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What's The Future of Public Higher Education? A Review Essay on *Public No More: A New Path to Excellence for America's Public Universities*

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Abstract

[Excerpt] Every year I come across a few books or papers that I wish that I had written. *Public No More: A New Path to Excellence for America's Public Universities* clearly is one of them. Coauthored by Gary Fethke and Andrew Policano (henceforth F&P), two longtime public business school deans (one of whom was also acting president of the University of Iowa), who are both very serious scholars with long publication records, *Public No More* paints a picture of a future for public research universities that is very different than what many people will want to see. And although its message is that the financial and governance models under which public research universities have operated under have broken down and that new models are required, I will argue at the end of this piece that private higher research universities face many of the same issues as their public counterparts, so their message is relevant to private research universities as well. While I do not always agree with F&P's prescriptions, this is a book that deserves to be widely read by all people concerned with the future of higher education in the United States.

In what follows, I outline the arguments found in *Public No More* interjecting my comments and concerns as I go along. As an economist specializing for many years in the economics of higher education, a former Cornell vice president and trustee, and most recently a member of the board of trustee of the 64 campus State University of New York (SUNY) system, I view higher education from a number of different perspectives and these will all be evident in this essay.

Keywords

higher education, public institutions, financial models

Comments

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What's The Future of Public Higher Education? A Review Essay on *Public No More: A New Path to Excellence for America's Public Universities*

by

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(prepared for the Journal of Economic Literature)

I. Introduction

Every year I come across a few books or papers that I wish that I had written. *Public No More: A New Path to Excellence for America's Public Universities* clearly is one of them. Coauthored by Gary Fethke and Andrew Policano (henceforth F&P), two long-time public business school deans (one of whom was also acting president of the University of Iowa), who are both very serious scholars with long publication records, *Public No More* paints a picture of a future for public research universities that is very different than what many people will want to see. And although its message is that the financial and governance models under which public research universities have operated under have broken down and that new models are required, I will argue at the end of this piece that private higher research universities face many of the same issues as their public counterparts, so their message is relevant to private research universities as well. While I do not always agree with F&P's prescriptions, this is a book that deserves to be widely read by all people concerned with the future of higher education in the United States.

In what follows, I outline the arguments found in *Public No More* interjecting my comments and concerns as I go along. As an economist specializing for many years in the economics of higher education, a former Cornell vice president and trustee, and most recently a member of the board of trustee of the 64 campus State University of New York (SUNY) system, I view higher education from a number of different perspectives and these will all be evident in this essay.

II. Public No More

The Hebrew Talmud relates the story of Rabbi Hillel being asked by a heathen to teach the whole Hebrew Torah to him while standing on one foot. Rabbi Hillel is alleged to have said "What is hateful to you, do not do to your neighbor: that is the whole Torah while the rest is commentary, go and learn it."[1] *Public No More* is similarly concisely summarized in its preface: The long-term withdrawal of state support from their public universities, which started well before the financial collapse and the great recession means that the low tuition high public subsidy model is a thing of the past and accepting this reality is the first step towards thinking about the future.

Cross subsidies have long existing in public research universities. Lower level undergraduate classes with large enrollment subsidize smaller upper level classes. Undergraduate education subsidizes doctoral education. Undergraduate education (although universities rarely mention this) subsidizes research. Teaching load reductions subsidize research and low cost programs subsidize high cost programs. Diminishing state subsidies imply that the large cross subsidies across program areas that have long existed in public higher education must be reduced and that marginal change is not enough.

Adjustments must be made in the way value is measure. Lofty academic principles espoused by faculty and administrators are not sufficient and attention refocused away from the goals of faculty and administrators. Rather, as economists, F&P argue that value should be measured by the willingness of all parties- parents and students, external donors, and the public funder who provide a subsidy - to pay for activities. These are, and

[1] Rabbi Nisan Dovid Dubow, *To Love a Fellow Jew: The Mitzvah of Ahava Yisrael in Chassidic Thought* (Chapter 7) (retrieved January 17, 2014 from www.sichosinenglish.org/books/ahavas-yisroel/08.htm)

they bravely use the inflammatory term to many academics, the "consumers" of the university's activities. Increased economic efficiency and enhanced quality will increase the willingness of these parties to pay for things.

In their view planning processes are rarely strategic. Aspirational goals (for example, to be in the top x of all public research universities) are often stated without any metrics of how success will be measured over time mentioned and without any discussion of the resources that will be needed to accomplish the goals and from where these resources will come. Changes must be made in how incentives are structured, budgets are allocated, and the universities are organized and governed. Because state subsidies are being continually reduced, programs that are not cost efficient (whose revenue does not cover costs) will continue to exist only if they acquire or retain distinction and are aligned with the positioning strategy of the university. With the decline of cross subsidies, universities will have to become more specialized and offer unique products for the market they face. Ezra Cornell, who has long been quoted as having said in 1868 that "I would found an institution where any person can find instruction in any study" might not look favorably on the authors' prescriptions, but times have changed.[2]

III. Overview and More Details of Their Argument

Based on the historical evidence of declining state support per full-time equivalent student in real terms, even before the great recession, F&P argue that the dependence on state subsidies that facilitate low resident student undergraduate tuition at public research universities is unsustainable I have made a similar argument myself, but one qualification is that in some states, including New York, tuition levels must be approved by the

[2] http://www.cornell.edu/about/mission/

political process and the politicians show little sign of abandoning their low resident student undergraduate tuition policies.[3]

F&P note that some public research universities have moved, either through legislative requirements or trustee action, to increasing tuition levels for upper income students and providing subsides out of tuition revenue for lower-income students. For example, again in New York State, when the legislature and governor approved a "rational tuition" program for SUNY campuses that allowed the campuses to increase resident student undergraduate tuition by up to 5 percent a year for 5 years, it was with the provision that no recipient of the state's Tuition Assistance Program (TAP), a need based financial aid program for students from lower-income families, receive additional financial aid out of the tuition revenue increase that would hold them harmless. The system has estimated that in the first year of the program, it returned roughly 25% of the tuition increase to TAP eligible students; in later years this has risen to 29%.[4] Some have expressed concern that plans such as this appear to have some students' tuition revenue subsidizing other students, but supporters have tried to patiently explain that because of state subsidies, annual giving, and spending from endowments, all resident undergraduate students are actually receiving subsidies and what is actually occurring is that the size of the subsidies differ across students. Some public universities, either by legislation or trustee action, are now prohibited from pursuing this type of policy.[5]

[3] Ronald G. Ehrenberg, "The Perfect Storm and the Privatization of Public Higher Education", *Change* 38(Jan/Feb 2006):46-53

[4] Private correspondence from Wendy C. Gilman, Assistant Vice Chancellor for Budget Planning and Analysis, the State University of New York (January 29, 2014)

[5] Kevin Kiley, "Other People's Money", *Inside Higher Ed* (November 5, 2012) (http://www.insidehighered.com)

F&P make stress that the a high tuition and low state subsidy model leaves less room for public research universities to behave inefficiently and will increase the pressure on them to more efficiently allocate resources. It will also limit their ability to subsidize research and threatens the vitality of the research enterprise (which of course is further threatened by reductions in federal support for research caused by federal budget problem and the Washington political process).

My own research using data from the last few decade of the 20th century found that as public research universities increased their own expenditures per student on research out of institutional funds (including tuition revenue), that undergraduate students bore part of the cost of these expenditures in the form of, higher student/faculty ratios, and an increase in the share of faculty that were part-time or full-time nontenure track.[6] F&P argue that an increase in the use of nontenure track faculty threatens the quality of undergraduate education; a large body of research tends to support the conclusion that the increasing use of nontenure track faculty, other factors held constant, adversely effects persistence in college and graduation rates, but some studies dispute this finding.[7] To the extent that potential students and their families perceive the growing use of nontenure track faculty as diminishing the quality of undergraduate education, they may more carefully look at alternative cheaper forms of higher education (public 2-year colleges, public comprehensives, privates with extensive grant aid policies) and emerging for profit rivals.

[6] Ronald G. Ehrenberg et. al. "Who Bears the Growing Cost of Science at Universities?" in Paula Stephan and Ronald Ehrenberg eds. *Science and the University* (Madison WI: University of Wisconsin Press, 2007)
[7] See, for example, Ronald G. Ehrenberg and Liang Zhang, "Do Tenure and Tenure Track Faculty Matter?" *Journal of Human Resources* 40 (Summer 2005):647-659 and David M. Figlio, Morton O. Schapiro, and Kevin B. Soter, "Are Tenure Track Professors Better Teachers?" *National Bureau of Economic Research Working Paper* No. 19406 (September 2013)

This will limit the ability of the public research universities to continually raise tuition unless they take steps to enhance the value of their product to customers.

If a public university is to remain excellent in both its research and teaching, F&P further argue that it must pursue a strategy of focusing on academic programs that can distinguish it from its competitors and to invest in these programs and disinvest in others. The implication of this is that the breadth of any public university's programs will be reduced and that there will be greater differentiation across public universities than currently exists. Cut backs in state subsidies will make the existing pattern of cross subsidies that is the essence of any large university difficult to maintain

Of course to do this, top leadership must define a vision and have the courage to enact the difficult choice that will follow. Witness the explosion of outrage from within the campus and nationwide when the SUNY at Albany administration proposed eliminating majors in a few foreign language programs with limited enrollments of majors, although it suggested ways to continue to offer instruction in those languages.[8] To achieve long-lasting change requires stable leadership. It is hard to govern a major university without the support of the faculty and faculty members tend to be very conservative in terms of their attitudes towards change and very departmental focused. While the average length of service of sitting American higher education presidents was 7 years in 2011, the number of presidents of major universities that have faced no confidence votes from their faculty recently appears to be rapidly increasing as presidents seek to institute change.[9] Pity the poor president who is caught between the wishes of a, typically politically

[8] Scott Jaschik, "At Albany, Half a Loaf or Crumbs?", *Inside Higher Ed*(March 25, 2011) (http://www.insidehighered.com)
[9] Kevin Kiley, "Voting No Confidence". *Inside Higher Ed* (April 23, 2013) (http://www.insidehighered.com)

appointed, board of trustees to implement change and the wishes of the faculty. F&P believe that public university governance structures need to be realigned with more control given to university administrators. While I may agree with them on this point, I doubt that one will find many public university faculty senates and boards of trustees that agree.

As public tuition and student debt load increases, F&P stress that students and their parents will focus more on the private economic value of their education and this will put pressures on public universities to provide education in fields with high economic value; they worry that this will pose a threat to many traditional liberal arts fields. So too will pressures come from state governors and legislatures who want to see their public university graduates wind up in high paying jobs to enhance state residents' standards of living and state tax revenues.

Only a year after *No Longer Public* was published, a number of states or state university systems began to require that their public universities provide data on each graduate's major field of study, which is then matched to early career earnings from state unemployment insurance wage records for those graduates who remain in the state.[10] Together these two sources of information allow for the publication of early career earnings of public university graduates by institution and major. There are issues with these data (What about the graduates who move out of state? What about those, often from liberal arts fields, who are enrolled in graduate programs that will yield higher earnings in the future?), however, increasingly this information will be publicly available and President Obama has suggested that these types of data may be part of a developing

[10] Doug Lederman, "Texas Takes On Student Outcomes", *Inside Higher Ed* (January 17, 2014) (http://www.insidehighered.com)

federal rating scheme for academic institutions. While the purpose of higher education is much more than to increase earnings, the availability of such data will influence the distribution of subjects in which students major and thus which fields will prosper and which will shrink in the F&P's world. However, potential college students need to understand that these data are for graduates in a major, not for people who start off majoring in a field, that different skills and preparation are needed for majors in each field, and that over the course of a career, liberal arts graduates relative earnings are much higher than early career earnings data suggest.[11].

Economists have long known that academic institutions might rationally charge differential tuition levels by undergraduate major or year in the program based on the costs of providing education in the major or year of study and the income earning prospects of graduates in the major.[12] While historically American colleges and universities have charged the same tuition levels for all of their undergraduate majors (with the exception sometimes of laboratory fees), a growing number of public institutions now charge differential tuition and in academic year 2010-2011, 42 percent of public doctoral institutions had some form of differential tuition with the most common programs in which differential tuition charges occurred being in business, engineering and nursing.[13] As business school deans, F&P are well aware of this trend and they believe it must increasingly occur as state subsidies are withdrawn from public

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[11] Allie Grasgreen, "Liberal Arts Grads Win Long-Term", *Inside Higher Ed* (January 22, 2014) (http://www.insidehighered.com)

[12] Stephen A. Hoenack and William A. Weiler, "Cost-Related Tuition Policies and University Enrollments", *Journal of Human Resources* 10 (Summer 1975): 332-360 and John Siegfried and David Round," Differential Fees for Degree Courses in Australian Universities". In *Funding Higher Education Performance and Diversity*, edited by Jonathan Pincus and Paul Miller (Canberra AU: Department of Employment, Education, Training and Youth Affairs, 45-62.

[13] Ronald G. Ehrenberg, "American Higher Education in Transition", *Journal of Economic Perspectives* 26 (Winter 2012): , table 5

universities. They do note, however, that the cost structure of instruction in a field is not sacrosanct and they discuss how graduate business programs have developed ways to reduce their costs of instruction (even though the salaries they pay for full-time tenure and tenure-track faculty are among the highest of any field), while American law schools have yet to make such a transition. With exploding law school tuitions, the collapse of the legal labor market, and growing debt burdens faced by law school graduates, pressure to change how law schools staff their curriculum is now coming from a committee of the American Bar Association.[14]

In some states, such as New York, differential undergraduate tuition by major is not permitted by the legislature. In others, it explicitly is, probably because state policy makers find it easier to allow increased tuition for selected fields, while keeping a base level of tuition for most resident undergraduate students more modest. One concern with the growing use of differential tuition is that higher tuition levels in fields that offer higher income earning opportunities (business, engineering) or whose costs of providing education are higher (engineering, nursing), may influence students' choice of majors, especially those students from disadvantaged financial backgrounds. A recent empirical study suggests that this is already occurring.[15] It clearly would not be socially desirable to ration students from disadvantaged backgrounds out of such fields and so if differential tuition is to continue and expand, institutional and state level financial aid policies should take account of differential tuition.

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[14] Ronald G. Ehrenberg, "American Law Schools in a Time of Transition", *Journal of Legal Education* 60 (August 2013): 1-15

[15] Kevin M. Stange, "Differential Pricing in Undergraduate Education: Effects on Degree Production by Field", *National Bureau of Economic Research Working Paper* No. 19183 (June 2013)

In spite of the higher cost and higher expected return to studying in STEM fields, some state officials, for example Governor Rick Scott in Florida, who are concerned about generating graduates with higher earnings potential and attracting high paying employers to the state, have suggested charging lower tuition levels in STEM fields and raising tuition to compensate for revenue losses in other fields.[16] In a similar vein, in New York State, Governor Andrew Cuomo proposed a special grant aid programs for top students who major in STEM fields and work in the state for 5 years after graduation.[17]. Both of these proposals would have the effect of increasing the subsidy to students studying in STEM fields and, given state budget constraints, reducing the subsidy to students studying in other fields. F&P might be supportive of such programs because of the higher "value" that such majors have to a state. Students studying in other fields and their parents may well disagree.

IV. Budget Models and Resource Allocation

Historically most public universities have operated using a Central Allocation Model (CAM) of resources. Under a CAM, all tuition revenue and state appropriations are owned by the central university administration. The center uses these funds, along with endowment income that it may "own" and annual giving that comes to it, to cover central administrative and financial aid costs and then allocates the remaining resources back to the colleges. F&P argue that the strength of such a system is that budget adjustments can more easily be made by the center to reflect changes in institutional priorities, student needs, and societal preferences. But such systems typically lack transparencies. They

[16] Abbie Dorwart, "STEM Majors May Receive a Tuition Break" , *Florida Alligator* (March 25, 2013) (http://alligator.org)
[17] Associated Press, "NY Governor's Budget Plan Funds STEM Scholars", *Wall Street Journal* (January 21, 2014) (http://online.wsj.com)

typically also do not have clear rules that link the revenues that a unit generates to the resources that are allocated to it and this makes it difficult to develop incentives for the units to behave efficiently and generate revenue. They note that under such systems, public subsidies typically go to high cost units and that one way to offset reductions in these subsidies is to move towards using differential tuition strategies.

Over time, a number of public universities have moved adopted Responsibility Center Management (RCM) models. Under such models, all the revenue that is generated by a college comes directly to the college, the college uses these revenues to cover its own operating expenses and the expenses that the central administration bills it for the central administrative costs that it incurs. Because students from one college may take classes taught by faculty from other colleges, RCM models also require that a set of internal transfer prices be established to compensate colleges for the teaching that their faculty provide to students from other colleges.

F&P stress that the advantage of using an RCM model is that colleges within a university are aware of how their actions influence their revenues and costs and this provides them with incentives to generate revenue and behave efficiently. The downside is that what is best for each individual college may not be best for the university as a whole and the center of the university has less ability to pursue institutional priorities and to induce cooperative behavior across the units. One way it can do this is to “tax”, or charge a “franchise fee” to, each of the units equal to a share of their revenues; this tax is above and beyond the revenue the center needs to cover its central administrative costs. The center can then redistribute the tax revenues back to the units to subsidize activities that it considers desirable and to reward deans for pursuing university wide objectives.

After providing a number of examples of how a set of public universities have partially, or totally, transitioned to using a RCM model, F&P conclude that transitioning to a RCM model may be an important move for public universities to undertake. But they caution that “market disciplined prices” for central services must be used.

F&P are aware that all budget models have strengths and weaknesses. After serving as a central administrator at Cornell, I publicly reported my view about how our Cornell’s mixed CAM/RCM budget model in the 1990s led to an undesirable set of academic outcomes.[18] While my views of RCM models have changed somewhat over time, I am a bit less sanguine than F&P are about these models ability to solve the problems faced by public universities.

A major weakness of RCM models is that the internal transfer prices for flows of resources between colleges typically are based upon average cost pricing rather than marginal cost pricing. This provides an incentive for every college to try to teach things that it wants its student to learn “in house” if it can do so at lower cost than the internal transfer price it would be charged if its students took classes in other colleges and to do so in large classes using cheap (adjunct or graduate student) instructors. It provides an incentive for each college to establish “rules” to limit the number of credit hours that its students can take out of college.[19] It provides an incentive for a college to try to get students from other colleges to take classes in it and to do so in a way that reduces the “price” students from other colleges would face (easily graded “pop” type classes). Finally, because college revenue in most RCM models depends both on the enrollment of

[18] Ronald G. Ehrenberg, *Tuition Rising: Why College Costs So Much* (Cambridge MA: Harvard University Press, 2002), chapter ,chapters 12 and 13,

[19] For example, Cornell’s College of Arts and Sciences requires its students to take at least 100 credit hours within the college.

students in the college as well as the credit hours the college faculty generate, it provides an incentive for each college to try to capture as large a share of the university's first-year and transfer student enrollments as possible.

So in thinking about RCM models, and F&P would certainly agree, it is clear that one cannot think about them independent of enrollment management decisions and fundamental academic value issues. If a public university has a relatively fixed capacity for a total number of students, how does it decide how many enrollment slots that each college gets? The decision process is confounded by the multiple objectives of a great public research university.

If heavy weight is given to being a leader in scientific research, colleges with heavy STEM research portfolios will win relative to colleges with few STEM faculty members. If it values high quality undergraduate education, a different set of colleges may win. If its decision is based at least partially on the quality and size of each college's applicant pool, how does one compare colleges that admit students primarily based upon academic measures (test scores and rank in class) and colleges that admit them based upon portfolios (such as art and design or architecture), or based upon the unique mission of the colleges? For example, at Cornell, my college, ILR, makes extra efforts to attract students with labor backgrounds and our college of Agriculture and Life Sciences seeks out students from traditional farm families. And what about the diversity of each college's applicant pool in terms of economic and racial/ethnic diversity? Boy, am I glad that I am not a provost who has to make such decisions! Of course F&P would most certainly respond that the difficulty of making such decisions is not an excuse to simply continue doing whatever the historical allocation of enrollment slots was.

Furthermore, for RCM models not to lead to a "race to the bottom" and the teaching of courses that may be of little academic value to generate tuition revenue for a college using low-price adjuncts, to absurd restrictions by colleges on the number of classes that its students are required to take within the college, and to an unnecessary growing duplication of courses across colleges, there needs to be strong central administrative and faculty control over academic decisions. In an era in which there is enormous pressure on public (and private) college and universities to cut administrative costs, will public universities have the backbone to invest in the additional central administrative resources needed to police all these functions and will faculty be willing to serve on more committees to give the university faculty as a whole a voice in these decisions?

And of course as universities move towards adopting RCMs with the central administration collecting a "tax" or "franchise fee", in the initial years the central administration typically allocates the tax back to the colleges so that they would have the same budget as they would have had under the previous CAM. To do otherwise would not provide the colleges with sufficient time to adjust to the changing world. However, as the center tries to gradually withdraw historic subsidies and to use the revenue to promote university objectives and reward behavior, how are these decisions made? F&P's book describes the process they believe that universities should use to decide how to allocate limited subsidy resources. It is easier to sketch out what should be done in such a world than it is to actually implement it and I believe that their call for a strengthening of the role of central administrators will be necessary for RCM models to achieve their desired aims.

V. Concluding Remarks

Space limitations have prevented me from doing justice to a number of topics that F&P cover. For example, they present an extensive discussion about the social vs. private benefits of higher education and what views of the social benefits of higher education really justify subsidies. They talk in detail, based largely on their personal experiences, about how public university business schools have evolved and operationalize how these institutions have moved in the direction they recommend. *Public No More* is rich in how comprehensive their treatment is of all the 1issues facing public research universities and of the systematic set of solutions to the issues that they suggest

I have argued elsewhere that the financial model the private research universities operate under is also breaking down.[20] While F&P focus on the withdrawal of public subsidies from public research universities, the private research universities are being buffeted by pressures from potential students, parents and politicians to moderate tuition increases, to increase enrollments of students from relatively low-income families, even though at the margin most are already giving back more than 40 cents of each new dollar of tuition revenue in the form of financial aid. They are also being buffeted by restrictions on federal research funding and the fact that even before these restrictions started occurring that undergraduates at their institutions were already bearing part of the cost of the universities' expenditures on research out of their own internal funds in the form of

[20] Ronald G. Ehrenberg, "Is the Golden Age of the Private Research University Over?" *Change* 45 (May/June 2013): 16-23

higher student/faculty ratios, more courses taught by nontenure track faculty, and increased tuition levels.[21]

One can view these forces as being akin to a reduction in the "subsidies" that private research universities receive from funders. Even though the causes of the reduced subsidies to private research universities is somewhat different than those that the public research universities are facing, many of the strategies that F&P argue that public research universities should follow are equally relevant for the privates. Put simply this is a much more important book than its title might suggest and why I believe it should be.

[21] Ronald G. Ehrenberg et al. "Who Bears the Cost…."