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I am delighted to be here today. I will focus my remarks on the economic dimensions of higher education, drawing heavily on a recent essay I wrote for the National Review.

In a typical year over the past generation, the cost of attending college has risen about three percent faster than the inflation rate. Costs have risen even faster than family incomes. As Americans get richer, they can afford to buy more of almost anything –yet college is a conspicuous exception. It is no wonder that, despite huge increases in federal financial assistance, the proportion of lower income Americans in the college population has actually declined over the past 30 years. And the rise in the proportion of adults with college degrees has slowed, and among younger people many other nations have proportionally more college graduates than America.

It is no accident that the two sectors facing the greatest consumer price increases over the past generation are health care and higher education. In both sectors, governmental involvement largely neuters the ability of markets to efficiently allocate resources. In both areas, third parties (neither consumers nor producers) pay many of the bills. When that happens, the consumer is not very sensitive to prices, leading to wasteful use of services. For these reasons and others cited by scholars like Charles Murray, a good argument can made that we are overinvested, or at least mal-invested, in higher education.

Compounding the problem, over 90 percent of American higher education is non-profit in nature. Nonprofit institutions lack incentives to be efficient. The officers of for-profit Hewlett Packard, Campbell Soup and McDonalds work hard to do two things: increase revenues and reduce costs. The gap between revenues and cost—profits--is the major "bottom line" that determines executive compensation, stockholder wealth, and employee bonuses. There is no well defined bottom line in most of higher education –is Yale having a good year in 2009? Who knows?

Looking at the revenue side first, for profit corporations compete to win new customers, and despair when this lose market share. Contrast this with many universities. Lacking a bottom line, private observers like US News & World Report, Forbes, and others try to create one by ranking colleges. In the dominant US News rankings, improvement is advanced by turning customers away –reducing the percent of applicants who are accepted. By contrast, at McDonalds, the acceptance rate is 100 percent –everyone with adequate cash can buy the goods. So at many of the best known universities supply tends to be rigid and unresponsive to demand. With third parties paying part or all the bills (via government and private "scholarships" and subsidized loans and public institutional subsides), schools can often raise fees without dire financial or academic consequences. They particularly sock it to more affluent customers –whose financial condition the colleges (uniquely in American consumer life) know in exquisite detail, thanks to the FAFSA financial disclosure form required of all applicants for financial aid.

On the cost or supply side, perverse incentives often increase costs. It is often even ambiguous who makes decisions or "owns" the school –the university trustees? Top administrators? Faculty? Students? Governors? Legislators? The alumni and major donors?

Powerful tenured faculty and their deans usually control curriculum and can make life miserable for presidents. The presidents, to buy peace, give faculty nice salaries and benefits, low and falling teaching loads, good parking, and maintain outmoded low demand academic programs that should be axed to increase efficiency. Students are given fancy country club-like facilities in which to live and play, an increasingly non-rigorous curriculum (average grades have probably risen from about 2.5 to around 3.1 or 3.2 on a 4 point scale over the past 50 years), so students can lead a hedonistic life style of parties, booze and sex. The alumni's favorite collegiate entertainments, typically involving sweaty young men and women throwing balls, are heavily subsidized at many schools. Everyone part of the "shared governance" of universities is paid off to keep them happy – and this costs buckets of money. Decision-making is often made by committees in a costly, non-innovative fashion.

Let me give a personal example of university inefficiency at work. In a weak moment a quarter of a century ago, I agreed to be a department chairman. I successfully persuaded my dean into letting me hire a new faculty member, meaning we now had 17 to do what 16 had done previously. "Output" expanded less than "inputs," so productivity fell. Yet I was nicely rewarded for my efforts, as my salary increase was partly based on peer evaluations from my own faculty –who were grateful to have a slightly reduced teaching burden. In what other business do employees have partial control over their boss's salary, and even a say in who the boss should be? I was rewarded for lowering productivity.

While measuring academic productivity is difficult since universities do little to measure what students learn, and also research is equally difficult to evaluate, under almost any reasonable assumptions productivity today is probably lower than 40 years ago –and certainly no higher. In what profession other than teaching, possibly excepting prostitution, has there been absolutely no productivity advance in the 2,400 years since Socrates taught the youth of Athens?

Over the past 30 years or so, the enrollment-adjusted non-instructional professional staff of universities has roughly doubled. My university has a Sustainability Coordinator, a Recycling Coordinator, umpteen "diversity" and public relations specialists –almost none whom existed when I began teaching. How much do they enhance the quality of the instructional or research programs? Zero, or arguably less than zero, inasmuch as so-called diversity efforts are typically an attempt to make academic, hiring and even contracting decisions on the basis of something other than merit and achievement.

As for research, much of it is trivial refinements on insignificant issues for a near non-existent audience. Jeff Sandefer of the Acton School of Business estimates each academic journal article costs on average $50,000. Assuming the typical article is probably read by, at most, 200 persons –the costs are $250 per reader. Mark Bauerlein of Emory University notes than over 22,000 articles have appeared on Shakespeare's writing since 1980. Is there that much new insightful thoughts about the Bard, who died 394 years ago? Have not diminishing returns set in for much academic research?

More generally, statistical analysis done by me and others at the Center for College Affordability and Productivity suggests that the correlation between state government appropriations for higher education and economic growth is actually negative --- which makes sense when you consider that resources are taken from a highly productive for-profit private sector and reallocated to relatively inefficient universities that eschew using technology to advance both outcomes and productivity. As the late Milton Friedman said to me a few years before he died, perhaps he was wrong in his early writings, and instead of subsidizing higher education, we should tax it.

This cataloging of the economic sins of universities is far from complete. Accreditation organizations have raised barriers to entry without notably improving academic quality, particularly restraining innovative private entrepreneurs. The for profit higher education sector is lower cost and, perhaps ironically, disproportionately serves the low income, first generation university students that have largely been abandoned by the flagship state universities. Indeed, its growth is one of the most positive modern developments. The rapidly increasing institutional financial support for intercollegiate athletics is a scandal needing addressing. More importantly, the refusal of universities to measure their educational outcomes and be fully transparent in their financial dealings makes it difficult to assess academic and financial performance. And the huge drop-out rates are a big problem –45 percent of undergraduates do not graduate in six years, and the average time taken to get a Ph.D. now approaches eight years.

The solutions? Reduce or eliminate, rather than increase, the federal student loan programs that have enhanced demand and raised prices. Give money directly to students, not institutions, and limit aid to truly needy students who perform well. Cut off third party support of students and institutions after, say, four years of full-time undergraduate study. Substitute a system of good consumer information to protect consumers for most of the current certification process that stifles competition. Encourage greater ease of transfer between institutions, and favor lower cost community colleges that are not as afflicted with some of the aliments described above. Develop non-schooling ways of certifying vocational competence, involving tests similar to the CPA examination.

More radically, a very strong case can be made that higher education is truly a private good, that the positive spillover effects of universities are vastly overrated and arguably non-existent, and that government should get out of higher education altogether. If more spending on universities lowers economic growth, than higher education may well be a negative externality –sort of like pollution. The higher earnings of college graduates exist less because of what kids learn in college than from intrinsic advantages college students have over others –they are innately brighter, hard working, and more responsible.

The strategy I have outlined is roughly the opposite that followed by policymakers in Washington and most of our states. Whether common sense can ultimately trump the rent-seeking political lobbying of the Higher Education Establishment remains to be seen but, alas, I am not overly optimistic.

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