Rethinking Conventional Wisdom about Higher Ed Finance

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America faces a growing crisis in public postsecondary education, as an unprecedented fiscal meltdown plays out at a time of growing consensus about the urgent need to nearly double levels of degree attainment. Instead of taking steps to develop an investment strategy to reduce access and achievement gaps, we are moving in the opposite direction: reductions in state finances, increases in tuition, cutbacks in enrollments, and reductions in courses and programs students need to succeed.

One might wish that this crisis is short-lived and that once it blows over, we can return to business as usual. But this storm has been brewing for the better part of the last decade, with no serious or sustained attention to what it will take to dig out of to it. Part of the problem is that policy makers on all sides of the table keep looking to revenue solutions to the problem, when the evidence tells us that there isn't going to be enough new money to return us to the funding levels of the past. That means that institutional and state policy makers need to look to better ways of using the money they have – to cut unnecessary costs, increase productivity, and find better ways to target subsidies to the areas that are the most urgent public priorities.

Clearly, changing postsecondary finance without a lot of new money to grease the skids will be difficult. The status quo is always easier than change, particularly change that will be objectionable to those who benefitted most in the previous system. But political objections aren't the only barrier to changing funding in higher education; a much bigger impediment emerges in the form of conventional wisdoms about college finance, truisms about costs that aren't based in fact. The power of these myths is that they are held uncritically by people inside and outside of the academy, from presidents and trustees to governors and legislators. In an effort to advance the conversation about improving performance in higher education, we've identified our 'top ten' list of conventional wisdoms about higher education finance.

Conventional Wisdom #1: Spending increases in higher education are inevitable, because there is no way to improve the productivity of teaching and learning without sacrificing quality.

This myth equates institutional productivity with faculty labor productivity, as if all costs in higher education are driven by faculty workload and compensation. It's not true: spending on faculty is a minority of total spending in most institutions, a proportion that has been declining in all sectors for the last two decades. The belief in the inevitability of rising costs may be the most damaging truism of all, as it affects how institutions and states budget and plan, beginning with the assumption of automatic annual increases in the "base" budget. These adjustments –

for things like employee benefits, and utilities, and pay increases – are typically not counted as 'real' increases in the base budget, but because they are first in line for funding increases, they end up being higher priorities than funding for programs, or new student enrollments, or student aid.

Conventional Wisdom #2: More money means more quality, and quality means higher performance.

Another enduring myth of higher education finance is that money buys quality, which is presumed to equate with performance. This logic holds if quality is synonymous with academic reputation, but neither money nor reputation equate to getting students to a degree with acceptable learning outcomes. Research in K-12 and postsecondary education shows no consistent relationship between spending and student results, but instead shows that the absolute level of resources is less important than the way resources are used within the institution. This means that leadership and intentionality matter more to educational performance than money alone.

Conventional Wisdom #3: Institutions can make up for lost public subsidies by increasing research revenue.

While there are many reasons for institutions to pursue federal research funds, supplementing unrestricted revenues isn't one of them. Research grants almost never pay for their full costs, instead requiring institutions to bear part of the cost, either overtly or covertly. The cost of faculty time goes up significantly, through reduced teaching loads. Institutions, as well as states and students, pay for this, so costs per student increase even as the amount of faculty time available for teaching goes down. Institutional leaders and policy makers share responsibility for supporting this 'mission creep,' as does the federal government, which has limited reimbursements for the indirect costs of research administration for years.

Conventional Wisdom #4: Because state governments are now minority shareholders in higher education, public policy goals should take a backseat to market rules in steering institutions.

This rationale is most commonly used to justify deregulation of tuition-setting. True, state funds have declined as a proportion of revenues among public institutions in recent years. However, the taxpayer is still the single largest funder of instruction, student services, and academic support at most public colleges and universities. State government can drive a major change agenda focusing on goals and performance with as little as 20 percent or 30 percent of total unrestricted revenues. The private sector provides an example of this, as shareholders can leverage major changes in a company's management performance with as little as three percent of the voting stock. There's plenty of room for deregulation of finance for higher education at the state level, beginning with deregulation of benefit costs that now represent at least 30 percent of payroll in most states. But no state should entirely absent itself from decisions about tuition levels or other major policy questions simply because it is not the majority shareholder.

Conventional Wisdom #5: Colleges and universities cannot be expected to invest in change or to pursue state priorities without new money. Any reductions in funds must be replaced before funds can be considered as "new."

In this budget climate, the standard of efficiency has to be met by looking at spending against performance in light of current priorities. A new financing agenda for the future has to begin by pressing the "reset" button on the usual rules for constructing the base budget, focusing on how to spend the resources that are available, rather than on how much might have been available if the past ten years had gone differently.

Conventional Wisdom #6: Instructional costs rise by the level of the student taught…upper-division students are more expensive than lower-division students, graduate students are more expensive than undergraduates, and doctoral candidates are the most expensive of all.

Higher spending levels don't necessarily mean higher "costs." Upper division and graduate coursework are more expensive because we've always spent more money on them. Granted, the specialized nature of coursework and smaller class sizes in upper-division and graduate coursework are partially responsible for higher costs. But institutional spending preferences, including subsidized faculty time for departmental research, are the primary reason for increased spending at higher levels. Spending patterns also reflect historic funding advantages for institutions with research and graduate education functions, since departmental research is counted as a cost of instruction. Finally, upper-division costs are higher in part because institutions lose so many first and second year students to attrition. The marginal costs of adding more upper-division students to courses that are under enrolled are very low. Increasing retention will drive down the unit cost of upper-division instruction simply because class sizes will be larger.

Conventional Wisdom #7: An expansive undergraduate curriculum is a symbol of quality, and necessary to attract students.

Many institutions equate a wide selection of undergraduate courses with quality, and a necessary asset for student recruitment. The reality for most institutions is that more than half of the lower-division credit hours are generated in 25 or fewer courses, resulting in a few high-enrollment courses and a lot of low-enrollment courses. Moreover, there is mounting evidence that a more prescribed path through a narrower and more coherent range of curricular options leads to better retention, since advising is more straightforward, scheduling is easier to predict, and students are less likely to get lost in the process. So an educationally effective undergraduate curriculum is also the most cost-effective curriculum.

Conventional Wisdom #8: States can improve postsecondary productivity if they direct more students to community colleges.

If states want to make cost-effective investment decisions, they need to pay attention to what it costs to get students to a degree, and not just entry-level costs per student. Moving more students to community colleges is a case where cutting costs may actually hurt productivity if the goal is to increase bachelor's degree attainment. Costs per *student* are lower in community colleges than in four-year and research universities, but costs per *degree* are highest in community colleges, not because they have more money, but because they award so few degrees or other credentials relative to student enrollment. This does not mean that states should increase enrollments in public research universities, but it does mean that states should be investing in institutions that put teaching and student success at the front of their missions: community colleges that are effective in translating access to a credential or to transfer, or to public four-year teaching institutions.

Conventional Wisdom #9: The state financing mechanism for higher education is broken, and we should turn to the federal government to generate the resources needed for the future.

This is a relatively new "myth," probably more of a displacement fantasy than a myth, but it's being voiced more often as states and institutions rush to get in line for new spending proposed by the Obama administration. There's little question that the state funding model for higher education is badly frayed, if not broken. But the primary problem is not a failure of postsecondary finance policy, but a function of state budgets, where growing spending on health care and public safety are crowding out other priorities. The federal policy agenda is already very crowded, and cannot realistically be looked to as a sustaining source of operating revenues for public higher education. That doesn't mean that there is no federal responsibility for the higher education funding crisis; in fact, the most significant actions the federal government could take to stabilize resources for higher education would be to reduce the growth in health care spending and pick up the full cost of the Medicaid program.

Conventional Wisdom #10: American higher education is grossly overfunded, and the investments needed to increase attainment can be achieved entirely by reallocating resources within existing institutions.

International comparisons consistently show that, on average, the U.S. funds higher education more generously than any other nation – approximately $21,000 per student per year, compared with $8,100 per student per year for OECD member nations. True enough, but these statistics include private institutions, which are on average funded much more generously than public institutions, and include tuition revenues as well as public funds. Public investment in higher education in the U.S. actually falls below the OECD average. Moreover, the majority of our students are enrolled in public community colleges and comprehensive masters' institutions, which spend between $9,000 and $11,000 per student per year – much closer to the OECD average, and well behind other American universities. These are the institutions that will do the lion's share of the work to increase access and attainment in the future.

We can no longer afford to allow false or unexamined "truths" to dominate conversations about higher education finance and performance. Costs can be contained without sacrificing either quality or access. This will require better management of resources, including using data to make decisions, paying attention to spending, and looking at the relationship between spending and results. Even so, better management of spending is a necessary but insufficient step toward doubling current levels of degree attainment. To meet that goal, we need to be reinvesting public resources in higher education, beginning with state appropriations. In this political environment, that won't happen without stronger accountability for the resources we have. We need to change our thinking about higher education finance, beginning with institutions and extending to government. Getting rid of conventional wisdoms that stand in the way of new approaches is a good place to start.

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