



State Funding Cuts Matter

For every \$1,000 cut from per-student state and local appropriations, the average student can be expected to pay \$257 more per year in tuition and fees -- and the rate is rising.

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Have public funding cuts caused colleges and universities to raise tuition?

It's a deceptively simple question. And it's caused two different camps to dig in, look at similar data and yell past each other with very different answers.

On one side, typically inhabited by left-wing thinkers, is the camp that believes tuition has gone up over time because colleges have been starved by state and local funding cuts to higher education. On the other side, right-wing analysts often argue that the long-term decline in state funding -- so-called state disinvestment -- has little to no effect on tuition. Instead, they say, college tuition has gone up for other reasons, like meeting rising labor costs or feeding spending urges.

Various battles have been fought over issues such as whether using different inflationary indexes to adjust data will lead to different conclusions. But there has been surprisingly little work done to try to pin down the exact rate at which public appropriations cuts are passed on to students through higher tuition.

That's changing. New research in the journal *Economics of Education Review* finds the appropriation-cut-to-tuition pass-through rate has averaged 25.7 percent since 1987. In other words, for every \$1,000 cut from per-student state and local appropriations, the average student can be expected to pay \$257 more per year in tuition and fees.

The research also indicates students are taking on more of the cost of state funding cuts in recent years than they were three decades ago. Before 2000, a student could be expected to pay \$103 more in tuition for every \$1,000 cut from public funding. After 2000, the figure jumps to \$318.

Those findings have the potential to reframe the debate, at least somewhat. They could shift the discussion away from if funding cuts lead to rising tuition to how much they contribute to rising tuition -- and whether such a trade-off is justified.

But for many researchers, the pass-through rate, which describes what will happen to tuition in the event of a theoretical state funding cut, hasn't been considered a top priority to examine, said the author of the research, Douglas Webber.

Webber, who is an associate professor in Temple University's economics department, said researchers have been more interested in broader looks at how students are affected by governments cutting funding for higher education. Colleges and universities can take a number of actions when their state funding is cut. They can increase tuition to make up for the lost revenue. They can cut from their own budgets, trimming things like student services or employees. Or they can turn to fund-raising, endowments and grants to try to raise more money over time.

Against all of those puzzle pieces, the amount students pay in tuition can seem relatively minor - especially for researchers trying to determine how much funding cuts affect a student's chances of graduating.

Another strike against this type of analysis is that a large number of local factors and other variables can influence how much individual colleges and universities raise tuition. State laws block some colleges from raising tuition without legislative approval, for example. Webber had some questions about whether it made sense to calculate an average pass-through rate. Such a broad metric won't reflect reality in the situations on the ground at many different colleges and universities.

Still, Webber has participated in the debate over state disinvestment. He wrote [a piece](#) for *FiveThirtyEight* last year arguing that there is no single cause for rising college tuition. He planned to someday do a more rigorous analysis, but he had to push the work to the back burner as he addressed other priorities.

The state divestment arguments didn't go away. A Cato Institute study [in February](#) made the case that state disinvestment was not the sole cause of rising tuition, putting blame on federal student aid it said enables colleges to charge more. Brookings published [a piece](#) by Jason Delisle of the American Enterprise Institute saying that limited research on the topic shows state disinvestment is not a major cause of tuition hikes. AEI published [a study](#) saying that public institutions' tuition only rises by \$5 for every \$100 cut from direct state subsidies per student.

That study's modeling was questioned by critics, [including](#) Webber. He went about building a new model taking into account adjustments he hadn't seen elsewhere. They included accounting for state laws restricting institutions' ability to increase tuition and the fact that lawmakers may cut appropriations unevenly for different colleges within the same state. He also measured average net tuition and fee revenue instead of institutions' average posted tuition in order to account for strategies colleges might use to raise money after a cut in state appropriations -- strategies like cutting student aid or enrolling more out-of-state students.

Webber used data on institutional finances from the Integrated Postsecondary Education Data System from 1987 through 2014. The data cover 479 four-year public institutions.

“I don’t view this paper as a partisan thing,” Webber said. “The far right wants you to think that there is a zero percent pass-through rate and any state budget cuts aren’t hurting students. The far left wants you to think that the harm to students is absolutely massive and that we should never cut university budgets. And neither of those views are correct.”

In addition to the 25.7 percent average pass-through rate for all institutions, Webber calculated the rate for different types of institutions. It was highest for Ph.D.-granting institutions, at 26.6 percent. Master’s-granting institutions were close behind at 26.2 percent, followed by bachelor’s-granting institutions at 18.3 percent.

Webber also analyzed the historical data he’d gathered. The pass-through rate describes what will happen in the event of a theoretical \$1,000 appropriations cut. The historical data give a look at what did happen over the last 30 years.

State and local divestment accounted for 16.1 percent of tuition and fee increases paid by the average student since 1987. Disinvestment accounted for a greater share of tuition and fee increases more recently, though. It is responsible for 29.8 percent of the tuition and fee revenue increase since 2000 and 41.2 percent since 2008.

That’s evidence colleges and universities are being pushed closer to their breaking point, Webber said. Institutions can cut from budgets up to a certain point in order to shield students from tuition increases. Eventually they have to start passing more costs on to students.

“The fact that this has been increasing says to me that in the ’80s and ’90s, there probably was a lot more fat in the budget,” Webber said. “And so, when states would divest, it was a lot easier for schools to cut things. Whereas now, the low-hanging fruit is diminishing. We’re having to make tougher decisions, and we’re having to pass more of these costs on to students because there’s not some obvious spending that we can cut.”

Not everyone will agree on that point. Policy makers will still wonder why, if appropriations cuts really drive tuition higher, the pass-through rate isn’t 100 percent, said Delisle of AEI.

“Maybe the relationship is getting stronger, but I think you’re going to be hard-pressed to convince a policy maker that a move from 25 percent to 32 percent is a really big change,” he said.

Delisle went on to argue that the relationship shown in the new research is relatively small compared to claims he’s seen that state disinvestment causes tuition increases.

“The debate now seems to be, is it 15 percent, is it a 25 percent relationship, is it 30 percent?” he said. “Two months ago, it was just assumed to be one for one.”

The fact remains that continuous state disinvestment in public colleges and universities drives tuition increases, according to Thomas Harnisch, director of state relations and policy analysis at the American Association of State Colleges and Universities.

“While campus leaders have long sought efficiencies instead of tuition increases, this study seems to indicate the limits of that approach,” he said in an email. “The share of tuition increases

that can be traced to state budget cuts has more than doubled since 1987 and remains at its highest level in the post-recession era.”

Harnisch called state budget cuts a no-win outcome for students and states. The state cuts diminish institutional quality as well as restricting access to higher education and higher bills for students, he said.

Webber’s hope is to move the discussion beyond the two absolutes of state disinvestment hurting students versus state disinvestment not mattering. He wants it to become something an economist would appreciate about the costs and benefits of state funding cuts.

Many states will have to consider cutting higher education spending to address other priorities like health care or pension spending. The hope is that the discussion can be about how much such cuts are likely to be passed on to students and whether it’s worth it.

It’s akin to a move from partisan talking points to a cost-benefit analysis. Webber has some reason to be optimistic. Feedback so far has been positive from both sides of the argument, he said.

“I’m hoping to move the conversation from shouting past each other to actually thinking more seriously about the magnitude of trade-offs,” Webber said.