two different things.[16] Production costs are important to whether the producer can sell product at a profit but not to how much people can be induced to pay for it. If the costs of producing a product exceed the price at which it can be sold, then one simply has a loss. In normally functioning competitive markets sellers *can't* pass the cost of production along to the customers by demanding a higher price. This is why I think it misguided ever to cite "cost" or "waste" as a reason for rising tuitions.

I have persuaded very few people with this line of argument. Let us therefore consider some alleged cost items in more detail to judge whether their peculiarities might make them an exception to the generality set forth above. One of these let me mention at the outset simply to be rid of it—phony classes, galling whenever one hears of them. Everyone has heard or read about colleges and universities offering academic credit for foolish courses. The caricature is: stupid

[16] Sales pitches that rely on some version of "eliminate the middle man" capitalize on this confusion. A good discussion about the fallacy of confusing "cost" and "price" is found in Archibald and Feldman, 2011.

classes on stupid subjects meant for stupid students (and guaranteed to make them stupider), taught by professors who are not necessarily stupid (but it helps).[17] There's no denying things like this do exist in this huge sector, but I doubt whether they're common. I don't recall having seen very many courses like this myself though I may be unobservant or, possibly, deluded.[18] But for the sake of argument let's say courses like that are common enough to worry about, and let us accept that they are wasteful more or less by definition because they're at cross-purposes with the stated and ostensible mission of the institution (readers may imagine their own details as

[17] I mean the sort of problems discussed in Roger Kimball, *Tenured Radicals: How Politics Has Corrupted Our Higher Education* (Chicago: Ivan R. Dee, 1990). It is unwise to make light of such issues, but discussing them seriously, with a view of doing anything about the problem, would reuire extensive preliminary inquiries that have not, to my knowledge, as yet been made. For starters, we don't have a real inventory of how widespread the phenomenon we should want to fix really is (let's call it the horsefeathers coefficient), nor what the ratio might be between horsefeathers academics and the good stuff (however that would be defined). There's a good reason for this. Without defined terms it's impossible to pin down the problem well enough to analyze it. Except perhaps in the extreme tail of the distribution, "horsefeathers" will be in the eye of the beholder, and *de gustibus non est disputandum*. If one wishes to do more than simply leave the matter there, we'll need an acceptable objective function in relation to which this course or that course is "horsefeathers." Acceptable to whom and according to what criteria? Formal post-secondary education comprises at least four thousand different institutions in this country, serving a population of 20 to 30 millions of students at any given time, with cognitive and temperamental capabilities arrayed along practically the whole of bell curves for each of those attributes, and offering credit-bearing courses that range from basic mechanical or office skills on one hand, all the way to instruction in quantum chromodynamics and homological algebra on the other. Anywhere in that vast array "horsefeathers" might well intrude, but every time it did, it would necessarily have a different aspect because any judgment about the adequacy of a course (or an instructor) would be in relation to what was being sought. One might narrow the field of inquiry to (let's say) traditional arts and sciences college education, but then one would need to find common ground on what that sort of program must always, at a minimum, be expected to do. Enough generality would be required to embrace some legitimate differences of opinion on how broadly or narrowly the mission should be defined, but specific enough to make it possible to pin the horsefeathers badge on an offending breast. Good luck to anybody who wants to tackle this project. I recognize that my analysis leaves horsefeathers merchants free rein to peddle their wares without reproach from me, subject only to the constraints of student demand and colleagues' willingness to put up with what they will themselves have identified as horsefeathers, till the burden has been borne by anti-horsefeathers party to operationalize what they are, and think we all should be, against.

[18] Or ignorant. Looking at my rap sheet could make someone think that I must surely know at least alittle something about the often-discussed issue of the adequacy of undergraduate curricula and faculty—enough at least to have a feel for it. I actually have had little more direct exposure to undergraduate education than anyone else whose last encounter with an undergraduate classroom occurred in the 1960s. However, over many years I have become acquainted with many faculty members, in a number of different disciplines and institutions, and although they are unquestionably a mixed bag for talent, they're mostly serious people with conventional work habits, who are diligently engaged in teaching and research about perfectly sensible subjects. Carrying forward the discussion begun in the immediately previous footnote, I wonder whether it might be possible to count at least the extreme tail dwellers—the more or less uncontroversial instances of curriculum or faculty horsefeathers—without a full-on embrace of the problem mentioned there. Just how fat *is* that extreme pathological tail of the distribution? It should not be necessary to bring forward a full-blown Theory of Everything Higher Educational to identify instances of borderline fraud—courses (or professors) qualifying as horsefeathers with respect to anything that even a broad-minded person would wish to defend. I suspect —it's just a guess— that a careful national census of that sort of character would reveal that there weren't very many. But there may be more such out there than I think—chronic embarrassments to themselves and their colleagues who are eminently removable "for cause" but are left alone because of the expense and trouble that the department chair or dean would have to eat in order to remove them. Inquiring into these matters is a project I wish someone would tackle.

to the syllabus of such supposed courses, and let them be as bad as may be without the police raiding the joint). Is there any possible way to connect all of that back to the explosive growth of college tuitions? My suspicion is that the exact opposite is the case. One should expect undemanding classes to be popular. Why wouldn't they be? My then-colleague David Haddock and I years ago described the incentives that should lead to students demanding fluff courses;[19] there's no reason to be surprised if things like that should turn out to be popular. Pox on civilization though they may be, courses like that are probably making money at the margin. *That* is the connection back to tuition. Instructional programs that generate surpluses can subsidize other, possibly loss-making programs (or be spent in any other way). (As an aside, those who think that colleges and universities need to be run more like businesses ought to love this result or explain why they don't). So courses like this would not only fail to explain the brown line, they would make the existence of the brown line even more incredible than it already is. The bad curriculum line of complaint is simply not apropos the runaway tuition complaint. Of curriculum let us for the present say no more.

Gold-plating and featherbedding are the two main headings under which waste complaints seem to be organized—there may be others but I will limit myself to those two. They have two attractive features that make them suitable for discussion: first, they must surely, between them, account for almost all of the relatively uncontroversial instances of schools frittering away resources; second, they do not involve us in metaphysical food fights about basic academic questions—curriculum, faculty appointments, or the calling and purpose of institutions of higher education.

[19] The argument, in brief, is that students consume the reputation value of the college they go to, which reputation is largely made up of relentlessly enforced high standards and exacting demands that require students to learn more than they may have any desire to learn of the subjects being studied. It would be a good deal for the students if they had the opportunity to free ride on all that by taking BS courses just for kicks getting high grades in exchange for little or no effort. Of course they would retain the option to learn as much as they were capable of learning in case they encountered any subjects that they preferred to indolence, so as far as they can see, there's no downside. What's not to like? The limiting factor would be the eventual decay and ruin of the school's reputation. If this were gradual enough, it likely wouldn't be of great concern a particular student, at least from a purely self-interested perspective, given the advantage that could be had in exchange. Alumni, of course, would have a fit. They would not themselves receive the benefits of horsefeathers courses, but would experience all of the costs to the extent the reputation of their *alma mater* was of any continuing value to them. They would recognize that the school's reputation comprised their own hard work as students, learning more than they wanted to know about all sorts of things and living up to higher standards, and now they must witness the value created by those painful investments appropriated by ne'er-do-wells in the younger generation. David D. Haddock and Daniel D. Polsby, *Family as a Rational Classification*, WASHINGTON UNIVERSITY LAW QUARTERLY 74 (1996):25-28.

Gold-plating is the cheerfully tendentious name given to certain extravagances colleges supposedly indulge in. It is often accosted as a major contributor to big tuition increases. The gold-plating story says schools run up the score on customers by spending too much money on gymnasia, natatoria (built to Olympic specs, no less), student centers, work-out facilities, lavish dorms, amusement park type rides, upscale dining facilities like sushi bars and fusion cuisine bistros (and so on), and what have any of these things to do with Education?[20] If the answer is, little or nothing, then surely we could count them as waste, dead-weight contributors to cost, therefore a culpable part of whatever drives colleges' insatiable appetite for cash.

Though there may be exceptions in the right tail of the opulence curve, over most of the range of experience these kinds of recriminations are way overdrawn. For one thing, students like this stuff. At least until we get up toward that meretricious right tail—never been there myself—it seems that students are more than happy to pay for gyms and swimming pools and the rest. Over many years the student complaints I have heard on this subject (and it's one of the most persistent themes in our surveys) are almost always that we really don't have enough things like this and we really ought to have more. Furthermore, unlike some dubious curriculum innovations (for example), gold-plating, if we must call it that, should seem to everyone perfectly benign from a civilizational point of view—indeed, thinking specifically of gyms and swimming pools, downright constructive—*mens sana in corpore sano* and all that. Finally—being practical for just a moment—when it comes to recruiting an entering class, it is so very much easier to sell a seventeen-year-old kid on climbing walls and "lazy rivers" than on the life-long value that can be acquired from enduring Professor Harshly's legendary interrogations on *Dasein in Being and Time*, even though we know that years from now he'll look back and appreciate the latter's

[20] The best example of gold-plating I have heard recently comes courtesy of a professor at another law school who had recently returned from a conference at Harvard. She mentioned she had been in a women's restroom whose walls were clad in Carrera marble. I'm not exactly sure what to make of the observation, but whatever the other implications might be, I wouldn't think it a good guess that a Carrera marble restroom would affect Harvard tuition. If all the rest rooms at Harvard were clad in Carrera marble (as they would be if I were calling the shots) there's no reason to think that tuition would be affected in any way. In any event it is doubtful that Carrera marble would figure in the sanitary arrangements of many American universities. That sort of thing is found outside the academic world in the *en suite* facilities in the C-level offices of big companies. Dictators to one side, the consummate gold-platers of this world seem to be successful business concerns—the very people, one might add, who know, if anyone knows, how to run an organization "like a business." In business gold-plating can be re-described as non-cash compensation for firm employees. It can also be an effective way of sending a message to customers about the organization's high status. Whether it is wise or unwise to spend money in that way, the price of the organization's deliverables, be it broccoli, ball bearings or briefs, will be determined in markets that are *completely indifferent* to whatever the production costs may have been.

greater ultimate value. There's a competitive market out there, after all. Vendors have to pay at least a little attention to what customers like, are happy to pay for, and complain about if they don't get. Be well-assured, the schools one is up against pay attention. That's competition for you—red in tooth and claw.

Furthermore, if one comes across some instance of gold-plating with an especially elevated aesthetic cringe quotient, the reason for it likely enough it is that the (possibly demented) donor whose gift made the thing possible would have it so. It's no skin off the school's nose to go along with these little sins against good taste, and no dollars out of students' pockets. But the most telling point is that in the end, a lot of what is called gold-plating, possibly most, will, if carefully considered, turn out to be fairly cheap. The cost difference isn't that great between building and maintaining a nice, inviting gym that is comparable to the better sort of private health club, versus a hard-core, bare-bones facility that no one will like, few will use, and everyone will complain about. I grant that in this example, "gold-plating" could have an impact on a school's operating budget (because, for illustration, the more people like and use a gym, the more people will have to be hired to staff it). But this is peanuts, nothing remotely adequate to explain the brown line.[21]

Another commonly-mentioned waste item is "featherbedding." This means hiring excess staff and paying them excessively. Here we have a potentially more promising place to look for waste. Of course we can't really say whether an expenditure is superfluous until we first say what it is superfluous to. What are institutions of higher education are supposed to do or be all about? That's a too-big issue to get into here, so let's just assume this problem away and observe that if poor cost control is a big contributor to runaway tuitions, we can forget about gold-plating.

[21] Many universities (including George Mason), as a part of the "sustainability" efforts they have made so much parade about in recent years, now make a practice of constructing buildings to the LEED standards established by the U.S. Green Building Council. I was told by a senior George Mason facilities planner that LEED Certification adds approximately fifteen percent to the capital cost of a building, but that there were understood to be offsetting lower operating costs of LEED-certified structures. Let us hope so. Mason hasn't independently audited or otherwise substantiated these claims, and they may turn out to be hype. (How does your Volvo's gas mileage square up with the claims on the Monroney sticker? Just asking.) Questions have been raised whether the real world ecological benefits of such buildings live up to the claims made for them. Time will tell. See Peter Sepp, "LEED-ing Taxpayers to Waste Money?" *U.S. News and World Report*, May 8, 2014, http://www.usnews.com/opinion/economic-intelligence/2014/05/08/leed-certification-doesnt-add- value-and-costs-taxpayers

Featherbedding is where we need to look. This follows unavoidably from the Sutton Theorem:[22] payroll comprises 60 to 70 percent of total outlays in higher education.[23] If we want to see money being wasted, that's where the money is.

And there are plenty of places to look. To begin with, copious additional administrative burdens have been forced on higher education in recent decades, by state and federal government (in a number of ways) and by regional (and other) accrediting agencies. These bodies make laws and regulations, emit ukases, and occasionally send out "Dear Colleague" letters, all of which have to be dealt with. Compliance work often is specialized—staff must be hired to do it, professional staff at that—lawyers in many instances. Much, probably most, of that incremental regulation adds zero educational value; the costs imposed, whatever they are, could thus be rightly seen as pointless.[24] But *compliance* with pointless regulation is not pointless. It is a precondition to staying in business. And no matter how pointless regulation may be, schools will seldom criticize it. They wouldn't want anything in the record that could be construed as antipathy toward some new rule's ostensibly important purpose. When the next lawsuit is filed or the next regulatory intervention or investigation is begun, having one's reservations and cavils on the record could prove to be costly. And even if a burden-lightening reform were actually adopted in response to a school's criticisms, then free-riding competitors would benefit as well. Given all that, it's perfectly rational for colleges and universities to shut up and do what they're told.

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[22] Willie Sutton, & Edward Linn, *Where the Money Was: The Memoirs of a Bank Robber* (New York, Broadway Books, 2004), P. 160.

[23] Donna Desrochers and Rita Kirshstein, "Labor Intensive or Labor Expensive? Changing Compensation and Staffing Patterns in Higher Education," Delta Cost Project, February 2014, p. 15.

[24] "Gratuitous" puts it charitably, because regulatory compliance is lexically prior to educational or any other institutional purposes. The situation is the same as the one every taxpayer knows: the government is a creditor like no other. It has first claim on a tax debtors assets, and its claim has to be 100% satisfied before any other creditor sees a penny. Compliance burden should thus be seen as a direct tax on educational effort. Moreover, as Howard Bowen wrote in 1980, in the springtime of federal regulatory impositions, non-monetary compliance costs (OSHA was his example) may exceed their cash costs because of the resulting diffusion of institutional focus on the school's primary mission. The point seems to me well taken, and matters have certainly not improved in the years since. Short attention spans are a characteristic weakness of universities to begin with, and don't need to be helped to get still shorter. Perhaps the "shared governance" idea that regional accreditors set so much store by is a contributing factor, but—just my naïve observation—it seems that university decision structures do not readily internalize the notion that the whole idea of "priorities" is downright undemocratic because it implies that some things are more important than others things.

Regulatory burden is paid for off the top of gate. It has priority over all education-related administrative outlays. In the case of large schools, the costs of regulatory compliance have been manageable (though far from trivial). How manageable they are at smaller schools unable to exploit scale economies isn't so clear—I expect many or most of them experience compliance burdens as quite serious impingements on their mission. It's hard to think, though, that this sort of hardship could much contribute to the ascent of the brown line. Employers all across the national economy have had to adapt to the same kinds of administrative law millstones—in some cases the very same laws, in other cases, industry-specific regulations which could be practical counterparts to education industry specific regulations. Extraneous regulatory burdens must surely hurt the resiliency and productivity of the national economy and the sector to which they apply as well as firm by firm. But brown line phenomena—decades of uninterrupted price increases much greater than the CPI, for products that change and have changed rather little – do not typically result.

No need to re-discuss the bad courses-bad curriculum issue. Bad professors are just as likely to pull their weight economically as good ones or great ones. But maybe there is to be said about the growth central administrative staff (apart from employees who look after government and accrediting agency compliance issues)—presidential and provostal helpers, many of whom will have been seconded from faculty appointments (and thus lost to the honest labor of instructional duties) or who will possess credentials and experience similar to faculty, and consultants of various kith and kindred. I actually looked at some of the George Mason experience with staff proliferation, whose interesting but inconclusive results I report on presently.

Quite a lot of money is indeed spent on all this adjective effort. And non-money costs imposed by this effort can be costly, too, probably costlier.[25] Consultants are paid; they then produce PowerPoint decks; people, often senior line personnel with high opportunity costs (in other words, actual jobs), then have to sit through the resulting presentations. These will usually be time-wasters at best, and the more innovative, sustainable, entrepreneurial, diverse, cutting-edge, disruptive, and something or other to do with paradigms they are, the worse they likely will be. None of this is apt to retard the ascent of the brown line, but neither is it apt to explain it.

[25] See Bowen, footnote 27, *supra*.

As the plural of "anecdote" is "data,"[26] there are plenty of data about inept university administration and its make-work consequences. And it is not difficult to find university administrators with quite shallow comprehension of their business. This may be a partial explanation for why higher education is so vulnerable to fads: administrators who find themselves with this big, sprawling asset in their hands without a clue of their own or a clue from the culture what it's for or what they're supposed to do with it ("innovate!") need all the fads and other mental prostheses they can get. Here we are referring, however, to a phenomenon that isn't necessarily university-specific. It might be found in varying measure and proportion in almost any good-sized business organization in its maturity, especially those in which intangibles are a big component of the deliverables. Anyone who had been in the white-collar labor force of such an organization may have seen plenty of the same sort of thing. Some big companies have been quite famous for it, actually, though they're disciplined in a market where the death penalty is a routine sanction. What it signifies is, management is out of ideas. The clueless can't keep from behaving that way, seemingly, and so we're all Dilbert now or are in the process of becoming so.

But: we don't all ride on the brown line. Only some of us do. So even if "cost" were an admissible factor to consider in connection with the ascent of the brown line, and even if unproductive administrative burdens and blunders and the afflictions of featherbedding are every bit as bad as advertised, we couldn't rightly blame them for the ascent of brown line. Some of the usual suspects have alibis. Most of the rest look like small potatoes or are beside the point. Some simply reflect incremental costs operating in the economy generally and are not specific to higher education. None has any real bearing on the subject at hand. Federally subsidized student loans and nothing else are causing the ascent of the brown line. Things won't get better till something is done about them.

I came to this conclusion by quite a roundabout means, which may, however be of modest interest to readers who have followed me this far into the weeds. Accordingly, I will set out the results of some local inquiries that I conducted on the subject of how my university was spending all the money I thought it must have been accumulating with the massive constant dollar increases in tuitions it had levied over the years over its even more massive increases in

[26] *Nelson W. Polsby PS, Vol. 17, No. 4. (Autumn, 1984), pp. 778-781. Pg. 779: "Raymond Wolfinger's brilliant aphorism 'the plural of anecdote is data' never inspired a better or more skilled researcher."*

enrollment. I might have figured it out, too, given more time. But in the course of my (albeit incomplete) investigations I did find out a number of possibly useful things about my university that I hadn't known before. It occurred to me only rather late in the game that I was barking up the wrong tree—that the answer to the mystery of the ascending brown line was not going to be found in the university's public bookkeeping records, but was hiding in plain sight in the burgeoning federal student loan programs.

In 2005 and 2006 not long after I became dean at my law school, and well before the financial crisis and its long tail of consequences were on the scene, the situation with our own tuition, and the planning that was going on around them, began to bother me. Our law school tuition was still relatively cheap, but it was going up fast. Tuitions all over the university were increasing rapidly. At one of our annual university planning retreats, we groundlings were shown a five-year projection with ten percent across-the-board annual increases penciled in. With slight modification, this plan was adopted. Law school tuitions are multiples of the tuitions of most other university programs, so while several of the other deans felt concern about how this plan might affect their enrollments, especially in the out-years, I felt actual fear. At my university deans are little more than spectators when it comes to setting tuition-pricing decisions are made by the governing board and its principal officers of administration. I wasn't (nor were the other deans) at the table when the cards were cut, but nothing was stopping me from remonstrating so I started PowerPointing them (two can play at that game), about the risks that I foresaw on the present path and the advantages to be had from a less-aggressive pricing policy.[27] I award myself partial credit because the risk I foresaw did indeed materialize, but part-credit only, because the risk that arrived was not at all what I had been expecting. I did not and most other people did not see the financial crisis coming, let alone what its consequences for my program were going to be.

My PowerPoint sufferers were not, most of them, stupid people; they knew there were risks connected to an aggressive pricing policy. But sometimes brain knowledge doesn't get all the way to the viscera, where it might do some good. My story was that no one could locate beforehand applicants' indifference point, the price that sat on the boundary between an applicant enrolling and not-enrolling at the university. We could be setting ourselves up for a

[27] To this day I carry a flash drive with me everywhere, with PowerPoint decks on almost any law school subject, locked and loaded.

pitfall by assuming that, as we approached the point at which the price was getting too high (wherever and whatever that point was), we would begin to see demand fall off little by little, the "graceful degradation" that engineers might design into physical systems to prevent their sudden collapse. My point was, there were no guarantees that we would be able to detect the softening of demand as it was happening, and therefore it was not clear that we would to be able, when the market for legal (or other) studies turned sour, to keep matters in hand with rebates and *douceurs*, little adjustments in our admissions work. Given the mighty annual chunks we were contemplating for increases, it seemed not all that improbable that tuitions might leapfrog the indifference point so that we could find demand for our product descending by a step function instead of as a graceful curve. Worse, it might be a *cliff*-function, where all at once a large fraction of the prospective customers all stood up at once, said "to hell with it," and exited the market altogether. Such a mistake in real time, if it happened, would impose a painful "ignorance surtax" on the university revenues. Not only would we fail to capture the extra dollars associated with the increase in price, all the other dollars we were counting on that customer bringing would walk out the door with him. A serious structural deficit could result. Alternatively, we could lower admissions standards, painful to contemplate. A more-cautious tuition policy was therefore warranted. So I argued to no effect; I had to keep on trying.[28]

I thought I might somehow improve my arguments if I had a better grasp of the history and development of George Mason, something that (perhaps surprisingly) I knew nothing about. A lot of annual reports had to be gone through to figure out what the experience of the university had been through its few decades of existence with enrollments, tuition and various kinds of trades-offs faced by the founding generation of our academic administration. All I knew going in was that George Mason had opened its doors with a few hundred students in the early 1970's as a branch campus of the University of Virginia and that, by the first decade of the 21st century, it had upwards of 30,000 students enrolled in many dozens of programs and disciplines, with a budget of about three quarters of a billion dollars and big plans for further growth. I didn't know

[28] I was right and they were wrong—what pleasing words to write. However, to be completely fair to all concerned, it's debatable whether following my advice could have made much difference. The labor market conniptions that followed on the heels of the sub-prime fiasco cratered not only our own enrollment performance but that of the entire industry, washing over the whole law school world as a *force majeur* and drowning out whatever blame might otherwise have been assigned to individual mistakes. Thanks to the financial crisis we had, all of us law schools at once and excepting only very few, held hands and found the indifference frontier for an entire generation of prospective law students.

much else, nor was I actually required to.[29] But as runaway tuitions started to become a national story late in the first decade of the 21st century, I started hearing more and more increasingly anxious questions about tuition from alumni and members of the community—law students, too—especially around the time of year when tuition increases were announced. About this same time the "wastrel" indictment started to be hung around the neck of the whole national higher education enterprise, about our "edifice complex," as Professor Vedder somewhere called it (building lavish, over-scale projects); and that we were being laid siege to, as the eminent political scientist Benjamin Ginsberg later said in his book-length *crie de coeur*, by *"armies of functionaries—the vice presidents, associate vice presidents, assistant vice presidents, provosts, associate provosts, vice provosts, assistant provosts, deans, deanlets, deanlings, each commanding staffers and assistants. . ."* —in other words, a very horde of endlessly proliferating Tribbles, to remember the famous Star Trek creatures, filling up the Starship Edu-prise from deck to overhead with their adorable, fuzzy, useless selves and crowding out the crew and its vital business.[30]

It was frustrating, when I came to look at the thing, that smoking guns weren't in evidence. I couldn't find much of anything to help my argument that tuition policy needed to be more cautious. Then came the financial collapse of 2008, followed with the slow-motion collapse of enrollments which affected nearly every law school in the country. No one at that stage needed any PowerPointing from me on the perils of too-high tuitions. But the university's numbers, as far as I had progressed with them, had planted some seeds of skepticism in my mind about the usually told explanations for soaring tuitions. I was beginning to think that the prodigies-of-waste stories that were so prominent at that time (as they still are) must have been missing a crucial point.

We managed, eventually, to assemble a run of 30 academic years of George Mason data (1979 to 2010), showing year-by-year changes in enrollment, tuition, "student revenue," numbers about various categories of employees—all sorts of things, actually—and on the first

[29] In our decentralized system, the deans of the dozen or so academic units are charged primarily with tending their respective gardens. Deans—to be understood as a synecdoche for the academic units—weren't formally a part of the central planning process. I hadn't had to develop a feel for how the whole story was unfolding.

[30] Benjamin Ginsberg, *The Fall of the Faculty: The Rise of the All-Administrative University and Why It Matters* (New York: Oxford University Press, 2011), p. 71.

read through the data, came up with an interesting and suggestive picture. George Mason's expenditures per full-time equivalent student doubled over those 30 years in constant dollars, going from $8,476 to $16,739.32.[31] Growth of enrollment was more rapid still—in fact it much more than tripled over 30 years, from 7,654 to 24,900. Tuition grew yet faster, more than quadrupled: $2,328 per head in 1979, and $9,667 by 2010.

Those numbers confirmed my conjecture that the university wasn't simply doing ok financially, but actually raking it in. Even taking account of the (ever-shrinking) subsidy from the General Assembly, the income statement looked sweet. The state had cut our allowance (as expressed in constant, 2011 dollars) from $6,000 per FTE student in 1979 to around $1,500 by 2011, painful to be sure even stretched out over 30 years, but no calamity.[32] After all, the student body (per FTE) had tripled in size, and tuition revenue had quadrupled (in constant dollars).

Much more revenue was arriving than debouching. On paper it seemed there must have been plenty of cash around. But I never saw this treasure trove and never met anybody who had (or anyway would admit it). A mystery. *What are they doing with all that money?*

Where was it going? To all those famously overpaid and underworked profs (that would be me)?[33] Or maybe to Ben Ginsberg's multitudinous myriads of minions and functionaries (me again—dean at the time)?

[31] "Expenditures per FTE student" means: tuition revenue, plus revenue appropriated by the General Assembly from the General Fund, divided by the number of FTE students, all in constant dollars. These numbers and the ones that follow (unless otherwise noted) are stated in CPI-adjusted 2011 dollars, using the conversion tables worked out by the Federal Reserve Bank of Minneapolis. These expenditure numbers refer only from draws against the university's "educational and general" budget, and ignores the separate capital budget altogether. The "educational and general" budget (which in normal speech would just be called "the budget") answers for the operating costs of the university—payrolls, phone bills, lavatory supplies, travel expenses, grounds-keeping, heating, cooling, electric lights, the police department, and so on. It's important to notice that it covers debt service on the bonds that have to be issued in order to build buildings, and in this one (but important) way it is connected to and affected by the capital budget.

[32] Nor, as it turns out, was the George Mason experience unique. Gillen, 2015, using IPEDS data, shows that nationally, diminished state subsidies, even added together with other much-blamed budget factors like rising faculty compensation, are considerably more than offset by the increased revenues attributable to rising tuition.

[33] The most often used workload metric for professors who are appointed on a tenure line is number of classroom hours teaching per week. If there is any expectation that professors will have out-of-class contacts with students (true at virtually all law schools but not always the case in other fields), a more realistic metric would be student contact hours per week, as some courses will have 3 students in them and some others 100 or more. Measuring the volume of research through-put raises some of the same issues as measuring teaching productivity. Two things of very different weight and consequence may both tally as "one unit produced." Interpretative human judgment is required to make such measurements meaningful. In the past decade citation counting has become the most widely accepted way to

I couldn't find the first of these things in the George Mason numbers. Thirty years of data were bound to reveal a swelling in the ranks of faculty had there been one. But the full-time instructional faculty, and the part-time faculty too, grew at practically the same rate as the student body, very slightly faster after 2005, but close to even. Of course one understands that there are other ways to extract rents than by doing less work. But if we're just talking about staffing and money, there was no big increase of professors relative to the scale of the overall operation, and nor was there some kind of compensation hypertrophy going on either. According to my numbers faculty compensation increased quite slowly—a 25% real dollar increase in

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measure a professor's "influence" but this is not quite the same as productivity. Some deans and department chairs will simply count the number of a professor's publications in a defined recent time period. Once again human judgment is required; measurement is good, but one must appreciate the limitations of the data so generated.

As concerns professors of performing or graphic arts, measuring productivity and relating this to budget is challenging in several dimensions. Professors in the arts are expected to do things to acquire extramural professional recognition that ought not rightly to be described as research though they are functionally cognate to it for purposes of Human Resources Department types of evaluation. Coming to grips with the issue of productivity in the arts may be so tricky that it might seem best to hire a consultant to explain it. As these things are measured, it might not be wasteful to hire a star economist - say William G. Bowen - to produce a study to explain why artists' wages keep rising even though their productivity has not improved even slightly in many hundreds of years (though no doubt an audit flag would be triggered); but if one hired as his collaborator a *super*star economist as well – say William Baumol – one trembles to think what one would have to say in order to justify the expense. Anyway, see generally, William Baumol and William G. Bowen, *Performing Arts, The Economic Dilemma: A Study of Problems Common to Theater, Opera, Music, and Dance,* (New York: Twentieth Century Fund, 1966).

Inherent difficulties of measurement are compounded by the wide circulation of dubious fact claims on the subject. I recently heard a speech by a man who had been president of two large and highly reputable research universities. Reminiscing, he said that in his own undergraduate days, every professor was expected to teach five courses per semester and then produce research in his spare time. Baloney. But declining productivity by professors, as measured by assigned per-credit teaching loads, has been much talked about in a more-sober way. It may, indeed, be a fair criticism. One thing about the university world, which the institution of tenure contributes to but does not solely cause, is that professors have an option to shirk baked into their employment contract. It is exercised commonly enough that it has its own acronym, borrowed from the military: ROAD, meaning "retired on active duty." Exercising the ROAD option is not cost-free to a professor—at a minimum it costs a loss of face among colleagues and students. Whether things on this front are getting worse, or are worse now than back in the dream time when professors taught 10 courses per year, is not, to my knowledge, a question that can be answered on the basis of currently existing data. The ROAD phenomenon may be connected to the trend toward lighter teaching loads, but it isn't necessarily. Good research and writing is hard work, as hard to do as good teaching and maybe harder. Research typically isn't counted in productivity computations but that doesn't mean it isn't a valuable kind of productivity. This is not, obviously, a claim that all professorial research is valuable. The really good stuff is comparatively rare; most research will be more-or-less worthwhile "normal science," and to be sure there will be a bit (in some disciplines quite a bit) of weak-to-embarrassing research, tapering off into out-and-out humbug. But complaints that research quality in higher education is of normally distributed quality, or that this distribution's central tendencies are downright average, aren't really about productivity, but something else. A bit of clarity would be useful. If one thinks that professors aren't looking into things that matter, that's a serious criticism, let it be aimed at the cause of the complaint. If one thinks that when professors report their findings, they do so in an ugly, jargon-stuffed patois that only the other cenobites can possibly understand, let that be the criticism, there are plenty of instances where it won't be wrong. But let's not confuse that with slacking. And one last point: if people on the payroll *are* publishing crap, more slacking would actually be a public blessing.

faculty compensation over 30 years.[34] Paychecks of our “classified” (i.e., clerical) staff grew faster than that, but there are not nearly enough of them to drive the brown line. It must be the administrators, then, by a process of elimination. Sometimes it seems that is what everybody thinks. Is what everybody thinks true?

It will take more preliminary work before one can answer that question. The category “administrators” is a catchall. It has to be more clearly specified before one could know whether “proliferating-Tribbles” complaints like those of Prof. Ginsberg hold water. A lot of the people tracked by the George Mason human resources department as “administrators” plainly are not the sort of useless make-workers Prof. Ginsberg had in mind. National data have this same difficulty. So far as the computer is concerned, an employee is an “administrator” (administrative faculty) if he has earned an advanced degree and has been hired for a job that is secondary to the teaching and research mission of the university. Prof. Ginsberg’s Tribbles will tally as administrative faculty, but other people are “administrative faculty” too, who are nothing like Ginsberg Tribbles.

The physicists who run the fMRI equipment are an example; librarians—not a small group—are another. Leaders in admissions and placement offices are critical assets, not supernumeraries. The university has several billion dollars’ worth of physical plant requiring facilities managers, architects and engineers to look after it. The scale of our operation (disbursing nearly a billion dollars per year in payroll and invoiced goods and services) demands professionally trained accountants and auditors. We count unit heads as administrative faculty, in other words, institute directors and the academic deans—what I used to be. None of the foregoing list of “administrative faculty” strikes me, and I doubt would strike Prof. Ginsberg, as of the Tribble kind, even if the arguable exception is made for law deans. But based on readily available public documents (once again, my exclusive source of George Mason information), we

[34] Something is definitely wrong with the numbers I have for this, which show much smaller growth in faculty salary lines that BLS or IPEDS national data do. I suspect health insurance must have been left out of my numbers, a substantial item in the compensation package in any year. State employees’ health insurance is very expensive. The package is nearly as good as the legendary coverage offered by the federal government. The rate of increase in our Blue Cross premiums over the past several decades has been astounding, actually, even in comparison to the brown line. If dollar equivalent numbers for Blue Cross are added into faculty salary numbers I have, George Mason’s faculty compensation increase eyeballs out to about the national data. Archibald and Feldman, 2011, argue that national data depicting increases in faculty compensation are about what one would expect once cost disease is taken into consideration.

simply cannot say what proportion Ginsberg Tribbles bear to the whole of the administrative faculty.[35]

We really ought to find out. Over thirty years, administrative faculty paychecks, on average have been growing faster than those of the instructional faculty. And the number of administrators has been growing faster than the student body, the faculty, or the university overall. Back-of-the-envelope calculation says that if the administrators-to-students ratio of 1979 had held until academic 2010-2011, the university's administrative faculty would have comprised 200 FTE employees. Instead there were 450.

That sounds like a significant difference, but what it may signify is impossible to say without more information. A library operation growing from one-room schoolhouse size to a million-plus volumes with microfiche and specialized collections and IT capabilities is sure to gobble up a lot of "administrative faculty" who won't at all fit the normal profile of administrators. And for all I know (in fact I suspect this) it might signify that the 1979 number was just untenably low to begin with—there's nothing special in the ratio as it stood in 1979, that's just the first year I had data for. But for the sake of argument let us anoint the 1979 ratio as the metaphysically correct proportion of students and/or faculty to administrators. That would imply that in the worst case, as of 2011 we had 250 FTE "administrators" who could be counted as excess baggage. Average administrative faculty budget lines that year were about $90,000 (including fringe), so it works out to $22,500,000 of annual payroll devoted to what might be called budget zombies—non-functional bodies (by assumption) that we have to pay for—which amounts to a tick less than $1000 per FTE student per year. If the assumed worst case (improbably) turns out to resemble the state of affairs that has in fact materialized,[36] it's nothing to sneeze at. But it wouldn't begin to explain all the spending that must have been going on to leave us, if not broke, at least in perpetually straitened circumstances.[37]

Some other pieces in the puzzle were missing. One of them—how big it is I don't know—is the money that must have gone to a specific fraction of physical plant maintenance and debt service. Some fraction of those expenses have been in excess of what they would have been

[35] The same terminological uncertainty likely comes up with respect to other universities' "administrators" census.
[36] It seems not possible to give a useful answer to the question of what the ratio "should" be between faculty (or students) and administrators.
[37] Gillen, 2015.

if capital projects had been scaled to current, rather than whole-life, facilities utilization. But organizations planning to grow fast can't function that way.

Growth is the big thing that meets the eye about George Mason—it's been one almighty construction project on three separate campuses for most of its existence. By 2010-11 it had, in order to accommodate its more than 30,000 enrolled students, and thousands of employees, to spend billions of dollars on classrooms, offices, labs, parking decks, library facilities (none of it "gold-plated" by any reasonable definition, by the way). How many billion? At least two, I can't be sure about it. I wasn't able to get a comparable run of capital budget data, and some of what I found looks wrong. But I do have reliable numbers for the most recent period, 2002-2011, that show about a billion dollars (nominal, in this case, not CPI-adjusted) of capital outlays. I'm attributing the other (guestimated) billion to pre-2002 construction.

Building construction money comes from a capital budget that is separate and distinct from the operating budget. Once a building is completed, though, these two budgets begin bumping into one another. Debt service, amortization, HVAC, utilities, maintenance—all are charges against operating budget—they are competitors, in other words, with everything else that operating budget has to pay for, including instructional services. The more building there has been, the higher these physical plant charges will be and (all else constant) the less money there will be left over for everything else.

When buildings are planned and built at an institution that's growing fast, they have to be built in contemplation of a future that is quite different from the present. University leaders were expecting George Mason to be quite big—fifty or even sixty percent larger enrollments than currently. If buildings are designed so as to line up with enrollment plans, new construction will be inherently biased toward what at first will look like over-building. When a building first opens, and for a certain number of years after it does, it is apt to seem that somebody built too much building for not enough program. That perception should change over time as the Big Plan (current FTE x 1.5 or 1.6) comes to fruition. Assuming the enrollment play on the field comes off like the one that's set out in the playbook, it's perfectly sensible to proceed in this way, like buying children's clothing too big to allow for growth. Buildings have a long—usually at least fifty year—service life. It would make little sense to have brought a classroom building on stream in 2010 scaled to that year's expected student census when average enrollments of the fifty following years was expected to be much higher. Even if the census of enrolled students is growing fast, if the physical plant is increasing even faster (and in the chunky way of that kind of growth), then the per-FTE cost of heating and maintaining and paying the debt service on all that future-regarding overbuilding will necessarily increase, at least for a time. At some point in the future, an equilibrium will be reached in which current students are no longer being asked to pay for facilities that they will not use but that future students—if they indeed materialize—will.

There may be—probably are—other esoteric expense items scattered around where I can't see them, but they didn't seem to be big enough to eat up all the extra cash or to drive big price increases. And I began to think about other schools that, like my school, had been getting big fast and raising tuitions fast. Our price increases were always (so we were told) consistent with "the market." (This wasn't exactly true, as I found out—George Mason tuitions were growing a bit faster than others'—but it was approximately true.) That should mean that whatever dragon's lair hoard of cash we might have would be duplicated or nearly so at dozens of other schools.[38] The question, then, wasn't just where our money went but also where did everybody else's money go? Cost disease, so called, may have explained some of the increasing disappearing dollars, but not nearly all.[39] Unable to find any smoking guns or salacious details I was bound to wonder whether I was asking the right question. Might it be the case that thinking "profligate expenditure" was the cause of the spiking tuition was getting the whole thing backward?

Of course that's it. Gold plating, featherbedding, all the aimless intensity of consultants, all the cracked marketing plans and mission statements and strategic initiatives, the Mr. Toad-like investments in unproven fads and fantasies—all to be sure found in constant conjunction with tuition increases—but not as the cause of tuition spikes—*these things are the effects*. Tuition causes revenue causes waste.

I wish I could claim credit for this great insight, but I can't. Almost as soon as this happy thought crossed my mind I realized that this principle, or conjecture, was actually put forward in

[38] Gillen, 2015, found it in the IPEDS data (which is national) as well. Tuition revenues increased faster than state subsidy reductions and increases in faculty compensation offset them.
[39] Archibald and Feldman, 2011, say that cost disease basically explains the increased in faculty compensation over the past eighty years. They are persuasive. However, Gordon and Hedlund, 2015, who are also persuasive, find the contrary.

a 1980 book, *The Costs of Higher Education*, by the late Howard R. Bowen. He called it the revenue theory of cost. It's one of the most famous things that's ever been written about financing higher education. The Bennett Hypothesis is simply a special case of the revenue theory of cost, what is sometimes called Bowen's Law. "The basic concept underlying the revenue theory of cost is that an institution's educational cost per student is determined by the revenue available for educational purposes."[40] The reason this happens is that in pursuit of "prestige, excellence and influence," every institution will raise as much money as it can and spend (approximately) as much money as it raises, with no other real boundary.[41]

Bowen, a prominent Economics professor who became president of Grinnell College and subsequently Iowa State University, could qualify as an expert witness on the question of what such institutions are trying to do. His canon of objectives chimes with the rational project of increasing the standing of an institution's entire community of constituents, boosting the economic value of the school's degree and thereby directly benefiting students, augmenting the psychic income and hence total compensation of the faculty, and delivering a windfall to alumni as the economic and social value of their already-earned degree is seen to have increased. Those are the things that colleges should want, and if "prestige/excellence/influence" ("PEI") is the elixir, one should expect steady demand. But the trouble with trying to buy PEI on the open market is the demandingness of those attributes. Being positional goods, there can be no such thing as "enough" of them, or even, in this context, what "enough" could mean. One's competitors, who are locked on the same target because they have the same incentives, ensure that the quest never ends. Anyway, this is where Bowen's account appears to lead.

A large part of the college cost problem does seem to be explicable with Bowen's Law. Whether it's the whole story is less clear. If all we have on our hands is collective action kind of problem, there is an obvious solution—one that would have, I suspect, a large built-in political constituency. The way to put a stop to the unproductive scrambling after status markers in higher education is simply to have government set up bigger and badder cartels for the industry. Of course "cartel" is a naughty word one mustn't use, a suitable euphemism would have to be found for an organization whose function was—let us choose words carefully—whose function was not

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[40] Bowen, 1980, p. 17. See discussion in Archibald & Feldman, 2011, and Gillen, 2015.
[41] Bowen, p. 20.

to restrict entry or limit production (which is what "cartels" do)—but merely to assure minimum quality and protect easily misled consumers from fly-by-night operators. While we're at it we might have this organization take care that the prices being charged by the regulated constituents were fair, reasonable, uniform, just and appropriate. Anyone can see that this does not amount to "fixing prices" (which is what "cartels" do, and bad), but only a way to prevent races-to-the-bottom, un-level playing fields, and the abuse of consumers.

Even if we went down this road, however, I doubt it would cure the problem (indeed, if it even made it better it would be the first time a cartel had ever done such a thing). There is something else about the demand for PEI that I suspect would survive all efforts to change the demand for it even if dog-eat-dog competition for the wherewithal to satiate the insatiable were out of the picture altogether. PEI speaks to one of the most fundamental characteristics of the product regardless of the competitive characteristics of the market in which it is sold. Higher education is a credence product, the kind of economic good that makes continuing demands on the confidence not only of people who are thinking about buying it or are in the process of buying it, but also the people who, having already bought and consumed it, and know as much about it as it is possible for anyone to know. An explanatory digression concerning credence goods is necessary at this point.

Credence products, so called, give their promisors (i.e., those who are selling them) a distinctive set of communication challenges in respect to their customers and potential customers ("promisees.").[42] Promisors have to convey value and quality information that their promisees do not know but want to know—and may insist on knowing—before they buy the product. These promisees aren't like gas station customers (the illustration that Dulleck, Kerschbamer and Sutter suggest), who drive up to the pump knowing exactly what they want to buy and at what price, buy it, and then drive away happy with a full tank of gasoline.[43] Buying a tank of gas exemplifies

[42] The term was coined by Michael Darby and Edi Karni, "Free Competition and the Optimal Amount of Fraud," 16 *Journal of Law and Economics* 16: (1973)*:* 67-88. The discussion in text leans on Uwe Dulleck and Rudolf Kerschbamer, "On Doctors, Mechanics, and Computer Specialists: The Economics of Credence Goods," *Journal of Economic Literature* 44: (2006): 5.; Uwe Dulleck, Rudolph Kerschbamer, and Matthias Sutter, "The Economics of Credence Goods: On the Role of Liability, Verifiability, Reputation and Competition," IZA Discussion Paper No. 4030 (2009); Winand Emons, "Credence Goods and Fraudulent Experts," *RAND Journal of Economics* 28 (1997), p. 107; Timothy Feddersen and Thomas W. Gilligan, "Saints and Markets: Activists and the Supply of Credence Goods," *Journal of Economics and Management Strategy* 10 (2001): 149.
[43] Dulleck and Kerschmer, 2006.

the normal and simplest case of a contract for the sale of goods; buying and selling doesn't involve many if any uncertainties about either the price of, more especially, the quality of the product—gasoline is gasoline (and for people who are particular about brand, Shell, Exxon, Mobil, etc., are what they are pretty much everywhere). Other species of transactions may be more difficult to consummate. Suppose a customer is in the market for a certain kind of thing—shoes let's say—where value, attributes, and quality may vary considerably. Buying shoes isn't like buying gasoline. Not all pairs of size 7 shoes are like other pairs of size 7 shoes; not even all pairs of size 7 Buster Brown shoes are the same one with another. Some size 7's fit, others don't, they have to be tried on for the customer to be sure. There is thus a search cost attached to the transaction. Phillip Nelson called this sort of thing a "search good," where more or less inspection and effort on the part of the buyer can resolve the questions about a product's attributes and value before the sale transaction occurs.[44]

A next level of difficulty for a transaction occurs with so-called "experience" goods, where the buyer knows what is wanted, but not whether the thing being tendered for sale to satisfy that want actually fills the bill, and indeed, won't be able to tell for sure until actually consuming ("experiencing") the product. Wine is the example tendered by Dulleck et al. (and apparently everyone else): how does one convey information about the experience of drinking a certain wine without the customer actually drinking it?

"Credence" products are a closely related and still more challenging sort of product, where uncertainty about the value and quality of the product will persist even after the consumption has occurred and the experience experienced. Many kinds of professional services are in this class. Consumers of credence products ("credence promisees") often have to take it on faith that they have in fact received the performance they've paid for because even after all is said and done, they'll never know for sure. Information failure in contracting doesn't get any more thoroughgoing than that, and yet buying and selling can continue because all that is taken on faith.

Information failures, as a rule, militate against efficient levels of contracting occurring, and could, at a limit, prevent transactions from occurring at all. Efforts by credence industries to

[44] Philip Nelson, "Information and Consumer Behavior," *Journal of Political Economy* 78 (1970): 311.

correct for this problem may be their greatest collective challenge. Higher education seems to be a compound, both an experience and credence product. The inspection-proof uncertainty prior to contracting makes it an experience product. But uncertainty can persist after the contract is fully executed and years have passed. Was the thing the promisee thought he had bought indeed the deliverable that was delivered? How could one be sure? So in this sense it is a credence product as well.

Information failures invite information: the perplexity of the promisee must be the target of the promisor's efforts to cut uncertainties down to size. Promisors of experience products—movies and restaurant meals for examples—are selling something like a pig in a poke. Their promisees will already know they want a pig—but not necessarily whether they want that pig. Where the experience of consumption is exactly what constitutes the subject matter of the contract, there is no getting around the need for the promisee to pay up front.[45] Promisors can't just give away their product, but will want to make the poke more diaphanous if they can. They should seek to pump out as much information as possible to depict the attributes of the product that interest the promisee, stopping short of actually supplying it. Hence, movie trailers, and probably movie producers' well known preference for brand name ("bankable") performers (often indulged at the cost of miscasting). Hence the oenophile's twee descriptors. In addition to teasers and insinuations, experience goods promisors are apt to depend on critics—disinterested arbiters whose expressed judgments can have an interpretable meaning to a prospective promisee: hence, special pre-release screenings for movie critics. Restaurateurs address their version of the problem by offering freebies as at the widely-imitated Taste of Chicago festival, where cheap teaser portions of house specialties, from many different restaurants, are on offer.

Credence promisors that also have ex ante information problems to overcome will look and act like experience promisors before the contract is executed. Lawyers are an example—credence promisors who also have ex ante promisee uncertainties to deal with. Not many people want lawyers' free samples, and not many will wish to take time with a lawyer's YouTube highlights reel. But opportunities to appear on bar association panels or programs where potential

[45] This issue is clearly explained in Hal R. Varian, "Markets for Information Goods," 1998, http://people.ischool.berkeley.edu/~hal/Papers/japan/index.html, later published in conference proceedings Kunio Okina and Tetsuya Inoue, eds., *Monetary Policy in a World of Knowledge-Based Growth, Quality Change, and Uncertain Measurement*, (New York: Palgrave, 2001).

clients could see them in action are highly prized. Such appearances could give potential clients at least some flavor of what an individual might be like as one's own lawyer.

Universities, like lawyers, have both before and after uncertainties with promisees to deal with, and have been energetic with both pieces of the assignment. They hold open houses for applicants, even for people only thinking about applying (sometimes parents are invited too), informational sessions, and mock lectures by star teachers, special events for admitted students, sometimes stretching these things out for a whole weekend so people can get a feel for the dorms and other facilities; occasionally potential applicants will ask to sit in the back of a classroom and listen in to the real thing for a while. It's impossible, really, to convey much of what a years-long college experience will be like, of course, or one school differs from another in the ways that most matter—but the effort is made, and is likely better than nothing.

Ex post credence promisors have their more demanding information problem with their promisees. Experience promisees, once they've experienced the experience, will know: they'll know whether they liked the movie or the wine. But credence promisees, to the extent they are such, may never have anything better than faith to support the view that they got what they paid for. Some of the best, worthiest law practice has to do with arranging a client's affairs to reduce the probability that a certain bad thing will happen. Good, careful planning and thinking through a legal strategy for a business can add untold value by avoiding trouble. But if trouble never comes, was good lawyering the reason? It often will not be possible to say. To the same point, some excellent criminal defense work by lawyers is completely consistent with a client going to prison because, without that good work, the sentence might have been longer. But how can anyone know? You've got to trust me on that.

The legal profession as a whole, recognizing that the value of services rendered by lawyers is hard for people to evaluate has, over centuries, evolved various means of substituting *ethos* for *logos*.[46] It strives to construct a public identity of lawyers and the legal system as the ligature that connects sacrosanct abstractions like justice and the rule of law to concrete needs of clients in the everyday world. The objective is to solicit clients' visceral assent to the proposition that laying out large sums of money on unmeasurable performance was not a fool's errand.

[46] It's debatable whether it works, but of course that's another story. The main point is the much toil and trouble that goes into the effort.

Preparing the ground for that faith to take root is the object of a very considerable investment by the bar, far more than a lick-and-a-promise PR campaign, but ceremonious, ostentatious and costly. Lawyers entering the profession must swear an oath, with legal consequences, in the presence of magistrates, generally in open court and often with their entire families present. All their lives lawyers must observe an exacting published code of professional conduct that possesses the force a law that applies to lawyers alone, and is policed by an agency of the state's supreme court. They must subject their affairs to the scrutiny and jurisdiction of the state bar, with searching inquiries made about their behavior in the event of a complaint being made. Lawyers holding assets in trust for clients can expect to be severely sanctioned for commingling with them their own property even where actual malversation is not remotely suspected. Most states require law licensees to potlatch a portion of their inventory annually for the benefit of generally recognized good works (service *pro bono publico*). Surrounding all and usually adhered to with pageantry are customs and rules of decorum and of etiquette that, though not written down, might as well be put up on tablets of stone. And the players at the profession's status pinnacle, the judges, alone among civilian officers of government, conduct their public business not only in a uniform, but in the uniform of a wizard.[47] All that magic can do, including a mighty vocabulary of crafty words and spells in ancient tongues, is enlisted to perform the sacral appointment of the profession. Other than elevating the status, and the credibility, of lawyers, what purpose could all that rigmarole be meant to serve? *Res ipsa loquitur.*

Colleges have many of the same needs and for the same reasons, growing out of the credence nature of their flagship product, "education." It is thus with education: everybody wants one. The President, one's parents, Oprah—everyone—says you need to have one. You're supposed to go to college in order to get one. Off you go; money changes hands; a diploma eventually is awarded if all goes well; but the piece of paper aside, *what is it that you have, exactly, when you have an education*? It doesn't have mass or extension, or a known address in the sensible world. You just gave somebody a couple hundred grand for it. So where is it? For

[47] Doctors, dentists and other professionals whose services may also be hard to evaluate even after having been experienced and paid for do analogous things for analogous reasons. They do not make so much parade about all this as does the legal profession, but neither do they labor under anything like the same cloud of negative public perceptions as lawyers do. People may fear dentists, but they don't think they're a bunch of crooks.

the same dime, you could have had a McLaren. Think about it for a minute. Don't you feel like an idiot? No? Why not?[48]

Education is a credence product of very high order. Few credence promisors go to the lengths that lawyers do to protest their *bona fides*—but few are climbing a hill so steep; people find lawyers distasteful (until they need one and discover there's no adequate substitute). But educators come close. They haven't, like lawyers, had a headwind to deal with and indeed have benefited from high general esteem (somewhat fraying in recent times perhaps). But they labor mightily all the same in order to preserve the credibility of their basic product. Ceremony plays a part. Academic pomp and circumstance may be in a bit of decline (professors in America don't conduct classes in robes, for example, as is the custom in some other countries[49]) but most schools still dignify convocations and graduations with ceremony and regalia, much of which alludes to the university's medieval origin, and its roots profoundly intertwined with that summa of credence products, religion, specifically the Christian religion, which since the time of St. Paul has in all of its branches accepted the injunction that *faith* is required for membership in the church.[50] The avidity for acquiring PEI is surely wrapped up in a felt need to—whatever else—keep one's credibility intact.

Perhaps the credence hunger is connected somehow to the remarkable faddishness that seems to oppress the industry. I could be mistaken about this, but it's my impression—reinforced by many years of constant attendance at university meetings and hearing what is said—that

[48] Does life imitate art? Consider, "Ever So Much More So*"* in Robert McCloskey, *Centerburg Tales: More Adventures of Homer Price* (New York: Puffin Books, 1951). In this story, a con man shows up in town. His name is Atmos P.H. Ear, and, he has tellingly awarded himself the style "Professor." He soon finds his way to the village doughnut shop, and, taking the floor, begins to pitch a miracle product called EVERSOMUCH MORE-SO. It is a substance that is odorless, colorless—completely invisible, actually—but which can be detected by virtue of a wondrous property that he offers then and there to demonstrate:

> "Now you are about to ask," the professor said, "why should we be interested in this product we cannot see, smell, taste, hear or feel? But *watch closely*! Sprinkle a small amount of EVERSOMUCH MORE-SO in your good, aromatic cup of coffee—so. *Immediately,* yes, my friends, *im-me-e-ediately*, that good aromatic cup of coffee becomes *ever so much more so*! Yes, indeed, and after sprinkling a few drops of this remarkable, invisible, tasteless, odorless, textureless, absolutely soundless product on the delicious doughnut you hold in your hand, that delicious doughnut becomes immediately *ever so much more so delicious*!"

And so it is with everything: EVERSOMUCH MORE-SO works with roses, hair, music, whatever you've got—a bargain at only fifty cents a can.

[49] Casual dress is now the norm for faculty at most schools, although no holds barred hobo-chic is as yet a relative rarity. Some years ago, a Berkeley professor (I've forgotten whom it was attributed to) made the observation that the way to tell the professors from the students is by seeing how they dress: the professors are the ones wearing shoes.

[50] E.g. Heb. 11:1-39.

higher education is more than most other businesses, beset by fads—big themes meant to recast and re-present the enterprise to the world (and oneself), to become the paramount lens through which the whole thing should be viewed, understood, interpreted.[51] Yet if so, why so?

Hypersensitivity to fads ought to be the incubus of those who aren't sure of their standing with their constituency, who need to be seen as obsequious to its needs, with the big rewards going to whoever is quickest to respond. One thinks of the "fast fashion" apparel industry trying to keep up with the latest style freak of their unpredictable teenage clientele, capitalizing on short supply chains to jump on this and then that fad, quickly getting stores stocked with whatever that is, and just as quickly moving on.[52] But the first institution of formal higher education I know of—something that was recognizably a university—was the *Pandidacterion* of Constantinople, founded in the year 425. So far as appears, it had about the same mission that modern universities have (fitting students for employment by the Emperor or church). Sixteen hundred years of practice speak to the robustness of the general plan. If any institution in the world can afford to be serene about its identity—what it's supposed to be doing, why, and even to a great extent how—higher education should be it. But it isn't. In its slavishness to ever-changing fashion one senses in universities inconsolable anxiety about continuing to elicit faith that their product does forsooth supply a privileged means to the useful, enriching end of connecting the past with the present and the future. For the moment at least the public seems to have internalized the idea that, dollar for dollar, education beats McLarens, but a dangerous current of skepticism is undeniably present and must surely be increasing. Skepticism is a potentially terminal sentiment to attach to a credence product. God forbid that anyone get the idea that the whole college thing is a scam. It seems reasonable to think, then, that the cost predicament Bowen identified isn't an artifact of some kind of collective action problem buried in the structure of the higher education industry, nor is it simply an artifact of competition. It is rational for a university to fear that people might conclude that its basic product was adding little or no

[51] Among these I count "diversity," "sustainability," "globalism," "inclusion," "entrepreneurship," "interdisciplinary," "innovation," —a new George Mason entrant is "well-being" (which I understand is quite big in the corporate world) —and apologies for any omissions. These things perfuse university websites, waxing and waning in emphasis, with "education" surprisingly seldom featured—sometimes not even mentioned. To avoid misunderstanding, I'm a fan of all the things on the list (and many other good things that aren't on it) but, to state the obvious, none of them is the main thing, the organizing principle through which the whole higher education enterprise is supposed to be justified and sustained, to which other values are subordinate or from which derived.

[52] John Gapper, "American Apparel's resistance to fast fashion is futile," *Financial Times*, October 7, 2015, http://www.ft.com/intl/cms/s/0/458bd4c6-6b5a-11e5-aca9-d87542bf8673.html#axzz3pgY6EL9q.

value to the world's stock of useful capital. Even for a monopolist this would be a terrifying thought.

Concluding this soliloquy I want to return to the relationship between subsidized student loan programs, enrollments and the ascent of the brown line. Washington PR counselors love to say things like "The first law of holes is, stop digging." Apart from the First and Tenth Commandments this is probably the most-ignored precept in town; one cannot expect it to be followed where college enrollments are concerned. But let us suspend disbelief for one last time and just imagine. Imagine there were no federal student loans—all the programs just disappeared overnight. How would that affect the demand for higher education? I have thin credentials as a seer, as I have studied the elasticity of demand for an educational product in relation to price only at my own law school. If that's better than nothing, here is my guess: applications to four-year schools would drop by thirty-five or forty percent in the next-following admissions cycle, with overall enrollments eventually following. Colleges' income accounts would be hard hit nearly immediately. Subsidized loans for most student borrowers cover only a part of what they pay to schools. Every student in the margin between enrolling or not enrolling because of an available subsidized loan would (by assumption) not-enroll if that loan facility disappeared, and out the door with him would go the part of the tuition that he was going to pay, from personal savings, parental contribution or whatever other source. The loss to the colleges, in other words, would far exceed the revenue from student loans that it could no longer capture, it would include all the revenue it would expect that student to bring. Only a handful of institutions, and very few of the publics—could avoid something like bankruptcy within a year or two of such a sudden change. Because that's my wild guess I am glad nothing quite like that seems at all likely to happen. But things could without apocalyptic consequences deflate more slowly. Reducing the loan program by half over ten years would be survivable for many if not most institutions (admittedly another wild guess), but would entail rescaling and redefining missions. Colleges so affected would become less attractive compared to community colleges, to whom they could expect to lose business. Under any scenario that contemplates significant reduction of federal student loans, haircuts would be imposed on tens or hundreds of thousands of employees—large enough numbers so that one could expect Congress to step up with a Distressed Professors Relief Act to transfer some of the losses to taxpayers.

These large matters are smaller than the question of what happens, in any reduction scenario, to the margin-dwelling students, who now will (by assumption) have been priced out of the market (my guess, remember, is that there are seven or eight million such people). Some of them would go to the community colleges and some others to the labor market—small numbers, I suspect, in both cases, especially the labor market, which is increasingly inhospitable to newcomers of any kind and especially brutal to college dropouts. As a wild guess, we would have an ever-bigger population of young people who simply go MIA—no real jobs, no educational opportunities they can pay for, no nothing—just unending video games and cable TV in Mom's basement, forever. They wouldn't have big student loan liabilities hanging over their heads, to be sure, but it would hardly matter because, except as public provision is made for them, they would hardly participate in the society or the economy at all.

What's supposed to happen to these people? The most obvious answer would be to change the rules of engagement in the labor market to lower the prospective cost to employers of entering into an employment relationship, but the chance of such thing happening is remote. It is not, therefore, implausible to think, as I conjectured at the outset, that all things considered, a version of the status quo could well seem the least-worst option to legislators forced to deal with the arithmetically untenable continuation of the ascent of the brown line. It's Congress' way of proceeding—faking along, kicking the can further and further down the road if at a slowing pace, maybe sneaking in a smaller can from time to time, hiding as much as possible the subsidy reductions that the laws of arithmetic must impose on ascending brown lines when they involve a trillion or some trillions of dollars.

If this analysis has any relation to reality, it would appear that there is only one way to stop the ascent of the brown line, and that is to decouple federal subsidies to higher education from student loans. Congress could find another way to get money to this industry than through student loans. Doing that would displace pressure from the brown line to something else. For example, think of straight subsidies. Colleges could get money from the Treasury if they ticked off some set of legislatively-specified objectives (one shudders to think what those would soon become). Who would prefer to be in that world than one in which there was less central control but a rapidly ascending brown line?

It is hard to avoid the conclusion that no matter how subsidies are delivered to higher education, they are going to have to shrink either quickly or slowly. Shortfalls in budgets that are associated with shrinking subsidies can be made up for in only a certain number of ways: haircuts in faculty and staff terms of employment, accelerating the already obvious trend toward substituting away from tenure line faculty and toward adjunct and other contract faculty, and relying much more on part-time staff work (and in many instances less staff work). In such an austerity scenario, the research mission of universities (a big part of these institutions' contribution to public goods creation) would not necessarily have to be abandoned completely and all at once, nor probably would they be, but (again accelerating recent trends), research activity would become ever more institutionally concentrated, at first in the top quartile and then top decile schools, and ever more dilute down the pecking order of this most exquisitely status-conscious industry. Almost all the rich schools are privates—and one might notice in passing that they're the schools in which the political monoculture in the learned disciplines is most deeply entrenched, culturally influential, and bat-guano crazy. Industry-wide retrenchment of this kind would reach private universities indirectly no matter how rich they were or became, because as research effort dwindles in the industry as a whole, the job opportunities formerly open to the most talented graduate students at the pinnacle universities would dwindle too. One should therefore expect that the demand for graduate education would diminish across the board. After all, second- and third-tier research universities have been one of the most important sources of employment for talented Ph.D.'s from first-rank universities. As those kinds of jobs go away, so will the demand for the training it takes to get those jobs. What research remained could be expected to shift toward being less dependent on graduate assistants; possibly a new profession, career research assistant, would be born.

It will be bad news if things develop this way. Graduate students—academics in their twenties whose attention is focused on a frontier of knowledge—are often the ones who come up with the best ideas (and if they don't think of them themselves, they prod their mentors to do so). And its very much a numbers game: the more, the merrier (at least up to some limit). Ideally, one would like to have a research infrastructure big enough to accommodate a substantial fraction of the people—small numbers, admittedly—able to excel at creative work. The price to be paid for withdrawing much public support from the most creative and energetic part of the academic enterprise is that the flow of new ideas will slow down. That's bad news for those of us who have been counting on their arrival. The saving grace is that one cannot experience as such a loss that is (literally) incalculable (because what might have been but isn't is a matter of idle speculation), but if the idea of progress is anything like what it's cracked up to be, loss there must assuredly be.

On the other hand, maybe progress is overrated (one should concede that this is possible). On some sets of reasonable assumptions, retarding the pace of the growth of knowledge could be a gain—indeed, a benediction to all humanity. What if those crazy professors and their apprentices—the ones we've been subsidizing all these years—were, though they didn't suspect it, about to invent a doomsday machine of some kind, like a runaway artificial intelligence originally meant to serve a small, benign purpose but accidentally enabled to attain to a purpose of its own—to find new worlds—civilizations like ours—to reform and then subdue? Slowing things down wouldn't seem to be such a bad move in a case like that; exponents of the Precautionary Principle should actually prefer it. But it seems, at the end of the day, like a pretty un-American way to place a bet. For me, that's reason enough to be against it.