Student Tuition and the Higher Education Marketplace:
Policy Implications for Public Universities

Monograph 99-1

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Student Tuition and the Higher Education Marketplace:  
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by  

F. King Alexander

There exists today a growing public concern that college costs are out of control and need to be regulated more closely. As to why and how much prices have increased has become one of the most widely publicized issues in higher education today. Since 1976-77 college tuition and fees have risen nearly fivefold, approximately doubling after adjusting for inflation (NCES, 1997). Because of these apparently uncontrollable and incessantly increasing costs, policy makers and higher education leaders find themselves, once again, engaged in an intense debate over tuition charges and its influence on higher education student attainment. Nowhere has this debate been more pervasive than in public 4-year universities where over 45 percent of the nation’s full-time higher education students are enrolled and nearly 23 percent of all tuition-based revenues are collected (Digest of Education Statistics, 1998). Public university officials, still feeling the adverse effects of a decade of state appropriation reductions, are seeking greater institutional authority to further raise tuition and fees in an effort to generate revenues needed to maintain quality and to remain competitive in the higher education marketplace. Many experts involved in higher education policy development recognize this policy struggle is more than a debate about the appropriate fiscal obligation of students and families to finance or partially finance their own college education (Berdahl, 1990; Eaton, 1992; Griswold & Marine, 1996; Hauptman 1993; Hauptman & Merisotis, 1994; Johnstone, 1998). The boundaries of the issue are predicated on a paradigm shift in which state legislatures attempt to expand access to higher education while
simultaneously avoiding the fiscal outlays necessary to achieve the end that a public higher education desires.

The purpose of this paper is to present information and data that will help clarify and show some of the consequences of these financial determinations on public university revenue patterns and expectations. The paper will also analyze how these fiscal trends have reshaped the higher education academic marketplace forcing many public universities, especially public research universities, into an ever increasing expenditure race premised of tuition revenue generation as they have endeavor to compete with their private university counterparts. In order to fully understand the pressures placed on public universities by the changing academic marketplace, it is first necessary to discuss the role of public policy in altering university revenue and expenditure patterns through the establishment of a compelling policy framework premised on the generation of student-based revenues.

**Student Tuition Reliance and the Federal Role**

With the passage of the Higher Education Act of 1965 and the Higher Education Amendments of 1972, the federal government significantly transformed federal higher education policy from allocating money directly to institutions to providing aid to students as fiscal conduits to funnel funds indirectly to institutions (Chambers, 1968). By channeling the funds through students themselves by means of an elaborate voucher system, the federal government *ipso facto* focussed on the student as the principal agent in support of higher education much like the famous “G. I. Bill” of the 1940s and early 1950s. Despite the success of the “G. I. Bill,” the federal movement toward the adoption of direct student aid represented a philosophical shift as higher education was beginning
to be viewed as primarily for the benefit of the individual, rather than for the benefit of society.\textsuperscript{2} Integral to this philosophy was that students should pay a greater share of college costs because the individual benefits that accrue from higher education far exceed the social benefits (see Carnegie Commission of Policy Studies in Higher Education, 1975; Bowen, 1977; Breneman & Finn, 1978; Johnstone, 1986). Student tuition and fees were, therefore, increasingly viewed as the primary and principal source of funding higher education rather than the supplemental source. Moreover, this approach by its method adopted the historical private college approach to funding higher education and moved away from the traditional public models that presumed taxpayer support of public colleges and universities where tuition and fees were ancillary and minimal. This policy shift became the principle mechanism of federal support of colleges and universities and marked the culmination of two decades of federal policy debate.

Advocates of direct student aid, primarily private college and university leaders saw great advantage for their institutions, and envisioned a vast federal system of scholarships, loans, and other student aids that would allow lower-income students to attend institutions of their choice despite the stimulus to raise tuition and fees. This comprehensive fiscal strategy was premised on what became known as the “high tuition-high aid” funding approach. Proponents of this system maintained that it was more efficient and was a more equitable way to distribute public resources (see Howard, 1977; Breneman & Finn, 1978; Fischer, 1990, Hansen & Weisbrod, 1969; McPherson & Schapiro, 1991; Mumpher, 1996). They argued that this approach was more efficient because funds could be directed to students with greater economic need rather than aiding all students through general appropriations to institutions. A core premise in the “high
tuition-high aid” argument was that significant additional costs would be shifted away from the general taxpayer to middle- and upper-middle-income parents. Accessibility to higher education would be enhanced as the more affluent would pay a greater share and more taxpayer funds could be shifted to more financially needy students (Johnstone, 1998, p. 252-253). Thus, the direct student aid approach was considered much more efficient for the public taxpayer. The fact that this method meant that new public assistance would pour to private institutions was considered to be a further attribute that would stimulate greater competition in the grand laissez faire economic tradition.

With the adoption of direct student aid at the federal level, the government performe thereby embraced the “high tuition-high aid” funding philosophy which colleges and universities were given incentive to maximize federal revenues generated through student tuition and fees. It was also thought and asserted that direct student aid would have the market effect of eventually stabilizing college costs by infusing the “invisible hand” of market dynamics of increasing quality while reducing unit costs (Friedman, 1995, p. 127-28; Smith, 1776, p. 485). The units, of course, were the students. Moreover, the American ideal of liberty would be given practical application as students exercised greater choice with their new found fiscal authority. Access for the less affluent would be expanded to untold magnitude, and the overall costs would be correspondingly reduced.

However, not everyone was convinced that direct student aid programs premised on such libertarian ideals would yield such commendable results. Some nonbelievers surmised that the direct student aid approach would not create sufficient market competition to create cost efficiencies and that costs could possibly spiral out of control
in a market environment that could not function in the same traditions as wheat and corn. (Chambers, 1968; Gladieux & Wolanin, 1976; Stampen, 1980). Further, it was predicted by public university proponents that the lower cost public institutions constrained by dictates of state policy, constitutions, and external governing authorities could not operate freely in this new market and would thereby suffer revenue disjunction as opposed to private institutions that could quickly and assertatively raise tuition and thereby claim greater portions of federal revenues. Moreover, those opposing direct student aid programs were not convinced that states would readily accept the high tuition-high aid funding approach as a viable funding alternative for public higher education. The populist philosophy of democracy and equality did not fit well with the concept of differentiated tuition.

In anticipation of such state reluctance to raise tuition and fees, the federal government established the State Student Incentive Grants Program (SSIG) in 1974 for the primary purpose of giving fiscal incentive to states encouraging the establishment of new and expansion of existing direct student aid policies similar to that of the federal government (Hearn, 1993; Alexander, 1998a). State legislatures would, thus, have a financial interest in participating more by driving costs upward for their own public universities as they moved toward the enchantments of the high tuition-high aid philosophy of funding higher education.

The irony of the direct student aid movement could, of course, been foretold as heretofore lower cost public colleges and universities with state price controls over tuition and fees would come in conflict with federal incentives that fed inflation of costs in both public and private institutions. Thus, while most state governments avowedly
sought to control costs in order to expand access, the federal government contrarily gave fiscal incentives to institutions and states to raise costs (Chambers, 1968, p.95-104).

Further, a widespread criticism of the direct student aid approach centered on the possible deleterious effects of providing resources to students who attended expensive colleges and universities and it was even asserted that this was the underlying motivation behind the federal initiative. That cloaked in the mantle of altruism, that federal policy was in reality an elaborate scheme to aid private universities primarily, and to assist needy students only secondarily. Thus, while programs such as these were supposed to eliminate growing price disparities between public and private colleges and universities, the federal directives premised on the high tuition-high aid approach rather would tend to reward institutions disproportionately for charging higher tuition and fees. This was, in fact, what federal direct student aid and most state direct aid programs, often called tuition equilization programs, were devised to encourage.

Having established a fiscal policy framework intentionally developed to advance the high tuition-high aid funding model, the federal government, and subsequently many state governments, created a system where student revenues became easier to acquire. This structure made it easier for colleges and universities to turn to student tuition as a viable funding source to meet growing expenditure needs. Federal policy had successfully reshaped how institutions would view student tuition for decades to come. Unfortunately for the early drafters of federal higher education policy, not everything progressed as planned as a series of governmental policy changes substantially reshaped federal direct student aid policy and public university resource demands.
The Student Tuition Alternative

Measuring changes in student tuition and fees as an important source of institutional revenue is a straightforward matter. Determining their causes is a much more complex and challenging task. In the late 1970s and early 1980s a series of important events at the federal and state levels significantly changed the way the higher education, particularly public universities, responded to and viewed student-generated revenues. In the late 1970s a fundamental shift in federal direct student aid policies expanded student aid eligibility and emphasized student loan aid over federal grant aid (Gladieux & Hauptman, 1995). This federal transformation began to occur with the Congress’ passage of the Middle Income Assistance Act (MISAA) in 1978, which was created in response to pressures from middle- and upper-income parents who increasingly felt the burden of the rising cost of college attendance (Hansen & Stampen 1987; McPherson & Shapiro, 1991, p. 31; Hartle, 1996). As the vehicle for these interests, the MISAA greatly expanded direct student aid programs to middle- and upper-income groups by loosening Pell Grant (BEOG) restrictions and removing the maximum ceiling amounts of Guaranteed Student Loans, thereby making available federal resources to students from families with higher incomes (Gladieux & Hauptman, 1995; Hartle, 1996). This expanded public benefits upward to more able and less needy economic classes and significantly increased the amount of government subsidized loan resources available through direct student aid programs.

Following the MISAA the flow of federal direct student aid resources to institutions intensified as federally supported direct student aid loan programs began to replace the grant programs as the primary funding means for college bound students.
During the next two decades, direct student aid grant funds declined from over 46 percent of all federal direct student aid in 1975-76 to less than 21 percent of all federal student aid in 1994-95 (The College Board, 1995).

During this same period colleges and universities acted as though they were oblivious to the impending crisis in student debt by demonstrating little regard for whether students paid their tuition bills with a federally supported loan dollars or grant dollars (The Education Resource Institute, 1995). Only recently has student indebtedness from government supported loan programs become an issue on university campuses and among higher education researchers. For nearly two decades, college and university leaders primarily influenced by internal rates of return and life cycle earnings studies were convinced of the economic value to individuals participating in higher education and therefore demonstrated only token concern for increasing student indebtedness. Only recently has student indebtedness begun to be analyzed and been perceived as a deleterious consequence of rising college costs (Hauptman & Krop, 1997; Olivas, 1998).

Whether the resources were being generated through student loan or grant programs, direct student aid was increasingly becoming an important revenue source for institutions. What the founders of the federal direct student aid system did not anticipate was that direct student aid policy changes fueled by public opinion to expand student eligibility would create a particular kind of quasi-entitlement program that would intentionally rise with expenditure demands of institutions. By the early 1980s, the availability of federal direct student aid had not only changed how public colleges and universities viewed student tuition, but it also had been instrumental in convincing many states to adopt their own direct student aid programs. The state response to the federal
incentive to allocate more resources to direct student aid programs was sporadic as some states embraced the high tuition-high aid funding concept while other states were more reluctant to raise tuition and infuse more resources into student aid programs. For example, prior to the adoption of federal direct student aid policies in 1965, only 6 states provided any resources to direct student aid programs. By 1986, 39 states had implemented direct student aid programs (Alexander, 1998a, p.170-171). Therefore, as a result of the federal government’s adoption of direct student aid for funding higher education expansion, and the subsequent policy changes expanding loan program resources and student eligibility, a policy environment was firmly established that encouraged institutions to rely more heavily on student-generated revenues.

It should therefore be no surprise that after three decades of direct student aid policies more expensive institutions recurrently receive more direct student aid resources per student than do less expensive institutions. Also, it should not be alarming to observe that as more grant, and particularly expansive loan program resources, are allocated through these policies, further fiscal disparities will develop favoring institutions that are heavily reliant on student tuition. This was the original intent of direct student aid programs, to provide public funding to students so that price disparities between higher cost and lower cost institutions are eliminated.

The result has been that direct student aid programs have made it much easier for colleges and universities to become more tuition reliant even if the primary objective of the institution is to increase expenditures to carve out a market advantage for its students and faculty. However, not all colleges and universities have been allowed to comparably respond to the basic economic principles promulgated in most of these programs. Public
cost controls have limited most public colleges and universities from taking full advantage of the fiscal incentives inherent in direct student aid programs during the last three decades. Authority to set tuition is generally shared among the legislature, governor, governing boards, and sometimes multi-campus systems. As such, decisions about tuition charges usually occur where there is broad-based shared responsibility between government and public institutions, rather than authority to act unilaterally by individual institutions.

What is also difficult for public universities is that most state legislatures are quite resolute with keeping tuition and fees as low as possible. Despite thirty years of federal pressure to adopt high tuition-high aid funding practices, most state legislatures appear to be devising new ways to return to the low tuition funding approach such as HOPE Scholarships, tuition tax credits, and restricting public university tuition growth to increases in the Consumer Price Index. This pattern implies that despite an overall acceptance of the creation of state direct student aid programs which now account for nearly 7 percent of all state appropriations to higher education, states have generally demonstrated a reluctance to accept the high tuition-high aid funding approach as the primary funding mechanism for higher education. This ensures that federal direct student policy will continue to conflict with most state higher education financing practices.

Changing State Priorities

The recent state interest in closely monitoring college and university costs suggests that states are no longer as receptive to the idea that public higher education will recurrently rely on increasing student tuition to meet essential financial needs. During the 1980s and early 1990s public institutions successfully increased student tuition and fees
in direct response to relative declines in public revenues at the state level. The consensus of several studies indicates that student tuition growth was a direct consequence of declines in state appropriations for public higher education (Davis, 1997; Mcpherson & Shapiro, 1998). According to Cohen and Noll (1998), “[t]he trends in state expenditures indicate that a fundamental shift has taken place in the political support for research universities, a change that does not bode well for these institutions” (p. 59). From 1980-81 to 1994-95 declining state appropriations, in relative terms, were experienced in most states. This occurred despite the fact that state revenue dollars for higher education slightly increased per FTE student in forty-two states (Mumphrey, 1996).

The effect of the diminution in state spending has been to restrict revenues of all universities to a level that has been constant, in inflation-adjusted dollars, and has caused a decline in real state revenues at public universities. This fundamental shift in state level support has had a significant impact on public universities forcing them to seek alternative sources to meet increasing expenditure growth (Cohen & Noll, 1998). As a result the composition of revenue began to shift at public universities to nonpublic sources including private giving and student tuition and fees. During the period from 1980-81 to 1995-96, state and local appropriations to public colleges and universities declined by 10.4 percent as a percentage of all institutional revenues. To offset the unanticipated losses in state appropriations, student tuition and fees as a source of all institutional revenues at public institutions increased by 5.6 percent from 12.9 percent to 18.5 percent during the same period (see Figure 1). Student tuition and fees at public institutions now account for over $50 million, nearly $12 million at public universities alone.
INSERT FIGURE 1

To accent the dilemma, state government reductions occurred during a period when enrollment growth was virtually stagnate and all institutions struggled to fund the increasing costs of operating facilities and programs. Unfortunately for higher education institutions, stagnation in enrollment does not reduce the unit cost of operating a college or university. Costs in higher education are relatively inelastic and nonresponsive to immediate revenue fluctuations. Academic institution costs are largely driven by personnel salaries that cannot be greatly reduced. Academic facilities and programs must be maintained despite student enrollment declines.

Public university leaders of course, have viewed the slowing of state appropriations for higher education as shortsighted efforts of state legislatures to shift the funding responsibility for funding higher education to other sources. The fiscal reductions were politically popular and were devised to suppress institutional expenditure growth during a period of stagnate enrollments.

One unanticipated result of the financial constraints placed upon public higher education by most states during the 1980s and early 1990s was that student revenue reliance at public colleges and universities became much more uneven among states than is had been in the past. Not all states and institutional governing authorities allowed their institutions to respond similarly in adopting higher tuition standards in response to state budget constraints. Despite virtually universal student tuition and fees growth during the 1980s and early 1990s, some states such as Florida, North Carolina, Arizona, Hawaii, and Georgia remained resolute in limiting tuition and fee increases during this period creating major problems for public universities as they struggled to find resources to
offset state appropriation reductions (see Table 1). Other states including Illinois, Virginia, Michigan, and Ohio substantially increased their tuition and fees at public universities placing them in a category traditional reserved for New England states as being the highest cost states in the nation for public higher education. Among these states, only New York, Vermont, New Jersey, Pennsylvania, and Illinois are considered as having embraced the high tuition-high aid funding philosophy since sizable state allocations for need-based direct student aid programs accompanied tuition and fee increases. It is also important to observe that among the states practicing the high-tuition-high aid fiscal approach, private colleges and universities command a significant presence and garner nearly forty-six percent of all direct student aid state resources (National Association of State Student Aid Programs, 1999).

**INSERT TABLE 1**

*The ‘Prestige Phenomenon’*

Another important change that transformed the financial environment of higher education, particularly for public universities, is directly attributable to market competition and the “prestige phenomenon” (Clotfelter, 1996; Massy & Zemsky, 1990; McPherson & Shapiro, 1998). This concept essentially asserts that institutions have a ‘Hobbesian’ self-interest that when cast into a market-driven environment each will do whatever is necessary to advance the mission of the institution. As state legislators and governing authorities are well aware, the summation of individual institutional self-interests do not conversely result in the desirable common good for the state (see Massy & Zemsky, 1990; Leslie & Slaughter, 1997). During the last two decades, many
universities have been immersed in an competitive market struggle to improve their own prestige by enhancing the relative fiscal capacity of their institutions to hiring better faculty and staff, attracting more talented students, and improving campus facilities.

In Massy and Zemsky’s (1990) analysis, the value of university prestige in the higher education marketplace has increased to unprecedented levels during the last two decades. In this highly competitive environment, when universities are faced with the option of cutting or spending to increase their market advantage, they will usually choose the latter. It is the latter that pressures universities to find alternative sources of revenue inevitably leading to tuition increases and greater direct student aid program reliance. Massy and Zemsky referred to this as the “The Lattice and the Ratchet” which for the purposes of this paper I will call the “prestige phenomenon” instead, because of its unattainable and continuous nature. Bowen (1977) first brought our attention to the important dynamics of this issue by presenting his “Four Laws of Revenue in Higher Education” which explains why higher education institutions continually seek to maximize all sources of revenue.

While public and private research universities are both guilty of adhering to this market phenomenon, it is the private sector universities that have practiced this theory to perfection creating vast expenditure disparities far overshadowing their public university counterparts since the early 1980s. During the last two decades as public colleges and universities were escalating tuition and fees to offset reductions in state and local appropriations, private colleges and universities also dramatically increased their student tuition. From 1980 to 1997, private colleges experienced tuition increases from an average of $2,500 to $11,900 (in constant 1996-97 dollars), while private universities
increased tuition from an average of $3,900 to $16,500 (in constant 1996-97 dollars). Overall, during the last two decades student tuition and fees grew as a percentage of private institutional revenue by over 6 percent from 36.5 percent in 1980 to 42.6 percent in 1995. According to Clotfelter (1996), this price escalation was cushioned from market backlash by the increasing availability of federal and state direct student aid program resources.

With regard to public colleges and universities, the evidence shows that new student generated tuition revenues were used to primarily offset losses in state appropriations, however, it remains unclear for many in the higher education arena how private institutions, particularly universities, were using two decades of new tuition revenues. Without legislative or other public price control mechanisms, institutions possessing autonomy over their own tuition and fee policies were able to resort to student tuition and fees as an essential funding device to meet market-driven expenditure demands necessary for building institutional prestige.

When analyzing this issue in greater depth, the question naturally arises that if these student revenues were not being used to offset losses in state appropriations or other areas, then how were the new revenues spent? For public universities the impact of private university expenditure growth and student revenue reliance during the 1980s and early 1990s is only beginning to be fully understood. New revenues emanating primarily from student tuition and fees at private universities provided essential resources that initiated a “Cold War” expenditure race that has proven detrimental to public universities. Fueled by student tuition, the expenditure race for university prestige has placed public university leaders in a precarious fiscal situation in-weighing for more institutional
authority to increase tuition even after many states have restored adequate funding levels to public higher education.

*The Market Impact on Public Universities*

Evidence supporting the impact of the “prestige phenomenon” on university expenditure and subsequently revenue patterns, can be found by examining public and private university expenditure trends and growth. Generally, increases in university expenditures are well-documented. However, when analyzing the impact of nearly two decades of expenditure growth and the role student tuition reliance has played in this “Cold War”, it is apparent why most public universities are still advocating increasing student tuition and fees. The data presented in this section of the paper suggest a number of notable trends influencing public university behavioral patterns.

Since 1980 dramatic fiscal disparities in expenditures per full-time equivalent student have developed in the higher education marketplace favoring private universities over public universities. When comparing Education and General along with Instruction-related expenditures per FTE, the data show that public universities have fallen far behind their private university counterparts since the early 1980s. In 1980 public universities expended 34 percent less in Education and General expenditures per FTE and 33 percent less in Instruction-related expenditures per FTE than their average private university counterparts. In 1995 public universities expended 52 percent less in Education and General expenditures per FTE and 46 percent less in Instruction-related expenditures per FTE than average private universities. These expenditure trends demonstrate a troubling pattern for public universities as they attempt to remain competitive for students in the higher education marketplace.
Further evidence demonstrating how the pursuit of university prestige has changed the academic marketplace intensifying the fiscal pressure on public universities can be found by analyzing the most important component of Instruction-related expenditures, faculty salaries. Though it is true that faculty salaries are not the only category to experience substantial expenditure growth during the last two decades, other areas such as technology, administration, and institutional student aid have also experienced expenditure growth, the importance of faculty salaries to institutional prestige and quality can never be overestimated.

When comparing the faculty salaries of public and private research universities over the past two decades, it becomes obvious why many public university leaders from many of the nation’s most prestigious campuses are now lobbying for special faculty salary incentive programs and for tuition increases once again. Since 1980 salary disparities in all faculty ranks\(^5\) have increased significantly favoring private research universities. Prior to 1980, faculty salary variance in the late 1960s and early 1970s was relatively consistent between public and private research universities only slightly favoring private university faculty. After 1980s, public/private university salary disparities began to increase drastically and have continued through the 1990s causing much concern for many public research university leaders.

As Figure 2 indicates, trends in faculty salary disparities continue to expand forcing public universities to devise alternative strategies to address this deleterious issue. During the last two decades average faculty salary disparities favoring private research universities over public research universities have grown in 1998 constant dollars from
$1,900 in 1980 to $14,400 in 1997 for all faculty, from $200 in 1980 to $5,500 in 1998 for assistant professors, and from $3,000 in 1980 to $15,300 in 1998 for full professors.

**INSERT FIGURE 2**

Caplow and McGee (1965) were among the first to discuss the complex nature of the academic market and the role of salaries in satisfaction and academic mobility for faculty. The quest for economic stability and the “lure of money” as Caplow and McGee labeled it, has entered a new era where institutional power and prestige are often determined by what universities are able to purchase on the market. Unfortunately, for public universities, faculty are still leaving for better salaries. Public university presidents remain extremely concerned about the possibility of losing and their ability to attract quality faculty because of the “lure of money” in today’s academic marketplace. Apparently, a new fact of life as the data indicate.

Even among the nation’s premier public research universities that often have more fiscal flexibility to generate private resources, the competitiveness of average faculty salaries in the academic market has lost substantial ground against the average private research university salary since 1980. According to Figure 3, only three public Research I universities have improved upon their faculty salary market position since 1980 when compared to the average salaries of faculty at private research universities. For example, from 1980 to 1998 average faculty salaries for all ranks at Iowa State University increased by 1 percent when compared to the private research university average faculty salary for all ranks. This data does not indicate that Iowa State University is paying considerably better than most public research universities. However, it does
indicate that Iowa State has gained some ground in the academic salary marketplace when compared to average private research university faculty salaries since 1980.

**INSERT FIGURE 3**

For most public research I universities, faculty salary declines against private faculty salary averages have been dramatic constituting more than 10 percent in most cases. For universities such as Utah, New Mexico State, SUNY-Stoney Brook, Washington, and UC-San Francisco, faculty salary declines against the private average have substantially changed their financial positions in the academic marketplace. Even among the nation’s most distinguished public universities like UC-Berkeley and UW-Madison, faculty salary declines against the private university average have been considerable.

For many public research universities, these salary and expenditure trends have already begun to directly erode the ability of many public universities to attract and retain quality faculty while indirectly impacting their national prestige in the academic marketplace. There is no doubt that tuition and fee increases in the 1980s and 1990s have provided invaluable resources fueling many institutional expenditure trends, and eventually, disparities between public and private universities. The extent to which direct student aid programs have assisted private institutions, particularly private universities, in garnering more student revenues to meet important expenditure needs associated with building prestige, remains unclear (see the National Commission on the Cost of Higher Education, 1998). Hauptman and Krop (1997) showed that the proportion of total costs of
attendance met through federal student aid (grants, loans, and work-study) has greatly increased over the past two decades. In 1975 federal aid covered less than 20 percent of the total costs of attendance at private institutions. By 1995 federal aid had increased to enhance private institutions to over 40 percent of the total costs of attendance at institutions (Hauptman & Krop, p. 70). The “prestige phenomenon” also applies to public institutions who have successfully increased their federal aid reliance from less than 10 percent to nearly 50 percent during the same period (p. 70). These figures are exacerbated by the over $3 billion allocated by states in direct student aid. Other studies contest the fact the federal aid has allowed institutions to more readily turn to student revenues to meet expenditure demands (McPherson & Schapiro, 1998).

**Conclusion**

Much like the private universities of the 1980s and early 1990s, market competition and the quest to ascend the ladder of university prestige is driving many public universities to seek new resources from students, not an egalitarian interest in serving more needy students or other state needs. The higher education marketplace is being driven by a prestige phenomenon that continuously fuels a ‘Cold War’ of expenditure growth. Now that state budget pressures for higher education have temporarily subsided and funding is beginning to be restored, public universities find themselves in a precarious position of needing an infusion of resources to reinstate their market competitiveness that was present prior to the public higher education fiscal crises of the 1980s and early 1990s. Despite record budget surpluses, states appear very reluctant to establish new programs and allocate large increases for the purposes of enhancing faculty salaries and other institutional expenditures. Therefore, the pressure to
use student tuition and fees as a way to keep from losing further ground in the academic marketplace for quality students and faculty by public universities will continue. Direct student aid programs will also continue to benefit those institutions with the flexibility to raise their tuition and fees to meet necessary and unnecessary expenditure growth. As long as the market is being driven by institutions who believe that high expenditures correlate with national prestige, these fiscal trends will disadvantage public universities who are increasingly being monitored and evaluated for greater efficiency. Until public universities find an alternative solution to address the financial challenges of a new academic marketplace, student tuition and fees may prove the only way to keep from losing more ground in a “Cold War” expenditure race fueled by tuition-based public policies.
REFERENCES


The Education Resource Institute (TERI), *College Debt and the American Family*. Washington, D. C.: The Institute for Higher Education Policy


ENDNOTES

1 In 1995 public 2-year colleges enrolled over 30 percent of full-time equivalent students in higher education. Private colleges and universities enrolled nearly 25 percent of the full-time student population in higher education.

2 Legal foundation support in education for the “Child Benefit Theory” where individual benefits supersede societal benefits can be found in Cochran v. Louisiana State Board of Education, 281 U.S. 370 (1930).

3 During the late 1960s and early 1970s there existed a perceived threat that many private colleges and universities were headed for financial ruin do to rising costs and growing state subsidies to public institutions. According to an influential Carnegie Commission Report (1972), institutions named as being in substantial financial trouble in the early 1970s were Stanford University, Tulane University, Syracuse University, and Boston College. Among the institutions listed as heading for financial hardship were New York and Harvard University.

4 In New York and Vermont state appropriations for direct student aid programs constitute over 20 percent of all state appropriations for higher education. In Pennsylvania, Illinois, and New Jersey state appropriations for direct student aid programs constitute between 11 and 15 percent of all state appropriations for higher education (Alexander, 1998a).

5 All faculty ranks include the average salaries of full professors, associate professors, assistant professors, and instructors.
Figure 1: Revenues Generated from Student Tuition and Fees and State Governments as a Percentage of all Revenues at Public Colleges and Universities

Source: Digest of Education Statistics, (NCES, 1997)*

*Federal and state direct student aid resources are included as tuition and fees in NCES revenue calculations.
# Table 1

Table 1: Average Resident Undergraduate Tuition and Fees Charged at Four-Year Public Colleges and Universities by State and Tuition Category for 1997-98

<table>
<thead>
<tr>
<th>Low Tuition ($2,400 or less)</th>
<th>Medium Tuition States ($2,401 to $3,600)</th>
<th>High Tuition States (More than $3,600)</th>
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<td>Alabama</td>
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<td>New Jersey (high student aid)</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Montana</td>
<td>New York (high student aid)</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Nebraska</td>
<td>Ohio</td>
</tr>
<tr>
<td>Nevada</td>
<td>North Dakota</td>
<td>Pennsylvania (high student aid)</td>
</tr>
<tr>
<td>New Mexico</td>
<td>Oregon</td>
<td>Rhode Island</td>
</tr>
<tr>
<td>North Carolina</td>
<td>South Carolina</td>
<td>Vermont (high student aid)</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>South Dakota</td>
<td>Virginia</td>
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<td>Tennessee</td>
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<td>West Virginia</td>
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<tr>
<td>Wyoming</td>
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</tbody>
</table>


*States were characterized as “high student aid states” by allocated over 9 percent of all state appropriations to direct student aid “need-based” programs.*
Figure 2: Private/Public Research University Faculty Salary Disparities from 1980 to 1998 (in 1998 dollars)

**FIGURE 3**

Figure 3: Faculty Salary Competitiveness Index
(Percentage Point Change in the Average Public Research I Univ. Faculty Salaries as a Percentage of the Average Private Research Univ. Faculty Salaries from 1980-1998)

- Utah -23%
- Utah State -22%
- New Mex. State -21.7%
- SUNY Stony B. -19.4%
- Louisiana State -18%
- UC San Fran. -17.1%
- New Mexico -16.4%
- Washington -16.4%
- Kansas -16.2%
- Oregon State -15.6%
- Penn. State -15.2%
- UC Berk. -13.7%
- Michigan St. -12.7%
- Arizona State -12.2%
- Arizona -12.1%
- Hawaii-Man. -12.1%
- OSU -12%
- Wayne State -11.4%
- WI-Madison -10.5%
- Indiana -10.3%
- Alabama -10.3%
- Va. Tech -10.3%
- Florida State -10.1%
- UC Davis -10.1%
- West Virginia -10%
- Purdue -9.7%
- UC Santa Bar -9.3%
- SUNY Buffalo -9%
- Tennessee -8.9%
- Georgia -8.9%
- Cincinnati -8.2%
- Illinois-Urbana -7.9%
- Missouri-Col. -7.8%
- UC Irvine -6.9%
- Kentucky -6.7%
- Texas -6.3
- Nebraska -6.2%
- Massachusetts -5.5%
- Ill.-Chicago -5.2%
- N.G.State -5%
- UCLA -4.7%
- Minnesota -4.5%
- UC San Diego -4%
- Iowa -3.3%
- Michigan -3.1%
- UNC-CH -3.1%
- Virginia -2.5%

REFERENCES


ENDNOTES

1 Legal foundation support in education for the “Child Benefit Theory” where individual benefits supersedes societal benefits can be found in Cochran v. Louisiana State Board of Education, 281 U.S. 370 (1930).

2 During the late 1960s and early 1970s there existed a perceived threat that many private colleges and universities were headed for financial ruin do to rising costs and growing state subsidies to public institutions. According to an influential Carnegie Commission Report (1972), institutions named as being in substantial financial trouble in the early 1970s were Stanford University, Tulane University, Syracuse University, and Boston College. Among the institutions listed as heading for financial hardship were New York and Harvard University.

3 In New York and Vermont state appropriations for direct student aid programs constitute over 20 percent of all state appropriations for higher education. In Pennsylvania, Illinois, and New Jersey state appropriations for direct student aid programs constitute between 11 and 15 percent of all state appropriations for higher education (Alexander, 1998a).

4 All faculty ranks include the average salaries of full professors, associate professors, assistant professors, and instructors.