



The Cost of Higher Education

By Marc Tucker

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The question on the table is how to control the costs of higher education. So let's take a look at the factors that have been driving those costs skyward for a long time.

Let's begin by stating flatly that what is most definitely not driving college costs up is instruction. Over the years, [tuition as a proportion of college costs has been falling steeply](#) (page 25). The [proportion of money devoted to instruction has also been steadily falling for a long time](#) (page 7). So let's look at what has been rising.

1. The Country Club

Much of the cost-push comes from the students and parents. Increasingly, students choose colleges on the basis of student reports obtained through internet sites and the *US News and World Report* rankings of the amenities available—food, sports, living quarters, recreation and so on. Higher education institutions feel compelled to engage in a spiraling expenditure race to spend ever more on these amenities in order to get or keep market share.

2. The (Psychiatric) Clinic

With the advent of the Americans with Disabilities Act, a large proportion of students come to college expecting some form of psychiatric or related counseling services. Entire buildings are now required at medium-sized universities to house the people who provide such services. This elaborate web of counseling services is very expensive, and though only some benefit from it, everyone who pays tuition pays for it.

3. The Research Game

[When I was in college, at a research university, some of the greatest research laboratories in the world were at AT&T \(the Bell Laboratories\), DuPont, IBM and other companies.](#)

The federal government funded a lot of research at universities, but the assumption behind federal funding was the government was there to simply assist a core function of the university. So, in its role as helper, it should not be paying the full cost of the research being funded. As a practical matter, that ended up meaning that the federal government might pick up all the direct costs of the research being done, but not its full share of the costs of the university's infrastructure, management, support services or library systems. But now, the great private labs in commercial concerns are a shadow of their former selves, a victim of the need to show quarterly results to investors, the country

is more dependent than ever on university research to drive the economy, and the universities, strapped for funding to back this increased demand, are forced to turn to revenues from tuition to subsidize their research program.

4. The Incentives for the Professoriate

At many of our great research universities as well as at institutions in the next tier, the incentives for the professoriate are to produce research, not good teaching. While the steady reduction in the number of instructional days per year is partly a result of the fact that the customers (the students and their parents) do not object to a reduction in instructional time (a point to which I will return below), it is also true that the professoriate does not object either. It gives them more time to do what they really are incented to do, which is more research.

5. Collapsing State Budgets

Not only was The Great Recession the most serious recession the country has had since the Great Depression, but it affected state and local budgets far more seriously than the country as a whole. Local budgets just plain collapsed because they were so dependent on revenues from real estate taxes, which also collapsed. State legislatures, required by their constitutions to produce balanced budgets, and facing burgeoning safety net expenditures and falling revenues, had to make very deep budget cuts. The cost of elementary and secondary education is a large fraction of all state budgets, and the collapse of local tax revenues for the schools meant that the states could not look to the localities to take up the slack on the school budgets. Almost all of the states decided to do the best they could to protect their elementary and secondary education budgets as much as possible by making savage cuts in their budgets for their state-supported higher education institutions. The argument for this choice was that basic education is clearly a state responsibility and would collapse if not funded by the state, but the benefits of higher education accrue mainly to the individual and therefore it is the individual who ought to take up the slack in tough times. The trade offered to the state universities and colleges in return for the slashed budgets was the right to raise tuition charges.

6. The Case of the Community Colleges

Community colleges are also in an awful crunch. Their state budgets were cut, often severely, for all the reasons just stated. But many students who were planning to go to state four-year institutions or to private colleges decided during the Great Recession, that they could not afford to do so, and applied instead to their community colleges. Those institutions found themselves with many more students and much lower budgets, and that's where they are now, sometimes forced to turn qualified students away, something many have never had to do before.

7. The Case of the Crème de la Crème

And then there are the 20 or so great universities, and perhaps a like number of colleges, that are the rough equivalent of the original Rembrandts, Monets and Klimts in the current art market. These institutions are very much aware that the difference in prestige and lifetime income produced by graduation from the two levels of institutions is still far less than the difference in the cost of tuition, room and board. So, within, limits, they can charge whatever they wish ... and they do.

The reader will note that not one of these upward pressures on the cost of college has any basis in the upward pressure on the cost of instruction. Not one. They are all contributing to a steady and steep decline in the productivity of American higher education.

The Obama administration is right to take this on. Whether they have got a good handle on the solution is another matter.

In my view, one cannot solve public policy problems unless one identifies and then addresses the incentives facing the actors. They do what they do because of the incentives they face. If you want to change the behavior, you have to change the incentives.

This is hardly the place for a detailed analysis of the incentives facing the multitude of actors in this case or for a fair consideration of the possible changes that might be made in those incentives to produce better outcomes for the American people. So, at the risk of appearing to be rather simplistic, I will hit some highlights.

Many students and their parents at middle tier institutions are selecting those institutions based on the amenities offered because they believe the employers who they hope will offer the graduates jobs will look at the credential they have picked up, and make few inquiries about the quality of education they have received. [Recent studies show that undergraduates appear to be learning little or nothing in their first couple of years in college and probably not much more in their upper division courses.](#) Why should they? Professors demand little of them, because they would rather be doing research, and they don't demand much of their professors, because prospective employers don't seem to care what they learn. If we want to fix this, major employers need to announce that they are going to instruct their recruiters to carefully consider students' scores on standardized measures of student performance administered at college graduation, and government would then be well advised to announce that it is prepared to make funds available for the development of such measures. There are already stirrings in the higher education world to use the [CLAS assessment](#) this way and to develop other measures for this purpose and those activities could be accelerated. But none of that will matter very much unless employers change their behavior and I have seen no signs of that yet.

But these measures by themselves will not reduce the costs of the Country Club, which is a large and growing share of the tuition costs that everyone is complaining about. Here, too, I can't see the institutions cutting back on these costs if they are competing for customers based on these amenities. But there is something that could be done that might

make a real difference, not just with respect to the Country Club, but other components of the rising cost structure as well.

Suppose the federal government required all colleges and universities to publicly report their annual budgets in a uniform format, a format that breaks the costs into the following categories: instruction, research, amenities (the Country Club), health care and social/emotional counseling. There might be a few others, but it would be important have no more than ten or so, so the important is not obscured by the less important.

Let's put the first and second suggestion together. Imagine now that employers were demanding standardized achievement data from graduates, good measures were available and a rising number of colleges were producing that data – making it available not just to students and employers, but also in the aggregate to the public. That would create strong incentives for the institutions to spend more of their revenues on instruction and it would also result in producing more of a balance between instruction and research with respect to the incentives operating on the faculties of the institutions.

Imagine also that the colleges and universities were producing budget data in the aggregate in the categories just described. That would enable parents and students to make decisions about which institutions they would apply to, based on the trade-offs the institutions were offering between amenities and instruction. If they wanted to spend more on the country club amenities than on instruction and were willing to indebt themselves for years to do so, then they could go for it with their eyes open. But, if they wanted to maximize the return on their investment in terms of lifetime income, or if they actually valued instruction over the Country Club package of amenities, they would know much more than they do now about how much the institution was putting into instruction and what that investment was producing in terms of the value added, as measured by student performance on standardized measures. If employers were actually signaling their intention to base hiring decisions at least in part on the latter data, this would all add up to a dramatic change in the incentives operating on the institutions, the faculty and the customers, and all of those changes would point in the direction of increasing investments in instruction and decreasing investments made in the Country Club package and social-emotional counselling.

The next big change I would recommend to the Obama administration would be the assumption by the federal government of the costs of the university research they sponsor. As I pointed out above, the current rules require that the universities share a large part of those costs. It is disingenuous for the government to complain about rising tuition costs while its own actions are contributing greatly to those increases. It is time for the federal government, not college students and their parents, to pay for the costs of government-sponsored research.

Next, it is time for the public and public policy makers to face up to the current state of higher education finance. Observers have pointed out that what is evolving is a tiered system of higher education that is increasingly segregated by the ability to pay. We have desperately underfunded open-admissions systems for poor and minority students. We

have another system for the [vanishing middle class](#) and upper middle class that is divided between state-supported and private institutions. And then we have the research universities, again divided between the public and private lower tier and, finally the top 20 or so.

In my view, the government should not be setting caps on what students should pay for tuition, because I do not know how to do that in a way that is fair and rational. But I have no problems with the government putting caps on what it will pay for some of the amenities included in the Country Club package. If parents want to pay more for fancier dorms, climbing walls, giant stadiums, and blah, blah, blah, go for it, but don't expect the taxpayer to pay for the resort factor in the higher education experience.

Next, as I said earlier, it is time for the federal government to pay its fair share of the research budget, which would result in a significantly smaller bill to parents and students for tuition.

And, finally, it is time for the federal government and the state governments to reconsider the effects of their actions on publicly-funded colleges and mid-and-low tier public universities. It is true that there are private benefits to a college education. But it is also true that the public benefits to having a highly educated workforce are large and swiftly rising. This country is turning a blind eye to that truth and we will pay dearly for that.

Some elements of this package are consistent with the Obama package. Some are not. I believe that all, when combined, would dramatically improve the efficiency, effectiveness and productivity of our higher education system. And that is precisely what we now need.