



Student loans and irresponsible spending

Students are borrowing money to pay for college. Are university administrators spending their students borrowed money responsibly?

Publication note

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Students are borrowing money to pay for college. Are university administrators spending their students' borrowed money responsibly?

A few years ago I wrote this article with a focus on how excessive administrative costs at universities, including UC Berkeley where I teach, were [driving up student loan amounts](#). At the time, the message was that administrative costs should be cut in order to reduce the burden of student loans. A lot has changed in three years, and two major issues are now hitting university budgets.

The first issue is that overhead on Federal grants has been dramatically slashed from 50% or even 80% down to only 15%. This means that a very large source of mostly unrestricted university funding has gone away. In three years, a different political situation might lead to that rate being raised back up, but I doubt it would go back to the old levels.

The second issue is that students are seeing a more competitive labor market where entry-level roles are increasingly rare and where STEM degrees no longer assure one of finding a job. I think it's clear that this situation is due to AI automation, but regardless of the root cause, the result is that students are thinking harder about going to college and becoming more sensitive to tuition costs.

There is also a third issue, in that many schools are getting pulled into political battles about course content, policies, and ideology. The big difference between this third issue and other two is that this one is temporary, while I think the other two are going to be long term changes. At some point universities will either be forced into political/ideological compliance or they will be relieved by a new presidential administration. Either way, the current barrage of fines and legal costs would end. However, as I've said, I don't think overhead rates will return to past levels and the job market will likely continue to get worse, not better.

The conclusion aligns with the article I'm republishing below: administrative costs need to be cut. However, the difference now is that while previously the driving motivation was lightening student loan burdens, now the change will be forced on schools as incoming revenue dries up.

One can already find articles coming out about universities responding to the funding crunch by cutting programs and limiting admissions. (e.g., [Harvard](#), [UChicago](#), [USC](#)) However, it's not too hard to see that reducing the

number of paying customers is not a long term solution to a budget deficit. There are also articles coming out about predatory practices that take advantage of low-income students, but that's not a viable long-term way of supporting a university.

The only reasonable way I see for schools to respond is to cut administrative costs. Will college administrators bite the bullet, or will they cling on as the ships sink?

The following was originally published in 2022 with Cubed.

The persistent problem of student loans

Our country is having a difficult and ongoing conversation about student loan debt. These huge loans are like giant anchors around the necks of many young people and it's not clear what to do about it. The debate keeps getting focused on whether or not loans should be forgiven, and if so how much and who pays for it. Those are important questions, but they float over a more fundamental question that may lead to the root of the problem:

Why are these loans so large that people with reasonable jobs can't afford to pay them off?

The obvious answer is that college tuition is very expensive. There are several other factors that contribute, such as stagnating wages, tech oligopoly, and federal law that makes student loans inescapable, but irrespective of other factors, the size of the loans grows with the cost of tuition. Tuition and fees have been growing consistently for decades, easily outpacing both inflation and the real cost of the actual educational programs. From a high-level look at the numbers, it appears that if tuition were priced based on actual costs, the resulting loans could be about one third their current size. If true, then students are essentially paying a 200% upcharge on their education.

Tuition about 3x what it could be

It is hard to get any university, much less one as practiced in bureaucratic obfuscation as UC Berkeley (Cal), to publish clear accounting, but we can still get ball park numbers that tell a disturbing story.

One of my colleagues has assembled numbers that tell the story from one perspective: Cal students collectively pay about \$1 billion in tuition each year. Other sources, such as state funding and donations, roughly add up to another \$700 million each year. Subtracting out \$200 million that is set aside for scholarships leaves a total of approximately \$1.5 billion that should be spent on student education each year. However, the amount actually spent on direct instructional costs is only about \$450 million per year, maybe less. So this would mean that two thirds of the money Cal gets for education is being spent on something else.

The administration disputes those numbers and provides a different view: According to the Provost's Office,

"The campus, adding all sources, has \$1.4 billion to allocate, of which \$642 million (46%) is allocated to academic units to cover faculty salary and benefits, TAS, faculty startup and retention funding, and other unit expenses."

So by their numbers for every \$2.18 spent only \$1.00 goes to actual educational costs. I interpret that to mean that even if one were to do the accounting such that anything remotely plausible were counted as an educational cost, it would still be more than a third, but still less than half, of Cal's educational funding that gets spent on education.

The big difference between \$642 million and \$450 million may seem startling. At least until one considers Cal's byzantine financial system. Money that goes in one direction get summed, split up, and sent in other directions, sort of like a bitcoin mixer. It's almost as if the people running the system wanted to confound amateur auditors.

Creative accounting doesn't change reality

Of course, there are lots of people who will argue that I'm grossly oversimplifying, and just don't understand the university's complex accounting methods. That's probably true, but it doesn't mean the conclusion is wrong.

Cal's accounting is a lot like what a street hustler does with three cups and a little ball: The ball goes under a cup and then there is lots of moving the cups around, switching them back and forth, some arm waving, and at the end you win a bet if you guess the right cup. So you sit there and stare intently at the hustler's hands and don't even blink, you watch those hands like a hawk. The problem is that the hustler does this every day and is very good at it. They will shift those cups around in a fast blur, probably palm the ball, and you will lose. It's a rigged game with novices playing against experienced pros.

The university's convoluted accounting is just a way of obscuring what really happens. It does not matter how creative the accountants get, or how much money moves around between different accounts. Shell games can't change the inescapable truth that, after all the smoke and mirrors have been pushed aside, the majority of the money that the university receives for education is not directly spent on education.

It's about priorities, not waste

The university administration knows that it should cut costs. Periodically someone will look through the university's budget for things to cut. Typically, they don't find much because everything that campus money is being used for is actually something that someone thinks is very important. I don't think anyone in the administration is a fool spending money on pointless things.

The problem is that when looking for things to cut we ask the wrong question. Instead of asking "Is this thing important and worthwhile?", we should be asking instead:

Is this something that is so important that we should force students to take out loans to pay for it?

It's a different question that makes it clear whose money is being spent. Many of the campus's programs and activities, that seem brilliant, noble, even charitable when considered alone, lose their appeal when we explicitly consider who is being forced to pay the bill.

There is no free money

If college students were all wealthy kids with wealthy parents who could just write big checks for everything, then I don't think I'd care about this problem very much, but generally the students at our public universities are not wealthy, trust-funded kids. There are scholarships and grants for the most needy, but we can still see that students are graduating with big student loans tied around their necks. Any argument that tries to advance the conclusion that student loans are not an issue is wrong, regardless of any great data or convincing reasoning. If student loans were not a burden then we wouldn't be talking about them in the first place. Smoke and mirrors don't change reality.

Similarly, I don't find arguments about some pots of money being "discretionary" very convincing. My department doesn't receive enough funding to cover our classes and every year we have discussions about how to limit the number of people we allow into the major. This year we even considered cutting class sizes to the point where people would likely have been unable to graduate because there would have been no room in required classes. As I'm writing this, all across UC campuses the Teaching Assistants are on strike, in part, because their pay is well below any reasonable market rate. Campus administrators can't claim to have extra discretionary spending money until after the campus's core educational requirements have been met.

Irresponsible spending is unethical

So yes, I am suggesting that university spending should be cut back. In fact, cut back a lot. When we look at the university's budget, we should not be asking "Is this a good use of money?", rather we need to ask "Should we force our students to pay for this?"

I think the answer is quite often no. Not always, there are many reasonable cases where making our students pay for something is appropriate. The university can still do what it needs to do, we just have an obligation to do it with an awareness and consideration of whose money we are spending.

University administrators should understand that the money they are spending belongs to our students and it must be spent responsibly and frugally with a constant focus on providing the education that our students are borrowing money to pay for. A failure of this responsibility has led to our student loan crisis. *There is no free money.*

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