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High Costs of Higher Education

Reforming how Pennsylvania taxpayers finance colleges and universities

Executive Summary

The Commonwealth of Pennsylvania has long been considered a leader in higher education, touting a publicly supported system that includes community colleges, state, state-related, and state-aided universities. However, as with all large institutions, a number of serious problems exist.

Despite significant increases in state appropriations and financial aid programs, higher education is less affordable today than it has ever been.

This policy brief addresses the fundamental, deep-seated problems that have made higher education unaffordable for students and unaccountable to taxpayers, and it recommends five reforms that will make Pennsylvania's colleges and universities more responsive to the needs of students and less expensive for both families and taxpayers.

Real policy solutions are long-term in nature and will make Pennsylvania's colleges and universities more responsive to the needs of students and demands of taxpayers.

The five specific higher education reforms include:

1. Halting all state higher education subsidies and making any increase contingent upon freezes in tuition costs and greater spending transparency for taxpayers.

2. Replacing direct state subsidies to universities with scholarship grants to students.

3. Holding students, colleges, and universities accountable for the taxpayer support they receive.

4. Re-focusing all state institutions on teaching, rather than research.

5. Considering a re-organization of state higher education, including the possibility of severing the taxpayers' financial support to state, state-related, and state-aided universities.

Introduction: An Overview of Pennsylvania Higher Education

Pennsylvania has long been considered a leader in higher education, touting a publicly supported system that includes community colleges, state, state-related, and state-aided universities.[1] Well-known public figures serve as trustees and on various advisory boards of the Commonwealth's higher education institutions.

TABLE 1: Taxpayer Supported Colleges and Universities

Community Colleges	State Universities	State-Related	State-Aided
Bucks County C.C.	Bloomberg	Penn State (including all branch campuses)	Drexel University
Butler County C.C.	California	Pittsburgh	MCP Hahnemann University
Community College of Allegheny County	Cheyney	Temple	O S Johnson Technical Institute
Community College of Beaver County	Clarion	Lincoln	Pennsylvania College of Optometry
Community College of Philadelphia	East Stroudsburg		Philadelphia College of Osteopathic Medicine
Delaware County C.C.	Edinboro		Thomas Jefferson University
Harrisburg Area C.C.	Indiana		University of Pennsylvania
Leigh Carbon C.C.	Kutztown		University of the Arts
Luzrene County C.C.	Lock Haven		
Montgomery County C.C.	Mansfield		
Northampton County Area C.C.	Millersville		
Pennsylvania Highlands C.C.	Shippensburg		
Reading C.C.	Slippery Rock		
Westmoreland C.C.	West Chester		

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Despite the support and pride in the in the state's institutions of higher education, problems linger beneath the surface. These challenges are more serious than most realize, including large tuition increases, a lack of accountability for both institutions and students receiving taxpayer funding, a low college graduation rate relative to peer states, and a dysfunctional organizational structure that perpetuates waste and inefficiency.

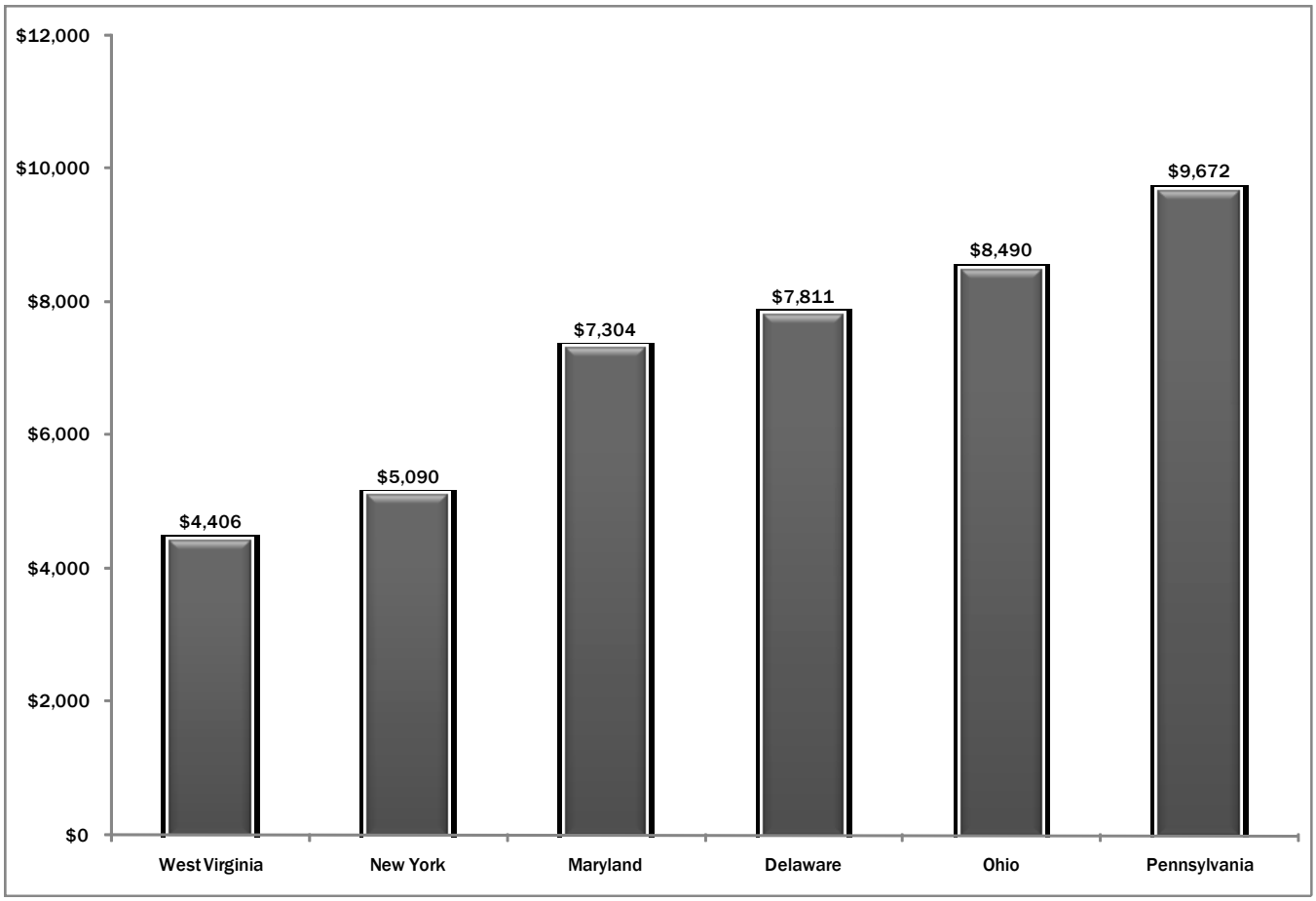
Unfortunately, to the extent that higher education leaders and policymakers recognize that problems exist, their remedies will not adequately address the long-term challenges that plague the system. Whenever there is a problem in higher education, college administrators and presidents usually have one answer: more taxpayer subsidies. As this paper will demonstrate, this is an inadequate response to the fundamental, deep-seated problems that have made higher education unaffordable for students and unaccountable to taxpayers.

Tuition Increases Across All State Institutions

The issue that most affects students and their families is the ever-rising tuition at Pennsylvania's colleges and universities. According to the latest report from the College Board, published tuition at a four-year public school in Pennsylvania in 2007-08 was, on average, $9,672, an increase of 7% from the prior year and a 56% inflation-adjusted increase from 1993-94. The numbers are staggering for private schools as well. The average tuition was $27,272, a 6% increase from the prior year and a 49% inflation-adjusted increase from 1993-94.[2]

Pennsylvania's tuition and fees have risen sharply over the past 15 years. According to the College Board, Pennsylvania ranks as the fourth most expensive state in the country to attend a four-year public institution, trailing only Vermont ($10,428), New Jersey ($9,984), and New Hampshire ($9,673), all states with a higher cost of living.[3] Pennsylvania's tuition is also significantly higher than many of its peer states. As CHART 1 shows, Pennsylvania tuition is more than twice that of West Virginia, and 90% more than the state of New York, which has a higher cost of living.

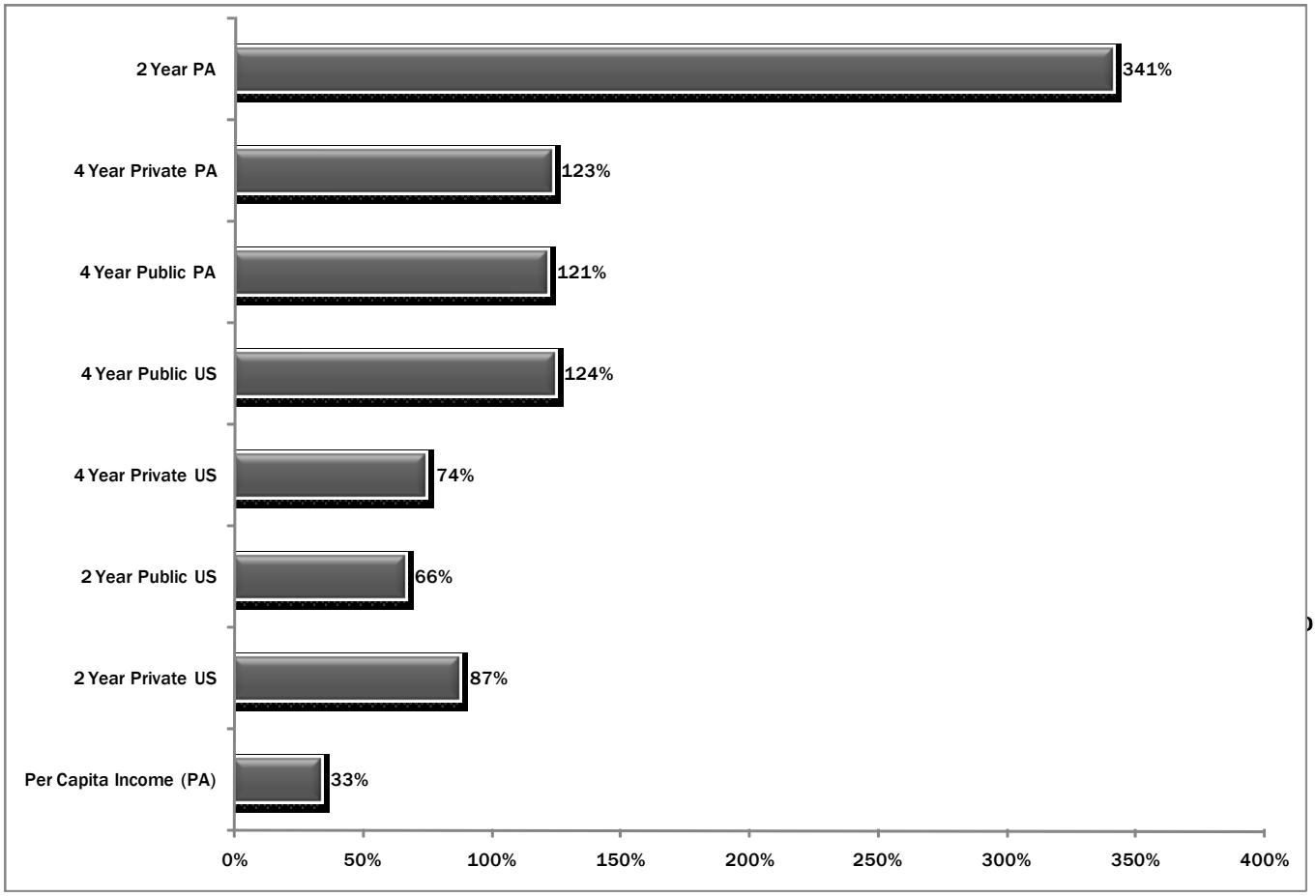
CHART 1: Average State Tuition, Four-Year Public Institution, 2007-08



Source: College Board, Trends in College Pricing 2007, Table 6.

Tuition increases have significantly outpaced the rate of inflation. College costs have also risen much more than per-capita income in the state of Pennsylvania. As CHART 2 shows, from 1985 to 2005, per-capita income rose 33% in the Commonwealth, a paltry gain when compared to tuition increases at all state institutions. Most worrisome is the staggering tuition increases at two-year schools in the state, which traditionally serve students from lower socio-economic backgrounds. CHART 2 also shows that the tuition increases at Pennsylvania colleges and universities are almost twice that of the national average for four-year public and private schools, and about four times the national average for two-year public and private institutions.[4]

CHART 2: Tuition and Per-Capita Income Increases, 1985 to 2005



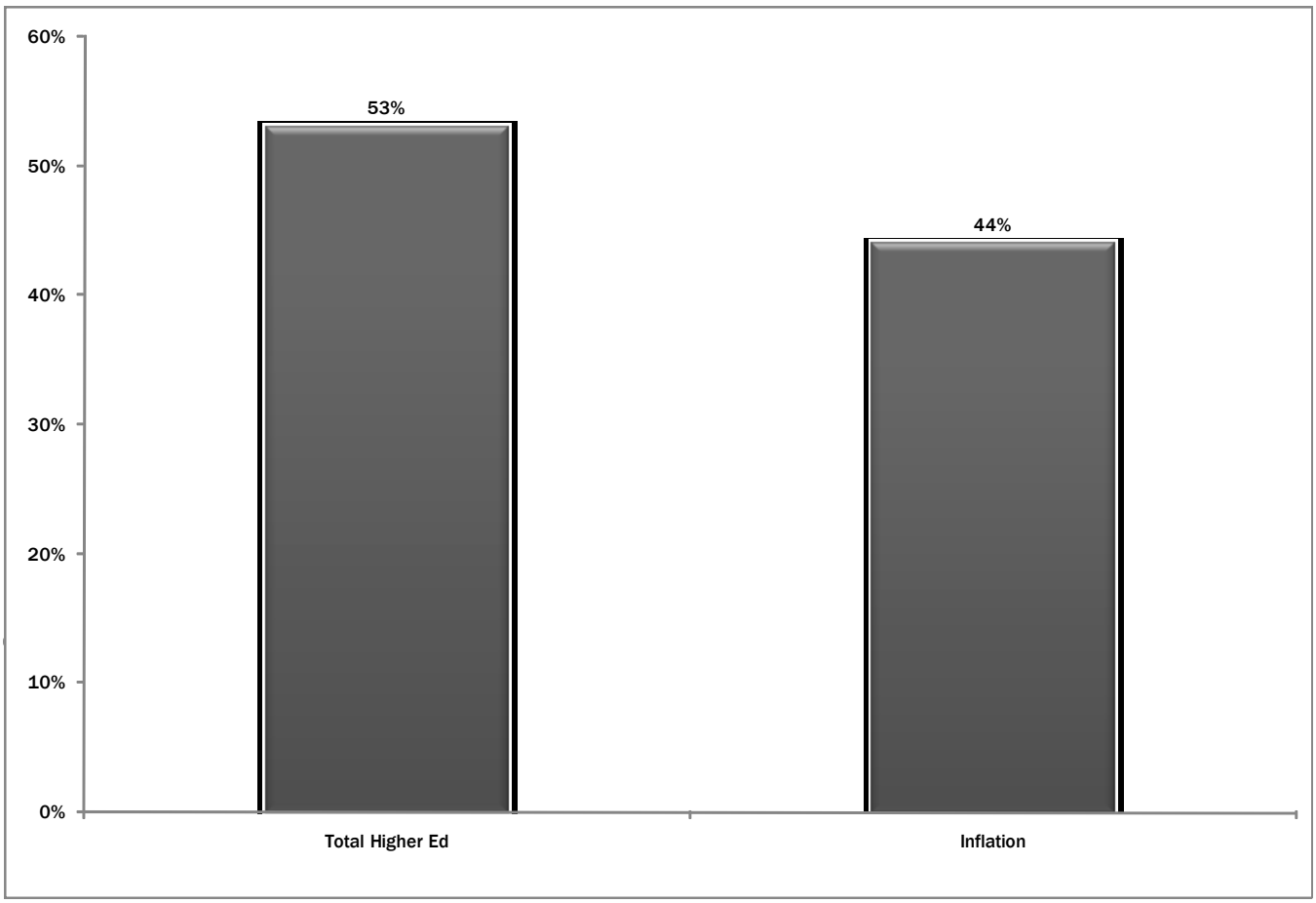
Sources: Bureau of Labor Statistics, Digest of Education Statistics, and Integrated Post-Secondary Data Systems (IPEDS).

State Appropriations: Funding at All-Time Highs

Higher education officials argue that tuition increases are necessary because college costs have risen dramatically and state subsidies are insufficient. For example, appearing before the Pennsylvania House Appropriations Committee in February 2008, Pennsylvania State University President Graham Spanier bemoaned the small state subsidy proposed for his institution by the Governor, claiming that the taxpay-

ers' subsidies only "would pay for five months of the [universities'] utilities cost increase."[5] Similar refrains can be heard from other university and college presidents across the state. The response from the General Assembly and Governor to demands from administrators like Spanier has been more state funding with increases exceeding inflation, as shown in CHART 3.[6]

CHART 3: Percentage Increase of State Appropriations, 1993-94 to 2005-06



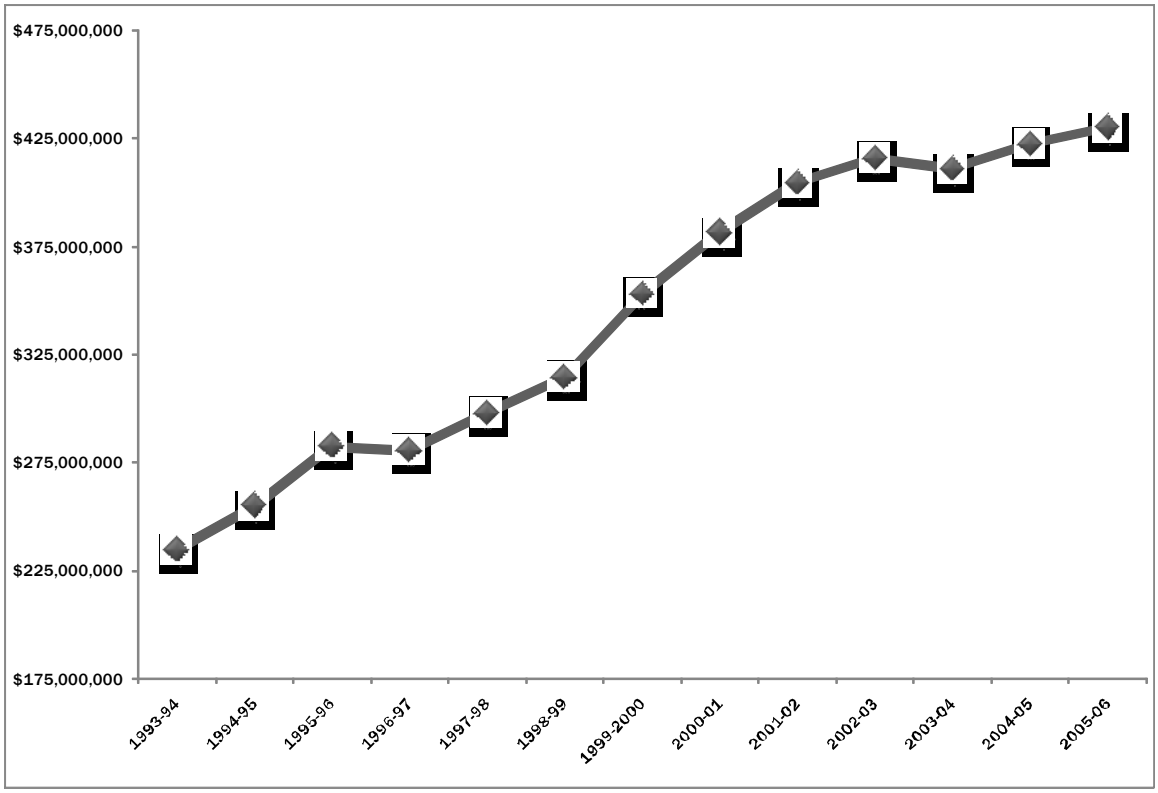
Sources: Governor's Executive Budget 1993-94 to 2008-09 editions

On top of these general funding increases to individual universities, grants and state subsidies to the Pennsylvania Higher Education Assistance Agency (PHEAA) increased 83% from 1993-94 to 2005-06, as shown in CHART 4 (next page).[7]

But even though state aid to both institutions and students have risen, the actual percentage of Pennsylvania residents with a bachelor's degree trails the national average and some peer states, as shown in CHART 5 (next page).[8]

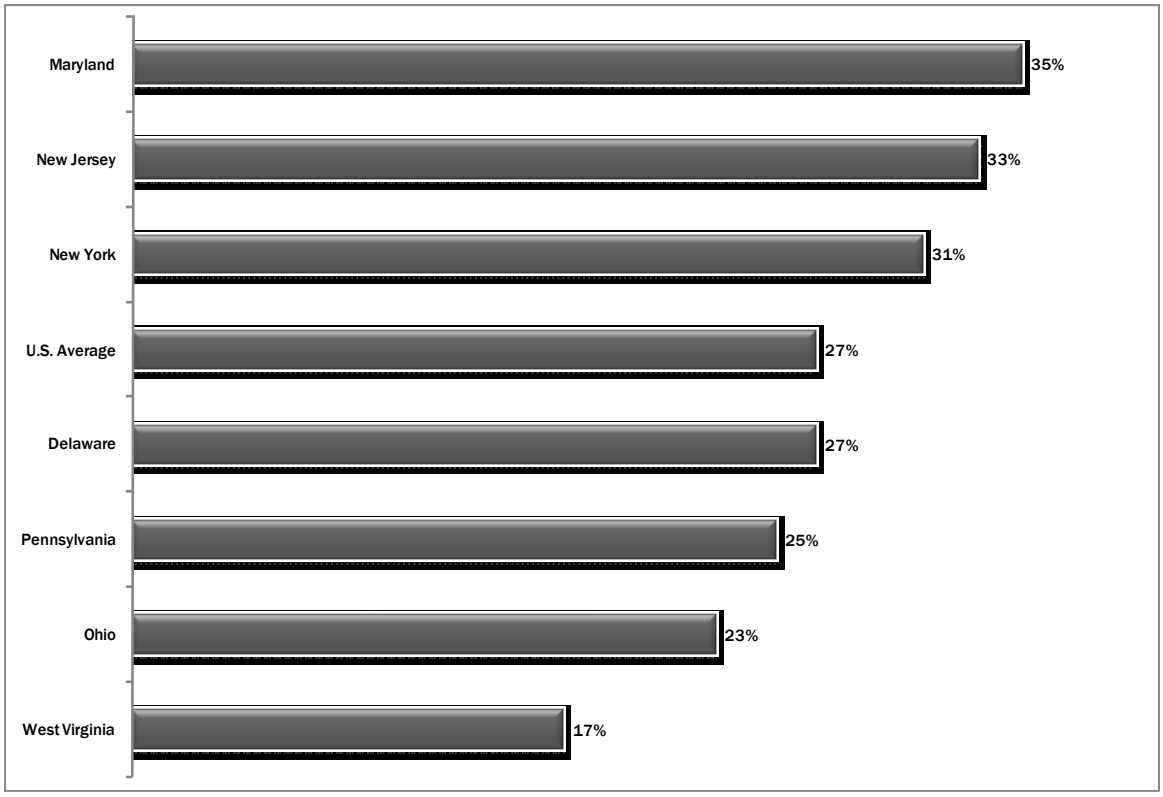
When viewed with CHART 1, it is clear that Maryland, New York, and Delaware are spending less on higher education and ending up with more state residents with bachelor's degrees than Pennsylvania. Some might argue that the percentage of residents with a bachelor's degree is misleading since some state residents might obtain

CHART 4: PHEAA State Appropriations, 1993-94 to 2005-06



Source: Governor's Executive Budget 1993-94 to 2008-09.

CHART 5: Percentage of Residents Age 25+ with Bachelor's Degree



Source: Governor's Executive Budget 1993-94 to 2008-09.

their degree in Pennsylvania but then move elsewhere. While this trend certainly occurs, it begs the question: why should taxpayers continue to contribute so much for a service that will ultimately benefit other states? There is also a reasonable argument to be made that for some jobs and careers, a bachelor's degree is not necessary and a college investment might be unwise. Nevertheless, the amount of resources that Pennsylvania is spending on higher education relative to the number of people who have a bachelor's degree is still incongruent.

Moreover, the broader relationship between tuition and appropriations increases is disturbing. College and university administrators insinuate that increased state appropriations will make college more affordable for the average Pennsylvania student. But while state appropriations to the universities themselves have increased by over 50% and state financial aid through PHEAA has increased by over 100%, tuition has also risen far above both inflation and income increases for state residents. In short, college is less affordable today than it has ever been, but we are spending more today than ever before on both universities and financial aid programs. It is clear from these numbers that something is seriously awry with the Commonwealth's higher education system.

There is strong evidence that increased state appropriations for higher education is having the opposite effect: more state spending is actually responsible for *increased* tuition costs.

The Pennsylvania Higher Education Model: A Flawed Approach

The major assumption of the state's higher education economic model is that more state funding will expand access and make college more affordable in the long run. Neither the practical experience of the last 30 years nor and statistical evidence supports this argument, however.

In fact, there is strong evidence that increased state appropriations for higher education is having the opposite effect: more state spending is actually responsible for *increased* tuition costs. Increasing taxpayer-funded financial aid has spurred greater demand for higher education in the state, which, in turn, has allowed colleges and universities to increase their tuition. That's because most of the increased state appropriations are *not* being devoted to lowering tuition. For example, Dr. Richard Vedder, Director of the Center for College Affordability and Productivity and a noted expert on higher education finance issues, found that for every one dollar of added state appropriations per student, only a mere 30 cents is used to lower tuition at public universities.[9]

Part of the reason why these state subsidies and financial aid awards do not curtail college costs is that they are based on the cost of attendance for students. Basing financial aid decisions on the total cost of attendance gives colleges and universities a perverse economic incentive to actually raise their tuition. By increasing their costs, they can capture the additional financial aid dollars that are now available to students. The problem for students is that these tuition increases cancel out financial aid increases, making higher education progressively more expensive.

Compounding this problem is that colleges and universities have little incentive to contain costs. The reason for this is two-fold. For starters, a significant portion of college tuition is paid by third parties, in the form of government and private loans. Very few parents and students actually pay for college with cash. Paying for

college is a paperwork exercise, and it is not until after graduation that many students and parents realize the magnitude of the debt they have incurred. Consumers' reliance on third-party payers makes them less cost conscious, an economic reality not lost on colleges and universities. Because of this dynamic, colleges and universities have little reason to be held accountable for their costs. Thus, it becomes much easier to raise tuition.

Expanding on this point, Vedder found that,

> The people paying a majority of the bills in higher education are not the users of higher education services. When someone else is paying the bills, consumers are less conscious of cost considerations, and that in turn leads to some distortion and inefficient use of inputs used to produce higher education services. It is not a coincidence that the two big components of the Consumer Price Index with greatest price increases—health care and higher education fees—both have large third party payments.[10]

The reality is that it's nearly impossible to discern how a particular school or university is actually performing.

Coupled with third-party payments is the non-profit status of most colleges and universities. In the private sector, profits offer a strong signal for resource allocation, price adjustments, organizational efficiency, the quality of output, and the strengths and weaknesses of management. We can make a reasonable judgment as to whether or not a company is performing well based upon its stock price or financial statements

But the non-profit nature of higher education makes these kinds of critical judgments impossible for our colleges and universities. Did Penn State have a good year last year? Who knows. We are left to rely upon the assessments of college administrators, who almost always have their own incentives for saying that everything is running smoothly. While some commercial magazines, most notably *U.S. News and World Report*, have attempted to fill this void with college rankings, the methodology behind these rankings suffers from serious flaws. They do not measure outputs of the university, instead focusing on inputs such as student SAT scores and GPAs. It would be like judging Ford based on the quality of their steel, not the actual cars it manufactures. The reality is that it's nearly impossible to discern how a particular school or university is actually performing.

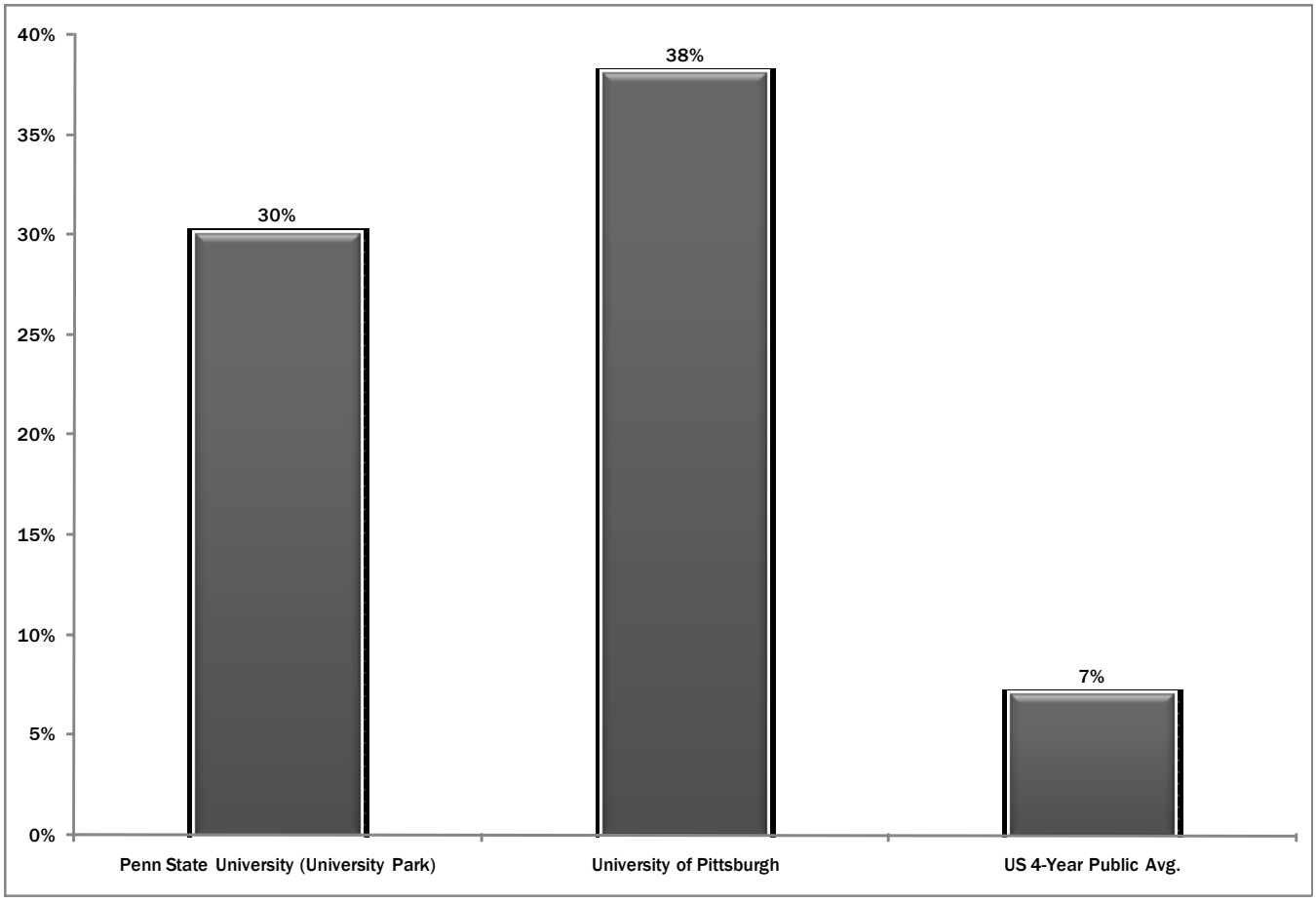
Non-profit status also prevents schools from focusing on their costs. In the private sector, costs are reined in as a way to increase profits and stock price. In higher education, the converse happens—costs are actually *raised* as a way to increase "prestige." Many schools feel that lowering costs would somehow cheapen their brand name. They increase costs, with the notion that consumers will automatically associate higher costs with a better education, even though that notion is not always true. The root problem is the shelter from market forces that encompasses most of higher education. Without being able to tell how a college is actually performing, consumers look to misguided indicators such as prestige.

Misguided Priorities Raise Costs for Students and Families

This same shelter from market forces has allowed higher education to allocate its resources in ways that do not benefit students, parents, or the taxpayers. Universities were originally formed to instruct undergraduates, and that is ostensibly the mission of higher education, even today. But in the last 50 years, more colleges and universities have moved away from undergraduate instruction and instead focus heavily on research. This has resulted in lower teaching loads, which, in turn, has lead to more faculty hires—a significant cost increase for colleges and universities. While some of this research, particularly in the hard sciences, is noteworthy, other academic research seems marginal at best. This is especially true in the humanities and some social sciences, where it can be argued that another research paper on an arcane book or play does not add much to the broader academic environment. The proliferation of academic journals, again, some of marginal quality, has allowed this type of scholarship to grow.

The trend of moving away from instruction and into greater research is most pronounced at large, publicly-funded research universities. Smaller colleges and universities, as well as community colleges, still tend to focus on student instruction. This same dynamic is seen in Pennsylvania. As CHART 6 shows, Penn State

CHART 6: Percentage of University Research Expenditures, 2006 Fiscal Year.



Source: Integrated Post-Secondary Data Systems (IPEDS).

and the University of Pittsburgh's main campuses have moved dramatically away from teaching undergraduates and instead focus primarily on research, much more than the national average for four-year public schools.[11]

The shift from instruction to research is not the only change for colleges and universities that has resulted in increased costs. As anybody who has set foot on a modern college campus can attest, most colleges and universities today are far more opulent than those of yesteryear, with new, ritzy dorms, fancy gyms, hot tubs, climbing walls, gourmet food, and other pleasantries. Colleges and universities today resemble "country clubs" more than modest Ivory Towers.

The state's practice of constantly increasing subsidies has allowed universities to raise their costs even further.

In addition, universities have expanded their number of non-instructional staff and mid-level university administrators, resulting in a vastly oversized bureaucracy. Vedder, for example, has found that in 1976, there were three non-instructional staff members for every 100 students. Today, there are six, and the number is likely to increase.[12]

In isolation, none of these costs are dramatic; put together, they are a powerful financial force in the current economic model and contribute to increasing costs. The role of state funding is critical, driving the entire tuition cycle. Vedder lays the blame for these excesses largely on increased state appropriations. He writes, "A large portion of incremental state university spending goes for frills that do little to promote either education or economic growth—fancy recreation facilities, larger university bureaucracies, more elaborate intercollegiate athletic programs, and higher salaries for university personnel."[13]

Higher Education Policy Solutions for Pennsylvania

The foundation of any reform designed to make higher education more affordable is to expose colleges and universities to market forces and incentives. For far too long, colleges and universities have used their non-profit status and generous state subsidies to avoid market pressures. This combination has resulted in college costs rising uncontrollably.

There are five specific solutions for making college less expensive for parents and families, as well as reduce the tax burden that higher education places on all Pennsylvania taxpayers. They include:

1. **Halting all state higher education subsidies and making any increase contingent upon freezes in tuition costs and greater spending transparency for taxpayers.**

Despite substantial increases in state subsidies, tuition costs for students and parents have continued to outpace inflation. Indeed, with ever-increasing subsidies, colleges and universities have little incentive to cut operating costs or compete for students through lower tuition rates. Instead, the state's practice of constantly increasing subsidies has allowed universities to raise their costs even further.

The first step in reversing this cycle is to immediately freeze all state subsidies for higher education at current levels. Most institutions received increased funding

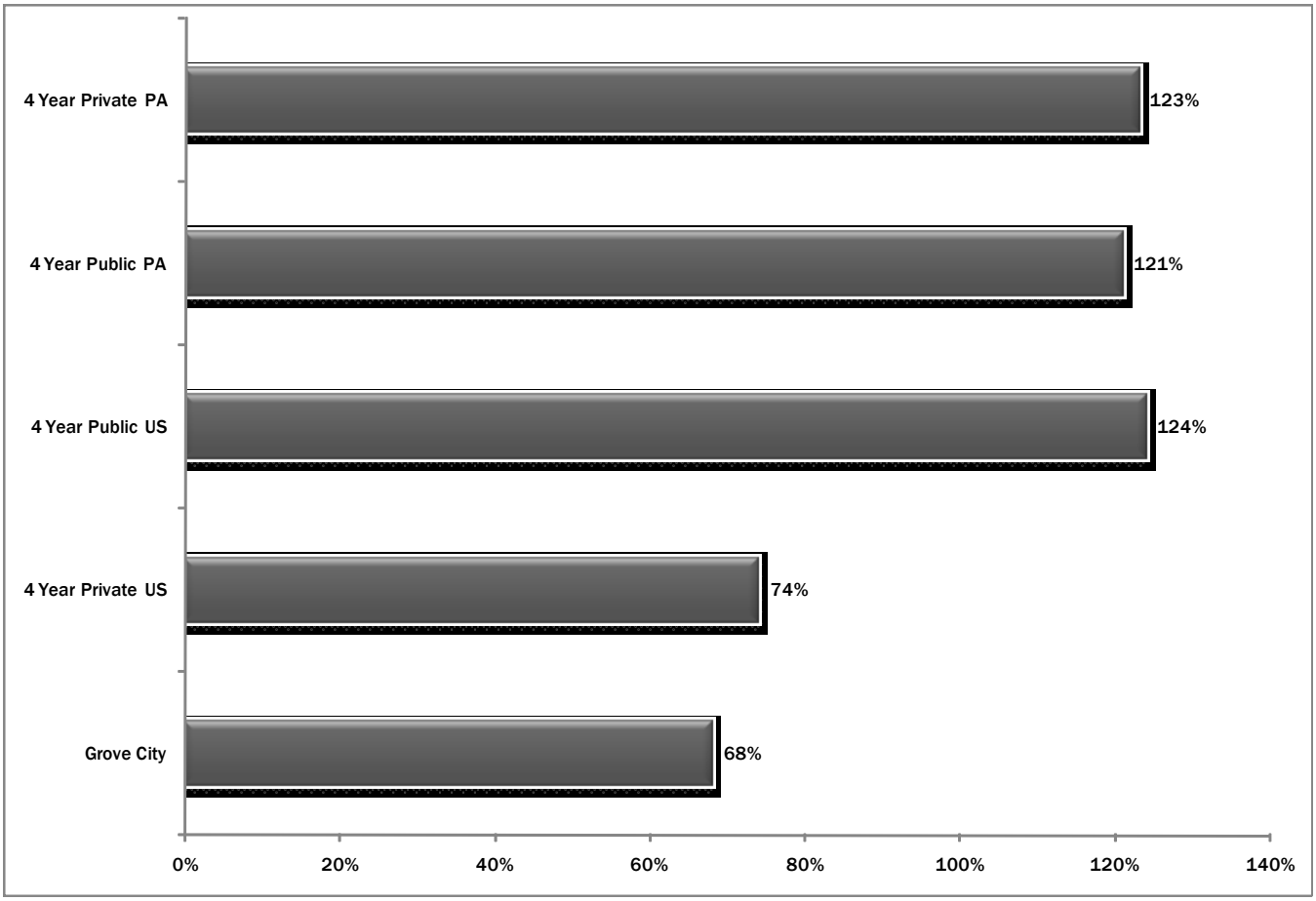
in the current state operating budget. Asking colleges and universities to rely upon this same level of funding for the next fiscal year will not present an undue burden.

The second step would be to link increases in state subsidies directly to student tuition costs. Instead of allowing taxpayer funds to be used for other higher education purposes, state subsidies should be for the benefit of students rather than the institution.

In addition, elected officials should seriously examine cutting the amount of subsidies given directly to state universities. As shown throughout this policy brief, more state funding has not lead to affordable tuition for Pennsylvania residents. The opposite has happened. Colleges and universities have gone on spending sprees, often times devoting significant financial resources to activities far outside their core educational mission. There is a strong chance that cutting state subsidies will break the current cycle and actually *lower* tuition. There is some evidence even within Pennsylvania to support this claim.

While almost all state colleges and universities receive subsidies at both the state and federal level, one college in western Pennsylvania—Grove City College—has shunned government aid and does not allow its students to participate in fed-

CHART 7: Tuition Increases, Grove City College vs. State/National Averages, 1985 to 2005



Source: Richard Vedder, "Over-Invested and Over-Priced: American Higher Education Today,"

eral financial aid programs. Grove City effectively operates without any government support.

This lack of government support, however, has not lead to outrageous tuition increases. Indeed, precisely the opposite has occurred. When compared to its peers throughout the state, Grove City's tuition increases have been far more modest than other universities in the state, both public and private, as shown in CHART 7 (previous page).[14]

2. Replacing direct state subsidies to universities with scholarship grants to students.

Any continued state funding—be it through direct subsidies or a new scholarship grant program—should come with strict guidelines that force students, as well as colleges and universities, to be held more accountable to taxpayers.

State subsidies that are reduced per the first recommendation should be redirected to individual students in the form of a scholarship grant, with the goal that most state subsidies will eventually be provided to students rather than institutions.

Awarding students a maximum state higher education scholarship grant will force colleges and universities to compete for students based on price. Right now, state and federal financial aid is calculated using complex formulas that are primarily based on the cost that institutions wish to charge. This only serves as an incentive to raise tuition. A better system would allow the state to reduce funding for institutions and deliver it directly to students, in the form of a scholarship grant that is not adjusted for students attending higher-cost schools. The award amount would drive the total cost of higher education—not whatever colleges and universities decide they want to charge.

3. Holding students, colleges, and universities accountable for the taxpayer support they receive.

Any continued state funding—be it through direct subsidies or a new scholarship grant program—should come with strict guidelines that force students, as well as colleges and universities, to be held more accountable to taxpayers. Right now, neither group is held accountable for how it spends taxpayer resources.

For students, continued receipt of a state scholarship grant should be contingent upon completion of a degree in a timely manner. Far too many students abuse the current financial aid system, taking financial aid awards and then spending inordinate amounts of time on the social aspects of college life. Students have no incentive to finish their degree as quickly as possible or devote themselves to their academic pursuits. Taxpayers should not be forced to subsidize such choices.

A scholarship grant program should require that students maintain at least a C average, attend class on a regular basis, and receive their degree in no more than five years. If students cannot meet these basic requirements, all future financial aid should be withdrawn and the student should be compelled to repay the original financial aid award. It is time that the "party lifestyle" that permeates so many colleges and universities be tempered and taxpayer money withheld from those students who neglect academics for socializing.

In the same way, colleges and universities should also be held more accountable for their performance. Too many state-supported institutions are secretive about

their finances. Even expenditures made with public funds are often hidden. Any state institution that receives public money should be forced to undergo a rigorous examination of its expenditures. Colleges and universities should also be forced to examine ways to cut costs, with the possibility that funding decisions be based at least partly on the ability to reduce costs. Institutions should also be encouraged to cease operations that can be performed more inexpensively by the private sector, such as food delivery, building maintenance, fitness center, and dormitory operation.

4. Re-focusing all state institutions on teaching, rather than research.

The zeal to pursue research of dubious value has replaced undergraduate instruction as the core mission for too many taxpayer-supported colleges and universities. This is especially true at state-affiliated universities, such as Penn State and the University of Pittsburgh. If institutions wish to continue to receive state funding, then it should be contingent upon increased student instruction and corresponding decreases in academic research. Taxpayers should not be asked to subsidize questionable research while students are not receiving adequate devotion to basic teaching and are forced to pay ever-higher costs.

If institutions wish to continue to receive state funding, then it should be contingent upon increased student instruction and corresponding decreases in academic research.

5. Considering a re-organization of state higher education, including the possibility of severing the taxpayers' financial support to state, state-related, and state-aided universities.

The current organization of higher education institutions in the state of Pennsylvania is confusing and unwieldy. A major reorganization of this system is needed. While community colleges and state universities are, by and large, doing an adequate job of providing education to students, it would be worthwhile to critically examine resource allocation and budgeting at all of these institutions. It might very well be that many of these institutions in proximity are unnecessarily duplicating services. Combining or merging some smaller community colleges and state universities should be strongly considered, when doing so would lead to lower costs and minimal disruption to students and taxpayers.

Any reorganization plan should consider the possibility of eliminating all state subsidies for higher education institutions outside of community colleges and state universities. This would include Penn State, the University of Pittsburgh, Temple, Lincoln, and all state-aided universities such as the University of Pennsylvania. While doing so might be politically unpopular, these institutions only receive a minimal amount of state funding relative to the rest of their budgets. If, as Penn State President Graham Spanier claims, the state's contribution will only pay for five months of just the increase in utility costs at the university—then there is little harm in eliminating this subsidy entirely. The lights will not likely go off at Beaver Stadium.

Furthermore and most important, there is no evidence that increased state appropriations at any of these institutions has lowered costs or expanded access to lower-income students. Penn State, the University of Pittsburgh, and the University of Pennsylvania in particular are well regarded universities that compete for talented students on the national level. Through their large endowments, aggressive

fundraising, and selective admissions, these schools are already quasi-private schools. Indeed, the state subsidy of $336 million represents only about 20% of Penn State's annual revenue. It might be time to make official what is already presumed by higher education experts.

In lieu of financially supporting institutions that simply do not need state funds, the state could re-direct subsidies to both students and institutions in the manner described above. Pennsylvania students who are attending community colleges and small instruction-oriented state universities would be far more deserving of higher education funding than Penn State and the University of Pittsburgh's general—which have plenty in their coffers.

Pennsylvania has devoted significant state resources to colleges and universities, only to watch tuition skyrocket and accountability for both schools and students plummet.

Conclusion: The Future of Pennsylvania Higher Education

Even though the current higher education model was developed with the best of intentions, it's now clear this model needs to be reformed. Pennsylvania has devoted significant state resources to colleges and universities, only to watch tuition skyrocket and accountability for both schools and students plummet. Universities have changed in fundamental ways and are really no longer state institutions in practice, yet they still receive generous public funding.

The time has arrived for Pennsylvania policymakers to seriously reconsider how its higher education is organized and how it operates. The mantra from higher education officials that more state appropriations will solve their problems should be rejected. Instead, higher education should be fundamentally reformed in a way that focuses on students rather than institutions while ensuring that both students and taxpayers are well served.

Endnotes

1. Chart derived from http://www.pde.state.pa.us/higher/lib/higher/MAP_Addresses_PA_Inst_of_P&HEd_2008.pdf.
2. Ibid.
3. College Board, Trends in College Pricing 2007, Table 6. Available at: http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf and College Board, Annual Survey of Colleges, www.collegeboard.com.
4. Chart derived from data from the Bureau of Labor Statistics, Digest of Education Statistics, and Integrated Post-Secondary Data Systems (IPEDS).
5. "Spanier appeals to Pa. House for more funding", by Tim Dooley and Alex Weisler, *The Daily Collegian*. Available at http://www.collegian.psu.edu/archive/2008/02/26/spanier_appeals_to_pa_house_fo.aspx
6. Figure derived using data from Commonwealth of Pennsylvania, Governor's Executive Budget 1993-94 to 2008-09 editions, and http://www.budget.state.pa.us/budget/lib/budget/(2008-2009)_executive_budget_documents/2008-09_enacted_budget_line_item_appropriations/2008-09_enacted_budget_line_item_appropriations.pdf.
7. Commonwealth of Pennsylvania, Governor's Executive Budget 1993-94 to 2008-09.
8. Figure derived from data at: quickfacts.census.gov.
9. Richard Vedder, "Over-Invested and Over-Priced: American Higher Education Today," Center for College Affordability and Productivity, November 2007. See Also: *Richard Vedder Going Broke by Degree: Why College Costs Too Much*, AEI Press, 2004.
10. Ibid.
11. Calculation derived from data found at the Integrated Post-Secondary Data Systems (IPEDS).
12. Richard Vedder, "Over-Invested and Over-Priced: American Higher Education Today," Center for College Affordability and Productivity, November 2007. Ibid.
13. Figure derived from tuition data provided to the authors upon request, courtesy Grove City College, and data from the Integrated Post-Secondary Data Systems (IPEDS).

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