HIGHER EDUCATION:
DOES IT COST OR DOES IT PAY?

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Community College National Legislative Summit
February 6, 2006

Thank you for the opportunity to be with you today. It is an honor to speak to community college trustees and presidents, and added honor to follow Comptroller General David Walker. We've just heard Comptroller General Walker tell us we need to make tough choices in America. I will come back to those choices, but first I want to talk about a tough challenge – meeting the national agenda for higher education.

I'd like to begin with a personal reflection. From 1974 to 1985 I was on the staff of the Illinois Board of Higher Education. Two of the Board members I most admired, Rey Brune and Dick Stone, entered higher education leadership as elected trustees of a local community college. Rey Brune was a founding trustee of Black Hawk Community College, and I believe Dick Stone was also a founder of Lincolnland Community College. Both were later appointed by the Governor to chair the Illinois Community College Board.

Both Rey and Dick are special to me; later on I'll tell you a story about each one.

I. What is the national agenda for higher education, and why do we need one?

What is the national agenda for higher education? I'll give you my definition in just a minute, but I'd like to start by talking about why we must *have* a national agenda.

A. In *The World is Flat* Tom Friedman argues that the global economic "playing field" has been flattened by ten forces: the fall of the Berlin Wall, the web browser, work flow software, open sourcing, outsourcing, offshoring, supply-chaining, insourcing, in-forming, and "the steroids:" wireless, mobile, digital communication. What does this mean? Technology enables business to leap over geographical and political boundaries, and most of the world now employs the U.S. "recipe" for prosperity – investment in research and development, a well-educated workforce, and a market based economy governed by fair laws. Capital investment and jobs are flowing all over the globe in search of competitive advantage. *Source: The World is Flat, 2004.*

B. Geoff Colvin observes, "American workers are enormously more expensive than their peers almost anywhere but in Western Europe. So they must confront what may be the most important question of their working lives: How can they be worth what they cost?" *Source*: "Can Americans Compete?" *Fortune* July 20, 2005.

C. The U.S. now ranks 10th in the entry rate to baccalaureate education, and 15th in the entry rate to post-secondary technical education. We still are near the top regarding the proportion of our current workforce with a college degree, but we are losing ground rapidly to developed economies in Europe, Asia, Australia, and New Zealand. *Source*: OECD *Education at a Glance, 2003*.

D. This year the U.S. will generate about 1.3 million college degrees, with roughly 70,000 in engineering. In comparison, India will generate 3.1 million degrees (all English speaking), including 350,000 engineers; China will generate 3.3 million degrees, and more than 600,000 engineers. The U.S. needs more scientists and engineers, but we can no longer compete on the quantity of our scientific workforce; we must pay attention to quality *and* quantity. *Source:* "Can Americans Compete?" *Fortune* July 20, 2005.

E. According to Goldman Sachs, in the next 45 years the Chinese and Indian economies will grow much faster than the U.S. economy; by 2050 the Chinese economy will be larger than the U.S. economy; by 2040 the combined economies of Brazil, Russia, India, and China will be larger than the combined economies of the G-6, U.S., U.K., Germany, Japan, France, and Italy. Source: Goldman Sachs, Global Economies Paper No:99, BRICs Model Projections, cited by Anthony Carnevale.

F. The U.S. population is aging. Every year for the next fifteen years, the "over-55" age group will grow by 1.5 million. The 6-24 age group will grow modestly, less than 500,000 each year. Meanwhile, we will see virtually no growth of workers in the prime working years, 25-54. Thus, while the "productive" age group will not increase in numbers, those requiring education and more extensive health care will grow rapidly. *Source*: U.S. Census Data.

G. These demographics, combined with revenue reducing factors such as the disproportionate growth of the lightly taxed service economy, have created structural deficits in virtually every state. (Fifty years ago services accounted for 35% of sales; today services accounts for 60% of sales, and goods account for 40%.) *Sources:* NCHEMS: Don Boyd, (Rockefeller Institute of Government), 2005 and NASBO.

H. The college participation rate is high for students from high socio-economic status families, regardless of academic ability and preparation. The college participation rate is substantially lower for students from low socio-economic status families, even when they are high in academic ability and preparation. *Source: Access Denied*, Department of Education, February 2001 (see Figure 1).

I. The population of 18-25 year olds in the U.S. will grow by about 5 million, from roughly 25 million to 30 million, by 2020. Of the additional 5 million, 18% will be white, non-Hispanic, 49% will be Latino, 16% will be African American, and 16% will be Asian. Though Latino and African-American students continue to grow as a share of our workforce, postsecondary education achievement rates for these groups continue to be well below average. *Source: Demography and the Future of Higher Education Policy*, Richard Fry, April 2001.

J. In 1975, earnings for workers with a college degree were 50% higher than the earnings of similar aged workers with only a high school education. By 2002, college graduates earned 88% more. Without corrective action, the achievement gaps for minority students combined with their growth in the population are likely to lead to significant decreases in per capital income in the U.S., especially in states such as California, New York, and Texas with large minority populations. Closing the achievement gaps is likely to do the opposite – increase incomes. Source: National Center for Pubic Policy and Higher Education, *Policy Alert*, November, 2005.

K. In response to these trends, enrollments are growing, more than 14% in the past five years. But neither the rate of participation nor degree achievement is matching the aspirations of high school students: 80% of high school sophomores indicate they plan to obtain a baccalaureate degree and more than 90% plan some postsecondary education. *Source*: NCES Survey and SHEEO, *State Higher Education Finance*.

L. Let me sum up my view of the "National Agenda for Higher Education." For American workers to be worth what they cost, for our economy to be competitive in the global economy, and for America to sustain the "dream" of continuing increases in social mobility and living standards, we need more rigorous standards of educational achievement combined with widespread success in higher education. In rough terms, ***we must double the degree production of the 1960s with no compromise in quality.*** Participation in higher education has grown since the 1960s, but neither high school nor college graduation rates have kept pace.

Every so often I hear people say, "Not everybody needs to go to college," which is another way of saying, "We really don't have to take this so seriously." I agree ***everybody*** doesn't need to go to college. But high school students have figured it out. "***Almost*** everybody needs postsecondary education." And the life prospects for those who don't enroll and succeed are not very promising. Without question we have to educate a lot more people than we did when I grew up.

II. The role of money in meeting the national agenda

Most of the time when I talk with educators about doubling degree production (actually when I talk with educators about most anything) the conversation turns to money. It seems we never have enough, and we can't understand why the public doesn't provide more. I once met a downstate Illinois legislator who was a big fan of higher education who summed up the case for higher education in six words: "Higher education doesn't cost, it pays!"

Community college trustee Dick Stone gave me a slightly different perspective. Dick was a very smart farmer. He raised corn, wheat, and soybeans, and he formed the Stone Seed

Company to increase his margins. He also was smart enough to buy land in Hawai'i where he spent time in the winter working on his hybrid seeds.

One day Dick Stone took me aside after a board meeting and said, "Paul, I know you are frustrated because there is not enough public money to do the things we both want to do. Just remember that all the money we spend in the public sector has to be generated by the private sector. If we take too much out of the private sector, nothing works."

I'll never forget these conversations, but I've concluded both my friends, Dick Stone and the legislator, (whose name happened to be Paul Stone) were half right. If Paul were here today, I'd tell him, higher education pays, but it also costs. And it can cost too much.

If Dick were here, I'd agree that a healthy private sector is critical, but I'd remind him that the private sector needs infrastructure, transportation, research, an educated workforce, security, and fair laws and regulations to protect consumers, investors, and businesses. Public investment is necessary for the private sector to work.

We have to find common ground on the money issues in order to realize the national agenda for higher education. I don't have any silver bullets, but let me share some thoughts and some data.

A. Three wrong ideas about money.

1. There is a "right" amount.

2. The only way to get better results is to spend more money.

3. We can get the results we need (more quality and more student success) without spending more money.

B. Three right questions about money.

1. What do we need from higher education?

2. What can we do better with the money we now have?

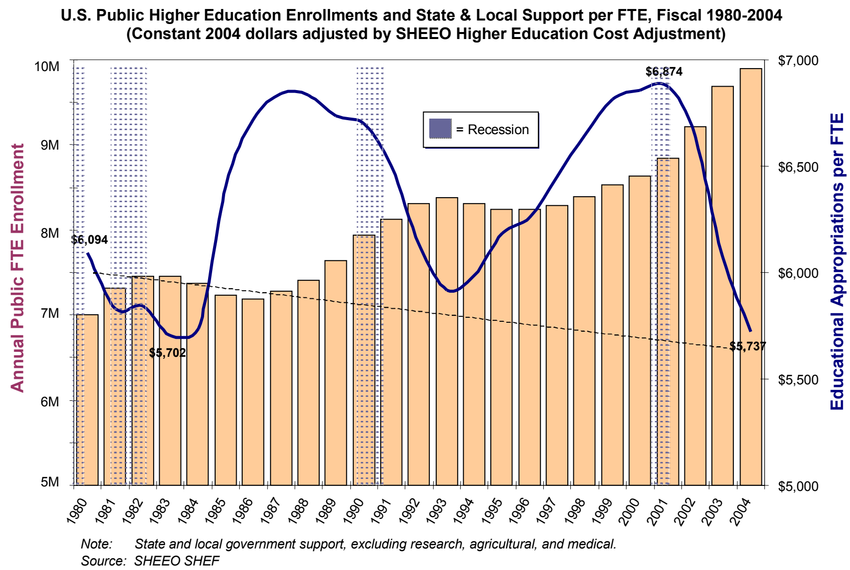
3. Where can additional investment help us obtain what we need?

C. What's going on with state support for higher education?

1. State appropriations have generally kept pace with enrollment growth and inflation for the past thirty five years, but not without dramatic periods of decline and recovery. In recessions enrollments typically grow rapidly, state support falls, and tuition increases dramatically. In the past, after economic recovery state support has resumed growth, the pace of enrollment growth receded, and (usually due to public and political reactions) tuition increases have been moderated.

Figure 2

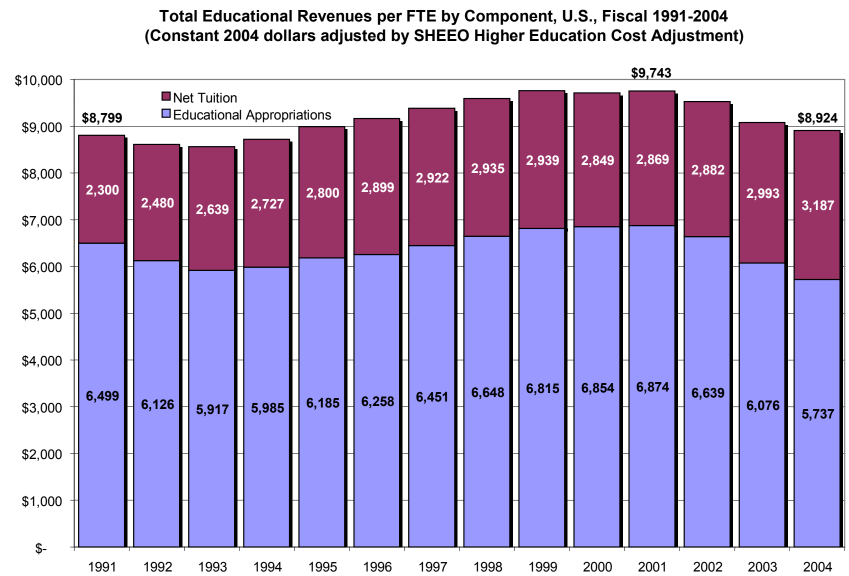
State & local support per student, 1980-2004



2. From fiscal year 2001 to fiscal year 2004 higher education enrollments grew 11.8 percent and inflationary costs grew 10.4% while total state support was essentially flat at $70 billion. Despite *constant dollar* net tuition increases of 10.7%, total constant dollar spending per student (state support plus net tuition) decreased by 8.7% from 2001 to 2004. Fiscal year 2001 was the high point in state support per student over the past 25 years (see Figure 3).

Figure 3

Educational revenues per FTE, 14 years



3. State appropriations have increased in fiscal year 2005 and 2006, (roughly 4% to 6% each year) halting the decline in real dollar support per student. Continuing enrollment growth and inflation are roughly matching those increases. We haven't recovered lost ground yet; preliminary FY2005 data will show we are barely holding our own.

4. The variation among the states in appropriations trends and enrollment growth is enormous; the national average represents the experience of very few states.

5. State appropriations for higher education have fallen dramatically as a percentage of per capita income in the past 30 years. Part of the reason is because growth in per capita income substantially outstripped consumer prices during this period. Higher education costs (and prices) have likewise grown faster than inflation. Real dollar increases in tuition charges have largely "replaced" state revenues, leading to considerable growth in the percentage of costs borne by students and families. Sorting out "who pays, who benefits," and assuring access and student success for low-income students remains a fundamental policy issue.

E. What is the enrollment and financial story for community colleges?

1. Community colleges ***are*** different, but sometimes the differences get exaggerated. In the past 10 years community college enrollments grew a little faster than public four year institutions, but their total "market share" hasn't changed much due to the growth of the proprietary sector. Community college costs have grown (and declined) in similar patterns to public 4-year institutions. Community colleges

enroll more minority students (37%) but not dramatically more than 4-year public and private institutions, who enroll 30% minorities. Community colleges have a larger number of non-traditional students (47% are over 24), but “traditional” institutions have 30-40% older students, and 55% of the enrollment in proprietary colleges is over 24. Many community college student are “traditional;” 40% are under 21, and 53% are under 25. Traditional students probably account for most of the community college FTE enrollment.

All this said, the community college is clearly on the front line. No sector of higher education is more crucial in meeting the national agenda. If we achieve more widespread, successful participation in higher education, you will be a star in the show, perhaps the most important actor.

III. How does the national agenda for higher education depend on you?

I’d like to begin by answering the question in my title: higher education ***does*** cost and it ***also*** pays. We really don’t have any choice – we have to improve the scope and quality of educational attainment in the United States in order to sustain our economy and the health of our society.

That said, the fiscal challenges facing our state and federal governments are real. Educators who put their heads in the sand and their hands in their pockets will not serve the nation well. There will not be lots of “new money” to help us “double the degree attainment of the 1960s.” ***We cannot meet national needs without determined, creative efforts to increase the productivity of higher education.***.

I doubt any silver bullet or “killer application” can make this easy. Instead we need to take advantage of many “small” opportunities to improve, and we must re-examine core assumptions and practices. For example, we should implement:

1. *“Micro” interventions.* Improve student preparation; utilize technology to improve instructional quality and efficiency; standardize courses that can be standardized without compromising quality; employ many “little savings” through operational efficiencies; improve student course-taking patterns; encourage and enable more students to complete degrees and certificates through more assertive counseling; outsourcing; etc.

2. “*Macro” interventions*. Develop more coherent curricula and reallocate from lower to higher priorities.

A recent study by NCHEMS found that the states which spend the most money on higher education often don’t get the best results. This study obviously doesn’t demonstrate that money is irrelevant, but it raises important questions – what ***is*** relevant and under what circumstances? What is the role of money? How can the better funded institutions use the money they have to get better results? How can less well-supported institutions use additional resources to improve performance rather than simply continue business as usual?

Policy makers also need to re-consider the cost-effectiveness of public policies. For example, increasing middle and upper-middle class subsidies through merit aid, tuition discounts, or tax credits often adds to the public cost of higher education without significantly increasing participation, quality, or student success.

Combining need-based aid with requirements to take rigorous courses is likely to increase both access and success; providing financial aid based on grades tends to encourage students to take fewer, easier courses.

The responsibilities of both institutions and governments in meeting the national agenda for higher education are detailed in the report of the National Commission on Accountability in Higher Education. This report also provides a critique of common accountability practices and points to a better way. I don't have time to discuss it in detail, but let me give you the highlights.

Current accountability practices frequently reflect worry, frustration, and pique, more than confident, well-designed strategies for improvement. Much of current practice is a barely meaningful reporting exercise. At its worst, current practice is a tool for placing blame on others and deflecting blame from oneself. Accountability must become an instrument for improving performance, not merely a tool for measuring or rewarding performance, or punishing the lack of performance.

The Commission report maintains that more effective accountability will employ pride, not fear as its organizing principle. It will become a tool for self-discipline, not finger-pointing. It will be driven by a common vision, but decentralized in most important details, recognizing that excellence requires many "divisions of labor," empowered workers, and room for creativity. It will be collaborative, because improved performance requires common purpose and an enormous amount of cooperation. It will energize, inspire, and guide teachers and learners, not demoralize them. But it will be neither unfocused about objectives nor uncertain about results. Effective accountability must measure what we value.

I encourage you to read the Accountability Commission report. It may be downloaded free from the www.sheeo.org website, or a hard copy can be ordered for $5.00.

Before closing with the Rey Brune story I promised, I want to address the role of trustees in dealing with the tough choices outlined by Comptroller General Walker. As trustees you are stewards of institutional resources and of the public trust. You are responsible for challenging educators to make effective use of limited resources. You are also responsible for influencing your communities and elected representatives to support tax policies and public investments that sustain the prosperity of the private sector and the viability of our communities. ***These are complementary, not contradictory roles.***

Dick Stone was right when he reminded me that fiscal and economic policies must enable the private sector to thrive. Paul Stone also was right – higher education pays. The sustainability of both education and our economy is threatened by those who advocate greater public spending for education with little regard for productivity and improved performance. This threat is matched or exceeded by those who promote tax cuts as the cure for all economic ills and advocate spending limitations designed progressively and inexorably to shrink public spending, regardless of its value.

Families and nations generally prosper when they work hard, invest wisely, educate themselves and the next generation, and spend and borrow prudently to enhance the quality of life and assure its sustainability.

In 1973 and 1974 enrollments in Illinois Community Colleges grew by 40% and the state was in a fiscal crisis. In a gathering of community college trustees and presidents Rey Brune told this story. "*A resort in the Bible Belt catered to church conventions and cultivated a very positive, upbeat attitude. Behind the registration desk was a large sign proclaiming, "THERE ARE NO PROBLEMS, ONLY OPPORTUNITIES!" One afternoon an agitated man approached the desk, "I need your help with a problem!"*

The desk clerk smiled, pointed to the sign, and said, "Remember, there are no problems, only opportunities!" The man replied, "Call it anything you want, but there's a strange woman in my room."