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ABSTRACT

Higher education is facing a financial crisis causing many institutions to cut back their budgets. These cutbacks can be attributed principally to improper pricing policies: higher education is "sold" at a great deal less than its cost of production. The two arguments for low-cost or free tuition -(1) the principle of equality of opportunity, and (2) the benefit that accrues to society -are demonstrable weak. Low-tuition benefits primarily the middle-class student, and society benefits most from the lower grade-levels of education. Low tuition has some serious consequences: (1) it causes a rationing problem; (2) it disregards student motivation; (3) it raises dangers to the autonomy of the academy; (4) it threatens the existence of several private institutions; and (5) it results in a series of inequities for youth not continuing their education. The National Association of Manufacturers strongly advocates an increase in the forms, amounts, and availability of individual grants and loans to needy students and supports deferred tuition programs and other ideas aimed at reforming higher education. (AF)

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PUBLIC POLICY REPORT

Higher Education

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SCHOOL
UNIVERSITY
RELEVANT EDUCATION FOR THE '70s
INDUSTRY

Higher Education

PUBLIC POLICY REPORT

Education Department

National Association of Manufacturers
277 Pa'k Avenue, New York, N.Y. 10017 (212) 826-2100

INTRODUCTION

The Carnegie Commission on Higher Education indicates that 450 colleges and universities with approximately 1.5 million students are in financial difficulty. Increasingly, this year colleges are trimming expenditures and budgeting smaller than usual increases for the 1971-72 school year.

A Princeton University committee has recommended a $1 million reduction in 1971-72 expenditures in view of an expected $2.4 million deficit this year. Columbia University is reducing or eliminating 28 departments. This cost-reduction program is expected to reduce academic and administrative services by 8.5 percent next year and a total of 15 percent over the next three years. The University of California has imposed a freeze on hiring and is cutting departmental budgets.

The University of Maryland also has indicated a short-term hiring freeze on faculty and staff positions. Michigan State University cut administrative budgets this year by 1.5 percent. Stanford University announced plans last year to cut $2.5 million from its budget. Officials now plan to cut $6 million during the next five years.

It is clear to the industrial community that a financial crunch exists in many institutions of higher education. To many people, the solution to these financial pressures is simply to provide more public funds in the form of aid from the federal and state governments to meet growing student enrollments and ever increasing costs. This approach has not solved, nor will it solve, higher education's financial problems. Such measures have been tried for years and years. If this approach to higher education finance is continued, chaotic financial conditions, like those of the present, are

virtually guaranteed next year, and for each school year thereafter. Because of this, the National Association of Manufacturers has adopted an official policy which states in part:

> ... industry urges colleges and universities to examine and restructure their fiscal policies ... that the focus of higher education financing should emphasize more effective forms of loan plans and aid to students ...

Those who seek increased institutional aid as the primary solution to higher education's financial problems should consider more seriously the possible consequences of a federal policy of general support. We have no hard data to suggest that institutional aid will cure the financial disease. We have little data on how university income and expense items are affected by good or bad business management practices. We don't know enough about how the design and character of an academic program affects income and expense. By simply providing general aid, reforms and efficiencies which would be to the good of higher education may be delayed.

Further, a general dependence on a federal institutional subsidy might work like Gresham's Law in that money normally realized from alumni, foundations, business corporations and even the state might be reduced or withdrawn entirely. Is it possible that we are trying to solve the financial problems of higher education without understanding why the problems exist?

FINANCING

Methods of financing public higher education have changed little from the era of the relatively inexpensive private liberal arts college and the small state-supported teachers college,

which required limited public financing, to the present year when there are approximately 8.5 million students enrolled in private and public colleges and universities. Current expenditures and capital outlays for higher education total $27.2 billion for the 1970-71 school year. Expenditures for higher education have been rising steadily in both dollar amounts and as a percentage of national income. Spending for higher education is increasing faster than revenue. These conditions obviously cannot continue forever.

All that need be done to put present enrollments and expenditures into perspective is to point out that college enrollments were 2.3 million in the school year 1949-50. The percentage increase in enrollments from the 1949-50 school year to date is 270 percent. Expenditures during this same 21-year period increased from $2.3 billion to $27.2 billion, or over 1000 percent.

The policies and techniques used to finance a university are in need of reform. Simply prescribing more dollars, whatever their source, as the solution is a superficial approach which tends to obscure the real nature of the problems of financing higher education. A careful and pragmatic appraisal of the nature and causes of the financial crunch in higher education is necessary if, as a nation, we are to deal effectively and fairly with the colleges, universities and students.

The underlying cause of the problems of higher education financing today can be attributed principally to improper pricing policies. Even though it is claimed by some that "market pricing" is not appropriate for educational services, the fact remains that higher education is subject to supply-and-demand principles. Consequently, the establishment of prices - even for higher education - which do not recognize these principles is bound to create an

unsolvable problem. As long as higher education is sold at a great deal less than its cost of production, the demand for this service can be expected to exceed the amount of committed resources. This will usually mean a deficit which can be financed only by a public or private subsidy.

The case for the present system of "free" or low-cost student tuition is based generally on two arguments. First, the principle of equality of opportunity. In other words, proponents argue that every student should be given the opportunity to attend college regardless of ability to pay.

In practice, it has not worked as advertised. Present tuition rates in public institutions are very low as compared to actual costs. Special programs, including financial grants, have been used to attract low-income people to college. True there are more "low-income" students in college now than ever before but most college students still come from middle- and higher-income families. U.S. Commissioner of Education Sidney P. Marland, Jr., in his 1971 Annual Report says, ". . . a boy or girl from a family earning $15,000 a year is almost five times more likely to attend college than the son or daughter in a household of less than $3,000 annual income." While low-tuition policies may have been intended to enable the less affluent to attend college, this does not seem to have been the result achieved. A defense of low-tuition policies as the principal means to attract low-income students to college is demonstrably weak.

The greater share of money costs that must be laid out by a student to attend college goes to room and board. Tuition charges at public institutions tend to average only 30 percent of total outlays for tuition, room and board. If low tuition attracts low-income students, then low room and board costs, representing 70 percent of total costs, would attract even larger numbers. The intention is good, but the results are contrary to the announced intention.

It should be stressed that low-tuition policies have brought little equality of opportunity. To the contrary, present policies of low tuition subsidize students from wealthy families as well as those from poorer families. Further, low tuitions are not the only way to pursue the goal of equal education opportunity. Equality of opportunity would be promoted better by direct subsidies to students with financial need, or by an improved education capital market which would better enable students to borrow against future earnings.

A second major argument used to support low-tuition policies is based on the assumption that all the benefits of higher education do not flow to the student, but that some benefits are external to the student and accrue to society at large. This argument is set upon a weak foundation. There is evidence that the greatest external benefits from education accrue to society from the lower grade levels rather than from the university level, where much of the training is intended to advance personal career ambitions. Even if the external benefit arguments are accepted, a policy of low tuition is not the only alternative. A direct subsidy to the student, for example the G.I. Bill or a loan, would serve the same purpose.

At least an additional three million students are expected to enroll in institutions of higher learning during this decade. The policy alternatives to deal with this projected increase are three: (1) Arbitrarily restrict admissions. Hopefully this can be avoided. (2) Increase the taxpayer subsidy. The record is clear that the American taxpaying public has been, at least up until now, generous in this regard. (3) Impose a larger proportion of the escalating costs on the consumer - the student - who benefits. Individual public institutions should examine this alternative in light of their specific budgetary requirements.

CONSEQUENCES OF LOW TUITION

It is important to note that the problems of financing higher education are not the only ones caused by below-cost pricing -- low tuitions. Low tuition causes a serious rationing problem, disregards student motivation, raises dangers to the autonomy of the academy and results in a variety of inequities.

The rationing problem is best seen by asking the question: Who should get higher education services? Offering a service at a price below its value creates an excess demand for this service over the quantity supplied, whether the product be medical services, rental housing, or a college education. This excess demand requires that the seller, the university in this case, find some way to determine whose request for a higher education is to be granted and whose denied. Rationing the limited higher educational services available is fast becoming a major problem and can be expected to worsen if present tuition policies are continued.

One generally accepted rationing principle suggests that higher education opportunities should go to those who possess the greatest potential for intellectual growth. This principle has an immediate appeal in that higher education certainly is intended to involve intellectual activity. However, this rationale can be questioned on both practical and philosophical grounds.

Determining and measuring the potential for success in college is a most difficult and imprecise task. It is almost as difficult to determine which students, once admitted, should be permitted to stay in school. Even if "successful" college performance could be predicted accurately, it is proper to ask: Should higher education be denied to those who start from a lower level or who seemingly possess less capacity for

growth? Is 20 percent personal growth for the bright student preferred to 20 percent personal growth for the less capable student? Tuitions which are too low require some such arbitrary criteria for rationing the available higher education services.

A second consequence of below-cost pricing in higher education is to admit easily to university life many who don't have a strong desire for the education offered. It is frequently stated - significantly by notable university presidents - that some students who are in college should not be there. Many students are in college only because their parents want them to be; because attending college is expected of them; because they can avoid the real world or work, and in some cases because they have nothing else to do. No wonder so many students are dissatisfied with college. This helps explain why professors must constantly chide some students to do those things which the student's mere presence in college suggests he desires.

It is important that students have the opportunity to hear and read a variety of points of view -- especially on public policy issues. But a university which depends on large-scale subsidies faces potential danger to its autonomy and academic freedom during times of financial stress. When an institution is dependent upon a government for massive support, it is difficult to believe that attempts will not be made to influence the selection and admission standards of students, the choice of faculty, and the manner by which the institution is administered. Very recent history contains several examples of legislative proposals whose intent was to alter institutional policies by threatening to withold funds to achieve compliance.

One further point needs to be considered. The disparity between tuition charges at public and private institutions is

so great that the autonomy and even the continued existence of some private institutions seems threatened. Despite a verbal commitment to a dual system of higher education, too few tangible public policies exist to make this commitment a reality.

The average annual cost of tuition and fees at a typical public four-year college approximates $442. The comparable cost at a private college is over $2000 and the tuition charge at an Ivy League school approximates $2800. When revenue derived from organized research and auxiliary sources is excluded, tuition charges at public institutions average around 20 percent of income whereas this figure is approximately 60 percent for private institutions.

Another consequence of low-tuition policies is the inequity of differential treatment. High school graduates who believe that college is not necessary for their career aspirations receive little or no taxpayer subsidy. By comparison, those students who attend college are not only subsidized, but subsidized regardless of their financial needs. The young person not attending college is taxed to support the college training of others. Too little attention has been focused on the inequity of a system which provides public subsidies to about one-half of each year's high school graduates but gives the subsidy only to those who choose to attend college.

Recent evidence shows that the beneficiaries of the largest public education subsidies resulting from low college tuitions are students from families who, on the average, have higher incomes and are most able to pay. These families receive a higher ratio of education subsidies to total state and local taxes paid than do lower-income families. Therefore, low-tuition policies redistribute income from poorer and

lower-middle-income families to upper- and higher-income families. Does society want to continue to produce these consequences through its current methods of financing a university education?

STUDENT ASSISTANCE

The National Association of Manufacturers does not believe that traditional institutional grants will meet the real needs of universities. These funds are at best ameliorative, not curative. Present financing largely subsidizes institutions irrespective of students' financial needs. Any attempt to subsidize institutions rather than students is bound to cause a variey of inequities between colleges and especially between students.

Present public financing of colleges and universities tends to grant financial relief to students from high-income families equal to that which it gives to students from low-income families. This would seem to be an undesirable and unsatisfactory consequence. An inducement for institutions of higher learning to restructure their policies in ways calculated to produce more responsive institutions with the capacity to increase their ability largely to finance themselves seems highly desirable. Incentives are needed which would encourage states to (a) provide adequate forms and amounts of public subsidies, (b) restructure tuition policies, and (c) promote improved fiscal management of colleges and universities. These are areas that warrant considerable study and thought by all friends of higher education.

This Association is a strong advocate of an increase in the forms, amounts and availability of individual grants and loans to assist students in pursuing a higher education. Certain principles seem clear. Subsidized grants and subsidized loans

to those who are able to pay should be avoided. By the same logic, no qualified student who seeks a higher education should be prohibited from pursuing a college education. Public funds are not available in amounts sufficient to subsidize both types of students, and public subsidies should be reserved for those with demonstrable needs. Differential treatment of students based on economic status should be to help the qualified but less well-off student to pursue a college education, not to escape totally the economic burdens associated with higher education. Fairness to all students requires an appropriate mix of grants and loan funds.

The emotional argument that students should not be required to go into debt for higher education is specious. Higher education is most frequently viewed as an investment with a large personal pay-off. If this personal pay-off is not great enough to recoup the cost of acquiring the schooling, both the costs of higher education and the concept that higher education is an investment seem to be open to question. Whether we like it or not, much university education is vocational in nature and many students go to college anticipating a higher earning potential as a result. There is no solid reason why students whose income earning ability is increased because of their higher education should not bear a larger share of its cost.

There are indications that a few higher education officials and state governments are interested in developing new ways for students to pay for an increased share of the cost of their college education. Yale University has announced a plan which would allow students to defer a part of their tuition for up to 35 years in return for a fixed percentage of their future annual income. A participant could end repayments at anytime by repaying one and one-half times the amount originally postponed. Yale estimates that perhaps one-fourth to one-half of its students will postpone $25 to $30 million over the next five years.

Governor John J. Gilligan of Ohio recently proposed legislation that would require undergraduate students to sign an agreement to repay the state subsidy for their education. Repayments would begin when a former student's annual income reached $7000. Governor Gilligan stated that, "By placing the burden on those who use our higher education facilities, we make sure we have the money to maintain high standards of excellence at our public colleges and universities . . . and we make sure we can maintain those standards for generations to come."

Too, there are a variety of reforms being discussed which would solve the financial crunch by altering the basic pattern of higher education. One of these proposes that higher education move out of the classroom and become a "university without walls." This open type of university would blend television and radio lectures with independent home study and perhaps tutoring services at regional study centers. Videotape courses, which enable engineers and technical personnel to earn graduate degrees where they work, are already available at about half the cost of on-campus courses.

The chancellor of the California state college system has proposed two sweeping changes: One would reduce to 2-1/2 to 3-1/2 years the time required to get an undergraduate degree. The other would award a degree on the basis of carefully measured and evaluated academic achievement rather than credit hours and classes attended. The use of the "external degree" and increased use of educational technology are capable of producing fundamental changes in the pattern of traditional higher education.

There has been much talk of reform but little reform action. Who is going to take the lead and demand action? If reform requires faculties and administrators to do something

they really don't want to do, not much action should be expected from these quarters. However, a concerned and informed public is capable of demanding and bringing about changes in higher education. Logic and common sense economics are hard to fault. Reform of higher education is an idea whose time, hopefully, has come.

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277 Park Avenue, New York, N.Y. 10017 (212) 826-2100