BY JEFFREY A. MIRON

Public institutions of higher learning loom large in American education. Almost half of the nation's 4,000 colleges and universities – schools ranging from community colleges to world-class research institutions – are government owned and operated. And almost 80 percent of America's 14 million post-secondary students are enrolled in public institutions, at an annual cost to taxpayers exceeding $50 billion.

Yet the desirability of delivering higher education through government agencies is rarely questioned, even when public primary and secondary education are under substantial scrutiny and the newly elected President is championing experiments in voucher privatization. This is not to say public higher education is immune from controversy; it is the scene of divisive skirmishes in contemporary politics, a battleground for affirmative action and the mores of political correctness. But for all the rancor, few question the notion that, with public higher education, more is necessarily better.

I think a debate on precisely this question is overdue.

The economic and social justifications for subsidizing higher education are far less convincing than is commonly assumed. Even if one believes that public money should buy a college education for every high school graduate willing to put in the time, it makes more sense to subsidize students at privately owned institutions.

THE CASE FOR SUBSIDIES

It is the conventional wisdom that education benefits society at large, not just the people who end up with the sheepskins. For along with enhancing graduates' earnings potential and quality of life, education creates law-abiding citizens who are more respectful of democracy. By the same token, a better educated citizenry means higher productivity, more sophisticated culture, and so forth. Because the individual who obtains the degree does not capture its full benefits, the private incentives to acquire education are inadequate from society's perspective.

The view that education has beneficial spillovers certainly contains a kernel of truth. This does not mean, though, that more is always better – or that arbitrarily large subsidies for education represent good policy. To see why, one must simply recognize that education has costs. They include the direct costs of providing educational services and the opportunity cost of time spent obtaining this

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education (the income students could have earned had they not been in school). These costs can easily exceed the value of the education to the students or to society in general.

The critical question is under what conditions the beneficial spillovers from additional education justify the costs borne by taxpayers. And while there's plenty to argue about here, these spillovers, relative to costs, are likely to decline with the level of education.

Here's why. The spillovers from basic education are likely large. It's plain that societies function more efficiently if most members read and write the same language and accept common rules of behavior and conflict resolution. At the same time, the opportunity costs of being in school are low for primary-school-age children, and the direct costs of primary and secondary education are modest compared to the cost of college. Thus, the social benefits of education may far exceed the private benefits at the primary or even secondary level.

By contrast, the spillovers from college and post-graduate education are less obvious; the bulk of the benefit, in the form of income from specialized skills, is likely to be captured privately. It's true that liberal arts training is less directed at preparation for a specific occupation, but the spillovers from studying Shakespeare are less compelling than the spillovers from learning to count or read ballot instructions. In any event, training at this level comes on top of primary and secondary education; college students have, in principle, already been introduced to the humanities, science and the arts. None of this proves that higher education generates minimal spillovers. But the arguments suggest caution in using spillovers to justify subsidies.

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Credit Constraints. Some people who could benefit from education are unable to afford the outlay, even though the additional income they could subsequently earn would be sufficient to cover the investment. Borrowing to pay for college makes sense here, but private lenders often refuse loans when the only collateral offered is the borrower's future income. Thus, government policies that make education cheaper – and thereby reduce the bite of credit constraints – can mitigate this market failure by raising output.

Even though there are people for whom the gains from education exceed the costs but who cannot afford the expenditure or borrow the necessary funds, the magnitude of this problem is easily overstated, since even the poor can often find ways around borrowing constraints. Academically qualified students can obtain scholarships or loans from private colleges. Those who cannot afford four years of classes can acquire education in smaller bites – night school, summer school, alternate semesters and the like – while earning income. And others can acquire skills by working at apprenticeships or attending school at an employer's expense.

Like the spillover argument, the credit constraint justification for subsidies is more

KEN BURRIS (ALL)

compelling when applied to primary or secondary education than to higher education. A five-year-old has few opportunities to earn income or to work as an apprentice, and few lenders are willing to wait decades for their money back or chase deadbeat debtors around the country. Again, the standard argument provides an uncertain case for government subsidy of higher education.

Subsidizing Education Versus Subsidizing Schools. Whatever their validity, the standard arguments for subsidy concern the demand for education; they are reasons consumers might purchase less than the socially desirable amount. An alternative justification for government subsidy might be that the private sector does not supply a sufficient quantity of education services.

For example, private markets potentially undersupply commodities produced under conditions of increasing returns to scale (e.g., local telephone service, if it were not regulated); such markets are typically dominated by a monopolist who restricts output to increase price. Even competitive markets can undersupply goods when there are information asymmetries between suppliers and demanders. Think of an insurance company that knows less about your health than you do, and thus charges a higher premium to cover the probability you are concealing an expensive medical condition.

But the supply-side rationale for government intervention is not relevant to higher education. Private colleges and universities thrive, in many cases outcompeting public schools. The plausible arguments for subsidizing higher education suggest, at most, that the amount demanded in the absence of subsidies might be insufficient; they do not suggest the public sector need supply those services that are demanded.

THE CASE AGAINST SUBSIDIZED SCHOOLS

Assuming that some degree of subsidy for higher education is desirable, the question remains what form it should take. Most public money today goes to government enterprises that supply higher education at tuition substantially below cost. Yet even a casual look at the consequences suggests serious problems.

Who gets subsidized? As currently operated, public colleges and universities distribute benefits in an arbitrary, even perverse, manner. They charge tuition substantially below the level of comparable private institutions, regardless of the financial circumstances of their students. And since most state appropriations for public colleges come from general revenues, low- and middle-income taxpayers underwrite the costs of educating students from high-income households. (Where states tap other revenue sources, the distributional consequences can be yet more perverse: Georgia's much-acclaimed Hope Scholarship program uses lottery profits, largely collected from the poor, to finance college for all high school graduates.) By the same token, middle-income households with few children or with children attending private schools are required to pay for benefits that go to the children of their peers.

The magnitude of this money shuffle is substantial. For the 1997-1998 academic year, the average tuition and fees were $3,110 at four-year public institutions but $13,392 at four-year private institutions. This comparison overstates the true difference if privates are higher quality than publics or if privates discount tuition – that is, provide scholarships – to a greater degree. But publics compete successfully with privates in many cases, suggesting quality is not dramatically different. And even at an average discount of 30 percent, private tuition is roughly triple the public rate. The difference, of course, is $50 billion-plus in state subsidies.

Public colleges and universities could rectify the distribution problem by switching to need-based tuition: a high, official tuition combined with discounts/scholarships that depend on financial circumstances. Other thing being equal, this policy change would be desirable. But if public colleges and universities reform by becoming more like private ones, they are, at best, doing something the private sector could do on its own.

Polarizing Policies. A subtler but nevertheless disturbing consequence of public higher education is putting government in the middle of America's culture wars. A prime example is affirmative action in admissions. In California, a ballot initiative banning affirmative action in state government, including in the operation of public education, was approved in November 1996 and became law in 1997 after surviving a challenge to its constitutionality. A decision by a federal appeals court in 1996 outlawed affirmative action in public colleges. The ruling applies in Texas, Louisiana and Mississippi. More recently, Florida's governor, Jeb Bush, announced a plan under which state universities would end affirmative action in admissions and instead guarantee enrollment at a state university to all students graduating in the top fifth of their high school classes – an approach already being used in states where affirmative action has been successfully challenged.

Any institution of higher education must take a position on affirmative action, so the potential for the divisiveness that issue can cause is present at both private and public institutions. But the potential for controversy is greater at publics, because government is the decision maker and because taxpayer funds support these institutions. Public institutions that do not practice affirmative action face charges of discrimination; those that do face criticism and legal challenges for engaging in reverse discrimination. Private institutions have more leeway to practice affirmative action, and many do so; few would challenge the right of a private institution to practice affirmative action.

Or consider divisions brewing around limits on academic freedom. At any institution, the presence of controversial faculty engenders a difficult trade-off. Sanctioning outlandish views might stifle the atmosphere of lively debate and free expression that institutions of higher learning value, yet tolerating such views can anger students, faculty and alumni. Private institutions can balance these considerations as they see fit, and there is scope for both variety and subtlety in their responses. Public institutions that must compete with privates value this flexibility as well, yet publics, as government entities, run afoul of constitutional free speech considerations that do not affect private universities if they sanction faculty members with unpopular views. Yet, the public institutions face more pressure than the privates to sanction views that are considered odious to significant portions of the electorate. Thus, at the publics there is no easy resolution of this difficulty.

For example, the City College of New York, a public institution, removed Leonard Jeffries as chairman of the Black Studies Department because he publicly asserted that Jews had helped finance the slave trade. Jeffries argued unsuccessfully in court that the school had violated his First Amendment rights. A similar controversy broke out at Wellesley College when three Jewish students discovered that Tony Martin, a professor of Africana Studies, had assigned a book suggesting Jews played a role in the slave trade. And Arthur Butz, a tenured professor of engineering at Northwestern, uses a university Web site to promote his view that the Holocaust did not occur.

Gender equality has almost as much potential for breeding division in publics. Witness the circus surrounding The Citadel and Virginia Military Institute, male-only public institutions that were forced to open their doors to women after the Supreme Court ruled that their exclusion violated the 14th Amendment. Here again, privates can more easily balance the pros and cons of single-sex education; few Americans wish to prohibit private, single-sex institutions.

Centralization, Standardization and Innovation. Every institution of higher learning must decide what programs to support, which faculty to hire, whether to emphasize teaching or research, and so forth. The decisions made by private institutions must meet the test of the market; those schools cannot impose a particular view unless consumers and donors are willing to tolerate it. But private institutions need not bow to the political considerations that accompany government funding.

The decision makers who control public education, by contrast, are creatures of legislatures. Thus, the will of the majority in everything from curricula to sports policies is more easily imposed on public systems, and politically unpopular subjects or programs are more easily terminated.

This is especially problematic because public institutions set precedents that affect market perceptions of what constitutes a university. The effect is small so long as higher education is decentralized; in the United States each state competes against 49 other states, and all states compete against a vigorous private sector. But as public higher education expands, as has occurred over the past century, the practices of publics determine what the citizenry expects colleges and universities to be – thereby shaping not only public institutions but private ones as well.

Efficiency. A final disadvantage of public colleges is that they operate less efficiently than privates. All institutions of higher learning must compete for students, faculty, grants and donations. They therefore face competitive pressure to operate efficiently, even though they are nonprofit. But private institutions face these pressures to a greater degree than publics, since those that fail to control costs or offer an attractive product have no recourse to state funds. Likewise, private institutions have a greater incentive than publics to oppose regulation or collective action that raises costs. This means, for example, that publics are more willing to accept unionized faculty and staff.

This efficiency advantage of privates is difficult to measure – and is not necessarily large in the United States, where publics face substantial competition. Moreover, the fact that privates operate more efficiently does not guarantee a marked advantage in the quality of education, merely a better relation between quality and cost. These caveats aside, the efficiency advantage favors private institutions.

THE CASE FOR COLLEGE VOUCHERS

Despite the negatives of public higher education, there is still a case for government subsidy if spillovers and credit constraints are important. But there are alternatives to delivering subsidies through government-operated schools. The most obvious is vouchers. Under a voucher program, government pays part or all of the tuition for eligible students at private institutions. The eligible group might be high school graduates who have gained acceptance at an accredited institution. This approach is not new; Uncle Sam already offers grants, loans and tax credits to many students. The GI Bill provided World War II veterans with substantial tuition payments and living stipends; the United States military continues to offer similar programs. So-called Pell Grants are means-tested, higher education vouchers financed by the federal government.

The first advantage of vouchers over public higher education is that vouchers are readily means-tested. Since public higher education costs taxpayers more than $50 billion annually, current outlays could pay for full-tuition vouchers for about four million students – or more than one-third of those currently attending publics. Alternatively, a larger voucher covering living expenses as well as tuition could be provided to the poorest 5 to 10 percent, with the remaining funds used for middle-income students.

A key advantage of means-tested vouchers is that they make explicit the wealth transfers associated with publicly funded education. Today, the redistribution is not only perverse, but well hidden. And that makes it easier for politicians to play a game of musical chairs in which some middle-income taxpayers finance college for the children of other middle-income taxpayers.

The second advantage of vouchers is that government is not compelled to resolve controversies regarding speech codes, single-sex institutions, affirmative action and the like. While access to vouchers could be conditioned on institutional policies – for example, non-discrimination on the basis of race – the indirect nature of the funding gives politicians cover in tolerating policies that offend some voters some of the time.

Thus, under vouchers, recipients might choose single-sex institutions, but there would be no public, single-sex institutions. Similarly, some recipients would choose institutions that practice affirmative action, while others would choose institutions that do not. Whether affirmative action would increase or decrease is an open question; it might increase if private colleges and universities find it attracts the students they want.

The final advantage of the voucher approach is that it relies entirely on private institutions to produce higher education. This reduces the potential for centralization, homogenization, and the stifling of innovation that is always a risk under public systems. As noted above, this has been only a modest problem in federalist America. But the greater market accountability and efficiency of privates relative to publics still argues for vouchers rather than public schools.

The fact that vouchers – or related policies such as subsidized loans – reduce the negative features of public higher education does not necessarily mean that vouchers are good policy. The most important negative is that vouchers require government to define what constitutes education, which can stifle innovation, impose homogeneity, and, in the extreme, control ideas. Thus the claim offered here is a qualified one: if subsidy for higher education makes sense, vouchers are a better method than public higher education. But voucher programs themselves require careful scrutiny.

The arguments against public education apply to schools at every level. And the caveats about vouchers apply as well. This paper has focused on higher education because I am an opportunist: society's presumption in favor of publics is weaker at this level, implying a greater willingness to entertain reforms from the ground up.