LESSONS FROM AMERICA?

The financial differences reveal that higher education bets on winners and losers in the race to the American Dream. It offers itself as the route to the Dream, but it does so in highly stratified ways. Who will have access to which colleges and which degrees and who will have the kind of support that converts access into achievement remain too closely connected to one's origins to be brushed under the rug of 'everyone in America has the opportunity to go to college'. (Lazerson, 2010: 199).

Introduction

This is a report of a short visit to the US in September/October 2010. A list of the institutions and people seen is at Annex.

The visit followed a slightly longer one in spring 2008 when the Spellings Report (US Department of Education, 2006) was still a live issue, when there was a Republican President, and before the credit crunch. This report first recaps on the findings and conclusions of the earlier visit (Brown, 2008); then talks about what has happened since; and finally considers whether this alters the previous findings and conclusions. I should particularly like to acknowledge the help of Professor Don Heller of Penn State University.

The Previous Report

The previous report analysed the strengths and weaknesses of American higher education bearing in mind the fact that it is not a unified system. America still spends a much higher proportion of GDP on tertiary education than Britain or any other country: 3.1 per cent in 2007 against an OECD average of 1.6 per cent (two-thirds comes from private sources). America still has the highest proportion of the population with Baccalaureate degrees. America remains by some margin the most attractive destination for international students. American institutions, private and public, dominate the global institutional rankings. American students generally have an enviable amount of choice of institution whilst credits facilitate inter-institutional transfers.

However, improvements in access have stalled, degree attainments have only risen slowly since the mid-1970s, time to degree has increased, and there are major problems with completion (Bowen et al., 2009). These reflect large and growing disparities between different social and ethnic groups (Jones, 2010). As a result, the US is now well down the league in terms of the proportion of the population with sub-degree qualifications. There are also major issues about value for money, with wasteful competition for status in one part of the market and cut throat economic competition in another, including from private, for-profit providers. The resourcing gap between public and private providers has widened (Douglass, 2007). Finally, there remains concern about the existing quality assurance arrangements, including regional accreditation.

The Spellings Report

The then Federal administration's response to these challenges was the Spellings Commission, named for the then Secretary of Education but chaired by Charles Miller, former Chairman of the Board of Regents, University of Texas system. The commission reported in September 2006. The main findings were that too few Americans, especially from non-traditional groups, participated in higher education; the funding system was "increasingly dysfunctional"; the financial aid system was "confusing, complex, inefficient, duplicative, and frequently does not direct aid to students who truly need it"; quality might be declining; and there was inadequate transparency and accountability for measuring institutional performance. The main recommendations were that there should be "an unprecedented effort" to expand access, with significant increases in aid to low income students; the entire student aid system should be restructured, with incentives for cost control and productivity; and institutional accountability should be enhanced through the creation of a database enabling institutions' performances to be compared, together with a much greater focus on "meaningful student learning outcomes"(US Department of Education, 2006).

This last proposal proved to be the most controversial, and in fact most of the recommendations were not implemented. This was due to a combination of a lack of sufficient specificity/applicability in the recommendations themselves, an administration running out of time and lacking the necessary clout in Congress and, not least, fierce opposition from the institutions, particularly the private ones (the most controversial proposal was to make regulations requiring outcomes-based assessment part of accreditation). Nevertheless there have been a number of developments in response to the concerns raised, such as the Voluntary System of Accountability. [1]

The New Administration

In his first State of the Union Address, President Obama announced plans to reverse this relative decline with the aim that the US should by 2020 be the world's leader in the proportion of its population with college degrees. Every American should have an additional year of college. The main proposal was the reform of low interest Federal loans so that these went direct to colleges and students rather than via private loan companies. The savings were to be used to enhance Pell Grants (Federal grants that typically go to students from families earning less than $40,000 a year), assist historically black colleges and other minority serving institutions, support community colleges, and finance a grant programme to help states and colleges to improve completion rates.

The resultant compromise legislation provided for the reform of loans but the expenditure agreed was less than half of that originally envisaged. Most of the money has gone to bolster the Pell Grant with the largest additional amount going to minority serving institutions. The monies for community colleges and grants to improve access and completion were radically scaled back. Moreover, the funds provided for student aid will only help compensate for cuts at state level, rather than finance a broad expansion of enrolment. (*The Chronicle* on 24 April 2009 estimated that even the President's initial proposal to make Pell Grants an entitlement and tie the maximum award to inflation would not protect its purchasing power or make it more predictable for families; this is because tuition tends to increase at twice the rate of inflation). In any event, the outcome of the recent mid-term Congressional elections, with the Republicans gaining control of the House and reducing the Democratic majority in the Senate, will mean little additional money for higher education. It is also possible that some of the initiatives taken by the administration, such as the focus on community colleges, will be scaled back. [2]

The Credit Crunch

According to the College Board, average state appropriations per $1,000 of personal income declined from $9.70 in 1989-90 to $6.60 in 2009-10. Colleges were indeed part-beneficiaries of President Obama's $700 billion stimulus package (the American Recovery and Reinvestment Act 2009). But this money is now running out and is anyway insufficient to compensate for the impact of the credit crunch on both public and private finances, as well as rising pension and other costs. The highest profile impact so far has been in California, with an estimated budget shortfall of nearly 60 per cent, resulting in major restrictions in enrolment in both four- and two-year institutions. However a number of other states are facing significant shortfalls. These include Nevada, Arizona and Utah which are also facing the greatest projected growth in high school graduates in the next decade. In some cities the institutions' financial position has been made worse by local authorities' attempts to exact property taxes and other payments from them (Brody, 2010). Moreover some of these states (e.g., Nevada) have recently elected Republican Governors.

Both public and private colleges have seen huge falls in endowments, with donors falling through on commitments or hesitating to make new ones, though more recently there has been some recovery (Marcus, 2011). There has also been a shift in the profile of donations, with fewer "megagifts" and more in the range $10,000 to $1m which colleges have to work harder for (Masterson, 2010). The 30 per cent or so cuts in endowments at Harvard and Yale have attracted international attention, but overall the leading private institutions are still better placed. For the wealthiest it is often a case of doing without luxuries such as teaching only one course per semester: at some institutions (e.g., Princeton) the student aid budget has actually increased. However, smaller tuition-driven private colleges without a clear market niche are losing out to other privates with a clearer market position as well as to lower cost public universities, community colleges and private for-profits which are nimbler at marketing. Nevertheless, everyone is becoming more dependent on tuition (Fain, 2011).

The states themselves are facing the challenge of increases in other budgetary claims and falls in property taxes. Lyall and Sell (2006) commented on the convergence of an extended economic recession, outdated state revenue systems based on declining economic sectors, an unwillingness to redefine the division of public obligations between the states and the Federal government, and an explicit philosophy among some political leaders of starving the public sector. In these circumstances higher education has become the "balancing wheel" of state budgets (this may sound familiar). Besides welfare costs, Medicaid, prisons and enlarged K-12 funding, there are the costs of unfunded Federal and state mandates. The former include enhanced security and emergency planning costs following 9/11. The latter include such things as tuition waivers for veterans' children and "legislative scholarships", at least two of which can be given by each legislator (Illinois). The result is an ever more reactive budgeting process, eroding tax bases (with permanent rather than one-off tax cuts), a failure to replenish "rainy day" funds in good times and blanket cuts in bad ones. McLendon and Mokher (2009) confirm that state tax revenues have not kept pace with increases in personal income, especially in states without personal income tax, as consumption has shifted to services and e-commerce.

The immediate institutional responses to the credit crunch have included enrolment limits, laying off staff, hiring freezes, increased teaching loads, bigger classes, increasing the proportion of adjunct faculty, promotion deferrals, cutting out programmes or consolidating enrolments, increased early retirements, and lower aid packages as well as increased tuition where this can be done. In California the tuition fee has been increased by 32 per cent since

2008. Other responses have included salary cuts, restricting travel and equipment purchases, reducing health and retirement benefits, and postponing capital spending.

More fundamental responses include various forms of restructuring. Some states (e.g., Louisiana) are shifting enrolments from four- to two-year institutions. Others (e.g., Florida) are allowing their community colleges to offer Bachelor's degrees in, usually, applied fields like nursing. Another development is increased collaboration (Virginia, Pennsylvania). Yet another response is to move to three-year degrees though there are doubts about feasibility. Some middle class families are "trading down", moving their offspring from expensive private colleges to less expensive private or public ones.

As for students, so far the credit crunch has mainly affected where and what they study rather than whether to participate. However the financial challenges will increase. Students are taking more time off from college, switching to part-time mode and seeking more financial aid. More are staying within state. Some reports refer to students facing huge loan hikes. [3]

An Opportunity for Reform?

In my previous report I gave some prominence to Richard Vedder's critique of American higher education as being too costly and too driven by academics' predilections (Vedder, 2004). This critique has continued. It is exemplified in the current "best seller" by Andrew Hacker and Claudia Dreifus *What's wrong at our colleges and universities – and how to get American higher education back on track* (Hacker and Dreifus, 2010; for other similar recent pieces, see Lazerson, 2010; Schumpeter, 2010; Taylor, 2010). The basic argument is that American universities and colleges have taken on too many roles and lost sight of their basic purpose of educating students well. Key issues here are the security, power and cost of the senior professoriate, and the priority given to postgraduate training and research. Hacker and Dreifus recommend that tenure should be replaced by multi-year contracts, sabbaticals should be reduced, and medical schools and research centres should be spun off. Quite apart from questions of feasibility, is this the direction in which American higher education should go?

Many commentators certainly believe that these cuts, coming on top of the failure of state appropriations to keep pace with enrolments and inflation over many years, are putting quality, capacity and the underlying ability to meet student and societal needs at risk. But there are also those who argue that there is much that institutions could do to work more economically, and even that this could be the long awaited opportunity to transform the higher education production function to make it more cost effective. They cite the case of Maryland where tuition was frozen and faculty work has increased in return for steady state support. [4]

However there may be limits to what can be achieved. In the less selective institutions, especially the community colleges, overcrowding, capacity shortages and increases in enrolments alongside lower per-student investments are already damaging quality. Consolidation of programmes/cutting out options may put off students who are paying increased fees, especially if they are from out of state. Many programmes are already integrated with others. Another factor is faculty and union resistance. State rules on procurement are another constraint. What does seem clear is that the credit crunch will give a further push to "privatisation" along the lines of the compacts in Colorado, Michigan and Virginia, where institutions have gained greater operating freedom in return for reductions in public aid. At Penn State, the level of state grants is the same as it was ten years ago, but these now represent only 8 per cent of total revenues. In Illlinois, state support is now only 17 per cent of the total institutional budget and the Michigan figure is about the same. However, analysing restructuring in Virginia, Leslie and Berdahl (2008) suggest that privatisation does not necessarily yield the benefits its proponents claim. [5]

Discussion

The question is whether between them the post-Spellings moves to strengthen accountability and affordability, renewed Federal interest in higher education, and the credit crunch will ease or exacerbate the relative crisis in which US higher education finds itself. At this point it may be as well to recall the analysis of the causes of the crisis offered previously.

This suggested that there were two main strands: a reduction in the relative level of public (both state and Federal) funding (the main factor, driving the tuition increases), and a failure on the part of the academy to properly account for its activities, especially teaching, and to contain its costs (the secondary factor). The first reflected a more general societal failure to sufficiently value the non-market (both collective and private) benefits of higher education (subsequently elaborated and estimated by McMahon, 2009). The second reflected the conservatism of the academy and the lack of incentives to improve teaching and completion. Other major contributors were the existence of uncontrolled price competition and a lack of coordination between (a) Federal and state actors (b) public and private providers. Whereas in the past decentralisation, price competition and a mixed economy had served America well, these factors were now holding her back (for a similar analysis, see Goldin and Katz, 2008).

My report argued that it was necessary to reaffirm the public goods arguments for subsidising both institutions and students, and to relate levels of state appropriations (or at least increases in appropriations) to fairly crude levels of demand and resource usage. At the same time, the public institutions at least should try to find some way to limit, and if possible agree, common tuition levels or increases. There should also be better coordination of Federal and state funding. Finally, public financial support for private institutions, including for-profit colleges, should be closely examined to ensure that the public benefits at least equate to the public costs, including not only subsidies for students but also tax breaks for institutions and donors. How far have developments since 2008 affected this analysis?

There is certainly a strong argument – articulated by McMahon (2009) - for saying that even though America devotes a relatively high proportion of its national wealth to higher education, US universities and colleges are underinvested in terms of the potential benefits (the argument is even stronger for the UK, with its long history of underfunding). But it is also the case that America does not obtain the best value from its higher education resources. This has two aspects: distribution and use.

The Distribution of Resources

There are enormous differences in institutional wealth, due partly to status and partly to the ability to attract private donations (which are of course related). At one end of the scale, Harvard and Yale have endowments of over $25bn. At the other, the typical public four-year institution may have endowments of a few million or less. These differences are important because they determine the capacity to attract particular categories of student by reducing tuition/ increasing aid.

There are extraordinary differences in the prices charged by institutions. According to the *Chronicle Almanac 2010-11,* tuition at private four-year institutions in 2009-10 ranged from over $39,000 to under $6,000; the range for public four-years was between over $24,000 and under $3,000. Most privates were in the range $21,000 to $29,000; most publics in the range $3,000 to $12,000. According to the College Board, 100 institutions now charge over $50,000 for fees, room and board, all but one of them (University of California, Berkeley) private.

Reflecting these differences, there are huge variations in expenditure per student. According to the Delta Project (Wellman et al., 2008: 26), full educational costs (direct costs of instruction and other education related costs) in private research universities in 2005 averaged about $13,500 more per FTE student than at public research universities. These in turn spent about $2,000 more per student than public Master's institutions, and $3,600 more per student than public two-year ones. Carnevale and Strohl (2010: 112) refer to data compiled by Caroline Hoxby which indicated resources of about $12,000 per student in less selective colleges and about $92,000 per student in the most selective ones.

Similarly, there are huge differences in levels of subsidy per student.Winston in 1999 calculated that whilst students in the wealthiest 10 per cent of institutions paid 20 cents for each dollar spent on them, students in the poorest 10 per cent paid 78 cents for each dollar spent. Doyle (2009: 52) calculated that low income students at public four-year doctoral institutions now receive less aid than they did in 2004, while those in the third, fourth and highest income levels receive more. Students in the lowest income bracket received about $660 from institutions, while high income students received about $567, and those in the 4th income bracket (whose incomes range from $71,000 to $109,000) received on average $827. This reflects of course the growing use of merit- (or non-need-) based aid as a means of increasing selectivity and therefore institutional prestige.

Besides the large differentials in institutional resourcing there are major differences in the social groups served. White students from affluent backgrounds are increasingly found in the more selective four-year private and public institutions. White students from less favoured backgrounds, together with most ethnic minority students, are increasingly found in the less and non-selective four- and two-year institutions. Yet low income students have lower expenditure per student, meet a higher share of the total costs of their education, and get less general preparation for employment. [6]

Not surprisingly, there are considerable differences in the subsequent experience of students from the various categories of institution. High income students enjoy higher career earnings from more general education leading to the most prestigious and remunerative professions. Low income students receive more specific occupational training which qualifies them for good but less secure mid-level jobs in less prestigious and remunerative professions. [7]

These differentials are growing. Carnevale and Strohl (2010: 78) show how the distribution of enrolments changed between 1994 and 2006. In the earlier year, 41per cent of students went to what Barron's terms "competitive, very competitive and most highly competitive" colleges, 13 per cent to "less competitive four-year colleges" and 46 per cent to community colleges. By 2006 the respective percentages were 46, 6 and 49 (Barron's is a commercial agency that classifies institutions according to their perceived "competitiveness"). America faces a real risk of a bifurcation into a well resourced upper tier of selective four-year institutions catering mainly for better prepared white students from relatively affluent families, and a lower tier of much less well resourced less or non-selective four- and two-year institutions, catering for less well prepared students from minority and/or lower social backgrounds. [8]

The Use of Resources

There is considerable controversy over the rate of loan defaults. *The Chronicle* in July (Field, 2010) reported that one in every five government loans that entered repayment in 1995 had gone into default. The rate is higher for loans to students at two-year colleges, and even higher (40 per cent) at for-profit ones. It is this which has prompted the current Congressional inquiry into the recruitment practices of the for-profits, as well as leading the Department of Education to propose a new "gainful employment" rule which would cut off Federal aid to programmes whose graduates have high debt-to-income ratios and low loan repayment rates. It is incidentally striking that a quarter of Federal aid goes to the for -profits even though they enrol only about ten per cent of the students, and that student aid represents an average of 77 per cent of the revenues of the five largest companies.

There is large and often wasteful expenditure on campuses, student residences, marketing, branding and enrolment, not to mention athletics (at both the University of Georgia and Penn State the largest physical fixtures are the football stadia used only a few times each year, making the English Premier League look like excellent value for money).

There are modest (and declining) graduation rates. Bound et al. (2010) estimate that among US born 25 year olds, the likelihood of obtaining a Bachelor's degree, conditional on some college participation, dropped from over 45 per cent in 1970 to under 40 per cent in 1990.. Graduation rates broadly correlate with institutional selectivity. At the most selective flagships, 65 per cent of students graduate in four years, and another 21 per cent in five or six; at the non-selective state systems, just 51 per cent graduated, and only half of them in four years (Bowen et al., 2009). [9,10]

However, Carnevale and Strohl (2010) point to striking variations in graduation rates in the same categories of four-year selectivity. For example, within the lowest "non-selective" category of college, the graduation rate among the bottom ten institutions averaged 13 per cent. Among the top ten colleges in the same category, however, the average graduation rate was 66 per cent! As the authors point out, in an economy where earnings returns are tied quite closely to graduation rates, choosing a college with a good graduation rate is just as important as choosing the level of selectivity. Some of this, but by no means all, can be laid at the door of the high schools (Ravitch, 2010): Bowen et al. (2009) found that even students from high income families and high performing high schools were graduating at a rate of little more than 80 per cent.

However, there is a very large proportion (over half) of high performing, top-quartile low income students who don't go on to four-year colleges at all. There are also large numbers of students even from relatively wealthy backgrounds who are qualified for higher education but who either do not go to college or who go to two-year colleges when they could go to four-year ones ("undermatching": Bowen et al., 2009). Even then, however, the lowest performing affluent students go to college at a higher rate than the highest performing youth from the least advantaged families.

Finally, there is the extraordinary imbalance between demand and supply at different "ends" of the system. On the one hand, Yale and Harvard have rejection rates of over 90%. At the other, non-selective community colleges will by definition almost take anyone. One solution would be for the most selective institutions to increase their places but that might dilute their selectivity and detract from their prestige. [11]

Other questions about value for money are raised by the high and increasing proportion of teaching done by contingents (adjunct staff and graduate assistants), almost certainly to the detriment of quality (Ehrenberg and Zhang, 2004; Bettings and Terry Long, 2010); and the relatively light (at least by UK standards) teaching loads of "permanent" staff (who also appear to have more administrative support than over here)

Carnevale and Strohl summarise the position thus:

The vertical integration of postsecondary education based on prestige has resulted in postsecondary competition based on inflationary spending for student subsidies, prestigious faculty, infrastructure and amenities, with no end in sight. The result is escalation in spending for positional advantage with no natural constraint except for the willingness and ability of successive generations of students from wealthy families and alumni to fund such advantages for their children (2010: 103).

In a recent essay, Roger Geiger traces this development back to the moment in 1978 when Harvard decided to boost its tuition price substantially and, in compensation, to increase student aid with internal funds. Other institutions followed suit. Thus the "academic arms race" was born. Also in that year, Congress removed all income limits for guaranteed student loans. This created the familiar high tuition/high aid model for the private sector which the public sector was bound to follow. In both sectors the relative price of education increased, fuelled by the increasing availability of loans. At the same time, demand for higher education grew, facilitated by the integration of a national market through improvements in transportation and other factors. The effect has been:

A general migration of the most able students into the selective sector. This can be documented with rising SAT scores (against a stable distribution) and growing concentrations of the highest scoring students (700+ scores). Hence, one of the salient characteristics of the current era has been the growing differentiation of the selective sector from the rest of American higher education. (Geiger, 2010; 6). [12]

One result of all this is that the US will continue to be short of workers educated to the appropriate level. A recent report (Carnevale et al., 2010) estimates that over the next decade the share of jobs in the US economy requiring post secondary education will increase to 63 per cent compared with 59 per cent now. By contrast, most workers with only a high school education will be limited to occupations that either pay low wages or are in decline. This will all require 22 million new college graduates plus 5 million with postsecondary certificates. On present projections, the US will fall well short of these requirements: an annual shortfall between demand and supply of 300,000 college graduates. It follows that the graduate premium will remain and may even increase.

This is of course ironic. Market competition is supposed to lead to better use of resources as well as greater responsiveness to consumers. The evidence – recently summarised in Brown, 2010 – is that up to a point it does. But America also shows what happens when competition goes too far, and when "the pathologies of the market reinforce the pathologies of the academy" (the strong pressure to acquire status within the academy: Brewer, Gates and Goldman, 2002 and many other studies). It is suggested that there need to be controls or agreements on tuition and related costs (in both the private and public sectors); that there should be closer attention to completion rates and quality (to create greater consistency, including establishing whether the quality of education offered at the more expensive institutions justifies the additional costs); that there should be greater coordination between two- and four-year institutions (Handel, 2010); and that some means should be found to recycle resources within the system to create a more level playing field between institutions. There also needs to be much closer targeting of public policies, including student aid, on the disadvantaged (Hauptman, 2008). This will require government action:

In a market so awash with Federal funds in the form of direct grants and guaranteed and subsidised loans to students and parents and direct purchase of research services, competitive pressures are not sufficient to change the system writ large (Zemsky, 2009: 209).

The alternative is for increasing numbers and access to become an engine for further inequality. [13]

If this sounds dangerously close to the liberal policies for redistribution currently being urged by Robert Reich, Joseph Stiglitz, Raghuram Rajan and others (see References), this is no accident. Nor are the parallels with American healthcare (Relman, 2010). [14] Otherwise, the US higher education system will resemble the US healthcare system in being both unduly expensive and inefficient as well as grossly unfair.

Notes

1 The VSA is an initiative by public four-year institutions to supply information on the student experience through a common web report, the *College Portrait.* Another similar initiative – *U-CAN* – covers a large number of private institutions. Together with the Education Department's *College Navigator* these provide information for intending students very similar to *Unistats*. Another recent initiative is the Presidents' Alliance for Excellence in Student Learning and Accountability (Glenn, 2010).

2 The administration is nevertheless pressing on with closer regulation of institutions' offerings, including a plan to establish a Federal definition of a credit hour which sector representatives see as a fundamental threat to academic freedom.

3 It should be noted that the impact of the credit crunch has been far from uniform. Well off private universities with large endowments and public institutions in energy-rich states with strong balance sheets are not only surviving but could prosper by attracting staff faculty and donors. Texas has established a special fund to recruit health professors from other states. But small less-selective privates dependent on tuition, plus publics in states with grim financial outlooks, are certainly suffering.

4 Those taking this view include John R. Thelin in *The Chronicle* (23 October 2009) pointing to the increasing share of non-instructional costs, not to mention college athletics; *Money and Management* (13 March 2009) mentioning overbuilding, much of it on marketing-type projects; Steven R. Portch (19 March 2010), former Chancellor of the Georgia System, arguing that institutions should revamp their structures, creating ways to measure learning

more effectively and allowing capable students to earn degrees more quickly; Howard H. Schwaber (13 February 2009) proposing that the flagships should narrow their missions, cut back on wasteful expenditure on research (e.g. hiring expensive "stars"), and concentrate on teaching and service, as well as making staff teach more (and this is without touching the athletics budget); Kronin and Houghton (22 May 2009) also proposing productivity increases: they mention Vedder's idea of tying administrators' salaries to cost incentives and state cost -benefit analyses of institutions; and Peter Faciole (20 March 2009) proposing cutting back on "unnecessary" programmes.

5 *The Chronicle* reported recently (7 January 2011) that the Governor had asked state legislators to cut aid to Virginia Commonwealth University by $17m, half of what the university will generate from tuition increases this year; whether this cut would be restored will depend on subsequent university decisions on tuition.

6 *Low income students enjoy the most constrained choice sets, which are dominated by HEIs offering lower general subsidies, while their more affluent peers choose among HEIs that offer more generous general subsidies* (Morphew and Taylor, 2010: 60). The authors go on to comment that *ignoring the segmentations and imperfections of* [the US student] *markets may cause us to ignore the fact that these choices have consequences that undermine the productive, efficient nature of our higher education system.*

7 A recent Chronicle survey found that exactly half of students from families earning less than $40,000 a year attended public two-year institutions (i.e., community colleges). The rest were at non-research-extensive public four-year institutions and private for-profit colleges (Ashburn, 2010). America's leadership derives disproportionately from the ranks of the top universities and colleges. Kahlenberg (2010: 11-12) quotes a 2002 study by Thomas Dye which found that 54 per cent of America's corporate leaders, and 42 per cent of government leaders, were graduates of just 12 institutions (virtually all private). Only a quarter of the elite went to state institutions. This again sounds familiar.

8 Charles et al. (2009) show how low income, and especially minority, students are held back by their segregated backgrounds. White and Asian American students (together with African American and Hispanic students who grew up in integrated settings) generally experience good quality schools with better resources and high quality infrastructures, located in peaceful neighbourhoods where disorder and violence are rare. However, Black and Hispanic students often grow up under conditions of greater segregation, with lower quality of instruction, less abundant resources, weaker infrastructures and quite a lot of exposure to social disorder and violence. These backgrounds continue to affect them even after they enrol.

9 In its most recent report, the College Board (Baum et al., 2010) gives the following percentages for first-time full-time students graduating from four-year colleges within six years: private not-for-profit 57, public not-for-profit 55, private for-profit 22. *The Chronicle* on 10 December reported a Department of Education finding that of students who entered higher education in 2003/4, about half earned degrees or certificates by June 2009: of the rest, 15 per cent were still enrolled and 36 per cent had left higher education. An analysis of nearly 1,400 four-year institutions in the same issue (Brainard and Fuller, 2010) showed that one-third reported lower graduation rates for the six-year period ending in 2008 than for the one ending in 2003.

10 One of the many paradoxes of US higher education is that even while tuition costs have risen faster than family incomes or general inflation, demand for selective institutions has continued to increase (Hoover, 2010). This partly reflects the resilience of the graduate premium, lately estimated by the College Board (Baum et al., 2010) as $21,900. (Technically, this is the figure for the additional median pre-tax earnings of Bachelor's degree graduates working full-time for the entire year, as compared to the earnings etc. of high school graduates). The College Board estimates that over a working lifetime college graduates earn two –thirds more than high school graduates. This takes us back to the underfunding argument.

11 Golden (2006: 6) suggests that at least one-third of students at elite universities, and at least half at liberal arts colleges, are flagged for preferential treatment in the admissions process. While students from ethnic minorities make up 10 to 15 per cent of a typical student body at such institutions, affluent whites dominate other preferred groups: recruited athletes, alumni children ("legacies"), development cases (offspring of current or potential donors), children of celebrities and politicians, and children of faculty members (see also, Kahlenberg, 2010b). He comments on the irony of the fact that many of those who oppose affirmative action for ethnic minorities are themselves very often the beneficiaries or advocates of such non-academic preferences. A recent report in *The Chronicle* (Ashburn, 2011) suggests that these estimates may be on the low side, and that legacy applicants get a 23.3 per cent increase in the probability of admission (in other words, if a non-legacy applicant has a19 per cent chance of admission an identically "qualified" non-legacy applicant would have a 42.3 per cent chance).For a fascinating account of how the admissions process at elite institutions works to reproduce social status, see Stevens, 2007.

12 It should be noted that there is no *educational* case for a hierarchy based on institutional selectivity. The only educational argument in favour relies on peer effects but the literature indicates that these are relatively small for well qualified students (Carnevale and Strohl, 2010: 114). Other difficulties with hierarchy are that it discourages innovation in teaching and learning (because the more prestigious institutions have little incentive to innovate whilst the less prestigious ones know that it will gain them little competitive advantage) and that it inhibits horizontal development within each tier (institutions compete not through specialisation but by increasing the scope of their course offerings).

13 Two recent papers from the Center for Studies in Higher Education at the University of California, Berkeley (Douglass, 2010; Geiser, 2010) argue that on value for money grounds, more students should be attending four- rather than two-year institutions, and that the community colleges should be more differentiated, with some becoming "university centers" (offering upper-division courses from four-year institutions) and some becoming "university branches" (lower-division satellites of four-year institutions). Douglass also recommends the creation of a "Polytechnic Universities" sector to complement the existing institutions. For an up to date account of the crisis in California, see Corbyn, 2011.

14 Kaplan (2009) notes that US health care is another example of a positional market where the effect of competition is to increase costs rather than quality or efficiency. Where it occurs, competition is over a narrow range of aspects, and increasingly shaped by the actions of "for profit" providers. Suddenly, every hospital is expanding profit centres like delivery units and cardiac care centres while closing or shrinking less profitable areas such as burn units or Level 3 trauma centres.

Annex

University of Georgia Institute of Higher Education

Doug Toma, Libby Morris (Director), Rob Toutkoushian, Karen Miller, Elisabeth Hughes.

Washington D C

Art Hauptman, Susan Whealler Johnston (Association of Governing Boards), Terry Hartle (American Council on Education), Peter Eckel (American Council of education), Kevin Carey (Education Sector), Clifford Edelman (Institute for Higher Education Policy), Kurt Larsen (World Bank), Roberta Malee Basset (World Bank), Judith Eaton (Council for Higher Education Accreditation), Anthony Carnevale (Georgetown University, Centre for Education and the Workforce).

Penn State University Centre for the Study of Higher Education

Donald Heller (Director), Bob Hendrickson, Robert Reason, Leticia Oseguera, Roger Geiger, Lisa Lattuca.

References

Ashburn, E. (2010) "Who Are The Undergraduates?" *The Chronicle of Higher Education* 17 December.

Ashburn, E. (2011) "At Elite Collleges, Legacy Status Counts More Than You Thought" *The Chronicle of Higher Education* 14 January.

Baum, S., Ma, J. and Payea, K. (2010) *Education Pays 2010* Washington, D.C. The College Board.

Bettings, E.P. and Terry Long, B. (2006) "The Increased Use of Adjunct Instructors at Public Institutions: Are We Hurting Students?" in Ehrenberg, R.G. (ed) *What's Happening to Public Higher Education? The Shifting Financial Burden* Baltimore: Johns Hopkins University Press.

Bound, J., Lovenheim, M.F. and Turner, S. (2010) "Why have college completion rates declined? An analysis of changing student preparation and collegiate resources" *Journal of Applied Economics* 2 July 2010: 129-157.

Bowen, W.G., Chingos, M.M. and McPherson, M.S. (2009) *Crossing the Finishing Line: Completing College at America's Public Universities* Cambridge, Ma and London: Harvard University Press.

Brainard, J. and Fuller, A. (2010) "Graduation Rates Fall At One-Third of 4-Year Colleges" *The Chronicle of Higher Education* 10 December.

Brewer, D.J., Gates, S.M. and Goldman, C.A. (2002) *In Pursuit of Prestige: Strategy and Competition in US Higher Education* Somerset, New Jersey: Transaction Publishers.

Brody, E. (2010) "Payments in Lieu of Taxes: 'Contributions', Say the Towns: 'Extortion', Say the Colleges. *The Chronicle of Higher Education* February 5.

Brown, R. (2008) *Where the US goes today...* Oxford: Higher Education Policy Institute. http://www.hepi.ac.uk/484-1579/Where-the-US-goes-today.html.

Brown, R. (ed) (2010a) *Higher Education and the Market* New York and London: Routledge.

Brown, R. (2010b) *Nonsense on Stilts: The Browne Review Proposals on Quality* Lecture at Thames Valley University 3 November 2010. http://bit.ly/a43L2.

Carnevale, A.P. and Strohl, J. (2010) "How Increasing College Access Is Increasing Inequality, and What To Do About It" in Kahlenberg, R.D. (ed) *Rewarding Strivers: Helping Low-Income Students Succeed in College* New York: The Century Foundation Press.

Carnevale, A.P., Smith, N. and Strohl, J. (2010) *Help Wanted: Projections of Jobs and Education Requirements Through 2018* Georgetown University: Center on Education and the Workforce.

Charles, C.Z., Fischer, M.J., Mooney, M. A. and Massey, D.S. (2009) *Taming the River: Negotiating the Academic, Financial and Social Currents in Selective Colleges and Universities* Princeton, New Jersey: Princeton University Press.

Corbyn, Z. (2011) "The fruits of Californification" *Times Higher Education* 13 January.

Douglass, J.A. (2007) *The Conditions for Admission: Access, Equity and the Social Contract of Public Universities* Palo Alto: Stanford University Press.

Douglass, J.A. (2010) *Re-Imagining California Higher Education* Research and Occasional Paper Series: CSHE. 14.10. Center for Studies in Higher Education, University of California, Berkeley.

Doyle, W.R. (2009) "Hard Choices" *Change Magazine* November, December: 50-54.

Ehrenberg, R.G. and Zhang, L. (2004) *Do Tenured and Tenure-Track Faculty Matter?* Cornell Higher Education Research Institute http://www.ilr.cornell.edu/cheri [last accessed 5 November 2010]

Fain, P. (2011) "More Public Colleges Are Pessimistic About Tuition Revenue, Moody's Survey Finds" *The Chronicle of Higher Education* 7 January.

Field, K. (2010) "The High Cost of Defaults" *The Chronicle of Higher Education* July 16.

Geiger, R.L. (2010) *Post-Mortem for the Current Era: Change in American Higher Education, 1980-2010.* Penn State University: Center for the Study of Higher Education. Working Paper 3 http://www.ed.psu.edu/educ/cshe/working-papers/WP%233. [last accessed 5 November 2010]

Geiser, S. (2010) *Beyond the Master Plan: The Case for Restructuring Baccalaureate Education in California.* Research and Occasional Paper Series: CSHE. 16.10. Center for Studies in Higher Education, University of California, Berkeley.

Glenn, D. (2010) "71 Presidents Pledge to Improve Their Colleges' Teaching and Learning" *The Chronicle of Higher Education* November 5 http://chronicle.com/article/71-Presidents-Pledge-to/125285/ [last accessed 17 December 2010]

Golden, D. (2006) *The Price of Admission. How America's Ruling Class Buys Its Way into Elite Colleges – and Who Gets Left Outside the Gates* New York: Crown.

Goldin, C. and Katz, L.F. (2008) *The Race Between Education and Technology* Cambridge, Ma and London: Harvard University Press.

Hacker, A. and Dreifus, C. (2010) *Higher Education? How colleges are wasting our money and failing our kids – and what we can do about it* New York: Times Books Henry Holt and Company.

Handel, S.J. (2010) "Silent Partners in Transfer Admissions: Four-Year Institutions Need To Give Much More Help To Students From Community Colleges" *The Chronicle of Higher Education* September 24.

Hauptman, A.M. (2008) "Marrying Accountability and Autonomy: Shine Spotlights oor Send Signals?" *Change* July/August: 38-42.

Hoover, E. (2010) "Application Inflation. Bigger numbers mean better students, colleges say. But whne is enough enough?" *The Chronicle of Higher Education* November 12.

Jones, G. (2010) "The Dream of Diversity on Campuses Has Not Been Achieved" *The Chronicle of Higher Education* November 26.

Kahlenberg, R.D. (2010a) "Introduction" in Kahlenberg, R.D. (ed) *Rewarding Strivers: Helping Low-Income Students Succeed in College* New York: The Century Foundation Press.

Kahlenberg, R.D. (2010b) "10 Myths About Legacy Preferences in College Admissions" *The Chronicle of Higher Education* October 1.

Kaplan, G. (2009) "Governing the Privatised Research University" in Morphew, C.C. and Eckel, P.D. (eds) *Privatising the Public University: Perspectives from across the Academy* Baltimore: Johns Hopkins University Press.

Lazerson, M. (2010) *Higher Education and the American Dream: Success and its Discontents* Central European University Press.

Leslie, D.W. and Berdahl, R.O. (2008) "The Politics of Restructuring Higher Education in Virginia: A Case Study" *The Review of Higher Education* 31 (3): 309-328.

Lyall, K.C. and Sell, K.R. (2006) *The True Genius of America at Risk: Are We Losing Our Public Universities?* Washington, D.C. American Council on Education and Praeger.

Marcus, J. (2011) "US endowments return to path of healthy growth" *Times Higher Education* 10 February.

McLendon, M.K. and Mokher, C.G. (2009) "The Origins and Growth of Policies that Privatise Public Higher Education" in Morphew C.C. and Eckel, P.D. (eds) *Privatising the*

Public University: Perspectives from across the Academy Baltimore: Johns Hopkins University Press.

McMahon, W.W. (2009) *Higher Learning, Greater Good: The Private and Social Benefits of Higher Education* Baltimore: Johns Hopkins University Press.

Masterson, K. (2010) "With Megagifts Hard to Get, Colleges Chase More Donors" *The Chronicle of Higher Education* November 26.

Morphew, C.C. and Taylor, B. (2010) "Markets in the US Higher Education System: Imperfect Competition for Undergraduates" in Brown, R. (Ed) *Higher Education and the Market* New York and London: Routledge.

Rajan, R.G. (2010) *Fault Lines: How Hidden Fractures Still Threaten the World Economy* Princeton and Oxford: Princeton University Press.

Ravitch, D. (2010) *The Death and Life of the Great American School System* New York: Basic Books.

Reich, R. (2010) *Aftershock. The Next Economy and America's Future* New York: Alfred A. Knopf.

Relman, A. (2010) "Health Care: The Disquieting Truth" *The New York Review of Books* September 30.

Schumpeter (2010) "Declining by degree. Will America's universities go the way of its car companies?" *The Economist* September 2. http://www.economist.com/mode/16941775/print. [last accessed 17 September 2010]

Stevens, M.L. (2007) *Creating a Class: College Admissions and the Education of Elites* Cambridge, Massachusetts and London: Harvard University Press.

Stiglitz, J. (2010) *Freefall: Free Markets and the Sinking of the Global Economy* London and New York: Allen Lane.

Taylor (2010) *Crisis on Campus: A Bold Plan for Reforming our Colleges and Universities* New York: Alfred A. Knopf.

US Department of Education (2006) *A Test of Leadership: Charting the Future of US Higher Education* Washington, D.C.

Vedder, R. (2004) *Going Broke by Degree: Why College Costs Too Much.* Washington, D.C.: AEI Press.

Wellman, J., Desrochers, D.M. and Lenihan, C.M. (2008) *The Growing Imbalance. Recent trends in U.S. postsecondary education finance* Washington D.C.: The Delta Project on Postsecondary Education Costs, Productivity and Accountability.

Winston, G.C. (1999) "Subsidies, hierarchy and peers: the awkward economics of higher education" *Journal of Economic Perspectives* 13 (1): 13-36.

Zemsky, R. (2009) *Making Reform Work: The Case for Transforming American Higher Education* New Brunswick, New Jersey and London: Rutgers University Press.