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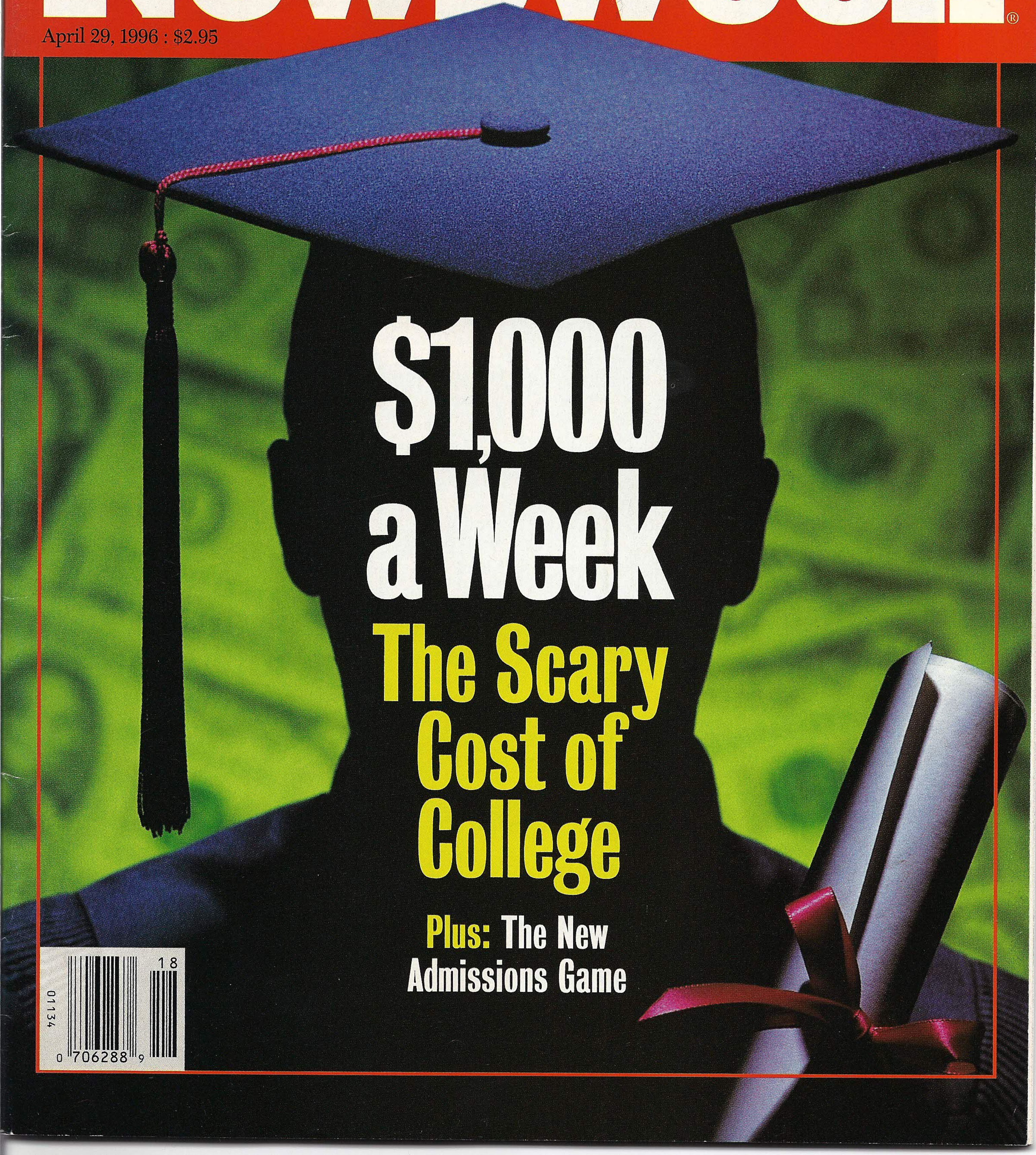
THE BROWSER WAR

NETSCAPE VS MICROSOFT



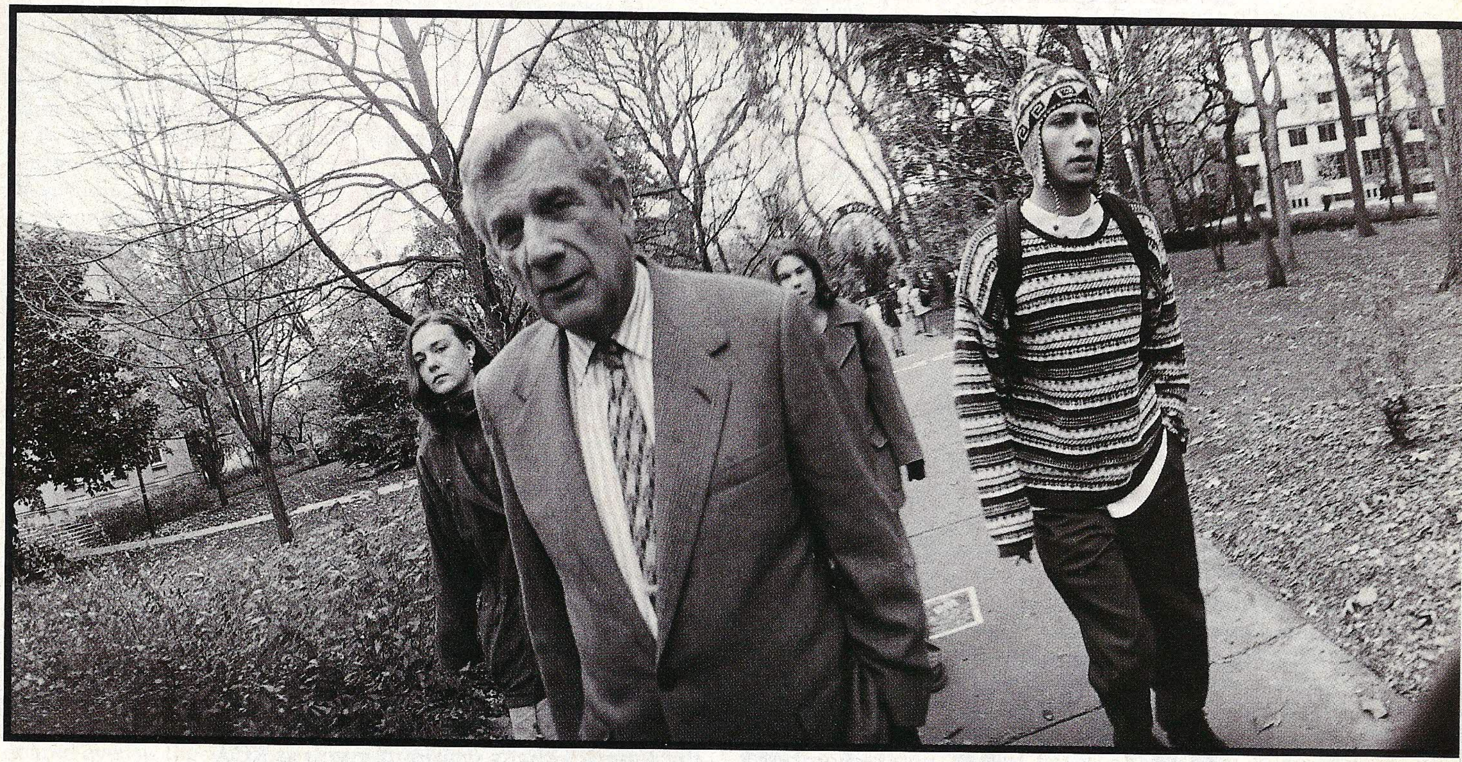
$1,000 a Week

The Scary Cost of College

Plus: The New Admissions Game

How did such smart people run up such huge deficits? It took arrogance, ambition and a faith that the money would flow forever. Now colleges are struggling to right themselves. By LynNell Hancock and John McCormick

What to Chop?



SYLVIA PLACHY

ARNOLD WEBER

Northwestern University

Chancellor

During his tenure as president, economist Weber put the university's finances solidly in the black. He stuck to a budget, cut academic programs and didn't foolishly accept "gifts that eat."

BUILDING 20 SPROUTED OVERNIGHT as a temporary lab for radar experiments during World War II. Today this 200,000-square-foot weed with asbestos siding stands as a symbol of a different battle, Massachusetts Institute of Technology's fiscal quandary. MIT administrators have been meaning to raze the legendary relic for half a century. But there were always other things to do, such as building a new biology lab next door. And there were always a few quirky projects that could be shunted off to a building with holes in the walls and exposed wiring. Now, it will cost MIT $2.2 million to knock down Building 20, and roughly $25 million to relocate its tenants. Erecting a new building in its place would cost an estimated $65 million. MIT officials say they don't have the cash.

This is humbling for MIT. Institutionally, it's the high-tech university that could. Perfect artificial intelligence? Yes. Plot the future of multimedia? Of course. Meet a budget? Apparently not. The university is now running a $9.2 million deficit. Jacking up tuition and room and board to nearly $28,000 a head hasn't helped dent the debt. Now MIT is planning something that would have been unimaginable just a few years ago: it has announced a corporate-style downsizing. It hopes that 1,400 employees, including nearly 300 tenured professors, will take a buyout by the end of this month.

MIT is not alone. The University of Chicago, renowned for its unmatched eight Nobel Prizes in economics, is digging out from four years of multimillion-dollar deficits. Yale has shed one department and 50 arts and sciences teachers so far—and weathered another strike by support staff—in its effort to shrink an $8 million gap. In the last three years, Stanford's academic departments were told to absorb one third of the school's $15 million budget cuts.

The situation is even more dire for the public colleges. The University of Virginia's 15 campuses eliminated 49 degree programs and hundreds of professors after the state cut millions from their budgets. The City University of New York recently declared an official financial emergency for the second time in two years. Today, only about 20 percent of the country's colleges and universities are healthy financially. An additional 60 percent are struggling to adjust. "The rest are still open," says David Breneman, Virginia's dean of education. "But what they offer has been chipped away."

How did such smart folks get themselves into such a jam? It took arrogance, ambition and a blind faith that the money spigot would never be tightened. Weaned on a rich diet of public adoration and an apparently endless supply of customers, American higher education has mushroomed from a $7 billion to a $200 billion industry since the late 1950s. Generous government subsidies fed the rising tide. Colleges never stopped hiring big-name professors, adding graduate departments, expanding administrations (up more than 20 percent in 10 years)—forgetting some basic functions of arithmetic. "There was no need for subtraction or division," says John DiBiaggio, president of Tufts University. "We didn't worry about being efficient, as the consumer was eager to buy."

By the '80s, the end of opulence was in sight, but not the end of spending. Federal and state governments began curtailing their lavish grants and aid—from an annual 15 percent increase in the early '70s, to a modest 4 percent in the '90s. Meanwhile, college costs were skyrocketing.

This was also the era when world-class universities made world-class mistakes. For example, so much maintenance was deferred that the price tag of neglect today is estimated at $60 billion. Yale, alone, calculates it has $1 billion worth of overdue repairs. Too many schools, says Northwestern's chancellor Arnold Weber, accepted too many "gifts that eat." A new $40 million lab will cost three times that in maintenance over its lifetime, and not many wealthy alums will endow a janitorial service. At the same time, universities began paying their faculties better. The era of shabby gentility ended as the average annual pay of a full professor rose to $65,000, while top stars were pulling down seven digits. Salaries soared even as the workload dropped. According to the conservative National Association of Scholars, the school year was reduced by 18 percent between 1964 and 1993. Full-time faculty at major universities once taught 12 to 15 hours a week. Now more than one third teach less than six. Faculty costs were stoked even higher by furious bidding wars for star professors. To land a big name on campus, deans offered lavish deals that included virtually no undergraduate classroom time. At Harvard, these sweetheart deals are so sensitive a topic that Jeremy Knowles, dean of arts and sciences, told alumni last week that he refuses to do it.

Who Really Pays for College?

What colleges charge doesn't cover their expenses, even for students paying full price. Here's how one public and one private school cover the real costs, on average, for the 60 percent of their undergrads who receive aid:

The two universities	UNIVERSITY OF ILLINOIS	UNIVERSITY OF CHICAGO
Total enrollment	33,000	11,825
Undergraduate enrollment	25,839	3,450
Undergraduate student-to-faculty ratio	13 to 1	6 to 1
Cost to educate, house and feed one student		
Full tuition, room, board, fees	$8,694	$25,830
Total cost to university	15,024	27,335
Actual costs of educating undergrad	9,330	20,435
Actual costs of room, board, fees	5,694	6,900
Who pays the way for students on aid		
State appropriations	$6,235	$0
University general funds	95	1,505
University scholarships	786	10,960
Government and private scholarships	2,581	1,820
Student loans	3,833	2,600
Student earnings	414	1,745
Parents' contribution	1,080	8,705
Average family income	$40,000	$48,000

FIGURES DO NOT INCLUDE BOOKS, TRANSPORTATION AND PERSONAL EXPENSES.
SOURCES: UNIVERSITIES OF ILLINOIS AND CHICAGO

SERIOUS EFFORTS AT COST-CUTTING BEGAN IN ABOUT 1990. Harvard has cut about $43 million in operating expenses since then; Stanford has sliced $54 million. The problem is that universities—and particularly their faculties—have long prided themselves on *not* thinking like IBM. "We are conservators of culture and developers of innovation," says president Judith Rodin, who is leading a "restructuring" project at the University of Pennsylvania. "Now we also need to take a page from business in order to survive."

That's easier professed than done. Colleges are a bit like a company in which management has ceded to the union much of the control over work rules and even basic goals. Presidents and deans are obliged by academic tradition to consult faculty on cost-cutting moves. The faculty, naturally enough, forges elaborate alliances to guard its turf. It instinctively mistrusts bean counters. Presidents, most of them academics themselves, seldom have the stomach or skills for a slash-and-burn assault on overspending. Instead of getting stock options, says Northwestern's Weber, presidents "just want to be loved."

No one has managed the budget battle better than Weber. During his 10-year tenure as president, he put Northwestern's shaky finances solidly in the black—he's an economist—and kept tuition increases below average. He killed programs in geography, nursing and evolutionary biology after deciding they could never be first-rate. As he narrowed the school's focus, its academic reputation improved. Applications surged, and faculty salaries rose to ninth highest in the nation.

But attacking costs can be a bloody affair. The bulk of campus expense is labor—as much as 75 percent at some schools. To reduce costs, some schools first look to their bloated administrations. They're hard to miss: since 1980 the University of Pennsylvania has added 29 more students and about 1,800 administrators, researchers and other nonteaching staff. New York's University of Rochester anticipates $6 million in annual administrative cuts over the next five years. This isn't all featherbedding; students now demand more counseling—career and psychological—and other support services than did previous generations.

NOT ALL THE CUTS CAN COME OUT OF ADMINISTRATION. The next target is the faculty. In practice, a two-tier system has developed: senior faculty, protected by tenure, and junior faculty, who often live as academic gypsies. When the '90s crunch arrived, colleges protected research and Ph.D. programs, which are dear to professors' hearts and also attract grant money. Instead they took aim at undergraduate programs. Class sections were canceled, courses killed. Most of Virginia's public universities eliminated from four to 20 credit hours from graduation requirements. Over all, says Robert Zemsky, a higher-education expert at the University of Pennsylvania, "students ended up paying more for less."

Meanwhile, the tenure system protected the senior faculty. Created as a guarantor of academic freedom, the tenure system has become a weapon of economic privilege. According to Milton Greenberg, a former provost at American University in Washington, D.C., the senior faculty can be safely described as "a self-protected elite." Tenure, in effect, guarantees professors lifetime employment no matter how poorly their courses are attended or how dramatically the college's academic emphasis may shift.

When a top college grants tenure, it is committing as much as $4 million in lifetime pay. Boston University chancellor John Silber counts most of BU's teachers 55 and older as an annual $8 million burden. Silber (who himself earns more than $500,000 a year) says he can no longer afford to offer fat early-retirement packages to "those who run out of gas." The tenure bind is made worse by the federal law banning mandatory retirement ages. As a result, Silber says, the aging faculty must be compensated "into oblivion."

More and more colleges are finding detours around tenure. About 38 percent of the nation's instructors are now part-timers, a category of nontenured itinerants. Webster University in Missouri offers professors a popular alternative. A surprising 80 percent have turned down tenure in favor of something called "faculty development leave," in which they submit to elaborate performance reviews in exchange for more frequent sabbaticals. "Professors remain current in the classroom as a result," says Webster vice president Neil George. "We have no deadwood."

IN CASES OF "FINANCIAL EXIGENCY," EVEN TENURE can be abrogated. Two years ago Saint Bonaventure University in New York felt desperate enough to take this course. The school's freshman enrollment was at an all-time low. Its $18 million endowment was two thirds gone. The bank was poised to pull its line of credit. When Robert Wickenheiser took over as president in 1994 he worked around the clock to save the 138-year-old Franciscan school. "There was waste everywhere," says Wickenheiser, including 43 faculty members (out of 160) who were expendable. "We had 12 theology professors and only eight students." Some took early retirement; the remaining 22, 18 of them tenured, were fired. The budget was balanced for the first time in eight years. "Tenure was meant to reward the best," he says. "And it shouldn't be for life."

It's almost as tough to raise revenue as it is to slash costs. Tuition revenue covers only one fifth of the budget at public colleges and two fifths at private ones. And what colleges charge with one hand, they give away with the other. Today, about 55 percent of a private college's typical tuition hike slides back out the door as financial aid, according to a recent study by Goucher College vice president Lucie Lapovsky. Public colleges may have to follow suit, raising both tuition and aid. Prices already are climbing, a trend University of Illinois chancellor Michael Aiken calls the privatization of the publics. "Some parents feel guilty about how little they pay for a university this good," Aiken says. "The question is, should they pay more?"

Too much generosity with scholarships can lead to serious financial trouble. Selective colleges can afford to spend top dollar to shop for the students they want. But the lesser-known schools run the risk of discounting themselves into a crisis. Facing a $12 million deficit and plummeting enrollment, New Jersey's Upsala College panicked when applications bottomed out. Officials began giving away huge aid packages to lure students, among other frantic moves, forcing the century-old liberal-arts college to eventually close for good. Virginia's Breneman says any parent can use aid figures to calculate a school's desperation: divide the total aid an institution gives by the total tuition it would be collecting *if every student paid full fare.* Most colleges strive to spend 20 percent of that number on aid, but some are fast approaching 40 percent. At the nonselective schools, says Breneman, that's a warning sign.

Besides cutting costs and raising fees, some schools are using the financial crisis to invent better ways of accomplishing old tasks. At Rensselaer Polytechnic Institute in Troy, N.Y., officials looked hard at their freshman introductory courses in calculus, physics and biology—and found them huge, boring and expensive. "Attendance was poor, and attention was poorer," says Jack Wilson, RPI's dean of undergraduate education. Courses were taught in three disconnected parts: a canned lecture delivered to 500, small group discussions led by graduate students and lab work. That system has since been scrapped in favor of small, high-tech labs. Now 62 calculus students take their seats on gray swivel chairs in front of multimedia computers. Instead of spending hours scribbling examples on the board, Prof. Joe Ecker discusses curve sketching. On their computers, students plug in functions and change parameters. Ecker and two assistants weave around the conference tables answering questions. A course that once took more than five hours and 40 graduate students can now be taught in four hours using only a

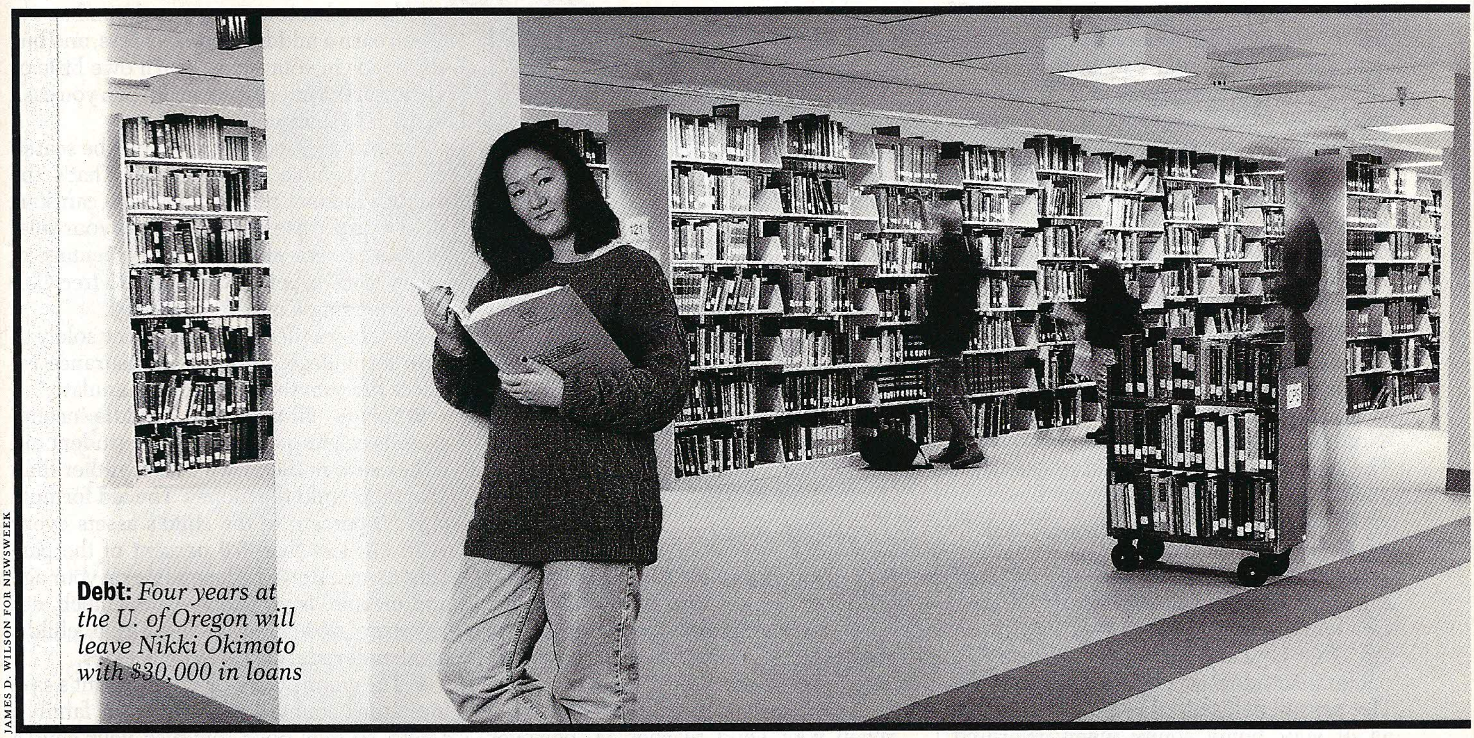
JACK WILSON

Rensselaer Polytechnic

Dean, undergraduate

Wilson's college decided to cut costs and improve teaching by changing the way large introductory science and math courses are taught. Now students learn in small, high-tech labs where they interface with computers—and profs.

CARL POSEY



JAMES D. WILSON FOR NEWSWEEK

Debt: *Four years at the U. of Oregon will leave Nikki Okimoto with $30,000 in loans*

dozen TAs—saving $50,000 per course.

The most creative ideas are coming not from huge research institutions but from money-pressed liberal-arts colleges. Five independent schools in Boston joined forces last month to become a consortium known as the Colleges of the Fenway. Together, the small schools will offer students 1,700 courses and almost 500 full-time faculty, at no extra cost. In exchange, the schools hope to save on overhead and facilities: Wheelock College won't have to build a swimming pool, Simmons won't have to start its own theater. Computers bring other economies. Central Michigan University keeps costs down for its 16,000 students by enrolling 10,000 more in courses taught throughout North America by Internet, interactive television and videotape. Says spokeswoman Rae Goldsmith: "We have alumni who've never seen our campus."

But the biggest challenges remain. Once financial leaks are plugged, computer lines installed and costs contained, what then? "Do we just survive," asks David Porter, president of Skidmore College in New York. "Or can we thrive?" Can the nation's system of higher education—by all accounts, a beacon to the rest of the world—become more cost effective and also better? Are waste and sloth inevitable byproducts of building great institutions? Can we face the realities of tighter fiscal times, and still fulfill our civilizing mission? Big questions. The answers should be a real education.

With CLAUDIA KALB *in Cambridge,* PATRICIA KING *in San Francisco,* PAT WINGERT *in Washington, D.C., and* YAHLIN CHANG *in New York*

It's not impossible to pay for a costly college if you (or your child) can handle debt. But don't risk your retirement fund. By Jane Bryant Quinn

Save First, Then Borrow

A FUNNY THING HAPPENED AS college tuitions spiraled into the stratosphere. Instead of trading down to less costly schools, middle-class families traded *up.* "Watch what we do, not what we say," a Nixon aide once famously explained. Parents say they can't afford it, then pack off their kids to colleges of high repute despite the elevated price.

As exhibit A, I give you freshmen from families earning $30,000 to $100,000. They're attending private colleges and universities in slightly higher proportions than they did 15 years ago, according to economists Morton Schapiro of the University of Southern California and Michael McPherson of Williams College. Those at public institutions are increasingly choosing four-year schools over two-year colleges.

Wealthy kids are trading up, too. Those with good grades are clustering, first, in famous universities: Stanford, Duke, the Ivies and the "public ivies," such as the Universities of Michigan (Ann Arbor) and Virginia (Charlottesville). And second, in first-rank private colleges, leaving second-tier schools behind. "It's the Mercedes syndrome," Schapiro says. The most competitive kids want degrees from big-name schools with graduates all over the world.

Rich kids, of course, can pay full freight. Here's how the middle classes struggle to give their children the very best:

■ *Federally insured student loans.* The