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A View from the Trenches of Academe

The article below comprises the text of remarks delivered by Professor Charles E. Murray to the Voting Members of American Institute for Economic Research Corporation at Great Barrington, Massachusetts, October 17, 1997. Mr. Murray is a member of the economics faculty at Truman State University, Kirksville, Missouri.

This evening I would like to comment on the errant state of American higher education and its social implications. I will also briefly outline possible remedies if the situation is to be reversed.

I will focus on four-year public colleges and universities for several reasons: namely, they are most heavily subsidized with taxpayer dollars; they attract the lion's share of students, or about two-thirds of the roughly six million now attending four-year colleges; and, after a score of years in the public trenches as a student and professor on such campuses, they are the institutions with which I am most familiar.

What is it like to spend a day in my shoes? I'll tell you. I once asked a senior finance major whether he thought the Federal Reserve had historically done a competent job in managing the nation's money supply. In response, I got an empty gaze. So I rephrased the question by adding a statement to nudge him in the right direction. I said, "Since the Federal Reserve's inception in 1913, the purchasing power of the dollar has fallen 90 percent." Then I asked, "In your opinion sir, has the Fed done a good job?" His forthright reply was, "Yes, I think so. The loss of purchasing power was probably due to inflation."

If this story seems amusing, it is. If this story seems embellished or atypical, I assure you it is not. I could easily fill my allotted time, and more, with such anecdotes. But I won't. What I have to say tonight about higher education isn't very comical.

How Much Does It Cost and Who Pays?

In 1994, expenditures at four-year public schools totaled nearly $95 billion. Of this total, tuition accounted for 23 percent while state appropriations contributed nearly double that, or 42 percent. The remaining third came from a variety of other sources, such as endowments, grants, gifts, and contracts. Today, colleges rely much more heavily on grants, contracts, and voluntary giving for funding because state legislatures as well as students and their parents are less willing and/or able "to fork over more."

How much of this almost $95 billion is allocated to instruction? Less than half. Moreover, instruction's share of total spending at four-year publics continues to shrink even as the non-teaching bureaucracy swells. For every 100 students enrolled on campuses nationwide, there are approximately six faculty, both instructional and research, six professional staff, and eight nonprofessional staff.

Not surprisingly, per capita student costs are rising. On average, the amount spent per student in 1980 was $6,500; by 1994, it had soared to $14,500 — an increase of 121 percent. During the same period, the Consumer Price Index (CPI) jumped "only" 69 percent. So clearly, the cost of college enrollment in real terms has increased sharply.

What Does $95 Billion Buy?

Are taxpayers, students, and parents getting their money's worth? A short discussion of courses and grades might help you decide the answer.

If anyone seriously doubts that college curriculums across the United States have not metamorphosed, all he need do is consult a current college catalogue (almost any college will suffice). According to the National Association of Scholars, the average number of mandatory courses at the nation's top fifty undergraduate schools is two and one-half. Two and one-half! Most of these colleges no longer require students to enroll in any history course. Two thirds no longer require courses in either English composition or mathematics. None requires literature.

Given the abandonment of such traditional curricula, what then are students taking? (Note that I say taking as opposed to studying. A significant proportion of the classes offered these days don't require any studying.) Ninety-six percent of all public four-year schools now offer remedial instruction that in effect repeats instruction that should have been mastered in high school (or even grammar school). Reportedly students enroll in as many such courses as they can, *and are awarded academic credit toward a college degree* just as if they had been completing college-level studies.

What other nonsense qualifies for academic credit? At my university, which prides itself on academic integrity, the list includes the following: intercollegiate sports, freshman orientation, cheerleading, marching band, student senate, travel abroad, courses on writing resumes and cover letters, and so on. Internships can count for as much as a semester's worth of credits. Don't get me wrong. These activities are worthwhile. But they are just that — activities. I don't consider drinking wine during a three-week bus tour of Italy worthy of six academic credits in history. If it is, I can understand why some schools dropped their history requirement from the curriculum. Why maintain the facade?

The number of courses offered on campuses nationwide has increased five-fold since the turn of the century, but to what or whose advantage? Many of these courses cover narrow and idiosyncratic subjects that require no prerequisites or learning skills. Others are largely propaganda platforms for one or another special interest group. In most cases, this "fluff" is scheduled at the expense of more traditional, thought provoking course work.

To be sure then, curriculums have eroded. However, there is an even more insidious cancer sweeping college campuses — a decrease in academic standards that would likely prevail even in the absence of a decaying curriculum. It is not hard to see why.

In the last twenty years, the college-age population in the United States has dropped by 15 percent. In a scramble to maintain enrollments, colleges resort to admitting greater numbers of less-qualified students. Even if the college-age population did not drop, schools would still be drawing their prospective fresh-

man class from a less-qualified pool of applicants. The reason? In the last 25 years, the Scholastic Assessment (nee Aptitude) Test, or SAT, scores have fallen by sixty points even though the test itself has been "dumbed down" in response to complaints of bias allegedly revealed in the divergent scores of those tested.

Most professors in the public trenches probably would readily admit that a disturbing percentage of today's incoming freshman lack not only the base of factual knowledge possessed by previous generations of high school graduates, but also the ability to construct and express a simple logical argument. To a distressing extent, new college students today seem to have grown to expect reward for expressing their feelings instead of their thoughts.

It's no secret that freshmen are less prepared than ever for college. But surely, once on campus they are hard pressed to get up to speed, aren't they? Don't bet on it. Recent research found that over three-quarters of all students attending four-year colleges study fewer than seventeen hours per week outside of class. That's less than one hour per credit hour per week. Even if one assumed students attended each and every class—a very courageous assumption I assure you—and, they studied at least seventeen hours per week—which most don't, the total time spent doing course work each week would add up to about 30 hours, or about the equivalent of what one might work in a part time job. The vacations aren't bad either. During the past century, the academic year has been shortened from an average of 204 class days per year to just 156 days.

This state of affairs has fostered a revealing paradox. That is, inasmuch as the quality of incoming students has declined and those students are spending less time in class and less time studying, one might expect that their grades would be falling. But they aren't. In fact, grade point averages across university campuses are rising. The "gentlemanly C" has been replaced by the "lordly B." At my university, the most frequently assigned grade is an "A," and more than eighty percent of all grades are either "A" or "B." Sadly, this is an all too common trend in education, at all levels.

So what does $95 billion buy these days? It buys a degree, but not necessarily an education.

Broader Social Effects

The degradation of education injures society when those who either want or need higher order thinking skills are shortchanged by colleges that don't deliver them. How can society benefit from institutions that tell our students what to think instead of teaching them how to think?

It could be argued that the current crisis in higher education, for the most part, is inconsequential. Why? Because most jobs that now require a college degree do not require a college education. Most jobs could be performed successfully by graduates of trade schools or community colleges. For many employers, a degree merely certifies that the person had four years to mature, during which time he or she had to meet arbitrary standards, complete unappealing and boring assignments, submit to authority without complaint, and persevere. These are precisely the qualities that business and industry tend to value in employees.

Still, there is reason to be concerned. As a taxpayer, I simply object to financing this nonsense. My other objection is based on my professional training as an economist. It is that the system is incredibly inefficient. Higher education suffers from both so-called allocative and productive inefficiencies.

It suffers from allocative inefficiency in the sense that far too much of it is produced. Subsidies, both direct and indirect, allow students to dispense with the usual economic calculus — *i.e.*, attending school doesn't mean less of anything else. Productive inefficiency arises when a product or service is not delivered at the highest quality for the lowest possible cost. Of course, certain inefficiencies plague virtually all organizations, which in a market setting nevertheless compete to provide relatively better value to their customers. But publicly funded higher education, unlike private industry, is not subject to any market discipline. In the world of public academia, management is more likely to be wrongly rewarded with even more money from students, parents, and statehouses to fix problems than to be held accountable for the bad decisions that fostered the problems in the first place.

What Is the Problem?

The problem, as I see it, is largely rooted in the educational institutions themselves. Supposedly, public education was established and supported to serve the public interest. Today, however, colleges and universities seem to exhibit the special-interest behavior that this Institute has observed for decades (and that also is characteristic of the "rent seeking" described in recent years in the literature of public choice economics): that is, academic bureaucracies seek mainly to maximize their own power and guarantee their own welfare with little respect to the best interests of the public. To maximize its welfare, a bureaucracy will typically defend its autonomy, avoid conflict with other groups that could curtail its power and prestige, and attempt to increase the size of its budget. Do most colleges behave in this fashion? Yes.

The rise of the megaversity is a case in point. Let your fingers do the walking through any college phone directory. What will you find? Phone numbers for the university's public relations, legal counsel, and lobbyist offices; numbers for the university's health, counseling, and day care centers; numbers for the university's newspaper, as well as TV and radio stations; and so on. What do these offices have to do with their primary educational purposes? Virtually nothing. Their effective purpose is to promote the university and cultivate allies, both internal and external, who will defend it in times of need (often by villifying those who would promote useful reforms). It would seem that the academic bureaucracy today serves the purposes of education less than the public's subsidy-driven appetite for "education" of almost any stripe now serves the purposes of the bureaucracy.

What Might Be Done?

To restore the integrity of the educational process, we have first to describe what types of thinking behavior are involved. Central to any learning process would seem to be development of a student's powers of observation, conjecture, and decision making — the ability to apply reason to whatever environment or field of inquiry is encountered, be it ancient texts, numerical data, or whatever. That is, a primary purpose of any education is the development of one's powers of thought and the application of those powers in the exercise of all of life's choices (*i.e.*, a "modern" rather than "postmodern" approach). Courses included in the curriculum ought mainly to enable students in one way or another to develop such facility.

Raising standards is next. First, entrance requirements should be increased. This means that fewer people will be able attend college. What will those people do who don't earn a degree? The same things they do now with one. Most jobs that require a college degree don't require a college education. Most students enrolled in college today are there so they can get these types of jobs, not an education.

Once enrolled, the focus should be on "stretching" the students instead of worrying about "stressing" them. As the adage observes, "In education, nothing works if the students don't." Professors have an obligation to students, their parents, and other taxpayers to restore the "discipline" in the term "academic discipline." The aim is not to kill the student but rather reestablish the behavior required in the pursuit of knowledge.

As a yardstick to the accomplishment of such discipline, a student's grade should reflect his or her mastery of the subject matter. If a "C" describes average performance, how is it possible for the student body as a whole to maintain a "B" average? Outside of the mythical "Lake Wobegon," how can everybody, on average, be above average? They can't. While there are a number of alternatives, a grading scale based on a "true curve" might not only foster competition among students, but also deter them from flocking into "gut courses." But whatever the grading approach, faculty members must have assurance that lower student evaluations resulting from more rigorous grading procedures will not jeopardize their jobs (the obvious solution is to eliminate student evaluations).

Finally, education might properly be viewed as a privilege, not a right. College ought not be an entitlement, and all direct public funding of school operating budgets as well as all direct aid to students ought to be terminated. Policy makers should also refrain from initiating any new indirect subsidy programs — such as the recent education tax credits — to offset decreases in direct funding. These measures could go far toward eliminating the allocative and productive inefficiencies described earlier. It would also force schools to realign their priorities and cut programs, centers, offices, divisions, and the like not central to the main educational task.

Is There Any Hope?

I believe there is. But the needed changes will not come from within the mainstream educational establishment. These people just don't get it. If you leave education to the self-anointed educators, don't be surprised if you only get more of the same, or worse.

As simple as it sounds, useful change almost surely can start only when difficult problems are broached publicly. People cannot be expected to voice concern over problems that are hidden from them, as so many have in recent decades. But once they do become aware, their voice becomes a chorus. That is when public policymakers start to listen — and trample one another in their frenzy to jump aboard the bandwagon. Again, however, even this uncertain road will be blocked if no one is willing or able to inform the public about the difficulties that lie ahead.

This is where the importance of organizations such as American Institute for Economic Research is most crucial. As it has for many decades, AIER by design can broach sensitive topics without fear of reprisal by any individual or group. This Institute plays a unique and vital role in providing literature to the general public that not only identifies the "real" problems of humans in society that others often overlook or are afraid to address, but also seeks to develop solutions to those problems through genuinely independent inquiry. In my view, this approach affords the best chance that the voice of the people, when it finally is heard, will be not just an angry howl but an informed chorus. It is imperative that we continue in this way to serve the interests of society each and every day to the best of our ability.

Thank you. ❑

BUSINESS-CYCLE CONDITIONS

Little has changed since our last appraisal of business-cycle conditions. The leading indicators continue to point to further expansion and there still are no indications of weakness in the coincident indicators. Moreover, recent slowdowns among the laggers suggest the cyclical pressures that usually foster expansion-thwarting bottlenecks may have eased somewhat.

There were five new highs this month among our 12 primary leading indicators. They are *M2 money supply*, *new orders for consumer goods*, *contracts and orders for plant and equipment*, *initial claims for state unemployment insurance* (inverted), and the *index of common stock prices.* (To adjust for price inflation, stock prices and all other dollar denominated series are reported in constant dollars.)

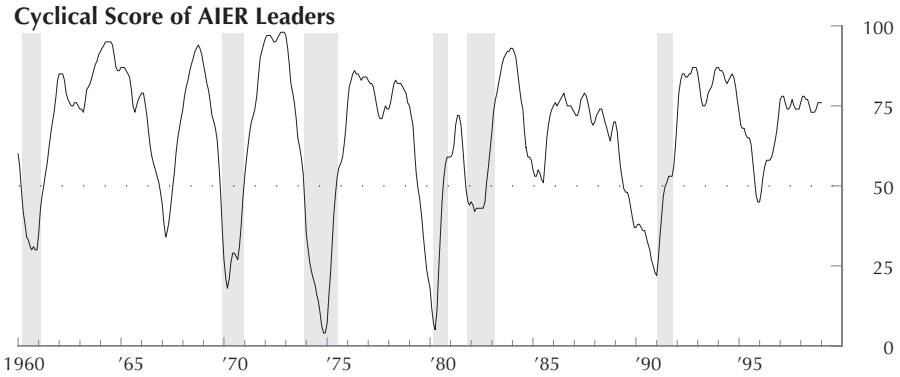
M2 money supply, new orders, and stock prices were all appraised as clearly expanding last month. However, both contracts and orders for plant and equipment and initial claims for state unemployment insurance were appraised as probably expanding. In light of the latest data, they too are now clearly expanding. *Vendor performance*, the percent of purchasing managers reporting slower deliveries from their suppliers, fell slightly this month. Despite the drop, vendor performance remains appraised as clearly expanding.

After reaching a postwar high in January 1994, the *average workweek in manufacturing* began a slow and steady decrease through most of 1995. Toward the end of 1995, there was some indication that the workweek was about to start trending up again, but the paralyzing blizzard of 1996 dashed any chance of that and the series posted another significant drop. From that time until April of this year, the workweek has steadily picked up but has failed to attain its previous January 1994 peak level. From April until last month the workweek began to shorten again. Thus, despite this month's increase in the workweek to 41.9 hours, we are still not fully confident that the series is indeed expanding. Therefore it remains appraised as probably expanding.

Although the *ratio of manufacturing sales to inventories* increased this month, the increase was not enough to warrant upgrading the series' appraised cyclical status, which also remains probably expanding.

Despite another month of reported data, it still is not possible to identify a trend in the *3-month percent change in sensitive materials prices*. What is most striking about the plot of sensitive materials prices is how "stable" the series has been for the past year. This is our most volatile indicator, and it requires a six-month moving average to reveal the cyclical trend of the series. History suggests that this series should swing sharply one way or the next, but this has not been the case recently. Until the series moves more robustly, its cyclical status will remain indeterminate.

There also is no identifiable trend in *new housing permits*. After a slowdown



Statistical Indicators of Business-Cycle Changes

Change in Base Data					Cyclical Status		
Jun.	*Jul.*	*Aug.*	*Sep.*	***Primary Leading Indicators***	*Aug.*	*Sep.*	*Oct.*
-	-	+		M1 money supply	-	-	-
+	+	+		M2 money supply	+	+	+
+[r]	+	+		Change in sensitive materials prices	?	?	?
+	+[r]	+		New orders for consumer goods	+	+	+
+	+	-		Contracts and orders for plant and equipment	+?	+?	+
-	+	-		Index of new housing permits	?	?	?
+	+			Ratio of manufacturing and trade sales to inventories	+?	+?	+?
-	+	+	-	Vendor performance	+	+	+
+	+	+	+	Index of common stock prices (constant purchasing power)	+	+	+
-	nc	+	nc	Average workweek in manufacturing	+?	+?	+?
-	+	-	+	Initial claims for unemployment insurance (inverted)	+?	+?	+
-	-	+		Change in consumer debt	-?	-?	-
				Percentage expanding cyclically	80	80	80
				Primary Roughly Coincident Indicators			
+	+	+	+	Nonagricultural employment	+	+	+
+	+	+	+	Index of industrial production	+	+	+
nc	-[r]	+		Personal income in manufacturing	+	+	+
+	+			Manufacturing and trade sales	+	+	+
-	+	-	-	Civilian employment to population ratio	+	+	+
+				Gross domestic product (quarterly)	+	+	+
				Percentage expanding cyclically	100	100	100
				Primary Lagging Indicators			
nc	-	+	-	Average duration of unemployment (inverted)	+?	+?	+?
+	+			Manufacturing and trade inventories	+	+	+
+	+	+		Commercial and industrial loans	+	+	+
-	+	-		Ratio of consumer debt to personal income	-?	-?	-?
-[r]	nc[r]	-		Change in labor cost per unit of output, manufacturing	?	?	-?
-	-	-	-	Composite of short-term interest rates	+?	+?	?
nc No change. [r] Revised.				*Percentage expanding cyclically*	80	80	60

Under "Change in Base Data," plus and minus signs indicate increases and decreases from the previous month or quarter and blank spaces indicate data not yet available. Under "Cyclical Status," plus and minus signs indicate expansions or contractions of each series as currently appraised; question marks indicate doubtful status when shown with another sign and indeterminate status when standing alone.

through late 1994 and early 1995, the housing permits series was beginning to pick up, but has since flattened. Its cyclical status remains indeterminate as well.

Two leading indicators are clearly contracting: *M1 money supply* and the *3-month change in consumer debt*. As we discussed fully in our last issue of these *Reports*, we are investigating possible alternatives for M1. In brief, because of financial innovations and new financial assets that can serve as money, the link between M1 and the business cycle has been so weakened that M1 can no longer be relied upon to provide warning signals of turning points in the business cycle.

Overall, 80 percent (8 out of 10) of the primary leading indicators with apparent cyclical trends are expanding. This indicates a strong probability of further expansion in the months ahead. The cyclical score, our purely mathematical assessment of the 12 leading indicators, rose to 76 from a revised score of 74. Unlike the percent of leaders expanding the cyclical score is updated when there are revisions to any of the leading indicators. The percent of leaders expanding is not revised and is based upon our assessment of the leading indicators using the data available at that time. Based upon both these aggregate measures of the leading indicators, we expect the economy to continue to expand through at least the fourth quarter of 1997.

All of our roughly coincident indicators continue to expand. Only *civilian employment as a percentage of the working-age population* failed to reach a new high this month. The ratio declined to 63.78 — not enough to alter its status as clearly expanding. *Nonagricultural employment* increased by 215,000 jobs even though the goods-producing sector actually lost 14,000 jobs. All of the gains this month came from the services-producing sector. The index of industrial production increased 0.7 percent and *personal income in manufacturing* increased 0.3 percent.

Manufacturing and trade sales increased 1.2 percent. *Gross Domestic Product* (GDP) rose at a seasonally adjusted annual rate of 3.3 percent in the second quarter. At the end of this month we will get our first estimate of third quarter GDP. Overall, 100 percent (6 out of 6) of the roughly coincident indicators with apparent cyclical trends are expanding.

Two of the six primary lagging indicators reached new highs: *manufacturing and trade inventories* and *commercial and industrial loans*. Both are appraised as clearly expanding.

The *average duration of unemployment* (inverted) increased slightly this month, despite a drop in the base data. It remains appraised as probably expanding.

Notably, however, two primary lagging indicators weakened this month. We downgraded the status of the *composite of short-term interest rates,* which last month was appraised as probably expanding. The latest of recent small decreases in the series was sufficiently great to cast doubt on its cyclical status. With short-term rates at 5.54 percent, the cyclical status of the series now is indeterminate.

For several months the *percent change from a year earlier in manufacturing labor cost per unit of output* had no identifiable trend, but this month's data, along with some revisions to past data, suggest that the series is probably contracting. The *ratio of consumer debt to personal income* remains appraised as probably contracting. For over a year consumer debt has remained around 18 percent of personal income. This debt is held primarily in auto loans and credit card debt, and does not include mortgage debt.

Overall, 60 percent (3 out of 5) of the primary lagging indicators with apparent cyclical trends are expanding — a 20 percentage point drop from last month's figure. At this point in an expansion, we monitor the behavior of the laggers especially closely, as these series tend to reveal the first signs of bottlenecks in the economy. In previous cycles, the lagging indicators often have strengthened prior to deterioration in the leaders. Although the strong upward trends in both commercial loans and manufacturing and trade inventories merit close attention, slowdowns in other laggers this month suggest that the threat of expansion-wrecking bottlenecks may actually have eased somewhat. Barring marked deterioration in the leaders, the outlook is for continued expansion. ❑

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