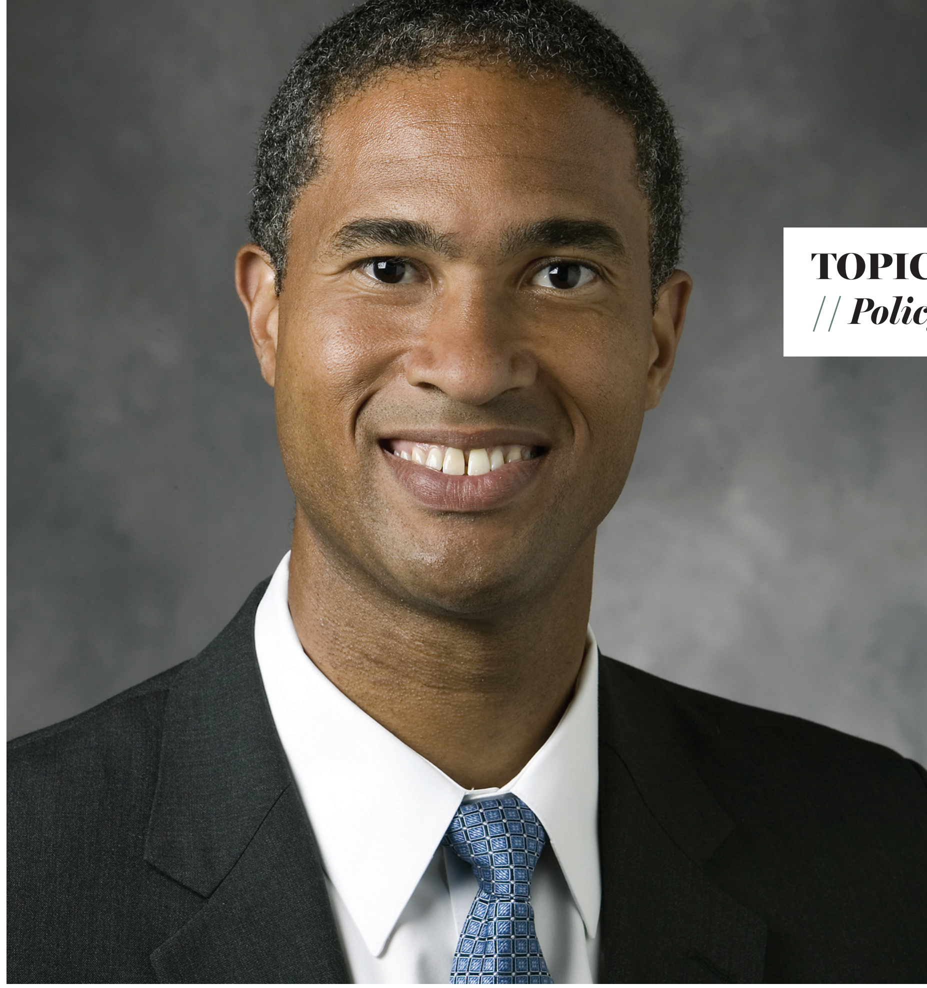


TOPICS COVERED
// *Policy Making & Trends*

AVERTING TRAGEDY

Corporate Ethics and the Educational Commons

Written by Peter Henry

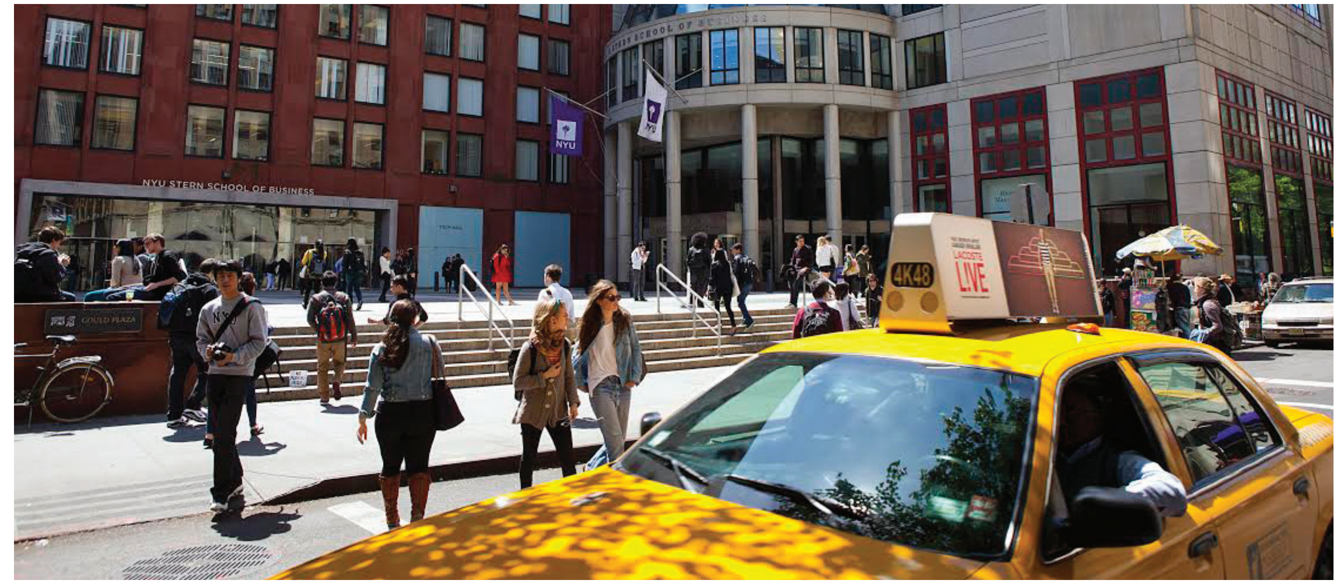
In the past few decades, American corporations have endured withering criticism for an alleged failure to uphold their end of the social contract. From the "giant sucking sound" of jobs moving across our borders, to blame placed on lending institutions for the financial crisis, to the present outrage over corporate "tax inversions" as in the recent Pfizer/Allergan merger, corporations have been vilified and accused of pursuing strategies that, to paraphrase White House Press Secretary Josh Earnest's response to the Pfizer deal, amount to renouncing citizenship while free-riding on all of the advantages America offers.

Fair or unfair, the criticisms spring from a sound moral premise: companies have an ethical obligation to contribute to the society and economic system in which they operate and from which they derive great benefit. One of the greatest corporate obligations today should therefore be to help universities and elected officials address the present lack of access to higher education. When corporations hire talented college graduates who drive their bottom line, but fail to contribute commensurately to the educational ecosystem that produces those graduates, it is tantamount to fishing in a lake without contributing to the cost of repopulation—an unfortunate outcome economists call the "tragedy of the commons."

Today's American tragedy is playing out not on the town green, but on campus quads, through a lack of access to higher education. A child born into the top quartile of the US income distribution has an 85 percent chance of going to college, whereas the odds for those from the bottom quartile is just 8 percent. Furthermore, 17 percent of high-achieving high school seniors come from this lower quartile. Taken together, these numbers suggest that a large fraction of high-ability high school seniors are likely to remain in the low-skilled part of the workforce in spite of their potential.

Compounding the problem, *Road Map to Renewal*, the commissioned report by President Obama's Council on Jobs and Competitiveness, documents that the US economy has a growing shortage of skilled workers. According to the report, 74 percent of businesses say that workforce shortages or skill deficiencies hamper their productivity or ability to expand. By 2020, there will be 1.5 million too few college graduates to meet employer demand.

Because the profitability of Fortune 500 companies is increasingly propelled by highly skilled, college-educated workers who use technology and markets to transform ideas into earnings, corporations and the executives who lead them have a vested interest in helping to fix the problem of educational access. Since 2009, the average level of annual after-tax corporate profits as a fraction of GDP for the US economy has exceeded the previous record for any single year (9.1 percent in 1929). Over that same period, the S&P 500 Index produced annualized total shareholder returns of 15.5 percent. Corporations cannot expect to maintain such levels of profitability if the future supply of skilled workers does not rise to meet the demand.



So what is it, exactly, that blocks access to college? Many point to the fact that the sticker price (total tuition and fees) at four-year colleges and universities has risen by 107 percent since 1992. Because colleges heavily subsidize students to keep prices low compared to their own rising costs, however, the relevant number is net tuition (sticker price minus scholarships and grants), which has risen only 22 percent at private universities since 1992—less than inflation—and 60 percent at public ones.

Universities have a clear responsibility to do everything reasonably possible to make higher education affordable, including leveraging technology. But universities are not-for-profit organizations, and providing quality higher education is inherently expensive because the best faculty could command higher salaries if they worked instead for Fortune 500 companies. A few high-endowment private schools have made college free for poor families, but the state schools and low-endowment institutions that educate the vast majority of the nation's population have a harder time keeping up. Universities cannot singlehandedly fix the problems of access to higher education.

The truth is that to create an ethical solution, we need three-way collective action with universities, corporations, and policymakers each shouldering responsibility. Corporations are the only member of the trio with both the power to make decisions that drive profits and the resources to increase access to the educational institutions that impart the skills their employees use to create those profits.

Because corporations sit at this unique intersection of business and society, they also have an opportunity to address unemployment and income inequality by increasing access to higher education. Unemployment for college graduates is half the national average, and college graduates earn roughly $1.1 million more over their lifetime than high school graduates. Indeed, greater access to college is the key to creating an economic environment where working- and middle-class wages can rise along with profits and share prices.

While many corporations do fund scholarships, the shortage of college graduates suggests that society needs them to do more. This is where policymakers can assist, enacting legislation that creates incentives for corporations (and individuals) to make greater investments in education. Instead of focusing on "unpatriotic" tax inversions, lawmakers could create a national tuition fund for Pell Grant-eligible students and allow corporations tax-free repatriation of all offshore profits contributed to that fund. This makes more sense than continuing to favor consumption over investment in the skills of our future workforce, as the US tax code currently does when it subsidizes $70 billion to homeowners each year through the mortgage interest deduction allowance yet does not allow full exemption for Pell Grants—the federal scholarships that provide a maximum of $5,550 for students from the poorest families.

Avoiding the tragedy of an under-skilled workforce is a shared responsibility, but because corporations stand to profit the most from hiring college graduates, they have a particular ethical obligation to create broader access to the educational pathway. We need to make upgrading the skill level of our workforce a national imperative and give corporations the opportunity to lead the way.

Author Biography

***Peter Blair Henry**, an economist, is the Dean of New York University's Stern School of Business. A member of the board of the National Bureau of Economic Research, the Council on Foreign Relations, and Citi, Peter received his PhD in economics from MIT and Bachelor's degrees from Oxford University, where he was a Rhodes Scholar, and the University of North Carolina, where he was a Morehead Scholar. His first book,* TURNAROUND: Third World Lessons for First World Growth, *was published in 2013. In 2015, he was awarded the Foreign Policy Association Medal, the highest honor bestowed by the organization.*