

by Jesse H. Lytle

# A Love Note to Liberal Arts Colleges: Don't Fear the Market

At the liberal arts college where I used to work, I would step out of my office each fall to teach an undergraduate course on higher education. What better opportunity for reflection and critical engagement, I thought, than to investigate the enterprise to which the students and I had each made some serious commitments: for me, all my professional energy, and for them, four years of their lives and up to a quarter of a million dollars?



To borrow a phrase from Robert Zemsky, we'd spend 13 weeks exploring the "mission/market" tension. In other words, how can a college be an alma mater devoted to developing students' potential in service to the greater good *and* operate like a bottom-line-driven business in a competitive marketplace?

I was consistently impressed by how my students could hold these ideological poles in tension, without surrendering either to sentimentality or to cynicism. Needless to say, we would leave each semester with many questions unanswered: can a college balance access and quality? Can a market-based education system provide society a level playing field? Of late, though, we left the course with a question that was particularly troubling to my students as they came to appreciate the value of the liberal arts in sustaining a healthy democracy: will liberal arts colleges like theirs exist for their children in a form that's at all recognizable to them?

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#### **An Inflection Point for Liberal Arts Colleges**

Observers of liberal arts colleges have, particularly since 2008, noted that these distinctive, often beloved institutions are probably riding a broken business model. As a sector, they are seeing tuition revenues level off while costs continue to rise, putting fiscal equilibrium further out of reach with each passing year (economists call their predicament "Baumol's cost disease"). We see data that indicate that the liberal arts college admission funnel provides a mere trickle of prospective students relative to other educational providers. And, to be sure, their well-established academic quality comes at a cost; one would be hard pressed to conceive of a more resource-intensive form of schooling.

At the same time, though, history reminds us that liberal arts colleges are rugged, adaptable organizations and have, through evolutionary lurches, managed to skirt numerous threatened extinctions over their centuries of existence. With endowments ranging up to 10 digits, it seems unlikely that anybody is going out of business any time soon. Still, it is an uncomfortable time at many institutions as it becomes clear that their financial models are unsustainable, and questions mount about what sort of adaptations are in order to address this latest set of challenges.

Stepping back from the hand-wringing and all-too-real institutional pain on many campuses, it's a fascinating moment for liberal arts colleges. At the intersection of acute budget pressure, heightened competition, globalization, and the disruptive innovation of technology, institutional identities will be tested and transformed in the years ahead—no small matter for colleges that are centuries old

and whose founding values are often very much in evidence in their day-to-day lives.

In surmounting past challenges, liberal arts colleges found new ways to align their educational values with the public's needs, adding features that now might feel like the sine qua non of the American college experience—the residence hall, the academic major, the athletic program, to name but a few—but they were not always there. What will adaptation look like at today's liberal arts colleges? From a financial perspective, the options are fairly straightforward: like any organization, they will have to restore fiscal equilibrium either by cutting costs, finding new revenues or a combination of the two.



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However, tensions run high at liberal arts colleges when change is on the table. Because, in general, these institutions are relatively pure in their sense of purpose—undergraduate liberal arts education—programmatic alterations are often subject to a fairly basic calculus: do proposed changes bring us closer to or further from our mission, culture and values? Will we be the same place if we offer credit for X or eliminate a program in Y or Z?

This is one of the exercises I brought to my students in class: a rudimentary spreadsheet that let them balance a fictitious college budget by playing with a handful of key variables. How crowded were they willing to let their classes get? How high should tuition be? How much should the endowment be protected for the future? How cold can the dorms be in the winter?

The pattern in my students' responses was clear: they'd nibble around the edge of cost cutting, but to close a big budget gap they always preferred to generate new revenue: optimize investment in admission and development, and then increase tuition and enrollment until they were out of the red. Sound familiar?

Revenue-driven solutions, coupled with modest cost containment, are generally appealing to them (and to many of their elders working at liberal arts college as well) because they put off hard choices and painful sacrifice in favor of less perceptible incremental measures. This approach worked pretty well for liberal arts colleges before 2008, largely because endowments were strong and enough families would pay sticker price or close, so revenues could reliably edge up to meet costs with each budget cycle.

With price point saturation arguably upon liberal arts colleges as a sector, this particular revenue-centered strategy is probably nearing the end of its useful life. Fewer and fewer families are able to afford tuition increases and financial markets are flat, so the best that liberal arts colleges of this mindset can hope to do is to keep trimming away at their cost structure year to year, and the long-term consequence of that trimming is clear: a steady diminution of educational quality, also known as "death by a thousand cuts."

### Going to Market

That brings us back to the question of adaptation. Liberal arts colleges, if they are to sustain their missions, are going to need to achieve significant structural changes either on the revenue side of their business models, the cost side or both. Maybe not right away, but probably well within a generation. The real question is, can they do this and keep their souls?

Under heightened pressure to evolve, successful strategies will require harnessing market forces in ways that many liberal arts colleges have not had to in quite some time. They will need to deliver an education that attracts students and families, and results will matter, with value measured by things like student debt load, graduate school admission and job placements. Colleges must recognize that such definitions of value on the part of students and families are not tantamount to a surrender to vocationalism on their own part. Rather, it is part of the bargain that has always existed with the public: colleges can serve the greater good only to the extent that students see higher education meeting their own needs as well. Liberal arts colleges will have to learn to read the market better in enhancing their curricula and co-curricula, and in explaining better why their offerings should matter to students. After all, more affordable options abound, and even longstanding notions of prestige will fade if talented students start to make different college choices en masse.

One critical challenge for liberal arts colleges will be to develop organizational and governance models that both protect the academic integrity of the curriculum and allow market intelligence to permeate boundaries that have traditionally been closed. It's at one level a structural challenge that puts functions like admission, and probably career services too, in an increasingly central role, in partnership with leadership and faculty.

It's also a spiritual challenge for liberal arts colleges to embrace the idea that the best way to stay mission centered is to be market smart (again to borrow from Zemsky's phrasebook) and that those

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on campus with market intelligence can be a constructive voice in curricular conversations. This will mean altering cultures and lines of demarcation on campus, and managing this kind of change will be a test of college leadership.

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Technology is just one dimension; other examples of market-responsive adaptive strategies abound. New revenue-centered programming is springing up like daisies, from summer camps to graduate degrees. More and more institutions are thinking seriously about the relative merits of global outreach, curriculum-career linkages, modifications to financial aid policies, and even changes to the teacher-scholar model of the professoriate that trades out course sections for research productivity. Such tactics are a conversation for another forum.

More to the point, institutional attributes like delivery modality, co-curriculum, pricing, and faculty workload can and will change without threatening the heart of liberal education. One need only look to liberal arts colleges' past to see how many worthy approaches there have been to developing students' habits of mind, their ability to move fluidly among fields of knowledge and modes of inquiry, and their deep engagement with the world's critical issues.

In the touchstone Yale Report of 1828, which for many remains the purest articulation of the tenets of liberal education, the Yale faculty respond to criticism that their course of study is outmoded and that their college is at risk of fading into obsolescence. What follows is an affirmation of their academic values and, simultaneously, a comfortable recognition that change in education is constant—in fact, the question for Yale was not whether or not change should occur, but instead “whether it will be sufficient to make gradual changes, as heretofore; and whether the whole system is not rather to be broken up, and a better one substituted in its stead.”

As it turned out, in the decades after that report, Yale traded out its long history of scholasticism in favor of the hot new trends in empiricism and science that were taking the western world by storm: a more substantial set of changes than virtually anything under consideration now. Today's liberal arts colleges should take inspiration from their history and listen to the market without fear of losing their souls, with the full confidence that through continuous adaptation they can retain their central role in determining what excellent education for democracy will look like in the 21st Century.



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