25 Ways to Reduce the Cost of College

Center for College Affordability and Productivity

About the Authors

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Center for College Affordability and Productivity

The Center for College Affordability and Productivity (CCAP) is an independent, nonprofit research center based in Washington, DC that is dedicated to researching public policy and economic issues relating to postsecondary education. CCAP aims to facilitate a broader dialogue that challenges conventional thinking about costs, efficiency and innovation in postsecondary education in the United States.

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#1: Encourage More Students to Attend Community College

Community college enrollments have grown considerably over the last half-century, reflecting a general increase in demand for postsecondary degrees seen in this *period*. However, little attention is given to the fact that community colleges have quietly gained not only in enrollments, but in public institution market share as well. Community colleges held a 34 percent market share among public institutions in 1970, steadily escalating to 46 percent in 2007. The rising costs and debt loads associated with four-year institutions have subsequently decreased the opportunity cost of attending community college. That is, achieving higher wages by attending a four-year school is growing less profitable as a student is required to pay more out-of-pocket, take on more debt, and forgo years of employment. The benefits community colleges offer to the student are numerous and range from cost savings to scheduling flexibility, while public benefits include fewer tax dollars spent per student and positive externalities for local economies.[1] Community colleges provide an alternative to those who wish to continue their education at a lower cost, with fewer entry requirements, and often with a higher level of convenience, while reducing the mounting costs to the taxpayer.

Community College Trends

Community Colleges got their first big boost in 1947 when the Truman Commission aimed to increase educational opportunities after high school by establishing a network of public community colleges around the country with little or no direct cost to the student. Additionally, military education assistance, such as G.I. Bills, work to promote higher education attainment among veterans who often opt for community colleges over traditional four-year schools. In the years since, their scale and scope has expanded. Dual enrollment options (where students take a class that counts for both high school and college credit) are becoming increasingly popular, with a large proportion of these students enrolling through two-year colleges and universities. Economic downturns are also believed to attract many students to community colleges, acting as a more affordable route to higher education at a time when money is tight and jobs are scarce. In 2007, 6.3 million students enrolled in community colleges in the United States, representing 34 percent of all undergraduates, and 46 percent of all undergraduates at public institutions.[2] Community college enrollments have shown a steady average increase of 5.2 percent annually since 1963, compared with 2.6 percent at public four-year institutions.[3]

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[1] Economic Impact: Houston Community College Regional Economic Growth and Investment Analysis (Houston Community College).

[2] United States, National Center for Education Statistics, Digest of Education Statistics (Washington: NCES, 2007).

[3] Ibid.

Figure 1.1: Public Institution Enrollment Trends: Two-year vs. Four-year
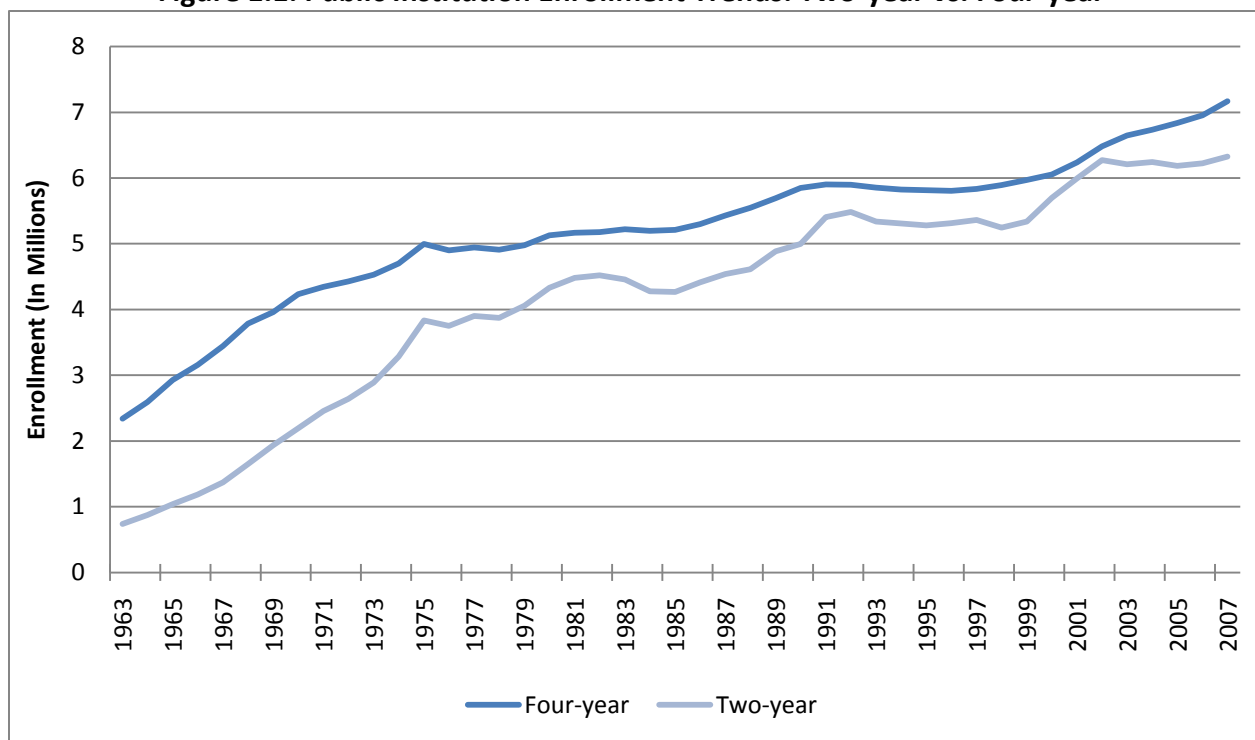
SOURCE: DIGEST OF EDUCATION STATISTICS, TABLE 190

Benefits of Community Colleges

Community college proponents cite a multitude of advantages in favor of two-year education, with a focus on five main points. First, community colleges provide postsecondary education at a fraction of the cost of their four-year counterparts. Students at public two-year institutions save, on average, $4,183 in tuition over public four-year institutions, and $22,741 when compared to private four-year schools.[4] These numbers are particularly significant when extrapolated to four or more years of postsecondary education. This tuition differential has resulted in a substantial difference in debt accumulation between two-year and four-year students. A Department of Education survey showed that during the 2003-2004 academic year 64.5 percent of students graduating from four-year institutions took out student loans, and they borrowed an average of $18,417. Conversely, only 29 percent of students attending public two-year institutions took out loans averaging only $8,805 in debt.[5]

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[4] 2008 Annual Survey of Colleges (The College Board, 2008). Figures obtained by subtracting average published tuition and fees for public two-year schools ($2,402), from that of public four-year ($6,585) and private four-year ($25,143) schools. These relative annual savings amount to $4,183 between public two-year and public four-year schools, and $22,741 between public two-year and private four-year schools.

[5] Mark Kantrowitz, "Growth in Cumulative Education Debt at College Graduation," Student Aid Policy Analysis 30 July 2009.

Figure 1.2: Public Institution Tuition and Fee Trends: Two-year and Four-year
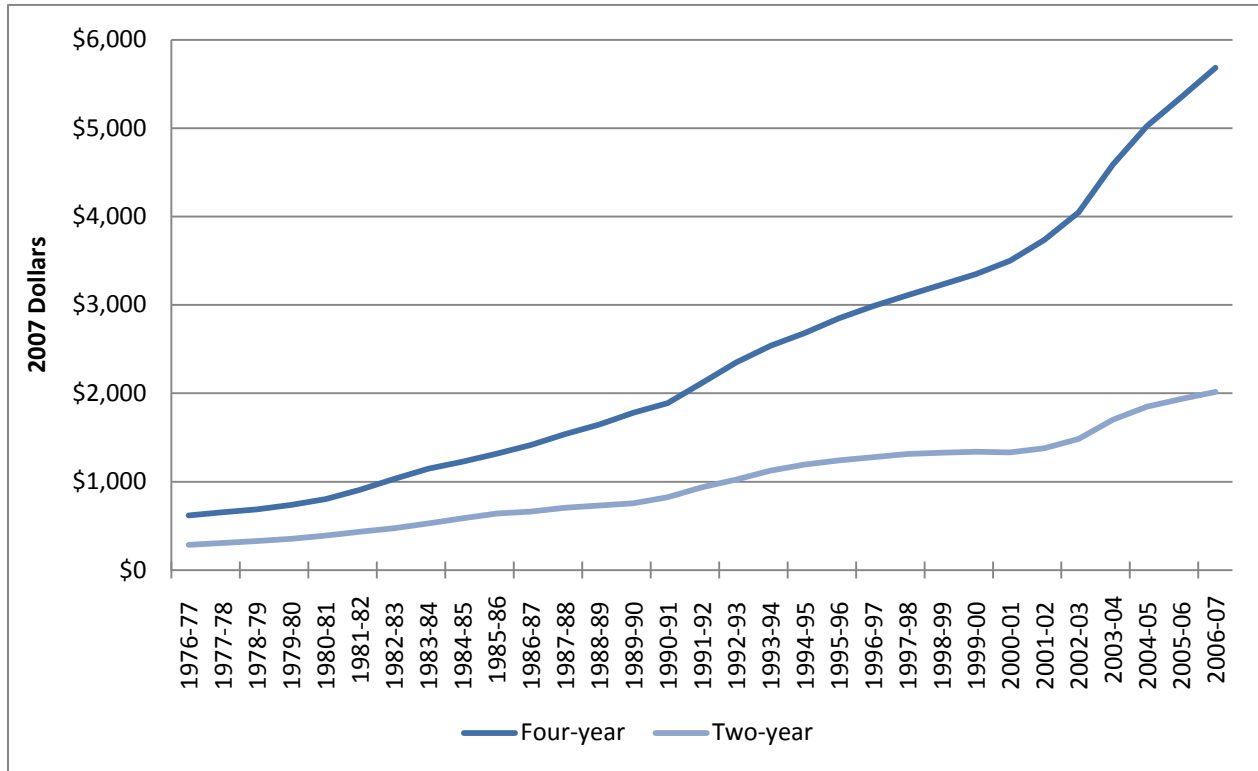
SOURCE: DIGEST OF EDUCATIONAL STATISTICS, TABLE 334

Second, of the thirty fastest growing occupations listed by the Bureau of Labor Statistics, only half actually require higher than a two-year degree.[6] Four of the remaining fifteen require an associate's degree as a prerequisite for employment, eight require on-the-job training, and three require a postsecondary vocational award. Examples of positions available without a four-year degree include medical assistants, veterinary technicians, and dental hygienists.

Third, community colleges often allow for a smoother transition between high school and four-year colleges. This is due to a number of different characteristics intrinsic to community colleges. Professors at these institutions are rarely invested in outside academic research, a requirement at most four-year colleges, and subsequently have more time to spend with students.[7] Flexible scheduling allows students to design a schedule tailored to their personal needs. Community colleges tend to schedule fewer students per class, allowing for greater student-teacher interaction.[8]

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[6] United States, Department of Labor, Occupational Outlook Handbook, (Washington: BLS, 2007).
[7] United States, Digest of Educational Statistics, The Condition of Education, (Washington: NCES, 1992).
[8] Ibid.

Community colleges cater to those students wishing to transfer to a four-year school by offering general education credits at a lower cost. Community colleges enable students academically ineligible for traditional four-year institutions to pursue a degree. Open enrollments at most of these schools allow students with low test scores and/or GPAs to continue to further their education. This benefits not only the student, but the community as well. Individuals who graduate from community colleges are believed to be less likely to require unemployment insurance, as employment prospects are enhanced, and are also believed to be less likely to be incarcerated.[9] Additionally, transferring from two-year to four-year schools seems to be a growing trend in higher education. While these transfer rates are notoriously difficult to measure, the main problem being competing definitions of transfer, the Department of Education's 1999 estimates show that 26 percent of all students starting at community colleges formally transferred to four-year institutions.[10] This percentage is likely to increase considerably in the future as the tuition gap between two-year and four-year schools continues to rise.

Fourth, community colleges are ideal for individuals seeking vocational or career-oriented degrees. Not only do community colleges offer postsecondary degrees at a lower cost, but many also confer certification in fields that do not require a bachelor's degree, such as fashion design and cosmetology. Two-year colleges allow students to save money while spending less time on courses that are irrelevant to their desired career path.

Fifth, community colleges appear to provide substantial positive externalities to local economies. Community colleges spend the fewest dollars per student of any sector in higher education, equating to less money spent by taxpayers. While the exact amount of savings varies significantly by location, estimates by NCES indicate that public expenditures per full-time equivalent student (FTE) at community colleges are roughly one-third the amount of their four-year counterparts.[11] These tax savings are most evident when comparing two-year institutions to the first two years of a four-year institution, as spending per student is more comparable during these years. In addition, students who graduate from a community college realize a higher overall salary and therefore contribute more taxes than prior to receiving a degree. In 2008, individuals with an associate's degree earned an average of $736 per week while high school graduates with no postsecondary education earned $591 per week. Additionally, unemployment among those with an associate's degree averages 3.7 percent compared with that of 5.7 percent for those with no college education.[12] This higher overall salary combined with lower unemployment can also lead to savings in government welfare and unemployment expenditures, as well as an increase in regional business productivity.

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[9] Economic Impact: Houston Community College Regional Economic Growth and Investment Analysis (Houston Community College).

[10] United States, Department of Education, Answers in the Tool Box: Academic Intensity, Attendance Patterns, and Bachelor's Degree Attainment (Washington: Dept of Ed, 1999).

[11] United States, National Center for Education Statistics, Digest of Education Statistics (Washington: NCES, 2007).

[12] United States, Department of Labor, Current Population Survey (Washington: BLS, 2008).

Limitations of Community Colleges

Those opposed to community college implementation cite four key flaws. First, community colleges have historically seen lower graduation rates than four-year colleges. Although community colleges spend fewer tax dollars per student, lower graduation rates mean more money spent on students who will not receive a degree. A handful of community college students take courses with no intention of receiving a degree.

Second, some education analysts believe community colleges may divert students from obtaining bachelor's degrees. The argument is that high school students who "would" attend four-year schools instead choose community colleges, and are less likely to ever get a bachelors degree. A 2009 study by Tatiana Melguizo and Alicia C. Dowd acknowledges the effect, but shows it to be drastically overestimated.[13] Which type of school to attend varies by the individual on the basis of budget, academic proficiency, and other external circumstances, thus a one-size-fits-all approach to two-year (and four-year) institutions is problematic.

Third, credits earned at community colleges do not always transfer to four-year institutions. Retaking, or waiting to retake, courses which do not transfer over can deplete any and all cost savings amassed by attending a two-year school and can, in some cases, actually create higher expenses for the student (and taxpayer) than if he or she had originally attended a four-year college or university. Although a small number of initiatives have been introduced to smooth the transfer process, it remains a barrier for many students.

Fourth, community colleges do not offer the "traditional college experience." While proponents of two-year education argue that this is not the objective of community colleges, a few community colleges have already begun offering bachelor's degrees as well as four-year programs, such as Miami Dade College. However, there is little doubt that non-academic experiences rank high in student expectations, and community colleges are often derided for lacking student meeting areas or providing a sense of community.

Increasing Community College Enrollment

Encouraging community college enrollment can be done in a number of different ways. First, affordability should continue to be the central focus of community colleges. This can be achieved by keeping overhead costs low and reducing or eliminating expenditures that do not directly contribute to educational outcomes. A common goal for community colleges is to maintain tuition at a certain percentage below local or regional four-year counterpart institutions. This provides a more tangible target for budgeting purposes as well as a sense of competition that is often absent in higher education. Economic recessions tend to enhance the value of community colleges relative to four-year institutions, as is evidenced by increased

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[13] Tatiana Melguizo and Alicia Dowd, "Baccalaureate Success of Transfers and Rising 4-Year College Juniors," Teachers College Record 2009.

enrollments during these periods. These increases are largely attributed to the attendance of the recently unemployed in order to learn new trades or skills in order to become more marketable. Many of the country's largest community college districts have reported record attendance numbers for 2008 and 2009. For example, Salt Lake City Community College, which serves over 60,000 students, recently reported a 33 percent increase in fall semester enrollment over 2008.[14]

Second, transfer processes from community colleges to four-year institutions must become less problematic. Students who are confident their credits will transfer successfully are more likely to enroll in a community college. Bureaucratic barriers that prevent transfer of credit cost students time and money, resulting in a higher total cost than is necessary. Many state university systems are working closely with corresponding community college systems to ease transfer processes by aligning curricula within the state. Additionally, some community colleges now offer transfer advisory services to help inform students which courses are likely to transfer. Those schools and states that are not doing this already should begin to do so.

Third, community colleges should continue to work closely with employers to stay current on labor force demand. Since many of these schools act as vocational training facilities for local labor markets, it is crucial that faculty work to align course content as closely as possible with these markets. Employers pay close attention to institutions teaching in-demand skills, and are often willing to provide detailed input on regional or state-wide labor trends. Also, due to more flexible course guidelines, community colleges are often among the first schools to initiate courses which act to immediately address national labor demands, especially involving technology and trade skills. The provision of courses which students see as pertinent to a career acts to increase the attractiveness of a two-year education. The focus of community college curriculum for the most part has been, and should continue, to emphasize practicality and value.

Conclusion

Community colleges offer students the chance to complete a degree with fewer entry requirements, greater flexibility, and a lower sticker price than four year colleges. The use of fewer resources per student acts to decrease the regional tax burden, while simultaneously improving worker productivity and job access. Community colleges should continue to focus on low cost, accessibility, and adaptability in order to remain a high value-added option in higher education.

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[14] Elizabeth Ziegler, "Community College Fall Enrollment Up," KCPW 31 July 2009.

#2: Promote Dual Enrollment Programs

The skyrocketing price of a college education is a formidable obstacle to obtaining a college degree. Many graduating high school seniors are typically faced with two equally unattractive options. They can take on what often amounts to a mountain of debt, or they can choose to work for a few years and try to save up enough money to enter college without loans. These options both have big downsides–loans need to be repaid, and most students who don't enter college right away run the very real risk of never obtaining a college degree.

Fortunately, there exists a variety of options that can help lessen the financial burden of a college degree. Through programs such as Advanced Placement (AP) course work, College Level Examination Program (CLEP), and early college, high school students can begin to accumulate college credit while still in high school. Students who elect to participate in such programs spend less time taking basic courses in college and consequently, are able to graduate quicker and at a lower cost.

While the basic programs for early college credit already exist, they are currently underutilized for a variety of reasons. First, not all high schools have the resources to offer advanced placement courses or provide partnerships with local colleges or universities. Even when they do have sufficient resources, it may not be cost effective when few students participate. Second, insufficient information and timing reduces the appeal of the programs. Students and parents may only see the short term costs of taking advantage of such options, while the ultimate benefits of doing so are uncertain and likely a few years away. Lastly, colleges themselves are sometimes reluctant to accept credit obtained in high school, and require students to take redundant courses instead.

Cost Savings from Reducing College Course Load

The savings of accumulating college credit in high school have the potential to be immense both for the student and the public. Currently, the average student pays about $1,063 per course or $4,253 per semester.[15] Additionally, public universities subsidize students at a rate of about $881 per course or $3,522 per semester.[16] The total cost of a college education could potentially be reduced by up to 12.5%, which would lessen the financial burden on students and taxpayers. In fact, for every 1 million students entering college with a semester's worth of early credits, the cost of college could be reduced by over $9.5 billion dollars.

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[15] United States, National Center for Education Statistics, <u>Digest of Education Statistics</u> (Washington: NCES, 2007).
[16] <u>State Higher Education Finance</u> (State Higher Education Executive Officers 2008).

Earning College Credit Early

Below are a few of the most popular ways that high school students can obtain college credit.

The Advanced Placement Program

An Advanced Placement, or AP course, is a college level class taught in high school. The rigor and challenge of an AP course is intended to be commensurate with that of an introductory level college course. When the class is finished, students have the opportunity to take an AP exam to demonstrate that they have mastered the material. Students who demonstrate sufficient mastery of the material may then be granted credit by the college to which they are admitted.

However, there are several reasons that many students do not take advantage of AP classes. First, the AP program is not free. There are costs for both the student and the high school offering the course. In order to have the chance of obtaining credit, a student must take the AP exam and pay the $86 exam fee.[17] This fee can quickly add up for a student taking multiple AP classes. High schools also bear a significant cost for offering AP courses, as they must offer additional sections of a class and often must invest in additional textbooks and teacher resources.

Another reason AP programs are underutilized is because students are unsure whether or not the college they ultimately attend will accept their AP credits. Some schools such as Brandeis, Dartmouth, Tufts, Yale, and the University of Pennsylvania have no limit on the credit they will award for high AP exam scores, though Tufts is in the process of imposing restrictions. Other schools such as Boston College and Williams College will not award AP credit under any circumstances. Since some colleges do not give credit for AP courses, and high school students do not know what college they will ultimately enroll in, there is considerable uncertainty about the benefit of taking AP classes. The short-term costs paired with uncertain long-term benefits combine to deter many students from AP programs.

College Level Examination Program (CLEP)

The College Level Examination Program (CLEP) is an early college credit program administered by the College Board. Thirty-four different CLEP exams are currently offered and satisfactory scores at participating schools can earn students between 3 and 12 credits per exam.[18] Needless to say, the $72 cost per exam is substantially cheaper than paying tuition at the vast majority of colleges. Over 2,900 colleges and universities award credit for at least one of the 34 CLEP exams.[19]

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[17] "Register for the SAT" <u>CollegeBoard,</u> 25 May 2010, <http://sat.collegeboard.com/register>.
[18] "CollegeBoard," 25 May 2010, <http://www.collegeboard.com/>.
[19] Ibid.

Online Education

Increasing numbers of students also have the option of using online education to help earn college credits while still in high school. One of the main benefits of using online courses is learning the ability to manage one's time without faculty oversight, a crucial skill for students leaving high school and entering higher education. Online courses also allow for a more flexible schedule. On top of this flexibility is the option to take advanced and specialized classes that are often unavailable at many high schools. Lastly, online courses may enable students to discover subjects of interest (or disinterest) prior to arriving on campus, helping them avoid the delays that often accompany changing majors.[20]

Dual Enrollment Programs

Dual Enrollment Programs offer current high school students the opportunity to simultaneously earn college credit. With availability generally determined on a state-by-state basis, these programs come under a host of different titles, such as Post Secondary Enrollment Options (PSEO). For the most part, these programs are fairly comparable. The primary differences among states offering these programs include eligibility requirements, funding sources, admission requirements, and target student populations. Many states require participating students to individually cover the cost of dual enrollment, while other states cover the costs themselves or require the participating high schools to do so. Additionally, many states, such as Virginia and Indiana, only allow academically eligible juniors and seniors to participate in dual enrollment programs. Numerous research organizations, including the Pew Charitable Foundation, have conducted national studies on dual enrollment programs helping to illustrate their ability to save on future higher education costs as well as improve learning efficiency.

International Baccalaureate

The International Baccalaureate (IB) program offers a curriculum that provides students with more challenging courses than regular high school courses. Successful students earn an IB diploma.[21] Modeled on a classical education in European schools, the coursework entails a package of six courses that include literature, a foreign language, social science, experimental science, math, and arts.[22] Although only 500 schools in the United States offer the program, many colleges award credit and preferential admission status to IB students.[23] With tuition costs covered almost entirely by the school or the state, IB provides a strong advantage to students who are able to take advantage of this program.

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[20] Ibid.

[21] Simon Capuzzi, "The College Try: Getting Credit Before You Get There," *The New York Times,* January 8, 2006. Available at: <http://www.nytimes.com/2006/01/08/education/edlife/collegecredit.html>. (Accessed May 12, 2009).

[22] Ibid.

[23] Ibid.

Conclusion

As the costs of college have continued to rise throughout the country, new and innovative ways to award college credits have gained in appeal. Alternate programs to educate high school students at the college level will be beneficial to the individual student as well as the university at which they choose to enroll, since students with prior exposure to college level courses are less likely to be overwhelmed and drop out. Programs such as AP and IB allow students to enhance their curriculum while still in high school, giving them a jump start on their higher education for minimal costs. Duel-enrollment programs provide a formalized path to early degree completion, while filling gaps in some high school curricula. The CLEP test, by certifying the mastery of subject material, is another option for students capable of college level work. Lastly, online courses provide a flexible setting for students to manage their time and their learning goals. Each of these options allows students to take control of their education and holds the potential to significantly reduce the cost of college.

#3: Reform Academic Employment Policies

Traditionally, colleges have hired faculty from the ranks of recent PhD graduates, using tenure-track positions as bait to lure new hires who, upon completing a rigorous academic career crash course, are presumably enticed by the benefits package commensurate with the professorate. This package normally includes a respectable salary, health and life insurance, a retirement package, a highly flexible schedule, a generous amount of paid time off, a great deal of autonomy and the prospect of earning near permanent job security in the form of tenure.

The American Association of University Professors (AAUP) defined academic tenure in 1940 as:

> "After the expiration of a probationary period, teachers or investigators should have permanent or continuous tenure, and their service should be terminated only for adequate cause, except in the case of retirement for age, or under extraordinary circumstances because of financial exigencies."[24]

The concept of tenure in the United States dates back at least to 1915 when the American Association of University Professors (AAUP) established a declaration of academic freedom and tenure in response to a growing number of cases involving alleged infringement of academic freedom, as a means to protect academic freedom and to render the professorate "more attractive to men of high ability and strong personality."[25] Upon receiving tenure, an employee may only be terminated for "adequate cause", unless an institution has "extraordinary circumstances because of financial exigencies"[26] and thus, granting what one higher education researcher, Philo Hutcheson, defined as "a contractual relationship, emphasizing the lifetime arrangement between an institution and a professor."[27]

Education is one of the few industries in the United States that provides job tenure, which has drawn a steady flow of criticism over the past few decades as colleges have increasingly moved away from this employment arrangement. Edward Morris describes several ironies of academic tenure, including the fact that it is a one-way contract in which tenured faculty receive a lifetime employment contract without having to offer a reciprocating commitment to the institution they work for, that a tenure system creates insecurity among non-tenured faculty, and that professors awarded tenure are those least motivated to spend time in the classroom.[28]

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[24] "1940 Statement on the Principles on Academic Freedom and Tenure with 1970 Interpretive Comments," American Association of University Professors Policy Documents and Report, 1995.

[25] "1915 Declaration on Principles of Academic Freedom and Academic Tenure," American Association of University Professors Policy and Documents Report, 1995.

[26] "1940 Statement on the Principles on Academic Freedom and Tenure with 1970 Interpretive Comments," American Association of University Professors Policy Documents and Report, 1995.

[27] Philo Hutcheson, "The Corrosion of Tenure: A Bibliography," The NEA Higher Education Journal, 1997.

[28] Edward Morris, The Lindenwood Model: An Antidote for What Ails Undergraduate Education (St. Charles: The Lindenwood Press, 1998) 85-86.

This chapter will explore the economic impact and potential cost savings of continuing to move away from a tenure system of employment for college faculty to a more flexible policy.

The Erosion of Tenure

Colleges increasingly are moving away from the use of tenure in favor of what Ronald Ehrenberg and Liang Zhang dubbed *contingent faculty*, which includes full-time non-tenure track and part-time faculty.[29] The use of contingent faculty provides colleges with a more flexible work force at a presumably lower cost. The following three figures will reveal the change in the composition of the 4-year college faculty work force. Figure 3.1 shows the change in the percent of full-time faculty that is not tenured and not on tenure track at 4-year colleges between 1989 and 2007. At public 4-year colleges, this ratio increased from 19 percent in 1989 to 32 percent in 2007, an increase of 3.6 percent per annum. At private not-for-profit colleges, it increased from 24 percent in 1989 to 36 percent in 2007, an average annual increase of 2.9 percent.

Figure 3.1: Percent of Full-Time Faculty Not Tenured & Not on Tenure-Track[30]
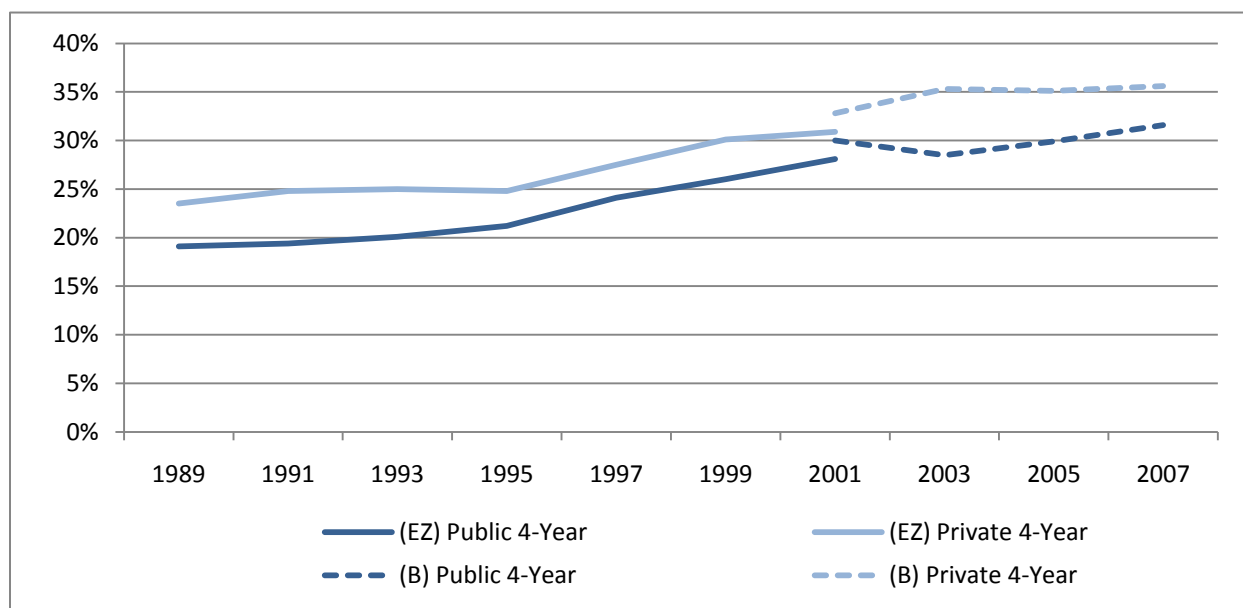
SOURCES: (EZ) EHRENBERG AND ZHANG (2004); (B) IPEDS FALL FACULTY SURVEY

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[29] Ronald Ehrenberg and Liang Zhang, "Do Tenured and Tenure-Track Faculty Matter?" The Journal of Human Resources, 2005.

[30] The solid lines in the figure represent the ratio between 1989 and 2001, based on sample size of 319 public 4-year and 761 private 4-year schools, as computed in a 2004 paper by Ehrenberg and Zhang, based on the *IPEDS Fall Staff Survey*. The dashed lines in the figure represents the ratio between 2001 and 2007, based on a sample of 548 public 4-year and 740 private 4-year schools, as computed by the author using the same methodology described in the Ehrenberg and Zhang paper using the *IPEDS Fall Staff Survey*. The *Fall Staff Survey* includes visiting faculty members and faculty members on research or public service appointments.

As evident in Figure 3.1, the percentage of full-time faculty not tenured and not on tenure-track has increased steadily over the past 18 years. The percentage of new full-time faculty hired without tenure or not on tenure-track has been volatile during this period, especially at public 4-year schools. Figure 3.2 shows the ratio of non-tenured and not on tenure track faculty new hires to total faculty new hires between 1989 and 2007. This ratio increased by 22.8 percent between 1989 and 1999 at public 4-year schools, but declined by 14.5 percent between 1999 and 2007. At private 4-year schools, the ratio increased by 19.9 percent between 1989 and 1999 and declined by 6.5 percent between 1999 and 2007.

Figure 3.2: Percent of New Hire Full-Time Faculty w/o Tenure & Not on Tenure-Track[31]
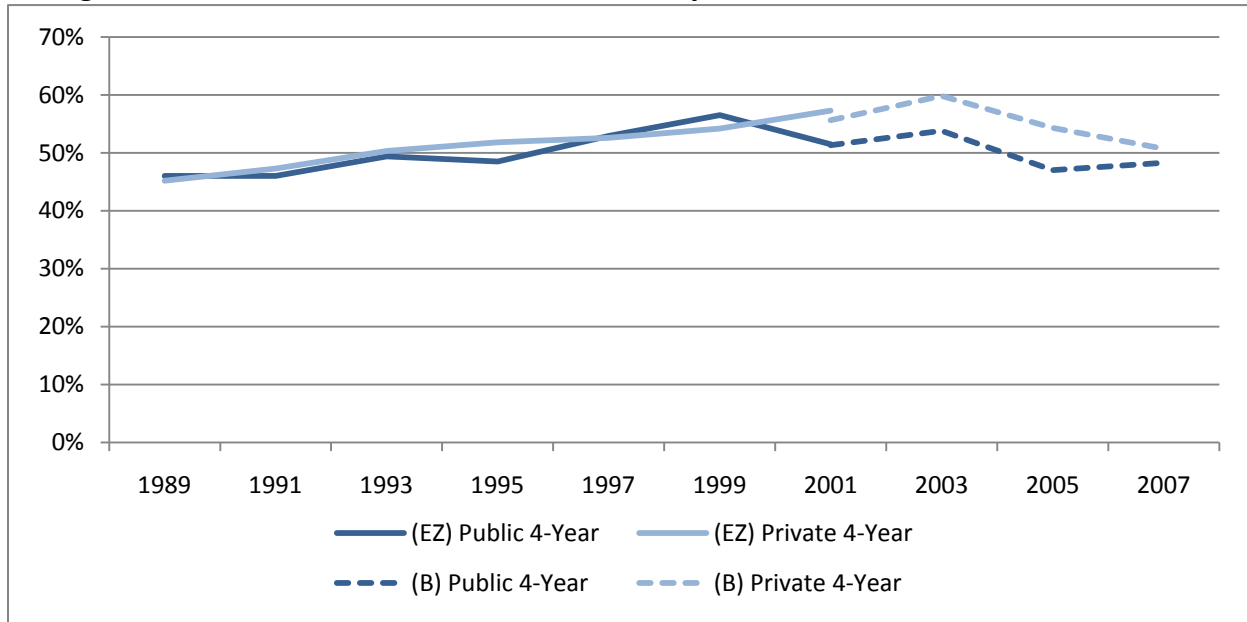
SOURCES: (EZ) - EHRENBERG AND ZHANG (2004), (B) - IPEDS FALL FACULTY SURVEY

The decline in the hiring of full-time non-tenure track faculty since 1999 is most likely due to the increasingly popular trend of hiring part-time faculty, most of which don't have tenure status. Figure 3.3 displays the ratio of part-time to full-time faculty between 1989 and 2007. This ratio is much higher at private 4-year colleges than at public ones, although the gap has narrowed over time, as the ratio of part-time to full-time faculty has increased by 71.7 percent at public 4-year schools, as compared to an increase of 57.1 percent at private 4-year schools.

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[31] Ehrenberg and Zhang, except the solid figures based on a sample of 177 public 4-year schools and 516 private 4-year schools, whereas the dashed lines based on a sample of 584 public 4-year schools and 829 private 4-year schools.

Figure 3.3: Ratio of Part-Time to Full-Time Faculty[32]
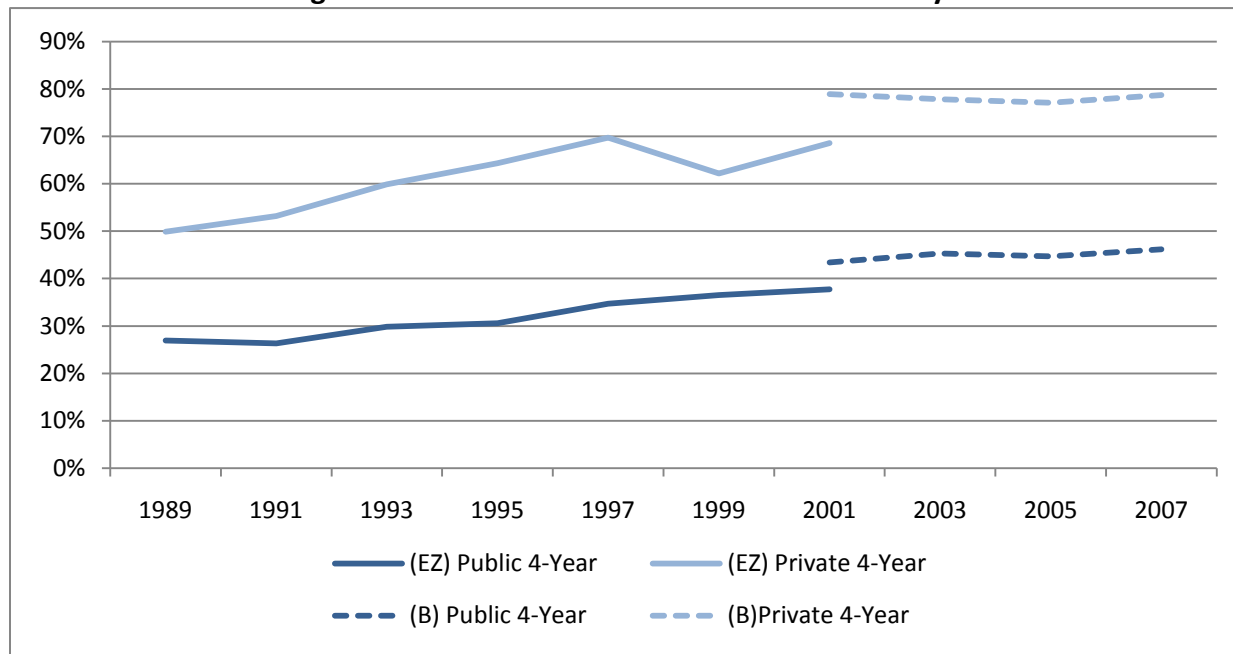
S<small>OURCES</small>: (EZ) E<small>HRENBERG AND</small> Z<small>HANG</small> (2004); (B) IPEDS F<small>ALL</small> F<small>ACULTY</small> S<small>URVEY</small>

The Benefits of Academic Tenure

The 1940 AAUP Statement of Principles on Academic Freedom and Tenure described tenure as a "means to certain ends, specifically: (1) freedom of teaching and research and of extramural activities, and (2) a sufficient degree of economic security to make the profession attractive to men and women of ability."[33] In essence, the two prevailing arguments in support of academic tenure are to preserve academic freedom and to attract and retain quality faculty members.

Tenure as a Means to Preserve Academic Freedom

Richard T. De George explains that "the main purpose of academic tenure is to prevent the possibility of a faculty member's being dismissed because what he or she teaches or writes about is considered by either administrators or some people outside the institution to be wrong

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[32] 32 Ehrenberg and Zhang, except the solid figures based on a sample of 172 public 4-year schools and 483 private 4-year schools, whereas the dashed lines based on a sample of 601 public 4-year schools and 1,045 private 4-year schools.

[33] "1940 Statement on the Principles on Academic Freedom and Tenure with 1970 Interpretive Comments," American Association of University Professors Policy Documents and Report, 1995.

or offensive."[34] In other words, tenure provides a lifetime employment contract that shields faculty from dismissal without just cause.

In its 1940 Statement of Principles on Academic Freedom and Tenure, the AAUP stated that

> academic freedom [...] applies to both teaching and research. Freedom in research is fundamental to the advancement in truth. Academic freedom in its teaching aspect is fundamental for the protection of rights of the teacher in teaching and of the student to freedom in learning. [35]

It is noteworthy, and seemingly forgotten by many today, that the 1940 AAUP Statement imposed several limitations to academic freedom:[36]

"Research for pecuniary return should be based upon an understanding with the authorities of the institution."

"[Teachers] should be careful not to introduce into their teaching controversial matter which has no relation to their subject."

"[Teachers] should remember that the public may judge their profession and their institution by utterances. Hence, they should at all times be accurate, should exercise appropriate restraint, should show respect for the opinions of others, and should make every effort to indicate that they are not speaking for the institution."

Thomas Sowell notes that the tenure system was originally developed to protect faculty from views expressed outside the university, but that it has evolved to protect professors from views expressed inside the classroom as well. Sowell suggests that tenure-protected professors take advantage of their job security to practice classroom indoctrination–teaching students what to think, rather than how to think.[37]

Tenure as a Means to Attract Quality Faculty

Some proponents suggest that the lifetime job security provided by academic tenure is required to attract quality faculty members to the professorate. Those making this argument assume that the extensive training period necessary to obtain a Ph.D. qualification, in addition to the

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[34] Richard George, "The Justification of Academic Tenure," Academic Freedom and Tenure: Ethical Issues, (Lanham, Maryland: Rowman & Littlefield Publishers, Inc, 1997).

[35] "1940 Statement on the Principles on Academic Freedom and Tenure with 1970 Interpretive Comments," American Association of University Professors Policy Documents and Report, 1995.

[36] Ibid.

[37] Thomas Sowell, Inside American Education: The Decline, The Deception, the Dogmas (New York: the Free Press, 1993) 225-26.

long probationary period, would deter many academically capable individuals from aspiring to become professors if lifetime job security was not available.

The Cost of Academic Tenure

Criticism of academic tenure has grown over the years, with economic arguments making a compelling case to eliminate the practice of tenure in favor of a more flexible policy that has the potential to help reduce the cost of college.

Tenure Is Not Cost-Effective

The case has been made that tenure is cost-effective based on the assumption that most scholars are risk averse and are willing to accept lower pay for job security, suggesting that academics forego higher salaries by working at a college and that the job security offered by tenure is compensation for a lower salary than they might otherwise receive. The evidence suggests the opposite is true–that tenure is not a cost-effective employment instrument. This analysis is two-fold. The median salaries of tenured and tenure-track college professors will first be compared to that of all doctorate-degree holding workers and then to full-time non-tenure track faculty.

The 2007 median 9-month equated full college professor salary is estimated to be nearly $89,000 at 4-year public colleges and nearly $80,000 at 4-year private not-for-profit colleges.[38] In order to effectively compare these salaries to that of all doctorate degree-possessing workers, these figures need to be converted to 12-month salaries. By increasing each by one third, the 12-month salaries of full professors amount to over $118,000 at public and nearly $111,000 at private institutions. In contrast, the 2007 median 12 month salary for all doctorate degree-holding workers between the ages of 40 and 69 is estimated to be slightly more than $102,000.[39] These figures do not include additional job benefits, such as insurance, retirement and time off, which are presumed to be more valuable in academe than in the private sector. This suggests that college professors, on average, receive better compensation than comparable employment options in addition to lifetime job security, bringing into question the notion that the job security offered by tenure compensates for a low salary.

Moreover, faculty positions are already being filled without tenure, and at a lower cost. The rising proportion of non-tenured full-time faculty, as described in Figure 3.1, suggests that college teaching and research positions are desirable jobs—even without elongated job security

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[38]Estimations based on the median of the 2007 IPEDS average equated 9-month contract faculty salary by rank data. The sample was limited to 357 public and 318 private colleges that reported salary data for all 3 professor ranks and at least two of the three non-tenure track ranks–lecture, instructor, and no academic rank.

[39] Academics are not likely to be promoted to full professor prior to age 40 and likely not to work beyond age 70; Author's Calculations, U.S. Census Bureau. Current Population Survey: 2008 Annual Social and Economic Supplement. Table PINC-04: Educational Attainment—People 18 Years Old and Over, by Total Money Earnings in 2007, Age, Race, Hispanic Origin, and Sex.

attached. We estimate that non-tenure track full-time faculty members earn between 77 and 80 percent of the salary of assistant professors at 4-year public colleges, and between 83 and 88 percent at 4-year private not-for-profit colleges.[40] An increasing number of non-tenure full-time faculty work for lower wages than their tenured and tenure-track counterparts, indicating that colleges can and do cost-effectively attract qualified faculty without the job security provided by tenure. It is important to note that this analysis excludes part-time adjunct instructors, for which colleges are often accused of exploiting for cheap labor, and instead focuses on faculty who are employed on a full-time basis.

The Reward Structure is Misaligned with Tenure

The current tenure process requires new hires on the tenure-track to serve a probationary period of up to seven years before they are eligible to receive tenure. At the conclusion of the probationary period, faculty members are evaluated based on their supposed merits in teaching, research, and service. The assumption is that faculty members who have proven their worth will continue to perform well for the remainder of their careers and this therefore merits a lifetime employment contract. Critics question the reward structure in place with a tenure system that emphasizes research over instruction. Quest University President David Helfand, who successful lobbied Columbia University in the 1980s to be granted fixed-term renewable contracts rather than receive tenure,[41] noted that there is an implementation problem with tenure—that it rewards research and public stature, while it punishes teaching.[42]

As reported in an essay by Robert W. McGee and Walter E. Block, it has been suggested that "receiving an award for good teaching is considered the kiss of death for an untenured professor," implying that, "anyone who spends so much time preparing for class must somehow be deficient in research."[43] One critic was quoted in the McGee and Block piece as saying, "Academic culture is not merely indifferent to teaching, it is actively hostile to it. In the modern university, no act of good teaching goes unpunished."[44] Morris adds that "mediocre teaching performance will be overlooked if the professor is able to place an article in a refereed journal."[45]

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[40] Non-tenure track faculty are categorized in IPEDS as lecturer, instructor, or no academic rank. Estimations based on the median of the 2007 IPEDS average equated 9-month contract faculty salary by rank data. The sample was limited to 357 public and 318 private colleges that reported salary data for all 3 professor ranks and at least two of the three non-tenure track ranks–lecture, instructor, and no academic rank.

[41] David Helfand, "Tenure, Thanks but No Thanks," The Chronicle for Higher Education, 15 December 1995.

[42] David Helfund, Personal Phone Interview, 15 March 2009.

[43] Robert McGee and Walter Block, "Academic Tenure: An Economic Critique," Academic Freedom and Tenure: Ethical Issues, (Lanham, Maryland: Rowman and Littlefield Publishers, Inc, 1997).

[44] Ibid.

[45] Edward Morris, The Lindenwood Model: An Antidote for What Ails Undergraduate Education (St. Charles: The Lindenwood Press, 1998), 86.

In *Going Broke by Degree,* it is indicated that the emphasis on research for tenure has "…led to vast numbers trying to write the relatively few articles a year that are of interest to a general audience within their disciplines."[46] Because of the increasingly specialized nature of research, Vedder suggests that it has become counterproductive for faculty to interact with those in related disciplines, to serve on university committees and even to take teaching too seriously. This, he says, is "bad for students, bad for scholarship that has broad social meaning, and bad for developing a university community that has common meaning." He continues that "once faculty get tenure, they are often set in their ways, so the situation does not improve."[47]

The status quo suggests that tenure-track professors neglect their teaching and service duties in pursuit of publishing research, a questionable reward structure that appears to be misaligned with one of the primary missions of higher education–to educate the future workforce. Colleges increasingly hire additional employees to fill the void of providing instruction and offering service that was formerly a responsibility of the faculty, adding to the cost or providing an education.

Tenure Enables Deadwood and Prevents Flexibility

The theory of tenure suggests that only those professors who have proven their worth through excellence in teaching, research, and service during the probationary period will be awarded tenure.[48] Such a policy prevents colleges the flexibility to remove professors who become incompetent or to reallocate labor resources to meet a change in demand for particular programs or disciplines. As described by Morris, "A distressing number of the senior professors lapses [sic] into a stultifying complacency and stays [sic] in their positions too long."[49] Daniel Weiss, President of Lafayette College, suggested that, "In some ways, higher education is more like a political environment than the management of a private corporation, except that thanks to tenure, it is difficult to vote anyone out of office."[50]

Under most private sector employment policies, when an employee has demonstrated that his/her work no longer meets a minimum standard of quality (and often after efforts to rehabilitate have failed), the employer initiates action to rid itself of the unproductive employee. Under a tenure policy, the employer (college) effectively loses this flexibility to eliminate tenured faculty whose quality of work fails to meet a minimally acceptable level or whose productivity has dwindled over the years. This has often been coined as the deadwood argument.

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[46] Richard Vedder, <u>Going Broke by Degree: Why College Costs Too Much</u>, Washington: AEI Press, 2004.
[47] Ibid.
[48] Robert McGee and Walter Block, "Academic Tenure: An Economic Critique," <u>Academic Freedom and Tenure: Ethical Issues</u>, (Lanham, Maryland: Rowman and Littlefield Publishers, Inc, 1997).
[49] Edward Morris, <u>The Lindenwood Model: An Antidote for What Ails Undergraduate Education</u> (St. Charles: The Lindenwood Press, 1998), 83.
[50] Ron Leiber, "Why College Costs Rise, Even in a Recession," <u>The New York Times</u>, 4 September 2009.

Deadwood faculty are by no means the norm in higher education, as the majority of faculty pulls its own weight; however, the mere inability to remove unproductive faculty is economically inefficient for colleges and unjust to the students paying tuition and forced to sit through class with professors who view them as a nuisance. Morris adds that "when a professor becomes 'deadwood' other faculty members usually have to fill in to remove the slack, or, in a much more expensive alternative, someone new has to be hired who can (and will) perform. In the latter case, the institution is saddled with two salaries to cover one job."[51] The deadwood problem was exacerbated in 1994 when a federal ban on mandatory faculty retirement went into effect. Charles Clotfelter described "the combination of tenure and the absence of a mandatory retirement age created at least the theoretical specter of aged, unproductive faculty clogging faculty slots that might otherwise have been filled by energetic and freshly trained young scholars."[52]

The dynamic nature of the global economy requires that organizations have the flexibility to adapt to changes in the world. The presence of tenure in higher education significantly reduces a college's ability to efficiently reallocate resources in response to consumer demand–a hindrance that would be life-threatening to an organization in a healthy competitive market. The tenure policy increases the cost of college, as institutions are forced to hire additional faculty to teach courses in popular disciplines with high demand, rather than being able to reallocate faculty resources from subjects that are in low demand by students. For instance, courses in information technology or business may be very popular among students, while courses in medieval history may not. With a tenure system, colleges are not able to reduce the number of medieval history professors in order to increase the number of information technology and business professors, resulting in a misallocation of resources. "Whatever the manpower adaptations required in higher education, tenure makes them more difficult," as Morris put it.[53]

Alternative Approaches to Tenure

The previous sections analyzed the benefits and costs of academic tenure. The main argument in favor of tenure is that it protects academic freedom—a noble function that is vital to the advancement of knowledge and truth in society. The arguments against tenure suggest that it is an economically inefficient employment policy. Four alternative approaches to the current tenure policy that are currently in practice will be presented. The four alternative approaches are as follows: increasing the use of contingent faculty; implementation of a mandatory post-tenure review policy; introducing a system of renewable long-term contracts; and offering job security as a trade-off to other forms of compensation.

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[51] Ron Leiber, "Why College Costs Rise, Even in a Recession," The New York Times, 4 September 2009.

[52] Charles Clotfelter, "The Familiar but Curious Economics of Higher Education: Introduction to a Symposium," Journal of Economic Perspectives 13-1, 1999, 3-12.

[53] Edward Morris, The Lindenwood Model: An Antidote for What Ails Undergraduate Education (St. Charles: The Lindenwood Press, 1998), 85.

Increase the Use of Contingent Faculty

This alternative involves a slow, yet steady phasing out of tenure by discontinuing the tenure-track contract of all new faculty hires and waiting for the tenured faculty to leave of their own natural accord via resignation, retirement or death. Rather than recruit new tenure-track faculty, this approach would offer new hires shorter-term contracts, similar to the current trend of contingent faculty use. This approach appears to be gaining traction, as demonstrated in the analysis presented earlier. Although it is a less than ideal solution, it does provide colleges with much more flexibility and reduces the explicit cost associated with instruction; however, it may not be a sustainable long-term strategy as it increases the risk of high turnover among instructors. This will undoubtedly raise the costs associated with faculty recruitment, retention and other administrative burdens.

> Case Study 3.1: This is the approach that the Kentucky Community and Technical College System's Board of Regents recently decided to formally pursue. In March 2009, the Regents approved a revision that halted the tenure-track process for all new hires appointed on or after July 1, 2009. Employees appointed prior to this date will retain their tenure status; however, employees hired after this date will be subject to either short-term renewable contracts for full-time employment, with the length of the contract commensurate with years of service, or at-will employment for part-time faculty. The Regents cited flexibility in the employment of faculty and staff as the rationale for its policy change.[54]

Implement Post-Tenure Review

One of the problems with tenure is that professors undergo a rigorous performance review prior to being granted tenure, but once tenure is granted, a professor could go 30 years without another performance review. This lack of accountability post-tenure is unhealthy. A post-tenure review process would retain the tenure system, but implement a mandatory post-tenure review of all faculty members. Implementing an effective post-tenure review policy, which protects academic freedom, would theoretically eliminate (or at least significantly reduce) the deadwood problem, as the entire faculty would be subject to a periodic performance review. Although post-tenure review processes vary widely across institutions, a generalized model might involve a substantial peer review every five years after tenure is awarded, with a probationary period of perhaps two years, imposed on those faculty deemed to be weak and inadequate, offering concrete suggestions for improvement.[55] At the end of the probationary period, a subsequent review would be conducted to determine if the individual in question performed adequately. If not, then such an individual would most likely receive a one-year termination notice.[56]

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[54] Proposed Policy Revision – 2.0 KCTCS Employment Status, Agenda Item K-1, KCTCS Board of Regents, 13 March 2009.

[55] Richard Vedder, Going Broke by Degree: Why College Costs Too Much, Washington: AEI Press, 2004.

[56] Ibid.

In theory, the post-tenure review approach has already been widely adopted in academe, as more than two-thirds of states require it for public colleges and nearly 50 percent of private institutions have some sort of post-tenure review policy. [57] But in practice the reviews have little success at improving accountability because they are largely inconsequential and typically amount to little more than a rubber stamp. This toothlessness was deliberate, with higher education following the lead of the AAUP, which thought post-tenure review "ought to be aimed not at accountability, but at faculty development," arguing that "post-tenure review policies could be consistent with academic freedom only if they had no power to impose consequences on underperforming faculty."[58]

Anne Neal described post-tenure review as "relatively ineffective as either an incentive system or a disciplinary tool," citing perennial compliance and consistency issues with post-tenure review in Virginia, Colorado and Hawaii.[59] Neal describes the current post-tenure review process as a "ritualistic exercise in rubberstamping," suggesting that while widely implemented, it carries little value as an effective practice of increasing accountability among faculty.[60] Victor Davis Hanson described post-tenure review in a similar fashion, calling it an "oxymoron, not a real audit."[61]

Renewable Long-Term Contracts

This alternative involves the elimination of tenure in favor of long-term renewable contracts for faculty. The contracts could be structured for an initial probationary period of three to five years, with the criteria for performance evaluation (a detailed outline of teaching, scholarly, and service expectations)[62] specified in the contract, including a clause pertaining to academic freedom to avoid its diminishment. If after the probationary period, a faculty member passed his/her performance review and there was still a need for the position at the college, then the contract would be renewed, with a subsequent performance review similar to the initial one. This contract renewal process would continue, with perhaps an increase in the length of additional contracts, not to exceed ten years, as a reward for continued successful performance.

Renewable long-term contracts would address many of the issues pertaining to the faculty tenure process without suppressing academic freedom. First, academic freedom would be preserved in faculty contracts through a combination of an explicit clause addressing the right to academic freedom and a specification of evaluation criteria that would provide additional defense against the politicking that could take place during employment reviews. The contracts would give colleges more flexibility when it comes to adjusting staff levels in response to

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[57] Anne Neal, "Reviewing Post-Tenure Review," Academe Online, September-October 2008.
[58] Ibid.
[59] Ibid.
[60] Ibid.
[61] Victor Davis Hanson, "Reconsidering Tenure: Its Time Has Come," Tribune Media Services, 16 May 2005.
[62] Ibid.

changes in consumer demand or the economy, as well as the ability to rid themselves of faculty that have become deadwood in a reasonable timeframe, as opposed to being stuck with unproductive faculty members until retirement or death. The specification of performance evaluation criteria in employment contracts would help clarify the reward structure for individual faculty. This sort of contractual arrangement would be more cost effective for colleges than the tenure system, as it would free up long-term resource obligations in favor of shorter-term obligations with comparable compensation packages.

> Case Study 3.2: The Franklin W. Olin College is a private undergraduate engineering school in Massachusetts that opened its doors for its first class in 2002. Rather than offering tenure, Olin hires faculty with a system of five-year renewable contracts. When negotiating terms, faculty and the college agree on the criteria that will be used in a peer reviewed performance evaluation when the contract is up for renewal. Despite not offering tenure, the college was able to attract what it describes as a "dream team"[63] staff by luring both tenured and tenure-track faculty from prestigious institutions such as MIT, Cornell and Vanderbilt.[64]

One might suspect that Olin necessarily offer faculty a risk premium as a tradeoff for the absence of tenure, but this assertion is not supported by the faculty compensation data. Table 3.1 displays the average salary, benefits and total compensation package of all professors at fifteen of the top engineering colleges in the US in 2007. Olin professors received the 7th highest total compensation among the schools, but earned the 6th highest average salary. Olin's faculty compensation package is competitive without a tenure policy, suggesting that the model of long-term renewable contracts has bona fide merit in the real world.

> Case Study 3.3: Quest University is a private liberal arts and sciences school in British Columbia, Canada that welcomed its inaugural class in 2007.[65] Quest does not offer tenure, instead opting for a system of renewable contracts for its faculty. Quest President David Helfand tells us that it hires new faculty on an initial one-year contract and assesses them at the end of the year in consideration for a new three-year contract in which the faculty member and Chief Academic Officer negotiate the terms of the contract, including the criteria (which is dependent on the particular strengths of the individual) to be used for evaluation at the end of the contract. At the end of the three-year contract, a performance evaluation is conducted and if approved for an extension, a new three-year contract is negotiated in the same manner as the previous one. At the conclusion of the second three-year contract, a performance evaluation is again

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[63] "Overview," Franklin W. Olin College of Engineering, 25 May 2010, <http://www.olin.edu/faculty_staff/overview.asp>.

[64] Julie Flaherty, "Blackboard: Campus Profile: The Ultimate Engineering Project," The New York Times, 13 January 2002.

[65] "About Quest," Quest University Canada, 25 May 2010, <http://www.questu.ca/about_quest/index.php>.

conducted in consideration for a new six-year renewable contract.[66] The Quest case provides additional evidence that the renewable long-term contract model is plausible.

Table 3.1: Average Faculty Compensation at Select Engineering Schools (2007)

Institution	Salary	Benefits	Total Compensation
California Institute of Technology	$137,229	$51,770	$188,999
Massachusetts Institute of Technology	$117,912	$50,683	$168,595
Harvey Mudd College	$101,248	$41,395	$142,643
Worcester Polytechnic Institute	$90,293	$44,037	$134,330
Georgia Institute of Technology-Main Campus	$100,921	$23,860	$124,781
Rensselaer Polytechnic Institute	$96,348	$25,692	$122,040
Franklin W. Olin College of Engineering	$95,922	$22,364	$118,286
Milwaikee School of Engineering	$69,290	$46,505	$115,795
Virginia Polytechnic Institute and State University	$87,282	$24,088	$111,370
Rose-Hulman Institute of Technology	$80,521	$27,290	$107,811
Rochester Institute of Technology	$78,052	$27,172	$105,224
Colorado School of Mines	$80,635	$21,875	$102,510
Kettering University	$68,245	$18,383	$86,628
New Mexico Institute of Mining and Technology	$65,459	$16,795	$82,254
South Dakota School of Mines and Technology	$62,298	$15,618	$77,916

SOURCE: INTEGRATED POSTSECONDARY EDUCATION DATA SYSTEM (IPEDS)

Case Study 3.4: Facing financial insolvency, Lindenwood University President Dennis Spellmann performed a makeover of the university in the late 1980s. One of Spellmann's first policies was the abolishment of tenure in 1989. His critics at the time argued that if Lindenwood survived, the removal of tenure would condemn the university to the "academic backwaters, making it difficult to hire qualified faculty members to ensure that survival." Lindenwood has not only survived, but it has prospered in the process. Morris suggests that one of the main reasons for it success is the "defying [of] academic convention and removing life-long tenure for its professors", contending that Lindenwood has "avoided many endemic problems of higher education that have sprung directly or indirectly from the tenure system at other U.S. universities," such as "the high cost of supporting a faculty whose senior members are largely unaccountable for the quality or quantity of its services."[67]

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[66] David Helfund, Personal Phone Interview, 15 March 2009.
[67] Edward Morris, The Lindenwood Model: An Antidote for What Ails Undergraduate Education (St. Charles: The Lindenwood Press, 1998), 82-83.

Offer Job Security as a Trade-Off to Other Forms of Compensation

This alternative approach entails re-designing the job security provided by tenure as an optional fringe benefit as opposed to an entitlement. Under such a policy, faculty members would be given a choice of compensation options, each assigned a monetary value. Depending on an individual's risk tolerance and familial needs, he/she would select from a variety of benefits, including salary, retirement contributions, job security, health and life insurance, campus parking, office location, etc.

To our knowledge, such a policy has yet to be implemented, although Washington DC Schools (K-12) Chancellor Michelle Rhee proposed a differential pay scale in 2008 that would have allowed unionized public school teachers to voluntarily trade in their tenure and seniority for the opportunity to earn additional bonuses and pay raises for outstanding performance. Under the proposal, a two-tiered pay scale would have been established, in which teachers who remained in the traditional pay system would maintain tenure and receive modest pay raises, but those who opted to forego tenure for the performance-based system would have annual reviews to determine whether they remained employed and the amount of bonus or pay raise that they might receive.[68] The policy would have permitted existing teachers the option to join the merit-based system or remain on the tenure system, but new hires would automatically be enrolled in the merit system. *The Economist* estimated that this would increase starting salaries from about $40,000 to $78,000, and wages for the best performing teachers would double to about $130,000.[69]

In *Going Broke by Degree*, a similar policy for higher education is described. Faculty is presented with a menu of compensation benefits to choose from. In a hypothetical scenario, new faculty hires would be told that they will receive an annual salary of $65,000 and $15,000 in annual fringe benefits to choose from, with the ability to exceed this amount by opting for a salary reduction. The fringe benefits might include a choice of health and life insurance plans, retirement contributions, parking spots and tenure protection. For example, the new hire might choose from a $3,000 per year catastrophic health insurance plan, a $5,000 medium-quality health insurance plan and a $7,500 deluxe health insurance plan. Tenure protection would be valued at perhaps $5,000 per year.[70]

Conclusion

Tenure is a policy that was adopted nearly a century ago to protect the academic freedom of the professorate against political and outside influence. As noted, academic freedom is vital to the advancement of knowledge and for the common good. However, it is not the case that tenure is the only method capable of achieving this goal. Morris notes that Lindenwood

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[68] Dion Haynes, "Rhee Seeks Tenure-Pay Swap for Teachers," The Washington Post, 3 July 2008.

[69] "Better Marks, More Money," The Economist, 10 July 2008.

[70] Richard Vedder, Going Broke by Degree: Why College Costs Too Much, Washington: AEI Press, 2004.

University's experience suggests that "not only is tenure an exceedingly inefficient and unreliable means of securing academic freedom, it also may be unnecessary", as tenure imposes economic inefficiencies such as misaligned incentives, resource misallocation, the enablement of deadwood, and reduced flexibility.[71] The 1940 AAUP Statement describes tenure as "a means to certain ends". Tenure has proved effective in protecting academic freedom, but it is not the only means to achieve it, and certainly not the most cost-effective.

Several alternative approaches were discussed that offer a potentially more efficient means, including the use of contingent faculty, post-tenure review, renewable long-term contracts, and offering a menu of fringe benefits–of which tenure is one. Each alternative has its own merits, if implemented appropriately. Post-tenure review has been relatively unsuccessful in improving efficiency to date, but this is largely an implementation problem. The use of contingent faculty has risen over time, which increases a college's flexibility and reduces costs, but such faculty members are increasingly upset with the contractual arrangement and are threatening to unionize, which would undermine the efficiency of the approach. We are starting to see some colleges institute renewable long-term contracts with success, but this has occurred mainly at colleges starting from scratch and may prove to be more difficult to implement at institutions that currently have tenure in place and would most likely involve a phase-out period. The fringe benefit trade-off approach has not yet been attempted in practice, but has the potential to be a long-term solution to the inefficiencies of a tenure system.

There is not a one-size-fit all solution, but the alternatives mentioned offer some generalized approaches to reducing the cost inefficiencies imposed by tenure without resorting to a low-ball pay structure or imperiling academic freedom. The optimal strategy for one institutional type may be very different from what is most effective at another. For instance, research-intensive universities might benefit most from a hybrid of renewable long-term contracts and fringe benefit trade-offs, whereas it may be most efficient for teaching colleges to utilize a combination of contingent faculty and renewable contracts. There are a variety of approaches to reducing cost inefficiencies, but one approach is economically unsustainable in the long run—tenure.

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[71] Edward Morris, The Lindenwood Model: An Antidote for What Ails Undergraduate Education (St. Charles: The Lindenwood Press, 1998), 93.

#4: Offer three year Bachelor's Degrees

Three-year bachelor's programs allow students to complete their undergraduate degree in three years, rather than four. This can be accomplished by taking a more streamlined curriculum, taking more credit hours per semester, attending summer sessions, and/or taking online courses. Europe is currently leading the way for three-year BAs with the implementation of the Bologna Process, a collaborative initiative of 45 countries in Europe to achieve greater transparency, coordination and quality assurance among higher education institutions.[72] The first educational cycle under the Bologna framework is a three-year bachelor's degree.

The idea of a three-year BA has been brought up numerous times in the United States as a way to save undergraduates money and time; however, the idea has never really taken hold. Only a handful of schools currently offer three-year BAs, and many of the three-year programs offered in the past were halted because few students took advantage of them. Furthermore, students that initially enrolled in a three-year program often did not finish in three years. In 2001 the U.S. Department of Education reported that 4.2 percent of U.S. undergraduates finished with bachelor's degrees in three years, 57.3 percent graduated in four years, and 38.5 percent took more than four years to graduate.[73]

Despite three-year programs historically being unpopular among students, university administrators and policy makers are revisiting the idea to make college more affordable and accessible. Some universities that currently offer three-year BAs, or plan to offer them in the near future, include Hartwick College in New York, Manchester College in Indiana, Seattle University, Bates College in Maine, Lipscomb University in Nashville, Southern New Hampshire University, and Ball State University in Indiana.[74] Furthermore, a bill that requires all state institutions of higher education to create three-year bachelor's programs by 2010 was recently passed by Rhode Island's House of Representatives.[75]

The Case for Three-Year BA's

Three-year program structures vary across universities, but they are all aimed at reducing the cost of college. The main benefit for students of having a three-year degree is that they are not required to pay for a fourth year of college. This saves students at public schools an average of

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[72] "Facts on Bologna and Tuning," Lumina Foundation, 25 May 2010, <http://www.luminafoundation.org/our_work/tuning/Q_and_A-Bologna_and_Tuning.html>.

[73] Valerie Strauss, "Colleges Consider 3-Year Degrees to Save Undergrads Time, Money," The Washington Post, 23 May 2009.

[74] "Some Colleges Offering 3-Year Bachelor's Degree," USA Today, 24 February 2009

[75] Valerie Strauss, "Colleges Consider 3-Year Degrees to Save Undergrads Time, Money," The Washington Post, 23 May 2009.

$13,424 in tuition and room and board, and private school students $30,393.[76] Moreover, students are able to enter the workforce a year earlier. This would add on average of $35,383 to their lifetime earnings.[77] Combined, these benefits come to $48,807 for public school students and $65,776 for private school students. Students may also receive discounts for taking online or summer courses.

In addition, a higher percentage of college graduates than ever go on to graduate or professional schools.[78] Three-year BA programs would be highly beneficial for these students. They could still be exposed to a classical liberal arts education, and would get in depth training in graduate school.[79]

Three-year bachelor's degrees also encourage more efficient use of university facilities by increasing their use during the summer.

The Case against Three-Year BA's

Despite the substantial cost savings of three-year BA programs, they have not been popular among the majority of U.S. students. For instance, Albertus Magnus College, in Connecticut, offered a three-year BA program for several years in the 1990s by going from a semester system to a trimester system with the idea that students could take courses year round and graduate in three years.[80] Most students, however, skipped a trimester each year and the program was eventually discontinued.[81]

Four main arguments are made against three-year BA's. First, because three-year programs have not been widely utilized there are not well established metrics for evaluating them. In the absence of such evaluating metrics it is argued that a three-year program may result in less content and poorer quality. However, this seems to be based on a misunderstanding of what a three-year BA requires. In general, students in three-year programs are required to earn the same number of credit hours as students in four year programs–they just do so in a shorter amount of time. The universities offering it stress that three-year BA programs are best suited for motivated individuals that can handle larger course loads and the fast pace of the programs. Most of these universities screen students, allowing only the most qualified to participate.[82]

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[76] United States, National Center for Education Statistics, "Average undergraduate tuition and fees and a room and board rates charged for full-time students in degree-granting institutions, by type and control of institution: 2007-08," Digest of Education Statistics (Washington: NCES, 2008).

[77] United States, Census Bureau, "Historical Income Tables," (Washington: Census Bureau: 2007).

[78] George Keller, "Why Colleges Should Offer 3-Year Diplomas," The Chronicle on Higher Education, 14 November 2008

[79] Ibid.

[80] "The Buzz and Spin on 3-Year Degrees," Inside Higher Ed, 17 February 2009.

[81] Ibid.

[82] Scott Carlson and Sara Lipka, "Colleges Offer a Degree in 3," The Chronicle of Higher Education, 12 June 2009.

Second, employers in some fields may view a three-year degree as inferior to a four-year degree due to the lack of evaluating metrics for curriculum comparisons. A master's degree may therefore become the minimum qualification rather than a bachelor's degree. Although data on three-year degree programs is hard to come by, there have been some studies on employers' views of the three-year bachelor's degree in Europe under the first cycle of the Bologna Process.[83] One such study, Alesi (2007), found that in general, some fields, such as R&D, some engineering fields, and law require the equivalent of the new Master's degree, whereas production and logistics, sales and distribution and journalism would be open to both university and applied science bachelor's graduates.[84]

Third, students need to have a good idea of what they want to major in, as it is unlikely that they can change their major and still graduate in three years. This can be problematic as Dr. Fritz Group, founder of MyMajors.com, asserts that 80 percent of college-bound students have yet to choose a major and 50 percent of those that do declare a major change it—many doing so two or three times in the course of their undergraduate career.[85] Three-year programs may therefore not be a realistic option for the majority of students, but they would be beneficial for those that know what they want to study, as it would expedite the undergraduate process so that they may begin graduate school or enter the work force a year early.

Fourth, it is argued that a three-year degree deprives students of the "traditional college experience," characterized by a well rounded general education, in-class interaction with professors, extracurricular experiences, and study abroad. Hartwick College, however, has developed a three-year program that does not require students to take online or summer courses. This ensures in-class interaction with professors and enables students to study abroad or work in the summer.[86]

Case Studies

Europe is forging the way for three-year BAs with the implementation of the Bologna Process; however, there are also some notable three-year BA programs offered in the United States. The following section outlines these programs.

Case Study 4.1: The Bologna Process

The Bologna Declaration was signed in 1999 and represents a commitment by 45 countries in Europe to undertake reforms to achieve greater consistency and portability

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[83] Clifford Adelman, "The Bologna Process for U.S. Eyes," Institute for Higher Education Policy, April 2009.

[84] Ibid.

[85] Gayle Ronan, "College Fresmen Face major Dilemma," MSNBC, 29 November 2005.

[86] "Hartwick College Announces Three-Year Bachelor's Degree Program," Hartwick College News, 24 February 2009, 25 May 2010, <http://www.hartwick.edu/x26227.xml>.

in their higher education systems by 2010.[87] The framework is based on three cycles of higher education qualifications, the first being a three-year bachelor's degree.[88]

In contrast to four-year bachelor's programs in the United States, three-year bachelor's programs under the Bologna Process are more concentrated in a student's chosen major, and therefore place less emphasis on general education.[89] The first Bologna degrees were awarded in 2003, but many countries are still in the process of implementing the Bologna framework. There is therefore very little data available to assess the number of students that finish their bachelor's degree in three years, or the relative rigor of the curriculums compared to the traditional bachelor's degree earned in the United States.

Case Study 4.2: Southern New Hampshire University

Southern New Hampshire University has offered a three-year honors program in Business Administration since 1995. Program space is limited and the application process is selective; however, it saves admitted students the cost of tuition and room and board for a fourth year. This amounts to $39,118 in savings for students that live on campus and $30,942 for students that live with their parents.[90]

The program is taught in the time frame of a traditional semester, but the course content is delivered through comprehensive and interdisciplinary modules instead of typical 3-credit classes. Students still complete 120 credits, the same number as students in a traditional four-year degree program; however, they are not required to take night, weekend or summer courses. Furthermore, more than 40 percent of the coursework is related to liberal arts and general education, providing students with a well-rounded education.[91]

Case Study 4.3: Hartwick College, New York

Hartwick College announced in February, 2009, that it will offer a new three-year bachelor's degree program. The program is designed to save students money as it will cut around $40,000 in tuition and room and board off the current cost of earning an undergraduate degree at Hartwick. If the opportunity cost of foregone earnings for

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[87] Mariam Assefa and Robert Sedgwick, "the Bologna Bachelor's Degree: An Overview," World Education News and Reviews, January 2004.
[88] Ibid.
[89] Ibid.
[90] "Cost: Undergraduate Day Programs," Southern New Hampshire University, 2009, <http://www.snhu.edu/288.asp>.
[91] "3 Year Questions and Answers," Southern New Hampshire University, 2009, <http://www.snhu.edu/2540.asp>.

attending college a fourth year was also included, which is on average $35,383 for an 18-24 year old with a bachelor's degree, savings could amount to $75,383.[92]

Hartwick's three-year BA program is based on a two semester academic calendar that does not require students to take classes over the summer or online. Students who choose to participate in the three-year BA program must still complete the normal requirement of 120 hours of undergraduate study by averaging 18 hours each fall semester, 18 hours each spring semester, and 4 hours during a special January Term for three years.[93]

Case Study 4.4: Manchester College, Indiana

Manchester College announced its Fast Forward Program in November, 2007 that allows students in any major to earn a bachelor's degree in three years. The program consists of a more aggressive fall and spring schedule, a January session, two summer sessions and online courses.[94] The program is designed for students who have a clear idea of where they are headed after college, whether it is graduate school, law school, medical school or a career in a specific field such as accounting, education or the sciences.[95] It is estimated that the program can save students as much as $25,000 in tuition, fees, and room and board in addition to potentially earning a salary a year earlier.[96]

Conclusion

There are some limitations to three-year BA programs; however, the costs must be weighed against the benefits to students of saving a fourth year of tuition and room and board, as well as starting a career or graduate school a year early. For ambitious students that can handle accelerated BA programs the savings are substantial, amounting to, on average, $48,807 for public school students and $65,776 for private school students that are employed following the completion of their degree.

Contention regarding the rigor and quality of three-year degree programs may ease with time as programs mature and produce results that are measureable and comparable to four year programs. A set of best practices and evaluating metrics may then be developed from which other universities may structure three-year programs that best meet students' needs while maintaining a quality education.

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[92] The opportunity cost of attending college a fourth year was calculated by averaging the average male and female incomes for those with a bachelor's degree, ages 18-24 (Census Bureau Historical Income Tables-2007).
[93] "Hartwick College Announces Three-Year Bachelor's Degree Program," Hartwick College News, 24 February 2009, 25 May 2010, <http://www.hartwick.edu/x26227.xml>.
[94] "Fast Forward," Manchester College, <http://fastforward.manchester.edu/>.
[95] Ibid.
[96] Ibid.

#5: Outsource More Services

With recent financial difficulties, it is more important than ever for colleges to make the best use of their limited resources. Responsible fiscal management necessitates that colleges decide whether their many functions should be performed internally or outsourced to an external service provider. Private enterprises increasingly outsource a wide variety of functions, but colleges have remained averse to the prospect of outsourcing. Matt Johner described the state of outsourcing as:

"[B]y no means a mainstay in higher education. It is quite the opposite…All other vertical markets have been employing this tool for years."[97]

Instead, many colleges continue to perform the majority of their functions in-house, passing the cost of unnecessary inefficiencies on to students in the form of higher tuition. A 2001 AACRAO survey indicated that only a third of colleges outsourced a service that was once fulfilled in-house.[98] Another national survey, conducted by the Mackinac Center for Public Policy, indicated that colleges were outsourcing fewer services in 2001 than they were two years prior, with only 36 percent of institutions responding that they planned to increase their use of outsourcing in the future.[99] This trend is partly due to a common attitude among some in higher education that was expressed by a labor union official who stated bluntly, "We have a visceral dislike of outsourcing."[100]

Rather than expend vast sums from limited resources in an effort to perform functions in-house for which they do not have any particular expertise, colleges should focus on improving the value of their core functions, for which they do possess a comparative advantage. For higher education, this is most often instructional education and research. Institutions should therefore focus on performing these functions in the most efficient manner possible, and consider outsourcing non-core, but often necessary, functions to an external vendor who specializes in a providing them. When determining which functions to outsource, colleges must make a decision about whether to produce the service or procure it from elsewhere. That decision should include consideration for a number of local issues and utilize a cost-benefit analysis. There are a great number of functions that colleges should consider outsourcing that fit into three general categories: student services, business functions, and educational functions.

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[97]Matt Johner, "Aiding Through Outsourcing: Financial Aid Department Turn To Outsourcing Some Operations," University Business, January 2008.

[98] M. Braz et. al, "Outsourcing in Higher Education," American Association of College Registrats and Admission Officers Outsourcing Task Force, 2001.

[99]Joe Agron, "Keeping It Close to Home: A Survey of Education-Related Outsourcing," Michigan Privatization Report, Spring 2002.

[100] Ellen Hassett et. al, "IT Outsourcing at California State University," EDUCASE Center for Applaied Research, 2002.

The Produce vs. Procure Decision

Colleges are complex institutions that perform a variety of functions and offer a number of services that require resources to provide. This section will not question whether colleges should perform certain functions or provide certain services, but instead will discuss how they should go about doing so. After an institution has decided that it wants or needs a particular function or service, there are two options for how to provide it: in-house or external (outsourced). In other words, an institution must decide whether to provide the service with its own staff and resources, or to procure it from an external vendor who specializes in providing a particular function or service. We will describe both the benefits and the potential costs and limitations of outsourcing, which must be considered when making an outsourcing decision. Cost-benefit analysis should be performed after all pertinent information is addressed.

Benefits of Outsourcing

Outsourcing has become an important aspect of the contemporary business world that is not limited to large corporations. Increasingly, small and medium-sized firms are outsourcing at least some of their functions, primarily in an effort to reduce costs. Aside from reducing costs, outsourcing has the potential to confer a number of other benefits, such as improving efficiency and enhancing organizational flexibility. These are attractive propositions for colleges that have growing bureaucratic workforces and sprawling campuses filled with a plethora of buildings for administrative, classroom, office and recreational use, all of which entail operational and maintenance costs.

Cost Reduction – Labor costs are often one of an organization's largest expenses, and include not only wages, benefits, and payroll taxes, but also the costs related to hiring, managing, and training employees. By outsourcing some functions, organizations are able to transfer these responsibilities to a firm that is able to provide such services at a lower cost, due to its expertise in providing a particular service and the fact that it likely already has access to a highly trained professional workforce. Organizations are also able to control their capital costs by outsourcing, as it permits them to convert fixed costs into variable ones and free up capital for alternative uses.[101] This allows organizations to limit their need for plant, property, and equipment, which also reduces the expenses associated with maintenance and upgrades of such capital assets.

Improve Efficiency – A lack of in-house skills and the desire to improve operating efficiencies were cited as the two most common reasons that colleges outsource in a 2002 survey.[102] Outsourcing allows organizations to operate more efficiently by removing tasks that would absorb valuable resources. It also provides them with access to technology and expertise that

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[101]"The Benefits of Outsourcing for Small Businesses," Allbusiness.com, 27 April 2010, <http://www.allbusiness.com/human-resources/workforce-management-hiring/1084-1.html>.
[102] Emillia Kancheva, "Key Considerations for Successful Outsourcing of IT Functions in Higher Education," EDUCASE Center for Applaied Research, 25 June 2002.

they might not otherwise have.[103] In other words, outsourcing often permits greater efficiencies than managing functions in-house, as firms specializing in a particular function often have a *comparative advantage*[104] in producing it. Specialization allows firms to develop an expertise in a particular function that permits them to operate more efficiently through greater economies of scale and process innovation.

Specialization often also results in enhanced production speed and quality. This creates a greater value proposition by allowing organizations to focus resources on improving the value of their core products and services, rather than spending limited resources on functions that they do not have a comparative advantage in performing. For higher education, "Cost efficiencies may be achieved by focusing on non-academic functions and employing outsourcing," without having to "threaten academic quality or institutional independence."[105]

<u>Enhance Organizational Flexibility</u> – As noted above, outsourcing permits organizations to free up resources for alternative uses. This provides them with a greater degree of flexibility to adapt to a changing environment more quickly and to meet the demands of their consumers. This permits new initiatives such as programs or polices that relate to an organization's core functions to be streamlined and implemented at a more rapid pace, rather than being queued at the back of the line because scarce resources are tied up. Outsourcing also gives organizations the flexibility to alter their workforce in response to economic or other environmental changes.

Potential Costs and Limitations

The U.S. has a diverse set of institutions of higher education that serve various missions. As such, there are a number of potential costs and limitations that a college should consider when deciding whether to outsource a particular function or service or to produce it in-house. A 2005 study by the Institute of Higher Education Policy identified six general areas of concern that an institution should consider when making an outsourcing decision.[106] The areas are listed below, along with some related concerns and questions that should be assessed when making an outsourcing decision.

<u>Human Resources</u> – How will the change affect faculty and staff, especially when labor unions and other contract employees are involved?

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[103] Mary Bushman and John Dean, "Outsourcing of non-mission-critical functions: A solution to the rising cost of college attendance," Lumina Foundation for Education, 2005.
[104] Comparative advantage is an economic term referring to the ability of a party (an individual, firm, government or other organization) to produce a particular good or service at a lower cost or with greater relative efficiency than another party.
[105] Mary Bushman and John Dean, "Outsourcing of non-mission-critical functions: A solution to the rising cost of college attendance," Lumina Foundation for Education, 2005.
[106] Ronald Phipps and Jami Merisotis, "Is outsourcing part of the solution to the higher education cost dilemma?" <u>Institute for Higher Education Policy,</u> September 2005.

<u>Financial Implications</u> – How do the costs of producing internally compare to that of outsourcing? Both immediate costs and potential long-run savings should be considered, and some assumptions must be made.

<u>Service Quality</u> – Will outsourcing reduce the quality of service provided to the student, and if so, will this reduction in quality result in lower enrollment?

<u>Legal and Ethical Considerations</u> – What are the potential legal, tax, and ethical ramifications? Are there privacy issues that need to be addressed, such as FERPA?[107]

<u>Institutional Mission</u> – Is the service being considered for outsourcing essential to fulfilling an institution's educational mission, and would outsourcing it detract from that mission?

<u>Management Control</u> – To be efficient, colleges must be able to adapt to a changing environment. Would outsourcing a service hinder an institution's ability to make critical decisions in the face of a changing environment?

Areas that Can Likely Be Outsourced

There are three general areas in which colleges will find the most opportunities for outsourcing: student services, professional services and educational services.

Student Services

Colleges provide a plethora of student services, such as dining, recreation, housing, and health care, among others. Most often, these services are provided in-house by the institutions themselves. Colleges do not have any particular advantage over the private sector in providing such services, so they should consider outsourcing many of these services.

<u>Food Services</u> – Residential colleges have historically provided students with meals at the infamous campus dining halls and, more recently, in food courts and other dining facilities. Colleges have also historically provided these food services internally. More recently, however, many institutions have begun outsourcing some aspects of food services. In fact, around 61 percent of colleges reported outsourcing some aspect of food service in a 2002 survey.[108] Central Michigan University, for example, consistently lost money on its retail food services prior to contracting with a private provider in 1994. In the following five years, CMU reported savings of approximately $890,000, along with an improvement in service.[109]

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[107] FERPA is the Family Educational Rights and Privacy Act which provides specific legal restrictions on the information that colleges collect, such as what can be shared and under what circumstances.

[108] Jean-Marie Angelo, "Is Outsourcing Right for you?" <u>University Business Magazine</u>, 2005.

[109] Gary Wolfram and Anne Kirsten, "Privatized Dorms: Michigan Can Learn From Texas," <u>Michigan Privatization Report: Harry Privatizer and the Goblet of Fiscal Responsibility</u>, Fall 2000.

University of Southern Mississippi CFO Gregg Lassen said that he ascribed to legendary management guru Peter Drucker's business philosophy of focusing on core strengths when deciding to outsource his institution's dining services. Lassan said that, "In a higher ed setting, those [strengths] would be research, instruction, and services…cooking is not on the list." By outsourcing, USM has realized cost savings, an upgrade to its dining facilities, and a professionally trained service staff.[110] In addition, USM is now in a position to hold its contractor accountable for the quality and service that it provides through the use of a legally enforceable contract and the option to solicit bids for competition.

Recreation – High-quality recreation facilities have become increasingly common on campus, as the current generation of students has come to expect state-of-the art recreation facilities that contain modern exercise equipment, climbing walls, Olympic-sized pools, golf courses, and more. Such facilities are expensive to build and maintain, and the costs of doing so are often passed on to students in the form of mandatory fees, regardless of whether they make use of the facilities.

There are several approaches that colleges could take to outsource recreation, depending on each institution's particular circumstances. If a college already has a recreation center, then it could outsource its management to an outside firm. One such firm that has found a niche in this market is Centers, which provides recreational management services to small institutions that have high-tech recreation facilities but don't have adequate resources or expertise to staff and operate them. Centers has a policy of not advertising its name or logo on campus facilities or equipment, in order to allow colleges to maintain their brand and to avoid the stigma of being an outsider. Centers has thus far landed contracts with Cleveland State University, Depaul University, and Jackson State University.[111]

Some colleges may not have a recreation center, but would like to provide students with access to one. For such institutions, building and managing an exercise center is likely not the optimal strategy. Rather, it might be more cost effective to contract with area fitness centers to provide students with memberships at a group rate. This would be not only save the college money, but could also benefit the students who gain access to fitness centers at a lower cost. The College of Charleston (CofC) took this approach in partnering with a local athletic club, East Shore Athletic Club (ESAC), instead of building its own facility.[112]

Housing – Many colleges have traditionally provided students with housing in dormitories and other institutionally-owned facilities, at least for the first year or two of college. Colleges house approximately 28 percent of students nationwide in institutionally-owned housing. As the cost of operating such facilities and demand for college have grown, some colleges have begun to

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[110] Jean-Marie Angelo, "Is Outsourcing Right for you?" University Business Magazine, 2005.

[111] Brian Davidson, "Fitness management firm finds a niche on campuses," Fitness Business News, 27 April 2007.

[112] Campus Life, "Sports and Recreation," College of Charleston, February 2010, <http://www.cofc.edu/campuslife/sportsandrecreation/index.php>.

outsource portions of their housing needs to the private market. Around 10 percent of universities outsourced some of their housing to private firms in 2006.[113]

The University of Texas system began outsourcing some of its campus housing needs in 1989, when UT Dallas contracted with a private firm to construct and manage Waterview Park Apartments, which contains around 1,000 units and houses about 3,000 students. One senior UTD official estimated that the arrangement saved the institution at least $500,000 a year, and the model was emulated at other UT campuses. According to this official, the school has two types of management agreements with its privatized housing system. Under the first, the "university receives a commission based on gross revenues from those units built, owned, and operated on campus by a private developer." Under the second type, "the university receives from the units it owns all income minus a flat percentage fee, which is paid to the private developer that manages the units and pays the operating expenses." The two main advantages conferred to the institution are to ability to offer off-campus student housing without making a capital investment, and the opportunity to avoid the operational expenses associated with managing a housing operation.[114]

Healthcare Services – Most residential colleges provide students with healthcare services, often with a campus facility dedicated to providing counseling, examinations, vaccinations, and other medical treatments. As the American public is well aware, the costs of providing healthcare continue to rise. Although students require access to healthcare facilities and colleges must often comply with public health requirements, it is questionable whether colleges should be in the business of managing such facilities and performing medical services, with the possible exception being universities that run a hospital or other medical training facilities. For most colleges, however, it would be much more cost effective, and likely create higher quality care, to outsource healthcare services to a private organization with expertise in the field.

In an effort to reduce the costs and improve the accuracy of compliance with a meningitis vaccination law in New York, Columbia University hired FairChoice Systems to move its paper-based management compliance system online. Columbia not only reported higher compliance rates with the electronic system, but also realized a 25 to 30 percent reduction in staff time devoted to compliance with the law. The Polytechnic Institute of NYU also hired FairChoice to automate its vaccination compliance efforts, and was able to reduce its processing cost from $26 to $1 per vaccination. It also saw a significant reduction in the delay time and resources required for processing.[115]

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[113] Dave Serchuk, "The New Business of College: Hamburger University," Forbes, 14 September 2006.
[114] Gary Wolfram and Anne Kirsten, "Privatized Dorms: Michigan Can Learn From Texas," Michigan Privatization Report: Harry Privatizer and the Goblet of Fiscal Responsibility, Fall 2000.
[115] "Columbia University Licenses Student Health Information Solution to FairChoice Systems," FairChoice Systems, 26 February 2010, 25 May 2010, <www.fairchoicesystems.com/cuandfs.php>.

Professional Services

Colleges are often complex institutions that require professional services such as accounting and financial management, information technology, and maintenance in order to operate. Albino Barrera of Providence College suggested that many professional "services that used to be non-tradable (back-office operations, call centers, data management, and accounting sectors) have now been made fully tradable because of advances in communications and computational technologies. Location is increasingly insignificant in the provision of these services."[116] With a growing number of private firms dedicated to providing expert services for hire, colleges stand to benefit by outsourcing professional services.

Information Technology – Colleges have become increasingly information-based and electronically organized, and, therefore, IT has become an important function. In the past some universities were capable of developing and maintaining an IT-based infrastructure, but as technology has evolved at a rapid pace and become increasingly integrated into the higher education landscape, universities are no longer able to provide IT-related services at a level of quality and efficiency comparable to private specialized IT firms. Information technology is an area that is commonly outsourced in the private sector because it is more cost-effective and efficient to hire specialists when needed rather than keep them on staff permanently. Yet there remains a certain amount of resistance in higher education to outsourcing IT services to private firms. EDUCAUSE estimated that outsourcing comprised about 6 percent of total higher education IT spending in 2002, a proportion that was about two thirds of that in the commercial market and one third of that of the U.S. federal government.[117]

The private sector has realized the biggest gains in outsourcing help desk, desktop support, data center operations, and website functions.[118] Most of these functions can be described as transaction processes, for which Bill Bradfield suggested that colleges outsource, stating that "accountability structures in higher education don't motivate them to do transaction processing services very well….functions that require 'productivity driven operations' are best left to folks who specialize in them."[119] Other IT functions that higher education institutions have started to outsource include asset management, disaster recovery, security, and vulnerability detection.[120]

Financial Services – Colleges are large institutions that require accounting and financial services such as accounts payable and receivable, audit and compliance support, endowment auditing,

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[116] Albino Barrera, "Who Benefits from Outsourcing?" The Christian Century, 21 September 2004.

[117] "Higher Education IT Outsourcing: Future Trends and Market Forecast," EDUCAUSE Center for Applied Research, 2002.

[118] "IT Outsourcing Statistics: 2009/2010," Computer Economics, 2010, 5.

[119] Keith Hampson, "Bill Bradfield on Outsourcing in Higher Education," Higher Education Management Group, 29 August 2008.

[120] Mary Bushman and John Dean, "Outsourcing of non-mission-critical functions: A solution to the rising cost of college attendance," Lumina Foundation for Education, 2005.

financial management, and payroll and tax reporting, among others.[121] Although the outsourcing of similar financial services is common practice in the private sector, especially among small to medium-sized firms, higher education has been more reluctant to transfer responsibility for many back-office functions from campus employees to specialized private firms. For instance, a 2001 survey indicated that only 10.8 percent of colleges outsourced payroll processing.[122]

The private market now offers financial aid processing and customer support for outsourcing. In 2008, Matt Johner estimated that only about 100 colleges and universities have thus far made use of financial aid outsourcing services. The University of Mississippi, for instance, outsourced its financial aid customer service to an inbound call center in 2004, reducing its financial aid office call volume by 90 percent, and freeing up staff to focus on more strategic work and on-site counseling. [123]

Custodial and Maintenance Services – Most colleges are brick-and-mortar operations, consisting of a (sometimes) large number of facilities that require custodial and maintenance work. Because most colleges own rather than lease their facilities, this places the burden of cleaning and maintaining the facilities on these colleges. This does not, however, necessitate that colleges themselves employ persons to perform these tasks in-house, yet colleges have historically done just that. This policy often leads to costs much greater than could have been delivered in the private sector. Table 5.1 shows the percentage of colleges that outsourced various custodial and maintenance services in 2001, according to a national survey by the Mackinac Center for Public Policy.

With the exception of custodial food services, the great majority of colleges performed basic cleaning and maintenance services in-house rather than hiring a private contractor to do so. Colleges do not have any particular strength in performing such services, yet they do so in-house, in many cases employing unionized labor that costs significantly more than work performed by similarly skilled, non-union workers. The fact that many custodial and maintenance workers are unionized makes it difficult to outsource such services.

Recently, the unionized custodians and groundskeepers at Boston College were generating significant overtime pay at wages up to $40 per hour, creating a financial burden for the institution. Rather than engage in a heated battle with the union by trying to outsource the work completely, BC sought somewhat of a compromise by trying to outsource only its overtime work to a third party whose employees also belong to a union. This would have enabled the school to reduce its expenses and become more flexible, while at the same time

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[121] Mary Bushman and John Dean, "Outsourcing of non-mission-critical functions: A solution to the rising cost of college attendance," Lumina Foundation for Education, 2005.

[122] Joe Agron, "Keeping It Close To Home: A Survey of Education-Related Outsourcing," Michigan Privatization Report, Spring 2002.

[123] Matt Johner, "Aiding Through Outsourcing: Financial aid department turn to outsourcing for some operations," University Business, January 2008.

not have to lay off any current employees. At the time of this writing, it is not known whether BC was successful in persuading the union to agree to the new terms or not.[124]

Table 5.1: Percentage of Colleges Using Privatized Services, 2001[125]

Type of Service	Percentage
Food Service - Custodial	74.6%
Academic Buildings - Custodial	26.3%
Academic Buildings - Maintenance	9.2%
Facility Management	9.2%
Grounds Maintenance	18.1%
HVAC Maintenance	18.1%
Instructional-Equipment Upkeep	2.5%
Laundry	20.6%
Office-Equipment Upkeep	9.8%
Printing	19.4%
Residential Buildings - Custodial	18.7%
Residential Buildings - Maintenance	8.3%

SOURCE: MACKINAC CENTER FOR PUBLIC POLICY, 2002

Educational Services

Educational services, such as grading and instruction, are increasingly available from the private market for use by institutions of higher education. Many within the academe believe that allowing teaching and/or grading to be performed by someone outside of a school runs counter to the purpose of a university, but this may not necessarily the case. Many colleges have long reassigned much of their teaching and grading duties from the faculty to adjunct instructors and graduate students, as well as forming partnerships with other schools to provide distance education opportunities. This is not much different from outsourcing such services to an organization specializing in such services and likely would be compliant with a university's purpose if these periphery programs could provide a similar (or better) level of educational quality, and do so in a more efficient manner. Three educational services in particular should be considered for potential outsourcing: grading, distance education, and teaching remedial education.

Grading – As class sizes have grown and faculty have become increasingly pressured to conduct research, the burden of grading has resulted in some less than desirable outcomes that include

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[124] Tracy Jan, "Outsourcing push roils BC," The Boston Globe, 13 January 2010.
[125] Joe Agron, "Keeping It Close To Home: A Survey of Education-Related Outsourcing," Michigan Privatization Report, Spring 2002.

an increase in automatically graded multiple-choice exams, a decline in written and problem-solving assignments, and a reduction in the quality and timeliness of feedback on coursework. Some critics contend that these changes have undermined the quality of the education provided. One solution that could reverse this trend is to outsource grading, and some institutions have begun to experiment with this concept. Although grade outsourcing is highly controversial, Terri Friel, dean of Roosevelt University's business school, points out that "Faculty have this opinion that grading is their job, ... but then they'll turn right around and give papers to graduate teaching assistants."[126]

In 2005, the Kentucky Community College system was faced with enrollment that was growing faster than it could expand its capacity, so it turned to a company called Smarthinking to read and evaluate student essays for its high-enrollment freshman composition courses. Smarthinking's short turnaround time (usually 24 hours) allows instructors to spend their time working with students, while allowing the students to receive quality feedback in a timely manner. KCC instructors retain control over the grades, as Smarthinking's grades are not final until approved by the instructors, who can always review and change evaluations from the professional graders.[127]

More recently, West Hills Community College enlisted the help of the private firm, Virtual-TA, to offer its online students the opportunity to get more feedback on grammar, organization, and other writing issues than is typically available from the regular instructor.[128] WHCC allows its instructors to make use of the service for up to three assignments of their choice, at a typical per-student cost of around $12 per assignment. WHCC indicates that it has experienced a boon in retention rates since implementing Virtual-TA, as students are able to receive higher quality and more timely feedback on their work. Susan Whitener, the associate vice chancellor for educational planning at WHCC, described the experience in partnering with Virtual-TA as follows: "We definitely have a cost-benefit ratio that's completely in our favor for us to do this."[129]

Distance Education – As demand from non-traditional students continues to grow, combined with the information technology age that permits students to work and study from almost anywhere in the world, colleges are scrambling to offer distance education opportunities in an effort to get a piece of the action. Most colleges do not have the expertise or resources to develop and operate high quality, cost-effective distance education programs, but partnering with a private firm or even another college is a viable option.

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[126] Audrey Williams, "Some papers Are Uploaded to Bangalore to be Graded," The Chronicle of Higher Education, 4 April 2010.

[127] Scott Jaschik, "Outsourced Grading," Inside Higher Education, September 2005.

[128] At time of writing, this service was only available to online courses in sociology, criminal justice and basic math.

[129] Audrey Williams, "Some papers Are Uploaded to Bangalore to be Graded," The Chronicle of Higher Education, 4 April 2010.

This is the route that Delaware State University took in partnering with a private company, Sessions.edu, to develop a new Masters Degree program in Graphic Arts and Web Design. Under the partnership, DSU officials would have complete control over how much influence Sessions faculty would play. In exchange for a fee, Sessions provided the infrastructure needed for the online courses and is available to both teach and plan if DSU desires. This sort of arrangement is beneficial for colleges, as it enables them to open their doors to new students, tap into the knowledge of an outside organization, and still retain control of who teaches the courses. DSU will even be able to charge whatever they wish and keep any excess revenues.[130]

Remedial Education – College students increasingly arrive on campus lacking adequate preparation to undertake college-level course work. English and math are particularly troublesome areas. The problem is most prevalent at the community college level, where nearly 60 percent of students took at least one remedial course in 2009.[131] The need to provide developmental education has resulted in colleges offering a greater number of remedial courses than in the past, increasing the schools' cost of providing such instruction, the cost to students (as they need additional time to graduate), and the costs to taxpayers.

The University of Arizona recognized this growing trend a few years ago, and decided not to offer remedial education in math. "The reason why we don't offer developmental math ourselves is we can't afford it," described one official, who suggested that developmental education is not part of the university's research mission. Instead, UA partnered with the local Pima Community College to conduct remedial courses using UA classrooms. This enabled students to avoid shuttling between campuses for their remedial coursework. It also benefited Pima, which realized a significant increase in the number of tuition-paying students. This sort of inter-institutional partnership is growing in popularity and is "more widespread than people realize," according to Michael Kirst of Stanford University.[132]

Conclusion

The primary mission of a college is to produce and disseminate knowledge. Unfortunately, our institutions of higher education are involved in a number of non education-related services. Using in-house staff to perform a number of professional, student, and even educational services can be unnecessarily expensive, inefficient, and serve to drive up the cost of college without increasing the quality of education. Colleges can counteract these trends by outsourcing more services and functions. When making an outsourcing decision, colleges must also evaluate the potential costs and limitations, including the effect that the decision would have on various stakeholder groups and the university's mission. Once all of the relevant information has been assessed, colleges can then use cost-benefit analysis to determine whether a particular service should be outsourced. In many situations, the use of outsourcing

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[130] Scott Jaschik, "Outsourcing the Faculty," Inside Higher Education, May 2005.

[131] Jennifer Gonzalez, "Lessons Learned: Using Data to Help Students Pass Remedial Courses," The Chronicle of Higher Education, 18 April 2010.

[132] Elizabeth Redden, "Outsourcing Remedial Ed," Inside Higher Education, December 2007.

can allow a "college or university to focus on its primary mission, not on managing an auxiliary service that may compete with private-sector alternatives and not provide a real return for institutional dollars."[133]

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[133] Richard Bartem and Sherry Manning, "Outsourcing in Higher Education: A Business Officer and Business Partner Discuss a Controversial Management Strategy," <u>Change</u>, Jan-Feb 2001, 42-47.

Section Two: Use Fewer Resources

#6: Reduce Administrative Staff

A thorough analysis of the data reveals that American colleges and universities are increasingly bloated with administrative bureaucracies. The composition of the higher education workforce has shifted dramatically in favor of administrative and support staff in recent years, substantially outpacing the growth in enrollment. College expenditures on administration and support services have grown at a much faster rate than education expenditures, resulting in a less efficient workforce. Despite a lack of clear performance measures, this workforce is very well compensated. This trend suggests that institutional priorities have shifted from research and providing an education to empire-building. The following chapter provides a compelling case that schools need to reduce their administrative staffs in order to make college more affordable.

Composition of the Workforce

The administrative bureaucracy on college campuses is comprised of two main classifications of employees: (1) executive, administrative or managerial and (2) other professionals, or non-instruction-related support staff. Combined, these two classifications of employees made up 26.1 percent of the total workforce (31.6 percent of full-time equivalent[134] employees) at colleges in 2007, an increase of 15.2 percent (a 19.4 percent increase for FTE) from 1997.[135]

Table 6.1 displays the total and FTE staff by occupation at degree-granting institutions, in terms of both absolute and percentage of staff, in Fall 1997 and Fall 2007. Table 6.2 shows the percentage change, in terms of the absolute number and composition of the workforce, for the total and FTE staff between the two periods.

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[134] Full-Time Equivalent (FTE) is a common measure used by colleges that is computed by taking the sum of the number of part-time employees (students) divided by three and the number of full-time employees (students).
[135] Derived using National Center for Educational Statistics (NCES) table 244: Total and full-time-equivalent staff in degree-granting institutions, by employment status, control of institution, and occupation. Data drawn from 1997 and 2007 IPEDS Fall Staff Surveys.

Table 6.1: Total & FTE Staff in Degree-Granting Institutions, by Occupation; All Institutions

	Fall 1997				Fall 2007			
	Total		FTE		Total		FTE	
	Number (1,000s)	% of Staff	FTE (1,000s)	% of Staff	Number (1,000s)	% of Staff	FTE (1,000s)	% of Staff
Total Staff	2,753	100%	2,180	100%	3,561	100%	2,762	100%
Exec/Admin/Managerial	151	5.5%	148	6.8%	218	6.1%	214	7.7%
Faculty	990	36.0%	709	32.5%	1,371	38.5%	927	33.6%
Graduate Assistants	223	8.1%	92	4.2%	329	9.2%	136	4.9%
Other Professionals	472	17.1%	428	19.7%	712	20.0%	658	23.8%
Non-Professional Staff	917	33.3%	802	36.8%	932	26.2%	827	29.9%

SOURCES: NATIONAL CENTER FOR EDUCATION STATISTICS TABLE 244; IPEDS FALL STAFF SURVEYS

Table 6.2: Percentage Change in Staffing at Degree-Granting Institutions, by Occupation; All Institutions

	% Change, Fall 1997 to Fall 2007			
	Total		FTE	
	Absolute Number	% of Staff	Absolute Number	% of Staff
Total Staff	29.4%		26.7%	
Exec/Admin/Managerial	43.7%	11.1%	44.7%	14.1%
Faculty	38.6%	7.1%	30.8%	3.2%
Graduate Assistants	47.7%	14.2%	48.0%	16.8%
Other Professionals	50.7%	16.5%	53.6%	21.2%
Non-Professional Staff	1.7%	-21.4%	3.0%	-18.7%

SOURCES: NATIONAL CENTER FOR EDUCATION STATISTICS TABLE 244; IPEDS FALL STAFF SURVEYS

Job Growth at Colleges

Using the IPEDS Fall Staff Surveys data collected for a previously released CCAP report,[136] a sample of 2,782 institutions revealed that colleges added 690,373 full-time equivalent (518,489 full-time; 515,651 part-time) jobs between 1987 and 2007, an increase of 39 percent (33% FT; 85% PT). Of this increase, 51.6 percent of the new positions were either managerial[137] or

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[136] Daniel Bennett, "Trends in the Higher Education Labor Force: Identifying Changes in Worker composition and Productivity," (Washington: Center for College Affordability and Productivity, 2009).

[137] Managerial includes employees classified as executive, administrative and managerial.

support staff[138] (356,347 FTE jobs), whereas only 47.1 percent were instructional (325,029 FTE jobs). Figure 6.1 shows the aggregate nominal increase in jobs at the colleges included in the sample between 1987 and 2007, by occupation and status.[139] FTE instruction and management positions each increased by 53 percent during the period (36% vs. 53% FT employees, respectively; 113% vs. 43% PT employees, respectively), whereas FTE support staff increased by 100 percent during the period (101 % FT; 81 % PT).

Figure 6.1: Job Growth by Position & Status: 1987 to 2007
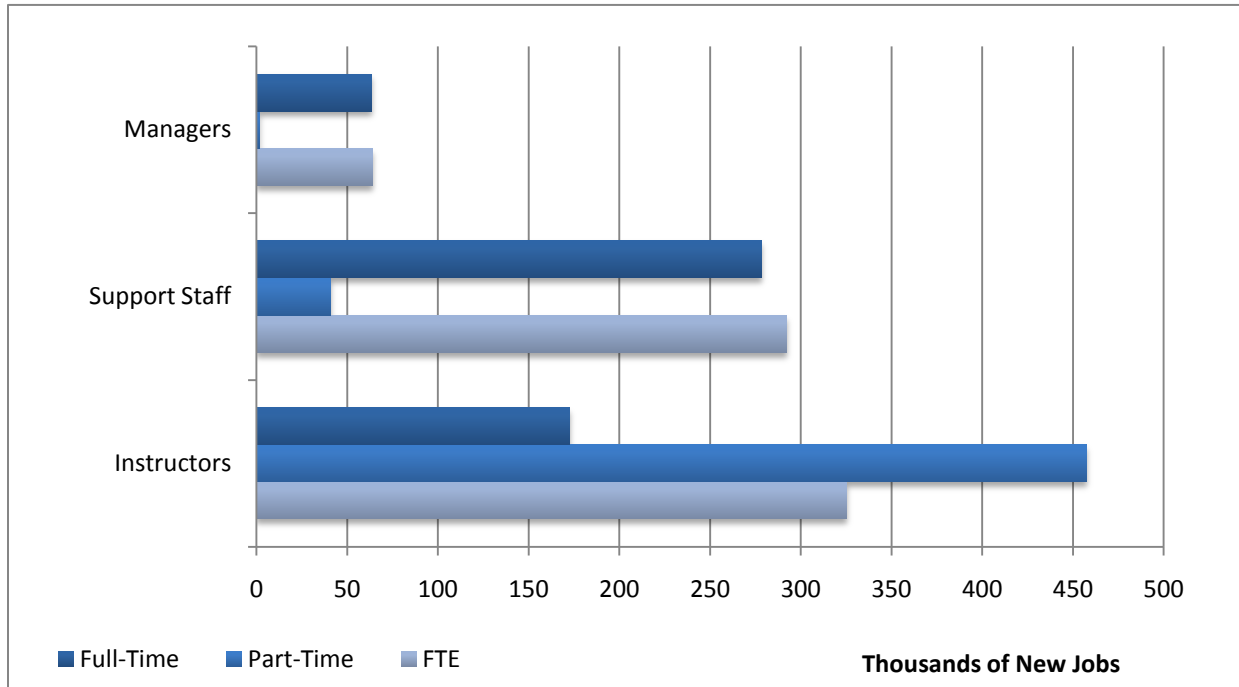
The growth of non-instructional staff is so fast that if these job growth trends were to continue, the number of managers and support staff (administration) at 4-year not-for-profit colleges would outnumber instructors by 2014. Using the average annual percentage increase between 1997 and 2007 for each of the three job categories (managers, support staff and instructors) as the respective rate of growth[140] and combining support staff and managers into one category as administration, figure 6.2 shows the job growth projection for the combined 4-year public and private not-for-profit institutions that were included in the sample.

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[138] Support staff includes employees classified as other professionals, whose primary purpose is performing academic support, student service and institutional support.
[139] The 2,782 schools in the sample account for 55 percent of all degree-granting institutions and 85.5 percent of the FTE student enrollment in 2007.
[140] The average annual growth rate between 1997 and 2007 was 4.56% for administration, 2.97% for instructors.

**Figure 6.2: Employee Projection at 4-Year Public &
4-Year Private Not-for-Profit Colleges**
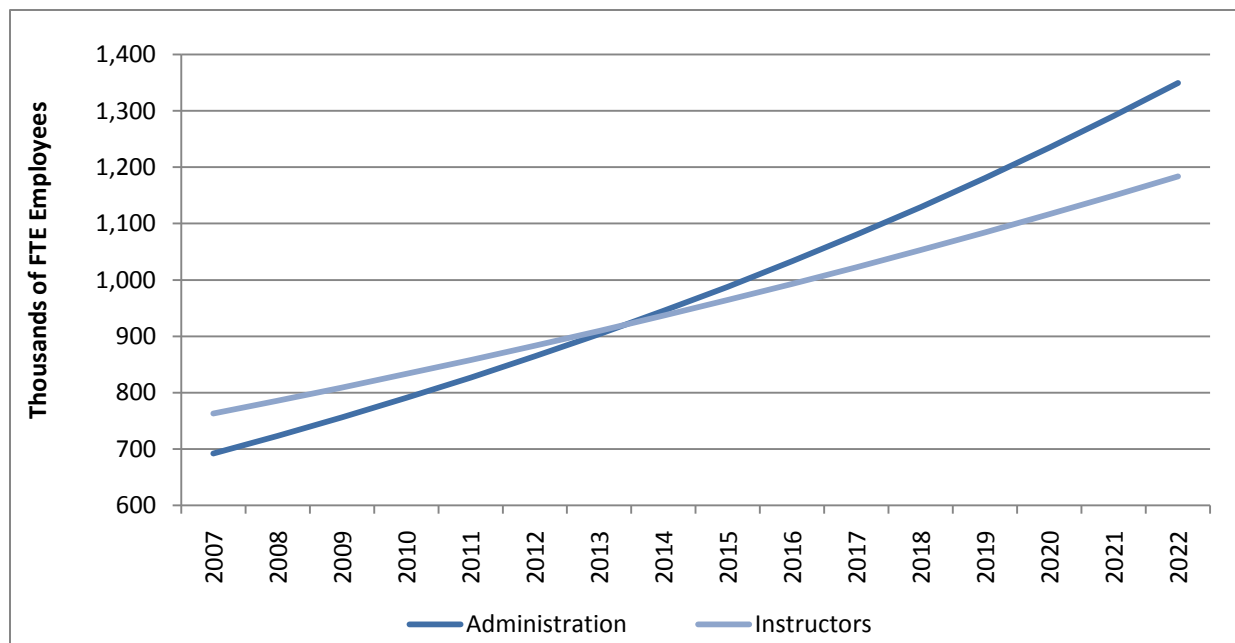
Growth of Administrative Staff Relative to Enrollment

While the previous section discussed the growth of college administrations in absolute terms over the past twenty years, colleges have also experienced a growth in enrollment during the period. Therefore, a measure of administrative growth relative to enrollment is perhaps more appropriate. Figure 6.3 displays, by sector, the ratio of FTE administrative employees[141] per 100 FTE students in 1987, 1997 and 2007. This ratio has increased over each time period for all four of the sectors mentioned. The private not-for profit 4-year institutions had the highest ratio of FTE administrative employees per 100 FTE students, 9.3 in 2007, an increase of 30.2 percent since 1987. The public 4-year institutions had a ratio of 7.5 in 2007, an increase of 38.2 percent over twenty years. The private not-for profit 2-year institutions had a ratio of 7.0 in 2007, an increase of 47.8 percent since 1987. The public 2-year institutions had a ratio of 2.1 in 2007, an increase of 36.4 percent over twenty years.[142] Thus, it is clear that the growth of administrative employees has occurred not only in absolute terms, but also relative to enrollment.

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[141] Sum of support staff and management.
[142] Daniel Bennett, "Trends in the Higher Education Labor Force: Identifying Changes in Worker Composition and Productivity," (Washington: Center for College Affordability and Productivity, 2009).

Figure 6.3: FTE Administrative Employees Per 100 FTE Students
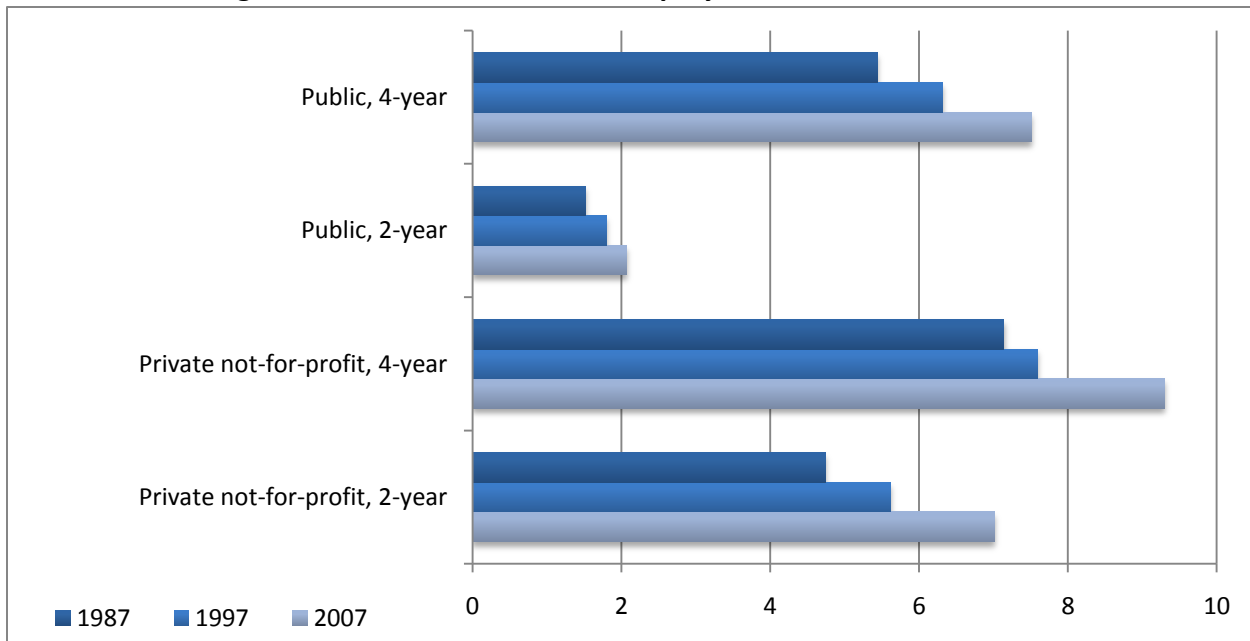
Spending Trends Indicate a Shift in Priorities

The data in the previous sections described the shift in the composition of the higher education workforce towards administrative and support staff and the growth in these positions. These trends suggest that college staffs are increasingly inflated with administrative personnel. A report released by the Delta Cost Project (DCP) suggests that the growth of college bureaucracies has resulted in a shift in institutional priorities away from instruction. Table 6.3 displays education and related expenses[143] (E&R) spending by educational category and institutional sector on a per FTE student basis as well as a share of total E&R spending in 1995 and 2006, as reported by DCP.[144]

In absolute dollars, E&R spending (which is comprised of instruction, student services, and some administration spending) on instruction increased between 1996 and 2006 in all six sectors; however, as a share of all E&R spending, it declined in all six. Additional resources were

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[143] E&R includes all spending for instruction and student services, plus a portion of spending on academic and institutional support and for operations and maintenance of buildings. This is sometimes referred to as a "full cost of education" measure.
[144] "Trends in College Spending: Where does the money come from? Where does it go?" The Delta Cost Project, 2009.

disproportionately allocated to student services and administrative support, which increased in both absolute and relative terms in all six sectors.[145]

In the public research sector, combined spending per FTE student on student services and administrative support grew 15.5 percent, or by 1.5 percentage points as a share of total E&R spending. The public master's sector experienced an increase of 20.5 percent in combined spending per FTE student on student services and administrative support, or an increase of 3 percentage points as a share of total E&R spending. In the public community college sector, combined spending per FTE student on student services and administrative support grew 18.7 percent, or by 2.6 percentage points as a share of total E&R spending.[146]

In the private research sector, combined spending per FTE student on student services and administrative support grew 49.5 percent, or by 4.3 percentage points as a share of total E&R spending. The private master's sector experienced an increase of 30.9 percent in combined spending per FTE student on student services and administrative support, or an increase of 2 percentage points as a share of total E&R spending. For the private bachelor's sector, combined spending per FTE student on student services and administrative support grew 34.3 percent, or by 2 percentage points as a share of total E&R spending.[147]

Administrative Salaries

Using the IPEDS 2007 Fall Staff Survey data, we were able to determine the number and percentage of administrative employees[148] with salaries above $50,000, $65,000, $80,000 and $100,000 by institutional type. At doctorate/research universities,[149] 58 percent of administrative employees (245,310) earned a salary above $50,000, with 9.9 percent (41,905) drawing a salary greater than $100,000. At master's colleges,[150] 48.9 percent of administrative employees (63,056) were paid a salary greater than $50,000, with 8.4 percent making more than $100,000 (10,787). At baccalaureate colleges,[151] 42.5 percent of administrative employees (27,132) were paid more than $50,000, with 6.8 percent (4,328) taking home a salary above $100,000.[152] Table 6.4 displays the earnings level of administrative staff by institutional level for fall 2007, with the number of schools included in parentheses.

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[145] "Trends in College Spending: Where does the money come from? Where does it go?" The Delta Cost Project, 2009.

[146] Ibid.

[147] Ibid.

[148] Sum of the IPEDS 2007 Fall Staff "Executive/Administrative and Managerial" and "Other Professional" occupation classifications.

[149] Sum of 2005 Basic Carnegie Classifications "Doctoral/Research University," "Research Universities (high research activity)" and ""Research Universities (very high research activity)".

[150] Sum of 2005 Basic Carnegie Classifications Master's Colleges and Universities – larger, medium and smaller programs.

[151] Sum of 2005 Basic Carnegie Classifications "Baccalaureate Colleges, Arts & Sciences", "Baccalaureate Colleges, Diverse Fields" and "Baccalaureate/Associate's Colleges".

[152] Figures calculated using *IPEDS* 2007 universe of school, Fall 2007 Staff.

Table 6.3: E&R Spending by Sector and Educational Category (in 2006 Dollars)

School Type	Instruction		Student Services		Administrative	
	1995	**2006**	**1995**	**2006**	**1995**	**2006**
Public Research						
Spending / FTE Student	$8,007	$8,711	$975	$1,202	$3,447	$3,906
Share of Spending	64.4%	63.0%	7.8%	8.7%	27.7%	28.3%
Public Master's						
Spending / FTE Student	$5,178	$5,509	$947	$1,185	$3,474	$4,141
Share of Spending	53.9%	50.8%	9.9%	10.9%	36.2%	38.2%
Public Community College						
Spending / FTE Student	$4,314	$4,609	$920	$1,110	$2,935	$3,465
Share of Spending	52.8%	50.2%	11.3%	12.1%	35.9%	37.7%
Private Research						
Spending / FTE Student	$15,476	$19,251	$1,883	$3,037	$7,470	$10,946
Share of Spending	62.3%	57.9%	7.6%	9.1%	30.1%	32.9%
Private Master's						
Spending / FTE Student	$5,424	$6,545	$1,683	$2,381	$4,958	$6,312
Share of Spending	45.0%	43.0%	13.9%	15.6%	41.1%	41.4%
Private Bachelor's						
Spending / FTE Student	$6,074	$7,534	$2,273	$3,311	$6,569	$8,566
Share of Spending	40.7%	38.9%	15.2%	17.1%	44.1%	44.2%

SOURCE: DELTA COST PROJECT IPEDS DATABASE, 20-YEAR MATCHED SET

Table 6.4: Earnings Level of Administrative Staff, by Institutional Type (#Schools), Fall 2007

School Type (Number of Schools)	No. of Employees	% With Salary $100,000+	% With Salary $80,000+	% With Salary $65,000+	% With Salary $50,000+
Baccalaureate Colleges (659)	63,813	6.8%	13.5%	23.4%	42.5%
Master's Colleges (602)	128,899	8.4%	16.2%	27.5%	48.9%
Doctorate / Research Universities (272)	423,276	9.9%	19.3%	33.0%	58.0%

SOURCE: IPEDS 2007 FALL STAFF SURVEY

The salaries of senior administrators increased by 4 percent in 2008-09, according to the College and University Professional Association for Human Resources (CUPA-HR), which conducts a series of annual salary surveys of college administrators. This was the third consecutive year at that rate, and the twelfth straight year that salary increases outpaced

inflation, as measured by the Consumer Price Index.[153] CUPA-HR also conducts an annual survey which measures the salaries of midlevel administrators and found that their salaries increased by 3.5 percent in 2008-09,[154] down slightly from the 3.9 and 3.8 percent increases received in the two prior years, respectively.[155] Table 6.5 reveals the typical salary for senior and midlevel administrative workers by functional category and institutional type, as reported in the 2008-09 CUPA-HR salary survey.[156]

The Case for Reducing Administrative Salaries

Administrative staff at colleges has grown in both absolute number and relative to student enrollments. The growth of administrative employees has outpaced that of faculty and instructors. If this trend were to continue in the future, administrative employees would outnumber instructors at 4-year colleges by 2014. Expenditures on education and related expenses are increasingly allocated to administrative and support services and less so to instruction, with expenditures on the former already outnumbering that of the latter in some sectors and approaching parity in the remainder. The majority (58%) of research/doctoral college administrative employees received a salary above $50,000, and nearly 10 percent were paid a six figure salary in 2007-08. In contrast, only 32 percent of individuals over the age of 25 in the U.S. workforce made more than $50,000 in 2007, while 7.7 percent of these individuals brought home $100,000 or more.[157]

Administrative and support staffs in higher education should be reduced in order to lower the costs of providing a college education, to improve employee productivity, and to refocus the mission of colleges to the production and dissemination of knowledge.

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[153] Marisa Lopez-Rivera, "Pay of Senior Administrators Still Beats Inflation, Even in Sluggish Economy," The Chronicle of Higher Education, 27 February 2009.
[154] Marisa Lopez-Rivera, "Raises for Midlevel Workers Trail Those for Top Level Administrators," The Chronicle of Higher Education, 27 March 2009.
[155] Marisa Lopez-Rivera, "Median Pay Increases for Colleges' Midlevel Workers Beats Inflation," The Chronicle of Higher Education, 28 March 2008.
[156] Functional job category salary data are the median of the CUPA-HR median salaries of all occupations listed under each functional area, as reported by *The Chronicle of Higher Education*. See notes 16 and 17.
[157] Calculated using U.S. Census Bureau Current Population Survey; 2008 Annual Social and Economic Supplement, Table PINC-03.

**Table 6.5: Typical Administrative Worker Salary
by Functional Category and Type of Institution, 2008-09**[158]

Functional Job Category	All	Doctoral	Master's	Baccalaureate	2-year
Senior Administrators					
Senior Executives & Chief Functional Officers	$135,555	$183,000	$121,312	$105,528	$98,210
Academic Deans	$134,632	$190,412	$117,974	$92,423	$87,030
Associate/Assistant Academic Deans	$101,325	$116,401	$96,005	$81,305	$76,532
Information Technology	$87,786	$99,694	$81,940	$68,865	$78,856
Human Resources	$76,000	$83,311	$70,000	$64,413	$71,482
Business and Administrative Affairs	$73,705	$90,000	$67,032	$59,871	$59,288
External Affairs	$73,137	$91,702	$69,419	$59,854	$67,635
Athletics	$67,487	$89,500	$60,100	$58,051	$56,897
Student Affairs	$61,670	$77,181	$58,012	$53,680	$59,885
Midlevel Administrators					
Information Technology	$54,273	$60,997	$51,549	$52,293	$53,686
Human Resources	$52,593	$51,969	$47,100	$45,396	$53,925
Business & Administrative Affairs	$51,655	$54,559	$49,314	$47,055	$50,924
Athletics	$51,500	$65,874	$45,799	$45,000	$44,846
Academic Affairs	$50,103	$51,847	$47,903	$45,157	$47,386
External Affairs	$48,669	$49,167	$46,472	$46,158	$49,738
Student Affairs	$44,691	$46,337	$43,324	$41,525	$44,432

SOURCE: CUPA-HR, 2008-09

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[158] The median salaries for senior executive and chief functional officers at all institutions ranged from more than $79,000 for the secretary of an institution to nearly $325,000 for the chief executive of a system. For academic deans, the median salaries at all institutions ranged from $83,750 for external degree programs to more than $386,500 for medicine. For associate/assistant academic deans, the median salaries at all institutions ranged from $66,000 for special program to nearly $180,000 for medicine. For information technology employees, the median salaries at all institutions ranged from nearly $33,000 for entry level computer operators to $105,000 for the director of research computing. The median salaries for business and administrative affairs employees at all institutions ranged from slightly above $27,000 for a security guard to nearly $155,000 for the director of a university research park. The median salaries for external affairs employees at all institutions ranged from more than $35,300 for an assistant writer to more than $127,500 for a director of governmental/legislative relations. The range of athletics employees' median salaries at all institutions was between $35,700 for an assistant baseball coach to more than $95,000 for an athletic director. For student affairs employees, the median salaries at all institutions ranged from $29,400 for a residence hall manager to more than $153,000 for a director of student health services.

Lower the Costs of Providing a College Education

According to the National Center for Education Statistics, the nominal costs of attending college (tuition, fees, room and board) increased by 67 percent at public and 56 percent at private institutions between the 1995-96 and 2005-06 academic years. After accounting for inflation, these figures equate to real increases in the cost of attending college of 30 and 21 percent at public and private institutions, respectively. This amounts to an average annual *real* increase of 3 percent at public and 2.1 percent at private colleges.[159]

The proliferation of university administrative and support staffs has contributed to this rapid rise in the cost of college. As discussed earlier, the number of such employees has grown substantially over the past two decades. The costs associated with having such a large administrative bureaucracy are substantial, including not only the salary figures previously mentioned, but also other forms of compensation (e.g. health and life insurances, retirement contributions, tuition discounts, and housing and car allowances for some senior officials).

Reducing the size and scope of the bureaucracy on campus by 5 percent would result in considerable savings – an estimated $1.78 billion, or $106 per student, at non-profit 2- and 4-year institutions in 2007 alone.[160] Table 6.6 displays the estimated total and per student savings that would result from a 5 percent reduction in administrative staff in 2007 by sector, with the number of schools included in the calculation in parenthesis.

Table 6.6: Estimated Savings from a 5% Reduction in Administrative Staff

Sector (Number of schools)	Total Savings (Millions)[161]	Per Student[162]
Private not-for-profit, 2-year (186)	$7.9	$157.78
Private not-for-profit, 4-year or above (1,543)	$689.7	$194.01
Public, 2-year (1,082)	$334.9	$54.32
Public, 4-year or above (627)	$746.1	$107.32
Total (3,438)	$1,778.6	$106.36

SOURCE: IPEDS 2006 FINANCE AND ENROLLMENT SURVEYS

Improve Employee Productivity

The rapid rise in administrative staffs has resulted in a decline in employee productivity. The two main means of measuring output in higher education are number of students enrolled and the number of degrees awarded. Using these data points, it is possible to estimate two

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[159] United States, Department of Education, "Digest of Education Statistics 2006," (Washington: NCES, 2007).

[160] IPEDS 2006 Enrollment and 2006 Finance Surveys.

[161] Savings estimated by reducing the sum of salaries and wages and (fringe) benefit expenditure on institutional support and student services by 5 percent.

[162] Total savings divided by number of total students (full and part-time).

measures of administrative staff productivity: (1) students per administrative employee and (2) degrees awarded per administrative employee. In terms of enrollment, administrative employee productivity in the non-profit sectors[163] declined by between 23.2 and 27.6 percent between 1987 and 2007.[164] In terms of the number of degrees awarded, administrative employee productivity in the non-profit sectors declined by between 15.8 and 19.1 percent between 1987 and 2007.[165] A small reduction (5 percent for instance) in administrative and support staff would increase productivity significantly.

Refocus the Mission of Colleges to the Production and Dissemination of Knowledge

As mentioned earlier, expenditures on administrative and student services have increased disproportionately compared to instruction, suggesting that institutional priorities have shifted away from their primary purpose of education. Adding credence to this argument is the fact than twice as many full-time administrative and support staff as full-time instructional positions were created between 1987 and 2007.[166] Colleges have increasingly staffed classrooms with part-time adjunct instructors, who are paid a small fraction of their full-time counterparts' wages, often without any benefits. The savings associated with this shift in paradigm, which is arguably worse for students, have been squandered away in a higher education arms race that includes a doubling of support staff over the past twenty years.[167] Higher education needs to trim down the bureaucratic fat that has encompassed campuses and refocus its mission on the production and dissemination of knowledge.

Recommendations

The evidence strongly suggests that administrative staffs have overpopulated college campuses. If the current trends in staffing were to continue, the number of administrators would outnumber instructors in the higher education industry within five years. Roughly a quarter of 4-year non-profit colleges reported having more full-time equivalent administrative support employees than instructors in 2007.[168] This is a serious disease that has plagued higher education and needs to be eradicated. The ongoing financial crisis has created a cost-cutting environment on many campuses. This situation has led some colleges to implement a number of measures, including employee layoffs, furloughs and consolidations. Our recommendations include eliminating redundant or comparable departments and positions, filling administrative positions with students, implementing an incentive-based compensation system, outsourcing services and making effective use of technology.

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[163] Estimated range includes 4-year private not-for profit, 2-year public and 4-year public sectors.

[164] Daniel Bennett, "Trends in the Higher Education Labor Force: Identifying Changes in Worker composition and Productivity," (Washington: Center For College Affordability and Productivity, 2009).

[165] Ibid.

[166] Ibid.

[167] J Brainard et. al, "Support Staff Doubles in 20 Years, Outpacing Enrollment," The Chronicle of Higher Education, 24 April 2009.

[168] Calculated using data from IPEDS 2007 *Fall Staff Survey*.

Consolidate Redundant or Comparable Departments and Positions

It is not uncommon for different departments to offer very similar educational programs, or for similar services to be provided by multiple administrative offices on a college campus. When this happens, it imposes additional administrative burden and costs. Colleges should evaluate their program and student service offerings to identify redundancies and potential areas for streamlining activities. Doing so will permit colleges to consolidate their offerings in a more efficient and cost-effective manner. Several recent cases highlight the potential cost savings.

> Case Study 6.1: Converse College, an all-women's liberal arts college in South Carolina, announced in late April 2009 plans to reorganize over the next two years. The initiative will include consolidating academic programs and departments, streamlining student services and reducing expenses with an 8 percent reduction in staff. The changes include "the housing of all Converse academic programs under the umbrella of three distinct areas: a School of Humanities and Sciences, a School of Arts and a School of Education and Graduate Studies," and the consolidation of student services into four clusters (Student Advancement and Transitions Center, Enrollment and Billing, Student Engagement, and Distance Learning and Continuing Education). The reorganization will permit Converse to eliminate 11 staff and 7 faculty positions over two years. [169]

> Case Study 6.2: In May 2009, the University of Florida announced cost-reducing job cuts that included the elimination of approximately 150 faculty and staff positions. It plans to save up to $30 million, in part by merging some small departments and offices, including the departments of operative dentistry and dental biomaterials, the department of Communication Science and Disorders in the College of Liberal Arts and Sciences and the department of communicative disorders in the College of Public Health and Health Profession, and the Mental Health Center and the Counseling Center within Student Affairs.[170]

Fill Administrative Roles with Students

Many students are willing to take at least a part-time job while in school. According to the College Board, 48 percent of full-time and 84 percent of part-time undergraduate students under the age of 25 were employed in 2005.[171] A Federal Work Study program provides funding to institutions to be allocated to low-income students in exchange for part-time work on campus or in the community. Work study students are guaranteed minimum wage, suggesting that colleges could employ students in an administrative capacity at a fraction of the cost of professional full-time employees.

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[169] Gary Glancy, "Converse Announces Reorganization Plans," Go Upstate, 20 April 2009.
[170] "Final Budget Reduction Plan Announced," Budget News: The Latest on the Budget at UF, (University of Florida, 22 May 2009).
[171] "Trends in Student Aid 2007" Collegeboard, 25 May 2010, <http://www.collegeboard.com/>.

Filling more administrative roles with students would be a win-win strategy for both students and colleges. Students would benefit from gaining hands-on job experience, as well as earning money to help offset the cost of college. Colleges would directly benefit by reducing their labor costs. There would also be indirect benefits to colleges, such as a low-cost probationary screening of potential future employees and providing students with much-needed work experience that will make them more employable upon graduation, which would be an image-boosting reflection on the college.

> Case Study 6.3: Rhodes College, a liberal arts school in Tennessee, began a student associate program in 2004 that provides funding for 100 students to "work in jobs that reinforce their classroom learning and earn up to $4,500 a year." Most Rhodes Student Associates work in academic departments and administrative offices doing work that is proposed and guided by professors or staff members who assure that the work is of a "professional level and relates directly to each student's area of study or desired career." Such positions are funded by the institution and pay between $10 and $12 an hour. The program provides students with meaningful work experience and the college with low-cost employees that save an estimated half million dollars a year, according to Bob Johnson, VP for student and information services.[172]

Implement an Incentive-Based Compensation System

The compensation for many administrative positions, especially senior ones, is currently determined by industry benchmarking – in other words, by determining how much comparable employees at similar institutions are paid. This has resulted in a run-up of administrative salaries without consideration for the employee's actual worth. College presidents are generally compensated in this regard, often with little in the way of incentives for performance in their employment contracts (the common exception being a dubious incentive to move up in the rankings). This method does not consider the value that an employee adds, nor does it provide an incentive for employees to engage in entrepreneurial activity to continually improve processes, enhance performance, reduce costs and streamline activities.

Colleges should consider implementing an incentive-based compensation system that rewards exceptional performance and is punitive for lousy performance. A few examples of measurable goals that could be incentivized include recruitment and enrollment objectives,[173] retention and completion rates, graduate job placements, and cost-saving initiatives. Schools in the for-profit sector reward employees with bonuses and stock options based on performance criteria. While non-profit schools are not publicly traded, they do provide very similar educational services as the proprietary colleges and would be wise to implement some of the management practices used in the for-profit sector, especially ones that incentivize improving performance.

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[172] "Rhodes College Student Associates Earn While They Learn: College Provides Funding for 100 Students Through Innovative Program," Rhodes College News, 21 July 2008.

[173] We recognize that recruiter pay based on enrollment numbers is against Title IV rules; however, there could be alternative enrollment objectives that a college pursues, such as attracting high quality students.

Outsource Services

Colleges are engaged in a plethora of non education-related functions and services that could be outsourced to private providers, reducing the need for administrative employees. We devote an entire chapter to outsourcing, so we will not spend too much time discussing it here, other than mentioning that outsourcing often leads to cost reductions and efficiency gains.

Make Effective Use of Technology

Many colleges still practice an arcane way of conducting business that involves the inefficient shuffling of paperwork among administrative offices, with multiple offices often performing repetitive processes due to a lack of communication and visibility of workflows. This confusion increases the cost of information sharing, as more administrative and support staffs are employed than ought to be required. This is still occurring despite multi-million dollar investments in enterprise resource planning (ERP) systems on many campuses. It is true that some college processes, such as library services, registration and admissions have moved into the digital age, but much more efficiency can be achieved with the effective use of technology. There are many more processes that should be integrated into existing systems. This step, as well as improvement of existing electronic processes, will reduce the administrative burden on colleges and ultimately save money.

Bernie Kluger, CEO of FairChoice Systems, provided us with a few examples of how colleges could utilize technology to their advantage. He estimates that colleges could reduce the cost of administering student housing by 3 to 5 percent by doing online housing contracts.[174] His firm also estimates that colleges could save an annual $25,000 per 1,000 entering students by "migrating its vaccination certification process from paper to the Web."[175] The implementation of such processes would require a one-time fixed cost, but would reduce labor costs and inefficiencies for every subsequent year.

Conclusion

The recent explosion in tuition is at least partially attributable to the fact that administrative bureaucracies have ballooned out of control. This trend simply cannot continue as public sentiment over the upward spiraling costs worsens. Colleges need to refocus their mission on providing a quality education at an affordable cost. This requires increases in worker efficiency and a return to a realistic pay structure. These goals can be achieved in a multitude of ways, including the consolidating comparable departments and positions, implementing an incentive-based compensation system, filling administrative roles with students, outsourcing non-education related services and making effective use of technology.

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[174] Bernie Kluger, Personal Phone Interview, 22 May 2009.
[175] "Colfumbia University Licenses Student Health Information Solution to FairChoice Systems," FairChoice Systems, 26 February 2010, 25 May 2010, <www.fairchoicesystems.com/cuandfs.php>.

#7: Cut Unnecessary Programs

A substantial opportunity for cost saving in higher education is in cutting unnecessary or tangential programs. While academic programs provide many benefits in addition to attracting tuition-paying students, nearly all operate at a loss and require additional subsidization. In an ideal world, a university would be able to offer programs in every conceivable field, and there would be no limit to the number of available beneficial programs. However, scarcity is the brutal reality, and it forces decision-makers to weigh the costs of providing programs as well as their benefits. Simply put, tradeoffs have to be made.

Universities can cut program costs in two different fashions: across the board or selectively. An across-the-board cut entails a series of small (generally a percentage budget reduction) cuts to many individual programs while leaving existing programs intact. Selective cuts, also referred to as vertical or strategic cuts, are targeted and seek to save money by eliminating entire programs. Both approaches have their advantages and disadvantages. Across-the-board cuts allow a school to retain a higher number of offerings and can be easier to implement. Instead of eliminating functions, the goal is to have each program fulfill its role more efficiently. Economic theory helps explain this as focusing on reducing variable costs while leaving fixed costs largely unchanged. Strategic cuts have the advantage of generally affecting a smaller portion of the university and allowing for the transfer of resources to more productive programs. Rather than reducing the quality of several areas, strategic cuts eliminate poorer-performing programs and shift resources to areas where more beneficial use can be made of them.

Depending on the specific situation that a university finds itself in, one of these approaches may be preferable to the other. Yet, Peter Eckel argues that in the long run, "Eventually the belt can be tightened no more. The continued changes in the environment may eventually force institutions to make strategic decisions and terminate academic programs and restructure core academic functions."[176] This necessity suggests that long-term budgetary problems, such as those facing universities presently, will force them to take more drastic action through strategic cuts. While times of recession are especially ripe for program reform, it should be noted that reducing costs is often warranted even in the absence of a budget crisis. Although strategic cuts may be more difficult to implement, in general they are the superior because the cuts occur in the least productive programs instead of cutting back on productive and unproductive programs alike.[177] Some programs can be of poor quality, duplicative or irrelevant; thus the regular review and elimination of programs can increase efficiency and lower costs.

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[176] Peter Eckel, Changing Course: Making the Hard Decisions to Eliminate Academic Programs, (Westport: Praeger, 2003), 7.
[177] Gary Olson, "The Unkindest Cut of All," The Chronicle of Higher Education, 5 October 2009.

Here, we will focus exclusively on strategic cuts made at the institutional level. Strategic cuts are targeted at eliminating individual programs. As such, the decisions leading to a strategic cut strongly depend on the specific circumstances at an institution. Prescribing "one size fits-all" solutions would be inappropriate. Instead, we will outline three important criteria to be used when considering programs for elimination. We will proceed by presenting two different case studies where schools recently implemented, or attempted to implement, strategic cuts. These cases will provide a contextual background to each situation so we can explore and evaluate the decision making and implementation processes that brought about reform.

Criteria for Making Appropriate Strategic Cuts

Strategic cuts are difficult to make, as they often affect a wide range of people and their livelihoods. However, higher education resources are precious and, as Tim Mann says, "If analysis suggests that a program is not financially viable, is without a market and is not mission critical, consider how those instructional, program and physical space resources could be re-tasked to address emerging needs or other mission-specific needs of the institution."[178]

Decisions to make strategic cuts develop within specific realities that vary by campus; therefore, different criteria should be used in evaluating which programs are the best candidates for elimination. Answers to the following three questions are vital when strategic cuts are being considered:

1. Is the program critical to the institution's mission?
2. Is there sufficient student demand and faculty interest?
3. Is the program financially viable?

Strategic missions are specific to individual institutions. There are many programs that could possibly provide benefits to the university and in some way fit its strategic mission. Yet in a world of constrained resources, those programs that adhere most closely to the strategic mission should be given preference. The programs that only marginally contribute to the school's mission should be considered strongly for elimination when financial pressures make cuts unavoidable.

Colleges and universities should be concerned with meeting student demands. Programs that students do not particularly care for, as demonstrated by low enrollments, should be strong candidates for elimination. It should be noted, however, that suggesting that programs should meet student demand does not mean complete authority should be given to students to determine things such as degree or general education requirements. Indeed, students often lack the information about the necessary coursework for different fields, and a certain amount of general education is important to developing critical thinking skills. These guidelines can be maintained while still focusing on satisfying student demand. Faculty interest should be a major

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[178] Tim Mann, "Road Too Little Traveled," Inside Higher Education, 13 November 2009.

consideration as well. Programs that lack the support of current faculty and require significant new hiring to staff them should be among the first to be eliminated.

It is possible that while a program may align closely with the school's mission and attract strong student demand and faculty interest, it may fail to pass the third criterion: financial viability. Costs should be considered carefully, with programs being evaluated using a cost-benefit analysis. Some programs may have an unusual source of revenue generation or may save money for other parts of the university. Attributes such as these should be considered and weighed against budget provisions and other costs (such as opportunity costs of resources) when deciding whether to offer the program. Programs with greater benefits than costs should be protected most strongly from strategic cuts.

These three criteria are not an exhaustive list of everything to be considered, but do cover the three most important questions when determining where to make strategic cuts. Furthermore, a program does not have to fail all three to be cut while a program failing one criterion but passing the others may be legitimately saved from a cut. It is up to individual institutions to make these tough calls through their own decision-making processes. Yet these criteria are important considerations and it is crucial that someone is asking these important questions.

Challenges to Making Strategic Cuts

Making strategic cuts can be an arduous proposition for the leaders of an institution. Although limited resources often make cuts a necessity, several realities of the academy make them difficult to implement. As Peter Eckel notes, "the academy is highly participative and grounded in a history of collegiality, shared governance, and professional prerogative."[179] Modern American universities are often thought of as largely democratic institutions in which various stakeholders, including boards of trustees, administrators, faculty, staff, and students, all share decision-making power. Because each group has different factors influencing their priorities, preferences often conflict, making shared governance rather strained.

Strategic cuts are particularly difficult because they "have the potential to threaten institutions' core values and alter institutional identities."[180] While across-the-board cuts simply trim less-valued dimensions from existing programs, strategic cuts by definition eliminate entire functions. People often attach strong emotions to certain aspects that they believe define their university. For example, cutting football at Ohio State University or engineering at the Massachusetts Institute of Technology would likely elicit a strong outcry because of the centrality of each to their respective university's identity.

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[179] Peter Eckel, <u>Changing Course: Making the Hard Decisions to Eliminate Academic Programs</u>, (Westport: Praeger, 2003), 20.
[180] Peter Eckel, <u>Changing Course: Making the Hard Decisions to Eliminate Academic Programs</u>, (Westport: Praeger, 2003), IX.

Furthermore, those most intimately involved in programs put on the chopping block are likely to resist proposed cuts tenaciously. Although the overall university may place low value on a program, the faculty and students affiliated with it will certainly disagree. Stakeholder groups never want to be eliminated themselves, and they often lead campaigns opposing a proposed cut. Because faculty and students comprise the bulk of any university, these campaigns can be quite influential. Additionally, both groups are often successful at rousing support for their cause beyond even the immediately impacted individuals. For example, when the history department is cut, history professors and students are likely to be joined in their protests by professors and students from other departments. Both groups often feel obliged to defend their solidarity, knowing that future decisions could impact them next time. Whether the tools used to resist administrative decisions are the threat of unionization, political blocking of other decisions, rallies, or national media outcries, all create controversy. Robert Martin points out that "…administrators and trustees tend to avoid controversies because of their impact on reputation."[181] When reputation is negatively impacted, things like student enrollments and alumni donations decrease.

Compounding all of these issues is the fact that cuts of this type usually face a backdrop of anxiety and uncertainty because they are almost always accompanied by times of budget difficulty.[182] In addition, administrators are generally better trained at adding new programs than subtracting underperforming ones.[183] The combination of all these factors makes strategic cuts difficult to implement. Yet they can be achieved, and in many cases they are the most effective way to reduce costs. The following case studies examine two instances of strategic cuts and attempt to shed light on the processes by which they came about.

> Case Study 7.1: Washington State University Eliminates Theater and Dance, German and Rural Sociology
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> In the early months of 2009, Washington State University found itself facing an astounding budget deficit of more than $100 million after a 21 percent reduction in state appropriations.[184] An approved 28 percent tuition increase and additional $16 million from one-time federal stimulus money brought the gap to $54.2 million—or about 10 percent of the school's entire budget.[185] Clearly, something dramatic needed to be done.
>
> Having already cut 359 jobs (leaving 167 vacancies unfilled and eliminating 192 existing positions), the university implemented strategic cuts, as opposed to across-the-board, in

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[181] Robert Martin, "The Revenue Cost Spiral in Education," (North Carolina: John William Pope Center for Higher Education Policy, 2009).

[182] Peter Eckel, Changing Course: Making the Hard Decisions to Eliminate Academic Programs," (Westport: Praeger, 2003), 20.

[183] Ibid.

[184] Nicholas Geranios, "WSU Budget Plan Includes 370 Job Cuts," The Seattle Times, 1 May 2009.

[185] Maks Goldenshteyn, "WSU Approves 30% Increase in Tuition Over 2 Years," The Seattle Times, 9 May 2009.

order to prioritize and "preserve the strongest programs."[186] Washington State opted to eliminate the Department of Community and Rural Sociology, the German major, and the Department of Theater and Dance for an estimated savings of $3.6 million over the next two years.[187]

The Department of Community and Rural Sociology will be phased out beginning in 2010. This decision was reached because the department did not enroll any undergraduate students and generated little external money for research.[188] German will be eliminated as a major in 2011 after allowing currently-enrolled students to complete their degrees. The major granted degrees to only four students in 2008, and university leaders such as Provost Warwick Bayly asserted that by cutting German, the school could offer new majors in Pacific Rim languages.[189]

The Department of Theater and Dance will also be phased out in 2011. The administration claimed that faculty in this department had little time for research and "lacked visibility and impact."[190] The university president also justified the cut because the school did not have the resources to bring the department to a level comparable to peer institutions.[191] Essentially, in the case of this program, the university administration deemed that they valued the Department of Theater and Dance less than the resources that would be required to make it competitive and fit with institutional priorities. Washington State's program in Sport Management was initially planned for elimination, but survived the cuts. Administrators said that it was saved because the program provides athletic-training services to the school's sports programs.[192] Data on the number of sport management graduates also show a growing demand for the major, as it produced 45 graduates in 2007 and 63 in 2008.[193] Unlike the other three departments, Sport Management was saved largely because it was utilized by a greater number of students and provided cost-saving value to other dimensions of the university. While it is difficult to determine for certain the appropriateness of sparing Sport Management, making student demand for the major a leading criterion in the decision is commendable.

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[186] Nicholas Geranios, "WSU Budget Plan Includes 370 Job Cuts," The Seattle Times, 1 May 2009.

[187] Robin Wilson, "What Happens When Entire Departments Get the Ax," The Chronicle for Higher Education, 18 June 2009.

[188] Ibid.

[189] Nicholas Geranios, "WSU Budget Plan Includes 370 Job Cuts," The Seattle Times, 1 May 2009.

[190] Robin Wilson, "What Happens When Entire Departments Get the Ax," The Chronicle for Higher Education, 18 June 2009.

[191] Lainey Guddat, "Nuthouse is the last stand for theater at WSU: Phasing out the Department of Theatre and Dance diminishes the role of Nuthouse on campus life," The Daily Evergreen, 26 August 2009.

[192] Robin Wilson, "What Happens When Entire Departments Get the Ax," The Chronicle for Higher Education, 18 June 2009.

[193] Data provided by Washington State University Sport Management Department. 15 Oct. 2009

The key players in all these decisions were President Elson Floyd, Provost Warwick Bayly, and the university's budget committee. As would be expected, the strategic cuts engendered some backlash from the university community. Following the initial announcement of the proposed cuts in May of 2009, students led a silent protest march across campus ending at President Floyd's office, [194] and some complained about a lack of transparency in the decision-making process.[195] It was revealed that administrators did attempt to seek input, holding "more than a dozen public meetings to gather comments after releasing their initial budget cut proposals in early May."[196] Furthermore, in the past year President Floyd has given back $100,000 of his $725,000 salary, [197] and top university administrators agreed to cut their salaries by 5 percent, saving $330,000. [198]

The cuts made by Washington State adhere closely to the criteria set forth earlier. The university's strategic mission[199] focuses largely on transforming the institution into the nation's leading land-grant institution through nationally and internationally prominent programs. This focus places a considerable emphasis on research and graduate education. None of the three eliminated programs strongly fit this mission. Additionally, the school hopes that eliminating the German major will free up resources to offer Pacific Rim languages, which are of growing international importance.

Secondly, each of these programs had low student demand and faculty interest. Only four degrees were awarded by the German major in 2008 while the Department of Rural Sociology had zero undergraduates in the program. Rural sociology also brought in little money for support of faculty in their research endeavors. Sport Management was considered for elimination but ultimately preserved. This decision was at least partially made because the program has significant (and growing) student demand, with around 50 graduates per year. Another factor that contributed in sparing the Sport Management program was that it provides free athletic training services to other sport dimensions of the school, a service which otherwise would have been paid to an outside contractor.

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[194] Robin Wilson, "What Happens When Entire Departments Get the Ax," The Chronicle for Higher Education, 18 June 2009.

[195] Lainey Guddat, "Nuthouse is the Last Stand for Theater at WSU: Phasing out the Department of Theatre and Dance diminishes the role of Nuthouse on campus life," The Daily Evergreen, 26 August 2009.

[196] Nicholas Geranios, "WSU details job, program cuts: 359 jobs, several programs to be eliminated," The Spokesman-Review (Spokane) 17 June 2009.

[197] Paul Fain, "Washington State's 2 Well-Paid University Presidents Opt to Cut Their Own Pay," The Chronicle of Higher Education, 21 November 2008.

[198] Nicholas Geranios, "WSU details job, program cuts: 359 jobs, several programs to be eliminated," The Spokesman-Review (Spokane) 17 June 2009.

[199] "2008-2013 Strategic Plan: Washington State University," Washington State University, 28 October 2009.

Finally, these cuts will save the university an estimated $3.6 million over the next two years.[200] This proposal still leaves a considerable budget hole to be covered, but is a decent start. Eleven tenure-track faculty positions will be eliminated and other savings will be realized from reducing administrative expenses to fill the gap.[201] Overall, the strategic cuts made by Washington State, although difficult, did cut costs while minimizing the negative impact on the school's students, faculty, and institutional mission.

Case Study 7.2: The University of Southern Mississippi considers cutting its Economics Department

In the summer of 2009, the University of Southern Mississippi made headlines in the higher education community when it announced that it would be cutting the economics department as part of a proposal to eliminate $11 to $12 million from their 2011 budget, including $7.5 million from academics.[202] According to the university's press release, the harsh realities of decreasing state support and rising costs in general left administrators no choice but to make significant cuts in particular areas. The largest cut of all (totaling nearly $1 million) was the discontinuance of the three degree-granting undergraduate economics programs because, according to the university budget document, there were only five graduates per year "between all three programs."[203] Naturally, the faculty in the targeted economics department was perturbed by this news.

They raised two issues. The first was that they had essentially been barred from the process leading up to the decision, and that therefore not all the relevant information was considered. The second issue raised was the argument that if the cut were to be implemented, the damage to the university as a whole would be significant because the university would be, in the words of one professor, "alone as a major university without an economics faculty."[204] According to his argument, knowledge of economics is critical if students are to receive a well-rounded education; if the department was eliminated, top educators in this field would not come to USM and students' education would suffer as a result. This detrimental impact on students would be particularly relevant for business students who rely on economics for the theoretical basis of their business studies. Additionally, according to the same professor, the university as a whole benefits from the economics department because the economics faculty have "excellent

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[200] Robin Wilson, "What Happens When Entire Departments Get the Ax," The Chronicle for Higher Education, 18 June 2009.
[201] Ibid.
[202] "Southern Miss Group Makes FY 2011 Budget Cut Recommendations," University of Southern Mississippi, 11 August 2009.
[203]"Recommended USM Budget Actions – Academic Planning Group (Academic Subcommittee) as modified by the Executive Cabinet, August 10, 2009" University of Southern Mississippi, 10 August 2009.
[204] Jack Stripling, "Cruel Irony," Inside Higher Education, 14 August 2009.

teaching performance credentials and have been very supportive and active in service."[205]

Furthermore, although university administrators highlighted low student demand as a key factor leading to the decision to terminate the department, some faculty contended that the administrators had actually not fully accounted for student demand. For instance, although fewer than 5 students graduated from the economics department per year, many students from other majors take economics courses during their academic career. In fact, one USM professor was quoted as saying that the teaching load for economics faculty is one of the highest at USM.[206] Using overall enrollments in economics courses instead of enrollments in economics degree programs, then, indicates a high student demand for economics. By this measure, the department should not be cut.

The objections that USM faculty raised are critical to analyzing whether the targeted cut of the program was, in fact, a good decision. The objections discussed above address two of the criteria we mentioned earlier: whether the economics department is essential to the education mission of USM and whether student and faculty demands are high for that department. As we noted before, just because any one of the three criteria indicate a cut is justifiable does not necessarily mean that a cut should be made. This particular case study is a perfect illustration of this point.

Based on the issues raised by the faculty, the university revisited its decision to terminate the department; the final decision was that USM would retain the department.[207] Even though the university could have indeed saved a significant amount of money by terminating the department, it was determined during the re-evaluation process that student demand was sufficiently high to retain the department and that doing so was also critical to the institution's mission.

There are several lessons which can be gleaned from this case study which would be applicable to schools contemplating strategic cuts in the future. First, it is crucial that a proper measure of student demand be used. In the case of USM, it was not sufficient to show that there was low enrollment in the economics programs; rather, a more appropriate metric was enrollment in economics classes precisely because of economics' fundamental role in both a liberal arts education and in many specific disciplines (including business). Second, it is also important to correctly identify what disciplines are truly part of a well-rounded education. Many would say that economics is one of these disciplines. Finally, whenever department-wide cuts are in view, affected faculty should be a part of the decision process early on, not merely brought in only

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[205] Ibid.
[206] Ibid.
[207] David Glenn, "When Tenured Professors Are Laid Off, What Recourse?" <u>The Chronicle of Higher Education</u>, 28 September 2009.

after decisions are announced. In the case of USM, a failure to consult faculty caused the national spotlight to fall unfavorably on the school.

Conclusion

Strategic cuts can be a useful way to trim a university's budget. While they are often more difficult to implement than across-the-board percentage cuts, strategic cuts are advantageous in allowing the university to focus its resources in the most highly beneficial programs rather than chipping away at all dimensions equally. Inevitably, some programs are more important to the overall university than others. However, it can be difficult for university administrators to determine which ones are the most valuable.

Three major criteria should help guide this decision. First, programs which are critical to a university's stated mission warrant support. For example, if a school prides itself largely as a humanities-based institution, one would expect it to have a strongly supported philosophy department. Second, demand from both students and faculty should play a role in determining how much the university community itself values a given program. Programs that consistently enroll few students and have little interest from faculty may be less necessary than others. Finally, financial viability is important. Regardless of the benefits a program generates, it may require such great financial resources that the heavy burden it places on the university does not justify its continued support.

A thorough review of all programs is prudent to determine where precious resources can be put to best use. During the current difficult budgetary climate, universities across the country have considered strategic cuts as one method of meeting budget gaps. Washington State University is one example where strategic cuts were made successfully. Southern Mississippi is an example where the university considered a strategic cut, but eventually decided against it. Both highlight many of the challenges and issues that confront university administrators when considering strategic cuts. Strategic cuts are difficult, but overall, when considered carefully and implemented well, they can be a promising method of helping to reduce costs in higher education.

#8: End the "Athletics Arms Race"

Intercollegiate athletics are often falsely thought of as revenue-generating profit centers for American universities. Data reported to the National Collegiate Athletic Association (NCAA) by universities themselves show that the vast majority of intercollegiate athletics programs actually lose money. In FY 2006, only 19 of the 119 NCAA Division I Football Bowl Championship (FBS)[208] schools reported positive net revenues, and the median profit for those 19 was only $4.3 million.[209] Furthermore, not a single athletics program outside of Division I FBS profits from athletics. All these programs—the remaining Division I as well as all Divisions II and III programs—are forced to rely upon wider university resources to balance their budgets. It is clear that athletics are not a positive source of funds for the typical school in this country.

Indeed, athletics are becoming more expensive as costs are rising more rapidly than generated revenues. While both income and expenses increased from 2004-2006, the median expenses for all FBS schools increased at a rate of 15.6 percent compared with only an 8.3 percent increase for generated revenues (as is shown in Figure 8.1). While the disparity is not as severe at Division I schools without football programs, it is worse at FCS (football championship series) schools.[210] (The major difference between FBS and FCS divisions is that FCS athletics are generally of a lower profile and typically have much smaller budgets. Regardless, for every classification of program, the median expenses grew more than generated revenues, meaning that not only are athletics a drain on university resources, but they are becoming even more of a financial burden.

When an athletics program cannot cover its expenses through generated revenue, it is forced to rely on allocated funds from the wider institutional budget. Just as Figure 8.1 demonstrated rising athletic budget shortfalls, Figure 8.2 illustrates an increased dependence on allocated revenue from the school between 2004 and 2006. In 2006 allocated revenues accounted for slightly more than a quarter of total revenue at FBS institutions, and median allocated revenue grew 57 percent, from around $5.7 million to just under $9 million. Allocated revenue comes from both the institutional budget and student fees. In fact, at the median FBS school, student fees accounted for more than $1.4 million of allocated funding to athletics. On a per-student basis, students at the median FBS institution paid $81.73 directly to athletics in 2006. This is especially concerning since, as an average of all FBS institutions, only 3.2 percent of undergraduates participate as athletes in intercollegiate athletics.

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[208] Formerly classified as Division I-A schools by the NCAA.

[209] Daniel Fulks, "2004-06 NCAA Revenues and Expenses of Division I Intercollegiate Athletics Programs Report," NIAA, 15 September 2008.

[210] Formerly classified as Division I-AA schools by the NCAA.

Figure 8.1: Real Growth in Generated Revenue vs. Expenses (medians): 2004-2006
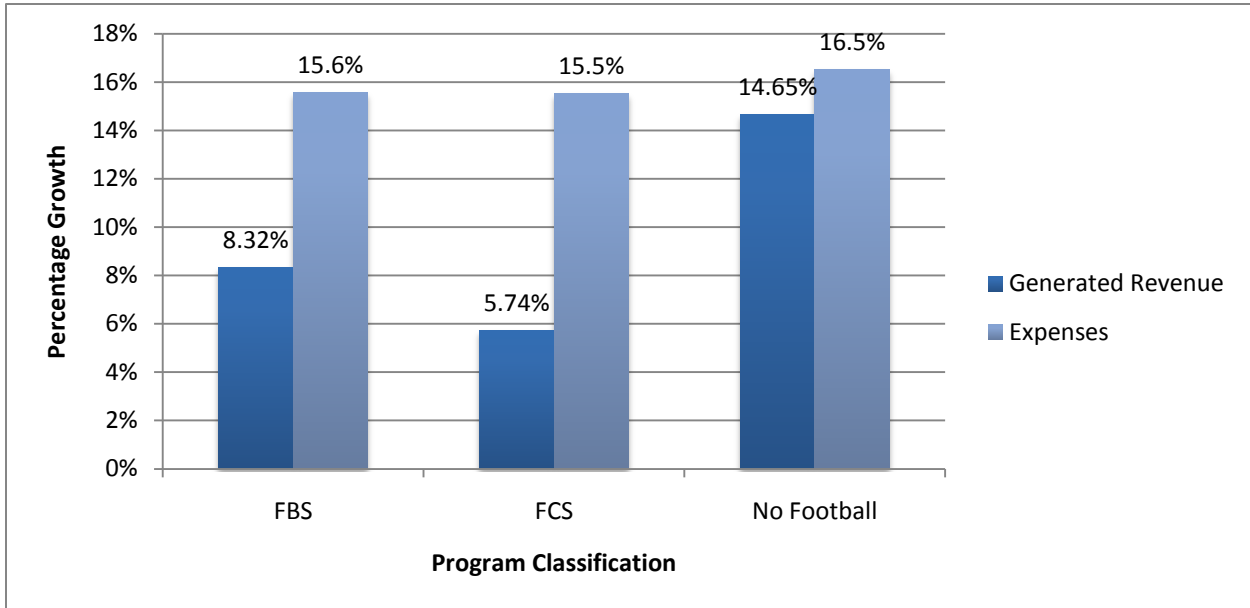
SOURCES: 2004-06 NCAA REVENUES AND EXPENSES OF DIVISION I INTERCOLLEGIATE ATHLETICS PROGRAMS REPORT; AUTHOR'S CALCULATIONS

Figure 8.2: Real Growth in Median Allocated Revenue: 2004-2006
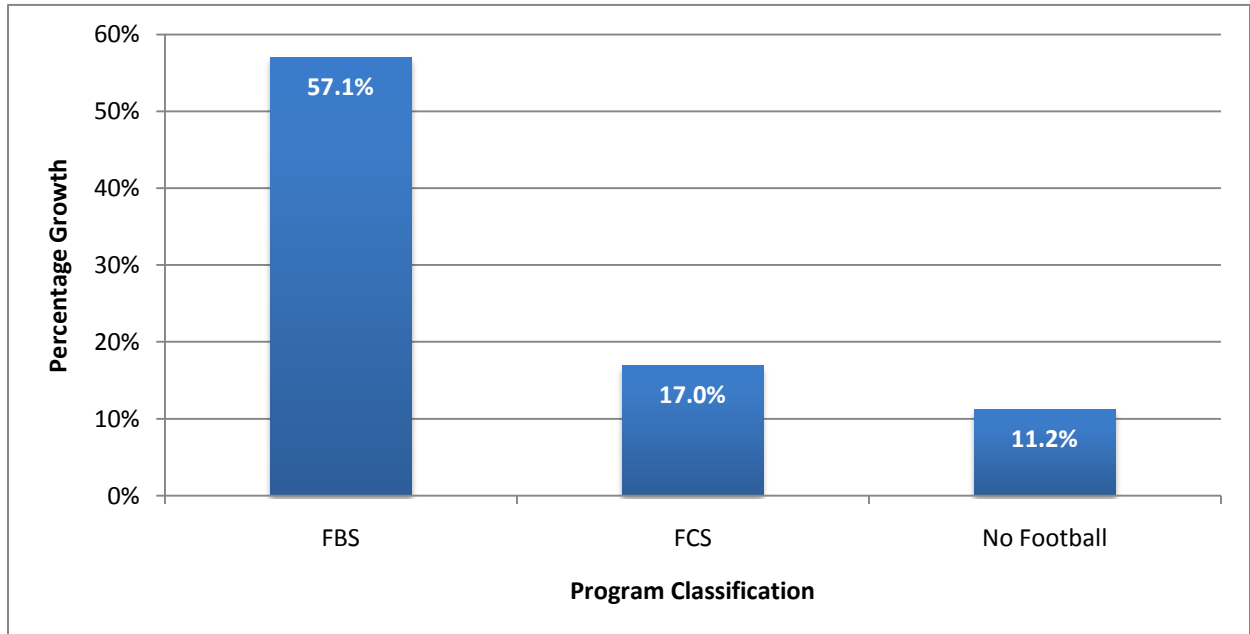
SOURCE: 2004-06 NCAA REVENUES AND EXPENSES OF DIVISION I INTERCOLLEGIATE ATHLETICS PROGRAMS REPORT

Methods to Cut the Cost of Athletics

One strategy to lower costs is to shift more in favor of club sports rather than varsity athletics. Varsity athletics are a drain on precious institutional resources in almost every case and require a vast bureaucracy of administrative support. Club sports teams receive only modest subsidies from their universities. Already there has been a growing trend across the country, shifting more toward club sports. An estimated 2 million college students compete in club sports while only around 430,000 compete in NCAA varsity athletics.[211] For example, 1994 was the first year club teams competed in the soccer club championship sponsored by the National Intramural-Recreational Sports Association. Since that initial year, the number of teams competing has expanded from 15 to 75. Similarly, the club tennis championship has expanded from an initial 11 teams participating in 2000 to 64 teams eight years later.[212]

Club sports maintain a highly competitive nature (they are entirely separate from uncompetitive intramural sports) while still teaching important values such as teamwork, leadership and time management that proponents of sports espouse. Indeed, these benefits may be true to an even greater extent as the athletes themselves are often responsible for coordinating all functions of the team, including everything from fundraising and budgeting to contest scheduling and making travel arrangements. In varsity athletics these details are left to the athletics bureaucracy, at a significant cost.

Smaller reforms within the current framework also provide promising methods of reducing costs and saving money for both athletics departments and schools as a whole. Figure 8.3 displays the different line item expenses. Any strategy to cut costs must look strategically at the current budget makeup in order to make useful and targeted cuts.

Reduce Salary Expenses

University-paid salaries to athletics employees account for the largest expense incurred, at around $11.3 million in 2006. Compared to the wider university, athletics employees earn competitive salaries. The College and University Professional Association for Human Resources (CUPA-HR) reports that at doctoral institutions, the top five median base salaries for all university mid-level administrators go to athletics employees. During the 2008-09 year, head football and basketball coaches made around $219,000 and $202,000, respectively. Offensive and defensive coordinators for football both earned in excess of $125,000.[213] Data provided by

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[211] Bill Pennington, "Rise of College Club Teams Creates a Whole New Level of Success," The New York Times, 2 December 2008.
[212] Ibid.
[213] Marisa Lopez-Rivera, "Raises for Midlevel Workers Trail Those for Top Level Administrators," The Chronicle of Higher Education, 27 March 2009.

CUPA-HR for 2007-08 show that athletic directors at doctoral schools made $185,000 with associate athletic directors earning around $100,000.[214]

Figure 8.3: Median Athletic Expenses by Category of Expenditure, FBS Institutions, 2006
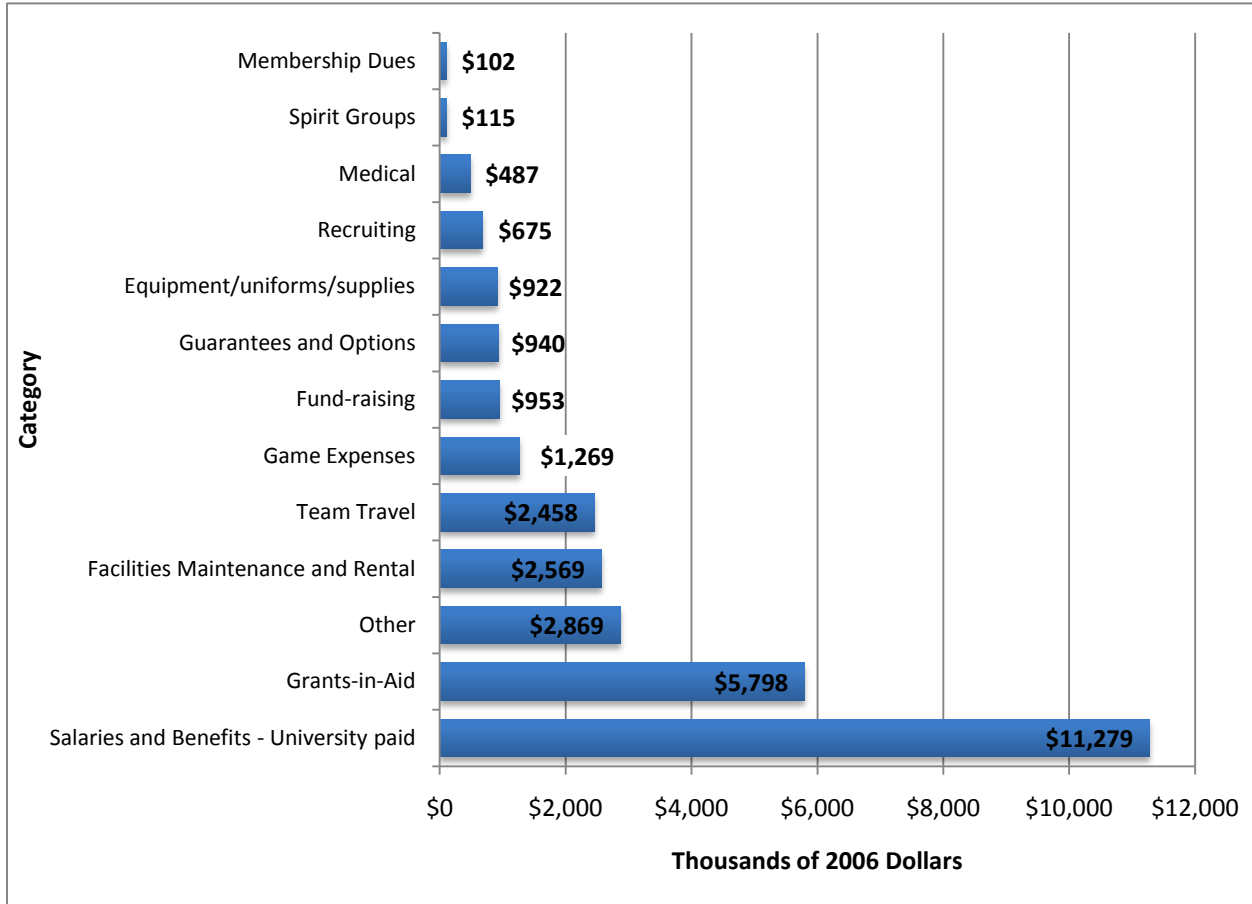
The University of Kentucky made history by hiring former University of Memphis head basketball coach, John Calipari, to an eight-year, $31.65 million contract. This trend of escalating salaries has been met with much criticism by the late NCAA President, Myles Brand, who remarked that salaries have "extended beyond what's expected in the academic community."[215] Yet Brand notes that an easy fix of capped salaries evades the power of the

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[214] Beckie Supiano, "Administrators' Pay Rises 4%, Beating Inflation for 11th Consecutive Year," The Chronicle of Higher Education, 3 April 2009.
[215] Libby Sander, "At NCAA's Big Show, Buzz Over a Coach's Big pay," The Chronicle of Higher Education, 3 April 2009.

NCAA due to antitrust laws. The Women's Sports Foundation is one group that has called upon Congress to grant the NCAA a limited exemption that would permit salary caps for coaches.[216]

It must be noted that coaches' salaries are determined by institutional priorities and market forces, albeit distorted market forces due to the unpaid nature of the athletes. The Calipari case is but one example of universities' willingness to spend exorbitant amounts on coaches. Fierce competition exists between schools for a relatively small supply of desirable coaches. University leaders believe that highly skilled coaches are necessary to produce successful and profitable teams. When institutional priorities place a high value on successful sports teams (and particularly on basketball and football teams), such high salaries are justified as necessary to win the bidding war for top caliber coaching (and recruiting) talent. Were all schools to agree to refuse to pay such high salaries, every school would benefit from lowered expenses. Yet there would be an incentive for schools to renege on their self-enforced agreements since offering a higher salary may be the only way to attract a top-flight coach (especially for programs lacking other attractive benefits such as a national reputation or stellar facilities). For this reason, reform at the institutional level without an external regulator is unlikely to succeed.

In the absence of salary caps, what else can be done? Encouraging better transparency in hiring processes and demanding closer oversight from university presidents and boards of trustees would be a good start. Is it truly the case that at a majority of FBS schools the institution as a whole values the football coach more (or at least pays them more) than the university's President? Does such a large allocation of resources to a single coach really fit into institutional priorities? A careful consideration of these questions is necessary before contracts are awarded. It is the job of boards of trustees to act in the best interest of the overall university, keeping in mind the desires of students, faculty, administrators, and the state's taxpayers (in the case of public schools). Ultimately, boards of trustees have the power to refuse such wild contracts and need to be bold in allocating funds to those programs that best fulfill the priorities of the university.

The high mobility of college coaches contributes to escalating salaries. A 1983 study concludes that mobility centers around major athletics (i.e. Division 1-A) and that within these schools, "there is a high degree of intra-stratum exchange of personnel."[217] This exchange is costly, as the bait to draw an individual from one program and to another is higher compensation. One coach moving to a new program at a higher salary opens a new vacancy which will likely be filled by a coach who likewise will earn more than his/her previous post. Schools wishing to maintain their current coach are then pressured to offer substantial raises to prevent that coach from accepting offers elsewhere

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[216] "Briefing Paper Four: Fiscal Responsibility, Not Weakening Civil Rights Law, is Key to Title IX Compliance and Deterring Institutions from Discontinuing Some Men's Sports Teams," Women's Sports Foundation, 7 May 2009.
[217] Randall Smith and Andrew Abbott, "A Labor Market Perspective on the Mobility of College Football Couches," Social Forces, 1983.

Gordon Gee, president of Ohio State University, argues that better structured contracts that discourage the premature departure of coaches would help tame escalating salaries by tamping down the "revolving door."[218] Contract provisions could include strict financial penalties for coaches who opt out of contracts before their agreed-upon term is completed. In the case of Virginia Tech's contract with football coach Frank Beamer, penalties do exist should he terminate the contract early. However, under his most recent contract, after two years both parties agree to discuss a one-time contract extension which does not penalize either the school or coach for early termination.[219] Clauses such as these provide no incentive to retain coaches and thus contribute to escalating salaries.

Reduce Numbers of Scholarships and Lower Tuition

Evident in Figure 8.3 is that university-paid grants-in-aid to athletes are the second largest expense, with a median cost of around $5.8 million annually. Reducing the cost of college—tuition, fees, room/board, textbooks—would obviously help save much money in this area. This study explores potential cost-cutting reforms to make college more affordable.[220] While a detailed discussion of wider reforms for higher education is beyond the scope of this section, it is important to note that athletics too would benefit from serious reform in higher education.

Simply reducing the number of scholarship positions offered would reduce costs in this area. Numerous reform groups, such as the Coalition on Intercollegiate Athletics (COIA) and the Women's Sports Foundation, have targeted football for scholarship reductions.[221] Currently football teams are allowed to offer a maximum of 85 awards. However, there are only about 25 unique positions—offense, defense, kicker, punter, and long-snapper all considered—on a team.

Certainly there is some need for reserve players, especially considering the high incidence of injury. Yet, even if three scholarships per position were allowed, only 75 scholarships would be necessary, and a good case could be made that even three per position is excessive. The Women's Sports Foundation points out that National Football League (NFL) teams have only a 45-person roster with 7 reserves. Furthermore, they cite that cutting football scholarships to 60 "would save approximately $750,000 annually."[222] Athletic departments are unlikely to pursue this reform on their own for fear of losing a competitive edge with others; however, a uniform rule change by the NCAA would eliminate this problem and help schools save money.

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[218] Paul Fain, "Buckeyes' Leader Believes Presidents Should Help Contain Sports Spending," The Chronicle of Higher Education, 11 January 2008.

[219] "Sample Coaches Contract: Virginia Tech," NCAA, 07 May 2009, 25 May 2010 <http://web1.ncaa.org/web_files/sample_coaches_contracts/virginia_tech_4-5.pdf>.

[220] Richard Vedder, "Going Broke by Degree: Why College Costs Too Much," AEI Press.

[221] "A Framework for Comprehensive Athletics Reform," University of Oregon, 8 May 2009.

[222] "Briefing Paper Four: Fiscal Responsibility, Not Weakening Civil Rights Law, is Key to Title IX Compliance and Deterring Institutions from Discontinuing Some Men's Sports Teams," Women's Sports Foundation, 7 May 2009.

Facilities Maintenance and Rental

The costs associated with athletic facilities are sizeable as well. Citing a 250 percent rise in capital expenditures for facilities from 1994 to 2001, the Knight Commission argues that an athletics arms race is underway.[223] To remain competitive, schools feel the need to build bigger stadiums and better practice facilities. Rather than increasing spending, they should be looking for ways to lower costs.

An obvious move would be to rent existing facilities rather than building new ones. College football teams play at most 5 to 6 home games per season and usually have a separate practice facility. In large cities where there is also a professional team, it may be more cost effective to rent that stadium for game days. This step would save on fixed costs associated with construction and the variable costs for maintenance.

If it is necessary to build one's own facilities, leasing them out when not in use would help generate revenue. Since teams only have a limited number of home games every year, facilities are usually dormant. Football fields can be used by other area teams and basketball stadiums make great concert venues and convention centers. Arizona State University leased the use of Sun Devil Stadium to the NFL's Arizona Cardinals from 1998-2005. ASU has also historically had arrangements with the Fiesta Bowl and even hosted the Super Bowl in 1996.[224]

Reduce Travel Expenses

Transporting an army of athletes, coaches and equipment to often far-away destinations can be quite costly. Travel expenses are a major and growing cost to intercollegiate athletics. Schools themselves are responsible for all non-championship travel with a median cost for FBS institutions of nearly $2.5 million in 2006.[225] The NCAA foots the bill for postseason tournament travel and reports that this expense for Division I grew around 31 percent from the 2007 to 2008 academic year.[226] In this time of economic hardship, escalating travel costs are an obvious area for reform.

In September of 2008, the NCAA endorsed a number of proposals to control championship travel costs. First, the plan increases the air travel mileage limitation threshold from 350 to 400 miles for all sports besides basketball (and from 300 to 350 for basketball).[227] This shifts more travel to ground transportation, which is dramatically cheaper than air travel for shorter

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[223] "A Call to Action: Reconnecting College Sports and Higher Education," The Knight Foundation Commission on Intercollegiate Athletics, June 2001.

[224] "Sun Devil Stadium," National Football League Stadiums, 16 June 2009.

[225] Daniel Fulks, "2004-06 NCAA Revenues and Expenses of Division I Intercollegiate Athletics Programs Report," NIAA, 15 September 2008.

[226] Greg Johnson, "Division I cabinet supports changes to mitigate postseason travel concerns," NCAA.com, 24 September 2008.

[227] Ibid.

distances. Furthermore, the ground commute distance from the airport to game location was increased from 120 to 150 miles. This allows for more discretion and provides a larger number of alternatives when selecting tournament locations. A December 2008 memo from the NCAA reports that these reforms were effective in saving money during fall championships and resulted in 19 fewer chartered flights than the previous year.[228] While these are aimed to save the NCAA money, institutions could save money from these types of reforms too.

The NCAA reforms also call for a prohibition of hosting championships in high-cost sites or remote locations.[229] Institutions themselves could learn from this. Several of the 2008-09 preseason men's NCAA basketball tournaments were held in destinations such as Anchorage, Maui, Puerto Rico, Cancun and the U.S. Virgin Islands.[230] Schools voluntarily participate in these, and at their own cost. While basking in the sun or enjoying the Alaskan wilderness may be fun, it would be more responsible and cost-effective to host these tournaments in more central locations.

A somewhat dramatic reform to save on travel costs would be to realign conferences to be more regional in nature. The Atlantic Coast Conference (ACC) expanded its membership in 2004 and 2005 to incorporate the University of Miami, Boston College and Virginia Tech. This once-regional conference that was centered in the Carolinas now spans more than 1,500 miles (from Miami to Boston). This is the equivalent of traveling halfway across the country to compete in a *conference* contest. While this travel may prove profitable for football and basketball, it certainly is not for the non-revenue-generating sports that also must make this unusually long and costly trip. One innovative solution approved by the ACC in May of 2009 was to limit football travel squads to 72 players. This mirrors a rule already in place by the Southeastern Conference (SEC) that has a 70 athlete cap.[231] Such a cap reduces the number of individuals to transport, house and feed during road trips.

Despite expanding conferences, savings could also be realized by playing fewer non-conference games. The *New York Times* reports that two chartered flights for Ohio State University to travel to compete against the University of Southern California during the 2008-09 season cost the department $346,000.[232] Since non-conference games generally require longer travel distances, they are inherently more costly. The ACC recently rejected a proposal that would increase the number of conference basketball games (and by implication reduce the number of non-conference match-ups).[233]

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[228] Gary Brown, "Cabinet extends mileage restrictions for winter, spring championship," NCAA.com, 22 May 2009.

[229] Greg Johnson, "Division I cabinet supports changes to mitigate postseason travel concerns," NCAA.com, 24 September 2008.

[230] Matthew Denhart, et. al, "The Academics Athletics Trade-off: Universities and Intercollegiate Athletics," (Washington: The Center for College Affordability and Productivity, 2009).

[231] "ACC votes to cap travel squad size to save schools thousands," Sports Illustrated, 13 May 2009.

[232] Jonathan Abrams, "College Teams Are Feeling the Squeeze From Fuel Costs," The New York Times, 3 October 2008.

[233] "ACC votes to cap travel squad size to save schools thousands," Sports Illustrated, 13 May 2009.

A reduction in season lengths could help shave travel costs as well. Season lengths have grown over time and cutting a game or two could erase thousands of dollars worth of expensive travel. This may be especially worthwhile for non-revenue sports since the marginal revenue associated with playing one extra game is almost always negative. Even leaders of major athletic departments have indicated that a cut-back of nontraditional season lengths may be a good idea. Tim Curley, athletic director at Pennsylvania State University, recently remarked that "We've got kids going 365 days a year. Maybe this is an opportunity to give them a little downtime."[234] While saving money on travel, this would also allow athletes more time to focus on academics.

Beyond the several ideas outlined above, schools could save on travel costs through such methods as shipping baggage separately on buses/vans when teams fly. New baggage charges make transporting athletic equipment on chartered flights even more expensive. Eliminating the entrenched practice of booking hotel rooms for the football team the night before a *home* game would also save money. If players are not smart enough to make responsible decisions the night before a game, then perhaps they do not belong in college in the first place. The Pacific Ten (Pac-10) Conference is currently considering a plan to eliminate this practice conference wide. It would save an estimated $40,600 for the University of Oregon, whose team stays in the Eugene Hilton.[235] The Pac-10 is also considering national legislation that would eliminate foreign tours and place limits on school party-travel allowances to bowl games.[236]

Better Transparency/Accountability

The lack of transparency and accountability in intercollegiate athletics fails to provide incentives to reduce costs. Indeed, the third largest expense to athletics—a median figure close to $2.9 million—is listed as "other." The fact that departments are unaccountable for almost $3 million is appalling.

Economist Andrew Zimbalist argues that an incentive problem facing athletics is that departments are not responsive to shareholders. Certainly they have thousands of stakeholders (athletes, parents, fans, etc.), but there is an important distinction between the two terms.[237] Shareholders have a serious interest in the *financial* viability and profitability of the program while stakeholders can have many interests—e.g. winning games or providing an enjoyable entertainment experience for the community. Stakeholders may be less concerned with financial viability at the expense of these other interests. A stakeholder who values winning games more than balancing a budget may urge the program to spend more money to increase

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[234] Libby Sander, "Athletics Programs Scramble to Streamline Budgets in Difficult Times," The Chronicle of Higher Education, 30 January 2009.
[235] Rachel Bachman, "Pac-10 football teams consider staying home to save money," Oregonlive.com, 16 May 2009.
[236] Ibid.
[237] Brian Bennett, "Athletic directors' salaries are keeping pace with ever-rising stakes in major college sports," The Dallas Morning News, 16 June 2009.

competitiveness, even if this forces the department to run a budget deficit. Shareholders are concerned most fundamentally with the bottom line, and decisions are made from the underlying premise that the department must remain solvent.

The Association of Governing Boards of Universities and Colleges recently released a report calling upon boards of trustees to play a more prominent role in providing oversight of athletics departments.[238] The report cites that intercollegiate athletics have reached a point that in many cases "may be detracting from the institution's mission," and that there is "a widening gulf between the athletic and academic cultures at some institutions."[239] In order to achieve the desired balance between these two competing forces, "governing boards will need to lend consistent and public support to their chief executives and academic leaders."[240] In addition to often generating or losing such large sums of money, athletics are a highly visible component of the institution. This reality mandates that it receive appropriate attention from the governing board.

One of the most innovative approaches to restructuring athletics was undertaken at Vanderbilt University in 2003 under the leadership of then-chancellor, Gordon Gee. Gee eliminated the athletics department, replacing it with the Office of Student Athletics, Recreation and Wellness; housed under student affairs and reporting to the vice chancellor for student life and university affairs.[241] The university's intercollegiate athletics, intramural sports and community sports programs are all included under the auspices of this office. The athletic director position was eliminated, with an assistant vice chancellor running the day-to-day operations of the office. This scheme has allowed Vanderbilt to better integrate athletics into the overall mission of the institution. Furthermore, it provides greater oversight and demands the same transparency required by other departments within the university. The school also reports greater efficiency by eliminating duplicate costs that can now be shared between units.[242] Vanderbilt is an interesting case study demonstrating an approach to both assert better oversight over athletics and cut costs.

More Radical Approaches to Athletics Reform

Since only a small minority of schools profit from athletics (less than 20 out of all schools supporting athletic programs), eliminating school-sponsored intercollegiate athletics would be a simple way to cut costs for almost every school. However, this is obviously not very realistic and perhaps not desirable either. There is a well-cited literature describing the various benefits from athletics that range from providing national exposure to the institution to teaching student-athletes themselves valuable skills such as time-management, teamwork and

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[238] "AGB Statement on Board Responsibilities for Intercollegiate Athletics," (Association of Governing Boards of Universities and Colleges, May 2009).
[239] Ibid.
[240] Ibid.
[241] Elia Powers, "Life After the A.D. (Athletics Director)," Inside Higher Education, 10 July 2006.
[242] Ibid.

leadership. Some Division III schools even praise athletics as a major admissions tool that helps the school meet enrollment targets and augment tuition revenues (since Division III offers no athletic scholarships).[243]

Privatization is another systematic change that could potentially lower costs. Under such a scheme, licensing rights for the use of the university's name could be sold to a private firm. The firm would manage the team in the same fashion as a professional organization. Competitors, coaches and administrators would be paid due compensation for their services, eliminating the two top athletic-related expenses to universities: salaries and grants-in-aid. Current university athletic facilities and equipment could be leased to private entities.[244] However, since football and men's basketball are the only sports that generate profits, it is likely that no private firm would ever invest in the many of the other sports. Since privatization would likely lead to the elimination of all sports besides football and basketball, this may not be the most desirable or realistic option either.

Conclusion

Contrary to popular belief, intercollegiate athletics is a net drain for virtually every participating institution in the country. For many schools, losses from athletics are sizeable, with athletic departments requiring large—and growing—subsidies from the university to balance their budgets. Any approach to reducing overall university costs must address intercollegiate athletics as well. A number of both dramatic and more realistic approaches exist to help bring these costs into line. As escalating spending fuels the athletics arms race, it is crucial that schools begin making sensible reforms to ensure the health of the university.

One major hurdle to implementing any of the proposed reforms is the fear among university leaders that doing so would harm the school's competitiveness. While it is in the best interest of every school to have reduced costs, the loss of competitiveness in light of others' continued spending serves as a disincentive for institutions to take the initiative to reduce spending. Perhaps reform must start as a movement of university presidents who lead schools of both nationally prominent athletics and academics. As leaders whose institutions carry much sway with both communities—schools such as the University of Michigan, the University of North Carolina, the University of Virginia, Northwestern University, the University of Notre Dame, Stanford University, Duke University, etc.—if they agree to a series of reform, it could both bring athletics back within the mission of the university and reduce costs for all.[245]

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[243] David Moltz, "Looking to Sports to Bolster Enrollments," Inside Higher Education, 21 January 2009.

[244] Silvio Laccetti, "Guest Columnist: Should we privatize big-time college athletics?" Seattle PI.

[245] Matthew Denhart, et. al, "The Academics Athletics Trade-off: Universities and Intercollegiate Athletics," (Washington: The Center for College Affordability and Productivity, 2009).

#9: Overhaul the FAFSA

For almost two decades now, millions of aspiring college students seeking financial aid have been required to fill out the Free Application for Federal Student Aid (FAFSA). With the goal of simplifying and streamlining the aid process, the form is intended to allow for a myriad of federal, state, and school-based financial aid programs to direct money to the students who need it. Since many programs are designed primarily to help lower-income students, this is accomplished by collecting detailed financial information on the students and their families, with the information being used to calculate each student's expected family contribution (EFC). The EFC is essentially what the government deems the family can afford to pay. A student's eligibility for financial aid is then based on the difference between the cost of attendance and the EFC.

The goals of the process are laudable, but the "current FAFSA and EFC formulas have long been questioned by financial aid professionals, academics, families, and others with regard to the complexity, relevance, and fairness of the formulas."[246] As the Spellings Commission put it,

> *our financial aid system is confusing, complex, inefficient, duplicative, and frequently does not direct aid to students who truly need it. There are at least 20 separate federal programs providing direct financial aid or tax benefits to individuals pursuing postsecondary education. For the typical household [the FAFSA] is longer and more complicated than the federal tax return. Moreover, the current system does not provide definitive information about freshman year aid until the spring of the senior year of high school, which makes it hard for families to plan and discourages college attendance.[247]*

The two biggest problems with the FAFSA are its cost and the uncertainty concerning aid eligibility and awards arising from its' complexity. The estimated cost of determining and administering aid is at least $4 billion per year.[248] Comparable, and potentially even better, outcomes could be achieved at a fraction of that cost. The complexity of the current system also discourages its intended beneficiaries from even applying. Many of the poorest students and families see the financial aid process as "a long ordeal of scaling access barriers: poor information, unfair expected contributions, impenetrable forms, inflexible processes, burdensome verification, lack of coordination among funding sources, and insufficient total aid."[249] Moreover, even after completing the FAFSA, students are not informed of any of the aid

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[246] United States, Department of Education, "Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid," (Washington: Department of Education, 2009).

[247] "A Test of Leadership: Charting the Future of U.S. Higher Education," (Washington: Department of Education, 2006).

[248] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER, February 2008.

[249] "The Student Aid Gauntlet: Making Access to College Simple and Certain." (Washington: Advisory Committee on Student Financial Assistance, 2005).

available to them. That information is not revealed until months later when schools that they've been accepted to make offers. If this information were available to students prior to application season, it would help them to make more informed choices.

The Costs of the Current System are Too High

The current system, particularly its cornerstone, the FAFSA, impose large costs on nearly everyone involved. The largest direct cost of the FAFSA falls on students and their families. This cost primarily comes from the considerable time it takes to fill out the form, due to its length and complexity. The Department of Education acknowledges that the "volume and type of data required on the FAFSA can be intimidating and daunting for students and families."[250] The 2009-2010 FAFSA lists 104 questions with another 29 sub questions. "To answer just three of these questions, students must complete three additional worksheets with nearly 40 additional questions."[251] Secretary of Education Arne Duncan noted that "you basically have to have a Ph.D. to figure that thing out."[252]

According to Harley Frankel, executive director of the College Match program, "It takes a huge amount of work to track down the financial documents students need for the FAFSA, and then figure out the answers for all the income and asset questions. Our students would be much better off if we had those extra hours to help them apply to schools and prepare for college life."[253]

The Department of Education officially estimates that it should take an hour to complete the form, but this is widely acknowledged to be unrealistic. Some students and families spend as many as 20 hours completing the form, and others have resorted to hiring professionals for help.[254] The consensus among scholars is that 10 hours is a conservative estimate.[255]

The Department of Education reported that FAFSA applications for the first half of 2009 were up 19.7 percent over the previous year, to 11.8 million.[256] Taking the average of 10 hours to fill out the form, an update of the calculation by Susan Dynarski and Judith E. Scott-Clayton

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[250] United States, Department of Education, "Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid," (Washington: Department of Education, 2009).

[251] "The Student Aid Gauntlet: Making Access to College Simple and Certain." (Washington: Advisory Committee on Student Financial Assistance, 2005).

[252] Kelly Field, "The Complicated Task of Simplifying Student Aid," The Chronicle of Higher Education, 3 April 2009.

[253] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

[254] Kelly Field, "The Complicated Task of Simplifying Student Aid," The Chronicle of Higher Education, 3 April 2009.

[255] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER, February 2008.

[256] Tim Ranzetta, "FAFSA Filings Rise 20.8% to 6.6 Million in First Quarter of 2009," Student Lending Analytics Blog, 13 April 2009, <http://studentlendinganalytics.typepad.com/student_lending_analytics/2009/04/fafsa-filings-rise-208-in-first-quarter-of-2009.html>.

indicates that the implied cost to families is $2.3 billion, assuming that their time is valued at the average hourly rate of $19.29.[257]

The FAFSA-based system also imposes large costs on colleges. It is estimated that "colleges spend over $2 billion annually on salaries for staff who administer federal financial aid/or other aid based on the federal aid formula." [258] While some of these expenses would be required regardless of the aid system, a significant portion of them are tied directly to the FAFSA.

Perhaps the most wasteful requirements are imposed by the verification process, which is "bloated, burdensome, and costly to institutions and the federal government, and provides questionable results."[259] Currently, schools are required to verify the information on the FAFSA for at least 30 percent of applicants. The "costs of verification are high for both students and schools. Students have to gather and copy original documents that can be difficult and costly to track down."[260] Moreover, students

> may also be required to complete and follow complex and lengthy paper forms and processes that ask for data not required to determine their eligibility for student aid. For example, "auto-zero" eligible students need only provide one financial data element, adjusted gross income, in order to qualify automatically for the maximum Pell Grant. These students find, however, that they are required to provide all of the data on the full paper FAFSA in order to complete the verification process.[261]

Schools also bear large costs of the verification process, which takes an estimated 1.75 million hours of aid officers' time.[262] According to the Advisory Committee on Student Financial Assistance,

> verifying FAFSA data is a major and expensive administrative burden. An audit by the U.S. Department of Education's Inspector General calls the verification process "labor intensive and costly for schools." According to an analysis by the federal Advisory Committee on Student Financial Assistance, "[I]t would cost about $90 to verify an application for student financial aid. With today's application volume, verification is

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[257] United States, Bureau of Labor Statistics, "National Compensation Survey: Occupational Wages in United States," (Washington: BLS, 2007).

[258] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER, February 2008.

[259] "The Student Aid Gauntlet: Making Access to College Simple and Certain." (Washington: Advisory Committee on Student Financial Assistance, 2005).

[260] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

[261] "The Student Aid Gauntlet: Making Access to College Simple and Certain." (Washington: Advisory Committee on Student Financial Assistance, 2005).

[262] Kelly Field, "The Complicated Task of Simplifying Student Aid," The Chronicle of Higher Education, 3 April 2009.

estimated to cost at least $432 million per year. This estimate does not include the costs when a single application is verified by more than one school."[263]

As postsecondary education becomes more and more expensive, increasing numbers of potential students will fill out the FAFSA. If the recent increase in FAFSA applications continues, and if the proportion of applications that are verified stays at recent levels, schools will need to spend around a half billion dollars on verification for the 2009-2010 school year. Additionally, since many students require a good deal of help in navigating the financial aid process, and the task of creating and processing Student Aid Reports is time consuming, we would estimate that another half-billion dollars in financial aid office budgets could be chalked up to the FAFSA process.

Lastly, scholars estimate the financial cost to the government of administrating the FAFSA to be about $220 million.[264]

The FAFSA Intimidates Its Intended Beneficiaries

Financial aid is largely designed for the purpose of providing assistance to students from low-income families. But the "financial aid application process, whether in its paper or online form, is long, confusing, intimidating in tone, and requires a great deal of personal and family financial information that can be especially difficult for students from low-income families to collect. Some of the questions, such as those asking for checking account balances, create the inaccurate impression that parents and students will have to spend their last pennies before any aid is made available."[265] The complexity obscures the fact that there is aid available. Around half of high school counselors say that a lack of information about financial aid is always, frequently, or sometimes important for students who end up not enrolling in college.[266] Nor do all who enroll get the aid they are qualified for; There exists a "large and growing number of lower income college students who do not apply for aid, even though they are likely eligible for a Pell grant: an estimated 1.5 million in 2004 alone."[267]

Why is this happening? Gary Orfield has shown that many low-income families are confused by the rules and procedures required to document eligibility.[268] Behavioral economists have expanded on this, and have "concluded that people's choices are strongly influenced by the

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[263] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

[264] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER, February 2008.

[265] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

[266] "Promise Lost: College-Qualified Students Who Don't Enroll in College," Institute for Higher Education Policy, November 2008.

[267] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

[268] Gary Orfield, "Money, Equity and College Access," Harvard Education Review, Fall 1992, 337-72.

default provided them." This is troubling because "high school students of all income levels overestimate the cost of college… [and] low-income students are pessimistic about their ability to pay for college," leading to the uncomfortable conclusion that "the default option for low-income students is to not go to college."[269]

Part of the reason for this is the complexity of the FAFSA. Since many low-income families either don't file taxes, or are eligible for simplified tax forms, the FAFSA may very well be the most complicated government document they are confronted with. And being a government document, it contains "unfamiliar language — terms like 'emancipated minor' and 'unaccompanied youth' —[that can] intimidate and confound families."[270]

Another reason that students and parents may fail to complete the form is that for families concerned about how to pay for college, filling out the FAFSA doesn't actually provide any additional information, nor do anything to reduce their uncertainty about how they are going to pay for college. Once the FAFSA is completed, the students are informed of their expected family contribution (EFC). But the EFC tells the students how much they can pay, not how much aid they are eligible to receive. Thus, "even after completing a lengthy and often confusing application, the student and family have no more information on their ability to finance the student's education than before the application was completed. In most cases, a student does not learn of the types or amounts of financial aid he or she is eligible to receive until notified by the postsecondary schools listed on the FAFSA."[271] This would be analogous to trying to buy a home without knowing what mortgage you qualify for.

The Needed Reforms

The solution to the first problem, that the form is costly for students and parents to fill out and for schools and the government to process and verify, is to obtain much of the required data from the IRS instead of from students. "Of the 28 income and asset questions on the FAFSA, 22 ask for data that comes directly from lines on the IRS Form 1040. Of the 20 questions on the income worksheets required to complete the FAFSA, nine ask for data from IRS forms. That's a total of 31 questions—about two-thirds of all the currently required income and asset questions—that can be answered automatically and removed from the FAFSA forms."[272] Getting data directly from the IRS would not only simplify the process for students, but would reduce errors and save on verification costs as well. Broadly speaking, there is plenty of precedent for such a policy, as individuals routinely authorize the IRS to share their information with other parties. Moreover, the law firm of Holland & Knight examined the legality of such a

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[269] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER, February 2008.

[270] Kelly Field, "The Complicated Task of Simplifying Student Aid," The Chronicle of Higher Education, 3 April 2009.

[271] United States, Department of Education, "Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid," (Washington: Department of Education, 2009).

[272] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

policy and found that "When authorized by the aid applicant, there are no legal barriers preventing the Department of Education from receiving and using data directly from the IRS."[273] Seizing on this opportunity, a pilot program has been launched that will import IRS data into the applications of online applicants.

While there are some problems, such as what to do with people who aren't required to file taxes and what year(s) of data to use, these issues pale in comparison to the costs of maintaining the status quo.

While getting data directly from the IRS would be a vast improvement, merely simplifying the process is not enough. Over the years, multiple efforts have been made to simplify the FAFSA, but despite "a decade of effort to simplify the financial aid process, students and families are often still baffled by this process and cringe at the sight of application forms."[274]

In the late 1990s, two simplified formulas were mandated, the automatic zero EFC and the Simplified Needs Test. After changes in the income requirements in 2007, 44 percent of students were eligible to use them.[275] However, these "efforts do not appear to have simplified the aid application process. Among those who had their FAFSA processed using the simplified needs test and who were eligible to skip the asset questions, 48 percent provided asset information. Among those who had their application processed under the automatic-zero EFC formula, 90 percent responded to questions that they were not required to answer."[276] Forms filled out online can have skip logic applied – a helpful but sometimes unexploited feature.

Indicative of past and likely future efforts that merely attempt simplification is the fafsa4caster, an online tool designed to help students gauge what their EFC will be. The immediate display of the results is terrific (after a couple pages of legalistic boilerplate about this just being an estimate), and paints a broad picture of what a student's financial situation will look like. But the process itself cannot exactly be described as user-friendly. The first page is a list of technical browser requirements – something most applications and websites wait to display until there is an actual problem. As you begin, three screens are displayed where biographical information is entered (name, address, SSN, birthday, etc.). This should seemingly eliminate the need for age-specific questions. However, this was not the case, as the first question on the next page was "Before January 1 of this year, was the student 23 or older?" This continues for some time, as your mounting irritation morphs into dejected resignation. Another question reads, "As of today, what is the student's (and his/her spouse's) total current balance of cash, savings, and checking accounts?" By the time you're done (the Department of Education estimates that it

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[273] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

[274] "The Student Aid Gauntlet: Making Access to College Simple and Certain." (Washington: Advisory Committee on Student Financial Assistance, 2005).

[275] Kelly Field, "The Complicated Task of Simplifying Student Aid," The Chronicle of Higher Education, 3 April 2009.

[276] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER, February 2008.

takes 30 minutes, though that seems just as unrealistic as their estimate of one hour for the real FAFSA), you feel as though you might as well have just filled out the normal FAFSA.

A two-page EZ FAFSA has been recently mandated as well. If past attempts at simplification are any indication, this will not be terribly effective, either. Recently, the Department of Education has made some changes to the online form, which seeks to avoid unnecessary questions and to provide more information on likely aid amounts in a timely manner.

Instead of merely tinkering with the source of that data needed for the existing formulas, the formulas themselves should be changed. A Department of Education analysis found that student eligibility "can be determined using significantly less data than what is currently required. Specifically, eligibility for subsidized federal aid, targeted to the neediest students, can be determined using only the family's IRS Adjusted Gross Income and the number of IRS exemptions claimed."[277]

The inclusion of the extraneous (and costly to collect and verify) data adds enormously to the complexity of the aid process but does little to enhance the desired distribution of aid. Susan Dynarski and Judith Scott-Clayton estimate that getting rid of all but a few of the financial and household information questions would change Pell Grant eligibility "by less than $100 for 76 percent of aid applicants."[278] They argue that much of the form can be eliminated without dramatically altering the aid students get because, one, many of the questions on the FAFSA are only relevant to a few families, and, two, many of the remaining questions apply to only the top or the bottom of the income distribution, who already either qualify for no or full aid, rendering the additional information "irrelevant."

One set of irrelevant questions concerns the assets of the students and their parents, which have been roundly criticized. To begin with, they are "intimidating" for students and their families, since they give the impression that no aid will be available unless they've spent everything they have. Moreover, including assets on the form has very little effect on the distribution of aid. The Department of Education says that "more than 90 percent of current Pell grant recipients would be unaffected by the removal of assets from the EFC formula, and, thus, from the form."[279] This is because "few households have assets that are 'taxed' by the aid formula. Families hold the vast majority of their wealth in homes and retirement funds, both of which are protected by the aid formula."[280]

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[277] United States, Department of Education, "Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid," (Washington: Department of Education, 2009).

[278] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," <u>NBER</u>, February 2008.

[279] United States, Department of Education, "Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid," (Washington: Department of Education, 2009).

[280] Susan Dynarski and Judith Scott-Clayton, "Complexity and Targeting in Federal tudent Aid: A Quantitative Analysis," <u>NBER</u>, February 2008.

The formulas should also be changed to avoid creating perverse incentives. The Advisory Committee on Student Financial Assistance recommends changing the "tax" rates in a number of areas. One is student earnings - for every dollar that a student earns during the year, a student can expect to have his or her aid reduced by 50 cents. Conceptually, this is equivalent to a 50% tax, which is a big disincentive for students to work. Another area is the treatment of college savings plans, which creates " horizontal inequities: identical families with identical lifetime earnings can be treated very differently by the aid system, with aid reduced for the family that has sacrificed consumption in order to save for college."[281]

Barriers to Reform

One of the main obstacles to reform is the notion that a simplified FAFSA would not serve the needs of all states, schools, and scholarship organizations. After all, the FAFSA was intended to be a universal, catch-all form. Some argue that there is little point in having a very simple FAFSA if the students are required to fill out numerous other forms.

Given what we know today, these goals are misguided. Even the current monstrosity is not sufficient for many schools, whose students are required to fill out the College Board's CCS Financial Aid Profile. This form goes even further than the FAFSA in trying to determine ability to pay by requiring even more detail on family finances, particularly family assets.

The desire to be everything to everybody has led to a "least common denominator" situation. For instance, "all students today are required to answer the approximately 20 non-financial questions on the FAFSA required by various state aid agencies, regardless of their own state's data requirements."[282] In other words, the goal of universality has not been achieved, and the catch-all goal, to the extent it has been achieved, is achieved only by burdening every student in the country with irrelevant questions. A better FAFSA would focus on one thing and one thing only: determining eligibility for means-tested federal financial aid. If states or schools want something else, then they are free to try and impose those costs on their applicants.

A second obstacle in the way of reform is the existing law. The current system is so complex precisely because Congress has mandated that the formula for determining aid account for so many things. Any meaningful reform will require statutory action by Congress.

Historically, the aid formula has been difficult to simplify since "changes raise flags for elected officials and constituency groups. The resulting concerns about equity and cost tend to politicize and ultimately stall attempts to simplify the FAFSA by altering the aid formula."[283]

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[281] Ibid.

[282] "The Student Aid Gauntlet: Making Access to College Simple and Certain." (Washington: Advisory Committee on Student Financial Assistance, 2005).

[283] "Going to the source: A practical way to simplify the FAFSA," (The Institute for College Access & Success, March 2007).

This hints that it may be easier to scrap the entire system and start over from scratch, since the new system could be presented as a complete package, and compared to the existing dysfunctional system as a whole. This would avoid the problem of only looking at one small piece at a time, each typically unobjectionable in isolation, but combining to give us the extremely complicated, costly, and inefficient system we have today.

Conclusion

The current FAFSA imposes costs of roughly $3.5 billion ($2.3 billion on families to fill out the FAFSA; half a billion by schools for verification, another half a billion to help students navigate and understand the aid system, and $220 million for the government to process applications). Under reasonable conditions, a simplified process that relied on IRS data and informed students what aid they would receive rather than what they were expected to pay could radically reduce this figure to an estimated $900 million, resulting in savings of $2.6 billion,[284] while at the same time providing greater benefits to students.

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[284] We assumed that the new system would take families one hour instead of the current ten (reducing the cost on families by $2.07 billion), that verification would no longer be needed (saving schools $500 million), that the less complicated and more informative system would cut in half the help students needed (saving schools another $250 million), but that the costs to the government of administering the system would double, to $440 million.

#10: Eliminate Excessive Academic Research

Professors today are required to perform many different types of duties, including instruction, student advisement, service on various committees, and speaking engagements. In addition, faculties face mounting pressure to conduct more research and publish more scholarly pieces. This pressure can be attributed to increased government funding for research and the lack of alternative measures of college performance, causing institutions to encourage more research by faculty. As a result of this, student and educational interests are increasingly losing out.

This disturbing tendency would perhaps not be a major concern if all the extra research were moving the knowledge frontier outward, but a growing body of evidence suggests that the magnitude of the benefits may be exaggerated, while the costs are severely underappreciated. Excessive research reduces the effort applied to teaching, and it also drives up the cost of college. To combat this, emphasis should be shifted back towards students and teaching.

Research on the Rise

Since the inception of the American research university in the 19th century, an emphasis on research has traditionally been the domain of a select number of colleges and universities that excel in this area and spend staggering amounts on high-quality research. Johns Hopkins University, for example, spent over $1.5 billion on research and development in 2007 alone, taking the top spot among universities.[285] Even Stanford University, which ranked tenth in R&D expenditures, spent nearly $700 million that same year.

While it is expected that large research institutions such as MIT and Johns Hopkins would prioritize research, significant spending on research is becoming increasingly common at all types of colleges. Cleveland State University, for example, spent nearly $16 million on research in 2007.[286] That spending would be enough to pay the tuition of roughly 10% of CSU's undergraduate population. CSU is not alone. For the 2008 fiscal year, the average four-year public college spent 11.9% of its budget on research.[287] Even small liberal arts colleges, law schools, architecture schools, and professional business schools, which have historically spent little on research, are increasingly devoting more resources to research.[288]

Throughout the country, professors are spending significant amounts of time conducting research. Table 10.1 shows the time preference for and actual time spent on research by type

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[285] United States, National Science Foundation, "R&D Expenditures at Universities and Colleges," (Washington: NSF, 2008).

[286] Ibid.

[287]United States, Department of Education, "Enrollment in Postsecondary Institutions, Fall 2008; Graduation Rates, 2002 and 2005 Cohorts; and Financial Statistics, Fiscal Year 2008," (Washington: NCES, 2009).

[288] Dahlia Remler and Elda Pema, "Why do Institutions of Higher Education Reward Research While Selling Education?" NBER, May 2009.

of college. Note how professors in every category would like to spend more time on research than they actually do.

Table 10.1 Time Actually Spent On Research Versus Time Preferred On Research

Institution Type	Percentage of Time Actually Spent On Research	Percentage of Time Preferred On Research
Public research	23.8%	29.7%
Private research	25.9	31.9
Public doctoral, including medical	16.4	22.2
Private doctoral, including medical	15.1	19.9
Public comprehensive	9.4	15.1
Private comprehensive	7.0	11.7
Private liberal arts	7.2	13.2
Public 2-year	3.4	6.2
Other	5.8	13.0

SOURCE: U.S. DEPARTMENT OF EDUCATION NATIONAL CENTER FOR EDUCATION STATISTICS 1998–99 NATIONAL STUDY OF POSTSECONDARY FACULTY (NSOPF: 99)

The Incentives for Research

It is clear from both institutional financial records and surveys of faculty time use that the importance of research has been increasing over the years. Ultimately, the emphasis on research has grown because both institutions and faculty are rewarded more for improvements in the quality of their research performance than for improvements in their performance in other areas. At the institutional level, we have identified two main drivers of this phenomenon.

The first cause of the increased emphasis on research can be attributed to a logical pursuit of the growing research dollars given out by the federal government. Figure 10.1 shows the dramatic increase in federal research funding between 1953 and 2007, which grew from $1.1 billion to over $31.5 billion (in 2009 dollars), with a large jump in the early 1980's, followed by another jump in the early 2000's. Such large sums of money have quite understandably provided large incentives for universities to conduct extensive amounts of research.

Figure 10.1: Research Spending at Colleges and Universities
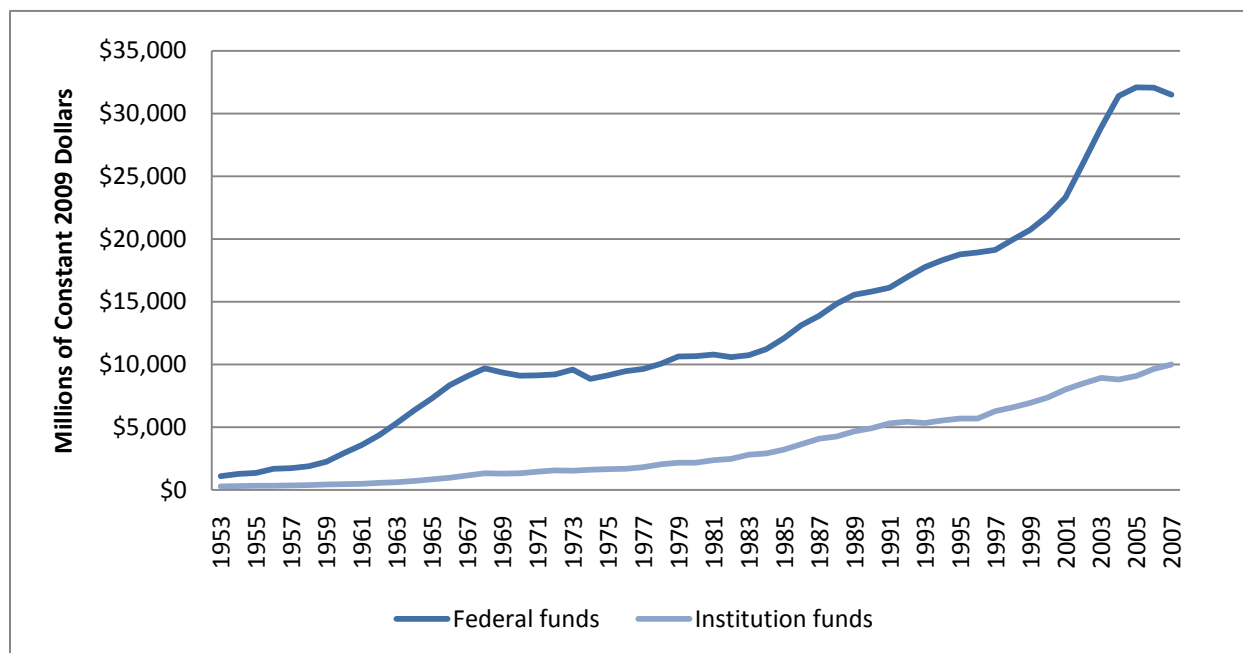
A second reason that research has become so important is that it serves as a major point of competition between colleges and universities. Universities' reputations are determined almost entirely by their research prowess. One of the surest ways to move up in the influential USNWR rankings is to devote more resources to research:

> Universities such as BU, NYU, and the University of Texas at Austin, which have moved up in rankings have apparently done so by improving their research status, primarily by attracting established researchers from other universities.[289]

Because institutions of higher education are being pushed to conduct more research, they have structured their employment policies to encourage faculty to focus on research. The three main incentives used are tenure, recognition, and remuneration.

The primary tool used by institutions to encourage research by faculty is the tenure process. Journal publications, book authorship, and white papers are all the culmination of extensive periods of research and are very important in a professor's case for tenure. While research requirements vary among colleges, the rule of thumb is that the more publications, the better. Tellingly, teaching evaluations count for little in the tenure review process.

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[289] David Kirp, "Shakespeare, Einstein, and the Bottom Line: the Marketing of Higher Education," (Cambridge, MA: Harvard University Press, 2003).

Another incentive pushing professors to conduct research is the availability of individual recognition and awards for research. This recognition can be gained through such accomplishments as publishing influential pieces of scholarship or obtaining large grants. The appeal of awards and acknowledgement for research accomplishments is in stark contrast to the lack of recognition for excellent teaching. While good researchers are known worldwide, good teachers are all too often invisible, even on their own campuses.

A final incentive is remuneration. Financially, it is an easy decision when it comes down to spending time on teaching, which typically provides little to no pecuniary incentives for improvements, or spending time on research or publication, which may offer some financial gain down the road. Combine this with a low chance of seeing punishments (financial or otherwise) for poor teaching and it becomes easy to see why many professors devote much of their discretionary time to research.

Problems with the Current System

There are three main problems with the current emphasis on research: the costs are increasingly greater than the benefits, it reduces the quality of teaching, and it increases the costs of teaching.

Its Benefits are Increasingly Outweighed by the Costs

The importance of research for career enhancement has lead to something of a publication arms race among the professoriate. Presumably, virtually all of this research expands the knowledge frontier, a clear benefit for society. However, all this research comes at a cost and, due to diminishing returns in many fields, these costs are likely higher than the benefits. Due to these diminishing returns, much academic research today is of questionable worth, with little impact either on the stock of human knowledge or on educational practice. There is some research that it seems wasteful to devote scientific resources to, such as a study performed in the University of New Mexico's Psychology department, which found that exotic dancers see variation in the size of tips depending on menstrual cycles.[290]

But even research that is presumably more worthwhile can be overdone. For example, Mark Bauerlein has documented that there were 21,674 separate scholarly publications written on William Shakespeare between 1980 and 2006.[291] When one considers the necessary resources, both in terms of faculty salaries and the time devoted to producing, editing, and publishing all of these works, it is clear that the opportunity costs associated with all of these are staggering. Charles Sykes sums up the current state of research in many fields:

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[290] Geoffrey Miller et. al, "Ovulatory Cycle Effects on Tip Earnings by Lap Dancers: Economic Evidence for Human Estrus?", Evolution and Human Behavior 28, 2007, 375-381.

[291] Mark Bauerlein, "Professors on the Production Line, Students on Their Own," AEI, 2009-10.

[professors] insist that their obligations to research justify their flight from the college classroom despite the fact that fewer than one in ten ever makes any significant contribution to their field. Too many—maybe even the vast majority—spend their time belaboring such tiny slivers of knowledge, utterly without redeeming social value except as items on their resumes.[292]

It Reduces the Quality of Teaching

Committing significant resources towards research conflicts with the primary mission of many colleges, which is to provide an education to a large body of students. Large expenditures on research reallocate funds away from this goal.

Perhaps more important than the financial distraction of research is the effect that it has on the individuals doing the teaching. Too much emphasis on research also crowds out good teachers. With good research falsely acting as a proxy for a good teaching, schools become more interested in hiring quality researchers than quality teachers. Individuals who are good teachers but bad researchers will either self-select or be weeded out by the tenure process, while individuals who are good researchers but bad teachers will get permanent jobs… as teachers. It seems naïve of colleges to change hiring and promotion priorities away from teaching and expect no repercussions with regards to student learning.

The effect that more research has on student learning outcomes is hotly contested, with the pro-research camp asserting that research has a positive, albeit indirect, impact on student learning and outcomes. Those who oppose heavy emphasis on research in higher education question claims of real positive impacts on educational outcomes, especially when considering all the time that is taken away from the students to allow the research to be done. Scholars Remler and Pema also point out that researchers can be worse teachers:

> Basic concepts may appear so obvious to researchers that it does not occur to them to explain those concepts. Those students who do not find the same ideas intuitively obvious and require explanation will be left behind. Thus, researchers might make it much harder for the students to learn the material, ensuring that only the most intrinsically able students are able to acquire the education or acquire it at a reasonable "psychic cost."[293]

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[292] Charles Sykes, "ProfScam: Professors and the Demise of Higher Education," 1988.
[293] Dahlia Remler and Elda Pema, "Why do Institutions of Higher Education Reward Research While Selling Education?" NBER, May 2009.

It Increases the Cost of Teaching

Another problem with the emphasis on research is that it increases the cost of college in several ways. To begin with, researchers are more expensive to hire. Because the quality of researchers can be judged from a distance, there is an active market for researchers, with the top ones at risk of being poached away. Thus, hiring researchers to teach is more expensive than hiring teachers to teach. In addition, when professors spend more time on research, they spend less time teaching. In 1988, professors at public comprehensive colleges taught an average of 3.7 courses per term,[294] but only 2.6 courses per term in 2004.[295] The fact that professors are teaching fewer classes indicates that either class sizes must have increased, or that the university must have hired more professors to teach the same number of classes.

Solutions

If our higher education institutions are producing too much research of marginal worth, the solution is to cut back on the amount of research. At the federal level, one option would be to reduce the amount of funding provided for research. Such a move would lower the incentive for colleges and professors to dedicate so much time and resources to research. However, this is a problematic proposal because the main funding agencies, such as the National Science Foundation and National Institutes of Health, often fund cutting-edge research in the hard and biological sciences. This research does tend to advance the frontier of human knowledge, and while its benefits may not always outweigh its costs in hindsight, there is at least potential that it will. It is not as though the NSF were financing that 21,674[th] piece on Shakespeare, which has virtually no chance of yielding more in benefits than it costs to produce. Cutting research funding in such a manner would be like throwing out the baby with the bathwater.

A much better approach would be to try to target just the excessively low payoff research. Crucial to targeting this research is the realization that the resources used to "finance" all this marginal research come, not from grants, but from lower teaching loads. In other words, the cost of this research is the time that the professors could have spent teaching. Imposing higher teaching loads would be the most effective strategy for reducing excessive research. We address strategies for increasing teaching loads elsewhere in this volume, so we will not repeat them here.

Other than increasing teaching loads, one other proposal has been put forth to reduce the amount of research. If colleges were to voluntarily restrict the materials they would consider when hiring or promoting professors, the publication arms race could be brought under control. As Bauerlein notes:

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[294] United States, Department of Education, "1988 National Study on Postsecondary Faculty," (Washington: Department of Education, 1988).
[295] United States, Department of Education, "2004 National Study on Postsecondary Faculty," (Washington: Department of Education, 2004).

> Departments don't put that minimum in writing, and they leave wiggle room for exceptional cases of one kind or another. But the fuzziness of the provision makes it all the more insistent. Not knowing exactly how much they should publish, uncertain as to whether five superb scholarly essays but no book will suffice, junior professors overcompensate and publish all the more.

Clearly outlining research expectations will help ensure professors do not make this mistake of overcompensation by conducting excessive research. Since a good deal of research is done simply to secure a job or achieve tenure, institutions can individually pledge to look at no more than, say, his or her five most cited publications or perhaps no more than 150 pages of scholarly work, when making promotion or tenure decisions.

Conclusion

Academic research has become a more important priority in higher education. The growing demand for research crowds out time that professors would otherwise spend on teaching related activities, resulting in a diminished focus on students, as well as an increase in costs.

The federal government's growing interest in and financial support for research has accelerated this trend. However, the primary cause is the competition among universities to distinguish themselves, with excellence in research, one of the few ways for them to stand out. Because institutions are rewarded for research, they structure their employment policies (particularly tenure) to encourage research by faculty.

While research can advance the frontiers of human knowledge, too much of the research done today, such as the 20,000+ pieces on Shakespeare, fail to do so and are of little social value. This imposes significant costs to the extent that such research both detracts from student learning and contributes to the growing costs of higher education.

The main method for combating excessively low payoff research is to increase teaching loads, which would shift the energies of faculty towards students. Another option would be to limit the number of either publications or pages that will be considered by hiring and tenure committees. Colleges must be encouraged to reduce the emphasis they place on research so that the quality of teaching can be improved and costs lowered.

#11: Streamline Redundant Programs at the State Level

One objective of state governments is to provide a quality post-secondary education system to its citizens. To achieve this, many universities are constructed and subsequently receive state funding. In an ideal world, every university could provide excellent programs in every discipline imaginable. However, funding for higher education is constrained by limited resources. When universities begin offering the same programs, excessive duplication can become inefficient. There is a tremendous amount of evidence to suggest that inefficient duplicative programs are widespread in American higher education.

In a 2009 report, the Tennessee Higher Education Committee (THEC) determined that state institutions had 24 doctoral programs that each produced less than 3 total graduates between 2004 and 2009.[296] Additionally, THEC also found that nearly 20 percent of the states' graduate programs are duplicated elsewhere in the state. Similarly, within the 14 institutions making up the Pennsylvania System of Higher Education, approximately 43 percent of programs awarded 10 degrees or fewer in 2008. Furthermore, East Stroudsburg University, Mansfield University, Clarion University and Slippery Rock University, each awarded just one philosophy degree in 2008.[297] These inefficiencies are not concentrated solely in Tennessee and Pennsylvania; rather, they exist across the entire country.

Reducing duplication among institutions can alleviate some of the waste and inefficiency of the current model, and allow resources to be used more productively to achieve states' educational missions. Collaborative efforts to consolidate programs have been utilized within and among several states to reduce costs and improve the educational opportunities available to students.

The Benefits of Reducing Duplication

The clearest benefit of reducing duplication is reduced costs. Yet there are a number of other important benefits as well. This approach can free up resources to be used in more productive ways, improve educational opportunities for students, and incentivize universities to define and build on their strengths.

Reducing Costs

It is no coincidence that duplication reviews and eliminations usually coincide with times of budget shortfall. University and government leaders often consider cost savings the greatest

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[296] Joan Garret, "Drawing a Beam on Duplications," <u>Chattanooga Times Free Press</u>, 13 April 2009.
[297] Eric Kelderman, "Pa. State System Considers Consolidating Programs Amid Financial Squeeze," <u>The Chronicle of Higher Education</u>, 14 September 2009.

benefit of reducing excessive duplication. Reducing something inherently means doing less of it; thus, reducing duplicative programs/disciplines across state institutions will provide savings. The amount of savings is difficult to estimate, since it will vary greatly depending upon the type of elimination. For example, providing an engineering program requires more resources, on average, than an English program. Since engineering and English students alike pay the same tuition and fee amounts (within the same institution), holding other factors equal, eliminating the engineering department will cut a greater amount of costs. This may not be the optimal solution, but is an example of how different types of cuts affect estimated savings.

Differences in the magnitudes of cuts further complicate the calculation of the average estimated cost saved through eliminations. For example, a school may decide to eliminate its English program, because it is a duplication of a similar program at a nearby state school, but maintain several of the department's professors to teach general education requirement classes in English.

Perhaps the best way to explore cost savings is to examine the relative amounts of different types of university expenditures. A recent report by the U.S. Department of Education examines the different operating expenditure categories of colleges and universities. Figure 11.1 shows the percentage share each holds of total operating expenditures at American public 4-year institutions.

As Figure 11.1 shows, instructional expenditures comprise the largest percentage of schools' operating budgets. Instruction and research are the two major categories where state-wide duplications are most likely, and thus the two categories where eliminations will originate. Since instructional expenditures are so large, cuts to this category can save significant amounts of money. Instructional expenditures can be broken down into five sub-categories: salaries and wages, employee fringe benefits, operations and maintenance of the facility plant, depreciation, and all other costs.

As Table 11.1 shows, public 4-year schools spent, on average, $74 million in labor costs for instruction ($57.9 million on salaries and wages and $16.1 million on employee fringe benefits). This shows that the major cost saving area realized from reducing duplications is from reduced expenditures on compensation for employees engaged in the delivery of instruction of underutilized courses. Reduced duplication would save money in other areas, too, since eliminations would result in fewer resources being required for other things, such as administration, classrooms/buildings, and maintenance personnel.

**Figure 11.1: Operating Expenses Percent Breakdown by Category,
Public 4-Year Colleges and Universities, 2008**
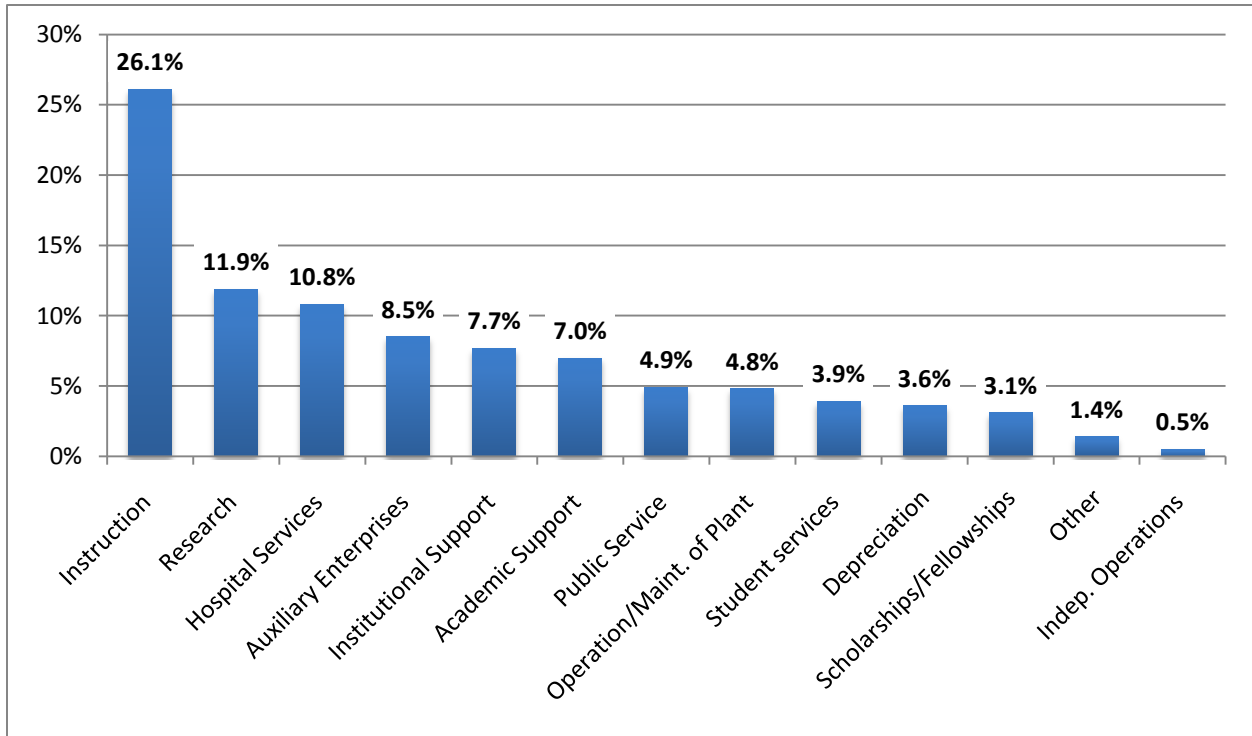
**Table 11.1: Average Total Instructional Expenses by Sub-category,
Public 4-Year Colleges and Universities, 2008**

Category	Total Amount (2008 $)	Percentage Share of Total Expenditures
Salaries and Wages	$57,911,338	66.0%
Employee Fringe Benefits	16,091,421	18.3
Operations and Maintenance of Plant	8,123,586	1.8
Depreciation	1,022,072	1.2
All Other	$11,162,733	12.7%
TOTAL	$94,311,150	100%

Increasing Efficiency by Reallocating Resources

Explicit cost savings is not the only way resources could be saved. Cuts to one relatively unproductive area that allow resources to be transferred to other, more productive, areas can increase efficiency. The opportunity cost of resources is important. Statewide collaborations, such as the ones discussed previously, often make available resources (such as faculty, administration, etc) that are no longer needed by cut programs. However, these resources can be transferred to other areas of a university that may be underdeveloped and require new resources. This saved opportunity cost of resources can be used to do any number of things, such as lowering costs to students, improving graduation rates, increasing institutional access, providing more on-campus events, etc. Furthering goals such as these would normally require devoting new resources and hiring new faculty/staff. By reallocating resources from relatively unneeded areas to more urgently needed ones, efficiency is enhanced, which leads to valuable savings.

Improving Educational Quality

Aside from cutting costs and reallocating resources to more efficient uses, improving educational quality is a significant potential benefit. Educational quality is often constrained by resources. In any state there are a limited number of quality professors in any given discipline and limited financial resources to support various programs. Furthermore, in the current model, individuals' access to these resources is largely constrained by institutional affiliation and geographic location. However, the new model could utilize emerging technologies to make the best professors and courses available online to a far greater number of students.

Additionally, the quality of interdisciplinary programs such as biomedical engineering can benefit greatly from this model. For example, rather than a single institution having to devote resources to develop high-quality programs in both medicine and engineering, two separate institutions can specialize in whichever one in which they already excel and then collaborate. As we will see in the case study section, this specific example has been implemented effectively between institutions in North Carolina and Virginia.

Encouraging Institutions to Establish Well-Defined Priorities

Finally, clearly defined institutional priorities are important when making prudent budgetary decisions. As Paul Brinkman noted, "To have an efficient and effective state higher education system, it is necessary to delineate clearly the mission of each of the state's public [institutions of higher education]."[298] Yet trying to define institutional priorities can be extremely difficult for administrators because it can create significant political conflict among stakeholder groups.

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[298] Paul Brinkman, "College and University Adjustments to a Changing Financial Environment," The Economics of American Universities, edited by Stephan Hoenack and Eileen Collins, 1990.

These political conflicts can be a serious disincentive for administrators to define comparative strengths within their own institutions. However, state-wide collaborations require either the state government or the institutions themselves to determine comparative advantages. In this way, statewide collaborations can overcome political disincentives that discourage administrators from the important task of identifying core institutional strengths that deserve the greatest support.

Costs of Reducing Duplications

When analyzing public policy, in addition to examining the benefits of a plan, one must also consider its costs to determine the best way forward. Reducing duplications in higher education programs through state consolidations and collaborations can be challenging and presents some significant costs.

Time and Resources

To begin, a certain amount of planning must take place to formulate and implement duplication reduction schemes. In the case of greater collaboration between universities, a number of steps must happen. First, some form of communication must take place that suggests that other institutions are interested in collaborating. Second, participating schools will need to create a strategic plan that evaluates their current programs and determines which ones are strong candidates for collaboration. These actions can be costly in terms of both administrators' time and salaries, but also can create costly political conflict within universities because various stakeholder groups are likely to disagree about which programs are good candidates for consolidation/collaboration.

Less Competition

Another potential cost of reducing duplication may be reduced competition. Competition generally increases efficiency, but offering fewer programs in a discipline reduces competition. This could lead to stagnation, since there would then be a weaker competitive mechanism pushing programs to be sensitive to consumers' desires. Reducing the number of programs may also lower intellectual diversity, since fewer scholars will be needed.

Travel Costs

When students have a low willingness to travel to distant institutions, eliminating duplication can impose costs. Cutting a program negatively impacts students who wished to study the particular field at that institution. Although the program would be offered elsewhere, an individual may dislike that school for many reasons, such as location or campus culture. Furthermore, many students prefer to live at home and commute to college to save money. Having to choose either a different field of study, or travel to a more distant institution, may impose substantial costs in terms of student welfare.

For example, a recent study by Belgian economists Stijn Kelchtermans and Frank Verboven found that social loss from eliminating duplications is large in Belgium because of students' "low willingness to travel to other institutions." It concluded that the social loss is so large that about 90 percent of duplication eliminations provide a net social loss.[299] However, American students typically have a higher willingness to travel than their Belgian counterparts. More importantly, rapidly developing technology allows students to complete degrees entirely online, making physical travel less of an issue. Finally, it is important to also consider that social losses arising from travel costs are likely to be more severe for undergraduates than graduate students. Graduate study is intended to be more specialized, and thus graduate students, relative to undergraduates, are usually more likely to select a school based primarily on a specific academic program. Thus, focusing consolidation more heavily on graduate education courses may help minimize this cost.

How to Reduce Duplications

It can be a challenging task to determine which programs at which institutions to preserve and which to eliminate. Economic theory suggests that, in production allocation settings, parties should specialize in the area in which they hold a comparative advantage and then trade with others to acquire other necessary goods/services that they do not produce themselves.[300] In higher education program offerings, the same principle applies. Institutions should specialize in programs/fields in which they hold a comparative advantage. Those schools that could provide a program at a lower opportunity cost should continue to do so, while those without a comparative advantage in a specific discipline should eliminate their program. Their students could still be able to study that discipline, but would utilize distance educational offerings from the institutions that do hold a comparative advantage in the desired field.

Determining which schools hold comparative advantages in different fields is a complicated task. Either of two major approaches can be used by state government officials. With the first approach, which I will refer to as the centralized approach, state government officials—with input from institutions themselves—determine comparative advantages. The second one, which I will call the decentralized approach, uses market mechanisms to allow institutions themselves to determine comparative advantages and allocations of program offerings.

The Centralized Approach

The centralized approach is the approach that is used almost universally when states and their respective institutions, attempt to eliminate duplications. Since the decentralized approach

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[299] Stijn Kelchtermans and Frank Verboven, "Program Duplication in Higher Education is Not Necessarily Bad," <u>Journal of Public Economics</u>, 2 April 2010, 397-409.

[300] A party enjoys a comparative advantage in the production of a good/service when it can produce that good/service at the lowest opportunity cost relative to other possible producers.

creates a fully integrated state system of higher education, for those states not desiring such a system, the centralized approach makes more sense.

Under the centralized approach, the state is responsible for determining both the optimal number/quality of disciplines and the comparative advantages of each institution. While both approaches require the state to determine the optimal number/quality of disciplines, the extra task of determining comparative advantages can be quite difficult. Many criteria may be deemed important when determining comparative advantages, and many are subjective. What is important to one person may be unimportant to another. This makes it very difficult for a public official to assess the comparative advantages that institutions hold across many disciplines. The difficulty is even greater when one considers that most states have numerous public institutions of higher education.

However, experience has shown that considering a number of specific criteria can help. Robert C. Dickeson, former president of the University of Northern Colorado and former senior vice president of the Lumina Foundation for Education, has outlined several important criteria in his recent book *Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance*. While many of them are geared toward reducing duplications within a single institution, they can be applied to state-level reviews as well.

Perhaps the most commonly considered criterion relates to a program's financial viability. Analyzing program costs against revenues is an important baseline measure. Programs generate revenues through a number of sources, such as students, grants, and donations.[301] If these revenues exceed costs, it may be a good idea to maintain that program. Dickeson also argues that one must consider to what extent new investments will be needed in order to bring a program to a high quality level. This is a crucial question. Even if a program is currently operating at a relatively low cost, it may require too large of an investment to achieve a level of quality equal to or exceeding other programs in the state.

Demand for a program is another important criterion. This demand can exist in two forms: external demand from incoming students and internal demand from an institution's other programs. External demand is relatively easy to observe through national data on incoming students' preferences concerning majors. A school with a program that consistently attracts a high proportion of the region's students who study in that field is a strong candidate for consideration as having a comparative advantage. Internal demand is also important. A program with identical external demand to the same program at another school may be relied upon more heavily by its mother institution to fill general requirements. This can also influence decisions about how to allocate program offerings.[302]

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[301] Robert Dickeson, Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance, (San Francisco: Jossey-Bass, 2010).

[302] Robert Dickeson, Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance, (San Francisco: Jossey-Bass, 2010).

Varying program inputs can also influence such decisions. These can include the existing faculty/staff, curriculum, students, and technology. One school may have more experienced and qualified faculty and staff, or already have the desired levels of full-time versus part-time or tenured versus non-tenured professors. Next, the extent to which existing curricula across various institutions fits the desired curriculum quality is important. Furthermore, the type of students already enrolled in a program may be important. The state may determine that it is already *overinvested* in a certain discipline. In this case it may want to only preserve programs that have the most highly qualified students. Additionally, the success of past graduates may be a useful metric for determining program quality. Finally, it is likely that preserved programs will need to utilize technology to offer courses to students at schools where those courses have been eliminated. Those programs that already have a considerable technological infrastructure in place will have an advantage.[303]

These many criteria highlight the point that many factors can influence decisions about what programs within a state have a comparative advantage. Certainly financial viability is important, but other factors must be considered, as well. Although implementing cuts using the centralized approach can be quite difficult, it allows for a less radical reorganization of a state's higher education system than the decentralized approach, while still having the potential to reduce wasteful duplication.

The Decentralized Approach

The decentralized approach allows public institutions themselves to determine comparative advantages and allocate program offerings by utilizing a system similar to carbon credits. Under this scheme, state governments would be responsible for determining the appropriate number of various programs/disciplines—and the optimal quality of those programs—to be offered by the state's public colleges and universities. The state would then make available this number of licenses for the state's public institutions to compete for. Licenses would be obtained through a competitive bidding process, with the licenses going to those institutions that can provide the optimal program quality at the lowest cost. State subsidies earmarked for each discipline would only be granted to those institutions holding a license, and subsidy amounts would be set by the state. State officials would be responsible for monitoring programs to ensure that the desired quality standard is met. Any school winning a bid would be responsible for creating and delivering the educational program for which it has a license and would be responsible for producing online courses in the subject for use by students at the state's other public universities.

Under this approach, schools themselves determine comparative advantages. Because of the competitive nature of license bidding, program licenses would only be granted to schools that value them highly and can produce a high-quality program at a low cost. Through this market mechanism, schools themselves sort out the allocation of producing educational products in an

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[303] Ibid.

efficient manner. At the same time, duplications are eliminated, since the state grants a limited number of licenses that is equal to the number of programs deemed necessary.

In the long run, this system would probably evolve into a state system of higher education in which each of the public colleges has a distinct specialty. For instance, School A would specialize in business education, School B in humanities, School C in social sciences, etc. The faculty would be physically housed at the respective specialist institution. However, students still wanting — or required — to take courses in a discipline that their home institution does not offer would have access to online courses developed and administered by the faculty at the school that specializes in that subject. For example, a student at School A (business education specialty) wishing to take classes in humanities could take online courses through School B (humanities specialty), while still being enrolled at School A. Since all the institutions belong to the same state system of higher education, credits would be easily transferred between the various institutions.

A few details need further clarification. First, it would be very costly for state governments to determine the optimal number/quality for every single class offering, or even academic major. Thus, licenses would most likely work best when granted to an entire academic discipline (for example business, fine arts, etc). This also has the advantage of allowing faculty within a discipline, but in different sub-disciplines, to have greater opportunities for collaboration. For example, housing social science departments, such as economics and political science, at the same university would facilitate easier faculty collaboration.

Second, it should be noted that the use of this approach does not necessarily require that each institution would have only one specialty, nor that a license for any given discipline would be granted to only one university. Disciplines with higher demand would be made available at a greater number of institutions spread across the state. This would help maintain competition between the institutions, which provides incentives to offer students quality programs at a low cost. Additionally, licenses would expire after a specified number of years, and would then be open for bidding again. This also would encourage competition between institutions and put pressure on schools that have already been granted a license to remain accountable to students and the state. However, lawmakers should be cautious when setting the time until the expiration date. Setting it too soon would be a disincentive for a school to invest resources in the program if they face the possibility of losing it before reaping a return on their investment. Setting the expiration too far into the future would harm competition and allow programs to become complacent.

Finally, this approach would work less well with disciplines that require large amounts of "hands-on" learning through labs. These disciplines, most obviously the natural sciences and engineering, would be difficult to deliver through online instruction, and would likely have to be offered to students in the form of several campuses scattered geographically throughout the state. However, as we'll see below, Mississippi State University is one example of a university that offers an entirely online doctoral program in engineering.

It should be noted that the decentralized approach is discussed entirely in theoretical terms, as there are no actual cases the authors are aware of where it has been implemented. However, this does not mean that it cannot be a workable model to be developed, tweaked, and implemented for future use. It provides the attractive possibility of reducing duplication through market mechanisms that encourage competition and enhance educational opportunities for students.

Case Studies

To this point, discussion of these ideas has been fairly abstract, so it is difficult to know how efforts to reduce duplication actually apply in a real-world setting. To address this concern, several brief case studies are examined below. These are not meant to be exhaustive analyses, but rather to highlight instances in which these ideas have been implemented in the past.

Leaders in Pennsylvania have strived to find ways to reduce duplicative costs while maintaining academic majors. The Universities of Clarion, Edinboro, Mansfield, and Slippery Rock now share resources to collectively offer courses in French, German, Spanish, and Russian. Furthermore, Clarion and Edinboro have collaborated to provide a joint master's degree in nursing, while Indiana University of Pennsylvania, Bloomsburg, and Kutztown Universities now jointly offer graduate programs in audiology and speech pathology. The hope is that by increasing the coordination of the Pennsylvania State System of Higher Education, public universities can more effectively collaborate to eliminate statewide duplications and reduce costs.[304]

Besides reducing existing duplications, another important task of state and university leaders is to effectively introduce necessary new programs in a non-duplicative manner. Collaborations in North Carolina and Virginia have developed programs in the growing field of biomedical engineering. The University of North Carolina at Chapel Hill and North Carolina State University coordinated their efforts to combine a strong UNC medical school with the strong NCSU engineering school. A similar approach exists between Wake Forest University and Virginia Tech.[305] In each respective arrangement; UNC and Wake Forest enjoy comparative advantages in medical schools, while NCSU and Virginia Tech have comparative advantages in engineering. It would be extremely costly for NCSU and Virginia Tech to establish a medical school as good as the ones at UNC and Wake Forest. Thus, it makes more sense for them to focus their efforts on engineering and to collaborate with UNC and Wake Forest to offer this new joint degree. Likewise, UNC and Wake Forest benefit from specializing in their medical schools and collaborating to provide the engineering dimensions of the program. Splitting the costs of such programs allows these universities to avoid duplications, and provides access to enhanced resources in both fields to students at both universities.

[304] Eric Kelderman, "Pa. State System Considers Consolidating Programs Amid Financial Squeeze," The Chronicle of Higher Education, 14 September 2009.
[305] Scott Jaschik, "New ideas for Ph. D. Education," Inside Higher Education, 18 August 2006.

Another example coming out of North Carolina is the merger of the German Studies programs at UNC and Duke University. Duke and UNC have taken advantage of the close proximity of their institutions to offer the nation's first public-private joint program in German Studies. With a single student body and curriculum, this new program offers students access to the largest German Studies faculty in the country. The universities were able to eliminate the duplication of introductory courses, thus freeing faculty resources to offer students a wider range of course options, while saving money for both schools.[306]

The state of California has three major systems of higher education: the Universities of California, the California State System, and the California Community Colleges. With various systems, lines of responsibility can become blurred. The California Master Plan has allowed for the state's three systems to be transformed into a single coherent system. The University of California campuses are designated as the state's primary research institutions and offer nearly all the state's public doctoral degrees. The California State System's primary function is undergraduate education and graduate education up to the master's degree level, including professional and teacher education. The California Community College's primary mission is providing academic and provisional instruction through the first two years of undergraduate education. This plan encourages each of the three public higher education segments to concentrate on creating its own kind of excellence within its own set of responsibilities, ensuring that not all institutions are trying to do all things.[307]

While this delineation can provide benefits, it can also impose new costs. An example of a case in which potential costs were avoided in California is San Jose State University (SJSU). The school, part of the California State system, has a sizeable engineering program, with several thousand undergraduates and nearly 2,000 master's level students enrolled in 2007. While many of these students are interested in pursuing a doctoral degree, under the state's Master Plan, SJSU is prevented from offering that program. The existing engineering Ph.D. programs in the region, such as those at the University of California Berkeley and Stanford University, have high costs and selective admissions. Furthermore, many SJSU master's students have jobs in the San Jose area that they wish to maintain while working toward a doctoral degree.

Rather than creating a duplicative doctoral program, SJSU reached across state borders to collaborate with Mississippi State University. SJSU students can now earn a doctorate in engineering, through the Mississippi State University's online classes and dissertation committees without ever having to leave the SJSU campus.[308] Out-of-state tuition for the program is waived, and the degrees read Mississippi State. The SJSU/MSU Engineering Gateway

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[306] "The Carolina-Duke Graduate Program in German Studies," (North Carolina: Duke University, 2008) 2 September 2009, <http://www.german.duke.edu/carolina-duke-grad/overview/>.
[307] "California Master Plan for Higher Education," University of California, 1 March 2010, <http://ucfuture.universityofcalifornia.edu/documents/ca_masterplan_summary.pdf>.
[308] Scott Jaschik, "Mississippi State in the Silicon Valley," Inside Higher Ed, 18 October 2007.

program not only allows the Mississippi State Ph.D. program to grow, but also avoids duplicating existing programs in the state of California. This is an excellent example of the use of technology to mitigate new travel costs potentially imposed by duplication reduction schemes.

Conclusion

The current economic situation serves to remind us of the need to constantly reevaluate the appropriateness of existing programs. Our public higher education system is largely decentralized, which often leads to unnecessary and costly duplications. In many cases there exists an opportunity to reduce excessively duplicative programs by consolidation and collaboration within or across states. However, collaboration requires states to determine the appropriate quality and number of desired academic disciplines and allocate program offerings across the state's many institutions of higher education. Economic theory suggests that allocations will be most efficient when they are awarded to programs holding a comparative advantage relative to other similar programs. Yet determining which programs, and at which schools, hold comparative advantages is a challenging task.

The decentralized approach eases this challenge by creating a market where schools themselves sort out comparative advantages and allocation decisions based on a bidding process. The centralized approach leaves these decisions up to state and university leaders themselves. These leaders often use a series of criteria to determine comparative advantages. Consolidating duplications and creating a more collaborative system of higher education can have many benefits, such as cutting costs and enhanced educational opportunities for students. There are, of course, challenges to and costs associated with this proposal. Yet we believe that in many cases the expected benefits exceed the expected costs. University administrators and state officials should at the very least seriously consider consolidating to reduce the number of duplicative programs. Doing so could reduce costs for taxpayers and students alike.

#12: Promote collaborative purchasing

Colleges procure a wide range of goods and services, including office supplies, information technology, research materials, food and related services, waste management, employee benefits, marketing services, construction and repairs, and more. Public and private non-profit higher education combined spent a total of $343.37 billion in the 2005-06 school year.[309] This figure has been increasing by about five and a half percent a year, and currently comes to 2.6 percent of gross domestic product.[310] It is difficult to determine exactly how much of these expenditures went towards the purchase of goods and services, as the percentage varies widely among institutions and is not publicly available in many cases. After reviewing economic impact reports for several major institutions, we have prepared an estimate that the purchase of goods and services typically accounts for between 15 and 30 percent of total expenditures, excluding construction projects and employee benefits.[311] This implies that public and non-profit higher education combined procured between $60.5 and $121 billion worth of goods and services during the 2007-08 school year, or between $4,800 and $9,600 per full-time equivalent student.[312]

Goldie Blumenstyk suggests that,

> "Most colleges don't take full advantage of purchasing cooperatives, don't fully exploit e-commerce opportunities, and don't track what they are buying or from whom. They also don't do a very good job of concentrating 80 percent of their spending with 20 percent of their suppliers, a common industry tactic that helps companies exploit their buying clout."[313]

Pennsylvania State University professor of supply chain management Richard R. Young notes that rather than meeting with their on-campus clients to understand their needs and negotiating with their suppliers, many universities are simply engaged in transactions, essentially just pushing paper.[314] Engaging in consortium purchasing agreements could save colleges large sums of money.

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[309] United States, Department of Education, (Washington: NCES, 2007).

[310] United States, Department of Congress, (Washington: Bureau of Economic Analysis).

[311] Individual Economic Impact Reports are listed in the reference page.

[312] U.S. Department of Education, NCES, IPEDS: Table 193; FTE enrollment is the sum of the number of part-time students divided by three and the number of full-time students.

[313] Goldie Blumenstyk, "An Unsexy Way for Colleges to Save Money: Shop Smarter," The Chronicle of Higher Education, 3 August 2009.

[314] Ibid.

How Consortia Purchasing Works

The context for consortium purchasing is a basic application of scale economics – the larger the quantity of a product being acquired, the bigger the discount. Wal-mart is able to offer low prices on thousands of products because they purchase large volumes from their suppliers. Organizational units or separate organizations can enter into a consortium agreement with others that procure similar goods and services in order to increase their buying power and receive volume discounts. Individual colleges purchase a large mix of similar goods and services, but often in limited quantities, especially if independent departments at a college are responsible for their own purchasing. Through consortium agreements, colleges can team up with not only other colleges, but also other organizations with similar needs, in order to maximize their savings and reduce the costs associated with purchasing.

Benefits

The benefits of consortium purchasing agreements are many. Collaborating with other institutions that are procuring similar goods and services increases buying power, due to a larger quantity of goods or services being purchased. As most shoppers are aware, the more you buy, the lower the price. This is because suppliers selling a larger quantity of goods are often able to achieve economies of scale. In the case of services, suppliers are willing to offer a discount to customers providing them with repeat business.

Collaborative purchasing also reduces the transaction and information costs associated with procurement. Determining specifications, soliciting bids, and negotiating contracts are among the many activities involved in procurement. Collaborating with other organizations that are purchasing similar goods and services can reduce administrative costs, as these activities only need to be performed once for all participants, as opposed to each individual organization undertaking them. By adjusting its purchasing strategy to take advantage of purchasing arrangements, New York University estimates that it has saved $1.2 million annually.[315]

Limitations

While collaborative purchasing arrangements can result in a lower price and reduced transactions costs, they are not without their drawbacks. The primary one is that they reduce the flexibility with which participating organizations can purchase preferred goods or services. If participants procure a large quantity of a product or service from a certain supplier, individuals may accept their non-preferred product in order to achieve cost savings. For some goods and services, such as construction, it may also reduce the opportunity for customization.

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[315] Ibid.

Another limitation is that public institutions are typically restricted by state acquisitions regulations. They are bound to follow solicitation, competitive bidding, and evaluation procedures when procuring goods and services. This somewhat limits their ability to join consortium purchasing groups to negotiate contracts, but statewide and regional agreements have become more commonplace.

Types of Consortium Agreements

Purchasing agreements among a consortium of organizations for a variety of products and services permit member institutions to purchase goods and services from participating vendors at a group discount rate. Such agreements provide individual organizations with additional buying power, as well as reduced administrative and transactional costs. There are several general types of consortium purchasing agreements that are currently in practice in higher education. These include inter-institutional, statewide, and regional agreements among colleges and other organizations.

Inter-Institutional Agreements

An inter-institutional collaborative agreement is one that exists among a number of independent institutions that permits members to purchase goods and services at a group discount, as well as to reduce the administrative burden involved with procurement at the individual institutions. The Independent Colleges of Indiana (ICI) has a Collaborative Services Initiative that permits its 31 member colleges to reduce the prices for goods and services through leveraged contracts, improve the business terms and services with commonly used vendors, reduce duplicated efforts by members to research and implement new services and programs, and simplify the processes of purchasing.[316]

ICI members have access to more than 80 different collective purchasing agreements, including agreements for the purchase of computers and software, office and maintenance supplies, furniture, waste management services, and cell phones. ICI is seeking additional agreements for vehicle purchases and leasing, employee benefits, and more. By making purchases through ICI collective agreements, members save between 5 and 15 percent off what they would have paid by negotiating an individual contract. President Hans C. Giesecke estimates that ICI members saved over half a million dollars last year on purchases made under its agreements. [317]

Statewide Agreements

A state-wide purchasing agreement permits public institutions to partially overcome the limitations imposed by state acquisition regulations in order to benefit from collaborative

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[316] "Collaborative Services," Independent Colleges of Indiana, 26 May 2010, <http://www.icindiana.org/services/index.asp>.
[317] Hans Giesecke, "One Solution for Keeping College Prices More Affordable," Independent Colleges of Indiana.

purchasing. Under such an agreement, public institutions can collaborate with one another on the purchase of similar goods and services. In 1996, public institutions in the state of Washington formed an inter-local agreement that authorized the sharing of information and contracts for the purchase of similar goods and services. The purpose of the agreement was to "share and cooperate in preparing specifications, sourcing, competitive bidding, and negotiating specific terms for goods and services that are required by the institutions."[318]

Under the inter-local agreement, a lead institution (LI) will solicit participants among member institutions for the procurement of specific goods or services. After determining intended and potential participation, the LI will follow state acquisition regulations in soliciting bids from vendors and make an award to the "lowest responsive and responsible bidder." Once a contract is issued, participating institutions may issue delivery orders from the successful supplier. [319]

Regional Agreements

A regional agreement is an expansion of the statewide agreement that encompasses a larger region or a bloc of states. The Western States Contracting Alliance (WSCA) is a good example. It was formed in 1993 by the purchasing directors of 15 western states for the purpose of allowing participating states to team up for cooperative multi-state contracting. The WSCA permits states, cities, counties, public schools, and institutions of higher education to benefit from regional collaborative purchasing. It follows a lead-state model, similar to the lead-institution model described previously. [320]

Conclusion

Collaborative purchasing allows organizations to achieve greater efficiency in the procurement of goods and services, as well as savings associated with economies of scale, increased buying power and a reduction in information and transaction costs. Institutions already belonging to consortia should take full advantage of the existing negotiated agreements, as well as push for an expansion of coverage and encourage other institutions to join.

The ICI consortium contends that it is feasible to shave 5 to 15 percent off the price of goods and services through the use of an inter-institutional purchasing agreement. We have estimated that colleges spent between $60.5 and $121 billion on goods and services in 2007-08. Thus, reducing the cost of goods and services by just 5 percent would save between $ 3 and $6 billion annually, or $240 to $480 per full-time equivalent student.

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[318] Vallie Fry, "Memo to Business Officers of Washington Institute of Public Higher," Washington State Board for Community & Technical Colleges (Olympia Washington: 5 June 1996).
[319] Ibid.
[320] "About Us," Western States Contracting Alliance, 26 May 2010, <www.aboutwsca.org>.

Section Three: Efficiently Use Resources

#13: Improve Facility Utilization

Many universities have been busily constructing new buildings, in spite of the fact that most do not make efficient use of the space they do have. Some are even unable to pay to maintain their existing buildings. Fourteen percent of all campus buildings have been built in the last decade alone, according to Sightlines, a private company that has analyzed space utilization for more than 200 campuses.[321] One architecture firm has estimated that campuses in 1974 had 160 square feet per student while today's campuses have an estimated 450 square feet per student.[322] One issue that is largely being ignored is that while these new buildings are being constructed, the existing ones are underused. In Virginia, a survey of seventeen public institutions of higher education demonstrated that eleven used their classrooms, on average, less than forty hours per week, with six schools using classroom space less than 30 hours per week. On average, the Virginia Military Institute uses its classrooms at the lowest rate in the state: 14 hours per week.[323] In North Carolina, the average weekly hours that a classroom was used for instruction was never greater than 33 hours for all of that state's four year public institutions from 2003-2007.[324]

Not only is the construction of new buildings expensive, but the upkeep of space is costly as well, meaning that these low classroom utilization rates represent inefficiencies that contribute to higher tuition. The costs of operating and maintaining a college or university's buildings and grounds is second in expense only to personnel costs at most institutions of higher education.[325] Constructing one gross square foot of building can cost $300, leading experts to claim that every 1 percent of underutilized classroom, lab or office space represents $3.7 million of unneeded construction at large research universities.[326] Operating a building after it is completed requires routine and preventative maintenance, energy, utilities and custodial services. Overhead costs include insurance and police and fire protection. To ensure buildings' continual functioning, universities must set aside money each year for large, planned renovations and maintenance.[327] These are the costs that come *after* construction and

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[321] "13 Reasons Colleges Are In This Mess," The Chronicle of Higher Education, 13 March 2009

[322] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[323] "Space Utilization and Comparison Report," State Council of Higher Education for Virginia, May 2004

[324] "Facilities and Utilization Study," The University of North Carolina, October 2008.

[325] Paul Temple and Ronald Barnett, "Higher Education Space: Future Directions," Planning for Higher Education, October-December 2007.

[326] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[327] Ronald Ehrenberg, Tuition Rising: Why College Costs So Much, (Cambridge, MA: Harvard University Press, 2000), 152.

represent the majority of a building's lifetime costs,[328] further increasing the cost of underused space. The importance of using space efficiently is captured well in a document on the website of the University of Michigan's Provost, which reads, "[T]he costs associated with expanding our facilities are enormous. If we can make better use of existing space, we can save substantial funds that would otherwise need to be devoted to new buildings."[329]

Causes of Underused Space

Most explanations for why universities and colleges have suffered from such costly overgrowth focus on three factors: the academic arms race, lax scheduling procedures, and a general disregard or misunderstanding about the cost of space in academic culture. Competition and one-upsmanship among schools have often been cited as key drivers of the past decade's building boom. One planner at a Boston architecture firm argues that schools believe "each institution needs to be complete onto itself, with one of every shiny toy that it can get," resulting in unnecessary regional duplication of facilities.[330] A desire to impress prospective students, their parents and faculty compels universities to build large, modern buildings under the perception that such a display projects an image of success. As noted above, the bulk of costs for a building come from its maintenance and operation, costs that big donors are unlikely to enthusiastically support.[331]

This overgrowth has brought on a crisis in deferred-maintenance. The Minnesota State Colleges and Universities system has an estimated $680 million in needed building repairs while Kansas' public higher education institutions have a combined $1 billion deferred-maintenance backlog. Yet colleges continue to expand their campuses: the very day the president of the University of Minnesota wrote an op-ed in support of federal stimulus money being applied to these deferred-maintenance needs, it was reported in the same paper that the university was building a new basketball facility.[332]

Using available space to its fullest potential is vital to preventing overgrowth and reducing the costs of facilities, but colleges and universities often pay too little attention to utilization rates. Michael Schley, CEO of the workplace management software company FM: Systems, believes that most campuses are unable to effectively manage their space because they do not have good enough information systems to track classroom utilization.[333] Certain practices, such as inconsistent start and end times for classes, can make optimum classroom management

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[328] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[329] Paul Courant et al. "Budgeting with the UB Model at the University of Michigan," (Ann Arbor, MI: University of Michigan, 2000).

[330] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[331] "13 Reasons Colleges Are In This Mess," The Chronicle of Higher Education, 13 March 2009.

[332] Scott Carlson, "The $7-billion Patch for Campus Maintenance," The Chronicle of Higher Education, 6 February 2009.

[333] Julie Sturgeon, "Lost in Space," University Business, March 2007, 58-62.

difficult to achieve.[334] Yet, even if campuses do have effective scheduling practices, Tom Shaver—CEO of scheduling software company Ad Astra Information Systems—believes that colleges and universities often run out of classroom space due to lax enforcement.[335] At Geneva College, one administrator noted that faculty have a penchant for moving their classes to a location that is "better" than that assigned to them, despite the registrar's efforts to discourage such practices.[336]

The inefficient use of space is also partially a product of academia's culture. Ronald Ehrenberg, economics professor and former administrator at Cornell, has argued that Say's law—a generally disproven argument that supply creates demand—may in fact apply to space in academia. His experience as an administrator demonstrated to him that shrinking departments seem to always find use for the same amount of space and that there are always protests of unmet space needs whenever some space becomes available.[337] Academic departments often obsessively guard their space. Deborah Blythe—the manager of classroom space, offices, meeting rooms and laboratories on all 19 of Pennsylvania State University's campuses—refers to department heads as being "protective of every closet and cranny." In one instance, a department at Penn State rearranged a room used to store chairs and other forsaken items to look lived-in, right down to nameplates of nonexistent people.[338] At Boise State University, few departments who had proprietary rights over classrooms were willing to put these rooms into the university's general pool in return for renovating the seating, carpet and technological resources.[339]

Internal Markets in Private Industry

One explanation for academics' attitude towards space is that few non-profit campuses provide any incentive to economize on space. The for-profit business model of minimizing capital inputs may provide a method for increasing space utilization on college campuses. Recent literature in the business field has explored the organizational-level use of internal markets as a mechanism for efficient capital allocation. Classrooms, laboratories and offices are the backbone of a university's physical capital, and establishing internal markets for these spaces will provide the proper incentives to increase efficient utilization and slow the new construction that significantly adds to a university's costs.

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[334] Julie Sturgeon, "Lost in Space," University Business, March 2007, 61.

[335] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[336] Julie Sturgeon, "Lost in Space," University Business, March 2007, 61.

[337] Ronald Ehrenberg, "Tuition Rising: Why College Costs So Much," (Cambridge, MA: Harvard University Press, 2000) 149.

[338] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[339] Julie Sturgeon, "Lost in Space," University Business, March 2007, 61.

Internal markets have become more common among for-profit companies as electronic technologies have made it possible for large amounts of information to be shared at little cost. The central idea of internal markets is that they decentralize information gathering and decision making. This allows managers at all levels of a firm to make well-informed decisions that are appropriate to their local circumstances, rather than be bound by the centralized allocation of decisions.[340]

Thomas Malone cites two advantages of internal markets for allocating capital. First, all employees can see the bigger picture. With bureaucratic decision making, different divisions may share the duty of allocating assets, just as both university departments and the registrar may be responsible for scheduling classes. In this arrangement, no one can see the whole picture and decision makers at the top of a hierarchy may not receive all of the information necessary for efficient allocation. With internal markets, Malone writes, "all prices for all products in all future time periods are visible to everyone."[341] Second, the decentralized trading of internal markets allows a company to respond quickly to change. Whereas a bureaucracy might have to review and reformulate standing plans, internal markets allow efficient adjustments throughout the company to occur simultaneously. The overall result of these two advantages is that resources are more likely to be allocated to their highest valued use.[342] While internal markets face the same collective action problems endemic to external markets, managers can provide supplemental incentives and rules that keep the market structure consistent with the long-term goals of the firm.[343]

An example of a firm that has successfully employed internal markets is British Petroleum (BP). BP instituted internal markets in an effort to reduce its company-wide greenhouse gas emissions. Essentially an internal cap-and-trade system, BP gave each business unit a target reduction but allowed units to buy and sell "permits" for emissions. Units that could easily reduce emissions below their targets could sell their unneeded permits to units that had more difficulty meeting their targets. In this way, the company found the most efficient way to meet its company-wide target reduction without the cost and inefficiency of centralized planning and intervention from upper-level executives. In 2001, BP business units traded 4.5 million tons of emissions rights amongst themselves and met their original target reduction nine years ahead of schedule.[344]

Market Incentives on Campus

As Frederick E. Balderston has noted, the "typical practice of universities is to allocate office and laboratory space through administrative negotiation, not to regard space as an economic asset that should be priced and budgeted. An academic department or research organization

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[340] Thomas Malone, "Bringing the Market Inside," <u>Harvard Business Review 82,</u> 2004, 104.
[341] Ibid, 110-11.
[342] Ibid, 111.
[343] Ibid, 113.
[344] Ibid, 107-108.

has little or no incentive to admit excess capacity or to give up space unless forced to do so… Putting the allocation of space in a more disciplined, market-like framework would make departments, [Organized Research Units] and other units behave somewhat more rationally."[345]   Some universities have tried to institute market-based incentives with some success in improving resource allocation.

In the 1980s, the chair of the economics department at Arizona State University used a sealed-bid auction to assign offices when the department moved into a new building. Faculty members could submit a sealed bid for the right to choose their office, with the property rights to that office belonging to each faculty member for as long as he or she stayed at ASU. When the "owner" was away from campus, the office could be rented to others, but the proprietary right stayed with the purchasing member. Whenever an office was rented or subleased, half the proceeds would go to a graduate scholarship fund, but the other half would be provided to the faculty member in his or her budget allocation.[346] This system eliminated rent-seeking among the faculty in the original allocation of offices and provided incentives for offices to remain occupied and productive at all times.

Ehrenberg argues that academic departments can be incentivized to efficiently use space by placing prices on its use and requiring that units trade off space for operating budgets.[347] Such a model carries the same advantages as the commonly-used "chargeback" system, in which units are charged for services they receive from other units on campus, such as maintenance or IT. This chargeback system introduces accountability for each unit on campus; it ensures that no unit is given more resources than needed to meet the demand for its services and that each unit is responsible for its own productivity.[348] In this way, charging departments for space would ensure that they are not consuming more resources than they need to efficiently operate.

The University of Michigan sought to accomplish a similar goal in its University Budget (UB) model, which has now been in place for a decade. The UB model is an "activity based budgeting" approach under which the costs of operating "General Fund Space"—including utilities and plant operations—are charged to the units and departments that occupy that space. Buildings are metered separately for utilities, so that units can be charged the actual cost of electricity, steam, natural gas, water and sewer. A per-square-foot-occupied charge for maintenance, custodial, and refuse/recycling services is calculated and assessed to the units in a space. Charges are specific to each building and based on its historical expenditures. The document on the University of Michigan Provost's website notes the goal of this approach to

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[345] Frederick Balderston, "Organization, Funding, Incentives and Initiatives for University Research: A University Management Perspective," The Economics of American Universities, 1990.
[346] William Boyes and Stephen Happel, "Auctions as an Allocation Mechanism in Academia: The Case of Faculty Offices," The Journal of Economic Perspectives, Summer 1989, 37-40.
[347] Ronald Ehrenberg, Tuition Rising: Why College Costs So Much, (Cambridge, MA: Harvard University Press, 2000), 151.
[348] Gary Olson, "The Cost of Doing Business," The Chronicle of Higher Education, 10 August 2007.

budgeting is to provide incentives to economize on space and to combat the past tendency for units to use as much space as they can acquire, although revisions made at the ten year mark note that these goals have not been entirely successful.[349]

Another way in which classroom utilization can be improved is by offering incentives directly to students. At Kean University, officials decided to offer students tuition discounts of up to 20 percent for courses taken on Friday and Saturday. This increased their classroom use on Friday from 11 percent to 50 percent and on Saturday from 8 percent to 16 percent, allowing the college to enroll 700 additional students without constructing any new classrooms. The increase in enrollment resulted in the university increasing tuition only 5 percent rather than the 20 percent that would have been necessary without the additional students.[350] Similarly, the Richard Stockton College of New Jersey began offering tuition and housing discounts of up to 20 percent for its summer session in 2009,[351] hoping to attract students to its campus during the time when campuses are the most underutilized. The school experienced a 15 percent increase in graduate student enrollment from the previous summer, but a 12 percent decline in undergraduate enrollment.[352]

More generally, institutions should consider creating an internal market. The key feature of such a mechanism would be an auction for classrooms and other space. The central administration could distribute extra money, primarily determined by enrollment, to the departments. The departments would then use this money to bid on spaces that they want. Departments that wanted to use the funds for other purposes could secure a surplus by choosing less prime locations and off-peak hours. Departments that insisted on prime locations during peak hours would likely have a deficit and would need to come up with the deficit from elsewhere in their budget.

While this solution may not provide for rent levels covering actual operating costs under all circumstances, it would likely increase departmental incentives to schedule during non-peak scheduling periods when demand is lower (peak hours on most campuses are Monday-Thursday 9-3).

Drawing on the information available to each department about current and future enrollment, an internal market for classrooms would efficiently distribute classrooms according to departmental needs. Rather than relying on a complex, costly, and often ill-informed scheduling bureaucracy, a market would more easily allocate classrooms to their highest valued use.

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[349] Paul Courant et al. "Budgeting with the UB Model at the University of Michigan," (Ann Arbor, MI: University of Michigan, 2000).

[350] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

[351] "Stockton to Provide Further Tuition Reductions for Summer Classes," Stockton College Press Release, 15 April 2009.

[352] "Summer 2009 final Enrollment Report: Comparison of Summer 2007-2009 Enrollment," Richard Stockton College, 2009.

Information about demand for peak hours, classroom technology, size and other characteristics could be derived from the prices of time slots for each classroom, rather than constant surveying and reporting. The decentralization of decision making would allow for more rapid adaptations to changing circumstances—such as increased enrollment in one department or decreased popularity of a class—than if all scheduling were handled by a central bureaucracy only after it had gathered large amounts of information. Additionally, similar models could be applied to office and laboratory space, the former of which occupies far more space on a college campus than classrooms.[353]

Conclusion

Using a market to buy and sell the scheduling rights for classrooms would encourage departments that were able to do so to schedule their classes during less popular, non-peak times, because such time periods would be cheaper to purchase due to their lower demand. Prices would reveal where there was room for growth and when space was becoming so scarce that expansion was necessary. Charging rent for the use of classrooms while providing payments for every student station filled would encourage departments to fill classrooms during the periods for which they own the scheduling rights. If the cost of rent were based on actual building costs, it would also provide incentives for departments to schedule in those buildings that were the least costly to operate.

While market mechanisms may provide incentives that help increase utilization rates, pure markets may have some externalities that are contrary to other institutional goals. Internal markets have the advantage of allowing the administration of a university to regulate in compensation for any market failures that would be damaging to a university's long-term or educational goals. Each college or university may need to individualize the market model to their needs, but in general the incentives provided by a market-based model can lead to the efficient use of space on a campus while avoiding cumbersome and expensive administrative procedures. Filling up the buildings that institutions already have will reduce new, unnecessary construction and the resulting maintenance costs that make up universities' second highest expenditure category.

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[353] Scott Carlson, "Campus Officials Seek Building Efficiencies, One Square Foot at a Time," The Chronicle of Higher Education, 17 April 2009.

#14: Increase Teaching Loads

Faculty teaching loads have seen a steady decline over the past few decades. While this trend is widely acknowledged, institution-specific data on course loads is hidden by most colleges, which prefer to avoid the public scrutiny and embarrassing questions that would accompany full disclosure. The decline can be attributed to a number of different factors, including growing demand for faculty research and additional time spent on administrative services and other non-educational tasks required by the institution.

Lower teaching loads have benefits, especially the increased time that faculty could theoretically devote to preparing for and planning classes. However, they also have costs. In practice, the increased discretionary time of faculty is used for non-educational purposes, primarily research. In addition, unless class sizes are increased accordingly, lower teaching loads require more faculty members to teach the same number of students, causing a corresponding increase in instructional costs. Overall, the current trend is sacrificing affordability and possibly educational quality for benefits that are primarily seen by individual professors and the institutions.

In order to reduce costs for students and increase the quality of instruction, professors should return to their primary role as classroom instructors and teaching loads should be increased. An increased emphasis on teaching, combined with a de-emphasis on research and other activities not related to educational outcomes, would benefit both students and institutions by stressing the educational mission of colleges as well as lowering the costs of providing an education.

The Decline of Teaching Loads and the Causes

As Table 14.1 documents, the mean course load of faculty members has declined in every sector of higher education between the 1987-1988 and 2003-2004 academic years.

Faculty time for teaching-related activities is in constant competition with other professional and personal interests. For the past several decades, teaching has mostly lost this competition, resulting in increased discretionary time for faculty, a phenomenon that scholars William Massy and Robert Zemsky call the *academic ratchet.*[354] What do the faculty do with all this extra discretionary time? For the most part, they do more research.

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[354] William Massy and Robert Zemsky, "Faculty Discretionary Time: Departments and the 'Academic Ratchet'," The Journals of Higher Education, January-February 1994.

Table 14.1 Mean Course Loads By Year

Institution Type	Mean Course Load Per Term				
	1988	1993	1999	2004	Percentage Change 1988 to 2004
Public research	2.8	1.6	2.1	1.6	-42%
Private research	2.7	1.5	1.9	1.6	-42%
Public PhD/including medical schools[a]	3.1	2.0	2.5	2.0	-35%
Private PhD/including medical schools[b]	2.7	1.6	2.2	1.8	-32%
Public comprehensive	3.7	2.5	2.9	2.6	-31%
Private comprehensive	3.5	2.3	2.8	2.3	-36%
Private Liberal arts[c]	3.7	2.5	3.0	2.5	-32%
Public 2-year	3.5	2.7	3.4	2.8	-20%

NOTES: [a]CARNEGIE CLASSIFICATIONS FOR 1999 AND 2004 READ "PUBLIC DOCTORAL, INCLUDING MEDICAL";
[b]CARNEGIE CLASSIFICATIONS FOR 1999 AND 2004 READ "PRIVATE DOCTORAL, INCLUDING MEDICAL";
[c]CARNEGIE CLASSIFICATIONS FOR 1993 AND 1999 READ "LIBERAL ARTS"
SOURCE: U.S. DEPARTMENT OF EDUCATION NATIONAL CENTER FOR EDUCATION STATISTICS 1988 NATIONAL STUDY OF POSTSECONDARY FACULTY (NSOPF:88, 93, 99, 04)

Research is systematically favored over teaching, so it is not surprising that teaching loads have been falling, or that the time freed up is used for research. The increased emphasis on research has radically altered the behavior and attitudes of many professors and colleges, as described by one college dean:

> Teach well or badly, whatever -- the kids will sort themselves out, and the cream will rise to the top. Meanwhile, there's prestige/fame/grant money to chase! Teaching is for adjuncts. We speak of research 'opportunities,' but of teaching 'loads' -- the language tells you what you need to know.[355]

Why is it that there has been a continual increase in emphasis on research over teaching? Mostly, it is because for both institutions and individual faculty members, research is more richly rewarded than teaching.

Institutions Are Rewarded for Research, Not Teaching

That institutions are placing more emphasis on research is clear to most observers. Even liberal arts colleges and professional fields such as business and law that have traditionally downplayed research have been increasingly devoting resources to the area.[356] This trend toward research

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[355] Dead Dad (Pseudonym), "Teaching and Sorting," Inside Higher Ed, 3 June 2009.
[356] Dahlia Remler and Elda Pema, "Why do Institutions of Higher Education Reward Research While Selling Education?" NBER Working Paper #14974, May 2009.

has much to do with the fact that institutions receive more rewards for research than they do for teaching. These rewards come in two primary types: reputational and financial.

The quality of teaching cannot serve as a determinant of a colleges' reputation for the simple reason that without a measure of the value added provided by a college, we simply do not know the quality of the teaching provided. As a result, reputations in higher education are determined primarily by the research prowess of the institution. Since there are numerous advantages to having a better reputation (better students, better faculty, more pricing power, increased grant revenue, etc.) most colleges and universities seek to improve their reputation. Devoting more resources to teaching and instruction will not help in this regard, but devoting more resources to research will. Given the choice, universities will therefore devote available resources to research rather than instruction.

In addition to the reputational rewards of research, there are financial rewards as well. Since the middle of the last century, the federal government has made scientific research a high priority, and has provided increasing sums of money for research projects. Unlike the financial aid funds provided to encourage access to college, research funds are distributed through a competitive process. Thus, the quality of research is very important in determining research revenue, while the quality of teaching is not very important in determining revenue from financial aid for educational services. Institutions that excel at research bring in staggering amounts of grant money compared to those that do not, while institutions that excel at teaching bring in very similar levels of money compared to those that do not. In other words, bad research doesn't bring in grant funding, but bad teaching still brings in financial aid funding. Universities therefore have a much stronger incentive to establish and maintain excellent research capabilities than they do to establish and maintain excellent teaching.

Thus, for institutions, high-quality research is rewarded more than high-quality teaching in terms of both reputation and finance. This trend pushes colleges and universities to favor research over teaching.

Faculty Reward Structure Favors Research, Not Teaching

Since institutions of higher education are rewarded for research, they have provided incentives to encourage the desired behavior among their employees - in this case, more research. The primary means used to encourage more research among the faculty is the granting of tenure. By setting different requirements for tenure, institutions can influence where aspiring professors direct their energies. As the years have gone by, institutions have put more and more emphasis on research when granting tenure, and less on teaching. A *publish or perish* mentality has overrun academia, and given those choices, most young professors opt for the former.

But tenure is only one of the incentives that encourage faculty to focus on research instead of teaching. While the system is far from perfect, academia has largely agreed on a somewhat objective measure of research quality. Scholars who have more publications in higher-quality

journals are generally agreed to be better researchers than those with fewer publications in lower quality journals. No such agreement exists for evaluating the quality of teaching. Currently, the best metric to assess teaching quality is student evaluations. While these are almost universally used, there are enough questions about their validity (for example, those who grade tougher receive worse evaluations, and those who are physically attractive receive higher evaluations, neither of which reflect the quality of teaching) that they are not used for much even within an institution. Moreover, the fact that most colleges have their own unique evaluation system makes comparisons across institutions difficult.

As a result of having a somewhat objective measure of research quality but no such measure for teaching, there are numerous non-institutional rewards for outstanding research, including monetary grants, scientific awards, and worldwide recognition and fame, but no corresponding rewards for outstanding teaching. Most institutions have grant professor of the year awards, but winners are rarely rewarded for receiving the honor. In fact, for professors at many research universities, there is a sense that winning a teaching award amounts to a "kiss of death"[357] by sending the signal that the professor is spending too much time on her teaching, and not enough on her research.

Given the prevalence of professional and personal rewards for research and the dearth of rewards for teaching, it is not surprising that faculty tend to devote more time and effort to research than to teaching when given the choice.

How the Academic Ratchet Works

The academic ratchet – the drift towards lower teaching loads – is driven by competitive pressure among institutions and faculty. Many colleges want to move up in the influential U.S. News and World Report rankings. One way of doing this is by improving their reputation, and as pointed out above, reputations are derived from the research prowess of an institution. Thus the first step in the academic ratchet occurs when academic administrators put pressure on departments to improve their research ranking.

The second step occurs when departments (professors) retort that the current teaching loads are too high for either 1) the recruitment and retention of the best professors (somewhat counter-intuitively, lower teaching loads are a main attraction for jobs whose ostensible purpose is teaching) or 2) to expect current faculty to conduct more research. An example of this argument is a proposal by DePauw University's faculty, who maintained that a 3-2 schedule (three courses the first semester followed by two in the second) is needed for "recruitment and retention of a strong faculty."[358] It is important to note that instructors at schools like DePauw

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[357] Scott Heller, "Teaching Award: Aid to Tenure or Kiss of Death?" Chronicle of Higher Education, 16 March 1988, A14.
[358] "3-2 Teaching Load Proposal," Depauw University, 10 October 2000, <http://www.depauw.edu/acad/facgov/COAFiles/3_2_teachingloadproposal.pdf>.

(private liberal arts) saw a 32 percent decline in average course load between 1998 and 2004, as depicted above in Table 14.1.

The third step is when administrators agree to lower teaching loads for highly desirable faculty and/or new professors with the goal of freeing up their time to conduct more research. The final step is when internal departmental politics take over. The lower teaching loads for some but not others creates friction within the department, and following the path of least resistance, the department fights to reduce teaching loads for everyone else.

Thus, the desire of a university to improve by strengthening research, combined with the competition for high quality researchers (who are attracted by low teaching loads), results in less time spent teaching as course loads are continually ratcheted down.

The Problem with Diminished Teaching Loads

The two main problems with diminished teaching loads are that it results in higher costs and potentially detracts from the education of students.

Increased Costs

If individual faculty members are teaching fewer classes, then unless class sizes increase, more instructors are needed. The hiring of additional instructors increases costs, so from a financial standpoint, the most significant consequence of lower teaching loads is higher costs per student. As Dennis Jones and Jane Wellman point out, "states, and students -- pay for this, so costs per student increase even as the amount of faculty time available for teaching goes down."[359]

We estimated the amount by which lower teaching loads increased costs by utilizing a Department of Education survey. The survey findings indicate that teaching loads dropped from an average of 3.3 courses per term in 1987-1988 to 2.1 in 2003-2004. Using the results for specific sectors, and assuming that the average class size stayed constant, we estimate that the reduction in teaching loads resulted in higher costs per student of $4,240 at private four-year colleges and $2,850 at public four-year colleges.[360] In other words, had the teaching load at

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[359]Dennis Jones and Jane Wellman, "Bucking Conventional Wisdom College Costs," Inside Higher Ed, 20 July 2009.
[360]Figures are in constant 2009 dollars. Each sectors' average course load was used as an estimate for each school in that sector. We assumed that each FTE equivalent student took 4 classes per term in both 1987-1988 and 2003-2004, and used the ratio of students to total classes to find the number of classes needed in 2003-2004. From this number, we then subtracted the number of classes taught by part time faculty and TA's, assuming that part time faculty taught 1.8 classes (from the same Dept of Education survey), and that TA's taught .5 classes. We then compared how many faculty would be needed under the 1987-1988 and the 2003-2004 course loads, and multiplied by the average salary and benefits of full time instructional faculty. This was then converted into a per student figure, and adjusted for inflation using the CPI-U.

four-year private schools remained at its 1987-1988 level, costs per student would have been $4,240 less in 2003-2004 than they actually were.

De-emphasis on Teaching Hurts the Student

We know that the de-emphasis of teaching has shifted the discretionary time of professors towards research and other non-educational activities in which personal and professional rewards are greater. What we don't know yet is what impact this has on students.

There are a number of mechanisms by which student learning could be harmed by these trends. The first is that good teachers are at a disadvantage in a tenure system where tenure is awarded for research. Tenure as currently implemented has the counterintuitive result of ensuring that permanent teaching jobs go to individuals who do good research and usually have a preference for research over teaching, while simultaneously ensuring that individuals with a preference for teaching over research are ineligible for jobs whose ostensible primary responsibility is teaching. This reality could negatively affect students if good teachers self-select out of the profession or are weeded out by the tenure process.

A second mechanism by which students could be harmed is that when professors continue to teach while largely preoccupied with research, students lose out because those professors spend time that could otherwise be spent planning courses, hosting office hours, etc. on their research. Madhukar Vable, a professor at Michigan Technological University stated that

If you can bring research into your classrooms, that adds excitement to your teaching. But unfortunately it's become structured as an either-or proposition. To spend time in the lab, you don't have time to do teaching. And that, to me, is where the problem is.[361]

Another way in which students could be harmed is the increasing practice of hiring non-tenure track adjuncts to teach the classes that many tenured professors never wanted to teach to begin with. While effective as a cost-saving measure, this model is widely believed to be unstable. Adjunct professors typically receive only a few thousand dollars per course, leading many to take on a large number of courses to try to make ends meet. In addition, some argue that the average quality of teaching by adjuncts is lower. As Charles Sykes, author of the book *ProfScam: Professors and the Demise of Higher Education* puts it:

In pursuit of their own interests—research, academic politicking, cushier grants—[professors] have left the nation's students in the care of an ill-trained, ill-paid, and bitter academic underclass.[362]

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[361] David Glenn, "Charging That His College Undervalues Teaching a Professor Strikes Back," Chronicle of Higher Education, 14 March 2010.
[362] Charles Sykes, ProfScam: Professors and the Demise of Higher Education, 1988.

It should be noted that there is considerable debate over the relative quality of adjunct teaching, with recent research indicating that students learn no less when primarily taught by adjuncts.[363] Either way, however, charging students thousands of dollars to be taught by graduate students and adjuncts and using the savings to do more research by tenured professors is a questionable practice, to say the least.

All indications are that course loads have continued to fall since the last survey in 2003-2004. In addition, professor salaries increased at an average rate of more than four percent annually between 1999 and 2007,[364] and tuition continues to increase faster than inflation. In other words, we can conclude that professors are quite literally getting paid more to do less (at least as far as instruction is concerned[365]), while students are paying more and getting less.

Solutions

Increasing teaching loads will be difficult to accomplish. Government-imposed mandates on teaching loads would probably be much too heavy handed, so any changes will need to be made voluntarily by the institutions themselves (though this doesn't mean that the government couldn't provide incentives that would encourage colleges to choose higher teaching loads). This needed change is problematic because with the current state of affairs, it is in the interests of colleges and universities to reduce teaching loads, not to increase them. This situation means that mere publicity or attitude shifts will not reverse the trend; something fundamental needs to change to give universities an incentive to increase teaching loads. Since the primary driver of lower course loads is the need to do more research, reducing the need to do more research will at least arrest the trend, and perhaps even lead to a reversal.

Increase Institutional Rewards for Teaching Relative to Research

There are three situations that could lead institutions to choose to focus more on teaching. The first is financial survival. Lindenwood University provided an excellent example when it initiated a major turnaround in the late 1980's after nearly shutting down.[366] Lindenwood, a mid-size private university, currently costs $13,260 per year for tuition and fees, which is a fraction of the cost of most comparable schools.[367] This difference in cost can be at least partially attributed to Lindenwood's high teaching loads, which were increased during its 1989 reformation. Dr. Edward Morris, a Lindenwood dean, describes his teaching responsibilities at the school:

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[363] Les Bolt and Hara Charlier, "Impact of Adjunct Instruction Level on Subsequent Community College Student Success," 2010.

[364] United States, National Center for Education Statistics, Digest of Education Statistics (Washington: NCES, 2008).

[365] They are of course doing more research, but the need for much of that research is debatable to say the least. See Chapter 10: "Eliminate Excessive Academic Research" for more discussion of this issue.

[366] Edward Morris, The Lindenwood Model (St. Charles: The Lindenwood Press, 2007).

[367] Morris, The Lindenwood Model (St. Charles: The Lindenwood Press, 2007).

[When] asked how I spend my time, I explained that, like the great majority of Lindenwood professors, I was in the classroom about 15 hours each week, teaching five separate classes of between 25 and 35 students.[368]

Fifteen hours per week spent in the classroom is extremely high when compared to the rest of academia, equating to five three-credit-hour courses. The average professor at a private liberal arts school in 2004 taught a mere 2.4 courses per semester, well below Lindenwood's 4 or 5 course load. Lindenwood serves as an excellent model for what ought to be expected of professors in higher education.

A second situation that could provide colleges with an incentive to set higher teaching loads would be changes in their state funding. For instance, if a state decides that teaching loads are too low at some of the institutions it provides appropriations to, it could simply lower appropriations to the level that would cover expenses if the college adopted more responsible teaching loads.

The third situation that would provide increased incentives for teaching relative to research would be the establishment of an alternate assessment scheme for colleges. Because the quality of teaching is not measured but the quality of research is, institutions are evaluated primarily based upon their research record. This system is problematic, since the overwhelming purpose of most colleges is teaching. In effect, we are forcing all colleges and universities to compete based on research, even though their main function is to teach. Needless to say, this puts universities without massive endowments at a distinct disadvantage. However, if methods of evaluating the quality of teaching were devised, many colleges that are rated low now due to lack of research prowess could focus more exclusively on teaching, where they very well may excel.

Increase Faculty Rewards for Teaching Relative to Research

The primary method of deemphasizing research for faculty is by reforming tenure to put less weight on research, which is currently the most important factor at the majority of schools. There are three main ideas for how to reform tenure to put more emphasis on teaching.

The first is to establish a tenure track for those specializing in teaching. These individuals would be eligible for tenure, just like their more research-intensive counterparts, but they would be judged based on their teaching record and would have higher teaching loads (since they wouldn't need to devote so much time to research). A second idea to limit the importance of research is for university tenure committees to limit either the number of publications or the number of pages that would be considered when evaluating a candidate for tenure (this idea is discussed in more detail in the chapter focusing on research).

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[368] Ibid.

A third option that would increase the rewards for teaching is to provide substantial awards for good teachers. Some schools, like the University of Oklahoma, have started offering cash incentives to professors with high marks on student evaluations at the end of the term. Professors at Texas A&M University can earn bonuses ranging from $2,500 to $10,000 based on evaluations at the end of the term.[369] While not sufficient to reverse the importance placed on research by faculty, if done for big enough stakes and on a wide enough scale, these types of awards could go a long way in changing the indifferent/negative views that typically accompany teaching awards.

Conclusion

The widespread and dramatic decline in course loads over the past few decades have contributed significantly to the rise in the costs of college as well as the public perception that the productivity of higher education is diminishing. It is also plausible that the quality of teaching has declined. The continual drift in professor focus from teaching to research has been a costly one for students and taxpayers alike.

As a society, we cannot afford for the trend of lower teaching loads to continue. To head off draconian mandates, academia would be well advised to devise methods of arresting and reversing the trend itself. As an anonymous institutional financial officer said:

> [W]e need to find a way to get the whole faculty to say, "How are we, together, going to engage in a conversation about how to increase productivity without screwing up the pretty good thing we got going right now? Because if we don't come up with an idea, somebody's going to tell us how to do it and we're probably not going to like it."[370]

The incentives for both institutions and faculty need to be altered to reward teaching more and research less. For institutions, this would likely require either their funding from government to be related to teaching loads, or for the reputation of universities to be based on teaching rather than research. For faculty, tenure reform - either in the form of a dual tenure track for teaching specialists, or a limitation of the scholarly work considered during reviews - is needed to reduce the importance of research and increase the emphasis on teaching. Teachers need to spend more time in the classroom if we hope to be able to continue to finance higher education for the masses.

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[369] Katherine Mangan, "Professors Compete for Bonuses Based on Student Evaluations," The Chronicle of Higher Education, 30 January 2009.

[370] Public Agenda. *Campus Commons? What Faculty, Financial Officers and Others Think About Controlling College Costs*, 2009.

#15: Encourage Timely Degree Completion

A major problem facing today's higher education institutions is that many students are not graduating on time. This problem is not only prevalent in undergraduate programs, but has a large effect on graduate programs as well. While recent trends give us some reason to be optimistic, the average time to complete a four-year degree is still 55 months[371], a full seven months longer than the name would imply. With a college school year lasting approximately nine months, in reality, students are taking nearly a full fifth year of classes to achieve their four year degree. With only 39 percent of students graduating on time, a serious effort should be made to provide incentives to students and institutions to increase on time rates while maintaining a high quality of education. Figure 15.1 shows the distribution of four-year degree recipients by time-to-degree.

Figure 15.1: Time Between Post-Secondary Entry and Degree Completion

[371] United States, Department of Education, "Time to Bachelor's Degree Completion," The Condition of Education (Washington: Department of Education, 2003) 46.
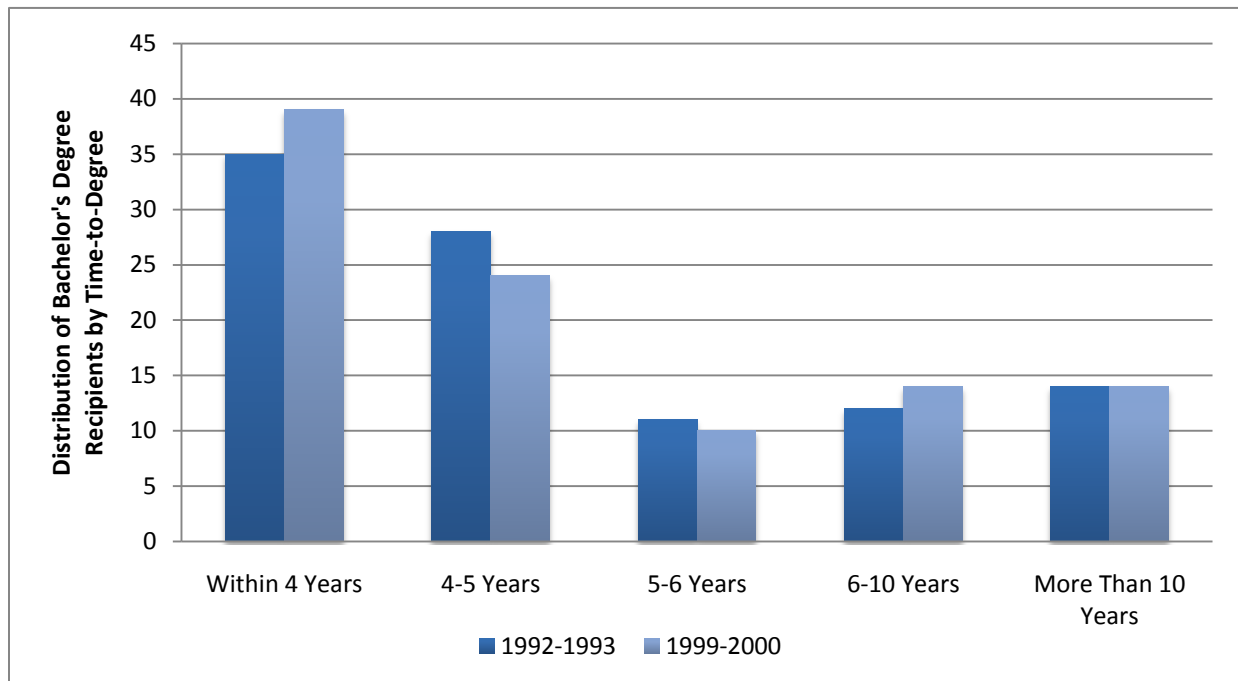
SOURCE: NATIONAL CENTER FOR EDUCATION STATISTICS, "THE CONDITION OF EDUCATION" 2007

What We Have to Gain

A recent book, *Crossing the Finish Line,* observes that "students who take longer to graduate use more of their own time and resources (including family resources)" and notes that "society at large is absorbing much of the cost of increased time-to-degree through the tax dollars that fund these public institutions."[372] Thus, the goal of a higher rate of on-time completion of higher education degrees will benefit the student, the institution, as well as the government, and depend on a joint effort from all three parties. The student's gain is primarily financial. With tuition costing an average of $6,585 per extra year,[373] students often take on additional debt to pay for this extra time. Not to mention foregoing a year's worth of wages, a huge opportunity cost for students. Moreover, delayed graduation can have undesirable career consequences, especially at the graduate level. A Washington University study has shown that when employers, especially in academia, look into hiring new staff, an extended time to graduation is viewed negatively.[374] By prolonging the process of earning a degree, a student may forfeit better job opportunities, which could lead to lower financial compensation and benefits.

The taxpayer and society as a whole also benefit from on-time graduation. Taxpayers currently pay approximately $5,409 per student per academic year.[375] With 9.1 million students currently enrolled in undergraduate programs[376] and 61 percent[377] of them likely not to graduate on time, a huge economic burden is being placed on the shoulders of the taxpayers. At current costs, over $7.5 billion[378] could be saved if all students graduated on time each year. There is also a "crowding out" effect that is more difficult to quantify. Since there are only so many students that a school can handle at once, students who stay in school beyond four years are preventing other students who might have taken their place from enrolling.

The continued presence of students beyond the expected date creates problems for the institutions. Inaccurate predictions of student turnover will make forecasting and budgeting for the future difficult. Delayed graduation also swells the size of base-level classes because many late graduates change degree programs mid-stream or take lower level classes to fill the full-time requirements. By adopting a system that encourages and supports on-time graduation, the administration at universities will be able to more accurately gauge future monetary,

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[372] William Bowen et al, <u>Crossing the Finish Line: Completeing College at America's Public Universities,</u> (Princeton NJ: Princeton University Press, 2009).

[373] "CollegeBoard" <u>Collegeboard</u>, 25 May 2010, <http://www.collegeboard.com/>.

[374] "Does Time-To-Degree Matter? Social Science Ph.D.'s – Five + Years Out," (University of Washington, 2007-2009).

[375] United States, Department of Education, "Contexts of Postsecondary Education," <u>The Condition of Education (2007)</u> (Washington: Department of Education, 2007).

[376] American Association of Community Colleges – 4 year enrollment only

[377] United States, Department of Education, "Time to Bachelor's Degree Completion," <u>The Condition of Education</u> (Washington: Department of Education, 2003).

[378] 9.1million x 61% = 5,551,000 (not graduating on time) x $5,409 = $30,025,359,000 / 4 = $7,506,339,750

faculty and infrastructural needs, which will help to prevent misallocation of funds and may reduce unnecessary costs, allowing for a more efficient system.

How to Encourage On Time Completion

There are certain steps the institution and the government can take to encourage students to make efficient use of their college time. However, there are also steps students can take to move the process of graduation forward. It is, after all, largely up to the students whether they graduate on time or not.

Student-Level

The educational and political institutions can set up the incentives to promote on-time graduation, but ultimately the decisions made by individual students are the most important factor in determining on-time completion rates. A change in mindset and forward planning can make the difference between graduating in four years and graduating in five or six years. With two separate but intertwined alterations, the potential positive effect on the time it takes to graduate can be substantial.

Changing Majors – A major hurdle to graduating on time is the habit of many students of changing majors. Approximately 60 percent of undergraduate students change majors[379] at least once, with many students changing majors multiple times. There are circumstances where changing one's major is necessary and a bit of indecision is to be expected for young people. In fact, with the exception of some technically specific careers such as nursing, engineering and accounting, it is often more important to just get a degree, as opposed to having a specific major.[380] Policies that reduce the prevalence of switching majors could shorten the time required for a degree.

Changing Attitudes – There is a growing attitude among students that graduating in five or more years is the norm and not a big deal. This mindset fosters an attitude of postponement and mediocrity. This additional year may provide ample opportunity to enjoy the non-academic pursuits of college, but the increased debt can have long-term consequences. The "real world" can often be intimidating for outgoing students, but facing it cannot be delayed forever. Students' attitudes towards college needs to change to see a formal education as a means to an end, not an end itself.

Institutional Level

Universities can provide incentives to assist students in graduating on time in several ways.

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[379] "Five Signs You Should Change Your Major," Young Money Magazine, 2006.
[380] "Do Majors Matter?" Black Issues in Higher Education, 2000.

<u>Changes to Courses</u> – When courses are required, they should be readily available. It is a deterrent to on-time completion if core courses are offered in limited quantities and at inconvenient times. Universities should consider revising courses to align them with the vision of giving a quality education to students in a reasonable time. When two years are set aside for a rigid set of general education classes, they can become a stumbling block for students, especially if a significant amount of time is used on courses that will be of no benefit to the student in choosing a major or helping in future courses. This is especially true for transfer students, who may have come from a college that had different requirements.

<u>Cap Enrollment to Encourage Timely Completion</u> – Institutions could alter their enrollment policies to encourage departments to graduate their students on time. It is also possible to formulate policies that will encourage on time completion support from the faculty level. An example of this policy was introduced by Harvard at the PhD level. To combat the problem of PhD candidates taking more than 10 years to complete their program, Harvard would not allow programs to have new students until older students completed their program. The results were nearly instant. By the time the policy took effect, degree completion rates had increased approximately 25 percent in the humanities department. Professors began encouraging and working more directly with students to assist in on time completion.[381] A similar program should be instituted to hold departments and individual professors responsible for the timely success of their students.

<u>Remove Credit Cap After Freshmen Year</u> – The current practice of limiting the amount of hours that can be taken by students unless they gain administrative permission is well-intentioned but can often lead to a delay in graduation. This is especially true for students who double-major or take Honors courses, but wish to graduate on time. Most colleges have the limit set at 18 or 21 credit hours to prevent students from burning themselves out or over-committing themselves. This may be necessary for first year students, but, after a year, students should be informed enough to make that decision on their own. Increased red tape and bureaucracy for class registration of this kind discourages hard-working students and prolongs the process of meeting graduation requirements. At the very least, students should be able to consult with a trusted professor in their field and be allowed to enroll in more classes under the professor's guidance. This would free the students to proceed at their own pace while reducing administrative hassle.

<u>"Full time" does not equal on-time graduation</u> – The concept of full-time status at a university is often viewed as a minimum requirement for graduation, but in reality it does no guarantee on time graduation. Universities should help students focus on ensuring that their schedule of courses will help them fulfill the requirements for graduation.

<u>Establish and Encourage Use of Exploratory and Guidance Programs</u> – Programs should be established and maintained that help guide students into their areas of relative strength.

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[381] Scott Jaschik, "How to Cut Ph.D. Time to Degree", <u>Inside Higher Ed,</u> 17 December 2007.

Guidance counselors, information sessions, and even general education and survey classes are not as effective as they could be when they are not properly utilized by the students.

Increase Use of Facilities – Many universities have classrooms that are dormant throughout most of the week, increasing the costs of maintenance and overfilling classes during peak hours. This topic is discussed in more detail in the facility use chapter, but better facility usage is important in encouraging on time graduation. Through the implementation of discounts for summer or evening courses, the classrooms can be utilized and students will be more inclined to fill gaps in their requirements outside of the normal semester. Currently students are usually forced to compete with each other for required courses at traditional times of the day, such as Monday – Thursday, 10am – 2pm. If universities encouraged class use at less popular times, then students who are able to would take advantage of this opportunity to reduce scheduling conflicts. This would free up class space and reduce the number of students who stay enrolled for an extra year or more due to missing core course requirements. A similar response could be expected if more classes are offered (perhaps at discounted rates) on Fridays. Although Friday classes are often unpopular, with the proper incentives students could take Friday courses that will benefit both the school, by putting the classrooms to use, and the student, through greater opportunities for on time completion.

Government Level

In cooperation with institutional changes, governmental policies and priorities should also change. By providing the right incentives to students and institutions, the public sector can help encourage on-time graduation.

Tie Institutional Aid to On Time Graduation Rates – Government agencies should place restrictions on aid given to institutions who fail to graduate their students on time. Currently, colleges can receive state funding for the same student for as long as they are enrolled. If a cap of four or five years of full time attendance was put in place, the colleges would have an incentive to ensure that students are progressing towards their degree.

Incentivize Students – The government could also provide incentives to encourage students to graduate on time**.** For instance, it could limit aid to a specific length of time or number of credits, which would discourage protracted college attendance. Another option would be to restrict in-state tuition to students who exceed the required number of credit hours for a degree by a significant amount. Legislation with this goal in mind has been introduced in Virginia by Delegate David Albo.[382] State and federal governments can also provide other financial incentives to students who graduate on time or early. Chris Saxman, a delegate in the Virginia state legislature, attempted to pass a bill that would provide a grant to students who graduate from college early, enroll in a graduate program and agree to work in Virginia. While this may have been too restrictive, the idea is intriguing. The financial support structure of

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[382] Brian Mitchell, "Delegate: Increase Tuition for Slowpoke in-state students," DailyProgress.com, 28 January 2009.

government funding for students must be changed. Government funding must be limited to the number of credits needed for completion of a program. Government funding should be structured to provide an incentive to graduate on time, rather than to stay in college for as long as possible. It is often the case that life outside of college seems too hard and the ability to postpone "the real world" appeals to many students, especially during a difficult economic time. Government policies should not be subsidizing such decisions.

Conclusion

Rising per-semester costs continue to drain individuals, institutions, and governments of scarce funds. In order to help rein in these costs, students need to be encouraged to graduate on time, instead of postponing life after college. Huge improvements could be made by following the three pronged approach of student, institutional, and government changes. It is going to take cooperation on all levels to reach the goal of reining in enrollment time and graduating students on time. All parties must work to achieve this goal, but all parties stand to gain.

Section Four: Exploit Technology to Reduce Costs

#16: Move More Classes Online

Higher education has a history of adapting technologies that are flexible enough to fit into the existing system, while ignoring or pushing aside technologies that are not.[383] Online education has been earmarked for the latter. Critics believe that the new technology will not "penetrate the core of schooling,"[384] often making claims that online education is less effective than expensive face-to-face education. The evidence indicates that such claims are faulty. Technology proponents, on the other hand, envision the cessation of a long lasting tradition of the physical classroom.

Online education provides an alternative to the classroom education model that has persisted for centuries – an approach in which the teacher "is an expert whose job is to transmit that expertise to large groups of students through lecture, recitation, drill, and practice," and is guided by anachronistic technologies such as the textbook, blackboard, overhead projector, copy machine, pen and paper.[385] This sacrosanct model of education whose "idea of school as a building, with kids and teachers always concentrated in the same physical place"[386] now includes teaching aids such as computers and projectors that permit the showing of prerecorded lectures or the display of PowerPoint slides. While such technologies have allowed colleges to implement auditorium-style classes that have helped them to achieve economies of scale in teaching some introductory courses, it is "simply more of the same teacher-centered past."[387]

Today's students grew up with the internet at their fingertips and mobile devices in their pockets. They are tech savvy, as is the world around them. With the antiquated lecture model still prevalent in higher education, is it any wonder that students increasingly cut class, fall asleep in the back of the room, or worse, drop out in droves? As some technology proponents argue, "Trying to prepare students for the 21st century with 19th-century technology is like teaching people to fly a rocket ship by having them ride bicycles."[388] Higher education needs to undergo a change in which technology is utilized not only to reduce costs and improve

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[383] Allan Collins and Richard Halverson, "Rethinking Education in the Age of Technology: The Digital Revolution and Schooling in America," (New York: Teachers College Press, 2009).

[384] Ibid.

[385] Ibid.

[386] Terry Moe and John Chubb, "Liberating Learning: Technology, Politics, and the Future of American Education," (San Francisco: Jossey-Bass, 2009).

[387] Curtis Bonk, "The World is Open: How Web Technology is Revolutionizing Education," (San Franciso: Jossey-Bass, 2009).

[388] Allan Collins and Richard Halverson, "Rethinking Education in the Age of Technology: The Digital Revolution and Schooling in America," (New York: Teachers College Press, 2009).

productivity, but also to engage students in learning. Online learning ostensibly presents such an opportunity. The emergence of primarily online universities such as The University of Phoenix, Britain's Open University, and the University of Maryland's University College, which enroll more than 700,000 students combined, demonstrates the potential online learning has to provide affordable access to postsecondary education.

The Benefits of Online Learning

According to higher education management consultant Keith Hampson, "Except for the occasional ambitious project, online learning at traditional colleges and universities in North America has had limited success breaking from the organizational (and yes, educational) conventions of classroom education." If higher education is able to overcome the implementation problem that Hampson attributes to an outdated organizational and business model,[389] then online education has the potential to confer a number of benefits over traditional face-to-face education. These benefits fall into three main categories: cost reduction, access expansion and product improvement.

Cost Reductions

First, online education presents the opportunity to significantly reduce the cost of college education in the long run by substituting technology for labor and physical facilities. The current residential model of college is a centrally-located campus that requires hordes of employees and a multitude of expensive facilities to produce educational services. Online education presents an opportunity to substitute technology for capital and labor into the higher education production function.[390] This will enable colleges to reduce costly face-to-face instruction and other non-instructional services, as well as overcome constraints of time and capacity, all of which contribute to the rising production costs in higher education.

Colleges continually expand their scope by adding new programs and courses. This requires an increased number of instructors to teach the classes, as well as additional classroom and office space, which adds to operational expenses such as maintenance and utilities. Moving more courses online would alleviate many of the costs associated with these problems by decentralizing the campus classroom and moving it to the internet, thus decreasing the physical capacity needed for classrooms and offices, and the operational expenses related to maintaining these facilities. Online courses still require an instructor or facilitator, but this person, as well as the student, would not need to gather on campus in an institutional facility at a specific time. This would effectively reduce capacity and time constraints, as well as the costs of luring qualified instructors to sometimes remote campus locations. Rather, course facilitators

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[389] Keith Hampson, "Part 1: Management Innovation and Online Higher Education," <u>Higher Education Management Group</u>, 16 May 2009.

[390] Production function is an economic function that specifies output for all combinations of inputs.

and students could reside anywhere with internet access, eliminating the costs associated with relocation to campus.

With the residential campus model, colleges strategically bundle a plethora of additional non-academic fees into the price that students are ultimately charged. These fees include, but are not limited to charges for recreational facilities, athletics, entertainment, health insurance, prepaid legal services, computer labs, room and board, and diversity programs. Each program or service provided requires both onsite facilities and labor resources to function, adding to the cost of college. With online education, students could choose not to reside on campus. With a larger off-campus population, colleges would be encouraged to make such service fees optional and thus adjust their tuition structure to reduce the cross-subsidization of activities and facilities that are not being utilized by online students.

The state of California's fiscal nightmare prompted University of California at Berkeley law school dean Christopher Edley Jr. to suggest that the California system of higher education develop a cyber-campus because "online learning could save the California dream of a top-notch education for all" with the only possible drawback being that "online students might miss the keg parties, but they would have the same world-class faculty, UC graduate student instructors, and adjunct faculty." The continually rising costs of college in the U.S. could be viewed as a crisis in which "the best offense…is often innovation." [391]

Reducing all of these expenses will inevitably reduce the marginal cost of instruction, a savings which could then be passed on to the student. The National Center for Academic Transformation (NCAT) has a course redesign model for the implementation of information technology into college courses. The NCAT project has enabled capacity expansion that allows for increased enrollment and access at a reduced marginal cost.[392] In addition to the evidence provided by that project, the cost savings of online education are evident by examining providers such as East Carolina University, which offers online courses for $100 per semester credit hour,[393] and StraighterLine, which offers unlimited online courses for $99 per month plus $39 per course enrolled.[394] Such relatively low-priced online courses are indicative of the potential to substantially reduce the cost of instruction.

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[391] Josh Fischman, "A California Dream: Saving State Universities with an Online Campus," The Chronicle of Higher Education, 2 July 2009.

[392] Carol Twigg, "Course Redesign Improves Learning and Reduces Cost," The National Center for Public Policy and Higher Education, July 2005.

[393] "Options for Adult Learners," East Carolina University, <http://www.ecu.edu/cs-acad/options/cost.cfm>.

[394] "Costs," StraighterLine, <http://www.straighterline.com/costs/>.

Access Expansion

The second benefit is that online education presents an opportunity to expand access to higher education. Many students are currently constrained financially in their choice of schools due to the proposition of moving out of their parent's home, giving up their job, or sacrificing familial obligations in order to attend class on weekday afternoons. Such students are often also geographically limited in their educational options by what the local community college offers, or in the worst case scenario, turned away from college altogether due to overcrowding at the only local option. According to Eduventure's Richard Garrett, residents in less populated communities are more likely to prefer online study, as it provides them with increased choice.[395]

As discussed above, online courses can be provided at a significantly reduced marginal cost and students can attend from anywhere with access to the internet, reducing both the financial and geographic constraints of college. It is for these reasons that the for-profit sector has experienced a rapid increase in market share in recent years, as such providers often employ distance learning opportunities that meet the needs of an underserved segment of the population (note: the for-profit sector maintains 42 percent of the online student market).[396] Online education presents a financially viable solution to increasing access to postsecondary education, as students can "attend" class when their schedule permits, from virtually anywhere in the world, at a much lower cost than traditional brick and mortar colleges.

Product Improvement

Lastly, online instruction is an innovative approach to education that has the potential to improve learning outcomes. The evidence, which will be discussed in the challenges section below, suggests that the online medium does not detract from the educational outcomes of students with the motivation to learn and may in fact improve outcomes, as online courses can be customized to adapt to the pace of each student and provide valuable feedback to the individual. In essence, information technology presents an opportunity to individualize learning in a manner that overcomes the shortcomings of traditional classrooms that are partially attributable to larger class sizes and the growing demand of faculty time for research and service.

The potential for online education to make college more affordable, more accessible and improve the quality of education is increasingly realistic. The NCAT course redesign project provides supporting evidence that "transformed versions of online, blended and e-learning hold the potential to be essential elements of the reimagining of American higher education, post recession, to make it sustainable worldwide," with opportunities to "reduce the total cost of

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[395] Richard Garrett, "Richard Garret of Eduventures: Developments in Online Higher Education," Higher Education Management, 2 June 2009.
[396] Marc Parry, "New Report: For-Profits gobble Up More of Online Market Amid Recession," Chronicle of Higher Education, 18 December 2009.

achieving competence objectives and improve the success of learners by providing a range and mix of options that meet their personal and financial needs."[397]

The Growth of Online Education

Online education arguably began in 1993 thanks to Dr. Graziadi who experimented with a project called VICES to deliver a lecture via computer and to disperse notes, tutorials and assessment tools by electronic means.[398] Since Dr. Graziadi's experiment, online education has grown substantially. An estimated 4.6 million students–or a quarter of total enrollment–were enrolled in at least one online course during fall 2008, an increase of 17 percent from the previous year. The number of students taking an online course increased by 188 percent during the six-year period between 2002 (1.6 million) and 2008 (4.6 million), a compound annual growth rate of 19 percent, while the overall enrollment in higher education grew at an annual rate of only 1.5 percent.[399]

Students enrolled at institutions granting associate's degrees, which comprised about 37 percent of the total postsecondary education market, accounted for more than 50 percent of all online students in 2007.[400] This means that approximately 30 percent of two-year students took an online course in 2007, whereas only about 17 percent of all other students did so. The greater use of online courses at two-year schools allows colleges to better adapt to their typically more volatile enrollment trends. In addition to single courses being offered online, entire academic programs taught online are beginning to emerge. The University of Phoenix offers more than 100 online degree programs, ranging from associates to doctoral; in a variety of fields that includes arts and sciences, business, criminal justice, education, human services, health care, psychology and technology. [401] The University of Maryland's University College offers numerous online undergraduate and graduate degree programs in traditional academic fields, as well as specialized degrees in business, health care administration, information and technology systems, teacher education, legal studies and criminal justice.[402]

Limitations and Challenges Facing Online Education

Despite the recent growth and potential benefits of online education, it is not without limitations or challenges. There are several categories of challenges, including skepticism about quality and access, political & regulatory barriers, technical issues and costs.

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[397] Donald Norris, "Online Higher Ed: A Strategic Issue," Higher Education Management Group, 30 November 2009.

[398] William Graziadei, "Teaching and Learning via the Network," Coalition for Network Information, 1993.

[399] Elaine Allen and Jeff Seaman, "Learning on Demand: Online Education in the United States, 2009" (Babson Survey Research and The Sloan Consortium, 2010).

[400] Elaine Allen and Jeff Seaman, "Staying on Course: Online Education in the United States, 2008," (Babson Survey Research and The Sloan Consortium, 2008).

[401] "Degree Programs," Phoenix University, <http://www.phoenix.edu/programs/degree-programs.html>.

[402] "Programs," University of Maryland University College, <http://www.umuc.edu/programs.shtml>.

Skepticism about Quality— The Social Interaction Argument

Many skeptics of online learning espouse the view that traditional education is more effective than online, presumably because greater value is placed on face-to-face instruction than the actual content being delivered. This *social interaction argument* assumes that physical classroom interaction is needed to engage the students in learning and that this experience is not replicable in a virtual classroom—even ones that makes use of advanced communication tools such as email, forums and social networking that encourage even bashful students to participate. There is a growing body of evidence that suggests this argument is misguided—that online education is as effective if not more effective than traditional face-to-face instruction.

NCAT, as mentioned above, has developed a course redesign model that stresses the implementation of information technology into an institution's 25 most common courses. It has been tested at 30 institutional locations thus far, with significant improvements in student learning, retention, and course completions. In fact, improvements in student learning were reported by 25 of the 30 projects, with the remaining 5 indicating equivalent learning; and 18 of 24 institutions that measured retention reported "a decrease in drop-failure-withdrawal rates, and an increase in course completion rates."[403] A similar effort is underway at Carnegie Mellon Universities' Open Learning Initiative (OLI), which has developed a prototype for how online courses can be designed to respond to individual student needs. Early testing of OLI suggests that, "students in a traditional classroom introductory statistics course scored no better than similar students who used the open-learning program and skipped the three weekly lectures and lab period,"[404] implying that online courses are just as effective as traditional ones, with room for improvement. The positive results reported by NCAT and OLI are indicative of the overall effects of online education as reported by the Department of Education and the National Survey of Student Engagement (NSSE).

The Department of Education (ED) released a meta-analysis in 2009 that examined more than 1,000 empirical studies of the effectiveness of online learning, finding that "students who took all or part of their class online performed better, on average, that those taking the same course through traditional face-to-face instruction," with the effect being greater for blended (online combined with elements of face-to-face) than for purely online instruction, relative to face-to-face instruction only. [405] The report noted that "online learning is much more conducive to the expansion of learning time than is face-to-face instruction." Online learning can be enhanced by giving learners control of their interactions with media and prompting learner reflection.[406] The results of the ED report were enough to persuade some skeptics, such as University of

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[403] Carol Twigg, "A course Redesign Improves Learning and Reduces Costs," The National Center for Public Policy and Higher Education, June 2005.

[404] Steve Kolowich, "Hybrid Education 2.0," Inside Higher Ed, 28 December 2009.

[405] United States, Department of Education, "Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies," (Washington: OPEPD, 2009).

[406] Ibid.

Wisconsin sociologist Sara Goldrick-Rab, to conclude that "I'm a bit more convinced that online ed is a reasonable way to move forward"[407]

The 2008 National Survey of Student Engagement (NSSE), which randomly surveyed nearly 380,000 students at 722 U.S. baccalaureate-granting institutions, found that "courses delivered primarily online seem to stimulate students' level of intellectual challenge and educational gains," adding that "relative to classroom learners…online learners reported more deep approaches to learning in their coursework." The NSSE report did note that students who pursue online courses may be those "who embrace the spirit of independent, student centered, intellectually engaging learning," with online learners more likely than their counterparts to very often "participate in course activities that challenge them intellectually and to discuss topics of importance to their major." [408]

Skepticism about Access – The Digital Divide Argument

Some critics of online education suggest that low-income and rural students may not have the same access to computers or the internet as students from more affluent families and thus would be excluded from benefiting from online education – this line of reasoning is often referred to as the *digital divide*. This argument has becomes less substantiated as the price of computers continues to fall and access to the internet continues to expand. A 2008 Nielson report indicated that 80.6 percent of all households have a computer in their home, with more than 90 percent of those also having access to the internet in their homes.[409] Additionally, the digital divide argument against online education assumes that the current higher education system is accessible to low income and rural families. With the rising cost of college, this becomes less true every year as tuition inflation continues to outpace general price and wage increases. The fact that access to computers and the internet continues to grow coupled with the fact that online courses can be provided at a much lower cost than face-to-face courses, suggests that online education has the potential to increase college access for low-income and rural students, rather than exclude them as the digital divide argument claims.

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[407] Sara Godrick-Rab, "Is It Time to Get on Board with Online Education?" The Chronicle of Higher Education, 23 August 2008.

[408] "Promoting Engagement for All Students: The Imperative to Look Within," National Survey of Student Engagement, 2008.

[409] The Nielson Company, "An Overview of Home Internet Access in the U.S.," December 2008.

Faculty Resistance

Because the faculties at many colleges have a significant say in governance issues, faculty resistance is a significant barrier to online education. According to the results of a national faculty survey, faculty opinion varies regarding online learning, with significant resistance often coming from those who have never designed or taught such a course:

"Faculty with no online experience remain relatively negative about online learning outcomes," whereas faculty with "experience developing or teaching online courses have a much more positive view towards online instruction than those without such experience." [410]

Among faculty who have never taught or developed an online course, more than 80 percent perceive online learning outcomes as inferior or somewhat inferior to face-to-face instruction. Meanwhile, of the faculty who have never taught or developed an online course, around 42 percent have recommended an online course to a student or advisee, presenting somewhat of a paradox: why would they recommend a product believed to be inferior to a student whose best interests they are supposed to serve?[411] This suggests that such faculty members are expressing a personal bias due to a perceived threat to their job or unwillingness to learn a new technological method of teaching, rather than an opinion based on pragmatic or empirical evaluation. Instructors who have embraced the technology appear to be having success with it, believing that online education offers students a number of benefits, including flexibility as well as the potential to improve learning outcomes.

Political & Regulatory Action

Political and regulatory actions pose a barrier to the proliferation of online education, as a few recent cases illustrate.

Accreditation is one of the biggest regulatory barriers hindering the growth of online education due to its tendency to promote conformity in higher education. Students are generally only willing to take courses that will lead to credit and/or a degree, and courses must be taken at an accredited institution in order to count towards a degree. StraighterLine, a private firm that specializes in offering very low cost introductory courses online for as little as $99 a month, has been battling to overcome the accreditation barriers since its inception. Because it does not fit the traditional definition of an institution, StraighterLine is unable to obtain accreditation for its courses, which have been independently reviewed and found to be of high quality. It thought that it had found a loophole in the system by partnering with accredited institutions such as Fort Hays State University and Grand Canyon University to offer its courses, but this partnership soon faced opposition from the accreditation community after faculty and student protests

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[410] Jeff Seaman, "Online Learning as a Strategic Asset," <u>The APLU-Sloan National commission on Online Learning,</u> August 2009.

[411] Ibid.

generated media attention. Several of StraighterLine's partnerships were terminated due to pressure from the accreditation associations, depriving both students and the institutions involved from benefiting from the innovative business model.[412]

Turf protection is a political game that has proved to be an impediment to online education. Morgan State University was able to use the political process to successfully block the University of Maryland's University College (UMUC) from offering an online doctorate program in education to students in the state of Maryland due to a civil rights precedent set by the Supreme Court which protects historically black colleges and universities from the competition of other public institutions for programs that it offers.[413] In other words, although out of state students can enroll in UMUC's program, any student living in the state of Maryland who wishes to pursue a doctorate in education is limited in choice to Morgan State University's program, and is not able to take advantage of an online program that may be better suited to their particular needs.

Costs Issues

Finally, there are cost issues to overcome for the successful migration to more online education. The costs associated with an effective system of online courses fall into one of two general categories –development and maintenance. First, as with the development of any new IT system, there are design and implementation costs that must generally be financed upfront. The resources necessary to develop and implement online courses must be paid prior to the benefits being realized. This entails an opportunity cost, as the resources necessary to finance the development of online course must be drawn from another use. One way to reduce such costs would be to partner with another college or private organization that has expertise in online course design and implementation. There are also maintenance costs such as security, software or hardware upgrades, and the occasional revision of course content. Most colleges and universities already incur similar costs with their faculty and IT employees, so the maintenance costs would likely require a reallocation of labor resources rather than additional costs.

Conclusion

The number of students taking courses online continues to grow, with nearly 4.6 million taking at least one course online in the fall of 2008. This is a positive trend for higher education, as the migration towards online education presents an opportunity to achieve goals which are almost universally agreed upon—reduce costs, improve learning outcomes, and expand access. Costs can be reduced by reducing the number of campus facilities needed to house courses and employees in favor of moving more classes online. Empirical evidence indicates that the

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[412] Kevin Carey, "College for $99 a Month," <u>Washington Monthly</u>, September/October 2009.

[413] Childs Walker, "Morgan Objects to PhD at UM," <u>The Baltimore Sun,</u> 14 September 2009.

learning outcomes of students taking courses online are comparable, and in some cases better than, traditional face-to-face courses. Online courses also present an opportunity to reduce the physical and geographic constraints to college access.

There are several very promising models for online courses currently on the market including the NCAT course redesign project, StraighterLine's $99 a month model, open access models such as MIT's Open Courseware and Carnegie Mellon' Online Learning Initiative, and the growing number of online programs offered by providers such as the University of Phoenix and University of Maryland University College.

While the potential benefits of online education are very attractive, there are challenges that need to be overcome before the full benefits can be derived. The biggest obstacles standing in the way are skepticism and resistance, political and regulatory action, and implementation costs. However, as Kevin Carey suggests, these barriers will fall as the public increasingly accepts online courses and bemoans rapid tuition inflation:

All it takes is for one generation of college students to see online courses as no more or less legitimate than any other—and a whole lot cheaper in the bargain—for the consensus of consumer taste to rapidly change. The odds of this happening quickly are greatly enhanced by the endless spiral of steep annual tuition hikes, which are forcing more students to go deep into debt to pay for college while driving low-income students out altogether.[414]

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[414] Kevin Carey, "College for $99 a Month," <u>Washington Monthly</u>, September/October 2009.

#17: Reduce the Cost of Textbooks

The public discussion over the continually rising costs of college is generally focused on tuition fees and sometimes room and board, but often neglects another significant cost –that of educational books and supplies – whose growth also adds to the financial burden of higher education. The price of educational books and supplies has increased at an average annual rate of 8.2 percent over the last decade.[415] According to the National Association of College Stores, the average undergraduate student spent $702 on required course materials in 2007-08.[416] Given the number of college students, this suggests that there is a $12.6 billion college course material market in the U.S.

Although new book sales accounted for the majority (68.5 percent) of textbook revenues in 2008, many students will buy used textbooks when available at a lower price.[417] While the majority (64 percent) of course material sales occurred at campus bookstores in 2008, students are increasingly entrepreneurial in pursuing alternative means of procuring their course materials. For example, online stores accounted for a 24 percent market share, and the campus secondhand market in which students buy and sell books among one another and alumni amounted to 3 percent of sales.

Continual advances in technology present an opportunity to increase competition in the textbook market that will reduce the cost of study materials. Two particular technological developments – online marketplaces and electronic books – increasingly provide an alternative to the college bookstore for students to procure their course materials, and an opportunity to reduce the cost of college textbooks.

Online Textbook Markets Promote Competition

The proliferation of online markets has promoted greater competition among sellers. Students are no longer confined to purchase books at the local campus bookstore, which in the past were virtual monopolies. In 2008, college bookstores reported an average gross margin of 26.9 percent on book sales (22.7 on new books, 35.9 on used ones).[418] Students now have an increasing number of options to obtain their books, including buying new from a number of online retailers, used from an online exchange, or even renting for a semester.

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[415] United States, Department of Labor, CPI—All Urban Consumers, Educational Books and supplies, U.S. city average, Series id: CUSR0000SEEA. Figure is percentage change in seasonally-adjusted index between June 1999 and June 2009, divided by 10. Note: index includes prices in all levels of education, not just post-secondary.
[416] "Student Watch 2008, Student Attitudes & Buying Habits Revealed," National Association of College Stores, 2008.
[417] Ibid.
[418] "2008 College Store Margins," National Association of College Stores, 2008.

Online retailers such as Amazon.com, Half.com, CampusBooks.com and TextBooks.com have created a growing global marketplace for textbooks. Such websites often contract with publishers to sell new books at competitive rates, but also provide a secondary marketplace to buy and sell used textbooks. This allows cost-conscious students to shop around for the best value, which puts downward pressure on prices as sellers offering the same good compete for sales almost exclusively on price. A thriving online secondary textbook market contributes additional downward pressure on prices.

More recently, online textbook rental websites, such as BookRenter.com, Chegg.com and Skoobit.com, have emerged. These companies allow students to rent textbooks for a quarter or semester by ordering from their websites and returning when they are finished. The rental fees vary by title and provider, but are priced at a fraction of the suggested retail purchase price, allowing students to save on the cost of buying textbooks that they would have otherwise sold back at the end of the term, if a new edition was not released in the meantime.

Online marketplaces bring a huge number of buyers and sellers together, leading to a much more efficient and competitive market that has resulted in downward price pressure. The increased competition created by the emergence of online marketplaces not only provides students with a greater number of options to shop for their course materials, but also often translates into savings for those students who take advantage of the alternative online methods of procurement as opposed to resorting to their local campus bookstore.

Electronic Textbooks Can Reduce Costs

Most textbook publishers now offer their products in an electronic format, often at a fraction of the price of printed versions. This relatively new format gives students yet another alternative to obtain their course materials, promoting further competition for sales in the textbook market. Electronic textbooks are often a lower cost alternative, as the electronic format allows publishers to lower their production costs. Some costs, such as author fees, proofreading, copy-editing and licensing, are likely to remain constant regardless of format; however, electronic publishing eliminates many of the variable costs associated with physical textbooks such as ink, paper, binding, printing press maintenance and the distribution of bulky products. The cost savings associated with the production of electronic textbooks can be passed on to students in the form of lower-priced textbooks.

Electronic publishing also provides the opportunity for content consolidation and customization. Textbooks are often bulky, containing hundreds of pages of material that are not relevant for a particular class, or may be missing recent information or opposing views that an instructor deems vital to the discourse of a particular topic. In the former case, students incur the costs of the excess material that is not relevant to their studies. In the latter case, instructors may need to assign multiple texts that students must purchase in order to cover the full range of topics. In both cases, the students (as well as the instructors) would benefit in the way of a reduction in costs from the opportunity to customize textbooks and/or consolidate

material from various sources. Electronic textbooks ostensibly present an opportunity to more easily construct learning materials that best supplement course objectives, and thereby consolidate the information and number of texts required for a course into a single volume. This is the approach that publishers such as Flat World Knowledge and MacMillan are increasingly taking.

Case Study 17.1: Flat World Knowledge

Flat World Knowledge (FWK) is a relatively new textbook publisher that offers a unique product – free web-hosted, open-source textbooks. As of July 2009, FWK had signed on more than 50 authors[419] and currently offers textbooks in accounting, communications, economics, finance, information systems, management, and marketing, with textbooks in humanities, science and mathematics forthcoming.[420] As of this writing, more than 250 courses are currently using FWK textbooks,[421] and FWK expects this to increase by 20 percent in the next year to 300 courses, with additional growth to follow due in part to advocacy from students – who are fond of the menu of low cost alternative options that FWK offers.[422] David Wiley, Chief Openness Officer at FWK, estimated that 40,000 students used FWK textbooks in the fall of 2009, saving students an estimated $3 million[423] over what they would have spent on traditional textbooks. This amounts to an average savings of $75 per student, per term.

Instructors assigning a FWK textbook can customize it to meet the needs of their course using FWK's "build a book" platform. This includes the ability to mix and match chapters from various textbooks, add/delete content and insert current case studies, among other options. [424] Aside from the free online version, students have a number of alternative options to purchase, such as bound and printed books (about $30 for black & white, $60 for full color, plus shipping), print-it-yourself books/chapters (about $2 each), audio books/chapters and study aids.[425] FWK Founder Jeff Shelstad indicated that about 60 percent of students taking a course using a FWK textbook in 2009 purchased one of the alternative formats and that the majority of purchasers also bought the study aid subscription package for an additional $10. Shelstad indicated that the black and white printed book is by far the most popular item, but students also "really appreciate the print-it-yourself option."[426] FWK's business model is still evolving, but is based on an

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[419] Keith Hampson, "Flat World Knowledge: Interview with CEO Jeff Shelstad," Higher Education Management, 10 July 2009.

[420] "Catalog," Flat World Knowledge, 23 July 2009, <http://www.flatworldknowledge.com/catalog>.

[421] "Classes," Flat World Knowledge, 23 July 2009, <http://www.flatworldknowledge.com/classes>.

[422] Jeff Shelstad, Personal Email Interview, 29 July 2009.

[423] David Wiley, "A Response to 'Change that prevents real change'" Iterating Towards Openness Blog, 26 August 2009.

[424] "About," Flat World Knowledge, 29 July 2009, <http://www.flatworldknowledge.com/about>.

[425] Keith Hampson, "Flat World Knowledge: Interview with CEO Jeff Shelstad," Higher Education Management, 10 July 2009.

[426] Jeff Shelstad, Personal Email Interview, 29 July 2009.

author/publisher partnership, including performance incentives and options to invest in the company for contributing authors.[427]

Case Study 17.2: DynamicBooks

MacMillan Publishers, one of the largest textbook publishers in the world, unveiled its latest contribution to the electronic textbook market in early 2010, a system called DynamicBooks. The system is an electronic textbook platform that was developed to encourage interaction on behalf of students, instructors and authors. Students are able to obtain lower cost e-textbooks (generally less than half the traditional printed book price) that are searchable and can be marked up. In addition, the DynamicBooks platform is compatible with course management software and Web 2.0 technology so that students can share ideas and notes, as well as form study groups, online. Instructors are able to customize the content to fit the needs of their course, including the ability to add content, include hyperlinks and embed videos, to enhance the learning opportunities. The system also presents authors with an incentive to contribute changes to e-texts by offering a royalty per unit of sale to those who made significant changes that are adopted.[428]

At the time of this writing, there were approximately 20 different texts available in the DynamicBooks format, mainly in the physical and social sciences, as well as a few math titles.[429] MacMillan intends to offer other publishers the opportunity to integrate their texts to the DynamicBooks format in exchange for a fee, but we can expect to see intense competition among the major publishers to become the dominant format provider for interactive e-textbooks.[430]

Limitations and Challenges

While utilizing technology to transform the textbook market via online marketplaces and electronic books presents an opportunity to increase competition and significantly reduce the cost of textbooks for many students, there are challenges and limitations to overcome for both technologies. These include time constraints, resistance to change, technical issues, and legal and regulatory matters.

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[427] Ibid.

[428] "About," Dynamic Books, 22 February 2010, <http://dynamicbooks.vitalbook.com/>.

[429] "Catalog," Dynamic Books, 22 February 2010, <http://dynamicbooks.vitalbook.com/catalog>.

[430] Jeffrey Young, "Format War Heats Up Among Publishers of Electronic Textbooks," The Chronicle of HIgher Education, 22 February 2010.

Time Constraints

The major limitation to online marketplaces is related to the course structure at many colleges. Many students do not finalize their schedule until several weeks into the term, often adding or dropping classes at the last minute. In addition, many instructors do not announce the assigned texts well enough in advance to give students time to shop for them. Because of these phenomena, students often rely on campus bookstores due to the ability to obtain textbooks immediately and return them locally. When ordering texts online, students must allow extra time for delivery delays, and returning texts ordered online can be onerous. Until students are more proactive in finalizing their course schedule, and instructors in assigning texts, this will continue to be a challenge.

Resistance to Change

The use of electronic textbooks is sparse. This is despite the fact that the technology to fully digitize textbooks is available and that most publishers already offer electronic versions of their textbooks at a discount from the retail price. Colleges, instructors and students have yet to fully embrace the concept and take advantage of the opportunity to lower the cost of textbooks. According to the Campus Computing Project (CCP), approximately 3.2 percent of all classes made use of electronic books in 2008, with usage among 4-year public college courses being the highest (3.7 percent of classes). Table 17.1 shows the percent of courses making use of electronic books by institution type in 2008.

Table 17.1: Percent of Courses Using Electronic Books in 2008, by Institution Type[431]

Type of Institution	Percentage
All Institutions	3.2%
Public	
Universities	2.6
4-Year Colleges	3.7
2-Year Colleges	3.3
Private	
Universities	2.9
4-Year Colleges	3.3

SOURCE: CAMPUS COMPUTING PROJECT 2008

One reason for the limited use of e-texts may be the tradition of the printed book and the limited functionality of electronic texts. Currently, many students are accustomed to the format of physical textbooks and the ability to highlight and make notes in their margins. They may

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[431] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education," The Campus Computing Project.

even prefer reading actual print as opposed to an electronic screen. Students may also resist e-textbooks due to the fact that may not be able to resell them, as some publishers program their e-textbooks to self-destruct after a certain period of time. Some critics believe that the format will not completely transform the textbook market, predicting that "electronic textbooks will probably turn out to be just one option rather than a widespread replacement for printed textbooks…Some students will prefer the features of electronic versions, while others will be willing to pay a little more for hard copies."[432] As technology adapts to better serve students with improved note-taking functionality, this may become less of an issue, especially as new generations of college students arrive on campus well versed in the latest technological advancements.

Another problem preventing the faster spread of online textbooks is that at many institutions, faculty members have the responsibility of assigning the texts for a particular course. The low course usage rates indicated above suggest that faculty either have a strong bias towards the status quo, or they may not be aware of the availability of electronic texts and the potential savings they offer for students. In the latter case, publishers and college officials could do more to promote the use of electronic textbooks among faculty.

The digital format is gaining traction, at least among college information technology officers who are "bullish on the future of eBooks," with 76.3 percent agreeing or strongly agreeing in 2009 with the statement that, "eBook content will be an important source for instructional resources in five years."[433]

Technical Issues

With electronic textbooks, there are several technical issues related to the electronic devices needed to access course materials. One is the learning curve required to become functional with an electronic reading device, as some users may struggle to understand the multitude of functions. Whether a student is using a personal computer, e-reader or other device to review his/her study materials, there is always the possibility that the device will malfunction in some way that results in a loss of data files containing the texts. Of course, this risk can be mitigated by backing up data files externally, but this requires that users know how to and actually do so.

There is also the issue of the often short product life cycles for electronic devices. Students may not be willing to invest in a device until it is a proven commodity. E-readers are relatively new to the market, and have yet to become as commonplace as cell phones or iPods. They may never achieve similar status, as other device manufacturers quickly develop applications to permit electronic reading. The uncertainty of their status makes investing in e-readers a costly endeavor; however, it seems that personal computers, laptops and other portable all-in-one

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[432] Jeffrey Young, "This Could Be the Year of E-Textbooks, if Students Accept Them," The Chronicle of Higher Education, 7 September 2009.
[433] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education," The Campus Computing Project.

devices are here to stay, so the electronic textbook is likely to endure, although the precise format is as yet undecided.

Legal and Regulatory Issues

Legal and regulatory issues are also a concern for electronic texts. While several colleges and universities have experimented with mobile reading devices in the classroom, they have run into some roadblocks including complaints purporting that the devices are discriminatory against the blind.[434] The National Federation of the Blind and the American Council of the Blind filed a lawsuit against Arizona State University for its plan to deploy a pilot program for the Amazon Kindle reader in a single course to assess the usefulness of the device and e-textbooks in general. The plaintiffs claim that the university, as well as five others running pilot programs, were violating both the Americans with Disabilities Act and the Rehabilitation Act of 1973 because the menus of the device were at the time not accessible to blind persons.[435] Although this was an early snag in the transition to electronic textbooks, it is likely that manufacturers will be able to overcome this limitation by integrating existing text-to-speech software into their devices. In fact, textbook publishers have already initiated a project, AccessText,[436] intended to streamline the process by which institutions convert electronic textbooks into a specialized format for students with disabilities in an effort to help students get their textbooks more efficiently, help colleges save money and avoid lawsuits, and protect publishers' content.[437]

Suggestions

College officials should do more to encourage the use of electronic textbooks among their faculty as a means to lower the cost to students. They could also experiment with the use of mobile reading devices or interactive e-textbook formats to determine the plausibility of transitioning to an e-textbook campus. Some colleges, including Arizona State, Case Western Reserve and Princeton, have begun to experiment with the use of electronic reading devices. One school, Northwest Missouri State University (NMSU), has been particularly aggressive in pursuing campus-wide electronic textbook implementation.

> Case Study 17.3: Northwest Missouri State University
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> Under the leadership of President Dean Hubbard, Northwest Missouri State University (NMSU) has historically been eager to embrace technological change on campus. NMSU has run a universal textbook rental program on campus since 1905, was one of the first

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[434] Marc Beja, "Advocates for the Blind Sue Arizona State U Over Kindle Use," The Chronicle of Higher Education, 2 July 2009.

[435] "National Federation of the Blind and American Council of the Blind File Discrimination Suit Against Arizona State University," National Federation of the Blind, 25 June 2009.

[436] "Access Text," (University of Georgia and Associatin of American Publishers).

[437] Steve Kolowich, "Textbooks for the Disabled," Inside Higher Education, 28 August 2009.

colleges to install personal computers in all dorm rooms, and currently provides all students with a laptop computer. In 2008-09, it piloted a program to evaluate electronic textbooks.[438] The e-textbook Initiative was tested on 240 students who were all provided with a Sony Reader mobile device in order to assess the concept of transitioning from a traditional, printed textbook medium to an electronic one.[439]

While NMSU found the e-reader to be inadequate as a study device due to limited note-taking functionality, it did not abandon its hope to reduce the current $800,000 cost of the textbook rental program by as much as 50 percent with electronic textbooks. Instead, it expanded the trial to include about 4,000 students, using laptop computers pre-loaded with e-texts rather than an e-reading device. NMSU plans to eliminate all hard copy books from its curriculum by 2012, with the intention of transitioning to the exclusive use of e-textbooks on campus.[440]

Conclusion

Harnessing the power of technology to transform the college textbook market has the potential to reduce the cost of college for most students by providing more alternatives for students to procure their course materials. In the past campus bookstores enjoyed near monopoly status by being the only game in town. This spurred the creation of online marketplaces that brings a much greater number of buyers and sellers together to form a more competitive and efficient market for textbooks. In addition to their local bookstore students now have many online options including retail, rental, and used book exchange sites.

More recently, electronic publishing has emerged as an increasingly valuable alternative for students, as most publishers now offer electronic versions of their texts at a fraction of the cost of the printed version. The electronic format also offers instructors the capability to consolidate and customize the content, and removes the inconvenience of hauling heavy textbooks around. In a world where textbooks are mostly in digital format, a student would only need to transport an electronic device of laptop proportions to access study materials. This would make it much more convenient for students to mobilize their study environments and is complimentary to a greater use of the online course format.

Although no specific format or device has emerged as the market leader, the widespread use of low cost software such as Adobe Reader and increasingly affordable personal computers are likely an indication that electronic textbooks will play an increasingly important role in higher

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[438] Jeffrey Young, "6 Lessons on Campus Learned About E-Textbooks," The Chronicle of Higher Education, 12 June 2009.

[439] "About e-textbooks," Northwest Missouri University, 22 July 2009, <http://www.nwmissouri.edu/services/eTextbooks/about.htm>.

[440] "NW Missouri State University Replaces Textbooks with E-books," ePaperCentral, 20 January 2009, 1 February 2010, <http://www.epapercentral.com/nw-missouri-state-university-replaces-textbooks-with-e-books.htm>.

education in the future. While time will tell whether the tradition of the hard copy textbook will dissipate entirely, one thing is certain: technology will continue to play an integral role in the textbook market that will ultimately lead to heightened competition, reduced costs and customizable course materials. Some colleges may choose to go the route of NMSU and fully transition to an electronic textbook campus, while others (especially large campuses) may find this a much less appealing approach; however, all college officials are advised to do their part to encourage the use of electronic textbooks by their faculty, as students would benefit by their doing so.

#18: Digitize Academic Libraries

Historically, the university library has been a massive building at the heart of the college campus offering students a myriad of resources, including volumes of books, periodicals, and documents; staff that offer research assistance; meeting space; and access to advanced research technologies. Most of these elements persist today despite the changing role of the university library in the rapidly developing information technology age. The continually rising costs of academic libraries can be mitigated with better use of digital technology.

The Rising Costs of Operating an Academic Library

Today, many publications collect dust on the shelves from years of neglect, while students and researchers obtain most of their research materials from the internet. Between 1996 and 2006, total circulations (borrowed items) declined by 18.8 percent at U.S. academic libraries. Yet, libraries continued to add to their physical collections, as the total number of volumes increased by 25.9 percent to more than 1 billion during the period, expending $705 million on books and bound materials in 2006, a 16.1 percent inflation-adjusted increase from the decade prior. [441]

Academic libraries are costly to operate. The average academic library spent $1.72 million in 2006, an inflation-adjusted increase of 6.3 percent from the 1996 figure of $1.62 million.[442] Total academic library expenditures in 2006 topped $6.2 billion, a real increase of 12.8 percent from 1996. The increase in expenditures on books and bound serials discussed above accounted for 14 percent of the increase in total academic library expenditures during the time period, but this was only the third largest contributor to the ballooning academic library budgets. An increase in real expenditures on the salaries and wages of library staff accounted for nearly half of the increase, but it was the increase in real expenditures on serial subscriptions (academic journals) that contributed the most, accounting for 73 percent of the rise in expenditures by academic libraries between 1996 and 2006.[443] Table 18.1 displays expenditures by function in 1996 and 2006, the percentage of total expenditures for each function in the two periods, the change in expenditures by function between the two periods, and the percentage contribution to the rise in expenditures by function between 1996 and 2006. Figures are in inflation-adjusted, constant 2006 dollars.

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[441] M Calahan et. al, "Acadamic Libraries," <u>National Center for Educational Statistics,</u> (Washington: Department of Education, 1999, 2008).
[442] Figures are in Constant 2006 Dollars.
[443] Figures are in Constant 2006 Dollars.

Table 18.1: Academic Library Expenditures by Function, 1996 & 2006 (Constant 2006 Dollars)

	(A) Expenditures (in Millions) 1996	(B) Percentage of Total Expenditures 1996	(C) Expenditures (in Millions) 2006	(D) Percentage of Total Expenditures 2006	(E) Change (Δ) from 1996 to 2006 ($C_i - A_i$)	(F) Contribution to Δ in Total Expenditures (E_i / E_1)
(1) Total Expenditures	$5,527	100%	$6,234	100%	$707	100%
(2) Salaries & Wage	$2,760	50%	$3,103	50%	$343	49%
(3) Operating Expenditures	$841	15%	$756	12%	($85)	-12%
(4) Books & Serial Backfiles	$607	11%	$705	11%	$98	14%
(5) Serial Subscriptions	$1,003	18%	$1,522	24%	$ 518	73%
(6) Other Information Resources	$316	6%	$149	2%	($167)	-24%

SOURCES: E.D. TAB: ACADEMIC LIBRARIES: 1996; ACADEMIC LIBRARIES: 2006

*DUE TO ROUNDING, PERCENTAGES MAY NOT SUM TO 100

The Benefits of Digitizing and Integrating Libraries

Libraries are increasingly integrating and sharing their resources. This means that individual libraries have access to one another's research materials and other resources through the internet or other means of electronic delivery. These efforts are made possible due to the advances in information technology that have enabled the digitization and rapid sharing of research materials. While there are startup costs required to digitize library collections, the potential to significantly reduce long-run acquisition and operational costs are significant.

As libraries increasingly digitize and share resources electronically, storage and facilities costs will decline substantially. Collections that have been transformed into electronic versions could be archived, reducing costs to a fraction of the cost to store physical volumes. One estimate suggested that electronic books can be stored by private repositories for between $0.15 and $0.40 per volume annually, whereas the average cost to preserve a physical book is around $4.26 per year. Even moving volumes to an off-site storage would result in savings, as it is estimated that the unit cost for "high density," (bulk, non-display) storage is $0.86.[444]

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[444] Steve Kolowich, "E-Library Economics," Inside Higher Ed, 10 February 2010.

Digital archiving would also free up space previously dedicated to library stacks for alternative uses, such as computer workstations or office space, thereby reducing the need for additional facilities on campus and the associated construction and operational costs. In addition, the digitization and integration of academic libraries would reduce the number of employees needed to staff an academic library, which would reduce costs considerably since 50 percent of library expenditures in 2006 were for staff wages and compensation.

As libraries increasingly share electronic collections, the cost of acquiring research materials will be reduced as library consortia take advantage of enhanced buying power to negotiate lower licensing fees for periodicals and monographs. It is also likely that print publishing will decline in lieu of electronic publishing, which has much lower fixed costs than physical printing. The increased reliance on digital research materials would also make it easier to analyze collection usage to determine which services are worth subscribing to. Significant savings are possible, as combined periodical subscriptions and book purchases amounted to $2.2 billion in 2006, or 35 percent of total library expenditures.[445]

Digital libraries would also permit users to conduct research from virtually anywhere in the world, reducing the geographic constraints that currently limit access to research materials to those residing on or near a campus library. This would compliment online distance learning perfectly, as users could electronically access research materials online 24/7 with the flexibility to work remotely at their own pace and would not have to incur the costs of commuting to the campus library.

In addition, digital library collections have the potential to be a source of income for the larger research libraries and provide lower cost access to library collections to smaller institutions, which may lack the funds to maintain significant collections or provide essential library services. The Johns Hopkins University library, for example, signed a $1 million contract in 2008 with Excelsior College, a distance-learning institution, to provide a virtual library and services for Excelsior.[446] This is a mutually beneficial arrangement, as JHU gains additional revenue and Excelsior obtains access to a much broader library collection and services than it would otherwise be able to attain on its own.

Technology Presents an Opportunity to Integrate Academic Library Systems

Institutions continue to spend greater amounts of money on academic libraries while at the same time relative student use of these facilities is declining. In 2006, academic libraries reported a gate count (number of persons who physically enter) of 18.8 million visitors per

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[445] B Holton et al, "Academic Libraries: 2006," National Center for Educational Statistics," (Washington: Departmetnt of Education, 2008).
[446] Caitlan Moran, "Library for Hire: Johns Hopkins U. Sells Services to an Online College," The Chronicle of Higher Education, 10 December 2008.

typical week, an increase of 13.9 percent from 16.5 million visitors in 1996.[447] However, student enrollment grew by 23.6 percent over the period, from 14.4 to 17.8 million students.[448] This suggests a 7.8 percent decline in the average student use of library facilities. The proliferation of the internet and personal computers likely has played a major role in this, as students can access research materials online from virtually anywhere. This has reduced the role that the physical library plays in academic research and brings into question the need for 3,600+ individual academic libraries in the U.S., each with its own costly collection of publications and periodicals. Some colleges have acknowledged this and have begun to make strides towards integrated library systems, such as collaborative storage networks, consortium purchasing and license sharing.

Collaborative storage networks allow libraries to share the cost of valuable, yet onerous print collections[449] through efforts such as inter-library loan programs and collection digitization. Library consortia are able to realize cost savings by sharing their print and subscription repositories, as well as coordinating their buying efforts in order to obtain better deals from publishers.

One such effort is OhioLINK Electronic Journal Center (EJC), a licensing program that serves Ohio's colleges and universities. Under OhioLINK, all of the state's public colleges and universities, as well as 38 independent colleges, combine their funds to make a group purchase of full sets of electronic publisher journals. This helps alleviate the rising costs of academic journals by increasing the participating institution's purchasing power. The consortium also provides each institution access to a larger number of journals than would otherwise have been the case. An open letter from some early adopters of this arrangement indicated that journal prices rose around 8 percent per year, but the consortium was able to control its annual cost increases to between 4 and 5.5 percent.[450]

There are several other examples of collaborative library efforts in existence. One is the Greater Western Library Alliance, a consortium made up of 32 research libraries in 17 Midwestern and Western states that share electronic resources, engage in interlibrary lending, and collaborate on programs such as collection development, scholarly communication, staff development, and continuing education.[451] Another effort is the Pennsylvania Academic Library Consortium Inc., comprised of 76 libraries located in Pennsylvania, New Jersey, and West Virginia, whose objectives are resource sharing, collaboration and cooperation, the exchange of ideas, and

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[447] Caitlan Moran, "Library for Hire: Johns Hopkins U. Sells Services to an Online College," The Chronicle of Higher Education, 10 December 2008.

[448] United States, Department of Education, (Washington: NCES, 2009).

[449] Jennifer Howard, "Libraries Explore Big Ideas to Overcome Small Budget: Tough Times are Taking a Toll but Spurring Innovations in Handling Collections," The Chronicle of Higher Education, 22 November 2009.

[450] A Perzigian et. al, "The Challenge for Ohio Higher Education Providing Access to Scholarly Publishing," 28 January 2004.

[451]"About," Greater Western Library Alliance, <www.gwla.org>.

leadership.[452] On the international scale, there is the Center for Research Libraries, a consortium of global universities, colleges, and independent research libraries. It is dedicated to the acquisition and preservation of newspapers, journals, and other sources from around the world to be made available to researchers by interlibrary lending and electronic delivery.[453]

One system, the California Digital Library, is experimenting with what it calls "evidence-based" analysis to "help libraries throughout the system decide what's still worth paying for and how much it ought to cost." [454] An example of this relates to academic journals in which

> ...the analysis takes into account how much use they get, how much they cost relative to other publishers' offerings, and their impact factors, a measure of how often articles from a particular journal are cited in a given period of time. That information goes to librarians throughout the system, who use it to make decisions about what is most worth keeping.[455]

Such innovative systems have the potential to significantly reduce costs by reducing the number of minimally used volumes kept on hand.

The Digitization of Library Collections is Essential to Integration

Strategic resource sharing among academic libraries has experienced some success, with the digitization of library collections playing an increasingly important role. According to UC-Berkeley librarian Thomas Leonard, libraries have already made significant progress in digitizing their collections, suggesting that there have already been millions of dollars in benefits realized.[456] Even so, there is room for continued improvement and additional long-run cost savings.

Serial subscriptions (journals) are increasingly available in electronic format through repositories such as JSTOR, which electronically archives back issues of more than 1,000 academic journals[457], and Project Muse, which provides online access to more than 400 current journals.[458] Despite the widespread availability of electronic scholarly journals and studies that "suggest that an electronic-only environment would be more cost-effective than print-only for most journals, with cost savings for both libraries and publishers,"[459] many academic libraries continue to subscribe to dual formats – print and electronic. By systemically transitioning from

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[452] "About," Pennsylvania Academic Library Consortium, <www.palci.org>.

[453] "About," Center for Research Libraries, <www.crl.edu/about>.

[454] Jennifer Howard, "Libraries Explore Big Ideas to Overcome Small Budgets: Tough times are taking a toll but spurring innovations in handling collections," The Chronicle of Higher Education, 22 November 2009.

[455] Ibid.

[456] Ibid.

[457] "The Archives," JSTOR, <http://www.jstor.org/page/info/about/archives/index.jsp>.

[458] "What is Project MUSE?" Project MUSE, <http://muse.jhu.edu/about/muse/index.html>.

[459] Eileen Fenton and Roger Schonfeld, "The Shift Away from Print," Inside Higher Ed, 8 December 2005.

a dual journal format to an exclusively electronic one, academic libraries can achieve additional savings on serial subscriptions.

Scholars Lavoie and Schonfeld predict that "print collections will likely undergo significant transformation as libraries continue to reshape themselves in the networked digital age" and that these "transformations will take place within a system-wide context."[460] They estimate that there are around 32 million books, of which approximately 20 percent are held by ten or more libraries, catalogued in WorldCat–the world's largest and most comprehensive bibliographic resource—and that "mass digitization could create a collection that is significantly larger than our largest research libraries."[461]

Several book digitization efforts are currently underway. The Google Library Book Project is an attempt to electronically catalog and make available for preview or download millions of volumes by partnering with some of the largest library collections in the world, such as The New York Public Library, Stanford University, Harvard University and the University of Michigan.[462] The digitization and systemic sharing of monograph and serial collections would lower the long-run costs, such as storage and preservation, for academic libraries, as well as provide access to more geographically dispersed users who lack access to major research libraries.

Limitations and Challenges

The digitization and integration of academic libraries is not without costs and limitations. The biggest obstacles to overcome are technical and cost issues, political resistance, and legal challenges.

First, as with all technology, there are technical and cost issues to address. The integration of library collections relies on a network of compatible systems in order for libraries to share resources. This requires investments in reliable, secure and fast IT networks, as well as electronic storage of information. Rather than trying to do all these things internally, it would often be more cost effective for colleges to outsource these services to specialized IT firms.

The digitization of existing library collections is a labor intensive process that is subject to human error. Libraries themselves are not likely to take on such a daunting task, but IT firms have specialized teams dedicated to book digitization efforts. Specialized labor does not, however, exclude the possibility of poor scanning, mislabeling or other human errors that could undermine the quality of the resulting project. As more new collection materials are procured in the digital format, this becomes less of an issue.

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[460] Brian Lavoie and Roger Schonfeld, "Books without Boundaries: A Brief Tour of System-wide Print Book Collection," The Journal of Electronic Publishing, Summer 2006.
[461] Ibid.
[462] "Partners," Google Books, <http://books.google.com/googlebooks/partners.html>.

Another limitation to the downsizing of traditional academic libraries is political resistance from groups such as library employees, faculty researchers and students. In 2006, an estimated 94,000 full-time equivalent staff were employed by academic libraries.[463] This large group of employees is not likely to take lightly an effort to consolidate their jobs—a step that is essential to realize cost savings as employee salaries amounted to more than $3.1 billion in 2006, or 50 percent of total expenditures by academic libraries. Faculty and students have also demonstrated opposition to the digitization of libraries, making claims such as the "need to be able browse books on the shelves so that they can serendipitously discover related works."[464] Another potential obstacle is faculty resistance—one report suggests "that it could take up to half a century—or two generations of faculty—before faculty in certain disciplines will abide the preeminence of digital over print."[465]

Finally, the digitization and integration of library collections is not expected to be welcomed with open arms by the publishing industry. There are copyright and licensing issues that need to be addressed. In the effort to digitize library archives, many volumes are protected by copyright and are therefore unable to be made fully available digitally. Issues have been raised by publishers against even previews of a copyright-protected book being made available. Journal publishers are also likely to respond with legal action against increased efforts to share licenses.

Conclusion

Students continue to make less frequent trips to the library as they are able to access research materials from a distance with innovations such as online journal collections. As more research materials become digital and libraries increasingly become integrated, the need for a centralized and expansive library on every campus will decline. This presents an opportunity for colleges to reduce their operational and facility costs by digitizing more of their collections and finding alternative uses for the space that is currently used to shelve archives.

The larger library systems also have the opportunity to earn additional revenues by making their collections available to libraries that could not otherwise provide such research materials for themselves. This would be a win-win for both types of institutions. While the move towards increased digital collections is already underway, the further integration of library systems will create additional efficiencies that could help bring the growing costs of college under control.

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[463] B Holton et al, "Academic Libraries: 2006," National Center for Educational Statistics, (Washington: Department of Education, 2008).
[464] Steve Kolowich, "Hybrid Education 2.0," Inside Higher Ed, 28 December 2009.
[465] Ibid.

#19: Outsource Email Services

While email has greatly enhanced the communication and transaction capabilities for colleges, much of the potential savings associated with reduced transaction and communication costs are not being realized. In-house email systems are increasingly expensive to maintain, given the maintenance, storage and security requirements. These costs can be significantly reduced by outsourcing campus email services to external providers, such as Google or Microsoft, which can offer enhanced off-site security and storage capabilities at a much lower cost due to technological expertise and much greater economies of scale.

The Benefits of Outsourcing Email

The primary benefit for colleges who outsource their email services is that it reduces their costs compared to maintaining an in-house system. There are also a number of additional benefits that can be achieved by outsourcing email, including expanded features and technological expertise.

Reduced Cost

A 2009 Forrester Research report concluded that many businesses significantly underestimate the full cost of email. The report indicates that the "fully loaded" cost of email includes not only hardware and software expenses, but also storage, filtering, archiving, staffing, financing, power, and opportunity costs. Forrester surveyed 36 IT executives from US and European firms who estimated an average cost of $10 per month per email user; however, Forrester's analysis placed the full cost of in-house, or internally developed and managed, email between $16.59 and $28.22 per month per user, depending on the number of users.[466] The fact that 41.1 percent of colleges decided not to outsource their student email services in 2008[467] suggests that institutions of higher education also significantly underestimate the cost of managing an in-house email system.

An alternative to having every college develop and maintain its own email service is to outsource it. The Forrester report also estimated the user cost per month for several email outsourcing services, including Microsoft Exchange Online, Google Apps and a general cloud-based outsource category, in providing a comparative analysis of business email services. This analysis of email services indicates that outsourcing email services is much less costly than maintaining an on-site email system. The savings associated with outsourced email are reductions in costs for storage, staffing, servers, message archives and filtering services.

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[466] The lower figure is based on 55,000 users, the higher figure on 5,000 users.
[467] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

While Forrester's analysis pertains to private businesses, similar cost savings could be realized by colleges that outsource their email services. By doing so, colleges can reduce their need for data storage and servers, as well as IT staff needed to service campus email systems. Figure 19.1 displays the estimated user costs per month of maintaining an in-house email system versus outsourcing it to Microsoft, Google or other cloud-based providers, using Forester's private business data and assuming that subscription costs are zero for Microsoft and Google because they both offer free email services to schools via their Microsoft Live@edu and Google Apps' Education Edition platforms, respectively.[468] While the actual savings likely will vary among colleges depending on the number of email users, the Forester analysis suggests that significant savings are possible by outsourcing email services. One recent example is Temple University, which transitioned most of its faculty and administrators from an in-house email system to Google mail in spring of 2009, and reported savings of about $1 million by the following fall semester.[469]

Figure 19.1: Estimated User Cost Per Month by Expense Category*
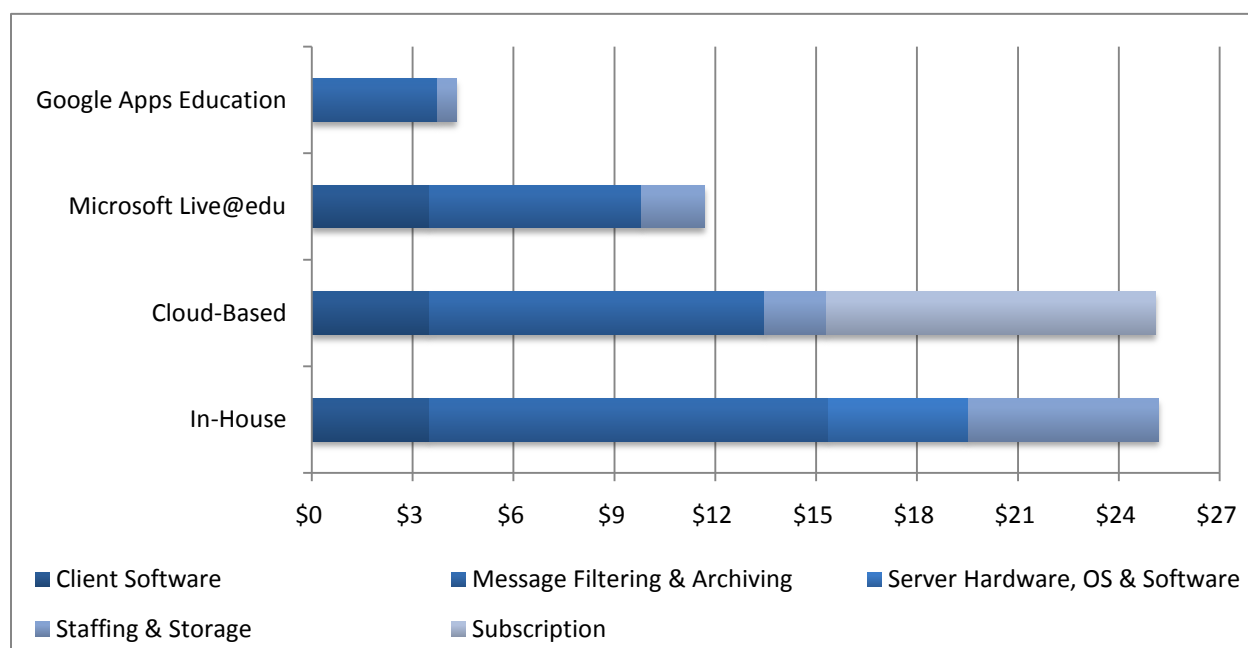
SOURCE: FORRESTER RESEARCH, INC.[470]
*BASED ON A SCENARIO OF 15,000 USERS[471]

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[468] Jeffrey Young, "Colleges Warily Turn Sensitive Email Over to Outside Companies," The Chronicle of Higher Education, 21 September 2009.
[469] Ibid.
[470] Ted Schadler, "Should Your Email Live in the Cloud? A Comparative Cost Analysis," (Forrester Research, Inc., 5 January 2009).
[471] The estimate assumes that the per user costs are the same as those for the private companies analysis, with the subscription costs going to zero for colleges adopting either the Microsoft or Google platforms, which both provide free email accounts to students, faculty and administrators.

Additional Benefits

In addition to the reduction of costs associated with maintaining an in-house system, outsourcing email confers additional benefits. First, web-based email services offer additional features that colleges cannot afford to build, maintain, and upgrade on their own.[472] For instance, Google Apps Education offers additional tools to enhance campus communication and collaboration, such as messaging, a calendar, document sharing, group forums, and mailing lists.[473] Many students and faculty already use such services, so the transition from a campus-based email infrastructure to an outsourced service would involve only a minor learning curve.

Additionally, colleges that outsource email services eliminate the problem of having to renew or update software and security features. Firms specializing in email services are on the cutting edge of technology and generally will automatically install and run the most up-to-date software and security upgrades for their clients. This reduces the risk of security breaches and viruses. Outsourcing email also has a number of other benefits, such as rapid addition of new users to the system, the allocation of IT professionals to more important projects and the shifting of the financial burden from upfront capital expenses to ongoing operating expenses.[474]

Colleges Are Hesitant to Outsource Email

Some of the more innovative colleges have already taken advantage of the many benefits associated with outsourcing their email, but the majority of colleges remain complacent. The 2008 Campus Computing Project Survey indicated that 42.4 percent of institutions of higher education have either converted to or are in the process of converting to outsourced student email. The figures are less impressive in terms of staff email outsourcing, in which only 14.8 percent of institutions reported having converted or being in the process of outsourcing faculty email.[475]

Public research universities were the most likely (50.7 percent) to outsource student email, and private research universities (23.3 percent) are the most likely to outsource faculty email.[476] Research universities have the largest number of email users, yet this category of schools is more likely to outsource email.

Regulatory compliance is often presented as an argument for not outsourcing email. The most common variant relies on the Family Educational Rights and Privacy Act (FERPA), which requires

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[472] Jeffrey Young, "Colleges Warily Turn Sensitive Email Over to Outside Companies," The Chronicle of Higher Education, 21 September 2009.

[473] "Education Index," Google, <http://www.google.com/a/help/intl/en/edu/index.html>.

[474] Ted Schadler, "Should Your Email Live in the Cloud? A Comparative Cost Analysis," (Forrester Research, Inc., 5 January 2009).

[475] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

[476] Ibid.

schools to safeguard student records such as personal information and grades. The law permits colleges to outsource student records to a third party, but prohibits such a party from using the records for any purpose other than that which the college would. Some officials worry that email communication between students and staff will be mined by third parties to fine tune their search algorithms, thus violating the act.[477] To alleviate these concerns, providers such as Microsoft and Google have added language to their contracts with colleges to address how their policies conform to FERPA, in addition to providing administrative features designed to protect student records.[478]

The other major regulatory concern is electronic discovery – the process in which colleges must review their email and other digital records when a subpoena is issued during legal proceedings. The issue is whether college officials would be able to retrieve email messages in a timely manner when faced with a court order, and whether they are in a position to shield such records from discovery in certain cases, if email services are outsourced.[479] Technology firms such as Google and Microsoft are experts at archiving and retrieving messages, and would likely provide unbiased compliance with court orders.

Conclusion

Colleges have a tremendous amount to gain from outsourcing their email services, most notably reduced costs. Providers such as Google and Microsoft offer free email accounts for students and staff, as well as a number of additional user tools to improve communication and collaboration. Such providers also offer a number of ancillary pay-for-service features, such as message archiving and filtering, which are generally more cost-effective and effective from the user standpoint than could be obtained by managing such functions in-house.

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[477] Jeffrey Young, "Colleges Warily Turn Sensitive Email Over to Outside Companies," The Chronicle of Higher Education, 21 September 2009.
[478] Ibid.
[479] Ibid.

#20: Utilize Course Management Tools

Entrepreneur Michael Clifford suggested that the next generation of students will arrive to campus as "inhabitants" of the information age, accustomed to using technology in their daily lives, whereas most educators are "immigrants."[480] Many students grew up with personal computers, video games, mobile phones, and other high-tech gadgets. When they arrive on campus, they are confronted with a low-tech learning environment not all that different from high school. They gather in class with an instructor lecturing or writing on the blackboard, expected to take notes with pen and paper. They are then assigned readings or assignments from a textbook, and will face a number of written quizzes and exams, and perhaps a writing assignment, throughout the term.

Students are increasingly disengaged in the dominant lecture-based pedagogy of the past, as many regularly skip class, and college completion rates are abysmal. Many students are simply not stimulated or turned on to learning by this low-tech model. Colleges should embrace modern technology by using it to make learning more interactive in order to engage students and to enhance the experience both inside and outside of the classroom. Some critics have suggested that if colleges continue to fail to "keep pace with advances in learning technologies, then learning will leave schooling behind."[481] The incorporation of technology into the classroom is needed to maintain student interest and enhance the value of a college education.

While colleges have begun to implement some technology in the classroom, it has been at an unimpressive pace. Carol Twigg suggested that "[m]any campuses have simply bolted new technologies onto an existing set of physical facilities, a faculty already in place, and an unaltered concept of classroom instruction," adding to the costs of college rather than embracing the potential of technology to "improve the quality of student learning, increase retention, and reduce the costs of instruction."[482] In addition to online learning, electronic course management tools present an opportunity to revolutionize the way that learning takes place and reduce costs along the way.

While there are assuredly technological breakthroughs that will trump the course management tools currently available, this chapter will discuss some of the present technologies such as learning management systems, web 2.0 and electronic classroom devices that are involved in the transformation of the 21st century classroom.

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[480] Michael Clifford, Personal Telephone Interview, 10 December 2009.

[481] Allan Collins and Richard Halverson, "Rethinking Education in the Age of Technology: The Digital REvolution and Schooling in America," (New York: Teachers College Press, 2009).

[482] Carol Twigg, "Course Redisign Improves Learning and Reduces Cost," The National Center for Public Policy and Higher Education, June 2005.

Learning Management Systems

A learning management system (LMS), or course management system (CMS), is an institutionally-licensed program in which instructors can make course materials available to students electronically, as well as use it to administer assessments, facilitate communication, and manage student records. A LMS can be used to teach courses online or to supplement classroom instruction,[483] making it an ideal tool for blended course facilitation. Though there are costs associated with LMS, including software licensing, implementation costs, and maintenance costs for security and technical support, most institutions—m more than 90 percent of those surveyed by the Campus Computing Project (CCP)[484]—have already deployed such a system. In addition, a growing number of institutions employ an open source LMS, which permits free licensing of the software and thus, lowers the overall cost.

There are currently a number of suppliers of LMS in the market, including commercial providers such as Blackboard (it acquired Angel Learning in May 2009[485], and WebCT in February 2006), eCollege and Desire2Learn, and open-source providers such as Sakai and Moodle. [486] Websites such as EduTools provide an expanded list of these systems as well as a side-by-side comparison of features.[487] Blackboard has the biggest market share, with 56.8 percent of all institutions surveyed by the CCP indicating it as the campus standard in 2008. Table 20.1 displays the percentage of colleges with a single campus LMS provider, by institutional type.

Although the percentage of college courses that reportedly used a LMS system rose to 53.5 percent in 2008 from 14.7 percent in 2000,[488] colleges should encourage greater use of existing LMS systems to improve course pedagogy, student participation, and to help reduce costs for students, especially given that the marginal cost of adding more courses is very small. Table 20.2 displays the percentage of courses making use of LMS tools for online course resources in 2008.

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[483] "Course/Learning Management Systems Frequently Asked Questions," Bedford, Freeman and Worth Publishing Companies, <http://bfwpub.com/lms/training/cmsfaq.pdf>.

[484] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

[485] "Angel," <Blackboard, www.blackboard.com/Company/Angel.aspx>.

[486] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

[487] "Product List," EduTools, www.edutools.info/item_list.jsp?pj=4.

[488] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

Table 20.1: Percent of Institutions with Single Product Standard LMS, 2008[489]

Type of Institution	Angel	Blackboard	eCollege	Desire2Learn	Moodle	Sakai	Other	None
All Institutions	7.0	56.8	1.3	7.4	10.0	3.8	4.4	9.3
Public								
Universities	1.3	70.7	-	5.3	4.0	8.0	1.3	9.3
4-Year Colleges	2.8	67.0	-	6.6	3.8	3.8	1.9	14.2
2-Year Colleges	13.1	51.6	3.3	21.3	1.6	-	2.5	6.6
Private								
Universities	-	68.2	-	4.6	4.6	4.6	2.3	15.9
4-Year Colleges	9.0	45.8	1.7	-	23.7	4.5	8.5	6.8

SOURCE: CAMPUS COMPUTING PROJECT, 2008

Table 20.2: Percent of Courses Using LMS, by Institution Type[490]

Type of Institution	LMS Tools for Online Resources
All Institutions	53.5
Public	
Universities	55.6
4-Year Colleges	55.2
2-Year Colleges	47.7
Private	
Universities	57.7
4-Year Colleges	54.4

SOURCE: CAMPUS COMPUTING PROJECT 2008

Although commercial LMS provider Blackboard enjoys a dominant market share, an increasing number of institutions are employing open-source LMS, as 13.3 percent of colleges surveyed for the 2008 CCP survey reported either Moodle or Sakai as their single product LMS standard, an increase from 10 percent in 2007, and 7.2 percent in 2006.[491]

Moodle, a free open-source LMS that allows teachers to create dynamic websites for online courses or as a supplement to traditional courses, is the most common open-source LMS. It was reportedly used by 10 percent of all institutions surveyed by CCP, including 23.7 percent of private 4-year colleges and 1.6 percent of 2-year public colleges (see table 3 for more

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[489] Ibid.
[490] Ibid.
[491] Ibid.

information) in 2008.[492] Moodle reports that student enrollment approached 13.2 million in July 2009, with 2.25 million courses and 1.1 million instructors in nearly 200 countries.[493]

Sakai is a flexible, free and open-source LMS designed by a community of educators to provide users with a "suite of learning, portfolio, library and project tools,"[494] "designed to help instructors, researchers and students collaborate online in support of their work—whether it be course instruction, research or general project collaboration. More than 160 institutions worldwide have signed on to the initiative.[495] In the U.S., 3.8 percent of all institutions surveyed by the CCP, including 8 percent of public universities (see table 3 for more information), indicated Sakai as the standard campus LMS.[496]

Electronic Classroom Devices

The lecture model of instruction may have been the most efficient method to deliver information to large groups of people fifty years ago, but the modern information age presents so many opportunities to incorporate technology in to the classroom that its value has been greatly diminished. Thus far a number of devices have been developed that present an opportunity to transform the classroom experience, including innovations such as electronic notebooks, laptop computers and classroom clickers. We will briefly describe the potential implications of these various devices, as the technology frontier is continuously changing and much of what exists today will likely be replaced by more advanced technology within a few years.

Electronic Notebooks and Readers

The electronic book has achieved marketplace success, as a growing number of brands, including the Sony Reader, the Barnes and Noble Nook, and the Amazon Kindle, now produce notebook-size devices designed exclusively for reading electronic books. The e-Reader industry has had early but limited success in marketing its products to colleges, as the limited functionality of the devices is a hindrance to student adaptation. As the electronic notebook market is likely still in a stage of growth, we anticipate that device makers will adapt to student needs in order to penetrate the college market in the future. In fact, new competitors have already begun to emerge in this market, such as Apple's newest gadget—the iPad—which contains features that are conducive for students and the classroom. Apple touts the iPad as an e-reader, application platform, e-mail client, and web browser. It has been suggested that the device will complement many student-related activities perfectly, with applications designed to

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[492] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

[493] "Stats," Moodle, <http://moodle.org/stats>.

[494] "Portal," Sakai Project, <http://sakaiproject.org/portal>.

[495] Ibid.

[496] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

permit electronic note-taking, textbook access, recording of lectures and organization of course information.

Laptop Computers

Laptop computers are very popular among college students, yet their use in the classroom remains relatively unexploited. Laptops offer many advantages for the classroom, including the ability to take notes electronically, to utilize software that is relevant to the course such as spreadsheets, to access a world of information on the internet, and much more. Many MBA programs have recognized the usefulness of laptops in the classroom in training future business leaders and now require that students have one. While admittedly not all courses are conducive to laptops, they present an opportunity to enhance the classroom learning experience.

Clickers

A clicker is a handheld device that allows instructors to obtain instant feedback from students during class. For example, an instructor could incorporate multiple choice questions into a power point type projection and then have students click the answer that they believe is correct, with the results instantly generated and appearing on the screen as bar graphs showing the percentage of students who selected each answer choice. Because clickers can be programmed specifically to individual students, they have the potential to be used to facilitate in-class quizzes or for attendance purposes.

Web 2.0

Web 2.0 refers to web applications that facilitate interactive information sharing, interoperability, user-centered design, and collaboration on the internet. Web 2.0 sites allow users to interact with each other or to change website content, as opposed to non-interactive websites in which users are limited to the passive viewing of information that is provided to them.[497] Examples of Web 2.0 include wiki pages, blogs, video and note sharing, among others. Most Web 2.0 sites are free to register, so instructors can integrate them into the curriculum at a minimal cost—mainly consisting of the time to set up the site.

Wiki Pages

A wiki is a popular interface that allows users to alter the content of a webpage. Wikipedia, the open-source online encyclopedia that allows users to edit content, has become a household name. Colleges are increasingly making use of the technology, as 16.7 percent of institutions

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[497] "Web 2.0," Wikipedia, http://en.wikipedia.org/wiki/Web_2.0.

reported having a 'public campus wiki' in 2008, an increase from 13 percent the prior year.[498] Some professors have even begun integrating wiki technology into the classroom learning experience. University of Iowa Law Professor Lea VanderVelde had her employment law class research and develop a 1,300 page wiki textbook for the course, rather than teach from a traditional textbook. She plans to have future students in the course use the wiki model and add to what has already been created, as well as recreate some of the information that she believes they "should research and present on their own."[499]

Blogs

The term blog is a contraction for web log and is a type of website that contains commentary or news on a particular topic. Bloggers can include audio, photos, surveys, and video in their posts, and often permit reader comments to encourage discussion. The medium has gained momentum in the classroom, as instructors view blogs as a way to facilitate writing assignments and discussions in an online format, as well as to enhance students' writing skills. A Quinnipiac University English professor incorporated blogging into her courses and claims that it has improved the quality of student writing, suggesting that by posting the writing assignments on the internet, subject to peer comment, it "makes them think in terms of crafting their work for a bigger audience," giving them a "bigger stake in what they are writing."[500] John G. Palfrey of Harvard University said that he uses a blog as a class supplement and suggested that "It's been really effective at linking ideas that we are talking about in class and effective at continuing the conversation" after class is over."[501]

Micro-blogging via sites such as Twitter is another relatively new phenomenon that is gaining traction among instructors. It allows users to post brief real time updates (limited to 140 characters) about their thoughts or activities to the Web from their computer or phone. An October Pew Internet & American Life Project report indicated that 19 percent of internet users, including 37 percent of the 18 to 24 year old cohort, make use of Twitter or another service to share updates about themselves or see updates about others.[502] David Parry, an assistant professor of Emergent Media and Communications at the University of Texas at Dallas, espoused the potential of Twitter for Academia, suggesting that it prompts conversation to continue outside of the classroom, promotes community among students and can help improve writing.[503] Twitter could also be used to make course announcements or to share important news quickly across campus.

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[498] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education." The Campus Computing Project.

[499] Beja, Marc. "U. of Iowa Law Class Uses Wiki as Textbook." The Chronicle of Higher Education. 23 July 2009.

[500] Scott Carlson, "Weblogs Come to the Classroom," The Chronicle of Higher Education, 28 November 2008.

[501] Ibid.

[502] S. Fox et. al, "Twitter and Status Updating, Fall 2009," Pew Internet & American Life Project, October 2009.

[503] David Parry, "Twitter for Academia," AcademHack, 23 January 3008, 8 December 2009 <http://academhack.outsidethetext.com/home/2008/twitter-for-academia/>.

Despite the potential of improving student learning, only 6.8 percent of classrooms reported using either a wiki or blog in the 2008 CCP survey.[504]

Video Sharing

Video sharing has become an increasingly popular way to transmit information on the internet. Media outlets and other organizations increasingly broadcast news in real time online. Popular websites such as YouTube and Google Video have enabled amateurs to make use of the technology. A July 2007 Pew Internet report indicated that 22 percent of online video viewers have watched an educational video.[505] Online video sites such as YouTube and Big Think are increasingly targeting academe for content, as many colleges have signed agreements to establish official 'channels'. It is reported that some lectures have garnered seven digit viewership, suggesting that some highly successful professors are "in a sense rock stars."[506] Additionally, some creative professors have created educational music videos that explain basic principles of a given subject that are appealing to students. For instance, director John Papola and economist Russ Roberts produced a rap video, "Fear the Boom and Bust," that portrays the main differences between two schools of economic thought, and has already garnered more than 1 million views on Youtube at the time of this writing.

Despite the potential educational benefits, only 10.5 percent of classrooms reported using online video resources in the 2008 CCP.[507] Colleges also stand to benefit from partnering with online video sharing sites because it generates traffic to the institution's homepage. Some have suggested that Web videos help improve the quality of lectures and increase the "level of accountability for what happens in the classroom."[508] Video sharing has the potential to expand the access of college lectures to viewers in geographically displaced areas that are far-removed from campus.

Note Sharing

Peer-to-peer note sharing is a technological innovation that permits students or professors to post their notes online to websites such as Gradeguru.com, WiseCampus.com or FinalsClub.org, that can be downloaded by the public. Some critics, such as Harvard economist Greg Mankiw, have suggested that note sharing might encourage students to cut class[509] or otherwise

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[504] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education," The Campus Computing Project.

[505] Mary Madden, "Online Video," Pew Internet & American Life Project, July 2007.

[506] Jeffrey Young, "YouTube Professors: Scholars as Online Video Stars," The Chronicle of Higher Education, 25 January 2008.

[507] Kenneth Green, "Campus Computing 2008: The 19th National Survey of Computing and Information Technology in American Higher Education," The Campus Computing Project.

[508] Jeffrey Young, "YouTube Professors: Scholars as Online Video Stars," The Chronicle of Higher Education, 25 January 2008.

[509] Drake Bennett, "FreeHarvardEducation.com: Does anyone Own What Universities Teach?" The Boston Globe, 13 December 2009.

exacerbate an already unacceptable level of laziness in today's college students. Others believe that it confers substantial benefits, such as enhanced opportunities for student learning and the democratization of higher education by providing open access to the information presented and recorded in the classroom.

The Benefits of Course Management Tools

Entrepreneurs continue to create opportunities to modify the way that education is delivered. The next generation of students will expect nothing less than a college classroom which incorporates elements of the digital world that it is accustomed to using. The three main reasons to implement course management tools into the classroom is that they minimize costs, improve learning, and provide students with marketable skills.

Minimize Costs

First, the costs of implementing many of these course management tools are minimal and in some cases, may even reduce costs from the existing structure. For example, commercial LMS providers such as Blackboard charge a fee for use, but as stated above, many colleges already pay these fees so the marginal cost of adding a course is fairly low. As a growing number of schools move to the open source LMS format, which don't charge a fee, it is likely that the price of commercial providers will also continue to fall. For most web 2.0 technologies, the service is available at virtually no cost other than time. For instance, there are a growing number of blog providers that allow users to create their own blog at no cost, and there is no cost to setup a Youtube video page, or to download any of its videos. Video lectures can also be reused by an institution, reducing the cost of instruction. Electronic devices can be expensive, but it is an extremely competitive market, so prices generally decline rapidly over time. Students also generally buy these devices on their own, but it might be beneficial for some schools to engage in a group purchase of say iPads or laptops for their students, and pass the cost savings achieved by buying in bulk on to students.

Improve Learning

The next benefit from transforming the class with technology is that it will permit the greater facilitation of blended (the combination of face-to-face and online) learning, which was determined by the Department of Education to be superior in terms of learning outcomes when compared to traditional face-to-face learning.[510] Course content and other relevant information can be discussed in real-time both inside and outside of the classroom using LMS and Web 2.0 technology, as they both generally have a platform that permits interactive electronic discussion and the sharing of information. For instance, LMS users can post links to research or other course-related information in a discussion forum, which other students can access at any

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[510] United States, Department of Education, "Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies," (Washington: OPEPD, 2009).

time and offer additional feedback. Similarly, an instructor using a classroom blog can post items for course discussion, and students can respond to not only the professor, but also to one another. This is an interactive way to facilitate course discussion, independent research, and thought beyond the classroom in a way that is likely to improve student engagement and learning outcomes.

Provide Students with Marketable Skills

Finally, utilizing information age tools in the classroom will benefit students by preparing them to successfully navigate an increasingly complex world of information, which will be essential to remaining competitive in the job market of the future. For example, recall the University of Iowa employment law class mentioned above. The students were actively involved in developing a wiki page of information for the class. In doing so, the students gained a practical technological skill that will likely be useful in their future professional lives. Another example is the classroom blog, as it provides students with experience in gathering and organizing information, as well as web publishing. Organizations and professionals increasingly are involved in web 2.0 and social media, so students who gain experience in these mediums during college will be attractive in the marketplace after graduation.

Limitations and Challenges

Although education technology is exciting and has the potential to transform the traditional classroom into one that incorporates technological advancements, there are some limitations and challenges that must be addressed.

Costs

The cost of new technology can be a barrier for colleges, as they are unable to invest in every promising technology that emerges. They would therefore be wise to wait for the price tag to drop if a certain technology does prove valuable in the classroom. This does not mean that colleges should not experiment on a small scale with various technologies to determine which have the most merit, but it does require some restraint.

Technological Uncertainty

Moreover, the pace of technological change is rapid, so there is uncertainty as to which technologies colleges should invest in. When new technologies first emerge, they are often quite expensive and their value not yet known. In addition, product life cycles for new technologies are often quite short. Colleges must therefore exercise restraint before diving head first into a technology that may become obsolete in a short period of time.

Learning Curve

Additionally, there is a learning curve involved with this new technology. Many students have grown up with the technology at their fingertips; while they are quick to adapt to the latest technological innovations and gadgets, many older, nontraditional students (as well as their instructors) aren't. This necessitates that users be allowed sufficient time to learn to use new technology, delaying full scale implementation. Some instructors—quite complacent in their methods of instruction—may even resist implementation of a new technology in the classroom. Negative attitudes from a large number of faculty members towards online courses confirm that this is a real possibility.

Technical and Security Issues

Lastly, there are technical and security issues as there are with all information technologies. For electronic devices, battery life and access to electrical outlets are concerns. Such devices are also subject to malfunction, which could result in a student losing all of his study materials. Learning management systems are dependent on constant and reliable access to the internet. Because they are often web-based, LMS are also subject to security threats such as hackers. The same is true for web 2.0 tools.

Conclusion

Course management tools and classroom devices have the potential to transform the traditional lecture-style classroom into a technology-driven student learning environment. Some technologies have already made a significant impact, such as LMS. The emergence of open source LMS provides colleges with an opportunity to reduce their technology costs, as providers such as Moodle and Sakai offer free access to their software. Other technology, such as web 2.0 and portable electronic devices, present an opportunity to enhance the classroom learning experience by integrating tools that students will likely make use of in their future careers. Some of these tools, such as blogging and wikis, can be integrated into the classroom at very little cost, if any. As entrepreneurs continue to develop an abundance of technology for use in the classroom, the opportunities for learning enhancement and engagement, as well as cost reductions, will become more apparent to colleges and policymakers. While there are challenges and limitations that must be considered, we believe that the substantial benefits of many new educational tools and information technologies outweigh these concerns, and that their adoption could improve student learning, lower the costs of college, and provide students with marketable skills for the 21st century workplace.

Section Five: Improve Competition

#21: Ease the Transfer Process among Public Institutions

There are many unnecessary roadblocks that litter the pathway for students to transfer between schools, even among public institutions within the same state. Some of the obstacles students encounter during the transfer process include varying degree requirements for similar programs at different schools, repetition of completed courses (particularly true when different schools use different course numbering systems or course names), and limitations on the transferable number of credits schools allow. Such obstacles (and others not listed here) can cost students more not only in terms of tuition bills but also in the extra time needed to fulfill the requirements for their degrees. While these hurdles increase the cost of higher education for students, their families, and the public at large, they add little to the actual educational product. Eliminating or greatly reducing these barriers ought to be a major focus of higher education public policy, especially in the case of public schools within the same state.

Some states have, in fact, made important strides in this area. Florida, for instance, has a common course numbering system and several other states have adopted statewide standardized core course sequences that help ease transferring difficulties.[511] Other states have adopted a statewide standardized core course sequence.[512] The different approaches which have been taken will be discussed in more detail shortly.

Complicating the picture for reforms in transfer policy is the fact that different students transfer schools for completely different reasons. While some students transfer for purely financial reasons, others' motivations are more complex. An additional complicating factor for statewide transfer policies for public schools is the fact that a significant portion (one estimate is 40%) of all college transfers occur across state lines.[513]

Historically, transferring from community college to a four year college has received considerably more attention in both the academic world and among policymakers, causing several researchers to conclude that "facilitating transfer from community colleges to four-year

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[511] Bob Laird, "The Trouble with Transferring: It Shouldn't Be So Difficult" The Chronicle of Higher Education 55, No. 29 (2009): B22.

[512] United States, Department of Education, "Answers in the Tool Box: Academic Intensity, Attendance Patterns and Bachelor's Degree Attainment," (Washington: OERI, 1999).

[513] Josipa Roska and Bruce Keith. "Credits, Time, and Attainment: Articulation Policies and Success after Transfer," Educational Evaluation and Policy Analysis 30, No. 3 (2008): 236.

institutions has become a critical issue in higher education."[514] Other authors express agreement with this sentiment. It is important, however, to note that transfers from two-year colleges to four-year schools account for only a bare majority of all college transfers; nearly half of all transfers are either between two two-year schools or between two four-year schools, or are reverse transfers from four to two-year schools. [515] In this section, the initial focus will be on improving the transfer process for students transitioning from two-year community colleges to four-year schools and will shift later to discussion of possible reforms in the transfer process between four-year schools as well.

The 2-to-4 Transfer Option

Transfer policies for community college students have been the subject of research for the past 30 years.[516] Whether the transfer policies are a matter of state law or only the product of inter-institutional agreements, these policies are ostensibly designed to enable students to transfer more easily between schools. Community college transfers draw particular attention because, as will be noted later in this section, a considerable portion of community college students explicitly enter a two-year school with a desire to transfer at a later date to a four-year school.

Perhaps the strongest rationale behind community college transfers is the significant savings associated with students who choose this path to a bachelor's degree over exclusively attending a four-year school. After all, tuition at a community college is significantly less than tuition at a four-year college. During the 2007-08 academic year, the national average published tuition (and required fees) for in-state students at public four-year schools was $5,950 versus $2,063 at two-year schools. When grant aid and tax benefits are considered, the cost at two-year schools is even lower relative to four-year schools.[517]

Encouraging more students to receive credits at a community college prior to enrolling in a four-year college not only generates savings for the individual student, but can also be an important avenue for decreasing the burden on taxpayers who subsidize public colleges. This is particularly true for general education courses because community colleges can offer these courses at a sharply lower cost compared to four-year schools. According to the latest data

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[514] Bethany Gross and Dan Goldhaber, "Can Transfer and Articulation Policies Propel the Community College Students to a Bachelor's Degree—and Is This the Only Goal?" (Seattle, WA: Center on Reinventing Public Education, May 2009), 1.

[515] Audrey Light and Wayne Strayer, "Who receives the college wage premium? Assessing the labor market returns to degrees and college transfer patterns," Journal of Human Resources, 39, No. 3 (2004): 757.

[516] Gross and Goldhaber, 1.

[517] According to data published by the College Board, the net price of tuition (published tuition less student financial aid and tax benefits) was 96% lower at public two-year institutions than at public four-year schools. College Board. "Trends in College Pricing" (2008). <http://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf> (accessed April 16, 2009). For an alternative approach to net tuition, see also Andrew Gillen, et al. "Net Tuition Trends in the United States" Center for College Affordability and Productivity (2008). <http://www.centerforcollegeaffordability.org/uploads/Microsoft%20Word%20-%20Net_tuition__010309.pdf>, (accessed April 16, 2009).

available from the U.S. Department of Education, for the 2005-06 academic year, the national average state subsidy per student was $3,678 at public two-year schools, but was 122 percent higher ($8,165) at public four-year schools.[518] Increasing the number of students who take general education courses at community colleges means that fewer resources need to be devoted to these courses at the more expensive four-year schools. Decreasing the cost of general education courses should increase the resources available at four-year schools that can be allocated to more discipline-specific courses that are the specialty of four-year colleges and universities.

It is possible that a major reason for the relatively low cost of community colleges is that the quality of education at these schools is substantially inferior to that available at four-year universities. Research has shown that students who transfer from two-year colleges to four-year schools have considerably lower graduation rates than those students who only attend four-year institutions,[519] and one cause of this could be too little rigor in the curriculum at two year colleges. However, four-year institutions making this argument should actually demonstrate the higher rigor of their own courses, rather than merely asserting it.
One of the most popular of these transfer programs is DirectConnect in Florida. Any student who graduates from four nearby community colleges is guaranteed admission to the University of Central Florida. There are currently more than 35,000 students in the pipeline.[520]

National Trends in Student Transfers from Two to Four-year Schools

Traditionally, community colleges have focused primarily on educating adults, many of whom are seeking specific vocational training to enter or advance in a particular career field, rather than the younger students who typically attend four-year schools.[521] However, as overall enrollment at community colleges has grown—it increased 741 percent between 1963 and 2006—so has the proportion of traditional college-aged students attending these two-year schools.[522] Many students view community college as a stepping stone to future receipt of a four-year degree and enroll in pre-transfer tracks. For example, a 2008 study by the U.S. Department of Education found that 37 percent of high school seniors planned to earn a bachelor's degree and 35 percent declared that they wanted to earn a graduate degree. 22 percent who wanted a bachelor's degree enrolled in community colleges immediately after high school, while of those who declared a graduate degree to be their educational goal, 14

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[518] United States Department of Education, "Digest of Education Statistics 2008," Washington: NCES, 2008.
[519] William Bowen, Crossing the Finish Line: Completing College at America's Public Universities, Princeton University Press, 2009.
[520] David Moltz, "Waiting in the Wings," Inside Higher Ed, 8 January 2010.
[521] United States Department of Education, "Community Colleges: Special Supplement to Condition of Education 2008," (Washington: NCES, 2008).
[522] David Moltz, "The Community College Enrollment Boom," Inside Higher Ed, 22 August 2008.

percent enrolled in community colleges.[523] Regardless of the chief cause of these enrollment trends (whether financial, academic or other), it is certain that a significant body of students view studying at a community college as a means to fulfill the requirements of a bachelor's degree, or, in some cases, even of master's or doctoral degrees. Nevertheless, it is true that only a fraction of those students expressing intent to transfer actually achieved the goal of earning their intended degrees.[524]

Reforms for the 4-to-4 Transfer Option

Although the 2-to-4 transfer option may generate more attention, the 4-to-4 transfer option should not be ignored; after all, 30% of all students who transfer do so between four-year schools. Unlike the 2-to-4 transfer scenario, the evidence shows that students who take the 4-to-4 transfer option have essentially the same graduation rates as those who never transfer.[525] For this reason, 4-to-4 transfer reform should be focused on stream-lining credit transfer.

State-Level Transfer Policy Reform

To improve the process for students transferring between public institutions (including from two to four-year schools), several states have instituted state-wide articulation policies, an approach which was very popular several decades ago. Florida, in 1971, was the first state which legislatively mandated a statewide articulation plan, and many states have since followed suit.[526] According to a 2005 report by the U.S. Department of Education, 30 states have enacted transfer legislation, while 23 states have a common course core and 40 have state-wide cooperative agreements (these states are listed in Table 21.1).[527] Since the publication of this 2005 report, the Education Commission of the States notes that several state legislatures have passed laws respecting the statewide articulation policies, including Maine which, in May 2009, established a pilot program for transfers from the seven-year-old Maine Community College System to the University of Maine System.[528]

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[523] United States, Department of Education, "Which Seniors Attend Community Colleges Right After High School?" Special Analysis 2008: Community Colleges, (Washington: NCES, 2008).

[524] Roska Josipa and Juan Calcagno, "Making the Transition to Four-Year Institutions: Academic Preparation and Transfer," CCRC Working Paper No. 13, 2008.

[525] Ibid.

[526] Gregory Anderson et. al, "Effectiveness of Statewide Articulation Agreements on the Probability of Transfer: A Preliminary Policy Analysis," The Review of Higher Education, 2006.

[527] United States, Department of Education, "Contexts of Postsecondary Education: State Transfer and Articulation Policies," (Washington: NCES, 2005).

[528] "Recent State Policies/Activities; Transfer/Articulation" Election Commission of the States, 2009.

Table 21.1: States with State-Wide Transfer and Articulation Policies (2005) [529]

States with Cooperative Agreements	States with Legislation	States with Common Core Courses
Alabama	Alabama	Alabama
Alaska	Arkansas	California
Arizona	California	Colorado
California	Colorado	Connecticut
Colorado	Connecticut	Florida
Connecticut	Florida	Georgia
Delaware	Illinois	Idaho
Florida	Indiana	Illinois
Georgia	Kansas	Louisiana
Hawaii	Kentucky	Maryland
Idaho	Louisiana	Missouri
Illinois	Maryland	Nebraska
Indiana	Massachusetts	New Mexico
Iowa	Michigan	North Carolina
Kansas	Nebraska	North Dakota
Louisiana	New Mexico	Oklahoma
Maryland	North Carolina	Oregon
Massachusetts	Ohio	South Dakota
Mississippi	Oklahoma	Texas
Missouri	Oregon	Utah
Nebraska	Rhode Island	Vermont
New Hampshire	South Carolina	Washington
New Mexico	South Dakota	Wisconsin
New York	Tennessee	
North Carolina	Texas	
North Dakota	Utah	
Ohio	Virginia	
Oklahoma	Washington	
Oregon	West Virginia	
Pennsylvania	Wyoming	
Rhode Island		
South Dakota		
Tennessee		
Texas		
Utah		

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[529] United States, Department of Education, "Contexts of Postsecondary Education: State Transfer and Articulation Policies," (Washington: NCES: 2005).

States with Cooperative Agreements	States with Legislation	States with Common Core Courses
Vermont		
Virginia		
Washington		
West Virginia		
Wyoming		

SOURCE: U.S. DEPARTMENT OF EDUCATION

Case Study 21.1: North Carolina Comprehensive Articulation Agreement

In 1995 the North Carolina legislature passed an act mandating the creation of a plan to enable an ease of transfer for students from the institutions of the North Carolina Community College System (NCCS) to any institution of the University of North Carolina (UNC), a multi-campus university composed of all sixteen public institutions granting undergraduate degrees in the state and the NC School of Science and Mathematics. The legislation included instructions for a common course system for all state community college systems as well as the development of "accurate and accessible academic counseling" for students seeking to transfer from the state's community colleges to the University of North Carolina.[530] The faculty and administrators of the NCCS and UNC systems created a "Comprehensive Articulation Agreement" (CAA) in 1996, based upon the proposed plan of the governing boards of the NCCS and UNC approved earlier that year.[531]

Any student at a North Carolina Community College who has either graduated with an Associate Degree or has completed a 44 hour general education core curriculum with a minimum overall GPA of 2.0 (and a grade of at least a "C" in core courses) is eligible to transfer under the CAA. The general education core curriculum, including requirements in English composition, humanities and the fine arts, social and behavioral sciences, and natural sciences and mathematics, is transferable from any NCCS school to any UNC institution. Even if a student has not completed an associate's degree at an NCCS school, these core credits can still be transferred to schools in either system.[532]

The CAA does not prohibit individual institutions from forming bilateral articulation agreements (and in fact, many such agreements have been reached by individual NCCS and UNC institutions), but any such agreement may not conflict with the provisions of

[530] "Comprehensive Articulation Agreement between the University of North Carolina and the North Carolina Community College System" North Carolina Department of Education, <http://intranet.northcarolina.edu/docs/assessment/caa/2008/December/102.51CAA_Modified_December_2008.pdf>.
[531] Ibid.
[532] Ibid.

the statewide CAA. These individual agreements allow UNC institutions the flexibility to accept transfer credits above and beyond the mandated core curriculum. In fact, many of the existing bilateral agreements focus on applied science programs which are generally not designed for transfer; citing the unusual circumstances pertaining to these academic programs, the state has deemed it necessary to allow individual schools to create specific transfer plans which account for the different accreditation criteria, academic requirements, and vocational focus for these programs.[533]

The University of North Carolina has developed a comprehensive database to monitor transfer student performance, including data on students transferring from a community college to a four-year UNC school as well as data on students transferring within the UNC system. In the Fall of 2007, according to these data, 2,077 students transferred from one UNC institution to another, which was less than 1 percent of the total enrollment of all UNC schools that fall. One year following their transfer, 73.2 percent of students were in good academic standing, with an average GPA of 2.81. These numbers are comparable to those in 1996, the last year before the CAA was to take effect, although, as a percentage of UNC total enrollment, more students transferred in 1996 than in 2007. In 1996, 2,000 students transferred between UNC schools (1.3 percent of the total UNC enrollment) and one year after the transfer, 73.8 percent remained in good academic standing.[534]

Table 21.2 summarizes data on the performance of community college transfers to UNC institutions compared to UNC native rising juniors. The table gives the retention rate for transfer students (the percentage of transfers who remain enrolled at UNC institutions one year following transfer), the retention rates of UNC native juniors (the percentage of juniors returning for their senior year), and the four and five-year graduation rate of both types of students (two and three years after transfer for transfer students).

Table 21.2: Retention and Graduation Rates for North Carolina Transfer Students

	2002			2008		
	Retention Rate	**4-Year Graduation Rate**	**5-Year Graduation Rate**	**Retention Rate**	**4-Year Graduation Rate**	**5-Year Graduation Rate**
Associate Total Transfer	79%	31%	59%	83%	32%	61%
Native UNC Rising Junior	95%	60%	86%	95%	57%	84%

SOURCE: THE UNIVERSITY OF NORTH CAROLINA, INSTITUTIONAL RESEARCH AND ANALYSIS

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[533] "Bilateral Agreements between the NC Community College System (NCCCS) and The University of North Carolina (UNC)," Travel Advisory Committee, 2007.

[534] "Transfer Student Performance," Institutional Research and Analysis, 2009.

These data show that from 2002 to 2008, the retention of community college transfer students has improved while the retention of UNC native juniors remains at the 2002 level. UNC native students significantly outperform transfer students in both four and five-year graduation rates; as of 2008, 57 percent of native UNC juniors graduate after their senior year but only 32 percent of community college transfers do so. However, the gap in four-year rates between transfer and native students has narrowed since 2002. It is interesting to note that while the graduation rates of transfer students has increased slightly over this time period, the graduation rates of native students has actually decreased, albeit by only a small margin.

One possible explanation for the increase in the transfer graduation rate is that the implementation of the CAA is allowing for more seamless transfer than before; another is that some students who are qualified to attend a UNC institution coming out of high school actually initially enroll at NCCS schools to save on tuition before they transfer to a public four-year school.

In reality, it could be a combination of these two (or other) explanations, though the latter could also explain the slight decrease in the performance of native UNC students. The fact that the retention rates for transfer students rose by four percentage points over six years is possibly evidence which indicates that the creation of a core curriculum with fully transferable credits is an effective way to encourage transfer and ease the difficulties students encounter during the process. A core curriculum better enables students to understand what requirements they must meet in order to receive transfer credit and sets a standard by which the schools must abide as they deal with transfer students.

Not only does the North Carolina CAA potentially save individual students thousands in tuition dollars, but it also cuts costs for the taxpayers who subsidize the education made available at the state's public institutions of higher education. Tuition at North Carolina public four-year schools was more than 3 times greater than the tuition at two-year schools in 2007-08. The average published tuition and fees (weighted by enrollment) at North Carolina community colleges that year was $1,377, while the published tuition and fees at the state's four-year schools was, on average, $4,301. For students completing coursework at a community college prior to transferring to a four-year school that year, the savings in tuition amounted to nearly $3,000 per student.

Similarly, the cost to taxpayers was almost twice per student at four-year schools as compared to the state's community colleges in 2007-08. State appropriations per full time equivalent student amounted to $9,300 at UNC institutions, but only $4,800 at

community colleges. Students who completed two years worth of courses at community colleges before transferring saved state taxpayers around $9,000 apiece. [535]

In the first decade of the CAA, the retention rate for community college transfers did rise but not significantly. What is perhaps more important, though, is that in terms of both retention and graduation rates, transfer students academic success improved relative to native UNC students. So while the evidence does not provide an absolutely clear-cut case for the success of the North Carolina agreement, we can cautiously state that there is support for the view that the CAA is successful at facilitating community college transfers to four-year universities.

Institutional Cooperative Agreements

While a number of states have instituted statewide articulation policies binding to most, if not all, of the four-year public colleges and universities, not all states have done so. In some of the states in the latter category, there are cases of individual public institutions reaching agreements with some of the state's community colleges. How extensive these institutional cooperative agreements actually are varies considerably, as some include only a very few community colleges and others apply to a large number of two-year schools within close geographic proximity or even to the entire state. According to a 2005 U.S. Department of Education report, 40 states "have established statewide cooperative agreements among institutions or departments."[536] However, not all cooperative agreements are mandated by state policy but rather are institutional initiatives. In fact, several private colleges and universities (such as Dickinson College in Pennsylvania) have reached agreements with neighboring community colleges to encourage students to transfer.

Case Study 21.2: University of Iowa "2 Plus 2" Program

In November 2006, the University of Iowa (UI) announced the initiation of a "2 Plus 2 Guaranteed Graduation Plan."[537] The agreement, originally between only UI and three Iowa community college districts, guaranteed that students who attend a community college for two years and received an associate's degree would be able to transfer to and receive a bachelor's degree from UI two years later. However, this program

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[535] The data in this paragraph are taken from several sources. For the data on state appropriations, see James C. Palmer, ed. *Grapevine* "Historical Data: 2007-08." <http://www.grapevine.ilstu.edu/historical/index.htm> (accessed July 30, 2009). For the data on enrollment, see The University of North Carolina, Institutional Research and Analysis. "Fall Enrollment Reports" <http://www.northcarolina.edu/ira/ir/analytics/fallenr.htm> (accessed July 31, 2009). See also North Carolina Community College System, "2007-08 Annual Statistical Report" Table 26. <http://www.nccommunitycolleges.edu/Statistical_Reports/collegeYear2007-2008/annual/ann0708.htm> (accessed July 31, 2009). For the data on tuition rates, see The National Center for Education Statistics, Digest of Education Statistics 2008, Table 332.

[536] United States, Department of Education, "Contexts of Postsecondary Education: State Transfer and Articulation Policies," (Washington: NCES, 2005).

[537] "UI Offers Four-Year Transfer Plan with Select Iowa Community Colleges," University of Iowa News Services, 13 November 2006.

extended only to students at participating institutions and was limited to selected major programs of study. As an incentive for students to participate in this program, UI announced that, beginning in 2008, it would offer as many as twenty-five $1,000 scholarships (renewable for one year) to "2 plus 2" students with the highest cumulative transfer grade point average.[538] Later, the program was expanded to include additional Iowa community colleges. Currently, every community college in the state participates with UI, with 20 major programs of study available for "2 plus 2" students.[539]

Although relatively new, the program is at least somewhat effective. "2 plus 2" appears to provide Iowa students with a way to lower their educational costs, as they can make use of the lower tuition rates at Iowa community colleges before transferring to the UI. For instance, for the 2008-09 academic year, the average full-time tuition at Iowa public community colleges was $3,390, while tuition at the University of Iowa was $5,548.[540] Average savings for the student attending a community college before transferring to the IU amounted to approximately$2,000.[541] As John Hendrickson concluded in a study on the "2 Plus 2" program, the plan "is cost effective and it places students on a track to graduate in four years, instead of the increasing number of fifth or sixth year college seniors."[542] However, Hendrickson cautioned that although student costs may be reduced by this program, it may not actually reduce costs to the taxpayers who fund the public community colleges in Iowa, due to the high level of per capita state and local expenditures on higher education in that state.

Conclusion

Controlling student costs during the transfer process ought to be a focus of any transfer or articulation policy. Rather than causing students (or taxpayers) to incur more costs by retaking courses in which they have already shown competence or by taking additional courses unnecessarily, transfer policy should enable students to transfer relatively seamlessly from one public institution to another within the same state. While statewide articulation policies (whether promulgated by legislatures or state education authorities) have been a popular option for attaining this goal, by themselves these policies may not actually be as effective as they need to be. Additional actions, such as faculty advising, student transfer handbooks, and course equivalency systems are essential to constructing a viable transfer process for

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[538] "UI Creates New Scholarship for Iowa Transfer Students," University of Iowa News Services, 30 July 2007.

[539] For more information on the "2 Plus 2 Guaranteed Graduation Plan", see <http://www.uiowa.edu/2plus2/index.html> (accessed April 30, 2009).

[540] It should be noted that these figures may not be strictly comparable since the average community college tuition is "adjusted" tuition but the tuition for the University of Iowa is "base" tuition. These figures, though, are the ones the Iowa Department of Education has used for comparison.

[541] "Iowa Community Colleges: Tuition and Fees Report," Iowa Department of Education, August 2008. Board of Regents, "Approval of 2008-09 Tuition Fees," State of Iowa, 4 December 2007. Adding required fees to tuition makes total tuition and fees at the University of Iowa much higher.

[542] John Hendrickson. "Iowa Higher-Education's Third Way: Community Colleges' 2 + 2 Programs" (Public Interest Institute, 2008), 13.

students.[543] Establishing core curricula which are fully transferable between public colleges can benefit not only those students who transfer to four-year schools from community colleges, but also students going from one four-year school to another.

However, statewide policies should not preclude individual institutional agreements which can be more focused on particular situations at the schools entering these specific agreements. Such agreements may actually be more beneficial for students, especially community college students, because institutional plans can be more applicable to special circumstances surrounding transfers between particular schools and can avoid the excesses of statewide policies suffering from "relatively complicated articulation systems with rules that are difficult to decipher."[544]

Regardless of which method is used to improve the transfer process, the focus needs to be on decreasing costs for students. As was shown in the case studies earlier in this section, students use the transfer process to cut costs (particularly by obtaining credits at low-cost community colleges); therefore, transfers between schools should be encouraged for those students choosing that route and those students should not be penalized by retaking courses they have already mastered or by unexpectedly requiring them to take additional courses. Because community colleges can offer courses at lower costs for both students and taxpayers, 2-to-4 transfers are a definite possibility for curbing the rising costs of higher education.

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[543] Gregory Anderson et. al, "Effectiveness of Statewide Articulation Agreements on the Probability of Transfer: A Preliminary Policy Analysis," The Review of Higher Education, 2006.
[544] Roska and Keith, 249.

#22: Reform Financial Aid

The goals of our financial aid system are certainly admirable. Providing assistance to the less fortunate is a crucial tool to help achieve equality of opportunity. However, the system could be reformed to achieve these goals much more efficiently. As Sandy Baum, an economist with the College Board notes, our current financial aid system is "like the tax system... Each piece gets piled on another piece. And the way they fit together is generally not something people would design by purpose."[545] Unfortunately, a consequence of this maze of overlapping and sometimes contradictory programs is that our financial aid system actually leads to higher college costs.

The first way in which our aid system leads to higher costs is by limiting competition. The cost of going to college for potential students is obscured because information is withheld, and hugely important decisions are skewed by perverse incentives. This translates into a competitive environment among colleges that is not as vigorous as it would otherwise be, which implies less market discipline for the colleges.

Secondly, our system encourages price discrimination. This increases the revenues of the colleges, which in turn increases their spending. This leads to higher costs and typically, higher tuition, which offsets some of the benefits of the aid.

To remedy these problems, the aid system should be reformed to alter the awarding of aid, increase the information given to students about their aid, and limit colleges' access to student financial information. These reforms will enhance competition by providing more information and discouraging price discrimination.

How the Current System Discourages Competition

To understand how the financial aid process discourages competition, it will be helpful to be familiar with a timeline of some key steps college applicants must take if they want financial aid, outlined below.

Step 1 (December – January): Apply to colleges
While the specific application deadline varies by school, it is typically between December and January of the student's senior year.

Step 2 (January): Fill out the FAFSA
Applicants are told that they should fill out the Free Application for Federal Student Aid (FAFSA) as soon as possible after January 1st in the year in which they are seeking aid.

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[545] Jon Gertner, "Forgive Us Our Student Debts," New York Times Magazine, June 11, 2006.

Step 3 (February): Receive the SAR
About a month after submitting the FAFSA, a student will receive a Student Aid Report (SAR). The SAR summarizes the information submitted on the FAFSA, and reports a figure called the Expected Family Contribution (EFC). The EFC is the amount that the government has determined that the student and their family are capable of paying. The SAR is also sent to all the colleges that the student indicated they would like to apply for financial aid for on the FAFSA.

Step 4 (starting in April): Receive acceptance and aid award letters from colleges.
Around April, the schools to which the student has been accepted will begin to mail out acceptance letters, which typically include a financial aid award letter. This letter informs students of the estimated cost of attendance as well as the aid that has been made available to them by both the school and the government.

This peculiar arrangement gives rise to a number of problems that have the effect of reducing competition among colleges and increasing their costs.

The Current System Obscures Costs in the Planning Stages

The first way in which the financial aid system discourages competition is by neglecting to inform applicants of what aid is being made available for them in a timely manner. Please note the incongruity in timing above. Students apply to colleges in step 1, but do not find out if they can afford them until step 4.

This is not due to a lack of effort on the students' part. It is estimated that the average family spends 10 hours gathering the required documents and filling out the FAFSA, but "Completing the FAFSA yields absolutely no information about aid eligibility. In fact, definitive information about aid eligibility does not arrive until months after the FAFSA is submitted."[546] Even when the form is filled out online, the student receives no immediate information after this rather large investment of time, and must wait about a month before getting the SAR. Recall, however, that the SAR does not tell them how much aid they'll receive either, but rather how much the government thinks they can afford to pay. To finally find out how much aid they will get, the student must wait another month or two; until they receive aid award letters from the schools that have accepted them.

The sticker price of college is typically much higher than the net price that the student will need to pay. But the fact that they will not know what their net price is prior to applying makes it very difficult to plan. As Bowen, Chingos, and McPherson put it in *Crossing the Finish Line*, "this is a significant impediment to planning from the standpoint of deciding both whether and

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[546] Susan Dynarski and Judith E. Scott Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," NBER working paper 13801, February 2008.

where to attend college."[547] While almost six out of ten students intend to apply to 4 or more colleges, a majority actually applies to less than three, and 22 percent end up applying to just one college.[548] Given the lack of information, it is likely that one or more of these colleges will be beyond their financial reach. Combined with the fact that they may not get accepted to all the schools they apply to, this implies that by the time they make a final decision on where to attend, many students will have even fewer choices available, greatly diminishing their ability to "shop around." As a consequence, the potential of consumer shopping around to act as a disciplining mechanism is greatly diminished.

The Current System Skews Decisions

Another problem with the current system is that decisions are skewed. For example, students' decisions of whether or not to work are distorted. "The current formula absorbs student earnings from work very quickly (especially for independent students), taxing them (above a low-income protection allowance of $2,500) at a very high rate of 50 percent."[549] So, for every $100 dollars a student earns over the summer, they can expect to see their aid reduced by $50.

Perhaps the most important decision that is skewed is that of which school to attend. The government routinely makes more aid available to those that attend more expensive schools.

Case Study 22.1: The New GI Bill

A glaring example of the problems with financial aid varying based on the school attended is the new GI Bill. Effective as of August 2009, the GI Bill offers financial aid to qualified servicemen and women to cover educational costs, including housing.

The maximum benefit amount was originally set to cover the highest in-state, public, undergraduate tuition and fees. While this formula initially appeared to promote fairness by taking into account the different costs of attending school in different states, it was quickly realized that the enormous variation among states gave rise to fairness issues of a different nature. The maximum award per term ranges from $523 in Delaware to $63,576 in Utah.[550] Expensive flight training as well as lab heavy courses, which often have additional fees, account for much of the difference. The maximum payout for tuition alone varied greatly as well, ranging from $93.40 per credit hour in South Dakota to $1,471 per credit hour in Texas.

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[547] William G. Bowen et. al, "Crossing the Finish Line: Completing College at America's Public Universities," Princeton University Press, 2009.

[548] Doug Lederman, "De-Hyping College Admissions (or Trying to, Anyway)," inside Higher Ed, 13 January 2009.

[549] Sara Goldrick-Rab and Josipa Roksa, "A Federal Agenda for Promoting Student Success and Degree Completion," A report by the Center for American Progress, August 2008, 16.

[550]United States, Department of Veteran's Affairs, 2009-2010 Maximum In-State Tuition and Fees, 31 August 2009.

The criteria laid out by the bill negatively effects higher education in two key ways. First, it encourages students to attend the most resource intensive colleges by making them less price conscious. Many students are already under the mistaken impression that they will get the best value if they attend the most expensive school since it is common to use price as a proxy for quality. However, we should not encourage students to attend the most resource intensive institutions without evidence that such institutions are providing a better education. By setting the award levels high enough to cover the most expensive public school, the bill will further reduce price consciousness. Second, it encourages colleges that currently charge less than the maximum to increase tuition, since they can do so without making the students any worse off. Since such a small minority of students will be veterans, this will be a relatively minor problem in this case (unless schools find a way to raise tuition just for veterans), but if the program covered a larger percentage of the students, this could be extremely problematic.

As the discussion of the GI Bill illustrates, it is often the case that aid is higher where tuition is higher. While the grant programs are generally able to avoid this problem (due to the fact that they max out at relatively low levels), the loan programs are quite guilty in this regard. While there are yearly and cumulative loan limits, within those limits, the Government Accountability Office reports that "the maximum unsubsidized Stafford loan amount is calculated without direct consideration of financial need: students may borrow up to their cost of attendance, minus the estimated financial assistance they will receive."[551] In other words, students that attend schools with higher costs of attendance (i.e., more expensive schools) will be eligible for more aid in the form of loans. This not only gives the subtle message that the government values graduates from expensive colleges more than graduates from less expensive ones, but more importantly, it greatly diminishes the extent to which price sensitivity can act as a constraint on tuition increases. If increases in tuition were not accompanied by higher loan eligibility, then tuition hikes would be a more costly decision to make, and we would see less of them.

The Current System Encourages Price Discrimination

The current system also discourages competition by encouraging price discrimination. Recall that the SAR summarizes the information on the FAFSA about student and parental income and assets as well as determines the EFC (how much the government thinks they can afford to pay). Incredibly, this information is then sent to the colleges to which the student has applied. In effect, the government is telling the colleges precisely what they think the student and their family can afford. This enables and encourages colleges to practice price discrimination - charging different students different amounts for essentially the same service.[552] This would be

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[551] United States, Government Accountability Office, "Multiple Tax Preferences and Title IV Student Aid Programs Create a Complex Education Financing Environment," 5 December 2006.
[552] When the costs of providing an education differ by field, such as engineering vs. sociology, it is reasonable that the prices charged would differ as well.

similar to going to a movie theater where the ticket clerk knows exactly how much money each customer is willing to pay, and prices tickets accordingly.

Colleges engage in price discrimination by offering students tuition discounts, or scholarships. By setting a higher tuition than they otherwise would and varying the amount of the discount/scholarship, the college can increase the revenue it brings in from tuition. This helps explain why the Delta Cost Project has found that a "prominent trend in the past two decades has been growing use of 'tuition discounting' as a recruitment tool and as a mechanism for generating funds for student aid."[553]

By giving each college an applicant's financial information, the current system makes it likely that the schools will end up charging similar amounts. Remarkably, a group of Ivy League colleges even used to meet to discuss and standardize aid awards to individual students, so as to avoid getting into a bidding war.

> Case Study 22.2: *United States v. Brown University et al.*
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> *United States v. Brown University et al.* was a landmark 1991 case initiated in order to determine the legality of collusive price setting behavior in higher education. The case took the form of a complaint against eight Ivy League universities and MIT, all accused of illegally collaborating to fix prices. As Rupert Wilkinson's reports in *Aiding Students, Buying Students:*
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> "Agreeing to ban all merit scholarships, they sent their financial aid officers to big working conferences, meeting twice a year from 1958. Sitting at long tables, first at Harvard, then usually at the Wellesley faculty club, the college officers would try to agree on a basic price… The Ivy-MIT group, in particular, tried not only to agree on the [expected family contribution] for each shared "admit" but to narrow their differences in the amount of "self help" (borrowing and campus-job earnings) expected from most of their aided students."[554]
>
> MIT and the Ivies believed they were exempt from the 1890 Sherman Antitrust Act, which would normally prohibit such arrangements, because they saw themselves as benevolent institutions pursuing the best interests of society. They viewed their actions as designed to ensure that any available financial aid money was used for truly needy students instead of frittered away in wasteful bidding wars for the top students. There is some evidence that this was a valid concern.[555]

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[553] "Trends in College Spending," The Delta Cost Project, January 2008.
[554] Rupert Wilkinson, Aiding Students, Buying Students, Vanderbilt University Press, 2005.
[555] Caroline Hoxby, "Benevolent Colluders? The Effects of Antitrust Action on College Financial Aid and Tuition," NBER working paper 7754, June 2000.

However, a district court found that the group was indeed in violation of the law. While an appeal was filed, a settlement was reached before the appeals court could make a ruling. Under the settlement, the schools would no longer be allowed to discuss individual students, though they were permitted to "agree with one another to give aid only on the basis of financial need and agree on common principles of how to assess that need, provided that they admitted students without regard to what they could pay ("need blind" admissions) and then met all "demonstrated" need."[556] It was a strange settlement, with the schools essentially allowed to act like a cartel in theory, just not in practice.

While *United States v. Brown University et al.* is one of the more blatant examples of price discrimination, it shows the opportunity that exists for tuition manipulation as long as institutions receive financial data from students before deciding on financial aid packages. Even in the absence of such cartel-like activity, the harmonization of prices will artificially reduce the variation of these prices among colleges. This greatly reduces the extent to which price can function as a competitive dimension.

The Three Goals of Reform

While the current financial aid system discourages competition to the detriment of students, a few relatively simple reforms could remedy this. The reforms should aim to do three things:

Make aid awards from the federal government tailored to each student regardless of the school attended. The amount of aid will vary by student, but more aid should not be given just because a student chooses to attend a more expensive college.
Inform students of the amount of aid they will receive (instead of their EFC) as soon possible. Federal aid is predominantly need based, which will allow for accurate estimates of aid to be provided to most potential college students as early as middle school.
Cease giving colleges their applicants' SARs. The problems associated with giving schools detailed financial information on their applicants in terms of reduced competitive pressure are simply too great.

In light of the findings by scholars that "financial aid programs function best when they are based on transparent policies, administered with direct and simple processes, and based on national standards,"[557] these reforms should ideally be accomplished with a simultaneous simplification of the aid system.

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[556] Rupert Wilkinson, <u>Aiding Students, Buying Students</u>, Vanderbilt University Press, 2005.
[557] David Ward and John Douglass, "Higher Education and the Spectre of Variable Fees: Public Policy and Institutional Responses in the United States and the United Kingdom," (Washington: OECD, 2006).

Advantages of Reform

The main advantage of reform is that it will increase competitive pressure on colleges to provide a cost effective education.

A shopping around mentality is fostered

The first reason why reform would increase competitive pressure is that it would encourage students to consider a wider variety of educational options. This shopping around mentality would be accomplished by fixing the size of each student's individual award, regardless of the school attended, and informing students of the amount well in advance of application deadlines. Students would then know the total available aid from family and government sources will lead students to approach their college decisions from a more realistic financial standpoint. Armed with a more complete understanding of out-of-pocket prices, students would be better informed to make a wise selection. Potential students will naturally be asking, "Where can I get the most for my $8,000?" The answer to that question could be very different from the currently predominant, "Where would I go if money were not an issue (I'll worry about paying for it later, perhaps after graduation by which time I've accumulated a crushing amount of debt)."

In addition, many students from disadvantaged backgrounds are scared away from attending college by the perceived financial obstacles in their way. If they were informed of the net tuition they were expected to pay, which is often manageable, they would be much more likely to enroll.

More time to think about important decisions

Another factor that will increase competition is that by informing students of aid availability earlier, they will have more time to consider the consequences of their decisions. Deciding whether they should attend college (and if so which one) is the first big financial decision many high school aged students make. The gravity of this decision can have personal ramifications for years to come, and thus should be considered carefully. Unfortunately, the current system withholds information from prospective students until the last minute, and then requires them to make a decision quickly when they are the most emotionally unsuited to do so.

Consider the following hypothetical example: Amy comes from a middle class family and has good grades. She falls in love with Ivy U after visiting the campus. She applies to Ivy U knowing that it is very difficult gain admission, and she also applies to a school she is confident she can get into, Safe U. Suppose that she gets into both of the schools, but that the financial aid package for Ivy U is tiny, so to attend Ivy U she would need to take out so much debt that it would impose a severe burden on her for years to come.

Under our current system, Amy is informed that she was accepted into the colleges in mid-April and has to make an enrollment decision by early May. For such an important decision, this seems much too quick. Amy is likely to be so overjoyed about getting into the school of her dreams that she may not have time to think about all the consequences of enrolling there. Under the reformed system, Amy would know what aid the government was providing much sooner, which would allow her to come to grips with the burden the debt would place on her. Given the enormity of such decisions, the new system would be better. She may still decide to go to Ivy U - it is up to her. But there is little lost and much to be gained by giving her more time to weigh the trade-offs between going to the school of her dreams and the impact that would have on her post-college dreams.

Ending price discrimination would lead to lower costs and would refocus competitive effort

Providing colleges with detailed information on students' finances facilitates price discrimination, a phenomenon also evident in some contexts (movie theaters and airlines, for instance) other than just higher education. In addition, it makes sense that students should pay different amounts to the extent that they are inputs into the educational process. We should not expect for those that have more to offer - be it from their intellectual abilities, leadership on the athletic field, or the diversity they bring to campus - would pay the same price as those that offer less. But that is very different from saying that it should be the policy of the federal government to make it as easy as possible for colleges to price discriminate based on something as arbitrary as parental income, as is currently the case.

By refusing to continue to give colleges information on the finances of their students, price discrimination will be curtailed, which will have two main effects.

First, to the extent that Bowen's law[558] is true, it will reduce costs. To see why, it is helpful to understand what price discrimination implies for revenues, and then what that impact on revenues implies for costs. Price discrimination is popular among colleges because it increases revenue, as explained earlier. A former university president has said that "student aid has become little more than a clever marketing mechanism that permits colleges to maximize tuition dollars through rampant price discrimination."[559]

Unfortunately, this increase in revenue often leads to higher costs. Many scholars believe that expenditures in higher education are determined by revenues, meaning that if revenues increase, expenditures will increase as well. Higher expenditures generally lead to higher tuition, which of course has an adverse impact on access. This helps explain the disappointing results of high-tuition/high-aid models, which are supposed to use high tuition and price

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[558] The main ideas of the book The Costs of Higher Education by Howard Bowen has been summarized as Bowen's Law: There are three things colleges care about. 1) prestige, 2) getting as much money as possible, 3) spending it on prestige.
[559] Robert Ronstadt, "Don't Fix the Student-Aid System. Kill It." The Chronicle of Higher Education, 27 February 2009.

discrimination to raise money to provide large amounts of aid to low income students. "The appeal of the high-tuition/high-aid model is the claim that it maintains access for low-income students. Unfortunately, evidence from schools operating under this model reveals a different picture." [560]

The second benefit of limiting price discrimination is that it would shift competitive efforts away from the poaching of talent, and towards the creation of it. Currently, "price discrimination, effectuated through financial aid, is a widely used competitive instrument."[561] And as the *United States v. Brown University et al.* case demonstrated, if given the opportunity, colleges will expend enormous resources poaching (or trying to avoid the poaching of) desirable students. From a societal point of view, this is a hugely wasteful use of resources since virtually all of those students will end up going to college anyway. While the urge and incentives for colleges to continue such wasteful practices will remain, by withholding the financial information they use, the ability of colleges to successfully engage in such wasteful activity will be greatly reduced, as they will no longer be starting from a common ground. With the diminished prospects of the success of such methods, at least some colleges will devote that energy and effort toward the improvement of their educational experience.

Eliminate need-aware admissions

While increasing competition and reducing costs among colleges is certainly a huge benefit of the reforms suggested above, there are others as well. One of biggest is that by no longer giving the colleges students' financial information, one of the vilest practices in higher education will cease: "need-aware" admissions. This practice deliberately restricts the number of needy students admitted by using the information provided by the SARs when deciding which applicants to accept. Poorer students who would be accepted on merit are rejected because they would require more aid. Many, including us, view it as "deceitful and wounding to reject a student without saying that the reason was financial rather than academic."[562] For many schools, the alternative is "admit-deny", where students are admitted on a need blind basis, but there is no guarantee that enough aid will be available to enable low-income students to attend. While this is also unfortunate, at least it is not deceitful, gives the student the final choice, and frames the decision in a familiar "can you afford to enroll here?" rather than the deceitful "you're not good enough to enroll here."

Disadvantages of Reform

There are also some potential disadvantages to reform, against which the benefits must be weighed.

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[560] Gabriel Nishimura, "A Failing Grade: High Tuition/High Aid," Economic Opportunity Institute, April 2009.

[561] Charles Clotfelter, "The Familiar but Curious Economics of Higher Education: Introduction to a Symposium," Journal of Economic Perspectives, 1999.

[562] Rupert Wilkinson, Aiding Students, Buying Students, Vanderbilt University Press, 2005.

Reform May Further Commercialize and Commodify Higher Education

Many people are already worried about the extent to which higher education is succumbing to commercialization and commoditization. Increasing competition among colleges, and encouraging students to ask where they can get the most for their (and the government's) money could be seen as exacerbating these trends. Our emphasis has been on costs in terms of time and money; however, it is difficult to place such economic values on certain aspects of a well-rounded education, such as civic mindedness and being exposed to a diversity of ideas and people. If commoditization is actually occurring, it is possible (though far from certain) that our proposed reforms could have a negative effect on these less tangible aspects of an education.

Reform May Lead to Lower Revenue for Some Colleges

We noted above that according to some, the curtailment of price discrimination would lead to lower revenue, which will lead to lower expenditures, which will in turn lead to lower tuition. However, others argue that expenditures are not determined by revenues. If they are correct, then restraining revenue growth by inhibiting price discrimination will not have any beneficial consequences for spending or tuition, and could even lead to higher tuition as colleges try to make up for the extra revenue they used to collect through price discrimination.

Reform May Have Collateral Damage

It should be kept in mind that there is considerable cross-subsidization in higher education, and that many of the activities that are cross-subsidized, such as research and public service, are viewed as beneficial by most people. If the reforms upset the status quo by altering the finances or priorities of colleges, then it is possible that there will be less support for some of these activities, as more resources are devoted to educational functions. This could also lead to the starving of departments that don't have enough student demand to cover their costs, whether that is because of low interest (such as Latin) or high costs (lab sciences).

Obstacles to Reform

The main obstacle to reform is resistance by those institutions that have an advantaged position under the current system. They quite naturally are going to fight anything that endangers their advantaged position.

The Perkins loan program is an illustrative example of this. Perkins loans are made to low income students directly by the school using funding that was provided by the federal government. As graduates at any particular college repay their loans, the money is recycled and loaned out to new students at that college. Since the initial endowment was fixed, some schools are much better off than others under this arrangement. In particular, colleges that received a disproportionately large amount and those that have subsequently enrolled fewer low income students have more money per eligible student. It is now the case that the same

student could get a Perkins loan at one college, but not at another. Numerous attempts have been made to fix this inconsistency, but all "previous attempts to reform the Perkins loan program have met with failure because of opposition from colleges that would suffer under any equitable reallocation of Perkins loan program funding."[563]

So which schools would stand to lose under these reforms? The main losers would be expensive colleges (since their students would no longer get more aid) and colleges that currently price discriminate (since they will no long receive student financial information). These schools have set high tuitions and offer lots of discounts (institutional aid) so as to milk their students for more money. On the other hand, virtually all two-year schools, and many low-cost public schools do not have tuition levels high enough to make price discrimination worthwhile. They do not use the information that is given to them on the SAR for the simple reason that their students generally qualify for enough aid to enable them to pay the full tuition charge. Thus, they would not lose out under the reforms.

Conclusion

Former university president Robert Ronstadt put it bluntly when he said, the "American student-aid system… has failed."[564] To begin with, the costs of college are obscured. Students must currently apply to colleges long before they know if they can afford to attend. In fact, the flow of information is almost exclusively from the students to the colleges, with the government acting as a mere collection point, in spite of the fact that it is the government that is providing much of the money. Even after divulging intimate details about their finances, students must wait around three months before the *colleges* inform them of the aid that the *government* is providing.

Decisions are skewed by the fact that students qualify for more aid if they go to a more expensive college. This encourages students to attend higher tuition colleges, even though there is virtually no evidence that more expensive colleges do a better job of providing an education.

The aid system also encourages price discrimination by sharing the financial information of applicants with colleges, who are then (mostly) free to set their price accordingly. Not only does this lead to higher costs, but it also leads to the rejection of students on purely financial grounds, a practice known as need-aware admissions.

It would be difficult to devise an aid system where more information is given to colleges, and less information is given to students. However, our aid system does not have to be this dysfunctional. Making the aid award independent of the college attended, actually telling the

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[563] Mark Kantrowitz, "Student Aid and Fiscal Responsibility Act of 2009 (HB3221) Analysis of Perkins Loan Reengineering," Student Aid Policy Analysis, 18 September 2009.
[564] Robert Ronstadt, "Don't Fix the Student-Aid System. Kill It." The Chronicle of Higher Education, 27 February 2009.

student what aid they will receive in a timely manner, and withholding the financial information of students from the colleges they apply to would all be highly beneficial. By making these relatively simple reforms, competition among colleges could be enhanced and price discrimination could be curtailed, both of which would benefit students in the form of lower costs.

#23: Reform Accreditation to Reduce Barriers to Entry

The purpose of accreditation is to ensure that the education provided by colleges and universities across the country adhere to certain standards, and in doing so ensure a minimally acceptable level of institutional quality. The federal government originally granted the accreditation agencies gatekeeper responsibilities over financial aid coffers in an effort to protect consumers (and the taxpayer's money) from subpar institutions offering bogus degrees. While reasonably effective at this task, the accreditation process has developed into a system that is plagued by structural problems that have resulted in a number of adverse outcomes.

We've identified three main structural characteristics of higher education accreditation that lead to negative outcomes: it is a monopolistic system; it is self-regulated and maintains secrecy on the part of nearly all participants; and it is essential to gain access to federal student financial aid programs. There are a number of negative outcomes that arise from these characteristics, namely, the suppression of innovation, the restriction of competition, and the prevention of information from reaching the consumer. These problems have contributed to the rising costs of college.

A brief history of accreditation is necessary to identify how we arrived at this strange system that is inundated with perverse systemic effects. After describing the structural characteristics and their resulting cost-inflations, we will propose some reforms of the accreditation system that will promote competition, innovation and a free flow of information in order to overcome the barriers that are currently in place.

A Brief History of Accreditation and How it Works

As it stands today, accreditation is a process that most people do not understand and is often taken for granted. Few realize that for many years universities operated outside of any federal regulation and even those that were accredited belonged to voluntary groups that used the process mainly to distinguish themselves from other institutions; it was analogous to a trade union or private club rather than a near universal mandate of academic life as it is today.

Accreditation developed from a need in the late 19th century to define what qualified as a college-level education and as a means to distinguish among institutions that provided it and those that did not. Colleges thus formed voluntary membership associations and established common definitions and admissions processes.[565] In the early 20th century, these regional associations began to establish institutional standards in regard to faculty size, length of educational programs, library size, and largesse of endowments which applicants were required

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[565] Elaine El-Khawas, "Accreditation in the USA: Origins, Developments and Future Prospects," International Institute for Educational Planning, 2001.

to meet in order to gain accreditation.[566] Accreditation decisions were based on information provided by the institutions themselves, a process that for the most part continues today.[567] Accreditation status soon became a signal to the public that an institution was of high quality, distinguishing it from its competitors and providing an incentive for colleges to seek accreditation voluntarily.[568] Accreditation in the late 19th and early 20th century was, in essence, membership in an exclusive club that adhered to a certain degree of collegiality and secrecy.[569]

Accreditation Linked to Federal Aid Programs

The accreditation agencies were modest in the beginning but quickly expanded as post-WW II America began shifting societal priorities from war to education and social change. One of the biggest shifts occurred with the Veteran's Readjustment Assistance Act (popularly known as the Korean GI Bill) in 1952, which provided Korean War veterans with financial assistance to attend college. With this legislation the federal government began recognizing accreditation agencies that were charged with determining which higher education institutions were eligible to receive federal funding. This assignment of responsibilities was a result of what was perceived as a lack of effective oversight with the original GI Bill passed in 1944, in which institutional eligibility was determined by state recognition of a school. It has been suggested that lax state oversight created an incentive for opportunistic operators to take advantage of the public's generosity, and a number of complaints of abuses were reported.

Rather than create a new federal agency in charge of oversight of the program, a public-private partnership was formed with the regional accreditation agencies that were already in place and had experience in providing exactly this type of service. Overnight, voluntary regional associations offering certification that distinguished one college over another were changed into agents of accountability charged with protecting taxpayer's money from fraud. It was a monumental change that allowed accreditation agencies to control which institutions would be seen as legitimate, and which would not. Thus, the 1952 GI Bill marked the beginning of the structural characteristics of accreditation that would develop over the next half century and remain intact today. It is doubtful that lawmakers nearly 60 years ago envisioned the unintended consequences that would result from their decision to appoint the accreditation associations as gatekeepers.

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[566] James F. Bemis "Regional Accreditation." Understanding Accreditation: Contemporary Perspectives on Issues and Practices in Evaluating Educational Quality, 1983; Elaine El-Khawas, "Accreditation in the USA: Origins, Developments and Future Prospects," International Institute for Educational Planning, 2001; George Leef et. al, "Can College Accreditation Live Up To Its Promise?" American Council of Trustees and Alumni, 2002.

[567] Elaine El-Khawas, "Accreditation in the USA: Origins, Developments and Future Prospects," International Institute for Educational Planning, 2001.

[568] George Leef et. al, "Can College Accreditation Live Up To Its Promise?" American Council of Trustees and Alumni, 2002.

[569] Kevin Carey, "Asleep at the Seal: Just How Bad Does a College Have to Be to Lose Accreditation?" Washington Monthly, March / April 2010.

The accreditation association's powers would be expanded with passage of the historic Higher Education Act (HEA) in 1965 that created Title IV funding –the precursor to today's federal financial aid programs. The federal government's role in financing college was no longer limited to veterans who served the country in a time of war, as the bill would expand its financing of college education to low and middle-income students by making government scholarships, loans and work-study opportunities available.[570] The 1965 HEA would pick up where the 1952 GI Bill left off in assigning the accreditation agencies oversight responsibilities. With a much larger pool of permanent taxpayer money on the table, institutions which may have previously survived without accreditation now had a huge incentive to seek it so as to gain access to the program funds that would enable a greater number of low and middle income students to pay for college.

The HEA would be reauthorized in 1972 and again would expand the federal government's role in financing postsecondary education, as well as increase the importance of accreditation. First, the 1972 bill would increase the government's role in the financing of higher education by developing a number of new programs, including Basic Grants (now called Pell Grants), State Student Incentive Grants, as well as chartering the Student Loan Marketing Association (Sallie Mae) to increase the liquidity and capital availability of the government's Guaranteed Student Loan program that was established in the 1965 HEA.[571]

The 1972 HEA would also increase the importance of accreditation for colleges of all types. The bill substituted the term "postsecondary education" for "higher education", and in doing so, would open the federal coffers to not only traditional colleges and universities, but also to institutions that offered vocational and/or technical educational training.[572] That is, so long as they were accredited by a federally recognized agency. By this time however, another group of accreditation agencies–known as the national accreditors–began to position themselves to take advantage of the federal programs.

The national associations, which have historically offered accreditation services to the proprietary and career college sectors, realized that their survival would depend upon their ability to help their members gain access to the federal student aid programs. So the national associations fought to become recognized by the federal government. As they gained recognition, they also gained membership applications from unaccredited schools eager to gain access to federal funds. Shortly after the passage of the 1972 HEA bill, it was estimated that less than 15 percent of proprietary institutions were accredited.[573] Today, nearly all proprietary as well as all public and not-for-profit private institutions are accredited.

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[570] T.H. Bell, "Increasing Access to Postsecondary Education – The Federal Role," Paper presented to the International Conference on Education of the International Bureau of Education, 29 August 1975.

[571] Lawrence Gladieux, "Federal Student Aid Policy: A History and an Assessment," Financing Postsecondary Education: The Federal Role, October 1995.

[572] Ibid.

[573] JH Jones, "Proprietary Schools as a National Resource," The Future in the Making, (San Francisco: Jossey-Bass) 177-181.

The Title IV financial aid programs created in the 1972 HEA remain the primary mechanism for many college students to finance their postsecondary education, making accreditation a vital aspect of the postsecondary education market. The federal government's role in financing college has continued to grow since the 1972 HEA bill. It expended nearly $110 billion on its various aid programs (not including tax benefits) for the 2008-09 academic year, including nearly $84 billion for its loan programs.[574] This is 288 percent more (in inflation-adjusted dollars) than was spent on federal aid programs the first academic year following the 1972 HEA reauthorization (1973-74). This growing pile of taxpayer money has become an essential means for many students to pay for college, and access to this funding is protected by gatekeepers - the accreditation agencies.

The Monopolistic Structure of Accreditation

As college education spread across the U.S., the accreditation community became organized by region, with separate agencies responsible for the accreditation activities within a given region. This divisional assignment of duty became known as regional accreditation and persists to this day.

There are currently six regional accreditation agencies; each assigned a specific geographic area to operate, which comes with a guaranteed customer base. These are the same six agencies that were originally recognized by the federal government in the 1952 GI Bill and the same ones who have retained this authority with passage of the later HEA acts that would expand the federal government's role in financing college education. Since regional accreditation is considered to be the gold standard of accreditation,[575] these six agencies have essentially been awarded regional monopoly power by the federal government.

In the beginning of and throughout the middle 20th century, regional organization likely made practical sense, as transportation and communication costs were relatively high. Having what Milton Friedman termed a "technical monopoly" may have even been the most efficient means of organizing accreditation due to the economies of scale derived by forming agencies that were assigned to accredit the colleges in a given region. But as the costs of transportation and communication have declined significantly with technological advancements in the late 20th and early 21st century, and as the diversity of colleges has continued to evolve, the argument for regional monopolies in accreditation has diminished. In fact, the presence of this monopolistic structure in accreditation has created a number of negative consequences that are traditionally associated with monopolies.

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[574] "Trends in Student Aid 2009," The College Board, 2009.

[575] While colleges can seek accreditation from national accrediting bodies, regional accreditation is considered the best.

Accreditation is a Self-Regulated Process that Operates under a Veil of Secrecy

Accreditation is largely a self-reporting process in which colleges compile a report about themselves to be reviewed by accreditation representatives, who are often officials from other universities, to determine if all of the agencies standards have been met. These reports contain a wealth of data including information on the curriculum, the finances, and even student learning outcomes. Much of this information would be very useful to students, parents, and policy makers, but in the interests of encouraging colleges to share information and data about themselves freely, virtually all of this information is kept secret. In other words, college accreditation is in many ways self-regulation. As a consequence, "People from the outside have always perceived accreditation as being a closed circle of good old boys winking and nodding – a mutual back-scratching society."[576]

That the results of the accreditation investigations are generally kept completely private and confidential casts a veil of secrecy that covers institutions from outside eyes. What information, if any, from the accreditation process that gets publicized is left to the discretion of the colleges. When given the choice, universities gladly boast about things that show them in a positive light, while censoring things that are negative.

Rather than providing a transparent measure of quality, accreditation only confers a pass/fail notice to the public concerning its findings during accreditation review. If a college meets the bare minimum standards, then it receives a passing grade. If not, then it usually receives probation. This provides the public with virtually no information about a given institution's relative quality, other than whether it is greater than the established bare minimum threshold. Yet, this certification allows a college to be portrayed as being on par with the highest quality of institutions. For example, the New England Association of Schools and Colleges confers the same accreditation certification to both Ivy League schools and community colleges. Exacerbating this problem is that fact that very few colleges have actually ever had their accreditation revoked.

This is a major failure on the part of the accreditation community. The details collected about institutions during the accreditation process and decennial reviews are kept secret, denying the public much-needed information about the quality of the thousands of colleges in operation. Keeping secret the information that it collects and uses to determine eligibility for federal financial aid programs is a disservice to the public and prospective students. This benefits the institutions by allowing them the privilege of not having to compete for students based on educational quality or value added. This information may not even have been collected, but even when it is, it is kept secret. This lack of transparency results in students and policy makers basing their decisions on artificially limited information.

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[576] Kay McClenney, The Chronicle of Higher Education, 1995.

Colleges are Reliant on Accreditation

Colleges must seek and maintain accreditation if they want to "indirectly receive large amounts of free government money" that comes with Title IV eligibility. With the accreditation agencies serving as gatekeepers of the growing federal support of college, it comes as no surprise that nearly every college and university is accredited in the U.S. today – those that fail to obtain accreditation generally succumb to financial ruin. Meanwhile, the financial solvency for those that are accredited is very nearly ensured. This relationship has made accreditation agencies the de facto regulators of the postsecondary education industry.[577] With the accreditation agencies having been charged with protecting the interests of the consumer as well as the public's money, the public has come to perceive accreditation as a sign of legitimacy and quality, and often associates unaccredited institutions with diploma mills that sell worthless pieces of paper. Most institutions would have serious trouble remaining in operation without accreditation and the federal dollars that are at stake, leading some critics to suggest that, "To lose accreditation would be a devastating and perhaps fatal blow,"[578] and liken de-accreditation to the "death penalty" for a college.[579]

The exception tends to be small, religious based universities with an educational platform based on ministry and evangelism. Such faith-based institutions often have statements that embrace the fact that they are not accredited by the government approved agencies, but instead seek their legitimacy from a higher authority. For example, West Coast Baptist College (WCBC), with an enrollment of less than 1,000, openly embraces its lack of accreditation with a statement on its website from its president that reads, "There are several reasons for this decision [not to seek accreditation], not the least of which is my belief that the local church should have no approving agency over its ministry."[580]

Negative Outcomes of Accreditation

Currently, college accreditation is a monopolistic, self-regulated industry that operates under a veil of secrecy. This industry has been granted the privilege of serving as gatekeeper to billions of dollars in government student aid programs that colleges have become reliant on. This structure has produced a number of negative outcomes that work against providing an affordable and productive higher education system.

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[577] Kevin Carey, "Asleep at the Seal: Just How Bad Does a College Have to Be to Lose Accreditation?" <u>Washington Monthly,</u> March / April 2010.

[578] George Leef et. al, "Can College Accreditation Live Up To Its Promise?" American Council of Trustees and Alumni, 2002.

[579] Kevin Carey, "Asleep at the Seal: Just How Bad Does a College Have to Be to Lose Accreditation?" <u>Washington Monthly,</u> March / April 2010.

[580] "What About Accreditation?" West Coast Baptist College, 15 March 2010, <http://wcbc.edu/academics/accreditation>.

First, accreditation serves as a barrier to entry that can discourage new institutions from entering the market. Second, accreditation suppresses innovation, working against modernization and the adoption of new ideas and new technology. Third, the secretive process allows valuable information to be withheld from the public, skewing student and policy maker decisions. Lastly, accreditation imposes unnecessary costs on colleges.

Accreditation Serves as a Barrier to Entry and Restricts Competition

The accreditation process is structured in a manner that serves as a barrier to entry for new schools. In order for a college to gain initial accreditation, it is common practice for agencies to require a college to undergo a self-study process to evaluate its institution for a period of two years or more before the agency will evaluate it and make an accreditation decision.[581] This process is complicated by accrediting agencies' requirement that schools seeking initial accreditation be operational with students enrolled in degree programs (some agencies require a graduating class) before it is eligible for accreditation[582]; however, a school must obtain authority to grant degrees from its state, which often requires that a school have enrolled students and offered classes for a period of two years or more prior to being eligible to receive authority to grant degrees.[583]

This process is a classic catch-22 scenario because institutions have trouble enrolling students without accreditation due to the stigma of possibly being a diploma mill as well as the fact that prospective students are not eligible to receive federal financial aid. The lack of students in turn means that such institutions are unable to receive authority to grant degrees by the state which in turn means that they are unable to obtain accreditation. This circular process is a huge barrier to entry that has severely restricted new institutions of higher education from emerging. Two main loopholes have become exploited to get around this circular process: purchase an already accredited school or get an accredited school to start a new program. Entrepreneur Michael Clifford has suggested that regional accreditation has a fair market value of around $10 million to an acquirer, as that is the amount that it would take to start a regionally accredited college, a "process that could take up to ten years and has only a 50-50 chance of success."[584]

By imposing barriers to entry for new (and potentially better) colleges to become accredited, the existing schools face less competition than would likely develop if the market was more open. Competitors armed with new models of delivering high quality education and determined to compete on value have thus far been restricted from becoming serious players in the college

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[581] "Institutional Accreditation: An Overview," The Higher Education Learning Commission, 2007 (see for example).
[582] "Becoming Accredited: Handbook for Applicants & Candidates for Accreditation," Middle States Commission on Higher Education, 1 March 2009 (see for example).
[583] "Summary of Procedures about Applying for Degree-Granting Authority in Texas for Nonexempt Private Colleges," 14 January 2010, <www.thecb.state.tx.us/reports/pdf/0338.pdf>.
[584] 587 Daniel Golden, "Your Taxes Support For-Profits as They Buy Colleges," <u>Bloomberg,</u> 4 March 2010.

education market. This is unfortunate for students, who would benefit from the increased quality and value that normally accompany greater competition.

Accreditation Suppresses Innovation

The regional accreditation agencies generally utilize a one-size-fits-all approach to certifying the quality of colleges and universities in order to determine their eligibility for the government student aid programs, utilizing common standards and a peer review process that nudges all colleges in the same direction, regardless of size or unique mission. These standards, tucked inside a system that operates in secrecy, inhibit colleges' incentive to seek innovative ways to offer quality education services that might reduce their costs. For instance, a hypothetical college wishing to utilize technology to create a 100 percent cyber-library or experiment with new teaching techniques might be punished by its accreditation agency if the new additions were not compliant with the standards.

Rather than encouraging experimentation that could potentially offer lower-cost educational options to students, accreditation pushes huge inefficiencies onto colleges. It does so by incentivizing them to continue to emulate the Ivy League residential campus model, rather than pursue a different approach to higher education that might involve less (or no) central campus meeting facilities. This Ivy League model is increasingly cost prohibitive for many schools.

The case of StraighterLine, which has been unable to obtain accreditation for its courses, offers a prime example of the resistance that revolutionary methods will likely continue to face. StraighterLine is an online school that offers unlimited introductory level coursework on a subscription basis. Students can take unlimited courses for a $99 monthly flat fee, plus a $39 per course fee. All of its courses are facilitated by instructors with advanced degrees in their field and the curriculum is provided by the textbook giant McGraw-Hill (the same textbooks often used in traditional schools). In addition, students have 24/7 access to live online tutors. StraighterLine is able to utilize its strictly online platform to reduce its costs, with the savings passed on to the student.

Unfortunately these courses originally could not be counted towards a degree because StraighterLine is not a university in the traditional sense; it lacks the departments, faculty, bureaucrats and libraries required by the accreditation agencies. Seeking a way around the accreditation constraint, StraighterLine began seeking partner schools. When StraighterLine found its first partner school (Fort Hays State University), it faced serious opposition from students and faculty who assumed the quality of education would be lower with online classes. These accusations occurred despite the fact that StraighterLine's curriculums received a higher level of scrutiny by the both the college and the accreditors than the online courses that Fort Hays State was offering on its own. The North Central accreditors soon stepped in and took a look at StraighterLine, but they could not find anything that violated their policies. However, the threat of the loss of accreditation was enough for some of StraighterLine's other partner

schools to terminate their relationship. As of this writing StraighterLine continues to offer its low cost programs in conjunction with four different accredited colleges.[585]

Accreditation Withholds Important Information

The current accreditation process operates under a veil of secrecy, with information pertaining to the quality and quantity of services provided on college campuses presumed to be gathered, yet not made available to the public. Instead, this lack of transparency prevents institutions from being held accountable to the public and inhibits students and their parents from making informed decisions about where to attend college.

The case of the late Southeastern University epitomizes the negative consequences of accreditation's failure to provide useful information about the institutions that it oversees. After more than 30 years of on and off sanctions from its accrediting body for a range of issues, Southeastern was finally stripped of its accreditation in 2009. The reasons cited by the accreditor included dismal graduation rates, appallingly high student loan default rates, enrollment instability, evidence that students were not developing the knowledge, skills or competencies appropriate for higher education, and serious financial problems. But these problems did not materialize spontaneously in 2009 – they had been building for years. All the while, the university was permitted to enroll thousands of students and remain eligible for federal aid programs for decades, despite years of abysmal results and a clearly demonstrated lack of maintaining even a minimal level of academic standards. Southeastern students were kept in the dark about the state of their university until the 2009 decision forced the school to close its doors.[586]

There are few other quality assurance agencies that operate with such secrecy. When health inspectors visit restaurants, they provide a detailed report of their findings to the public that includes both strengths and weaknesses. These reports are not only freely available to the public, but they are often posted in restaurants for patrons to see, and sometimes published in local media outlets. Without this information, restaurant patrons would often have no mechanism to help them ascertain the sanitation and other health risks of many restaurants. Similarly, students are unable to make wise decisions concerning their many college options without information pertaining to educational quality or value.

Accreditation Imposes Unnecessary Costs

The accreditation process imposes additional costs on colleges, which must be absorbed in order to maintain access to the federal aid programs. The costs associated with accreditation include not only the direct costs of accreditation such as membership fees, site visits,

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[585] "Partnering Colleges," Straighterline, <www.straighterline.com>.
[586] Kevin Carey, "Asleep at the Seal: Just How Bad Does a College Have to Be to Lose Accreditation?" Washington Monthly, March / April 2010.

evaluation and in-kind expenditures to prepare for the process, but also indirect costs that are a result of accreditation recommendations. Such recommendations often encourage money to be spent on inputs of dubious educational value in order to conform to accreditation standards.[587] As one former university president said, "The accreditors are not interested in what or how the students learn, but how many square feet of classroom space we have per student."[588]

Recommendations

The higher education system is a significant portion of the U.S. economy and is currently funded in large part by the public. Oversight is a necessity to ensure that funds are being used in a cost effective way to provide a quality education to students. The current primary means of oversight is through the public-private partnership with the accreditation agencies. As described above, the monopolistic, secretive and self-regulated nature of accreditation has led to a number of negative outcomes that are detrimental to students and the public in general. This system is in desperate need of reform, the goals of which are explored below.

Goal #1: Public Disclosure of Accreditation Information

The accreditation bodies collect an abundance of information from their member institutions. Much of this information is related to a school's structure of educational programs, curriculum effectiveness and student learning, and would be very useful for prospective students in their decision making process, as well as for policymakers in the legislative and regulatory spheres. Yet the information collected during the accreditation process is kept secret, with the public only notified as to whether an institution received a pass or fail grade. This provides little information about the quality of an institution, other than recognition that it exceeds the bare minimum standards that have been established by the accreditation agency.

Instead, colleges should be required to disclose to the public most of the information collected by their accrediting body in a consumer friendly, digestible manner as a condition of being eligible for government student aid programs. This information should reveal both strengths and weaknesses in areas related to, at a minimum, student outcomes and educational quality. By making this information publicly available, consumers and policymakers would have a better means of evaluating the relative value of various colleges with empirical evidence as opposed to the arbitrary evaluations of prestige and sticker price that are currently used. Colleges that perform well would benefit by being able to advertise their achievement, similar to how car companies make it known when they win an award from *J.D. Power and Associates* or *Car and Driver Magazine.*

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[587] George Leef et. al, "Can College Accreditation Live Up To Its Promise?" American Council of Trustees and Alumni, 2002.

[588] William Honan, "Some Say College Accreditation is Out of Control," New York Times, 11 November 1998.

In addition to the disclosure of more information, the pass/fail system should be abandoned in order to provide more information to the public and students concerning the relative quality of an institution. One possible replacement is a sliding scale system, similar to that used by health inspectors. A numeric score (0-100) or a letter grade (A, B,…F) would provide a tool that would allow the public to effectively differentiate among institutions based on their quality, rather than on reputation. For instance, a school that is rated 'D' in academic areas would have a hard time justifying charging above average tuition. Such a low grade would provide the institution with the motivation to use its resources to improve its academics, rather than use them to add amenities that are unrelated to educational goals.

Goal #2: Promote Competition and Innovation

Currently, the two main purposes for a college to be accredited are for access to government student aid programs and to avoid being thought of as a diploma mill. While in theory it is a noble idea to establish a mechanism to protect the taxpayer's money and the students from fraud and abuse, the current accreditation system in practice serves as a barrier to entry which stifles both competition and innovation in higher education. The accreditation process is a catch-22 situation that makes it very difficult for new and different types of colleges to enter the market. A big part of the problem is the method of accrediting entire institutions as the avenue for determining eligibility for federal student aid. The standards used for institutional accreditation breed conformity and are biased towards the status quo in higher education, often penalizing rather than rewarding new approaches to providing quality education at a lower cost. As a result, the traditional residential college model has been relatively unchanged with a limited number of providers for decades, despite the emergence and relative success of online education. Accreditation needs to be reformed in a way that reduces the extent to which it acts as a barrier to entry and instead encourages healthy competition and innovation in higher education.

Successful reform that promotes competition and innovation would provide colleges, both old and new, with the opportunity to pursue new ways of offering education, as well as more choice and flexibility in their accrediting body. Currently, taxpayers and students are denied the potential benefits from many innovative institutions because the accreditation process deters them. Rather than accreditation being focused on the practices that promote student learning, it remains committed to an institutional model that rewards and replicates the traditional structure of the industry. The accreditation agencies promote the status quo in higher education, as they continue to measure inputs over outputs, tradition over innovation and institutions over students. One critic described this as analogous to Honda being required by federal law to "adopt the pre-established labor practices, management structure, dealer network, and vehicle portfolio of General Motors" in order to compete in the U.S. market.[589]

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[589] Kevin Carey, "College for $99 a Month," Washington Monthly, September/October 2009.

Conclusion

The current accreditation process is severely flawed. It operates in a monopolistic, self-regulated and secretive manner as gatekeeper to the federal financial aid system. This structure has resulted in a number of negative outcomes: it serves as a barrier to entry, restricts competition, suppresses innovation, withholds useful information from the public and imposes unnecessary costs on colleges. The goals of accreditation reform are two-fold. First, the information collected by accreditation agencies should be disclosed to the public, especially information related to student learning and educational quality. Second, accreditation should be reformed so that it does not discourage competition and innovation. Providing more information to students and policy makers will result more informed decisions, and greater competition will yield more innovation and lower costs.

#24: Subsidize Students, not Schools

Higher education is an important part of the economy, but the increasingly exorbitant cost of higher education in the United States is leading to an untenable situation for students, institutions, and taxpayers alike. We should be aware of how the sources and structure of revenues influence the behavior and spending decisions of our colleges and universities. When colleges and universities receive funding directly from the state through lump-sum subsidies, as is the current method in most states, it creates perverse incentives that run contrary to the interests of affordable, quality education.

By simply reallocating the funds currently used to subsidize colleges and universities away from the institutions and into the hands of student, the state would still be promoting higher education, but would be removing the perverse incentives of institutional subsidies. Thus, the question is not, "Should we support higher education?" but rather, "How can we continue to support higher education while simultaneously promoting affordability and productivity?" Instead of giving subsidies directly to a college or university, states could follow the lead of the federal government and give the money directly to the students in the form of an educational stipend, voucher or grant. This would lead to beneficial competitive pressure and would incentivize universities to meet their students' needs rather than the desires of legislators.

The Current System and Why it Matters

Universities and colleges receive funding from a variety of sources, including tuition and fees, research grants, private gifts and endowments, and state appropriations (i.e. direct government subsidies to colleges and universities. State appropriations represent the single largest source of revenue for public degree-granting institutions in the Unites States. As Figure 24.1 indicates, in the 2005-2006 school year, colleges and universities received more than $58 billion in revenues from state appropriations, which was nearly a quarter of total revenues. The second largest revenue source, tuition and fees, was just under $42 billion, or 17 percent of total revenues.[590]

While each state has a unique system of appropriating money for higher education, these subsidies play a very important role in the finances of public colleges and universities and it is therefore reasonable to conclude that the structure of these payments has an effect on their incentives and therefore their actions.

Of the many ways the current system of direct subsidization of public universities under legislative discretion affects the incentives of colleges and universities, there are two that stand out as being particularly perverse in view of declining college affordability: it provides a
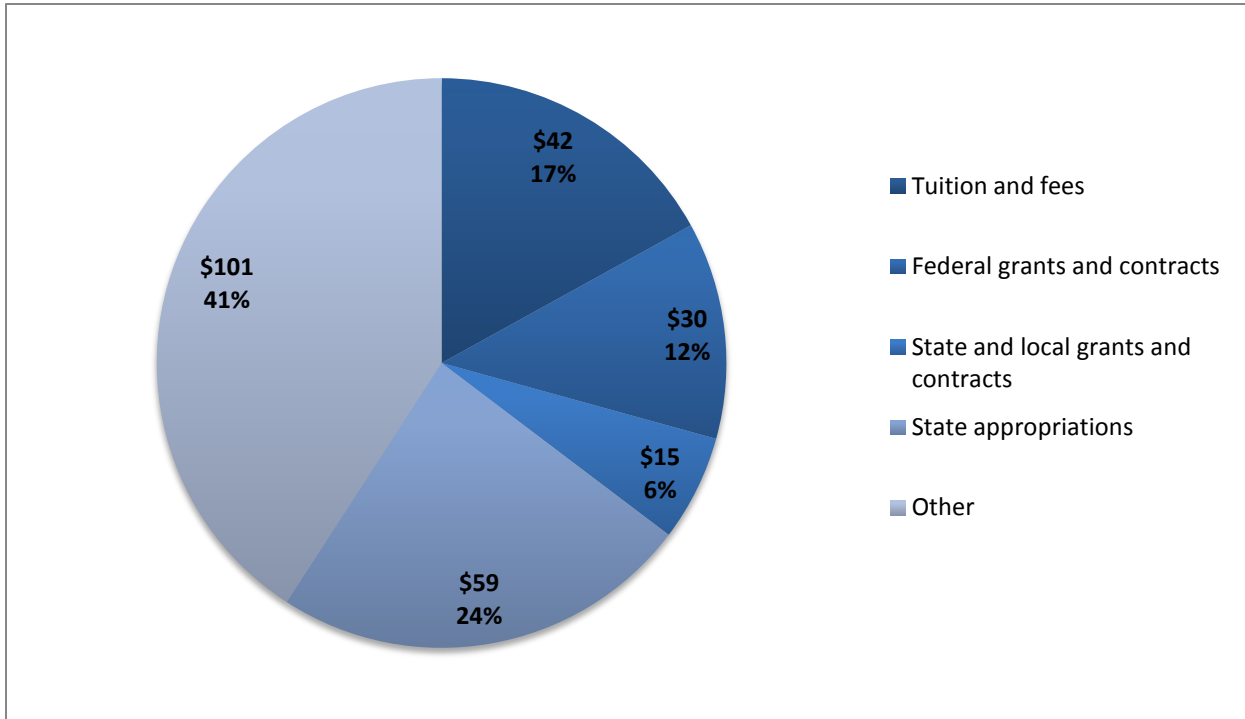
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[590] United States, NCES, 2008.

disincentive to decrease spending and it incentivizes increased spending on lobbying and other non-academic pursuits.

Figure 24.1 Revenue Sources of Public Colleges: 2005–06 (in Billions of Dollars)

SOURCE: DIGEST OF EDUCATION STATISTICS.

A Disincentive to Decrease Spending

Direct subsidization gives colleges a disincentive to decrease spending. Consider two campuses, both alike in dignity.[591] The first school behaves with a cavalier disregard for costs, spending all of their revenues engaging in high cost activities with little or no value to students. The second school behaves prudently by cutting costs, innovating, and keeping expenditures to a minimum, which results in surplus revenues. Under the current system, colleges like the first one will likely successfully petition the legislature for additional funding, citing their high operating costs and the economic importance of an educated workforce. However, colleges like the second one - those that strived to keep operating costs low, spent wisely, and generated a surplus - cannot claim that they were underfunded. In fact, it will appear that they have been

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[591] Two campuses, alike in dignity: One is fair Harvard, where we lay our scene; Whose ancient grudge brings in new subsidy; The other, Yale, with student aid obscene. From forth the fatal rankings of these foes A pair of star-crossed issues take their life. For when the college coffers overflow Then dost student debt lead to storm and strife.

overfunded and will likely have their subsidies reduced. Thus, wasteful spending is likely to be rewarded in the form of higher state appropriations, while prudent cost saving measures are likely to be punished in by lower state appropriations.

This perverse incentive system gives colleges a strong incentive to spend everything they are given, which, when combined with the fact that many prominent rankings of colleges and universities equate spending with quality[592] makes it easy to see why costs rarely fall without some external shock.

An Incentive to Increase Spending on Lobbying and Other Non-Academic Pursuits

The second perverse effect of the current system is that it gives colleges an incentive to increase spending on lobbying efforts and other non-academic pursuits. The reason for this is simple: when most of their money comes directly from the state, it is much more effective for colleges to focus on winning over and satisfying legislators by spending time and money on lobbying and public relations than it is to focus on winning over and satisfying students and parents by spending time and money on academic matters.

It is too often the case that behavior that would likely increase state appropriations also increases costs, generally without increasing educational quality. Take for example, expenditures on lobbying. While figures spent lobbying state governments are not available, in 2006, the education industry spent $85.7 million lobbying the federal government,[593] an activity that offers no direct educational benefit for students.

Yet another example concerns intercollegiate sports. While only 19 of the 119 Football Bowl Series schools generate positive net revenues from their intercollegiate athletics programs,[594] the evidence shows that participation in NCAA Division I-A football increases state appropriations.[595] In other words, state legislatures are encouraging colleges and universities to engage in money losing non-academic enterprises - in this case, athletics. State funding has also been linked to other non-instructional spending such as research spending, public service spending and even some non-spending variables, such as net tuition.[596]

It is apparent that schools have a big incentive to respond to the state legislature, often at the expense of the students. Since state appropriations represent a plurality of revenues at public

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[592] The rankings published by US News and World Report is one such ranking.

[593] Open Secrets, 21 January 2010,
<http://www.opensecrets.org/industries/background.php?cycle=2010&ind=W04>.

[594] Matthew Denhart, et. al, "The Academics Athletics Trade-off: Universities and Intercollegiate Athletics," (Athens, OH: Center for College Affordability and Productivity, 2009).

[595] Brad Humphreys, "The Relationship Between Big-Time College Football and State Appropriations for Higher Education," International Journal of Sports Finance.

[596] R.C. Lowry, "The effects of state political interests and campus outputs on public university revenues" Economics of Education Review, 2001, 105-119.

schools (even surpassing tuition and fee revenue), it comes as no surprise that colleges and universities respond more to the demands of state legislators than they do to the demands of those they are educating. Incurring these extraneous costs are students, parents and taxpayers.

The Benefits of Funding Students Instead of Institutions

The beauty of switching from funding institutions to funding students is that states can maintain their current level of funding, while simultaneously unleashing a slew of beneficial outcomes, described below.

Less Wasteful Spending

Funding students instead of institutions can be expected to lead to lower costs in higher education because legislatures would no longer punish colleges for cutting costs. When funding is funneled directly to institutions, there is little incentive to find ways to cut costs. In fact, there is a disincentive, because if you succeed in cutting costs, thus generating a surplus, legislators are likely to conclude that they are providing too much funding and cut the budget the following year. This is no longer the case when funding is given directly to students. A school that succeeds in cutting costs will no longer be punished with a smaller budget.

Students are Empowered and Competition is Increased

Another benefit of a student grant system is that it offers students more choice by broadening the number and types of institutions at which they can pursue their postsecondary education Such a system would empower students, allowing them to vote with their feet, which would increase competition among colleges. The empowerment and accompanying increase in competition comes in two forms.

First, there is an increase in competition among existing colleges. By allowing students to take their grants to a wider variety of institutions, colleges would be encouraged to become more focused on their students. This new "customer focus can help build a student-centric higher education system that delivers quality, flexible learning experiences."[597] For example, many nontraditional students are currently ill-served by institutions that have little incentive to adapt to their needs, since students often have no other options to choose from. A student grant system would change this, since students would have the option of taking their subsidies elsewhere. This would provide an incentive for colleges to tailor their services to students that are currently marginalized.

The second way in which a student grant system would empower students and increase competition is by providing an incentive for new and innovate colleges to enter the market. Under the current system, potential new colleges face the prospect of competing against

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[597] Louis Soares, "Putting the Customer First in College," Center for American Progress, November 2009.

incumbent colleges whose costs are massively subsidized, up to 70 percent in some cases. This acts as a huge barrier to entry, which artificially reduces competition within higher education. As a result, colleges are much more monopolistic than is desirable. The more monopolistic they are, the more they exhibit the traditional weaknesses of monopolies, such as the tendency to be inefficient, unresponsive to customer needs, resistant to innovation, and preoccupied with preventing competition. If competition among colleges were to be increased, then these undesirable tendencies would be curtailed.

By allowing new and innovative colleges to compete with existing ones on an equal footing, we can expect for the higher education sphere to become much less resistant to both technological and pedagogical innovation. Those institutions that do not adopt appropriate practices and technologies will lose market share to those that do. Many of these practices will lead to lower costs, which can be passed on to students in the form of lower tuition.

Better and More Flexible Targeting of Subsidies

One major problem with funding institutions directly was pointed out a half century ago by Milton Friedman:

"The subsidization of institutions rather than of people has led to an indiscriminate subsidization of whatever activities it is appropriate for such institutions to undertake, rather than of the activities it is appropriate for the state to subsidize. Even cursory examination suggests that while the two classes of activities over lap, they are far from identical."[598]

There are many activities and operations that are perfectly legitimate for an institution to be involved in, such as recruiting and athletics, which provide little to no benefit for the public, and should therefore not be subsidized by taxpayers. But when funding is given to institutions rather than students, it is difficult and costly to ensure that money is not spent on such activities. This problem is avoided under the student grant approach, since colleges that excessively cross-subsidize non-academic activities will have less money available for educational spending, and will therefore be at a disadvantage when it comes to attracting students.

Moreover, a student grant program would be much more flexible when it comes to targeting specific desired outcomes. The current block grants are effectively spread out equally over the entire student body, which is typically undesirable from an economic efficiency perspective. For instance, there are differences in both the societal benefits and the costs to provide an undergraduate versus a graduate education, or between classes in chemistry and classes in English, but all essentially get the same subsidy.

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[598] Milton Friedman, The Role of Government in Education, Economics and the Public Interest, 1955.

While there is no easy way around these issues when funding institutions, the solution is quite simple when money is given directly to students – just alter the size of the stipend based on the circumstances. If some courses are more costly to provide, or we want to enhance equality of opportunity, or encourage more students to major in Science, Technology, Engineering and Math (STEM) fields, then we can simply adjust the size of the grants to match the specific policy goals.

Since the case for subsidizing higher education typically rests on its value to society, it stands to reason that it would be more efficient to target programs with the greatest impact on overall welfare (assuming, perhaps unrealistically, that the political process can distinguish between the welfare implications of various programs). This could be as broad as limiting funding to certain departments or majors, or as specific as limiting the funding to certain courses. Such a scheme would be nearly impossible under the current system, but would be relatively straightforward under a student grant system.

Changes in Political Activities

Another set of advantages of moving toward a student funded system can be thought of as a reordering of priorities. The first of these is a shift in emphasis for colleges from needing to please governments to needing to please students. With the current system providing subsidies directly to the public colleges and universities, they have stronger incentives to satisfy the demands of lawmakers and politicians than to satisfy the demands of their students. Colleges that depend upon the state government for their biggest share of revenue are quite focused on keeping the state government happy, and employ an army of lobbyists and public relations specialists to manage public opinion and ensure that the money continues to flow.

Just as colleges have adopted lobbying practices when much of their funds come from the state legislature, they will increase their efforts to ensure student satisfaction when more of their funds come from students. Subsidizing students directly will make them the source of a much greater percentage of the schools' revenues than is currently the case. If all state subsidies are converted to student grants and become tuition revenue for the colleges, the students would be the source of roughly 40 percent of revenues at public degree-granting institutions.[599] This will make students' tuition by far the largest source of revenue for colleges, which will help to refocus colleges' efforts towards ensuring that they are providing what students need.

The second main shift in priorities under a student funding system concerns legislators, and will ultimately result in less political interference in the operations of colleges. Direct state appropriations are a *Faustian bargain for state colleges in the sense that it ensures their continued existence but also opens them up to undesirable meddling by politicians.* As Armen Alchian noted, "Having accepted almost exclusive dependence on financing directly from the political and legislative processes, they should not complain of 'political interference' when that

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[599] United States, National Center for Education Statistics, Digest of Education Statistics, 2008.

same political process examines more intently the budget and the operations of the university."[600]

Colleges have been relatively unmolested by politicians compared to what will happen in the near future as the public tires of paying ever more tuition and ever more taxes. Unless current trends reverse, a backlash is coming and colleges will be on the receiving end of it. Fortunately for colleges, funding students instead of institutions can drastically reduce their vulnerability to political interference while maintaining their revenue (in the aggregate). By switching from an institutional to a student funding model, the primary public policy question becomes "how many and which students do we want to encourage to attend college, and what do we want them to do while there" instead of "how should colleges spend the money we give them." Moreover, from the institutional point of view, it will be much easier to maintain spending on programs that give money directly to voters than to continue to rely on the state appropriations process, as many colleges are seen as elitist and inefficient.

The Big Three Questions

Switching from funding institutions to funding students will raise a number of new issues that are largely avoided under the current system. The answers to these three questions will largely determine the effects of the new system.

Question 1: Who Is Eligible for the Grants?

The first big question that needs to be answered is who is eligible for the grants. With direct state appropriations to colleges, this issue is largely outsourced to the admissions offices of the colleges. Under a student funding system, this question would need to be addressed directly.

The easiest allocation scheme would probably be to continue to rely on colleges' admissions offices, and only make grants available to those that have been accepted to a college. However, many different schemes are possible. For example, if a more egalitarian outcome is desired, grants could be given to every high school graduate, or all students that meet a minimum score on entrance examinations.

In addition to having a number of options for determining initial eligibility, continuing eligibility could also be modified substantially. Currently, as long as the student is enrolled at a college, they receive an implicit subsidy. Under a student grant system, a time or credit limit could be placed on the awards, encouraging students to graduate in a timely manner. Another option would be to enact a minimum GPA or class rank requirement to incentivize and reward hard work.

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[600] Armen Alchian, "The Economic and Social Impact of Free Tuition," New Individualist Review, 1961.

Question #2: How much do they get?

The next question that needs to be addressed is how the amount of the grants will be determined. Under the current system of institutional subsidies, public colleges and universities effectively distribute the subsidies equally across all students. While this amount depends on the college attended (and there are large differences between colleges), at a particular college, we currently give everyone essentially the same subsidy.

This distribution could be replicated under the grant system by giving every student at a particular college the same amount, but allowing this amount to vary by college so as to reproduce the current distribution of state appropriations. However, it is clear that merely reproducing the existing distribution of aid is not ideal since it will not change the behavior of colleges.

Specifically, the two main rationales for public subsidies for higher education are to enhance equality of opportunity and to internalize positive externalities (when social rates of return are larger than private rates of return). Giving each student at a school the same implicit subsidy is a very costly method of achieving these goals, since much of the money will go to students who are likely to attend college anyway, or to students that are unlikely to graduate (and therefore don't shower others with positive externalities).

Thus, if we wanted to do more to equalize opportunities, the grant amounts could vary based on parental socioeconomic status, with those from disadvantaged backgrounds receiving larger grants. This is just one example of a scheme that would make student specific characteristics the determining factor for aid as opposed to the current system where aid is based on the institution attended. Another would be to establish minimum requirements or a sliding scale of funding based on an objective performance measure such as GPA. This would help increase student effort and performance, though it would likely lead to grade inflation as well.

Any attempt to use individual subsidies as a specialized policy instrument should be approached with caution. Introducing excessive political intervention and exposing funding decisions to the whims of politicians could ultimately lead to lower academic quality and wasteful allocations of money and talent. With the possible exception of the two just mentioned, governments should probably not make too many adjustments based on student specific characteristics.

One possible exception would be encouraging students to select fields that have the largest externalities by offering them larger subsidies. Currently, we basically provide the same subsidy to those majoring in fields where we have a shortage as we do to those where there is a surplus. This is an inefficient use of public money, since the marginal externalities in the fields with a shortage are likely to be much higher than the marginal externalities in fields with a surplus. A better use of money would be to provide larger grants to students pursuing an education in high need areas such as nursing and the STEM fields. However, such a scheme

should only be pursued if differential funding is determined by objective criteria, such as Labor Department projections, or prevailing market wages, since any subjective criteria would likely be mangled by the political system, and would not likely be an improvement over a flat rate grant.

Question #3: Where can they spend it?

A related issue is institutional eligibility. It must be determined what restrictions, if any, should be placed on where students will be allowed to spend their grants. Some restrictions are desirable to avoid subsidizing diploma mills, though there are several routes that could be taken.

The most conservative option would be to restrict grant use to public universities. However, this obscures one of the major features of a student grant program, which is that without state appropriations being made directly to universities, there really isn't that much of a difference between public and private universities. While it may be desirable to restrict grant use to formerly public colleges during a transition phase, over time, the grants should be able to be spent at any accredited college. While this would certainly open up public universities to more competition from private ones, it would also free them from onerous regulations and political meddling that often prevent them from acting in their own best interests.

Previous Attempts

A great deal can be learned by looking at some real world examples of reforms in the spirit of those outlined above. We'll review a brief background on several of these efforts.

Pell Grants

The Pell Grant Program is a federal program that has provided students from low income families with grants to help pay the cost of college since the mid 1970's. The grants are awarded to students from low income backgrounds, with the size of the award depending on the cost of attendance and the students expected family contribution, though in practice, the latter is all that matters for most students. The grants can be used at any institution eligible for Title IV funding, which includes most public, private non-profit, and private for profit schools.

The GI Bill

Numerous GI Bills have been enacted over the years in the hopes of encouraging veterans returning from war to continue their education. The basic structure of the bills has been broadly the same, with students receiving a certain amount (depending on their contract with the various services) for use at most accredited colleges. One interesting variation on the latest GI Bill, which became effective in 2009, is that the amount of the award now varies geographically. The portion of the award used to pay tuition is set to cover costs at the highest

in-state tuition at a public college in the state where the institution is located.[601] In other words, the amount received varies based on the state the veteran goes to school, with the highest award in Texas, which pays up to $1,471 per credit hour, and the lowest in Puerto Rico, paying $90 per credit hour[602].

Georgia's HOPE Scholarships

The Georgia HOPE Scholarship Program (Helping Outstanding Pupils Educationally) was established in 1993 as a merit-based scholarship funded exclusively by revenue from the Georgia Lottery. In order to be eligible for the program, high school students must be Georgia residents with a 3.0 grade point average at a college preparatory school, or maintain a 3.2 grade point average for other diploma types. Eligible students are awarded full tuition at public institutions, whether attending full or part-time, in addition to a book allowance and other HOPE-approved fees. Recipients attending private institutions currently receive $1,750 per semester ($1,666 per quarter) attending full-time, and $875 per semester ($583 per quarter) when attending part-time. The HOPE Scholarship is available to students attending an eligible public or private college, university or technical college in the state of Georgia.[603]

Florida's Bright Futures

Created in 1997, the Bright Futures Scholarship Program grants academic aid to students based on merit. The program is similar to the Georgia HOPE Scholarship in that it is wholly funded by the Florida Lottery. The Bright Futures Program is divided into several tiered requirement levels, with accompanying reward levels. Students must graduate from a Florida high school with a 3.0 grade point average and earn a minimum score on either the CPT, SAT or ACT. While the amount of the award is commensurate with academic achievement, the average cost per award for the 2008-2009 school year was $2,533[604]. The award can be used at public or private schools within the state.

Colorado's College Opportunity Fund

In 2004, Colorado created the College Opportunity Fund (COF), which initiated a system of individual subsidies called stipends. These stipends were available to all in-state undergraduate students enrolled at any of Colorado's state colleges and universities. They carried a limit of 145 credit hours, and once exceeded, the student was generally no longer eligible for the stipend. The legislation also created a program of "fee-for-service" and performance contracts, which

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[601] United States, Department of Veteran's Affairs, "What is the Post-9/11 GI Bill?" 2/17/2010 (Washington: DVA).
[602] United States, Department of Veteran's Affairs, "2009-2010 Maximum In-State Tuition" 2/17/2010 (Washington: DVA).
[603] "Georgia's HOPE Scholarship Overview," Georgia Student Finance Commission, 2/17/2010 <https://secure.gacollege411.org>.
[604] "Florida Bright Futures Scholarship Statistical Reports," Florida Department of Education, 2/17/2010, <www.floridastudentfinancialaid.org>.

have been used to "hold institution harmless."[605] These features were enacted to ensure that institutions did not lose revenues under the new scheme.

Lessons Learned

The previous attempts at instituting student grant systems have provided a number of lessons that should guide future reform efforts.

Lesson number 1: Student grant systems can increase access to college.

The lesson that is perhaps the most important to many people is that a student grant system can increase access. This is not much of a surprise, since it would be truly odd if giving people money to go to college discouraged them from going to college. But it is nevertheless reassuring that the empirical evidence from a variety of the programs above are consistent with increased access. Pell grants are widely cited as enabling low income students to attend college, and previous G.I. bills have been effective at increasing years of schooling and the college completion rates for veterans.[606] In addition, is has been estimated that Georgia's HOPE scholarship increased college attendance by 8 percent[607], and Florida's Bright futures scholarship program has been linked to increased college preparation and attendance.

Lesson Number 2: Student grant systems can be designed so that they do not lead to higher tuition.

One concern among many scholars is the potential impact that aid programs can have on the tuition charged by colleges and universities. For instance, the Bennett Hypothesis holds that the money provided by aid programs will simply be harvested by colleges in the form of higher tuition, leaving students to pay the same amount they would have without the aid. Prior research has been unable to either confirm or deny the validity of the Bennett Hypothesis for aid in the aggregate. While it is possible that a student grant system could be structured and funded in such a way that the Bennett Hypothesis would hold, our own research has indicated that this is not a concern for current student grant systems that are means tested and modest in size, such as the Pell grant.[608]

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[605] "An Evaluation of Colorado's College Opportunity Fund and Related Policis," WHICH, 2009.

[606] Sarah Turner and John Bound, "Closing the Gap or Widening the Divide: The Effects of the G.I. Bill and World War II on the Education Outcomes of Black Americans," The Journal of Economic History, 2003.

[607] Susan Dynarski, "The Behavioral and Distributional Implications of Aid for College," The American Economic Review, 2002.

[608] Andrew Gillen, "Financial Aid in Theory and Practice," Washington: Center for College Affordability and Productivity, April 2009.

Lesson Number 3: Do not confuse changes in the structure of funding with changes in the level of funding.

It is important to make a distinction between the structure of the funding and the level of the funding. The structure of funding refers to who gets the check from the government, institutions or students. This is the focus of this chapter. But there are also questions about the level of funding - how much money is disbursed. While this is not a focus here, these two concepts are often mashed together when moving from one structure to the other, potentially leading to confusion.

Some people look at the Colorado COF program and conclude that student grant systems are a failure since the cost of college continued to increase. However, this is largely an instance of confusing the structure of funding with the level of funding. A Blue Ribbon Panel that was created prior to the adoption of the COF recommended that the stipend be $4,000 annually for a full-time student,[609] which would align the stipend with the overall level of state appropriations at the time. Instead, the stipend was set at $80 per credit hour, or about $2,400 a year for a full time student. This amount was "roughly equivalent to the level of state appropriations per FTE … [of] the lowest-cost public institutions in the state."[610] In other words, the stipend revenue essentially replaced state appropriations at the level of the lowest cost institutions. This low stipend was then supplemented at higher spending colleges with fee for service and performance contracts. Thus, with few new incentives to cut costs and tuition, it is unremarkable that net-tuition rates would rise, as they did throughout the country.

Lesson Number 4: Do not vary the award based on the institution attended.

Another lesson is that the grant amount per student should not vary based on the institution attended. To begin with, giving larger grants to those that attend certain colleges will reintroduce incentives for lobbying and political interference. In addition, it can lead to inequitable situations. One recent example of this is the newest GI Bill, which was designed to cover the cost of the most expensive program at a public university in each state. While this sounds quite reasonable at first, various quirks quickly revealed how misguided the idea was. The presence of a small but expensive program, such as a flight school, in one state would lead to a dramatically different award amount than in a state that kept tuition down through very generous state appropriations. Thus, in South Dakota, the maximum award per credit hour was less than $100, while in Texas, it was over $1,400.[611]

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[609] "FAQ," College Opportunity Fund, 11/2/2009,
<http://cof.college-assist.org/cofapp/cofapp/Default.aspx?pageID=7#qs02>.
[610] "An Evaluation of Colorado's College Opportunity Fund and Related Policis," WHICH, 2009.
[611]United States, Department of Veteran's Affairs, "2009-2010 Maximum In-State Tuition" 2/17/2010 (Washington: DVA).

Lesson Number 5: "Hold the institution harmless" clauses undermine some of the main benefits of switching systems.

While perhaps necessary during a transition phase, arrangements that seek to preserve the existing distribution of funding among institutions largely castrate some of the main benefits of switching to a student grant system. This is most clearly illustrated examining the Colorado COF. Recall that the legislation establishing the stipends also provided fee for service and performance contracts. These were designed to ensure that individual colleges and universities did not lose revenue under the new system. When this occurs, not only is the competitive enhancement of a student grant system lost, but the colleges will also still have a strong incentive to continue lobbying the state government to maintain their privileged position.

Lesson Number 6: Awareness and predictability are important to ensure that disadvantaged populations participate.

If the system is too complicated or intimidating, it is likely to result in low participation rates among already disadvantaged students, who may not possess the skills, confidence, or knowledge to complete an intimidating and complicated application process. This lesson is most clearly demonstrated by the Colorado COF and the Pell grant. With the COF, minority students and students at community colleges were much less likely than their peers to authorize their COF-stipend initially. However, the differences in participation between community colleges and four-year institutions fell dramatically over time, and became completely insignificant by the third year of the program.[612] This suggests that the problems were largely eliminated as students became more familiar with, and institutions became more adept at assisting students with the program. It is possible that a more aggressive, coordinated, and consistent awareness campaign could have eliminated the initial discrepancies.

Pell grants suffer from this problem as well, though the problem may have more to do with a burdensome and uncertain aid application process than a lack of awareness about the program and its benefits. Either way, there are a "large and growing number of lower income college students who do not apply for aid, even though they are likely eligible for a Pell grant: an estimated 1.5 million in 2004.[613]

Conclusion

U.S. higher education has seen a remarkable increase in costs over the past few decades. While there are many different factors that affect the cost of a college education, the current structure of subsidization fuels, at least in part, these increases. The system of subsidizing colleges and universities directly creates perverse incentives for colleges and universities to

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[612] "An Evaluation of Colorado's College Opportunity Fund and Related Policis," WHICH, 2009.
[613] "Going to the source: a practical way to simplify the FAFSA," The Institute for College Access and Success, March 2007.

increase spending. Shifting away from the current system of providing large subsidies directly to the institutions, and towards a new system that provides educational subsidies directly to individual students would help mitigate the recent cost increases by forcing institutions to compete for subsidy revenues by demonstrating the beneficial outcomes for students rather than currying favor with legislatures. While simply changing the funding structure will not be a panacea for all the current woes, it is a step in the right direction.

#25: Promote Competition Based on Value, Not Reputation

While higher education is intensely competitive, the result is not as beneficial as we've come to expect from highly competitive sectors. In fact, a good case could be made that many of the competitive pressures and resulting actions, such as turning away students yearning for an education, are downright harmful. Luis M. Proenza, the president of the University of Akron recently asked, "[Why] are universities judged by the number of students they exclude, or by how much they spend? Why aren't they judged by how well they teach, and at what price?"[614] That is a key question, and the answer has a lot to do with the type of competition we see in higher education.

The Importance of the Type of Competition

Social scientists have known since the 18th century that competition can be very useful in ensuring desirable outcomes. In *The Wealth of Nations*, Adam Smith introduced the concept of the Invisible Hand to describe how the competitive pressures exerted by markets can guide large numbers of people to pursue socially beneficial goals for self-interested reasons. Competition is so important for the proper functioning of markets, that the absence of it, referred to as monopoly, is considered a market failure, and we typically respond by having the government either take over the industry, or heavily regulate it.

As many observers will tell you, competition is ever present in higher education. Institutions of higher education flood the best students with glossy brochures and merit scholarships in the hopes of enrolling them, engage in bidding wars with each other over prize-winning professors, and are widely seen to be engaged in a building spree driven by one-upmanship. Competitive pressures are so great that many schools compromise their academic standards to win on the athletic field. Some will also compromise their principles and integrity when they use preferential admissions to admit the offspring of alumni and donors over other applicants who are academically more qualified.

As should be clear, competition can lead to both desirable and undesirable outcomes. Unfortunately, the current competitive pressures in higher education lead disproportionately to undesirable ones. To see why, we must distinguish between different types of competition.

When we think of competition, we typically think in terms of what we will call value-based competition. Consumers seek out the goods and services that give them the highest cost adjusted satisfaction, and producers vie with each other to provide those goods and services. Both consumers and producers know a lot about the good or service in question, most importantly its price and quality. Of course, not everyone gets the same benefits out of the

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[614] Don Tapscott, "Impending Demise of the University," Edge.org, 4 June 2009.

same thing – preferences vary. Moreover, consumers are constrained by their budget – most of us would like to drive a Bentley and eat at Morton's Steakhouse every night, but few of us can afford to do so. These differences in preferences and budget constraints give producers an incentive to compete along two dimensions, price (which determines the costs for consumers) and quality (which helps determine the satisfaction consumers get). They can succeed by providing a good or service of a given quality for less money, lowering the cost for consumers. Alternatively, they can provide a good or service of higher quality at a given price, increasing the satisfaction that consumers receive. Note that both of these options provide incentives for the company to seek ways to cut costs without harming quality too much and to improve quality without increasing costs too much. In other words, competition ensures that it is in the interests of producers to provide goods and services of various qualities at as low a cost as possible, because that is what consumers want.

However, for value-based competition to work, both producers and consumers (but especially consumers) need good information about the relative qualities and prices of the goods and services that are available. In an information starved market, competition tends to be based on reputation instead of value, and some of the beneficial outcomes that normally accompany competition are lost, while some unsavory consequences are added.

What Kind Do We See in Higher Education?

Most observers have concluded that reputation plays a central role in the competition among institutions of higher education. The influential *US News and World Report* rankings even use reputation (referred to as peer assessment) as 25% of their rankings. Institutions of higher education fail to compete along either of the traditional dimensions of value for the simple reason that neither price nor quality is widely known.

While the published tuition for each college is publicly available, the existence of substantial discounting by the schools, as well as governmental financial aid, renders reliance on these published figures ill-advised. Many students suffer from "sticker shock" and don't apply to schools that they could afford to attend once their aid is taken into account. The figure that should be of real interest for students is the tuition net of institution and government aid, but this is not revealed to students until *after* they have applied to and been accepted by a school. This deprives students of some very important information. Needless to say, it is very hard to compete on price when not everyone knows the price.

More importantly, the quality of an education provided by one school relative to another is unknown. While people certainly have opinions on which schools are better, they are mostly just repeating what they have heard others say. People primarily rely on public perception when trying to determine quality. To illustrate just how heavy this reliance is, consider two real schools, College of the Atlantic and Rocky Mountain College, and suppose I asked you to determine which offers a higher quality education. Since most of us have never heard of either of them, we cannot rely on reputation to guide us. Starting from scratch, it becomes quite clear

just how difficult it is to even come up with a plan for how you could determine which is better, let alone where you could find the relevant information (assuming it even exists).

Even if we have objective measures of some outcomes such as graduation rates, job placement, or the starting salaries of graduates, the fact that universities don't choose which students to admit randomly, but rather make deliberate choices, introduces a selection bias that is hard to get around. Suppose, for example, that we knew that Princeton graduates had higher incomes and are more involved in the community than Ohio State graduates, on average. We should not conclude from this information alone that Princeton provides a better education. If the students from Princeton had characteristics such as higher test scores, more extracurricular activities, or a more wealthy background, it is likely that those students would have had higher incomes and greater community participation regardless of where they went to school. The fact that elite schools like Princeton enroll a disproportionate share of these students renders simple comparisons biased – we can't say that Princeton is better because we don't know how much of the observed differences are attributable to a Princeton education. In the words of William Fitzsimmons, dean of admissions at Harvard, "At Harvard we get terrific students, and we turn out terrific students later on. Is that due to Harvard or is that due to the students to begin with? Who knows?"[615]

What we need to evaluate the contribution of specific schools is a measure of their value added impact. However, since the value added education provided by a school (how much of the education is attributable to the school as opposed to the student) is unknown and not measured, it is impossible for students to use the true quality of a school as a factor in determining where to attend. In the words of Derek Bok, "since applicants are generally hard-put to know just how much they are really learning, let alone how much they can expect to learn at a school they have never seen, they do not make enlightened choices."[616] Moreover, the "lack of good information about the quality and value of higher education is creating a situation in which student-customers bear most of the risk for their long-term investment in their own education with little insight into what would work best for them."[617]

Since students can't rely on true quality to inform their decisions, they rely on proxies. Common proxies include selectivity and published tuition (with more selective and more expensive colleges seen as being better). But perhaps the most important proxy for quality is a college's reputation. "If college reputations were based on objective, publicly available measures of student learning, that would be okay. But they're not, because no such measurements exist."[618] Knowing that potential students use reputation as a gauge of quality, colleges compete

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[615] Sara Rimer, "Study of Standardized Admissions Test is Big Draw at College Conference," <u>New York Times</u>, 28 September 2008.

[616] Derek Bok, <u>Universities in the Marketplace: The Commercialization of Higher Education</u>, (Princeton, New Jersey: Princeton University Press, 2003).

[617] Louis Soares, "Putting the Customer First in College: Why We Need an Office of Consumer Protection in Higher Education," Center for American Progress, November 2009.

[618] Kevin Carey, "That Old College Lie," <u>Democracy</u>, Winter 2010.

vigorously to improve their reputation. Unfortunately, there is little reason to believe that there is a strong correlation between things that improve a school's reputation and things that improve learning.

In sum, because neither price nor quality is known, the standard competitive pressure to compete along the price and quality dimension is missing in higher education. Instead, competition is largely based on reputation, and basing competition on reputation works against the consumer.

Why Reputation Competition is Even Worse in Higher Education

The fact that competition in higher education is based on reputation would not seem to be that problematic, but several unique features of the industry combine to yield some particularly unpleasant outcomes. The three most important features are peer effects, an extreme uncertainty about quality, and status.

Peer Effects

Peer effects, the fact that what one student learns depends on the other students on campus, enhances reputational pressures. Suppose for a moment that we had perfect information on college quality; it might seem plausible that some schools would compete by lowering their price. However, this is discouraged by the notion that the quality of fellow students is a determinant of the quality of education that the students receive. While the exact mechanisms that produce the effects continue to be debated, it is generally accepted that students in a peer group with "good students" are more likely to be good students themselves than if they had peers who were "bad students."

Peer effects have implications for the competitive pressure that institutions face. For instance, the following scenario demonstrates how peer effects makes competition along the basis of price highly unlikely. Suppose there are two colleges that are exactly that same, Discount U. and Cream of the Crop U., and a generous donor gives each of them the same large donation. Discount U. decides to use the money to compete based on price and lowers their tuition for all students, effectively giving a discount to all students. Initially, this results in a greater number of applications and a slightly better (academically) student body. Cream U. decides to use the money to offer merit scholarships targeted towards the cream of the crop, trying to attract excellent students. They are essentially cutting tuition, but only for exceptional students. While their total applications will not increase very much, the quality of their student body will see significant improvement as exceptional students flock to the university, attracted by the relatively large scholarships that are being offered to them.

At first, Cream U. sees a much bigger improvement in their student body since they concentrate all of the money on bringing above average students to campus whereas Discount U. spread their donation over the entire population of students, half of whom are below average.

Because of peer effects, the improvement in the quality of Cream U. becomes even more pronounced thanks to a feedback effect that essentially acts as a multiplier for quality improvements.[619]

Over time, the good students who previously attended Discount U. now decide that they want to attend Cream U., which is of course willing to accept them. As Cream U. "poaches" many of the good students from Discount U., the quality of Cream U. continues to increase, while the quality of Discount U. starts to decline. A new equilibrium is established in which Discount U. is lower cost and lower quality, and Cream U. is higher cost and higher quality. Those in charge of universities - the boards, administrators, and faculty - would all tend to prefer to be a Cream U. rather than a Discount U. Thus, the existence of peer effects indicates that competition is more likely to occur along the quality, as opposed to the price, dimension. However, this is very problematic because it turns out that quality in higher education is unknown.

Uncertain Quality

Higher education is not the only industry that relies on reputations. For instance, restaurants, lawyers, and car companies all depend on reputations to some extent. However, it is crucial to note that their reputations are subject to continuous updating which either reinforces or erodes the initial reputation-based on actual performance. You know whether you had a good or a bad meal at a restaurant, or whether you got stuck with a lemon, and this information is used to update not only your own perception but also the perceptions of those you interact with.

When it comes to higher education however, how do you know whether you got a good or a substandard education? Unfortunately, it is nearly impossible to know. Some effort is made to examine difference between college graduates and those who did not attend college, but virtually no effort is made to distinguish how much of these differences are attributable to the college. Moreover, students only get one of each type of degree, so even if they transfer they can only directly compare one or two schools. In other words, there is a lack of information about the outcomes of college, and this in turn means that there is very little with which to update reputations, unlike in other reputation-based markets. While a restaurant that serves terrible food will lose customers even if it started with a great reputation, a college or university that does a terrible job educating its students will not be punished if it has a great reputation because no one knows that it is doing a terrible job. Similarly, a school that starts with a bad reputation, but does a terrific job of educating students will still be perceived as bad.

The lack of reliable updating of reputations gives rise to a catastrophic problem – stagnation. While everyone relies on reputation as a proxy for quality, since quality is unobserved, reputations cannot be updated. Since reputations are not updated, they become ossified, and

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[619] Caroline Hoxby, "How the Changing Market Structure of U.S. Higher Education Explains College Tuition," NBER paper 6323, 1997.

can start to deviate very far from actual quality. To illustrate this problem, consider the following. In what years did U.S. News and World Report rank, in any order, Yale, Harvard, and Princeton as the top three schools? The answer is 2009-10, 2008-09, 2007-08, 2006-07, 2005-06, 2004-05, 2003-04, 2002-03, 2001-02, 2000-01, 1998-99, 1996-97, 1995-96, 1994-95, 1993-94, 1992-93, and 1989-1990. In fact, going through the entire history of the rankings, 1999-2000 was the only year when at least two of those schools were not in the top three. Apparently, not much has changed in the past 26 years. As Clark Kerr observed, "Everything else changes, but the university mostly endures."[620]

The same schools can remain on top year after year because higher education is so heavily dependent upon reputation, and reputations are not updated due to a lack of information of their value added impact. "The strongest universities tend to perpetuate themselves almost automatically. Success begets more success, which helps to explain why the list of top-rated universities in 2000 looks remarkably like a similar list in 1950 or even 1900."[621] To get a feel for just how stagnant higher education is, compare the turnover of top schools to the turnover of top companies. While the list of top schools remains the same for decades, even centuries, it is an entirely different story when it comes to top companies. Of the 20 top companies in the *Fortune 500* in 1955, only 4 were in the top 20 in 2009, and only 10 were in the top 1,000. In other words, half of the top companies in 1955 had either ceased to exist, or had fallen off the list entirely a mere 54 years later. Of the 75 companies that broke into the top 20 from 1955 to 2009, the average number of years they stayed there was just 13 years.[622] The median was even lower – 6 years.

The rapid rise and fall of institutions that we observe in the rest of the economy is completely absent in higher education. Nor is this a new phenomenon – fully 70 out of 85 institutions established by 1520 that are still in existence today are universities.[623] Colleges and universities have either somehow managed to be the best run institutions in the world for the past five centuries, or else there is a fundamental problem when it comes to evaluating their quality.

College as a Status Good

The last factor that makes reputational competition in higher education dysfunctional is the idea of college as a status good. The prestige of a college matters. Parents and students view a degree from a highly selective college as more valuable than a degree from a lesser known college, regardless of what the colleges do in terms of educating their students. Perhaps the most important source of this phenomenon is the fact that one of the fundamental functions of selective colleges is to screen their applicants. By only accepting above average applicants, selective colleges are pretty much guaranteed to have above average graduates. The signal of

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[620] Clark Kerr, "The Uses of the University," (Harvard, Massachusetts: Harvard University Press, 2001).
[621] Derek Bok, "Universities in the Marketplace: The Commercialization of Higher Education," (Princeton, New Jersey: Princeton University Press, 2003).
[622] ChevronTexaco was omitted due to the merger.
[623] Clark Kerr, "The Uses of the University," (Harvard, Massachusetts: Harvard University Press, 2001).

high status that one acquires by graduating from a selective college is very valuable, and students and parents seek out these institutions. By giving the best students an incentive to concentrate at selective colleges, this further delays adjustments to reputations. Moreover, this status good feature of higher education implies that a college's reputation is based largely on the students it attracts rather than the education it provides.

Some Bad Implications for Higher Education

While it is clear that competition in higher education is based on reputations rather than value, and that reputations within the industry are particularly problematic, to get a feel for just how unsatisfactory this state of affairs is, some of the more pernicious implications will be discussed below.

Price as a Proxy for Quality Encourages Higher Tuition

As we saw before, peer effects, by establishing a positive feedback mechanism, create a multiplier for improvements in quality. Caroline M. Hoxby notes that "since a quality competitor can take advantage of the multiplier but a price competitor cannot, the existence of the multiplier makes it difficult for price competition to displace quality competition."[624] With uncertain quality, a perverse tendency to use price as a proxy for quality has developed. Higher priced schools are perceived as offering a better education than lower priced ones. The mentality is that if other students and parents are willing to pay $30-$50 thousand to attend a school, it must be worth it. Lowering your tuition sends a signal that you're cutting corners when it comes to educating students, whereas raising tuition sends a signal that you're improving the educational experience.

The most important implication of the tendency to use price as a proxy for quality is that it completely reverses the typical competitive pressure to keep price low. Normally, a higher price will repel consumers, but in higher education, since there is no data on true quality to inform decisions, a higher price attracts them, because it is viewed as a signal of high quality. This tendency to equate price with quality is damaging in that it both rewards universities and colleges for raising tuition as well as punishes them when they cut tuition.

For example, schools can benefit from increasing their sticker price, even if they end up giving their students discounts that offset the entire increase. Miami University (OH) believed that its tuition did not reflect the real value of a Miami degree. So starting in the 2004-2005 school year, it decided to charge all in-state students the out-of-state tuition rate, but give them all an automatic grant for being Ohio residents that would offset this increase. In other words, there was very little difference in the tuition paid by in-state students from what they would have paid in the absence of the change, but on paper, tuition more than doubled from about $8,500

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[624] Caroline Hoxby, "How the Changing Market Structure of U.S. Higher Education Explains College Tuition," NBER paper 6323, 1997.

to about $19,500. The school was rewarded with an 8% increase in applications that year. This violation of the law of demand, typically punishable in other industries by the latter part of creative destruction, is quite common in higher education.

Similarly, schools that consider cutting tuition face the risk of being seen in a negative light. The California Institute of Technology has a large per student endowment and receives massive federal research grants. As such, tuition revenue is not a very important source of income for the school. This enabled the schools' trustees to consider eliminating tuition for all students. Unfortunately, they decided against it when one trustee apparently warned "This is America: people believe you get what you pay for. [Eliminate tuition], and you will denigrate your value in the marketplace."[625] Tuition was not eliminated.

Costs are Driven Higher in a Wasteful Academic Arms Race

As Tim Harford puts it, "As long as [students] have no way to demand better value instead of simply better [perceived] quality, cost inflation seems inescapable."[626] Because colleges and universities cannot compete with each other by showing that their students learn more, they compete on reputation instead. With the output side of the equation being universally overlooked, the focus is on inputs. Schools seek high quality inputs because that makes them appear prestigious, which improves their reputation. Thus most of the actual competition that we witness is a fight over the best inputs, evidenced by the growth in merit scholarships awarded to wealthy students who score highly on standardized tests, the poaching of prize winning faculty from other schools, a construction frenzy of new state of the art buildings, the recruitment of star athletes that help win championships, etc.

Not surprisingly, most of the things that will improve a school's reputation cost money, meaning that it is always in a school's interests to spend more. The end result is that institutions are engaged in an academic arms race, with the winner being the one who spends the most money. Since an arms race is a positional struggle for which there is no predetermined end, this implies that from the perspective of colleges and universities, there will never be enough money. Thus, it is not surprising that colleges and universities have been described as "cookie monsters,""compulsive gamblers," and "exiled royalty" - their need for more money is insatiable.[627]

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[625] Daniel Golden, The Price of Admission, (New York: Three Rivers Press, 2006).

[626] Tim Harford, "A Brilliant (and Doomed) Template for Healthcare Reform," Financial Times, 17 October 2009. Note that Harford was talking about healthcare, and referred to patients instead of students. Nevertheless, the central insight concerning cost inflation, value, and quality, is applicable.

[627] The first one is from Ronald Ehrenberg, the others from Derek Bok.

Funding is Not Necessarily Spent Appropriately

While the academic arms race described in the previous section may not sound that bad at first – spending more on education seems desirable - the problem is that because we do not know what the learning outcomes are, the pursuit of excellence has little to do with increasing learning and everything to do with increasing reputation. When these do not coincide, we have no reason to believe that learning will take priority over reputation. As a former president of an Ivy League school noted, "Presidents and deans do not necessarily allocate funds to achieve the greatest educational results… Often, they act to enhance their institution's visibility and prestige, which may not always be the same thing."[628]

The contrast with value-based competition is striking. When competition is based on value, additional expenditures are subject to cost-benefit considerations. Actions that raise costs (and therefore price) will only be undertaken when they result in greater benefits in terms of value created for customers, but in the reputation-based world, where price is used as a signal of quality, this restraining consideration is absent. It is a given that they will spend as much as they can because they face incentives that reward them for spending as much as possible. This does not imply that colleges and universities do not put any thought into how they spend their money. What it means is that they never ask, "Should we spend this money at all?"

Because all available money will be spent, the actual allocation of spending is determined by benefit-benefit considerations – the proposal with the highest expected benefit will, in theory, get the money. There are two big problems with this. First, in practical terms, because of the paucity of data on the expected benefits of many ideas, the principal-agent problem, and the natural human bias to overestimate the importance of one's own area, budget allocations are largely determined by the most powerful internal constituents (trustees, administrators, faculty, specific departments, etc.). This means that resources will not always go towards the uses with the highest benefits but to those with the most power on campus.

Second, even if money does go to where it has the most benefit, because the cost side has been largely taken out of the equation, we still cannot be sure that it was the optimal thing to do. At some point, the benefits of more spending will not compensate for their costs. When competition is based on value, we can expect spending to cease at that point, because value takes costs into consideration. However, when competition is based on reputation, costs are not taken into consideration, and we have no reason to expect that spending will stop even if costs are greater than benefits.

In other words, the lack of knowledge about learning outcomes renders determining benefits of proposed changes difficult. In addition, because all available money will be spent, the cost of a program is not of great concern (if the money is not spent here it will be spent elsewhere) - it

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[628] Derek Bok, Universities in the Marketplace: The Commercialization of Higher Education, (Princeton, New Jersey: Princeton University Press, 2003).

matters only to the extent that the funds used cannot be spent on someone else's pet project. Obviously, with an ignored cost side, and a murky benefit side, the whole concept of cost-benefit analysis is neutered. Without cost-benefit analysis to guide spending decisions, we should not be surprised by the many objectionable ways that colleges and universities have found to spend students, parents, and taxpayer money.

Innovation is Stifled

As Burck Smith has noted "every successful technology innovation in the history of humankind has enabled people to do more with less. Education should be no exception."[629] Unfortunately it is. One of the most harmful effects of the absence of reliable information on college quality is that innovation is discouraged, and when it occurs, it does not spread.

With reputation-based competition, schools are perpetually trying to move up the status ladder. Those schools at the top, the oldest and richest schools, set the goalposts for everyone else. The top schools have little incentive to innovate – why change when the status quo says you are the best? As a result, they tend to do things in traditional (because they are old and have always done them that way) and expensive (because they are rich) ways, and since they set the standards for the industry, all other methods are immediately suspect. Higher education is perhaps the only industry where those that want to try doing new and innovative things in an inexpensive way are at a distinct disadvantage even after the new way has proven successful.

Nevertheless, higher education is filled with intelligent, caring, and curious people, so improvements to educational practices are made. Yet, as Kevin Carey notes, "Best practices have never been widely adopted because the current rankings and status hierarchy offer no incentives for institutions to seek them out. The lack of good ideas successfully implemented in higher education is not a problem of supply; it's a problem of demand."[630]

Actually, it is even worse than Carey states. It's not just that institutions don't have incentives to seek out best practices, they have an incentive not to seek them out. If a school goes to the trouble of determining best practices, they will be expected to adopt them. But adopting newer, better programs and policies typically involves discontinuing worse ones. This is problematic because, as Robert Martin points out, "faculty members fiercely resist attempts to end programs… This resistance causes controversy, and administrators and trustees tend to avoid controversies because of their [negative] impact on reputation."[631]

If making the hard choices and upsetting some on campus will not yield demonstrably better outcomes, why not take the path of least resistance and give in to the most powerful internal

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[629] Burck Smith, "Outside Help: Improving Productivity in Schools," <u>Threshold Magazine,</u> Spring 2006.

[630] Kevin Carey, "College Rankings Reformed: The Case for a New Order in Higher Education," Education Sector Report, September 2006.

[631] Robert Martin, "The Revenue to Cost Spiral in Higher Education," John William Pope Center for Higher Education Policy, July 2009.

constituents? This is precisely what happens, and unfortunately, only infrequently do best educational practices and the desires of the most powerful internal constituents align.

Summing Up

Higher education suffers from a number of relatively unique characteristics that fundamentally alter the nature of competition within the sector. The normal competitive pressure to cut costs and improve quality is replaced by an intense pressure to spend more in the pursuit of excellence. This results in a number of bad outcomes. In particular, it leads to the following:

- higher tuition (because tuition is used as a proxy for quality);
- higher spending (because higher spending is the only way to improve your relative reputation);
- inappropriate spending (because cost benefit analysis cannot guide decisions);
- lack of innovation (because there is little incentive for it).

What to Do About It

As should be blindingly clear from the previous sections, the current state of competition based on reputations is highly undesirable. "All too often, the results are expensive, bad decisions"[632] by both students and institutions. The solution for this is to get competition to be based on value instead of reputation. For value-based competition, we need reliable information on two things, price and quality. Once this information is available, students can make informed decisions that trade off the two just like we do for everything else we buy and sell.

The good news is that the first of these, price (including net price), is relatively easy to do, and is in the process of being done already. Schools know what this number is, and are currently required to provide enough information to the Department of Education that estimates of an average can be made. While averages are useful, we really need estimates that take into account the specific characteristics of students. With this in mind, Congress mandated that every college have a "net price calculator" on their website by 2011. Some schools, such as MIT, Princeton, Yale, Williams College, and Amherst College have already unveiled theirs.[633] Thus, significant progress has been made on the first requirement.

The bad news is that the other requirement for value-based competition, information on quality, is fiendishly difficult to procure. But it is not impossible. To begin with, faculty already evaluate student learning in their individual courses. "If faculties are willing to examine their students and record the results on official transcripts, it is hard for them to argue that they are

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[632] William Henderson and Andrew Morris, "What Law School Rankings Don't Say About Costly Choices," The National Law Journal, 16 April 2008.

[633] Beckie Supiano, "2 Colleges Share How They Created Net-Price Calculators," Chronicle of Higher Education, 15 July 2009.

incapable of devising methods of assessment reliable enough to evaluate the effects of their teaching on student learning."[634] Moreover, the profession is already acclimated to using subjective ways of measuring value added contributions of some of their activities, namely research. Enormous resources have been devoted to this task, greatly improving the quality of research as well as hiring and tenure decisions. Given the apparent success of the academy in evaluating research, we could expect similar progress if sufficient effort was made in the realm of student learning. Lastly, "Institutions are already required to report learning outcomes to accrediting agencies." The downside is that "the depth and breadth of assessments vary, and assessment outcomes are neither available to students nor collected in a way allowing comparison across institutions."[635] While some projects that make information publicly available, such as Voluntary System of Accountability, and U-CAN, are getting off the ground, a recent report

"reveals serious flaws that undermine their utility as engines of accountability... [U-CAN] does not obligate institutions to gather or reveal any data that are not already available elsewhere... As such, U-CAN does little to improve transparency and will be hard-pressed to equip consumers to make more informed choices... [VSA] is more promising... [It] has the potential to provide consumers with important information about costs and quality... But in the case of the VSA, its creators have made conscious decisions about what data to include and how to include it that often serve to inhibit easy comparisons across institutions."[636]

While we certainly do not know what the measures of quality should be, given the preceding discussion, they should satisfy several key requirements. First, they should be a measure of value added learning, or at least allow for such determinations to be made. Second, to enable direct comparisons, they must be standardized across schools (i.e., the evaluation to determine how much calculus students learned should be the same or very similar). Third, the results need to be made public and in an easily digestible manner so that potential students can use the information to make informed decisions, and so that schools face pressure to improve.

If such measures were available, the impact on higher education would be nothing short of revolutionary. "Instead of being forced to model themselves after a few elite institutions in a futile attempt to climb the greased pole that is the reigning status hierarchy in higher education, institutions could distinguish themselves for being good at what they were meant to be—educators of undergraduate students... Instead of focusing single-mindedly on raising and

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[634] Derek Bok, Our Underachieving Colleges: A Candid Look at How Much Students Learn and Why They Should be Learning More, (Princeton, New Jersey: Princeton University Press, 2006).

[635] Sara Goldrick-Rab and Josipa Roksa, "A Federal Agenda for Promoting Student Success and Degree Completion," Center for American Progress, August 2008.

[636] Andrew Kelly and Chad Aldeman, "False Fronts? Behind Higher Education's Voluntary Accountability Systems," Education Sector Report, March 2010.

spending more money, institutions would focus on using money effectively to improve academic, career, and life outcomes for students."[637]

Obstacles to Value Added Measures of Learning

There are two major obstacles to the emergence of value added learning measures. The first is the common objection that no measure of learning would be perfect. While this is certainly true, it is also utterly misguided. Such measures do not have to be perfect to be useful. For example, few scholars would argue that our current peer review processes for evaluating research is perfect, but even fewer would insist that we cease all efforts to evaluate research because of it. In the words of Derek Bok, "to be sure, adequate measures are not available for all subjects, and efforts to use inadequate instruments may trivialize important subjects. Nevertheless, satisfactory methods of assessment seem feasible for a number of subjects… or even for entire fields of concentration."[638]

The second obstacle is the interests of the main winners under the current system. As described by Kevin Carey:

> Unfortunately, the best interests of most higher education institutions are being held hostage to the interests of a few, particularly elite and private institutions. These highly-esteemed universities occupy one of the most advantaged market positions imaginable… While demand for their product is consistently rising, opportunities for new competitors to enter the market and meet that demand are virtually nil, allowing them to raise prices with near-impunity every year. Their reputation as the world's best education institutions is virtually unquestioned by the general public, which sees them as both symbols of society's best values and portals to economic and social opportunity.

> They are, in other words, institutions whose best interests lie in using whatever means necessary to prevent the release of any information that would upset the status quo or call their privileged position into question... When the conventional wisdom says you're the best, you have no interest in proving otherwise.[639]

Elite institutions are the biggest winners of the reputation-based world, and the only thing that could lead to their downfall is information that calls their quality into question. Even if the elite schools tend to do a good job, if it is revealed that other schools do an equally good job for dramatically less money, this could prove devastating. It should come as no surprise that such schools are terrified of value added measurement. One institution is reported as saying "Stop

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[637] Kevin Carey, "College Rankings Reformed: The Case for a New Order in Higher Education," Education Sector Report, September 2006.

[638] Derek Bok, Universities in the Marketplace: The Commercialization of Higher Education, (Princeton, New Jersey: Princeton University Press, 2003).

[639] Kevin Carey, "College Rankings Reformed: The Case for a New Order in Higher Education," Education Sector Report, September 2006.

gathering the numbers at a central place where they are potentially vulnerable to a freedom-of-information request."[640]

Unfortunately, the elite schools are in a position to prevent the voluntary adoption of value added measures, since they would have no reason to agree to adopt them – at best they would prove that they are indeed elite, and at worst, it would show that they don't deserve to be. In effect, the main beneficiaries of an inferior system have veto power when it comes to changing that system. Predictably, we have been stuck in an inferior system and have little hope of escaping it if we continue to rely on voluntary reform from within the academy.

Conclusion

While higher education is intensely competitive, the outcomes resulting from this pressure are far from desirable. "A major reason why competition does not yield optimal results in higher education is that students cannot adequately evaluate the options available to them."[641] The reason they cannot evaluate their options is that there is virtually no information available about the quality of teaching or how much they can expect to learn. Without this information, students are forced to rely on reputation, which in turn encourages institutions to focus their efforts on improving their reputation, as opposed to their teaching. Not surprisingly, this leads to some highly undesirable outcomes as "behavior is distorted by an information-starved market, where institutional quality stagnates due to lack of competitive pressure to improve vital areas like teaching, where innovators are ignored at best and stifled at worst, where public investment is diminishing by the year due in significant part to a lack of information—and thus, confidence—in what the public receives in return."[642]

It does not have to be this way. If information about the true quality of teaching and learning was available, competition would be based on value rather than reputation, and the difference between them is striking. With value-based competition, the invisible hand can be thought of as being attached to a benevolent planner who sees the desires and capabilities of everyone and gently guides them towards the best achievable outcome. In contrast, with reputation-based competition, the invisible hand is attached to a blind man that latches onto the first thing he feels, refusing to let go, freezing the current situation into a perpetual status quo in the process.

To get a feel for just how dysfunctional the market in higher education is, consider what our verdict would be for a car market that functioned in the following way. Mercedes, one of the oldest car manufacturers, is by that right the established leader in the industry. All other cars

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[640] Quote from an institution of higher education as reported in Kevin Carey, "Blocking Public Comparisons Obstructs Knowledge, Too," The Chronicle of Higher Education, February 20, 2009.

[641] Derek Bok, Universities in the Marketplace: The Commercialization of Higher Education, (Princeton, New Jersey: Princeton University Press, 2003).

[642] Kevin Carey, "College Rankings Reformed: The Case for a New Order in Higher Education," Education Sector Report, September 2006.

are judged by how closely they resemble a Mercedes. When consumers go out to buy a car, all they are told is how close these alternatives are to a Mercedes. Note that no information about Mercedes themselves is available – everyone just knows intuitively that they are the gold standard. In other words, all cars are analyzed based on a standard that is undefined. It is quite clear that not only would consumers not have sufficient information to make informed decisions, but we would have skewed the decisions of all cars manufacturers as well. They would be frantically trying to mimic every aspect of Mercedes instead of making improvements to the design, safety, fuel economy, cost, reliability, and any other number of things that matter to consumers.

We would rightly be shocked to observe such a dysfunctional market for cars, and yet this hypothetical market for cars bears a striking resemblance to the higher education market. Yet many continue to deny that there is even a problem in higher education. Mercedes and Ivy League educations are both great (presumably), but we simply can't afford to provide one to everyone. With differences in preferences and budget constraints, we are made much better off by having a variety of choices available. Just as we would be worse off if we restrict consumers choices to variations of Mercedes, and encourage car manufactures like Kia, Toyota, and Ford to mimic Mercedes, we are not better off encouraging every student to attend elite universities, nor by encouraging every college to mimic them.

As it currently stands, "Improving educational quality is a fundamentally optional goal for colleges. That won't change until institutional reputations are primarily based on how well they educate students."[643] That won't happen until we move away from the harmful reputation-based competition that we currently see, and towards the more socially desirable value-based competition. To make that transition, we need information about the true quality of teaching and learning.

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[643] Kevin Carey, "College Rankings Reformed: The Case for a New Order in Higher Education," Education Sector Report, September 2006.