

**A POSSIBLE UNTAPPED RESOURCE**

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This presentation was originally delivered in early September of 2002 at the OxCHEPS conference on Higher Education in Britain; one of the prime questions which was addressed by the conference was whether British, and specifically English, HE would move closer towards the European model of HE, or whether it would look across the Atlantic and move closer towards the American system of HE with its unique mix of public and private institutions—or indeed whether UK HE would move in neither direction. In my presentation I wanted to propose that the continuing survival of the American ‘Liberal Arts College’ system of HE in the private sector (when cheaper alternatives in the state sector always exist simultaneously) suggests that there is an untapped resource of private funding through a system of ‘front loaded fees’ which the middle class is willing to spend on tertiary education in America and the middle class is already spending on secondary education in the UK. I also wished to suggest that, furthermore, there is no real evidence that the middle class in the UK would be *unwilling* to spend money in the form of ‘market fees’ at the tertiary level. Obviously with Imperial, Warwick, Nottingham, Cambridge and Oxford now discussing charging substantially higher fees than the HEFCE set ‘top up fee’ of around 1,500 pounds per annum, and with the White Paper delivered by the government in February 2003 subsequently allowing a graded fee rise over time (though still retaining a cap), there is some agreement within the English HE system with the position which I was advocating—whether or not it comes from a belief that the continued survival of the liberal Arts College System. Surprising parallels exist between the latter section of the presentation (which discusses the system of using a small portion of families which can

afford to pay the full ‘front loaded fees’ to cover the actual operating cost of the institution for the given year, and hence subsidise the education of a much larger portion of the student body) and the numbers and percentages being discussed by the Vice Chancellor of Imperial College: If, for example, the fee were set at L10,500... then L16.9m would be generated if 30% of students paid full fees and 70% received bursaries.’<sup>1</sup>

## I

### ‘Simpson Contemplating a Bust of Homer’

or

### ‘The American Middle Class and the Purchase of Liberal Arts’

The cartoon serial *The Simpsons* has been called the most penetrating social commentary on American society produced in the 1990s, and in the case of the first several series this is a statement with which I am in some substantial agreement. It is therefore illuminating that when on a camping trip Homer and Bart decide to tell scary stories around the campfire, the one which actually reduces Homer to a gibbering wreck of tears ends with Bart’s words: ‘and THAT’S how much college will cost by the time Maggie is 18’. The comment, for our purposes, is not about the timeless youth of the baby, but instead illuminates a simple fact about the American middle class—and the Simpsons are intended to be the paradigm of the two car, fully detached, single income

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<sup>1</sup>Quoted by Gary Eason: ‘Top uni’s plan for higher student fees’, *BBC News Website*; Thursday, 17

household where the husband has a white collar job in lower supervisory management. (The fact that Homer always wears a white shirt and a tie to work while his ‘workmates’ Carl and Lennie wear a blue and a green shirt respectively, and in the case of Lennie a shirt without a collar worn with an unbuttoned vest, and in the case of Carl in later episodes a pink sweater, is not insignificant in the American social system of ‘White Collar’ versus ‘Blue Collar’).<sup>2</sup>

That fact is that the American middle class is prepared to spend a comparatively enormous sum of money on tertiary education relative to the rest of OECD in either the Private sector, or as an ‘out of State’ student at one of the better State Universities. This is all the more interesting because of OECD countries, the US spends the highest percentage of its GDP, 2% in 1998—while only Sweden and Canada (both which have HE systems with central funding which the US does not) even reach the 1.5% mark. The remainder of the OECD member countries spend far less.

What then is the American middle class prepared to spend, where are they prepared to spend it and what do they hope to achieve through this spending—when in virtually every case there is an ‘in State’ alternative at a much lower cost.

The rise in the cost of Tertiary education in America is discussed in a clear, direct and in depth Manner by Roger L. Geiger in a paper titled *Politics, Markets, and University Costs, Financing Universities in the Current Era* available at <http://ishi.lib.berkeley.edu/cshe/>. In this article, part of a larger project currently in progress, Geiger details the rapid rise in university costs between 1980 and the present, taking as examples 64 Public and 33 private institutions. Perhaps the most telling figures concern

the trend of tuition revenues and State appropriations in the 64 State Universities<sup>3</sup>: in 1980 the gross tuition revenues 2,817 million 1996 dollars, by 1990 they had grown to 5,211 million 1996 dollars, and by 1996 they were 7,647 million 1996 dollars—in sixteen years the *adjusted* tuition revenue had nearly trebled. Furthermore, State appropriations had not fallen, merely risen on a slower curve: in 1980 they accounted for 10,244 million 1996 dollars, in 1990 13,522 1996 dollars, and in 1996 13,260 dollars. Obviously the real flattening of the curve of state appropriations comes during the period 1990-1996, but it is important to note that the gross tuition revenue had nearly doubled during this period as well. So even in the state system tuition was on an escalator which was geometric; it was a sad fact of life that tertiary education in America was simply becoming more expensive.

This rise in raw cost also coincided with a period where the spending per student, or the so called ‘university costs per FTE student’, diverged sharply. In 1980 they were nearly equivalent in the Private and Public sector: 9,948 1996 dollars in the private sector and 9,205 1996 dollars in the Public sector. By 1990, however, the figures had risen disproportionately: in the private sector the cost per FTE student was 16,169 1996 dollars while it had risen to only 12,259 1996 dollars in the public sector. This divergence was made all the more manifest during the 1990s: in 1996 the public sector cost per FTE student had risen only 776 1996 dollars to 13,035 while in the private sector it rose almost 3,000 1996 dollars to 19,090. So, though much of this rise in spending per student in the private sector was accounted for by increases in tuition there was the appearance that students got ‘more for their money’ in the private sector even if the

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<sup>2</sup> For example the term ‘White Collar Crime’ is used to refer to non violent crimes such as embezzlement, fraud, or ‘insider trading’ within the securities markets.

private sector required more money in the first place. This perception was certainly the case in families sending above average children to University: who were most often faced with the decision between out of State fees at one of the better State Universities or a University or Liberal Arts College education in the private sector. In the case of out of State fees families quite literally got more for their money in the private sector, and often a scholarship which dropped the private fees down to their equivalent ‘out of State’ alternative.

## II

### **‘Liberal Arts: Purchasing Power and its Price’**

#### **A: ‘Purchasing Power’**

Why is the American middle class willing to spend this money? The answer to the question is obvious in the case of the ‘upper tier’ of research institutions, the Harvards, Yales, Princetons, Dukes, Dartmouths, Stanfords and Cal Techs of the system: the prestige of these institutions is such that a BA obtained from one of them is quite literally worth more than a BA from their peer institutions—a fact stemming from both their reputations (deserved or not) and the fact that the top paying corporate entities, the Goldman Sachs and McKenseys of this world, recruit there at the BA level. Furthermore, this reputation makes a given cumulative GPA from these institutions worth more in the process of selection for both academic and professional graduate level training. In the

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<sup>3</sup> Here and subsequently all figures from Geiger are in millions of 1996\$.

case of institutions such as these the family quite literally buys a product which is superior to its competitors in the marketplace.

Where the answer is not so obvious is in the case of the small private institutions, most often teaching only through the BA level (though very occasionally offering a limited number of Masters level courses) which number somewhere around 1000 throughout the United States and which have an enrollment of as low as 850 (or very occasionally even fewer) total students or as high two to three thousand. These are the so called ‘Liberal Arts Colleges’ of America—whether or not they are titled ‘University’ or ‘College’. Davidson College and The University of the South, for instance, are both ‘Liberal Arts Colleges’.<sup>4</sup> The median enrollment is somewhere around 1,000 FTE students. It does not take a great deal of sophisticated mathematical modelling or a Microsoft Excel spreadsheet to work out that though the individual institutions are small the overall marketplace which they serve is at least 1,000,000 FTE students: which is a substantial marketplace by any standards. Why and how do these institutions continue to exist and what is the cost differential between them and the ‘Big League’ private universities?

The short answer is that, clearly, they are offering a product which persons are willing to buy. What makes the product marketable? One hint towards the nature of the product can be found on the front page of the academic section of the Davidson College website. It is a quotation by Clark Ross the Academic Dean. It reads ‘... we can affirm that a liberal arts education at Davidson provides the student with strong analytical skills,

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<sup>4</sup> A superb discussion of the history of the formation, growth, and divergence of the Liberal Arts College system can be found in Jurgen Herbst’s article ‘American Higher Education in the Age of the College’ in the 1988 issue of the journal *History of Universities*. There Herbst discusses the college system both before

flexibility, powers of expression both oral and written, and confidence.’ It is accompanied by a picture of a young lady, presumably a Davidson student or graduate, displaying about 20 perfectly orthodontured teeth in a broad smile while looking cool, and self confident to the point of suggesting, but avoiding implying, arrogance. So how is this product, described as: ‘analytical skills, flexibility, and powers of expression’, delivered and what does it gain the purchaser which is so valuable that one quarter of a million families per year are willing to spend the immense sums detailed within this paper.

The two answers are (opposite to retrospect) first, that a good degree from a Liberal Arts College is a backdoor into the upper tier of professional schools and academic graduate programmes run by the ‘top flight’ national universities, and second, that it is delivered by close contact teaching in small classes and personal attention from and contact with well qualified, and in many cases distinguished, faculty members. These are born out, for instance, by the fact that 78% [sic] of Haverford graduates from the class of 1968 earned a Doctorate.<sup>5</sup> Though I do not have exact figures, nor am I sure that such figures exist accurately, it is nevertheless indisputable that the Liberal Arts Colleges have a much higher percentage of graduates entering graduate and professional programmes. So there is *at least the perception of* either a ‘back door’ to the more prestigious professional programmes, i.e. Masters level and Doctoral degrees (if one is cynical about the family as a consumer), or of a superior educational product worthy of purchase as an end in itself (if one is idealistic about the family as a consumer). In this

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the advent of ‘the age of the University’ which began around 1870, and after and illuminates the reasons why some HEIs chose to make the move to becoming Universities while others chose to remain Colleges.

<sup>5</sup> Though Haverford’s Quaker heritage and ethos combined with the student draft deferments offered during the Vietnam War do make this figure anecdotal, it is still a staggeringly high number.

way the family ‘purchases power’ by either paying for a degree from a ‘top flight’ research institution (which will open doors for the graduand) or for a degree from a Liberal Arts College: a First Division to the Premiership, which will allow the opportunity of transfer to the Premiership at the post-BA level or of professional recruitment locally, rather than nationally, directly from that institution.

In reality there is a mixture of cynicism and idealism: a mixture catered to by the sheer numbers of Liberal Arts Colleges which creates such a broad range of the ethos and atmosphere of an education available through the Liberal Arts College system in America that the family can virtually chose that ethos and atmosphere ‘bespoke’. It would be an insulting folly to suggest that any family in America who intends to send its children to Tertiary Education is entirely unaware that they are consumers, and likewise it would be foolish to suggest that the decision to send a child to a Liberal Arts College is made in an *entirely* calculated way—the ethos, and often the religious affiliation, of a given institution is always a major contributing factor into the choice to send a child into the private sector for Tertiary education. But there is clearly a belief, warranted or otherwise, that the education delivered (the: ‘strong analytical skills, flexibility, powers of expression both oral and written, and confidence’) is of a superior quality to that available in the State institutions with which Liberal Arts Colleges compete—whether that perception of superiority is based on the opportunity to receive those skills within the framework of an existing ideology (be it right wing Christian: Olivet Nazerene, or secular ultra liberal: Oberlin) or simply because a high value is placed on the idea of education itself, or a simple belief that the family will get ‘more for the money’ (a ‘better education’) from the private sector.

**B: 'The Price of Purchasing Power'**

During the remainder of this paper, I want to explore the parallel, though not congruent, pricing structure of Liberal arts colleges in the US to nationally reputed doctoral Universities, and to suggest that the heavily front loaded (to borrow a term from the bond market) system of fees associated with the Liberal Arts College system may provide a model which UK universities could employ in the medium future to solve its conundrum of declining central funding from the Treasury while the government continues to demand a goal of 50 percent participation by 2010—a goal which clearly cannot be achieved by the proposed date without a further injection of capital into the system from some source (if it can be achieved at all). I wish to suggest that the 'Front loaded' system of fee structuring which Liberal Arts Colleges use in America where the actual budget is a deliberate fantasy and 60% of it is 'tuition write offs' and the 40% remaining is the operating cost for the year (the lion's share of which is funded by the small percentage of students paying 'full tuition', and the remainder through a combination of government grants and endowment) provides a model which English Universities could follow to create the injection of cash which the Government's official target of 50% participation in Higher Education by 2010 will require—as the Treasury has shown no intention of providing further central funding.

Obviously the parallels are not congruencies. In this model the higher percentage of endowment funding present in American institutions would be replaced by a higher percentage of Government funding from HEFCE, and the 'front loaded tuition' would be a smaller sum: I am not arguing that English universities could suddenly multilaterally

introduce twelve to fifteen thousand pounds per annum as the ‘ticket price’ for a degree. Indeed, the divergence goes further as one need not only convert the American figures to sterling, but also to make allowance for the fact that American ‘ticket prices’ include room and board while fees for English universities do not.

### III

#### Ticket Prices And Access

Whatever one thinks of the *US News And World Report* league tables, there is a not insubstantial amount of valuable raw data available within them, especially as the new ‘Premium’ edition of the on-line version allows one to sort the tables by any category which one chooses (thus effectively creating a different system of ranking). Furthermore, the *US News and World Report* data, especially in the area of funding (cost, debt, and financial aid) is reliable because it itself is a product which is purchased by hundreds of thousands of consumers a year and sales would plummet were that data to prove unreliable or inaccurate (those consumers would cease to purchase the product). The *rankings* may be farcical in some instances but the *data* on the average cost of attending an institution after receiving grants based on need (NB: this does *not* include endowed scholarships and other tuition waivers<sup>6</sup>) and the percentage of the student body receiving grants based on need is fairly reliable.

Here I want briefly to examine the cost of sending a child to a private institution. The sensible way to examine any spread of figures is to exclude the ones at the top and the bottom of the table, as is done in Olympic judging, and to take the median spread; when

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<sup>6</sup> See above for a discussion of ‘tuition write off’s’.

discussing the *US News* data I therefore drop the two highest and the two lowest figures for ticket price. What appears the most interesting facet of the information is the immense overlap in cost between the top tier Universities with a national draw, and the Liberal Arts colleges. Take for example the grouping which *US News* terms ‘Best Values’—which is to say HEIs which the editors have judged to be a good value for money (again one has no choice but accept their methodology of deciding what is a ‘good’ HEI whatever one thinks of it, but the issue this section is concerned with is the overlap in fees between the large and small HEIs—so even if the *US News* methodology is flawed, that is irrelevant as that methodology will be consistent for the institutions compared).

Sorting the table of ‘Best Values: National Universities—Doctoral’ (i.e. those HEIs with a national draw which confer degrees through the Doctoral level), and discarding the two highest and the two lowest costing institutions one is left with a spread of between \$12,211 (Howard University, where incidentally only 43% of the student body receives financial aid grants based on need<sup>7</sup>), and \$21,036 (University of Chicago where the percentage of students receiving grants based on need is 46%). Within this spread there are two institutions which have ‘ticket prices’ of 12 and 13 thousand dollars, five institutions between 13 and 14, four institutions between 14 and 15, three institutions between 15 and 16, four institutions between 16 and 17, six institutions between 17 and 18, eight institutions between 18 and 19, nine institutions between 19 and 20, four institutions between 20 and 21, and only one institution (Chicago) with a ticket price over \$21,000. So half the institutions I have included in this spread have a ticket price of between \$17,000 and \$20,000 per annum. These figures are made all the more

interesting because the *US News* editors have chosen to include major State Universities within this list and though they dominate the lower end of the price range, UCLA has a ticket price of \$18,703 and Berkeley of \$18,140—now clearly the editors are using ‘out of state’ fees as their guide but this does make these tables even more accurate as the private institutions are compared on a level playing field with their State competition. The outcome is that if one sends a child to a doctoral University with a national draw one can expect to pay between \$17,000 and \$20,000 per annum (and remember these HEIs have been chosen as the best values).

Compare these figures with the ‘best value’ Liberal Arts Colleges chosen by the *US News* editors (oddly a smaller number of institutions). Again dropping the two lowest and the two highest, the lowest ticket price is \$11,918<sup>8</sup> (Millsaps College where 59% of the student body receive grants based on need) and the highest price is \$18,216 (Hamilton College where 56% of the student body receives financial aid). There are six institutions with a ticket price between 12 and 13 thousand dollars,<sup>9</sup> seven institutions with a ticket price between 13 and 14, six institutions with a ticket price between 14 and 15, four institutions with a ticket price between 15 and 16, seven with a ticket price between 16 and 17, four institutions with a ticket price between 17 and 18, and one institution with a ticket price of over 18 thousand (Hamilton). Here the two heaviest groupings are between \$13,000 and \$14,000 and between \$16,000 and \$17,000. The outcome is that if one sends a child to a Liberal Arts College one can expect to pay a minimum of between \$13,000 and \$17,000 per annum (and again remember these HEIs

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<sup>7</sup> See below for discussion of need based grants and access.

<sup>8</sup> Statistically Millsaps should really be included in the grouping of six institutions which have ticket prices of between 12 and 13 thousand dollars.

<sup>9</sup> Seven in one counts Millsaps.

have been chosen as the best values; there are many hundreds of Liberal Arts Colleges with vastly higher ticket prices).

How, though, is the tuition spread in the region of \$3,000 to \$4,000 lower in these smaller institutions which tend to have a greater university cost per FTE student, and theoretically should be more expensive to operate *per capita* in the first place (without taking into account the fact that they chose to deliver a higher university cost per FTE student) because of their small size? The answer to this question is intimately tied in with the question of Access (an issue which is not as substantial an issue in America as it is in Britain, probably due to the internal perception within America that it has no class system), and that answer lies in the spread of the percentage of students which receive grants based upon need. As the following table shows, the answer is (in part) that the mission of the Liberal Arts Colleges is to serve a slightly different market and to serve it in a different way. Over half of the Liberal Arts Colleges in this group give need based grants 50%-80% of their students—and this figure, remember, does not include academic scholarships or all of the ‘tuition write offs’ which those institutions deliver.

<b>Percentage Of Students receiving Need Based Grants</b>	<b>Number Of Institutions from: National Doctoral Universities table</b>	<b>Number Of Institutions from: Liberal Arts Colleges table</b>
10%-20%	2	1 (19%)
20%-30%	5	0
30%-40%	13	7
40%-50%	14	5
50%-60%	7	11
60%-70%	4	6

70%-80%	1	6
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Now, of course these HEIs are not entirely representative of all Liberal Arts Colleges as a whole as they were chosen as the best values, but so were the Universities with which I compared them. The real point is that when the percentages of students receiving financial aid is correlated with the drop in overall cost *after* receiving grants based on need, the drop in average cost is explained. This is reinforced by examining the ‘Average discount from the total cost’ (the figure the ticket price is arrived at from after all deductions are made). For the 46 Universities conferring doctoral degrees under consideration 11 institutions give an average discount of between 30% and 40%, 25 institutions give a discount of between 40% and 50%, and 10 institutions give a discount of between 50% and 60%. For the 36 Liberal Arts Colleges under consideration: 11 institutions give a discount of between 45% [sic] and 50%, and 25 institutions give a discount of between 50% and 60%. In other words the percentage discount for the Liberal Arts Colleges more heavily weighted toward the top of the scale: the Liberal Arts Colleges give larger discounts.

What enables them to do this is the fact their smaller size, creates a smaller operating cost, and in turn that operating cost is easier to subsidize with a group of upper middle class students paying ‘full cost’ tuition. If one combines the table of percentages of students receiving financial aid based on need with the listing of average discounts it becomes clear that ‘access’ (and again this is a term which is somewhat alien to the American HE scene) is a concern which is dealt with more effectively by the Liberal Arts Colleges than the Universities with a national draw. But, more important still: the

mechanism which both sets of institutions use to create 'access' for students from a less wealthy background is at a basic level identical—the tuition paid by more wealthy students funds the discounts given to less wealthy students. Obviously mechanism is less operative in the Universities where State funding or larger endowments and better annual giving programmes operate, but the mechanism operates nonetheless. In smaller Liberal Arts Colleges which cannot rely upon State funding and must use the reliable income from their smaller endowments as part of long term estates planning, pension schemes, and faculty salaries the mechanism of the more wealthy subsidising the less well off operates on an immediate and year to year basis.

## IV

### Conclusions

There is an untapped resource available in the Middle class's ability to pay 'market fees' for tertiary education; it has been demonstrated that Social Classes I, II, and III are willing to expend substantial amounts of capital in the private sector at the secondary level—where a fully funded state alternative exists. There is no reason to believe that there will be an absolute refusal on the part of those social classes to operate within a need assessed system of market fees where those with the ability to pay the 'total cost' of the market fees (likely to be set around 4,000 to 6,000 pounds p.a.); furthermore if the more prestigious universities within England were to introduce such a system multilaterally while other institutions chose to keep their fees the same as the HEFCE set price 'top up', or indeed to drop fees altogether (as Peter Knight, vice-chancellor of the University of Central England argued his institution might consider doing were greater

autonomous activity undertaken by the English universities without the threat of losing government support completely<sup>10</sup>) those social classes would retain the choice of sending their children to a less expensive HEI. There is, however, no reason to believe that those social classes would make that choice if their children won places in the more prestigious universities, and the money raised from their full market fees could and would be able to be used to subsidize those students for whom even the HEFCE set ‘top up’ fee is a burden and a stretch—indeed this untapped recourse could create the telos of educational access where those who can afford to pay for their education do so while those who cannot are not charged at all.

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<sup>10</sup> Knight, Peter: ‘Free us from the Public Sector’; **COMPLETE REFERENCE TO PK ARTICLE FROM DP.**