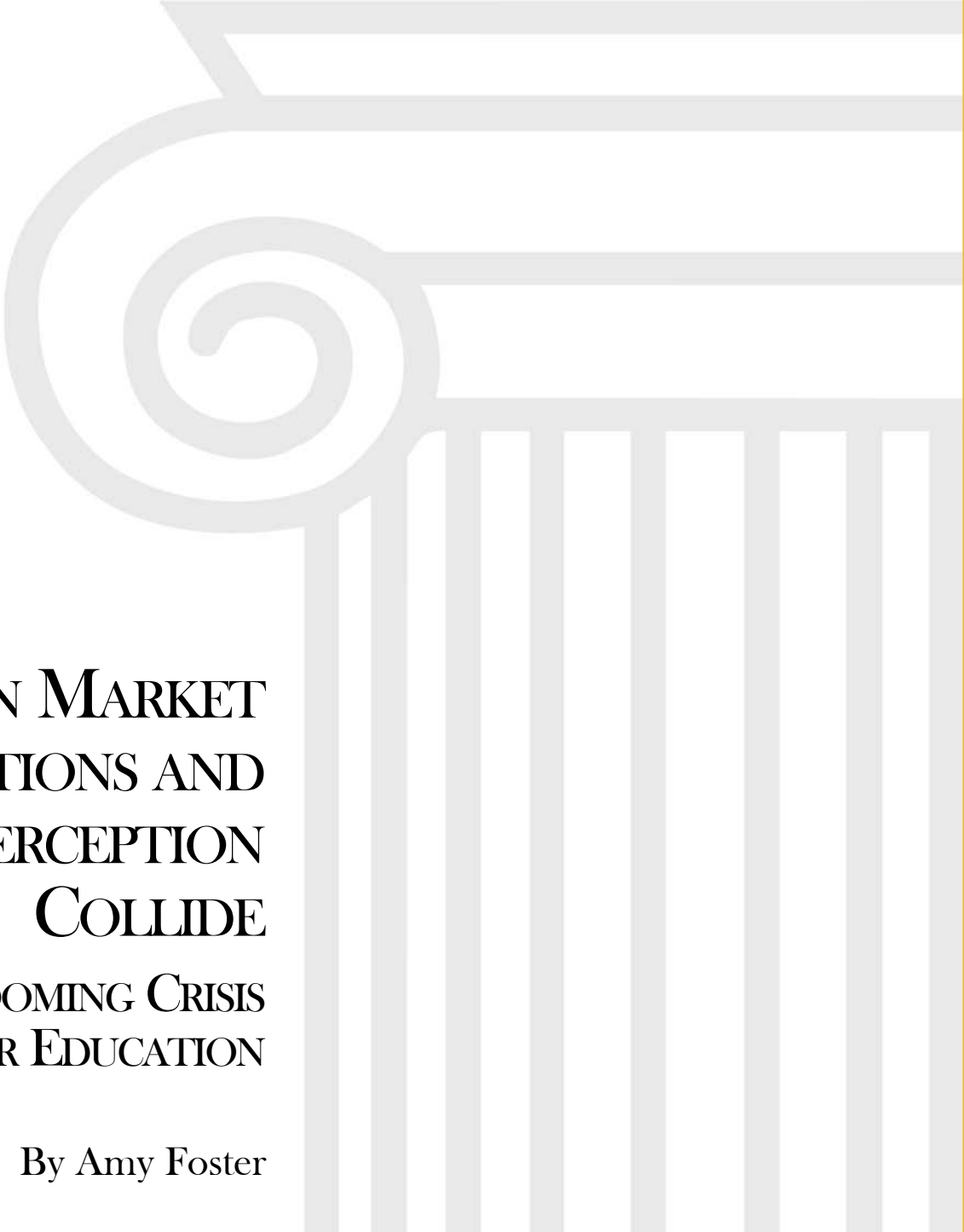


LAWLOR

# PERSPECTIVE

A SERIES OF WHITE PAPERS EXAMINING ISSUES IN HIGHER EDUCATION



WHEN MARKET  
CONDITIONS AND  
PUBLIC PERCEPTION  
COLLIDE

A LOOMING CRISIS  
FOR HIGHER EDUCATION

By Amy Foster

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# INTRODUCTION

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Forget what you thought you knew about supply and demand.

Conventional calculations would say those who supply higher education have no reason to worry. After all, demand is climbing—college enrollments are at all-time highs and are expected to continue increasing until at least 2014.<sup>1</sup> And tuition prices continue to rise without any corresponding dip in demand in sight.

In fact, global forces have Americans mobilizing to pour even *more* students into the higher education system. The National Academy of Sciences’ “Rising Above the Gathering Storm” report warned, “In a world where advanced knowledge is widespread and low-cost labor is readily available, U.S. advantages in the marketplace and in science and technology have begun to erode. A comprehensive and coordinated federal effort is urgently needed to bolster U.S. competitiveness and pre-eminence in these areas.”<sup>2</sup> So Congress is responding with incentives to boost science and math education at all levels.<sup>3</sup>

But....

The demand for higher education has consistently climbed with people’s trust that a college degree will enhance their earning power and quality of life. What if the perception of the value of a college degree changed?

The government has always subsidized higher education, cushioning the impact of tuition increases for students. Yet, the current political environment supports tax reductions at the federal level and projects budget deficits at the state level. What if this scenario resulted in even more drastic reductions of governmental aid for education?

Accrediting agencies, as well as ranking sources like *U.S. News & World Report*, have always focused on inputs, allowing colleges and universities to justify tuition hikes in order to meet ever-increasing expenditures. What if they started holding institutions accountable for maximizing efficiency and containing costs?

For the past several years, colleges and universities have been facing legitimate market pressures that include changes in the demographics in key populations, above-inflationary increases in expenses, continued capital needs, and growing competition from proprietary institutions—all of which

have contributed to the escalation of tuition prices. Now, these market factors are on a collision course with something relatively new on the higher education landscape: tough public scrutiny.

That could mean these “what ifs” may not be so far-fetched. Forget what you thought you knew about demand, because public perception is on the verge of altering it, creating a looming crisis for higher education.

## MARKET PRESSURES

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During the late 1980s and the 1990s, colleges and universities seemed flush with cash as endowments rose, adult education blossomed as an emerging market, and a generally favorable economic climate prevailed. But the bottom fell out during the volatile, belt-tightening environment of the dot.com bust and the post-9/11 years as the entire national economy struggled with hardships. Now college and university administrators are beginning to breathe a little easier, with private schools reporting renewed growth in their financial assets and public schools seeing stronger fiscal positions at the state level. What’s more, continued growth in the traditional-age student population is making it possible for colleges and universities to increase essential revenue streams such as tuition without a corresponding drop in enrollment. Yet market challenges remain, and they affect both private and public universities alike.

Recent publications like *The True Genius of America at Risk: Are We Losing Our Public Universities to De Facto Privatization?* are highlighting the extent to which state-supported schools are relying on tuition, research grants and contracts, philanthropy, and earned revenues to fund their operations—but there is also a growing realization that America’s private universities operate as a public trust. Their endowments and property are tax-exempt, they receive federal grants and contracts, federal financial aid subsidizes their students’ tuition, and some receive a state subsidy for the in-state students they enroll.

In reality, both public and private institutions operate in both the public and private sectors, and the interests of the entire non-profit higher education industry are intertwined. The authors of *The True Genius of America at Risk*

warn that if the emerging political philosophy that is “moving our definitions of the benefit of higher education toward the private side of the ledger and erasing our commitment to the public benefits” continues, “this is not wise, given the substantial internal and international challenges we face.”<sup>4</sup>

## REVENUE SOURCES

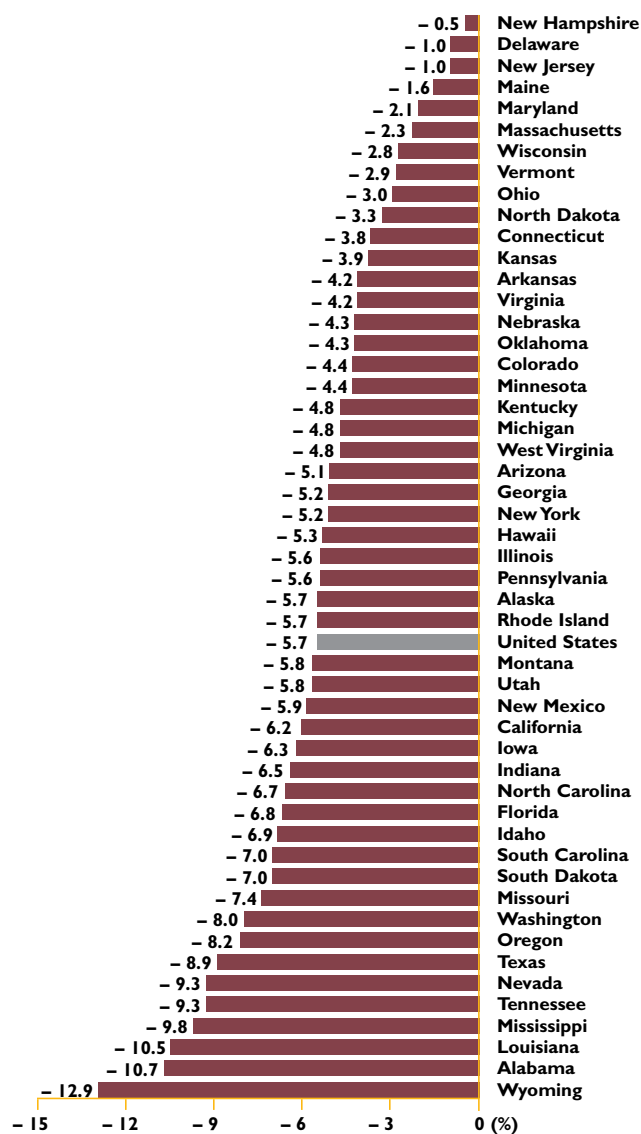
A prominent shared interest of public and private universities is federal funding for Pell Grants, which has come to be considered one of the leading indicators of the government’s support for higher education. Designed to help low-income students pay for college, the grants amount to an average of \$2,500 each for the more than 5 million students who receive them annually. While the total amount of Pell Grant funding has risen (up 33.1 percent since 2000) due to an increase in the number of eligible students,<sup>5</sup> the maximum award amount has been stuck at \$4,050 since 2003.

When the Pell Grant was established in 1972, it covered about 50 percent of a student’s tuition, fees, room and board at public four-year universities. By 2002-03, TG (which administers the Federal Family Education Loan Program) found the average Pell Grant covered just 25 percent of these costs, and only 18 percent of the average total cost when books, supplies, transportation and personal expenses were added in for one year of attendance at a public university.<sup>6</sup> The buying power of the Pell Grant has declined even further as tuition prices have continued to rise while the grant has been capped at the same amount for its fourth consecutive year.

The state funding picture is not much better. Even though enrollment increased 14.3 percent at public schools and inflation grew by 14.2 percent from 2001 to 2005, there were no corresponding increases in public funds<sup>7</sup>—only a 9.9 percent average national increase over the past five years.<sup>8</sup> According to the Center for the Study of Education Policy’s calculations, taxpayer support for higher education has fallen to a low of \$6.59 for every \$1,000 of personal income earned in 2005,<sup>9</sup> compared to over \$8 before 2000. Support per student was only \$5,833 in 2005, even though it was at \$7,121 in 2001 (in 2005 dollars).<sup>10</sup>

Unfortunately, this situation is not expected to improve anytime soon. Experts warn that future funding for higher education from state governments will be constricted by the fact that Baby Boomers begin reaching retirement age in 2011, which means the size of the elderly

## PROJECTED STATE AND LOCAL DEFICITS AFTER 8 YEARS, CALCULATED AS PERCENTAGE OF REVENUE



All 50 U.S. states can expect to face budget deficit risks by 2013, due to a gap between projected revenue growth and projected cost of public services.

Source: The National Center for Public Policy and Higher Education

population is increasing. Given that senior citizens vote at high rates and have strong lobbies, this gerontological drift means the needs of the elderly, such as greater funding for Medicaid and health care, will have priority in state budgets—to the detriment of colleges and universities, since the Brookings Institution estimates that each new dollar in state health care spending crowds out higher education spending by six to seven cents.<sup>11</sup>

In fact, all 50 states can expect to face budget deficit risks by 2013, due to a gap between projected revenue growth and the projected cost of public services. When states face a budget crunch, higher education funding is one of the first items cut because health care costs, entitlements like Medicaid, post-9/11 law enforcement, and K-12 education all tend to take priority. So colleges and universities in particular will be affected by projections that indicate state revenues will be 5.7 percent lower than the level required to maintain current state services.<sup>12</sup>

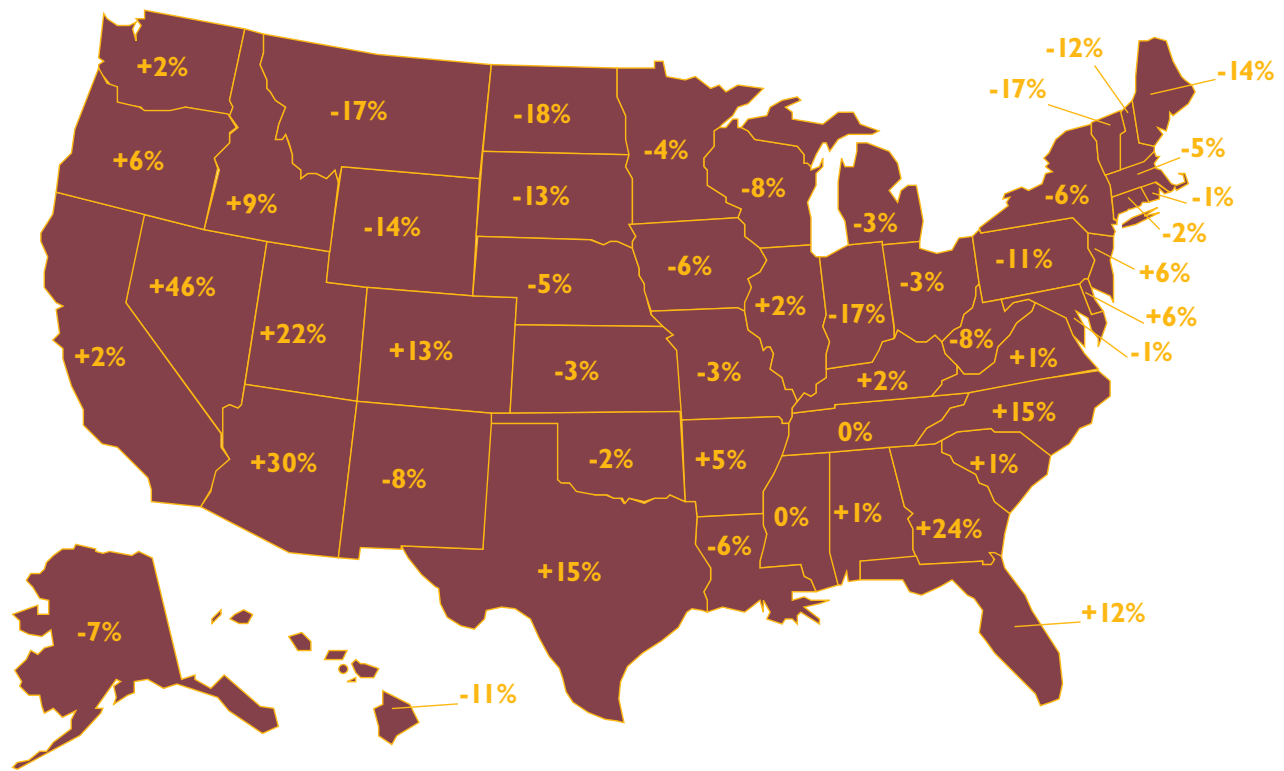
## DEMOGRAPHIC SHIFTS

While budget pressures will only intensify at the state level, demographic changes in the population of students will also have an impact on colleges and universities. The number of American high school graduates is expected to continue increasing for most of the next decade, which bodes well for colleges and universities since approximately two-thirds of high school graduates attend college (up from 50 percent in 1980).<sup>13</sup> However, the growth in high school graduates will not be evenly distributed among the states.

The Western Interstate Commission for Higher Education projects notable declines starting in 2012 in the traditional-age student populations of the Midwest and the Northeast, while the West and the Southeast will experience sharp growth. Projections indicate that 41 percent of the states will have fewer high school graduates in 2017-18 than in 2001-02.<sup>14</sup> Because 80 percent of students enroll in their home states (most of them at a school within 100 miles of their homes), regional demographic trends are significant.<sup>15</sup>

The geographic shifts on the horizon mean that colleges will need to adjust their enrollment strategies. Competition for out-of-state students will likely intensify for schools in those states facing declining populations, and these institutions will also be under increased pressure to attract non-traditional-age students. Moreover, colleges and universities will also need to cater their services to a projected higher proportion of students from ethnic minorities, students from families with low incomes and students who are the first in their families to attend college.<sup>16</sup>

## PROJECTED CHANGE IN THE NUMBER OF HIGH SCHOOL GRADUATES, 2004-2015



Thirty states will experience a decline or no growth in the number of high school graduates. The most significant growth will occur in the South and the West.

Source: Western Interstate Commission for Higher Education

Both public and private colleges and universities in all states will find themselves competing with for-profit institutions for all of these students. Proprietary schools that rely on tuition to both cover their operating costs and turn a profit enroll about 1.6 million of the 20 million students at all accredited colleges in the nation. Their enrollment is growing at about 8 percent per year, which is four times faster than the sector as a whole.<sup>17</sup> Among undergraduates enrolled in for-profit institutions in 2003-04, just under 90 percent received some type of financial aid, and for more than half of them that aid included a federal grant.<sup>18</sup>

Competition with for-profits will intensify even more since Congress recently passed legislation that no longer requires colleges to provide at least half their course offerings on a physical campus to qualify for federal aid. Proprietary schools have long held the edge in online course offerings, and online colleges are the fastest-growing segment of higher education.

The National Center for Education Statistics says the growth rate for online education is 10 times that of traditional postsecondary options. An Alfred P. Sloan Foundation study found that 2.35 million college students took at least one online class in 2004, up 47 percent since 2002, and the demand for online delivery is expected only to rise.<sup>19</sup>

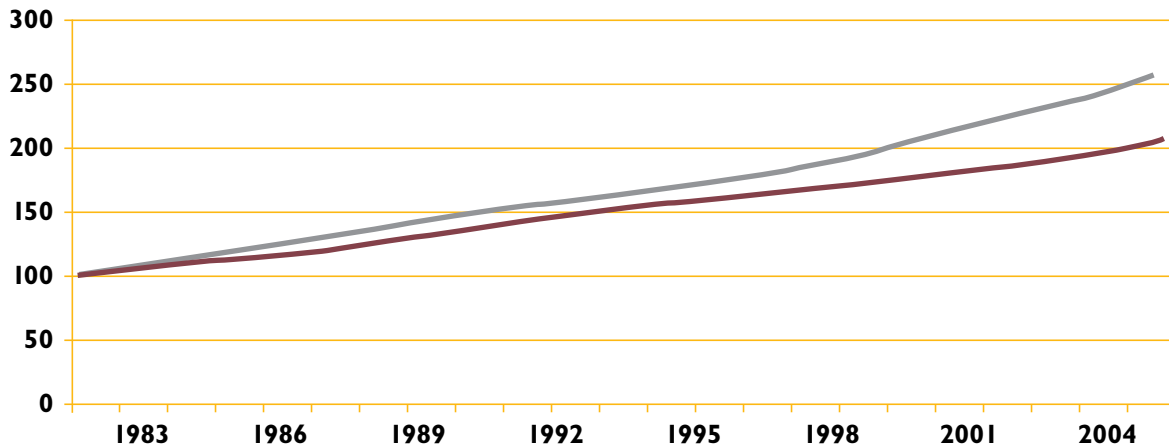
## INTRACTABLE EXPENSES

As colleges and universities adjust to the demands of a shifting demographic, Moody's "2006 Higher Education Outlook" expects higher education cost inflation to continue outpacing general inflation, just as it did in 2004 when the Higher Education Price Index was 4.6 percent compared to a 2.2 percent Consumer Price Index. Although they are often faulted for operating inefficiently, the nature of higher education's institutional operations makes them susceptible to more than the above-inflationary expense increases (like employee benefits, utilities and insurance) that also challenge other industries. For many reasons, colleges and universities are resistant to normal means of increasing productivity, as an issue paper prepared for the U.S. Secretary of Education's Commission on the Future of Higher Education revealed.<sup>20</sup>

Personnel expenses on average account for 75 percent of the costs to run a college, making it a labor-intensive enterprise. Tenure practices not only make it difficult to remove an ineffective tenured faculty member but also deter schools from meeting shifts in student demand for academic programs, since professors typically cannot cross disciplines. Additionally, faculty are often granted release time to perform functions other than teaching, and management decisions are often made by academic department chairs who are untrained in management and who rotate in and out of the position frequently.

What's more, efficiency is not necessarily the primary value in a college's operations. A premium on process-oriented consensus building results in a slow-moving pace of change. New programs are added without corresponding cuts in existing programs, and resources are rarely reallocated among programs from lower to higher priorities. When budget cuts are necessary, they are often made across the board to negotiate internal politics.

## HIGHER EDUCATION PRICE INDEX VS. CONSUMER PRICE INDEX



Higher education inflation continues to outpace general inflation. CPI goods and services worth \$100 in 1983 inflated to \$189.60 in 2004, whereas the cost of higher education rose from \$100 to \$231.50 during the same period.

Source: Commonfund Institute

■ HEPI ■ CPI

Another inefficiency is the time it actually takes to graduate from what is intended to be a four-year degree program. The independent think tank Education Sector found that only 37 percent of college students graduate in four years, and less than two-thirds of them finish in six years.<sup>21</sup> Some of the problem is due to course sequencing as the scheduling of courses is often determined based on faculty preferences for particular offerings and time slots rather than on student demand. Even worse, departments will sometimes inflate the number of hours required for a major in order to justify the number of faculty positions in that department.<sup>22</sup>

But for many students, the need to work during college (75 percent of full-time students have jobs, and 46 percent of them work more than 25 hours per week<sup>23</sup>) is a primary factor in the time it takes them to graduate. Because working often necessitates taking fewer classes each semester, a typical degree plan is easily stretched beyond four years. In addition, for those students who are not academically prepared for college, the necessary remediation is expensive in time and cost.

Providing higher education at a residential campus is a facilities-intensive endeavor, which drives continued capital needs. Thanks to the G.I. Bill, the post-World War II period was one of dramatic expansion on college campuses, and it continued as Baby Boomers attended college until the 1970s. The facilities constructed during that period are now aging (if not obsolete), requiring either extensive renovation or new construction.<sup>24</sup>

Plus, consumer preferences are changing as students have come to expect a higher quality in amenities and services—what once were considered “luxuries” have now become “essentials.” For example, one national trend is to make residence halls look and feel more homelike, according to the Association of College and University Housing Officers.<sup>25</sup> To many students, “homelike” translates into more square feet of living space. New students arrive on campus with lots of stuff—a couch, a 52" television, a video game system, a computer, a refrigerator, etc.—all of which requires lots of space. Additionally, many of today’s students come from homes where they’ve never had to share a room with a sibling. Having never learned the give-and-take lessons that come from living with someone in close quarters, they also have high expectations for personal space.

To attract and please these students—not only in facilities like residence halls and student centers, but also in fitness centers where state-of-the-art equipment has become the standard and throughout the campus where ubiquitous online connectivity is expected—colleges and universities are engaging in an arms race, of sorts, that requires new capital outlays or the acquisition of additional debt, either of which effectively diverts resources away from instruction and financial aid.<sup>26</sup> But, despite these high costs, a campus’ large physical infrastructure (particularly theatres and stadiums) are rarely utilized to capacity, which incurs operating inefficiencies. Similarly, the facilities where services and resources are housed (computer centers, libraries, labs, etc.) are often staffed even during times when they are barely utilized by students—whether early in the morning or between academic semesters.<sup>27</sup>

Nevertheless, colleges and universities are expected to deliver the full package of a quality educational experience, which requires all of the above expenditures. Such investments are not only expected of colleges and universities but are rewarded: In national rankings, a school’s reputation is enhanced by both its ability (endowment wealth) and willingness to spend.<sup>28</sup> However, this incentivized spending pattern creates pressure to raise tuition prices, since private colleges derive 72 percent of their revenue from tuition, and public colleges around 33 percent.<sup>29</sup> Yet, rising tuition prices are the most prominent complaint about higher education from the public.

# PUBLIC PRESSURES

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Consider this indication of just how indignant people are on the subject of college affordability: When university leaders talk about pricing, they now have hardly more credibility than tobacco industry executives denying a link between cancer and smoking. Wick Sloan, the COO of Generon Consulting, made that analogy upon observing the proceedings of the U.S. Secretary of Education's Commission on the Future of Higher Education—when a college president testifies that costs are completely beyond his or her school's control, it elicits a high degree of cynicism from the people.<sup>30</sup>

This bad rap is reinforced by the media, as mainstream journalists sound the alarm on college affordability, as in this passage by *U.S. News & World Report's* Editor-In-Chief Mortimer B. Zuckerman:

“The gap between the cost and ability to pay grows every year. Tuition costs have been rising at double-digit rates for the past three years, for a cumulative increase of 33 percent—triple the rate of the Consumer Price Index. Over the past two decades, college tuition has increased by almost 300 percent, 15 times as much as clothing, almost four times as much as food, and 50 percent more than medical care. Forty years ago, it took two months of typical family income to pay for a year's tuition; today, it takes roughly six months.”<sup>31</sup>

The college tuition price index has indeed jumped 191.3 percent from 1990 to 2005, according to the American Institute for Economic Research.<sup>32</sup> Taking the public's pulse on this fact, Standard & Poor's warned in its “U.S. Higher Education 2006 Outlook” that affordability is a major concern as tuition increases continue at well above the level of inflation and college costs rise faster than real wages. One consequence is public outrage over the growing amount of money students must borrow to graduate.

## STAGGERING DEBT LOAD

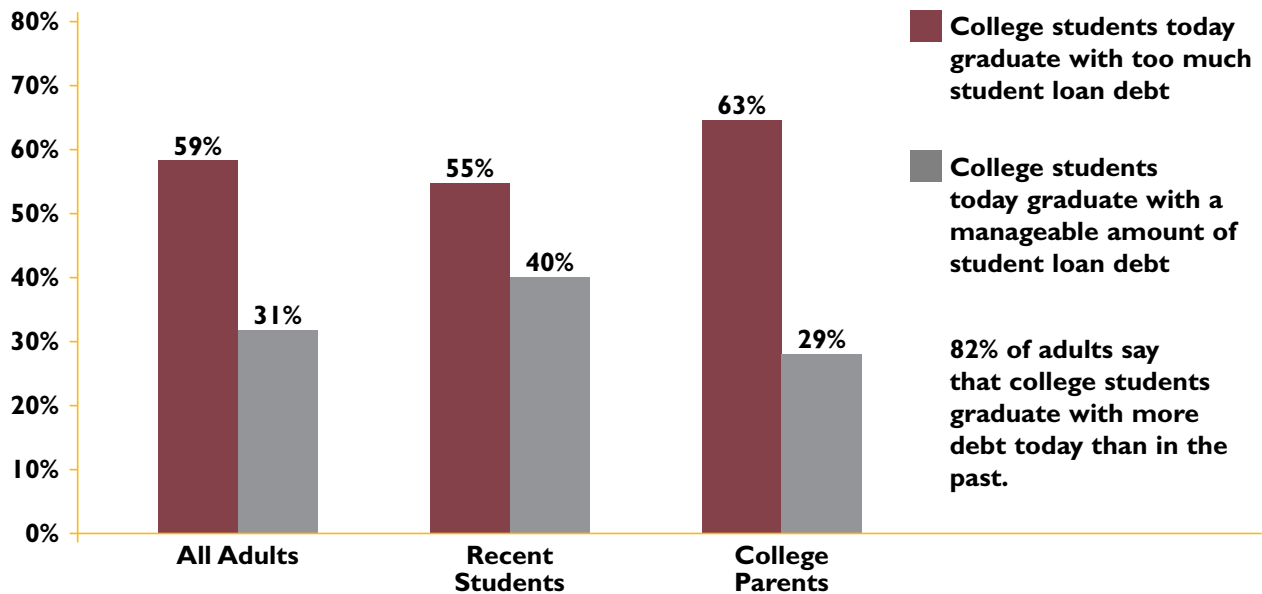
Joshua Chaisson, a first-generation college student attending the University of Southern Maine (Portland, Maine), told the Commission on the Future of Higher Education he has paid for his entire education by taking out loans. And he didn't sound at all happy about it: “Students are entering the economy as a slave—a slave to Sallie Mae.”<sup>33</sup>

It's a widely shared sentiment that today's generation of new graduates is the most debt-burdened in history. Two-thirds of all four-year college graduates

in 2004 left school with student debt, compared with less than one-half in 1993.<sup>34</sup> Part of the problem is that federal financial aid has shifted from primarily grants (52 percent in 1981) to primarily loans (58 percent in 2000).<sup>35</sup> The amount of loan debt carried by the typical graduating senior has *more than doubled* over the past decade, from \$9,250 to \$19,200—that represents a 58 percent increase after adjusting for inflation.<sup>36</sup>

But what is perhaps even more significant is the extent to which the general public is aware of and alarmed by these student debt trends. An April 2006 survey conducted for the Project on Student Debt, which is managed by The Institute for College Access and Success, found that 82 percent of adults feel today’s students graduate with more loan debt than in the past—and 59 percent say these graduates have *too much* student loan debt. More Americans worry that the cost of a college education is being priced beyond the average family’s income (37 percent) than worry about the cost of a secure retirement (22 percent) or the cost of a house (20 percent).

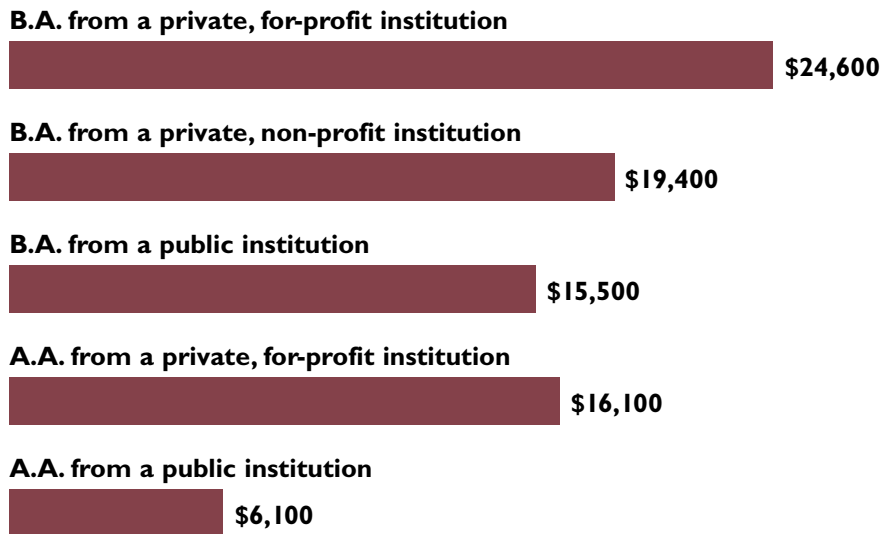
### AMERICANS BELIEVE STUDENTS GRADUATE WITH TOO MUCH DEBT



An April 2006 survey showed the extent to which the general public is alarmed by student debt trends.

Source: The Project on Student Debt

## MEDIAN DEBT PER STUDENT 2003-04



For the 2003-04 academic year, the typical student who graduated from a private four-year college accumulated about \$19,400 in federal student loan debt.

Source: College Board

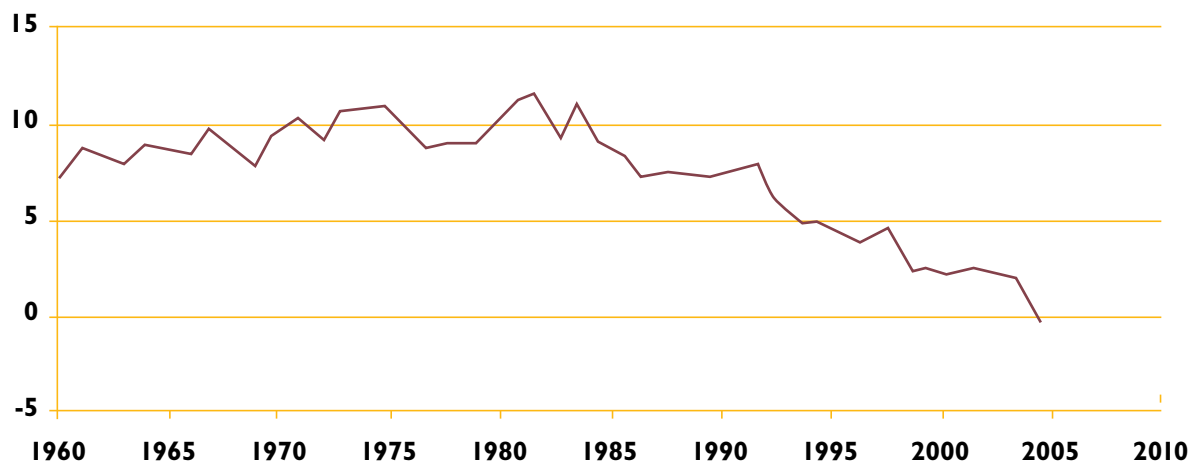
In fact, 64 percent of the survey respondents think the federal government is doing too little to make higher education available and affordable. These concerns cut across partisan and socioeconomic lines as politicians on both sides of the aisle are getting an earful about rising tuition costs and loan debt levels from concerned students and parents who insist that something needs to be done before a college education becomes inaccessible for average and low-income families. To remedy the situation, 78 percent of the survey respondents would favor creating a tax credit for loan interest, and 61 percent would favor capping student loan payments at 10 percent of income.<sup>37</sup>

The student loan situation is so bad that reluctance to take on tens of thousands of dollars in debt is deterring some students from attending college at all. Anya Kamenetz, author of *Generation Debt: Why Now is a Terrible Time to Be Young*, interviewed 26-year-old Lagusta Yearwood, a University of Rochester (Rochester, New York) graduate who runs her own gourmet-vegetarian meal delivery service and struggles to repay \$45,000 in debt from student loans and living on credit cards during college. “I was an English and women’s studies major, and now I’m a cook,” Yearwood said. “I’m happy I went to college, but if I’d known I would come out with so much debt and wouldn’t be making money from my degree, I wouldn’t

have gone.”<sup>38</sup> As it is, cost factors prevent 48 percent of college-qualified high school graduates from attending a four-year institution and 22 percent from attending any college at all, according to the Advisory Committee on Student Financial Assistance.<sup>39</sup>

The skyrocketing debt affects students at both private and public universities. The Project on Student Debt found that in seven states (Arkansas, Delaware, Iowa, Kentucky, North Dakota, South Carolina and Tennessee), the average debt of graduates from public colleges is actually *higher* than that of graduates from private colleges. The study showed that even when tuition is relatively low at public colleges, students from low-income families often take out extra loan money to pay not only for books but also for food, rent and other living expenses.<sup>40</sup> Nationally, College Board figures indicate graduates of four-year public universities now borrow an average of \$15,500; graduates of private universities, \$19,400; and graduates of for-profit universities, \$24,600.<sup>41</sup>

## PERSONAL SAVINGS AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME



The personal savings rate in the United States is now negative.  
The ability to pay for a college education with personal savings is diminishing.

Source: Bureau of Economic Analysis

The negative impact of this high level of debt is being exacerbated by two national trends. First, Americans are saving less. Aggregate personal savings as a share of personal income is at its lowest level in 50 years. The personal savings rate has fallen from an average of 10.4 percent of disposable income in the early 1980s<sup>42</sup> to below zero in 2006.<sup>43</sup> (The savings rate is negative when purchases are financed by borrowing, by selling assets, or by using savings from previous periods.) An overall decline of accumulated savings in the households of students entering college is a factor driving these families to borrow.

Second, Americans' earnings have been comparatively stagnant, so wage increases are far from keeping pace with the cost of higher education. The National Bureau of Economic Research found that inflation-adjusted average earnings of bachelor's degree graduates have stayed about the same since the 1970s, even as tuition has skyrocketed.<sup>44</sup> Tight job markets and the growth of lower-paying service-sector jobs mean many borrowers do not have the necessary cash flow to make loan payments after they graduate.

As a result, approximately 40 percent of students now graduate with "unmanageable" debt loads, according to the Center for Economic Policy and Research.<sup>45</sup> Recent graduates with low or moderate incomes must spend the vast majority of their salaries on necessities such as rent, health care and food, making repayment of their student loans a struggle—a phenomenon that is creating a new class of working poor.

Tamara Draut, the author of *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead*, examined why there is such a disparity between young adults' standard of living today versus the standard of living their parents faced as they were beginning their careers. Draut points the finger of blame directly at college expenses for triggering a domino effect. Far from being "slackers" and "wild spenders," as they are often stereotyped, many recent graduates acquired their credit card debt paying for things like traveling home for holidays during college and acquiring a professional wardrobe (although Nellie Mae has found that 25 percent of students also put some of their actual tuition payments on credit cards, too). Draut argues that the student loan debt induced by high tuition costs is so crippling because paychecks are not rising with the cost of living, rent and home prices are prohibitively high, and starting a family is costly.<sup>46</sup>

The College Board estimates it typically takes until age 33 for graduates who enrolled at age 18 to earn enough to compensate for the tuition they paid and the earnings they delayed by attending a four-year public university.<sup>47</sup> Yet a Project on Student Debt study found that for individual students, the calculation is far more variable and unpredictable when it comes to determining whether borrowing for tuition can be made up for with the higher earnings made possible by having a college degree.<sup>48</sup> Anecdotal evidence suggests that mounting student loan debt levels are forcing graduates to put off saving for retirement, getting married and starting families, buying homes, and starting businesses.

The *Seattle Post-Intelligencer* held up John Donald and Teresa Bujacich as a case in point. They are both health care professionals, aged 40 and 39, respectively, and they have a combined annual income of nearly \$85,000. Yet, they live with their baby in a one-bedroom condominium and they have no retirement fund, no savings for an emergency, and no cell phones or cable TV because they fork over \$1,700 per month to pay off their nearly \$350,000 in student loans.<sup>49</sup>

The repayment predicament is especially alarming for those graduates who take low-paying jobs in social services like teaching, social work, legal aid and non-profit work. The State PIRGs' Higher Education Project found that 23 percent of public and 38 percent of private four-year college students graduate with too much debt to manageably repay their loans as a starting teacher; 37 percent of public (and 55 percent of private) graduates have too much debt to manage as a starting social worker.<sup>50</sup>

"I'm scared," confessed Anne Groundwater, a University of Oregon (Eugene, Oregon) student, at an open session of the Commission on the Future of Higher Education. Horrified that today's students graduate with an average of \$18,000 worth of debt, she observed, "My peers and I shouldn't have to choose careers based on the debt we're going to accumulate."<sup>51</sup> As more graduates factor loan repayment into their post-collegiate plans, the fear is that more will shy away from critical but low-paying public service careers, at the expense of both society and the entire economy.

Yet, instead of remedying the situation of graduates who are burdened with too much student loan debt, Congress passed a spending bill in February 2006 that now allows students and their parents to borrow *more* federal dollars at *higher* interest rates.

On July 1, 2006, the maximum federal Stafford loan amount freshman or sophomore students can borrow rose from \$3,500 to \$4,500, and the loan's interest rate increased from 5.3 percent to 6.8 percent. Likewise, the interest rate on PLUS loans taken out by parents went up from 6.1 percent to 8.5 percent. The impact on families will be wide reaching, as the U.S. Department of Education reports that nearly 10 million students take out Stafford loans annually and around 800,000 parents take out PLUS loans.<sup>52</sup>

### DISTRIBUTION OF INSTITUTIONAL AID

The “sticker shock” of rising tuition prices and corresponding debt load has even greater implications for students from low-income families and first-generation college students. The worry is that the students most in need of college to break the cycle of poverty are turning away from it. Yet only a few private schools have been aggressively promoting the availability of need-based institutional aid to attract these students; instead, private colleges and universities tend to favor awarding merit-based aid.

Why? Kevin Carey, an Education Sector analyst, sees “a ruthless bottom-line logic driving this trend: Poor students bring in far less net revenue than rich ones, and do nothing to burnish an institution’s status in the higher education marketplace.”<sup>53</sup>

Low-income and first-generation students already enroll in smaller numbers, regardless of academic achievement. The National Center for Education Statistics has found that first-generation students are at a distinct disadvantage in gaining access to postsecondary education,<sup>54</sup> and more than 20 percent of low-income, college-qualified high school graduates do not enroll in college, according to the Advisory Committee on Student Financial Assistance.<sup>55</sup> As an example of the disparity based on income level, the College Board has reported that in the cohort of students with top math scores, 74 percent of those in the top quintile of family income go on to earn a bachelor’s degree while only 29 percent of those in the bottom quintile of family income do.<sup>56</sup>

Although low-income and first-generation students would seem to be a growth market for colleges and universities, these are not the students for whom institutions compete—despite a study by the Williams Project on the Economics of Higher Education showing that elite private colleges

could increase by 30 percent their number of low-income students *without* lowering the “high ability” standards of their student body.<sup>57</sup>

Even though need-based grants are the most powerful financial aid tool for increasing the enrollment of low-income students, private colleges and universities tend to favor awarding merit-based institutional aid. Education Sector found that the amount of merit aid increased five-fold from 1994 to 2004, four times the rate of increase of need-based aid.<sup>58</sup>

Why all this merit-based aid instead of need-based aid? Obviously, merit-based aid is more efficient in attracting high-achieving students—the type of student body that can make a college appear more elite in national rankings like *U.S. News & World Report’s America’s Best Colleges*.

But there’s another reason schools prefer merit-based aid: it just so happens to disproportionately flow to students from the highest income levels. During the same period of rise in merit-based aid the average student aid package for families in the top income quartile more than tripled from 1990 to 2004, while the packages for families in the bottom income quartile increased by only 55 percent. Meanwhile, unmet financial aid grew by 80 percent for the bottom quartile families while it stayed effectively zero for the top quartile.<sup>59</sup>

In essence, colleges are engaged in a selectivity dance to attract the “best and brightest” students (as determined by conventional measures like standardized test scores), who in turn are seeking the most elite schools. Left to judge the college admission process from sensationalized media reports, the public gains the perception that all U.S. colleges are highly selective institutions, when in actuality the national average shows that four-year colleges accept 71 percent of the students who apply, according to the National Association for College Admission Counseling.<sup>60</sup>

Not only are few schools truly highly selective, but there are also not enough students who fit the affluent, high-achiever profile to go around among the aspirant schools that seek them. As former U.S. Secretary of Labor Robert Reich put it, “Too many colleges and universities are using scarce scholarship resources to lure student stars, who often come from advantaged families and good secondary schools—and who already have every chance of succeeding in life. In fact, an increasing number of institutions are engaging in quiet bidding wars for such students.”<sup>61</sup>

As a result, families who can afford tuition often receive modest discounts, instead of low-income families receiving deep discounts. While this situation tends to maximize the net tuition revenue and prestige of the college, it also outrages people who feel that education is central to upward mobility. Mainstream publications like *Newsweek* are sounding the alarm, vilifying colleges in articles that include analyses such as, “We’re seeing more ‘sorting’ by income and class in American education. The average private college is trolling for students who can pay.”<sup>62</sup>

Data regarding the Pell Grant provide yet another indication of the income disparity at elite schools. A *Chronicle of Higher Education* analysis found that during the 2004-05 academic year, an average of only 14 percent of undergraduates at the richest private colleges and 20 percent at the best-endowed public universities were Pell Grant recipients, compared to a nearly 33 percent average at all four-year public and private colleges.<sup>63</sup>

To examine the extent to which both public and private universities enroll students from various economic backgrounds, The Institute for College Access and Success recently launched an Economic Diversity of Colleges web site.<sup>64</sup> Observing an increased stratification among schools (with some enrolling large numbers of low-income students and some enrolling primarily students from privileged backgrounds), the institute warns that researchers, policy makers, and the public should monitor this trend.

Several elite private and public universities are indeed taking heed. Princeton, North Carolina-Chapel Hill, Stanford, Yale, Pennsylvania, Minnesota and Arizona State have all taken steps to boost their enrollments of lower-income students by waiving tuition and fees (and in some cases, room and board as well) for families under a certain income level. Similarly, Massachusetts Institute of Technology is matching the amount of federal Pell Grants awarded to families, and Harvard’s recent efforts to recruit more lower-income students are already meeting with success. While equivalent financial aid has been available at these institutions for years, the complexity of applying for that aid (and the uncertainty of receiving it) discouraged too many students from pursuing it. Perhaps these examples will lead needy students to reconsider their higher education options.

## ACCOUNTABILITY AND TRANSPARENCY

At this year's meeting of the American Council on Education, Brian Foster, provost of the University of Missouri at Columbia, observed that when college leaders talk to the public about issues facing higher education, they are so ineffective "they might as well be talking backwards, in Russian."<sup>65</sup> The lack of communication is apparent even when it comes to conveying the purpose of higher education.

One of the problems is that people tend to think only of the private benefit of college, in terms of acquiring the skills and credentials students will need for a career that provides greater lifetime earnings. Many college administrators and higher education experts have lamented an erosion of the realization that postsecondary education is also a public good, and not just for personal gain.

John Lombardi, chancellor of the University of Massachusetts at Amherst and a columnist for *Inside Higher Education*, has pointed out that when higher education is viewed as only a private transaction, it encourages the negotiation of a private price between the school and the student. This, in turn, makes society view higher education as a retail consumer product. Consequently, the public has "retreat[ed] from supporting higher education because it is good for the nation," preferring instead to see higher education as "a privately acquired ticket to prosperity."<sup>66</sup>

Among other higher education organizations, the American Council of Education wants to adjust that perception. The public intuitively understands the personal benefits of a college degree, but does not always recognize the social benefits—technological innovation, better health care, advancement of the arts, etc. To increase the public's understanding of the role higher education plays for society, the American Council of Education launched an advertising campaign in March 2006 called "Solutions for Our Future."

In order to illustrate their message that "America's colleges and universities teach the people who solve the problems and change the world," the campaign's television commercials humorously depict what life would be

like without our institutions of higher education—we might still be relying on carrier pigeons to make overnight deliveries, for instance. By focusing on the public good of higher education, the campaign also hopes to shift people away from the perception that college is only for the privileged few.<sup>67</sup>

Reclaiming this sense of higher education as a public trust also has a downside from the perspective of colleges and universities, however: it justifies lawmakers' interest in investigating issues of access, outcomes and cost, even though colleges and universities are typically reluctant to undergo such scrutiny. In response to public distress over rising tuition costs and debt loads, as well as unease over America's global competitiveness, U.S. Secretary of Education Margaret Spellings created a national Commission on the Future of Higher Education in September 2005 to explore access, prices and preparation for global competition.

The Commission's investigations into these three areas revealed concerns about the extent to which colleges and government are making higher education available and affordable for all Americans. Several of the Commission's issue papers concentrated on bolstering access and success for low-income, minority and adult students, calling for a national commitment to need-based financial aid. But an equally strong focus about whether students are getting what they pay for emerged as well. One of the issue papers stated, "There is a critical need for improved public information systems to measure and compare institutional performance and student learning in consumer-friendly formats."<sup>68</sup> The Commission members identified a need for greater transparency on colleges' part with regard to both pricing and educational outcomes.

Some higher education administrators fear that in the absence of some form of voluntary assessment that allows for direct comparisons between colleges and offers proof to the public that colleges are successfully educating students, government legislators will impose standardized testing. For this reason, many are advocating what has been referred to as a "culture of evidence," in the hopes that pursuing a path of accountability through transparency can ward off any national mandates.<sup>69</sup> The Commission's explorations into how the federal systems of financial aid and accreditation might be radically overhauled have also sent reverberations throughout the higher education sector.

# A LOOMING CRISIS

The United States has a higher education system that has long been the envy of the world, but due to a number of emerging trends, the nation can no longer assume that its colleges and universities are functioning as launching pads for America's ability to confront the challenges of globalization.

- Colleges and universities, both public and private, are having trouble keeping their costs stable, as government subsidies fail to keep up with the rate of inflation, as competition from for-profit institutions increases, and as they deal with above-inflationary expenses and inelastic means of improving productivity.
- Financial aid, in its truest sense, is disappearing: the federal Pell Grant's buying power is substantially decreasing, the portion of state aid flowing to low-income students is diminishing, and institutions are shifting from need-based aid toward academically based merit aid to boost academic prestige.
- Skyrocketing student loan debt is creating a new class of working poor, as graduates face stagnant levels of earnings and higher loan interest rates.
- A lack of transparency with regard to both pricing and educational outcomes is eroding the public's trust in colleges and universities.

The convergence of these trends means the higher education industry actually may be decreasing educational opportunity for key populations by alienating the very students that demographers say will comprise future growth markets.

Government officials have begun to pay attention to the globally disruptive forces that threaten America's position as the leader in higher education—as well as to public outcry about cost and value. And, as evidenced in the recommendations put forth by the Commission on the Future of Higher Education, unless the higher education sector itself begins to forthrightly address these problems, the government will.

Even without government intervention, significant changes are necessary for higher education to avoid the collision course it is on: As market conditions and public perceptions put opposing pressures on colleges and universities, the higher education industry must find solutions that will return the public's trust and confidence in its role as the engine of both social mobility and a thriving economy.

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Amy Foster is a veteran higher education researcher, writer, editor and instructor. She serves as The Lawlor Group's director of content development. In her prior position as associate director of marketing and communications at Buena Vista University (Storm Lake, Iowa), her duties ranged from editing the university magazine to managing media relations and internal communications to teaching writing courses. She studied English and business as a Phi Beta Kappa undergraduate at Texas Christian University (Fort Worth), and obtained master's degrees in English from Clemson University (Clemson, South Carolina) and in library and information science from the University of South Carolina (Columbia).

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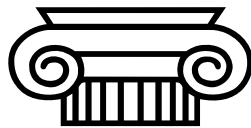
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