The Campus Cost Explosion

College Tuitions Are Unnecessarily High

Bruce M. Carnes

American parents and college students have good reason to be upset by the skyrocketing price of undergraduate education. Since 1980, college costs—tuition, room, and board—have climbed by 57 percent, more than twice the increase in the Consumer Price Index. A survey conducted last December by Opinion Research Corporation found that 82 percent of the public thought that "college costs are rising at a rate that will put college out of reach of most people." And they may well be right. Since 1980, average college costs have risen 80 percent faster than median family income, and nearly 100 percent faster than the income of families with one wage-earner.

On average, a four-year college education now costs more than $25,000. At some elite institutions such as Harvard and Stanford, the bill comes to as much as $70,000. Tuition increases are still running in the neighborhood of 6 percent a year, even though the overall inflation rate has been brought down to under 2 percent. College room and board prices have risen by 51 percent over the last six years, despite the fact that during the same period the Consumer Price Index for food and beverages rose by only 17 percent, and for rents by only 34 percent.

The cost explosion has led some to call for greater government subsidies of tuition payments. Nearly half of the nation's college students now get tuition grants or loans from the federal government; and appropriations for U.S. Department of Education student aid have risen from $5.1 billion in 1980 to $8.2 billion in 1987. The total aid generated by these federal subsidies—including private bank loans backed by government guarantees—has increased by 71 percent during this period to a total of $15.2 billion, outpacing the rise in college costs.

Rather than helping restrain cost increases, however, the growth in federal aid has insulated college administrations from the disciplines of the marketplace and allowed them to continue with inefficient practices that drive up costs. As Chester Atkins, a Democratic congressman from Massachusetts, has said, "[college] administrators have used federal support to avoid the kinds of cost controls that just about every other institution in our society has instituted in the past few years."

There are several reasons why the cost of a college education is rising. One is that education is inherently a labor-intensive enterprise, its effectiveness depending on individual contact between student and teacher. Faculty can grade only so many papers; they can call on and cross-examine only so many students in a classroom discussion. In all but the most rote forms of instruction (as for example in language laboratories), it is therefore difficult to raise student-teacher ratios significantly without sacrificing the quality of learning. Unlike other sectors of the economy where new technology can replace labor or make employees more productive, new educational technology such as computers and video equipment have so far proved to be poor substitutes for professors and have been unable to increase the numbers of students whom professors can effectively teach. On the contrary, technical advances, especially the increasing sophistication of instructional laboratories, have tended to make college more expensive, not less so.

A second reason for the college cost explosion is the rising (and rather inelastic) demand for higher education; colleges are free to raise their tuitions, because the market will bear the increases. A college degree has become accepted as the ticket to a high-paying job, a rewarding career, and the respect of one's peers. Partly because of this, despite predictions that enrollments would decline as a result of a drop in the 18-to-24 age group, college enrollments have increased three years in a row and are near an all-time high. Fall 1986 enrollment was 12.4 million, up one percent over the previous year. More college-aged youth are going to college than ever before (58 percent of the high school graduating class of 1985), as well as increasing numbers of older students.

A third reason for rising costs is the incentive structure of colleges and universities, both private and public: their goal is to maximize revenue, not profit, and therefore they have no incentive to keep costs down. Economist Howard Bowen, in his book *The Costs of Higher Education* (1980), described the economic behavior of colleges and universities this way: 1) Each institution raises all the money it can; 2) Each institution spends all it raises; 3) The cumulative effect is toward ever-increasing expenditures.

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Drawing by Karen Portik

Since 1975, colleges and universities have grown significantly. Enrollments have risen by 21 percent, the number of institutions by 15 percent, and institutional expenditures by 157 percent in current dollars, 26 percent in inflation-adjusted dollars. Endowments have grown by 178 percent, and voluntary and corporate support by 193 percent. Efficiency and economy have not been paramount concerns in this growth environment. As Bowen puts it: "the duty of setting limits thus falls, by default, upon those who provide the money, mostly legislators and students and their families."

Federal aid has lessened still further cost disciplines on the academy. As tuition subsidies have risen over the last 15 years, many of the most glaring inefficiencies have continued and even been aggravated.

Overabundant Overhead

Robert V. Iosue, president of York College in Pennsylvania, wrote recently in the *Wall Street Journal* that "the top-heavy bureaucracy we lament in business and government is alive and flourishing in higher education." The Education Department's Higher Educational General Information Survey (HEGIS) bears this out.

Between 1974-75 and 1984-85, the greatest relative increase in college and university expenditures was for administrative overhead. This category includes admissions, financial aid administration, placement, salaries of academic administrators, and student services. A recent article in *USA Today* described some of the questionable services now being offered to students: a program to help freshmen overcome shyness (at California Polytechnic State Institute), a Roommate Starter Kit for the traumatic hours when roommates first meet (Pennsylvania State University), and memory aids for students who get anxious trying to recall what they've learned (University of Massachusetts).

Administrative overhead also includes recruiting, which has taken on the importance of a religious quest as the supply of traditional college-aged youth has declined. A recent survey by the Educational Testing Service found that college and university marketing budgets have grown by 63 percent since 1980. Even some within the academy have begun to question whether unchecked recruiting best serves the institutions and their students. In a remarkably candid speech last October, American Council on Education president Robert Atwell said: "Recruiting has become expensive and flashy. The cost of attracting students continues to escalate and every dollar spent on recruiting reduces what can be spent on instruction."

Underproductive Faculty

Jacques Barzun has written that in the 1940s, professors were expected to teach five courses a semester, 10 a year. Today, in four-year colleges, professors teach an average of five to six courses a year. One of the great myths of academe is that all professors need a great deal of free time (not to mention summer and spring vacation, Christmas vacation, etc.) in order to conduct research. The truth is that 59 percent of all college faculty have never written a book, and 32 percent have never written so much as a single article.

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Even though many faculty are underproductive and there are numerous applicants for every vacancy, faculty salaries are climbing. Over the last 10 years, faculty salaries have kept pace with the increase in the Consumer Price Index. This is far better than the average wage earner's did—his earnings trailed the CPI by 20 percent.

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Colleges have economized in this area by greatly expanding the ranks of non-tenure track faculty. Many schools found they could have stable budgets *and* higher salaries (for some) by transferring undergraduate teaching classes to part-time, itinerant, low-paid "gypsy" faculty, while giving the raises to a shrinking pool of tenured and tenure-track faculty. For example, from 1977 to 1983, the number of non-tenure track faculty increased by 12 percent while those on tenure track decreased by 15 percent. Now, as many as one-third of all undergraduate courses are taught by these non-tenured faculty. The effects of such practices on the quality of undergraduate instruction are predictably negative.

Income Transfer on Campus

Auto dealers try to maximize their sales income by raising sticker prices and then offering larger or smaller rebates depending on how much they think individual customers will be willing to pay. The same price discrimination strategy has become common in higher education, with a redistributionist twist. Michael O'Keefe, president of the Consortium for the Advancement of Private Higher Education, writes in *Change* magazine (May/June 1986): "At some colleges, institutional student aid (the "discounts") now *exceeds* total expenditures for the educational program. It makes one wonder what business these colleges are in, higher education or income transfer."

The net result is that those who can afford to pay the full sticker price—some only because of federal student aid—subsidize the rest, keeping enrollment up. At many colleges, tuitions could be cut by as much as a quarter to a half if these campus transfer payments were eliminated.

Tuition for undergraduates is also frequently set higher than it need be, in order to subsidize graduate programs. The cost of providing a credit hour at the graduate level tends to be three to six times higher than at the undergraduate level, according to a study by Paul Brinkman of the National Center for Higher Education Management Systems. Yet undergraduates and graduate students are typically charged nearly identical tuitions.

Unnecessary Expansion

The rapid growth in higher education has exacerbated a long-standing tendency toward unnecessary institutional expansion. Too many first-rate four-year colleges have acquired a smattering of graduate programs and turned themselves into third-rate universities. And second-rate universities have tried to become first-rate by adding more graduate programs instead of improving what they already had. The result is always the same: higher costs for the institutions, higher tuitions for the students, and less attention to undergraduate instruction. As Robert Atwell put it: "Academic administrators, chancellors, and presidents too often embrace a single model of excellence and enter the bidding wars for superstar professors, who reward research rather than teaching, and who initiate graduate programs despite the surplus of Ph.D.'s in most fields."

With so many universities attempting to be all things to all people, it is common for neighboring institutions to offer the same specialized graduate programs. In the Dallas area, for example, nine universities offer MBAs, five offer graduate degrees in psychology, and three have graduate programs in speech pathology and audiology.

Among public institutions at least, efforts to curb this educational arms race may be beginning. In Maryland, a commission appointed by the governor has recommended eliminating wasteful duplication of programs in state colleges and universities. Colorado's higher education coordinating agency has recommended that 11 degree programs be discontinued. In Missouri, 67 programs ranging from associate in arts degrees to doctoral programs have been eliminated in the past four years, and 43 other programs have merged. The North Dakota legislature recently combined four state colleges under one jointly administered system.

Despite these examples, however, efficiency does not always carry the day. Northern Illinois University recently started up a new engineering school, at an estimated cost of $65-85 million over the first 10 years, even though there were 1,700 empty places in three other engineering programs within a 65-mile radius.

In a few all too rare cases, private institutions are also waking up to the problem of costly duplication. The Consortium of Universities of the Washington Metropolitan Area, representing 11 public and private institutions, has drawn up a plan to coordinate and eventually to merge all its libraries, improving access for students and faculty while generating substantial savings in purchasing costs.

Increasing federal aid is not the answer to rising college costs. On the contrary, as Secretary of Education William Bennett argued in a speech at Catholic University last year, "Trying to control costs by increasing aid is like the dog chasing its tail around the tree; the faster he runs, the faster the tail runs away."

Student aid does not itself push up college prices but it does facilitate their rise. As Michael O'Keefe put it in *Change*, "the increased availability of loans in recent years . . . feeds the cost spiral. Sizable tuitions become less for-

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midable when translated into relatively modest payments per month. The magic of 'buy now, pay later' has come to higher education, making it almost painless to raise costs." When the majority of those costs are passed on to the taxpayer—and three-quarters of all post-secondary student aid now comes from federal programs—raising prices becomes even easier.

Research confirms an indirect relationship between student aid and college costs. In a 1983 survey of 388 colleges (181 private and 207 public) Nathan Dickmeyer of Columbia University concluded that student aid increases are clearly associated with tuition increases as well as with growth in administrative overhead. "The most likely chain of events," he wrote, "is that increases in federal programs make students less resistant to tuition increases."

Anecdotal evidence also confirms the relationship. Last April the *New York Times* reported that officials of a prestigious East Coast university "were awaiting more information on the level of federal support before announcing next year's costs."

Prior to the late 1970s, the connection between federal student aid and tuition increases was weaker. To begin with, most federal aid was available to veterans and children of Social Security beneficiaries, but not to the general public. Since tuition increases hurt the majority of students (and their families), it was harder for colleges and universities to raise their costs and still fill their classrooms. Perhaps more important, most federal aid bore no relation to a student's "need" or to the costs of an institution. Tuition increases would not automatically lead to higher subsidies from the federal government.

But the emergence in the late 1970s of generally available aid that was tied to student "need" dramatically altered the incentives facing colleges and universities. With "need" determined in part by the cost of attending college, colleges found that students would qualify for more aid when tuitions rose. The rapid rise of college costs in the 1980s corresponds with increases in need-based aid, which by 1985-86 accounted for nearly 95 percent of all federal student aid.

The American public, with its nearly limitless faith in higher education, has been remarkably docile in the face of six consecutive years of excessive tuition hikes. But this is beginning to change. Applications to high-quality but moderately-priced public institutions are way up, a sign

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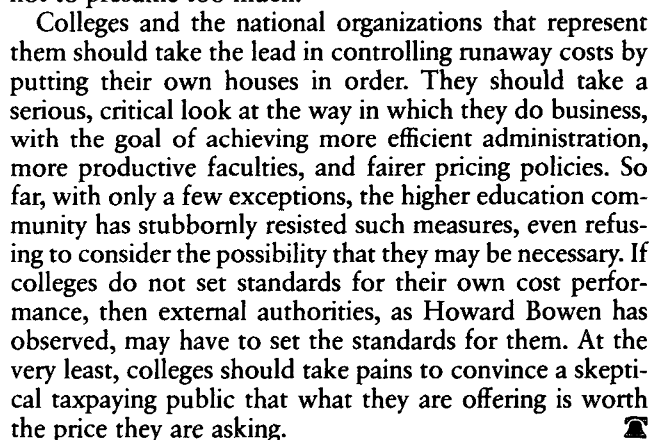

that price sensitivity is increasingly entering into the enrollment decisions of students and their families. Articles and editorials on rising college costs are increasingly common in major newspapers and national news magazines. The vast reservoir of public good will toward higher education has its limits, and college officials would be well-advised not to presume too much.

Colleges and the national organizations that represent them should take the lead in controlling runaway costs by putting their own houses in order. They should take a serious, critical look at the way in which they do business, with the goal of achieving more efficient administration, more productive faculties, and fairer pricing policies. So far, with only a few exceptions, the higher education community has stubbornly resisted such measures, even refusing to consider the possibility that they may be necessary. If colleges do not set standards for their own cost performance, then external authorities, as Howard Bowen has observed, may have to set the standards for them. At the very least, colleges should take pains to convince a skeptical taxpaying public that what they are offering is worth the price they are asking.

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AMERICA'S PERMANENT DEPENDENT CLASS

It's Time to End the Farmer's Dole

DOUG BANDOW

It was to be the new gilded age of laissez-faire and limited government, but the "Reagan Revolution" died long before the Iran affair was revealed. Nowhere has Ronald Reagan failed more conspicuously than in his attempt to control federal spending: government outlays have jumped $424.6 billion since he was elected, an astounding 71 percent increase.

And no program has been mismanaged more disastrously than the farmers' welfare system. Direct payments to farmers ran $25.8 billion last year, a 545 percent jump over 1981. No sector of the federal budget has grown more.

Nor is that all the money received by rural America. In 1986, the federal government spent another $3.8 billion on crop research, soil conservation, and similar programs. Sugar quotas, peanut quotas, and citrus marketing orders provide billions more dollars to producers through higher prices instead of higher taxes.

At the same time, Uncle Sam has proved to be an incredible bungler as Farmer-In-Chief. Despite direct subsidies of $93.8 billion so far during Reagan's tenure—and at least $21.3 billion more this year—rural America is in disastrous shape.

For instance, the Farm Credit System, a cooperative rural network of 400 banks and associates, recently announced a $1.9 billion loss for 1986, on top of $2.7 billion in red ink the previous year. With farm bankruptcies continuing and almost one-fourth of the System's lending portfolio already foreclosed or impaired, a federal bail-out seems only a matter of time.

Despite several billion in export subsidies—$5 billion in short-term credit, $666 million in crop surpluses, and $500 million in longer-term credit a year—the American farmers' share of international food markets continues to shrink. Last year, food export earnings were down 60.5 percent from 1981. With China having passed the U.S. as a cotton exporter, Thailand now shipping more than twice the volume of rice as America, and Australia threatening the U.S. lead in wheat exports, few observers believe 1987 will be any better.

Finally, there's the simple human hardship of the 2,100 farmers who go out of business every week. Many borrowed heavily to purchase additional land and expand; since then export markets have shrunk, prices have fallen, and land values have plummeted. At least 178,000 of the 670,000 commercial farms are heavily in debt.

For many of the 29 percent of the farmers who own 83 percent of the agricultural debt, the burden has become overwhelming. Two-thirds of them owe more in interest than they earn from their crops. For many, bankruptcy has been the only option.

Bizarre Hybrid

Federal outlays are up, the Farm Credit System is tottering, exports are way down, and farms are failing. Something is obviously wrong. "How can so many farmers go broke if we're spending all this money to help them survive?" asks Senator Patrick Leahy (D-Vermont), chairman of the Senate Agriculture Committee. Unfortunately, it's all too easy to do when the federal government takes charge.

The "farm crisis" is a permanent part of American history. "When the going is good for" the farmer, H.L. Mencken wrote 60 years ago, "he robs the rest of us up to the extreme of our endurance; when the going is bad he comes bawling for help out of the public till."

The basic foundations of Uncle Sam's stint as Farmer-in-Chief are production restrictions and price supports. In fact, the federal government began with a variant of the sort of "supply management" program now being advocated by Senator Tom Harkin (D-Iowa) and Representative Richard Gephardt (D-Missouri). The 1933 Agricultural Adjustment Act set acreage limits for specific crops and paid farmers to reduce the amount of land they planted, in an attempt to push up producer prices. Cash subsidies, principally through "nonrecourse" loans, which allow farmers to forfeit their crops if loan rates exceed market prices, were originally only of secondary importance.

However, farmers continually lobbied to push up support levels—usually pegged to a mythical "parity" figure

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