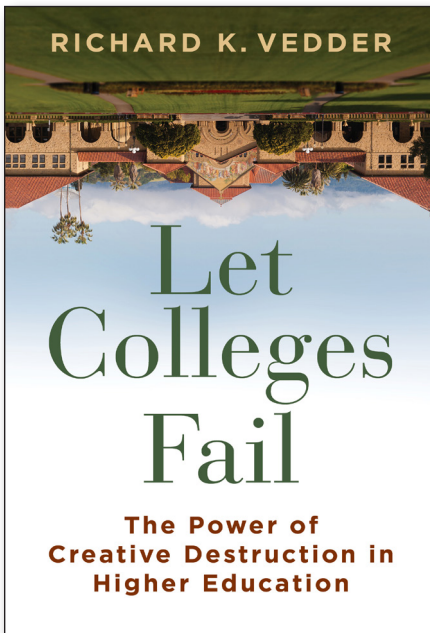


Let Colleges Fail

The Power of Creative Destruction in Higher Education

BY RICHARD K. VEDDER



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Book Highlights

- **American universities are consistently ranked among the best in the world, but their place at the top is precarious.** Richard Vedder lists ten major problems plaguing higher education:
 - Enrollments have been falling for over a decade.
 - Public support and confidence in higher education is very, very low.
 - “Unpopular” ideas are often suppressed or ignored.
 - Intellectual diversity is declining—just the opposite of what one would hope for on a college campus.
 - The cost of college is exorbitantly high for both students and taxpayers.
 - College students often do not even *learn* much at school.
 - Colleges are overwhelmed by administrative bloat. Resources that might go toward teaching instead go toward the frivolous work of bureaucrats.
 - Access to higher education among the poor has declined.
 - The rate of return on college investments is decreasing.
 - Vedder declares that colleges are very bad at “optimally” using human and physical resources.
- ***Let Colleges Fail* addresses each of these deficiencies—and, most importantly, offers solutions in response.**

- **Despite their many failings, universities remain uniquely cushioned from the consequences of their actions.** Government subsidies and bailouts, Vedder argues, are the leading cause for all the problems of today’s universities. Natural consequences of bad management are attenuated or made invisible as federal and state governments swoop in with taxpayer-provided funding (or, in some cases, private donors make many generous gifts that cushion the blow), so there is no incentive to improve. Universities also continue to enjoy generous endowments that provide steady incomes, and they are even exempt from spending at least 5 percent of their endowments to maintain favorable tax status (other nonprofits are not).

- **Americans should get rid of these third-party safety nets and allow the Schumpeterian phenomenon of “creative destruction” to force colleges to fail or succeed.** After all, Vedder argues, in a free marketplace, businesses are destroyed unless they turn profits and please customers. This obviously creates a very strong incentive for businesses to *turn profits* and *please customers*—in other words, *to succeed*. Where is that incentive for today’s

universities? If universities fail in their purpose of educating students, and enough students drop out, will schools be forced to do better? The short answer is no. Thanks to federal subsidies, state subsidies, grants, gifts from private donors, and endowment funds, the tuition paid by students is just one drop in a very large bucket of cash. This means that faculty and administrative staff can assuredly count on a steady income regardless of students' happiness, learning outcomes, graduate success, or even enrollment numbers.

- **What can be done? Plenty. And much has been done already.** As colleges continue to decline, we've already started to see more imaginative uses of technology, cheaper ways of offering high-quality degrees, and efforts to repeal government subsidies of frivolous campus bureaucracies and activist academic departments. These models are excellent alternatives to most universities, and many have seen great success. Vedder also proposes more novel initiatives, like voucher/scholarship arrangements and killing (or at least de-emphasizing) the practice of accreditation. Higher education *can* thrive again in America, says Vedder. But first, a lot of work must be done.

Synopsis

The reviews are in: American universities are more expensive, more politicized, and less impressive than ever. Fortunately, Richard Vedder, Senior Fellow at Independent Institute and Distinguished Professor of Economics Emeritus at Ohio University, has come up with a plan

to fix them. His solutions are unorthodox, tough, and hard-headed. To some, they might even sound utterly shocking. But they will work.

The arguments in *Let Colleges Fail* are stimulated by one forbidden question: Why do we subsidize universities through taxpayer-provided grants and private donor gifts when the institutions are so obviously failing America's youth? How can this special status be justified while businesses offering far more useful goods and services are punished by confiscatory taxes?

The history behind these questions is long, winding, and complicated. But the solutions to our current crisis are not. In fact, they're as time-tested as the study of economics itself. Vedder reminds Americans of the concept of "creative destruction" (famously introduced by economist Joseph Schumpeter)—the idea that, because markets threaten to reallocate resources from unproductive to productive uses by "creatively destroying" failing businesses, markets actually *help* failing businesses adapt to the market's ever-changing needs and realities. It's sink or swim.

If universities want to survive, argues Vedder, then it's time to swim. In these pages, readers will learn what universities can—indeed, *must*—learn from

the profit-making sector. They will learn why big government needs to get out of the student loan business *yesterday*. They will learn why accreditation, though infrequently questioned or criticized, might actually be unnecessary ... or just plain bad. But most importantly, they will learn *how* America's colleges can thrive once again.

Daring in its analysis, practical in its problem-solving, and thoroughly readable in its prose, *Let Colleges Fail* is indispensable reading.

Creative destruction in the economy

Few would contest that the United States boasts one of the most impressive economies in the world. But at first glance, the world of business seems dramatically unstable. By contrast, take a look at American universities. The best schools have maintained their place at the top of most international ranking lists for as long as they've existed. Harvard was at the top of any list of the best universities "not only in 2024 but also a hundred years ago in 1924, or two hundred years ago in 1824, or even three hundred years ago in 1724."

What does this mean? Are universities really so much more stable than all of these titans of industry?

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The short answer, Vedder argues, is no. He draws on the work of Joseph A. Schumpeter, an Austrian economist and immigrant to the United States, to understand why. Vedder defines Schumpeter's term, *creative destruction*, as a "gale of destruction" that is "incessantly destroying" the inefficient businesses, but also "incessantly creating" new ones. This gale of destruction is the ever-changing set of incentives consumers and producers face in the marketplace. In response to such a gale, producers are forced to *destroy* what doesn't work and *create* what does. Respecting this relationship, in whatever form it happens to take, is what makes market economies work. It's why America has the best economy in the world. It's why the list of most successful businesses keeps changing ... because *life* keeps changing. That no one industry remains at the top for long isn't a sign of chaos or disorder; it's a sign that the American economy is successfully adapting, growing, and creating.

Why creative destruction should apply to universities, too

Private enterprise relies on a "clear bottom line [that] measures ... success"—specifically, "profits and stock prices," writes Vedder. This metric is agreed upon and understood by customers and producers alike. But that bottom line isn't so clear in the realm of higher education, and that's a problem. How can one know if schools are successful at what they do without a way to measure their success? For that matter, how is one supposed to settle on a metric that makes the most sense? Does one measure the number of graduates? The salaries of those graduates? The number of new donations, changes in enrollments, endowments, or

measures of incoming student quality?

These questions reveal just how complicated the world of higher education really is. But without a clear way to measure success, Vedder argues, universities have little to no incentive to improve. To make matters worse, universities "depend on high tuition fees made possible by large federal student loans, direct government subsidies, substantial research grant support, and so forth. Even private philanthropic support is aided by tax breaks that the government provides donors." This dependence, writes Vedder, essentially transforms most universities into "wards of the state." Market forces that might otherwise demand clear metrics of success are neutralized by big government.

Everyone who studies economics knows that government control of resources leads to inefficient and wasteful uses. Fortunately, the United States economy is (mostly) free from government intervention. And yet, most of our universities depend on government intervention for their very existence. The results of this arrangement, Vedder writes, are predictable. Decline and stagnation are the norm for most American universities; "falling enrollments ... and polls that indicate waning public support" are everywhere. The time has come, Vedder argues, for universities to experience creative destruction. Let the colleges showing signs of decline and stagnation fail. Let the thriving, productive colleges succeed. The result will be better colleges—and a better future—for all Americans.

Some wins

The landscape of American higher education is a sorry sight, but Vedder is no defeatist. Neither is he blind to the ingenuity and innovation already

budding in response to the need for change.

Many educational reformers lament that it is almost "impossible" to produce meaningful change in existing universities. While "impossible" is too strong a word, they have good reason for that complaint. Entrenched faculty members, labor unions, university alumni or trustees, and even highly paid senior administrators all fight moves that might reduce their power or income. For this reason, it's often easier to simply start a new university.

And that's exactly what many have done. New universities are much freer of "woke" ideologies, of the maintenance of massive campuses, and perhaps most importantly, of "powerful but unimaginative administrators who prefer the comfortable status quo to needed change."

Vedder also notes that some colleges have simply refused to accept the "federal financial support that triggers a growing plethora of regulations from Washington." Michigan's Hillsdale College and Pennsylvania's Grove City College have both adopted this strategy with great success. There are also religious and conservative colleges, like Ave Maria University in Florida and Pepperdine University in California, that explicitly reject the woke orientation of most institutions of higher learning.

Perhaps the most laudable accomplishment of all has been the effort to make college more affordable. That low- or even zero-tuition schools are even possible has changed the game. Interestingly, Vedder notes that some of the most affordable schools in the country are private.

Kill accreditation

Accreditation is the process by which accreditation agencies confer legiti-

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macy on college degrees. Though technically private, accreditation agencies are exclusively authorized by the government to confer access to federal funding. The idea is to restrict federal funding and ensure it only goes toward accredited—i.e., legitimate—colleges. But is accreditation all that makes a university legitimate or illegitimate?

There's the rub. Today, accreditation is too often used "to achieve ideological goals that reduce institutional autonomy, stifle intellectual diversity, and threaten unbridled but civil and peaceful expression of ideas." For example, Vedder writes, "the notion ... that in order for a college to be accredited, its students must affirm some commitment to racial diversity or other goal is completely inconsistent with a vibrant learning community where individual freedom of expression is not only permitted but encouraged." Furthermore, even without these ideological thorns, the defects of accreditation are many: "It is costly, provides little real consumer information, restricts competition, and is riddled with conflicts of interest."

Perhaps the most striking argument of *Let Colleges Fail* is Vedder's

warning that unless something is done about these accreditation practices, higher education in America will continue to decline.

What more can be done?

Much good work has been done to revive higher education in America. But we must do more, argues Vedder. Some improvements can be made quite easily; others will take time. A multi-pronged approach is required for meaningful change.

Online learning opens a new frontier for education alternatives. This was the case even before the pandemic, which made Zoom a household name. Vedder points out that massive open online courses (MOOC) came on the scene a little over a decade ago. Though greeted with inordinate hype at first, the model has been adopted by innovative companies like Udacity. Instead of offering degrees or diplomas, Udacity's offerings are more vocationalist and help students develop employable-marketable skills. "Perhaps [Udacity] is on to something," Vedder writes. After all, "it is not degrees that should matter in the long run, but rather the acquisition of knowledge and skills, inside or outside

a collegiate environment." This shift in thinking seems revolutionary, but it really shouldn't be.

Vedder also points out that the work of producing and disseminating knowledge shouldn't be left to universities alone. Think tanks and centers, some with ties to universities and some without, have been and continue to be home to some of the world's "most extraordinary academic achievers." He also proposes distributing educational spending accounts via vouchers. This approach rejects the idea that taxpayer dollars ought to go wherever the government deems best. Though not politically feasible in all states, a slow move toward even a compromised or blended voucher model would be a huge improvement to the status quo.

Let Colleges Fail hits bookshelves at a critical time in American life. Universities are more ideological, more expensive, and less effective than ever.

They desperately need reform.

Vedder's solutions, all of which are moral and workable, are as bold as they are provocative.

As they should be. This daring vision is exactly what's needed to set things right.

About the Author



Richard K. Vedder is Senior Fellow at Independent Institute and Distinguished Emeritus Professor of Economics at Ohio University. He is also the Founding Director of the Center for College Affordability and Productivity in Washington, D.C. He is the author of *Restoring the Promise: Higher Education in America* and co-author (with Lowell Gallaway) of *Out of Work: Unemployment and Government in Twentieth-Century America*, the recipient of the Sir Antony Fisher International Memorial Award and a Mencken Award Finalist for Best Book.

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