Why America's Public Universities - Not Just Their Students - Have a Debt Problem

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With growing student debt in the headlines, Washington DC policymakers have focused on the interest rates students pay on the loans they take out to cover college costs. But student loan interest payments are a symptom more than the underlying cause of rising student debt. Colleges have steadily hiked tuition, to heights that now make attendance unaffordable for many students from families of modest means.

Tuition increases have been especially sharp at public research universities that once provided an affordable world-class education. The increases have been going on for a long time, but they have accelerated recently. Average tuition and fees at public research universities increased 56% between 2002 and 2010 from $5,011 to $7,824 a year. As the cost of going to college has escalated, so has student indebtedness. According to data from the Institute for College Access and Success, student debt at graduation from public four-year colleges increased by 32% between 2004 and 2010, when it hit an average of $21,605 per student.

Why are tuition and fees at public universities rising so sharply? Universities face higher costs to pay for all of their activities, while the public funding they receive has plummeted. Tuition hikes help make up the difference. Yet there is another factor at work, especially recently – because public universities are going into debt. Working with major Wall Street players like J.P. Morgan Chase, Deutsche Bank, and Bank of America, they issue bonds and make substantial interest payments to investors, many of whom also trade in university debt. Like their students, in short, public universities have developed a debt problem – indeed, the rising burden on the students is partly driven by the indebtedness universities have taken on.

Paying for Wall Street Borrowing by Collecting Higher Tuition

Public research universities have increased their institutional debt dramatically over the last decade, and the money is not being used to make up for shortfalls in instructional budgets caused by reduced public funding. Instead, many universities borrow to invest in “auxiliary services” – the umbrella term for expensive facilities like dorms, dining halls, stadiums, and recreation centers. In an era of fierce competition among private and public colleges, public university leaders consider such amenities essential for attracting more applicants. But of course borrowing is costly, and debt service costs soon get passed on to students through increased tuition and fees. Universities end up feeling the need to admit better-off students who can afford to pay the bills. And financial rating agencies like Moody’s explicitly give better bond ratings to universities they believe can increase tuition and enrollment from higher-paying out of state students.

Data on national trends in public university finances from 2002 to 2010 indicate the interrelated dynamics at work:

- Tuition revenues retained by public research universities after financial aid expenses were deducted went up by 50% during the 2000s – to reach $9,067 per student.
- The new revenues retained from tuition exceeded by 20% the funds public universities lost due to cut-backs in appropriations from their state governments.
- Public research universities increased instructional spending by 11% – but, tellingly, boosted their spending on auxiliary services by 22%.
- The total debt liabilities of public research universities increased by more than 50% to $26,615 per student – and debt service payments went up by more than 86%.

Meeting the Demand for College Access and Affordability

College degrees are crucial entry points for good jobs and higher incomes, so popular demand for higher education at an affordable price is bound to grow. If the demand is to be met, advocates, educators, and policymakers must devise innovative ways to control costs and limit tuition increases, drawing on a range of approaches, some of which are already being tried in various states.

- In New York, state university executives cannot issue bonds to borrow at their own discretion; they must have legislative approval.
- Based on a study of Wall Street manipulation of university debt costs, the University of California sued twenty Wall Street firms for fraud, aiming to recover monies lost through the manipulation of interest rates.
- In California, advocates are considering Constitutional amendments that would in various ways tie greater funding for universities to limits on tuition and protections for in-state enrollment.
- California tied new tax revenue for higher education to limits on tuition increases and improved financial aid for lower-income students.

Possibilities for helpful reforms also exist at the national level.

- Congress could enact legislation through reauthorization of the Higher Education Act to tie federal financial aid grants and loans for low-income students to requirements for universities to reduce tuition and costs.
- The U.S. Department of Education could push for new regulations that would deny grants or loans for students to enroll at for-profit colleges with dismal track records of graduation and job placement.

Whatever mix of solutions eventually emerges from struggles over university funding and student debt, allowing America's public universities to go ever deeper into debt to Wall Street is not the answer. Only speculators gain from this risky course, while taxpayers and students lose.

Read more in Charlie Eaton, Jacob Habinek, Mukul Kumar, Tamera Lee Stover, and Alex Roehrkasse, "Swapping Our Future: How Students and Taxpayers are Funding Risky UC Borrowing and Wall Street Profits." *Berkeley Journal of Sociology* (forthcoming).