

**THE DANGEROUS ROLE
OF
ECONOMISTS
IN
MAKING EDUCATION
POLICY**



CLAREMONT GRADUATE UNIVERSITY

SCHOOL OF EDUCATIONAL STUDIES

ECONOMICS AND FINANCE OF EDUCATION

ED 457

PRESENTATION
BY
CAROL FRANCES
PROFESSOR

THURSDAY, MAY 21, 2009

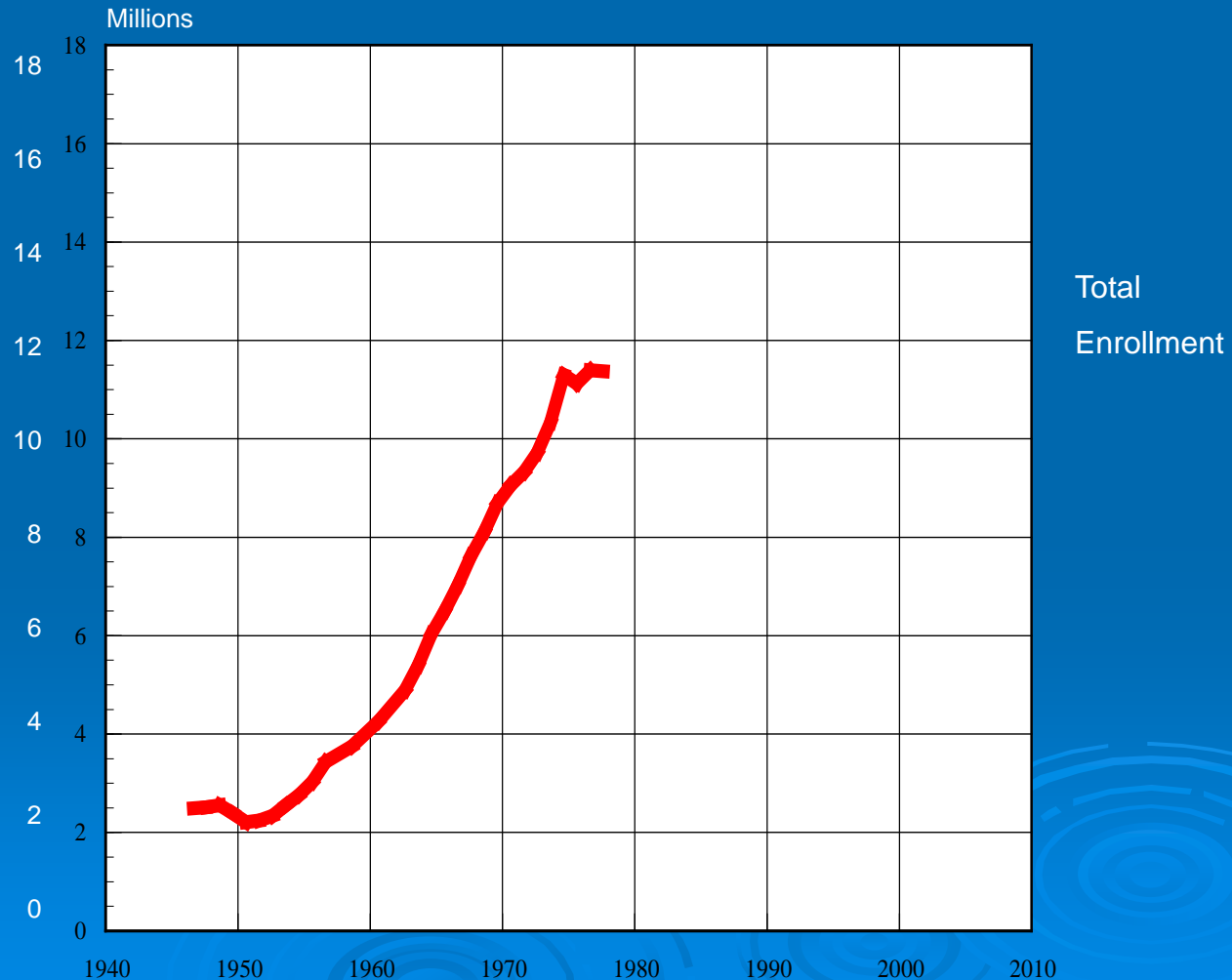


10 POLICY DOMAINS

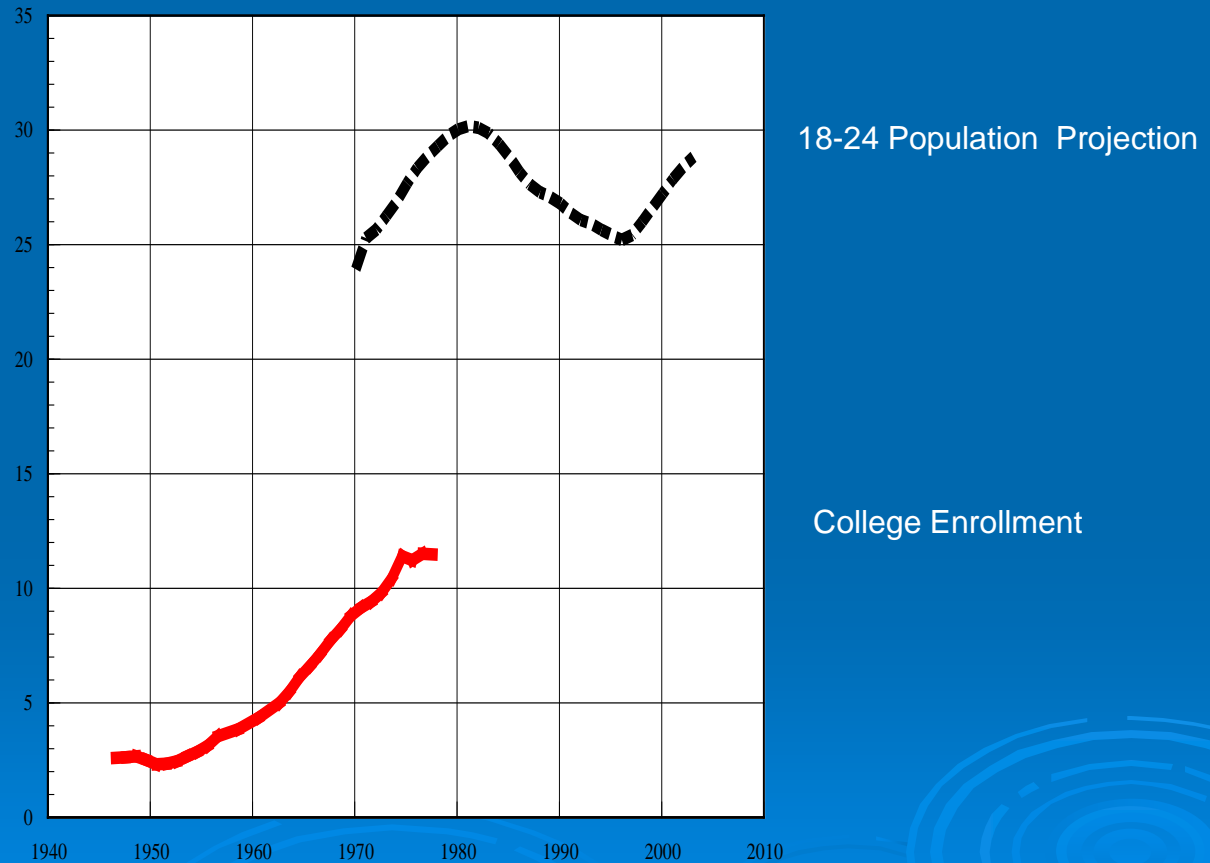
- 1. College enrollment projections
- 2. Tuition pricing
- 3. Student financial aid
- 4. Inflation adjustments
- 5. Equity
- 6. Cost
- 7. Productivity
- 8. Social and individual benefits of education
- 9. Impact of information technology
- 10. Federal and state budget priorities

1.

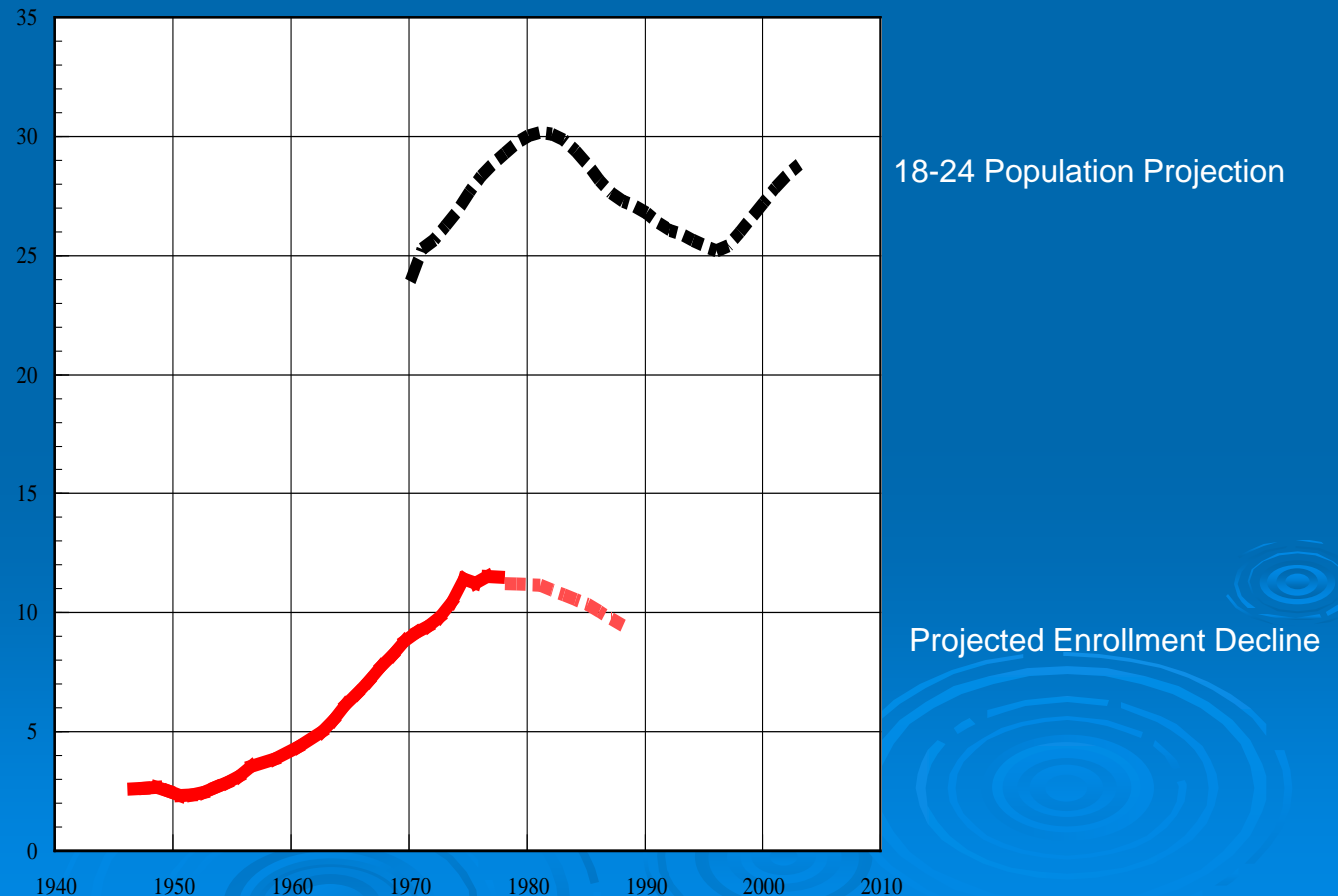
This is the trend in college enrollment that analysts saw:



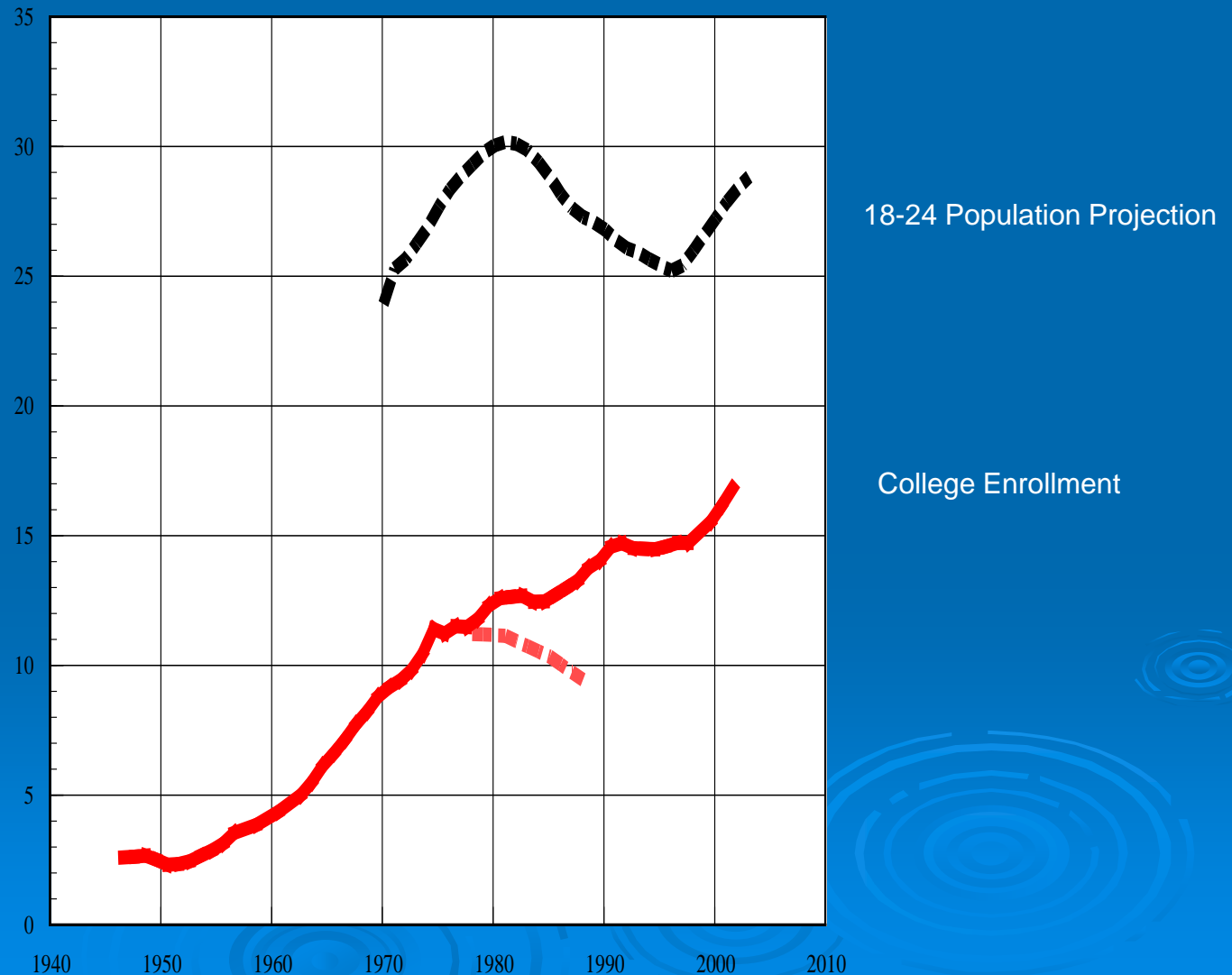
The economists saw this demographic projection of the 18-24 year-old population:



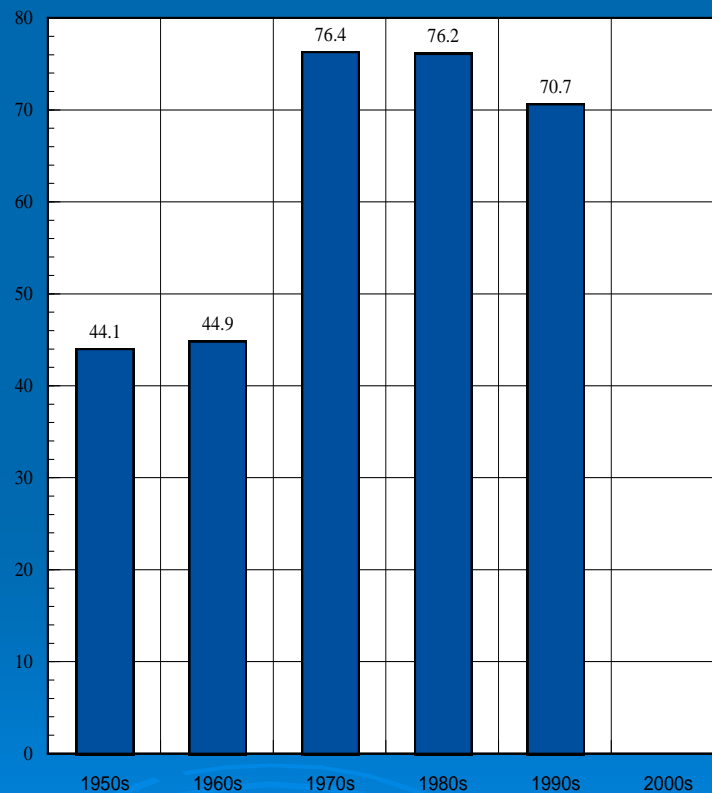
Then economists predicted that college enrollment would decline:



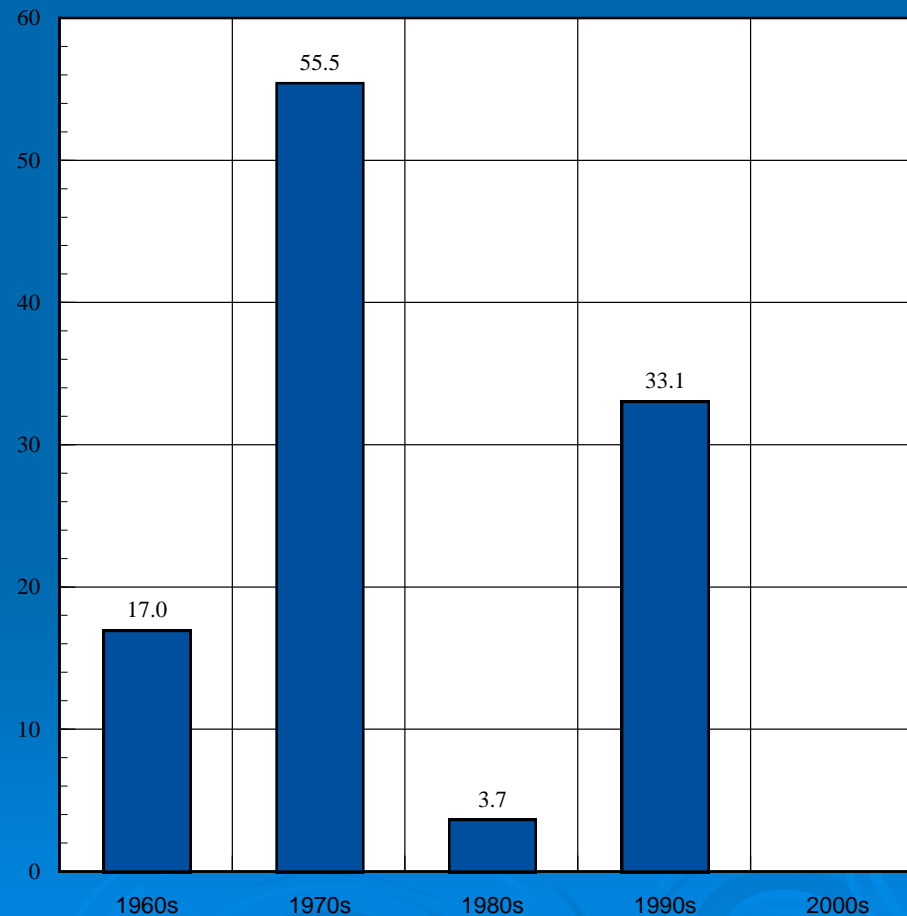
But college enrollment actually increased:



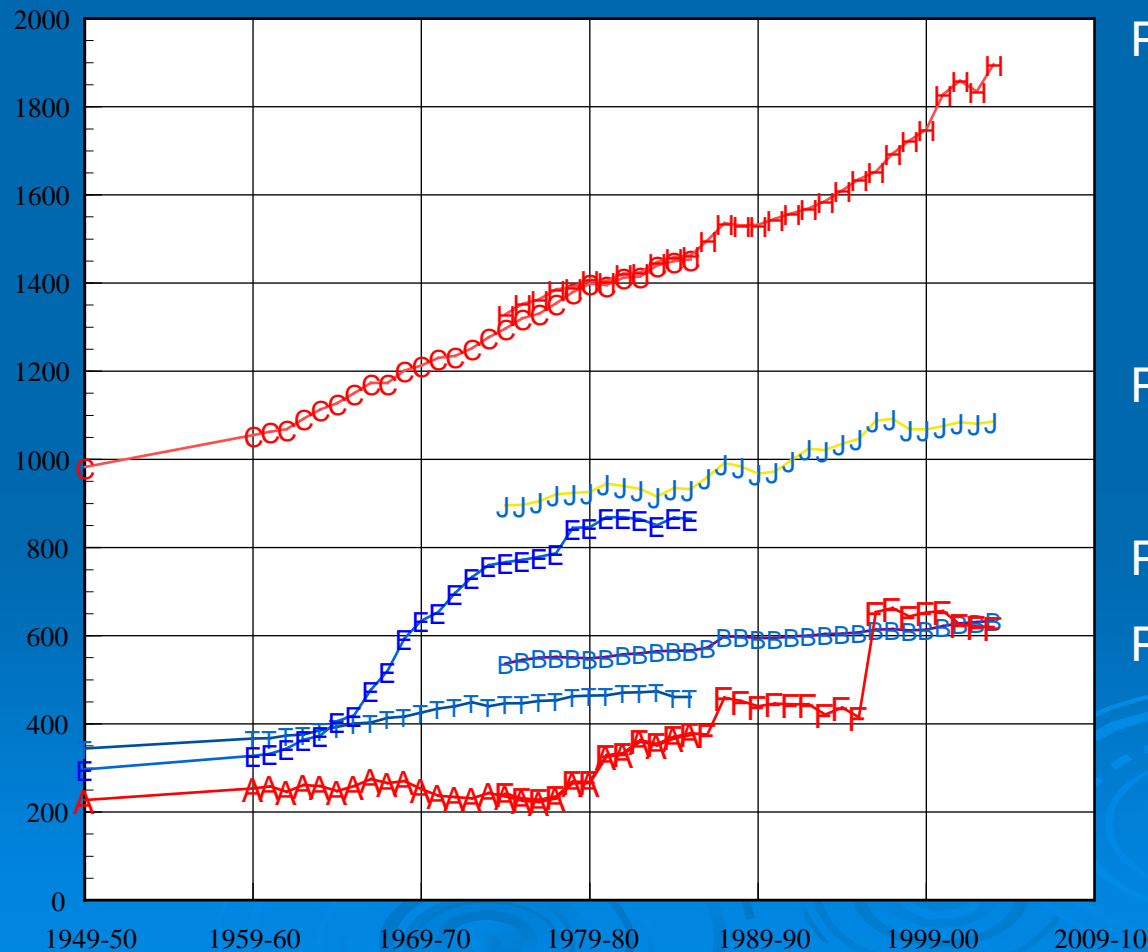
Women accounted for three-quarters of the enrollment increase:



Minorities also accounted for a large share of the increase in the 1970s:



Even the number of private colleges and universities increased:



Private Four-Year

Public Four-Year

Public Two-Year

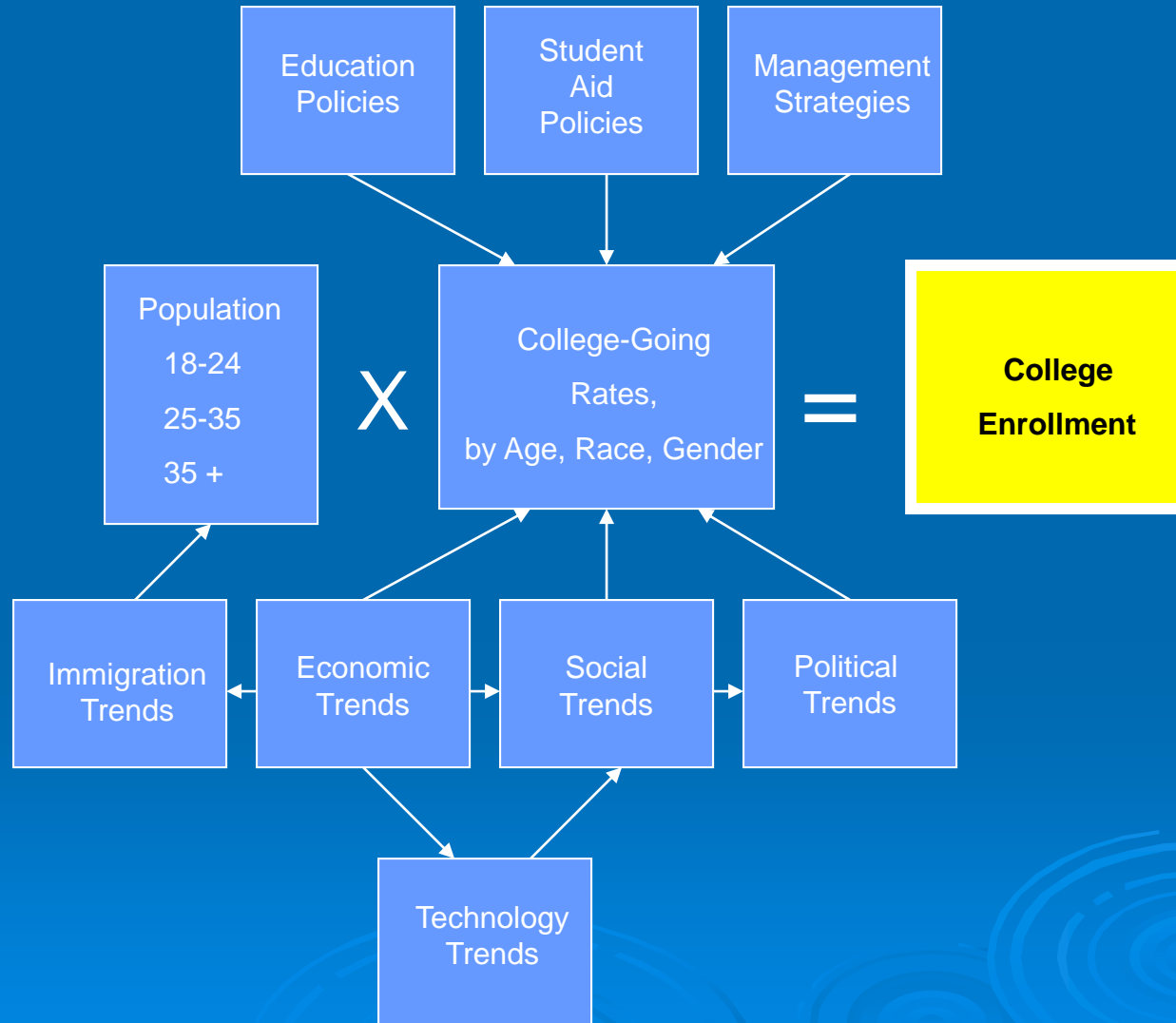
Private Two-Year

Don't trust economists who rely on demographers to project college enrollment.

Their projection models look like this:



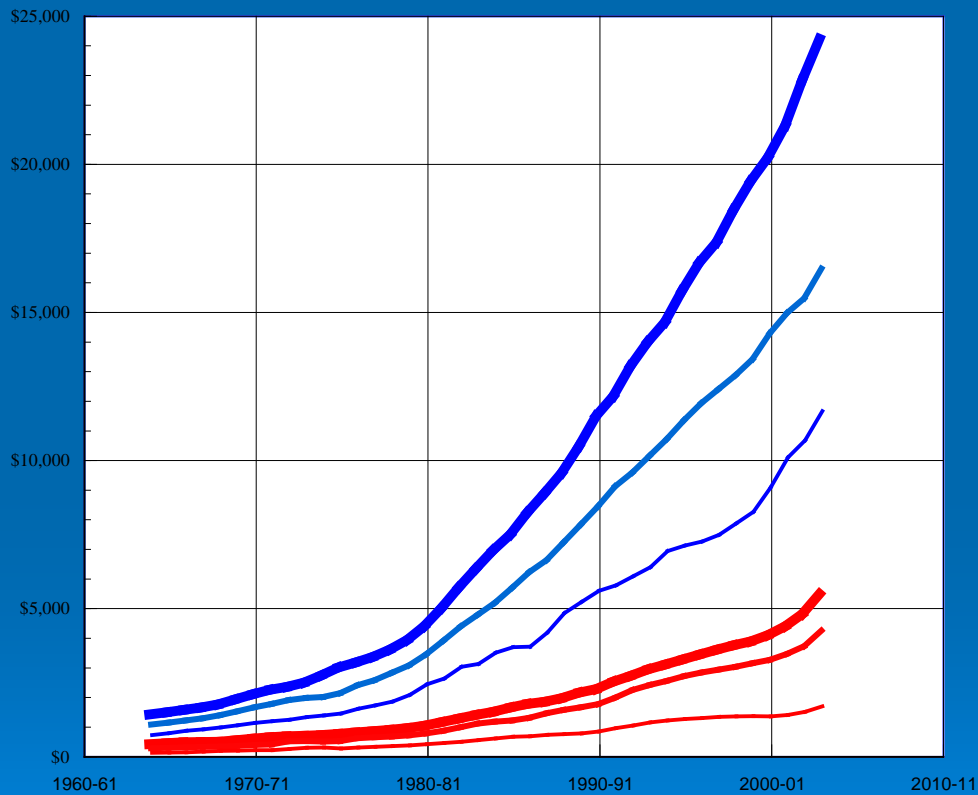
Enrollment projection models should look more like this:



2.

Tuitions increased:

Thousands



Private Universities

Private Four-Year Colleges

Private Two-Year Colleges

Public Universities

Public Four-Year Colleges

Public Two-Year Colleges

Enrollment did not decline:

High tuition became associated
with high quality.

A decorative graphic consisting of several sets of concentric circles, resembling ripples in water, located in the bottom right corner of the slide. The circles are light blue and vary in size and opacity.

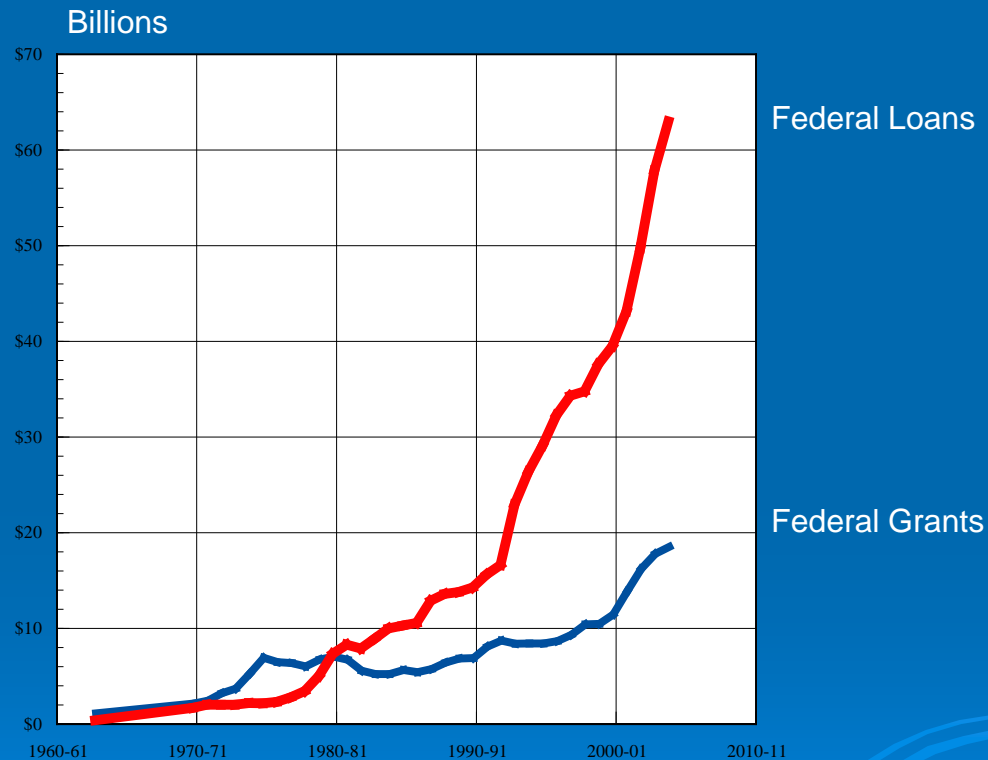
3.

Economists argued for
high tuition and high aid.

We thought aid meant grants.



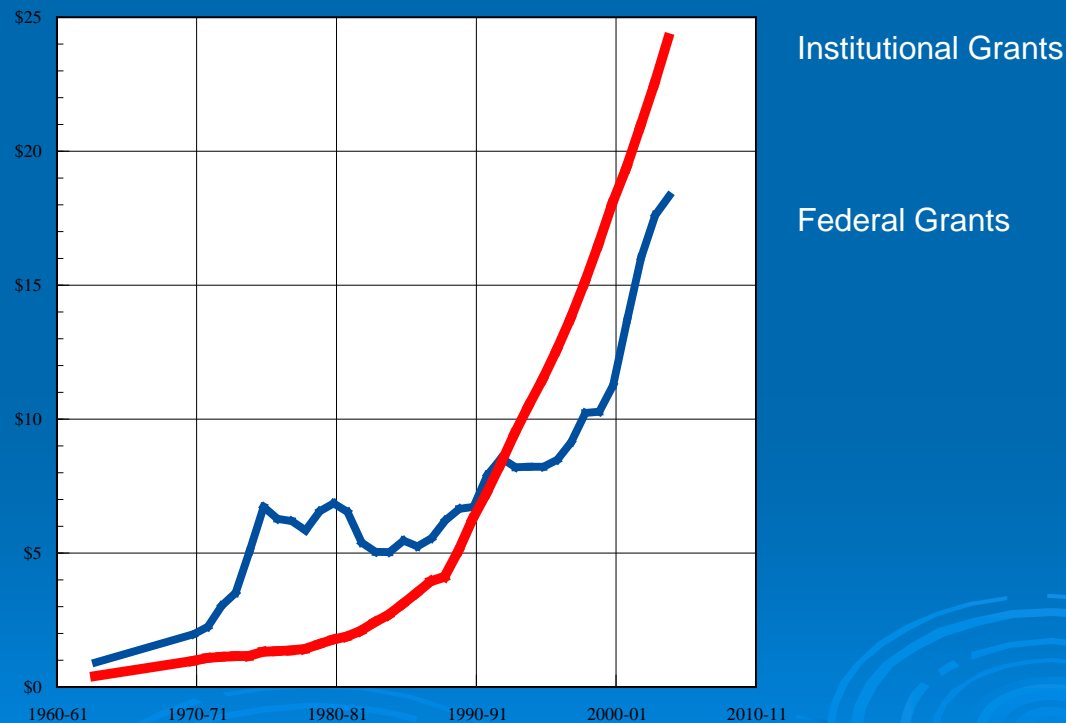
By 1980-81 loans outstripped grants:



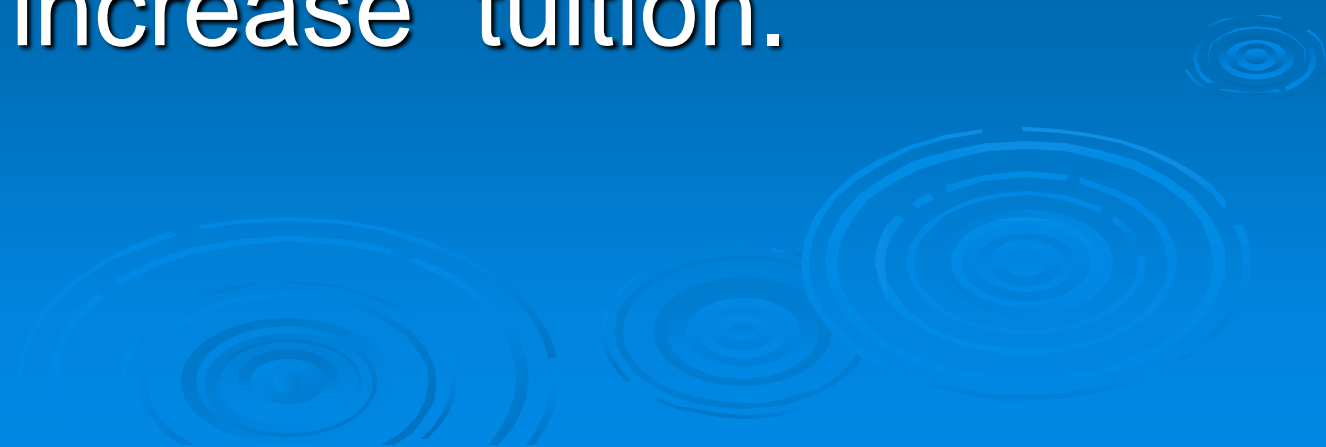
We got high tuition
and
huge loans.



Colleges and universities now award nearly \$6 billion more in grants than does the federal government:



These institutional grants
create
great pressure
to increase tuition.



4.

What is the real value of student aid?

We need to adjust student aid for inflation:

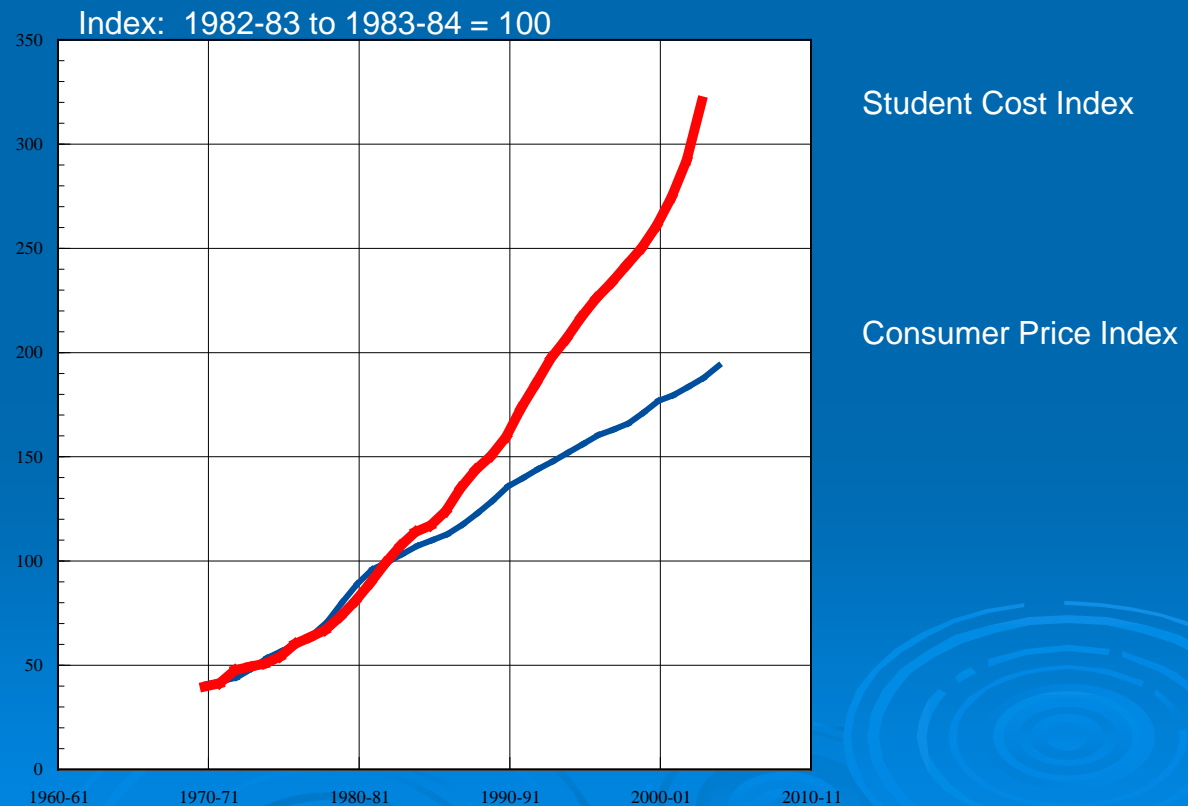
Consumer price index

vs

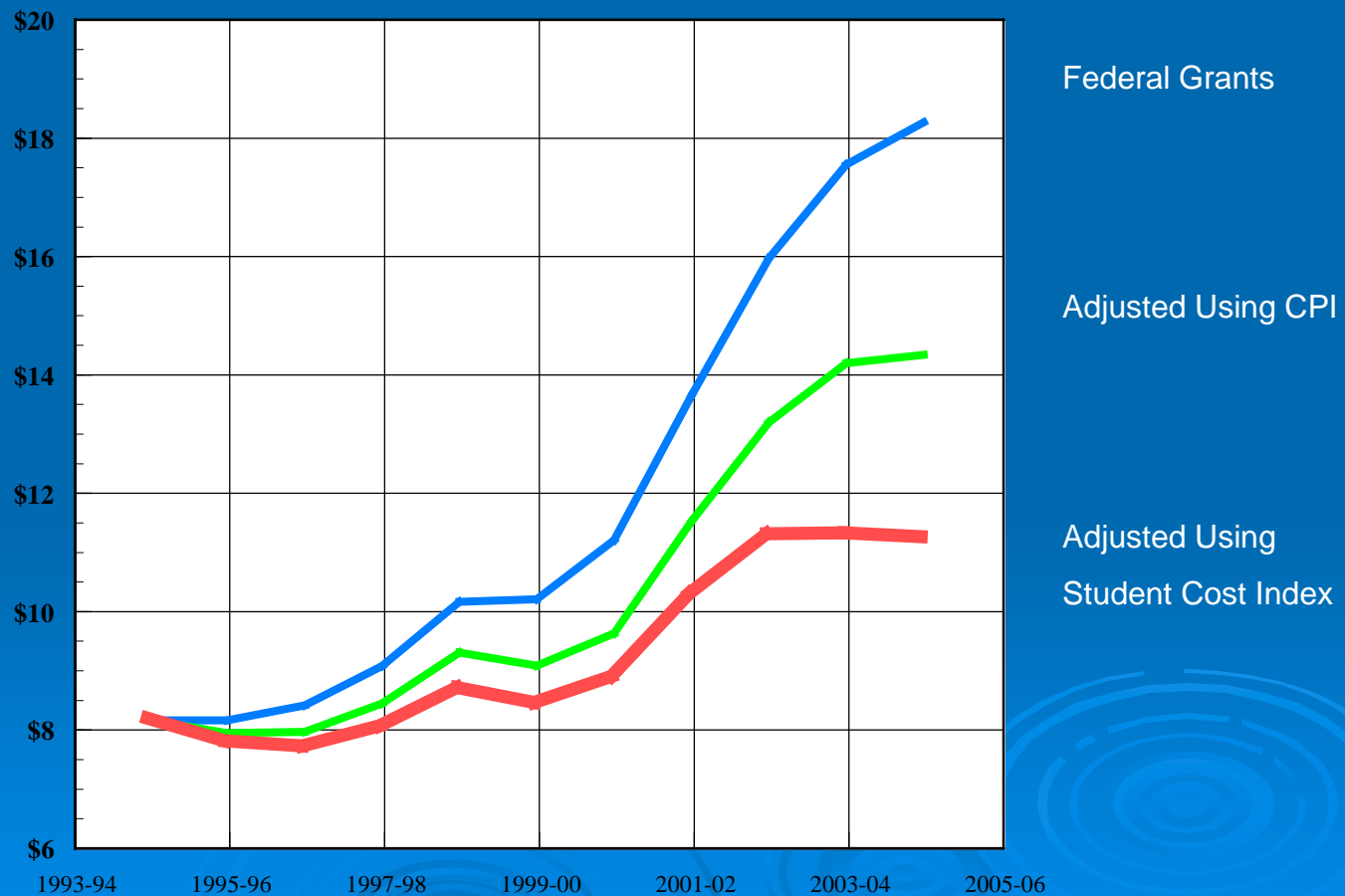
Student cost index

The bottom right portion of the slide features several sets of concentric circles, resembling ripples in water, rendered in a lighter shade of blue than the background.

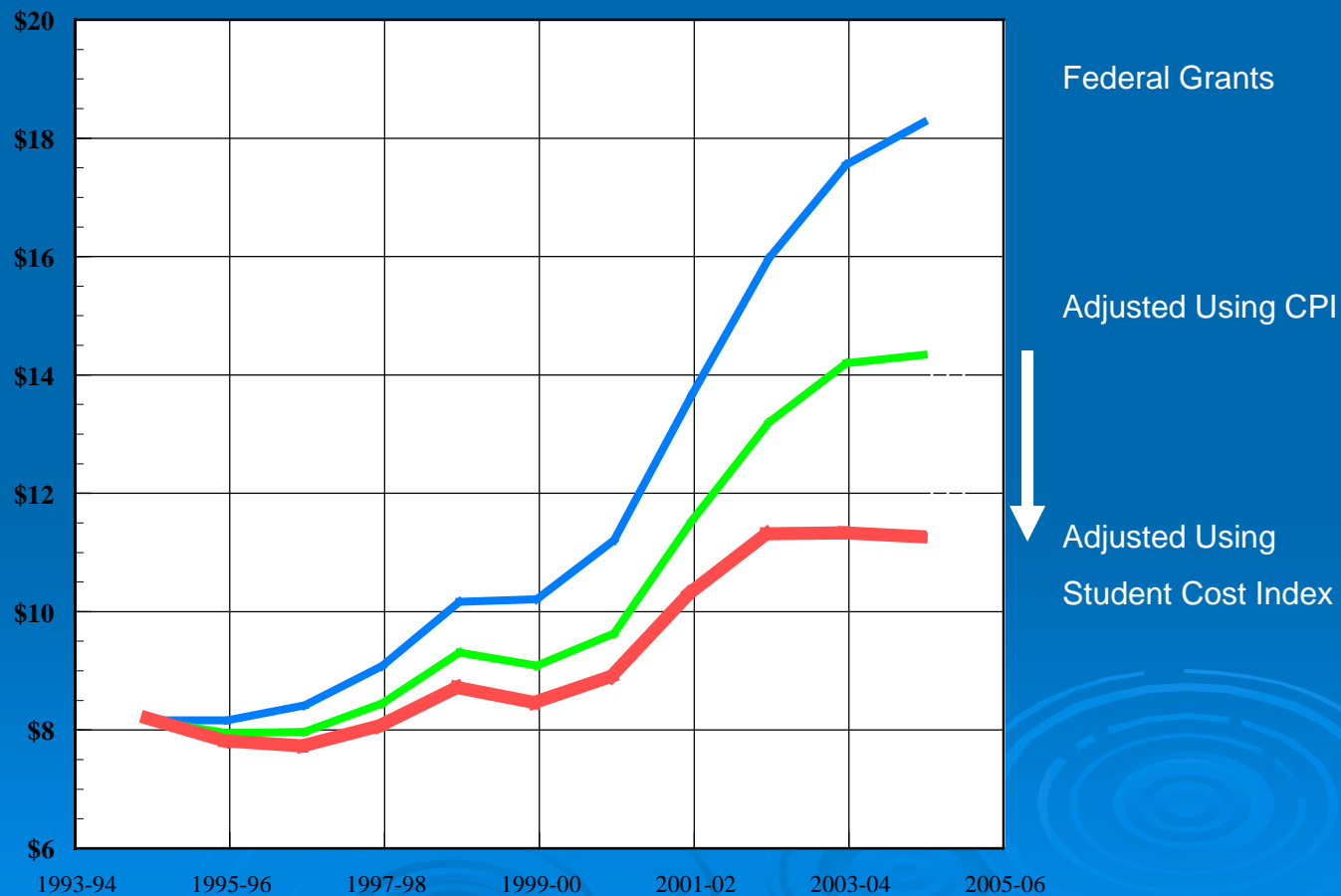
The student cost index increases at a much faster rate than the consumer price index



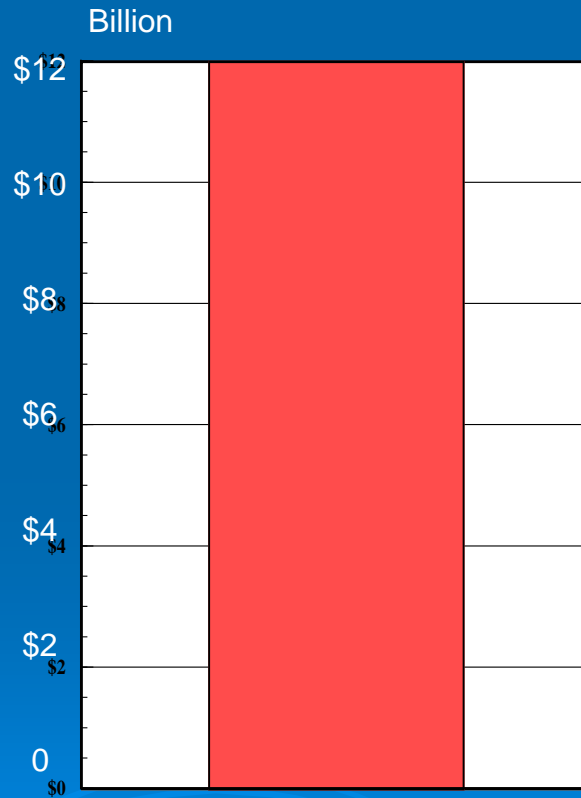
It makes a big difference to students:



It makes a big difference to students:



The cumulative ten-year difference is nearly \$12 billion:



5.

Equity issues persist:

College enrollment rates are
grossly unequal:

A decorative graphic consisting of several concentric circles, resembling ripples in water, is located in the bottom right corner of the slide. The circles are light blue and have a subtle gradient, giving them a three-dimensional appearance.

College enrollment rates are grossly unequal:

By income

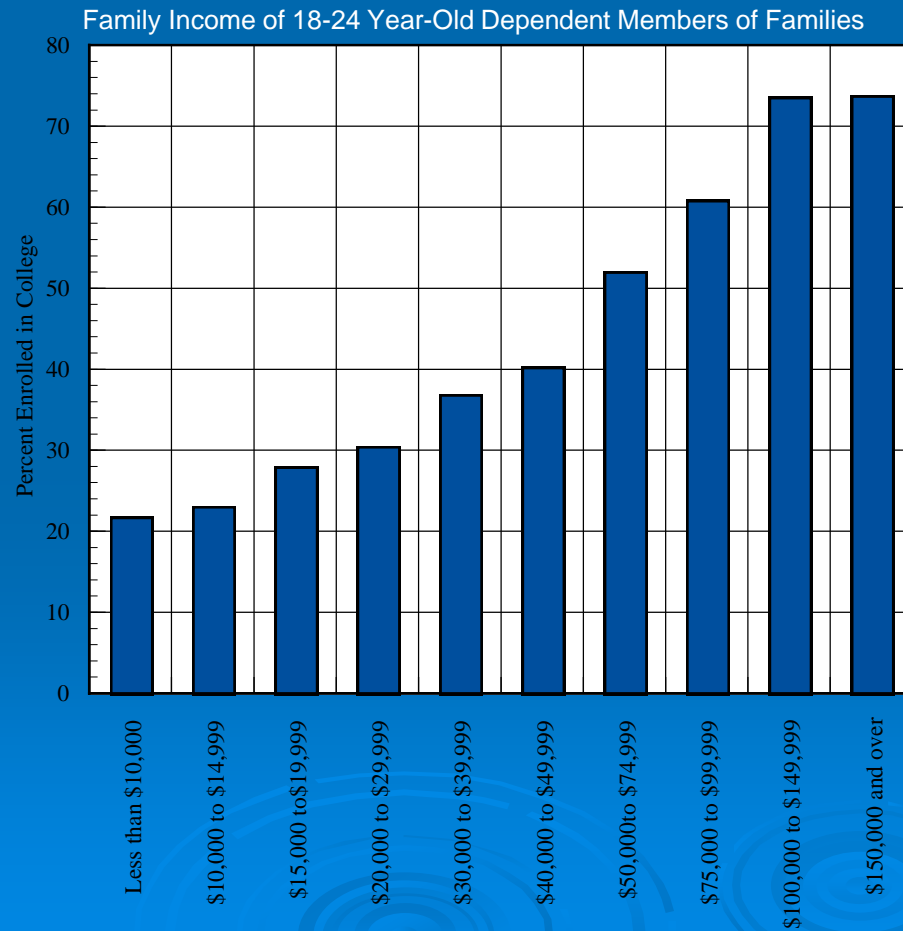
and

By race / ethnicity

and, most distressing,

Gaps are not narrowing now !.

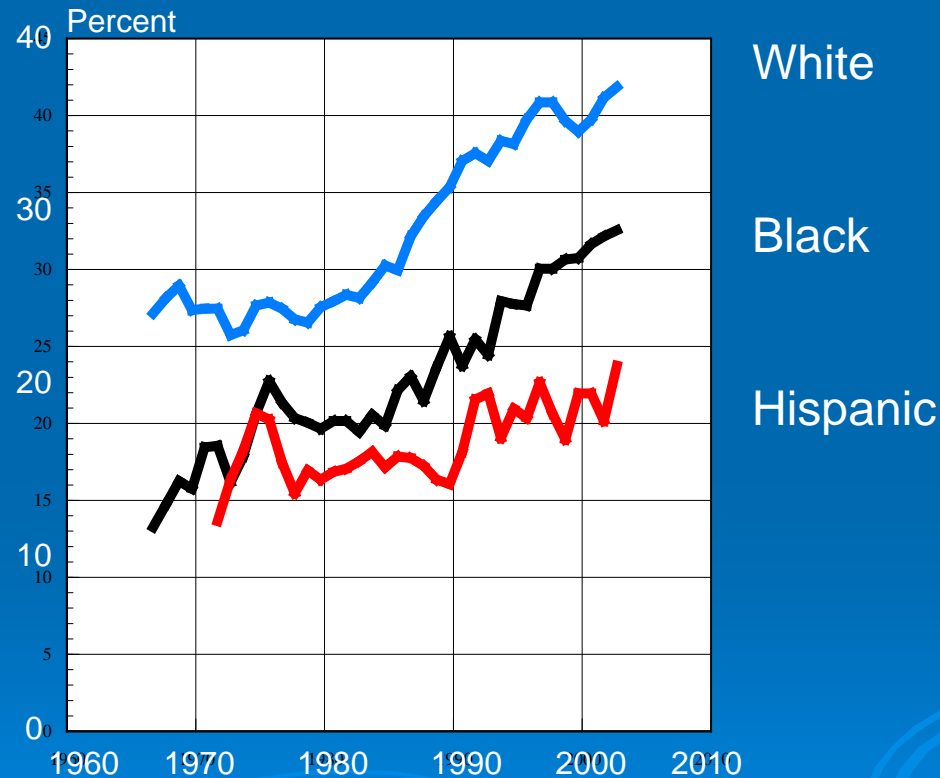
Youth from rich families go to college at rates four times greater than youth from poor families



College-going rates are
increasing for all groups:



But the gaps in college-going rates
between whites and minorities
are not narrowing:



6.

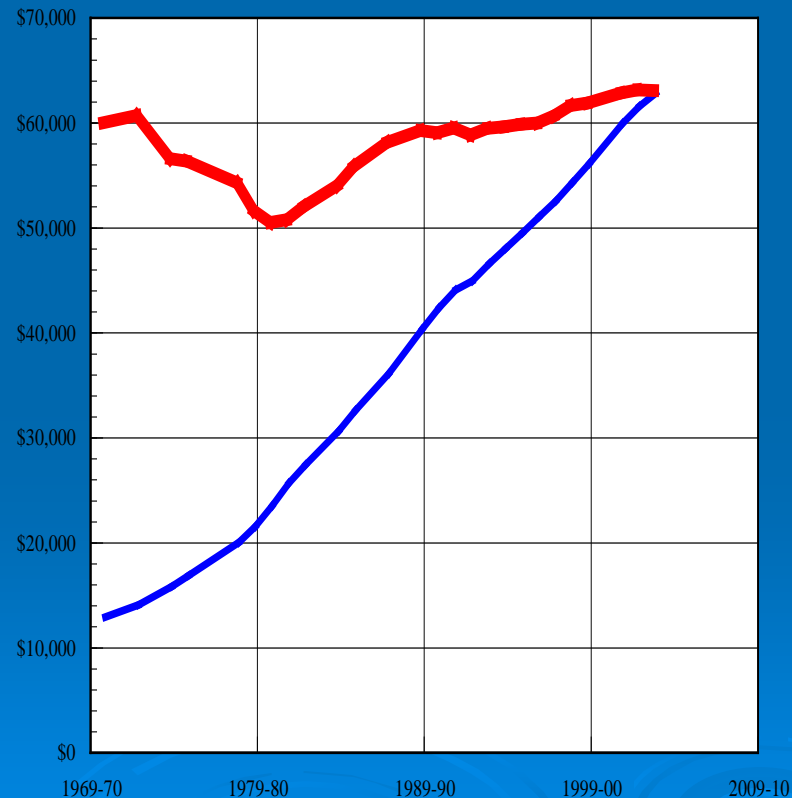
College costs are rising:

But they are not being driven up
primarily
by faculty salaries:



Trends in faculty salaries:

Current and constant dollars:

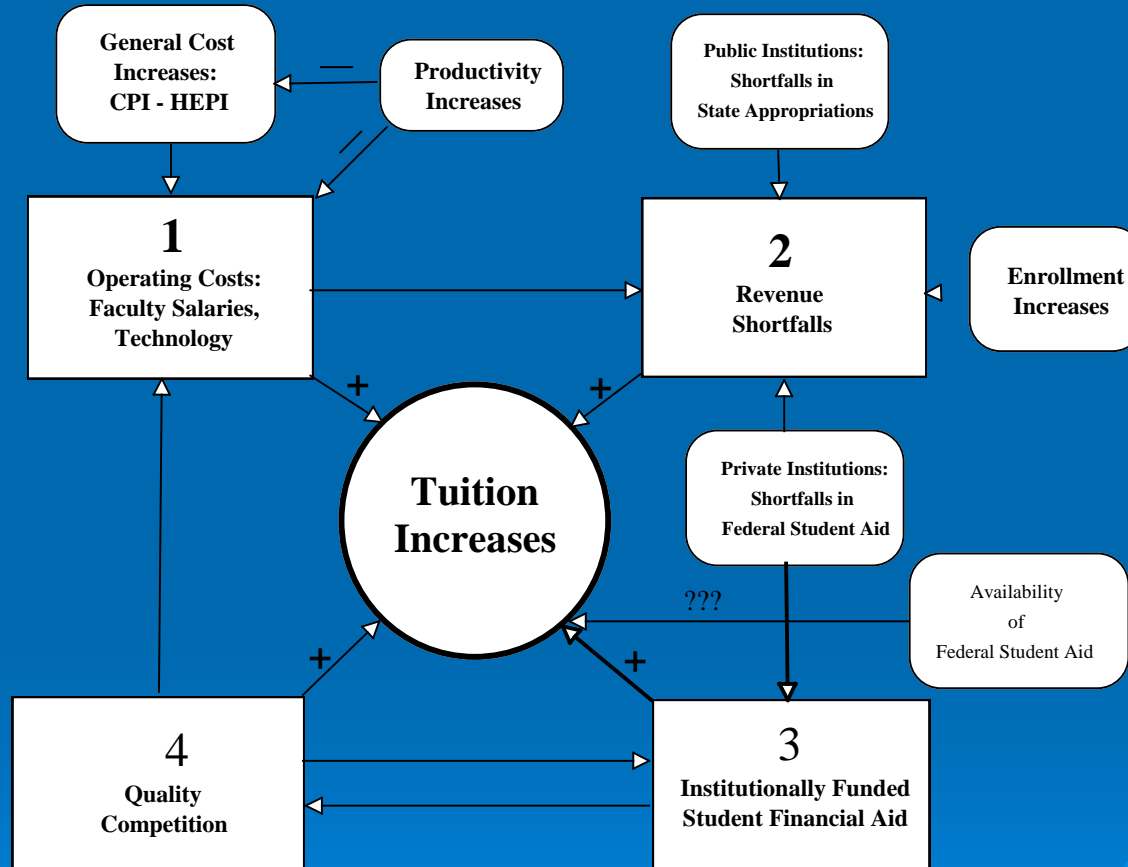


Constant Dollars

Current Dollars

WHY ARE COLLEGE TUITIONS INCREASING SO FAST?

FOUR MAJOR REASONS



Greater pressures on tuition are
created by
institutionally funded
student aid.



In explaining why
college tuitions are rising,
look at institutional costs and
also at **revenue shortfalls.**



Impact of revenue shortfalls on tuition:

Example:	Year 1	Year 2	Percent Increase
Total cost	\$10,000	\$11,000	10%
State funds	5,000	5,000	0%
Tuition	5,000	6,000	20% ←

Another contemporary example:

Example:	Year 1	Year 2	Percent
			Increase
Total cost	\$10,000	\$11,000	10%
State funds	5,000	4,000	0%
Tuition	5,000	7,000	40%

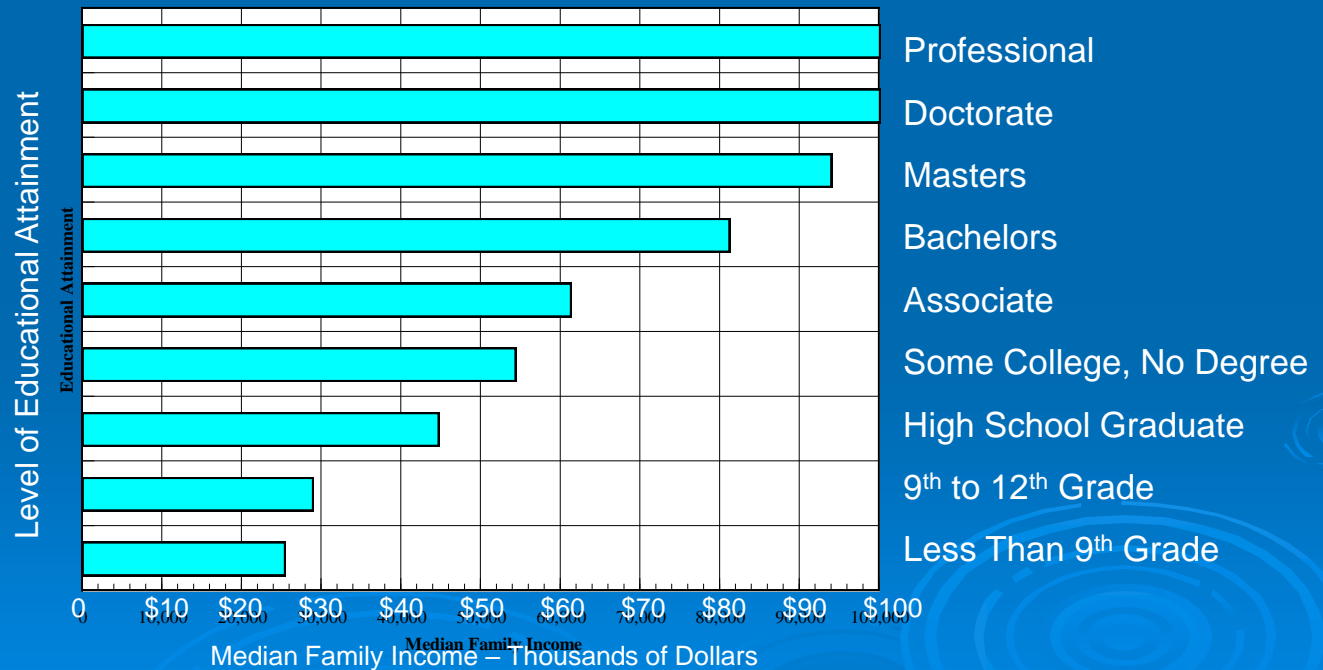
7.

- ★ Economists argue that productivity in higher education is low.
- ★ Productivity is mis-measured:
we should use outputs, not inputs.

8.

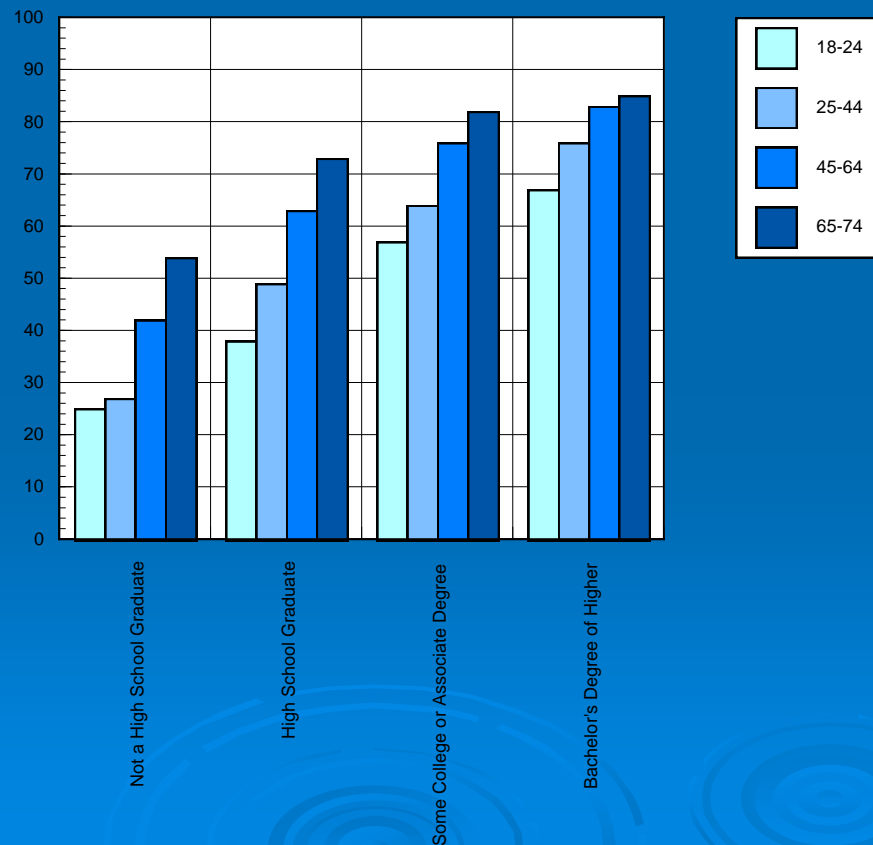
- Shifting the conception of the benefits of higher education from social to individual contributes to the rationale for high tuition.
- This shift may have gone too far.
- It may result in under-investment in education and weakening our strength in the new competitive era.

Individual benefits: Income rises with greater of educational attainment

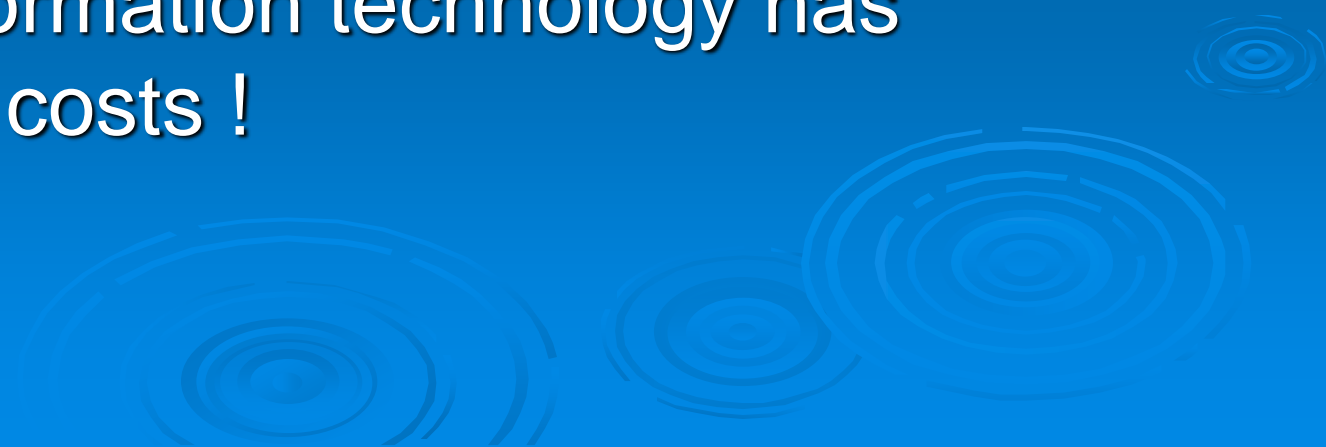


Social Benefits:

The higher the level of education the higher the percentage of voters:



9.

- Economists argue that information technology can cut education costs by substituting for faculty.
 - So far, information technology has increased costs !
- 

10.

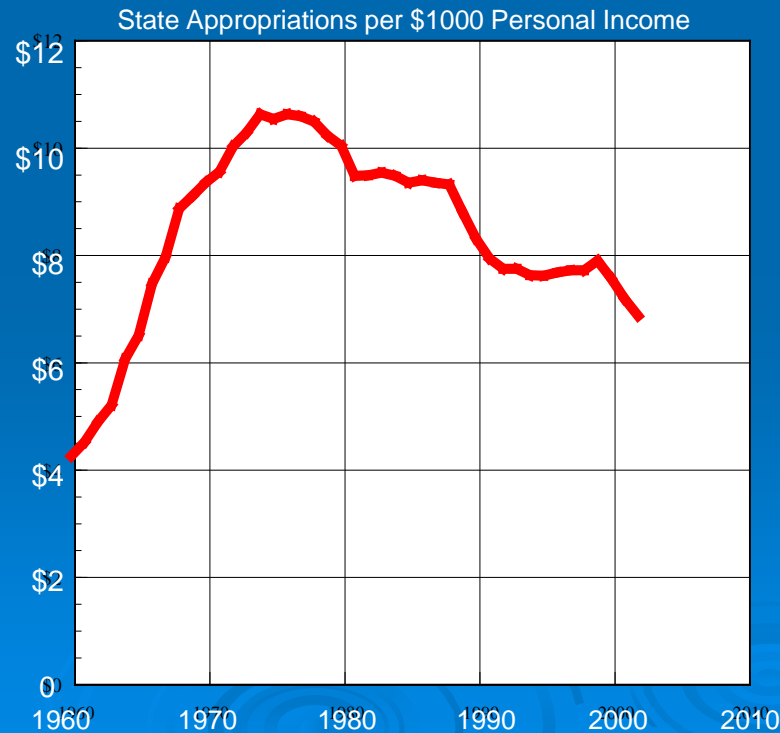
It is a question of priorities:

State budget priorities

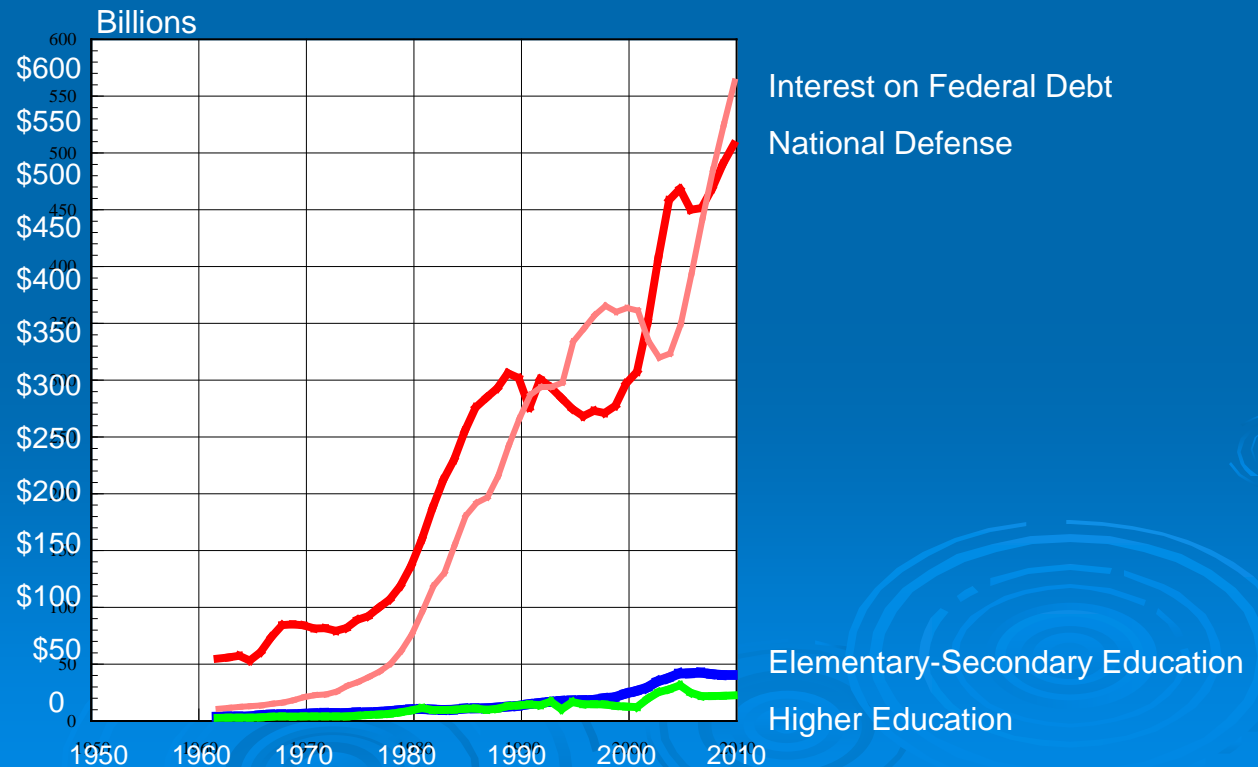
Federal budget priorities

A decorative graphic consisting of several sets of concentric circles, resembling ripples in water, located in the bottom right corner of the slide.

Relative to income, and the ability to pay for state services, we are appropriating much less now than in the 1970s



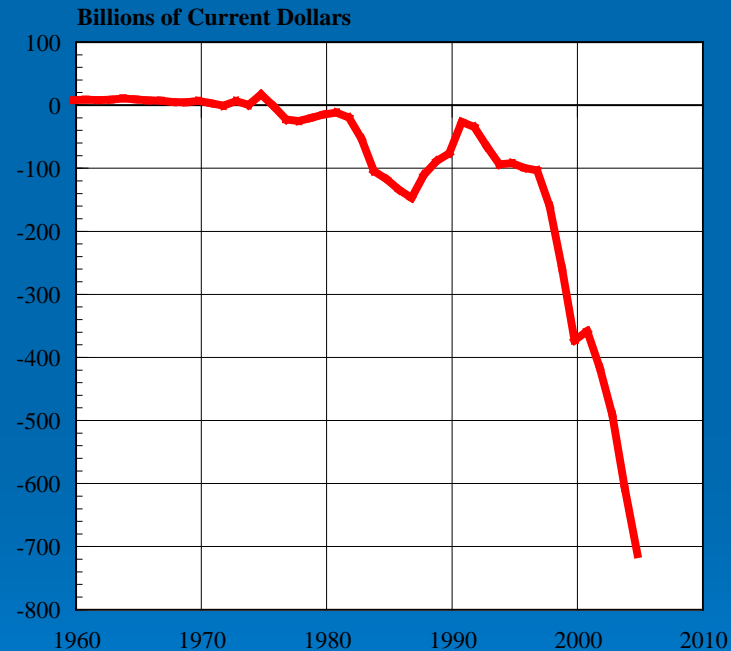
Deficits matter:
We spend twenty times more on
interest on the federal debt
than we do on higher education



TRADE IN GOOD AND SERVICES

U.S. TRADE IN GOODS AND SERVICES

1960 - 2005



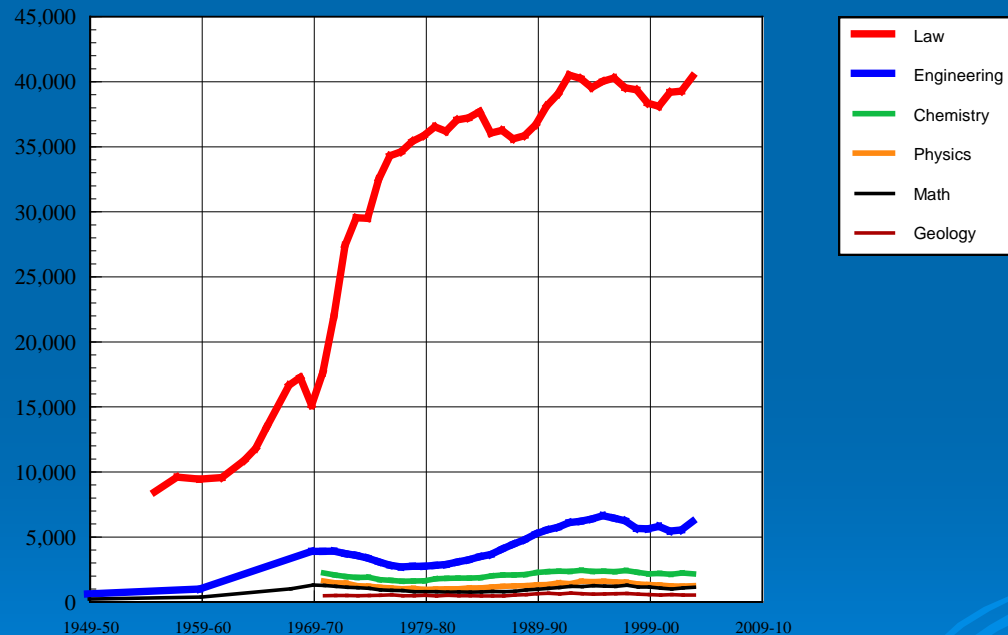
Source: U.S. Census Bureau, Foreign Trade Division.

COMPARATIVE NUMBER OF LAW AND ENGINEERING DEGREES

COMPARATIVE NUMBERS OF DEGREES AWARDED IN THE U.S.:

LAW DEGREES AND PhDs IN ENGINEERING AND SCIENCE

1945-50 to 2003-04



Source: National Center for Education Statistics, Digest of Education Statistics:
2005 available on-line at ed.gov.

Problems with the economic analysis of education policies:

- ✗ Underlying values are often not stated
- ✗ Analyses are too simplistic
- ✗ Ignores what other sciences teach about human behavior and decision-making
- ✗ Based on data shockingly out of date
- ✗ Analysis is static rather than dynamic

- + Higher education policy analyst should learn more about systems approaches.
- + Systems approaches can deal more effectively with complexity—and virtually all education policy issues are complex



Bad analysis leads to bad advice;

and

Bad advice has consequences !!!



We need better approaches
to
higher education policy analysis
and
policy development.



Making projections into the future:

Economists work with numbers


Entrepreneurs work with ideas.

A decorative graphic consisting of three concentric circles, rendered in a lighter blue shade than the background, positioned in the bottom right corner of the slide.

Educational leaders should pay less
attention to economists with numbers

and

more attention to academics with
entrepreneurial vision

The bottom of the slide features several decorative concentric circles in a lighter shade of blue, resembling ripples in water, positioned in the lower right and bottom center areas.

To repeat:

We are not a poor country--

We are a rich country

making poor decisions !!!



In summary:

To bring about positive change

in education

we need political action plans

based on

better education policy analysis.