

Empowering Students by Increasing Competition Among Universities

By Ryan C. Amacher and Roger E. Meiners

Most state legislatures either set university tuition directly or assign the task to a central bureaucracy. In most states the tuition is the same whether a student attends a world-class institution such as the University of California at Berkeley or a less distinguished school such as the University of California at Santa Cruz. In Texas, the tuition is the same at the University of Texas at Austin as it is at Sam Houston State University, yet no one would contend that the average value of the education received is the same.

We propose that if UT-Austin wants to charge more, especially because it runs many expensive graduate programs, let it do so, while Sam Houston State, which offers good quality undergraduate programs that cost less, should be able to charge less. Sam Houston can compete with Austin on a price and quality basis in some programs. The fact that the flagship institutions charge the same price as the less famous universities is evidence of how state university systems are designed to benefit the flagship institutions, such as Austin or Berkeley, because, they get to offer higher prestige degrees at the same price as one must pay to attend "lesser" institutions.

Even more importantly, to make colleges more competitive, and thereby responsive, students need more power than they have now to reward colleges that offer what a student needs, given his or her ability. Competition, to be effective, besides needing consumers with the power to take their dollars

where they prefer, also need the sellers of educational services to have strong incentives to compete to serve the students. Currently, our university system is controlled far too much in the state capital. Students do not have as much consumer power as they could have and universities are restricted from competing with each other.

Student Power!

Rather than make direct appropriations to universities based on credit hours on a complex formula, Texas can give every in-state student eligible for admission to an accredited university (which presently includes just about everyone who has a high school diploma or its equivalent) a scholarship account for an amount equal to the sum currently allocated to universities by the tuition formula and assorted line items in the budget.

...to make colleges more competitive, and thereby responsive, students need more power than they have now to reward colleges that offer what a student needs, given his or her ability.

If that amount is equal to \$200 per credit hour, or \$3000 for a 15 hour semester, the college is credited with that sum (the scholarship) when a student enrolls, up to, say, 130 credit hours. The number of credits a student can take would be limited. A cap on credit hour support would discourage students from spending too much time hanging around trying to decide what to do at

taxpayer expense. The cost to the taxpayers will be about the same, but students and their parents, not lobbyists and legislators, will

determine which colleges are doing the best job offering programs of interest. There will be more diversity in program offerings than we see now.

As long as state colleges rely on the legislature for their funding, top administrators will incur great effort fighting for larger budgets, mostly by lobbying in Austin rather than thinking of how to better compete for students. This leads to an incentive to press for programs, even if of dubious value, that may be politically attractive. There is also little incentive to do a good job with the resources at hand, such as getting rid of incompetent professors. If students carry tuition dollars with them, colleges will work harder to satisfy students and parents. This system also eliminates the worry about 'needless' duplication. Programs valued by students and parents will be more likely to be created and to survive.

Force Colleges to Really Compete

Colleges should compete harder for students so that these institutions have incentives to offer good value for the money (as judged by students, their parents, and others who care about the quality of colleges). Private colleges compete fiercely for students. Public colleges compete less intensely. With greater competition among public colleges, we would see more variation in what they do, just as we see among private colleges. There would be much more diversity among the structure of public colleges. Diversity would not mean fixed percentages of students by race but would mean diversity in university offerings to reach out to the diverse interests of students.

The most prestigious public universities in Texas – the University of Texas at Austin and Texas A&M University – have a surplus of students trying to get in partly because they know those universities have a bigger reputation, yet are forced by law to charge the same tuition as all other state colleges. To force public colleges to compete, which will end the imbalance of supply and demand, all state universities must be allowed to

set their own tuition. UT-Austin may well charge more than UT-Arlington, which will convince more students to think harder about Arlington or San Angelo State, because of the cost savings. It also lets Arlington and San Angelo compete more effectively with Austin.

Presently, public colleges look amazingly alike because most appear to imitate big name universities. If UT-Austin is considered a great university, lesser universities have incentives to offer the same course selection that UT does and assert that they have the same standards. Such an attitude might make sense if there were another couple billion dollars or so in state coffers every year to begin to buy the kind of quality, research, and program diversity an elite school such as UT-Austin offers. For most state schools to be full-fledged, comprehensive universities offering PhDs in umpteen disciplines is academically foolish and a misuse of resources. Private colleges are much more careful about getting into the expensive business of producing PhDs and simply imitating Austin or College Station. The problem is that the faculty who have their PhDs from places such as Berkeley and Austin want to believe that they can turn their university into another Austin or Michigan. But that is not what most students need; they need good, solid undergraduate education.

The best model we have for doing this is the GI Bill. During World War II, Congress debated many measures that would provide educational benefits to service personnel after the war. The GI Bill gave qualified students the ability to transport their tuition payments to the college of their choice. It was a straightforward system; the GIs would get accepted to a university of their choosing (that would accept them) anywhere in the country; the tuition monies would follow them. The history of this is instructive on several counts.

An 'Unworkable' System

There was little controversy over giving educational benefits to veterans. Instead, the debate was over the form the benefits would take. When the GI Bill was discussed in Congress, the American Council on Education, representing public and private colleges, lobbied for financial support directly to colleges. The colleges argued that they needed resources to expand to be able to handle the influx of new students, but it should be through direct appropriation rather than allowing the GIs to choose any college and thereby carry the public funding with them.

The ability of GIs to go anywhere they were admitted was attacked by the president of Harvard, James Conant: "In education ... we must guard the doctrine of local responsibility" and by the president of the University of Chicago, Robert Hutchins: "It is not merely reckless, it is an open invitation to any entrepreneur of the proper political persuasion in a given state to buy up the charters of a dozen bankrupt colleges and make his fortune."¹ Conant found the bill, as passed, to be "distressing" because "we may find the least capable among the war generation ... flooding the facilities for advanced education." He wanted a program that would only support "a carefully selected number of returned veterans."² Hutchins attacked the bill as "unworkable" and predicted that the vets would flock to low quality colleges

that would admit and retain unqualified vets to collect the money.

Smart Shoppers

No such thing happened. The students were serious about their education and did not fritter away the opportunity by going to sham colleges. Most GIs went to public colleges, but some went to church-related schools. Old quota systems that restricted the number of positions allowed for Jewish and Catholic students at some schools were overturned as they competed for students. "The impetus came ... not from the top ... but from freedom of choice - and the ability to pay for it."³

As long as state colleges rely on the legislature for their funding, top administrators will incur great effort fighting for larger budgets, mostly lobbying in Austin rather than thinking of how to better compete for students.

Without the choice provided by the GI Bill, many blacks would not have had opportunities open to them. Most blacks lived in segregated states; if the states were allowed to control the funds, they would not be able to attend quality state institutions; they would be forced to attend low-quality black colleges in the South - whose funding was controlled by the states which sought control of these new federal funds. The GI Bill allowed students to go wherever they were qualified - and take their support to black colleges if they so desired. Indeed, proportionally, black colleges benefitted more than white colleges. But northern colleges also competed for qualified black students, which opened opportunities for education that did not

¹ Michael Bennett, "The Law That Worked," *Educational Record*, Fall 1994, p. 11.

² Keith Olson, "The Astonishing Story," *Educational Record*, Fall 1994, p. 22.

³ Bennett, p. 11.

exist in the South.⁴

The desire of established colleges to protect the existing order failed. Congress passed the GI Bill under the slogan "This is a bill for veterans, not for educators."⁵ Because the bill allowed open competition for students, new colleges, such as Antioch College, got their foot in the door and benefitted by attracting GIs. Antioch was one of the first colleges to start a cooperative educational program. Because of this program, it would have been excluded from GI Bill benefits under the criteria proposed by the American Council on Education, which was not interested in deviations from the established norm.

As would be expected, the wave of new students competed to get in the best schools. Of the 2.2 million who attended college under the bill, 41 percent registered at 38 universities. Wisconsin's enrollment jumped from 11,400 to 18,700; Stanford's from 4,800 to 7,200. After the fact, it was recognized that the vets *raised* average student quality, largely because of their seriousness. Clark Kerr, president emeritus of the University of California, said "Subsidized students were less likely to be subject to government controls than subsidized institutions, and students could make better and quicker choices in the market among institutions and their programs than could slower moving bureaucracies in distant offices."⁶

Peter Drucker said that the GI Bill "signaled the shift to the knowledge society" and may have been

"the most important event of the 20th century."⁷ What Drucker was referring to is the beginning of America having a large share of its working population college educated. The GI Bill showed us how well a college finance system can work that allows students to carry their publicly subsidized tuition support with them, rather than having public support go directly to colleges which then offer subsidized services to students.

It is unlikely that if existing colleges had their way in 1944 – more legislative appropriations to support the status quo – that the results would have been as favorable. If enough money is thrown at anything there can be results; the genius of the GI Bill was that it forced colleges to compete a little bit harder for students who rewarded the college chosen with their dollars. Federal Pell grants and similar loan programs have somewhat the same effect as the GI Bill, because students can carry their loans to any college that accepts them.

A "GI Bill" for All

Today most financial support for undergraduate higher education is at the state level. Texas can replicate the essential wisdom of the GI Bill, giving students more leverage as consumers of higher education. The result will be better educational services for every tax dollar devoted to higher education. Students could have the right to take their scholarship account to any accredited school in the state. There should be no restriction on when this occurs. Since education is, increasingly, a life-long process, those who do not use all their college credit support dollars when they are 20 can use them when they are 45. Often our best students are those who flunked out or dropped out of college on their first try and come back years later when they appreciate the opportunity more. This

⁴ Reginald Wilson, "GI Bill Expands Access for African Americans," *Educational Record*, Fall 1994, p. 32.

⁵ Bennett, p. 11.

⁶ Clark Kerr, "Expanding Access and Changing Missions," *Educational Record*, Fall 1994, p. 31.

⁷ Peter Drucker, *Post Capitalist Society*, Harper Business, 1993, p. 3.

scholarship proposal, which is hardly radical, will unnerve many higher education leaders (and legislators), just as college presidents predicted that the GI Bill would be a disaster. The status quo is always more comfortable; competition requires more effort than monopoly.

Is the Fox Guarding the Chicken Coop?

Who assures that college education will not be a race to the bottom? When the GI Bill was proposed, college presidents predicted that students would go to degree mills that would pocket tuition money and hand out worthless degrees. This assertion remains a worry today for good reason. No market is perfect and without con artists. However, the buyers of educational services, like the buyers of medical services, are not so stupid that they prefer to obtain low quality service. Education is no different in this regard than any other service. Regardless of who pays out health care bills, we do not seek inferior physicians and hospitals.

Of course there are fraud merchants who want to separate us from our money. And some people are not wise consumers. But, as in any other market, central planners cannot out-perform private decision makers. The primary role of the Commission on Higher Education should not be to determine what college can offer what program, but to audit colleges to look for evidence of fraud or other financial abuse.

We're Number One

At football games, fans like to chant that their team is (or should be) number one. Only one team can be that, but higher education in America is generally regarded as number one in the world. Unlike our high schools, which compare poorly to other nations, American higher education puts Japan, France, and other countries with respected high school programs to shame. Henry Rosovsky, former dean at Harvard, notes that American higher education is great because of competition.

"That Harvard and Stanford, for example, actively recruit and compete for students ... is quite incomprehensible to establishments such as Tokyo and Kyoto universities, where an entrance examination determines all."⁸ Similarly, in most countries, universities do not compete for faculty; professors are civil servants (essentially tenured for life upon hiring). Politics controls who gets what. The more we move toward central control of higher education, in Austin or in Washington, the more we will reduce the quality of higher education.

A benefit of quality higher education, as Peter Drucker notes, is that higher education is a major service export of the U.S.⁹ Students from around the world want to attend universities in Texas and other states. Quality higher education arose under decentralized management and is academically competitive. Other countries compete poorly because their national university systems are run by central bureaucracies in the national capital. As so-called reform in the U.S. moves to centralized control of higher education we reduce choice, retard innovation, and gradually reduce quality. State planned monopolies are not consumer friendly, so it is little wonder that private universities, without the benefit of resources and control from state legislatures, dominate the top end of academic quality.

Our concern is not with making some university in Texas number one, but by making sure that students in Texas have increased access to colleges that have increased incentives to compete for student dollars. For Texas to be

⁸ Henry Rosovsky, "Our Universities Are the World's Best," *The New Republic*, July 13 & 20, 1987, p. 13.

⁹ Drucker notes, quite properly, that service exports, such as university education, are rarely mentioned in U.S. trade statistics, which focus on merchandise shipments. The U.S. runs a large trade surplus in service (or knowledge) industries.

competitive in the national and world economy, we must enable greater percentages of people to attend college to obtain the skills necessary to be highly productive citizens.

Ryan C. Amacher is Professor of Economics and Public Affairs at the University of Texas at Arlington where he served as president from 1992-95. Roger E. Meiners is Professor of Economics at the University of Texas at Arlington. Copyright 2000 by Ryan C. Amacher and Roger E. Meiners.