The Learning MarketSpace, December 1, 2001

THE COST/PRICE PARADOX

Several of our readers wrote after our last issue wondering about some of the numbers used in the column on the cost of higher education. Most of them caught the fact that column was discussing cost, not price. College and university prices (price being what the consumer pays directly) are fairly closely tracked and reported annually. Figures for the average price of tuition and fees were published in the Chronicle of Higher Education, among other places, in the November 2 edition and I won't repeat them here.

Cost, on the other hand, is what it actually costs the average institution in the categories of tuition and fees and in room and board. For instance, many state institutions require out-of-state students to pay a surcharge to cover the "actual" cost of education. That equivalent number from the Chronicle of Higher Education figures is in excess of $5,000 for tuition and fees in public institutions—bringing the cost (price plus state subsidy) to something in excess of $9,000. As Milt Glick, provost at Arizona State University, observed in a recent article, "Un fortunately, the relatively low consumer price (in contrast to the total cost) of education at U.S. public institutions is one of the nation's best-kept secrets."

Providing me with the benefit of the doubt (Oh, such kind readers), several tried to construct rationales for arriving at numbers similar to those used in the column. They recognized that an attempt to get at cost was at best an estimate, based on uncertain premises, as no data on costs is collected from institutions of higher learning. Some of the numbers used, particularly in the category of room and board, seem suspiciously high.

Carol has already chided me for using costs in a context where the reader would have expected that I was speaking of price. In rereading what I wrote I have to agree with her criticism. Mea culpa. Of course, the point is the same, whether one speaks of costs or of prices. Prices, too, have been rising well beyond the rise in the Consumer Price Index for nearly three decades. I promised our sharp-eyed readers to stick to well substantiated prices rather than estimated costs in any future ruminations on the subject of escalating higher education cost/price that used actual numbers.

Even so, I happen to believe that it would be better to focus on cost, which if you are a taxpayer, is ultimately more representative of what you will end up paying. Prices don't reflect what the taxpayer pays every year for the subsidy that helps keep those prices lower. The situation is similar in private institutions where, in many states, there is some state subsidy added to those drawn on from philanthropic funds lodged in endowments. Several of our sharp-eyed readers observed that the situation is frequently the same in the room and board category, where private monies often subsidize the construction of student housing but are not reflected in the price of room and board.

It seems to me important to think about cost as well as about price because the strategies to control or lower them are quite different. In the case of public institutions, for instance, the most obvious strategy to control prices is to take those set of actions that result in increased state subsidy. Increasing the state subsidy, of course, does nothing positive about reducing costs. In times of fiscal stress it is not unexpected that the nation's institutions of higher education would be focused on controlling prices rather than costs. It appears to be a lot easier to increase revenue from the state than control costs within the institution.

The nation's higher education institutions are sometimes quite noisily criticized for absorbing what is considered too large a share of the state and/or consumer budget. This generally translates into accusations of inefficiency. It seems only fair to note that today's institutions are serving more students with a lesser share of state resources, sometimes in an environment of capped tuition. How have they done this? Typical strategies employed by any highly labor intensive activity are to become less labor intensive and/or to maintain their labor intensity but substitute less expensive labor resources. It is clear that the nation's institutions have followed both strategies. To reduce labor intensity they have increased class sizes. To reduce labor costs they have substituted adjunct faculty and teaching assistants for full-time faculty. Both decisions are roundly criticized, both from within and without the academic community.

Another avenue to reduce costs in a labor intensive industry is to substitute capital, in the form of technology, for labor. The presumption is that capital costs are more of a "one time" nature, or require replenishment funding less often than annual labor costs and fringe benefits and, in the case of information technology, are
decreasing rather than increasing as are labor costs. However, to begin even a partial transition to less labor intensity requires the presence of venture capital—particularly when the organization’s labor force is fully deployed, and it is extraordinarily difficult to realign organizational resources without damaging the quality of the product, which in this case, is the education of the citizens of the nation.

It seems fair to say that the nation’s institutions of higher education are poorly prepared to understand how and where to substitute technology for labor. And, for sure, outside of philanthropic or governmental grants, the only source of venture capital is the reallocation of already over-committed institutional funds. There are, in this country, a few notable examples of the introduction of technology to break through the vicious cycle of labor intensity. Many of them can be found in the Pew Grant Program in Course Redesign. If we thought more about costs, and less about prices, we might be more inclined to try to emulate some of these innovative approaches to technology-supported learning environments.

—RCH

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Suppose one conducted a poll in higher education that asked, “Does online learning cost more, less or the same as face-to-face instruction?” What do you think the response would be?

Our guess is that 99% of our community would say it costs more. It’s no wonder. During the past two years, we have been bombarded almost daily by a steady stream of pronouncements from the higher education press, foundations and associations supporting this view. Here are a few examples:

* Is Anyone Making Money on Distance Education?” asks the Chronicle of Higher Education in its 2/16/01 issue. The article goes on to describe a series of studies commissioned by the Alfred P. Sloan Foundation that conclude, “Universities aren’t losing a lot of money on distance learning, but they aren’t making much either. Most of the reports reveal that the universities are hovering close to the break-even point with their distance-learning programs.”

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* Robert E. Myers, the executive vice president of the University of Maryland’s University College says, “From the very beginning, we had to combat the myth that online learning is cheaper to produce and cheaper to deliver than face-to-face curricula. But I think we are finding that as people become more sophisticated and knowledgeable about the online-education space, there are fewer and fewer people out there that you have to disabuse of the myth that online is cheaper.”

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* Tim L. Wentling, a professor of education at Urbana-Champaign who has studied the cost of online learning at his university declares, “Some people have this idea that you can save or make a lot of money in doing online learning, but I don’t really believe that.”

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* A 2/11/01 Chronicle of Higher Education headline reads, “Union Publishes Guide Citing High Cost of Distance Education.” The article goes on to describe the National Education Association’s assertion that online instruction is almost always more expensive than traditional, in-person instruction. According to the N.E.A.’s higher-education coordinator Rachel Hendrickson, “There is going to be an administrator someplace who will say, ‘I can tell you how you can do it cheaper.’ But if you do distance education right and follow the principles of quality, it is not going to be cheap.”

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* Frank Jewett, a former information-technology project director at the California State University System, writes in his report, “A Framework for the Comparative Analysis of Classroom Instruction vis-a-vis Distributed Instruction,” that for teaching small groups of students, traditional courses are cheaper than their online counterparts.

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* In deciding to shut down Virtual Temple, the fledgling spin off company Temple created nearly two years ago with the idea of making money by selling online courses, the University’s president, David Adamany, declared, “No one has yet found a way for online learning to be economically viable.”

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* Based on an examination of 17 institutions as part of the Technology Costing Methodology (TCM) project—a joint endeavor between the Western Cooperative for Educational Telecommunications (WCET) and the National Center for Higher Education Management Systems (NCHEMS)—Dennis Jones observes in the May 2001 issue of the WCET newsletter, “Technology-mediated instruction is more expensive that face-to-face instruction.”

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So it's no wonder that most people think that online learning cost more.

But wait. The Pew Grant Program in Course Redesign projects an annual savings (coupled with increased quality) of more than $3.5 million as a result of redesigning just 30 courses. [See Projected and Actual Savings for project savings summaries] Do the math. Over a ten-year period, that number becomes $35 million. Double the number of courses and the result is $70 million. And so on.

What accounts for the difference between what we know is true—that by using information technology to redesign courses, we can save money or make money (depending on your frame of reference)—and the common wisdom that no one has yet found a way for online learning to be economically viable?

All instructional implementations—whether at the course or program level—involve choice. One can offer introductory economics for $1,000 by hiring an adjunct faculty member, or one can spend $5 million on developing high-quality, multi-media course materials and hiring a Nobel Prize winner to teach the course. Whether online or face-to-face, there are expensive courses and inexpensive courses. The costs of existing courses and programs merely indicate the choices that have been made, not the choices that are possible.

What accounts for the differences between the Pew projects and those studied by the Sloan Foundation, Frank Jewett, the TCM project and others? The design decisions made by the project teams. As you design online courses and programs, you will find that the more you replicate the traditional campus model online—creating what we have called the "bolt on" model—the more your costs will resemble or exceed traditional campus costs. The point is that high (or low) costs are not intrinsic to online learning; they are a result of the design choices that each institution makes.

Don't be surprised if the next time you see me I'm wearing a duck suit!

—CAT

UPCOMING LEADERSHIP FORUM EVENTS

STATE-OF-THE-ART LEARNING ENVIRONMENTS: LESSONS FROM THE PEW GRANT PROGRAM IN COURSE REDESIGN

December 3, 2001, Orlando, Florida
February 25, 2002, Dallas, Texas

Co-sponsored by the Executive Forum in Information Technology at Virginia Tech

This seminar will present results from the second of three rounds of the Pew Grant Program in Course Redesign. Learn from faculty project leaders how to increase quality and reduce costs using information technology. Faculty from four institutions will talk about their models of course redesign, including their decisions regarding student learning objectives, course content, learning resources, course staffing and task analysis, and student and project evaluation. These models provide varied approaches that demonstrate multiple routes to success, tailored to the needs and context of each institution.

These seminars provide a unique opportunity for you to:

- Learn firsthand how to increase quality and reduce costs using information technology from successful faculty project leaders.
- Find out how to design learning environments for the future by tapping the expertise of those who have done it.
- Talk with experienced faculty from multiple institutions about how and why they made their redesign decisions.
- Move beyond "today" and learn where on-line learning is going . . . find a model that will work for your institution.

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