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ABSTRACT

This speech, made on December 7, 1970 at a panel presentation held at Marymount College, concerns the survival of the independent college. It is apparent that, as costs rise, projected operating budgets of independent colleges must take account of them. One solution is to look for more income, the other is to seek ways of reducing the impact of the rising costs. The latter attack can be launched on two fronts: (1) making fuller use of capacity and (2) increasing the productivity of all staff, especially faculty. The two approaches are related and interdependent. Whatever the size of the institution, it should set for itself certain targets in terms of total enrollment, enrollment by divisions and departments, faculty teaching loads and, derivatively, student-faculty ratios, for the total institution and for the major sectors of it. The single most important source of economies in the instructional budget is the faculty teaching load and the student-faculty ratio, which finds its expression in class size. A way to increase income with little or no increase in expenditures is through the recruitment, admission, and enrollment of students who wish to pursue major fields in divisions or departments that are currently underenrolled. (Author/PG)

SOME COMMENTS ON THE FINANCIAL PROBLEMS OF PRIVATE COLLEGES

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SOME COMMENTS ON THE FINANCIAL PROBLEMS OF PRIVATE COLLEGES

All of you, I am sure, are acquainted with the recently released Carnegie Commission on Higher Education report on the financial problems of higher institutions in the United States. It is no surprise to me and the State Education Department that the report found 11 of the institutions surveyed in financial difficulty and 18 others headed for trouble. The other 12 of the 41 surveyed seemed to be in fairly good shape for the moment. Let me draw on some comments in that report.

Along with its documentation of the financial condition of a number of institutions, the Carnegie report also states that: "Although most institutions have become 'cost conscious,' many have not yet done enough to reduce expenditures and increase income. The crisis is forcing a re-examination of educational priorities." The report also points out that "although many administrators recognize the real possibility of severe crises ahead, it seems fair to say that these strategies do not yet reflect a response to either the underlying causes of the financial depression in higher education or to a re-examination of the schools' missions or long-run prospects. Nor do they purport to work major changes in the schools' structure or character." The report seems to say, "Okay, you've told us your troubles; now tell us more about what you are doing to solve your problems."

Let me repeat here some of the concerns I have expressed in recent addresses, confining myself to those bearing on financial problems. New York State has a greater diversity of colleges in the private sector alone than those covered in the Carnegie Commission study. The 57 institutions receiving funds under the Bundy financial aid program are markedly different in size, type, and level and sources of financial support.

One of my concerns has been that of size. We have several colleges in the State that are perhaps too small in size to be efficient, and sometimes they lack, too, the glamour, the diversity and the higher competence of other institutions, both public and private. There is probably some minimum size needed for tolerable efficiency as well as academic soundness.

Secondly, I am well aware that inflation and the rising costs of instruction have led to a cost-price squeeze for the private institution. Many schools have been witnessing a widening gap between rapidly rising operating expenses on the one hand, and less rapidly rising income from tuition, endowments and gifts on the other. Increasingly, private colleges tend to, or are forced to, cater to the relatively rich and make it increasingly difficult for the middle-class and the poor to gain entry.

Thirdly, some private institutions, from my close observations, are mismanaged or are the victims of visionary planning or both. I have in mind, among other things, two recent cases of bankruptcy which at least have the virtue of serving as bad examples of planning, administration and trusteeship. These particular institutions are valuable to the State and society and will become more-or-less State supported or even operated.

John Meng has presented me with a list of specific questions on which he would like some comments. It is apparent that, as costs rise, projected operating budgets must take account of them. One solution is to look for more income, the other is to seek ways of reducing the impact of the rising costs. The latter attack can be launched largely on two fronts: (1) making fuller use of capacity and (2) increasing the productivity of all hands, especially faculty. The two approaches are related and interdependent. Whatever the size of the institution, it should set for itself certain targets in terms of total enrollment, enrollment by divisions and departments, faculty teaching loads and, derivatively, student-faculty ratios, for the total institution and for the major sectors of it.

If a college or university is confronted with a sizeable gap between anticipated income and budgeted expenditures, it is not going to save itself by reducing the number of telephone extensions, cutting down on the use of station wagons for field trips, or raising the ratio of secretaries to faculty from the already distressing 1 to 5 to the level of 1 to 10. The single most important sector of costs is that of faculty salaries. The single most important source of economies in the instructional budget is the faculty teaching load and the student-faculty ratio, which finds its expression in class size.

This fall, Dale Corson, President of Cornell University, noted, in a speech to his faculty, that 40 percent of the classes in the Arts and Science

College had fewer than 10 students each. He gently suggested that, perhaps something might be done to look into this matter. No great amount of scientific analysis is necessary. Cornell has a combination of too many sections of courses and too many courses over-all being offered in the Arts and Science College. When the number of courses or sections is reduced, and concomitantly, the number of faculty assigned to teach those courses, the enrollment per course will rise and the costs per student, per course, and in total, will fall.

Cornell University, for the first time, is emphasizing an aggressive recruitment program for community college transfers. This should have been done 20 years ago.

In many colleges there are opportunities to increase income with little or no increase in expenditures. This may be achieved via the recruitment, admission and enrollment of students who wish to pursue major fields in divisions or departments which are currently under-enrolled. Even if such incremental students are given substantial student aid or waivers of tuition, the income they bring to the institution will be far in excess of the costs they impose. Under-enrolled departments and under-worked faculty (that is those with few majors and small classes) can be brought up to levels more commensurate with those pertaining to the other departments of the institution.

Similarly, unoccupied dormitory rooms yield zero income. The student of limited financial sources may be a boon to the institution which takes him in, so long as he can pay more than that fraction of room rent needed to cover the direct costs of laundry and housekeeping. Few dollars are always better than no dollars at all.

College faculties will never stop looking for lower workloads and they have succeeded, in recent years, in securing lower class-hour teaching loads and smaller classes. Some slight reversal might be in order and it may even be possible. There are reports of surplus Ph.D.'s, of over-crowded disciplines, and of increasing intense competition for available positions in academia. Major universities have reported sharp drops in turnover of tenured faculty and a considerable reduction in the nomadic tendency of faculty. The bargaining power may be swinging somewhat in the favor of the institutions. Parenthetically, we might note also that those who delight in citing the high faculty salaries in the City University of New York, never mention the high teaching loads and the large class sizes that obtain quite widely in that insiitution. Nor do they dwell on the subject of the miserable office facilities available and the low level of secretarial assistance and other adjunct support characteristic of the City University.

Obviously, if an institution already is operating at full capacity and if these other variables are at satisfactory levels, some other measures may be called for to close the income-expenditure gap. What about the income side?

The way in which endowment funds are managed may be of considerable interest and importance -- especially if you have some endowment funds.

I shall make only two points with respect to this broad and complex area. Studies published by the Ford Foundation early this year have suggested that the restrictions applying to restricted endowment funds may not really be so restrictive after all. First, the particular terms of the restriction, that is the purposes for which the income may be used, may be subject to broader interpretation than has often been applied. The fund for an endowed faculty chair, for example, may be tapped not only for the salary of the professorial incumbent but for support services and personnel: a secretary, research materials and equipment needed by the holder of the chair, and perhaps even an additional instructor or assistant professor who "assists" the holder in his work for the department and the institution.

Secondly, institutions may take realized capital gains on investment securities, along with dividends and interest, to produce a greater total yield for current operating purposes. Of course, if the terms of the donation or the bequest specifically exclude such procedures, they may not be used. Institutions might profitably review the terms attaching to their endowment funds and determine to what extent they may tap them for greater income productivity. Nor should one leap to the conclusion that this means that all capital gains should be so tapped. The institution which wishes to invest for growth may still do so, but yet use some ot tne proceeds of that growth currently. The Ford Foundation suggests compelling a yield ot 5 percent overall on the market value of investments. Hence, if an institution has been investing heavily for growth and has been putting only a small proportion of its endowment funds in high-yield bonds and stocks, it may be producing only 2 or 3 percent aggregate income yield. If its total gross yield, including market appreciation, has been averaging 8 or 10 percent per year it could take 5 percent for current purposes and still have growth of 3 to 5 percent per year. If trustee opinion is against such action, then transfers of some of the endowment funds into today's 8 percent bond market might be desirable. I don't wish to try to serve as an investment counselor. The point is that some new looks at endowment management may be in order and some institutions may find that they are not quite so strapped for funds as they apparently believe they are.

If the institution is already superbly managing its academic and administrative affairs and its endowment funds, some other paths toward maintenance of quality programs are available: (1) institutional cooperation or participation in consortia and, (2) long-range planning.

Institutional cooperation has been tried in many places with considerable success, but it has also been much misunderstood. By and large, it is not a device for saving money on a current basis. Rather, it calls for an intelligent sharing of resources so that each student and faculty member of a participating institution has more educational resources at his fingertips. In the long term, savings can be effected, but primarily this is not a money-saving device.

In New York State, a recent survey of ours indicated that there were some 135 identifiable forms of institutional cooperation. These run all the way from modest cross-registration between two institutions to reasonably effective associations functioning in such places as the mid-Hudson, the capital district and the mid-Mohawk Valley area. These cooperative endeavors will be most fruitful if they involve both public and private institutions. Money can be saved if institutions which enjoy geographical propinquity engage in such things as cooperative purchasing, faculty exchanges, library exchanges, and, especially, avoidance of duplication of competitive programs. The Education Department is again requesting funds in the 1971 budget in order to assist institutions in developing these kinds of cooperation.

In the area of long-range planning, I can only say that I have not seen enough of it, either by individual institutions or cooperatively. It seems to me that an essential characteristic of an institution that is going anywhere is continual planning for at least 5 years ahead. Any institution without a master plan for its own development is standing on Thornton Wilder's "razor's edge of danger." A master plan must relate the expectations the trustees have for the future growth and development of an institution to its purposes and objectives, in terms of the resources it must have, the students it expects to accommodate, faculty it needs to train or recruit, the programs it wishes to offer, and the buildings it needs. And it must include the ways in which the trustees hope to acquire the necessary means to support the plan.

I do not mean painfully detailed planning and budgeting, nor should plans, once established, remain irrevocably fixed. The emphasis must be on continuing scrutiny and review, revision, and regular projection ahead.

The best definition of intelligence I know is that it is anticipatory behavior, and we are reminded by Robert Bridges that ". . . wisdom lies in masterful administration of the unforeseen and in skillful navigation of areas of ignorance."

One of John Meng's last questions raises not money, but hair. "Will unplanned institutional demise resulting from financial anemia better or worsen the present situation?" For me, this raises two questions;

(1) Are all private institutions essential to the State or worth saving?

(2) Should the State be committed to preserving private higher education without raising questions of needed reform or of subsidizing only programs satisfying State manpower requirements?

These are related to still other questions which bear upon the State's policy in implementing its present and proposed programs of financial aid to private higher education:

(1) Should the State continue and enlarge its subsidy of the private institutions without asking greater accountability of them?

(2) Should it grant such funds without getting some assurance of increased efficiency and quality of performance?

"Are there other answers to the colleges' fiscal problems?" asks President Meng.

These are some others:

1. First, go out of business.

2. Try to get absorbed by a public institution.

3. Raise more endowment funds and direct contributions.

4. Let us try to get more state funds, for scholar incentive awards, for general support, for categorical programs involving professional manpower, and so on. This, I am doing. You need to help.

5. Put more pressure on the Federal Government; I am pessimistic about this last source because of the position of the present Administration in Washington toward financing higher education. Under President Nixon's maxi-policies for education, he wears a mini-program. His rhetoric of concern for education is not matched by comparable action. As Tallulah Bankhead once said about Alexander Woollcott: There is less here than meets the eye.

6. Emphasize more independent study, off-campus or abroad, show greater hospitality to the domestication of technology to the teaching and learning

process, use community resources as teaching adjuncts to the institution, wed theory with action and give credit for work and public and social services experiences related to the curriculum.

7. Define more clearly to the public the purpose of your institution and its relationship to society and be more innovative than your public counterpart.

8. Get together in the academic community of the State and cut one year off the undergraduate curriculum.

9. Merge with a neighboring institution that has the same troubles you do.

10. If you are a sectarian institution, drive hard toward secular norms, shed sectarian ties and become eligible for New York State aid.

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