

December 12, 2011

Russ Roberts contemplates apocalypse.

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Stossel gave a good answer. He said but what if we get the apocalypse anyway? Maybe all we're doing is kicking the can down the road and making the reckoning even worse than it otherwise would be. His answer is made more powerful by recent history. In 2008, we rescued the creditors relentlessly that helped pave the way for this crisis. What will the next one look like?

I have a different problem with the apocalypse argument. How do you know if it's true? Where's the evidence that letting banks lose some, or most or even all of the money they unwisely lent or invested in bonds is going to lead to a disaster? Where are the data that make this claim credible other than a bald assertion?

But I have an even bigger problem with the apocalypse argument. If the threat of banks taking a haircut risks the apocalypse then we may as well admit the game is over. Just give the banks our wallets and checkbooks and go home. It's the end of capitalism and the end of democracy. I'd prefer an apocalypse.

Writing in Commentary, [Kevin Williamson](#) profiles Thomas Sowell.

Thomas Sowell is that rarest of things among serious academics: plainspoken. This characteristic, a by-product of both his innate temperament and the intellectual courage for which nature does not deserve the credit, surely has been bad for his career. (Intellectual courage tends to impede the career path of an intellectual.) If he were the obfuscating sort, he might have made Harvard don; if he were the cheaply poetical sort, he might have made U.S. president. His plain speaking also makes him dangerous, and that danger is intensified by the fact that Sowell is black. And not just black, but unassailably black: He's Southern-born, Harlem-raised, brought up poor, and the first of his family to be educated beyond the sixth grade.

If a mad scientist were to repair to his laboratory to design a machine that would make white liberals uncomfortable, that machine would be Thomas Sowell, whose input is data and whose output is socioeconomic criticism in several grades, ranging from bemused observation to thorough debunking to high-test scorn—all of which are represented in [The Thomas Sowell Reader](#) (Basic Books, 404 pages).

Now 81 years old, Sowell is known as a libertarian-leaning conservative, which he is, and he has a thriving sideline in debunking racial platitudes. But he is first an economist, which means he is first an observer and reporter of facts, and if those facts take him to uncomfortable places,

so be it. No, the prevalence of black men in the NBA doesn't mean that the NBA is racist, it means that reality is racist. Yes, Barack Obama and congressional Democrats really do practice the same kind of ethnic politics that resulted in the Rwandan genocide and the Sri Lankan civil war, even if they do not practice them to the same extent. Yes, affirmative action is naked racism. No, rent-control laws don't control rent. No, gun-control laws don't control guns. No, standardized exams are not culturally biased—but, yes, life is culturally biased.

Because he is black, his opinions about race are controversial. If he were white, they probably would be unpublishable. This is a rare case in which we are all beneficiaries of American racial hypocrisy. That he works in the special bubble of permissiveness extended by the liberal establishment to some conservatives who are black (in exchange for their being regarded as inauthentic, self-loathing, soulless race traitors) must be maddening to Sowell, even more so than it is for other notable black conservatives. It is plain that the core of his identity, his heart of hearts, is not that of a man who is black. It is that of a man who knows a whole lot more about things than you do and is intent on setting you straight, at length if necessary, if you'd only listen. Take a look at those glasses, that awkward grin, those sweater-vests, and consider his deep interest in Albert Einstein and other geniuses: Thomas Sowell is less an African American than a Nerd American.

One of the great and brilliant things about Thomas Sowell is that he, like most nerds, appears to be simply immune to certain social conventions. This is a critical thing about him—because the social conventions of modern intellectual life demand that certain things go studiously unnoticed, that certain subjects not be breached, or breached only in narrow ways approved by the proper authorities. Sowell does not seem to me to be so much a man who intentionally violates intellectual social conventions as a man who does not notice them, because he cannot be bothered to notice them, because he is in hot pursuit of data about one of the many subjects that fascinate his remarkable brain.

Sowell is a writer with many interests: international development, child development, language, law, restitution, rednecks, Marx, manners, markets, Marines, mascots, the process of growing old, and, because he is an American conservative, baseball. That comes under the heading of "Social Issues" in the Reader, and the essay is "'Dead Ball' Versus 'Lively Ball'." Baseballologists will be familiar with the debate: Relatively few home runs were hit before 1920, after which the number grew very quickly. Legend has it that the Powers That Be in MLB introduced a so-called lively ball in 1920, hoping to produce a crop of exciting new home-run hitters to distract the public from the recent scandal of the Chicago "Black Sox," who had fixed the 1919 World Series. "Denials by baseball officials that the ball had been changed have been dismissed out of hand," Sowell writes, "in view of the dramatic and apparently otherwise inexplicable changes in the number of home runs hit in the 1920s and thereafter."

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"I happened to come along right after the worst of the old discrimination was no longer there to impede me and just before racial quotas made the achievements of blacks look suspect. That kind of luck cannot be planned.

Crucial pieces of good fortune like these would have made it ridiculous for me to have offered other blacks the kind of advice which the media so often accused me of offering—to follow in my footsteps and pull themselves up by their bootstraps. The addiction of the intelligentsia to catchwords like “bootstraps” has made it all but impossible to have even a rational discussion of many issues. As for following in my footsteps, many of the paths I took had since been destroyed by misguided social policy, so that the same quality of education was no longer available to most ghetto youngsters, though there was never a time in history when education was more important.” ...

Speaking of education, [Neal McCluskey](#) writes about the failed policies of the administration.

Want to do exactly the wrong things to fix US higher education? You can't do much better than the recent offerings from Education Secretary Arne Duncan. To a system blackout-drunk on taxpayer money, the Obama administration would deliver even more booze while only whispering about tough love.

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[Virginia Postrel](#) has more on mistaken education policies.

The public is in a foul mood over increasing college costs and student debt burdens. Talk of a “higher education bubble” is common on the contrarian right, while the Occupy Wall Street crowd is calling for a strike in which in which ex-students refuse to pay off their loans.

This week, President Barack Obama held a summit with a dozen higher-education leaders “to discuss rising college costs and strategies to reduce these costs while improving quality.” The administration plans to introduce some policy proposals in the run-up to the presidential campaign.

Any serious policy reform has to start by considering a heretical idea: Federal subsidies intended to make college more affordable may have encouraged rapidly rising tuitions.

It's not as crazy as it might sound.

As veteran education-policy consultant Arthur M. Hauptman notes in a recent essay: “There is a strong correlation over time between student and parent loan availability and rapidly rising tuitions. Common sense suggests that growing availability of student loans at reasonable rates

has made it easier for many institutions to raise their prices, just as the mortgage interest deduction contributes to higher housing prices.”

It's a phenomenon familiar to economists. If you offer people a subsidy to pursue some activity requiring an input that's in more-or-less fixed supply, the price of that input goes up. Much of the value of the subsidy will go not to the intended recipients but to whoever owns the input. The classic example is farm subsidies, which increase the price of farmland. ...

Cafe Hayek

What's worse than an apocalypse?

by Russ Roberts

On my exercise bike at the gym the other day, I caught a snippet of the Stuart Varney Show. Three guests were discussing the European crisis. John Stossel argued for letting market forces work—if I remember correctly, he wanted those banks that had lent money to Greece and Italy and Spain to bear costs, possibly severe costs like losing their money. One of the guests (I don't know who it was) strongly disagreed. His argument was that Stossel's solution would lead to the apocalypse. That was his argument. We risked the end of civilization—banks could go broke leading to a depression and then we'd all be worse off. Varney agreed. Stossel's idea of market discipline was simply too dangerous.

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Commentary

Thomas Sowell: Peerless Nerd

by Kevin D. Williamson

Thomas Sowell is that rarest of things among serious academics: plainspoken. This characteristic, a by-product of both his innate temperament and the intellectual courage for which nature does not deserve the credit, surely has been bad for his career. (Intellectual courage tends to impede the career path of an intellectual.) If he were the obfuscating sort, he might have made Harvard don; if he were the cheaply poetical sort, he might have made U.S. president. His plain speaking also makes him dangerous, and that danger is intensified by the fact that Sowell is black. And not just black, but unassailably black: He's Southern-born, Harlem-raised, brought up poor, and the first of his family to be educated beyond the sixth grade.

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Sowell, as is his habit, does not accept the orthodoxy, in baseball or in politics. He goes to the data: How did specific hitters perform before and after the putative introduction of the lively ball? Did Ty Cobb and Joe Jackson start hitting more home runs? What do the statistics say? (It is easy to see why economists and nerds love baseball.)

Sowell's answer is that in baseball, as in economics, culture matters. In this case, the culture of baseball seems to have been changed by the phenomenon of Babe Ruth, whose home-run-hitting prowess made him a baseball demigod. Batting styles changed. "Gross numbers may suggest a change in the ball," Sowell writes, "but a finer breakdown of the statistics indicates a change in the batters."

Baseball is only a game, of course, but Sowell brings the same analytic mind-set—and the same detached aloofness—to the most important questions of adult life, and the most emotional ones. Confronted with a *New York Times* report claiming that blacks are suffering from racial discrimination in mortgage lending, he begins his detective work with the observation that markets tend to work against racial discrimination rather effectively: "Empirically, it is very hard to find people who are willing to lose hard cash, in order to discriminate. Racists may prefer their own group to others, but they prefer themselves most of all."

He considers what factors have not been accounted for and immediately identifies the missing variables: savings and credit ratings. "This is not rocket science. This is Economics 101." But of course our American public orthodoxies are not enforced by an Inquisition but rather a Disinquisition: Thou shalt not notice certain uncomfortable things. Sowell is invaluable for being willing to talk about them, and to ask uncomfortable questions: Are blacks and whites really economically comparable in the economic comparisons we have? What about whites and Asians?

There is a sense of inevitability in Sowell's investigations. You will not be surprised to find that Asians are approved for loans more often than whites are, and that they are offered expensive subprime loans less often. "Does that mean that whites were being discriminated against?" Sowell asks. "Or are statistics taken seriously only when they back up some preconception that is politically correct?" To ask the question is to answer it—but it is imperative that somebody ask the question, and Sowell is one of the few major intellectuals in American public life who can be counted on to do so.

And what of real, undeniable racial discrimination? Read:

When you are walking down a dark street at night and you see a shadowy figure in an alley up ahead, do you judge him as an individual—or do you cross the street and pass on the opposite side? Judging him as an individual could cost you your life....Recently, a black, middle-class professional wrote of his resentment when he was asked to pay for his meal in advance in an Asian-owned restaurant—especially after he noted that a white couple that came in was not asked to do the same. Was this arbitrary racism or self-protection based on experience in this neighborhood? That was the key question he did not ask—nor do most journalistic or even scholarly studies.

This touches upon one of Sowell's great themes, what he calls "the vision of the anointed" (the title of one of his books, of which the *Reader* is the 30th published in a writing career dating back to 1972). The vision of the anointed is a complicated thing. It is part ideology, part prejudice, part ignorance, part psychological projection, and part (perhaps its biggest part) wishful thinking. The vision of the anointed is at its heart a refusal—a knowing, intentional refusal—to deal with reality on reality's terms, or even to conscientiously encounter realities that are challenge that vision or unpleasant.

But, as Sowell reminds us, reality is not optional; facts must be accounted for. It is not as though he is in possession of secret, arcane knowledge. For instance, these facts are easily documented: Gun-control laws began to be passed during times when crime was declining, rather than climbing. Crime began climbing after gun-control laws were passed. Places with very strict gun-control laws typically have more crime than do places without them—a fact that holds true between countries and between regions of the United States. There is little or no relationship between the rigorousness of gun-control laws and criminals' access to guns. Many countries have lots of guns but relatively few murders, while others have few guns but relatively many murders. Swimming pools kill many more people in accidents than guns do. You do not have to be a great scholar to look at those facts and ask: What is the point of gun-control laws?

Nor should you have to be a great intellectual contrarian to ask: Why is it that these programs that we are told will help blacks in fact hurt them? And what should be done about that? But there are shockingly few people who can and do ask those questions, and very few who can dissect them with the rigor of Thomas Sowell. His "Friends' of Blacks," originally published in 2004, is a miniature classic, briefly chronicling the double standards in admissions (and, in some cases, in grading) that have undermined blacks' education in the name of helping them.

He points to the case of Dr. Patrick Chavis, a celebrated case study of affirmative action, and notes: "[Chavis was] publicly praised by the Lawyers Committee for Civil Rights—just two weeks before his license was suspended, after his patients died under conditions that brought the matter to the attention of the Medical Board of California. An administrative law judge referred to Chavis's 'inability to perform some of the most basic duties required of a physician.' A year later, after a fuller investigation, his license was revoked." Some years before, Sowell reports, a Harvard Medical School professor was denounced as racist for declaring that affirmative action for medical students was endangering patients. He was proved right. But that fact is inconsistent with the vision of the anointed, which holds that to even ask the question of whether black doctors are on average today less qualified than white doctors as a result of preferential treatment is to abandon the fundamentals of civilization. It is a thought that cannot be thought.

In large measure because of a path Sowell charted, the term *black conservative* is practically an occupational category today. It is one of the great ironies of our time that Sowell is especially poorly served by such pigeonholing. Consider his fascinating disquisition on the geography and

natural environment of Africa, in which he argues that such factors as the lack of navigable interior waterways, the steepness of its rivers, the lack of pack animals due to insect-borne disease, the lack of natural ports and harbors on the continent's smooth coastline, other interior barriers to travel, the resulting isolation of group from group, and linguistic fragmentation (Africa, he points out, has 10 percent of the world's people and a third of its languages) explain much of the continent's socioeconomic backwardness. Such brilliant observational analysis does not fit neatly into orthodox conservative or orthodox liberal explanations of development. It is fact-intensive and based upon observable, empirical realities—which is to say, it is Sowellian.

Africa has its physical barriers, but the relevant geography in the West is mostly psychological and social. There are many cultural divides in these United States. Some of them are racial (as Sowell explored in his 2005 book, [*Black Rednecks and White Liberals*](#)), some are economic, some are religious. Some of the most important cultural fault lines run not through neighborhoods or income brackets but through time: Sowell often seems like an envoy from another age, which in a sense he is, given his advanced years and the circumstances of his upbringing. He is a remnant from an age when it was common to know people who had grown up in homes that did not have indoor plumbing. This contributes a certain groundedness to his criticism. When detailing the many material goods enjoyed today by people living in what we call poverty, he reports: "People today eat in restaurants more times in a month than they used to in a year—or, in some cases, a decade. As a young man, I was uneasy when I began eating in restaurants, because I had so seldom eaten in one while growing up. As for having a car, the thought never crossed my mind."

Sowell very strongly rejects the notion that the details of his biography should add or detract from the persuasiveness of his arguments, and he is right to think so. But he does have a great deal of experience to draw on, and much of it speaks to the actual experience of the poor and the marginalized. While he never slips into cheap sentimentalism of the "Heck, we'uns didn't know we was poor!" variety, his firsthand observations are invaluable—because he refuses to romanticize his experiences, even easily romanticized experiences such as military duty. You do not get the feeling that Thomas Sowell was much of a Marine; in fact, he plainly still resents having been drafted.

Even his gratitude is unsentimental. Consider his account of the happy coincidences that contributed to his success and how they have shaped his views:

I happened to come along right after the worst of the old discrimination was no longer there to impede me and just before racial quotas made the achievements of blacks look suspect. That kind of luck cannot be planned.

Crucial pieces of good fortune like these would have made it ridiculous for me to have offered other blacks the kind of advice which the media so often accused me of offering—to follow in my footsteps and pull themselves up by their bootstraps. The addiction of the intelligentsia to catchwords like "bootstraps" has made it all but impossible to have even a rational discussion of many issues. As for following in my footsteps, many of the paths I took had since been destroyed by misguided social policy, so that the same quality of education was no longer available to most ghetto youngsters, though there was never a time in history when education was more important.

He continues:

I am not Dear Abby.... Nevertheless, clever media interviewers insisted on asking me questions such as: “But what do you say to the welfare mother or to the ghetto youth?” I cannot imagine what would have led anybody to think that I was writing handbooks for welfare mothers or ghetto youths, or that either would be reading them, if I were.

That is the inimitable Thomas Sowell. His prose style, like his thinking, is economical and lucid, if not always precise. (He is not always especially conscientious about distinguishing correlation from causality.) At his bracing best—and in my view he is at his best in the long form, rather than in his newspaper columns—Sowell is dry, amused and amusing, and a rich source of useful knowledge. In his grumpier moments, his tone makes it easy to imagine him shouting at Paul Krugman to get off his lawn, damn it. But *The Thomas Sowell Reader* is full of his best, and its publication, like the great nerd himself, is a cause for celebration.

Kevin D. Williamson is deputy managing editor of National Review and author of [The Politically Incorrect Guide to Socialism](#) (Regnery).

NY Post

[Team O’s denial on college-cost crisis](#)

by Neal McCluskey

Want to do exactly the wrong things to fix US higher education? You can’t do much better than the recent offerings from Education Secretary Arne Duncan. To a system blackout-drunk on taxpayer money, the Obama administration would deliver even more booze while only whispering about tough love.

Speaking at a Nov. 29 Las Vegas gathering of financial-aid administrators, Duncan addressed exploding college costs, a problem highlighted by Occupy Wall Street protesters angry over rising student debt. He lauded loan forgiveness and repayment reduction, and exhorted colleges to do, well, *something* to become more efficient.

While trumpeting the bogus claim that the average college graduate will earn \$1 million more over his lifetime than someone with just a high-school diploma, he didn’t even hint that taxpayer-funded student aid (including easily forgiven loans) enables schools to blithely raise their prices.

In short, Duncan said all the wrong things.

Start with the “million-dollar jackpot.” While there *is* an average net gain for those who actually complete four-year degrees, the “\$1 million prize” doesn’t factor in lost earnings while in college, the high cost of schooling or other variables. Include those, and the average lifetime premium is probably closer to \$300,000. And, by definition, roughly half of all grads won’t even hit that average.

Yet the real problem is this: Only about 57 percent of people who start four-year programs finish within six years, and most of the remaining 43 percent will probably never graduate. So lots of people will gamble for \$1 million, but few will win.

Of course, the jackpot isn't the only reason millions keep paying even as tuition skyrockets. There's something even bigger: ever-expanding government aid.

Between 1985 and 2010, inflation-adjusted federal student aid rose from about \$30 billion to about \$140 billion, a 367 percent leap. Pell Grants alone ballooned from \$8.1 billion in 1985 to \$41.7 billion in 2011.

Add various tax credits and deductions to that, and it's no wonder college prices have inflated even faster than health care: Government has ensured that ever-higher bills can be paid.

But hasn't the real culprit been declining state support for colleges, forcing schools to raise prices? Duncan cited that one, too; it's another dodge.

Consider: State funding doesn't much affect private colleges, yet their tuitions perpetually boom. Plus, while public institutions do raise their prices when state support falls, they also raise them when support is *rising*.

Anyway, state and local support hasn't been gutted. From 1985 to 2010, inflation-adjusted state and local funding rose from about \$54 billion to \$75 billion. Support only appears to drop when looked at on a per-pupil basis, because higher-education enrollment has also ballooned.

Which brings up the last point: The Obama administration has set the goal of leading the world in the percentage of the population possessing a college degree.

But the reality is that we've already got armies of people in college who'll never finish. There's little reason to think we could get even more people in *and* through.

But there's a plan to deal with that — sort of. Duncan says the administration will “challenge” schools to improve their graduation rates. Great.

Colleges' most likely response will be to run warm bodies through to graduation, while giving them few if any college-level skills. Indeed, we've been seeing this for years, with literacy for degree-holders dropping and earnings for people with only a bachelor's degree falling, too.

Ultimately, none of Duncan's prescription will make college much cheaper or more effective. Only taking the jet fuel — federal student aid — out of college pricing, and being frank about the real value of higher education, could do that.

But Duncan didn't even hint at such things — because *that* would really be tough love.

Neal McCluskey is associate director of the Cato Institute's Center for Educational Freedom and author of the study “How Much Ivory Does This Tower Need? What We Spend on, and Get from, Higher Education.”

Bloomberg News

Universities Feast on Federal Student Aid

by Virginia Postrel

The public is in a foul mood over increasing college costs and student debt burdens. Talk of a [“higher education bubble”](#) is [common](#) on the contrarian right, while the Occupy Wall Street crowd is calling for a strike in which in which ex-students [refuse to pay off their loans](#).

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Increasing Salaries

A 1998 article in the American Economic Review explored another example: federal research and development subsidies. Like farmland, the supply of scientists and engineers is fairly fixed, at least in the short run. Unemployed journalists and mortgage brokers can’t suddenly turn into electrical engineers just because there’s money available, and even engineers and scientists are unlikely to switch specialties. So instead of spurring new activity, much of the money tends to go to increase the salaries of people already doing such work. From 1968 to 1994, a 10 percent increase in R&D spending led to about a 3 percent increase in incomes in the subsidized fields.

“A major component of government R&D spending is windfall gains to R&D workers,” the paper concluded. “Incomes rise significantly while hours rise little, and the increases are concentrated within the engineering and science professions in exactly the specialties heavily involved in federal research.”

The [study’s author](#) was Austan Goolsbee, then and now a professor at the [University of Chicago](#) but until recently the chairman of the president’s [Council of Economic Advisers](#).

Goolsbee did similar [research](#), with similar results, on the effects of investment tax credits for capital equipment. Much of the benefit of such subsidies, he found, goes not to the company buying the new equipment but to the manufacturers who make it. A 10 percent investment tax credit raises equipment prices by 3.5 percent to 7 percent.

Like the scientists and engineers who benefit from R&D subsidies, the workers who make capital equipment also capture many of the subsidies' benefits. Their [wages](#) go up, Goolsbee found, by 2.5 percent to 3 percent on average and as much as 10 percent, depending on the workers' particular characteristics.

Goolsbee declined a recent request to comment on the subject, but the parallels to higher education are hard to miss.

In the short-term, the number of slots at traditional colleges and universities is relatively fixed. A boost in student aid that increases demand is therefore likely to be reflected in prices rather than expanded enrollments. Over time, enrollments should rise, as they have in fact done. But many private schools in particular keep the size of their student bodies fairly stable to maintain their prestige or institutional character.

Soaring Enrollments

The new breed of for-profit institutions has grown much faster than its nonprofit competition. Traditional private colleges expanded their [enrollments](#) 27 percent from 1999 to 2009, an increase of about 664,000 students, while for-profit private colleges grew 478 percent, by almost a million students.

Figuring out exactly what's going on is tricky, because colleges price discriminate, offering steep discounts to some students while charging list prices to others. Treating published tuition as the real price of a college education is like believing the sticker price on a used car.

Some of the most elite schools, which could theoretically jack up their prices the most, face the most pressure from alumni and others to use their ample financial resources to extend more student aid.

At the most selective private schools, as defined by the [College Board](#), federal grants and tax benefits for the average student are indeed lower than at less-selective schools, both as a percentage of all aid and in absolute dollars. These selective institutions' own grants to students are much larger than elsewhere. Yet even after all this aid, they have the highest net prices: an average of \$16,577 net tuition and fees (not including room, board and other expenses), compared with \$10,823 for moderately private selective schools.

On the whole, it seems that universities are like the companies making capital equipment. If the government hands their customers the equivalent of a discount coupon, the institutions can capture at least some of that amount by raising their prices -- especially when demand for their product is increasing independent of aid, because a college degree promises to pay off in higher wages. They can then pay their employees more or simply not economize as they might otherwise have to do. Federal aid may also allow institutions to shift fundraising efforts away from drumming up scholarships and toward raising money for buildings, new programs or big-name professors.

Inflated Prices

This doesn't mean that colleges capture all the aid in higher tuition charges, any more than capital-equipment companies get all the benefit of investment tax credits. But it does set up problems for two groups of students in particular. The first includes those who don't qualify for aid and who therefore have to pay the full, aid-inflated list price. The second encompasses those who load up on loans to fill the gaps not covered by grants or tax credits only to discover that the financial value they expected from their education doesn't materialize upon graduation.

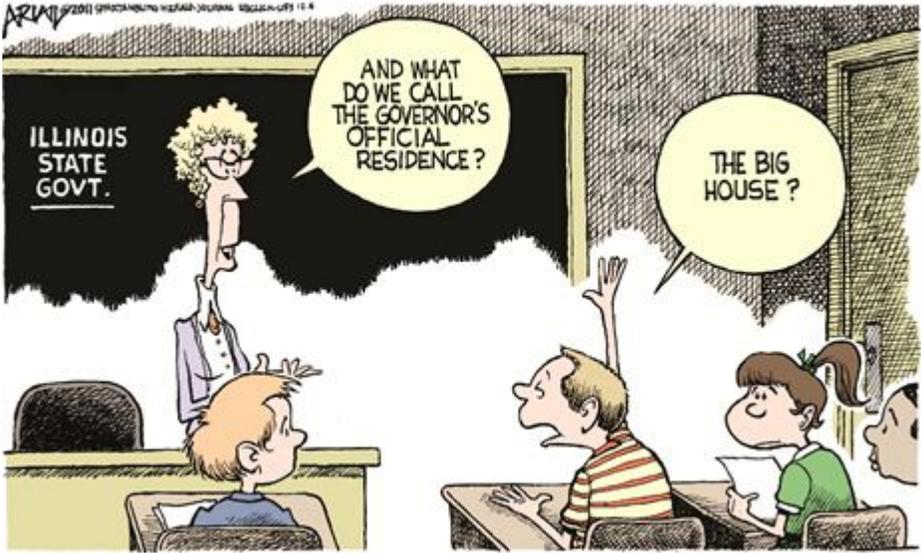
That's the situation many young people find themselves in today, which is one reason for their anger. The other is a widespread feeling, which the recession has intensified, that higher education is unfairly insulated from the everyday competitive pressures most people have to cope with. Instead of having to find ways to operate more efficiently and deliver ever-more value without raising costs, the way private-sector managers do, college administrators seem able to pass higher and higher bills on to their customers and the public.

A good chunk of the educated public has decided that college educators are decadent and lazy. Many are positively [lusting](#) to see higher education get its Detroit-style comeuppance.

This attitude is unfortunate and often unfair, but it's the direct result of decades of federal policies. Any strategy to reduce college costs needs to look beyond traditional subsidies to remove some of the insulation that stifles innovation and feeds public resentment.

(Virginia Postrel is a Bloomberg View columnist. She is the author of "The Future and Its Enemies" and "The Substance of Style," and is writing a book on glamour. This is the first of a two-part series on the economics of higher education. The opinions expressed are her own.)





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