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The Prestige Chase Is Raising College Costs

By ROBERT H. FRANK

WITH ample reason, President Obama has grown impatient with my industry.

In a recent speech at the University of Michigan, he said that while most new jobs in coming decades would require college training, access to higher education is increasingly threatened by runaway tuition growth. “We’re putting colleges on notice: you can’t assume that you’ll just jack up tuition every single year,” he said. “If you can’t stop tuition from going up, then the funding you get from taxpayers each year will go down.”

Because annual federal subsidies to higher education exceed $30 billion, the speech got college administrators' attention. Yet some experts remain skeptical. Diane Ravitch, for example, the New York University professor and former assistant secretary of education, has urged college presidents to resist the "accountability juggernaut."

Higher education has long been a primary source of America's competitive advantage, so government officials would be wise to proceed cautiously. But an examination of the economic forces that have shaped the higher-education market in recent decades suggests that there may be promising opportunities to curb tuition growth.

Some of that growth has resulted from a phenomenon called Baumol's disease, after the economist William J. Baumol, who described it in a 1965 article he wrote with William G. Bowen. The basic idea is that while productivity gains have made it possible to assemble cars with only a tiny fraction of the labor that was once required, it still takes four musicians nine minutes to perform Beethoven's String Quartet No. 4 in C minor, just as it did in the 19th century.

College instruction more closely resembles a musical performance than an auto assembly line. Although information technologies have yielded some productivity growth in academia, instruction still takes place largely as it always has.

To recruit professors, universities must pay salaries roughly in line with those made possible by productivity growth in other sectors. So while rising salaries needn't lead to higher prices in many industries, they do in academia and many other service industries.

Because universities are already rushing to use technologies for improving faculty productivity — for example, Web-based review sessions and homework evaluation — subsidy reductions won't encourage much additional progress against Baumol's disease. But there's a second major source of tuition growth that universities are less able to ameliorate on their own: the escalating competition for academic prestige.

This phenomenon is rooted in the growing disparities in graduates' starting salaries, which resemble those we've seen for the country as a whole. After adjusting for inflation, starting salaries for most graduates have remained essentially stagnant for several decades, while those at the bottom of the group have actually declined. Only the highest-paid graduates have enjoyed significant salary growth, and among those a very thin slice at the top has seen truly spectacular increases.

Because of the bitter competition for those premium salaries, elite educational credentials are often a precondition for even landing a job interview. With so many applications for every vacancy, many consulting firms and investment banks, for example, now consider only candidates from a short list of top-ranked schools.

Degrees from those schools clearly open doors. For example, more than 40 percent of the 2007 graduating class at Princeton landed one of the most highly sought prizes: a position in the lucrative financial services industry.

Universities have responded vigorously to escalating student demands for elite degrees. Their main strategy has been to bid more aggressively for the most distinguished researchers, which explains not only the rapid salary growth for top faculty members in the last several decades, but also the fact that teaching loads at many elite schools have decreased by more than 25 percent. Similar, albeit smaller, changes in salaries and workloads have percolated throughout higher education.

Yet no matter how much universities might spend in pursuit of elite status, only 10 percent at any moment can end up in the top 10 percent. To be sure, the additional expense has not been pure waste. Professors now publish more papers and in the process have generated at least some useful new ideas. But most of their best ideas would have made it into print anyway.

Richard H. Thaler, a former colleague at Cornell and another contributor to the Economic View column, once remarked about an unsuccessful candidate for a faculty position, “What his résumé lacked was five bad papers.” By that, he meant that while the candidate had published several papers containing enough genuinely important ideas to satisfy any rational hiring committee — more than could be said of most faculty members — he had too few to satisfy the bean counters, who fretted about how uninformed outsiders might react to the appointment.

Researchers have responded as expected to these incentives. But the additional papers they’ve written have added little value. The economist Philip Cook and I found, for example, that in the first five years after publication, many fewer than half of all papers in the two most selective economics journals had ever been cited by other scholars.

TYING federal subsidies to tuition growth would dampen a university’s incentive to bid for prestige in much the same way that league-imposed salary penalties in professional sports help curb the bidding wars for superstars. But if the starting-salary gap keeps widening between the highest- and lowest-paid college graduates, this remedy’s effectiveness would be temporary at best.

We might consider taking more direct aim at the component of tuition inflation that is attributable to growing salary gaps. Raising taxes on top salaries would be a good idea for

American society in general, and not just for higher education. It would not only shrink the effect of salary disparities, but would also generate some much-needed revenue.

Robert H. Frank is an economics professor at the Johnson Graduate School of Management at Cornell University.