education review // reseñas educativas
editors: gene v glass   gustavo e. fischman melissa cast-brede

a multi-lingual journal of book reviews

July 17, 2010 ISSN 1094-5296

McMahon, Walter W. (2009) *Higher Learning, Greater Good: The Private and Social Benefits of Higher Education*. Baltimore, MD: Johns Hopkins University Press.

Pp. xiii + 415. ISBN 978-8018-9053-6

Reviewed by Joshua Hall
Beloit College

Walter W. McMahon, a longtime professor of economics at the University of Illinois at Urbana-Champaign, has written an extremely thorough volume on the private and social benefits of higher education. In Chapter 1, McMahon describes what the book is about and why it is needed. In his mind not enough attention is being paid to the positive externalities associated with higher education. He begins by making the case that education is related to growth and since we all care about growth we should care about higher education. In the introduction he argues, "… a large proportion of the population is not enjoying the fruits of economic growth" (p. 23). As it turns out, however, his goal is not to necessarily ensure that the fruits of growth are spread more widely, but instead to ensure that we do not collectively underprovide higher education because we are

Citation: Hall, Joshua. (2010 July 17) Review of *Higher Learning, Greater Good* by Walter W. McMahon. *Education Review*, *13*. Retrieved [Date] from http://www.edrev.info/reviews/rev940.pdf

ignoring social and non-market benefits of education when we make the decision to become educated.

Walter W. McMahon is Professor of Economics, Emeritus, at the University of Illinois at Urbana-Champaign. In addition, he also holds an appointment as a Professor of Education and Leadership Emeritus at the same institution. McMahon earned his Ph.D. in economics from the University of Iowa in 1957 and, except for visiting appointments elsewhere, has been at the University of Illinois at Urbana-Champaign since then. He is recently the author of *Education and Development: Measuring the Social Benefits* (Oxford University Press, 2002).

In Chapter 2 McMahon details his framework for thinking about these issues. Without a doubt, it is an economic viewpoint because he begins with a discussion of the idea of human capital and then proceeds to lay out the economic arguments for government involvement in education. In addition to discussing the traditional arguments about why competitive markets might fail to provide the right level of education, such as positive externalities from education and imperfect capital markets, McMahon heavily emphasizes the importance of human capital accumulation to economic growth and the fact that we are all more productive when surrounded by more educated people. After making his case that extensive social benefits to education exist and that this justifies government involvement, McMahon then applies this human capital approach to current higher education issues such as public support of higher education, access, affordability, and accountability.

The third chapter of the volume deals with the relationship between higher education and economic growth. McMahon does a lot in this chapter. First, he looks at earnings for high-skilled and low-skilled workers. It appears that demand for high-skilled workers has been exceeding the supply of such workers given that real earnings for high-skilled workers have risen over the last three decades while the earnings of low-skilled workers have stagnated. Second, he looks at the demands for certain occupations in the future. Third, he breaks down rising college costs and shows that most of the increase is in terms of direct instructional cost, not the opportunity cost of foregone earnings. Fourth, he analyzes both the private and social rates of return to higher education and concludes that there are significant private and social returns to education that exceed the rate available on other investments. Finally, he concludes with a summary and critique of the macroeconomic literature on the relationship between education and economic growth.

Chapters 4 and 5 provide a more in-depth treatment of non-market private benefits to education and social benefits of higher education, respectively. McMahon does a good job of explaining to an educated layperson how these non-market private benefits to education (beyond those related to the higher incomes associated with education) such as improved health, child education, longevity, etc., are calculated. He extensively quantifies and summarizes these non-market benefits and concludes by arguing that because students and families fail to take these private non-market benefits into account, they consume less than the optimal amount of education. Chapter 5 identifies, measures, and values the social benefits to education such as the effect of education on the quality of political institutions, the rule of law, environmental quality, etc.

The returns to academic research are covered in Chapter 6. As is typical with the entire book, the author moves methodically through the issues involved in quantifying rates of return to academic research. The most interesting part of this chapter is presented in Table 6.4, where McMahon presents data from the University of Illinois at Urbana-Champaign on the cost-effectiveness of research by academic field. The table not only includes "immediate output" such as number of graduate students and total articles published by department, but also how this research might directly and indirectly effect economic growth and development. What is most interesting about this data is that it raises more questions than it answers. How much should an academic article cost to produce? How much should we value research versus producing new doctorates? Should we even engage in this type of research given that we know academic articles are not homogenous goods like socks?

Chapters 7 and 8 conclude the book by summarizing its content and applying it to current issues in higher education. While it is difficult to summarize the larger number of nuanced reforms that the author discusses, ultimately McMahon concludes that a human capital approach to higher education policy suggests that individuals be provided with better information. McMahon argues that if the high private non-market benefits and social benefits were better known, not only would individuals consume more higher education, but they would also support greater higher education spending at the ballot box.

As an economist, however, there are three issues related to the economics of higher education that I wish the author had touched on. First, the funds for higher education don't just fall from the sky. They have to come from taxes which involve deadweight losses from reduced voluntary exchanges. The deadweight losses from taxation are a real cost that has to be balanced against the social benefits in a proper accounting of the costs and benefits of government involvement in the economy.

The second issue is related to the literature on the external private and social benefits that McMahon cites. This literature almost uniformly measures the total external benefits of education. The relevant question from a policy perspective, however, is whether external benefits exist on the margin (Buchanan and Stubblebine, 1962). For example, there might be large social benefits to basic literacy but if people have personal incentives to become literate, then those external benefits are not relevant from a policy perspective. Now McMahon would likely respond to this point by saying that there is a divergence between private marginal benefit and social marginal benefit. This may be true, but the point is that these studies don't necessarily show that.

Finally, I think he dismisses too readily the research by authors such as Daron Acemoglu and Joshua Angrist (2000) and Lant Pritchett that helps to explain why education has not contributed to growth in all places. Regardless of whether you agree with the methodological approaches they employ (and McMahon does not agree with their approaches), they are trying to wrestle with the empirical facts that increases in educational attainment do not seem to have the same positive effect on growth everywhere. The puzzle of how a private increase in income does not always translate into a social increase is an important one and more work needs to be done on this issue (see, for example, Hall, Sobel, and Crowley (forthcoming)).

Setting those three points aside, however, there is much to like about this book. Whether you are a professional economist or a professional educator you will find the book to be a nice (albeit a little long) summary of the current issues in higher education from an economic perspective.

References

Acemoglu, Daron, and Joshua Angrist. (2000). How Large Are the Social Returns to Education? Evidence from Compulsory Schooling Laws. *NBER Macroannual,* 9-59.

Buchanan, James M. and William Craig Stubblebine. (1962). Externality. *Economica*, *19*(116), 371-384.

Hall, Joshua C., Russell S. Sobel, and George Crowley. (Forthcoming). Institutions, Capital, and Growth. *Southern Economic Journal*.

Pritchett, Lant. (2000). "Where Has All The Education Gone?" *World Bank Economic Review, 15*(3), 367-91.

About the Reviewer

Joshua Hall is an assistant professor of economics and management at Beloit College in Beloit, Wisconsin. His research interests lie in the economics of education, especially education finance and the structure of local school districts. He is editor of *Doing More With Less: Making Colleges Work Better*, forthcoming from Springer in 2010.