

**HIGHER EDUCATION: MEETING TODAY'S CHALLENGES AND
REGAINING THE PUBLIC'S TRUST**

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The New Balancing Act in the Business of Higher Education

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The necessity for colleges and universities to increase revenues during the current adverse economic environment is extraordinarily important, not just for our nation's colleges and universities, but for our nation as well. It is interesting to note that I recently participated in a national summit on college costs sponsored by the Lumina Foundation¹ while in this chapter, I focus on the issue of raising revenues. These are, of course, two components of the same equation. However, you can't talk about one without addressing the other. So in this analysis, I address both, as well as a third issue: reestablishing higher education as a national priority for public investment.

Why are we so concerned about the costs and funding of higher education? The answer is obvious. Probably most of us would agree that our nation is in the early stages of a national crisis on higher education, a crisis not primarily about quality but one of access and affordability. Someone at the Lumina Conference said that, 'a crisis is a terrible thing to waste.' Our expectation must be that all these meetings and discussions begin to gel into innovative solutions to our current challenges.

Tom Friedman of the *New York Times* was the keynote speaker at the Lumina Conference. You may have read his most recent work, The World is Flat. From my perspective, Friedman's book should be required reading for all. It is either a wake up call for our nation or it is the harbinger of our worst nightmare for the decades ahead. It all depends on how our nation responds to the issues raised in this book. What the book and many other reports document is that for the first time since the beginning of the 20th Century, perhaps for the first time in our nation's history, we are developing an education deficit in relation to rest of the industrialized world. There are warning signals that, if not

addressed, could lead to the demise of the US as the world's leader in knowledge creation and dissemination and, in particular, science and technology. If this were to happen in this era of the knowledge economy, it would surely mean our demise as the world's economic super power.

A few decades ago, we were the leader in high school completion rates and in the college participation rates of our high school graduates. Today we rank fifth among industrialized nations in high school completion rates and seventh in post secondary participation rates. In fact, we are the only industrialized nation with a declining college participation rate. Our middle and high school students rank near the bottom among all industrialized nations in math and science achievement.

A piece of data that I find especially alarming is the following: Take 100 8th graders today and ask how many will have a college degree in 10 years. Given current completion and participation rates along the way, the answer is 18. What, I ask you, will the other 82 students be doing in the America of 2015?

Our educational deficit does not stop at the K-12 level. As I noted, we simply are not producing the number of scientists and engineers at a rate to keep pace with the demands of our economy or with the rest of the world. In 2000, Asian universities produced 1.2 million graduates in science and engineering. European universities graduated 850 000. The US produced 500 000 (National Science Board 2004).

In an economy that puts a premium on a skilled workforce, creativity and innovation, these trends – if unchecked – do not bode well for our global competitiveness

and economic security in the decades ahead. I hardly need to dwell on this point with this audience.

Clearly, the most important challenge we in higher education face is funding. We all know that adequate funding is the sine qua non of quality higher education. Attracting the best faculty in competition with the private sector and -- increasingly -- universities in other countries, developing state-of-the-art facilities with cutting-edge technology, supporting the best and brightest academic talent, expanding capacity to serve more students and meeting the growing demand for financial aid, all require resources. Moreover, we have a self-imposed expectation and the larger society also expects us to pursue excellence. Building excellence and capacity come at a significant cost!

This is one of the reasons that raising revenues from non-state sources has become so important. We all see a greater emphasis placed on private fundraising and an expansion of the role and importance of foundations. The University System of Maryland Foundation, for example, is gearing up for an aggressive \$1.5 billion-plus campaign, as I'm sure is the case with many other institutions represented in this room today.

At the institutional level, individual campuses are stressing academic research and development efforts tied to technology transfer and to building stronger collaboration with the private sector in the hopes of building new sources of funding. Campuses are also offering a growing roster of 'short courses' and even renting out facilities in order to generate additional revenue.

Certainly, when such actions are undertaken without compromising the integrity of the university, they are good things. There are, however, pitfalls, unintended consequences and ethical issues in some of these 'entrepreneurial' revenue generating efforts. As a result, they should be entered into only after comprehensive policies have been developed that protect the openness of university based research and educational offerings.

Done right, these revenue generating efforts are positive not just for the additional funding they provide, but also because they demonstrate to the body politic that the higher education community is willing to be more entrepreneurial and seek non-traditional sources of funding. There is an essential point, however. In many, if not most cases, such revenue is restricted and must be used for a specific purpose. Thus, these funds are generally not available in a fungible manner to support an institution's core educational programs. Moreover, except for a relatively small fraction of the nation's more elite universities, these sources of funds will not be available in the magnitude necessary to make a substantial dent in the decline in the rate of public investment or the rise in tuition rates.

By all means, to whatever extent possible, systems and institutions should look to secure non-state revenue sources. But we cannot put forth the notion that such funding is a 'substitute' for adequate public funding. Such revenue can complement public funding and enhance our ability to achieve our mission and goals, but it cannot effectively replace growth in traditional funding sources.

As you know, what we're facing is not growing public investment in higher education. We are instead witnessing a systemic and sustained disinvestment in higher education at the federal, state and local levels. And this is certainly more than a short-term trend. Consider that in the mid-to-late 1970s, as a nation, we invested more than \$10 for every \$1000 of personal income in higher education. Today that investment stands at about \$6 for every \$1000 of personal income (Post Secondary Education Opportunity 2005). That's a whopping 40 per cent decline in the rate of investment.

Unfortunately, the disinvestment trend has accelerated in recent years due to rising healthcare and energy costs and mandated spending for primary and secondary education. Higher education, which is generally the largest discretionary item in most state budgets, has borne the brunt of recent cuts.

For example, in Maryland, from 1990 to the present--in constant dollars--state support for higher education has dropped from almost \$7900 per student to less than \$5700 per student. Even counting last year's up tick in state support that we received (more about that later), that's a reduction in state investment of almost 28 per cent in less than 15 years.

Moreover, the cuts to higher education could not have come at a worse time because the children of the baby boomers -- the baby boom echo if you will -- are beginning to reach college age. In many states demand is expected to rise significantly over the next half dozen years. We in Maryland, for example, anticipate a 20 per cent increase in high schools graduates by 2012. And the increased demand will come disproportionately from low-income students who would be the first in their families to

go to college. Cost will be a huge factor for them. Already, we are seeing the impact of cost on access. The Secretary of Education's Advisory Committee on Financial Aid reported recently that 250 000 college capable students did not attend college last year because they couldn't afford it.

The public disinvestment in higher education is one of the great ironies of our times. Ask parents of almost any child in America today and the odds are extremely high they will say they want their son or daughter to get a college degree. In my 41 years in higher education, there has never been a time when the general public has had such a collective desire for our product. Yet when legislative bodies act, higher education is cut or under funded. How can this be?

For one thing, we do not have a common language and message that applies across the various sectors of higher education and resonates with the public. In fact, we are sending very confusing and mixed messages. On the one hand, we cry poverty. But, in the same breath, we boast of the huge growth in our research expenditures, or our latest multi-million dollar gift, or of how little of our budget now comes from the state, or about how students are beating down the doors to attend our institutions, or our latest top ranking by some publication, or how much our graduates will earn with our degrees.

At some of our institutions, our athletic programs generate tens of millions of dollars and coaches earn what most would describe as exorbitant salaries. Faculty teaching loads at many institutions seem unrealistic to the public and classrooms and offices are empty by noon on most Fridays. Is it any wonder that many see us – at least relatively speaking – as fat and happy? Of course, we know that the auxiliary revenue of

research grants or athletic programs can't be used to expand and/or reduce the cost of our education programs. But can we really expect the public to analyze our various messages and make the subtle distinctions between arcane topics like restricted and unrestricted funds? Is it any wonder that when legislators are faced with the choice of funding us or other strapped programs, like K-12 education, or public safety, that have state funds as their sole source of revenue, we come up on the short end of the stick?

Besides cursing our fate and wringing our hands, what should we in higher education be doing about this situation? What actions should we be taking to address the enormous challenges facing our institutions and to better meet our responsibilities to our communities and our nation? What steps can we take to rebuild public support for our mission? Some of the answers to these questions are presented in the chapters in this volume.

I'd like to offer three things I believe we must collectively do *in addition to* an aggressive push to secure alternative sources of revenue.

First, we in higher education must address the way we administer and distribute financial aid. In 1990, about 90 per cent of all financial aid was distributed on the basis of need. Today only about 60 per cent is awarded based on need. That's a huge shift in funding. Sadly, a high percentage of the merit aid goes to students from middle and upper middle class families at the expense of aid for truly needy low-income families. The situation has gotten so bad that we are at risk of destroying the American dream of upward mobility and creating a permanent economic underclass. Indeed, a student from a family in the upper quartile of income today has better than an 80 per cent chance of

getting a college degree, whereas a student from a family in the lowest quartile of income has only about a 7 per cent chance of getting a degree. In today's world, where a college degree almost doubles the income over those with only a high school degree, can we really claim that higher education offers an equitable ladder of opportunity?

We recently conducted a study within the University System of Maryland to determine the debt load of our graduates. To our dismay, we learned that, like most other institutions, our poorest students were graduating with the most debt, 25 per cent above the average debt load in our case. That is not what was intended when financial aid programs were created several decades ago. Armed with this information, our Board of regents adopted a new financial aid policy which mandates, among other things, that by the 2008-09 year, our lowest income students must graduate with debt burdens that are 25 per cent below the average or less. This will require a huge shift in our distribution of financial aid from merit-based to need-based programs. I hope other universities will follow our lead in this matter.

The second thing we in higher education must do is make a much more serious commitment to controlling the costs of our operations. It sounds almost trite to say that. But, if we are honest with ourselves, I think we would agree that cutting costs is not in our personal or institutional DNA. We operate under a model where educational expenditures at colleges and universities across the country are rising about 4.5 per cent to 5 per cent annually. In a nation with an entrenched 3 per cent inflation rate, this is not sustainable long term no matter what our source of revenue. That's one reason we need to get more focused on cost containment. Another is that, in my view, we have little hope

of regaining public support for increased investment unless we are seen as more effective stewards of public funds. We live in a world that has become accustomed to cost reductions and efficiencies. While we represent a fundamentally different kind of enterprise and should not be compared to the private sector in this regard, we also cannot ignore the environment in which the rest of the world operates.

To address this issue in Maryland, the USM Board of Regents, its presidents and I launched an effort two years ago that we call our Effectiveness and Efficiency Initiative (E&E). It consists of a systematic examination and reengineering of all of our academic and administrative processes aimed at finding ways we could reduce costs and create savings to better support our priorities. With the E&E initiative we have, among other things: Increased faculty teaching loads by 10 per cent on average across the system; Limited to 120 the number of credits required for most degrees; Required that, on average, students will earn at least 10 per cent of their credits out side the classroom, through faculty approved advance placement exams, study abroad programs and internships; Expanded greatly our on-line educational offerings; Created two plus two articulation agreements with community colleges to insure seamless transfer to four-year degrees at lower cost to students; Leveraged our power as a system to drive down prices and negotiate better product, service and energy contracts for all 13 campuses; And consolidated back office operations rather than have duplicate operations on all 13 campuses. Through these and other E&E efforts we have documented savings to the base budget in excess of \$40 million over the past two years.

We issued a report on our efforts to the Governor and the General Assembly. The rigor and impact of our efforts have impressed our Governor and Legislature that they rewarded us with a 6.2 per cent increase in state funding for this fiscal year. With the pledge that we will continue our effectiveness and efficiency efforts, we have been promised a similar increase for the next fiscal year. Our E&E efforts also resulted in several positive newspapers across the state.

To compliment the cost-savings and cost-avoidance of our E & E initiative, we are also expanding cost-effective alternatives for course and program delivery.

The University System of Maryland is fortunate to be home to the University of Maryland University College, arguably the leader in the development of online education. With over 140 000 course registrations, UMUC has the largest number of online enrollments in the world. One of UMUC's great strengths is its ability to respond quickly to the needs of the students online, anytime, anywhere. It will soon be the largest university in our system not just by head count but in FTE students.

UMUC has entered into a remarkable agreement with community colleges in Maryland. Under this agreement, a community college and UMUC can guarantee students enrolling in the community college that if they complete the two-year college prep curriculum, they can complete a four-year degree from UMUC drawing upon UMUC's online and on-site course delivery capabilities.

We are exploring other innovative, cost effective approaches. A few years ago, the USM established a single facility in a highly populated region of our state with no four-year school public or private. Seven separate USM institutions have come together

in this location—under one roof—to deliver low cost access to a range of different USM programs selected to meet high student demand in areas such as biosciences, information sciences, business, nursing, and education. A local community college provides the lower division course work and each of the participating institution provides regular faculty and academic support services to the center. Students earn their degrees from the institution offering their particular programs. This model has been so successful and well received, that we have in fact replicated it in a different region of the state.

Between UMUC, its partnerships with the community colleges, and our educational centers, we anticipate that we can accommodate approximately 50 per cent of the state's projected enrollment growth...and at a lower cost to the students and the state than would be required to educate these students at a traditional campus. This will be a huge boost in our efforts to both serve the needs of the state and protect the quality of our existing campuses.

The fact is, however, we in higher education cannot simply 'manage' our way out of reduced public support and growing enrollment. Without adequate support—including most especially state support—higher education will face two options: We can maintain quality by continuing to raise tuition at a very high rate, closing the door to higher education for thousands of students who represent our future workforce; or we can keep tuition modest to allow for affordable access, putting higher education on the path to mediocrity.

Given that neither of these options is acceptable, I come to my third and final point: We must make it clear to all concerned that we cannot address our challenges just

by being more efficient. As important as it is to demonstrate our commitment to access and to holding down costs and making substantially more need-based aid available, our nation will not prosper in the decades ahead if we do not also convince the body politic that we need and deserve greater investment of public funds.

We must seek out enlightened third party advocates who understand what is at stake and are willing to help carry our message to the general public. Obviously, it will be easier to recruit such people if they are convinced we are serious about holding down cost increases.

The American Council of Education has launched just such an initiative, which will be rolled out this spring. It will include some impressive corporate partners, dedicated full-page ads in prestigious newspapers and free TV spots on a major network.

However, as we know, all politics is local. It will not be enough to have a national campaign on the importance of reinvesting in higher education. We must launch efforts state by state as well.

In Maryland, we have pulled together every two-year, four-year public, and four-year private institution and members of the private sector into a single statewide effort to get a unified message out. Imagine the entire spectrum of higher education joining with representatives of the private sector in a unified front, presenting a coherent message...unheard of, at least in Maryland. We will be holding listening tours, workshops, and other events to highlight the broad public benefits of higher education.

At both the state and national level we must collectively work to find more effective ways to remind the public that the entrepreneurs that create jobs in the

knowledge economy and the highly skilled workers that fill them, come from higher education. The teachers who educate our children from grade school through high school, come from higher education. The doctors and nurses who provide our health care, come from higher education. The medical and technological innovations that improve our lives every single day come from higher education. The breakthroughs in security matters that will better protect our nation and the world come from higher education.

Higher education raises incomes and lowers poverty; creates opportunities and solves problems; educes barriers and elevates civic engagement. Higher education changes the lives of the people who will change the world. For these reasons, higher education is the quintessential common good.

These are the reasons why we must— as a nation—ensure access for all qualified students to a high quality higher education. Doing that is our best hope; one might say our only hope for building a bright future for America.

Notes

1 Lumina 2005 Invitational Summit, 'College Costs: Making Opportunity Affordable', 2 November 2005, Washington, DC.

References

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