



Why is College So Expensive Today?

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Joining, perhaps, the publication of more data, the higher education reform proposal seemingly gaining the most acceptance these days, at least among wonks, is forcing institutions to have “skin in the game” when it comes to student outcomes. It’s a reform that makes some sense, but don’t expect it to make much difference. The main problem in higher education goes much too deep.

The basic idea is, if University X’s graduates have high loan default rates, or potentially other poor outcomes, University X would have to pay a price for it. For instance, the Center for College Affordability and Productivity just released a report that proposes, among many reforms, that a college whose students have a default rate appreciably above the national average pay a fine pegged to that rate.

That certainly makes some sense. There is little question that the big winners in the higher education spend-a-thon are the colleges. It’s not students, who face ever-steeper price tags and credential devaluation, thanks largely to massive subsidies that flow through them. (They do get some nice perks, though!) And it’s definitely not taxpayers, who ultimately foot big subsidy bills. No, it is the schools that are the ultimate recipients of all the subsidy dough, and they take it with no risk to themselves. Of course, politicians curry favor with voters by providing bigger and bigger pots of “aid,” so they, too, are winners.

Maybe if the schools finally faced some costs for poor performance they would do a better job. Maybe.

The first problem is that schools likely wouldn’t do a better job, but would find ways around the penalties. See, for instance, creative dodging of employment ratings by law schools, many of which have avoided trouble by doing such things as “hiring” their own students until outcomes were no longer being checked. Or perhaps schools would simply not take students who pose a serious risk of default.

Actually, the latter would be a good result of a skin-in-the-game policy, because it is pretty clear that aid is enabling lots of people to attend college, and accumulate debt, who are either unable, or insufficiently motivated, to complete their programs and gain

the additional earning power needed to pay off their loans. But that, alas, is where the politicians come in. It is almost inconceivable that they would maintain rules that, in any meaningful sense, kept anyone with an inclination to go to college, no matter how weak or unrealistic, from going. If even a relatively small percentage of potential students found themselves turned away from all institutions, it is likely that either the skin-in-the-game rules would be eliminated, or some other program would be instituted to offset them. Say, a “take the unprepared” bonus that gave extra dollars, likely in excess of potential skin-in-the-game penalties, to schools that disproportionately enrolled marginal students. It is just much easier to be a rosy politician who says “everyone should go to college” than one who makes policy based on reality.

The root higher education problem, quite simply, is far from skin deep. It is the very idea that government should pay for people to go to college, which has been driving rampant tuition inflation and crippling higher education overconsumption for decades. Doing anything other than dealing with that directly, first by making clear to the voting public that that is *the* problem, is just applying a band aid to a cancer patient.

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