

THE “COMMODIFICATION OF HIGHER EDUCATION” MYTH

David Chaplin

School of Business
Northwest Nazarene University
Nampa, ID 83686

Nate Forseth

Department of Business Administration and Accounting
Dordt College
Sioux Center, IA 41250

ABSTRACT

Despite concerns over the commodification of higher education in North America, Great Britain, and Oceania (Shumar, 1997; Sappey, 2005; Kaye, Bickel & Birtwistle, 2006; Lewis, 2010) the evidence does not justify such fears. Drawing on price elasticity of demand data and enrollment patterns for public, elite private (Ivy League) and Council for Christian Colleges and University member schools, it is clear that the market for higher education is anything but commodified. That is, the very low price elasticity of demand across time and types of schools, as well as the thriving of each of the following categories of colleges and universities point to a richly-differentiated, monopolistically-competitive market in which there is room for all college and university types to flourish. We provide an appealing middle ground between those who see no future for higher education in its traditional form and the very micro-oriented studies of price-elasticity of demand for particular schools or categories of schools.

INTRODUCTION

There has been a recent movement within higher education to reduce tuition rates. Administrators and policy-makers at these institutions appear to believe that there is a very high price elasticity of demand for their product; that is, that students are making their college choice primarily on the “bottom-line” cost of their education. While price, per se, may affect some student decisions, there are many other factors in a college student’s choice, such as: proximity to home, religious affiliations, availability of major, athletics, and the overall quality of the institution’s reputation. The price of tuition at colleges and universities sends signals to the students about the quality of the education they are receiving. Slashing prices at colleges and universities leads students to believe that they are receiving a lower quality good, regardless of whether they are or not. In economics, the term commodity refers to a good that is highly standardized. Commodities have an extremely high price elasticity of demand due to the fact that they are basically the same product, no matter when you buy them or from whom. Higher education has not been commodified and is not headed down the path towards commodification in the foreseeable future.

A prime example demonstrating that the commodification of higher education is a myth can be found in the elite (Ivy League) colleges and universities. Schools such

as Harvard and Yale charge extremely high prices for tuition, yet each year there is exceptionally high excess demand for their product. Students could attend a junior college for a fraction of the price they would pay to spend their first two years at an Ivy League school. Yet, year after year, those elite colleges and universities are being filled to capacity. A recent article from the Yale Daily News boasted of Yale’s all-time low admission rate of 6.8% for the class of 2016 (Giambrone, 2012). Giambrone’s article demonstrates how admission rates in Ivy League schools vary from Harvard’s rate of 5.9% to Cornell’s at 16.2% (2012). These extremely low rates of admission at Ivy League schools are indicative of the attractiveness of these institutions, regardless of the high cost. Students are willing to pay more for an Ivy League education because it sends signals to future employers. Employers see the name of that elite college or university, and their attention is immediately perked towards that candidate. With the status associated with their name, those colleges and universities have the ability to charge higher prices and still consistently fill to capacity. In a study of the revealed preferences of 3,240 high-achieving high school students, the top ten schools were very expensive private schools, with several being Ivy League schools (Avery, et al, 2004). In descending order, the top choices were: Harvard, Yale, Stanford, Cal Tech, MIT, Princeton, Brown, Columbia, Amherst and Dartmouth.

Another interesting phenomenon comes from the explosive growth of the Council for Christian Colleges and Universities (CCCU). The CCCU states its Mission and Objectives as follows: "The Council for Christian Colleges and Universities (CCCU) is an international association of intentionally Christian colleges and universities. Founded in 1976 with 38 members, the Council has grown to 118 members in North America and 53 affiliate institutions in 19 countries" (www.cccu.org). The schools have been growing in number and size in recent years. With CCCU schools all being private institutions that have, on average, much higher tuition than most public universities, a follower of the commodification of higher education theory would expect a large decrease in enrollment over time at such schools. However, that is not the case that is playing out in Christian colleges and universities. CCCU schools are able to charge higher prices than a traditional public university because they offer differentiated qualities to students. Students at CCCU schools expect to have spiritual leaders, fellowship, and relationships with Christian friends at their institutions. Data show that from 1990-1996, public universities and colleges experienced a growth rate of 3%. CCCU schools experienced a growth rate of 36.9% during that same period of time. In 2006, from the previous year, public colleges and universities grew 13% and private colleges and universities grew 28%. Enrollment at CCCU schools grew by an astounding 70.6% during this time (Joeckel & Chesnes, 2011). The differentiation and increase in the size and scope of CCCU schools further illuminate the lack of commodification in higher education.

LITERATURE REVIEW ON TUITION PRICE ELASTICITY OF DEMAND

While making a higher education decision, students take more into account than the net price that they will be paying. Yang (1998) points out the importance of factoring-in two more economic variables that represent students' opportunity costs of attending college; those two variables are the wage rate and the unemployment rate in the civilian labor force. If a student can receive a high wage rate without attending college, that student's opportunity cost of attending college will be significantly higher, ceteris paribus. Vice versa, if the unemployment rate is high, students realize that their chances of finding work are worse. Ceteris paribus, this will lead more students to pursue a degree in higher education. The opportunity costs of attending a college or university are important factors that students take into account before making a college decision.

In addition to the wage rate and unemployment rate, there are other quantifiable factors that affect one's col-

legiate decision. The first number that tends to catch one's attention is tuition at prospective schools. Schools tend to give scholarships to those students that have the highest price elasticity. A student's price elasticity is derived from a combination of his or her need and academic or athletic prowess. Because the best and brightest students are so sought after, they realize their ability to attend different schools or universities. On the other hand, students with fewer financial resources do not have the capability of attending many different schools. They are forced to attend whichever schools they are able to afford. In both cases, students have a higher price elasticity of demand. In order to attract these types of students, colleges and universities direct their scholarship opportunities towards these two groups of prospective students.

Reviewing various literature and studies of elasticities in higher education leads to a better understanding of the lack of commodification in higher education. Using data from 1919-1964, Campbell and Siegel (1967) performed various studies estimating the demand for four-year colleges and universities. They found an own-price elasticity of demand -0.44. This number represents an aggregate that does not separate private and public institutions. Hight (1975) studied this issue utilizing data from 1927-72 and separated his study of public and private institutions. Hight found own-price elasticities of -1.058 for public schools and -.6414 for private four-year colleges and universities. Yang's study (ibid), utilizing data from 1965-1995, confirm these earlier findings, with an average own-price elasticity coefficient of -0.797 for public institutions and -0.154 for private institutions. These numbers present a strong case against the commodification of higher education. If higher education were commodified, one would expect price elasticity to be much higher and nearly identical at public and private institutions. Hight's and Yang's work sheds light on the subject and demonstrates that students are less sensitive to prices at private institutions because of other factors that are affecting their college choices.

The Ohio State University and Mount Vernon Nazarene University (a CCCU member institution) are located approximately one hour away from each other. The two universities are extremely differentiated. OSU is a very large, public higher education institution. MVNU is a small, private, Christian institution. An Ohio resident can attend OSU for a fraction of the price that they would pay to attend MVNU. In a study completed by OSU, research found that price elasticity at MVNU varies from -0.12 to -0.30 (Bryan, 1995). These price elasticity numbers exhibit how MVNU is able to not only survive, but even compete, in the same market with OSU. Students are making their choice between MVNU and OSU based on much more than just the price of tuition. If higher educa-

tion was commodified, The Ohio State University would have driven Mount Vernon Nazarene University out of business long ago.

The University of Western Florida (UWF) assigned a task force to look into its pricing plan for undergraduate tuition. This study was completed in 2009 and is of particular interest because it carried critical practical importance for UWF Administrators and was not just another empirical study of elasticity by academic economists. The conclusions of this task force would directly affect the tuition rate at UWF. After extensive research, the task force found a price elasticity of -0.20 for UWF (King, 2009). Drawing from its results, the task force advised the university that price was not the main factor that students were examining at UWF. The task force recommended raising tuition because the university would be able to increase revenue while maintaining enrollment levels (King, 2009). Vedder (2010) cites a study by Narcotte and Hemelt, which found evidence of even lower overall price elasticity of demand than determined in the UWF study, with an estimated coefficient of -0.10 for four year schools (with an emphasis placed on research universities).

Lastly, Craig Gallet, from the California State University, Sacramento, completed a meta-analysis of the demand for higher education. In his study, Gallet analyzed data from 1969-2004 and compiled the results from over 250 private and public higher education institutions. Gallet found tuition price elasticities of -0.31 and -0.46 (2007). The meta-analysis of the demand for higher education institutions, as well as the studies done by the UWF, do not support the idea that higher education has been commodified.

IMPLICATIONS AND CONCLUDING REMARKS

In conclusion, the theoretical arguments and the empirical data presented have provided a preponderance of evidence against the commodification of higher education. Colleges and universities need to be aware of the lack of commodification in the higher education market, because it has important implications for these institutions. Schools need to focus on maintaining the quality of the education and the overall experience that students will receive at their school. Quality at these institutions should not be sacrificed in order to reduce the cost of attendance. Students are making their college decisions based on the differentiation between schools. Because of this fact, there is room for public, private, 2-year, and 4-year institutions alike to thrive and flourish in the higher education market. Higher education institutions need not drop the price of tuition; they need to find creative ways to separate themselves from the other competing institutions. Schools that believe in the commodification myth will

suffer, as they will remain too price-focused. The evidence supports the desirability of maintaining or enhancing the differentiation and quality of the education and programs colleges and universities offer rather than engaging in a destructive "race to the bottom" on price.

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