Time to Rethink Public Higher Education

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If Education Secretary Margaret Spellings' new commission on the Future of Higher Education is really going to do something about the college affordability crisis, then a good place to start is by facing three unpleasant truths:

(1) The historic business model for public higher education is broken and cannot be fixed. The inexorable demands on state treasuries from entitlements, social services, prisons, roads, and K-12 education mean that America will never return to the days when generous government subsidies made it possible to keep public tuition affordable. With the cost of a basic public university 4-year degree now $50,000 to $75,000, public universities can no longer provide an affordable college education for middle and low income students.

(2) The two hundred year long partnership between public universities and federal and state governments has degenerated into a shouting match of accusations and finger-pointing. Legislators see colleges as bastions of inefficiency and waste led by presidents whose solution to out-of-control costs is inevitably to whine for more public money. From the other side, frustrated college presidents see elected officials as buck-passers who view colleges as whipping boys and who substitute spin and simplistic legislation for responsible leadership. To them, their schools' pact with government has become a pact with the devil. Some truth lies on both sides, but neither is able to break out of the pattern.

(3) Many if not most public universities and colleges are staring into the abyss. The evocative marching bands, pastoral campuses, and dedicated professors shown on football weekend TV commercials mask an underlying reality of chronic budget cutbacks, crowded classrooms, dilapidated buildings, angry faculty unions, and armies of underpaid temporary instructors. For example, the Ohio Board of Regents estimates the deferred maintenance price tag at Ohio's public campuses to be nearly $5B, about twenty times the state's yearly appropriation for maintenance and renovation. Across the nation, full professor salaries at public, doctorate-granting universities now lag $30,000 behind their private university counterparts. At many public universities, state support has dwindled to twenty percent or less of total revenues. At my own campus, it is about ten percent. Falling state support and legislator-imposed tuition caps have proved to be a deadly combination that starves campuses for revenue and accelerates their decline.

Higher education's affordability crisis is not anybody's fault. It is primarily a result of long-term growing pressures on state budgets – the escalating health care needs of an aging population, the deterioration of the nation's highways, the social dysfunction of inner cities, and the economic threat of overseas competitors. Because these social forces are not going away, solving public higher education's woes will require a new way of thinking about the problem.

A sound principle of government is to target taxpayer dollars where they are most needed. Consider, for example, the 40 year old Food Stamp Program, which in 2004 helped nearly 24 million low income Americans.

Imagine, however, that instead of giving food stamps directly to needy households, the government instead gave $27.2B (the program's 2004 cost) to supermarkets to enable them to reduce food prices. Even if this admittedly terrible idea worked as planned, needy families would receive little benefit, because most of the savings would be passed on to customers who did not need help.

But this is precisely what happens in public higher education. When states pay their universities to hold down tuition charges, they are in effect using taxpayer dollars inefficiently to subsidize all students, wealthy and poor alike.

Furthermore, universities that count on public funds for survival tend to become risk-averse. Having a government-supplied cushion reduces the pressure for universities to become lean, efficient and responsive to student needs. Too often, they focus instead on preserving their government payouts and protecting the status quo. But fifty years of history shows that this is a losing strategy that inevitably augers a long downward slide into mediocrity.

Fortunately, there is a better way, and here is how it could work, using my own state of Ohio as an example. Ohio spends about $2B each year subsidizing its 13 public 4-year universities. Along with this "State Share of Instruction" comes a file cabinet full of regulations, reporting requirements, tuition controls, and other restrictions. My proposal for Ohio would eliminate both the subsidy and the regulatory burdens in three steps.

First, the state would turn each Ohio public university into a non-profit corporation, headed by a board of trustees (the legal structure of private colleges and universities), with ancillary legislation to honor existing personnel and pension obligations, and other legal commitments.

Second, the state would phase out each school's government subsidy over six years, the typical time-to-graduation for public sector undergraduates. The phase-out period would enable campuses to adjust to their new environment and grandfather in currently enrolled students.

And finally, the state would reallocate the freed-up subsidy dollars to a state administered scholarship program for newly enrolled students. Although most scholarships would go to middle- and low-income students, a portion could be reserved for students with special talents (to keep them in Ohio), or to encourage engineers, math teachers, or other groups that reflected state manpower needs. The scholarships would be valid at any accredited Ohio 4-year college or university, including private colleges.

After the six year phase-in, $2B worth of scholarships will each year be in the hands of Ohio college students, and it is not hard to predict the consequences:

-- Middle- and low-income students will see a significant decrease in the cost of a college degree, while students from affluent families will pay a larger share of their college costs.

-- There will be a ferocious scramble among Ohio colleges to recruit scholarship-holding students, particularly among the 13 (formerly) public universities. Students will choose colleges that offer the highest quality programs and the most value at a competitive price. Schools that lose their market share must either improve or risk going out of business.

-- Formerly public colleges would raise tuition charges to make up the shortfall caused by their loss of state subsidy. But because these schools no longer would enjoy a pricing advantage from their taxpayer cushions, competition will force them to restrain their tuition increases to the absolute minimum.

-- Colleges will quickly learn to respond to the legitimate needs of their students. Costly but unneeded frills will fall by the wayside, efficiency and adaptability will improve, and campus decision-making will become increasingly focused and strategic.

Note that this is not a proposal for a voucher program. Vouchers are entitlements that use tax dollars inefficiently by treating all recipients alike. In contrast, state-administered scholarships would focus primarily on middle and low-income citizens. In an era of constrained state budgets, they can not only address the college affordability problem but advance the fairness and social good that, ultimately, lies at the heart of a stable democracy.

Supplementary Information about Proposal:

Q: Would the proposal include two-year campuses?
A: No. The current funding model for two-year campuses generally works well. The 4-year sector has the highest operating costs and imposes the greatest burdens on taxpayers.

Q: What role is envisaged for the Ohio Board of Regents?
A: The Regents' role in the 2-year sector would be unchanged, as would their policy-forming responsibilities for the State's higher education needs. The Regents would also work with the legislature to define state educational objectives, define the new scholarship program's criteria, and oversee the implementation of the scholarship program...

Q: Would all eligible students receive the same scholarship amount, and would these be renewable scholarships?
A: Need-based scholarships would be variable, depending on the needs of individual applicants, and would be renewable for up to six years.

Q: How would the financial need of scholarship applicants be established?
A: By using standard federal financial aid ("FASFA") guidelines.

Q: What is the likely impact of the program on the different types of Ohio public universities?
A: Open-admission "access" campuses will find it easiest to adjust to the new program, because their students will be the predominant scholarship holders. Selective campuses whose students have higher average incomes (and thus smaller scholarships) will be subject to the most competitive pressures.