Putting Colleges on Notice: Crafting Smarter Strategies to Improve Affordability through Curbing Cost Increases

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Executive Summary and Recommendations

Efforts to improve affordability in higher education are wide-ranging, well-financed, strongly supported, and—all too often—ineffective. Despite widespread agreement among policymakers and the public over the need to address the rapidly-increasing costs of a college degree, affordability is still an elusive goal. In this paper we shift the focus away from policy design to more consider several other features of the policy environment that have the potential to inhibit efforts to improve affordability. Designing policies and programs that better incorporate the competing pressures and motivations that influence the behavior of students, parents, policymakers, and campus leaders will improve the effectiveness of these efforts.

We leverage data from a survey of college presidents and chancellors in US public four-year institutions to investigate the ways in which presidential perceptions of affordability, state funding, and accountability pressures can inform policy design. These data substantiate the centrality of tuition revenues in institutional efforts to maintaining the quality of the institution. This evidence, combined with research on similar policy initiatives, suggests that any policies seeking to curb cost increases will not be successful if they do not address institutional concerns over maintaining quality.

Four strategies have been identified as potential avenues for meaningful improvements in college affordability:

- Build meaningful coalitions that include policymakers and college leaders.
- · Engage SHEEOs in an effort to identify non-statutory options to increase affordability.
- Reduce funding uncertainty through multi-year appropriations agreements.
- · Encourage regents/trustees to become full partners in the effort to improve affordability.

We believe that efforts to improve affordability through reducing the rate of increase in student costs is achievable, but the most effective strategies will be long-term investments in sustained, collaborative, and meaningful oversight. Policymakers should consider investing in improving existing organizations that were designed to ensure accountability and identify areas for improvement. We need better policy-relevant research on the factors that influence the decisions of college leaders, especially those decisions that relate to accountability and affordability. The policy proposals that have dominated recent conversations are unlikely to produce meaningful change, but a national effort to leverage resources and engage campus leaders can truly be successful.

This paper is one in a series of reports funded by Lumina Foundation. The series is designed to generate innovative ideas for improving the ways in which postsecondary education is paid for in this country—by students, states, institutions and the federal government—in order to make higher education more affordable and more equitable. The views expressed in this paper—and all papers in this series—are those of its author(s) and do not necessarily reflect the views of Lumina Foundation.

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Ifforts to improve affordability in higher education are wide-ranging, well-financed, strongly supported, and all too often—ineffective. Despite widespread agreement among policymakers and the public over the need to address the rapidly-increasing costs of a college degree, affordability is still an elusive goal.

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The limited effectiveness of current policy efforts is even more puzzling when we consider the tremendous range of policies that have been implemented with the intention of solving, or at least alleviating, the affordability problem. At both the state and federal levels, legislatures, agencies, and a large group of influential non-profit organizations have worked to improve affordability through a number of strategies that include: increasing the amount of money distributed through financial aid, redesigning financial aid programs, improving access to good information for parents and students, introducing incentives for institutions to provide lower cost degree programs, increasing competition among institutions in an effort to drive down costs, and consistently experimenting with ways to tweak current systems to improve effectiveness. And yet costs are still high, low income students still face significant barriers to college, and we are continuing our efforts to find better solutions.

Why does affordability seem to be such an intractable problem? The nature of most discussions among policymakers and scholars surrounding this issue suggests that the lack of affordability is primarily thought to be an issue of policy design. It is often implied that if we can just identify the right combination of incentives for students,

parents, institutions, and other actors, then improved affordability will follow. To be sure, we firmly believe that well-designed incentives—and polices more generally—are a necessary condition for achieving the desired outcome, in this case affordability. But we also believe that well-designed policy is not sufficient for achieving that outcome, a belief supported by the fact that affordability is still a significant problem despite the immense amount of effort, time, and resources that have been devoted to addressing the issue.

In this paper we shift the focus away from policy design to more consider several other features of the policy environment that have the potential to inhibit efforts to improve affordability. Specifically, we analyze how the realities of political decision making, the design of relevant institutional structures, and the roles and responsibilities of institutions and their leaders in the implementation process can hinder attempts to make college more affordable. Our analysis is informed by interviews and discussions with current and former institutional leaders and policymakers, as well as by data from original surveys of college presidents. The conclusions of our analysis form the basis of several recommendations we provide, implementation of which we believe could help make inroads in making higher education more affordable for students of all socioeconomic backgrounds.

The Two Key Components of Affordability

Policymakers seek straightforward solutions to important problems, and for those seeking to improve affordability, the potential solutions seem quite obvious: give students more money, make college less expensive, or do both. Until recently, policy discussions surrounding affordability have focused almost exclusively on how to best give students money to finance their education—the aid side of the affordability issue. Originally thought to be an issue that could be effectively addressed with relative ease, years of experience—corroborated by a large body of research have demonstrated otherwise. Designing and implementing financial aid policies that can truly succeed in truly improving affordability is complicated by the fact that these efforts routinely confront a number of difficulties—fiscal constraints and political realities, thorny normative questions, and the

unpredictable nature of human behavior, among others—that may prevent the policies from achieving their intended objectives.

Increasing the affordability of higher education would be a fairly straightforward exercise if fiscal constraints were entirely nonexistent; students could be provided with enough aid—or institutions with enough subsidies—to make college free from the point of view of students and their families. For better or worse, however, we live in a political environment where that is far from the case.

In today's environment, citizens and politicians are reluctant to support the policies—increased taxes, alternative funding structures, or other possible options—that would move us closer to a world where students' net cost of college attendance is zero. To the contrary, in many states the current political environment is one in which declining state support for public higher education—in both real and nominal terms—is the norm.

At the federal level, growth in the value of the Pell Grant over the past three decades has been dwarfed by the growth in the costs of attending higher education. In such an environment, one with large financial constraints that are unlikely to disappear anytime soon, financial aid policy—at the federal, state, and even institutional level—boils down to an exercise of creating a system that distributes limited resources in a manner that best achieves the range of goals valued by stakeholders in the political process.

The limited nature of financial aid resources gives rise to several contentious issues that play out in the political processes at the federal, state, and institutional levels. Most of these issues arise because different stakeholders in the political process have different conceptions of the goals for financial aid policy. Parents of all income levels, for example, want financial aid policy to help them send their children to college for the lowest out-of-pocket cost possible, which often implies distributing aid on the basis of merit, rather than need. Such an approach also appeals to politicians because it allows them to distribute benefits to a wider range of constituents, ones who happen to be more likely to contribute to electoral campaigns and vote in elections. In opposition to such an approach, however, is a constituency mostly from the research and advocacy communities—that argues for financial aid to be distributed entirely on the basis of need, in order to increase access to higher education for socioeconomically disadvantaged students.

Institutions and their leaders are yet another stakeholder in this process, and although they generally recognize the value in educating students from all backgrounds, they also see

financial aid policy as a means by which they can increase their institutional prestige. The interests of these, and other, stakeholder groups are represented in the political process, which determines the precise mix of goals that financial aid policy is intended to achieve.

This process has produced different outcomes at different levels of government. At the federal level, there is both a needbased program in the form of Pell grants and more general distribution of aid through multiple tax credits, which disproportionately benefit higher-income households (Dynarski and Scott-Clayton 2013). At the state level, there has been a recent trend of replacing need-based aid policies with meritbased distribution systems (Dynarski 2000). Institutionally, aid is typically distributed in both need-based and merit-based forms, the precise mix of which varies substantially across institutions. At all levels, though, it is clear that affordability is just one of several goals that financial aid policy is hoped to achieve.

Assuming that the political process produces clear goals for financial aid policies and that affordability is high on the list of those goals, policymakers are still left with the challenge of designing and implementing aid policy that achieves the specified goals even in the face of the unpredictable nature of human behavior. Research has suggested that even when the net cost is identical, students often make different decisions when they encounter a high-tuition, high-aid pricing model than they do when they are faced with a low-tuition, low-aid pricing model (e.g. Hemelt and Marcotte 2011).

Similarly, studies have found that many students do not distinguish between grants and loans when considering the financial aid packages highly to their enrollment decisions (Hoxby and Avery 2004), if they even managed to navigate the process required to apply for financial aid (Dynarski and Scott-Clayton 2006; Dynarski and Wiederspan 2012). All of which is to say that an issue originally thought to be relatively straightforward has proven to be quite complex. Although there is clearly much left to learn with respect to designing and implementing effective financial aid policies, the significant body of previous research on this issue has certainly advanced our understanding of the topic, just as the substantial amount of ongoing work promises to do going forward.

The Other Half of the Equation

Despite the tremendous growth in our understanding of financial aid, the research on college costs is much more limited, and these limitations are constraining our ability to identify and adopt policies and programs that will offer the best chance of success. Policymakers are consistently calling for more aggressive efforts aimed at stabilizing or reducing tuition and fees, an effort that has been led, in part, by President Obama, who has included some discussion of college affordability in every State of the Union Address during his time in office (to date). In his 2012 address, the president issued a warning to institutional leaders.

"We can't just keep subsidizing skyrocketing tuition; we'll run out of money. States also need to do their part, by making higher education a higher priority in their budgets. And colleges and universities have to do their part by working to keep costs down. [...] So let me put colleges and universities on notice: If you can't stop tuition from going up, the funding you get from taxpayers will go down."

Similar efforts are being pursued by governors and state legislators, with many initiatives similar to the one proposed by Texas governor Rick Perry in his 2011 State of the State Address.

"As families continue to struggle with the cost of higher education, I am renewing my call for a four-year tuition freeze, locking in tuition rates at or below the freshman level for four years. [...] It's time for a bold, Texas-style solution to this challenge that I'm sure the brightest minds in our universities can devise. Today, I'm challenging our institutions of higher education to develop bachelor's degrees that cost no more than \$10,000, including textbooks."

Given how rare it is to see near consensus on any political issue across parties, it is important to note just how unique the issue of college affordability has become in the public discourse, as the similarities among policymakers in their framing of the problem are striking. President Obama, Governor Perry, and several other prominent policymakers have consistently worked to raise awareness about the increasing costs of higher education, and in doing so, have communicated certain assumptions about the nature of college costs and have offered potential solutions.

Both President Obama and Governor Perry have worked to draw a "line in the sand" on the issue of college costs, which implicitly assumes a number of very important things. Most notably, the rhetoric suggests that institutions of higher education costs more than they should – an obvious statement, but one that communicates the belief that, in the case of affordability, college leaders are either failing to pay attention, failing to prioritize, or failing to act.

So which is it? Why have costs continued to increase despite many "calls to action?" Or, more poignantly, why have college leaders allowed costs to increase? Few policymakers would make these accusations in such a blunt manner, but when leaders are "challenging our institutions" and saying that "institutions have to do their part," they are not seeking to influence buildings and programs. They are seeking to influence the leaders, an effort that will likely fail without a better understanding of the factors that influence decision making surrounding their institutions. Any policy designed to control or reduce college costs without seriously considering how the policy changes will influence the decision making of institutional leaders will either accomplish very little or, worse, produce serious unintended consequences.

In this essay, we argue that the path to better policies and improved affordability requires a more developed understanding of the motivations, perceptions, and behaviors of key actors involved in the process. In the following sections, we address how parents, students, policymakers, and institutional leaders influence college costs, with discussions of institutional leaders informed by data collected through surveys and interviews with college presidents and chancellors. We then explore some of the policy solutions proposed by political leaders, using evidence to evaluate the likelihood of success for these interventions. Lastly, we offer potential solutions that are designed to improve affordability by investing in state policy efforts that are designed to be successful in their adoption and their implementation.

Students and Parents

Concerns over college costs among students, parents, and the public more generally are not new, despite the increased attention focused on the issue. In a recent review of public opinion on higher education, the Pew Center noted that, as far back as the mid-1980s—when tuition and fees were less than half of what they are today—the majority of Americans did not believe that most people could afford to pay for college.

More recent data find that 83% of the public believe that college is out of reach for many Americans because of the costs (Pew 2011). Other work has focused on the debates over the financial burden of college and perceptions of cost, and many institutional leaders have pointed to the low cost of education at certain institutions. Regardless of whether, objectively, a college degree is too expensive, the perceptions matter to a large number of student and parents, and they have mattered for many years.

Heller (2001) poses the question that is often raised in these conversations. If college is seen as too expensive or a not as strong value for the money, why do we still see increased enrollments? It would be reasonable to expect that, like in many other areas of economic activity, if prices increase and perceptions of value decrease, demand will drop. But enrollments continue to increase, and in doing so, underscore another important factor. Although citizens and parents believe that college is too expensive (and often unnecessarily so), they also believe that a college degree is essential.

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Critics of higher education point to this reality—high upfront costs coupled with the perceived essential nature of a postsecondary degree—as proof that university leaders are taking advantage of their credentialing monopoly to fleece their students, knowing that students will believe that they need a college degree, no matter the cost. And yet, the more interesting phenomenon may not be the overall increase in enrollment but, instead, the increase in enrollment at more expensive universities. It is not unusual to hear of a student who, for example, graduates from high school in Milwaukee, Wisconsin and, three months later, drives past the University of Wisconsin-Milwaukee and shows up for new student orientation at Marquette University, an institution that will likely provide them with a very high-quality education, but one that might also provide them with increased costs and debt, relative to other available postsecondary options.

There are many reasons why a student may knowingly and rationally—choose a much more expensive college option, some of which conform to basic assumptions about economic decision making. For example, a specialized program in which a student is interested might only be available at relatively costly institution. But other motivations have much weaker links to a purely cost-driven decision model. Students are often encouraged to attend a school that is "right for them," often invoking a vague notation of finding a place where they will fit in or a place that offers the "full college experience." While neither motivation is, on its own, problematic, they each provide an acceptable rationale

for prospective students to exclude cost from the decision calculus, or to at least relegate it to be a smaller consideration than it otherwise might.

Another way in which prospective students and parents may contribute to higher college costs—one for which it is difficult to blame them—stems from the difficulty inherent in assessing the quality of a college education, particularly given how college searches typically proceed. For better or worse, many families rely on highly-publicized and easily accessible college rankings when making their schooling decisions, the shortcomings of which—including their disregard of cost have been extensively detailed (e.g. Myers and Robe 2009). Similarly, institutions have become effective marketers of themselves, and they often highlight dimensions of the experience they provide that may appeal to students and parents, but do not necessarily reflect educational quality.

Even when students and parents physically visit schools, it remains difficult to gain an accurate sense of the true quality of the education that an institution provides. Indeed, only a small portion of educational quality is discernible prior to beginning consumption of the education. A somewhat larger but still relatively small—portion of educational quality reveals itself after a student begins taking classes at an institution. The full quality of the education that a student received, however, does not become clear until long after graduation.

Given these difficulties in assessing educational quality, students and parents often turn to a variety of heuristics to incorporate quality into their decision calculus; the aforementioned college rankings are one such heuristic. Perhaps even more problematic, however, is the possibility that prospective students and parents may use cost itself as a proxy for quality. They may think that—as is the case with many goods and services—higher cost indicates higher quality. Even if students and parents do not use cost itself as a proxy for quality, they may use costly features of an institution, such as classroom technology, dining options, residential accommodations, or recreational facilities. And perhaps these features are indeed valid proxies for educational quality, but they certainly result in higher costs.

Finally, at least two features of the process used to pay for higher education, coupled with natural human tendencies, may lead to prospective students and parents being more cost-complacent than they would be with other purchases of a similar magnitude. First, even though degree attainment is the primary goal of postsecondary attendance—and the benefits postsecondary education decline substantially in the absence of degree attainment—students and parents rarely,

if ever, are faced with the full cost of attaining a degree. They typically see the cost on a semester-by-semester, or perhaps year-by-year, basis. Such an approach is comparable to a rent-to-own store providing customers with the monthly payment required to rent a television, along with a general estimate of the number of months payment would be required before owning the television, but never revealing the overall cost of the television. Human nature is such that students and parents may make very different decisions when faced with the overall cost of degree attainment than with the semester-by-semester cost of higher education.

Second, for many college students, college costs and the aid—the grants and loans—used to cover those costs are little more than numbers on paper. Those forms are just one more set of papers for students to sign that have little immediate impact on their lives; they do not require students to have much, if any, "skin in the game" until after they leave school. Consequently, students typically have only a limited conception of how their repayment responsibilities are likely to impact their day-to-day lives.

So what policy solutions have been proposed in an effort to change the behavior of students and parents in a manner that will hopefully limit costs? One major approach has been to provide them with more information on costs, the thought being that if students and parents just have access to a wider range of information on cost-related issues they will make decisions that put downward pressure on costs. This line of thinking is the motivation behind a wide variety of recent policy proposals, including the recently highly-publicized Postsecondary Institution Rating System (PIRS) and the requirement that all Title IV institutions incorporate a Net Price Calculator into their website in order to provide students and parents with an estimate of the out-of-pocket costs that would accrue over the course of degree pursuit.

Such reasoning also undergirds the requirement that federal student loan applicants complete loan counseling, which is designed to provide them with a better sense of the full consequences of loan accrual. Whether these information provision policies achieve the intended outcome of cost reduction, or at least containment, remains to be seen.

In addition to information provision, there is significant optimism that students and institutions can work together to make use of on-line education—and technology more generally—in a manner that reduces costs. Although there are several promising ongoing initiatives in this realm, this approach to cost containment has yet to achieve its perceived potential.

Finally, there are several policies that purport to decrease the costs that accrue to students and families by decreasing time-to-degree. Examples of such policies include flat-rate tuition (i.e. charging a flat rate up to a certain number of credits taken), clearly structuring programs of study, and encouraging full-time enrollment, among others. While a number of these policies may very well be effective at the margins, such an approach seems unlikely to fundamentally alter the landscape of college costs.

Together then, it is clear that there are several factors that may result in students and parents contributing to higher college costs, either unwittingly or knowingly. It is also clear that there are several policy initiatives designed to mitigate these factors. What is unclear, however, is whether these initiatives will achieve their intended outcome of lower costs. There are several reasons to expect that these approaches will be at least partially effective at cost containment, but several other reasons to suspect that they might fall short. Regardless of the ultimate effectiveness of existing initiatives, below we propose additional actions that we believe have the potential to help students and parents lower costs

Policymakers

The perceived contribution of policymakers—legislators, governors, and relevant executive agency personnel to rising college costs is perhaps less clear than the contributions of students and parents, as well as expectations about campus leaders. If anything, recent efforts to improve affordability, especially those funded and led by national organizations, have looked to state policymakers as the primary vehicle for achieving their goals. However, in an argument that is likely to come off as somewhat counterintuitive, we contend that the nature of the actions taken by policymakers in their efforts to contain costs can actually contribute to rising costs. Below we lay out our rationale for this contention.

Although there has been considerable debate over the collection of goals that policymakers work to achieve during their time in office, as well as over the relative weight of relevant goals (e.g., Mayhew 2004; Jacobs and Shapiro 2000), there is little doubt that re-election is generally high among them. In order to position themselves for re-election, policymakers need to be seen as attendant to problems that are salient, or potentially salient, to their constituents. At the same time, they do not want to enact any policies that overly antagonize potentially powerful organized interests.

To thread the needle between these competing pressures, policymakers often turn to symbolic policies. Such policies allow policymakers to take credit for acting on an issue that is important, or potentially important, to a broad swath of constituents. At the same time, however, close scrutiny of the policy will typically reveal that the provisions are not unduly onerous for the policy target. This reality is generally opaque to all but those most attuned to the policymaking process, and even those who understand the symbolic nature of the policy often have little incentive to publicize that fact.

Higher education policy in general—and affordability policy in particular—is rife with examples of symbolic policies. This approach allows policymakers to tell the public they are taking action on the issue of college costs without alienating higher education interests. For example, several state legislatures have passed performance funding policies, which are designed to link state aid with valued outcomes, such as graduation rates, student retention, or job placement. Close scrutiny of these policies, however, often demonstrates that only small amounts of funding are linked to student outcomes, that thresholds are set at levels that institutions can easily achieve, or that institutions have wide latitude in meeting the requirements of the policies. Perhaps not surprisingly, several studies have found that state implementation of these policies to have little effect on targeted outcomes (e.g., Rabovsky 2012).

Similarly, state legislatures routinely take high-profile action to freeze tuition at public higher education institutions, but rarely pursue more comprehensive approaches that would better address other avenues through which costs might rise (i.e. reduction in aid, student fees, housing, etc). The fact that policymakers have long been able to address the issue of college affordability through enactment of symbolic policies renders it unlikely that they will suddenly turn toward enacting affordability policies with "teeth," policies that might meaningfully bend the college cost curve.

Electoral realities also influence the avenue through which policymakers may prefer to attempt to improve affordability. As we have detailed earlier, affordability is a function of not only cost, but also financial aid, and policymakers can affect affordability through either—or both—of these avenues. Over time, there has been a shift in the dominant approach that policymakers have employed in their efforts to improve affordability. For a long period of time, in many states, policymakers largely stayed away from the cost side of the equation and primarily used aid-based approaches—either providing aid directly or through the tax code—to attempt to increase affordability. From a policymaker's perspective,

there are two major benefits to such an approach. First, an aid-based approach to affordability provides constituents with a more tangible benefit—either a larger grant or more valuable tax credit—than would be provided by more general efforts to reduce cost. Second, addressing affordability through provision of aid is much more straightforward endeavor from a policy design perspective, relative to efforts at cost containment. Although the aidbased approach had the stated intention of improving affordability, it may have unwittingly contributed to increased costs, as experts contend that increases in aid fuel faster institutional cost growth (Gillen 2010), potentially rendering impotent such attempts to improve affordability.

Perhaps in response to the limited success of the aid-based approach in actually increasing affordability—and also to realities of the current political environment and budgetary constraints —policymakers have increasingly recently begun to transitioned to primarily a cost-based approach to affordability. Legislatures in multiple states have taken often highly publicized actions to freeze tuition, or at least reduce its rate of growth. The movement to a cost-based approach to attempting to improve affordability has coincided with the change in the tone of policy discussions—they have become more aggressive and pointed—that we described earlier. Whether these changes in style and policy approach translate to true improvements in affordability remains to be seen, but history suggests that nobody should hold their breath. Indeed, for cost-based efforts to increase affordability to be effective, they would likely need to be accompanied by a level of regulation, audit, and oversight that seems unrealistic, both because such a change would represent a dramatic departure from the status quo and because many states do not possess the capacity required to provide this oversight.

Furthermore, decreasing institutional autonomy would likely prove politically difficult in the face of declining funding for public higher education that represents the status quo in many states. Even though affecting the behavior of policymakers surrounding affordability policy—prodding them to enact policies that have a better chance of truly containing costs—is a difficult proposition, we are confident that a more careful approach to policy design and oversight could offer a better path forward.

Institutional Leaders

Current efforts to improve affordability are hampered by the lack of knowledge, evidence, and thoughtful strategy regarding the role of institutional leaders. We believe that policy efforts will substantially increase the likelihood of

success when they are better able to address important questions about the decisions of leaders. At the most basic level, what factors influence the decision to raise costs? How do institutional leaders think about the issue of affordability, and to what extent is affordability a priority for presidents or chancellors, relative to other priorities at the institution?

Can we leverage what we know about institutional leaders to anticipate the likelihood of success for suggested policy initiatives? And most important, how can policies be designed to produce meaningful change in affordability without increasing stratification, diminishing the long-term health and quality of our colleges, or producing other unwanted consequences?

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Why do they keep raising tuition and fees?

Many policy conversations about increasing costs are fraught with accusations and antagonism, and few lead to meaningful progress. Critics often argue that rising costs are a function of misplaced priorities, pointing to highly visible examples of spending that they deem to be unnecessary, such as money for new programs (especially those without strong ties to workforce development), fancy buildings, and well-paid football coaches. The commonly espoused belief is that institutions care less about delivering high-quality, low cost programs than they care about prestige, growth, empire building, or rankings.

When presidents and chancellors are questioned about their institutions' increasing costs, they often point to common explanations: the decline in state appropriations, the increase in operating costs, and the demand for new programs, services, and modalities (often by the same individuals concerned about cost increases). In these interactions, it is difficult to ascertain whether these accusations and explanations are true and, even if they are true, whether changes can be made to work within or around these issues without increasing costs to students and families. However, for some of these issues, data can substantially improve our understanding of the situation, and in doing so, offer more clarity for those seeking to design more effective policies.

Declining State Support

Issues related to state appropriations and increasing costs have been widely covered by numerous organizations, and the evidence is consistent with the explanations offered by institutional leaders. The State Higher Education Finance Report for FY2012, published by the State Higher Education Executive Officers Association, includes data on net tuition revenues and state appropriations over the last 25 years in the following graph (see Figure I).

On first glance, the relationship between appropriation and tuition levels seems quite clear. Over 25 years, the combination of tuition and appropriations revenues has fluctuated slightly, but we do not see the pattern of runaway growth that some might expect.

For many institutional leaders, these data prove that tuition increases are not a function of money hungry, unaccountable institutions, but they represent an effort to simply maintain basic levels of quality, and, in doing so, protect the long-term interests of their institutions, students, and communities.

And yet, policymakers are not convinced, in part, because they operate in an environment where there is almost never enough money to "maintain the quality" of all of the state's roads, schools, prisons, health care, and as such, the conversation turns to questions over what constitutes a basic level of quality in higher education.

This disconnect is evident in recent surveys of chief executives (presidents/chancellors) of public universities. In a 2008 survey, presidents were asked to rank four competing goals quality, affordability, accountability, and equity (see Figure 2).

These data clearly demonstrate that presidents of universities prioritize efforts to improve and maintain the overall quality of the institution over competing goals in almost every institution, with only 8% of respondents considered affordability to be their primary goal. Again, these findings are not surprising, but they are informative. If leaders perceive efforts to improve affordability as threats to the quality of their institution, they are going to be resistant.

Similar trends are again seen in more recent survey data. In a 2012 survey², presidents were asked about recent economic downturns and asked to speculate on how their institution would respond if it were faced with more dramatic reductions in state funding. Here, institutional leaders were asked a hypothetical question, "If the state were to cut your institution's appropriations by half, how likely is it that your institution would have to do the following things?" For this question, presidents were asked to rate each of seven options on a scale of I to 7 (I = veryunlikely, 7= very likely), as displayed in Figure 3.

When faced with the hypothetical budget cut, the most commonly identified response is, by far, to raise tuition. Remarkably, raising tuition was not only the most "popular" response, but, on a scale of 1 to 7, the vast majority of presidents (111 out of 140) rated the likelihood of raising tuition at a 7. Even smaller efforts, like cutting extracurricular programs, and widely discussed efforts, like lowering the quality of the teaching faculty, paled in comparison to the perceived likelihood of raising tuition. When appropriations are cut, presidents raise tuition.

Many critics would consider these data to be, again, unsurprising and just another piece of evidence that demonstrates institutional leaders' lack of accountability or concern for affordability issues. This assumption would be understandable, but further evidence suggests that it is likely wrong.

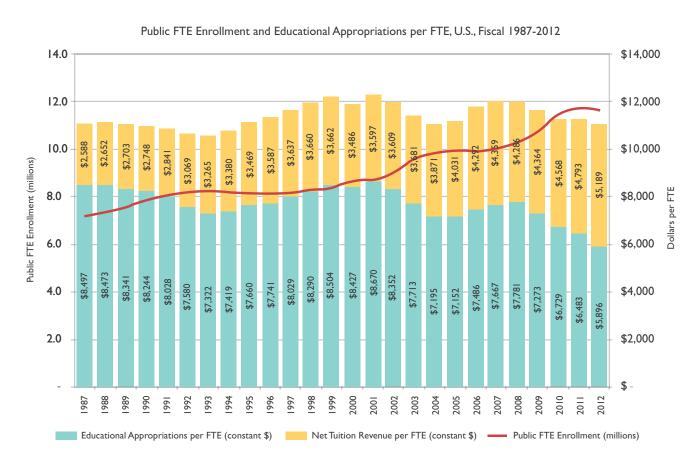
In the same survey, presidents were asked, "When thinking about long-range planning, would you consider the following sources of funds to be more volatile or more stable?"

Figure 4 displays the mean responses for each option.

Note that tuition revenues far surpass other sources of revenue in presidential perceptions of stability, for reasons that are easy to understand. The combination of enormous, rapid changes in the higher education policy environment, the fluctuations in state funding, the recent downturn in the stock market (affecting private giving, endowment earnings, and research grant money from foundations) and consistent delays in passing a federal budget that is necessary to much of the research and grant money have all led to a funding environment that is hardly predictable from one year to the next. If college presidents are most concerned with protecting and enhancing the quality of their institutions, both now and in the future, they will seek the most stable, dependable source of support for these institutions. The ways in which university administrators think about tuition revenues suggest that the decision to raise tuition and fees may be more than just a response to declining appropriations or concerns over quality. The decision to raise tuition may be, in part, an aversion to risk.

Other evidence suggests that the political environment is not conducive to improving affordability. In the same survey, presidents

Figure One: State Appropriations and Tuition Revenues



were asked about the extent to which they believed that certain measure were legitimate "performance" indicators for the purpose of accountability. On a scale of 0 (not at legitimate) to 10 (completely legitimate), the average rating for "Tuition and Fees Costs for In-State Students" was only a 4 out of 10.

When presidents were asked to speculate on how political leaders would rate the same goals, the average rating for student costs was 8 out of 10. Presidents are clearly aware of the concerns, but they do not share them, at least not in the same way.

In many ways, the data seem to echo the rhetoric in the public sphere. Policymakers believe that their concerns about increasing costs are being ignored. College presidents believe that they are put in an impossible position of having to absorb more students with less state support, and now, they are being asked to charge less. Many policymakers accuse presidents of caring more about academic prestige than student support, and many presidents accuse policymakers of caring more about their political careers than they do about student success by continuing to pursue lower taxes and reducing the revenue available to support public higher education. The lack of productive dialogue in many states, and the antagonism that inevitably follows, has led to some of the recent efforts to push for new reforms, some of which we discussed earlier in this essay.

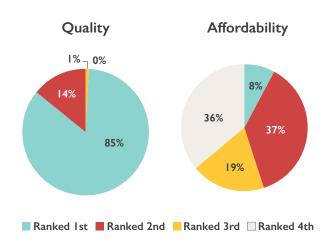
Recent Initiatives from State and National Leaders

Many individuals and organizations have proposed a wide variety of solutions to the affordability problem. A large number of these solutions involved improving or restructuring the financial aid system, the focus of some of the other great work in this series of papers. For the purpose of this essay, we address five popular options that target college costs, and then we move to recommendations of our own.

Recent Initiative #1: Better equip students and parents with good information on college costs.

Investments by the federal government in better data on affordability and more accessible websites have been designed to help students and parents better predict what they will actually pay at individual institutions. These investments have been most visible in the development of the White House College Scorecard, a userfriendly website that offer data on net price, graduation rates, default rates, and average loan debt for each institution, but the effort has also produced more nuanced data on net cost, broken down by income level, accessible through the Integrated Postsecondary Education Data System.

Figure Two: Presidential Perceptions of the Importance of Quality and Affordability If you had to rank the following goals in order of **your university's** current priorities, how would you rank the following? (Numbers represent the percentage of respondents for each category.)



The improvement in access to information is laudable and certainly a move in the right direction, but it is unlikely to produce meaningful change. Greater access to information on affordability is designed to help individuals choose lower cost options and, in doing so, induce universities to lower costs in an effort to compete for students, but the likelihood of producing system-wide change is fairly low.

Most initiatives like the College Scorecard are unable to influence a substantial segment of its target audience, due to lack of awareness among a large percentage of the population, the inherent obstacles found in most "opt-in" initiatives (meaning, students and parents must go to the information, instead of having it come to them), and the inability to provide estimated costs tailored to offer an estimate of a student's level of financial aid (nearly impossible when trying to incorporate college scholarships). Additionally, even if perfect information were available, it would still have to compete with the many other factors influencing college choice (program options, fit, locations, social groups, and others).

Recent Initiative #2: Manipulate the incentive structure through rewards for cost-cutting institutions and/or possible penalties for colleges that continue to increase tuition and fees.

Conversations concerning the future of the College Scorecard have raised the possibility of using information about net price to target federal funding, with more funding going to students who choose to attend schools that are considered to be offering greater value for money. A number of states have considered similar policies either through the adoption of

funding formula changes that explicitly tie state funds to institutional affordability or through less direct effects, namely, a general unwillingness to prioritize higher education funding in the state budget process if universities are not working hard enough to curb cost increases.

As discussed earlier, these policies have obvious appeal. The logic of a focus on incentives is compelling, and, at a minimum, it gives policymakers the opportunity to demonstrate their commitment to the issue. But these policies are unlikely to be successful, and in some cases, unlikely to be enacted at all. At the federal level, tying policy goals to financial incentives is limited by the nature of federal investment in higher education. With almost all federal funds awarded either to individual students (through grants and subsidized loans) or to researchers, few policy levers allow the federal government to target institutions directly.

The decision to restructure Pell grants to "reward" students who choose lower cost institutions would be very problematic, in part, because it would penalize equally disadvantaged students who choose higher-priced institutions (which would inevitably be characterized, though somewhat unfairly, as increasing stratification by discouraging lowincome students from enrolling in what many will see as better institutions).

Figure Three: Likely Response to Budget Cuts (I=Very Unlikely, 7=Very Likely)

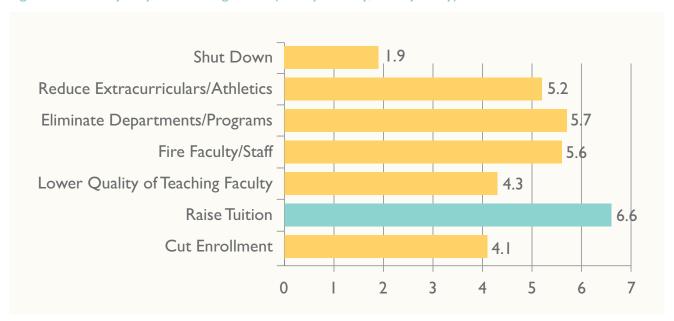
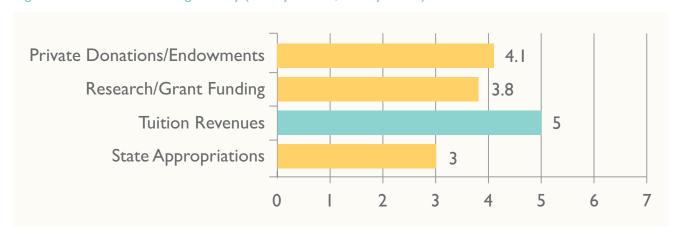


Figure Four: Perceived Funding Stability (I=Very Volatile, 7=Very Stable)



State efforts to incentive institutional affordability efforts could overcome some of the inherent limitations in similar federal initiatives, as states allocate funding directly to institutions, but other problems are very likely to thwart these efforts as well. Many states have experimented with funding incentives in the aforementioned efforts to spur colleges to prioritize efforts to increase graduation rates. The growing body of research shows that these efforts have not been effective (Tandberg and Hillman 2013, Hunter and Sanford 2011). In the case of incentive-based policies aimed at improving affordability, we believe that the likelihood of success is even lower, given what we know about funding and costs.

Without substantial increases in state funding, efforts to tie funding to institutional affordability will be incredibly difficult to design and implement in a meaningful way. Could the penalties be designed in such a way that they would be more detrimental than the revenue that could be raised through tuition and fees increases? For wealthy institutions, that seems unlikely, and for colleges with tighter budgets, any cuts may be seen as substantial, fundamental threats to the quality of the education provided by the institutions. If the incentives were large enough to gain the attention of presidents, they may also be large enough for institutions to engage in revenue-generating activities that could undermine either the quality of education or overall affordability.

Recent Initiative #3: Pass laws that freeze tuition and fee increases.

As discussed earlier, policymakers seem to have a renewed interest in efforts to freeze tuition and fees, with a number of states and institutions calling for a temporary hiatus from yearly increases (Kiley 2013). In some states, these developments have been a function of clear, explicit negotiations between state legislators and college presidents, like those in lowa, where tuition freezes were traded for increases in state appropriations, and these efforts have been praised by many. In other states, proposals to freeze tuition have originated from the governor's office as a bold effort to curb costs and have sparked tremendous controversy.

It is important to appreciate the differences in the two strategies. One strategy, the negotiated freeze, offers stronger potential for a path forward. This approach allows state and institutional leaders to discuss shared concerns over affordability, have very public conversations about the role of state investments in higher education, and, most importantly, ensure some level of stability and predictably in funding. The multi-year negotiations are promising, in part, because they address both financial and political realities. It is important to note that these efforts are not just about giving more money to institutions.

These agreements validate the concerns of institutional leaders over declining support and the concerns of policymakers over runaway costs, and in doing so, offer more stability in funding streams for institutions and expected costs for parents. The ability to design policy solutions that combine buy-in and accountability, while reducing instability and uncertainty, may be the key to addressing costs in a meaningful way.

Efforts to pursue policies that regulate or freeze tuition without this model of shared responsibility are likely to fail, regardless of whether these negotiations are prevented by politics or financial constraints. The vast majority of campus leaders are going to do what it takes to protect their institution, whatever that means to them. Because there is no agreement on what does or does not constitute a highquality (or even adequate) institution of higher education, it is impossible to use broad-based policies to objectively differentiate between spending on core issues and frivolous spending. Freezing tuition may be an effort to reduce inefficiencies and unnecessary spending, but it could result in fee increases. States could adopt policies to freeze fee increases, but what happens when room and board increase? If costs are frozen for a long period of time, we could see flagship institutions continue to target more out-of-state students, reducing the number of seats available to in-state students, or one of the regional colleges may redirect resources to starting an open-enrollment program in Brazil.

So what does that mean? Should we just trust college leaders and allow them to do whatever they think right? Probably not. We are not seeking to undermine expectations about accountability, nor do we assume that all college spending is defensible. Our point is simple: Colleges and universities are complex, multi-faceted organizations with competing goals, multiple constituencies, and a diversity of current and potential funding streams. Policy measures that do not grapple with the hard issues related to academic quality and divergent goals will inevitably fail. Relying on policy solutions that focus solely on incentives, blanket regulations, or drawing lines in the sand will produce the kind of politics that leads to gridlock and dysfunction.

Recent Initiative #4: Engaging institutional leaders to increase buy-in and collaborative oversight.

In January, President Obama convened a meeting of over 100 college presidents, along with other leaders in higher education, to discuss issues related to affordability and student success. Although some dismissed the "feel good summit" as inconsequential, it parallels many of the efforts at the state level to improve discourse and collaboration among state leaders, as well as working to leverage nonmonetary resources to advance affordability. In some states, governors and legislators have sought new approaches to improving the quality of interactions between the campus and the Capitol. Instead of relying solely on the very structured environment of the yearly (or bi-annual) presentation to the legislature, the campus "dog and pony show" for the legislator visiting an individual institution, or the efforts of the governmental relations staff to make inroads with the members on the appropriations committees, recent efforts to convene meetings that seek to discuss issues, address constraints, and consider options may offer a model for ways to gain the knowledge and buy-in necessary to designing policies that can actually work

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Recommendations for **More Effective Strategies**

Recommendation #1: Build meaningful coalitions that include policymakers and college leaders.

Change requires buy-in. The ability to improve affordability through reducing cost increases is contingent on having frank discussions about the many demands placed on our colleges and our tax dollars. When leaders of a regional college are juggling the state's demands for higher graduation rates, the community's requests for a new program for the local workforce, the faculty's frustration over a five-year salary freeze, the accreditation agency's new curriculum requirements, and a variety of student concerns, they are probably going to need a little help in figuring out how to prioritize among these (very reasonable) pressures.

More importantly, they may need a little help in figuring out how to pay for them, especially if they are asked to voluntarily reduce their future revenue. When policymakers are uninterested or unwilling to attend to these concerns, campus leaders believe that policymakers just do not understand higher education and are unwilling to do so.

Conversely, when state and federal leaders make meaningful efforts to identify collaborative, workable solutions to improve affordability, campus leaders need to respond. The politics of higher education are not unlike the party politics that plague American policymaking more generally. If, in the past, there have been few meaningful efforts to "reach across the aisle" (or, in this case, the campus), it will take some time to move beyond overly-scripted, antagonistic, and guarded dialogue, but it can be done.

University leaders have pursued many initiatives that required financial investments not directly linked to rankings or an institution's bottom line. A substantial number of institutions invested in efforts that were pursued, at least in part, because they were valued in higher education and considered to be good for students and the college. Many presidents have invested in increasing the diversity of the faculty and student body, while others allocated significant funds to increasing globalization in the curriculum and programmatic offerings. Promoting the importance of affordability and increasing the value placed on decisions aimed at protecting the long-term financial well-being of students and their families could be more influential than any individual policy change.

Recommendation #2: Empower and engage SHEEOs, working to identify non-statutory options to increase affordability.

In a recent policy conversation, an established critic of public higher education argued that each state needed to create an organization that could assist in ensuring that universities are accountable and well managed. This institution would be staffed with experts in higher education who are responsible to policymakers for conducting meaningful, differentiated oversight that goes beyond the capacity of elected officials. Ideally, they would also collect and disseminate objective data on a state's institutions and, when possible, identify opportunities for cost savings at the state level and share best practices among institutions. This organization could even assist policymakers in their efforts to differentiate between real concerns over how cuts can affect institutional quality and the cases in which campus leaders may be pursuing goals that are not consistent with the state's priorities.

Of course, most states have an organization that was created to do these things - the SHEEOs. The governing and coordinating boards that were designed to carry out these tasks, and in many states, they do exactly these things. So why have we seen very few mentions of these organizations in the national and state level conversations about affordability? When President Obama charged states with coming together to improve affordability, the discussion focused almost exclusively on state funding and institutional decisions about tuition and fees. Within state politics, the unique histories of each state's SHEEO often have led to characterizations of these organizations as being either fully part of the higher education system (advocating only for the institutions), fully beholden to elected officials (primarily centered on enforcing regulation), redundant in the presence of system offices and gubernatorial staff, or, worse, just ineffective and inconsequential.

SHEEOs, when well-designed and supported, can offer many unique and critical contributions to the efforts to improve affordability. A fresh look at the role these institutions can and should play in affordability efforts at the state and national level is needed. Interested policymakers, think tanks, and foundations should invest in an effort to explore the ways in which the structure, powers, staff, and funding of SHEEOs can be designed to best promote affordability. We believe that the evidence strongly suggests that significant progress in affordability will be dependent on the ability to hold institutions accountable by engaging college leaders, conducting ongoing efforts to seek cost savings within colleges, and increasing the capacity of state leaders to identify opportunities for improvement.

Supporting (and, where needed, reorganizing) the SHEEOs will substantially increase the ability of states to identify effective, non-statutory options that can make a difference. Policymakers can decide if SHEEOs should focus on creating and disseminating better data to parents and students, providing a space for collaborative oversight, partnering with institutions to improve internal audits, leveraging shared resources to reduce costs, or other strategies identified in the pursuit of affordability. Even among the diversity of potential roles for the SHEEOs, the most important common thread should be that the SHEEOs are fully, thoughtfully incorporated in policy strategies and supported in their ability to engage as a relatively neutral broker between policymakers and college leaders. The effectiveness of utilizing SHEEOs to improve affordability will be a function of the expertise in these organizations, the authority granted to them, and the neutrality expected of them.

Recommendation #3: When possible, reduce funding uncertainty through multi-year appropriations agreements.

In times of constrained resources, consistency in funding levels may offer advantages, even in the face of budget cuts. Although there are limitations in a largely incentive-based policy approach, states should work to remove disincentives when possible. The evidence here suggests that campus leaders may be increasing tuition and fees not only to compensate for cuts, but also to mitigate the negative effects of future budgets cuts, especially if they believe that the ability to raise costs will be further constrained in the future. States should consider working with institutions to negotiate and adopt multi-year funding agreements. Commitments in future years may be difficult, given the inevitable shifts in the market and the turnover in political leadership over time, but at a minimum, they may weaken the motivation to look to tuition revenues as the only stable source of funding support.

Recommendation #4: Empower regents and trustees to become full partners in the effort to improve affordability.

The complexities inherent in any effort to significantly improve affordability require a full effort to leverage the assets available in the system. Boards of regents (or trustees) have longstanding, established relationships with many institutional leaders, and some have been very successful in using meaningful, neutral oversight to work toward continued improvement. These individuals also face a number of competing demands and conflicting pressures, and, as such, may also face uncertainty over whether reductions in costs will result in substantial harm to the quality of the institutions and their programs.

By investing in efforts to better equip regents and trustees with the knowledge needed to pursue affordability, we can strengthen their ability to contribute to the efforts to improve. Additionally, national organizations should consider investing in efforts to track vacancies in institutional leadership positions, and use these opportunities to encourage these boards to place greater importance on finding a successor with a strong commitment to affordability, especially for low-income students. In many ways, we already have the structures in place to promote affordability, but these systems must be supported to avoid atrophy, neglect, and unnecessary patronage.

A Few Caveats

Because of our focus on state policy, our discussion is almost exclusive to public universities, although many parallels exist in the private, not-for-profit sector. Additionally, the scope of this discussion focused on four-year institutions, with little attention to community colleges and technical schools. We

know that these institutions are critical components of US higher education and unique in the opportunities and challenges confronted by their leaders. As such, we could not do them justice in the space of this essay, but we look forward to future research that will help expand our understanding beyond public four-year institutions.

"In many ways, we already have the structures in place to promote affordability, but these systems must be supported to avoid atrophy, neglect, and unnecessary patronage."

We also understand that college presidents are not the only decision makers within institutions, nor are they able to wield unfettered authority. We hope that this conversation will allow for more comprehensive discussions about how college leaders respond to policy change and political pressures, and how policy change affects the decisions made within campus walls. We are encouraged by the strong, influential literature that investigates the perceptions, motivations, and behavior of students in decisions about college choice, financial aid, and persistence. We believe that a similar approach to the study of decision making by institutional leaders will provide important insights for future policy design.

We also want to address one of the most common solutions suggested by policymakers: that institutions should pursue affordability by investing in technology. Conversations about technology in higher education are fraught with normative issues and a lack of evidence, especially as it relates to investments in online education for traditional institutions. Like many suggested solutions, leveraging technology to reduce costs seems like a logical step in the right direction, but a large number of institutions have invested in online education for many years, and the net effect on affordability is unclear. Investments in research on the effect of increasing online education in traditional universities could produce much needed evidence to inform current policy debates.

Lastly, we want to be clear on the motivation for this report. Public higher education is a critical part of any state's efforts to support its citizens and invest in its future.

The recommendations discussed in this report are motivated by the efforts, shared by many, to best support students, institutions, and states. Public higher education cannot survive without the support of policymakers and citizens, and we, too, are deeply concerned about declining state funding. However, we also appreciate the budgetary limitations faced by states, especially during economic downturns. These recommendations should not be viewed as a "howto" guide for policymakers looking to disinvest in public higher education. Instead, our goal is to offer suggestions to those seeking to provide stability in the funding environment and identify strategies for leveraging collaborative leadership in efforts to improve affordability for all students.

Summary

Efforts to improve affordability require a focus on financial aid and college costs. Much of the policy research on affordability has centered exclusively on financial aid, while conversations about tuition increases are often informed by assumptions, stereotypes, and a general lack of evidence. Many policymakers have accused college leaders of being resistant to efforts to improve affordability, but few strategies have offered evidence on how to design policies that will actually affect college costs.

We believe that efforts to improve affordability through reducing the rate of increase in student costs is achievable, but the most effective strategies will be long-term investments in sustained, collaborative, and meaningful oversight. Policymakers should consider investing in improving existing organizations that were designed to ensure accountability and identify areas for improvement. We need better policy-relevant research on the factors that influence the decisions of college leaders, especially those decisions that relate to accountability and affordability. The policy proposals that have dominated recent conversations are unlikely to produce meaningful change, but a national effort to leverage resources and engage campus leaders can truly be successful.

Footnotes

- To be clear, students' and parents' perceptions of the importance of a postsecondary degree has substantial empirical support. Specifically, this belief is buttressed by a body of research that routinely finds a high average rate of return to investments in postsecondary education (see Hout 2012 for a summary), recognizing that the average rate of return will not materialize for all individuals who enroll in higher education.
- 2 The 2012 survey of university presidents was mailed to all presidents of public four year universities, had a response rate of approximately 24%, and was funded by the William T. Grant Foundation. For additional information on the survey of presidents, please contact Alisa Hicklin Fryar at ahicklin@ou.edu.

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