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BOOKS

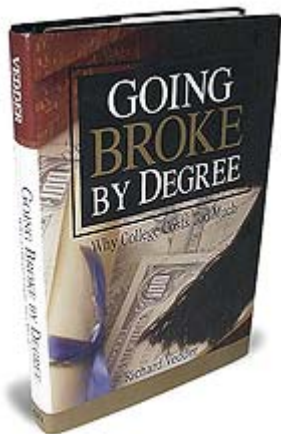
More Than a Penny for Their Thoughts

 By **JOHN O. MCGINNIS**
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Never mind those once infamous outrages, Ken Lay's enormous salary and Jack Welch's lavish perks. Consider the survey released this week by the Chronicle of Higher Education. It shows that many university presidents are now paid more like Hermes-clad investment bankers than tweedy academics. John Hopkins's William Brody earns almost \$900,000 annually. The president of the University of Washington takes home \$762,000; of Georgia State, \$722,350. Forty-two college presidents at private colleges make more than a half-million dollars a year, 17 at public universities.

What is a parent to think? Tuition is already a crippling burden to family finances. It amounts to an enormous sum for which middle-class wage-earners -- a category that clearly does not include many college presidents -- must start saving at about the time their children enter kindergarten. The Chronicle's survey shows that tuition rose 10.5% last year at four-year public colleges.

Such galloping costs are typical, notes Richard Vedder in "**Going Broke by Degrees**" (The AEI Press, 259 pages, \$25) For the past 25 years the price rises for colleges have annually outpaced the consumer price index by more than 3.5%. Higher education is the fastest-increasing component of the index except for tobacco. A family of median income works almost three times as many days to earn the money for a child's tuition now as it did in the late 1950s. The rise in financial aid has only slightly moderated this effect.




Why does college cost so much?
 What do students (and parents)
 get for the money?

Mr. Vedder explains that this priciness is the result of many factors. Among the most important: Universities face only limited market discipline because they (and their professor-workers) lack a clear metric of performance, such as profits. Ratings, like those in U.S. News and World Report, are a poor substitute. Indeed, rankings focus on inputs, such as money spent on instruction, rather than outputs, such as the knowledge taught. Thus they actually give universities perverse incentives to splurge on unnecessary services rather than to concentrate on teaching students rigorously.

Meanwhile, of course, government, with its subsidies and loans, has confused the real costs of college, making it harder for parents to judge which college is the best bargain. And government has raised college costs by imposing a host of regulations concerning everything from admissions to animal research.

None of these conditions is likely to change soon, alas. And two other price pressures -- not mentioned by Mr. Vedder -- may prove even more intractable. The premium for intelligence is rising in the business world. As Bill Gates has

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noted, Microsoft's main competition for talent comes from investment banks, not other software companies. Good universities fish from this same small pool of high-I.Q. individuals for their faculties, the kinds of people who are capable of conceptual breakthroughs. A university can offer its knowledge workers greater autonomy, but it finds itself having to raise salaries or cut teaching hours to make the entire package competitive with what many companies in the business world can provide.

Another obstacle for lowering costs: Much of the benefit of going to a university is the social network it generates. For elite students, the opportunity cost of missing out on the best set of peers is much greater than paying a 10% higher tuition. Thus a university is well advised to install Olympic-quality athletic facilities, sybaritic student centers and high-tech classrooms, not to mention hiring "name" professors whose aura will confer prestige. All such bells and whistles may attract moguls-in-training -- who will end up as future business partners or indeed romantic ones.

To reduce college costs, Mr. Vedder recommends that both state and federal governments begin to convert their direct funding of colleges to fixed-priced vouchers for students. Such an arrangement would make students (i.e., their parents) pay for the bulk of tuition and for any increases over the rate of inflation, thus pushing colleges to cut costs. He goes even further, urging that all public assistance be removed from higher education.

The traditional argument for government subsidies is that a college education provides not only the private benefit of a higher income and a more abundant life but also the social benefit of a more productive and educated citizenry. Maybe, but Mr. Vedder ingeniously shows that the states that have spent the most on higher education in the past 25 years have experienced the least economic growth. And relatively recent spending may be mostly wasteful, indeed, although earlier outlays, like those that built the California university system, may have made sense at the time. Interest groups, in higher education as elsewhere, entice governments to overspend at the margin.

As for the professors, Mr. Vedder notes that while tenure safeguards academic freedom, it preserves deadwood and makes reforming universities harder, since faculty members feel free to be obstructionist. He doesn't want to see legislators simply abolish tenure by ukase, since they lack the information to micromanage faculties. But he does think that universities themselves should experiment by offering higher salaries and better benefits to professors willing to forgo the security of a lifetime sinecure. As for college presidents, maybe their pay can be pegged to real performance -- say, the percentage of students who, upon graduating, can parse a Latin sentence, solve a quadratic equation or just put the Civil War in the right century. Watch salaries drop precipitously.

Mr. McGinnis is a professor at the Northwestern School of Law.

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