

# BACON'S REBELLION

The Op/Ed Page for Virginia's New Economy

## Tuition Trauma

**Are college tuitions escalating out of control? Yes, they are -- but mostly for reasons that we don't want to change.**

By James A. Bacon

Some people like spring. I don't. To my wife, the change of seasons brings daffodils, dogwoods and azaleas. For me, the equinox means hay fever, filing income tax extensions... and finding out how far the hikes in next year's college tuitions will set me back.

Nothing evokes panic and nausea quite like discovering that college tuitions will cost *two thousand dollars more* than they did last year. Yessiree, the University of Virginia, where Honorable Daughter Number One is enrolled, is jacking up tuition, fees, room and board by 7.9 percent. William & Mary, which Honorable Daughter Number Two is attending, is hiking them 7.8 percent.

Compare that to Virginia's increase in per capital income of 5.4 percent (from 2003 to 2004, the most recent numbers available).

Yes, I'm complaining, but I don't mean to be especially critical of UVa and W&M. The problem is much bigger than Virginia's public university system, where in-state students arguably get more educational bang for their buck than anywhere else in the country. College tuitions are out of control nationally--at both public colleges and private.

Virginia lawmakers wrestled with the issue of soaring college costs during the 2005 session, passing a useful piece of legislation that might knock a few tenths of a percentage point off the annual rate of tuition increases. In exchange for committing to state goals for affordability, quality and enrollment, Virginia's institutions of higher education will gain more freedom from state administrative controls over procurement, capital spending and personnel.



But I'm not expecting much respite in the tuition increases. The Restructured Higher Education Financial and Administrative Operations Act is a positive step as far as it goes, but doesn't come close to addressing the root causes of inflation. Frankly, I can't think of *anything* that will change the inflationary pressures on higher education. Nevertheless, understanding the nature of a problem is the first step towards solving it, or at least living with it, so I shall endeavor to explicate the forces driving college costs and tuitions ever skyward.

But first let me document the fact that higher education is, in fact, an inflation-prone sector of the economy. The long-term trend has been obscured by the fact that during a period of several years in the 1990s when

the Gilmore administration froze tuitions then actually rolled them back about 20 percent. When the last recession hit, the General Assembly slashed state support for higher ed but allowed colleges and universities to jack up tuitions in compensation for the lost funds. The way some observers describe it, the current round of tuition hikes is just making up for funding the state took away and never fully restored.

When you look at the increase in tuitions over a long period, however, the surges and dips even out. A recent report published by the State Council for Higher Education in Virginia (SCHEV) shows that *adjusted for inflation*, tuitions and mandatory fees for full-time students at four-year institutions have increased 135 percent between the 1969/70 and 2004/5 school years. [Open the report](#), turn to page 5 and view the graph yourself: The Gilmore era was the only significant break in a long, upward flight path over three and a half decades.

Not only have tuitions consistently outstripped inflation over the long run, they have outpaced the increase in Virginians' disposable income. According to Bureau of Labor Statistics data, per capita disposable income adjusted for inflation increased 99 percent over the same period. In other words, tuitions increased about 35 percent faster than Virginians' ability to pay for them. That gap has been bridged, I would venture to guess, by the imposition of mass indebtedness, in the form of student loans, upon an entire generation of young adults -- or the impoverishment of their par-

ents!

Now that we've settled that, let us explore the reasons why higher ed is so inflation prone.

**Labor productivity.** Higher education is labor intensive. Labor, in the form of faculty and administrative salaries, accounts for 70 to 80 percent of the cost of running a college or university. Teaching requires face-to-face interaction between faculty and students. For all the marvelous new technologies introduced, no one has found a good way to increase faculty productivity (i.e. to teach more students) without diminishing the quality of instruction.

"We've done the faculty surveys, the productivity studies, the benchmarks," says Peter Blake, deputy secretary of education in the Warner administration. "Every faculty survey that's ever been done shows that [Virginia] faculty work in excess of 50 hours a week. Simple metrics of total number of credit hours suggest that our institutions are competitive, productivity wise, with other institutions."

I have no doubt that Blake is right. Nor do I disagree with him when he suggests that technology cannot boost labor productivity in academe as it can increase, say, the throughput of widgets through an assembly line or automate the flow of paperwork through an insurance company. No technology yet invented can help professors grade students' essays or answer more questions in a 50-minute class.

But there also are limits to the low labor productivity argument. First, faculty don't account for all university costs. There are plenty of back-office operations, administrative functions and bricks-and-mortar assets that

could be managed more efficiently. Second, professional services firms in the fields of law, accounting, architecture, information technology, engineering and advertising are just as labor intensive as academia. But fees and charges in these fields haven't consistently outpaced the general inflation rate for 35 years.

Clearly, there are other forces at work.

**Income redistribution.** A major worry in the higher education community is that ever-rising tuitions will make college unaffordable for students from families of modest financial means. Therefore, every tuition hike is accompanied by an increase of financial aid for the most needy.

So, for example, when the University of Virginia raises an anticipated \$16.1 million through tuition rate hikes next year, it will set aside \$2.9 million for financial aid. Put another way, 18 percent of the tuition hike next year is made necessary by... the tuition hike. (I like to think of my tuition payments as a form of charity. Of that extra \$1,000 I'll be paying next year, \$180 will help a student from some poor family. Too bad I can't list it as a tax deduction!) The Wahoo experience is nearly universal among Virginia's public institutions, where "access" is an emotionally charged issue.

**Universities as Prestige-Maximizers.** All universities, both public and private, are not-for-profit institutions. They exist not to generate profits for shareholders, but to pursue their educational missions... and perhaps a bit more. Colleges and universities, I submit, are hypersensitive to their status in the academic world. Unable to judge themselves on the basis of profitability or other financial met-

rics, they establish a pecking order on the basis of any number of "rankings", the best known of which is published by *U.S. News & World-Report*. Every institution sneers at that magazine's annual rankings as a superficial exercise, yet every institution publicizes its positive standings and seeks to improve them.

*US News & World-Report's* "America's Best Colleges" ranking is best known to consumers, but there are other metrics of prestige, including some published by academic institutions. Having a Nobel Prize winner on the faculty confers major bragging rights. Only slightly less prestigious in the academic community are members of the elite National Academy of Sciences. The University of Virginia has explicitly identified the goal of recruiting 10 National Academy-level professors over the next five years as part of its \$125 million push to boost scientific research.

Universities also rank themselves by the amount of sponsored outside research they conduct. They compare themselves by the average SAT scores of the entering freshman class--the higher, the better. Every major university, and virtually every college or school within a university, has set goals to raise its standing in the academic community by hiring more prestigious faculty, recruiting students with higher SAT scores and erecting more magnificent edifices.

The strategies for elevating one's institution in academic esteem are limited. At the top of the list: Recruit prestigious faculty members, especially those who can bring outside research funding with them. Typically, public universities lure these big dogs by supplementing meager

state-approved salaries with endowments, increasing the number of graduate students at their disposal and offering larger, better equipped laboratories. Next on the list: Recruit top students; the higher the SAT scores the better. Colleges attract top students though with the prestige of the institution and faculty, the quality of the buildings and grounds, and financial aid.

The *US News & World-Report* ratings undeniably play a big role in establishing an institution's prestige, and savvier institutions game the magazine's methodology to improve their results. I received a telemarketing call from a UVa third-year student asking for a contribution, even a small one, citing the fact that *US News* includes the "percentage of alumni giving" in its ranking algorithms.

All of these prestige-maximizing strategies cost money. Making matters worse, colleges are aiming at a moving target. Virginia Tech aspires to a "Top 30" ranking among research institutions. Vaulting past 20 other universities to achieve that goal would represent an extraordinary accomplishment even if the others just stood still. But they won't. *Every* competitor has its own goal to rise in the rankings; every competitor is trying to raise more money, build more labs, and compete for top faculty and students.

**The Economic Development Imperative.** Virginia has one of the finest systems of undergraduate education in the country because the Commonwealth has always put a priority on undergraduate education--not graduate education. However, policy makers have come to regard the state's research institutions as engines for economic development. University R&D is

a lucrative economic activity in itself, and it also holds out the promise of spinning off technology-based ventures into the local economy. Stanford in the Silicon Valley and MIT in Boston show the catalytic role that research universities can play in moving a region forward.

Early in his administration Gov. Mark R. Warner set a goal for Virginia's Ph.D.-granting institutions: to generate \$1 billion a year in outside sponsored research within 10 years. Virginia's major research universities established ambitious goals to fund cutting-edge programs in promising fields from nanotechnology to proteomics. To a great extent, R&D programs pay their own way, but laying the foundation to attract these research grants is expensive. Not only do top scientists command outsized salaries, they demand more financial assistance to attract top graduate students as research assistants, as well as larger, better equipped laboratories.

In other words, Virginia's largest universities--Virginia Tech, UVa, Virginia Commonwealth, George Mason and Old Dominion--are, in the midst of an extraordinarily expensive process of upgrading themselves into nationally recognized research institutions. If it's expensive to provide an undergraduate education in the arts and humanities, it's *super* expensive to support graduate programs in engineering and the hard sciences. Somebody's got to pay for it. Some of the funds are coming from research grants, from university endowments and philanthropic contributions... and some of it is coming from higher tuitions. In other words, some of that upgrade comes from the tuition checks that yours truly strokes each semester.

Building national-class research institutions is expensive, but it's a task we cannot forego. If Virginia wants to be a leader in the globally integrated economy, our universities must be leaders in knowledge creation and R&D.

Bottom line: Yes, the higher tuitions hurt. (Trust me, they *really* hurt.) But Virginia's competitive advantage in the global economy increasingly derives from its institutions of higher learning. We want our flagship colleges to strive for excellence. We want them to become nationally recognized research centers. Yes, we must insist that they squeeze every kilowatt of efficiency they can out of operations so they can curtail their tuition increases, and we must insist that SCHEV put the quietus on excessively ambitious growth and expansion plans. But we should not wish for our universities to slacken in their efforts to be all that they can be.

-- April 25, 2005

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