Coveting the US model of higher education? Be careful what you wish for

The US tuition fees system - that many countries worldwide are veering towards - is increasingly being viewed as a broken business model in its home country, warns Lloyd Armstrong

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The United States has been very fortunate to have an extremely robust and dynamic higher education sector that includes both public and private institutions of higher learning. This formidable but uncommon mix of public and private institutions was not the result of any planned process, but rather was the outgrowth of more than two centuries of competition and collaboration between religious groups, robber barons, philanthropists, business interests, and local, state and national governments. In reality, public and private universities have grown much more alike over the last half of the 20th century as research and auxiliary enterprises such as hospitals have become a larger component of their missions and budgets.

Research is supported in both sectors primarily by the Federal government, with significant help in many cases from the corporate sector. Huge auxiliary enterprises such as hospitals are run in both sectors primarily as businesses that support research and training, but which are in competition with for-profit enterprises. The main difference between the two sectors is in the support of their educational functions. The public sector primarily supports education through state allocations, and the private sector turning primarily toward tuition for its support for this function. The private sector also depends greatly on philanthropy to provide additional resources that can be used to support activities in both research and teaching, while the public institutions have relied on state governments to provide those "extra" resources.

Recently, however, more and more states are finding limitations on the funding they can provide for their public higher education. Many public institutions began to significantly ramp up fundraising to fill in the gaps in state funding, and when the gaps still existed, to raise tuition and fees. Increasingly, the solution to the financial crisis in the public sector is seen to be "privatisation", that is, moving away from state support of the educational function of the university to a tuition supported model. Indeed, because this has been a global economic crisis, one hears public institutions around the world begin to talk about "privatization a la American" as the solution to their financial woes. But is this a good, or even real, solution to the problem?

In many ways it clearly is. The removal of some of the layers of state bureaucracy that accompanies state support enables institutions to function much more efficiently and effectively.

Decisions can be made more quickly, and without so much attention to political considerations. The private sector already handles many "public good" priorities such as access at least as well as public sector institutions. The general private sector philosophy of high tuition-high financial aid shifts costs from low income students to students who can afford to pay; in many instances, this leads to lower costs in the private sector than in the public for low income students.

But, as is often the case, there is a bigger problem. The private model that everyone looks to has a real structural financial flaw – costs increase annually much more than inflation or family income. Over the past 30-40 years, published tuitions and fees in the private sector in the US have increased at an average annual rate of 3% above inflation. If one subtracts out the loan component of financial aid (under the radical assumption that a loan is really a cost to the student, not a grant), one finds that increases in non-loan financial aid lessen this increase only marginally. As a result, for the average family, a private higher education costs about two and a half times as much as a percentage of family income now as it did three decades ago. This is obviously an unsustainable model over the long term, and it is already having negative effects in terms of access and student debt. Political attention is beginning to focus on the issue, and legislative and regulatory "corrective" actions are likely to be taken that will force changes in the model to bring down the rate of increase significantly. Thus, the model itself is broken, and only temporary respite can be found by switching to it.

But what is the problem with the model? Can it be fixed simply by increasing administrative efficiencies, smarter management? Unfortunately, although there are certainly needed economies that can be achieved by this approach, it is unlikely that it can produce a cure. There seem to be some well known economic forces at work here. The first is that costs are likely to rise faster than inflation in industries where most of the costs are related to personnel. This is especially true if the personnel are highly skilled and moveable. Highly skilled people expect that their real incomes will rise with time as their skill levels increase, and will search out jobs where that occurs. Industry often turns to economies of scale to try to counteract the effects of this law, but higher education has traditionally not been able to find many economies of scale to help bring down costs. In addition, the current definitions of academic excellence are heavily weighted by the academic quality of incoming students. This leads to competition for the reputation-building best students, competition that is played out through construction of ever better (and more expensive) residence halls, athletic facilities, lecture halls and seminar rooms. This "arms race" is a significant contributor to the rapidly increasing educational costs. There are also other built-in increases in the model resulting from the coupling of the educational function and the always money-losing research function.

Thus the problem is not really the source of funding for the educational function of the university. It is that the university is organised and evaluated in such a way that its educational costs increase so rapidly with time that it is rapidly becoming unaffordable to both government and consumer. The switch to a privatised model can buy some time through increased revenues and efficiencies, but it cannot get around the reality that the current model of the research university is simply too costly to be sustained over the long term.

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