

STATE SUPPORT FOR HIGHER EDUCATION
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Few topics generate more passion in American higher education than the need for state financial support and the adequacy, or inadequacy, of that support. Typically, the most immediate budget crisis (several are now brewing) consumes the most energy. In this brief discussion, I will take a long view of the facts and offer a few philosophical and practical observations.¹

A capsule history of U.S. higher education since 1870 – the public role

In 1870, the United States had 563 colleges and universities, most of which were privately governed. They enrolled 52,000 students - 0.1 percent of the nation's population. By 1940, seventy years later, we had 1700 colleges and universities enrolling 1.5 million students, 1.1 percent of the U.S. population, a ten-fold increase in the participation rate. During the 1930s public sector enrollment and spending exceeded private sector enrollment and spending for the first time in United States history.

By 1960, just twenty years later, enrollments more than doubled to 3.6 million students in 2000 institutions. The percentage of the population in college also nearly doubled to 2.0 percent. In 1980, approximately 3,150 institutions enrolled 11.6 million students, 5.1 percent of the U.S. population. Most of the additional 1150 institutions were public community colleges, and by now more than 75 percent of all students attended public institutions.

By 2000, more than 4,100 institutions enrolled 14.8 million students; 5.3 percent of the U.S. population was in college. Many of the additional 950 institutions were degree-granting proprietary colleges, the fastest growing but smallest sector, accounting for about 5 percent of total enrollments. The public sector still enrolls about 75 percent of all students.

State funding for higher education – 1960 to 2007

While the federal government provided critically important support, state and, to a lesser extent, local governments are the predominant source of public funding for higher education. State support for annual operations quadrupled in the 1960s, (from \$1.4 billion to \$6.5 billion in a decade with modest inflation.) From 1970 to 1980 (a decade with substantial inflation), state funding tripled to \$19.4 billion, and then doubled to \$40.8 billion between 1980 and 1990. From 1990 to 2000, it grew another 50 percent to \$63.2 billion. In the first four years of the 21st century, state support stagnated around \$70 billion, but after three years of recovery, state funding in fiscal year 2007 reached \$83.5 billion, \$20 billion higher than seven years earlier.

¹ The data are largely from the author's recent chapter, "The Financing of Public Colleges and Universities in the United States," in *Handbook of Research in Education Finance and Policy*, Helen F. Ladd and Edward B. Fiske, editors. Routledge: New York and London, 2008

Inflation, Income per capita, Enrollment growth – 1970 to 2005

The numbers I've just cited, of course, must be viewed in the context of inflation, enrollment growth, and income per capita. From 1970 to 2005:

- The Consumer Price Index (CPI) grew by 407 percent;
- The Higher Education Price Index (HEPI) grew by 506 percent;
- Personal income per capita grew 744 percent;
- Public FTE enrollments grew 106 percent, 75 percent for four-year and 183 percent for two-year institutions

(Why does the Higher Education Price index grow faster than the CPI? Because colleges and universities spend roughly 75 percent of their funds to employ well-educated people. During the past 50 years, wealth and personal income grew a lot faster than CPI inflation in the U.S., especially for people with postsecondary education.)

Constant dollar state support per FTE and increases in tuition and fees – 1970 to 2005

When inflation and enrollment are taken into account, from 1970 to 2005 *constant dollar state support per public student* grew 7 percent if the CPI is used to measure inflation. If inflation is measured by HEPI, constant dollar state support fell 11 percent. Tuition and fees in four-year public universities grew 177 percent and by 105 percent in two-year public colleges in constant dollars (CPI). From 1970 to 2005, “net tuition revenues” per student, the funds public institutions have to spend after subtracting student aid, grew by 142 percent (CPI) or 103 percent (HEPI). In 2005 dollars, net tuition grew from \$1,500 to \$3,000 using the HEPI index of inflation.

Combined state support and tuition revenues – 1970 to 2005

“Net tuition” revenues are tuition revenues less state and institutional financial aid. The annual SHEEO study, *State Higher Education Finance (SHEF)*, adds net tuition to state funding for general educational purposes (research, agricultural extension services, and medical education are excluded) to calculate the available educational revenues per student. From 1970 to 2005, constant-dollar-per-student educational revenues (state support plus net tuition) grew by 31 percent when revenues were adjusted by the CPI, and by 10 percent when adjusted by HEPI.

Federal student assistance – 1970 to 2005

The growth of tuition and fees has been a contentious issue in the states and in the Congress. Although good data are unavailable for institutional grants and discounts, significant growth in federal student assistance over the past 35 years has helped offset those price increases. In constant dollars (CPI), federal grants and tax credits per student (all sectors) grew 28 percent, from \$1,654 to \$2,112, between 1970 and 2005, and federal loans per student grew 364 percent in constant dollars, from \$1,039 to \$4,816. While indebtedness for college costs may be growing too rapidly, the growth in financial aid has helped offset tuition increases.

Other indicators to put higher education support in context

From 1970 to 2005, total higher education spending in the U.S. grew from 2.0 percent to 2.6 percent of GDP. We, the wealthiest nation in the world, spend the world's largest fraction of GDP on higher education. The larger fractional amount, however, is due to our higher tuition rates. As a percentage of GDP, *public* investment in United States higher education is roughly in line with other developed countries.

Why do some in higher education continue to feel deprived despite these numbers? Because, *on a "per capita" basis*, the nation has become richer and public spending for other purposes has grown faster than higher education spending over the past 35 years. In constant dollars (CPI), from 1970 to 2005, state and local government spending per capita (all purposes) grew by *103 percent*; personal income per capita grew by *66 percent*; and state support per FTE for higher education grew by *7 percent*. Even though state investments in higher education have kept pace with CPI inflation and enrollment growth, relatively *more* state funding is supporting health care, K-12 education, and other services. Substantial real dollar tuition and fee increases, financed partly by real dollar increases in family income and student aid, have only *partially* closed the gap between real dollar higher education spending and per capita spending for other purposes.

The effect of recession and differences among the states

Recessions are particularly challenging for public higher education – enrollment growth accelerates and state support decelerates – as documented by SHEEO's *State Higher Education Finance* (SHEF) over the past 25 years. SHEF also indicates that different states provide different amounts of funding, and some are gaining, while others are losing ground. In funding per student, some states are as much as \$2,000 below and others are as high as \$4,000 above the national average, even after adjusting for cost of living differences.

Observations

Public debate about education and money is usually dominated by three wrong ideas:

- 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.*

The first "wrong idea" has generated endless debate and complex analyses of data, much like those I've just presented. The debates are endless and pointless because financial policy is fundamentally about priorities, investment, management, and politics, not formulas. Analysis has its place, but it can't make decisions. Higher education is not entitled to a fixed share of public resources; the "right amount" is a question for judgment and negotiation.

The second "wrong idea" especially angers policymakers and hard-headed business leaders who are forced to increase productivity in their day jobs. They argue in higher education results don't change when we spend more money, only the cost increases.

The third “wrong idea,” of course, is a reaction to the second. Some in the “accountability” movement argue that more investment is completely unnecessary; all that is required for better performance is more discipline. This might be true if the world economy were not requiring a quantum leap in educational attainment. Marginal change will not yield the necessary results.

In contrast to these “wrong ideas,” I propose focusing on three “right” questions:

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

The first “right question” is the place to start a conversation. The states dramatically increased their investment in higher education in order to educate the baby boom. It was easy to get consensus in the 1960s; the number of 18-24 year olds was increasing rapidly, and Sputnik had recently been launched into space. Consensus is harder now because we need to educate a larger *proportion* of our population (a more difficult task) to cope with a less clear threat -- the loss of competitiveness in the global economy. Compared to the 1960s, average people must now be educated to a higher standard. The basic dynamics are the same, however – when there is a consensus about goals and priorities, investment will follow.

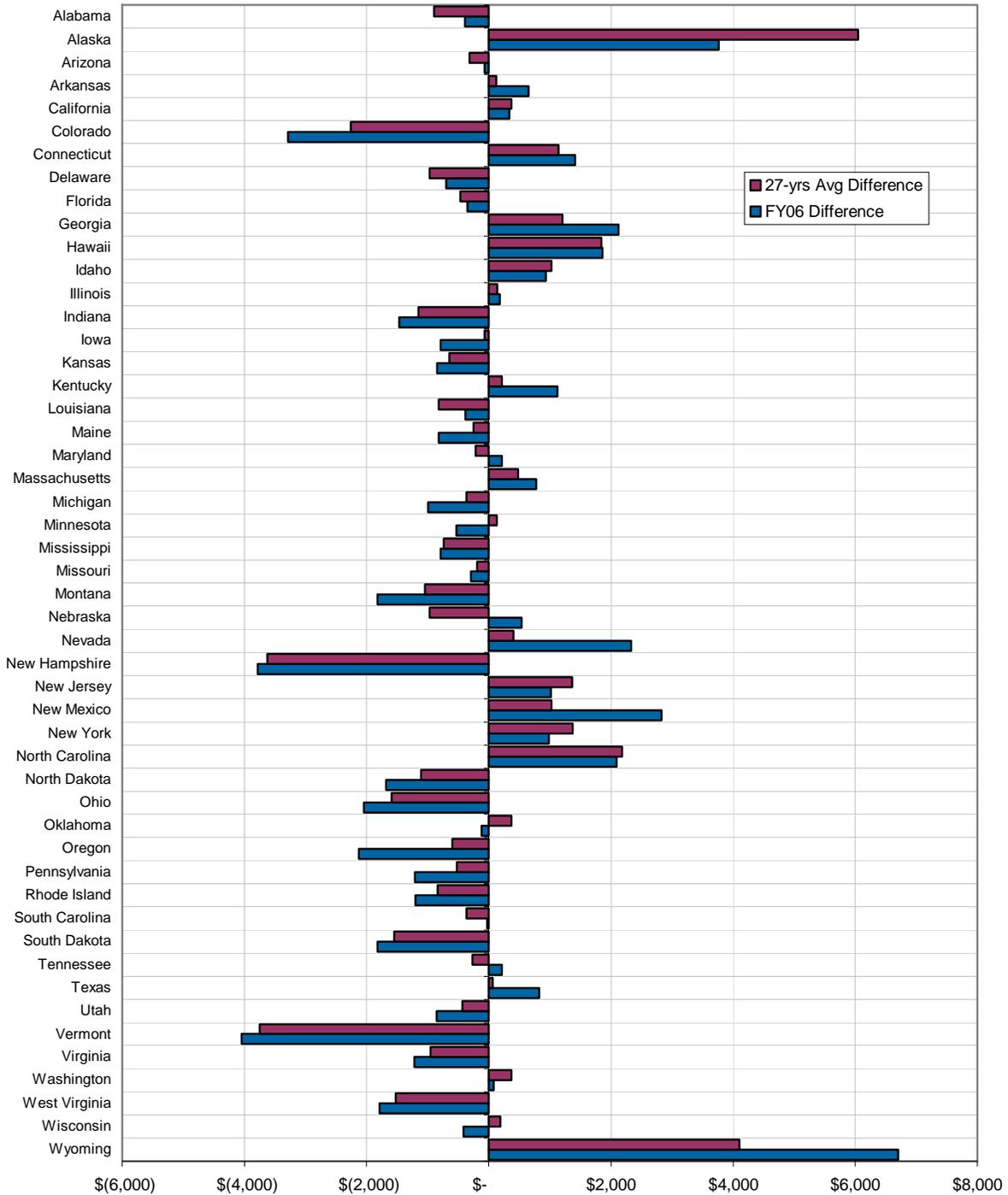
The second “right question” is the key to progress. The public has deep faith in the value of education, persistently expressed in public polls, political rhetoric, and the recurring pattern of recovery in funding for higher education. But too many in the public lack confidence that additional investment will generate the results we need. And even with greater confidence in higher education, the public will never be able to provide enough “new” money to make our work easy.

The money we have now is greater and far more important and than any “new money” we might obtain. Additional spending is unlikely to produce better outcomes in higher education, *without changes* in how we allocate resources and how we approach teaching and learning. The most important financial issue in higher education is not how incremental dollars are used, but the use of existing base funding. Our priorities and the incentives of the budget process will determine the effectiveness of higher education far more than any amount of incremental funding.

That said – marginal dollars still matter. By making strategic investments to address the third “right question,” public policymakers and higher education leaders can resolve the tension between the second and third “wrong ideas.” Money motivates action, and people with ambitious, shared objectives are willing to make strategic investments to achieve them.

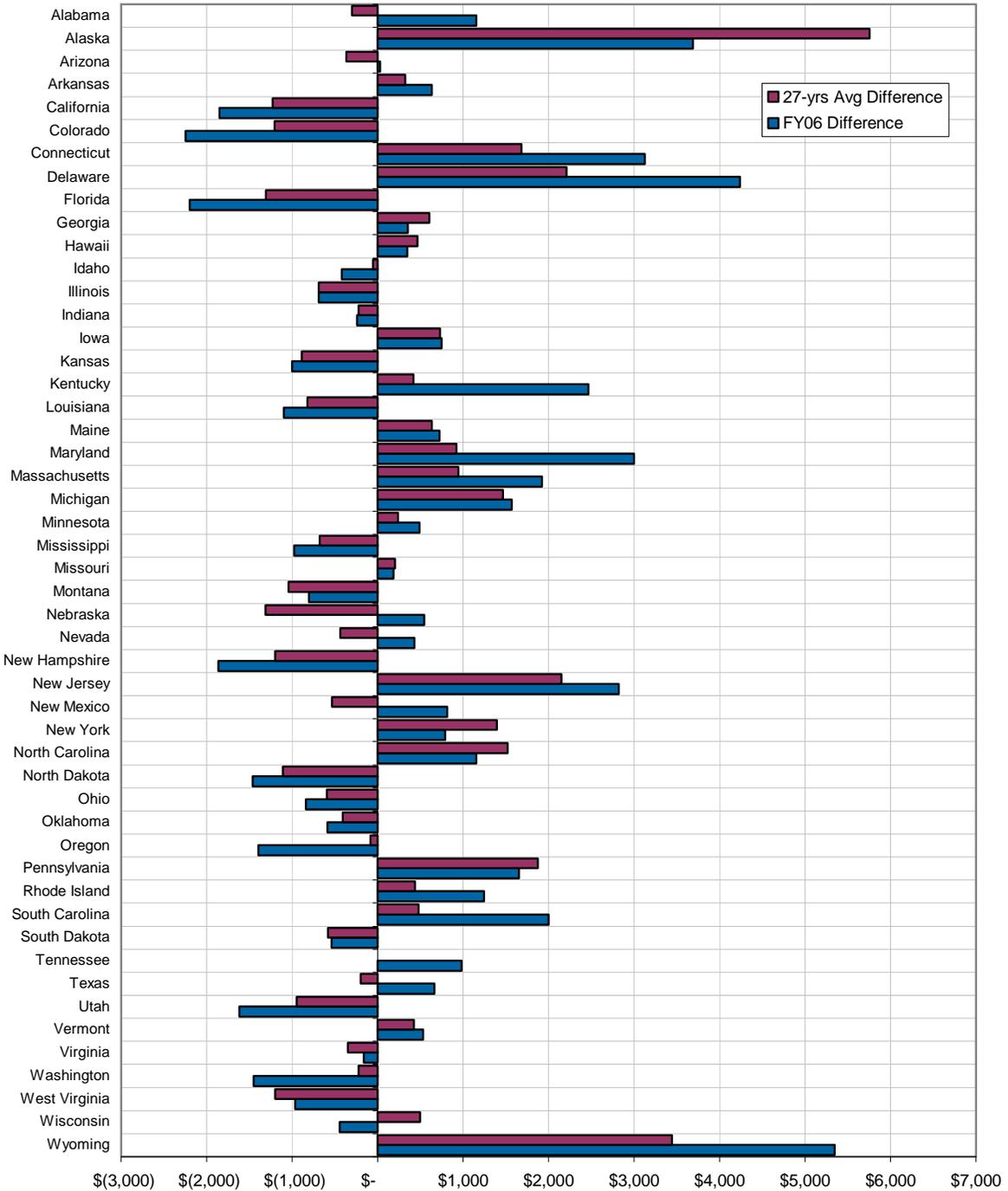
I know of cases where higher education has embraced these three key questions and demonstrated more effective use of existing resources. The public has responded with the investments necessary to meet ambitious goals. Actions, not just words are needed to overcome the skeptical view that inertia, not public priorities, rules in higher education.

Figure 10
Educational Appropriations per FTE:
Differences from Mean, 27-year Average and FY06, Constant Dollars*



*All dollars are adjusted by HECA, Cost of Living Adjustment, and Enrollment Mix
Source: SHEEO SHEF

Figure 11
Total Educational Revenue per FTE:
Differences from Mean, 27-year Average and FY06, Constant Dollars*



*All dollars are adjusted by HECA, Cost of Living Adjustment, and Enrollment Mix
Source: SHEEO SHEF