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AUTHOR Leslie, Larry L.
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ABSTRACT

This document presents ideas and arguments concerning the concept of low tutition. Part 1 discusses the present state and future promises in regard to tuition pricing. It is suggested that tuitions are rising because the costs of higher education are rising. Also higher education is losing in the competition for public resources; however the reports of the various national groups studying the financing of higher education have favored increases. The second part discusses the rationale generally offered by those who support higher tuition, the extent to which the recommendations of the national reports are being carried out, and the effects of these recommendations on institutions and students. Finally, the critical importance of low tuition to the survival of postsecondary education is suggested. (MJM)

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A CASE FOR LOW TUITION

A speech originally delivered at the
Meeting of Regional/Branch Campus Deans
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Larry L. Leslie
Professor and Research Associate

Center for the Study of Higher Education
The Pennsylvania State University
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PREFACE

Originally, the national program committee of the Regional and Branch Campus Deans and Directors had established a debate format in which this paper would constitute the argument for low tuition. The tuition session was to consist of a statement by a proponent of low tuition followed by a statement from a proponent of higher tuition. Then the formal debate was to proceed with rejoinders from each person and questions from the floor. For whatever reasons, this debate did not materialize and the author of this paper was asked to expand his efforts to a paper of the present length. No attempt was made--as the author would normally consider his responsibility--to present a balanced view of the tuition issue.

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INTRODUCTION

I have been asked to talk to you today about low tuition--about why the concept is in trouble and why it is important that it be preserved. I suppose you could say my major task is to get you properly alarmed about the erosion of the low-tuition principle; but another purpose is to provide you with some ammunition for defending the low-tuition concept to your political constituencies.

My remarks will be in three parts.

First I will discuss what has been happening and what the future promises in regard to tuition pricing. I will show that tuitions are rising, (a) because the costs of higher education are rising, (b) because higher education is losing in the competition for public resources, and (c) because the reports of the various national groups studying the financing of higher education have favored increases.

Secondly, I will discuss the rationale generally offered by those who support higher tuitions. I will talk about the extent to which the recommendations of the national reports are being carried out and about the effects of these recommendations upon institutions and students. *Some implications for your specific kinds of institutions will be included here.*

Finally, I will discuss the critical importance of low tuition to the survival of postsecondary education as we have known it. This should give you some ammunition to argue the case for low tuition back

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* The content of this speech appears here in its original form with the exception of minor editorial changes made to accommodate the printed page.

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home.

RECENT RISES IN TUITION

Let me begin, then, by saying that there *is* great cause for concern. Tuition has been rising for the past five years at a rate 20 percent faster than the rate of increase in per capita disposable income for the period 1960-1972. Many students and many institutions are being priced out of the market.

It is very clear from research in economics that the demand for a commodity is directly related to the price. This principle has been shown to apply to higher education. The National Commission on the Financing of Postsecondary Education conservatively estimated that enrollments will decrease by 2.5 percent for every $100 increase in tuition, a decrease nationally of 250,000 students for every $100 rise in tuition. Is it any wonder that with tuitions continuing to rise we are said to be approaching a steady state in enrollments? Enrollments among 18-21 year-old males, for example, are down about 15 percent since 1969.

Before going further, it would seem imperative to discuss why tuitions continue to rise so rapidly. The basic answer, of course, is that costs continue to rise.

It is probably impossible to hold the line on higher education costs. The National Association of State Universities and Land-Grant Colleges estimated that institutional income must rise by 10 percent per year merely to maintain the existing level of higher education services and offerings, and this was at the old rate of inflation. Costs have actually risen at the rate of 14 percent per year since 1961. Costs must rise for several reasons. Knowing these reasons will be useful to you as you argue your case for greater public fiscal support.

1. *More students.* By far the largest cost increase in the 1960s resulted from the greatly expanded number of students to be educated. During the decade enrollments more than doubled and the production of high-cost Ph.D.s tripled. In addition there were immense outlays for capital construction. Although higher education now is growing at a slower rate, only for a brief period in the 1980s will enrollments level off or moderately decline. Further, the new students will be far more likely than previous students to require additional student aid, remedial work, and ethnic studies programs, to name just a few of the reasons for higher costs.

2. *Inflation.* In the early 1960s the rate of inflation was 2 percent; at the beginning of the 1970s it was 5 percent; now it is 12 percent; and I have revised that figure upward twice since writing this statement five weeks ago. Even if all other elements of the cost spiral were held constant, inflation would continue to add greatly to the costs of higher education.

3. *The labor-intensive nature of higher education.* Service industries are characterized as being labor intensive; that is, they depend heavily upon human resources. As such, they are far less capable of achieving productivity gains than are the more mechanized industries. Although most would say that higher education continues to improve qualitatively, there have been no quantitative productivity increases in higher education since the 1930s. This, of course, does not explain why costs continue to rise in the absolute sense; however, it does show why

costs in higher education rise at a faster rate than in industry, which historically has shown an annual productivity gain of 2.5 percent.

4. *The standard of living.* Disposable income increases about 2.5 percent per year. Disposable income, in essence, represents the standard of living. With personnel costs consuming approximately three-fourths of institutional income, and with personnel salaries necessarily increasing 2.5 percent per year net of inflation in order to keep pace with the remainder of society, costs must go up comparatively.

At present, total higher education costs are presently affected upward by nearly 20 percent annually.

Now back to tuition. Why must tuition rise? I doubt that I need familiarize anyone here with the politics of higher education finance. The simple fact of the matter is that generally we get our money wherever there is the least resistance. State governments are continually more reluctant to provide the necessary additional resources. The federal government has put most of its money into student aid: BOGs, SEOGs, workstudy, the G.I. Bill, National Direct and Guaranteed Student Loans, etc. Although institutional aid was called for in the present higher education legislation, the Nixon administration strongly and successfully resisted any efforts to fund those provisions. Private giving has increased, but this source represents only a small portion of all funds for higher education; more important, the rate of growth of private giving is not keeping pace with the higher costs.

So what is left? The answer is tuition. Students are the only party involved not directly represented in the political process related

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to higher education funding, and thus it is likely that students will be expected to yield the needed additional resources.

In all fairness, governmental parsimony is not the real culprit; and this brings me to my second point under part one: Governments presently have severe demands on their resources, and higher education has declined in priority. Health care, public safety, public transportation, welfare, energy, and the environment are all presently more urgent societal concerns than higher education. Within this context, it is little wonder that higher education funding by governments has tapered off and that students and their families are being required to make up the difference.

But, as if things were not already bad enough, yet another major force has entered the scene to press for higher tuitions--which brings me to point three. This force is the reports of the various groups studying the finance of higher education nationally. Included are the reports of the Carnegie Commission on Higher Education, the Committee for Economic Development, the HEW Newman Task Force, and the National Committee on the Financing of Postsecondary Education. The recommendations of all reports either explicitly or implicitly have been said to point in the same direction--to higher tuitions. I will try to summarize very briefly only the first two reports.

The Carnegie report recommends the raising of public college and university tuitions to one-third of educational costs, their estimate being that the present level is 17 percent. I should say, parenthetically, that under great pressure the Commission recalculated and revised their estimate, greatly reducing the gap between the one-third and the present levels of tuition. Interestingly, and this, too, may be a point useful to you in dealing with your legislatures, Russell Thackrey estimates that using gross tuition figures, as the Commissioners apparently intended, and basing calculations on the *costs* of instruction, rather than on institutional income, again as was intended, the actual average portion now contributed by tuition nationally would be somewhat in excess of the 33 percent figure advocated by the Commission.

The increase in tuition, under the Carnegie plan, would be offset for *lower*-income students through the increasing of Basic Educational Opportunity Grants (BOGs), with these students receiving up to 75 percent of the costs for lower-division enrollment. Further, the states would be induced to develop parallel programs for their funding of higher education.

Middle-income students, on the other hand, would be provided with the opportunity for income contingency loans, the terms and conditions of repayment being dependent upon later earnings. Presumably, these loans would be at the market rate of interest. However, this interest would not be waived during the student years, as is present federal policy, but would be deferred and amortized over the life of the loan. Of the many provisions of this report, these appear to be the major ones bearing upon our discussion here.

The Committee for Economic Development (CED) report varies from that of Carnegie only in degree; the CED is said to recommend more drastic changes than Carnegie. (In actuality, if the calculations of the first Carnegie report were followed, the CED report would be the less extreme.) Under the CED proposal, tuition would be raised to 50 percent of instructional costs. For four-year institutions this increase would be accomplished within five years rather than the 10 specified by Carnegie.

Tuition at public two-year institutions would reach this level within 10 years under the CED plan, whereas the Carnegie Commission would differentiate tuition by level of enrollment, keeping tuition low for the first two years. Again, higher tuitions would mean extensive grant and loan subsidies to low-income students. Although the CED's loan proposal is not explicitly stated, it would follow the income contingent principle of the Carnegie Commission.

RATIONALES SUPPORTING HIGHER TUITION

This, then, completes the background portion of my statement. I have said that (1) the costs of higher education are necessarily rising, (2) that higher education is losing or is expected to lose in the battle for additional public resources, and (3) that certain national reports have played an important part in the trend toward higher tuitions. How do these groups justify their recommendations for higher tuition? The answer to this question composes the second of my three-part discussion. Three discrete though related rationales are commonly cited: (a) the societal versus individual benefits argument, (b) the market model approach, and (c) the case for equality of educational opportunity.

Societal vs. Individual Benefits

Generally, it is reasoned that if society largely benefits from higher education, society should pay the major portion of the bill; on the other hand, if the individual largely benefits, the individual largely should pay. Following this logic, if the individual benefits, tuition should be high; if society benefits, tuition should be low.

There are voluminous discussions and tabled calculations of the

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portion each sector, society and the individual, pays of the total cost of higher education. Detailed analyses exist showing the breakdown of all public (governmental) contributions and of the costs incurred by students. Although there are some differences in the upper limits of the range of estimates, it is commonly accepted that the individual and his family assume at least two-thirds of the total costs of higher education, including income foregone. The remaining portion, approximately one-third, is paid by society.

But this proportion has no meaning without the other half of the equation: Who benefits? Unfortunately, this is where the discussion degenerates to mere speculation. Estimates of the individual benefits of higher education are quite good, being rather uniformly calculated at between 9 and 11 percent. Based upon these figures alone, high tuition advocates have often asserted that the individual should pay more of the higher education cost because the approximate 9 to 11 percent represents a handsome rate of return on the educational investment. So it would seem.

But what is society's return on its investment? Herein lies the key to the equity issue. If society's rate of return is less than 9 to 11 percent, perhaps the two-thirds/one-third distribution of private to public costs is equitable. But if society's return is equal to or greater than the individual's return, society should pay more of the costs than it now does. Unfortunately, there are no well-accepted estimates of the social returns, primarily because many social benefits are unsuitable to quantification.

There are very few who doubt the existence of societal benefits of higher education; but their actual worth is seldom estimated. Because they cannot be measured easily, a few economists question their existence at all, while other persons place their value at almost 100 percent of all benefits accrued. Most European nations make this implicit assumption by selecting only the elite for college and then paying their total monetary costs of attendance plus *per diem* expenses.

For what it is worth, Gary Becker estimates the social rate of return from higher education to be between 8 and 20 percent. In any case, there is no reason to believe that the percentage is substantially less than 9 to 11 percent.[1]

The Market Model

The second rationale often cited by the high tuition advocates is what I call the market model. Under this rationale, tuition would have to be raised to full cost or at least to very high levels.

The market model, when reduced to its simplest elements, consists of consumers and producers who are brought together in a general market system. There may be many middlemen, but at its simplest level there are only consumers and producers and the general market system. For efficient market operation, each of these elements must consist of the following.

(Think about higher education and your institution as you listen.)

Consumers (students) must be characterized by (1) the ability to make prudent choices, (2) the knowledge necessary to make these choices, and (3) the means to exercise these choices.

Producers of goods or services (colleges) must be characterized by: (1) a single decision maker; (2) a profit motive; (3) a technology by which a particular output is produced using land, labor, and capital outputs; (4) the freedom to sell outputs in order to earn revenues; and (5) the freedom to use revenues to buy productive factors.

The general market system must be characterized by perfect competition, increasing costs in all industries, an exclusion property, the absence of public goods (social benefits), complete knowledge, and complete mobility.

Because the arguments are fairly technical, I shall not explain why the market model is inappropriate and inadequate as a rationale for formulating higher education financing policy. If you are interested, those details are provided in a recent paper developed by a colleague and myself, a paper which appeared in the January, 1974, issue of *The Journal of Higher Education* and was entitled, "The Market Model and Higher Education." In short, we showed that essentially none of the conditions of the market model referred to earlier can be met adequately in higher education.

Equality of Educational Opportunity

The third and probably most commonly used rationale to defend higher tuitions is equality of educational opportunity. Now if that statement bewilders you, let me assure you that you are not alone. Many have challenged the logic of raising tuitions to expand access. Nevertheless, the argument goes something like this:

Low tuitions essentially represent public subsidies. That is, in order for institutions to keep tuitions low, governments must provide institutional subsidies equal to the portion of the educational costs that tuitions do not pay. But low tuitions, it is argued, benefit everyone who attends a low-tuition college. Not only do students who have great financial need receive the public subsidy, but so do those who could well afford to pay higher tuitions. Thus, it is asserted that in the case of the student who has the ability to pay, these tuition subsidies represent "wasted" public resources (transfer payments). Public subsidies should be focused on those who are in greatest need, and they should not be expended in any case on those who could afford to pay the bill without aid--or so the argument goes. Therefore, it logically follows--and this is the critical point--*that tuition should be raised to high levels; and the money saved by governments should be appropriated for aid programs for low-income students.*

Summary - Current Dollars Expended for Tuition Subsidy

In summation of all three of these rationales, it is important to point out that all three argue not only for high tuition but for large student aid programs for students with high economic need. *This is what is behind the very clear trend to place more and more of the resources for higher education in the hands of students and to raise tuitions accordingly.*

This brings us then to the present situation. Tuitions continue to rise as more and more public resources for higher education are moved from *institutional* aid categories to *student* aid categories. Let us consider some examples. During the academic year just completed, the federal government channeled $122.1 million into the BOG program alone. During the next academic year, the amount will be $475 million; the amount requested by the president for 1975-76 is $1.3 billion. The U.S. Office of Education is planning on $1.1 billion. Meanwhile, money that formerly went directly to the institutions has all but disappeared.

At the state level, a similar pattern has emerged. In 1967-68, six states had state scholarship and grant programs; in 1971-72, the number was 22. Since 1969, the average percentage increase in state funds for these programs has been up 18 percent each year. Although the average award rose only gradually during the first three years, the number of separate awards increased greatly, being up 14 percent in 1970-71 and 19 percent in 1971-72. By synthesizing and extrapolating from scattered data, it is estimated that approximately $700 million are now spent by the states on student aid. The federal government probably adds another one and one-half to two billion dollars total; private sources contribute well over $50 million; and colleges and universities from their own varied sources add another $700-$800 million. Clearly, the trend toward financing higher education through students is a major one and one, I believe, that will have serious implications for higher education.

EFFECTS OF FINANCING HIGHER EDUCATION THROUGH STUDENTS

Now let me turn to some of the effects of this developing trend. I will focus my remarks here upon the extent to which equality of educational opportunity is achieved, and how students are redistributed among the institutions of higher education as a result of these aid programs. The bases for my observations stem largely from research we have conducted at the Center for the Study of Higher Education at Penn State although I have also made use of other published accounts as appropriate.

Achievement of Equal Educational Opportunity

First, on the matter of equality of educational opportunity, I think it is fair to say that the evidence is at best mixed. Based largely on

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a study of the grant and scholarship recipients in those five states having the largest state student aid programs (i.e., California, New York, Pennsylvania, New Jersey, and Illinois), it seems clear that the aid programs have had the effect of inducing large numbers of persons to attend college who would otherwise have been unable or unwilling to do so. In the five-state study we found that over 40 percent on the average of all aid recipients indicated that the aid was the cause of their being in college. When we examined who these aid recipients were, we found that they were disproportionately more likely to have fathers whose occupations could be described as lower status. This is most evident in the case of students whose fathers were classified as skilled, semiskilled, or unskilled workers. The aid recipients were also more likely to come from lower income families than were all students considered collectively.

On the other hand, we do not know how many students who were not qualified for aid were forced to alter their plans for college attendance. So we do not really know to what extent some were given educational opportunity at the cost of educational opportunity for others. There is reason to believe that the excluded group may be quite large. In another paper done with my colleague, Gary Johnson, we examined the issue of equity in the financing of higher education. It was our conclusion from several months of work on this topic that although lower income students do gain educational opportunity under the various aid programs, middle-income students in fact lose considerably.

Consider, for example, the following set of data: In preparation for testimony given earlier this month to a Congressional committee, I collected data comparing the expected family contributions to the actual family contributions of those who applied for student aid. The evidence showed that those who applied for aid and received it obtained from their parents on the average almost exactly the amount calculated by agencies of the federal government. This amount was about $480. Meanwhile, for those who applied for but were refused aid--and these are almost exclusively middle-income students--the picture was quite different. My calculations show that the average expected family contributions for nonrecipient applicants was approximately $1,730. But the average actual family contribution was about $1,000 less. In other words, the average difference between the amount aid recipients are getting from their parents and the amount nonrecipients are getting from their parents is only about $150-$270, although it is supposed to be about $1,250. Put another way, aid recipients on the average get from their parents almost exactly the amount the government thinks they should get, while nonrecipients--who are largely middle-income students--get less than 44 percent of the amount calculated by government representatives. These data show that family income is a very poor predictor of the amount of support a given student will need to finance his college education. I would have to conclude that middle-income parents, who have established a moderate standard of living, are either unable or unwilling to lower drastically that standard and thus have few resources available for the college education of their offspring.

Student Redistribution Among Institutions

Let us move then from equality of educational opportunity considerations to consider how students redistribute themselves among institutions as a result of having received aid. I will discuss these findings very briefly according to three institutional classification variables: sector of control, public or private; institutional level, university, four-year college, two-year college; and institutional size. These findings are again from the "College Student Grant Study" conducted at the Penn State Center.

What we discover is that student aid recipients are considerably more likely to attend private institutions than students who compose a suitable norm group. Indeed, among those state aid recipients whose attendance patterns were altered as a result of having received aid, about 31 percent selected private institutions and about 11 percent selected public institutions.

By institutional level, we found that universities and four-year colleges are important beneficiaries of aid programs but that two-year campuses definitely are not. This was one of the clearest findings from our data. It seems that, given the resources to do so, students will leave the two-year campuses for universities and four-year colleges. Only the attraction to the two-year campuses of some students who would not have attended college *anywhere* compensates for these losses by the two-year colleges. But, relatively speaking, two-year campuses fare very poorly under governmental student aid programs.

By institutional size, the effects are linear and are inversely related to receipt of aid. In other words, aid recipients are most likely to select small institutions and are least likely to select large institutions when compared to suitable norm group populations.

You would probably be interested in knowing that when these data are combined with the findings of our investigations into the implications of the stabilization of enrollments occurring nationally, we come to some rather clear-cut conclusions about the kinds of institutions that will prosper and the kinds that will be in serious difficulty in the years ahead. We think that the high status and very low tuition institutions will be able to maintain themselves at least at present levels. But for those which can offer neither high status nor low cost, we predict serious trouble. In this latter category would be the small, private, church-related institutions; the state colleges having relatively high tuitions; and those two-year institutions which carry the name of a state university, but little else save the high price these institutions often charge. Obviously, some of your institutions would fit this description. Included would be those campuses having tuitions that are not competitive with the tuitions of nearby community colleges.

In part two I described three rationales commonly used to support the argument for high tuition. In part three I have discussed some implications of high tuition for your institutions. In the final part of my comments I would like to offer a word about the importance of low tuition to your institutions.

Importance of Low Tuitions

The first point would be to repeat the one just made. If your campus bears the name of your state university, this will become a greater and greater advantage to you in the years ahead as you attempt to maintain enrollments. However, this advantage may have payoffs only to the extent that you are able to keep tuitions close to those of competitive institutions.

The second point has to do with the tradition of free public education.

It is often said that the major forces shaping the character and condition of social institutions and, indeed, individual organizations, are history and tradition. The reason why an organization operates the way it does, why members of the organization hold the views they do, and why

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the organization is structured the way it is are rooted in the history and traditions of the organization.

The history and tradition of American education is largely that it has been free. From a time when the society saw its most pressing need as the "Americanization of everyone" in order to undergird the nation of immigrants with a common heritage, through the period of industrialization when skilled professionals and business leaders were needed to staff the developing businesses and technologies, the greater social good required strong public support of education. To encourage consumption of *higher* education, tuition costs were kept low.

As has been very clearly noted from newspaper and television editorials concerning the various plans to raise public college tuitions, the American public still resists the abandonment of the free public education principle. Your legislators should be reminded constantly of this fact.

My third point regards what I would call the matter of political feasibility. Raising tuition is being suggested as the proper means to the widely accepted end of increasing equality of educational opportunity. But, it can be argued that if means are inequitable, no plan for financing higher education will receive the broad public support essential to successful public policy. In short, the politics of good higher education financing policy dictate equitable treatment of all, not a free public service for some and high tuition for others. Broad public support is necessary politically and is essential to the healthy maintenance of any major public service, including higher education.

The fourth point to be made is that low tuition has a proven record as a guarantor of higher education access on the parts of lower- and mid-

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dle-income students. It would be interesting to know how many of those in this room were able to attend college only because of accessibility to a low-cost public institution. Such institutions have resulted ultimately in upward mobility for literally millions of Americans. The assumption that the dollars raised from higher education tuitions will be transferred on a dollar-for-dollar basis to grants for low-income students is a very questionable assumption indeed. I have not yet heard of any political figure promising that the public money saved as a result of higher tuitions will be placed in a trust fund for aid to deserving students. Until those assurances are a reality and until we take into account the effects on middle-income students, I would submit that this risk is one that is too great for this society.

Finally, I need only to remind you that institutional discretionary income is vital to the maintenance of higher education institutions as we have known them. Institutions that receive all or nearly all of their money from students will necessarily become overly responsive to them. In a competitive system, institutions cannot afford to waste significant resources on activities only tangentially related to production of the goods or services being purchased. Perhaps the best model for understanding what would happen under such a system would be the proprietary school. Proprietary schools can ill-afford to expend resources not directly related to enhancing the earnings potential of their student clients. Students purchase a product from proprietary schools, and there are very few dollars left over for such frivolities as general and liberal education. Heavy emphasis rests upon learning the technical skills being purchased. I doubt that many here would propose such a model for higher education generally.

In sum, I have shown what the future promises in regard to tuition pricing. I have presented, and I hope brought into serious question, the rationales used to support the high tuition principle. I have discussed some observable effects of those student aid programs added as corollaries to high tuition proposals, and I have offered some positive defenses of low tuition and *its* corollary--institutional aid.

Let me close, then, by saying we should take a very close look at student aid programs which may be attractively labeled as programs of equal opportunity. Student aid programs which result in higher tuitions are not likely to enhance opportunity for anyone in the long run; worse yet, they may destroy a system of higher education that has had no peer in western civilization.