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Cost Versus "Cost" of Higher Education

Abstract

It comes as no surprise that the prices being charged for college tuition are out of control. Stories about the staggering price of tuition are commonplace in popular media. Although the supposed explanations for this phenomenon are attributed to issues such as financial aid, lack of government support, and the state of the economy, none seem to point directly to the colleges and universities. This paper examines the possibility that not-for-profit institutions of higher education are, in fact, turning a relative and veiled profit in the course of their standard operating procedure. The real question is how much money does it actually cost to educate a student and how far is that figure from what the institutions of higher education are charging to educate the student via tuition and fees.

Introduction

This paper is divided into three distinct sections. The first section is a brief synopsis of the state of affairs regarding the price of tuition and fees in higher education. This section defines the parameters of the argument, the limitations of the findings, and establishes a baseline for the discussion of the actual "cost" of tuition. The second section continues this discussion of the price charged versus the actual cost of providing higher education. Here, I posit the idea that so-called not-for-profit institutions of higher education may, in fact, be collecting revenue in excess of their actual operating demands. The last section of this paper brings the discussion back to the current state of tuition and fees in higher education and uses the analysis from the previous sections to predict some the of the possible outcomes of charging hyper-inflated prices for higher education.

Current State of Affairs

The average annual cost of a four-year undergraduate education at a public institution in the United States in 1986 was $2,628; it rose to $3,856 in 1996; and in 2006 the same education costs $5,836.[1] Assuming that tuition (the supposed cost of services rendered) rose at the same rate as inflation between 1986 and 2006 (80.93 percent), the cost of tuition in 2006 should have been about $4,774.[2] Instead, the inflation in the price of tuition outpaced general inflation by a ratio of about two to one during this same period.[3] [4]

If one links higher education to greater earning potential in the job market, the statistics are encouraging. The U.S. Census Bureau reported in 2002 that a bachelor's degree increased one's likely lifetime earning potential by over one million dollars as opposed to a high school graduate.[5] This disparity increases as the level of education increases. Those with doctoral level degrees have an earning potential of 4.4 million dollars over their work life.[6] These statistics are regularly used by college recruiters and admissions offices in order to entice high school students to attend college.

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1 The College Board, "Trends in College Pricing 2006," http://www.collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf

2 McMahon, Lisa M. Inflationdata.com. 2009, http://inflationdata.com/Inflation/Inflation_Calculators/Inflation_Rate_Calculator.asp#results

3 The Bureau of Labor Statistics reported by Kantrowitz, Mark. Finaid Page, LLC. 2009, http://www.finaid.org/savings/tuition-inflation.phtml

4 It is important to note that there is no steadfast causal relationship between the inflation of college tuition and the general rate of inflation. This is meant simply as a means of comparison.

5 The Associated Press July 18, 2002, http://www.usatoday.com/news/nation/census/2002-07-18-degree-dollars.htm

6 ibid

The side of the issue these advertisers do not talk about is the debt that has to be incurred to finance such a venture. The average four year education leaves students $20,000 or more in debt while a decade ago this figure was $9,000.[7] This figure does not include ancillary sources of debt such as financing by parents and credit cards used for college expenses. Although the lifetime earning potential may be higher, the relatively low starting salary of a liberal arts major ($33,000) would make the repayment of this large loan an arduous task even before accounting for interest.[8] The total amount of debt pales in comparison to the potential value of the degree, but that value of the degree is calculated from the working ages of 25 to 64, far longer than the repayment period of the loan.

Research Significance

Up until this point, the predominant literature on the subject has oriented the blame for rising tuition to three distinct areas: financial aid, lack of government support, and the state of the economy. The problem with these orientations is their lack of perspective as to the institutions that actually control tuition: the colleges and universities. The first argument blames financial aid for the increases in tuition and difficulty with access (Heller, DesJardins, Shin). The argument is basically that an increase in financial aid has allowed the institutions to raise the price of their tuition with the guarantee that financial aid (loans, not grants) will cover the difference. The second argument contends that the decreasing support of higher education by state governments is the reason for the steep rise in tuition (Titus, Perna, Archibald). The last reason given by current literature for increased tuition is the faulty economy (Kelderman,

7 Wang, Penelope. The Real Return on Your College Investment. http://money.cnn.com/2008/08/20/pf/college/college_price.moneymag/index3.htm

8 ibid

Facione). This paper respectfully acknowledges those arguments while trying to move the discussion toward the level of the institution itself.

Hypothesis and Limitations

The central tenet of this paper is the difference between the price charged to the student and the cost of the services rendered to that student by the institution.

Hypothesis: The actual cost to the institution of the services rendered to the student is significantly less than the price (tuition) charged by the institution. This is because of a social culture that pressures institutions to provide more non-essential services to its students than it is practically and financially capable of delivering.

The evidence being used to study this hypothesis is qualitative in nature and relies on a holistic set of realities with respect to the state of public (and to some extent private) higher education. In order to discuss a topic of this complexity, a certain set of limitations must be disclosed up front. First, not all higher education can or should be painted with the same brush. The intricacies inherent to different institutions require that this paper be applied with respect to the context and circumstances of any particular institution. Second, there are controversial social statements involved when one enters into a discussion regarding what is the role of higher education. This paper proposes a particular answer to that question and operates on that answer.

Essential Services

A group of higher education researchers called the Delta Cost Project did an analysis of 2,000 colleges over an 18 year period. The purpose of their report “Trends in College Spending: Where does the money come from? Where does it go?” was to figure out the empirical cause behind the rise in tuition. In this report, the group found that the amount of money that went directly to classroom instruction was 34-44 percent of the total institutional budget and this number decreased over the period of the study.[9] In the same study, the percentage of the budget allocated to financial aid (not loans) consistently decreased while the "student services" and "administrative services" shares of the budget steadily increased.[10]

More likely than not, a student seeking an education is (or should be) more interested with the quality of the educational opportunity than they are with the diversity of the cuisine or the offering of leisure activities. This is not to say that student services do not serve a rightful purpose for residential students, but that these are luxuries and certainly not necessities. The reason these services are becoming more necessary is because of the competitive nature of the prospective pool of students. If Institution A is able to boast an indoor rock climbing wall, 12 restaurants, and plush residential quarters then the quality of the education being offered by Institution B is of little consequence. After all, if it has only club sports, a cafeteria, and traditional dormitories then the selection of the university by students and their families is closer to booking a luxury cruise than researching an educational opportunity. It is also important to remember that with each new activity and restaurant comes a new administrator and his or her staff and operating budget.

One of the most common answers offered by administrators in higher education is that they are simply trying to fill the gap between resources and increasingly expensive commitments by raising tuition and fees. The definition of inflation is "a continuing rise in the general price level usually attributed to an increase in the volume of money and credit relative

9 The Delta Cost Project, http://www.deltacostproject.org/resources/pdf/trends_in_spending-report.pdf

10 ibid

to available goods and services."[11] This type of inflation is distinctly different from cost-push inflation which is "inflation in which prices increase as a result of increased production costs, as labor and parts, even when demand remains the same."[12] It is important to distinguish these two types of inflation because the rise in the cost of tuition is logically attributed to the latter, cost-push inflation. The reason that a cost-push inflation argument is empirically unavailable as a reason for increasing tuition and fees is that to a certain extent, cost is at the discretion of the institution. Whereas a factory may justify increasing its prices due to increases in the cost of the production, institutions of higher education are increasing their rates to support services that are neither necessary nor universally beneficial to students. Keeping in mind that the institutions being examined in this paper are all not-for-profit institutions, there is supposed to be an even dollar amount in the transaction between the cost of the product and the price being charged to the consumer. Herein lies the problem of student services; they are more accurately described as *selective* student services.

In order to entice as many students as possible to attend the institution, administrators choose to enter into fierce competition for customers. Much like an advertising war between Coca-Cola and Pepsi, colleges have to offer more (or at least appear to offer more) than the other. Consequently, students and taxpayers are forced to pay for amenity after amenity while classroom education becomes an afterthought.

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11 Merriam Webster Online Dictionary. http://www.merriam-webster.com/dictionary/inflation

12 Dictionary.com. http://dictionary.reference.com/browse/cost-push+inflation

What I am referring to as selective student services are those services that are neither universally beneficial nor necessary to the primary education mission. Students that have no need for or intent to visit dozens of campus eateries still have to pay for all of them. Students that have no interest in multi-million dollar sports ventures still have to fund them. Worst of all, students that do have an interest in these peripheral luxuries see their money being spent on luxuries first, and necessities second.

Not For Profit

Educational institutions are primarily not-for-profit entities. Simply put, they intentionally spend all of the revenue they take in. There are two issues that indicate the need for changes to the system. The first is an examination of the nonprofit motive in higher education and whether or not it is empirically responsible to continue to refer to these institutions as such. The second is an explanation about how the current hyper-spending nature of public higher education is going to be the reason behind its demise.

First, if one considers the traditional definition of nonprofit, then it plausible that public institutions of higher education may still fit that classification. However, a dissection of the financial practices of the institutions indicates otherwise. The primary indicator in this analysis is cost. The cost of operating an institution of higher education is nowhere near the amount of revenue that is generated. That being said, if an institution can count on annual infusions of revenue that outpace its actual costs, then it can use those additional monies to compete in the “educational market.” Paying the faculty and staff and keeping the lights turned on costs significantly less than forcing each and every student and taxpayer to pay for sports complexes, French cuisine, and student activities expenditures.

Consider for a moment what the sticker price of tuition may look like after accounting for these changes. As was mentioned in the first section, the average annual price of a public four-year institution is $5,836.[13] The Delta Cost Project calculates that as little as 34 percent of that figure supports classroom instruction. The other 65 percent goes toward student services, administrative hierarchies, and operating costs. The logical conclusion of this argument is this: by maintaining the current support level of classroom instruction (which includes faculty research that does not directly benefit students) and adding another 15 to 20 percent for administrative salaries and operating costs, the reasonable price of one year of tuition in this model would be half of what it is now.

This thought experiment leads to the second reason why higher education must re-examine its hyper-spending practices. Unnecessary inflation is obviously happening. Frivolous spending is obviously happening. Long-term planning obviously is not happening. *If higher education continues with its current practices, the sector will reach a point of financial insolvency.* The bursting of the financial bubble is coming. The recognition of this terrifying reality is imperative if real change is to occur. Facing this reality head on provides the opportunity for dramatic and lasting change that could prevent the system from crashing.

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13 The College Board, “Trends in College Pricing 2006.”

Implications

Changes of the magnitude being suggested here will most certainly come with monumental resistance. Higher education has created mini cities that have become many things to many people. The geographic size of a college campus rivals some towns and cities. Complete with its own hospitals, green space, public transportation, and leisure activities, these institutions have become immensely overblown, and if we have learned anything over the past decade, we have learned that the status quo is unsustainable in the long term.

The serious problems facing higher education in both the public and private sectors are not a lost cause. Higher education has always been a culture of ideas and revolutionary action and if this innovation is applied to the current problem, then there is no reason why the problem cannot be solved. The willingness to discuss this issue in a meaningful and actionable way is the first step to finding a solution.

It may even be fair to say that the bubble has begun to deflate. Because of the discrepancy in general inflation and the inflation of tuition, more borrowing has to take place. With the current financial crisis, the seemingly endless faucets of money are beginning to dry up and the days of “robbing Peter to pay Paul” may be coming to an abrupt end. If the price of higher education is not offset by drastically higher wages then a point in time may come when earning a degree is no longer financially advantageous to the student.

The disturbing trends throughout higher education seem to indicate that the measures being taken to cope with the current budget crisis are entirely sidestepping the real problems. Spending on classroom education is steadily decreasing while administrative and student activities spending are suffering only slight disruptions.[14] Instead of fixing the problems, institutions are prolonging an imminent collapse.

Classroom instruction is the hallmark of higher education; after all, without students there is no institution. Sacrificing the extravagant salaries and paid research time that often come with tenure for increased instructional responsibilities may be in the future for educators. As we are seeing now, institutions are slowly eliminating tenure-track positions in favor of adjunct faculty and graduate students that are paid meager sums for the same services as tenured and tenure-track faculty.[15] The complexities involved with discussions about necessity are, to say the least, contentious.

Limitations

There is no assertion here that student services and administration do not serve a necessary purpose. Academic provosts with teaching responsibilities and student medical centers are defensible expenditures of funds; however, that is where the discussion has to start. What are or are not defensible expenditures. Additionally, it simply must be said that this issue is enormously divisive in the higher education

14 ibid

15 Taylor, Mark C. “The New York Times,” April 26, 2009
http://www.nytimes.com/2009/04/27/opinion/27taylor.html

community. The common ground on which everyone can start is that discussion and debate are a healthy part of the academic culture. Volumes can and have been written on this subject and this paper is simply one suggestion for a way of framing and addressing a specific problem.

Concluding Remarks

Perhaps the answer is to ask students to accept a “pay to play” system in which every service is available on an on-demand and fee-driven basis. Maybe the answer is to start eliminating massive amounts of programs and to start large-scale job cuts. Whatever the answer, the problem is real and it is here now. The time to feign ignorance is over and each and every student, teacher, and staff member has a responsibility to examine inward and offer real and lasting solutions before it is too late.

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