NATIONAL CENTER FOR POLICY ANALYSIS

The Higher Education Bubble

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President Obama has proposed to give community college students two "free" years of community college at a projected cost of nearly $70 billion (ultimately to be paid for by workers who don't go to college).

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The result of infusing colleges with billions of dollars in additional funds will be to raise the cost of a college education even higher — just as student loans and federal grants have encouraged wasteful spending by colleges and universities across the country. The open spigot of federal money continues to flow, mostly in the form of guaranteed student loans. These institutions are charging higher tuition rates because they can rely on receiving guaranteed money from the government. Because of these practices, student debt has reached $1 trillion, surpassing credit cards and car loans as the largest source of debt in the country, and there is growing evidence this is creating a "student loan bubble."

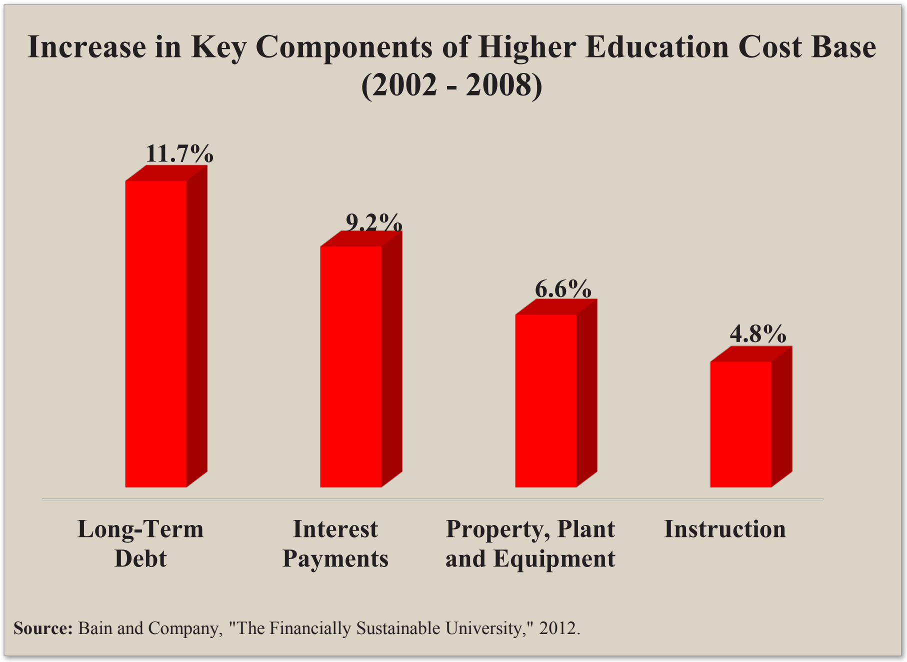
The government's intervention in the health care sector should have warned us of the cost-increasing effects that result from government involvement. Just as health care costs spiraled out of control after the government began Medicaid and Medicare, so too are education costs rising much faster than other consumer prices. In fact, according to College Board, tuition and fees jumped 27 percent between the 2008-2009 and 2013-2014 school years.[1] They have increased nearly 160 percent since 1990 (after adjusting for inflation).[2]

One would expect that with more public funding, schools wouldn't have to increase their tuition rates. At the very least, the higher cost should mean the education received is better. However, a look at where the money goes raises some concern about how institutions of higher education are using their funds.

Administrative Staff Surplus. The number of administrative positions in colleges and universities has soared in recent years, contributing to "administrative bloat":[3]

- From 2000 to 2012, the public and private higher education workforce increased 28 percent.
- From 1987 to 2012, universities and colleges hired 87 administrative and professional workers a day, or 517,636 total.

The rise of a large class of administrators not only adds to bureaucratic complexity, but also forces universities to spend more money on wages,



benefits, pensions and so forth. To cut costs, universities have sought part-time adjunct professors to teach courses. In fact, adjuncts make up half of the higher education faculty today.[4] According to a report by the U. S. House Committee on Education and the Workforce, adjuncts rely on wages that average out to a little over $20,000 a year, with no benefits. They are paid by the number of courses they teach. Often, these teachers have less time to prepare course materials or are less available to students because they are working other jobs. This negatively impacts the quality of education students receive.

But while universities are paying professors less, they are increasing the number of administrative and support staff, shifting more and more money toward salaries, pensions and benefits — especially the exorbitant salaries of university presidents and other executives:[5]

- A survey of 256 university presidents found the median total compensation is $478,896.
- Average executive compensation at the 25 public universities with the highest executive pay is almost $1 million.
- Average student debt of graduates at these schools has increased faster than the national average, and administrative spending has risen much faster than scholarship spending, overwhelming scholarship spending by more than 2 to 1 from 2007 to 2012.

Though executive compensation is not the cause of higher student tuition costs or debt, it is correlated with practices that are harmful to higher education. Rising executive compensation implies hiring more administrative support staff. To deal with the increase in costs, universities are forced to cut faculty, prompting the rising use of the aforementioned adjunct professors.

Construction and Institutional Debt. Many universities assume they must constantly build and renovate in order to attract more and better students. The theory is that if schools build the best dorms, best recreation centers and lavish buildings, students will be more willing to spend their money (that is, government loan money).

However, universities have borrowed money to pay for these construction costs.[6] Collectively, the universities rated by the firm Moody's owe more than $205 billion.[7] According to one study, the long-term debt of universities grew 12 percent a year from 2002 to 2008.[8] This investment in fixed assets is unlikely to produce the returns desired, because revenue depends on a steady or increasing student enrollment, which is unlikely with the rising cost to students.

Accelerating this trend is the fact that higher and higher amounts of aid money are spent to pay for luxury amenities designed to attract students. Many universities have experienced a spike in luxury dorms, apartments and condominiums surrounding the campus, as well as restaurants and bars. As a result, the cost of living in college towns has become inflated. In Columbus, Missouri, for example, some students choose to pay $700 a month for luxury apartments, almost twice the cost of older housing in the same area.[9]

These new apartments and dorms offer opulent amenities such as tanning beds, resort-style pools and even ice-skating rinks. For example, a new $60 million housing project at the University of Central Florida will include a volleyball court, a high-speed internet gaming room and 60-inch flat screens in every dorm room.[10] At Texas Tech University, an $8.4 million complex was recently built on campus that includes a water slide and tanning deck to entice students.[11] These types of luxury amenities beg the question of whether colleges and universities have strayed from their objectives of educating students and are instead focusing on the best ways increase revenue.

Will Enrollment Increase? The use of loans by universities to build capital intensive buildings and increase executive salaries and administrative staff are all based on the premise that high levels of enrollment will continue because everyone has accepted the idea that a college education is invaluable. This view is parallel to the belief by investors before the 2008 crash that real estate would appreciate indefinitely and any amount of money borrowed to purchase a house was worth it.

Many universities relied on state and federal funding to finance spending sprees, but after the recession, federal and state governments trimmed their education budgets.[12] Rather than lowering tuition costs, universities saddled with debt and large obligations to their administrative staffs were forced to increase tuition costs. This is particularly a problem for taxpayer-subsidized public universities: Why would students elect to go public universities in California, which are more costly than Harvard or Yale?[13] And, with parents and students forced to foot more of the cost for higher expenditures, it is likely they will begin questioning whether a college degree is worth it.

Endangered Colleges. In an era of austerity it is difficult to imagine how the government could continue to support policies that encourage reckless practices by universities. Already, for-profit institutions are beginning to shut down because they can't cover expenses with lower enrollment. It is only a matter of time before some nonprofit schools shut down or significantly reduce their prices to keep enrollment steady. According to one Harvard Business School professor, as many as half the 4,000 universities and colleges in the United States may fail within the next 15 years.[14]

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Notes

1. "Tuition and Fee and Room and Board Charges over Time, 1973-74 through 2013-14, Selected Years," College Board. Available at https://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fee-and-room-and-board-charges-over-time-1973-74-through-2013-14-selected-years#Key Points.

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3. Jon Marcus, "New Analysis Shows Problematic Boom In Higher Ed Administrators," New England Center for Investigative Reporting, February 6, 2014. Available at http://necir.org/2014/02/06/new-analysis-shows-problematic-boom-in-higher-ed-administrators/

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5. Andrew Erwin and Marjorie Wood, "The One Percent at State U: How Public University Presidents Profit from Rising Student Debt and Low-Wage Faculty Labor," Institute for Policy Studies, May 21, 2014. Available at http://www.ips-dc.org/one_percent_universities/.

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12. Michael Mitchell, Vincent Palacios, and Michael Leachman, "States are still funding higher education below pre-recession levels," Center on Budget and Policy Priorities, May 1, 2014. Available at http://www.cbpp.org/cms/?fa=view&id=4135.

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