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Will Trustees Tame Tuition?

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Abstract
[Excerpt] In recent years, tuition has similarly continued to increase by more than inflation. However, during the 1980s real income growth stagnated in the United States. As a result, tuition as a share of family income increased. Data for Cornell University illustrate this point but the story is the same for the average selective private institution in the nation. Between 1966-67 and 1979-80 Cornell tuition remained roughly 26 to 28 percent of median family income. By 1992-93 it had risen to 49 percent. During the mid-1990s, median family income again began to increase in real terms and the ratio stabilized. However, the damage had been done. The public's concern that college costs were taking a greater share of the typical family's income was magnified by the rapid run up in endowments that accompanied the booming stock market of the 1990s. Families wondered why the selective institutions had to raise tuition at all?

In *Tuition Rising: Why College Costs So Much*, I argue that there are a number of forces, in addition to the ones Bowen discussed, that continue to put upward pressure on tuition at selective private institutions. These include their aspirations, our "winner take all" society, their shared system of governance, recent federal government policies, the role of external actors such as alumni, local government, the environmental movement and historic preservationists, periodicals that rank them, and how they are organized for budgetary purposes and select and reward their deans. Today I will focus on shared governance and the key role that trustees play.

Keywords
college tuition, inflation, college trustees, Cornell University

Comments

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Will Trustees Tame Tuition?

by

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Tuition Rising

Over 30 years ago William Bowen showed that tuition at a set of selective private academic institutions had been rising, on average, by 2 to 3 percent more annually than the rate of inflation since the turn of the 20th century. The increased specialization of knowledge and the growth of new fields of study were part of the reason that this had occurred. But first and foremost, it had occurred because the nature of the educational process did not permit academia to share in the productivity gains that were leading to the growth of earnings in the rest of society.

Put simply, the number of students the average faculty member educated each year had not changed because low student/faculty ratios were thought to be essential to high quality education. Hence to avoid a decline in the relative earnings of faculty, that might make it difficult to retain existing, and attract new, faculty, tuition had to be increased by more than inflation to provide revenue for salary increases. Inasmuch as real wage growth and increased female labor force participation rates had caused real family incomes to increase during the period, tuition had not risen, on average relative to median family income.

In recent years, tuition has similarly continued to increase by more than inflation. However, during the 1980s real income growth stagnated in the United States. As a result, tuition as a share of family income increased. Data for Cornell University illustrate this point but the story is the same for the average selective private institution in the nation. Between 1966-67 and 1979-80 Cornell tuition remained roughly 26 to 28 percent of median family income. By 1992-93 it had risen to 49 percent. During the mid-1990s, median family income again began to increase in real terms and the ratio stabilized.

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Shared Governance

Why selective private institutions fail to seriously consider the option of reducing their costs, rather than raising tuition, to find the revenue to enhance their operations derives to a large extent from their system of shared governance between trustees, administrators, and faculty. Trustees are often successful business people, who know how to cut costs and meet budget constraints. However, if the President of a university, such as Cornell, tells them that they need to spend money for new initiatives in genomics, advanced materials and information sciences to maintain the strength of the university and keep it at the forefront of science and engineering, they are likely to swallow hard and go along with him. If the President similarly says that they need funds to enhance the living and learning environment at the university to attract students, they similarly will likely agree.

An important distinction exists, however, between trustees of private and public universities, which some background data will help make clear. In 1978-79, the average full professor at a public doctorate granting university earned about 91% of what his counterpart at private doctorate granting universities earned. This ratio fell steadily during the 1980s and early 1990s until it stabilized at about 78 to 80%. The decline in public universities' relative salaries made it difficult for the publics to hire and retain top faculty.

Similarly, between 1988 and 1994, state appropriations to public higher education per full-time student fell in real terms by about 10%. While tuition increases made up for part of this decline, in real terms spending per student fell at many state institutions. During the same time period real expenditures per student were relentlessly increasing at the selective privates. Hence the disparity between the funding of the two types of institutions grew.

Do these data suggest that trustees of public institutions care less about the quality of their institutions than do trustees of private institutions? In most cases the answer is no, although in some states faculty do have serious questions about the trustees' goals. However, unlike private university trustees, public university trustees often do not have final control over their institution's tuition level or its state appropriation. The political process often makes these decisions.

In some states, such as New York, the public university trustees do set tuition. However, if the governor lets them know (as Governor Pataki repeatedly has in New York) that he wants tuition held constant, it would be foolhardy for the trustees not to accede to his wishes. To do might risk loss of their positions and the possibility that the state might reduce the university's state appropriation by the amount of the increase in revenue that they projected gaining by the proposed increase in tuition. So budgets in public institutions have been cut and tuition increases moderated in spite of their trustees concern. Faced with tight budgets, presidents and provosts at the publics make hard decisions and take the steps necessary to balance their budgets. They can always blame the cuts that they must make on state government.

In contrast, if administrators at private institutions were to recommend budget cutbacks, all blame would be assigned to them. They faculty would accuse them of not having made a strong enough case to the trustees of the need for higher tuition to maintain institutional quality. Rather than risk losing the support of the faculty, the president and provost will often swallow hard and recommend raising tuition by more than they otherwise would prefer. After all, administrative terms are not that long and once an administrator loses faculty support it is often difficult for him to lead the institution

Why is the support of the faculty so important? Under these institutions' system of shared governance, the faculty rules supreme on academic matters. The faculty also feels that it should play a major role in all other decisions. To achieve faculty support for projects is often expensive, both in terms of time and dollars. At Cornell for example, the estimated cost of a major new advanced materials research facility has risen from $40 million to $58.5 million dollars because of modifications that were needed to win faculty support for where the building will be located. These modifications, atria to improve the college's environment and improved classrooms, had nothing to do with the underlying research program for which the building was being constructed.

Why Should Society Care About Tuition Levels at Selective Private Colleges and Universities

Why should society care about the tuition levels at selective private colleges and universities? Although people with modest incomes can only shake their heads in disbelief at new homes that cost over $1 million, or luxury cars that cost over $50,000, few argue that price ceilings should be placed on new homes or new cars. Most believe that the rich have the right to spend their money however they please. Of course those of us with lower income levels see little reason why we should subsidize their purchases. This is one reason why Congress has limited the deductibility of mortgage interest payments for vacation homes.

The public at large does, however, subsidize the selective private colleges and universities. These institutions benefit from a set of tax advantages under federal and state tax statutes. Contributions they receive from individuals and corporations are deductible from federal and state personal and corporate income taxes. Higher educational institutions received over $17 billion in annual giving in 1998-99 and almost $6 billion of this total went to private research universities. Not surprisingly, research indicates that these tax deductions cause the annual giving that higher educational institutions receive to be higher than would otherwise be the case.

The income they earn each year from their endowments is also not taxed. The 509 institutions with large endowments that participated in a 1998 NAUCBO study reported endowment assets that totaled over $178 billion dollars at the end of the fiscal year. If the income and realized capital gains that these assets produced were 10%, this would represent almost $18 billion dollars of income that was not subject to federal and state income taxes. Similarly, the properties that they own that are used for educational purposes are exempt from local property taxes and they can often borrow funds at lower, tax-exempt, interest rates, Because of these tax exemptions at the federal, state and local levels, the public at large is subsidizing the activities of the selective private institutions to the tune of literally tens of billions of dollars each year.

The public's willingness to bear such costs is based upon the belief that these institutions yield broad benefits to society as a whole. However, in the future it is unlikely that the selective private institutions will be able justify this support solely by referring to the social value of their research or to the value that society gets from having high quality private educational alternatives. Rather, they will likely have to demonstrate that they remain accessible to potential students from all socioeconomic backgrounds. Unless they moderate their rates of tuition increases, or American family incomes start to grow more rapidly, this will require then to increasingly provide need-based financial aid to students from lower and middle-income families so that these students can continue to attend them.

While the richest selective privates, such as Harvard, Yale and Princeton have the resources to increase their financial aid budgets substantially, and have already done so, many of the other privates do not have such resources. Hence the pressure on them to moderate their tuition increases will likely increase. If they fail to do so, the selective privates as a group run the risk of losing much of their political support and facing a reduction in their privileged tax status.

This threat is not idle speculation. The process of nipping away at the tax-exempt status of their income and their property has already begun. At Cornell, for example, the revenue generated by the hotel school's on-campus "teaching hotel" is now subject to state and county sales taxes. Similarly, numerous reports of efforts to tax the earnings that institutions receive from the sale of luxury boxes in football stadiums have been reported nationwide

What the Private Institutions Can Do to Help Hold Down Undergraduate Tuition Increases

To achieve some moderation in the future real rate of tuition increases will require actions from federal and state government and the institutions themselves. *Tuition Rising* discusses a set of these actions in detail; here my focus is on the role of the institutions' trustees. As my discussion of the differences between public and private institutions indicated the trustees of the latter must be the key actors if serious efforts to hold down costs and moderate tuition increases are to be made at the selective private institutions. Absent, strong leadership from the trustees, it is difficult for presidents and provosts to advocate such policies. Rice University is one selective private institution at which historically the trustees have provided such leadership.

Should trustees advocate such policies? In part it depends upon the wealth of their institutions and their institutions' abilities to maintain their accessibility to students from all socioeconomic backgrounds through their financial aid programs. If accessibility is maintained, political pressure on the institutions is unlikely to grow and slowing down the rate of tuition increase will not figure prominently in policy discussions.

In part, given each institution's goal of being the very best that it can in all aspects of its operations, it depends upon the institutions' abilities to slow down the increase in their costs by taking actions to improve their efficiencies in academic and nonacademic areas. Administrators often find it difficult to take such actions because trustees are graduates of particular colleges or departments within the institution and often think about what is best for “their unit” rather than what is best for the institution as a whole. Hence administrative efforts to improve efficiencies that result in restrictions in the growth of particular units, or perish the thought, actually cut backs in their budgets, often run into trustee opposition. Deans, department chairs and even individual faculty members have been known to talk to trustees when the central administration is contemplating an action that they feel will be disadvantageous to the trustees’ favorite unit. The trustees, in turn, have been known to put pressure on the central administration not to take the action. Numerous times while I was a vice president at Cornell my colleagues and I faced such pressures.

Accordingly, central administrators will have to do a much better job than they have in the past at many institutions of explaining to key trustee supporters of each of their units that what is best for the unit is not necessarily best for the institution as a whole. They will have to “sell” the trustees on the importance of units cooperating to reduce costs and set priorities.

Trustees and administrators at these institutions should also realize that if they do not undertake efforts to improve their institutions’ efficiency and reduce their costs they run the risk of eventually losing some of their corporate support. Given the efforts that corporations are making to cut costs, academic institutions cannot appear to be wasting resources. Trustees should thus demand that their administrators regularly report their progress at achieving cost savings.

One way that administrators can achieve cost savings is to share resources between institutions. For example, Yale, Columbia and the New York Public Library are building a single off-campus library storage facility that will house rarely used books from the three institutions. By pooling their rare book collections, the three institutions can deacquisition duplicate copies and achieve considerable savings. Numerous other ways that institutions can share academic and administrative resources are discussed in *Tuition Rising.*

Trustees need also to push their institutions to diversify their revenue sources so that undergraduate students' tuition payments do not have to bear the brunt of funding increases in institutional costs. The extent to which this diversification comes from increased fund raising activities, increased professional masters programs, increased continuing and executive education activities, increased distance learning activities, and/or increased revenue from the commercialization of faculty research, will differ from institution to institution. However, diversification of revenue sources will be one of the keys to taking the pressure off of undergraduate tuition increases at the selective private institutions.

Trustee leadership in these areas is very important. For example, several articles published in the *Chronicle* in recent months should have made it clear to readers the trustees were way ahead of the faculty at Cornell in recognizing the institution's need to focus on distance learning activities to generate revenues. While faculty resistance to the for-profit corporation, *e-Cornell*, that was proposed by the administration to operate revenue-producing distance learning activities has modified the form that this corporation will take, it was the trustee pressure on the administration to come up with an initial plan that has moved the institution forward. Intellectual honesty requires me to report that this plan was developed after my term as a Cornell vice president and I can take neither credit nor blame for it.