Research & Occasional Paper Series: CSHE.2.16

CSHE | Center for Studies in Higher Education

UNIVERSITY OF CALIFORNIA, BERKELEY

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SMALL LIBERAL ARTS COLLEGES AND ENROLLMENT CAPACITY AT PUBLIC UNIVERSITIES: Imagining a Consortium Approach

February 2015*

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ABSTRACT

Many small private liberal arts colleges struggle to make their enrollment targets, while many public universities cannot meet enrollment demand. Thinking creatively about collaboration between these kinds of institutions might increase the capacity of our higher education system. This essay explores models by which we might do so.

Keywords: Enrollment Capacity, College Finance, Collaboration.

When Sweet Briar's trustees determined to close the college, claiming "insurmountable financial challenges," their decision sent shock waves through the liberal arts college community. If a school of considerable reputation like Sweet Briar could close, who might be next? Many college presidents spent time at their next board meeting, assuring their trustees of the ways in which their college was different from Sweet Briar: it was co-educational, it had a larger enrollment, it was in a less rural location, its financials were sounder. Despite these reassurances, the factors that led to the decision to close Sweet Briar characterize many independent liberal arts colleges. After a Virginia court mediated a settlement to three lawsuits, each challenging the trustees' authority, the decision was reversed. Nonetheless, the fragility remains; the judge's order guarantees the college only a year of operation. The new president and new board of trustees face daunting challenges. What are the factors that have brought so many liberal arts colleges so close to financial exigency?

For several decades, private colleges and universities have embraced a strategy of high tuition and high financial aid on the assumption that those families who could afford the full cost of a college education would foot the bill, while families who could not afford the cost would receive a financial aid package equivalent to their need. Such a strategy allows institutions to achieve socio-economic diversity, providing opportunities for students whose families cannot afford to pay, while it secures the tuition income necessary for their operations. Financial security depends upon the balance of aided and unaided students. Simply put, colleges and universities need enough students paying full price to pay their own bills.

A number of developments have disrupted the balance envisioned in this policy. As tuition costs have increased, the percentage of families able and willing to pay the full price has decreased. Growing income inequality and the stagnation of middle class incomes has exacerbated this problem. Since the year 2000, the real median income of families with a 19 or 20-year old in college fell by 16%. Thus the pool from which colleges and universities are seeking students whose families are able and willing to pay the full price of attendance is diminishing; by rough calculation, such families fall in the top 5% of American income distribution. Colleges need a disproportionate number of students from this group for their financial models to work.

The competition among colleges and universities for higher income students has led to a widespread practice of tuition discounting, in which institutions offer so-called "merit aid" to students they wish to attract, usually those with a greater ability to

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pay. The financial calculation is easy to understand. If a college, with tuition, room, and board of $60,000 offers a merit scholarship of $20,000 to a student with the ability to pay, it yields $40,000 in income; if it offers a need-based scholarship of $35,000 to a student whose family is less well-off, it gets only $25,000 in tuition income.

Although the practice of tuition discounting is designed to maximize tuition income, it is a slippery slope. When colleges find it hard to recruit students, they wind up increasingly discounting their prices to the point where they're no longer generating the income they need to operate. This problem is particularly acute in small colleges, where relatively small shortfalls in enrollment, or unexpected increases in the discount rate (the percentage by which a college is discounting its tuition overall) can create significant operating deficits. The shrinking percentage of students paying the full price for tuition, room, and board paradoxically creates more pressure to raise it, since a college only realizes an increase from that percentage of students paying the full price. If a college, for example, has 60% of its students receiving aid, and 40% paying full cost, and raises tuition by 5%, it only realizes a 2% increase in income, since the increase for those students on financial aid is absorbed into their financial aid packages.

The policy, therefore, of high tuition, high aid is reaching a point at which it is no longer sustainable. Colleges with a weak market position struggle to meet enrollment goals, discounting prices more aggressively to do so, caught in a downward spiral of diminishing revenue and diminishing enrollments. Such was Sweet Briar's situation, and is increasingly the challenge of a number of small independent liberal arts colleges. Any characteristic that weakens enrollment appeal, such as a remote rural location, or reduces the applicant pool, such as admitting only women, makes a college more vulnerable to this downward spiral.

Small colleges also face financial pressure from the fixed administrative costs of operating any college of university. When I was president of Smith College, I often used to joke that it cost the individual Smith student far more to have a president than it cost the individual University of Massachusetts student to have a chancellor. Many administrative costs don't scale down in small institutions. Every small college has a president, a dean, student life functions, a human resources office, a payroll office, a facilities department; the list of functions goes on. At small institutions, these costs are shared among a smaller number of students. Small institutions are simply not financially efficient.

Higher education developed regionally in the United States. From the eighteenth century on, most colleges and universities, whether private or public, were founded to meet the local needs of their populations, educating men and women for professions. Most private colleges took their origin from a specific group of founders, often with a particular community affiliation and mission—a church, or a population it wished to serve, like women, or African Americans. Public institutions took their charters from individual states; there are no federal institutions in the United States other than the military academies. Because of the regional way in which American higher education developed, the range and variety of institutions is more diverse than it is in any other country. In some sense, talking about a system of higher education in the United States is a misnomer. Indeed, the diversity of American higher education is one of its great strengths. And colleges and universities, for better or worse, orient themselves around their local histories, seeking to create affiliation in their students and alumni that is almost tribal in its ethos and culture.

For all the strengths of this local orientation, however, it is inherently an inefficient way to structure higher education. If higher education were a for-profit business, it would have seen consolidation, moving to a more efficient scale of operation. (Indeed, the acquisition of some small independent colleges by for-profits is a small move in this direction.) But the way in which small colleges define themselves and are governed—by independent boards responsible to their particular community—makes merger or acquisition a daunting task. When colleges cannot recruit enough students, they more frequently simply go out of business.

The enrollment challenge public universities face is of a very different nature. They cannot fund the capacity to meet enrollment demand. At the University of California at Berkeley, for example, almost 80,000 students applied for about 5,500 places in the freshman class. Pundits speak of the crisis in higher education as if it is a single thing. Public and private institutions in fact face very different challenges—challenges that are almost the inverse of each other. While fragile private colleges struggle to meet enrollment targets, many public universities cannot meet enrollment demand. This suggests a possible mutual accommodation.

Like private colleges, public universities also face financial challenges, but they are different in nature. Public institutions have experienced dramatic reductions in state support—an average reduction between 1980 and 2011 of 40%. Tuition at state universities has therefore increased significantly. Over the 30 years, from 1984-85 to 2014-15, average published tuition for in-state students at public four-year institutions has increased 225%, from $2,810 to $9,139, in 2014 dollars, according to the College Board. Costs have thus shifted from the state to the student and his or her family. But the costs remain relatively modest, in comparison with those of private institutions. In that same 30-year period, average published tuition and fees at private four-year institutions rose 146%, but from a much higher base to a significantly higher amount—from $12,716 to $31,231.

The increase in the cost of attending public colleges and universities, and the shift of that cost to the consumer, have motivated a debate about whether higher education is a private or a public benefit. The claim that it is a private benefit is based on data demonstrating the substantial gain in lifetime earnings for those holding a bachelor's degree (according to the U.S. Census Bureau, approximately $1 million). The claim that it is a public benefit rests on a number of arguments: the value to state economic growth of a more educated workforce, the value of social mobility in a democratic society, the role of universities themselves as economic engines, the role of research in developing new technologies, and with them new business opportunities.

The debate about the relative weight of private and public benefits in public higher education, and the consequent responsibility for its cost, in no way moderates enrollment demand. Indeed, both sets of factors increase it. More students want to go to college because of the clear economic benefits it offers them as individuals, and states want to increase enrollment capacity because of the public benefits it offers. However, the reduction in the financial support that states provide universities has changed incentives in regard to enrollment management. State colleges and universities for the most part do not engage in tuition discounting, as private colleges do. Given the high level of enrollment demand and the lower cost of tuition, they don't have a strong incentive to do so. But with cuts in state funding, they feel an urgent need to increase revenue. They seek to maximize tuition income not by tuition discounting but by increasing the enrollment of out-of-state and international students, who are charged significantly higher tuition rates. Out-of-state enrollment at the University of California, for example, doubled between 2009 and 2012, from 11.5% to 23%. Public flagship universities have experienced particular success with this strategy, but even institutions with less national prestige have profited by it.

The changing enrollment mix at public universities, taken together with the fact that their tuitions for in-state residents remain a relative bargain, even with recent increases, has led to increasing enrollment pressure. While many private colleges struggle to fill their classes, public universities do not have sufficient capacity to meet demand. The question of how best and most efficiently to increase capacity therefore has particular public urgency.

Michael Crow, President of Arizona State University, has called for a "New American University," depending heavily on digital technologies to increase access and capacity. The commitment to growth stems from his passionate belief in the importance of universal access to post-secondary education both for the economic and political health of our country. Arizona State is now the largest university in the United States, with over 80,000 students, including a 25% increase in freshman enrollment in the past year alone. Scale at this extent is only possible with online instruction as one of the ways in which the university presents its curriculum.

While digital technologies will certainly play an important role in increasing our post-secondary educational capacity, the jury is still out on the question of how most effectively to use them—in what kinds of courses, with what kinds of students, and in what combinations with face-to-face instruction—what President Emeritus of the Mellon Foundation William G. Bowen describes as "minds rubbing against minds." Equally critical to expanding online capacity is improving institutional efficiency, allowing colleges and universities to graduate more students, and graduate them in less time. Currently 45% of fulltime freshman beginning public universities leave without earning a degree; the median time that those students completing a degree take to earn it is 55 months. Clearly there is work here to be done. An American Council of Education study has demonstrated that the more quickly a student progresses, the more likely he or she is to graduate.

Public universities could offer more accelerated paths to the degree, using advanced placement courses in secondary school and summer school courses. (Presently federal policy prohibits Pell grants—the financial aid the federal government awards to the neediest students—from being used in the summer; a change in this policy could accelerate progress toward degree and increase enrollment capacity.) Institutions can increase their enrollment capacity (and also reduce the cost of education for the individual student and his or her family) by offering ways in which students can earn credits off-campus at less expensive cost—through education abroad, through internships, and through courses from lower-cost providers such as community colleges. Even more extensive use of community colleges to provide the first two years of work toward a bachelor's degree would also increase the capacity of public universities.

As noted, the financial crisis many small private colleges face provides an opportunity to expand the capacity of our public systems. The financial and enrollment challenges that public and private institutions face are inverse images of each other. Private colleges struggle to meet enrollment and revenue targets because they are caught in a downward spiral of tuition discounting; public universities struggle to meet demand, lacking the capacity to accommodate all who wish to enroll.

Small, financially fragile colleges first need to develop ways of reducing the disadvantages of small scale. Small classes and small residential communities offer valuable benefits to students. Alexander Astin's classic study, described in his 1993 report, *What Matters in College*, demonstrates that low student-faculty ratios improve student satisfaction, in terms of faculty relationships and quality of teaching, and on degree completion. Harvard scholar Richard Light has shown a significant correlation between the amount of writing students are assigned and their level of engagement. But the powerful arguments for the pedagogical benefits of small classes have no parallel in arguing for an intimate payroll process and similar administrative support offices. Many administrative services of colleges and universities are ripe for out-sourcing in a shared service model.

Such out-sourcing has been slower than one might expect, given its financial benefits. Small colleges are intimate communities; shifting services to other providers eliminates jobs, and consequently affects employees' lives. Many small institutions lack the administrative depth even to study the issues fully enough to make a decision. And, finally, all institutions trade on a certain kind of nostalgia, a claim that the community, and the experience it provides, is uniquely special—what policy analyst Jane Wellman calls the snowflake phenomenon. Generic solutions go against the grain of such a culture. Moreover, a single institution cannot craft such a strategy by itself; the strategy requires a consortial approach.

The more significant issue, however, is not the provision of administrative services but the better use of enrollment capacity. Is there a way to utilize the capacity of such colleges to educate many more students than they currently enroll? One might ask, why care? Why not let such colleges fail, and let larger, and more successful colleges accommodate enrollment demand as best they might? There are two reasons. Building campuses is expensive; facilities are not a negligible asset. And much research supports the value benefits of face-to-face higher education and relatively small residential communities—again, what William Bowen calls "minds rubbing against minds," of faculty, and of other students. The disadvantage in economy of operation provides a pedagogical benefit.

So how could you use the enrollment capacity of private institutions to meet some of the public enrollment demand? There are at least three possibilities. States could subsidize students rather than institutions. (That, of course, is the basis of federal Pell grants for needy students; students carry the aid with them wherever they go.) This seems to me a poor policy alternative; it would weaken public institutions, by drawing revenue away from them.

Another possibility involves establishing small communities of state students (I think of them as pods) on the campuses of private colleges with excess capacity. With such a strategy, state universities could identify a body of students who would begin their college education on another campus, with a core curriculum. The state university would pay a facilities fee to the private college. It would define the curriculum and either provide the faculty for it or hire faculty from the partner college to deliver coursework. Students could supplement the core curriculum with electives from the private college's curriculum; for units their students took at the private partner, the state university would transfer a set, prearranged payment. At the point of greater specialization, when students declare a major, they would then take coursework at the university campus (although one could imagine small colleges could retain or develop curricular specialties in the upper division).

The University of California at Berkeley has conducted an analogous experiment, with excellent results. For a number of years, it has met excess demand for fall enrollment by admitting some students in the spring, and offering a fall semester, located at a local seminary under the auspices of University Extension. The students—about 700 of them--take a carefully designed core curriculum, with a faculty hired for that purpose and dedicated to it. The students in this program, although less competitive by Berkeley's admissions standards, actually do better in terms of both performance and persistence than the students who begin their freshman year on the university campus. They earn higher GPA's, and they graduate at a higher rate.

Several hypotheses explain this surprising result. Students make the transition to a four-year college more successfully if they have a strong cohort experience—a set of peers with whom they share an academic and social community. The Fall Extension program builds what it calls "an instant support network" of friends, instructors, and advisors. Small colleges excel at creating this kind of community, dedicating resources and energy to a first year experience that builds networks, invests in advising, maintains a strong safety-net that quickly identifies deficiencies and problems, and focuses on foundational skills. The very size, and breadth of curricular choices of a large university often compromises its success in delivering as effective a first year experience as it might. Students come to college seeking community. If the academic community is too diffuse, as it often is on large campuses, they find social identity and cohesion in social community. Small places have more success in providing students an academic as well as social communal identity, using faculty specifically dedicated to creating an engaged and rewarding first year experience.

Such cohorts within private residential colleges could effectively supplement the work of community colleges in offering the first two years of a four-year degree, with the expectation that students will transfer to a four-year institution to complete their bachelor's degree. Community colleges share many of the challenges of big universities. They offer many curricular choices, designed for a diverse and diffuse set of educational goals—certificates for specific job skills, continued learning, terminal associates degrees, remedial education, as well as the first two years of a four-year degree. They often have weak safety nets and understaffed advising offices. They are not residential, of their very nature, and, for the most part, do not seek to build a strong sense of cohort identification. They can therefore form a very leaky pipeline for students intending to transfer to a four-year college or university. Only 30% of students who enroll full-time for an associate's degree complete the degree in three years; only 20% transfer to a four-year institution. Small residential colleges might well do better at this task because of their commitment to the first year experience of their students and their history and culture in shaping it.

The third way in which one might use the excess capacity of small liberal arts colleges to meet the state need is to convert such colleges to branch campuses of the university. This is the most challenging option, for it would require a change in institutional identity, and in governing authority. But it would add capacity to state systems without capital expenditure; it would mitigate the problems of small scale in administrative operations that small institutions face; and it might well bring to large universities the benefits of small residential communities.

In his edited collection of essays, *The Tower and the Cloud*, Richard N. Katz uses the image in its title to represent the change from a university necessarily centered physically around books and professors, symbolized by the tower, to one that could be located in the cloud, where students can have access both to information and instruction. Many understand the crisis in higher education as the challenge that the cloud presents to the tower, or, in other words, that online modalities present to the traditional delivery of instruction. Sometimes predicting the end of college as we know it, they anticipate a future in which increasing numbers of students will attend an institution that might be called, in the title Anya Kamenetz gives her book about the transformation of higher education, *DIY U* (Do It Yourself University), assembling credits online through multiple providers. Certainly online modalities will change (and are already changing) ways in which students learn course material. Such modalities challenge us to ask the question of the value of the tower in a digital age, the role of face-to-face community in post-secondary education.

Human community is important for learning—the community of peers and faculty. Digital modalities should allow us to achieve economies of scale in the support functions of the university—those elements of its operation that are not core to teaching and learning—so that proportionately more resources can be dedicated to its core functions, in whatever mixture of online and in person instruction enables students to learn best.

The "crisis" in higher education is less about online delivery of instruction than it is about finance, where the cost, pricing, and financial aid model on which we've relied for so long no longer works for many institutions. To preserve the value and strength of our "system," we will need to think systematically and organizationally, above the level of the individual college. So many colleges believe that better marketing, or better enrollment management, or a better alignment of degree programs with demand will provide the answer to shaky finances. Although certainly some institutions do these things better than others, the fundamental challenges are located in the financial model itself; the only viable solutions are collaborative.

If we are to preserve the values that the Sweet Briars of our world have constructed over the decades of their existence, and if we are to create enrollment capacity at reasonable cost for all the students who want a college education, we will need consortia and alliances of many different sorts. We are suffering from a mismatch between demand and capacity. In a profoundly unsystematic system, we will therefore need to think more systematically. Perhaps there will be many experiments, regional and local in their nature, in how institutions can work collaboratively. In the Five College Consortium in central Massachusetts—the oldest consortium in the country, composed of Amherst College, Hampshire College, Mount Holyoke College, Smith College, and the University of Massachusetts at Amherst—the Five College office designed a t-shirt with the words on it, "Cooperation is an unnatural act."

We must transform institutional cooperation to a natural act, thinking more flexibly, in the process, about institutional prerogative and privilege. Finally, it is the students who matter, and their access to a high quality education at reasonable cost.

The great strength of higher education in the United States is its diversity, its development not as a single system, but as many independent institutions. But the independence, particularly of small institutions, has now become an impediment to their own survival. We need to think creatively, in more systematic terms, if we are to realize the full benefit of hundreds of years of building colleges and universities.