THE GOLDEN AGE OF HIGHER EDUCATION IS OVER

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Financial Models are Breaking Down - Private Research Universities and Selective Private Liberal Arts Colleges

• Undergraduate tuition levels grew at annual rates averaging 3 to 3.5% more than inflation for the last 30 years. Tuition increases were associated with increased expenditures per student in real terms. However, economic and political forces may limit institutions’ ability to raise tuition as rapidly in the future.

• Financial aid budgets have dramatically increased and at the margin institutions typically give back more than 40% of new tuition dollars in grant aid leaving them with very limited resources to fund their operations.
Private Research Universities and Selective Private Liberal Arts Colleges (2)

- The share of ever-expanding research budgets funded out of institutional funds has increased and the research universities now may be subsidizing research out of undergraduate tuition dollars. Cut backs in the growth path of federal funding for research will exacerbate this problem.

- At all types of academic institutions, instructional expenditures have declined relative to almost everything else that they do. Some institutions have taken dramatic steps to reduce administrative costs but these actions are not a panacea and continual efforts are needed to reduce administrative costs and to deliver high quality education at lower costs.
Financial Models are Breaking Down—Other Private Nonprofit Academic Institutions

- Financial aid is used often to try to fill seats and to “craft the class”. Not only do their net tuition discounts average over 40%, but tuition increases are increasingly yielding little or no new net tuition revenue. Some find it hard to maintain enrollment levels (NACUBO)
- Scale of operation is often too small to allow administrative and educational cost savings if an institution continues to try to “go it alone”
- The focus by policymakers and the public on degrees that “promise” higher earnings increases pressure on especially the small undergraduate institutions to defend the value of a liberal arts education and/or to modify their range of programs
Financial Models are Breaking Down - Public Higher Education(1)

- State appropriations per FTE student at public 4-year institutions have declined, on average, in real terms since 1987. In FY 2012 they averaged $5,906, in comparison to a peak level of $8,670 in FY 2001 and a starting level of $8,497 in FY1987(SHEEO).

- Instate undergraduate tuition increases at public 4-year colleges exceeded undergraduate tuition increases at private nonprofit counterparts by about 1.5 percentage points a year over the last 30 years, largely to try to offset reductions in state support. However, economic and political pressures will limit their ability to increase tuition in the future. Tuition increases at public 2-year colleges have been more modest and over the first decade of the 21st century their expenditures per student declined
Public Higher Education (2)

• Public higher education institutions are expected to expand enrollments and improve graduation rates without substantial (or any) increases in state support.

• Increasingly they face performance funding systems and pressures from their state governments to reduce costs and enhance productivity.

• Increasingly data on their graduates’ earnings, by major, are being used to “rank them”. The focus on degrees that promise higher earnings increases pressure on them to defend the value of liberal arts education.
Why Tuition Keeps Increasing at Private Academic Institutions?

• Institutional aspirations to be the best they can on every dimension of their activities (Cookie Monster Analogy)
• Perceptions (and evidence) that where students to go college may matter as much as whether they go to college and public perception that posted tuition reflects quality
• Spending influences USNWR rankings
• Technology that enhances student experience but that does not reduce costs
• But growing student debt levels, stagnant family incomes, and political pressure to keep posted tuition and net tuition (to students) down may limit increases in the future
Why Financial Aid Bills Keep Increasing at Selective Privates (with need based financial aid)

- They lost the discipline around 1980 to keep tuition in line with family incomes
- Prolonged periods of endowment growth coupled with endowment spending rules based on the average value of endowments over a number of periods led to low endowment spending rates as a function of the current endowment level and pressure built to enhance their financial aid policies
- Evidence of relatively small number of Pell Grant recipients attending their institutions
- Pressure from the Senate Finance Committee in 2007-2008
- The Great Recession increased student need
- Increased share of students that are grant recipients and the levels of aid they receive make current policies on many campuses divisive
Why Financial Aid Bills Kept Increasing at Other Privates

• Efforts to meet enrollment targets and to craft the class (merit aid to achieve desirable class characteristics)

• Growing pressure to hold tuition down and the failure of these policies at some schools (either on quality or quantity dimensions) have led to experiments with dramatic reductions in tuition
Research Costs

- The share of research costs funded from institutional funds increased because of federal restrictions on indirect cost recoveries, unrealistic building life assumptions, demand for matching funds, and the growing cost of start up packages.
- My research indicates that undergraduate students bear part of the institutional costs of research in the form of higher tuition levels (at the privates), higher student faculty ratios and a greater share of instruction taught by non tenure track faculty. With pressures to hold down tuition increases it will be difficult to continue to shift these costs on to students in the future.
Student Services and Administration

• For decades expenditures on student services and administration increased at much more rapid rates than expenditures on instruction in both private and public higher education

• My research suggests that student service expenditures influence graduation rates, especially for students from disadvantaged educational or economic backgrounds

• Administrative cost increases arise from the proliferation of government regulations and reporting requirements, the fact that it takes money to make money, and the ever increasing complexity of our institutions

• They also arise from every unit trying to be as good as it can (human resources example)
Reducing Administrative Costs

- At large universities: 1) reduce layers of administration and increase number of direct reports 2) Centralize procurement, do it electronically and limit to “preferred vendors” 3) Reorganize administrative services to achieve efficiencies and reduce costs
- At Cornell, we have taken 5 to 6% out of our base budget. Some of the savings transfer costs to faculty (less support). Other institutions that started similar efforts later are finding more resistance by faculty than we did (never waste a crisis).
- At SUNY (64 campuses) – shared services system wide and pairwise
- For small privates – you don’t have to be large or part of a system to achieve savings via cooperating with your competitors. Examples include the Wisconsin Association of Independent Colleges and Universities Collaboration Project and the Coalition for Cost Savings
- Continual efforts to reduce administrative costs must take place
Enhancing Academic Mission and Reducing Costs Via Collaborations and Technology

- Five Colleges in the Pioneer Valley and the Tri College Consortium in Philadelphia
- Using Synchronous Technology (my Cornell Class)
- A Virtual Classics Department (Sunokisis) and along the same line Cornell, Columbia and Yale teaching less common languages (currently 14) via videoconference (class sizes limited to 12)
- Online Consortium of Independent Colleges and Universities
- Open SUNY
- “Flipped Classrooms” – CMU Open Learning Initiative (Ithaka evaluation) and the National Center for Academic Transformation
- MOOCs (where are they going?)
Making the Higher Education System Behave More like a System

- Pressures to increase enrollments and graduation rates at public institutions at the same time that funding is not increasing has led to the expansion of enrollments at public 2-year institutions and efforts to improve the flow of students between public 2-year and 4-year institutions.
- Perceptive private institutions should view this as an opportunity for them to expand transfer enrollments and to enhance their racial/ethnic and economic diversity (Jack Kent Cooke Foundation Community College Transfer Initiative; Community College of Philadelphia dual admissions with 11 private colleges and universities).
Looking to the Future (1)

- Modifications of financial aid policies (social vs private goals of higher education)
- Continued growing use of non tenure track faculty
- Increased importance of endowment spending, but a growing disparity in endowment levels across institutions is occurring- the rich are getting richer
- Quest for enhanced revenue from annual giving (including funding for research)
- Increased efforts to commercialize research findings (but publics face conflict with land grant mission)
- Improving usage of facilities (more summer and evening programs). Use of differential tuition to enhance enrollments in summer programs. Locational disadvantage of institutions located in rural areas.
Looking to the Future (2)

- Increased efforts to generate revenue from full-tuition paying or lower tuition discount programs (including professional masters programs), using on campus, hybrid, or online instruction. But concern about protecting institutional brand
- Continued expansion out of state enrollments at the publics (political backlash and can all win?)
- Increased efforts to generate new revenue streams (MOOCs?)
Suggested Readings


• R. Ehrenberg, “Is the Golden Age of the Private Research University Over?” *Change* (May/June 2013)


• R. Ehrenberg and L. Zhang, “Do Tenured and Tenure Track Faculty Matter”, *Journal of Human Resources* (Summer 2005)

