

## Bucking Conventional Wisdom on College Costs

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A national agenda for postsecondary education in the United States is beginning to form, motivated by the goal of moving the United States to a position of international preeminence in postsecondary education by the year 2020. The size of our achievement gap and current fiscal realities present real challenges, making productivity increases in higher education imperative, to maintain access and increase degree attainment on a reduced funding base. One strategy is to improve the management of costs within higher education — reducing the need for tuition increases, improving public credibility necessary for increased public investments, and better targeting resources to those functions that pay off in terms of increased educational attainment. Managing costs will require attention both within institutions and at the state policy level — changing how funds are allocated, and focusing on the relationship between resource use and quality.

Clearly, changing postsecondary finance without a lot of new money to grease the skids will be difficult. The status quo is always easier than change — particularly change that will be objectionable to those who benefited most in the previous system. But political objections aren't the only barrier to changing funding in higher education: A much bigger impediment comes from conventional wisdoms about college finance, truisms about costs that aren't based in fact. The power of these myths is that they are held uncritically by people inside and outside of the academy: Governors and state budget officers, legislators, legislative analysts and fiscal staff, presidents, trustees and faculty. In the hopes of fostering a better dialog about how to improve performance in higher education, we've identified some we think are the biggest obstacles to change.

**Conventional wisdom #1: Spending increases in higher education are inevitable, because there is no way to improve the productivity of teaching and learning without sacrificing quality.**

The belief in the inevitability of rising costs may be the most damaging truism of all, as it affects the way that institutions budget and plan. The common approach to building the base budget is a case in point. It starts with taking last year's budget and adding to it the replacement of any prior year reductions, salary increases, benefit increases, and costs of inflation for supplies and equipment. Institutions can get a 5 percent increase in overall funding and still claim — and believe — that their budgets actually were reduced, since they should have grown at least that much to get to a zero base. Small wonder that policy makers and the public are coming to doubt

that colleges and universities are trying to control spending, and that they place their own institutional 'bottom lines' ahead of public needs for higher education.

Moreover, faculty labor productivity is only one part of the higher education cost pie. Spending on faculty is a minority of all spending in most institutions, a proportion that has been declining in all sectors for the last two decades. This has happened as institutions have shifted to more part-time and non-tenured personnel, who now do more than half of the teaching in higher education.

Has this hurt quality? It's hard to tell: Rates of degree and certificate production have not gone down; in fact, they've increased slightly in most types of institutions. This doesn't mean that shifting to part-time faculty and increasing the use of technology is the only or maybe the best way to increase labor force productivity in higher education. Institutions could do a lot more to increase the cost-effectiveness in their faculty investments, using the opportunity of faculty turnover to translate faculty lines into more productive uses. This doesn't mean getting rid of full-time and tenure-track positions, but it might mean trading a senior tenured position in classics for two junior level assistant professors in first year writing courses.

Institutions also can put more resources into salaries if they find ways to reduce the explosive growth in benefits costs. It could be argued that even if increases in faculty compensation costs aren't inevitable, they are still desirable because faculty deserve to be appropriately compensated, and competition for faculty means their pay will rise over time. That may be true, but this places this argument in the "nice work if you can get it" category, rather than an immutable requirement for basic functionality. In a national environment of stagnant wages and declining productivity, there's no immediate reason why higher education should be allowed to increase costs more than other major sectors of the economy.

### **Conventional wisdom #2: More money means more quality, and quality means higher performance.**

Another enduring myth of higher education finance is that money buys quality, and since quality is the ultimate goal of every institution, higher quality means better performance. If quality means reputation, we could buy this, since in our highly stratified system of higher education, spending correlates with common measures of institutional prestige, such as admissions selectivity, class size and faculty reputation. But if quality means getting more students to a degree with acceptable levels of learning, it's something else entirely. There is no consistent relationship between spending and performance, whether that is measured by spending against degree production, measures of student engagement, evidence of high impact practices, students' satisfaction with their education, or future earnings. Instead, the research shows that the absolute level of resources is less important than the way resources are used within the institution. This shouldn't be surprising: similar findings have emerged from research on K-12 finance and effectiveness. It's good news for institutional and policy makers wanting to improve performance within higher education, since it means that leadership and intentionality matter more to educational performance than money alone.

### **Conventional wisdom #3: Among public institutions, state governments are now minority shareholders in higher education, and as a result public policy goals should take a backseat to market rules to steer institutions.**

State funds *have* declined as a proportion of revenues among public institutions and tuition revenues have gone up. Even so, the taxpayer is still the single largest funder of the core educational functions of instruction, student services, and academic support in most of the country. The institutions are still public institutions, perhaps more analogous to private-non-profit institutions than agencies of state government, and as such they have the same responsibilities to ensure that their resource allocation decisions meet the standard of serving the public trust. Presidents of research institutions are most likely to make this argument, because they compare state revenues against funds for federal research, auxiliary enterprises, teaching hospitals, and public service. Almost all of the funds for these activities are restricted as to their uses, and cannot be used to pay for the general academic support of the institution. Even with as little as 20 percent or 30 percent of total unrestricted revenues, state government can drive a major change agenda by focusing on goals and performance and paying attention to public accountability. Look at the example of shareholder reform in the private sector, where shareholders with as little as 3 percent of the voting stock have been able to leverage huge changes in management performance.

The "privatization" argument is also used by college presidents (and others) to justify executive compensation packages in higher education that rival those paid in the private sector. Colleges and universities should be able to recruit and retain the best and brightest leaders, no argument about that, and they should be paid appropriately. But it is simply bogus to use diversification of revenues as a basis for salary and benefit packages that bear no relation to real institutional performance or, more particularly, to the role of the president in producing that performance. Excessive compensation packages have been corrosive both within higher education and with policy audiences: damaging to faculty and staff morale, inexplicable to parents and students who are paying higher tuitions while they see class sections being cut, and detrimental to the argument that higher education institutions are social investments in the country's future.

**Conventional wisdom #4: Colleges and universities cannot be expected to invest in change or to pursue state priorities without new money. A corollary is that any reductions in funds must be replaced before funds can be considered as "new."**

This argument presumes that institutions are operating at 100 percent efficiency, which is simply not true for any organization. Evidence that institutions are on the "efficient frontier" in terms of resources used to generate results should be required before this assertion is swallowed – evidence that few colleges or universities can find, since relatively few of them look at spending in relation to performance. To be sure, it is hard to make budget cuts at the huge levels now being forced around the country without having to cut into core capacity. But not all expenses are equally high priorities for any institution, and in this budget climate the standard for efficiency has to be set by looking at spending against performance in light of current priorities.

**Conventional wisdom #5: Instructional costs rise by the level of the student taught – e.g., lower-division students are cheaper than upper-division students, graduate students are more expensive than undergraduates, and doctoral students who have been advanced to candidacy are the most expensive of all.**

Higher spending levels don't necessarily mean higher "costs." It means these activities are more expensive because we've always spent more money on them. The higher costs are only partly intrinsic to the specialized nature of upper-division and graduate coursework that require smaller class sizes. Institutional spending preferences including subsidized faculty time for departmental research are the primary reason for increased costs at higher levels. The senior faculty (who are

the most expensive instructional resource) typically teach the upper-division and graduate classes; lower-division classes are overwhelmingly the responsibility of junior faculty, part-timers and, in research universities, teaching assistants. Spending patterns also reflect historic funding advantages for institutions with a research and graduate educational function, since departmental research is counted as a cost of instruction. And finally, upper-division costs are higher in part because institutions lose so many first and second year students to attrition. The marginal costs of adding more upper-division students to courses that are under enrolled are very low. If retention is increased, then the unit cost of upper-division instruction will decline simply because class sizes will be larger.

A corollary to conventional wisdom #5 is that lower-division students are cash cows, necessary to generate the resources to support the more expensive upper-division and graduate students. Retaining students is a better financial strategy than continuously recruiting more entry-level students, nearly half of whom never make it to a degree or certificate. While the direct costs of instruction are lowest for lower-division students (although as noted above they don't have to be) new students actually cost the institutions more administratively than continuing students. The costs to recruit admit and enroll first-time students are around \$700 per student in public institutions, and over \$2,000 in private institutions, according to surveys by the National Association for College Admission Counseling. If all of the costs are counted, first-time students may well end up being 'negative' cost centers for many institutions. Higher education can't expect to solve its money problem by continuously spending more on each student than it gets in revenue, while hoping to make up for it in volume.

#### **Conventional wisdom #6: Institutions can make up for lost public subsidies by increasing research revenue.**

Since money from students and states is harder to obtain, many institutions and states are looking to the federal government as a source of revenue. Stimulus funds are a short-term source for some, but funding from research grants has long been a preferred option, both because it is a new revenue stream and because pursuit of such funds aligns so well with the academic culture.

While there may be reasons to pursue federal research funds, their contribution to unrestricted institutional revenues isn't one of them. Research grants almost never pay for their full costs; either overtly or covertly they require institutions to bear part of the cost. The cost of faculty time for research goes up significantly, typically in the form of reduced teaching loads to allow faculty to pursue research opportunities. The institutions -- and states, and students -- pay for this, so costs per student increase even as the amount of faculty time available for teaching goes down. Institutional and policy makers share responsibility for supporting this "mission creep," as does the federal government, which has limited reimbursements for the indirect costs of research administration for years.

#### **Conventional wisdom #7: An expansive undergraduate curriculum is a symbol of quality, and necessary to attract students.**

Many institutions operate on the assumption that a wide selection of undergraduate courses is a core dimension of quality, and furthermore needed to recruit students to the institution. The reality may be much different. The majority of students satisfy their general education requirements by enrolling in relatively few courses. In most institutions, more than half of the

lower-division credit hours are generated in 25 or fewer courses. The result is a few high-enrollment courses and a lot of low-enrollment courses.

Furthermore, there is mounting evidence that a more prescribed path through a narrower range of curricular options leads to better retention, since advising is more straightforward, scheduling easier to predict, and students are less likely to get lost in the process. A narrower curriculum is more coherent, can be better focused on learning outcomes, and is actually preferred by many students. So an educationally effective undergraduate curriculum is also the most cost-effective curriculum. Recognizing this opens up opportunities to address costs while improving attention to positive learning outcomes. Higher education doesn't have to go to Henry Ford's extreme ("any color you want as long as it's black") to take a lesson of sorts from the portions of the automotive industry who have managed to avoid bankruptcy, by bundling options and eliminating product lines to cut production costs without compromising customer satisfaction. In our own industry, well regarded for-profit institutions have satisfied customers who have had few choices in a streamlined, cost-effective curriculum. If quality is measured in terms of outcomes achieved, not appearances and status, attention to the undergraduate curriculum is a place to start looking for improvements.

### **Conventional wisdom #8: States can improve postsecondary productivity if they direct more students to community colleges.**

If states want to make cost-effective investment decisions, they need to pay attention to what it costs to get students to a degree, and not just entry-level costs per student. Moving more students to community colleges is a case where cutting costs may actually hurt productivity if the goal is to increase bachelor's degree attainment. Unit costs per student are lower in community colleges than in four-year and research universities. But shifting more students to community colleges won't necessarily reduce the overall cost per *degree or certificate* in a given state. Nationwide, costs per degree are highest in community colleges (among the public institution sector) not because they have more money, but because they award so few degrees or other credentials relative to student enrollment.

Although transfer works well for some students, for far too many students, enrollment in a community college lowers rather than increases the probability that they will be successful in obtaining a college degree. Does this mean that states should plan to increase enrollments in public research universities, where degree attainment levels are higher? No, since this means shifting public subsidies from instructional functions to pay for research. The best way to invest in student success is to invest in institutions that put teaching and success at the front of their missions: community colleges that are effective in translating access to a credential or to transfer, or to public four-year teaching institutions.

### **Conclusion**

At a time when improved productivity has to be a priority for all policymakers, the search for better ways to use resources that are available shouldn't be impeded by false or unexamined "truths." Higher education costs can be contained without sacrificing either quality or access. It can be done through management of resources, including using data to make decisions, paying attention to spending, and looking at the relationship between spending and results. Still, we would not want to end this essay without rebutting a final "myth" about higher education finance, which is that American colleges and universities are grossly overfunded, and that better management of resources by itself will generate enough 'new money' to pay for the nearly

doubling of capacity needed to return our country to internationally competitive attainment levels. That's not true, either: a lot of our institutions are operating on very lean budgets, and many have been increasing enrollments without getting the resources to do so for the better part of the last decade.

These are the very institutions that must serve the majority of students who need access and degree attainment. Better management of spending is a necessary, but by itself not sufficient, condition for doubling current levels of degree attainment. To do that, we need to be reinvesting public resources in higher education, beginning with public resources from state governments. In this political environment, we should not kid ourselves that we will get the public investments necessary to increase attainment unless we first attend to better public accountability for effective management of the resources we have. That will require a different way of thinking about higher education finance, beginning with the institutions and extending to government. Getting rid of conventional wisdoms that get in the way of new approaches from both sides is a good place to start.

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