

EDUCATIONAL POLICY

This new department is intended as a regular feature on matters of public policy as they bear on higher education. It is the conception of Peter N. Warren, the policy analyst of the National Association of Scholars, whom we now introduce as *Academic Questions's* new Washington correspondent.

The New Austerity: University Budgets in the 1990s

John Hood

College and university administrators across the country recall the early 1990s with a shudder. The national economic recession, coupled with a deepening financial aid morass and federal grant scandals at many schools, made the prospect of steadily increasing public funds for higher education not nearly as secure as in the past. State legislatures, facing shortfalls in revenues and burgeoning costs in other programs, such as Medicaid and prison construction, began to trim the appropriation requests that public universities were used to having approved with little debate. Congress began to focus more scrutiny on federal research grants and the financial aid system.

The result was slower growth in revenues from the public sector, tuition increases for students, and, in many cases, real decreases in university budgets for the first time in a long while.

But if the leaders of higher education believe that these fiscal pressures are behind them and that healthy revenue growth today means healthy increases in state and federal appropriations for schools and students tomorrow, they are sorely mistaken. Across the country, from the halls of the California legislature to the Congressional committee rooms of Washington, D.C., universities are receiving more public scrutiny than ever before. For both public and private institutions, the signs of greater oversight and higher expectations on the part of lawmakers, donors, parents, and students are numerous:

- As part of the budget-balancing process, Congress has looked at reducing the subsidy that students receive by not having to pay interest on federally guaranteed student loans until after graduation. The federal government may also reduce spending for research and other grants.

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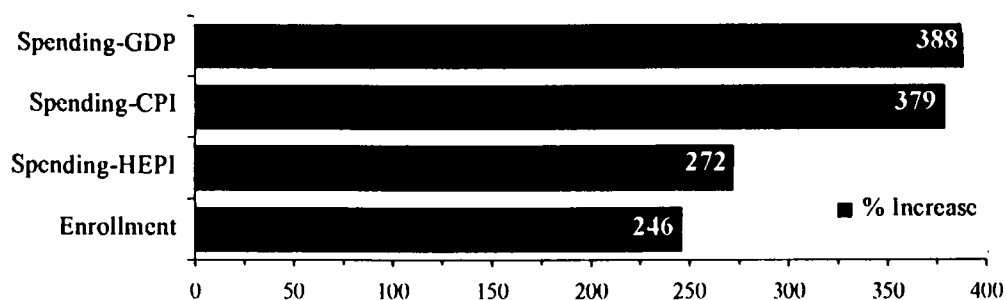
- States are reexamining the size and scope of their public university systems. In Ohio, the legislature is pressuring the state Board of Regents to consolidate duplicative degree programs, departments, and even campuses. "There is no need to have 13 Ph.D. programs in history," says the chief-of-staff to the Ohio Senate's Republican caucus. "Maybe we're better served to have two in the state, one in the north and one in the south." In North Carolina, the state university system's Board of Governors didn't wait for the legislature to act. In late 1995, it recommended the elimination of 139 academic degrees, reducing the number of degrees offered in the sixteen-campus system by 10 percent.
- More generally, states are demanding more information and accountability in exchange for appropriations to public or private universities. As of 1995, *Governing* magazine reports that a majority of states now require some form of annual accountability report or performance evaluation from the institutions their taxpayers support. Twelve of the fifteen states that make up the Southern Regional Education Board, for example, have implemented their accountability measures just in the past five years.
- Responding to the widespread belief that the academic tenure process rewards research and publications far more than good teaching, and that too many students are receiving a significant portion of their undergraduate education from graduate students and part-time instructors, some states are examining ways to increase full-time faculty teaching responsibilities. In Ohio, the legislature passed a bill mandating that professors at Ohio's state-supported colleges and universities must spend 10 percent more time in the classroom teaching undergraduates than they did in 1990. Legislatures in Connecticut, Massachusetts, and Washington are considering similar bills.
- Many states are concerned about the length of time it takes undergraduates to receive their degrees. Even in five years, many universities graduate only about half of their undergraduates, and some have even lower graduation rates. In addition to requiring schools to increase the number of classes and sections taught, higher education boards and state legislatures in states like Oregon and Texas are considering so-called "slacker" rules to raise tuition rates for students who take too long to graduate.

The College Cost Explosion

Even critics of higher education policy today aren't wild about all of these movements in Washington and in state capitals. But if the specific approaches seem crude or inadvisable, the goal of reducing cost while maintaining or improving services is hard to contest. American higher education has become a massive enterprise, while its productivity and efficiency have become questionable. College faculty and administrators, lawmakers, and other interested parties must seek to apply the strategies of rightsizing, outsourcing, and innovation that private firms and, increasingly, governments have used to promote productivity and to focus scarce resources on core responsibilities. To do so, they must first clearly understand how higher education finance has changed over the past three decades.

At the beginning of the 1960s, higher education in the United States consisted of some 2,000 institutions, two-thirds of them private, employing some

**FIGURE 1: Growth in Higher Education Expenditures and Enrollment
1961-62 to 1991-92, by various inflation measures**



NOTES: Total higher education spending was adjusted by the gross domestic product deflator (GDP), Consumer Price Index (CPI), and Higher Education Price Index (HEPI) as reported by the U.S. Department of Education.

SOURCE: *Digest of Education Statistics*, 1994, U.S. Department of Education.

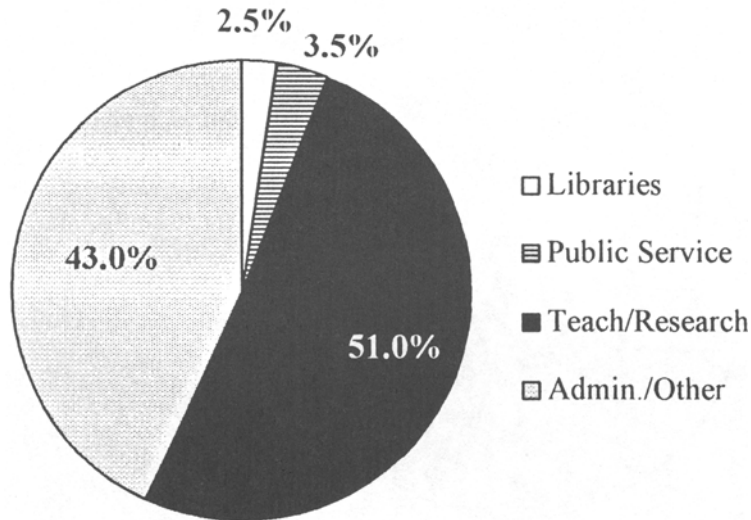
380,000 faculty members and enrolling around 3.6 million students. In the 1961-62 school year, total spending on higher education was \$7 billion.

By the 1991-92 school year (the latest for which all relevant data were available), higher education in America looked different in lots of ways. The number of institutions had reached 3,600, an increase of 80 percent. The faculty had increased by 117 percent to 830,000 and student enrollment by almost 300 percent to 14.4 million. And the total budget for American higher education had risen by 2,100 percent to \$156 billion.

Of course, this increase in spending must be compared to the rate at which prices inflated during the period. However, there are several different ways to measure inflation. The Consumer Price Index is often used for this purpose. From 1961 to 1991, it rose by 356 percent. But many economists believe that the CPI exaggerates inflation significantly because of various technical flaws and because it is extremely difficult to determine whether a rising price represents real inflation or instead rising quality. Some suggest using the Gross Domestic Product implicit price deflator, a broader measure of inflation, which rose 345 percent during the same period, although it is also considered by many to be an exaggeration.

On the other hand, colleges and universities don't buy the same basket of goods and services that an average consumer in our economy does. A private Washington group publishes a Higher Education Price Index (HEPI), which rose an astounding 487 percent during the same period. But this index is problematic, to say the least. Such prices as faculty salaries and maintenance are under the direct control of "buyers"—colleges—who often lack the incentive that profit-seeking consumers have to purchase only the goods and ser-

FIGURE 2: Higher Education Spending by Function, 1961–62



NOTES: Teach/Research includes all expenditures for instruction, departmental research, and organized research; Administration/Other includes administration, physical plant, instructional support, financial aid, auxiliary enterprises, and independent operations.

SOURCE: *Digest of Education Statistics*, 1994, U.S. Department of Education.

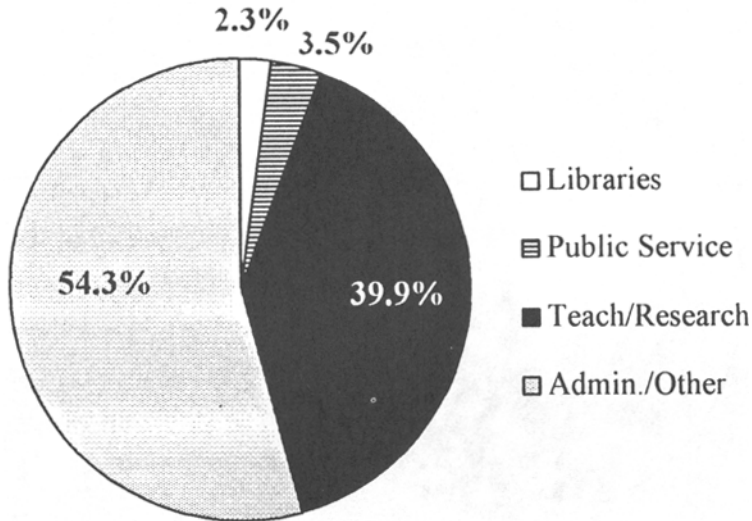
vices they need, and at the lowest possible price. Nor is it easy to measure changes in quality (or quality itself) in higher education that might explain nominal price increases.

Rather than choose just one of these ways to account for inflation, I've included all three in the bar graph in Figure 1. Clearly, no matter how you look at it, spending growth has far exceeded both inflation and student enrollment growth—even though there would appear to be significant economies of scale in education, in administration, and physical plant operations, at least, that should have allowed colleges to spend *less* per student over time.

Changing Priorities

The pie graphs (Figures 2 and 3) illustrate how the allocation of spending among various university functions and programs has changed. In 1961–62, colleges and universities spent, on average, about 51 percent on instruction and research; 43 percent on administration, overhead, physical plant, and auxiliary enterprises such as hospitals, research labs, and day care centers; and the remaining 6 percent on libraries and on community service. Once again, this picture had changed significantly by 1991–92. While the share spent on com-

FIGURE 3: Higher Education Spending by Function, 1991-92



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SOURCE: *Digest of Education Statistics, 1994*, U.S. Department of Education.

munity service and libraries stayed basically the same, instruction and research fell to 40 percent of overall spending while administration, overhead, and auxiliary enterprises rose to 54 percent. Over the thirty-year period, in other words, shares of spending for core university programs and for administration/auxiliary enterprises roughly changed places. This represents a major shift in emphasis for American higher education as a whole.

One way to put the shift in context is to consider administrative costs by themselves. Only spending on student financial aid grew faster than general administrative costs. Indeed, if colleges and universities in 1991-92 had spent the same share of their budgets on administration that they did thirty years before, they would have saved \$7 billion, or about 5 percent of total spending—enough, in many cases, entirely to offset lost state appropriations during that recession year.

But administrative costs alone cannot explain the cost explosion in higher education. Nor can cutting support staff, admissions and advising offices, and central office administration alone solve higher education's fiscal problems, though it would certainly represent a good first step. Colleges and universities, both public and private, are going to have to reexamine everything they do and ask some hard questions. Is this expenditure or program truly part of

our core mission? Can it be provided at lower cost through innovative use of personnel, outside contractors, and new technologies? Can it pay for itself through user fees? The stark reality is that, particularly for institutions that rely on government aid for most of their revenues, lawmakers and state administration officials will ask these questions, and answer them, in the near future if college administrators do not.

At the very least, colleges need to find better ways to report information about what they do to those who fund them. Anyone who has looked through a state, and even private, university budget recently knows how difficult it is to determine how much money is actually spent in each area and from where the money comes. The task is complicated by two factors: the way colleges report spending on research and the movement in many state legislatures toward “flexible” budgeting.

The research vs. teaching debate is a familiar one, by now, though often misunderstood. Many critics of higher education argue that too many professors spend too much time performing marginal research rather than teaching undergraduate and graduate students. In too many instances, this argument has degenerated into allegations that college professors are lazy or that university research is largely worthless. The real issue, however, is how faculty members’ often demanding work efforts are allocated and whether the relative investments in teaching and research are too high, too low, or the right amount.

Unfortunately, it is almost impossible for someone just using official published budgets to identify separate teaching and research expenditures. While contract-driven research spending is reported as a separate budget code (“organized research”) by most universities, departmental research is considered part of the budget for student instruction—the argument being, of course, that continuous research is necessary for professors to teach their students effectively. Surveys of how many hours a day faculty members teach, do research, write, read, think, grade papers, and talk to students aren’t particularly useful, either. They apply an hour-clock mentality to professionals who should more properly be evaluated according to their output. Of course, short of judging faculty effectiveness in the classroom according to standardized tests of student knowledge and achievement—not a popular idea in academia—outside evaluators are left with few tools to measure the effectiveness of public or private investment in undergraduate education.

The second problem is mostly a bookkeeping one. In recent years, many states have adopted “flexible budgeting” to give institutions such as public universities more authority over allocating their budgets. In my own state of North Carolina, the state legislature passed a bill in 1990 to consolidate four categories of spending—general academic support, student services, institutional support, and physical plant operations—into one “general institutional support” category. While the result may well have been better use of non-

institutional dollars, it also makes it impossible for outsiders to identify specific trends in administrative expenses.

One solution to these problems is to implement "internal pricing" schemes, as many education reformers have advocated. The system would allow various departments or services on a campus to buy services from each other at market rates. Each unit would receive credit for the income it generates and be charged by the central administration for all its expenses. This type of system would allow administrators and public or private funders to get a better handle on efficiency and productivity. Another idea would be to provide government subsidies for instruction directly to students rather than to institutions, which would still receive funds for research, community service, and other non-instructional programs. In this way, legislatures could decide how much money they are willing to provide for student instruction and for other university functions without imposing intrusive or unwieldy mandates on university budgets or faculty work loads.

The bottom line is, actually, the bottom line. The increased fiscal scrutiny applied to colleges and universities during the recession of the early 1990s has not faded with economic prosperity and revenue growth. Now, more than ever, both public and private institutions are going to have to couple appeals for money with hard-nosed, easily understood measurements and arguments that justify their expenditures and make clear their individual contributions to the social, cultural, and economic well-being of the communities they serve. By reducing administrative costs and duplication and by concentrating resources in programs that serve the core mission of the institution, universities can meet the fiscal challenges of the future and ensure their continued survival and success.

The October 1995 issue of the *Quarterly Review of Doublespeak* from the National Council of Teachers of English cites, on page 6, Sue Rosenberg Zalk's "Men in the Academy: A Psychological Profile of Harassment" [in *Ivory Power*, ed. Michele A. Paludi (Albany: State University of New York Press, 1990)] as the source of the following definition:

Receptive Noninitiation is the term advanced by radical feminists for "sexual harassment" committed by one man who accepts sexual overtures from a woman who is subordinate to him. Even if the woman makes an explicit sexual request, the man is still guilty of "sexual harassment" because "he complied."