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Foreword

William G. Bowen and Harold T. Shapiro

As OBSERVERS of American higher education, and as staunch believers in the importance of evidence, we are delighted to introduce this important study of trends in institutional costs prepared so thoughtfully and meticulously by Charles Clotfelter. Concern about ever-rising costs runs like a thread through the myriad critiques of higher education that have been published in recent years. It is easy to understand why. Families recognize, on the one hand, the enormous and increasing importance of access to higher education for their children; at the same time, they worry if family resources will be adequate to pay the bills. Also, consistent with the skeptical nature of Americans, they wonder if anyone is "managing the store." *Why* are costs rising so rapidly? What are the major sources of increases in costs? How are tuition charges for undergraduates affected by the rising costs of scientific research? And on and on.

Unfortunately, most existing studies of trends in institutional costs have been unhelpful in answering such questions. Researchers have felt obliged to rely on national data so highly aggregated that they obscure rather than clarify the basic issues. And, even then, the data are unaudited and of dubious quality.

This study breaks new ground in that it starts from the assumption that the essential unit of analysis is the academic department in an identifiable university. Hard as it is to assemble data at such a highly disaggregated level of inquiry, we are persuaded that it is only by working in the "trenches" that one can hope to understand the forces shaping trends in costs. Charles Clotfelter has the great advantage of being both a highly respected economist and an individual with practical experience in making budgetary decisions for a leading university (Duke). As a result, he is in the rare position of having both the requisite analytical skills and an understanding of how institutions actually work.

Professor Clotfelter has chosen to study intensively the experiences of typical departments in the humanities, social sciences, and sciences at three leading research universities (Chicago, Duke, and Harvard), as well as the contrasting experiences of a leading liberal arts college (Carleton). The presence in this study of a fine liberal

arts college serves as a kind of "control" in that costs at Carleton are not affected directly by the demands of doctoral programs and associated research expenditures. Professor Clotfelter's time frame is the period from 1976/77 to 1991/92. The budgets of selected academic and administrative departments, including student services, have been analyzed in detail in order to compare costs of sub-units. In addition to examining financial records (including capital spending projects and start-up costs as well as operating costs), Professor Clotfelter has looked very carefully at data on course enrollments and faculty teaching loads.

This is, we believe, the first time that the changing costs of university activities have been derived, documented, and presented in such anatomical detail. Clotfelter's analysis certainly yields new insights regarding the cost-escalation experiences of the particular institutions he has studied; even more important, it provides a framework within which this important subject can continue to be studied throughout higher education.

It is not the purpose of this Foreword to summarize the findings, but we will note several recurring themes. First, Clotfelter does not believe that rising costs are due principally to incompetence or, as he puts it more delicately, to "an increase in inefficiency." Why, then, have expenditures risen at what most of us perceive as a rapid rate? One straightforward explanation is "increases in the prices of inputs" (most notably faculty salaries), which did indeed go up fast enough to repair some of the damage done to real faculty compensation in the 1970s. This is, however, but a minor part of the story, especially when one recognizes that salaries of other professional occupations rose even more rapidly. Clotfelter is left with three other explanations: (1) unavoidable increases in various classes of expenditures, including those associated with the technological revolution in computing; (2) "compensating" increases in outlays for student aid and for other expenditures (especially the capital costs) related to scientific research, needed to offset decreases in government support; and (3) what Clotfelter refers to as "the nature of competition that exists among institutions."

It is this last phenomenon that deserves the most careful consideration (even though, as Clotfelter notes, outlays for student aid have risen faster than any other type of expenditure). We certainly do not want vital institutions to be passive, and so, at least at one level, no one should object to what Clotfelter calls "unbounded aspirations." Such aspirations do lead, however, to intense competition for the most respected faculty and then to all sorts of associated costs beyond just salaries (equipment, reduced teaching schedules, and so

on). Of the four institutions in this study, Duke was the most affected during the 1980s by the force of this felt imperative to "get better," and it is no coincidence that total expenditures went up faster at Duke than at the other three institutions. Yet, as Clotfelter notes in quoting Hanna Gray, who was President of the University of Chicago during the period covered by this study, there are real questions concerning, at the minimum, the "degree of comprehensiveness" that should be sought by a leading university. These institutions may be, in her words, "burdened by too many tasks, too many demands, and too great a confusion of expectations." We agree. And we also know that, as this study reveals, making the hard choices implied by such a formulation is not easy.

One of the great contributions of Clotfelter's work is to dismiss easy explanations for the problems that worry us. With some of the scales removed from their eyes, both those with responsibility for the future of higher education and observers who continue to expect an ever-wider scope of effort from particular colleges and universities, can now adjust their focus. Armed with this original and extremely useful analysis, we can confront more directly (and with less romanticism) the real choices before us as we seek to employ limited resources most effectively in the service of teaching and research. The present work is the first in a series of studies of higher education commissioned by the Mellon Foundation and featured at "The Conference on Higher Education, March 21–23, 1996" celebrating Princeton University's 250th anniversary.

Preface

DURING the 1980s, higher education came under what Derek Bok calls a "torrent of criticism."[1] The charges against colleges and universities included insufficient attention to teaching, intellectual conformity in the form of "political correctness," financial abuses connected with federally funded research, conspiracy to fix financial aid offers, and irresponsibly high rates of increase in costs and tuition rates. Although the loudest of these complaints originated outside higher education, those within it shared a growing concern over the problem, and more than a few presidents subjected their institutions to serious introspective criticism. The present study arises from this spirit of self-examination on the part of several university officers as well as others closely associated with research on higher education. It is directed especially to those university administrators and policy analysts who must address in one way or another the issues raised in this book. In an effort to make the analysis as accessible as is reasonable, virtually all equations and some detailed tables are relegated to footnotes and appendices, while leaving considerable graphical and tabular material in the text for the reader to digest.

Among those who conceived of a project on this subject were William Bowen, Martin Feldstein, Jerry Green, and Neil Rudenstine. The project would not have been possible, however, without the cooperation of each of the four sample institutions. I am grateful, therefore, to Jeremy Knowles and the above-named officials at Harvard, to Keith Brodie, Thomas Langford, Malcolm Gillis, and Charles Putman at Duke, to Hugo Sonnenschein at Chicago, and to Stephen Lewis at Carleton for permitting me unfettered use of detailed information on their institutions.

Beyond securing permission, I had to call on many administrators at the four institutions to obtain data and to receive guidance on the use and interpretation of those data. The study required the collection of several kinds of information for academic years, most of it spaced at five-year intervals over the period 1976/77 to 1991/92, a time period that typically pushes to the limit most institutions' computerized record keeping. The most complex data are detailed financial records of expenditures; other data include records of class enrollment, faculty teaching, and capital spending projects, some limited to a few departments and some collected on an annual basis. Because of the variety of sources from which these data were gener-

ated in any single institution, a critical aspect of the research project was the organization and documentation of numerous data sets and their translation into computer-readable form. For their assistance in collecting and interpreting these data sets, I am particularly grateful to Candace Corvey, Marilyn Fitzgibbon, Doug Funkhouser, Jane Hill, Elizabeth Huidekoper, Nolan Huizenga, Dorothy Lewis, Marilyn Shesko, and Jeff Wolcowitz at Harvard; to Judy Argon, Bill Auld, Harry DeMik, David Jamieson-Drake, Thomas Mann, Dan Parler, Lynn Pinnell, Kendrick Pleasants, James Roberts, and Richard Siemer at Duke; to Andrew Lyons, Caren Skoulas, and Henry Webber at Chicago; and to David Brodigan, Beverlee DeCoux, Clement Shearer, and Carol Spessard at Carleton.

I owe a large debt of gratitude to Christopher Giosa, who worked assiduously and effectively as a research associate on the project during the 1993/94 academic year. I am also very grateful to Marshall Adesman, Adrian Austin, Merrick Bernstein, Lei Ellingson, David Goetzl, and Paul Harrison, all of whom provided valuable research assistance over the course of the project.

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List of Abbreviations

AAUP	American Association of University Professors
COFHE	Consortium on Financing Higher Education
CBO	Congressional Budget Office
CPI	Consumer Price Index
EEOC	Equal Employment Opportunity Commission
FTE	Full-time-equivalent
GDP	Gross Domestic Product
HEGIS	Higher Education General Information Survey
HEPI	Higher Education Price Index
IPEDS	Integrated Postsecondary Education Data System
NIH	National Institutes of Health
R&D	Research and Development
ROTC	Reserve Officer Training Corps
SAT	Scholastic Aptitude Test

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