August 27, 2013

It's Higher Education Day at Pickings. Why does it cost so much? The **WSJ Weekend Interview** asks Richard Vedder.

... Mr. Vedder, age 72, has taught college economics since 1965 and published papers on the likes of Scandinavian migration, racial disparities in unemployment and tax reform. Over the last decade he's made himself America's foremost expert on the economics of higher education, which he distilled in his 2004 book "Going Broke by Degree: Why College Costs Too Much." His analysis isn't the same as President Obama's.

This week on his back-to-school tour of New York and Pennsylvania colleges, Mr. Obama presented a new plan to make college more affordable. "If the federal government keeps on putting more and more money in the system," he noted at the State University of New York at Buffalo on Thursday, and "if the cost is going up by 250%" and "tax revenues aren't going up 250%," at "some point, the government will run out of money."

Note that for the record: Mr. Obama has admitted some theoretical limit to how much the federal government can spend.

His solution consists of tieing financial aid to college performance, using government funds as a "catalyst to innovation," and making it easier for borrowers to discharge their debts. "In fairness to the president, some of his ideas make some decent, even good sense," Mr. Vedder says, such as providing students with more information about college costs and graduation rates. But his plan addresses just "the tip of the iceberg. He's not dealing with the fundamental problems."

College costs have continued to explode despite 50 years of ostensibly benevolent government interventions, according to Mr. Vedder, and the president's new plan could exacerbate the trend. By Mr. Vedder's lights, the cost conundrum started with the Higher Education Act of 1965, a Great Society program that created federal scholarships and low-interest loans aimed at making college more accessible.

In 1964, federal student aid was a mere $231 million. By 1981, the feds were spending $7 billion on loans alone, an amount that doubled during the 1980s and nearly tripled in each of the following two decades, and is about $105 billion today. Taxpayers now stand behind nearly $1 trillion in student loans. ...

IBD Editors think the president's proposals are a poor idea.

President Obama says his new aid proposal will make college more affordable. It's actually an attempt to leverage a government-caused problem to root Washington even more deeply into higher education.

Like most Obama proposals, this one has a surface appeal. "It is time to stop subsidizing schools that are not producing good results, and reward schools that deliver for American students and our future," the president told an audience of college students in Buffalo, N.Y.

Well, who could oppose that? But, like most Obama proposals, things get ugly once you scratch that surface. ...

Minding the Campus had a symposium of five.
It's called "the Bennett Hypothesis," and it explains--or tries to explain--why the cost of college lies so tantalizingly out of reach for so many. In 1987, then Secretary of Education William J. Bennett launched a quarter century of debate by saying, in effect, "Federal aid doesn't help; colleges and universities just cream off the extra money by raising tuition." Now Andrew Gillen, research director of CCAP--the Center for College Affordability and Productivity--has tweaked the data and produced a sophisticated "2.0" version of the hypothesis. It's filled with heavy math, game theory and terms like "inelastic fairly vertical curves." You probably won't read it. We know. But it's important. So here are some smart people who have read it, and have something to say: Peter Wood, Hans Bader, Richard Vedder, George Leef and Herbert London.

Peter Wood: They Are Insatiable

Long before I knew it was called the "Bennett Hypothesis" I knew that colleges and universities increase tuition to capture increases in federal and state financial aid. I attended numerous meetings of university administrators where the topic of setting next year's tuition was discussed.

The regnant phrase was "Don't leave money sitting on the table." The metaphoric table in question was the one on which the government had laid out a sumptuous banquet of increases of financial aid. Our job was to figure out how to consume as much of it as possible in tuition increases. ...

Power Line's **Paul Mirengoff** posts on the "education reform."
... While the first elements of Obama's plan is merely unnecessary, the second element — tying federal assistance to the federal rating system — strikes me as pernicious. First, I doubt the federal government's ability to rate colleges with sufficient accuracy to justify attaching monetary consequences to its ratings.

Second, Obama's plan will increase the federal government's ability to coerce colleges into embracing even more fully a left-wing agenda — e.g., discriminating against whites in admissions and hiring, unfairly disciplining male students based on flimsy allegations of sexual harassment, and so forth.

Third, even if the federal government were able to come up with a reasonable and unbiased rating system, it would still have no business discriminating financially against the families of students who decide to attend colleges they (and the families) believe are better suited to their particular purposes. ...

WSJ Editors comment on what colleges will look like with more federal "help."
... Particularly jarring for Mr. Obama's fans in the faculty lounge, he talked about them on Thursday in the same disrespectful manner that he normally reserves for entrepreneurs. "And I've got to tell you ahead of time, these reforms won't be popular with everybody, especially those who are making out just fine under the current system. But my main concern is not with

those institutions; my main concern is the students those institutions are there to serve," said the President.

Conservative readers may be tempted to chuckle here. And we concede that this latest Obama regulatory onslaught couldn't happen to a nicer bunch than the university elite who did so much to elect him. ...

... Mr. Obama is trodding a well-worn political path. Politicians subsidize the purchase of a good or service, prices inevitably rise in response to this pumped-up demand, and then the pols blame the provider of the good or service for responding to the incentives the politicians created. Think housing finance and medical care. Now President Obama is attacking colleges for rationally raising tuitions and padding their payrolls in response to a subsidy machine that began in 1965.

That's when the feds launched a program to make college "affordable" by offering a taxpayer guarantee on student loans. Federal grants and loans have been expanding ever since and it's no coincidence that tuition prices have been rising faster than inflation for decades. This week the White House noted that since the academic year ending in 1983 tuition and fees at four-year public colleges have risen by 257%, while typical family incomes have advanced 16%.

The better answer is to stop the increases in grants and subsidized loans that Mr. Obama has so greatly accelerated. Let educators, students and their parents decide which courses and campus amenities provide the most educational value. As fervently as many professors abhor the idea of free people operating in a free market, they may decide it's better than federal politicians running their universities.

Gretchen Morgenson provided a good example of poorly run government programs in Sunday's NY Times. Her example is a Dept of Agriculture program of loans to businesses in rural areas. Of course it was needed. Don't you want rural areas to prosper?

CREATING jobs is an essential goal today, given our high unemployment rate. But when job programs rely on taxpayer backing, their success or failure should be clearly disclosed.

For example, the United States Department of Agriculture has called its $1.6 billion business and industry loan program a rousing success. Not surprisingly, the department often trumpets the number of jobs that are expected to result from these loans — figures that it gets from the borrowers themselves. Whether these jobs are actually created, however, is another story.

The loan guarantee program is overseen by the Rural Development unit of the Agriculture Department and is part of the American Recovery and Reinvestment Act of 2009. Rural Development provides loan guarantees of as much as 90 percent to banks or other approved lenders that finance the improvement or development of businesses in rural and high-unemployment areas.

How many jobs were added or saved through the loans is also a crucial measure of the program's success or failure.

A current success story on the agency's Web site is that of Carolina AAC, a company that received $10.4 million in late 2010 to build a concrete manufacturing plant in Bennettsville, S.C.

"This project will create approximately 197 new jobs in Marlboro County," the Agriculture Department's Web site says. Such a figure would make Carolina AAC the program's third-largest borrower in terms of jobs created.

But Carolina AAC said in a January 2011 news release that only 36 jobs would be created at the project. And even that has not come to pass. Currently, 10 people work at the company, according to Charles Paterno, its managing member. Troubling for taxpayers is that the government backs 90 percent of the loans and they are in liquidation. ...

WSJ - Weekend Interview

Richard Vedder: The Real Reason College Costs So Much

The expert on the economics of higher education explains how subsidies fuel rising prices and why there's a 'bubble' in student loans and college enrollment.

by Allysia Finley

Another school year beckons, which means it's time for President Obama to go on another college retreat. "He loves college tours," says Ohio University's Richard Vedder, who directs the Center for College Affordability and Productivity. "Colleges are an escape from reality. Believe me, I've lived in one for half a century. It's like living in Disneyland. They're these little isolated enclaves of nonreality."

Mr. Vedder, age 72, has taught college economics since 1965 and published papers on the likes of Scandinavian migration, racial disparities in unemployment and tax reform. Over the last decade he's made himself America's foremost expert on the economics of higher education, which he distilled in his 2004 book "Going Broke by Degree: Why College Costs Too Much." His analysis isn't the same as President Obama's.

This week on his back-to-school tour of New York and Pennsylvania colleges, Mr. Obama presented a new plan to make college more affordable. "If the federal government keeps on putting more and more money in the system," he noted at the State University of New York at Buffalo on Thursday, and "if the cost is going up by 250%" and "tax revenues aren't going up 250%," at "some point, the government will run out of money."

Note that for the record: Mr. Obama has admitted some theoretical limit to how much the federal government can spend.

His solution consists of tieing financial aid to college performance, using government funds as a "catalyst to innovation," and making it easier for borrowers to discharge their debts. "In fairness to the president, some of his ideas make some decent, even good sense," Mr. Vedder says, such as providing students with more information about college costs and graduation rates. But his plan addresses just "the tip of the iceberg. He's not dealing with the fundamental problems."

College costs have continued to explode despite 50 years of ostensibly benevolent government interventions, according to Mr. Vedder, and the president's new plan could exacerbate the trend. By Mr. Vedder's lights, the cost conundrum started with the Higher Education Act of 1965, a Great Society program that created federal scholarships and low-interest loans aimed at making college more accessible.

In 1964, federal student aid was a mere $231 million. By 1981, the feds were spending $7 billion on loans alone, an amount that doubled during the 1980s and nearly tripled in each of the following two decades, and is about $105 billion today. Taxpayers now stand behind nearly $1 trillion in student loans.

Meanwhile, grants have increased to $49 billion from $6.4 billion in 1981. By expanding eligibility and boosting the maximum Pell Grant by $500 to $5,350, the 2009 stimulus bill accelerated higher ed's evolution into a middle-class entitlement. Fewer than 2% of Pell Grant recipients came from families making between $60,000 and $80,000 a year in 2007. Now roughly 18% do.

This growth in subsidies, Mr. Vedder argues, has fueled rising prices: "It gives every incentive and every opportunity for colleges to raise their fees."

Many colleges, he notes, are using federal largess to finance Hilton-like dorms and Club Med amenities. Stanford offers more classes in yoga than Shakespeare. A warning to parents whose kids sign up for "Core Training": The course isn't a rigorous study of the classics, but rather involves rigorous exercise to strengthen the gluts and abs.

Or consider Princeton, which recently built a resplendent $136 million student residence with leaded glass windows and a cavernous oak dining hall (paid for in part with a $30 million tax-deductible donation by Hewlett-Packard CEO Meg Whitman). The dorm's cost approached $300,000 per bed.

Universities, Mr. Vedder says, "are in the housing business, the entertainment business; they're in the lodging business; they're in the food business. Hell, my university runs a travel agency which ordinary people off the street can use."

Meanwhile, university endowments don't pay taxes on their income. Harvard's $31 billion endowment, which has been financed by tax-deductible donations, may be America's largest tax shelter.

Some college officials are also compensated more handsomely than CEOs. Since 2000, New York University has provided $90 million in loans, many of them zero-interest and forgivable, to administrators and faculty to buy houses and summer homes on Fire Island and the Hamptons.

Former Ohio State President Gordon Gee (who resigned in June after making defamatory remarks about Catholics) earned nearly $2 million in compensation last year while living in a 9,630 square-foot Tudor mansion on a 1.3-acre estate. The Columbus Camelot includes $673,000 in art decor and a $532 shower curtain in a guest bathroom. Ohio State also paid roughly $23,000 per month for Mr. Gee's soirees and half a million for him to travel the country on a private jet. Such taxpayer-funded extravagance has not made its way into Mr. Obama's speeches.

Colleges have also used the gusher of taxpayer dollars to hire more administrators to manage their bloated bureaucracies and proliferating multicultural programs. The University of California system employs 2,358 administrative staff in just its president's office.

"Every college today practically has a secretary of state, a vice provost for international studies, a zillion public relations specialists," Mr. Vedder says. "My university has a sustainability coordinator whose main message, as far as I can tell, is to go out and tell people to buy food grown locally. . . . Why? What's bad about tomatoes from Pennsylvania as opposed to Ohio?"

Mr. Vedder notes that, by contrast, "you don't have to worry about this at the University of Phoenix. One thing about the for-profits is that they are laser-like devoted to instruction." Although for-profits like the University of Phoenix and DeVry spend more money on marketing, they don't contain as much administrative overhead.

'The Obama administration has been beating up on [for-profits] pretty hard for the past two to three years," Mr. Vedder says. "It's true that drop-out rates are disproportionately higher at the for-profits, but it's also true that the for-profits are reaching the exact audience that Obama wants to reach"—low-income minorities, many of whom are the first in their family to attend college.

Today, only about 7% of recent college grads come from the bottom-income quartile compared with 12% in 1970 when federal aid was scarce. All the government subsidies intended to make college more accessible haven't done much for this population, says Mr. Vedder. They also haven't much improved student outcomes or graduation rates, which are around 55% at most universities (over six years).

Mr. Vedder is skeptical about the president's proposal to tie federal aid to graduation rates, among other performance metrics. "I can tell you right now, having taught at universities forever, that universities will do everything they can to get students to graduate," he chuckles. "If you think we have grade inflation now, you ought to think what will happen. If you breathe into a mirror and it fogs up, you'll get an A."

A better idea, Mr. Vedder suggests, would be to implement a national exam like the GRE (Graduate Record Examination) to measure how much students learn in college. This is not on Mr. Obama's list.

Nor is the president addressing what Mr. Vedder believes is a fundamental problem: too many kids going to college. "Thirty-percent of the adult population has college degrees," he notes. "The Department of Labor tells us that only 20% or so of jobs require college degrees. We have 115,520 janitors in the United States with bachelor's degrees or more. Why are we encouraging more kids to go to college?"

Mr. Vedder sees similarities between the government's higher education and housing policies, which created a bubble and precipitated the last financial crisis. "In housing, we had artificially low interest rates. The government encouraged people with low qualifications to buy a house.

Today, we have low interest rates on student loans. The government is encouraging kids to go to school who are unqualified just as it encouraged people to buy a home who are unqualified."

The higher-ed bubble, he says, is "already in the process of bursting," which is reflected by all of the "unemployed or underemployed college graduates with big debts." The average student loan debt is $26,000, but many graduates, especially those with professional degrees, have six-figure balances.

Mr. Obama wants to help more students discharge their debts by capping their monthly payments at 10% of their discretionary income and forgiving their outstanding balances after 20 years. Grads who take jobs in government or at nonprofits already can discharge their debt after a decade.

"Somehow working for the private sector is bad and working for the public sector is good? I don't see on what basis one would make that conclusion," Mr. Veder says. "If I had to make some judgment, I would do just the opposite."

He adds that the president's approach "creates a moral hazard problem. What it signals to current and future loan borrowers is that I don't have to take these repayment of loans very seriously. . . . I don't have to worry too much about getting a high-paying job." It encourages "sociology and anthropology majors compared with math and engineering majors."

Can online education, which is being pioneered in some science disciplines, substantially reduce costs? Mr. Vedder says it can, but government won't do the innovating. "First of all, the Department of Education, to use K-12 as an example, has been littered with demonstration projects, innovation projects, proposals for new ways to do things for decades. And what has come out? Are American students learning any more today than a generation ago? Are they doing so at lower cost than a generation ago? No."

Innovation, he says, is being driven by entrepreneurs like Stanford computer science Prof. Sebastian Thrun, who founded the for-profit company Udacity that offers "massive open online courses" (MOOCs). Mr. Thrun began teaching artificial intelligence, first at Stanford and then at Udacity. Mr. Vedder notes that he quickly got "200,000 people to sign up for it. And it's a great course and people are learning like crazy."

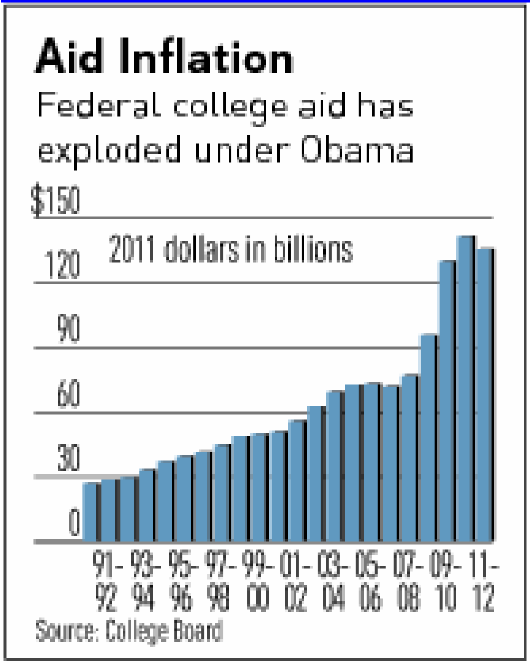
Where the government can help, Mr. Vedder says, is to get out of the way of progress and encourage slow-moving accreditors to allow innovations to move forward more rapidly. But ultimately, the way to improve college affordability is for the government to disinvest in higher ed and wean students from subsidies.

Mr. Obama is dead set against that. "He wants to maintain that world" of nonreality in which demand is impervious to cost, Mr. Vedder sighs. "That world has to change."

Ms. Finley is an editorial writer for the Journal.

IBD - Editorial

Obama's College Aid Plan Deserves An 'F'



Academia: President Obama says his new aid proposal will make college more affordable. It's actually an attempt to leverage a government-caused problem to root Washington even more deeply into higher education.

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Well, who could oppose that? But, like most Obama proposals, things get ugly once you scratch that surface.

First, Obama's claim that college is wildly unaffordable is simply not true. Yes, the colleges' posted prices have shot up. At private colleges, they climbed 27% in real terms over the past decade, according to the College Board. They're up 66% at public four-year schools.

But the tuition families actually pay has barely increased. Net tuition at four-year private nonprofit schools, for example, has been virtually flat for a decade, after inflation. At public four-year colleges, net tuition has climbed 35% since 2004, but it's still only $2,910, on average.

Neither is it entirely accurate that students face an avalanche of debt. College Board data show that the average debt incurred by those getting a bachelor's degree climbed only 22% in real terms since 1999, to $13,600.

What has exploded over the years is the amount of federal aid — grants, subsidized loans, special tax breaks — thrown at college students. That's climbed 143% in real terms over the past decade.

Spending on special tax breaks alone has tripled. Per student, overall financial aid has climbed 62% in real terms since 2001.

The problem is that all this federal largesse is simply fueling tuition inflation, while largely insulating students from the cost hikes. Now Obama wants to use this government-manufactured cost crisis to let the government burrow still deeper into higher education.

He wants to create a new federal rating system for colleges. But why? Students have reams of such comparative data available from private groups. And there's every reason to be suspicious of a system that ranks schools based on a politician's idea of value.

Tying college aid to these politically derived ratings will only make colleges more beholden to federal dictates about "quality."

Earlier this week, Obama told students that "a higher education is the single best investment you can make in your future." Students should ask why, if college is such a great investment, is the government involved at all?

Minding the Campus

Why The Seem to Rise Together - Federal Aid and College Tuition

by Judah Bellin

It's called "the Bennett Hypothesis," and it explains--or tries to explain--why the cost of college lies so tantalizingly out of reach for so many. In 1987, then Secretary of Education William J. Bennett launched a quarter century of debate by saying, in effect, "Federal aid doesn't help; colleges and universities just cream off the extra money by raising tuition." Now Andrew Gillen, research director of CCAP--the Center for College Affordability and Productivity--has tweaked the data and produced a sophisticated "2.0" version of the hypothesis. It's filled with heavy math, game theory and terms like "inelastic fairly vertical curves." You probably won't read it. We know. But it's important. So here are some smart people who have read it, and have something to say: Peter Wood, Hans Bader, Richard Vedder, George Leef and Herbert London.

Peter Wood: They Are Insatiable

Long before I knew it was called the "Bennett Hypothesis" I knew that colleges and universities increase tuition to capture increases in federal and state financial aid. I attended numerous meetings of university administrators where the topic of setting next year's tuition was discussed.

The regnant phrase was "Don't leave money sitting on the table." The metaphoric table in question was the one on which the government had laid out a sumptuous banquet of increases of financial aid. Our job was to figure out how to consume as much of it as possible in tuition increases. This didn't necessarily mean we were insensitive to the needs of financially less well-off students. A substantial portion of the money we captured would be reallocated as "tuition discounts" or "institutional aid." That is to say, just as Andrew Gillen observes, we combined Bennett Hypothesis-style capture of external student financial aid with "price discrimination."

And we did all this in the pursuit of educational excellence. It was a large private university in the shadow of world-ranked neighbors and it was attempting to pull itself up in the world of prestige and influence by its bootstraps. There were townhouses that needed buying; laboratories that needed building; faculty stars that needed hiring; classrooms and residence halls that needed refurbishing; symphonies that needed performing; grotesque modern sculptures that needed displaying; and administrators that needed chauffeuring.

So long before I heard of "Bowen's Rule," I was also familiar with the idea that "in the quest for excellence, prestige, and influence, there is virtually no limit to the amount of money" a university could spend.

Familiar as these ideas are, I have never seen them as well elucidated as Andrew Gillen has in Introducing Bennett Hypothesis 2.0. If there is a fault in this remarkable policy paper it lies in the modesty of the title. Gillen has provided what by all rights should be a foundational document for any further analysis of the vexed issue of how federal (and state) financial aid interacts with the pricing strategies of colleges and universities.

Gillen's sophisticated revision of Bill Bennett's idea explains many of the perplexities of the data. Yes, Pell Grants do not drive tuition increases the way general tuition assistance does. Yes, many colleges prefer to increase their selectivity rather than expand capacity. (He doesn't mention, however, the strategy of doing both at once by creating highly selective "honors programs" and remedial tracts at the same institution.) Price discrimination in the form of variable tuition discounts ensures that no ordinary observer can figure out what is happening when federal aid mixes with pricing strategies.

One of Gillen's most compelling observations, however, is what he calls "the dynamic story," which he introduces by way of game theory. This is his explanation of why a college cannot plausibly sit on the sidelines as its competitors raise tuition and use the increased income to raise their standing. Gillen's theory, though highly plausible, remains to be tested. Let's hope that comes soon.

Richard Vedder: Market Discipline, Please

Andrew Gillen masterfully demonstrates that Bill Bennett is right--federal financial aid programs lead to higher tuition. The implications of this and related financial aid effects are profound:

1. The intended income transfers from taxpayers (and, increasingly bondholders) to students have been largely diverted to college coffers; swelling payrolls and leading to armies of new university bureaucrats, million-dollar college presidents, an academic arms race and other pathologies;

2. This, in turn, has thwarted university productivity growth and helps explain why higher education is vastly more expensive than in most other major developed countries;

3. The goal of helping low-income students has not been met, and a lower percent of recent college graduates come from less affluent students than was true in 1970 when Pell Grants did not exist;

4. To the extent that these aid programs have increased enrollments (read Gillen), they have added to the growing disconnect between labor-market realities and student job expectations, creating armies of college graduates who are bartenders, taxi drivers, etc.

5. Enrollment increases, in turn, have contributed to a dumbing down of higher education and to declining standards.

What to do? The federal government needs to wind down its financial aid commitment. Restrict eligibility for aid to truly low-income students. Impose performance criteria for aid recipients: mediocre students will lose aid. Make the college absorb some of the risk for loan defaults--a lesson we should have learned from the financial crisis. Give Pell Grants as vouchers directly to students, not schools. Reinstate private lending options. Unveil new human capital contract approaches that reduce debt reliance. Downsize and reinvent federal programs and allow market discipline to operate more.

George Leef: Will Politicians Pay Attention?

William Bennett is no economist (in fact, he once told an interviewer that he never reads books on economics) but his instinct on the connection between federal aid and rising college costs was pretty accurate. While higher education establishment defenders have often tried to dismiss Bennett's insight, it's basically correct, Gillen shows.

Not always, however. Gillen argues persuasively that student aid targeted at low-income students who otherwise wouldn't have gone to college contributes little or nothing to rising costs because the institutions cannot "capture" the additional funds. That finding doesn't mean that it would be a good policy to increase this kind of aid, of course.

Government student-aid programs that are universally available, however, do lead to rising college costs. Gillen has worked through various differing scenarios to show how increasing student aid is apt to influence college officials. Particularly important in that regard is his emphasis on looking not just at short-run effects, but also what he calls "the dynamic story." Here's what he means. Even if some schools decide not to raise tuition when government aid puts more dollars in student pockets, those that do will spend the revenues gained on the zero-sum game of gaining prestige. Since most colleges won't want to keep falling behind in that arms race, they'll eventually give in and raise tuition. Not always, however. Gillen argues persuasively that student aid targeted at low-income students who otherwise wouldn't have gone to college contributes little or nothing to rising costs because the institutions cannot "capture" the additional funds. That finding doesn't mean that it would be a good policy to increase this kind of aid, of course.

Gillen concludes that the only escape from Bennett 2.0 is for the nature of competition in higher education to change--away from seeking greater "prestige" and toward competing for consumer dollars by offering better value. He's right and the rumblings of disaffection with mere credentials and the search for real education seems to presage just that.

I applaud this work, but will it make any difference? After all, it is clear beyond any doubt that raising the minimum wage is counter-productive, but politicians keep doing that. Why should Gillen's demonstration that the more politicians try to make college "affordable," the more costly it becomes be any different?

Hans Bader: Ever-growing Bureaucracies

You don't need to be a Ph.D in economics, like Gillen is, to know that government subsidies usually lead to higher costs. That subsidies drive up costs is something I learned in introductory economics, long before I got my degree in economics or worked for the Education Department. The value of Gillen's study is to show that this conclusion logically remains true even under widely-varying assumptions about educational markets.

Gillen does not discuss certain Education Department rules that drive up tuition even more directly. For example, certain low-cost schools are affected by the Education Department's 90-10 rule, which requires that the school keep tuition high enough for students that no more than 90 percent of its funding is covered by federal financial aid. So as financial aid rises, tuition necessarily rises even faster.

But financial aid is not the only way that the government drives up tuition. State and federal regulations imposed on colleges have mushroomed in recent years, requiring colleges to hire ever-increasing numbers of administrators to comply with them. (There are now more college administrators than faculty at the California State University system and many other colleges).

For example, colleges in New Jersey are subject to a costly and complicated anti-bullying law that has 18 pages of required components. Colleges in some states are subject to state sexual harassment laws that are more stringent than federal law, and hold colleges liable for uncapped damages for harassment by students, effectively requiring them to create specialized university bureaucracies to swiftly investigate and discipline students, rather than relying on ordinary campus disciplinary bodies that operate at a slower and more deliberative pace. Government regulations often require that a school be accredited, a condition that accreditors like the American Bar Association use to force law schools to use racial preferences in admissions or run costly diversity and sensitivity-training programs (despite the dubious legality of some such programs and admissions preferences). Such mandates have contributed to the growth of a vast and costly "diversity machine" in college administrations.

Recent Education Department guidance documents have also made Title IX compliance more difficult and costly for colleges, by seeking to force them to process sexual harassment complaints against students in ways that differ from customary college procedures in disciplinary cases, and to give certain complainants the ability to appeal a school's finding that an accused student was innocent.

Gillen cites a study showing that for-profit colleges whose students received federal financial aid charged 75 percent more than those whose students were not eligible. I wonder if some fraction of this difference was the result of government mandates tied to the financial aid, rather than the aid itself.

Herbert I. London: We Need Controls

My experience in higher education confirms the opinion that federal aid has an influence, a profound influence, on tuition decisions and other aspects of university finances.

Clearly not all federal aid is the same and not all college responses to aid are the same. However, there is a dynamic quality to federal subsidies that cannot be ignored. Every federal dollar given to a university will be spent. This is a version of higher education's Parkinson's Law. The institution expands in multiple ways to accommodate government largesse. Derek Bok, former Harvard president, said, "Universities share one characteristic with compulsive gamblers and exiled royalty: there is never enough money to satisfy their desires."

Every dollar given to a college goes through the turnstile of institutional improvement. Teaching loads could be reduced, new laboratories might be built, an academic "star" might be lured into a newly created position. But year one in this allocational arrangement is not always related to year two. If the initial costs are borne by government aid, the future costs may put pressure on the administration to seek additional revenue, very often in the form of tuition increases.

In fact, the process tends to be self-fulfilling. Aid producers reforms; reform leads to additional expense; additional expense very often translates into upward pressure on tuition rates. While President Obama has discussed controlling college costs, he overlooks the influence federal assistance has on college affordability. Nor is there any reason to assume a change of direction. There is political capital to be garnered by demanding cost controls and, at the same time, expanding access to tuition assistance. That these conditions may be contradictory is lost on a public increasingly frustrated with the inflated cost of a college education.

Power LIne

Obama's higher ed plan — a power grab, not a shake-up

by Paul Mirengoff

President Obama has announced a plan that he claims will make "college more affordable, tackle rising costs, and improve value for students and their families." The key elements of his plan are (1) a federal college-rating system that will evaluate colleges on measures such as graduation rates, the number of low-income students served (i.e., the percentage of Pell Grant recipients), graduate earnings, and affordability and (2) the tying of federal student aid to this federal rating system by giving larger Pell Grants and lower student-loan interest rates to students who enroll in colleges that fare well on the federal scorecard.

I agree with Lindsey Burke of the Heritage Foundation that Obama's plan is a bad idea. The federal rating system is unnecessary. Plenty of private outfits — most famously, U.S. News and World Report — rate colleges on a broad array of criteria. Relevant information about colleges is easy to come by, and from sources more trustworthy than ideologically-driven federal bureaucrats.

While the first elements of Obama's plan is merely unnecessary, the second element — tying federal assistance to the federal rating system — strikes me as pernicious. First, I doubt the federal government's ability to rate colleges with sufficient accuracy to justify attaching monetary consequences to its ratings.

Second, Obama's plan will increase the federal government's ability to coerce colleges into embracing even more fully a left-wing agenda — e.g., discriminating against whites in admissions and hiring, unfairly disciplining male students based on flimsy allegations of sexual harassment, and so forth.

Third, even if the federal government were able to come up with a reasonable and unbiased rating system, it would still have no business discriminating financially against the families of students who decide to attend colleges they (and the families) believe are better suited to their particular purposes.

Fourth, I agree with Rep. John Kline who says "I remain concerned that imposing an arbitrary college ranking system could curtail the very innovation we hope to encourage — and even lead to federal price controls."

Finally, I see little reason to believe that Obama's plan would meet its alleged purpose of reining in college costs. Obama is not talking about reducing federal subsidies to colleges and universities as a whole; he's talking, it appears, about redistributing them. Thus, the impact of his proposal on costs would probably be marginal, at best.

Higher education in the U.S. could use a shake-up. But Obama isn't proposing one; he's calling instead for a federal power grab. It is not the answer.

WSJ - Editorial

Obama State University

The President blames colleges for the result of government subsidies.

President Obama recently concluded a five-year campus speaking tour in which he explained to students how his financing programs were making college more affordable. Then on Thursday he kicked off a new campus speaking tour to tell students that college is unaffordable, and that the financing program he has championed faces increasing defaults.

"We've got a crisis in terms of college affordability and student debt," said Mr. Obama, without a trace of irony at the State University of New York at Buffalo. The same man who three years ago forced through a plan to add $1 trillion in student loans to the federal balance sheet over a decade said on Thursday, "Our economy can't afford the trillion dollars in outstanding student loan debt, much of which may not get repaid because students don't have the capacity to pay it."

Naturally, the President blamed somebody else and demanded more authority over higher education.

Mr. Obama specifically blamed colleges and universities for charging too much. "Not enough colleges have been working to figure out how do we control costs, how do we cut back on costs," he said. His solution is for the federal government to rate colleges on their effectiveness and efficiency, and then to allocate federal subsidies to the schools that Washington believes are providing the best education at the lowest cost.

Particularly jarring for Mr. Obama's fans in the faculty lounge, he talked about them on Thursday in the same disrespectful manner that he normally reserves for entrepreneurs. "And I've got to tell you ahead of time, these reforms won't be popular with everybody, especially those who are making out just fine under the current system. But my main concern is not with those institutions; my main concern is the students those institutions are there to serve," said the President.

Conservative readers may be tempted to chuckle here. And we concede that this latest Obama regulatory onslaught couldn't happen to a nicer bunch than the university elite who did so much to elect him. But while shifting control of universities from lefty professors to the U.S. Department of Education may seem like a transition between six and a half-dozen, it is not.

As maddening as it can be to see how liberal academics spend the wealth created by hard-working citizens, Americans should think long and hard before allowing the federal government to dominate a system of higher education that is still by all accounts the envy of the world. If the feds are deciding what a quality education is in order to dole out billions in annual aid—in an era when most students can't afford to matriculate without some form of aid—Washington will certainly dominate. Tying aid to whatever the bureaucrats decide is the right tuition is a back-door form of price controls. Even more disturbing is the idea that a federal political authority will decide which curricula at which institutions represent a good educational value.

Lest taxpayers think that Mr. Obama is simply going to protect their investment in education by demanding more accountability from schools, he made it clear on Thursday that he is not driven by a desire to protect the public fisc. He also called for an expansion of his "Pay as You Earn" program, which caps student-loan payments at 10% of a borrower's discretionary income, and then forgives the balance in 10 years if the borrower pursues a Beltway-approved job in government or a nonprofit.

Mr. Obama is trodding a well-worn political path. Politicians subsidize the purchase of a good or service, prices inevitably rise in response to this pumped-up demand, and then the pols blame the provider of the good or service for responding to the incentives the politicians created. Think housing finance and medical care. Now President Obama is attacking colleges for rationally raising tuitions and padding their payrolls in response to a subsidy machine that began in 1965.

That's when the feds launched a program to make college "affordable" by offering a taxpayer guarantee on student loans. Federal grants and loans have been expanding ever since and it's no coincidence that tuition prices have been rising faster than inflation for decades. This week the White House noted that since the academic year ending in 1983 tuition and fees at four-year public colleges have risen by 257%, while typical family incomes have advanced 16%.

The better answer is to stop the increases in grants and subsidized loans that Mr. Obama has so greatly accelerated. Let educators, students and their parents decide which courses and campus amenities provide the most educational value. As fervently as many professors abhor the idea of free people operating in a free market, they may decide it's better than federal politicians running their universities.

NY Times
New Jobs! If Only It Were True
by Gretchen Morgenson

CREATING jobs is an essential goal today, given our high unemployment rate. But when job programs rely on taxpayer backing, their success or failure should be clearly disclosed.

For example, the United States Department of Agriculture has called its $1.6 billion business and industry loan program a rousing success. Not surprisingly, the department often trumpets the number of jobs that are expected to result from these loans — figures that it gets from the borrowers themselves. Whether these jobs are actually created, however, is another story.

The loan guarantee program is overseen by the Rural Development unit of the Agriculture Department and is part of the American Recovery and Reinvestment Act of 2009. Rural Development provides loan guarantees of as much as 90 percent to banks or other approved lenders that finance the improvement or development of businesses in rural and high-unemployment areas.

How many jobs were added or saved through the loans is also a crucial measure of the program's success or failure.

A current success story on the agency's Web site is that of Carolina AAC, a company that received $10.4 million in late 2010 to build a concrete manufacturing plant in Bennettsville, S.C.

"This project will create approximately 197 new jobs in Marlboro County," the Agriculture Department's Web site says. Such a figure would make Carolina AAC the program's third-largest borrower in terms of jobs created.

But Carolina AAC said in a January 2011 news release that only 36 jobs would be created at the project. And even that has not come to pass. Currently, 10 people work at the company, according to Charles Paterno, its managing member. Troubling for taxpayers is that the government backs 90 percent of the loans and they are in liquidation.

The manufacturing facility is behind schedule, Mr. Paterno said, because a contractor in charge of building it died midway through the project. "We're three months from producing but we're still on target to create 36 jobs and will ramp up to 50," Mr. Paterno said in an interview. Asked about the 197 job number, he said he was unfamiliar with it. The figure might reflect indirect job creation, he said, such as workers at a local sand quarry or crews that would install the cement once it's manufactured.

Singleteary Food Solutions is another borrower under the program. Its $4.36 million in U.S.D.A.-guaranteed loans was expected to create 220 jobs in Wells, Minn., population 2,300. Singleteary was expected to be the second-largest job creator in the program; it also received a Small Business Administration loan for about $4 million.

But the Wells plant never opened. The Agriculture Department loans are in default, and the bank that wrote the guaranteed loan and sold it to investors took back the property in May.

Singleteary Food Solutions, a food processor, employed 30 people at most, according to a news report in The Faribault County Register.

Stephen B. Singleteary, a lawyer from Chicago, is the president of the company. In an interview on Friday, he said he was seeking an additional $5 million in capital so he could restructure the debt and start up production. He said the facility needed far more renovation than he had anticipated.

“Once we got in, we found the infrastructure would not accommodate our process and we had to replace most of the basic things,” Mr. Singleteary said. “In a 100,000-square-foot facility, it adds up pretty quick.”

He has until November to come up with the money so he can get the property back, and he remains hopeful. “When we’re fully operational it will exceed 200 jobs,” he said.

The company that was expected to be the largest job creator under the program was the Peninsula Plywood Group of Port Angeles, Wash. The roughly $2 million loan for its lumber mill was guaranteed by the Agriculture Department in January 2010 and expected to create 334 jobs. The facility opened for production later that year but ran into financial trouble and closed in late 2011. Local news reports said it employed 130 people at most.

The loan has been liquidated and the Agriculture Department paid a loss claim of $958,000.

It’s not uncommon for small businesses to fail, and capital nowadays is hard to come by. So some defaults are to be expected.

Asked about the rosy job-creation figures, Lillian Salerno, the administrator in charge of the program, provided this statement: “Since 2009, the U.S.D.A. Business and Industry Loan Guarantee program has supported more than 3,500 small businesses that have helped bolster the rural economy in communities across the country. The program’s success rate is the highest it has been since 2000, and it continues to improve. U.S.D.A., through 47 state offices, continuously works with approved lenders to ensure that each small business has every opportunity to succeed.”

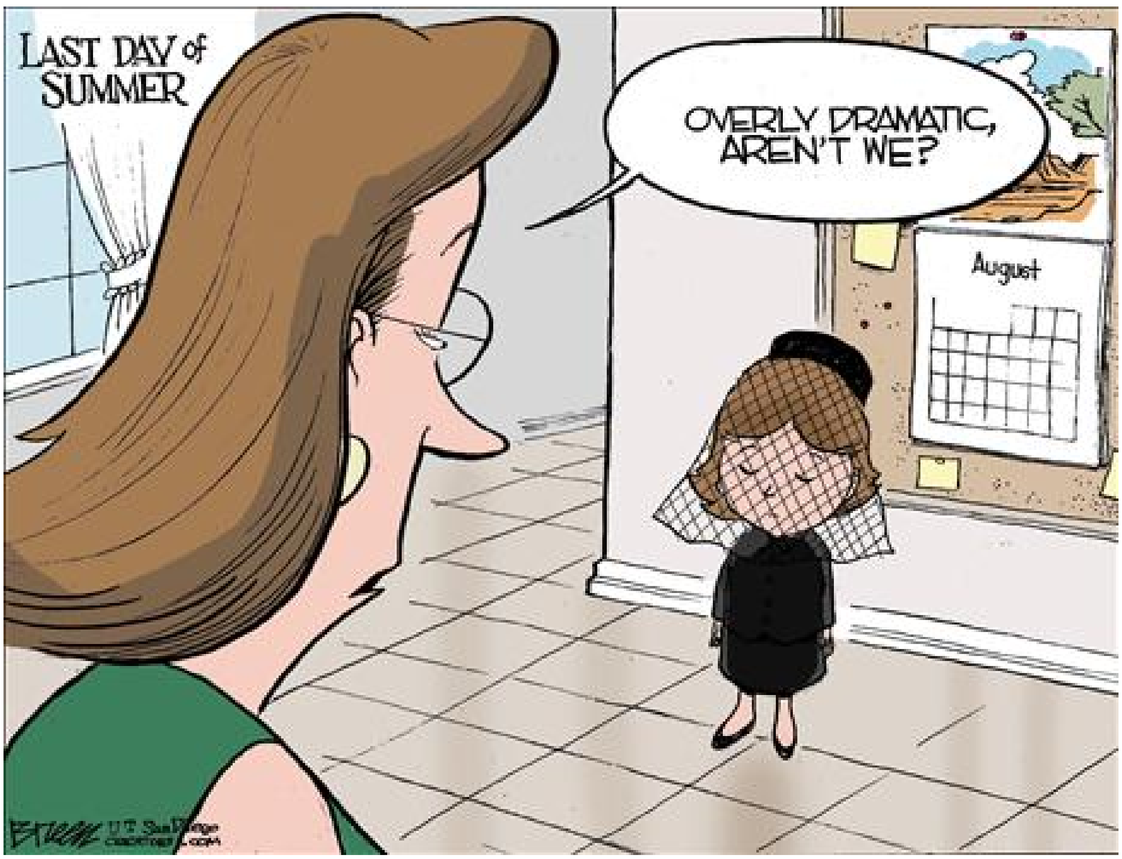
THE agency also provided five success stories where companies tapping into the program created more jobs than anticipated. One is Salm Partners, a food manufacturer in Denmark, Wis. The company received a $16 million loan guarantee to expand its facility and projected in 2010 that it would save 147 jobs and add 25 new ones. Today, the company employs 300 full-time workers and has paid back its loan.

Agency documents indicate that others are concerned with its job-creation numbers. A letter on Jan. 18 from the agency to business program directors of the Rural Development unit noted that the Office of Management and Budget wanted agency performance measures to be rigorously evaluated to improve programs’ efficiencies. It is essential that the jobs data reported by the Agriculture Department “is accurate, consistent, and verifiable,” the letter said.

The Agriculture Department’s office of the inspector general recently questioned the accuracy of the agency’s job figures. In a March audit, it identified one borrower that had estimated its loan would create and save 400 jobs. After visiting the borrower, investigators found that the borrower saved two jobs. “The agency’s success in meeting its established performance goals may be overstated,” [the report](#) said.

Jim Brickman, a real estate investor in Dallas and a whistle-blower on problematic S.B.A. loans said, “The willingness of the U.S.D.A. to tout false job numbers to Congress and the public is absurd and a case study of why the public has lost confidence in government.”

The Agriculture Department’s program is certainly well-intentioned, and accentuating its positives is only natural. But with taxpayers backing this $1.6 billion effort, reliable job counts would be preferable.

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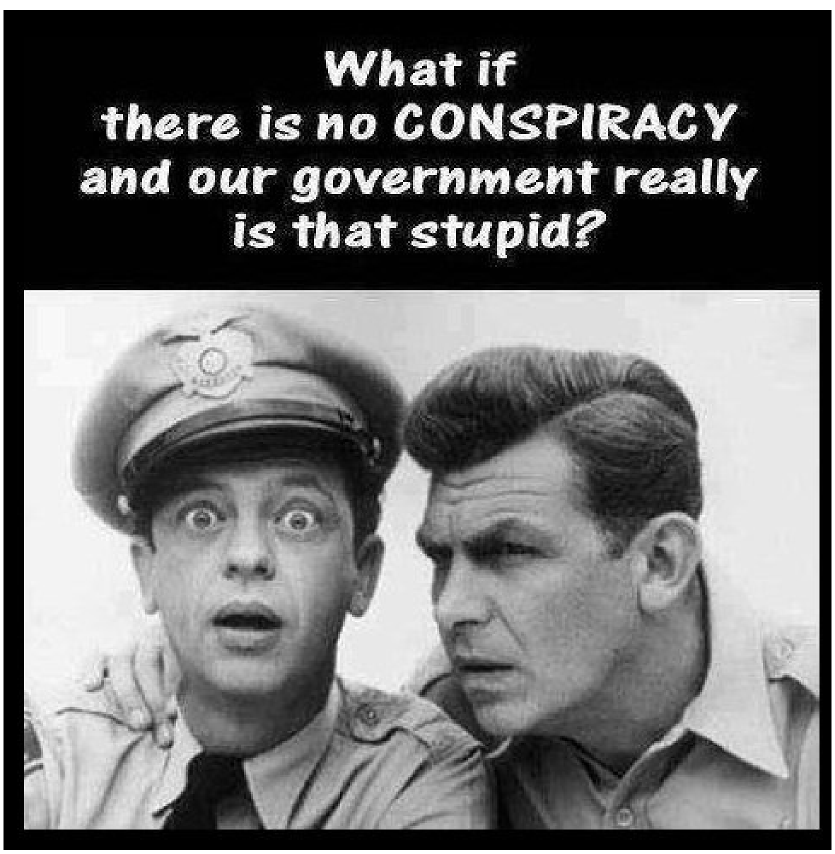
FROM THE FILES OF WHAT EVER HAPPENED TO?
Q: WHAT EVER HAPPENED TO THE DETECTIVE HIRED BY O.J. SIMPSON TO CATCH THE REAL KILLER?
A: HE'S IN BENGHAZI, WORKING FOR THE STATE DEPARTMENT, TRYING TO CATCH THE REAL KILLERS.


THAT FACE YOU MAKE WHEN
YOU SEE A PEACE SYMBOL
NEXT TO AN OBAMA STICKER.


THAT FACE YOU MAKE
WHEN YOU HEAR
A LIBERAL TALK.


What if
there is no CONSPIRACY
and our government really
is that stupid?