Let's Not Lose Our Advantage in Higher Education

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"College is so expensive these days!" This statement or something like it has become a common refrain over the last few decades. Public and nonprofit private four-year institutions have seen tuition and fees rise by 13 to 18 percent in constant dollars over the decade starting in 2010 (NCES 2022). Of course, many institutions offer some form of financial aid, but even when we consider this price discounting, the average cost of attendance has increased significantly. These large increases in cost mean that financing a four-year degree is a substantial investment for many students.

Policy discussions have been acknowledging these increasing costs for years, with some politicians voicing a concern that college costs have risen so much that college is no longer affordable for many. In recent presidential elections, most candidates for president had a policy statement addressing college costs, with many proposing some type of "free college" plan. Although these plans got a lot of attention, there has been little movement on this issue at the federal level. At the state level, we have seen multiple "free-college" plans emerge over the past decade or more with varying levels of success.[1] More recently, national attention has turned to student loan debt forgiveness.

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1. See, for example, the 2022 piece on New York State's Excelsior Scholarship by Judith Scott-Clayton, C. J. Libassi, and Daniel Sparks.

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This policy proposal may assist students who have already begun amassing student debt but will do little to reduce costs going forward. With the multitude of policy proposals aimed at reducing college costs either at the start with "free college" or at the end with debt forgiveness, it is clear that this topic must be at the forefront of any debate about the future of the higher education market.

Most importantly, these debates often fail to fully discuss the most essential question: why are costs rising? One answer to this question is that higher education has traditionally been dependent on high-skilled labor, and labor costs continue to rise. But importantly, we have also seen a trend in recent decades of escalating demand for quality. Students and their parents, the customers in the market, are demanding a higher quality education and more expensive experiences from their colleges and universities. Schools are caught in a spiral of increasing their offerings to students to compete with their peers for the best students (Jacob, McCall, and Stange 2018). Some of these changes enhance educational quality; others enhance the consumption value of the good. All of them increase the cost of educating each student, which ultimately leads to an increase in sticker prices.

As we look to the future of higher education, a driving force of change in the higher education market will be how institutions choose to balance cost-cutting measures with maintaining quality. How institutions respond to this challenge will likely depend on two things: public or private control and selectivity. I discuss one sector at a time, because the challenges and opportunities that lie ahead may differ for these types of institutions.

Public Colleges and Universities – Challenges and Opportunities

A primary challenge that public universities face is declining public support in many states, both monetarily and for their academic missions. Typically, public funding for higher education falls during recessions, which we saw occur in both the recession of the early 2000s and during the Great Recession. Despite average state funding per full-time equivalent student rebounding somewhat since the Great Recession, real per-pupil funding levels are still 10.2 percent below 2001 levels (SHEF 2022). If cost per student remains the same or increases to keep up with peer private institutions, public universities must increase tuition and fees. Only the most selective public universities have substantial endowments and generous alumni to rely on to bridge the gap, so we should expect that in the absence of cost-cutting measures or further public investments, we will see large increases in sticker prices at our less selective institutions, as well as moderate increases at the more selective public institutions.

However, as these institutions are meant to be an access-point to a four-year degree, it is unlikely that these large increases in sticker prices are sustainable. In addition to public pressure to provide access to lower-income students, without an increase in quality we will see demand for these institutions fall. It is far more likely that public institutions that do not have large endowments to fall back on will institute stringent cost-cutting measures. Amenities not connected to educational quality will be first on the chopping block. On the educational side this may involve entirely cutting departments with low enrollments (or assumed low returns on investment). In fact, we have already started to see this occur (Moody 2022). Cutting programs may reduce monetary costs but will also have severe consequences for students' educational opportunities and outcomes if done across the board in a state system. Students who live in states that provide fewer resources to the higher education system will not have access to the same choices of major and career paths as their peers in better funded states. Ultimately, this constraint on education paths could negatively impact our workforce. In an effort to decrease labor costs we will see a continued, and likely accelerated, turn away from more expensive tenure-track faculty toward career instructional professionals without tenure. This approach may involve longer-term contracts, with few or no research expectations or, at the other extreme, a series of adjuncts with very little attachment to the college or university. Class sizes will also likely increase, reducing interaction between students and faculty. Many institutions also learned during the early years of the pandemic that they can offer courses online without losing demand, and sometimes this is a less costly way of delivering content.

Although these changes will reduce costs, they will also affect the quality of the education these institutions are providing. Reducing tenure-track faculty in favor of contingent faculty reduces the emphasis on research and the opportunities for students to engage in research while in college. Public institutions that cut back on research-active faculty will also be creating fewer positive externalities through knowledge generation. Additionally, economic research has shown that the contract status of faculty matters for student outcomes. Studies show a range of negative impacts: increased college dropout rates (Ehrenberg and Zhang 2005; Bettinger and Long 2006) and significantly worse student outcomes for students taught by contingent faculty (Zhu 2021), except when the faculty have long-term connections to the university (Figlio, Schapiro, and Soter 2015). Although there is some evidence that adjunct faculty can increase interest in majors tied closely to careers, this may be attributable to the higher grades awarded by contingent faculty for similar learning outcomes (Bettinger and Long 2010; Chen, Hansen, and Lowe 2019; Ran and Xu 2019; Griffith and Sovero 2021). And although online delivery of higher education can be done well, we can also see negative impacts on student learning, especially for academically weaker students (Kofoed et al. 2021). Overall, if the less selective public institutions cut costs by increasing class sizes, ending academic programs, and increasing the use of contingent faculty, we should anticipate a fall in the quality of the educational product offered by these institutions, which provide access to post-secondary education for the majority of U.S. college students.

The more selective and well-known flagship public universities have a few more options for handling rising costs but are also more constrained by competition. First, many of these institutions have large endowments that can be drawn upon to protect sticker prices from sharp increases when state appropriations fall (NCES 2021). However, these more selective institutions face more pressure to compete with their peers for students than do their less selective public counterparts. If these institutions go too far in cutting educational quality, they will see their rankings worsen, leading to a fall in demand from students (Monks and Ehrenberg 1999; Griffith and Rask 2007). Of particular importance for these institutions, if their quality and reputation take a hit, high-quality out-of-state students—who often pay a significantly higher net price—will be much harder to recruit. Therefore, it is far more likely that top public institutions will raise tuition and fees as much as they can and find ways to cut costs through slightly decreased amenities and in less visible ways for educational costs, such as larger lecture sections and increased use of graduate students for teaching.

In addition to rising costs, public universities are also facing the threat of the increasingly antagonistic position of many state and federal government officials against higher education. In recent years there has been increased discussion of removing tenure at public institutions,[2] as well as attacks on academic freedom[3] and more control by state-level boards over university decisions.[4] These moves reduce the incentive for top research-active faculty to work at flagship research universities in these states. This will in turn negatively impact the quality of higher education in states that pursue these policies, reducing the opportunities for in-state students and reducing the positive externalities created by these institutions.

Private Universities – How Can They Embrace the Future?

Although we will likely see a similar set of cost-cutting changes at private nonprofit institutions as those described above for public colleges and universities, there are some notable distinctions. First, although private universities do not receive direct state appropriations, public funding of student financial aid—both grants and loan programs—is still a key source of revenue for these schools. Without this type of public support, these institutions would face much higher costs of enrolling lower-to-middle-income students in need of financial assistance. But like public institutions, how private institutions are likely to change over the next decades will depend to some degree on their level of selectivity.

The less selective private universities operate under a variety of models. Some have very loyal alumni and large enough endowments that they can function at a lower quality level and still maintain demand. For these institutions, demand may remain steady enough to continue offering a high-consumption-value, low-investment-value

2. See AAUP 2021 for Georgia's move to gut post tenure job security.

3. Florida has led the pack in moves both to reduce job security following tenure and to cut academic freedom for faculty employed at Florida's public universities (Mulvey 2022).

4. See Anderson and Svrluga 2021 for a discussion of increased state power over Board of Trustees appointments and decisions.

education as prices rise. However, less selective institutions that do not have these resources will be unable to sustain rising costs through increased sticker prices. These institutions do not have a wide enough draw for students or inelastic enough demand to raise prices too quickly or too high. As a result, if these institutions are unable to cut costs in a way that does not deter student interest, we are likely to see smaller, less selective private institutions close at an increased rate.

The most selective and well-known private universities won't have this problem. They have large endowments and loyal, generous alumni who will continue to help support initiatives so that future generations can enjoy the same higher education experience as they did. This will allow these institutions to continue raising sticker prices while still filling their seats. The reputations and networks that go along with these colleges and universities place them in a tier of their own, and they will continue to draw high-ability and high-income students who will be willing to pay a high sticker price. This high tuition revenue from full-pay students, coupled with increased alumni giving, will ensure that these institutions can also financially support tuition discounting for lower-income matriculants, although some will do a better job at maintaining this balance than others.

Opportunities for Growth

Despite the challenges these institutions will face as they begin to address rising costs, colleges and universities and the states that house them have many opportunities in front of them as well. The less selective institutions can focus their cost-cutting on unnecessary, noneducational amenities such as fancy dormitories and dining hall options, or student activities and sports, allowing them to support excellent teaching-focused faculty with long-term ties to the institution. These schools could embrace a teaching-track to tenure such as we are starting to see adopted in the University of California system, and therefore focus on high quality instruction with less emphasis on research output. We should also think more carefully about how to link these institutions, especially the public institutions, with employers and industries in the area, creating a pipeline to reliable jobs as our economy continues to shift its industrial composition. These partnerships and networks would allow institutions to educate students in the fields that are in demand locally and nationally and create a strong workforce that will help to drive our economy forward in the coming decades.

The more selective institutions should focus their efforts on maintaining their status as research powerhouses. In this role they will continue to provide access to excellent higher education and research opportunities, as well as additional positive externalities (Courant, McPherson, and Resch 2006). Selective institutions can continue to set themselves apart with teaching innovations and access for students to cutting-edge research opportunities. It is imperative also that these schools maintain their international reputation for excellence, which will allow us to draw the best and the brightest to the United States for higher education, bringing their productivity and innovation to the U.S. economy after graduation. Institutions should draw upon their generous donors and their large endowments to support centers and research activities focused on topics that will benefit our economy—both locally and nationally—and our quality of life in the U.S. Not only will this provide many extra benefits for the states that house them, but we will bring our best and brightest students and faculty together in our top universities to innovate and drive our economy forward.

It will be also necessary going forward for institutions of all types to remain committed to educating students from all backgrounds, including low-income and first-generation students. Without this focus, our higher education system will not meet the needs of our workforce and economy as it develops. This will require extensive financial aid support, as well as continuous educational support during college to ensure that students complete their degrees. Although endowments and annual giving can contribute to aid at many schools, for this to be sustainable it will require heavy financial investment from state and federal governments. Direct appropriations can help to keep sticker prices down at public institutions, but additional targeted student aid will still be necessary at both public and private institutions. Our current federal financial aid programs are difficult to apply for (Dynarski and Scott-Clayton 2006), and the most generous aid is available only to those from the lowest income groups. However, the Pell Grant aid program has been shown to pay for itself. Low-income first-time enrollees in college who receive the Pell Grant are more likely to complete their degree, and they earn significantly higher incomes, resulting in increased taxes paid, such that any increase in cost to the government of the program is offset by tax receipts, leading to an overall increase in social welfare (Denning, Marx, and Turner 2019). As educational quality rises, and therefore also costs, these grant aid programs such as the Pell Grant program need to expand both in their generosity and in their coverage.

The public sector has an especially important role to play in helping to fund and support higher education in the U.S. going forward. We need to decide to provide serious support to higher education by funding public institutions with direct appropriations and students at all types of nonprofit institutions through financial aid. We also need to show commitment to ensuring the excellence of our colleges and universities through our policies, rather than acting against them. Without this type of commitment, we will not be able to maintain our status as one of the best countries in the world to receive a postsecondary education. Colleges and universities are typically slow-moving beasts, but as we look to the future, we have an opportunity to rethink the way that we deliver higher education, capitalizing on what we know works and blazing new paths forward to maintain the excellence of American higher education.

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