Beware the Dangers Of Range Rover U

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Earlier this year, U.S. News and World Report released its list of “Best Cars for the Money,” based on price, cost of ownership, reliability, performance, etc. These cars are considered the best bang for the buck.

Honda has a number of winners, as do Toyota, and Volkswagen. Not coincidentally, consumers have responded very favorably to this assessment of value. This same list now represents some of the best-selling cars on the planet.

If consumers respond so well to value in their automobiles, shouldn’t they do the same when it comes to higher education? A close analysis of costs, debt and university results would certainly support this.

Nationally, our aggregate student loan debt of $1.2 trillion is now greater than either all credit card or auto loan debt. More than 70 percent of bachelor degree students graduate with debt. The average education borrower now owes more than $29,000. Not reflected in these numbers is additional spending by many well-meaning parents. The employment challenges faced by many new graduates only add to their financial burden. With some one in five student borrowers already in default, our nation is clearly poised for another loan crisis.

Does the behavior of the consumer shopping for a college education have anything to do with this? I would argue it does.

According to the College Board, the average cost of tuition, room and board at a four-year, private college is more than double similar costs at a four-year public school. Yet the Gallup-Purdue Index Report asked college graduates for self-assessment across five key dimensions – their senses of purpose, community, financial, physical and social factors – found identical levels of satisfaction for both private university and public university graduates. Some 11 percent of respondents from each group indicated they were thriving across all five metrics. Parsing results from a similar survey of the top 100 schools by U.S. News & World Report, Max Ehrenfreund of The Washington Post reports the percentage of graduates indicating they were thriving was an almost identical 12 percent.

The vast majority of middle class families understand intuitively they have no business buying a Range Rover. These may be fine automobiles, but those who purchase one, seek more than merely affordable, reliable, safe transportation. They are buying prestige.

Higher education is more opaque than automobiles. It’s much harder to slam the doors, kick the tires, feel the ride, look under the hood. Too many consumers fall victim to confusing correlation with causation. They see that graduates from more prestigious and expensive universities often have more job offers and higher average incomes than graduates of less prestigious and affordable universities. They conclude the added expense is what drives the better results.

However, the work of Dale and Krueger at the National Bureau of Economic Research, in both 1998 and 2011, found that when they examined comparable students in both types of institutions, the results delta essentially vanished.

In other words, prestigious schools have good results because they collect good students, not necessarily because they produce good students. This prestige bias toward universities is like concluding that because shoppers at Tiffany’s tend to be wealthier than those who shop at Target, you should shop at Tiffany’s to become wealthier. In this regard, it would seem too many higher education shoppers don’t think in terms of Hondas and Range Rovers at all. They appear to believe you get what you pay for and you really can’t overpay for higher education.

I know many folks will bristle at comparing higher education to a product, much less an automobile and there are limitations to the analogy. Still, with all of this as backdrop, it might behoove many higher education shoppers to begin looking at their choices with some of the same scrutiny they apply to their transportation. In so doing, they will find there are many Honda universities that provide a fine, affordable education, putting their graduates on par – in earning power and ultimate career happiness and success – with graduates from Range Rover U.

The main difference may be that neither they nor their parents needed to mortgage a future or a home, or cash out a retirement nest egg to get them through school.