ECONOMIC SCENE

Market forces press state colleges to raise tuition and give financial aid; politics presses to keep tuition low.

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Published: May 1, 2003

LAST week the trustees of Miami University in Ohio, the state's highly ranked public university, thought they had found a novel solution to the university's financial predicament. They voted unanimously to raise the tuition of in-state residents to the level charged to out-of-state residents and to give Ohio residents scholarships equaling or exceeding the per-student subsidy Miami receives from the state.

Only hours later, Jeff Jacobson, a state senator from Butler Township, vowed to block the plan. The new policy "threatens the principle of affordability that lies at the heart of our conception of a public university," he contended, according to an article in The Columbus Dispatch. His proposal would prevent public universities from charging Ohioans more than 10 percent above the tuition charged to in-state residents at the state's highest-priced public university in the preceding year.

Orest Holubec, a spokesman for Gov. Bob Taft, said the governor was aware of the university's proposal, but would continue to push for a cap of 6 percent next year on in-state tuition growth for all public universities except Ohio State, whose tuition growth he would cap at 9 percent.

The brouhaha illustrates the political and economic forces shaping much of higher education. With projected budget deficits totaling $100 billion in coming months, many state legislatures have slashed funds for higher education, and half the states are considering further cuts next year. The longer-term trend is also for relatively less public support: the share of public colleges' revenues from state subsidies has declined over the last two decades. Because two-thirds of college students attend public institutions, dwindling subsidies have far-reaching consequences.

The reduction in subsidies, combined with declining endowments in recent years, have forced many colleges to freeze or cut faculty salaries, shed employees, trim library hours and reduce courses; some are admitting fewer students.

State colleges, which typically charge much less than private colleges, have moved to increase tuition and fees. Last year, tuition at public four-year colleges jumped 9.6 percent, compared with 5.8 percent at private colleges, according to the College Board.

But tuition is politically sensitive. State legislators have tried to lean against the wind, holding down tuition for in-state students while market forces push it up.

In Virginia, the General Assembly froze and then cut tuition in the 1990's. Last fall the faculty assembly of the University of Virginia voted to encourage the university to raise sharply the $4,569 tuition charged to in-state residents. Even the student council endorsed some increase, sensing that the financing crisis was jeopardizing the quality of education. The General Assembly, however, capped tuition increases at 9 percent and restricted the number of nonresident students.

Legislators realized long ago that out-of-state residents -- who, after all, vote in other states -- were an easy mark. The average tuition for nonresidents attending state colleges is $10,428 this year, more than two and a half times the $4,081 charged for in-state residents.

The opportunity to increase revenue by raising out-of-state tuition is limited, however, as many flagship colleges already charge out-of-state students close to what the market will bear. At the University of Virginia, for example, nonresident tuition exceeds $20,000 a year.

So the feasible alternatives are to admit more out-of-state residents or raise in-state tuition -- or cut instructional resources.

Economists have great affinity for proposals like Miami's because market prices are the starting point and the public subsidy is made transparent. Also, as David W. Breneman, dean of the Curry School at the University of Virginia, recently emphasized in The Chronicle of Higher Education, additional scholarship funds in Miami's plan would be aimed at students in the most financial need or those with outstanding merit. Thus, raising tuition does not have to threaten the affordability of college to in-state students from middle- and low-income families.

Furthermore, a new study by the economists Michelle J. White and Jeffrey A. Groen suggests that discouraging out-of-state enrollment runs against a state's long-term interests. They find that attendance by in-state and out-of-state students at a public college in a particular state increases the chances that they will live in that state 20 years later by about the same amount, among students who apply to colleges in the same set of states.

They also find that state universities use lower standards to admit in-state applicants -- a form of geo-affirmative action. Because it turns out that out-of-state students have higher earnings after graduation, and thus pay higher taxes, there is a cost to setting a higher threshold for nonresidents.

Tuition at private colleges is rising faster than inflation because higher education requires many high-skilled workers, laboratory research is increasingly expensive, and the demand for education is growing. Pressures will continue for flagship state universities to price tuition like elite private colleges, which tend to charge high, market-driven tuition but provide grants and loans to low-income students.

The students who would pay more under a high-tuition/high-aid policy are from well-off families. In return, they would get a higher-quality education with more diverse classmates. And, most important, public subsidies would be better aimed at those for whom they would make the most difference.

If state legislatures are unwilling to give sufficient funds to flagship universities to provide a first-rate education at low tuition rates, and if they are unwilling to permit universities to raise tuition and fees for high-income students, Sarah E. Turner, an economist at the University of Virginia, asks, "What are state schools supposed to do?"

Unless legislators have the courage to allow closer-to-market-level tuition combined with generous scholarships and loans for those in need, the quality of higher education at flagship state universities is bound to suffer.