

The Un-funding of Higher Education???

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In 1920 H.G. Wells wrote, "History is becoming more and more a race between education and catastrophe." I think he got it right. Nothing is more important to the future of the United States and the world than the breadth and effectiveness of education, especially of higher education. I say *especially* higher education, but not because pre-school, elementary, and secondary education are less important. Success at every level of education obviously depends on what has gone before. But for better or worse, the quality of postsecondary education and research affects the quality and effectiveness of education at every level.

So the "un-funding of higher education," if this is the case, is a very serious matter. To do the topic justice we need to consider a series of important, interrelated questions. I'll try to touch on all of them in the short period of time we have. They are:

1. First the facts: What are the numbers and the relevant contextual factors for:
 - a. State support and student enrollments?
 - b. Higher education costs?
 - c. Tuition?
 - d. Revenues available for student aid?
 - e. Total revenue available for instruction?
 - f. Economic conditions?
2. What does the nation need from higher education?
3. What does higher education need from the nation?
4. How can both obtain what is needed?

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

I. **What are the numbers and the relevant contextual factors:**

(Caveat: These are national statistics: enormous interstate variation occurs around them.)

a. **State support and student enrollments?**

From 1970 to the present, state support for higher education has generally kept pace with both enrollment growth and inflation, as measured by the Consumer Price Index. State and local support was \$7 billion in 1971, \$21 billion in 1981, \$42 billion in 1991, \$67 billion in 2001, and \$72 billion in 2005.

Despite occasional periods of stability or modest decline, higher education enrollments have grown steadily through this period. Fall term full time equivalent enrollment in public institutions was 4.6 million in 1970; it grew to 9.4 million in 2005, an increase of 104%. Total FTE grew from 6.3 million to 13.2 million. (By comparison the U.S. population grew 44%, from 203 million to 295 million.)

Over time, when adjusted for inflation, state support per student shows a bit of a roller coaster effect. In recessions states revenues fall and higher education enrollments (and social service case loads!) tend to grow.

Historically, state support per student has recovered after recessions. In 2001 state support reached \$66.7 billion, \$7,121 per FTE in today's dollars. This is the highest level for any year we have data, and most certainly the highest level ever.

State support then grew 4% from 2001 to 2002, stabilized for three years at about \$69.5 billion, and then grew 3.5% in 2005. Over the most recent five years this amounts to a 7.8% increase in state support; because both enrollments and inflation grew by 14% during that five year period, state support per FTE has fallen to \$5,833, the lowest level in 25 years.

This year, fiscal year 2006, state appropriations are up 6%; we don't know the numbers yet for inflation and enrollment growth.

b. **Higher education costs?**

A lot can be said, a lot has been said, about higher education costs. Howard Bowen, one of the most distinguished scholars of the field, summed things up by observing that colleges and universities raise all the money they can and spend all the money they get. There is always room for expanding student learning, advancing knowledge, and improving service, so I have no quarrel with that general orientation. Education is my top priority. But it is fair to ask: are we spending money well, are we

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

addressing priorities within higher education, is our spending productive? Without getting too deeply into the matter of higher education costs, I want to make four important observations:

1. The "market basket" for higher education is different from the Consumer Price Index. Most college and university expense is to pay well-educated people, whose incomes in the general economy have grown quite a bit faster than the CPI over the past 25 years. A different index of inflation is required for higher education, even though consumers (students and parents) will naturally focus on its price, relative to other goods and services.
2. Competitive pressures within higher education are pushing up its costs. Institutions compete for students with better amenities, smaller class sizes, tuition discounts, and by expanding their programmatic offerings; institutions compete for faculty with higher salaries and lower teaching loads.
3. Even after adjusting for inflation with an appropriate index, the "unit cost" of higher education and its price have grown substantially. This is becoming a sticky public issue, and an unsustainable trend.
4. There are growing disparities within higher education in the availability of resources; one of the most glaring is the expanding gap between faculty salaries in public and private universities.

c. Tuition?

The College Board's annual study documents substantial real-dollar increases in tuition and fees for every sector of higher education since 1976, with particularly rapid growth since 1990.

The State Higher Education Finance study, done annually by SHEEO, shows "net tuition" (tuition revenues less waivers and student aid from state and institutional sources) has grown from 22% of total expenditures in 1981, to 26% in 1991, to 37% in 2005. This is a worrisome trend.

This analysis does not, of course, include the financial aid available from federal sources. The growth in federal assistance described below is enough to significantly offset the growth of tuition. Whether it adequately offsets it is another question.

d. Revenues available for student aid?

In the 1970s the United States decided to make student financial assistance a national priority. In 2005 \$64 billion was available in grants and \$63 billion in loans and work study. This amounted to about \$10,000

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

per FTE student in financial aid, half grants and half loans and work study.

In constant dollars total aid per student has grown from \$3,840 in 1985 to \$10,119 in 2005. In this case, the Consumer Price Index has been used to adjust for inflation.

Although the largest portion of student aid is distributed based on financial need, the fastest growing programs determine eligibility based on academic achievement. Also tax credits, established in 1999, and now costing \$8 billion annually, provide more assistance to middle income students.

e. Total revenue available for instruction?

The revenues available for instruction in public institutions consist largely of net tuition revenues per FTE plus state support per FTE. Increases in net tuition have significantly, but not completely replaced the decline in state support per student from 2001 to 2005. In 2001 total revenue per FTE was \$10,100 in 2005 dollars, essentially an all time high. It dropped 8.8% to \$9,212 by 2005. While this is a material decrease from the high point in 2001, it is roughly the level of funding available in the early 1990s.

f. Economic conditions?

The stock market and economic boom of the 1990s and the subsequent bust that became evident in March of 2001 underlies much of what we've experienced in the past five years. Higher education prices and costs grew in the 1990s for two good reasons: 1) Higher education has become increasingly more valuable and important to individual and national well-being; and 2) *Both families and governments could afford to spend more on it.* Individually and collectively it made sense to do so.

During this period states (and later the national government) accumulated surpluses and cut taxes. From 1993 to 2003 wealth in the states grew faster than tax revenues; the effective state and local tax rate has declined from 9% in 1993 to 7.2% in 2003.

(When faced with a short term budget crisis, states, in many cases, have disproportionately reduced higher education funding. It makes less news, but in the past they have generally increased funding disproportionately when the economy improves. In the aggregate, states have allocated roughly the same percentage of their revenues to higher education during the past ten years.)

In the future both states and the federal government are projected to have decreased revenues while the demand for public services (including

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

but not limited to higher education) is projected to increase.

Why? One big reason is the only group in our population not expected to grow in the next 15 years are those in the prime working years, 25-55. Retirees needing more health care will grow enormously, and students needing education will grow steadily, but more modestly.

In part due to these demographics, the National Center for Higher Education Management Systems (NCHEMS) and the Rockefeller Institute have projected that every state will have a revenue shortfall by 2013; the average will be 5.7%.

David M. Walker, Comptroller General of the United States has projected future federal deficits and spending, assuming we meet obligations for Social Security and health care, sustain current domestic, international, and military spending at the rate of GDP growth, and extend all the recent tax reductions now scheduled to expire. (This is the path of least political resistance.) By 2040 interest payments on the federal debt will nearly equal all federal revenues, spending will equal 40% of GDP, and revenues will equal less than 20% of GDP. The annual deficit will equal or exceed federal revenues.

I don't believe these projections will come true; they are far too devastating to be tolerated. But those aspiring to leadership in public life and education should know they will face tough challenges. Our fiscal house is in disarray; and we need to put it in order.

II What does the nation need from higher education?

In past half century the GI Bill, the post-Sputnik National Defense in Education Act, and the Higher Education Act of 1965, helped make the U.S. workforce the most competitive in the world. Mixing a well-educated workforce with investment in R&D in an open, competitive economy governed by fair laws, turned out to be a powerful "recipe" for social and economic prosperity. The "recipe" is no longer secret. It is more powerful than ever before, and governmental "chefs" all over the globe are working to obtain the right ingredients, put them together, and improve the prosperity and living standards of their people.

The standard of achievement of the 1960s, which was more than "good enough" for my generation, is much *less* than "good enough" for the 21st century. About 25% of our workforce now has a baccalaureate degree or higher. But during the past 25 years in the United States *only* adults with postsecondary credentials, and especially those with a baccalaureate degree or higher, have experienced real income growth. High school graduates earn less today than they did 25 years ago. Young people get it: almost 2/3 of high school graduates now enroll in college within a

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

year, and 80% of high school sophomores say they intend to obtain a baccalaureate degree.

Why do so many need a college education? American and Western European workers are now the most expensive on the globe; to be worth their cost, they must be among the best educated in the world. To be economically competitive in the 21st century the United States must double the degree attainment of the baby boom generation, with no compromise on quality.

This ambitious goal would be challenging if money were plentiful and upcoming generations of students were well prepared for postsecondary success. But money is not plentiful. And Latino and African Americans youth, traditionally less likely to succeed in higher education, are the fastest growing segments of the next generation of traditional college students.

So this is what the nation asks of higher education: Please increase degree production without compromising quality, close achievement gaps, and (since resources are increasingly scarce) become more efficient and productive.

III. What does higher education need from the nation?

It seems more than reasonable, in the face of such a daunting request, for higher education to ask for a little help.

Sustained financial support would seem reasonable, for starts. While sustained support is essential, it is not enough. Of course states and the federal government must invest all they can in higher education, but they must also take responsibility for more productive and effective public policies.

The most critical need is for policies that promote more widespread success in higher education. Public programs should enable and encourage students to prepare for success in higher education, and they should address the financial barriers that make it difficult for low-income students to enroll and concentrate on academic work.

In the past dozen years both state governments and institutions have spent increasing amounts of money for what amounts to expensive efforts to improve their rankings in U.S. News and World Report. Institutions are discounting tuition to attract more students with better grades and test scores, and some of our states have been discounting tuition to keep better students at home.

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

Tuition (along with state appropriations to institutions) should be considered a resource for expanding the scale and increasing the effectiveness of higher education. And financial aid should be a resource to make sure tuition is not a barrier to those with financial need. I don't think we can turn around abruptly the trend for merit aid, but let us admit that it is unproductively driving up the cost of higher education.

Government also would do well to re-examine regulatory and accountability policies in order to assess their effectiveness in improving performance and cost-effectiveness. Governmental efforts to enhance educational success need to become more focused, more strategic, more bi-partisan, and less volatile.

Finally, "No Child Left Behind" must succeed. Better outcomes from elementary and secondary education are essential for the success of higher education. Postsecondary education has a deep self-interest in the success of K-12 education, and we should much more to help.

IV. What will it take to obtain what is needed?

We need a different kind of conversation about higher education finance to solve these problems. For too long three wrong ideas have dominated public discourse about education and money:

- A. There is a "right amount;" we can create the perfect formula.*
- B. The only way to get improved performance is to spend more money.*
- C. We can get the results we need without spending more money.*

Instead I propose focusing on three "right" questions:

- A. What do we need from higher education?*
- B. What can we do better with the money we now have?*
- C. Where can strategic investments help us get the results we need?*

I am confident the people of the United States have enough money to meet the educational challenges faced by higher education, despite our fiscal and economic challenges. I also have no doubt that, without significant changes in how we allocate resources and how we approach teaching and learning, additional spending will not produce better results.

Public polls, political rhetoric, and the recurring pattern of recovery in state funding for higher education convince me the necessary political will exists to invest what is required in education. But too many in the public lack confidence that additional investment will generate the results we need.

I am confident the public is willing to invest what is required, but I don't

The Un-Funding of Higher Education ???

Paul E. Lingenfelter, March 30, 2006

believe the public can or will provide enough “new” money to make it easy. Our economic challenges are too severe, and without significant progress in education our economy will deteriorate further.

The money we now have is far greater than any “new money” we might obtain. As we demonstrate the capacity to use existing resources more effectively, it will be far easier to persuade the public to make the investments necessary to meet ambitious national goals. We need to break down public skepticism that inertia rules in higher education. This will take more than words; it will take action.