UNDERSTANDING HIGHER EDUCATION FINANCE

INTERVIEW WITH JAMES GARLAND
AUTHOR, SAVING ALMA MATER

As part of a project on higher education finance supported by the Bill and Melinda Gates Foundation, Nate Johnson interviewed experts and leaders to gather different perspectives on how major budget choices are made. The interviews have been condensed for publication so that the key insights are available to anyone who is interested.

This interview with James Garland, former president of Miami University of Ohio and author of Saving Alma Mater: A Rescue Plan for America's Public Universities (2010), addresses the possibility of institutions being able to set tuition at market rates, sufficiency and efficiency in higher education, and competition among institutions.

The thesis of your book is that universities and perhaps the higher education system would benefit from less regulation, with institutions free to set tuition at market rates, thereby meeting demand in a way impossible when incentives are tied to state appropriations and state regulations. How did you get to that thesis?

I finished my PhD degree in 1969 at the height of the student unrest of the '60s. I came away from that tumultuous experience with two perceptions. One was that universities are microcosms of society, where broad societal issues are amplified and intensified, in part because student passions are high and idealistic. Young people want to change the world, and they lack the patience of their elders and the conditioned respect for established norms.

My other perception was that universities are very frail institutions and easily damaged. Universities are cloistered communities, in many respects isolated from the larger world. That's when I realized that the financial model of public universities—my first job was at Ohio State—was beginning to break down. State support of public universities had begun a long slow decline that continues to this day. I don't think any of us saw it coming back then, but we were witnessing the disintegration of an educational compact between government and the public that had existed since the Land Grant act of the 1860s. That compact was based on the idea that college should be an affordable dream for American citizens, with state governments footing most of the bill.

There was hardly any financial barrier to attending college when I was a student. A student could work summer jobs and easily pay tuition for the year, with money left over. Today, by contrast, my former employer, Miami University, charges Ohio residents a little over $14,000 a year and non-residents about $31,000 a year. That's roughly a hundred times what students paid a half century ago. Add in room and board and other living expenses, and you find that half the population is priced out of the education they need to make a better life for themselves and their families. The financial model of public higher education is broken, and I wrote my book trying to understand how that happened, and whether it was fixable.

The result of my inquiry was bad news: the fundamental business model of higher education in its current form cannot be fixed. To satisfy the societal goal of making an affordable college education available for their citizens, states would have to provide public campuses with government subsidies they can no longer afford. Absent those subsidies, the cost burden shifts to students and their families in the form of ever more unaffordable tuition and fees. And that, of course, is exactly what has happened.

It is important to understand that the public financing model has broken down, not because of politics or ideology, or the anti-intellectualism of elected officials (although there's plenty of that), but because of impersonal and irresistible economic forces: the global outsourcing of jobs, an aging population with growing healthcare needs, a deteriorating infrastructure, and all the other demands and entitlements that tap state treasuries. These costs grow each year, and many of them are fixed and non-negotiable. When elected officials look for slack in their state budgets, the largest malleable item often turns out to be the appropriation to higher education.

So when I assert that the business model of public higher education cannot be fixed, what I mean is that we cannot turn back the clock. We will never see a day when public universities are amply supported in the way they were when I was a college freshman. Public higher education needs a rescue plan, and that's what motivated me to start thinking about alternative financial models.

Do you have a sense of what sufficiency looks like in higher education, or how to know if adequate funding has been achieved, given the infinite possible aspirations that institutions can have?

That is a tough question. The hallmark of the American higher education system is its great diversity. "Adequate funding" means something very different for a flagship research university than for a regional urban campus that draws its student body from a low-income commuter population. For the latter case, survivability depends crucially on state appropriation, less so for the research flagship which has other sources of revenue. But no matter which end of the educational spectrum we're talking about, all presidents or chancellors want not only to protect their school but also to make it bit better. As I looked at the numbers, it became increasingly clear that wasn't happening. Public universities across America, at both ends of the spectrum, are getting worse.

Many public university presidents today feel like their campuses are on the edge of an abyss. The signs are everywhere: growing labor unrest, angry and frustrated faculty members, and ever-increasing numbers of contingent faculty, expanding class sizes, and tuition levels that drive away more and more students. Many public campuses (and their thinly-endowed private college counterparts) are in a fight for survival. Higher education in this country is in crisis and the shakeout is happening.

Some economists have advocated a more efficient system, with higher tuitions offset by higher levels of need-based financial aid, so wealthier students pay more and those who can't afford to pay more are subsidized.

I believe that is sound advice. Once one realizes that adequate government support isn't going to happen, common sense suggests looking at alternate scenarios. Like it or not, there are significant downsides to government subsidies (an assertion, of course, that does not meet with wild applause in much of the higher education community!) Here are some problems: (1) State appropriations are usually a formula-based percentage, not contingent on a school's performance. Although some states attempt to impose performance metrics (such as graduation rates), nobody has really figured out how to do that properly and fairly. When unearned subsidy money flows to universities, there's no economic incentive to improve or deal with complex issues. The only incentive is to persuade legislatures to increase the subsidy, which is why lobbyists are sprouting like dandelions on most public campuses. (2) Government appropriations benefit rich and poor students alike. Taxpayers end up picking up the tab for people who don't need to be subsidized. That's not so bad during times of prosperity, but when public money grows ever more scarce, as it has been for half a century, that is an inefficient and (in my opinion) inexcusable use of taxpayer dollars. As a way around these problems, I believe states should adopt the principles underlying the federal financial aid system. States should put most of their higher education dollars into need-based financial aid (instead of into appropriations)–basically mimicking what the feds are doing now.

If we move to a system where most funding goes to students through state-funded, need-based vouchers, aren't you still going to have budget pressures during a recession or when confronted with budget cuts?

Obviously states cannot print money, and so the funds allocated to student financial aid will vary with a state's overall financial circumstances. That said, if the money goes directly to the sons and daughters of taxpayers, there will be stronger political support within a state to try to preserve that money. Under the current appropriation-based system, there are no natural constituencies for higher education other than the universities themselves. As a member of the Ohio Board of Regents once told me, no politician ever lost an election by bashing higher education. Unfortunately, the reverse is often true.

I'm wondering how you think the tuition competition environment, either in Ohio or other places you've been observing, is affecting the institutions further down the competition ladder?

I'm not opposed to competition in higher education, and I believe that schools that provide a rigorous education, attractive campuses, good advising, and attentive and committed faculty should do better financially than schools that don't. But the problem is that the playing field is not level. While there are exceptions, the wealthy, well-known, and well-endowed schools have an insurmountable advantage over those without those attributes. In other words, the income inequality that is devastating the American middle class, also exists in higher education. The rich schools are getting richer and the poor are gradually being driven into the mud.

The challenge is how to turn that around. To me the only viable solution is to focus state money more strategically, so that it goes to the people who most need the money, and thereby increase their educational options. Armed with scholarships or vouchers, these students can then pick the schools that most meet their goals. The resulting competition will create healthier and more response universities, while simultaneously expanding educational opportunities for low and middle income students.

Is there anything else on your mind that you'd like to get into the conversation?

Yes. The trouble now is that for schools like Miami University, or William and Mary, or the University of Vermont, or some of the flagship research universities, the competitive advantage is diluted when everybody competes for the same small group of upper income students. Miami University has been spectacularly successful at recruiting these students, and when I was president there I led that effort. What I didn't anticipate, however, were the unintended consequences. As colleges scramble to recruit more upper income students, they run the risk of creating a country club atmosphere where amenities, posh residence halls, luxurious athletic facilities, and manicured lawns take precedence over well-paid professors, small classes, and rigorous academic standards. Instead, the economic incentives work in the direction of awarding higher grades, and lowering the intellectual bar of the curriculum.

In other words, as colleges divert resources to attract high-income students, the more they undermine their public goal of making college affordable for less-privileged students. That strategy worked at my university, in that it saved us from long term financial decline, but I worry about the broader long-term implications for the nation. Setting aside the fact that competitive advantages are lost when every school is pursuing the same strategy, one risks building a public higher education system that ignores the needs of the bottom half of the socioeconomic spectrum. That would be a terrible violation of the public trust, and I worry that we are moving in that direction.

James Garland is former president of Miami University and author of Saving Alma Mater: A Rescue Plan for America's Public Universities.