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Higher Education ... Higher Costs: Reasons and Remedies

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This paper explores the reasons underlying the rising cost of college and reviews some suggested actions that students, parents, and college administrators might take in order to deal with this problem.

INTRODUCTION

The increasing complexity of today's high-tech, information-based society has made obtaining a college degree a prerequisite for success, rather than the option, or even luxury, that it once was. Realizing that a high school diploma will not open the door to most entry-level positions, let alone make possible a lifestyle similar to or better than that of their parents, today's high school graduates are flocking to the nation's postsecondary institutions in larger percentages than ever before. Pursuing a higher education is planned by 62 percent of today's high school graduates as compared to 52 percent in the late 1960s and less than 40 percent prior to 1940.[1] In the fall of 1988, 3.2 million full-time, undergraduate students attended the nation's four-year institutions of higher learning, while in 1989, 337,414 students enrolled in one of Michigan's four-year public or private colleges or universities.[2] This is with good cause; armed with a diploma, today's college graduates can expect a more financially secure future, earning $600,000 more during their lifetimes than their high school-educated counterparts.[3]

While many are called to higher learning, fewer are able to attend because rising tuition costs have made the price of a college degree prohibitive to many families. Educational observers predict that tuition increases slated for 1990–91, estimated to range between 5 and 11 percent, will mark the tenth consecutive year in which tuition increases will outpace inflation.[4] Higher educational costs also may exclude children from lower and middle income backgrounds. Between 1978 and 1987, the median income of all families increased 123 percent nationally, compared to a 143 percent increase in the incomes of families with children attending public higher education institutions, and a 199 percent rise among families with children in private institutions.[5] The implication that children of parents with higher-than-average incomes are more likely to attend college than those of parents with average or below-average incomes can be attributed to many factors, including the high cost of a college education.

1 P. Brimelow, "The Untouchables," *Forbes*, November 30, 1987, pp. 140–150.

2 Michigan Department of Management and Budget, personal communication, January 2, 1990, and Department of Education, "Report on Postsecondary Enrollment for Fall 1989," December 8, 1989.

3 L.R. Morrell, "The Tuition Policies of Higher Education Are Not Divorced from Economic Reality," *The Chronicle of Higher Education* 34 (1988): A29–30.

4 Jean Evangelauf, "Tuition May Outpace the Rate of Inflation for 10th Year in a Row," *The Chronicle of Higher Education* 36 (February 14, 1990): A1.

5 D. Martin, "Understanding the Costs of College," *Phi Delta Kappa*, May 1988, pp. 673–676.

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Rising educational expenses have not gone unnoticed by students and their parents, who have made rising college costs a point of contention between them and college administrators. As a result, consumers, school administrators, education experts, and public officials have focused increasingly on possible causes.

TERMINOLOGY

Some of the misunderstandings among the parties involved in the discussion about higher education costs may stem from each party attaching different meanings to similar vocabulary. From the student's perspective, tuition can be defined as a mandatory cost incurred in order to enroll in a college or university, exclusive of noneducational requirements such as room and board, books, and lab and athletic fees.[6] The general public, however, tends not to differentiate between tuition and other educational expenses and instead looks at the total price of the educational package. The average parent, for example, most often is presented with the total educational bill, with no explanation or clarification differentiating one cost from another. Consequently, the consumer defines the total cost of attending college as "tuition."

Further confusing the issue, college administrators have their own definitions of tuition and cost. Defined as the price set by the university for educational services and facilities, tuition paid by students barely covers one-third of the total cost to public institutions to feed, board, and educate students for one year.[7] In private institutions the percentage covered is even lower: Less than 15 percent of total educational costs are covered by tuition alone. To an educational administrator, the cost of college, therefore, is defined in terms of expenditures made by the university to maintain or improve the services that they offer, with the price of providing such services contingent upon economic fluctuations.[8]

For the purposes of this paper, we refer to the essential cost of instruction and facilities used to provide an education by a university or college as **internal costs** of education. Similarly, we define the **external cost** of education as the total cost incurred by the student, including tuition, fees, books, and room and board expenses.

EXTERNAL COSTS: THE PUBLIC'S PERCEPTION

While there have been increases in external costs, the public may have a distorted picture of these. A recent Gallup poll of young adults between the ages of 13 and 21 found a wide disparity between perceptions of the cost of going to college and the actual cost of tuition, fees, room and board, and so forth.[9] Respondents believed that the cost of tuition and fees alone averaged $6,841, about 66 percent more than the actual average cost. Another poll, conducted in 1988 by *The Chronicle of Higher Education*, found that the average respondent thought that total external cost for one year of higher education would exceed $9,000, whereas the actual amount is approximately $5,800.[10] It is easy to understand why the public has

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6 C. Leatherman, "State Officials Split Over U.S. Tuition Plan Tied to Savings Bonds," *The Chronicle of Higher Education* 35 (December 7, 1988) A1, A24.

7 D. Martin, "Understanding the Costs of College."

8 E. Hines, *State Tax Funds for Operating Expenses of Higher Education 1988–89*, National Association of State University and Land Grant Colleges, 1989.

9 D.E. Magner, "Young People Widely Misinformed About Cost of College," *The Chronicle of Higher Education* 35 (November 7, 1988): A1, A34.

10 Ibid.

such a distorted view of college costs when the media cites college price tags of $15,000 to $20,000 per year, making no distinction between public institutions and private establishments, such as Harvard, Princeton, and Bennington, which charge in excess of $18,000 per year and are not representative of the average institution of higher learning.

EXTERNAL COSTS: ACTUAL

As shown in Exhibit 1, tuition and fees for an entire academic year at one of the nation's four-year institutions of higher education averaged an estimated $4,628 in 1988, an increase of 7.7 percent over the 1987 level and a 123 percent rise from costs in 1980.[11] Tuition levels and rates of increase were not uniform across institutions, however; at four-year public institutions, tuition and fees averaged $1,535 in 1988, an increase of 6 percent from the previous year and a 108 percent rise from the level recorded in 1980, while at private institutions they averaged $7,720, 8 percent above 1987 rates and 126 percent higher than the 1980 level. For in-state (resident) students, tuition and fees averaged $4,397, while for out-state students they averaged $6,894 per year.[12] Half of the nation's four-year institutions posted tuition and fee increases of less than 5 percent for in-state students in 1988, while 13 percent recorded no increase in tuition and fees for that year.

In 1989–90 annual tuition and fees at Michigan's 15 four-year public universities had an average rate of increase of 9 percent, with individual rates of increase ranging from 7.4 percent (at Grand Valley) to 11.5 percent (at Northern Michigan). (See Exhibit 2.)

Exhibit 1 also provides information about the other major component of external costs—room and board—which posted percentage increases similar to those of tuition and fees. In 1987–88 room and board (defined as the sum of average board rates and dormitory room charges) at the country's four-year institutions averaged $3,440. At four-year public institutions the cost of room and board averaged $2,910, an increase of 3.8 from the previous year and 66.5 percent above the cost posted in 1980–81, while at private institutions room and board expense averaged $3,970, a 5.8 percent rise from 1986–87 and a 91.3 percent increase from the level posted in 1980–81.

Room and board rates at Michigan's public universities were comparable to national average rates; in 1987–88 room and board (among the 12 universities providing both such services) averaged $2,808 (versus $2,910 nationally), an increase of 4.6 percent from the previous year and 48.5 percent higher than the average rate charged in 1980–81 (see Exhibit 3). By 1989–90 (the latest data available) room and board charges had risen to $3,116, a 5.9 percent increase over the previous year's charges.

The 1987–88 combined annual cost of tuition and fees plus room and board—the two major components of external cost—was $4,630 at public institutions and $11,115 at private institutions. At public institutions, these costs represented increases of 5.1 percent over 1986–87 expenses and 69.9 percent over 1980–81 charges. At private institutions, 1987–88 levels represented increases of 8.6 percent over the previous year's expenses, and 88.1 percent over the same costs recorded in 1980. In Michigan, room

11 Bureau of the Census, U.S. Department of Commerce, *Statistical Abstract of the United States: 1987, 1988, 1989*, 107th, 108th, 109th eds. (Washington, D.C.: U.S. Government Printing Office, 1987, 1988, 1989).

12 C. Martin, *State Tax Funds for Operating Expenses of Higher Education 1988–89.*

EXHIBIT 1

Major Components of External Costs at Four-Year Higher Education Institutions, Selected Years

Academic Year	Tuition and Fees[a]		Room and Board[b]		Total External Costs	
	Public	Private	Public	Private	Public	Private
1975–76	$556	$2,183	$1,241	$1,444	$1,797	$3,627
1980–81	818	3,833	1,748	2,075	2,566	5,908
1983–84	1,168	5,472	2,289	2,804	3,457	8,276
1984–85	1,252	5,989	2,457	3,057	3,709	9,046
1985–86	1,347	6,508	2,545	3,285	3,892	9,793
1986–87	1,450	7,145	2,802	3,724	4,149	10,232
1987–88	1,535[c]	7,720[c]	2,910[c]	3,970[c]	4,360[c]	11,115[c]

SOURCE: National Center for Educational Statistics, Office of Research and Improvement, U.S. Department of Education, "Digest of Education Statistics: 1988," #CS 88-600 (Washington, D.C.: September 1988).

[a]Average charges per full-time equated student at four-year universities and other four-year schools. Data are for entire academic year.
[b]Based on full-time students; sum of average board rates and dormitory charges (including 21 meals per week) at four-year universities and other four-year schools. Data are for entire academic year.
[c] Estimated.

EXHIBIT 2

Tuition and Fees at Michigan Public Four-Year Universities, Selected Years

Institution	1980–81[a]	1985–86	1986–87	1987–88	1988–89	1989–90	% Change, 1988–89 to 1989–90	% Change, 1980–81 to 1989–90
Central Michigan	$1,058	$1,507	$1,569	$1,662	$1,828	$2,005	9.7%	89.6%
Eastern Michigan	999	1,501	1,563	1,654	1,820	1,975	8.5	97.7
Ferris State	1,034	1,671	1,671	1,749	1,947	2,133	9.6	106.4
Grand Valley	1,053	1,502	1,566	1,632	1,794	1,926	7.4	82.9
Lake Superior	1,010	1,455	1,517	1,608	1,767	1,920	8.7	90.2
Michigan State	1,439	2,048	2,187	2,640	2,913	3,143	7.9	118.5
Michigan Tech	1,119	1,797	1,869	1,950	2,193	2,391	9.0	113.7
Northern Michigan	1,027	1,447	1,513	1,576	1,729	1,928	11.5	87.8
Oakland	1,058	1,596	1,658	1,767	1,937	2,077	7.2	96.2
Saginaw Valley	1,057	1,628	1,697	1,783	1,959	2,131	8.8	101.7
UM-Ann Arbor	1,475	2,231	2,528	2,739	3,011	3,288	9.2	122.9
UM-Dearborn	1,088	1,757	1,832	1,995	2,190	2,404	9.8	121.0
UM-Flint	1,000	1,472	1,536	1,700	1,920	2,104	9.6	110.4
Wayne State	1,422	1,816	1,816	1,956	2,111	2,332	10.5	64.0
Western Michigan	1,070	1,537	1,599	1,852	2,015	2,195	8.9	105.2
STATE AVERAGE	$1,127	$1,664	$1,741	$1,884	$2,076	$2,263	9.0%	100.8%

SOURCE: Presidents Council, State Universities of Michigan, "Annual Report on Tuition and Fees," various years.

[a]For those universities that raised tuition during the course of the year, the listed rate reflects an average of the two rates.

EXHIBIT 3

Major Components of External Costs at Michigan's Four-Year Public Universities, Selected Years

Academic Year	Tuition and Fees[a]	Room and Board[b]	Total External Cost
1980–81	$1,127	$1,891	$3,018
1985–86	1,664	2,577	4,241
1986–87	1,741	2,684	4,425
1987–88	1,884	2,808	4,692
1988–89	2,076	2,942	5,018
1989–90	2,263	3,116	5,380

SOURCE: Calculations made by Public Sector Consultants, Inc., based upon data provided by the Presidents Council, State Universities of Michigan, "Annual Report on Tuition and Fees," various years.

[a]Average charges per full-time equated student (lower level, undergraduate). Data are for entire academic year.
[b]Based on full-time students; charges are for dormitory/apartment and 20 meals per week for entire academic year (schools without both are excluded).

and board plus tuition and fees at the state's public universities totaled $4,692 in 1987–88, a rise of 55.5 percent from 1980–81 and 6 percent higher than costs in the previous year. By 1989–90 this amount had increased to $5,380, a two-year increase of 14.7 percent.

REASONS FOR RISING EXTERNAL COSTS

Given the increases in external costs in the last decade, it must be asked whether these were justified by rising costs of providing an education, and if not, what (besides rising internal costs) explains the increases.

In a national study on tuition policy undertaken by the State Higher Education Executive Officers (SHEEO), the most common rationales given by university administrators to justify tuition increases included quality improvement, declining state support, and increasing personnel costs.[13] These factors are examined below. In addition, more than 82 percent of the administrators polled cited the cost of graduate programs, equipment/computer expenses (rising at average rates of 12 to 16 percent per year), and building/renovation expenditures as major concerns relating to cost increases.[14] Also cited as reasons for tuition increases were declining federal support for research and development programs and market forces.

13 S. Jaschik, "State-College Officials Call Public's Panic Over Fees Needless," *The Chronicle of Higher Education* 34 (May 18, 1988): A1, A22.

14 State Higher Education Executive Officers, *Survey on Tuition Policy, Costs, and Student Aid*, June 1988, and D. Martin, "Understanding the Costs of College."

Cost of Living

The cause for at least some of the increase in external costs can be traced to a general rise in the price level. Price increases act to raise external costs both directly and indirectly. A rise in the general price level will cause external costs to rise through increases in the cost of room and board. But inflation affects all prices; a rise in the general price level will result in increases in internal costs, which in turn will be passed on to the student in the form of higher tuition rates. Rising prices, therefore, have a direct effect on external costs as well as a secondary effect (caused by increases in internal costs).

Between 1981 and 1988 inflation [as measured by the consumer price index (CPI)] rose by 30.1 percent. Adjusting the rise in external costs for this period (69.9 percent at public colleges and universities and 69.9 percent at private institutions) for the increase in the CPI results in an after-inflation increase in external costs of 39.8 percent at public schools and 58 percent at private institutions. Between 1987 and 1988 the CPI rose by 4.1 percent, implying a real increase in external costs of only 1.0 percent at public colleges and universities (where external costs rose by 5.1 percent during the year) and 4.5 percent at private schools (where external costs rose by 8.6 percent). In Michigan, prices (as measured by the Detroit CPI) increased by 24.5 percent between 1981 and 1988, and external costs at the state's universities rose by 55.5 percent, resulting in an inflation-adjusted rise in external costs of 31 percent. Between 1987 and 1988 prices rose by 3.9 percent, and external costs rose by 6 percent; this implies a one-year real increase in external costs of 2.1 percent.

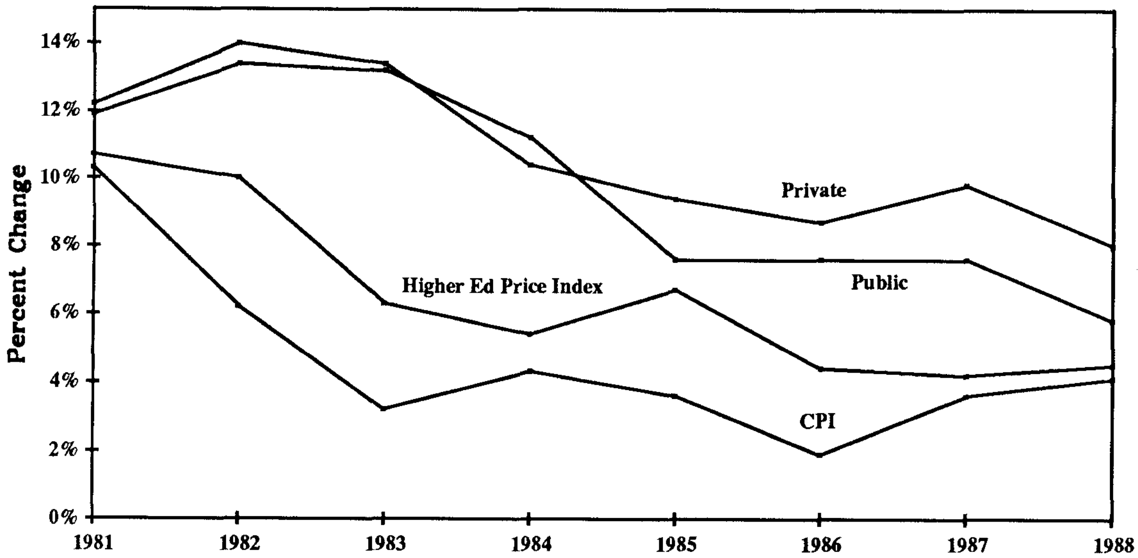
Rising Internal Costs

As mentioned above, the increasing expense of providing higher education is a major concern among college administrators who contend that in many of the areas in which university spending has been concentrated, costs have escalated at a much faster rate than the rate of inflation. Inspection of the higher education price index—which reflects prices paid by colleges and universities for personnel compensation and contracted services, supplies, and equipment—bears out this assertion. The index rose 58.8 percent between 1980 and 1987 (the latest data available), spurred by increased payments for fringe benefits (which increased by 100.5 percent during the period), expenses for books and periodicals (which rose 59.6 percent), and contracted services (which rose 54.4 percent). (See Exhibit 4.) This rate of increase, compared to a 37.7 percent increase in the CPI during the same period, supports the argument that college costs have increased at a faster pace than the general cost of living.

The rise in internal costs to the university do not, in and of themselves, justify the rate of increase in external costs. **Even after adjustments are made for rising internal costs (that is, by using the higher education index rather than the CPI), external costs at public universities still rose by 24.3 percent between 1980 and 1987, while the total cost of attending a private institution rose by 47.1 percent.** This has caused the efficiency of college administrators to be called into question. Critics and university advocates alike, however, agree that controlling expansion and excessive salary increases, as well as streamlining present operations, are some immediate options that need to be examined in the face of escalating tuition rates.

EXHIBIT 4

Percentage Change in Tuition and Fees at Four-Year Private and Public Colleges and Universities, the Higher Education Price Index, and the Consumer Price Index, 1981–88



SOURCE: Bureau of the Census, U.S. Department of Commerce, *Statistical Abstract of the United States: 1987, 1988, 1989,* 107th, 108th, and 109th eds. (Washington, D.C.: 1989): Research Associates of Washington, *Higher Education Price Indexes: 1989 Update,* (Washington, D.C.: Research Associates, September 1989).

Trends in Funding Sources

College administrators also contend that tuition increases are necessary in the face of declining public and private support of their institutions. Are their claims justified?

Exhibit 5, which shows the sources of university and college funding for 1975–86 (the latest data available), reveals that this indeed has been the case. Combined state and federal funding of higher education accounted for 47.2 percent of total current fund revenues in 1975–76; by 1983–84 the figure had declined to a low of 41.6 percent of such revenues. By 1985–86 some of the government revenues lost due to the 1980–82 recession had been made up for but still accounted for a lower percentage of total funding (42.4 percent) than in the previous decade. The declines in government support had to be made up through increases elsewhere; as shown in the exhibit, increases in nongovernment funding categories—including but not limited to tuition and fees—were made across the board.

Current state appropriations to Michigan's 15 public universities begin with a base of $1,475 per full-time undergraduate student and $1,900 per graduate student, with additional funds allotted contingent upon individual programs at each university. General fund/general purpose (GF/GP) appropriations have

EXHIBIT 5

Current Fund Revenues of U.S. Higher Educational Institutions, 1975–85
(dollars in thousands)

Year	Tuition and Fees[a]	% of Total	Federal Funding[b]	% of Total	State Funding	% of Total	Combined State and Federal Funds	% of Total
1975	$8,171,942	20.6%	$6,477,178	16.3%	$12,260,885	30.9%	$18,738.1	47.2%
1977	9,855,270	21.0	6,968,501	14.8	14,746,166	31.4	21,714.7	46.2
1979	11,930,340	20.4	8,902,843	15.2	18,378,299	31.4	27,281.1	46.6
1980	13,773,259	21.0	9,747,586	14.9	20,106,222	30.7	29,853.8	45.5
1981	15,774,038	21.9	9,591,805	13.3	21,848,791	30.3	31,440.6	43.6
1982	17,776,041	22.9	9,631,097	12.4	23,065,636	29.7	32,696.7	42.1
1983	19,714,884	23.4	10,406,166	12.3	24,706,990	29.3	35,113.2	41.6
1984	21,283,329	23.0	11,509,125	12.4	27,583,011	29.8	39,092.1	42.3
1985	23,116,605	23.0	12,704,750	12.6	29,911,500	29.8	42,616.3	42.4

SOURCE: National Center for Educational Statistics, Office of Research and Improvement, U.S. Department of Education, "Digest of Education Statistics: 1988," #CS 88-600 (Washington, D.C.: September 1988).

[a]Includes Pell grants.
[b]Excludes Pell grants.
[c]Includes grants, gifts, and contracts; sales and services; endowments; and other revenues.

increased from $617.5 million in FY 1985–86 to $1,195.5 million in FY 1989–90 (a 93.6 percent increase).[15] (See Exhibit 6.) On a per student basis, state appropriations rose 93.2 percent during this period, from $2,982 to $5,763 per student per year.[16]

Other Reasons

A complete explanation of increasing external costs must include factors other than the rising expense of providing an education and declining outside support. These factors include pricing schemes and noneducational expenses aimed at enticing prospective students to individual campuses. In addition, rising tuition rates are justified by some as a method by which needy students can receive educational funding.

One possible explanation for rising tuition is that college administrators are setting rates according to a luxury pricing scheme. Luxury pricing is based on the logic that "you get what you pay for." Using such logic would lead one to conclude that one would receive the best education at the institution that costs the most. Indeed, private institutions are finding increasingly that the higher their tuition rates are, the larger their applicant pool becomes. As Kalamazoo College President David Breneman observed: "All of us are beginning to realize that to some degree in this market, people judge quality by price."[17] This

15 State funding figures include allocations for state grants and financial aid.

16 Senate Fiscal Agency, *1989 Statistical Report* (Lansing, Mich.: the Agency), October 1989.

17 J. Evangelauf, "Costs of Attending College Appear Likely to Rise Faster Than Inflation for the 8th Year in a Row," *The Chronicle of Higher Education* 34 (March 2, 1988): A29–30.

EXHIBIT 6

Federal and Net State Appropriations to Michigan's Public Universities[a]

Fiscal Year	State GF/GP Appropriations (in thousands)	Funding per Full-Year Equated Student	Percentage Change From Previous Year
1980–81	$617,538.5	$2,982	na
1981–82[b]	656,298.3	3,322	11.4%
1982–83	700,497.3	3,594	8.2
1983–84	761,166.4	3,961	10.2
1984–85	846,457.6	4,456	12.5
1985–86	978,298.0	5,120	14.9
1986–87	1,043,375.9	5,319	3.9
1987–88	1,108,307.6	5,527	3.9
1988–89	1,142,921.7	5,623	1.7
1989–90	1,195,518.8	5,763	2.5

SOURCE: Senate Fiscal Agency, *Statistical Report*, selected years (Lansing: the Agency).

na=not applicable.
[a]Adjusted for executive order reductions each year and 1984–85 vetoes.
[b]Includes repayment of E.O. 1982–84.

forces competitive colleges to make improvements that, more often than not, are incidental, rather than necessary to, an education.

While some critics charge that potential students often look for amenities such as plush dorms and fancy cafeterias rather than an institution offering a quality education, the improvements are more a marketing strategy used to attract a dwindling pool of potential applicants than a response to demands (or educational requirements) of students. Everything from living arrangements to financial assistance (regardless of need) are tailored to attract students who may shop around for the most appealing program.

Another cost to higher education institutions that seems to be increasing in magnitude is recruitment expenditures. In an effort to keep enrollments steady despite the decline in the college-age population, recruitment budgets have ballooned over the last several years.[18] Recruitment expenditures at Case Western Reserve in Cleveland, for example, totaled about $1.4 million in 1989, which translates into about $2,700 per incoming freshman.[19]

College officials also argue that increases in tuition and fees allow their institutions to help needy students with increased financial aid (funds that would have not been available had tuition rates not risen). Franklyn Jenifer, chancellor of the Massachusetts Board of Regents, argues that tuition increases (coupled

18 H. Anderson and R. Thomas, "Fuming Over College Costs," *Newsweek*, May 18, 1987, pp. 66–68.

19 "College Prices," *Wall Street Journal*, March 12, 1990, p. A8.

with additional income-based financial aid) are necessary because low tuition policies alone provide subsidies for those in higher income brackets.[20] By allowing rates paid by higher income students to rise while at the same time increasing financial aid to needy students, higher educational institutions shift the burden of educational costs to those that can better afford them.

SOME SOLUTIONS TO THE PROBLEM OF RISING EDUCATIONAL COSTS

In an attempt to ease some of the financial burden associated with rising college costs, state and federal officials, as well as college administrators, have begun to formulate various financial plans to help students and their families. Three such proposals recently have been adopted, each with different advantages and disadvantages depending upon the individual consumer and his/her financial status. Since all three plans are relatively new, however, the degree of their success or failure will not be known for some time. This lack of information presents an investment risk to the consumer who must weigh this uncertainty and his/her financial status against the prospect of impending sizable college bills.

The Michigan Educational Trust

A high profile solution to the problem of rising external costs is the Michigan Educational Trust (MET), a prepaid tuition guarantee program.[21] Initiated by Governor James Blanchard and enacted by the Michigan legislature in 1986, MET allows families to invest in the program today, and in return the state pays their child's tuition bills at any one of Michigan's 15 public universities when the child is ready to enroll. The amount of the lump-sum investment necessary to insure future tuition payments depends on the current average tuition rate among the state's public institutions and the age of the child in question (the younger the child, the smaller the necessary initial investment). An investment in the MET fund is transferrable among family members and may be used for a period of up to nine years after the prospective student reaches college age at any private or public institution in the United States, although full tuition payments are only guaranteed for Michigan's four-year institutions. In addition, any investor in the fund is not directly liable for state or federal income tax on the interest earned in the trust, and the initial payment may be treated as a tax deduction similar to an IRA on the investor's state tax returns.

The MET has received national recognition for being the first program of its kind to be implemented in the United States. So far, 60 percent of state governments are at least studying proposals based upon the MET model.[22] Florida and Wyoming have implemented their own versions of this program, and six other states have adopted comparable plans, although they have not yet been set in motion. Some of these states, however, adopted their programs contingent upon whether they would be liable for federal taxes on their fund's interest. A recent IRS ruling determined that the State of Michigan is indeed liable for federal trust taxes on the interest earned by the $265 million fund, which likely will mean that those states will not implement their programs.[23] In addition, recipients will be responsible for taxes on the benefits

20 S. Jaschik, "State-College Officials Call Public's Panic Over Fees Needless," *The Chronicle of Higher Education* 34 (1988): A1, A22.

21 Future tuition payments are not "guaranteed," that is, not backed by the full faith and credit of the state of Michigan.

22 SHEEO, *Survey on Tuition Policy, Costs, and Student Aid.*

23 C. Leatherman, "States' Interest in Tuition Plan Grows: Focus Shifts Towards Savings Programs," *The Chronicle of Higher Education* 35 (September 14, 1988): A1, A24.

of the contract in the year in which they receive them. The MET Board, however, has announced that it plans to challenge the recent IRS ruling. If successful, current contract holders would receive refunds of approximately $200 to compensate them for the state's lower tax costs.[24]

A MET-style program is not for everyone: The program likely would not be successful in a small state because an adequate revenue base—one large enough to generate a rate of return sufficient to cover future tuition payments—could not be established. This was the reason cited by Duquesne University when it decided to suspend its program based on the MET model.[25]

Critics of the MET program assert that it benefits only those recipients who attend universities with above-average tuition rates, that it is based upon unrealistic economic assumptions, and that the lump-sum method of enrolling in the program keeps out the low- to middle-income families it was designed to assist.[26] First, these critics argue that because the initial payment is based upon current and projected state average tuition rates, only those students attending one of the two schools with above-average rates (University of Michigan-Ann Arbor and Michigan State University) will benefit from the program. Investors with children attending one of the state's 13 other universities will not benefit from the program because their initial payment plus earnings on that investment is greater than the final payment made by the state.

A second criticism is that the program assumes that tuition will, on average, increase by 7.3 percent annually and that the state will experience steady economic growth, assumptions that critics assert are unrealistic. Even if tuition increases were limited to this amount, the fund would have to earn a pre-tax rate of return of 14.5 percent, and an after-tax return of 9.75 percent in order to meet its commitments. While these critics concede that the fund is purported to have earned a 15 percent pre-tax rate of return during the program's first three years, they question whether the fund's investors will be able to continue this performance if economic conditions worsen.

Finally, the critics argue that because entry into MET requires that the entire investment be paid in one lump sum, it excludes low- to middle-income families that cannot afford to make such a large payment all at once.

State officials have replied that the assumed rate of tuition increase is one that will occur over the long run, making current year-to-year comparisons invalid. In addition, they contend that the fund requires only an 8 percent after-tax rate of return (or a 9–10 percent pre-tax rate of return) in order for the program to be viable.[27] Finally, MET soon will be accepting smaller payments (in the form of monthly installments), which will allow families that cannot afford a lump-sum payment to purchase MET contracts with

24 C. Andrews, "MET Officials Plan to Bring IRS to the Bench," *Lansing State Journal*, May 2, 1990, p. 3B.

25 Ibid.

26 Dr. Peter Boettke, "The Michigan Educational Trust: A Political Economy Perspective" (Midland, Mich.: The Mackinac Center), March 12, 1990.

27 Michigan Information and Research Service, Inc., "Republican Think Tank Blasts the MET Program, *Capitol Capsule*, March 12, 1990, p. 3.

installment loans, and state employees enrolled in the program will be able to payroll deduct the MET payments.[28]

Savings Plans

An alternative program for higher education financing that attempts to reduce both external and internal costs is the State of Illinois' Savings Plan.[29] The state issues general obligation bonds[30]—available to the public at an average price of $2,000 and earning a fixed rate of interest—and uses the proceeds for the renovation and construction of campus buildings, thus reducing the need to finance these expenses through tuition increases. Interest earned on the bonds is exempt from state and federal taxes if it is used toward the payment of college tuition, and the interest rate increases one-half percentage point if the bond is used to finance higher education within the state of Illinois. In addition, parents may exclude the value of any bond purchase (up to $25,000) from the income level they declare on the student's financial aid application to any state institution. Illinois has so far sold $265 million (in two issuances) of general obligation bonds of this type.

There is some concern about savings plans among educational analysts, who assert that they serve only as short-term remedies to a long-term problem. Another criticism, similar to one leveled against the MET program is that parents could earn a higher rate of return elsewhere and should, therefore, examine the program carefully before making an investment.

The federal government also is attempting to respond to the national outcry for an economically accessible higher education plan. In November 1988 Congress enacted a national tuition program that—beginning this year—allows families to purchase U.S. Savings Bonds and use them for tuition at any higher education institution in the country. Bond prices start at $25 and are tax-exempt to purchasers with incomes below $60,000 (at the time of college entrance) if the bonds are used to pay college tuition costs.[31]

Other Options

A somewhat different suggestion aimed at reducing both the internal and external costs of higher education is offered by Chester E. Finn, Jr., chairman of the National Assessment Government Board and former assistant Secretary of Education for Educational Research and Improvement, U.S. Department of Education. Finn advocates a concept referred to as the "no-frills university."[32] He proposes that students function as staff rather than hired service and physical plant personnel and wants little bureaucracy, no tenure, and independent fees for all extra services. A first-rate education at such an institution, claims Mr. Finn, "would [be] remembered for the richness of the ideas it imparted, rather than for the pretension and hedonism it encouraged."

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28 C. Andrews, "MET Officials Plan to Bring IRS to the Bench."

29 C. Leatherman, "States' Interest in Tuition Plan Grows: Focus Shifts Towards Savings Programs."

30 General obligation bonds are bonds backed by the full faith and credit of the issuing state and are usually subject to voter approval.

31 C. Leatherman, "State Officials Split Over U.S. Tuition Plan Tied to Savings Bonds."

32 C.E. Finn, Jr., "Consumers Need a 'No-Frills University' to Turn the Higher-Education Marketplace Upside Down," *The Chronicle of Higher Education* 35 (1988): B1-2.

Two other types of programs, loan forgiveness and community service, are aimed at making a college education accessible and affordable, while at the same time addressing social needs. These types of programs are options offered to encourage students to enter high-demand, often low-paying professions (such as K-12 teaching in inner city schools) or devote several years of service in professions where supply is often low (such as health care for AIDS patients). The latter option currently is offered to health professionals under the auspices of the National Health Service Corps and may become an alternative under a bill recently enacted in Michigan. Both programs are aimed at increasing access to health care in areas where there are shortages of trained professionals (such as in inner-city hospitals, rural areas, and in high-risk fields) by forgiving student loans of those who are willing to devote several years of service working in such programs.[33] Similarly, the Literacy Corps, initiated by Arkansas Governor Bill Clinton, is a public service program designed to encourage students to become involved in community service activities while being reimbursed for their time with tuition benefits.[34]

University officials, concerned about escalating costs (both internal and external) also have worked to reduce the student burden with programs designed to increase funding from other sources or contain internal costs. Some have expressed interest in cooperative academic, computer, and library ventures in order to keep down expenses,[35] while others are soliciting increased private sector and alumni support. (One highly successful venture—the "Campaign for Michigan"—has raised more than $200 million since 1982 for the University of Michigan.[36]) And as mentioned above, some universities promise that tuition increases will be matched with additional financial aid to needy students.

CONCLUSION

Increases in the cost of tuition at higher educational institutions cannot be explained by any one circumstance but rather by a number of coinciding events. Some of the increase has been due to an increase in prices in general and an even higher rate of expansion in the costs of providing higher education specifically. College administrators also were forced to raise tuition rates to make up for the decline in funding by state and federal governments during the early 1980s. Although some institutions are unreasonably priced, the majority of public four-year universities offer affordable packages with financial assistance. As Mr. McGuinness of the Educational Commission of the States notes, however, "perception can be nine-tenths of the game, which is why we have to explain what is going on."[37] Rising tuition rates have been highlighted in the media, but increases in other external costs—which can account for up to 62 percent of total external costs—have not received adequate attention. Some critics are amazed at the lack of resistance from consumers to increases in higher education costs deemed by some as "outrageous." Without adequate understanding of the issue, however, consumers have been unable to question effectively or resist market prices despite their outrage.

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33 The Michigan law, Public Act 16 of 1990, was signed by the governor in March but will not become effective until the funds necessary to run the program are appropriated by the state legislature.

34 "The Outlook for Higher Education in the 50 State Legislatures This Year," *The Chronicle of Higher Education* 35 (1988): A25, A29.

35 SHEEO, *Survey on Tuition Policy, Costs, and Student Aid.*

36 H. Anderson and R. Thomas, "Fuming Over College Costs."

37 S. Jaschik, "State College Officials Call Public's Panic Over Fees Needless."

Some university officials claim that anger over rising college costs expressed by consumers and whipped up by the media is a result of an unenlightened public. If the public is misinformed on the context in which the increases in total costs have occurred, university officials must shoulder some of the blame for inadequately educating the public on the causes as well as the options available to students and/or parents to remedy this problem. Most universities have mandatory orientations for incoming freshmen and transfer students to familiarize them with the institution's academic program and extracurricular activities; a financial orientation should be provided for parents and students to familiarize them with and instruct them on their educational investment. For their part, prospective students and parents must demand access to information from higher educational institutions (through public forums, for example), in order to understand and question the financial bills presented to them.

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