PRESIDENTIAL PERSPECTIVES

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2011/2012 Series: **Strategies to Address the Rising Cost of Higher Education**

chapter **4:** **Price, Cost, and Value:**
The Changing Landscape of Higher Education

Price, Costs, and Value

The Changing Landscape of Higher Education

Dr. John M. McCardell, Jr.: Vice-Chancellor and President of The University of the South

For many years, colleges and universities have operated under a financial model often called "high tuition/high discount." What this means is that institutions will set a "sticker price" and then proceed to offer financial aid to admitted students, thereby "discounting" the advertised price.

This practice is rooted in several shibboleths that for the past several decades have entered the realm of truth. The first is that the price an institution charges is a reflection of the value of the degree that institution offers. The second is that once a family decides to look at a particular group of schools, it has already reconciled itself to the fees those schools will charge. The third is that, in their heart of hearts, when it comes to higher education, the American public really does not want a bargain.

When I entered academic administration in the mid-1980s, these propositions governed decisions made annually to set tuitions and fees. Boards never wanted to "leave money on the table." And indeed, rankings of institution by price did seem to represent at least a rough ranking of those same institutions in terms of quality, selectivity, and yield. Lines at admissions offices lengthened. The formula seemed plausible. And it worked.

It worked best among that group of institutions that made admissions decisions without considering an applicant's ability to pay and then offered financial aid solely on the basis of need. Some, but certainly not all, financial aid awards were funded by endowment income; the rest came from either annual gifts or tuition

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and fee income. Though unabashedly redistributionist in intent, this approach evoked little reaction from families grateful to have had a son or daughter admitted, whether they were able to pay the full price or required substantial financial aid. More important, it made an excellent education accessible to the best and brightest young people. As educational policy, it was unassailable; as economic policy it was just; and as social policy it was visionary.

But then, as the Pilgrim historian William Bradford once wrote in his *History of Plymouth Plantation*, a "subtle serpent" intruded and, "under fair pretense of necessity and the like," began to loosen the cords that for a generation and more had bound the public and higher education in a working, and workable, relationship. The serpent had many guises but appeared most nefariously in the form of annual national rankings (the most famous of which is often regarded as the equivalent of the "swimsuit issue"). The American public has always had a weakness for lists. These publications exploited that weakness and caused colleges and universities to begin to calculate how they might improve their position from year to year.

Thus began a new emphasis on competition with other institutions and the development of strategies to attract those students presenting the strongest quantifiable credentials. Inevitably, that meant that those qualities requiring judgment rather than calculation—character, motivation, intellectual hunger, for example–took a backseat to test scores. Admissions offices became risk-averse. Success was measured in terms of the measurable—size of applicant pool, yield, and test scores.

Not surprisingly, this shift in emphasis favored those who tested well (or who were coachable in order to test well.). That, by itself, was not necessarily harmful. But not all families could afford to hire coaches. And not all potentially successful college students presented stellar test scores.

How, then, go about attracting the successful test-takers? And how go about persuading those applicants to come to your school rather than to a rival? The word "recruiting" came into more and more frequent use to describe this process.

The "subtle serpent" began to hiss. Even institutions with abundant financial resources and strong reputations could not resist the temptation to offer aid on some basis other than need. And those with more limited resources may have felt their survival was at stake. A new term, "merit aid," materialized (Google Ngram notes a sevenfold increase in the use of the expression "merit aid" between 1994 and 2008).

Merit and need, of course, were not and are not mutually exclusive. But the introduction of "merit" made decisions about financial aid awards far more complicated. Decisions to offer merit aid, however merit might be defined, meant that criteria other than strictly need could be taken into account. Put more directly, if also less politely, aid began to be offered to students who did not need it, often at the expense of those who did, and more than occasionally in ways that favored those families seeking to play off one institution's offer against another. Discount rates soared, as did sticker prices, as a consequence of decisions to allocate financial aid dollars that were neither efficient nor just.

Then 2008 struck, and a new variable appeared. No longer were particular types of institutions competing among themselves. Instead, families broadened their searches, and the hitherto largely separate spheres of public and private institutions found themselves in competition. Fissures appeared in the old shibboleths, as Bear Stearns and Lehman Brothers and other symbols of the certain and the safe and the solid collapsed.

Yet, higher education was remarkably slow to change. Tuitions continued to rise, as did discounting. More and more dollars were shoveled out the door to attract students. For the first time, college presidents and boards began to question whether such practices are in fact sustainable.

Of course, they are not. As institutions asymptotically approach zero as the number of families paying the full price and 100 percent as the discount rate–slowly, perhaps, but perceptibly—something needs to change. And it won't do to assume that nothing can be done until a few institutions succumb or until a large group of institutions agree to act in concert. Institutions die hard. Competitors do not readily cooperate.

All these considerations shaped a significant decision made by the University of the South, better known as Sewanee, in February 2011. Our Board of Regents made a bold, nearly unprecedented, decision to reduce tuition and fees for 2011–12 by 10 percent. We had seen the early warning signs, even from a position of considerable strength in the liberal arts college hierarchy. Our enrollments had declined, ever so slightly. The number of full-paying families had dropped below 30 percent. Our discount rate was heading toward 50 percent. We were losing more students to the University of Georgia than anywhere else. Moreover, we knew the consequences of high tuition/high discount, as reported in a 2009 study by Amanda Griffith, a professor of economics at Wake Forest: "Results using data from the College Board's *Annual Survey of Colleges* and other secondary data sources suggest that the increased use of merit aid is associated with a decrease in enrollment of low-income and minority students, particularly at more selective institutions."

These trends could have been allowed to continue a good while longer. We might have waited for some other institution to lead or a group of fellow institutions to cooperate in changing our behaviors. There was no crisis. The counsel of Charles Dickens's Mr. Micawber to hope "something will turn up" might have been easily followed.

But we chose not to wait and to make a decision that was right for our University. A significant part of that decision involved a movement away from merit aid and back to need-based aid and a firm commitment not to dicker with families looking for a better deal. To be sure, we knew the risks: a budgetary shortfall, rumors that Sewanee might be in trouble, the appearance of gimmickry, no change in our admission outcome, and a swelling of the ranks of students among our competitors. We were prepared to deal with those risks.

And, happily, they have been minimal. This fall Sewanee will enroll an entering class around 435, up from 401 a year ago. Selectivity and yield have improved. The number and percentage of multicultural students are higher than they have ever been. The quality of the entering class, as measured by the measurable, is essentially the same as last year. The discount rate has dropped precipitously, below 40 percent for the Class of 2015. Giving has increased. Best of all, visits to campus are running 60 percent ahead of last year. We have had to tap reserves to close the budget gap, but not as much as we had feared. And we are taking no more dollars out of the endowment next year than we did this year.

In short, the early indicators are encouraging. So far, no other institutions have joined Sewanee. We know that our tuition decision for 2012–13 will be watched carefully, and we expect to make it early. Most important, we believe we have, however modestly, taken a small step in a different direction, away from the practices of a lost and fundamentally different past and toward a new reality in which accessibility and fairness will open the promise of a superior education to the very strongest students we can attract.

Dr. John M. McCardell, Jr. was elected as the 16th vice-chancellor and president of the University of the South effective July 1, 2010, and was formally installed in October, 2010. McCardell has challenged the University both to examine its history and to seize the opportunities of the present in order to fulfill its vision of being a nationally prominent University located in the American South. During his first year as vice-chancellor, McCardell has led a campus master planning effort. In 2011, Sewanee, reduced its tuition and fees for the academic year 2011–12 by 10 percent.

McCardell, president emeritus of Middlebury College, is a distinguished historian and respected national leader in liberal arts education. He possesses a record of achievement as a scholar of the American South, as the chief executive of one of America's finest liberal arts colleges, and as a respected national figure in the public discussion about higher education and student life.

Dr. McCardell joined the history faculty at Middlebury in 1976 and held a number of administrative posts before being named president in 1992. A graduate of Washington and Lee University, he did his graduate work at The Johns Hopkins University and then at Harvard University, where he received his Ph.D. in history. McCardell has received honorary degrees from Middlebury, from Washington and Lee University, and from St. Michael's College.

McCardell is the author of *The Idea of a Southern Nation*, developed from his Ph.D. dissertation, as well as many essays, chapters, articles, and book reviews.

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