A TALE OF TWO SYSTEMS OF DELIVERING HIGHER EDUCATION

By Robert Holland

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Executive Summary

Public higher education is undergoing scrutiny for price increases that have been greatly outpacing the rate of inflation for many years, despite sizeable increases in state and federal subsidies. While students protest tuition hikes, many universities are adding lavish benefits, and lifetime employment and limited teaching hours for professors and administrative staff, while cutting back on academic offerings. In just the past year, tuition and fees have increased an average of 14 percent at four-year public universities, to an average of $4,694. Members of Congress looking at reauthorization of the Higher Education Act of 1965 are considering ways they might pressure these public institutions to contain their soaring costs.

Meanwhile, another system of higher education is growing at a phenomenal rate and giving evidence of pleasing its customers. Enrollment at for-profit institutions of higher learning is on track to soar at five times the rate of conventional colleges this year. These institutions are using innovative technology and student-centered approaches to deliver the practical knowledge that students seek to realize their career aspirations. The for-profits make a good return for their stockholders without constantly pleading for taxpayer bailouts or dunning students to support the lifetime employment guarantees, year-long full-pay sabbaticals, and lush health plan benefits of faculty and administrators alike.

As the public becomes more aware of this contrast between systems of delivering higher education, the public and policymakers may draw on the example of the for-profit sector in delivering higher education in the most efficient manner possible. In reauthorizing the Higher Education Act, Congress may want to put the for-profits on an equal basis with conventional institutions, especially considering the great success these entrepreneurial institutions are giving in meeting the needs of historically underserved racial and ethnic minorities. Details follow.

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A. Public Universities: Tuitions Soaring, Lack of Cost Containment Blasted

The Higher Education Act of 1965, the single most significant piece of legislation dealing with the nation's systems of higher education, is before Congress for reauthorization. That has provided a backdrop for serious scrutiny of escalating costs of public higher education that have led to price increases far exceeding the rate of inflation. As some colleges cut back academic offerings in an attempt to stem the red ink, students find themselves paying more exorbitant tuition and fees for less in return – or they find themselves being priced out of attending a four-year institution of higher learning.

In October, the College Board's annual survey of tuition and other expenses associated with attending nonprofit institutions of higher education showed yet another major hike far out-stripping the rate of inflation. At four-year public universities, tuition and fees now average $4,694 per annum, a staggering increase of 14 percent in just one year.[1]

What's worse, those increases come on top of similarly stiff price hikes at major universities in recent years. For instance, the Maryland Board of Regents' recently announced 11 percent increase for the University of Maryland at College Park comes hot on the heels of a 30 percent increase over the past two years.[2]

The College Board, the organization that sponsors the SAT admission test for higher educational institutions, sought to lessen the negative impact of this news by, for the first time, combining pricing data with the latest trends in student aid to provide a net price of college. For the 60 percent of undergraduates who receive financial aid, the College Board noted, grants make the actual price of college lower than the published price.[3] Grant aid averaged approximately $2,400 per student at public four-year institutions in 2002-03. (Of course, because the billions in annual grants come from federal and state governments, the taxpayer receives no cushioning of his or her burden of supporting an increasingly pricey system of higher education.)

The College Board also attributed escalating prices at public universities largely to diminishing levels of state governmental support. The report noted that the state-controlled institutions receive more than one-third of their funding from state governments, and in the past year "strained state budgets across the country led to severe cutbacks in institutional funding, causing increased reliance on the other major source of revenue – tuition and fees."[4] To the Chairman of the U.S. House Education Committee, John Boehner (R-Ohio), who will play an important role in the Higher Education Act reauthorization, that looked suspiciously like the College Board was letting the colleges and universities off the hook for spending decisions that help drive up costs – and tuition.

"Hyperinflation in college costs has been pummeling parents and students for more than a decade," said Boehner,

> and the problem has not been a lack of spending by states or the federal government. Even when states were increasing their investment in higher education in recent years, college tuition was skyrocketing. The bigger issue is whether institutions are accountable enough to parents, students, and taxpayers – and clearly they are not. We need more transparency in college financing so parents and students will have the information they need to fully exercise their power in the higher education marketplace.[5]

A September 2003 congressional staff analysis of college costs found that over the past 22 years (since 1981), the cost of an education at a public four-year college education has increased 202 percent, while the Consumer Price Index (CPI) has gone up just 80 percent. Federal aid through the Higher Education Act has had the primary intent of keeping a college education affordable for low and moderate income students and families: Of $90 billion in federal expenditures for higher education this year, approximately $65 billion will go to students via grants, federally subsidized loans, work-study, and other forms of financial assistance. However, even massive federal outlays have not been able to keep pace with rapidly escalating tuitions. Indeed, some analysts believe that the increases in subsidies have only made the colleges and universities less accountable to parents and students.[6]

An analysis in *Forbes* magazine made just such a connection:

"Over the past three decades, the Federal Government has poured three-quarters of a trillion dollars into financial aid for college students," wrote Ira Carnahan. "So why is college getting less – not more – affordable? One answer seems to be that all those federal dollars have given colleges more room to jack up tuition…The more cash government pumps into parents' pockets, the more the schools siphon from them."[7]

A recent comprehensive report by *The New York Times* documented the outrageous extent to which modern universities are providing expensive amenities that they rationalize as necessary to recruit top students and faculty. All of these facilities are usually available to faculty, staff, and their families as well. Here are some examples:

- A five story climbing wall, hot tubs, waterfalls, luxurious pools, and pool slides at the University of Houston's $53 million wellness center.
- The West Coast's largest Jacuzzi, seating 53 people, at Washington State University.
- Massages, manicures, and pedicures for students at the University of Wisconsin in Oshkosh.
- At Penn State, two ballrooms, three art galleries, a movie theater with surround sound, a 200-gallon tropical ecosystem complete with newts and salamanders, and a 500-gallon salt-water aquarium with a live coral reef.

- A $140 million student complex at Ohio State University that features kayaks and canoes, indoor batting cages, massages, and a climbing wall spacious enough to allow 50 students to scale it at the same time.[8]

Moody's Investors Service has reported that universities are borrowing at a brisk pace to remake their campuses. In the first three-quarters of 2003, they issued $12 billion of construction bonds, a 22 percent increase over the same period last year. Although some classroom and research facilities were included, Moody's reported that the lavish facilities for students are driving the trend. "Are they driving up the cost of education? Absolutely," Naomi Richman, manager of Moody's higher education rating team, told *The New York Times*. "By catering to the students they're trying to court away from other schools, they're making their product more expensive."[9]

Writing in the campus newspaper, *The Gamecock*, a University of South Carolina student listed an array of lush amenities recently provided there: a Strom Thurmond Fitness Center, posh eateries, wireless Web access, expensive furniture. This was the student's take on all that:

> Attending a university is not about how nice the dining facilities are or having as many different chic eating places as possible; it is about learning and preparing for our careers. It is very disheartening when students' educational needs are sacrificed for capitalistic modernity. Something is wrong with the system that dreadfully needs to be remedied. Yes, it is important to keep the campus properly maintained and orderly, but the remodeling that this university has undergone to keep up with the times is overkill.[10]

Many universities also are displaying their penchant for showy spending by handsomely padding their presidents' compensation even as they raise tuition, cut academic offerings, and eliminate staff positions. In November, *The Chronicle of Higher Education's* annual survey of executive compensation revealed that the salaries of the highest-paid public-university presidents are fast approaching those of the best-paid leaders of private higher educational institutions. The number of public presidents drawing annual pay of more than $500,000 has doubled over the past year, from 6 to 12. The highest-paid are Mary Sue Coleman, the University of Michigan, $677,500; David O. Roselle, University of Delaware, $630,654; and Richard L. McCormick, Rutgers University, $625,000.[11]

The *Chronicle* also reported a burst of outrage at the big jumps in presidential compensation. For instance, a bill in Ohio would limit the state's contribution to the salaries of its public-college presidents to no more than $130,292, the amount paid to Ohio's Governor. At Louisiana State University, students and faculty issued statements blasting a move, using private funds, to more than double the compensation of LSU's chancellor, to $590,000 a year. LSU professors recently received a 3 percent raise.

Yet, professors should not be exempt from an examination of the inefficiency of today's universities in delivering what students seek for their lives and their careers. The tenure system permits professors to teach few courses while shaping curricula according to their own biases. Being guaranteed a job without having to keep content up to date or a door open to students is hardly a prescription for accountability. While other segments of the economy have made giant strides in increasing productivity, conventional higher education is notorious for failure to improve its efficiency.

In 1994, a report catalogued in the federally funded Educational Resources Information Center (ERIC) noted that basic factors of production influencing instructional costs had "changed very little during the past decades." The analysis added that "faculty and administrators have few incentives to adopt more productive behavior. Faculty are rewarded for their productivity in research rather than in teaching. And administrators are rewarded based on their portfolios – the number of programs and staff they manage – rather than for their efficiency. Thus, the instructional productivity of colleges and universities has gradually eroded during the second half of the 20th Century."

Four years later, another report archived in the ERIC Digest suggested that higher education address its productivity problems by doing a better job of focusing on what students want and need from their education. The report noted that "new technologies will allow learning to occur at the time, place, and pace preferred by students rather than the institution. Technology can help improve productivity as well as make education available on every desktop."[12] Yet, it is the newer and rapidly emerging system of delivering higher learning - the one discussed in the section of this report that follows - that is applying these lessons far more than is the perk-rich and tenure-centered old system.

B. For-Profit Universities: Revenues, Profits, and Enrollments Booming

While service reductions, tightening governmental subsidies, and soaring tuitions have bedeviled conventional higher education in the U.S., the newest kids on the block, the for-profit providers, have been generating rapidly growing enrollments and revenues, in the process providing healthy returns to their stockholders and career-enhancing education sought by those thousands of Americans who do not have the luxury of settling in at a university for four years or more.

The growth of for-profit higher education is nothing short of phenomenal. The industry pacesetter, the Apollo Group, parent company of the University of Phoenix, now has annual revenues exceeding $1 billion. The latest report for its fiscal year ending August 31, 2003, actually put Apollo's annual revenues at $1.34 billion, an increase of 32.7 percent over the previous year. Meanwhile, the University of Phoenix Online, which trades as a separate company, collected $529.6 million in revenues, a one-year increase of 61.7 percent.[13]

FY-end reports compiled by *The Chronicle of Higher Education* for nine publicly traded higher-education companies showed that annual revenues are growing not just at Apollo but across the industry. Here are the numbers: Career Education, $780.1 million (up 42.6 percent); Corinthian Colleges, $517.3 million (up 53 percent); DeVry, $679.6 million (up 4.9 percent); Education Management, $640 million (up 27.9 percent); ITT Educational Services, $464.9 million (13.2 percent); Strayer Education, $116.7 million (up 26 percent); and Sylvan Learning Systems, $603.9 million (up 24.5 percent).[14]

The postsecondary stocks have continued to be hot on Wall Street, too. *The Chronicle's For-Profit Higher Education Index* was up 16 percent for the third quarter of 2003, compared with a 2 percent rise for the S&P 500 Index.

Sylvan has found the higher education business to be so good that it has recently announced the sale of all of its operations dealing with elementary and secondary education, including its renowned tutoring services. According to Douglas Becker, chairman and chief executive, Sylvan Learning Systems seeks to build a postsecondary company over the next four years that will serve 200,000 students and generate revenue exceeding $1 billion.[15]

Collectively, the publicly traded non-profits already enroll more than 500,000 students. "Add the hundreds of smaller players," reports *Business Week*, "and overall for-profit enrollment will jump by 6.2 percent this year, or five times the pace at conventional colleges, according to Boston market researcher Eduventures Inc. That will push the industry's revenues to $13 billion this year, up 65 percent since 1999." In total, for-profit institutions now make up almost half of all post-secondary institutions and enroll 1.3 million students annually.[16]

Industry pacesetter Apollo now has a market value of $11.4 billion, which *Business Week* notes is equal to the endowment of Yale University, the second wealthiest institution of higher learning in the United States.

A compilation of income data for the Apollo Group illustrates the fast growth and robust fiscal health of this sector of higher education:

Income Statement Data – Apollo Group, Inc.
(In thousands, except per share and enrollment amounts)

For Fiscal Years Ending August 31				
	2003	2002	2001	2000
Tuition and other, net	$ 1,339,517	1,009,455	769,474	609,997
Total costs and expenses	952,258	755,603	608,471	495,920
Income from operations	387,259	253,852	161,003	114,077
Net income	$ 247,010	161,150	107,817	71,191
Net income attributed to:				
Apollo Education Group				
Common stock	231,702	153,161	104,513	71,191
University of Phoenix				
Common stock	15,308	7,989	3,304	---
Diluted net income per share				
Attributed to:				
Apollo Education Group				
Common stock	1.30	0.87	0.60	0.41
University of Phoenix				
Common stock	0.93	0.53	0.24	---
Degree enrollments				
At end of period	200,100	157,800	124,800	100,900

It’s not all about making money. The for-profits have made progress that has been elusive for traditional higher education on several fronts.

Consider the matter of minority participation. Many elite universities have tried to cultivate greater diversity in their student bodies by taking such drastic steps as establishing departments of ethnic studies and appointing bureaucrats to coordinate multicultural affairs and affirmative action. The for-profit institutions have done none of that – yet almost half their students are members of racial or ethnic minorities. An analysis of data collected by the National Center for Education Statistics showed that for-profit colleges are near the top of the 100 universities awarding the most degrees to minority students. Ranked first and second in bachelor’s degrees in computer and information science earned by African-Americans are Strayer and DeVry Institute of Technology. Ranked fourth and sixth, respectively, in bachelor’s degrees in business awarded to African-Americans are campuses of Strayer and the University of Phoenix. And these three institutions also rank high in producing Hispanic graduates.[17]

Why are the for-profits so hugely attractive to minorities? Private-sector tuitions are of course considerably more than those in the government-subsidized public universities. Average annual tuition at a typical for-profit approximates $10,000 a year. The evidence points to this simple conclusion: Minority students believe that they receive full value for their money in terms of “real-world” knowledge and skills they can apply directly to success in the job market. For-profits are gaining grudging respect for what they are doing to serve segments of the population who often have missed out on postsecondary education. David L. Kirp, a professor of public policy at the University of California/Berkeley, had this to say to a *Chronicle* reporter:

> A lot of the job-placement data is pretty impressive. And you can just imagine how, if you're someone who hasn't spent a lot of time studying in the world of ideas, and your son or daughter can earn a bachelor's degree from an accredited school and start a career with a salary in the mid-40s, it's pretty tempting. I'd fork over the money.[18]

The for-profits have placed many of their campuses in urban areas that are convenient to many minority students. But more than that, they have provided counseling, even on nights and weekends, to minority families who have felt deterred from pursuing college because of lack of information about how to pay for it. Students at accredited for-profits are eligible for subsidized financial aid. It's just a matter of knowing how to deal with the application forms.

Another distinctive feature of the emergence of for-profit higher education is its growing international makeup. Two companies in particular – Sylvan and Apollo International (which is partially owned by the Apollo Group and some of its founders) – are becoming global providers of postsecondary education. Sylvan recently acquired an 80 percent interest in a company that operates a 16,000-student university in Chile. The Sylvan International Universities Network now has enrollments exceeding 86,000 on four continents, at nine institutions generating more than $400 million in annual revenues. Apollo International started on a smaller scale with five overseas campuses, but now is forging ahead full steam by teaming with a K-12 education provider in Brazil to launch a new college system there. Both companies are looking at Mexico, which will need an additional two million university places by 2010. The major for-profit companies are also looking east – to India and to China, which have large needs for higher education that government cannot fill.[19]

The for-profits also are taking approaches to curriculum and instruction that offer refreshing contrasts with traditional higher education. Consider, for example, the crafting and revising of course content.

At many traditional colleges, notes Elizabeth F. Farrell of *The Chronicle of Higher Education*, "it takes months of haggling by faculty committees to develop or review a course. The process occurs with little or no administrative involvement, and the interests – sometimes the whims – of the professor who proposes the course are given significant weight." By contrast, there is the "entirely different approach" taken by the University of Phoenix, which revises the curriculum for each course every two or three years. And it assigns this task to a team of six subject-matter specialists and administrators who script lesson plans and syllabi for hundreds of lecturers who will teach that course to thousands of students over the next few years. Rarely does the process of revision take more than two days. Instructors – many of whom are adjunct employees who have full-time jobs in the field they are teaching – may add extras to their instruction but they are obligated to teach the basics set forth by the central group. While many in academe condemn such an approach for wringing the "creativity" out of teaching, it has the advantage of ensuring that students will be taught the most up-to-date core knowledge in the specialized fields that interest them. No such guarantee comes with the instruction delivered in the ivied halls.[20]

The for-profits also are pioneering in the delivery of distance learning – instruction offered online. At some traditional colleges, such courses are taught by professors who have little familiarity with computer technology, or who are even hostile to it; hence students encountering technical snafus may find little sympathy and less help in resolving those issues. By contrast, at any hour of day or night, University of Phoenix Online students who run into problems can get help from technical-support specialists, part of an online staff of 1,700 that also offers advice about matters like admissions and academics. The CEO of Phoenix Online terms his institution's approach "student-centered," as opposed to "tenured-faculty centered." Says Mueller, "We want to make sure we're teaching in areas that students have a need to learn and in a way that fits their schedule and their ability to learn."[21]

That describes the for-profit ethos in a nutshell. What's to be learned from it?

C. Toward a Competitive Higher Education System

A generation ago, the typical undergraduate was a young man or woman who entered college immediately upon earning a high school diploma, took a full-time load of courses while not joining the workforce except perhaps for a part-time job, and relied mainly on parents for financial backing. But that "traditional" profile no longer is typical, a recent National Center for Education Statistics (NCES) report noted. In fact, that description fits barely more than one quarter of today's seekers of higher learning. By contrast, the majority of students today are older, with work and family responsibilities, and keenly interested in advancing their careers.

It is the for-profit sector of higher education that has been stepping up to serve this new generation of college students. NCES data show that during the 1990s enrollment increased 8 percent at nonprofit public colleges and universities while soaring 100 percent at the for-profit institutions. For-profit institutions now constitute 46 percent of all postsecondary entities. Unlike the "traditional" public colleges that constantly clamor for increased subsidies, the for-profits pay taxes. They also generate profits for their stockholders, hardly an ignoble outcome in a nation that enjoys unprecedented economic success because of the profit motive.[22]

What lessons may be learned from the new kids on the higher education block? Well, for one thing, policymakers could conclude from the for-profit example that it's not really necessary to build lavish student unions or to assess mandatory fees to field football teams in order to deliver the focused postsecondary instruction that students seek. For-profits are not likely ever to supplant the great universities that provide a liberal arts education, but in the realm of practical, career-centered education, they have much to teach.

The pending congressional reauthorization of the Higher Education Act (HEA) offers a starting point for recognizing the increasingly important role the proprietary institutions play in postsecondary education, and in leveling the playing field for them. This federal law providing financial assistance to students seeking education beyond high school has treated the for-profits as though they were of a lower status than the nonprofit and public institutions. It sets forth a dual definition of a college, one that distinguishes between nonprofit and for-profit institutions. In the 1998 reauthorization, the distinction was eased for Title IV, making students choosing to attend for-profit institutions eligible for financial aid under that section of the HEA. However, the distinction was maintained for all non-Title-IV aid, effectively banning the for-profits (or the students who attend them) from competing for aid under those programs. Examples include programs for colleges serving a high percentage of needy students, and those with a significant Hispanic enrollment.

The Expanding Opportunities in Higher Education Act of 2003, introduced in Congress as the proposed HEA reauthorization, would establish a single definition of an institution of higher education for the first time. That would enable the for-profits to compete on an equal basis with traditional institutions for special grants aiding students, such as Title V aid to assist colleges where Hispanics constitute at least 25 percent of the enrollment, and more than half of them come from low-income homes. That does not mean that the proprietary institutions would become dependent on government support for their existence (an outcome that would make them far less the innovators). Rather, it would mean they could compete when it might be in the best interests of their students.

As David G. Moore, chairman and chief executive of Corinthian Colleges (a company that operates 69 colleges and two training centers in 21 states as of June 2003), has pointed out, “all of the higher education programs, directly or indirectly, are for the benefit of students, not institutions. If a for-profit institution, for example, were to have a substantial number of low-income Hispanic students, and it were to submit an application to be eligible for funds that would meet their needs, it ought at least to receive consideration.”[23]

Given the demonstrated ability of the for-profit institutions to serve a wide variety of students in a very cost-effective way, modernization of the Higher Education Act is just a starting point for changes in public policy to foster healthy competition in postsecondary education.

Endnotes

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