The Economics of Grades

December 21, 2011, 2:41 pm

By Laurie Essig

There is a celebrity scandal brewing over at NYU. NYU professor José Angel Santana apparently found himself fired after giving James Franco a "D" when he missed 12 out of 14 "Directing the Actor II" classes, i.e., he basically went, "I believe my work in Spider-Man 3 should cover it." Anyway, Santana is suing the university for wrongful termination and accusing it of being nothing more than James Franco's bauble now.

Of course it is troubling when celebrities can buy degrees, but the real dirty little secret that none of us want to think too much about, especially this time of year, is this: At many of the more expensive institutions of higher education, everyone is buying a degree. That's because there is a sick and perverse relationship between the deregulation of the banking industry, including the student-loan industry, the skyrocketing cost of tuition at many elite colleges, and that pernicious little practice called "grade inflation."

Think of it like this: Prestigious College Inc. raises its tuition to prices that only the super-rich could afford. Little Billy or Sally takes out $100,000 in student loans to get a degree from Prestigious College Inc. Or maybe they don't take out the loans, but their parents refinance their house or take on debt in other ways. Once higher ed is turned into a luxury good financed with debt, the relationship shifts. The students "deserve" to get good grades. After all, they're paying good money. And so Prestigious College Inc. creates a system in which students, like the banking industry, become too big to fail. A variety of barriers are put into place to stop professors from failing or even giving D's to students. Forms must be filled out and warnings submitted long before the end of term. Student-life types, a growing sector of Higher Ed Inc., become mediators between professors and students, telling us, the professors, that "due to a set of extenuating circumstances, things are difficult for the student" and "we should do everything in our power to help him/her pass." And then, of course, there's the threat—unspoken—that failing the wrong student, like failing the wrong celeb, could result in institutional blowback.

And so many of us take the easy way out. We rescale our grades so that a C-minus is translated into a B-minus. We grade up from there. We almost never fail anyone. Much better to give an incomplete and spend our breaks reading late papers than actually say "no" to students, their parents, or our institutions. Because that is the relationship of student to professor in the highly corporatized and more or less for-profit (just look at executive salaries) world of higher ed.

So as everyone shakes their head in disgust at the explicit "degrees for celebs" program at NYU, I have to admit that I would have passed Franco with a B-minus in hopes of avoiding a customer relations nightmare and perhaps even getting some complimentary tickets to his next film.

This entry was posted in Economics, Higher Education and tagged grade inflation, higher ed, James Franco, Jose Angel Santana, NYU, Spider Man III. Bookmark the permalink.
"That’s because there is a sick and pernicious relationship between the deregulation of the banking industry, including the student loan industry, the skyrocketing cost of tuition at many elite schools, and that pernicious little practice called “grade inflation.”

Just what are the changes in regulations that caused skyrocketing tuition. Certainly, banks made loans to students, but many of those loans were subsidized and regulated by the federal government, so it wasn’t a case of deregulation.

While there is no doubt that colleges and universities raised tuition when they realized that people were willing to take on irrational amounts of debt for a college education, do we really want to go back to a world where student loans are not available? One with lower salaries for professors and higher teaching loads?

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Stink,

Here are a few ideas to help you become attune to the Princess’ Brides “inconceivable”.

Step 1: De-regulation of the Banking Industry
Step 2: Funnel Revenues to Corporate Think Tanks and Political Coffers
Step 3: Assess Profitable New Markets Using Data Mining and Informational Asymmetries
Step 4: Draft Legislation (that expands market presence -replicating neoliberal policies)
Step 5: Undercut all Public or Resistant Forces
Step 6: Hire a Managerial Class (of professional prostitutes to oversee market expansion)
Step 7: Send Messages of Individualism, Social Darwinism and Corporate Benevolence
Step 8: Sell Product using the TINA approach (there is no alternative)
Step 9: Demonize the collective action (unions, OWS hippies or progressive pejoratives)
Step 10: Protect profits at all cost by lying about the bottom line, economic data & the market

Rinse, repeat and do all over again (CDS- derivatives, high-frequency trading, sovereign wealth funds, market manipulation, systemic debt, addled leadership and huge trillion dollar bailouts.

But Stink, I will remember your understanding of deregulation is a bit limited. You might try reading Bill Black, Naomi Klein or Jim Rickards.

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Yes TIND, you have responded with your usual list.
To further clarify things:

Step 1: What regulations were removed that caused increases in tuition?
Step 2: What corporate think tanks that got all these increased profits caused higher tuition.
Step 3: How was data mining used to increase tuition?
Step 4: What new legislation was drafted that expanded market presence and increased tuition?
Step 5: What public or resistance forces were undercut and how?
Step 6: The managerial class existed well before deregulation.
Step 7: What messages allowed universities to increase tuition and how?
Step 8: What products were being sold this way?
Step 9: How is this any different than liberals demonizing the Tea partiers as racists.
Step 10: You mean like Bill Clinton’s buddy Franklin Raines did?
OK,
Let's play...

1969 - John M Olin Foundation is formed ($370 M to conservative think tanks
- last grant was in 2005 (notable recipients - economists and lawyers
- Rupert Murdoch purchases News of the World - UK Tabloid
1970 - University of California (in state tuition - nearly free)
1971 - Nixon takes US off gold standard (ends B. Woods - cheap $ strategy)
1972 - Watergate Break-In and the DJII closes above 1000 for the first time
1973 - Heritage Foundation is formed by Feulner, Coors and Weyrich
- ALEC is formed (American Legislative Executive Council) - writes
policy for politicians
1974 - Milton Friedman's Chicago Boys of Economists (Coup of Allende Chile)
- Congress creates the CFTC (Commodity Futures Trading Commission)
1975 - Latin American Debt to US Banks rose 20% (5 fold increase)
1976 - Friedman awarded the Nobel Prize (Economics: Rise of Monetarism)
- Chilean diplomat & American citizen killed by Chilean car bomb in DC
1977 - Cato Institute is founded by Edward Crane but funded by the Koch Bros
- Community reinvestment act makes redlining a punishable offense
1978 - Usury laws reversed (Marquette Decision)
- Middle Class Ass. Act - provided student loans (removed income limit)
1979 - Energy Crisis, Oil doubles, Inflation, Fed changes course
1980 - Donald Regan (ML CEO) becomes Treasury Secretary under Reagan
- Staggers Railroad Act - America's railroads become deregulated
- World population reaches 4.3 Trillion
1981 - US is still the largest leading creditor in the world
- unemployment and inflation are in double digits
1982 - S&L industry changes accounting standards from GAAP to RAP
- Bank failures reach a post-depression high of 42
1983 - CCA (Corrections Corp. of America) begins privatizing prison labor
- 118 S&L fail costing investors $43 Billion dollars
1984 - Union Carbide Disaster in Bhopal, India
1985 - US (1st time in 70 years) become world's largest debtor nation in 4 yrs
1986 - Qualitative research "Crisis of Representation" - 4th movement
- Iran-Contra, Chernobyl and rising college tuition
1987 - The healthcare/Pharma industries foment - "Socialization of Medicine"
- British Airways is privatized, FCC rescinds fairness doctrine (TV/radio)
- The Collateralized Debt Obligation invented -Drexel Burnham Lambert
- Stock market crash, massive S&L Failures & rise of Alan Greenspan
1988 - C Ev Coop admits nicotine is as harmful cocaine/heroin to public health
- Phillip Morris buy Kraft $13.1 Billion; KKR buys Nabisco for $25Billion
- the financial sector's importance to GDP escalates rapidly
- thousands of local microsystemic bank mergers all throughout the US
1989 - CNBC - beginning of financial porn tied to the power financiers
- Junk Bond Market Collapses, Exxon Valdez spills 10 m gallons of oil
- Resolution Trust Corporation is established to close insolvent S&L's
(1st phase of deregulation)

*****  So you may be asking yourself, what does this have to do with higher education and
tuition.  A patient and learned mind might be able to grasp the connections between the
Chilean experiment, Milton Friedman, De-regulation of multiple markets domestically and
internationally named above and the hidden consequences (ecological, financial,
economic, and health wise) that coincide with privatization.  The rise of the financial sector,
ew streams of revenues for lobbyists/politicians from think-tanks and the complicity of
certain segments of academia all led to a market mentality where inflation of competition,
tuition prices and grades were just getting started.  Debt becomes the obvious weapon of
the next 30 years as the US changes course.

Stink, one might ask oneself, where were these people educated?  But I digress, lets move
onto the next phase.

1989 - Fall of USSR (new industry: dark ops, cold war & defense contractors)
- Universities institutionalized pay-to-play arms race (tenure pubs)
1990 - Largest bull market runs in the world's history starts in the 4th quarter
- 34% for the decade ($ doubles 3 1/3 yrs) - predicated on consumption
- Japanese Zombie Banks a 2-decade long descent -"The Lost Years"
1991 - Credit card industry becomes "the sweat spot" for the financial sector
- leads to the rise of predatory lending (payday loans)
- DJII closes above the 3000 mark for the first time
1992 - Clinton gets elected - important banking friends (Rubin/Summers)
- "It's the economy stupid"
- Ross Perot:  NAFTA - "That Giant Sucking Sound" of Lost Jobs
- Mall of America Opens (42,000 square feet) - Consumption
1993 - Ackerloff & Romer write: Looting the Economic Underworld For Profit
- GATT (is either introduced or ratified)

1994 - Blythe Masters creates the 1st Credit Default Swap (helping Exxon)
- Clinton signs NAFTA; Bails out Mexico to the tune of $50 Billion (currency crisis)
1995 - US Universities continue to raise prices- public money starts to dwindle
- well financed interests re-route public monies away from Univ/Coll
- DJII passes 4,500 & day-trading is a viable option for cabbies
1996 - IMF approves loans to Russia to prevent collapse in total of $10 Billion
- Hoover Institution announces climate change will provide valuable benefits
- Clinton unveils a national home ownership program; signs welfare reform
1997 - Asian Financial Crisis ($40 Billion IMF loans); DJII closes above 8,000
1998 - Longterm Capital Management needs $3 Billion Dollar Bailout
- Travelers & Citicorp skirt the Glass Steagall Act (merge)
- CFTC Head Brooksley Born warns of UNREGULATED DERIVATIVES
1999 - Gramm-Leach-Bliley Act repeals Glass Steagall (power finance sector)
- Rise of Hedge Funds - unregulated pools of off-the-books wealth

This is what we call the co-option phase where a tremendous amount of work was completed to gut universities, hospitals, unions, public organizations of authority and re-route power into a few hands that sit on boards of directors, senate banking finance committees, business round tables and a few favored media outlets. This was done using a number of strategies (legal, but highly unethical). We must not forget that all money is loaned into existence, this is how the federal reserve operates (a private corporation in charge of our money supply). Debt is their tool. We see that this is systemic by the time Bush comes into office as there are 7 million credit card solicitation per year for 300 million people and we have a budget surplus with a manageable trade deficit. However, in 10 years this all changes and quick. We cannot forget how the CFTC, SEC, OCC and the FDIC became co-opted by the very people they were supposed to regulate. This means that we had almost no cops on the beat, wild west accounting tricks and it was known that to ascend you had to pay homage to the banks. This is how the student loan market was birthed.

Part II is later folks. My wife is pissed that I am overseas on holidays writing back to someone name Stink (who seems unable to see the connections between deregulated markets in other industries and how the market of higher education might be co-opted as the last soldier standing).

Happy Holidays!
sought refuge in my favorite book store, wrote an opinion piece for the local newspaper this evening, and after some winter tennis in the morning, I just may have the strength to face those portfolios once again.

I think the "deregulation of the banking industry..." is only a symptom of a large societal problem: That money is everything. With money you can buy yourself almost anything. Look at Mayor Bloomberg - and for that matter, many super-rich people (George Soros, Koch Bros. to name a few). Why shouldn't education follow? Sadly, this incident will only empower Franco and people like him to realize that they can get their way if they make a stink about it. The squeaky wheel gets the oil.

At my school they give a blanket warning that if you miss more than 3 classes it will adversely affect your grade. If Santana was really fired, the Teachers' Union should sue NYU and not go for a settlement.

I would have flunked him in a heartbeat. I draw a line in the sand over grading. I'll spend an hour or more with the student if necessary going over it, and if I make a mistake, I'll change it. But any pushback from the administration would be met with a fight like they wouldn't believe. Prof. Santana should win the lawsuit easily, but NYU will probably settle first.

Ah, but dwunsch, would you have failed him if you knew for sure NYU would fire you? I'm not so sure I would. Call me cowardly, but for me it would depend on my financial circumstances at the time. Could I afford to be without work for a year while I found a new position? I sure hope Prof. Santana can. Being a cause celebre doesn't put bread on the table or shoes on the kids.

Credit for experience is nothing new in academia.

Laurie Essig: I wrote below that I felt certain your irony was missing in action....now I fear that you really are serious....I can't believe you would give him a B minus. Complimentary tickets to his next film? Maybe you need to rethink this...sounds like grounds for an early retirement, or an urgent sabbatical.

Stating that you would pass him with a B- devalues the profession and your institution. Where is the dividing line between B- and A- (missing just half your classes)? Do all students who bother showing up then deserve As? This is how we got banking deregulation and the financial crisis. No one wanted to complain that others were not doing their job properly, might be unethical, or did not have the institution/industry/situation's best interests at heart. Giving investment banks a blank-check bailout -- when they failed to meet basic bank responsibilities -- was the equivalent of the B- you would so casually hand out.

Spending some time as a department head at a research university made it very clear to me how likely fixed-term faculty are to give students at least passing grades to avoid becoming visible through the student grievance process.

Another illustration that the tenure system supports the integrity of higher education, in my experience.

How about just giving them the grade they earn? As long as you can justify it, there should be no issue. If you can buy the degree, it's time to sell the institution to Coca-Cola and go home.

Well, regardless of the circumstances this Santana character seems to have violated FERPA. I believe this act protects the privacy of grades, even for famous celebrities.

I won't be surprised to learn there is more to this than Santana's story.

NYU should be glad it's Professor Santana they're dealing with for impolitic grade lowering and not Satanta. He'd give them a hair raising experience.

Look on the bright side: society will get along with these pampered, ill-educated twits, simply because it has to. There's no alternative. If the rising generation doesn't know jack and feels entitled to the trappings of success without having to work for them, so what?

Does anyone familiar with how this country is run really think things are all that different from how they've always been? Check out the frequency of degrees from elite institutions among our current and recent crops of corporate criminals. Does anyone really believe that it has anything to do with education?

Love your honesty, detest your lack of a spine.
John M Olin Foundation is formed ($370 M to conservative think tanks) 
- last grant was in 2005 (notable recipients - economists and lawyers"
Yes the foundation granted $370 M in its lifetime, of course the Ford Foundation does more than that whole amount in one year, to mostly liberal causes. Also some of the Olin money does not go to conservatives, for example it supports study in law and economics which is by no means exclusively conservative.

"Nixon takes US off gold standard (ends B. Woods - cheap $ strategy) "
How did this affect colleges and universities?

"Community reinvestment act makes redlining a punishable offense "
This is an example of deregulation?

"Staggers Railroad Act - America's railroads become deregulated"
Was this a bad thing, and second how does this affect college tutions?

Basically, you are throwing up a bunch of things that are totally unrelated to higher education and thinking that is some sort of evidence. Well, more BS is not better BS.

Mr. Cat,

Trend is not... has one and only one song which he wants us "to become "attune" to".

Mr. Cat,

3 people liked this.

God, I wish it was only one song, my citation page would be much smaller. Fortunately, I am reminded that I am not the only scholar who has made these types of connections.

4 people liked this.

Easy does it, Draco Malfoy.

Stink, your reply does not have much there, there (half-hearted effort really). That is fine and deserves recognition for its transparent boredom and inability to deal with the underlying issues.

Not everyone can actually see the emergence, proliferation, maturation and decay of our financial ecosystem through systemic processes over the last 30-40 years. It takes some time, reading and thoughtful challenging of American Exceptionalism.

Maybe your are more of a cliff notes reader? Here are the highlights:

1) Deep monied interests in multiple industries collaborated to form think-tanks, political relations and academic research lines starting in the 1970's.

2) The rise of monetarism (free-market fundamentalism) changed our notion of how money works: a) who has the power; b) preferred tool of debt; c) problematizing inflation (or the source of how money comes into being) at a time when the Keynesians had few solutions.

3) US Industries were deregulated one by one (perfected as they went); while simultaneously, the US started offering cheap debt instrument to anyone with a pulse: a) oil dictators so they could buy arms; b) emerging countries where they could buy off the indigenous elites; and c) sovereign populations who could never pay them off.

4) US Banking and Investment Laws Changed to accommodate the rise of the financial sector and their importance to GDP (multiple examples)

5) Once these markets have been privatized, all social spending dries up, fostering a dependence

upon the newly opened private market. The state is bought off by the wealthy power elite who allow them to do their bidding.

6) Bubbles form and the market cease to sustain themselves without large and hidden consequences for those participants with the least knowledge. This is called: YOYO, Externality, Market Forces, or Social Darwinism

If you are not able to see how private funding, free-market gambles based on student loan debt, the changing of the rules in many university departments and student aid areas, the commodity driven mechanism that cost students $1100/class at an in-state public university for 3 credits and how this is a bubble, then I suggest posting some other reasonable hypothesis or politely admit that you have no earthly idea.... :) have a nice day

1) There is no doubt there have been many contributors to conservative think tanks and related programs in the past few decades. Of course this is dwarfed by the amount of money contributed to liberal academic interests over the same time period. Harvard's endowment is $30 billion, the income from this endowment supports primarily liberal causes and professors. So the fact that conservatives saw an inequity and are attempting to address the inequity with their own money is not only not surprising but a valid response to improve academic discourse.

2) I think you are confusing monetarism which deals with monetary policy with free market economic policy in general. However, I do not see how monetarism changed the notion of how money works, unless you are arguing that prices are constantly sticky and slow to change? If prices are not sticky then it is not surprising that keynesianism did not work all that well.

3) Deregulation of many industries was by and large a good thing. For example, who can criticize the deregulation of telecommunications, trucking or railroads? There also was a shift to using more debt by companies. That was not a bad thing, although if there is too much debt there can be incentive problems.

4) Banking laws changed to accommodate increased competition. Local savings and loans could not compete against money market funds that could offer market based interest rates, instead of the artificially lowered interest rates that they were allowed to pay. Of course it was the S and Ls who lobbied state governments to put caps on the interest rates they could pay on deposits. A great way to reduce competition.

5) Social spending is higher than it has ever been, and unless we start cutting spending on SS and medicare it is likely to continue to rise.

6) Bubbles are nothing new, they have existed for centuries.
4) This is bunk. Banking laws did not change to adapt to increasing competition. Banking laws changed because big money bought and paid politicians/lobbyists to change them. All the rest of the competition rhetoric is grossly in error. This has been documented in many places over the last five years. And if you cannot see that Phil Gramm's wife became the head of the CFTC to smooth the way for an unregulated derivatives market, then you have had way too much of the "buyer beware" Koolaid. I have hundreds of examples for you on this point, so do not bullshit us on this. You are flat wrong.

5) Taxes on the wealthiest, corporations have never been lower (in the last 40 years). All of the wealthy need to pay up now. It is no longer a choice that they have any more, it is going to happen (either through the repeal of the estate tax, income or taxing investments). You cannot possibly think a $15 trillion debt is going to disappear just by reducing spending alone. Salivating at the prospect of eradicating the New Deal and keeping everything else the same is NOT an option.

6) Bubbles are nothing new?????? This type of trite indifference is so typical. Ask Bill Black about control fraud associated with the last bubble (and how no one has been prosecuted for this systemic malfeasance). Bubbles? GMAFB.... (give-me-a-f*****g-break).... Robo-signing, MERS, rating agencies, accounting standards, CEO salaries - board of directors, revolving door between Goldman and Treasury? Bubbles can be manufactured. Most bubbles are created and expanded through some form of legalized or illegal fraud (see Ponzi, Enron, Milken, Raj, Worldcom etc.) If you want to know about bubbles, you might try reading Charles Kindleberger who wrote the 1978 book Manias, Panics, and Crashes, about speculative bubbles. He is well known for hegemonic stability theory.

Lastly, I really never witness that you bring much to the table other than a few points of personal skepticism. Maybe, you might try invoking someone a little more expert than yourself (unless you have written on the subject). I would love to hear more about your responses in the context of academic scholarship.

Grade inflation or simple extortion? No one "deserves" to get something not earned. Period. Despite common thought, students are not customers; they have signed a contract (by accepting the catalog and the student handbook) to live by the rules set by the institution and monitored by the faculty. When any part of that contract/agreement is corrupted by either party, there should be clear consequences, such as poor grades or poor evaluations, which then bring their own penalties. Grade inflation is a myth perpetuated by the weak. Spinelessness is not a virtue or is it a pretty thing to see in action, whether institutionally or individually.

Is Professor Santana tenured? Whether or not you believe it, tenure-track faculty members often face intimidations from students, including grades and all kinds of ridiculous complaints. As a minority faculty member, I sometime caution minority faculty members to be careful in dealing with students like "James Franco."

"Be ye as wise as the serpent always!!!"
Prestigious College, Inc. (PCI) depends upon a near 100% graduation rate to keep its high ranking. Big State U (BSU) doesn't care about the graduation rate and doesn't mind failing half the class, because they'll accept nearly all applicants and get double dipped fees when students retake failed courses. So whose grading is more accurate and fair? Is the B student at BSU more prepared for whatever (life, work, graduate or professional school) than the A student at PCI, Inc. As far as post-bac admissions and schooling goes an A is an A no matter who granted it, and PCI looks better on the resume than BSU. Besides, the powers that be all went to PCI.

"The "liberals started it" defense is as childish as it irrelevant. Why not just admit that the truth is for sale and these groups of business men are trying to reshape it in their own image?"

Are you really going to tell me that the majority of dollars going into universities and other scholarly organizations comes from conservative sources? Or are you saying that because liberals sold out to the almighty dollar that conservatives should somehow act virtuously? Is there anyone who contributes to higher education that does not have an agenda?

"(mathematically based, models of assumption are the opposite of intuitive and the language is meant to obscure the meaning)."

This actually describes a lot of Keynesian models. Are you sure you are not confused?

"De-regulation is a good thing? Wtf, "

Are you saying that trucking, railroads and telecommunications never should have been deregulated? Do you remember what long distance telephone rates were in the 1980s? Are these lower rates we enjoy today 30 years later part of some conspiracy?

"This is bunk. Banking laws did not change to adapt to increasing competition"

So banks and S and Ls did not have to compete with money market funds? They had no problem retaining deposits?

Also, in your previous post you claimed that social spending dried up. Which of course it never did, now you change the topic and say that the rich don't pay enough. Well the rich will never pay enough because there are always people willing to spend quite lavishly someone else's money.

I used to joke that grade inflation wouldn't stop until 90% of the students were in the top half of the class. Unfortunately, this is becoming a reality. When so many top grades are given the grade distribution becomes very narrow. I recently received a resume from a law student that gave his GPA and class rank (common on law resumes). However, he was too honest and noted on his resume that he shared his class rank with 15 other students. In his class, there were about 180 students so the fact that 8% shared the same GPA is fairly significant. Unfortunately, law schools are now riddled with grade inflation in part due to the poor job market. See e.g., http://abovethelaw.com/2010/06...

Of course, grade inflation further erodes the relationship between academia and just about everyone else. Employers cannot count on grades as the proper evaluation of a student's knowledge and ability, and graduate programs cannot be certain of selecting the students most likely to excel, simply because most students now have just about the same grades, regardless of their efforts or knowledge.

I don't have a big problem with giving James Franco a high grade, considering he did direct a highly successful release. The firing of the professor was wrong. But then again, as I stated in this long, elaborate "Top Ten 'Let Them Eat Cake' Moments of 2011" post, NYU is, like so many colleges, really part of a feudal caste system. We should stop pretending that there are transcendental virtues to higher ed and confront our complicity in a very oppressive system:
I hope someone else out there is up for a full-scale revolution in 2012. I am.