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The High Cost of Higher Education

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INTRODUCTION

Every legislative session, university leaders march to the Capitol demanding more money from legislators, claiming additional funding is necessary to keep pace with the growing cost of providing a quality education. With the 81st Legislative Session close at hand, efforts to increase state support of higher education institutions have already begun. In September of 2008, the Texas Higher Education Coordinating Board proposed an 18 percent increase in funding for the state's universities, a request that would add $4.8 billion to an already strapped budget.[1]

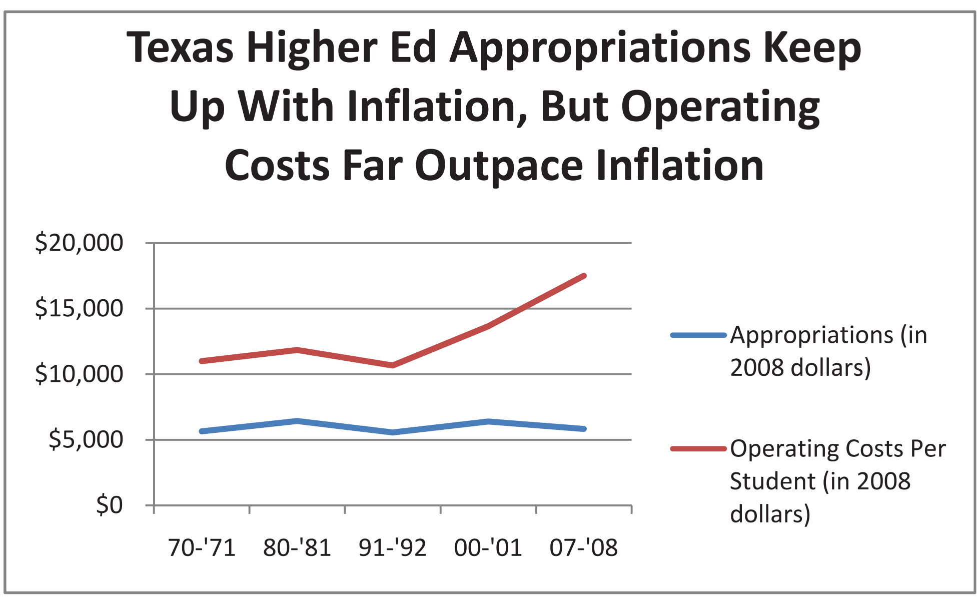
The threat is that without this money, universities will have no choice but to raise tuition yet again and place an even greater burden on students looking to further their education. Institution leaders would have us believe that if the state did increase its financial support for their institution, tuition would not increase. However, that has not been the case.

FUNDING FACTS

Data indicates that the cost of college tuition has not reflected the amount of government support at all; rather tuition has steadily risen without regard for government contributions.

For the 2008-09 biennium state appropriations for general academic institutions and system offices increased 8.5 percent, reaching six billion dollars.[2] Prior to that increase, state and local government support across the country reached $83.5 billion, an increase of over 7 percent from 2006.[3] That same year, Texas state and local higher education appropriations were $7,084 per student, an increase of $708 per student from the previous year.[4] In spite of this growth, tuition has continued to rise.

Over the years, state appropriations per student have fluctuated but have, at the very least, kept up with inflation. Appropriations for the 2006-07 biennium increased by 17.1 percent,[5] yet students did not see relief in their tuition



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because universities allowed operating costs to continue climbing. In fact, the difference between real appropriations and real operating costs has more than doubled from about $5,400 in 1970-71 to nearly $11,700 in 2007-08.

This growing gap cannot be blamed on the state, which allocates 14.3 percent of tax revenues to higher education, the third highest percentage in the country and a rate that far exceeds the national average once cost of living and enrollment mix are accounted for.[6]

Ironically, Texas is one of only 12 states where both the change in state appropriations and tuition exceeded the national average, demonstrating that there is actually little correlation between state appropriations and tuition.[7]

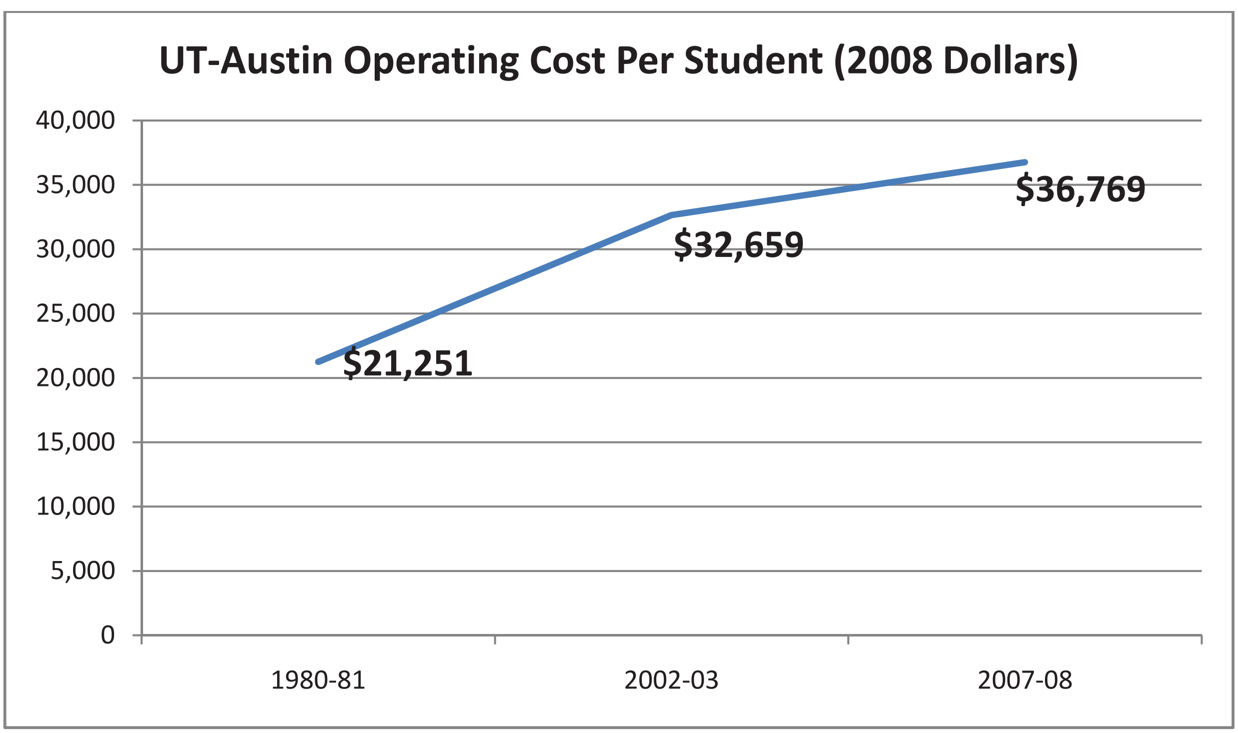
THE MARKETPLACE

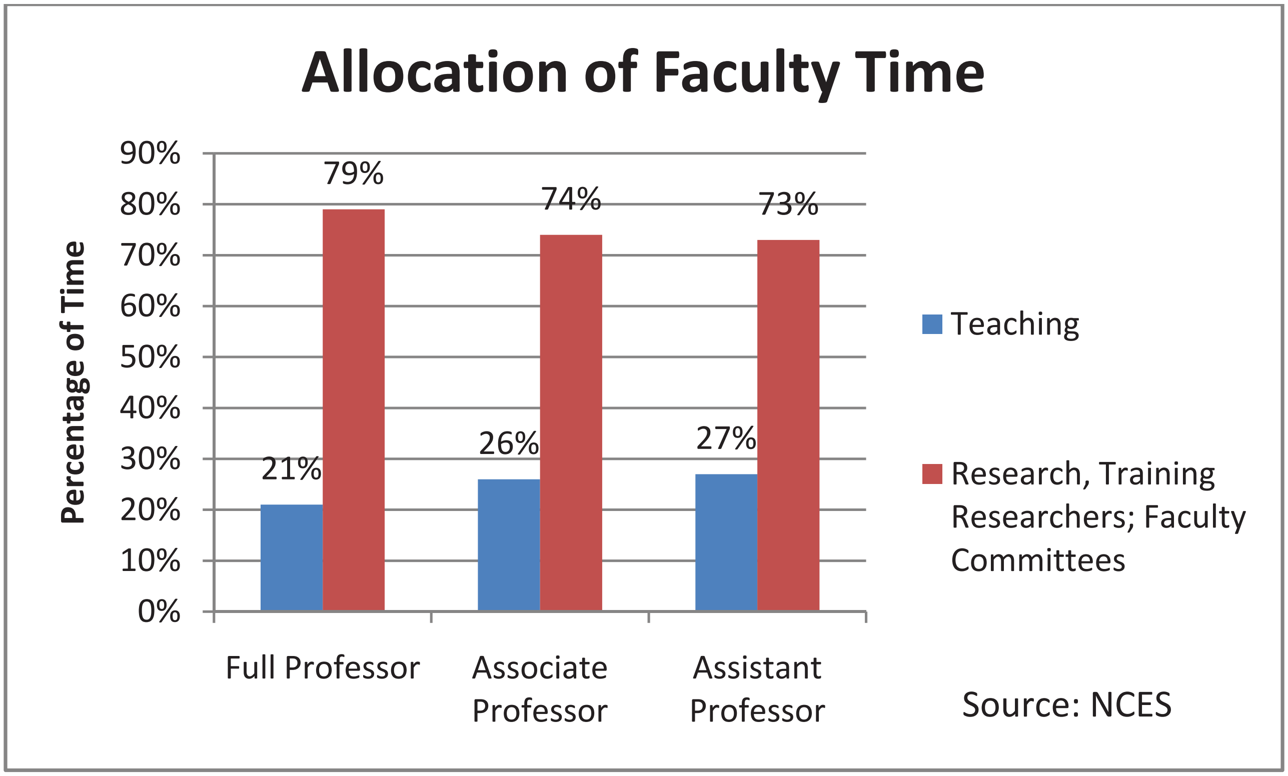
The rise in tuition is not because of a shortage of state funding—in actuality it is caused by operating costs that are allowed to rise unabated because a distorted marketplace where there is no incentive to contain costs or reduce the price of services does not reward cost containment. This market structure has allowed operating costs to spiral out of control, forcing institutions to increase tuition and demand additional government funding in order to fill the gap created by their inability to effectively manage costs.

The benefits and necessity of new costs are debatable, but without competitive price wars between dueling institutions there is little incentive to minimize expenditures and there is little correlation between additional costs and improved quality.

More frequently universities compete on aspects that actually incur additional costs as opposed to promoting lower tuition, responsible financial management or the quality of the education provided. Amenities such as on-campus bowling lanes and luxurious facilities are used to lure prospective students. "When increased voluntary spending is called "rising costs," and becomes a basis for raising tuition, seeking more taxpayer money, or even dipping into the principal of endowments, then the kinds of economic constraints faced by competing business enterprises are clearly not operating in the academic world."[8]

In fact, the incentives in higher education are such that rather than focusing on cost containment, the goal is to increase operating budgets in an effort to increase access to resources and attract more acclaimed faculty.





As a result of perverse market incentives, institutions' operating costs are continually on the rise. The total cost (in 2008 dollars) per full-time equivalent student at the University of Texas at Austin increased from $21,251 in 1980 to $36,769 in 2008.[9] This inability of administrators to contain expenditures has driven up Texas tuition rates an average of 8.96 percent annually since 1997.[10]

No doubt, there is plenty of blame to go around, but the fact is that continued and widespread tuition growth is a rational response to the market structure facing university decision makers.

THE COST OF HIGHER EDUCATION

Salaries

When seeking more funding, these institutions claim that additional revenue is necessary to provide a quality education, yet research shows that only a small portion of their budget goes toward educational services. In FY 2005 instructional expenses accounted for only 27 percent of Texas' public four-year universities' operating expenses and yet these universities continue to claim that teaching and providing educational instruction is their central focus.[11]

Assuming that a quarter of these institutions' budgets is actually spent on instruction is inaccurate. The majority of the money attributed to instructional costs includes the salaries of professors who spend very little time providing instruction. According to the National Center for Education Statistics, full professors at research universities spend 79 percent of their time on activities other than teaching; mainly this time is spent researching or training researchers. Students attending these schools receive a mere 4.5 hours a week of their professors' time, requiring additional staff to do the actual teaching.[12]

Limited teaching loads have become a point of competition for universities. Attracting highly qualified (and very expensive) faculty on the premise of a light teaching load and plenty of flex time for research and writing is generally the primary method of recruiting the best and the brightest professors. Faculty productivity is declining as research and governance activities displace teaching. A Texas Performance Review found faculty at research universities teach only 1.9 courses per semester and, nationally, 21.7 percent of faculty do not teach a single course.[13] This leaves the responsibility of educating students to less qualified faculty who are willing to teach undergraduate students.

This not only multiplies the cost of educating students but it also takes the most qualified teacher out of the classroom and replaces them with a less knowledgeable educator. This arrangement reduces the overall quality of the education provided and yet still increases costs, because the reduction in the teaching responsibilities of these professors has not led to a correlating reduction in their salaries. In fact, from 1980-2005, faculty salaries at public four-year universities in Texas have increased by 36 percent.[14]

Generous salaries plus extensive health benefits and months of vacation time are attractive perquisites that universities use to draw in top of the line professors, but the cost of university staff does not stop there.

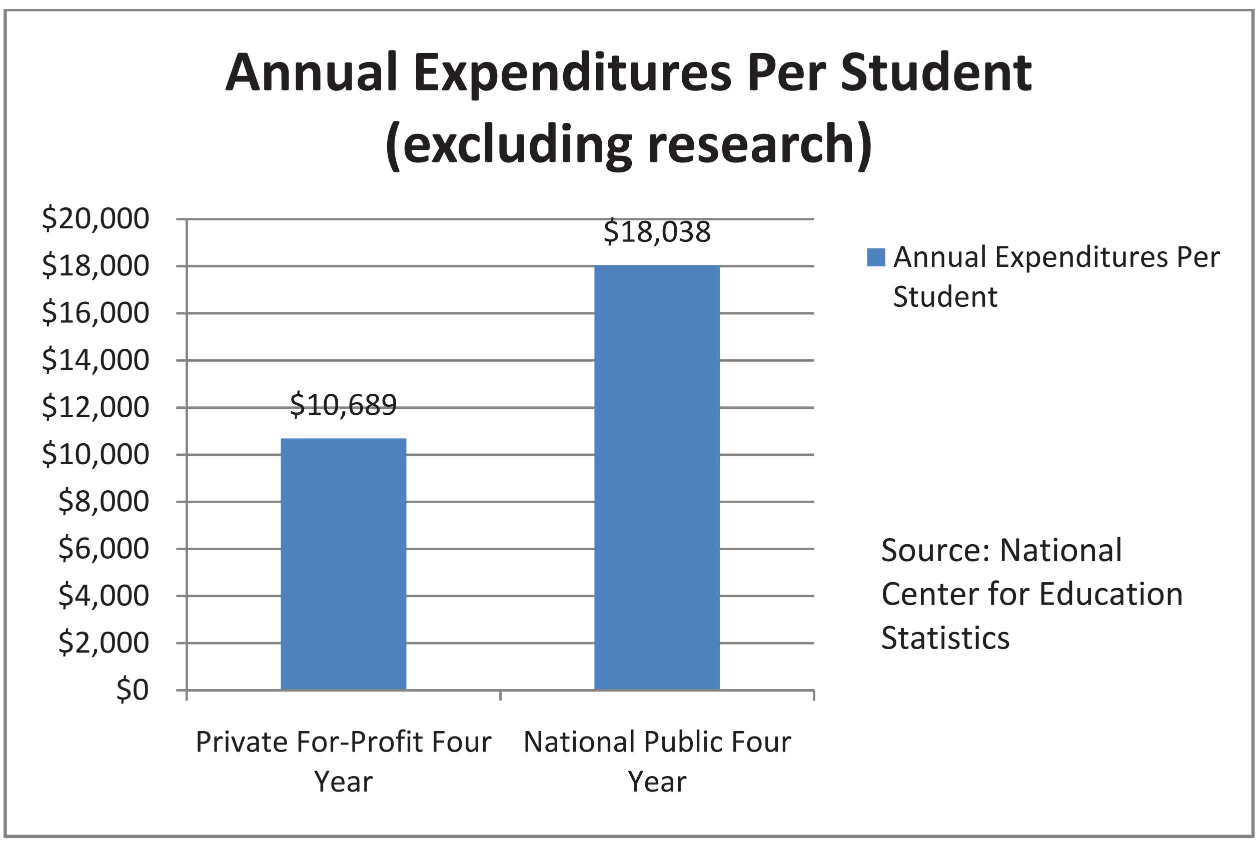
In addition to the cost of teaching and research faculty, the cost of administrative or non-instructional staff adds to total operating costs. Since 1976 the ratio of instructional staff to non-instructional staff has decreased by 35 percent, meaning that even more of the institutions' money is being spent on the salaries of staff that have little impact on the education of students. Often, the salaries of these administrators are over $100,000 a year, and with dozens of these employees on staff they create millions of dollars in additional costs that are passed on to students and taxpayers.[15]

ALTERNATIVES TO PUBLIC UNIVERSITIES

Part of the struggle for public universities is that under our current system it is difficult to measure success. With no profit motive to incentivize excellence and no financial consequence for under-performing, public universities are satisfied with providing the bare minimum and are not held accountable for doing more.

However, for-profit universities offer an opportunity for financial incentives to influence both the operation of the institution and the quality of the product—an education—it provides. Because of these motives and the institution's responsibility to share holders, for-profit universities are constantly looking for ways to contain costs and attract more students; this innovative drive has lead these institutions to focus on delivering a value based product.

Driven by the necessity to generate a profit, these universities have no choice but to operate as efficiently as possible, and that means containing costs. For this reason, for-profit universities expenditures are 68 percent lower than those of their public counterparts. These universities lead the field in technology, using technological innovations to streamline processes, reduce operating costs, and reduce student expen-



ditures. One for-profit university, the University of Phoenix, has transitioned to electronic text books in an attempt to save students hundreds, if not thousands, of dollars a year. Traditional textbooks can cost up to $200 a book, but the online textbooks and materials students at the University of Phoenix use cost approximately $60 per course.[16]

These universities recruit top faculty and maximize their output to ensure that students are getting the best education their money can buy while ensuring that the schools money is paying for time well spent. And students come out better off for it; 64 percent of students at for-profit universities graduate within three years of enrolling and 75 percent are able to earn a higher salary, compared to public universities who can only promise higher salaries to 56 percent of their students.[17]

The profit motive that drives these institutions not only pays off for shareholders; the students who enroll in these schools reap the benefits as well.

SOLUTIONS

The inability of public universities to control costs and the negative impact on access, affordability, and quality suggests that changes in higher education are urgently needed. There are realistic and effective reforms that Texas legislators and university regents can enact that would put our higher education system back on track towards a sustainable and more accessible cost structure.

Public and non-profit higher education, however, lacks the profit motive which provides accountability, efficiency, and the price competition which would reign in tuition expansion. Implementing reforms that would restore these competitive aspects to the Texas higher education market would improve effectiveness, quality, and accessibility.

Transition to Student-Centered Funding

Texas can create a market in higher education that incentivizes universities to minimize costs and maximize instructional quality by putting state appropriations in the hands of students who can choose from competing public, non-profit, and for-profit institutions.

Student-centered funding would increase competition by redirecting state allocations into undergraduate and graduate scholarships as opposed to subsidizing particular institutions and their activities that are often unrelated to student learning. At the same time, redirecting funding would increase college access by providing financial aid directly to the student who would then be able to use their scholarships at any public or private institution that currently receives state tuition equalization grants.

Redirecting funds through students rather than directly to institutions of higher learning creates a strong incentive for the institutions to compete for the scholarship dollars by lowering prices and increasing quality. Competition is a key aspect to providing quality, low-cost services to consumers and would assure a greater return on state funds that are currently directed to higher education institutions without regard for performance. It makes the providers more efficient, forcing them to satisfy the customer and keep costs down.

Student-centered funding has been proven as a market mechanism for controlling operating costs, and therefore tuition increases. Colorado converted its higher education appropriations into scholarships in 2005. Since then, net tuition revenues—which takes into account the vouchers and financial aid—went up only 1.4 percent in 2007 compared to 15.1 percent in Texas.[18]

Results-Based Contracts with Students

Every service-providing industry focuses on providing the best product to its customers at a price that represents the perceived value of their product. However, in the field of higher education there has been a debate about *who* the actual customer is. Tying the majority of higher education funding to the student eliminates this debate and ensures that there is little doubt that the *students* are the consumers.

Once this has been established, schools can begin to improve their services by responding to the opinions and expectations of their customers. By requiring colleges and universities to develop results-based contracts with students, Texas can increase the accountability of universities and professors and improve quality, efficiency, and cost-effectiveness.

These contracts would clearly outline the expectations of each degree and course while also providing a forum for students to convey their satisfaction, or lack thereof, with faculty and university programs. This process would reintroduce the relationship between provider and consumer and create an open dialogue for improving customer satisfaction. With access to these types of performance measures, parents and students would be better equipped to compare tuition at competing schools on a value basis and ensure that they are getting the most bang for their buck.

Accreditation/Certification

The current accreditation method is an antiquated system of input measurements that does little to ensure the quality of higher education. Rather, the system would be more accurately described as a series of hoops that an institution must jump through in order to be granted approval to provide instructional services.

Certification requirements that detail qualifications for faculty and administrators, specify curriculum, and measure library stock are just a few of the regulations that outline the necessities that prospective institutions must meet. Unfortunately, these measures do not necessarily impact the quality of the education these institutions provide and do not give students a clear idea of what they can expect to receive in return for their investment.

At the same time, defining input variables makes entering into the higher education market an onerous task and deters the entry of many potential institutions that would have stimulated a more competitive environment and lead to lower prices and better quality.

Restructuring the accreditation process so that accreditation is based on a university's measurable outputs and deliverables would entail a complete overhaul of the accreditation system. A new accreditation structure would require universities to disclose the information necessary for applicants to make an informed decision when choosing between institutions. Prospective students would need to know how to apply, what courses the school offers, the price of tuition and student fees, and how many students receive financial aid, to name a few.[19] Additionally, universities would need to disclose outcome measures such as graduation rates, job placement, and salaries of students after graduation. This type of information reflects the institution's ability to deliver on its promise of a quality education and provides consumers the information they need to make the best decision. It also allows new institutions to enter into the market without having to overcome the regulatory obstacles that the current accreditation process imposes. This restructured accreditation system would, therefore, increase the competitive environment and drive down costs while still encouraging universities to improve the quality of the education they provide.

CONCLUSION

The price of higher education in Texas is rising at a rate that outpaces both inflation and family incomes—but there is an end in sight. The problem is not lagging state funding, but the lack of a structure to control costs, reward excellence, and eliminate mediocrity. The reforms laid out in this paper would go a long way in achieving those goals and emulate, as much as possible, the environment of innovation and competition that makes the private sector, including for-profit universities, so efficient.

Without the competitive market that imposes discipline in other sectors, public and non-profit higher education institutions lack accountability, efficiency, and the price competition that holds down costs and consumer prices. Restoring consumer-based, competitive market principles to the arena of higher education will bring about the reduction in costs—and tuition—that students, parents, and policymakers are seeking.

ENDNOTES

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About the Author

Kalese Hammonds joined the Texas Public Policy Foundation as a Health Care Policy Analyst in November of 2007.

Kalese graduated from Texas A&M with a degree in communication and a minor in business. After graduation, Kalese began working at the Foundation as an unpaid intern assisting with research in the Center for Education Policy.

As a policy analyst Kalese works on public policy issues including health care, higher education, and transportation. Kalese also serves on the Health and Human Services Commission's Frew Advisory Committee, which advises HHSC regarding strategic initiatives associated with the *Frew v. Hawkins* lawsuit and is a member of the American Legislative Exchange Council's Health and Human Services Task Force.

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