Matthew Shaw, EAD 876

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Identifying the Rise in College Costs

The answer to why college costs so much is not one that be solved with a single cause or theory. Rather, the recent rise in college costs is attributed to multiple factors and theories, with Bowen's "revenue theory of cost" at the heart of the discussion. With college costs and rising student debts in the national picture thanks to the Occupy movement and President Obama's cost-cutting recommendations (Cantwell, 2013), the focus on why college costs are rising is of great debate. Bowen's revenue theory of cost in combination with growing personnel costs, costly physical plant operations and expanded technology usage in higher education are all contributing factors to the recent increases in college costs.

In analyzing the recent spending increases, Bowen's revenue theory of costs and similar theories relating to competition and prestige maximization, act as the underlying principles for the rise of recent college costs. Bowen's theory "concluded that institutions of higher education raise all the money that they can, and spend it on worthwhile activities" (Breneman, 2001, p.15). As public and private higher education institutions are not profit-seeking organizations, these universities have no incentive to limit costs as long as the costs do not exceed revenues. Until revenues are limited, universities will continue to maximize spending in the pursuit of excellence. As there is no quantifiable limit on excellence, institutions will continue to seek additional revenues and in turn, spend these revenues to enhance the academic prestige of the institution.

Tying in to the pursuit of excellence, the increased competition between universities for improvement in the annual *US News* rankings contributes to visible college cost increase. As Ehrenberg states (2006), the competition between universities leads to a costly "arms race". The "arms race" to improve the institution's position in the annual rankings reports is only limited by the available revenues that can be spent. As the *US News* rankings are well known amongst the industry and visible to prospective students, the decision to outspend the competition is an easy one if the end result is a climb in the rankings. With a percentage of the rankings determined by costs per student, universities are enticed to spend on areas such as lavish dorms and dining facilities, enhanced classroom technologies and state-of-the-art technology infrastructure. As Winston states (1999, p.16) with the ongoing battle to attract the top academic talent, there is no end in sight for the rising costs associated with the institutional desire for "prestige maximization".

Relating to the prestige maximization of institutions, the operating costs of maintaining and expanding university facilities have played a role in the college cost increases. As stated by Ehrenberg (2000, p.147), the physical plant at a university contributes directly to the mission of the institution through the classrooms, dormitories, dining halls, laboratories, athletic facilities and student unions. With institutions attempting to attract top talent, the constant development and maintenance of the physical plants acts as a catalyst in the prestige arms race. Prospective students have come to expect the latest and greatest amenities, leaving universities constantly renovating facilities to attract and meet the needs of future students. Similarly, the shift towards enhanced classroom technologies has opened new doors for learning opportunities; however as Archibald and Feldman state, educational technologies "have been largely cost increasing as they have been driven by the needs of students and employers in the contemporary labor market" (2011, p.16). With the implementation of enhanced classrooms and online learning, the educational technologies are expanding and improving the quality of the learning experience in higher education rather than replacing previous learning methods, which add to the academic operational costs (Archibald & Feldman, 2011, p.16). The increase of the physical operating costs both in buildings and technology, while beneficial to the integrity of the university, have significantly contributed to the push for prestige maximization resulting in increased costs.

In addition to the physical plant costs, the growth and shift in responsibilities of higher education personnel contributes to the rise in college costs. As stated by the Pew report (1990), the expansion of the administrative lattice and the loosening of the academic ratchet have led to a visible increase in college costs. With most institutions enjoying revenue growth in the 1980s, institutions substantially expanded their administrative and academic support staffs. Over a ten-year period from 1975 to 1985, the number of higher education administrative professionals rose by more than sixty percent, compared to only a six percent increase in faculty at the average institution (Pew, 1990, p. 2). With the increase in support staffs, so came a drastic rise in costs. As the new cohort of academic support experts brought a sense of professionalism to the industry, increased responsibility and pay led to a rise in personnel costs (Pew, 1990, p.4).

While the administrative lattice expanded with more responsibility placed on academic support staffs, the academic ratchet loosened as faculty members' connections to the university dissipated. Faculty members were placing personal interests and professional research ahead of university priorities, as their salaries remained or even increased over time (Pew, 1990, p.5). Relating to Baumol and Bowen's theory that higher education is not capable of experiencing an increase in productivity, universities were losing productivity on university defined goals as faculty spent more time pursuing personal and professional interests (Pew, 1990, p.6). The end result was the average cost per faculty member no longer went as far as before, with a decrease in production outputs on university focused responsibilities.

While rising costs are becoming commonplace in the higher education industry, the impact on the students has become more visible. With state funding remaining stagnant and college costs continuing to rise, public universities are forced to generate additional revenues through tuition and fees increases. As state support declines, students and families are left with the financial burden of covering the price of a college degree. Reliance on federal loans has led to debt increases amongst college graduates but enrollment totals continue to climb. Until colleges and universitities determine a method to limit revenues, costs will continue to grow in the pursuit of excellence (Pew, 1990, p. 1).

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