2002

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Recommended Citation

Perna, L. W. (2002). Financing Higher Education at Selective Private Institutions: Implications for College Access and Choice. *The Review of Higher Education*, 25 (2), 225-235. <http://dx.doi.org/10.1353/rhe.2002.0006>

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Abstract

This essay draws upon the final report of the National Commission on the Cost of Higher Education (1998), Ehrenberg (2000), and King (1999) to explore (a) the cost of higher education at selective private colleges and universities, (b) public concern about the rising costs of higher education, and (c) the shift in financial aid policy from access to affordability. It also discusses implications for selective private institutions, the broader goals of access and choice, and higher education professionals.

Disciplines

Accessibility | Education | Education Economics | Higher Education | Social and Cultural Anthropology

The Review of Higher Education

Winter 2002, Volume 25, No. 2, pp. 225–235

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REVIEW ESSAY

Financing Higher Education at Selective Private Institutions: Implications for College Access and Choice

Laura W. Perna

Ehrenberg, R. G. (2000). *Tuition Rising: Why College Costs So Much*. Cambridge, MA: Harvard University Press. 323 pp.

King, J. E. (Ed.). (1999). *Financing a College Education: How It Works, How It's Changing*. Phoenix, AZ: American Council on Education and Oryx Press. 216 pp.

National Commission on the Cost of Higher Education (1998). *Straight Talk about College Costs and Prices: The Report of the National Commission on the Cost of Higher Education*. Phoenix, AZ: American Council on Education and Oryx Press.

In 1997 Congress established the National Commission on the Cost of Higher Education to develop “a clear understanding of what is truly happening with respect to the cost of a college education and what steps can or

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should be taken to ensure [that] a quality post secondary education remains affordable" (p. ix). Although the National Commission's final report, *Straight Talk about College Costs and Prices*, was published in February 1998, Jacqueline E. King echoed the National Commission's concern in the preface to her 1999 edited volume entitled *Financing a College Education: How It Works, How It's Changing*: "Given the concern that policy makers and the American public express about college affordability, it is remarkable that so little is understood—both by the general public and by those on college and university campuses—about what colleges cost, how colleges are financed, and how the student financial aid system functions" (p. xi). Together, the National Commission's final report and King's (1999) book, along with Ronald G. Ehrenberg's (2000) book, *Tuition Rising: Why College Costs So Much*, take important steps toward closing this information and knowledge gap.

While the National Commission's final report documents trends in college costs and prices, King's book describes the ways in which students finance the costs of higher education within the context of the nation's student financial aid system and Ehrenberg describes how selective private colleges and universities are financed and why these institutions have great difficulty controlling their costs. Considering these books together generates additional insights about two aspects of the same issue: how the costs at selective private colleges and universities are determined and how students pay the prices charged by these institutions.

Together these books also underscore an underemphasized aspect of college affordability—namely, the extent to which academically qualified low-income students can afford to attend the nation's most selective private liberal arts colleges and research universities. While Ehrenberg provides a convincing description of the external and internal pressures that limit the extent to which the nation's selective private colleges and universities can control their costs and reduce their annual tuition increases, the authors in King's edited volume describe the political forces that have been shifting the emphasis of the nation's system of financial aid away from ensuring access to higher education for lower-income students and toward ensuring college affordability for middle-income students. Considering Ehrenberg and King together suggests that these simultaneous pressures will likely result in an increasingly stratified system of higher education in which low-income students find it increasingly difficult to gain access to higher education and, for those who do, restricted choice among institutions in general and reduced access to the nation's most elite colleges and universities in particular.

This essay draws upon the National Commission's final report, Ehrenberg, and King to explore the cost of higher education at selective private colleges

and universities, the public's concern about the rising costs of higher education, and evidence of the shift in financial aid policy from access for low-income students to affordability for middle-income students. This essay also describes the implications of these trends for selective private colleges and universities, the broader goals of access and choice, and higher education professionals.

THE COSTS OF SELECTIVE PRIVATE COLLEGES AND UNIVERSITIES

Ehrenberg, a professor of industrial and labor relations at Cornell University, also served for three years as Cornell's Vice President for Academic Programs, Planning, and Budgeting. His volume provides a comprehensive examination of a wide range of issues influencing the cost of higher education at the nation's selective private research universities and liberal arts colleges. Noting that "selective private institutions have almost always increased their tuition levels each year by more than the rate of increase in consumer prices" (p. 5), he argues that the primary cost driver is competition among selective private institutions "to maximize the value of their institutions" (p. 11) and "be the very best that they can be" (p. 265) by boosting the quality of faculty, students, research, facilities, and other aspects of academic and student life.

In 20 chapters organized into nine sections, Ehrenberg carefully describes a number of other internal and external forces driving the cost of selective private institutions including: a system of shared governance that includes trustees, administrators, faculty, staff, and students; federal government actions including the 1991 Justice Department ruling to prohibit information-sharing among institutions about individual financial aid applications, reductions in indirect cost-recovery rates for federally funded research, and reductions in the real value of the Pell grant; external actors including alumni, local government, interest groups, and organizations that rank colleges; and institutional attributes such as the use of responsibility-centered budgeting.

Most of Ehrenberg's examples describe Cornell University, a unique institution in that it is not only a private selective research university but also the land-grant institution for the state of New York. Despite this limitation, several of his examples may provide college and university trustees, administrators, faculty, and staff with ideas that may be implemented on their own campuses. Particularly valuable are his suggestions about establishing priorities for planned maintenance expenditures and managing excessive demands for parking spaces on campus.

PUBLIC CONCERN ABOUT THE COST OF HIGHER EDUCATION

Several trends have heightened the public's concern about the costs of higher education in general and the cost of selective private colleges and universities in particular. First, during the early 1990s, the rate of growth in the net price (i.e., sticker price less financial aid) of public four-year institutions, private four-year institutions, and public two-year institutions exceeded the rate of growth in median family incomes (National Commission, 1998). The National Commission reports that, between 1987 and 1996, the net price of attendance increased by 95% at public four-year institutions, 64% at private four-year institutions, and 169% at public two-year institutions, while median family incomes rose by only 37% (p. 7). Second, many selective private institutions were raising tuition even while the value of their endowments was increasing dramatically (Ehrenberg, 2000, p. 4). Thus, the enhanced financial position of these institutions seemed to call into question the need for further increases in tuition.

The public has called not only for greater scrutiny of college costs and prices, as reflected in part by the establishment of the National Commission, but also, as several authors in King (1999) argue, for greater attention to the ability of middle-income students to pay the costs of attending the nation's colleges and universities. Several authors in King (Johnstone, Clayton, Creech & Davis, Conklin & Finney) argue that policy makers have responded to the concerns of middle-income parents because these are individuals who tend to participate in political processes and vote.

THE FINANCIAL AID POLICY SHIFT FROM ACCESS TO AFFORDABILITY

In a collection of essays from 15 of the nation's experts on student financial aid, King, now director of the Center for Policy Analysis at the American Council on Education, describes student financial aid policies and practices at the federal, state, private, and institutional levels (Part 1) and the ways in which student financial aid policies and practices are changing (Part 2). The insightful introduction is by D. Bruce Johnstone, University Professor of Higher and Comparative Education at the State University of New York at Buffalo and former chancellor of the State University of New York. King's conclusion ties most of the chapters together. They frame eleven chapters by economists, policy analysts, and financial aid researchers. While there is some overlap, the chapters cover a fairly wide range of topics, some providing a more general discussion of related issues and others probing more deeply into particular aspects of student aid policy.

Among the most important chapters is that by Gordon C. Winston, the Orrin Sage Professor of Political Economy at Williams College and cofounder and director of the Williams Project on the Economics of Higher Educa-

tion. Winston clearly describes the economic structure of higher education and delineates the related strategic economic decisions facing higher education institutions. Chapters by Thomas J. Kane, Associate Professor of Public Policy at the Kennedy School of Government at Harvard University, and Kristin D. Conklin, of the National Governors Association, and Joni E. Finney, of the National Center for Public Policy and Higher Education, are recommended for those interested in the implications for higher education of the Taxpayer Relief Act of 1997. Sandy Baum, professor of economics and director of the Law and Society Program at Skidmore College, offers an in-depth assessment of the federal need-analysis system, with particular attention to the challenges associated with ensuring horizontal and vertical equity in measurements of ability to pay.

Together the authors in King's volume also offer a number of examples of the ways in which student financial-aid policy has shifted its emphasis toward the affordability concerns of middle-income families and away from the accessibility concerns of low-income students. Conklin and Finney mention, but do not describe, the increasing proportion of federal financial aid that is awarded as loans rather than grants. Other authors (Baum, Redd, and Spencer) cite changes in the 1992 reauthorization of the Higher Education Act as another example. These changes included the elimination of home and family farm equity from the need-analysis formula (thereby expanding eligibility for federal Pell grants and subsidized loans), an increase in annual loan limits, and the establishment of a new loan program (the unsubsidized Stafford Loan) for which financial need is not a criterion.

Both Kane and Conklin and Finney persuasively argue that the Taxpayer Relief Act of 1997 is a more recent example of the shift away from the affordability concerns of lower-income students. Because the tax credits are not refundable, students with no tax liability (e.g., students from low-income families and independent students with low incomes) receive no benefit. The tax credits are also lower for students who receive grants; and because most grants are awarded based on financial need, lower-income students are more likely to have their tax benefit reduced. Because fewer low-income students' families have IRA accounts, fewer can take advantage of the provisions allowing IRA withdrawals to pay for tuition, room, and board. In addition, because lower-income students tend to attend institutions with lower costs than middle- and upper-income students, they benefit less from the tax credits. Conklin and Finney claim that federal financial aid policies aimed at affordability (defined as the one-year cost of tax credits and unsubsidized Stafford loans) now represent 50% of all federal student financial aid, up from just 1% in 1992-1993.

State student financial aid policies are following the federal trend, increasingly emphasizing affordability for middle-income students. Conklin and Finney mention, but again do not describe, the growing number of

state-sponsored college savings programs and prepaid tuition plans as an example. Joseph D. Creech, Director of Educational Policies at the Southern Regional Education Board, and Jerry Sheehan Davis, now Vice President of Research for USA Group Foundation, discuss the growing popularity of non-need-based state grant programs modeled after the Georgia HOPE Scholarship Program. Although such programs are inefficient because they award benefits to students who would have enrolled in higher education without a program, one of their greatest strengths, Creech and Davis claim, is that program requirements are easy for students, parents, and legislators to understand.

IMPLICATIONS FOR SELECTIVE PRIVATE INSTITUTIONS

Ehrenberg suggests several ways in which institutions, the federal government, and state governments can reduce the rate of tuition increases at selective private colleges and universities. Nonetheless, he concludes that, because of the steady and even-increasing supply of high-quality students interested in attending the nation's most selective private colleges and universities, the continual quest for greater "quality" (or the role of "expectations" as described by the National Commission), and the rewards associated with greater spending (e.g., the *U.S. News and World Report* ranking criteria) selective private colleges and universities have little incentive to control their costs.

If Ehrenberg is correct in arguing that internal and external incentives for selective private institutions to control their costs are insufficient, and if equal educational opportunity continues to be an important goal, then selective private colleges and universities must maintain their traditional commitment to meeting the full financial need of students and awarding institutional financial aid only on the basis of financial need. Given the political pressures that the authors in King argue are shifting the emphasis of federal and state student financial aid resources toward middle-class affordability, such a commitment is required so that low-income students can continue to attend the nation's selective colleges and universities.

Two essays (Johnstone, Creech & Davis) report that both public and private institutions, as well as state programs, are increasingly using non-need-based criteria for awarding grants. Baum notes that, while most institutional aid is allocated using need-analysis formulae, institutions are increasingly using financial aid as a tool for enrollment management. Similarly, Ehrenberg describes the forces that have substantially reduced the number of selective private institutions that continue to engage in need-blind admissions or meet the full financial need of all accepted students. One source of pressure, he claims, is the 1991 consent decree which prohibits Ivy League institutions from sharing information about individual financial aid applicants.

While the 1992 reauthorization of the Higher Education Act allows institutions to discuss definitions of financial need and agree to consider only financial need when awarding aid, the consent decree effectively encourages institutions to engage in bidding wars for the most attractive students by preferentially packaging aid (e.g., more grants, fewer loans).

A second source of pressure is heightened competition for the top students between the most selective private institutions and the next tier of somewhat less selective institutions, institutions that are increasingly awarding some portion of their institutional financial aid based on criteria that are unrelated to financial need. While the “richest” institutions (e.g., Princeton, Harvard, and MIT) have recently announced a greater commitment to awarding financial aid to undergraduates in the form of grants rather than loans, Ehrenberg argues that the “poorer” selective private institutions (e.g., Cornell) are unable to match such actions without increasing their endowments and annual giving for financial aid and/or raising the amount of tuition dedicated to financial aid. Because of the difficulties associated with these alternatives and the desire to attract the top students, Ehrenberg concludes, “We thus may be nearing the death of need-based [institutional] financial aid at all but the richest institutions” (p. 88).

Ehrenberg suggests that, to preserve access for low-income students, selective private institutions must also examine the implications of other admissions-related practices. For example, Ehrenberg notes that the tendency of college recruiters and admissions officers to target particular high schools probably reduces the number of institutional contacts with lower-income students, thereby reducing the number of low-income students who apply, are accepted, and enroll. The increasingly common practice of admitting students by “early decision” may confer such benefits as ensuring that students attend their first-choice institution, increasing an institution’s accepted yield rate (which then positively affects the institution’s *U.S. News & World Report* ranking), and reducing institutional financial aid requirements since early-decision students tend to be less likely to need aid. Nonetheless, because lower-income students are underrepresented among early-decision applicants and because acceptance rates are generally higher for applicants in the early-decision pool than for applicants in the regular pool, this practice disadvantages lower-income students.

IMPLICATIONS FOR COLLEGE ACCESS AND CHOICE

Together, the three books discussed in this essay paint a rather pessimistic picture of college access and choice for low-income students. While the primary goal of federal student aid policy has traditionally been to create access to some type of postsecondary educational institution, John B. Lee (in King, 1999), president of JBL Associates, asserts that the second goal has

been “choice,” or the ability to attend the institution that best meets a student’s goals, needs, and aptitudes. Using descriptive data that largely exclude nontraditional undergraduates, Lee argues that neither the goal of access nor the goal of choice has been fully achieved. For example, with regard to choice, full-time dependent undergraduates with the lowest family incomes continue to be relatively concentrated at the postsecondary educational institutions with the lowest costs, while full-time dependent undergraduates with the highest family incomes are disproportionately represented at institutions with the highest costs. Policy analysts Lawrence E. Gladieux and Watson Scott Swail (in King, 1999) also conclude that little progress has been made in closing the gap in college choice over the past 20 years.

Although A. Clayton Spencer, Associate Vice President for Higher Education Policy at Harvard University, argues that symbolic politics and middle-class concerns will continue to drive student aid policy in the future, most of the authors in King’s volume argue that the emphasis of student financial aid policy should be shifted back toward access for lower-income students and away from affordability for middle-income students. If the goal is equal educational opportunity, then a review of Ehrenberg (2000) suggests that the ideal policy would also emphasize “choice” or the ability of low-income students to attend the nation’s most selective—and expensive—institutions.

As Creech and Davis note, however, the amount of resources now available for student financial aid is currently less than the total amount needed. In other words, existing resources are not sufficient to achieve both access and choice. Moreover, as Gladieux and Swail, as well as Creech and Davis, argue, fully achieving both access and choice will require attention not only to financial barriers but also to nonfinancial barriers to college enrollment and success, particularly to the quality of academic preparation and achievement.

Despite this pessimistic conclusion, the exercise of evaluating the ways in which the costs of selective private colleges and universities are determined and the ways in which students pay the charges at these institutions has merit. Only by examining the implications of the forces driving the cost of particular types of institutions in the context of the nation’s existing student financial aid system will we be able identify necessary modifications in institutional and governmental policies and practices. Policy makers, higher education administrators, faculty, trustees, and others who care about the goal of equal educational opportunity must regularly examine the implications of current institutional and student financing patterns against the goals of our nation’s higher education system, particularly asking what types of students such a system should be serving. We need such analyses to understand how particular policies and practices distribute benefits and costs to

particular groups of students in general and to identify the ways in which student financial aid policies and institutional costing and pricing policies should be adjusted to best meet desired goals in particular.

IMPLICATIONS FOR HIGHER EDUCATION FACULTY, ADMINISTRATORS, AND RESEARCHERS

All three of the books discussed in this essay were written, at least in part, as a response to the public's concern about the growing cost of higher education. The National Commission concluded that the public's concern with the costs of higher education is "real" and that, because such concerns are not always based on accurate information, higher education institutions have a responsibility to make their finances more "transparent" (p. 13).

While these three books make important contributions to our knowledge base, higher education professionals must work harder to close the knowledge gap. Closing the gap requires: (a) conducting additional rigorous research on the financing of American colleges and universities, and (b) identifying the public's concerns and clearly communicating the answers to their questions.

The need for more research is urgent. The National Commission (1998) noted the current lack of adequate research and information:

This commission, therefore, finds itself in the discomfiting position of acknowledging that the nation's academic institutions, justly renowned for their ability to analyze practically every other major economic activity in the United States, have not devoted similar analytic attention to their own financial structures. (p. 12)

Thus, despite its investigative mandate, the National Commission could not explain the forces driving the costs and prices of higher education and, as a result, offers little more in its final report than a statement of related issues. One likely reason for the National Commission's conclusion is that many of the categories of potential cost drivers that it explored (financial aid, people, facilities, technology, regulations, and expectations) have different meanings and implications at different types of colleges and universities. For example, "people," which includes the changing characteristics of undergraduate students such as growing numbers of part-time students, older students, and students requiring remedial coursework, likely has a smaller impact on the cost of selective private colleges and universities than on the cost of public two-year institutions.

Given the diversity of higher education in terms of prices charged, types of students served, and other characteristics, it is not surprising that the National Commission "struggled with ways to classify and present the approximately 3,700 not-for-profit colleges and universities so as best to cap-

ture their diversity and character" (p. 5). Nonetheless, the insights offered in Ehrenberg's focus on the most selective private colleges and universities suggest that the National Commission's three categories of institutions (public four-year colleges and universities; private not-for-profit four-year colleges and universities; and public two-year colleges) likely mask important distinctions within these broad groups.

Although Ehrenberg's title implies a broader focus, he is very clear throughout the text that he is describing the factors influencing tuition at a very narrow segment of American higher education—selective private liberal arts colleges and research universities in general and Cornell University in particular. While selective private colleges and universities are a very visible segment of our higher education system, this small group enrolls only a tiny fraction of the nation's students and differs from other institutions in important respects. In particular, as Ehrenberg notes, selective private institutions have greater freedom than less selective institutions to raise tuition because of the number of students demanding to attend them; enrollment is much more sensitive to increases in prices at less selective private institutions and most public institutions.

Similarly, Johnstone notes that issues pertaining to the financing of the nation's colleges and universities are "complex" with "no simple explanations or solutions" (in King, 1998, p. 2), in part because of the diversity of institutions and sources of funding. Therefore, researchers might use Ehrenberg as a model for considering the ways in which other types of institutions are financed and the forces driving costs at these institutions. They could then build on Ehrenberg's example by exploring the effects of financing patterns on access and choice for different groups of students. Research on institutional costs should also explore such issues as faculty resistance to efforts to control costs and the relative benefits and costs of new technology, topics that Ehrenberg discusses but which warrant further consideration.

Additional research should also explore the implications for institutional costs, as well as student access and choice, of the policies discussed in the King volume, including the Taxpayer Relief Act of 1997 and merit-based state scholarship programs. While Kane speculates that the Taxpayer Relief Act may prompt state legislatures to increase tuition or reduce student aid at low-cost public institutions, further research is required to evaluate the extent to which this has happened. Although both King and Kenneth E. Redd, Director of Research and Policy Analysis at the National Association for Financial Aid Administrators, have each written chapters examining changes in the characteristics of borrowers associated with the 1992 reauthorization of the Higher Education Act, additional research is needed to understand the implications of such changes in terms of particular student outcomes.

Closing the knowledge gap also requires identifying the public's concerns and educating the public as appropriate. Both the National Commission and Ehrenberg caution that failure to respond to concerns about college costs may lead not only to increasing dissatisfaction with, and distrust of, higher education but also to interventions by federal and state policy makers. Ehrenberg warns that, if selective private institutions fail to respond to the public's concerns—especially while accessibility declines and endowments grow—federal, state, and local governments may respond by taxing property and income that are now tax exempt, limiting the deductibility of individual and corporate contributions, limiting the size of the endowment per student, or requiring a minimum endowment payout rate (e.g., 5%) (pp. 268-269).

Clearly communicating with the public requires talking about the complex aspects of higher education finance in language that is accessible to legislators, trustees, administrators, faculty, staff, parents, and students. Ehrenberg makes the point in his preface that he intentionally, and I believe successfully, describes a number of complex topics using language, data, and information that can be easily understood by the general public. While using one's parents as a test of the book's readability (as Ehrenberg did) may be a bit extreme, certainly striving to present educational research using a "light, nontechnical, and sometimes humorous style" (Ehrenberg, 2000, p. x) is an objective to which many faculty, researchers, and policy analysts should give greater attention.

Effectively communicating with the public also requires using accurate labels and defining terms. For example, comparing the title of Ehrenberg's book with its content may cause some to incorrectly infer that issues regarding college costs are the same at private selective institutions as at other types of institutions. By failing to use a more descriptive title, Ehrenberg misses an opportunity to clarify that much of the public's concern about college costs actually applies only to a very narrow and elite group of institutions. On the other hand, Winston (in King, 1999) provides a crucial explanation of the differences between the cost structure of higher education institutions and for-profit firms—particularly the distinctions between "production costs," "sticker price," and "net price." Understanding these differences is fundamental to any meaningful discussion of higher education finance.

Higher education professionals have an obligation to ensure that legislators, trustees, administrators, faculty, parents, and students understand the costs of higher education, the internal and external forces driving these costs, and the implications of these costs and prices for different groups of students in the context of the nation's student financial aid system. While much work remains, each of these three books makes a contribution in the right direction.