

Position Paper on Public Financial Support for Higher Education

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Introduction

The first part of this paper is to be used to summarize and defend a position on the economic and philosophical rationale for public financial support of higher education. The first question to answer then is how have we arrived at the present system of financing higher education? What is the philosophical and economic basis for this current system? The next question is regardless of the current arrangement for financing higher education, what affect should the concept of an education market have on higher education funding, or is the concept of an economic market even relevant to a discussion of higher education. Let's examine each of these questions

In Support of Public Funding of Higher Education

The concept of public support of higher education goes back to the beginning of higher education in America. As Rudolph points out in his history of higher education at the start the founders of the early colleges believed:

A college develops a sense of unity where, in a society created from many of the nations of Europe, there might otherwise be aimlessness and uncontrolled diversity. A college advances learning; it combats ignorance and barbarism. A college is a support of the state; it is an instructor in loyalty, in citizenship, in the dictates of conscience and faith. A college is

useful: it helps men to learn the things they must know in order to manage the temporal affairs of the world; it trains a legion of teachers. All these things a college was. All of these purposes a college served.

(Rudolph, 1962, 1990, Page 13)

Despite the arguments over the years concerning the proper course of study, public support for higher education in one form or the other has continued. Thomas Jefferson argued the education of the population at all levels was important for a society. In his home state The University of Virginia was founded in 1819 as a public university. The Morrill Act of 1862 established land grant colleges using public funds. The Hatch Act of 1887 provided for public funding of agricultural research stations. The Smith-Lever Act of 1914 added to these extension efforts. The need to slowly reintegrate the large number of servicemen back into the economy led to the passage of the G. I. Bill after the Second World War. Finally, there is the Higher Education Act of 1965 and its various extensions which established federal financial aid for students. Concerns about the safety and stability of the military command structure during the cold war lead the national government to fund the development through university research of a robust wide area data network that evolved into the present Internet. In short, there is a long history of government funding of higher education in one form or the other. In some cases this funding has been due to economic needs of the nation, such as the Morrill and Hatch Acts, and the G. I. Bill. In other cases it has been due to the need to harness the creative energies of academe to solve

pressing national problems, such as the development of the ARPANET network, which was the precursor to the Internet.

One of the main philosophical arguments in favor of public funding of higher education is seen in various works by John Dewey. Dewey argued that the proper basis for a democracy is a community of educated persons. In fact a common criticism of Dewey is his assumption that the majority of citizens could be raised to a level of education so that they could function as part of this community.

There is also a political basis for public support of higher education. As Couturier writes; "Time brought other responsibilities to higher education's door as well. The Wisconsin Idea from the early 1900s became a model for the strong, reciprocal relationship between the university and the state. (Couturier 2005)

On a more practical basis the report of The Pew Higher Education Roundtable argues that the public in general has expectations that higher education will be an engine of economic growth and social change. If the university can do those things, then it is deserving of public funds. But should the university be doing these things? Just because the citizenry prefers this does not mean this is the best use of the university.

In Opposition to Public Funding of Higher Education

What of the other side of the argument that says higher education should be at least in part, if not wholly self-supporting? The current argument over public funding of higher education was first seen in the arguments over vouchers for elementary and secondary education. In this system we see the beginning of the

high tuition, high aid argument in favor of choice in all forms of education. The desire is to reduce the overall direct support for higher education institutions. This approach assumes that higher education operates in a market environment.

In economic terms a market is generally defined as a place where people meet in one form or the other for the purpose of trade by private purchase and sale, while governed by the theory of supply and demand that allocates resources through a pricing mechanism. Clearly there is a market for higher education. This market constitutes about three percent of GDP, which is a \$260 billion market according to Collis. (Collis, 2001, Page 13)

Should and do market forces impact higher education? The Pew Higher Education Roundtable in their “A Transatlantic Dialogue” stated in their summary proposition; “The changes most important to the university are those that are external to it. What is new is the use of societal demand – in the American context market forces - to reshape the university.” (The Pew Higher Education Roundtable, 1993, Page 1) Newman, Couturier, and Scurry in *The Future of Higher Education* believe as well that higher education has already entered a market economy. The authors see this as a worldwide phenomena. (Newman, Couturier, and Scurry 2004)

My View of the Proper Support for Higher Education

Who should pay for higher education is an interesting question. It is fundamental to the way colleges and universities operate. In my view the majority of the benefit is a private benefit to the student and the student’s extended family. The primary support for this position is the increasing vocationalism seen in

higher education in general. As several authors point out the massification, in other words the extension, of higher education to populations formerly underserved has changed the purpose of higher education from the preparation of a learned clergy at the earliest point in the history of higher education in America to the current emphasis on employment upon graduation. This shift in emphasis is most clearly seen in the rise of the for-profit schools. Most authors assume that the students enrolling in for-profit schools rather than non-profits are primarily interested in training rather than general education. (Moore 1995, Doucette 1998, Berg 2005, Grubb and Lazerson 2005) Moore states this directly when he says "I argue that the mission of most proprietary schools is to train people as quickly and efficiently as possible for entry-level jobs in specific occupations." (Moore, 1995, Page 64)

Berg on the other hand believes there is a fundamental shift occurring. This shift has been seen in the dramatic increase in older, part time students. With this shift, the interests of the student body as a whole has changed. The change is toward an increased interest on vocational and professional oriented courses. This will affect all of higher education. As Berg says:

These changing demographics, combined with the severe revenue pressures felt throughout American higher education, now dramatically press the academy to change. The entrance of the adult learner into undergraduate education marks a major shift in direction for higher education, one perfectly in line with the missions of many for-profit and

nontraditional institutions.

(Berg, 2005, Page 3)

The Pew report takes notice of this view as well when it notes that even the most selective American universities are now becoming fee-for-service enterprises that must sell themselves to prospective customers. They attribute this to the increase in nontraditional learners and the vocationalism in higher education. As the Pew report states these concerns are not limited to America. In Western Europe, as well as Eastern Europe, these same trends are being noticed. (Pew 1993)

To the extent that there is a public good associated with higher education, which is being undone by the impact of the market, Couturier points out:

There is a long-standing yet unspoken compact between higher education and the public. That compact has overseen the complex and ever-shifting negotiations that ensure that public colleges and universities meet societal needs and that state governments—as representatives of the public—support their public institutions through special privileges such as academic freedom, tax exemption, and state appropriations. The unspoken compact is now being undone by the increasingly competitive and market-oriented world in which higher education institutions operate. Traditional colleges and universities are competing with each other and with a host of new providers of postsecondary education, such as for-profit, online, and corporate institutions, in a battle for tuition, public and private revenues, and prestige. The competition is fierce, and it is eroding

the compact, pushing higher education toward an increased focus on institutional self-interest and further away from its commitment to serving public needs.

(Couturier, 2005, Page 85)

Part Two

Based on the conclusion I reached above that the majority of the costs of higher education should be borne by the student and the student's family, the next questions are what proportion of the cost should be met by the student and what role does the government at any level have in this?

Before these questions are addressed, a more significant question must be answered first. That is, what is the true cost of higher education? A corollary question is; what are the appropriate costs that should be part of higher education?

We cannot look at the tuition charged at any level of public or private higher education and assume that represents the cost of the education. This is due to the large number of extraneous services and activities that are part of public and private non-profit higher education. We might assume that costs are more reasonable at the for-profit institutions. As Laband and Lentz argue; "In theory, at least, not-for-profit IHEs arguably will be characterized by higher production costs per unit of output (e.g., per student) than the for-profit IHEs, since profit maximization implies cost minimization per unit of output; breaking even does not imply cost minimization and, indeed, may imply inflated costs." (Laband and Lentz, 2004, Page 430) The authors of this study do not find any difference in

costs. As they say; “To our great surprise, we fail to find a statistically significant difference between for-profit and not-for-profit private providers of educational services, but do find a statistically significant difference between private, not-for-profit institutions and public institutions.” (Laband and Lentz, 2004, Page 430)

We also cannot look at the tuition charged by for-profit colleges and universities as there is evidence that their tuition levels are set based on the amount of government support their students are eligible for, rather than actual costs.

In the absence of any definitive figures on the costs of higher education, how are we to know what is the appropriate level for tuition? The answer is above in the market.

Regardless of the true costs, the new form of the university suggests that the majority of the costs of higher education should be placed on the consumer. Support for this is seen in the Pew report when they state that the new look of the university can be summarized as:

1. The university is important as a purveyor not just of cultural values and knowledge but of individual opportunity.
2. The demand for a university education is becoming more vocational, more closely associated with the conferring of economic advantage and of status.
3. As it is becoming more demand-sensitive and entrepreneurial, the university risks losing its ability to speak and act as a singular institution.

(Pew Report, 1993, Page 7)

Notice in each point the emphasis on the individual benefit of the education. In point one we see “individual opportunity”, in point two “more vocational”, and in point three “entrepreneurial”. All of this speaks to the primarily individual benefit of higher education. If the benefit is mostly to the individual, then the individual should pay.

What of the alleged societal benefits? To the extent to which the society benefits, for all the reasons discussed above, then the society should contribute. In my view that contribution should be financial assistance, not to the institutions, but to the students. This assistance can take the form of guaranteed loans or grants to the students as seems best to meet the needs of the society. This allows each institution to decide what best mix of goods to offer to prospective students, what the true costs are of this mix of services, and the amount to charge each consumer. It let’s each student shop for the best educational experience based on the amount they are willing to spend from their own resources, or that they can secure from others. This allows for a role for the society in being one of those others that provide support. Support for this position goes back as far as *The Wealth of Nations* by Adam Smith when he argues for the government to provide funds to parents so that they might select the best school for their children. It is seen today in the argument over public school vouchers. In other words, a market based approach to education is the best approach to take.

What then of the social contract the Pew report speaks of? As they state there are traditionally two sets of functions a university performs. The first set of

functions, the pursuit of knowledge through research and the intellectual independence of the faculty, are threatened by such a shift. As students, who in my proposed system absorb the majority of the cost of their education seek to avoid these sorts of costs, where will these functions go? What of the demands by society for higher education to contribute to economic growth and social diversity. By producing immediately employable graduates, the economy will be enhanced. Social diversity will not be the problem it currently is. To see the solution to this problem one need merely look at the student body at the typical for-profit college or university. The for-profits in general have a highly diverse population of students without the benefit of any special programs.

Conclusion

In this limited space an argument has been made for shifting the majority of the costs of higher education to the consumer of this education. These leads to the problem of higher and higher costs, but these will be offset by the provision of loan guarantees provided by the government. In this instance there is a role for government, but it is an auxiliary one, not one of direct control.

This approach will force institutions of higher education to operate on a common ground. Public and private non-profit institutions will find themselves in the same market as the for-profit providers. In this situation the true functions of higher education and their true costs should become evident. This will be the result of the market removing those players not able to compete. Each provider will be free to offer whatever form of education they see fit. This can be a

classically based liberal education in a residential setting or vocationally oriented skills based education for older working adults.

What this solution does not deal with is; how will the research functions now in the universities be handled? In short, these will have to operate as self-supporting functions of those institutions that decide to retain them. This is no different from the way any auxiliary function is handled in the modern university.

Are there problems with my proposed solution? I should think so. In the limited space available for this paper Division I athletics has not been discussed, not to mention the role of the faculty in this new system.

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