

FORGING NEW FEDERAL POLICIES
**SUPPORTING A FEDERAL/STATE/PUBLIC
INSTITUTIONAL PARTNERSHIP**

AS PART OF THE NEXT 50 YEARS OF
THE HIGHER EDUCATION ACT

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Introduction

A great deal of dialogue supporting the concept of creating a new federal/state matching fund partnership for public colleges and universities has been under consideration of late around the country. In this discussion, I hope to convince you how important it is for the federal government to use its fiscal leverage to encourage increased state government investment in public higher education, which has been the policy in other important government enterprises.

According to Niall Ferguson in *The Cash Nexus* [2001], “the nexus between economics and politics is key to understanding 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 makes it imperative

that policymakers analyze the political dynamics and underlying motivations of existing higher education finance policies to effectively address the challenges facing public higher education today.

On this eve of the 50th anniversary of the 1965 Higher Education Act, which was intended to enhance the upward mobility of America’s socially and economically disadvantaged people, we are positioned to develop new policies that could prove to be more effective in keeping affordable higher education opportunities available to all citizens. As we look back, education played a central role in the 1965 considerations and led to many noteworthy policy developments, including the Civil Rights Act and the creation of the Elementary and Secondary Education Act [ESEA]. Also of major importance at the time was the policy debate that ultimately shaped the landscape of American higher education for the

next five decades. An overall objective at the heart of this debate was the goal to enhance the common good through wider access to the nation's colleges and universities for socioeconomically disadvantaged students. What most of our policy makers don't recall is the intensity of the policy debates, which pitted the demands of private institutions against those of public colleges and universities. This debate essentially lasted from 1965 to 1972, and we have done very little since then to assess how effective these policies have been or which institutions have been the ultimate beneficiaries of these federal directives.

Since the outset of this great debate, the thrust of our federal higher education policy discourse has focused on simply increasing Pell Grants by small amounts and/or raising the subsidized and unsubsidized student loan maximum caps. During this time, college and university tuition has far outstripped estimates that were based on prior predictions.

In this light, it may surprise policy makers to recall that the development of federal direct student aid or Title IV policies in 1965-72 were not simply about improving widespread higher education access for lower-income students. During the two decades prior to the 1972 passage of the HEA amendments, 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. Advocates for private higher education, in their opposition to public institutions, rested their *a priori* fiscal claims on the presumption that the federal government should fund the thousands of private institutions that had been established over the centuries for a variety of private and religious reasons only remotely related to the common good. Their argument was not for the value of higher education having diverse student populations, but rather that there was some intrinsic

government value in having diverse institutions.

During the debates, proponents for private higher education asserted 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 the federal higher education funding model should be based on money following 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 increasing access for low-income students.

Private college and university claims demanding access to public dollars defined the era from 1965 through 1972, as documented in a number of Carnegie Commission on Higher Education Reports from that time. These reports stated that many prominent and once wealthy private institutions were headed to financial ruin if tuition gaps and population shifts continued to take place nationwide. Among the institutions named as being in financial trouble were Stanford University, Tulane University, Syracuse University, and Boston College. Those heading for financial hardship included New York University and Harvard University [Carnegie Commission on Higher Education, 1972]. Little to no financial evidence was ever produced to substantiate these claims that such prominent private universities were actually facing significant hardship other than a national enrollment shift toward public colleges and universities due to expanded educational access.

In order to convince federal policy makers to adopt a mission-blind federal direct student aid funding model against the entreaties of the advocates for public higher education, private institutions argued that if federal funding could flow in their direction, it would allow lower-income students much greater access to private campuses. Additionally, access to

new federal funding sources would allow them to refrain from having to raise tuition as rapidly, thus making them more affordable in the coming years.

Another factor that fed significantly into this debate and would prove to be a major miscalculation was the assumption that state governments would of their own volition maintain or increase their current levels of fiscal commitment to public higher education.

Federal policy makers were convinced that public colleges and universities would continue to be supported primarily by their state governments. Any new federal funding policies were anticipated to supplement state funds, not replace them. To the detriment of public higher education institutions and leaders, this presupposition would prove quite erroneous as state governments began to reduce funding in 1981, producing the ballooning of tuition that we experience today in state institutions.

The last substantive development that occurred with the passage of the 1972 reauthorization was the creation of the State Student Aid Incentive Grant (SSIG). This was a new federal matching program designed to encourage states to create state student aid programs or increase funding of existing ones. Private institutions were leading the support of this movement because at the time of its creation, most states had prohibitions about providing state dollars to non-state colleges and universities. In creating SSIG, the federal government was sending a clear message to states to either reallocate funds to begin supporting these programs or 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 those programs were deemed unconstitutional according to many states like Nebraska, Colorado, South Carolina, and Kentucky. Despite these constitutional restrictions, this federal funding

leverage proved extremely effective. For example, in 1972, only 19 states, primarily located in the Northeast and the middle of the country, had existing state student aid programs. 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 student aid in many states. Over the years many of these state programs directly benefited both private and for-profit institutions. For example in California for many years, a student attending California State University-Long Beach or UCLA would receive a lower average Cal Grant than students attending higher-priced institutions like the United States University, which is a for-profit institution in Southern California. In Ohio, one state student aid program is restricted only to students attending private institutions. Also, in New York and Massachusetts, larger student aid awards are allocated to students attending non-public institutions. Nationwide, approximately 35 to 40 cents of every state student aid dollar flows to private institutions. Overall, the use of federal funding leverage in the SSIG (later renamed LEAP) program made a significant difference in the higher education landscape for private colleges and universities.

Post-Higher Education Act 50 years later: What actually happened 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 market place choice by the 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.

To better understand the real outcomes from 50 years of federal direct student aid policy, it is important to highlight three 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 caps to make more loan-based assistance available to middle- and upper-income families and enabled many institutions to increase tuition at faster rates due to the availability of resources. This led to the recognition of our first student indebtedness problem 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 state funding for higher education is currently around 55% below where it was in 1980 in tax effort, which measures spending as a percentage of higher education support by per capita income. In other words, states essentially began getting out of the public higher education funding business, to the point that the federal government is now the primary funding source for higher education institutions. This also means that the primary funding source for higher education institutions is a tuition-based system.

Third, in the mid-to-late 1980s, federal direct student aid, along with the development of tuition-based

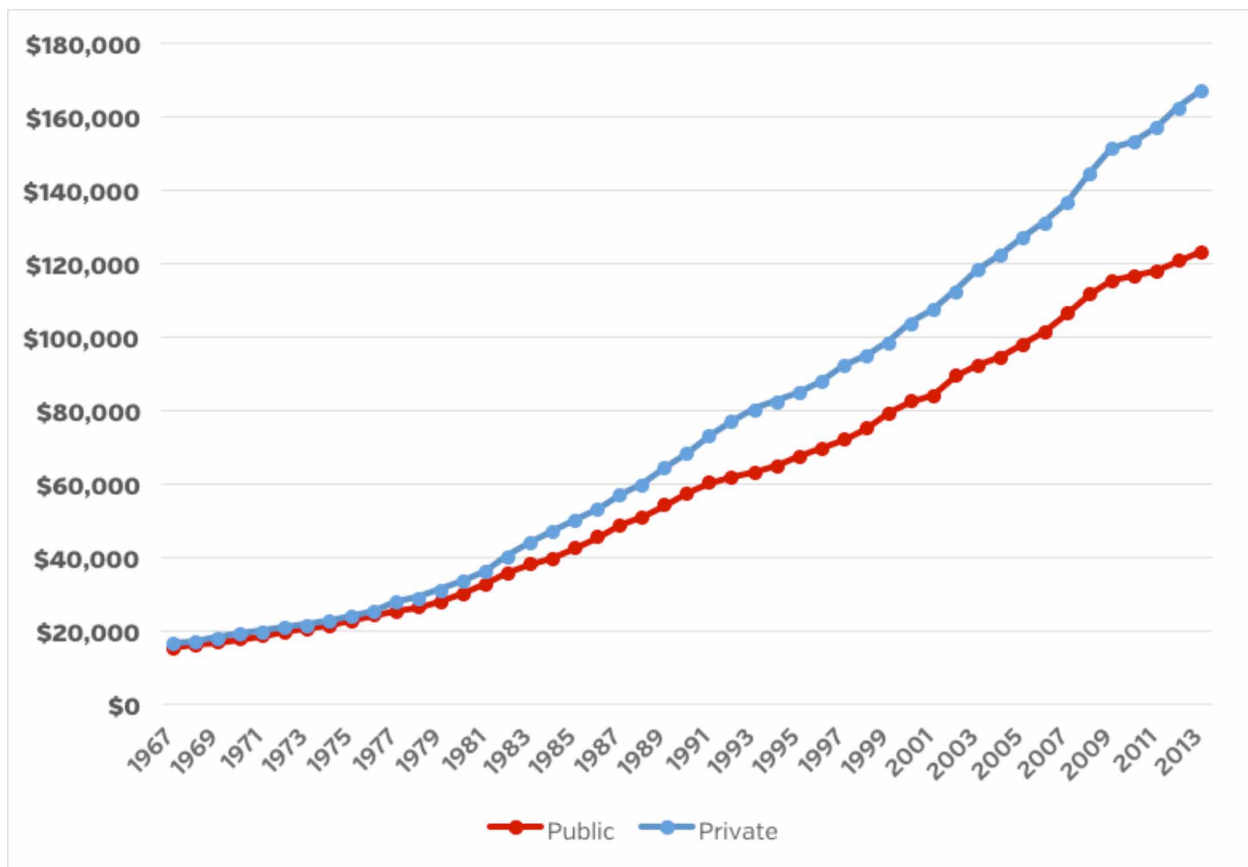
state student aid programs, became so lucrative that another new sector entered the higher education landscape in volume – for-profit institutions. Within the last two decades, for-profits have acquired 11% of the student population while generating 28% of all federal Pell Grants and 47% of all student loan defaults. In the most notorious widely cited example of how lucrative federal student aid has become, the University of Phoenix generated \$3.7 billion – or 93% of their entire 2013 revenue stream – from federal support while having one of the lowest graduation rates in the nation.

Earlier attempts to better control the widespread use of federal funds by many for-profit institutions were first made in the early 1990s when the Clinton administration initiated the creation of the State Postsecondary Review Entities, or SPREs. These SPREs 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 be able to do either. Unfortunately, higher education played an effective role in killing this new regulatory state system, which enabled thousands of federally reliant new for-profit institutions to surface in the next two decades.

The Public College and University Disadvantage and Need for Change

Currently, the necessity for the creation of a new federal/state funding partnership and the need for better parent-student information is at a premium. With the federal government contributing two-and-a-half times the amount the states are contributing to higher education institutions, the time is right to re-examine current funding policies to address what has been effective and what has not. If nothing changes and we proceed to the next 50 years in the same manner we have over the last half-century, public

**Chart 1: Public and Private Research University Average Full Professor Salaries
1967-2013**



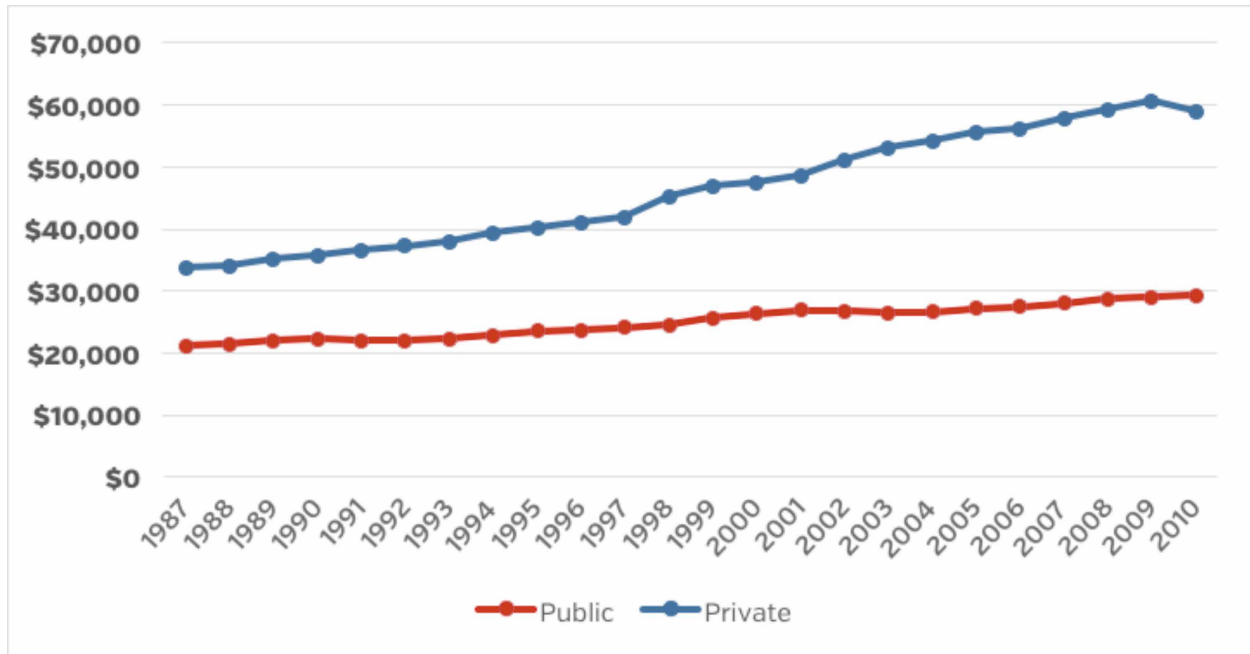
colleges and universities will become increasingly privatized and dependent only on student tuition. If current state funding trends in Colorado persist, for example, it will become the first state to not spend a single penny on public higher education in 2025. Iowa will follow in 2029, Michigan in 2030, Arizona in 2032, Pennsylvania in 2033, and Minnesota in 2036. Without federal funding leverage to encourage state investment for public higher education, much like what our federal government did for private institutions in 1972, most of our states will not provide any public funding for higher education in the next 50 years.

Another very important result of the combination of perverse federal policies and the relative reduction

in state funding of our public universities has been the increasing market disadvantage favoring private university faculty. In 1972, the differential between a public research university senior faculty member and a private research senior faculty member was approximately \$1,000, or 5.6%. In 2013, this disparity increased to approximately \$45,000, or 35.4% [see Chart 1].

This growing disparity not only means most of our nation's best public universities are losing ground against their private peers in the competition to hire and retain quality faculty, but public universities are even losing ground to non-peer private institutions. For example, senior faculty at Babson, Wellesley, Santa Clara, and the University of Richmond make

**Chart 2: Public and Private Research University Average Educational and General Expenditures per FTE
1987-2010**



more on average than senior faculty at the University of Virginia and the University of Illinois at Champaign-Urbana. Senior faculty at Chapman University in Anaheim are earning more than senior faculty at the University of California at San Diego, UC Santa Barbara, and UC Irvine.

The private university advantage also is dramatized in per student or per FTE spending. Just 27 years ago, the difference between average education and general per student spending at private research universities was approximately \$9,000 more than per student spending at public research universities. In 2010, the difference favoring private students increased to \$30,000 [See Chart 2].

The question must be asked whether the federal funding initiatives have substantially increased lower-income student access or positively impacted the social mobility of disadvantaged student populations as originally envisioned. Examples that

little has actually changed for lower-income students permeate the nation's higher education landscape. For example, one of the wealthiest private universities in the nation, Washington University in St. Louis, has only 7% Pell-eligible student population today. Tulane University and the University of Chicago, which reside in two of our nation's highest poverty cities, only enroll 11% Pell students. In fact, the entire Ivy League, including all eight campuses with nearly \$100 billion in endowment support, enrolls approximately 10,000 Pell-eligible students combined, averaging a Pell-eligible student population of 14%. To put this fact in perspective, UCLA, the University of Florida, California State University, Long Beach, and Arizona State are among many public universities in this nation that enroll more Pell-eligible students on each individual campus than the entire Ivy League combined.

Therefore, if we are honest about funding greater access for lower-income students, then we should be deeply concerned about the future plight of our

public college and universities. We should also be concerned about the increasing fiscal disadvantage that public institutions are facing when compared to their private counterparts. Spending less on students who we already know need more assistance is a recipe for national higher education failure. The time is long past for new federal higher education funding strategies.

Federal Leverage and the Need for a New State/Federal Partnership

Today the diversity of American higher education is once again threatened. But the threat is now more menacing than ever because our public colleges and universities may not be able to remain public much longer if we continue with the same funding model that has created this dilemma.

The need for a federal-state match has never been greater. In the Higher Education Act (HEA) reauthorization efforts in 2007, a first maintenance of effort (MOE) provision was added into the language, using federal leverage to protect higher education from dramatic state funding cuts.

Then, in 2008 and 2009, the same MOE language drafted in 2007 in HEA was successfully transferred into the American Recovery and Reinvestment Act (ARRA), which only allowed states to use education stimulus funds if they did not cut their higher education budgets below 2006 funding levels. In 2007 and 2008, forty-eight governors and the National Governor's Association strongly opposed federal MOE provisions. Ironically, within six weeks after the MOE was passed by Congress, nineteen states cut their higher education budgets to the very threshold of where the federal penalties would apply. The federal leverage worked well and states remained very reluctant to cross the federal line. For example,

Tennessee at that time had a \$1.1 billion higher education budget, but cut funding within \$13 of where the penalties applied. Oregon and Colorado reduced their higher education budgets within three dollars of the federal penalties. As you can see, this approach was able to somewhat stem the inevitable mass disinvestment trend by states across the nation.

The time is now for us to create a new federal/state funding partnership initiated at the federal policy level to match what our states are putting back into higher education and to incentivize them to increase their levels of support.

Public higher education must pull together and argue collectively in order to ensure that we will still be around for decades to come. It is inconceivable that we have allowed this system to continue for five decades. Having led the world for so long in higher education access, we are now witnessing states abandon their funding commitments and federal policies that from the start were designed to aid private institutions and to continue to provide them with distinct advantages over public colleges and universities. It is no wonder that our nation ranks 12th in the OECD world in terms of our younger generation's college completion while our generation aged 55-64 years old ranks first.

The politics of higher education has outweighed many of our common purposes and missions. It's time that higher education policy-makers listen to the 20% of college and university presidents who represent 80% of the students, instead of 80% of the presidents representing only 20% of the students. Working together, we can make this happen. Working apart, we will continue to see our states move away from funding public higher education while the federal government will continue to prioritize institutions that only have very limited public missions and impact.