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Moral Reasoning and Higher Education Policy

For the past decade, the Ford Policy Forum, an integral part of the Forum for the Future of Higher Education's Annual Symposium, has been chaired by Michael McPherson and Morton Owen Schapiro, presidents of the Spencer Foundation and Northwestern University, respectively. Its broad intent is to explore how economics can make individual colleges and universities and our overall "system" more efficient. While McPherson and Schapiro believe that the application of economic theory and empirical techniques to higher education issues can be quite useful, they are also well aware that our schools do not operate in a moral vacuum. To the contrary, in order to justify their non-profit status, colleges and universities must promote the public good (the proprietary part of the higher education market operates under a different mandate). The benefits from being non-profit are clear: institutional wealth derives in significant part from the tax deductions donors receive from their gifts, and from the fact that capital gains are not subject to taxes. But what are the accompanying ethical obligations? This Ford Policy Forum explores how ethical concerns can and should inform our actions.

Before turning to our presenters, some background may be helpful in demonstrating how attention to the value dimensions of important problems and choices can be fruitful.

WHY CONSIDER VALUES?

There is a tendency to think that "values talk" in higher education is best reserved for important ceremonial occasions such as commencements and reunions, or in remarks following a major scandal. Given this view, values talk simply has to take a back seat to the pragmatic realities of evidence, interests and hard choices.

■ The application of economic theory and empirical techniques to higher education issues can be quite useful. However, colleges and universities do not operate in a moral vacuum. It is a mistake to think that evidence and values reside in different realms that have nothing to do with one another.

■ Examples of issues that have significant value dimensions include: *Admissions.* Factors such as legacy status, development potential, and athletics ability are considered to varying degrees in admissions decisions. And while some point fingers at schools with large endowments who are need-aware, we worry that others

might hold on to being need-blind past the point where it makes financial sense.

Allocation of government funding. The current devastating recession has provoked a real struggle in many states between those who want to "save" the flagship universities and those who want to preserve opportunity for the least advantaged, who

most often are enrolled at the community college level.

■ Unpacking the moral dilemmas implicit in higher education policy choices does not lead to clear, correct answers—but it does enrich understanding and improve deliberations and decision making.

We feel it is a mistake to think that values and evidence simply reside in different realms and have nothing to do with one another. In fact important choices virtually always involve both value judgments and empirical evidence—as, we suspect, almost everyone would agree. The important question is whether the values side of these choices is generally best left implicit or unexamined, either on the assumption that the values in question are widely agreed upon or that in any event there is little to be gained by worrying over any disagreements, or whether instead there is reason to surface the value dimensions of a problem, unpack their content, and weigh arguments about their importance.

A core premise of our session is that, often enough, there is reason to do this unpacking. Critical attention to the value dimensions of important problems and choices can be fruitful. Just as we want higher education leaders to become good at

more complicated. Second, what do you do when the application of economic theories and techniques gets you into moral hot water?

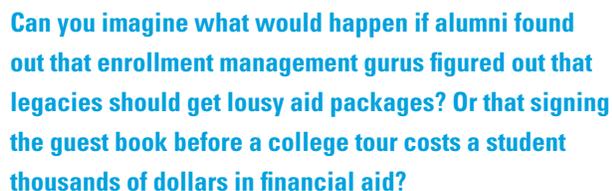
We touch on five topics to illustrate these points.

(1) Enrollment Management

“Be more efficient!” Higher education leaders hear this from trustees, alumni, the government and others. With educational expenditures at most colleges and universities well above sticker prices (so that even full-pay students receive sizable subsidies), surely this implies that discounts off the sticker price should be made with great care. If an institution “leverages” its aid dollars, it can take the savings and invest them in the educational enterprise, reducing class size and the like. Hence, enrollment management, which has become increasingly popular over the past two decades, can be thought of as a tool to promote efficiency.

How is it done? An economist would suggest that an institution examine the characteristics that determine whether a student offered admission will choose to attend. A yield regression would have a zero/one variable as the dependent variable (with a one if the student matriculates and a zero if not). The list of independent variables could be divided into a set of individual characteristics, some family characteristics, and some measures of demonstrated interest. It would be easy to predict the sign of these coefficients. For example, as the high school record improves (a better GPA, standardized test scores, teacher recommendations, etc.), the probability that a student would accept admission to a particular school falls, given that a stronger record implies improved alternative higher education options. How does that translate into aid dollars? Improved alternatives mean that the college often needs to offer a bigger discount off the sticker price (in other words, more generous aid). If we are talking about merit aid, that implies a larger scholarship, and if we are talking about need-based aid that implies a better package (with a larger grant and a smaller loan). Many observers wouldn’t find moral problems with the situation just described: More merit aid accompanies greater merit and stronger students receive what are called preferential need-based aid packages (although some schools don’t do preferential packaging, arguing that any student good enough to be admitted should get the same aid package if family circumstances are identical).

But what about leveraging aid dollars based on the other analytical results? It is quite likely that a student who is a legacy—his or her father or mother attended the college in question—will be more likely, all else equal, to matriculate. The same is the case for a student who demonstrated interest by going on the college tour or signing up for an interview.



Can you imagine what would happen if alumni found out that enrollment management gurus figured out that legacies should get lousy aid packages? Or that signing the guest book before a college tour costs a student thousands of dollars in financial aid?

assessing evidence and analyzing the consequences of particular choices, so we think leaders should become good at identifying and understanding the value dimensions of the issues with which they wrestle.

Our strategy for making this case is to consider a range of examples of problems and issues in higher education that have significant value dimensions. We will offer several examples that arise at the level of the individual college or university, as well as a couple that are at the system or governmental level. Our aim is not to defend particular claims about what is, on balance, the right thing to do in each of these cases: rather, we want to show that surfacing the value dimensions of these examples allows us to think more responsibly and constructively about them.

INSTITUTION LEVEL EXAMPLES

We focus here on two primary issues. The first is the tension between institutional aims and the public good. When pursuing individual interests also serves society, it’s easy. But when it does not, or when serving society threatens an institution’s own situation, decision making becomes much

Economics suggests a simple institutional response—reduce the discount off the sticker price. In other words, if an admitted student has a parent who attended or appears eager to come, reduce the aid package. What might be good economics hits a moral barrier. Can you imagine what would happen if alumni found out that the enrollment management gurus figured out that legacies should get lousy aid packages? Or that signing the guest book before a college tour costs a student thousands of dollars in financial aid? It is hard to determine how many colleges and universities actually apply these economic methods in order to allocate aid dollars more efficiently but some surely do.

At least two considerations make these practices morally problematic. First, unlike adjusting awards based on need or merit, it is hard to see any connection between taking a tour or being the child of an alum that connects with the educational purposes of aid. And second, policies that offer less aid to those who demonstrate more interest or enthusiasm for the school have to be conducted in secret, and there are good moral reasons for colleges to be open about their admissions and aid policies.

While it seems impossible to argue that, within the context of need-based aid, replacing grants with loans for tour takers or legacies can be defended on moral grounds, merit aid might just be a different story. If schools are “buying” students, why not use all the information at hand? If there are indicators that a student is going to accept an offer of admission, why discount the price when the student’s family can afford the sticker price? Transparency, of course, is a laudable goal and that would certainly be sacrificed (if students figured out that going on the college tour meant less merit aid, there would be lots of unemployed tour guides). Our goal here isn’t to suggest what is right and what is wrong, but to illustrate that what works in terms of pricing in other industries may not apply in higher education.

(2) Early Admissions

In recent years there have been several high profile announcements of schools moving away from admitting students early, with Harvard famously dropping its non-binding early action program (in which a student could be admitted in mid-December but would have until late spring to decide) and Princeton, among others, dropping its binding early decision program (in which an admitted student is committed to attend). Briefly, the arguments against early decision include the following: (a) you can’t expect a needy student to commit to attend a school before knowing the price that will be charged; (b) asking a student to decide where to attend college by early November (the typical deadline for early application) as opposed to the beginning of May increases the frenzy accompanying selective admission; (c) students admitted in December

of their senior year might take the rest of that year less seriously than one might hope; and (d) given that there is a sizable admissions advantage to applying early, certain students are able to game the system, while others may feel coerced into applying early.

There are possible replies to most of these. A school that gives generous need-based packages might be able to assure low-income applicants that college will be affordable without the student needing to collect competing offers from other schools. If the frenzy is made worse by early admissions, what would happen if each of those students who is currently admitted in December instead applies to a dozen schools for spring consideration? Finally, for some students, declaring victory in December might mean a more relaxed but more intellectually engaging senior year. But debating the social benefits of moving away from early admissions isn’t our point here. Some colleges and universities clearly think they are serving the public good by dropping their early admissions programs. They deserve credit for acting on their convictions even though it may threaten their narrow institutional aim of faring better in the battle for top students they are waging against rival institutions. When individual goals are sacrificed for social goals, that deserves notice.

(3) The Generosity of Need-Based Aid Packages

Several years ago there was an intense competition among the most heavily endowed institutions to provide the most generous aid packages for needy students. (There has been a certain amount of backtracking at some colleges following the endowment declines produced by the financial crisis.) “Free to \$60,000,” for example, is supposed to make clear to students from low- and middle-income backgrounds that college is indeed affordable, as students from families earning less than \$60,000 receive free tuition and room and board. Actually, the slogan hides a more complicated reality—does “free” mean no summer-time or in-term earning expectation or merely no loan? Are schools really expected to ignore assets including home equity and to just look at last year’s family earnings? Regardless, the good news is that these schools are pursuing their individual interests (competing more effectively with other schools for talented low- and middle-income students) while addressing issues of societal economic inequity. However, before concluding that both institutional and social purposes are being served, what does this mean for the many schools who simply cannot afford to match these packages? A similar issue arises when highly affluent colleges and universities eliminate loans (or drastically reduce them), which most colleges just cannot afford to do. Do the most heavily endowed institutions have an obligation to the vast number of other colleges and universities when setting their

aid policies? Competitive forces may press less affluent colleges either to reduce investments in the educational process to free resources for aid competition, or to introduce merit aid in order to compete over the most desirable students—a practice that is itself morally problematic. This is tricky business, and it raises the general issue that the narrow pursuit of individual interests might come up against the general good.

(4) Dealing with U.S. News and World Report

While some schools refuse to cooperate with the infamous ratings from U.S. News, most comply with the magazine's data request. Why? Some point out that almost all of the information is easily available anyway and that some of the indicators of institutional quality used in the ratings might help prospective students identify colleges in which they have an interest. The question we raise is whether or not schools are morally obligated to give accurate answers in the numbers they submit.

It is easy to do otherwise. Some schools use a two-part application and produce admit rates that include large numbers of students who had no idea they even applied (they might have mailed in part one but never submitted test scores, high school transcripts, etc.). Others defer the admission of less numerically competitive students to the second semester and then neglect them in compiling the number of students admitted and the average high school grades and test scores of the entering class. Some schools mysteriously record impressive increases in giving rates by purging their data bases of graduates who haven't given in many years. A number of schools don't require the SAT exam, but yet are proud to report high average SAT scores, ignoring the obvious fact that when SATs are optional, only the highest scorers submit their scores. What about the SAT scores for international students or for recruited athletes? Are they included in the averages?

The bottom line is this: a school might feel strongly that the U.S. News rankings are completely bogus, but does that mean it is acceptable to fool around with their numbers? What about the moral obligation to other schools? Again, this is tricky business and our job here is to raise issues, not to decide them.

(5) Questions Regarding Whom to Admit

We conclude this section with a brief discussion of one of the fundamental rights of institutions—control over whom to admit. Relatively few private colleges and universities, perhaps around 50 out of 1,500, are need-blind, that is, they admit students without regard to ability to pay. While some point fingers at schools with large endowments who are need-aware (in particular, some quite wealthy schools consider income when admitting students off the wait-list), we worry that some schools might hold on to being need-blind past the point where it makes sense. If being

need-blind leads to a decline in institutional quality as average class size rises, the quality of the faculty falls, and the infrastructure deteriorates, should it be abandoned?

Our concern is that schools that are need-blind and can afford to be might use excessive moral suasion to induce other much less wealthy schools to remain in that exclusive club. It is one thing for schools to feel good about themselves for ignoring ability to pay or for only offering aid based on need rather than merit. It is quite another to expect both applause and emulation. "Ought implies can," the saying goes. Unless a school is rich enough to be need-blind, and in a competitive situation that allows it to avoid merit aid, nobody should be arguing on moral grounds that it ought to follow in the footsteps of those privileged few at the top of the admissions heap.

Of course, there are other great moral questions concerning admissions. Is it right to make the kinds of tradeoffs between athletic ability and academic records that many schools appear to have been making? What about legacies? Even if the enrollment management experts might offer children of alumni less financial aid, they surely are more likely to be admitted. Finally, recent attention on development admits (students admitted because their families have great giving potential) has shined a disturbing light on any notion of a meritocracy. Of course, institutions can answer that fund-raising raises the level of education offered to all their students, and that taking extreme wealth into account on occasion isn't always bad as long as the student in question is not put in a situation where he or she is destined to fail.

While this section is sure to raise hackles from people on various sides of these contentious issues, our purpose is not to resolve these questions. Instead, we seek to illustrate the difficult moral and economic issues with which higher education has been dealing. We move now from micro to macro questions.

"SYSTEM" LEVEL EXAMPLES

Government policies toward higher education, at both state and federal levels, plainly raise issues that require moral judgment. Obvious examples include affirmative action in college admissions and the many questions that arise concerning academic freedom. A little later, we will offer an example closer to our own field of economics, concerning state government policies toward public higher education. Before turning to that example, we want to offer a different "system level" example, one that is grounded more in cooperative activity across colleges and universities, with a subordinate role for the government. The example we have in mind is the student aid "needs analysis system" used to determine family ability to pay for college.

Although this system is now heavily regulated by the federal government, it has its origins in the cooperative efforts of a large group of colleges to arrive at a common standard for measuring families' ability to pay for college. The point we want to emphasize is that this system, although it is quite technical in details, actually rests on a set of normative or ethical judgments regarding both families and colleges.

The key normative assumption for the families is that parents have a responsibility—a moral responsibility—to pay for their children's college education to the extent they can afford it. Those who can't afford to pay of course need help. A number of subsidiary normative judgments then come into play in determining what parents can afford to pay. One major principle is "horizontal equity"—an important concept in taxation. The idea is that people in similar circumstances should be treated similarly, and in particular, someone should not be able to take advantage of the rules by making different choices. Thus, for example, you wouldn't want to treat two families differently just because one held its assets in the form of stocks, the other in the form of bonds.

This principle—that ability to pay should be determined by a family's circumstances, not its choices—leads to some very difficult cases. For example, if two families had similar opportunities to save, but one "lived it up" while the other was frugal, should the second family have to pay more than the first? In practice it is really hard to figure out what a family's opportunities to save were over a lifetime, but most college and university people involved with needs analysis would say that if you could measure those savings opportunities well enough, you would want to judge the two families as having similar ability to pay. Yet at the same time, everybody agrees that a family which chooses to have three children should get more help than one which stopped at two, even if the families had identical circumstances but simply made different choices. There are clearly tough moral issues here, calling for analysis of the reasons for aiming at horizontal equity, and the limits of that principle.

The corresponding normative or moral expectation for the colleges is that they will attempt to meet the need of those who can't afford to pay. Ideally, in fact, the core intuition behind the entire needs analysis system is that colleges will strive to meet the full financial need of all those who are accepted for admission (and also that they will accept students without regard to their ability to pay). Fully implemented, such a system would eliminate cost as a factor in students' choice of college. Implicitly, in working within this system, colleges are



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supposed to be using financial aid to meet need, not to advance their individual competitive advantage.

Indeed, the needs analysis system can be seen as a kind of moral bargain between families and the colleges as a group. The colleges in effect say, "share with us these quite intimate details of your personal financial situation, and we in turn will use that information fairly, to identify those who need our help." Seen in this light, our current situation is rather troubling. The colleges still get families to provide this information (now with a heavy governmental hand overseeing arrangements), but the idea that colleges will not use that information for competitive advantage is largely obsolete. Many colleges use that information, for example, to exclude students whom they can't afford to aid; more generally many colleges use families' financial information to try to charge each family the highest "net" price they will be willing to pay. A good deal of trust has been drained from this system, on both the family and the college side.

Our second (and final) system-wide example concerns state government decisions about the support of undergraduate education. The particular problem we have in mind is that of deciding how much support to give to colleges in different levels of the state higher education system. Most larger states have some version of the three-tiered system that is perhaps most clearly defined in California, with its University of California system (e.g., Berkeley, UCLA), its state university system (Fullerton, San Diego State) and its community college system (Bakersfield, East Los Angeles). Generally, and quite explicitly in California, the different pieces of the system are targeted at students with differing levels of academic performance in high school (with the UC campuses on top, the state universities next, and the community colleges aimed at the least academically prepared students).

The schools with the "best" students generally also receive larger per-student appropriations from the state government. There are lots of measurement problems here, but a rough estimate is that nationally undergraduate students at "flagship" publics receive about twice as many dollars per students as those at the state college or state university system, with the community college students receiving still less.

The political challenge of deciding how to allocate governmental resources across students at these different levels is likely to become increasingly difficult in the years ahead, as state governments feel continued budgetary pressures, especially from rising costs of Medicaid. The current devastating recession has provoked a real struggle in many states between those who want to “save” the state’s investment in its flagship universities and those who want to preserve opportunity for the least advantaged. The issues are made even sharper because of the close correlation in our society among academic achievement in high school, family income, and racial-ethnic background. Enrollments at institutions that receive the fewest dollars per student, under current arrangements, are disproportionately likely to be African-American, Hispanic or American Indian, and low-income.

The analysis that follows here begs some key questions for the sake of bringing important dimensions of the problem into view. Two key (undefended) assumptions are worth noting: first, that the notions of “more” and “less” educational production used freely here can be meaningfully quantified and, second, that more educational production translates directly into greater economic output. These are both complex and fascinating questions in their own right, but we are unable to pursue them here.

The moral dimensions of this funding dilemma involve questions both of efficiency and fairness. A central question on the efficiency side is: What is the educational pay-off from an additional dollar spent on a more “able” or less “able” student (as measured by academic achievement in high school)? As far as we can tell, economists have done very little work on getting a quantitative answer to this question—which seems like the kind of question economists should be good at answering! Qualitatively, a plausible economic answer can be made along the following lines. Both intuition and evidence suggest that, to put it in economists’ jargon, past achievement and material resources are complements in the production of education. In other words, other things being equal, a dollar spent on a more promising student will yield a higher return than a dollar spent on a less promising one.

Suppose for a moment that spending per student were equal across the three levels of a state system. If the relation between past achievement and spending is as just described, then taking a little bit of money from the students at community college and spending it on students at the flagship university would increase the total product of the state system—the



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losses at the low end would be outweighed by the gain at the high end. So this argument would say that, from an efficiency standpoint, it makes sense that states should spend more per student on the universities and least on the community colleges, as in fact they do.

But how much more? Presumably additional spending on the more able students runs into diminishing returns. Starting from equal spending per student, it makes sense to move dollars toward the better qualified. But of course it is perfectly possible to overshoot—to

spend so much more on the top students that moving some money toward the less able would improve overall results. At this point, there is virtually no empirical evidence on whether existing spending inequalities go too far or not far enough from the standpoint of economic efficiency.

Let’s turn now to the question of fairness. In our society, the people who show the most academic promise at the end of high school come disproportionately from the more favored sectors of the community, and can look forward generally to more prosperous lives than other groups. Is it really fair that more public money also be spent on their education? In addressing this question, it would help enormously to have a better handle on the answer to the efficiency question raised above—a good example of a case where moral judgments depend on empirical knowledge.

Obviously, if we have indeed gone too far in creating inequalities in spending from an efficiency point of view, then both efficiency and equity concerns would pull in the same direction—toward reducing the spending differences.

The question gets a lot more complicated if in fact the existing differences in spending are efficient. In that case, transferring resources to the colleges attended by less qualified students would reduce the total production from the state system—the schools at the top would lose more in educational outcomes than the schools at the bottom would gain. One way of seeing the force of this point is to note that (on the assumption that the current inequalities are efficient) moving college resources from the more to the less qualified students may not be the best way to help the less qualified. They might, for example, gain more from society investing added dollars in the earlier schooling of lower achieving students, thereby raising the productivity of the dollars spent on their college education, or by investing in health care, in jobs programs, or in other ways. By the same token, the best source of funds to use to assist the lower achieving students is not the dollars spent

on educating the higher achievers (again on the assumption that dollars are being spent efficiently). Taking away dollars from education will lower production while other sources of funds, like taxation, need not.

The interesting, and significant, point here is that even from the standpoint of the lower achieving students, spending money on the education of the better prepared may be in their interest—provided that some of the additional social output produced by that investment is directed to the benefit of the lower-achieving. (Some readers will recognize this point as following the line of John Rawls' argument for the difference principle.) Note however that the proviso is important: This inequality in spending can only be endorsed from the standpoint of the lower achievers if in fact the improved education of the better qualified redounds to the benefit of the less qualified. Whether this proviso really holds in our current society is, at best, highly questionable and if it doesn't hold then the fairness of the funding inequalities in the state system is much in doubt, even if it is efficient.

FORD POLICY FORUM PRESENTERS

As always, the key to the Ford Policy Forum's success is the selection of our presenters. This year we are fortunate to have with us Sandy Baum and Harry Brighthouse. Sandy Baum, economics professor emerita at Skidmore College and a consultant in higher education policy, is perhaps the nation's premier expert on higher education financing. Her work informs both the economics literature and public policy. Harry Brighthouse is a political philosopher at the University of Wisconsin-Madison. One of his principal research areas is problems of justice in the context of educational issues. We thus have an economist and a philosopher; one scholar focusing on micro issues facing students, families and institutions and the other on broader system-wide questions. Together their work represents the range of issues for which ethical argument may be usefully brought to bear.

Sandy Baum points out that the realm of admissions and financial aid is one where ethical issues are particularly likely to reach the public eye. While financial aid was once thought of in terms of promoting equal opportunity, enrollment management—using need-based and merit aid strategically to meet selected aims—has complicated the picture over the past few decades. Even financial aid policies that appear to be ethical winners become more ambiguous when considered closely. Fortunately, ethical and efficiency concerns often reinforce themselves. As she points out: "...a focus on equity does not mean ignoring efficiency. And a focus on efficiency cannot exclude equity." Doing the right thing isn't

easy given that choices between equity and efficiency are often muddled. That makes careful consideration of these issues especially important.

Harry Brighthouse agrees that efficiency gains need not come at the expense of ethical concerns—and indeed points out that being inefficient may itself be morally unacceptable when the good that higher education can do is impaired by wasteful spending. As resource constraints become less binding, our ability to do good grows. And doing good involves far more than equal opportunity. In fact, it is as important to consider non-participants in higher education as it is to consider those who are enrolled. Colleges and universities not only provide a range of benefits for their students while enrolled, they provide a lifetime of economic and social advantage that results from their enrollment. The more the fruits of this advantage are shared with non-participants, the better.

CONCLUSION

If nothing else, we suspect that we will have confirmed our claim that unpacking the moral dilemmas implicit in higher education policy choices does not lead to clear right answers. This point is highlighted in the essays from Baum and Brighthouse that follow. Whether we, and they, have justified the claim that unpacking these dilemmas enriches understanding and shows the potential to improve policy deliberation and, ultimately, decision-making, we leave for our readers to decide.

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