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## COMMENTARY

<http://chronicle.com/commentary>*'Have Not' Colleges Need New Ways to Compete With Rich Ones*

BY JOHN MAGUIRE AND LAWRENCE BUTLER

**L**AST MONTH'S ANNOUNCEMENT by Harvard University that it will eliminate loans and ask families making between \$120,000 and \$180,000 a year to pay no more than 10 percent of their incomes brought into bold relief a misguided debate that has erupted around other, less-elite private colleges' use of merit aid to attract students.

Many of the students who receive such aid from those private colleges come from affluent families, and, according to the critics, the awards ultimately result in less money for low-income students. Robert Kuttner, co-founder and co-editor of *The American Prospect*, has argued, for example, that colleges grant merit scholarships to top students as a way to improve SAT scores and, hence, institutional rankings in the survey published by *U.S. News & World Report*. Sam Allis, a *Boston Globe* columnist, takes the complaint a step further by characterizing such institutions as "merit-aid addicts" that "should enter a 12-step program to get morally clean and sober."

At first glance, that argument seems compelling. But upon reflection, it is both simplistic and misleading. Kuttner, Allis, and others are overlooking the economic imperatives driving financial-aid policy at institutions that are highly dependent on tuition revenue to survive—in other words, the great bulk of American private colleges.

Well-intentioned diatribes against the supposed overuse of merit aid often don't mention that the Ivies like Harvard and other elite institutions with huge endowments are already heavily discounting their tuitions by infusing their budgets with

tens of thousands of endowment dollars. That allows them to not only offer far-richer financial-aid packages but to also set their sticker prices well below the true cost of the education they provide their students—who have access to better facilities (attracted by higher salaries), a wider array of courses, better libraries, and other amenities than less well-to-do colleges, with similar base sticker prices, can offer. Thus those wealthiest institutions attract a disproportionate share of smart, rich kids—who later, as rich and powerful alumni, further feed those already bloated endowments by "bringing more sand to the beach."

Public universities that charge significantly lower tuitions to in-state residents can count on some degree of geographic insulation from competition for top-notch students. But most private colleges and universities have no such protection from the seductive blandishments of their elite, heavily endowed competitors.

In fact, nonelite private institutions are not necessarily granting so-called merit aid at the

expense of need-based aid. Allocating more dollars to merit aid—a better term would be non-need-based aid—can, if done properly, actually provide more support for needy students, by filling classroom seats with students who have at least some capacity to pay a significant portion of their tuition bills. The additional revenue can then be used to support more generous aid for low-income students or to pay for more remedial services, better facilities, and more faculty resources. In some extreme cases, that approach can literally save a tuition-starved institution from closing—an outcome that everyone must agree would render it inaccessible to poor and wealthy students alike.

Indeed, using merit aid judiciously can be described as "strategic pricing." Like the airline that selectively discounts fares to avoid taking off with an empty seat, the college that selectively discounts its tuition to attract a student capable of paying some increment above direct costs—rather than see its fall semester "take off" with an empty classroom seat or one that contributes no revenue—is simply exercising prudent fiscal management.

At the same time, excessive or inappropriately applied discounting can seriously erode an institution's revenue and prevent it from meeting its enrollment goals. Using merit aid merely to make SAT numbers look good in the rankings, for example, can be self-defeating. We know of more than one college that has chased prestige by offering merit aid only to find the loss in revenue has undercut its ability to serve the very students that the aid has attracted.

Sadly, however, most colleges find themselves forced into deploying non-need-based aid whether they would like to or not. Why? Not because they want to give rich kids a free ride, but because of the inherent unfairness of a system that rewards the haves at the expense of the have-nots. And here we come to the crux of the problem. The haves and have-nots at issue are not families, but institutions.

What we now have is a kind of caste system in American higher educa-

tion: Brahmin institutions—by virtue of their implicit, endowment-supported, non-need-based discount—are able to have their pick of the best candidates in every category of students, including minority students. Hidden from view, expanding year by year, that implicit discount is constantly widening the gap between the haves and have-nots.

Roughly 50 institutions now control more than half of college and university endowment money while educating fewer than 2 percent of the nation's students—a 2 percent that is disproportionately drawn from wealthy families. Such elite institutions are able to spend many millions of dollars on fancy new facilities that may not educate any additional students, while most other colleges across the country are experiencing belt tightening and deferred maintenance.

To put it bluntly, the massive endowments of elite universities confer on them an unassailable competitive advantage in the form of a hidden discount that forces the less well-endowed institutions to deploy merit aid in a scramble for a diminished pool of the best and most-diverse students. Unless those who decry the use of merit aid as "immoral" are willing to factor into their thinking such hidden discounts, they will continue to go after the wrong folks in making charges about poor moral choices. Plenty of solid data demonstrate how less wealthy colleges are able to use non-need-based aid to improve overall financial solvency and quality and diversity. Those colleges are simply taking on the highly endowed institutions at their own game and reducing elitist stratification in the process.

The wealthiest institutions would argue, of course, that because they are blessed with the luxury of more aid dollars they are already doing their share. And, in fairness, some of them *are* re-examining their policies to try to attract more low-income applicants. But there are not nearly enough spaces at the wealthiest institutions to meet the needs of the vast numbers of worthy have-not students.

Let's face it, serving the have-not students has become, by default, the disproportionate responsibility of the have-not private institutions and the public four-year and community colleges. Such institutions struggle to survive even without the added burden of financially needy students who are often more challenging to educate.

**W**HY, THEN, SHOULD WE CRITICIZE such private institutions for a savvy use of non-need-based aid? Their other choices are all too recognizable and not pretty. Water down the curriculum, reduce student workloads and inflate grades to attract and retain less academically ambitious but better-heeled students? Invest heavily (and incur costly debt-service burdens) to provide amenities like fitness centers and other nonacademic frills? Unfortunately, far too many colleges have been lured into compromising their academic principles in order to survive within a system that in many ways is rigged against them.

Instead of blaming the institutions—or even the third-party rankers like *U.S. News*—we should be talking about how to level the playing field in our higher-education system. We need to be open to new ideas, however unworkable they may, at first glance, appear.

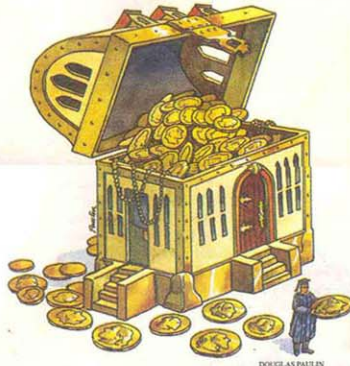
For example, how about offering donors bigger tax breaks for gifts to private institutions with smaller endowments? Or maybe we should call for universities with huge endowments to share the wealth by partnering with less-well-endowed institutions to extend the benefits of a high-quality education to a broader array of students.

Better yet, let's encourage the wealthiest institutions (with the support of their donors) to get together, establish a private foundation, and support it with, say, one-third of the annual yield from their respective endowments. The foundation would distribute grants that increase the need-based financial-aid budgets at selected have-not private institutions. Consider the impact that would have: The combined endowments of the top 50 private institutions amount to around \$180-billion. One-third of an assumed average 10-percent yield would be \$6-billion a year. That would be enough to support full scholarships, at \$30,000 on average, for 200,000 students—\$10,000 scholarships for 600,000 students.

Some people will dismiss such an admittedly immodest proposal as a pipe dream. But judging from the rapidly growing number of voices reacting against the widening gap between the have and have-not institutions—evident in alumni who give to needy colleges rather than their own wealthy alma maters and in calls by policy makers for differential tax treatment of capital gains earned on exceptionally large endowments. At the very least, the have-not institutions should be empowered to compete in every way possible to be sure that the next \$180-billion of endowment dollars are not as unfairly apportioned as the last.

Perhaps the time has come for the haves to deliver some of their abundant endowment sand to the rapidly eroding beaches of the have-nots.

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