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THE PUBLIC UNIVERSITY AND THE COMMON GOOD: FEDERAL POLICY FOR THE NEXT 50 YEARS OF THE HIGHER EDUCATION ACT

Introduction

As you know, I am a supporter of a Department of Education's new college ratings system. More importantly however, I am even more supportive of the creation of a new federal/state matching fund partnership for public colleges and universities. In this speech, I hope to convince you how important it is for the federal government to use its fiscal leverage to encourage increased state investments in public colleges and universities.

According to Niall Ferguson in *The Cash Nexus* (2001), "the nexus between economics and politics is key to understand the modern world." However, in the U.S., the key to understanding how colleges and universities are financed often has more to do with politics than economics. This fact makes it imperative that policymakers analyze the political dynamics and underlying motivations of existing higher education finance and tax policies to effectively address the challenges facing higher education today.

On this eve of the 50th anniversary of the 1965 Higher Education Act, we celebrate the Johnson Administration's Great Society movement, which was intended to enhance the upward mobility of many of our socioeconomically disadvantaged populations. Education played a central role in these considerations and led to many significant policy developments, such as the creation of the Elementary and Secondary Education Act (ESEA) in 1965 and a significant policy debate that ultimately reshaped the landscape of American higher education. Most recall the overall objective, which was to enhance welfare and the common good through wider access to colleges and universities. What most don't recall is the intensity of these policy debates that pitted the wishes of private institutions against those of public colleges and universities.

Historical Context

As we sit here today, it is very important to understand the historical context of what would become our most important higher education debate over the last half a century. This debate essentially lasted from 1965 to 1972, and we have done very little since then to assess how effective these policies have become or which institutions have truly been the ultimate beneficiaries of these federal directives.

Since the end of this great debate, most of our federal higher education policy discourse has focused entirely on increasing Pell Grants by small amounts and/or raising the subsidized and unsubsidized student loan maximum caps.

It may surprise policy makers and higher education leaders alike to recall the development of federal direct student aid or Title IV policies was not simply about improving more widespread higher education access. Over the two decades prior to the 1972 passage of the Higher Education Act, private higher education had watched its share of the student population decrease dramatically due to the creation of public colleges and universities that charged more reasonable tuition and fees.

During the 1965 to 1972 debates, private higher education made the claim that the great diversity of the American higher education system was in substantial jeopardy because many privates could no longer compete with state subsidized public colleges and universities. Their argument was that federal higher education funding should follow the student and flow to any institution regardless of its mission. Protecting the diversity of institutions became a primary component of the argument rather than actually increasing low-income student access.

This is evidenced in a number of Carnegie Commission on Higher Education Reports in the early 70s, which stated many prominent and once wealthy private institutions were headed to financial ruin if tuition gaps and population shifts continued to take place. Among the institutions named as being in financial trouble were Stanford, Tulane, Syracuse, and Boston College. Those heading for financial hardship included NYU and Harvard. Little to no financial evidence was made available to substantiate these claims.

In order to convince federal policy makers to adopt a mission-blind federal direct student aid-funding model against the wishes of public higher education, it was argued that if federal funding could flow to private institutions, then lower income students would be afforded much greater access to these campuses. The privates then went even further with the argument, claiming that with federal funding, private colleges and universities would not have to increase tuition as rapidly, thus making them more affordable to all in the coming years.

Another historical factor fed into this debate. It was based on the assumption that the federal government would play only a supplementary funding role to that of the states, as it always had. In the early 1970s, states were the primary revenue source for public higher education institutions, and it was anticipated that they would continue to maintain their support for decades to come. To the detriment of public higher education institutions, the decades to come would prove to be a false assumption.

To address some of the public college and university arguments that direct institutional aid would produce better results for lower income access than direct student aid, the 1972 reauthorization of Higher Education Act included the passage of the Cost of Education Allowances (COA) to complement passage of the Pell Grants program. COA was supposed to function much like ESEA Title I grants, whereby each Pell student would have a $2,500 institutional grant that would follow them to a college or university to assist with academic and student service programs for lower income students. Congress authorized COA in 1972, but to this day, the program has never been funded.

Imagine for a moment what might have resulted from the creation of an institutional funding stream that would reward colleges and universities for enrolling and educating more low-income or Pell students. Currently, there are no incentives to do so, only disincentives, since they cost more to educate, have lower graduation rates, and have an overall negative impact on the current private magazine rating systems.

The last substantive development that occurred with the passage of the 1972 reauthorization was the creation of the State Student Aid Incentive Grant program (SSIG). This was a new federal matching program designed to encourage states to create and increase state funding of state student aid programs. Private institutions were incredibly supportive of this movement, since most states had prohibitions about providing state dollars to non-state colleges and universities. In creating the SSIG program, the federal government was sending a clear message to states to either a) reallocate funds to begin supporting these programs or b) match additional state funding efforts to existing state student aid programs.

SSIG was established to incentivize states to reallocate public funds to state student aid programs even if the programs were deemed unconstitutional according to states, as they were in Nebraska, Colorado, South Carolina, and Kentucky. Despite these constitutional restrictions, this federal leverage proved very effective. In 1972, 19 states had existing state student aid programs primarily in the northeast and middle states. Within four years, 39 states had adopted these programs that now exist in almost every state in country – positive proof that federal matching programs work when it comes to incentivizing state funding behavior.

Currently, other problems with state student aid programs exist because many of these programs are extremely price sensitive. If you charge more or have higher price tags for attendance, then students are able to qualify for more state student aid. For example, for years, a student attending California State University-Long Beach with a Cal Grant A grant received approximately $5,200, while a student attending the University of the United States of America, which resides in an industrial park in Long Beach, received $10,000 to $12,500. In Ohio, one state student aid program is restricted only to students attending private institutions. Nationwide, approximately 35 to 40 cents of every state student aid dollar flows to private institutions.

What has actually happened 50 years after the federal policies were adopted?

Currently, we have a federal higher education funding strategy that remains mission-blind to various colleges and universities, whether they serve the rich, poor, middle class, or shareholders. This funding model, which was premised on letting the market decide through the individual student, has given a marked advantage to private tuition-based colleges and universities over public higher education institutions. The policies also have done very little to change the overall accessibility of higher education for lower income students.

Prior to understanding the real outcomes from 50 years of federal direct student aid policy, it is important to highlight a couple of very important and unpredicted developments that occurred along the way. First, with the passage of the Middle Income Assistance Act in 1978, middle and upper income students gained access to vast amounts of federal student loan funds. This act essentially lifted maximum loan caps to make more loan-based assistance available to middle and upper income families and enabled many institutions to increase tuition rates at faster rates due to the availability of resources.

This led to recognition of a student indebtedness problem for the first time in the late 1980s and early 1990s.

Second, two years after the 1978 legislation, the nation witnessed the unanticipated beginning of a three-and-a-half decade decline in state support for public higher education. The result is that currently state funding for higher education is approximately 55% below where states were in 1980 tax effort, which measures spending as a percentage of higher education support by per capita income. States essentially began getting out of public higher education funding business in the early 1980s. The assumption that states would always be the primary funding source for public higher education, which fueled much of the original Higher Education Act's passage, has proven to be false. This is evidenced by the fact that currently, states contribute about $76 billion to higher education while the federal government supplies $170 billion in tuition-based assistance programs. The federal government is now the primary funding source for higher education institutions, which also means that the primary funding source for higher education institutions is a tuition-based system.

In the mid-to-late 1980s, federal direct student aid, along with the development of tuition-based state student aid programs, became so lucrative that another entirely new sector entered the higher education landscape in volume – for-profit institutions. Within the last two decades, for-profits have acquired 11% of the student population while generating 30% of all federal Pell Grants and 47% of all student loan defaults. As a great example, the University of Phoenix generated $3.75 billion – or 93% of their entire 2013 revenue stream – from federal support while having a graduation rate of only 11%.

This is why we must raise these concerns and issues about accountability and the development of a real college and university ratings system.

Many may remember the Clinton administration's discussions about the creation of SPREs in the early 1990s. These were designed as regulatory state entities that could help the federal government determine which institutions should be able to grant degrees, which should get public money, and which shouldn't.

AASCU took a stand on this issue, but we lost, and higher education linked arms and said that the SPRES represented more federal regulation, and we don't need any more of that.

Can you imagine if we had 50 entities in our states that were regulating where these monies are going today? We may not even have the need for a rating system today if we had taken the appropriate action in the beginning.

Current Environment

Currently, the value of the federal funding match and the need for better parent-student information is at a premium. The federal government spends $170 billion on higher education while states are down to $76 billion, and falling fast. If nothing changes and we proceed to the next 50 years in the same manner we have handled the last 50, this is what is going to happen:

Colorado will be the first state to not spend a single penny on higher education in 2025. That's only a decade away. Next will be Iowa in 2029, Michigan in 2030, Arizona 2032, Pennsylvania 2033, and Minnesota 2036.

Most of our states won't even make it through the next 50 years if something isn't done. As for society and the common good, let's pay attention to what is currently happening.

Thomas Piketty said that social mobility in the U.S. – which created the great society – is now well below that of most European countries. Inequality in the U.S. ranks first out of 34 OECD countries. In *Fighting Poverty in the U.S. and Europe,* Alsina and Glaesar said "the American poor seem to be much more trapped than their European counterparts." Thomas Krueger said that United States has become more polarized and more of a static society, one in which our children have become increasingly disadvantaged when it comes to public higher education.

The combination of federal policies and state abandonment has led to a marketable disadvantage in personnel and per student spending. In 1972, the differential between a public research university and a private research senior faculty member was $1,000. Today, it's 36% and $45,000.

That means that in the late 1990s, when we were in the conversations at the University of Illinois and the Big 10 CIC commission said to drop Northwestern out of the comparisons because we can no longer keep up, that move forecasted the future for American public higher education. Northwestern is now paying its senior faculty $60,000 more than the University of Illinois pays.

In fact, senior faculty at Babson, Wellesley, Santa Clara, and the University of Richmond make more on average than faculty at the University of Virginia and the University of Illinois at Champaign-Urbana. The University of Illinois at Champaign-Urbana alone has 23 Nobel Prizes. Full-time faculty at Chapman University in Anaheim make more than the University of California at San Diego, Santa Barbara, UC Santa Barbara, and UC Irvine faculty. You can see the marked advantage continues to grow and climb.

Just 25 years ago, per student spending was about $9,000 away from spending at private institutions. Today, it's $30,000 and growing. AASCU's spending compared with its private peers has grown during this period from about $11,500 per student to $14,000, roughly a smaller difference than private masters and baccalaureate degree institutions that have grown from a $500 advantage to a $7,000 advantage today.

And has any of this expanded access, as was promised? Well, the University of Washington has 7% Pell-eligible population. The entire Ivy League, all eight campuses with $100 billion in their endowments, enroll about 9,500 Pell-eligible students total. At California State University Long Beach, I had 13,000 such students just on my single campus alone. Northridge had 15,000 and the list goes on and on.

So I would argue that access hasn't expanded. When this began, the University of Chicago said we need access to public dollars. They said, "we'll become much more like the University of Illinois if given access to those funds." What has happened today is the opposite. The University of Illinois is becoming much more like the University of Chicago, with increasingly limited access.

It seems today that the diversity of the American higher education, this great diversity that we brag about to the world, is once again threatened. But it is now more threatened than ever because our public colleges and universities may not be able to stay public much longer if we continue doing the exact same thing we did for the last 50 years instead of salvaging them through new federal policies.

The need for a federal state match has never been greater. In the Higher Education Act in 2007, we were able to write in the first maintenance of effort provisions, thanks to the AASCU team and Ed and his folks and Muriel and Deno. More importantly, what happened in 2007 gives us clear evidence that federal leverage and a federal match is not only needed, but works well.

Most people don't realize that the HEA 2007 language was transferred into the economic stimulus packages, which meant that states could not take education money if they intended on cutting our budgets below the 2006 funding level. We had 48 governors against us on this. We won by one vote in Congress, one vote between the House and the Senate and guess what? Within six months, 20 states cut their higher education budgets to the very threshold of where that federal penalty kicks in, but wouldn't cross it. Tennessee (with a $1.1 billion budget) cut their higher education funding within $13 of where it kicked in. Oregon and Colorado cut their budget within a dollar. They were gambling on the math on that one. The time is now for us to create a saving formula at the federal level to match what our states are putting back into higher education.

As for information, AASCU has been a leader. We're not afraid of the proposed rankings. In fact, many of our institutions put it in our VSA and our college portraits. I know at the California State University System and now at LSU, we put our students' earnings in there, we put our student indebtedness in there, and we put our student loan default rates in there, because at the end of thee day, we know how we're going to compare to the Sarah Lawrences of the world. And we should welcome and embrace these considerations about giving parents and students new information that shows the value of what we do for so many.

Having pointed out some of the differences in spending, I'll say that being institutions with the most needy students, we've got it all backwards. In higher education, we're spending more money on students who need it the least. It's the exact opposite of the principles established in 1965 when we created Title 1 schools because the federal government said poor schools need more assistance. And guess what happened in 1967? The first thing the states tried to do was take their funding out of those poor schools … not combine it, but supplant it. So maintenance of effort provisions were established to protect the Title 1 schools from the states pulling their money out.

The need for much better information is all around us. The reason a school like Sarah Lawrence can charge $65,000 a year is because they've said trust us, we're worth it. But student indebtedness is at $1.3 trillion, second only to mortgage loans. Students are concerned. Parents are concerned. I think that era is over.

We must pull together to make a case for the future of public higher education. It is inconceivable to me that we allowed this system to continue as it has for the last 50 years. It is no wonder we rank 11th in the OECD world in terms of our younger generation's college completion while our generation aged 55-64 year old ranks first. If nothing changes, that drops to 19th by 2020.

For 15 years, AASCU has struggled to advance common good principles: the creation of ESA, a unit record system to track our students wherever they are (that we still don't have), establishing the SPREs to slow down the proliferation of places like the University of the United States of America and John Paul the Great University, Alliant International, Trident International, and John F. Kennedy University in San Francisco. And now we're asking for your support on the most important issues I think we have faced in 30 years, which is a state-federal partnership match that helps bail out public higher education like the federal government did in 1972 for the privates.

AASCU and the public research institutions need to work closely together, better than ever, as we go forward. The politics of higher education has outweighed many of our common purposes and missions. It's time that higher education policy and policy-makers listen to the 20% of college and university presidents who represent 80% of the students, instead of 80% of the presidents representing 20% of the students. Working together, we can make this happen. Working apart, we'll be back to where we were in the last 50 years, and we'll watch the state-by-state drop off within 10 years.

We don't need to be like crabs in the bucket, always pulling each other backwards while all of this is going on around us, while Phoenix is taking home almost $38 billion, 93% of which is public money. Only through united advocacy and federal policy changes can we draw on our distinct missions and differences so that we can ensure these next 50 years emphasize the common good and welfare of the next generation of students instead of the welfare of individual institutions.

Now, it is time to make a much greater impact and to save public higher education and all the students that we serve. Now is the time to raise these questions, to raise these issues, but there are many out there who do not want things to change. They pay better, they spend more on the students, and they have the least needy student population in the country. All because they charge incredibly high tuition rates and hope that parents will continue to trust them without insisting on easy access to real, credible data about student outcomes.

So, this is our challenge as public higher education institutions. It's a challenge that I have been committed to fighting with AASCU and I will continue to fight alongside you. We need to put public money into public institutions supporting public missions.

And your help is needed with each and every one of your legislators and each and every one of your congressional officials, to get them to understand that we have big problems with what has happened in the last 50 years, and now it's time for the federal government to step up to ensure that states do not back out of their responsibilities to citizens and students of all 50 states in this country.

So thank you, Muriel, AASCU Policy, Ed, and thanks to all of you for what you do. This is the challenge that I hope we all take. I think the timing is right, because we don't have another 50 years to wait. Public higher education won't make it that long.