# The Not So Open Door

Latest data on flow of international students to the U.S. raise questions about state quotas and tuition policies and how to calculate the economic value of students, writes Alan Ruby.

By Alan Ruby November 18, 2010

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The latest Open Doors reporton international student mobility is out. It shows that foreign students are still attracted to U.S. colleges of all types. The biggest destination is the University of Southern California, with around 8,000 international students. There are large enrollments in community colleges like Houston's -- more than 6,000 -- and in specialized colleges like the Savannah College of Art and Design, which has over 1,000.

But there are parts of the country where the numbers of foreign students are smaller. North Carolina as a state has just over 12,000, and Wyoming, with the least of all states, has 1,010. Some of the variation relates to scale, but in other cases it a product of deliberate policy: The door is not so open.

Most colleges set higher fees for “out of state” students. The College Board estimates that the difference for out-of-state and in-state students on average annual tuition at a four-year public college is just over $4,000, a 50 percent premium on the average base tuition of $7,600. There are outliers: California adds $23,000 to a base of $11,000. A 200 percent markup worthy of Neiman Marcus.

The revenue is important for colleges and state finance offices, especially in difficult economic times. Many institutions justify the higher fees for outsiders by citing the fact that they do not attract state subsidies that local students do. They argue that local students are entitled to subsidized education because they are resident or because they are the children of local taxpayers, and foreign students are not. And conventional wisdom is that the consumption of higher education is “price sensitive,” so demand goes down as foreign students select more affordable destinations in other states or countries. Although California with its high premium is still an attractive destination for international students.

In some cases there are state and institutional quotas on out-of-state students and on international students -- on “foreigners.” For example, North Carolina has a limit of 18 percent on foreign enrollmentsand MIT has a quotaof about 100 on international students.

These quotas and price differentials are not restricted to the United States. The Swedes have introduced fees for studentsfrom outside the European community because “Swedish tax revenues should... [be] for Swedish citizens." And they are not new in the U.S. either; they have been around since at least the 1860s. They exist because state legislatures want to protect local citizens’ access to state-funded institutions or because all students admitted receive financial aid drawn from domestic donors. Quotas are rationing devices designed to limit access to a scarce, good higher education, or to state subsidized places.

These quotas, like quotas based on race and religion, are much-debated. Erastus Otis Haven, the second president of the University of Michigan, argued in 1867 against “out-of-state student” limits. He argued that the presence of foreign students at Michigan universities would create “a higher estimation” of the state, which would be to the state’s good, as would an increase in its educated citizenry as foreign students stayed after graduation. Haven also argued that institutions would benefit because, without foreign students, some academic departments “could not be sustained” in enrollments and revenue

The issue of preference for in-state students and the limits on foreigners re-emerged when the baby boomers started demanding more college access in the 1960s. An editorial in *The Journal of Higher Education* in 1964, entitled “The Closed University,” summarized the case against barriers to outside enrollments in much the same terms that Haven used. But the editor placed the loss of revenue from higher tuition first and added that if some states closed off access, others would follow with a loss of “amenity” for state citizens who wish to study in another location. But the most compelling argument was the loss of diversity that enhances the “very atmosphere of learning.”

The current recession brought new attention to out-of-state student fees and quotas. The Virginia legislature had multiple bills before it last year to either increase the tuition premium or set a cap on out-of-state enrollments. The debates about the bill and fees have been much as they were in the 1860s and 1960s, because to most minds the issues are the same -- protecting citizens’ access to services “paid for” by citizens.

But two things have changed. The most obvious is the scale of the movement of students across state borders and national borders. There were about 82,000 international students in the United States in 1964. Now there are eight times that many, with more than 100,000 coming from India and that many again from China. California has more enrolled than the whole nation did 50 years ago.

More important have been the changes in how we think about these issues, thanks to the development of economic analysis and human capital theory. We now have a better understanding of the economic value of out-of-state students -- especially international students.

The latest estimate is that the economic value of the industry to the United States is $20 billion per annum. For Virginia, it is $357 million. For North Carolina, it is $293 million and for Wyoming, it is under $20 million. But for both California and New York, it is more than $2 billion per annum.

These figures are underestimates. The numbers cited in the latest Open Doors material would put the U.S. and Australian markets at roughly the same value -- Australia is around 16 billion and the dollars are roughly equal in value. This makes no sense as the U.S. market is three times the size of the Australian market and is a higher-cost destination. The current formula for the U.S. is tuition + living expenses + dependent expenses, minus U.S. support from any institution or wages earned in the U.S.

More sophisticated modeling looks at the value added to the national economy, the flow on effect of education expenditure and jobs created. Access Economics, a reputable economic modeling group, estimated that international students added significantly to the Australian economy past the money spent on education. There was a flow on effect of $1.91 for every dollar spent on education and nine full-time-equivalent jobs for every $1 million spent on education. Similar multipliers can be found in a British Columbia study by Kunin and Associates in 2006 that used direct and indirect benefits plus induced benefits -- growth from increased household income.

These simple comparisons show that the estimates are too low. There needs to be an analysis of the true economic value of foreign students in the U.S., so there can be an informed debate about quotas, the benefits of diverse campuses, and just how open the door is.