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A Tale of Two Pities: Revisited

by

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A dozen years ago, David Longanecker wrote an article in *Change*, '*A Tale of Two Pities,"* that described the colliding perspectives of two communities – those who provide higher education and those who create and sustain the policy environment in which it functions. Each of these communities is committed to ensuring that Americans have broad access to high-quality postsecondary education. But each often perceives the other's views and actions as antithetical to its own, thereby undercutting progress toward their shared goal.

This article, with two knowledgeable and experienced coauthors, reviews the evolution of the "two pities" dynamic presented 12 years ago and describes the current situation. Unfortunately, not much has changed.

The 2006 article described why so many within the higher education community felt that the policy community no longer loved them: resources, at least on a per student basis were in decline, the share of state resources provided to higher education also was in decline, and policy makers didn't even seem to be concerned about these reductions in support.

Conversely, the article described why the policy community seemed to feel that higher education no longer loved them: higher education seemed more focused on gaining institutional prestige while abandoning the neediest and most underserved students. It did so both by raising tuitions precipitously and focusing more on providing merit-based aid rather than need-based aid. Furthermore, higher education failed to appreciate the financial difficulties that states faced having just experienced a recession, with increasing demands for other services such as Medicaid and elementary and secondary education, all in a new anti-tax climate.

Both perspectives were founded on reasonably strong evidence. And the perceptions of these two communities have not changed much, certainly not as much as one might have hoped. This is sobering, humbling, and disappointing with respect to our capacity to change this process.

The title of this article plays off Charles Dickens' *A Tale of Two Cities*, which seems germane to the topic. The novel's first lines read:

It was the best of times; it was the worst of times.
It was the age of wisdom: it was the age of foolishness.
It was the epoch of belief; it was the epoch of incredulity.
It was the season of Light; it was the season of Darkness.
It was the spring of hope; it was the winter of despair.

When one listens either to the community of educators or to the community of political and policy leaders, these lines ring remarkably true for American higher education—but for remarkably different reasons. As it was twelve years ago, each group sees itself as the party of "light," and each thinks that the opposing community's "darkness" is a real pity. Thus, this is the tale of two pities, 2019.

The tale from the higher education community's perspective:

For a very long time, the higher education community – at least the public sector of this so-called community – has been distressed about the declining financial support of higher education both from the states and from the federal government. Indeed, there is plenty of evidence to support this distress. As Figure 1 shows, public support for higher education (as measured per $1,000 of personal income) has declined substantially over the last 25 years, and this decline has continued over the 12 years since the original version of this article (SHEEO, 2018).

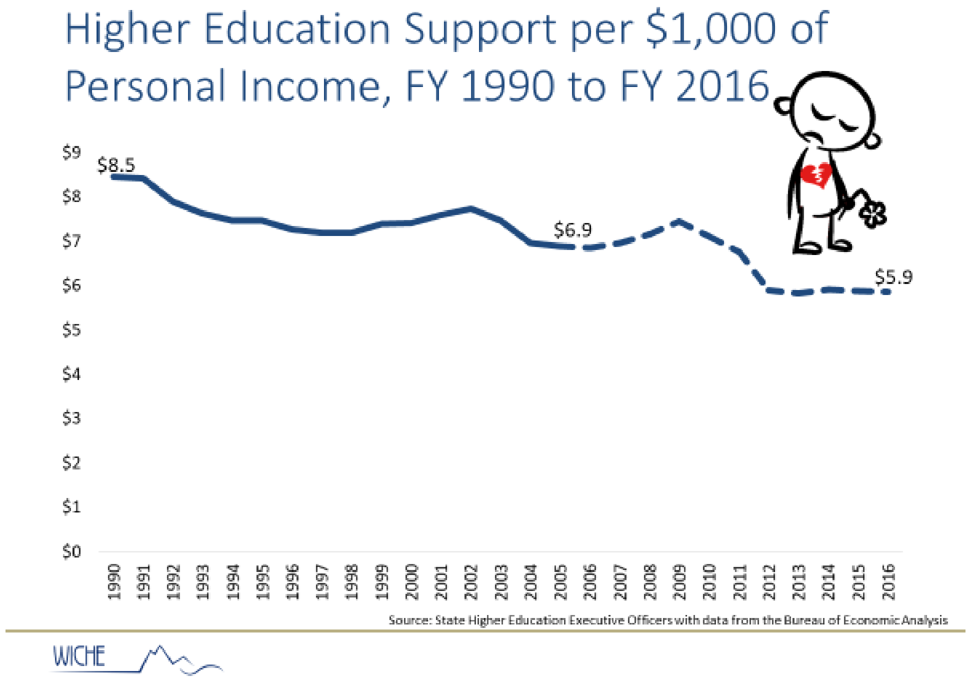

Figure 1. Higher Education Support per $1,000 of Personal Income, FY 1990 to FY 2016 from State Higher Education Executive Officers Association (2018).

Not surprisingly, therefore, according to the most recent (FY 2018) State Higher Education Finance (SHEF) report released by the State Higher Education Executive Officers (SHEEO), inflation-adjusted public funding per student peaked at $9,765 in 2001 and has declined a whopping 20 percent since that time, to $7,853 in 2017 (see Figure 2). Though state support has increased slightly each of the past few years, the SHEF report notes, “Ten years out from the Great Recession, per-student higher education appropriations in the U.S. have only halfway recovered” (SHEEO, 2019).

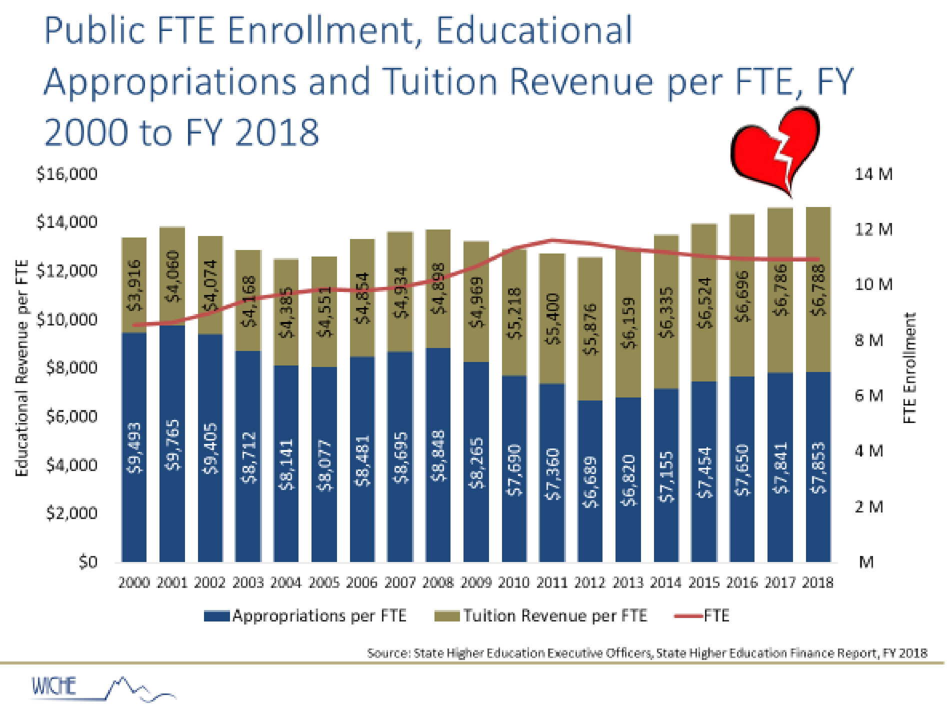

Figure 2. Educational Appropriations per FTE, Tuition Revenue per FTE, and FTE Enrollment FY 2000 to FY 2018 from State Higher Education Executive Officers (2019).

Shamefully, they believe, the result is that public institutions, on average, now rely primarily on tuition revenue for their funding, increasing the financial burden on students and their families, with average in-state tuition at public four-year institutions rising from 8 percent of the median household income in 2000 to 16 percent in 2017 (College Board, 2017; U.S. Census, 2018).

It seems pretty clear to the higher education community: The states don't love higher education anymore.

Higher education's angst, however, exists not only because of the relative declines in funding and because averages don't capture the unique circumstances faced by many states and institutions. It also reflects the volatility of funding cycles that make it difficult to manage the higher education enterprise well. It is very difficult both to plan for the future and to manage within existing constraints when it is not clear what funding will be available and when.

The "peaks and valleys" of finances are, of course, not unique to higher education – virtually every public service has faced them in the early years of this century. Two significant recessions have seriously eroded public funding for virtually all public services except for those that are for all practical purposes considered non-discretionary. But higher education has faced particularly difficult times because enrollment increases when the economy declines. Therefore, institutions faced increased demand for services, often from students less well prepared to succeed in college, at precisely the same time that their financial support was eroding.

The story with the federal government isn't much different. Yes, the amounts provided for the Pell Grant program, the primary federal student financial aid grant program, have increased both in aggregate and on an individual-student basis. But that actually isn't as positive as it might sound. Despite these increases, the maximum Pell Grant award covers a decreasing share of overall educational costs, thanks primarily to the more rapid increase in tuition forced by the states' diminution of funding (Figure 3).

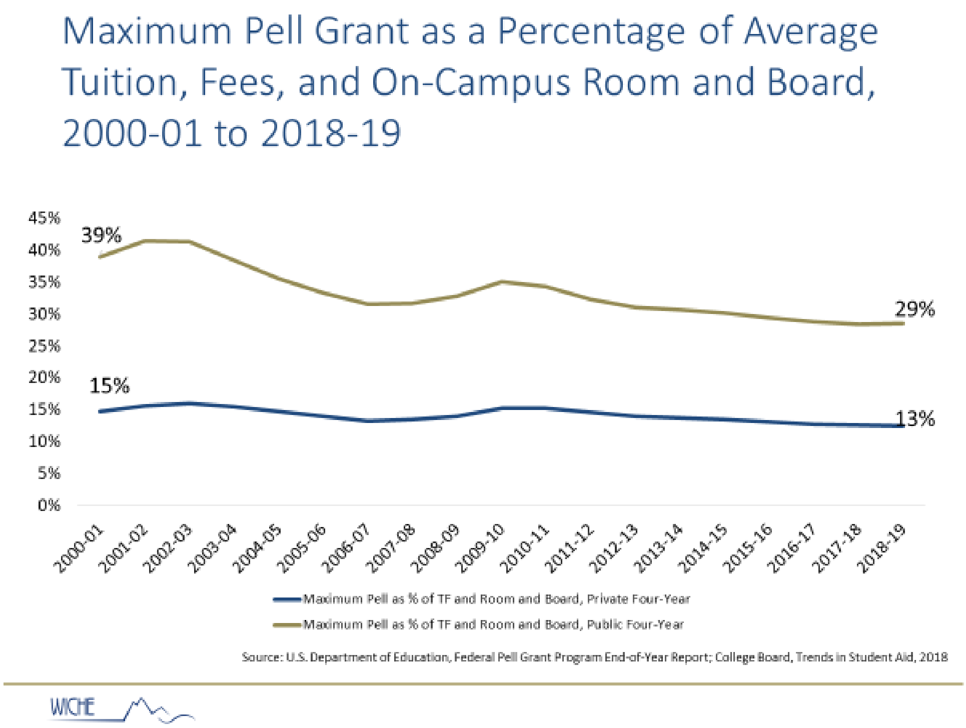

Figure 3. Maximum Pell Grant as a Percentage of Average Tuition, Fees, and On-Campus Room and Board, 2000-01 to 2018-19 from College Board (2018).

Furthermore, with respect to federal loans, the increasing reliance on loans, compared with grants, has created a generation of student loan debtors, with 65 percent of all bachelor's recipients now accruing debt before they graduate (The Institute for College Access and Success, 2018). And this does not account for the share of students who borrow but do not graduate and thus do not receive the value they thought they would from their college or vocational education.

From higher education's perspective, therefore, today's tale is the same as it was 12 years ago in the original *Pities* piece. The evidence seems clear--public policymakers, be they state or federal, don't love higher education anymore. They have cut funding to higher education. They have shifted their priorities from higher education to other public services or to cutting taxes. For our colleges and universities, as Dickens would put it, *the worst of times* . . . *the age of foolishness* . . . *the season of Darkness* . . . *the season of despair*.

But hold on a minute--others see these same trends quite differently.

The tale from the public policy leaders' (and some policy wonks') perspective:

Many elected officials and policy analysts also see the current scenario as a pity. But to them, the pity is that higher education doesn't love them anymore. Those higher education ingrates don't appreciate all that the policy community does for them. If the higher education community would only wise up, they would realize how much the policy community does for them given the dire financial straits that states faced recently. They would come to appreciate that they are in a far, far better place because of the love the policy community displays for them.

State budgets have had to cope with two recessions, a populace demanding lower taxes, competing demands for limited public resources, mandated public-expenditure increases for health care, eroding infrastructure, increased public angst about security, etc. States also face a requirement that, unlike the federal government, they must annually balance their budgets.

Higher education in this recent past has faced a particularly significant challenge because it is, for all practical purposes, the only significant state expenditure that has a relief valve when state revenues go south. Higher education institutions can replace state dollars with increases in tuition. In the face of all this, it is remarkable, as the policy community sees it, that it has been able to continue its support, albeit not always up to past levels. In fact, as reflected in Figure 4, the share of state appropriations going to higher education has *not* declined during this era.

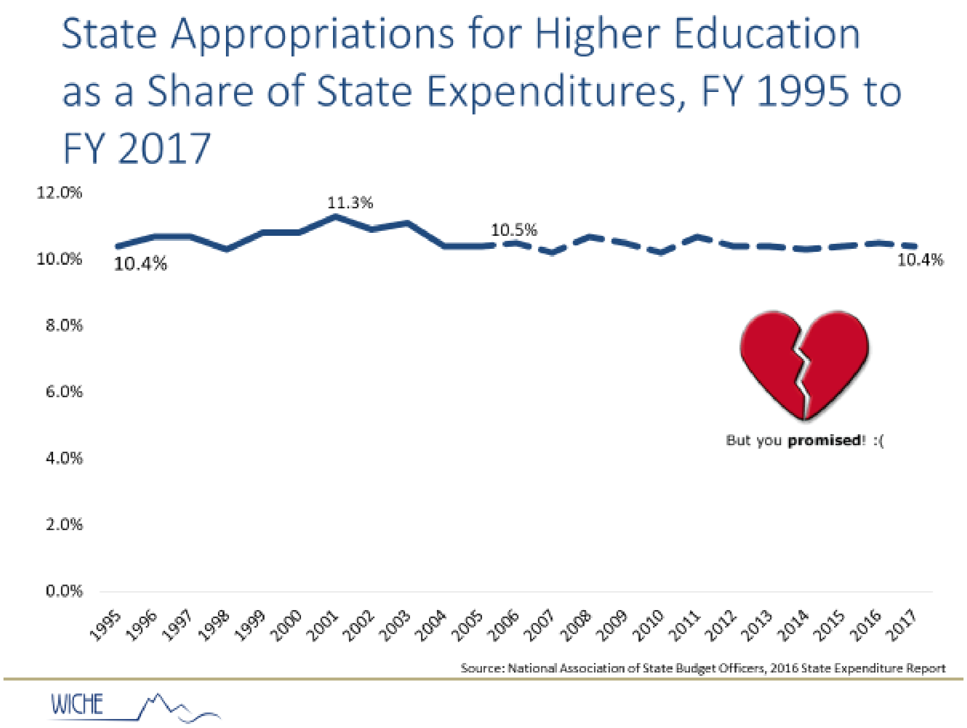

Figure 4. State Appropriations for Higher Education as a Share of State Expenditures, FY 1995 to FY 2017 from National Association of State Budget Officers (2017).

The amount of state appropriations per student certainly has declined, but that is a function of the combinations of increasing demand for higher education (higher enrollments) and reductions in the overall availability of state resources. The states, as the policy community sees it, are not robbing Peter (i.e. higher education) to pay Paul (i.e. the rest of state government).

Also, the complaint by the higher education community that support for higher education, though recovering, has not "fully" recovered presumes that the *high* point in funding is the *appropriate* point for funding. In what other sector of our economy is the highest cost of production -- the high-water mark -- considered to be the most appropriate cost of production? Yet, that seemed to be invariably assumed in higher education's argument. So, from the policymakers' perspective, not only are those in higher education ingrates, they're lousy economists.

And they have a point. Looking again at Figure 2, state appropriations per student have increased substantially (17 percent) since 2012, the end of the Great Recession, which happens to be the most rapid increase since funding peaked in 2001 (SHEEO, 2019). These increases have brought the inflation-adjusted level of state funding two-thirds of the way back to the average of the past 20 years, perhaps a more reasonable measure of adequacy than the high-water mark of 2001.

Furthermore, the shift of the financing burden from states onto students and families hasn’t been solely because of reductions in state support. It is also due to institutions increasing tuition such that total funding from state appropriations and tuition currently is at the highest level in American history. It’s a bit disingenuous for higher education to blame states for the increasing burden of college costs when they are charging students more simply because the demand for higher education allows them to do so.

State policymakers also point out that given their funding limitations, exacerbated by dual recessions, they have intentionally directed more funding toward alleviating the burden that increasing costs create. They have done so, as reflected in Figure 5, by substantially increasing need-based financial aid rather than merit-based aid, a distinct change in the trend for student financial assistance from the prior decade (National Association of State Student Grant and Aid Programs, 2018).

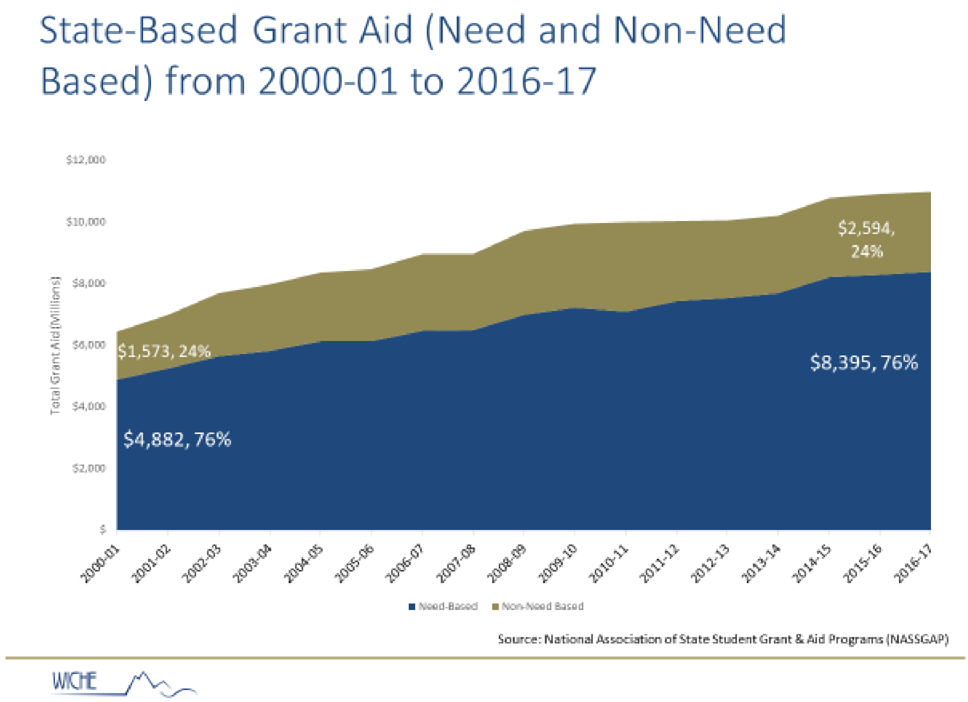

Figure 5. State-Based Grant Aid (Need and Non-Need Based) from 2000-01 to 2016-17 from National Association of State Student Grant and Aid Programs (2018).

In addition, many states have created so-called "free tuition" options for segments of their higher education systems and certain groups of students. One can legitimately question the efficacy of this approach in truly reducing the burden for students. But these efforts have clearly been made with the intent, if not the effect, of addressing concerns about college cost, and they are being funded at substantial expense to the states involved.

At the federal level too, elected officials and administrators see higher education leaders not only as ingrates but as living in a world of alternative facts. Since the beginning of this century, the federal government has increased substantially the maximum amount of Pell Grants well beyond the increase in inflation, leading to a commensurate increase in the average Pell Grant award (Figure 6) (U.S. Department of Education, 2017).

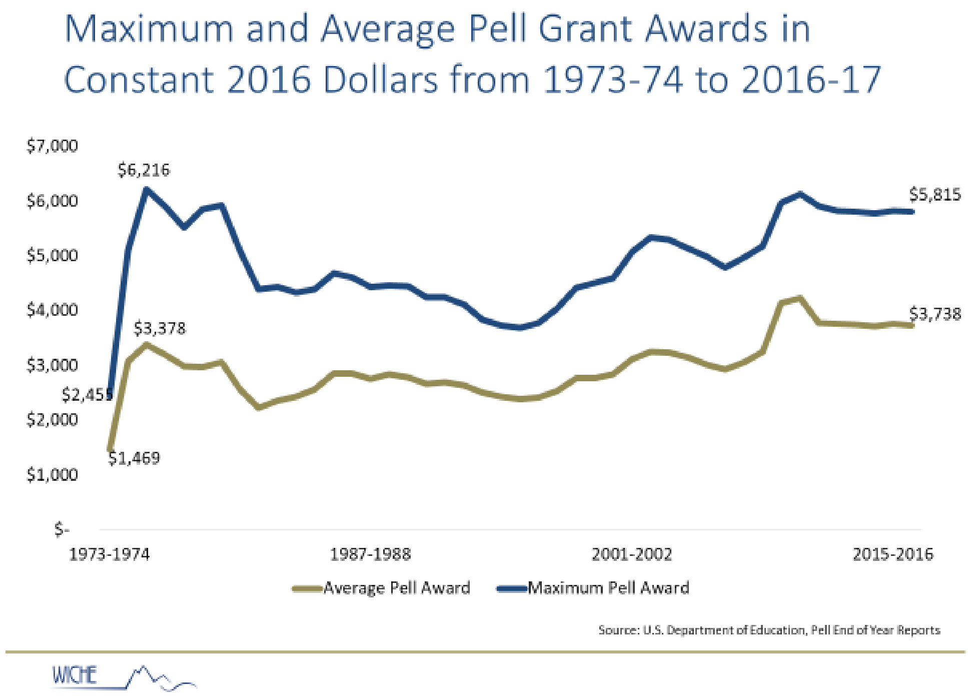

Figure 6. Maximum and Average Pell Grant Awards in Constant 2016 Dollars from 1973-74 to 2016-17 from U.S. Department of Education (2017).

Yes, it is true that the average Pell Grant award now covers a smaller share of college costs, but again that is partly or mostly because of increases in tuition well exceeding inflation during that period, and even the federal government can't keep up with higher education's appetite for additional funding.

And despite all the current hullabaloo about rising student loan debt, both the share of financial aid going toward student borrowing compared to the substantial increase in Pell Grants and the actual amount borrowed have declined in recent years (Figure 7).

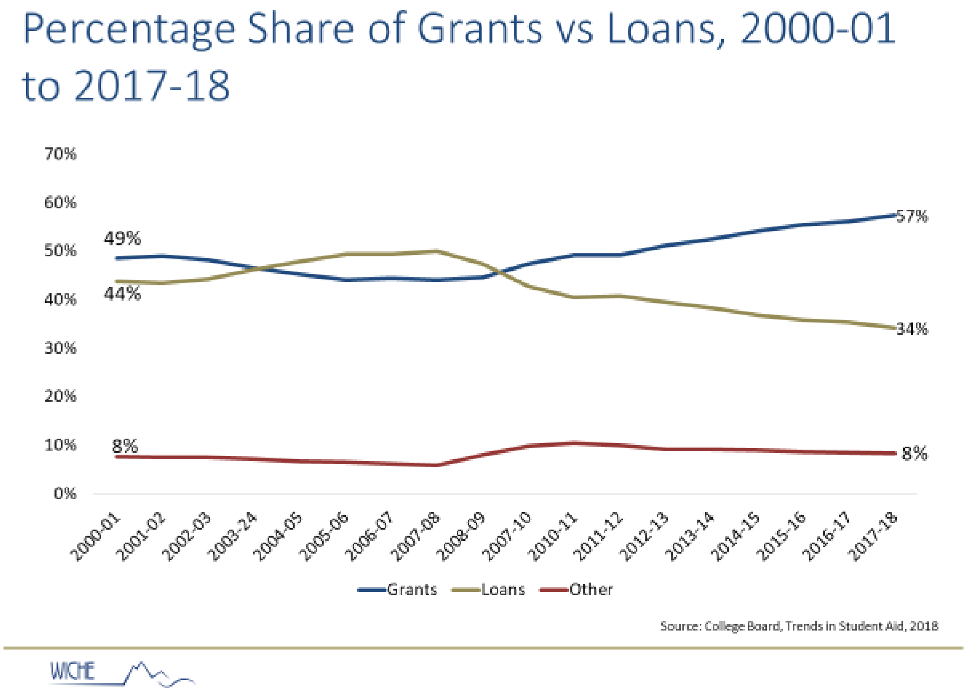

Figure 7. Percentage Share of Grants vs Loans, 2000-01 to 2017-18 from College Board (2018).

Given these federal trends, it's rather difficult to make the case that the feds have backed away from higher education support. But that certainly hasn't prevented us, the higher education community, from arguing that case. And as states were struggling to sustain their support for higher education despite dire financial straits and the federal government was increasing its support—what were higher education institutions doing?

As mentioned earlier and reflected in Figure 2, they were increasing tuition. In 2000, tuition represented 29 percent of total educational revenues in public higher education in America; by 2018 that share had increased to 46 percent (SHEEO, 2019). As also noted earlier, much of this increase was used to replace reductions in public funding on a per-student basis. But one-quarter of that increase provided inflation-adjusted increases in total funding, providing public higher education in 2019 with a level of funding that is 9 percent higher than it was in 2000, hardly reflecting "hard times," (SHEEO, 2019).

What have institutions been doing to assist students during these "hard times"? With their limited financial aid resources, they have, indeed, increased the number of financial aid awards. But in doing so, they have increased the number of awards to the most-needy students less than any other students (including the wealthiest). And average award size is highest for the wealthiest students and lowest for low- and moderate-income students (Figure 8) (U.S. Department of Education, 2016).

Figure 8.

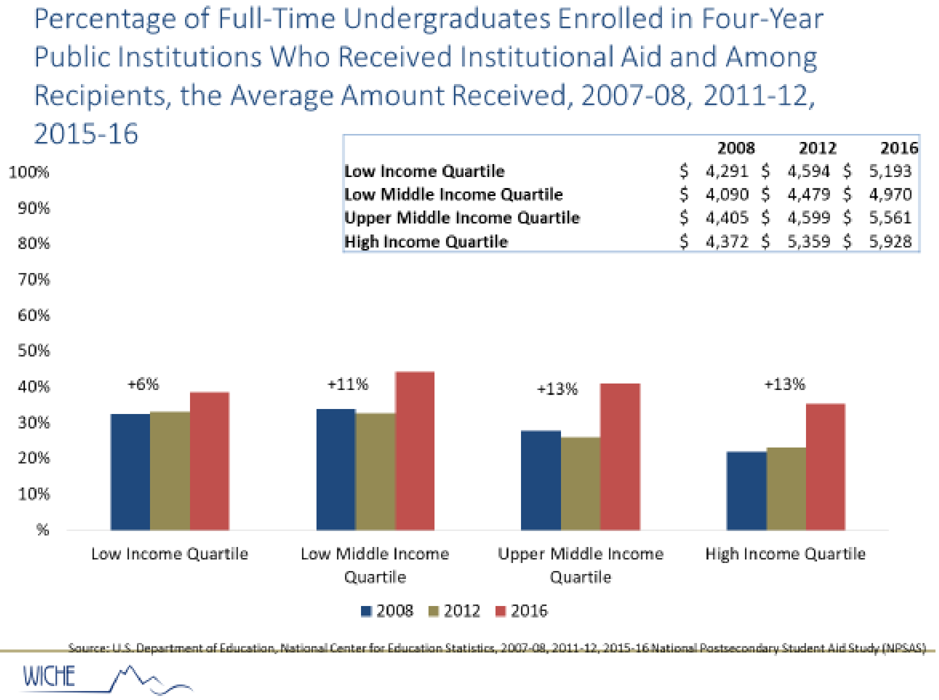

Figure 8. Percentage of Full-Time Undergraduates Enrolled in Four-Year Public Institutions Who Received Institutional Aid and Among Recipients, the Average Amount Received, 2007-08, 2011-12, 2015-16 from U.S. Department of Education (2016); U.S. Department of Education (2012); U.S. Department of Education (2008).

The story is essentially the same for private colleges and universities (see Figure 9) (U.S. Department of Education, 2016).

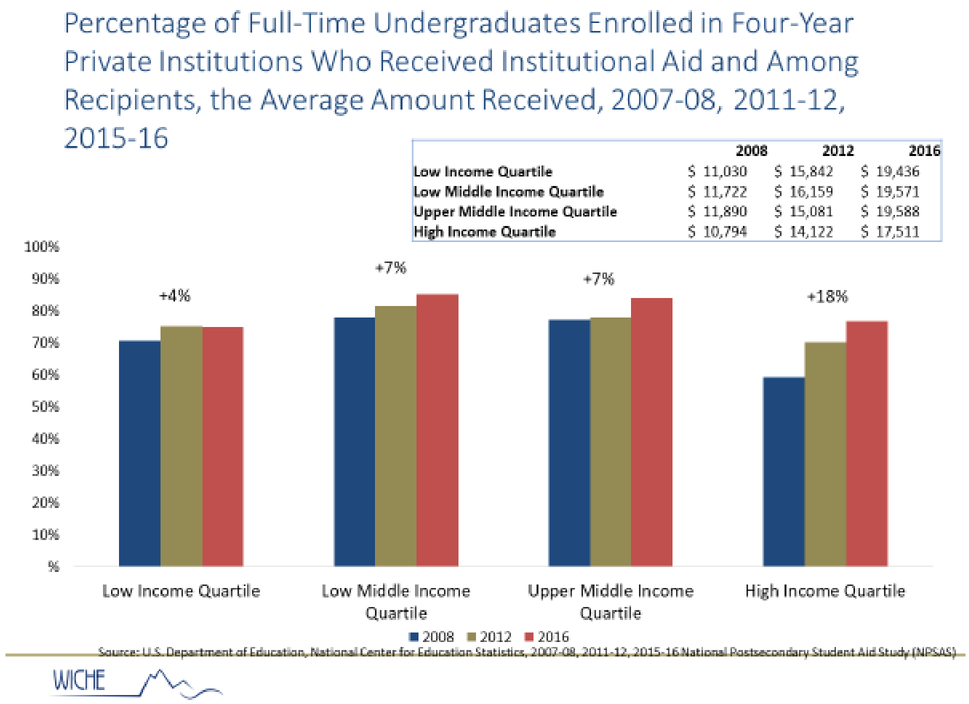

Figure 9. Percentage of Full-Time Undergraduates Enrolled in Four-Year Private Institutions Who Received Institutional Aid and Among Recipients, the Average Amount Received, 2007-08, 2011-12, 2015-16 from U.S. Department of Education (2016); U.S. Department of Education (2012); U.S. Department of Education (2008).

While these patterns may help institutions attract and retain their "most desirable" students, they tend to offset the efforts of states and the federal government to keep college affordable for all.

So, things look much different from the perspective of public policy stakeholders than they do from their higher education counterparts. Policymakers believe they have done quite well by higher education, particularly given the difficult times they have faced weathering two recessions in rapid succession. They have maintained the state share of resources going to higher education, albeit from a lower base than in the past, and they redirected resources to the neediest students.

So, who is right?

Well, actually, they both are. From the perspective of higher education stakeholders, current public funding circumstances are pitiful. Higher education has responded to the public policy call for broadening participation and are serving significantly more students than in the past, but they have not received the level of funding that they legitimately believe should have come with those enrollment increases. Then they get criticized when they increase tuition to generate the revenue necessary to serve these students well.

From the public policy stakeholders’ perspective, things could certainly have turned out worse, given the financial circumstances states and the federal government faced. There is good news on the financial aid front, with states investing substantially more in need-based aid, and the federal government increasing funding for Pell Grants. Also, loan volume is declining. And despite the tough times and increases in tuition, enrollments in the aggregate have not eroded; in fact, they have continued to increase.

From the policy community perspective, if anyone is to blame for the funding trend during this period, it is the higher education community, which has increased tuition beyond what was necessary and prudent, and which has favored less-needy students over those who most need financial help.

Yet the danger in these perspectives is that because they are based on national averages, they don’t capture significant differences in funding levels and circumstances among states and higher education institutions themselves. The half of states that do better (some, considerably better) than the averages have little to complain about. On the other hand, the half of states that fell below (some well below) average in support have a lot to be concerned about. As Figure 10 shows, the level of state support per student varies by more than 500 percent (SHEEO, 2019).

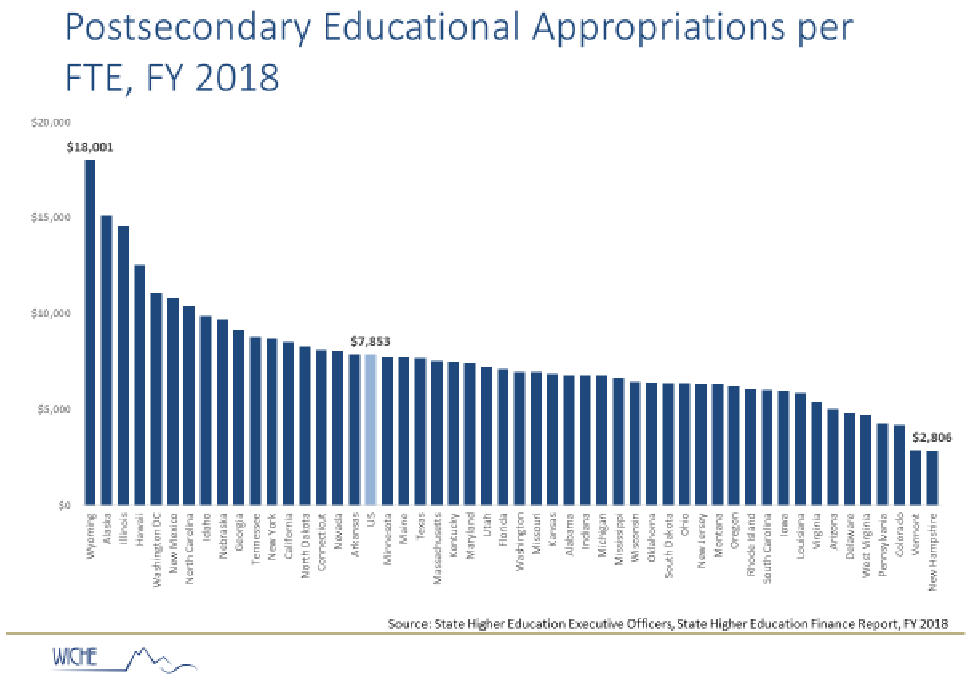

Figure 10. Postsecondary Educational Appropriations per FTE, FY 2018 from State Higher Education Executive Officers (2019).

And over these past five years, while most states' state funding for higher education has improved, more than one-third of states have seen declines in state funding (Figure 11) (SHEEO, 2019).

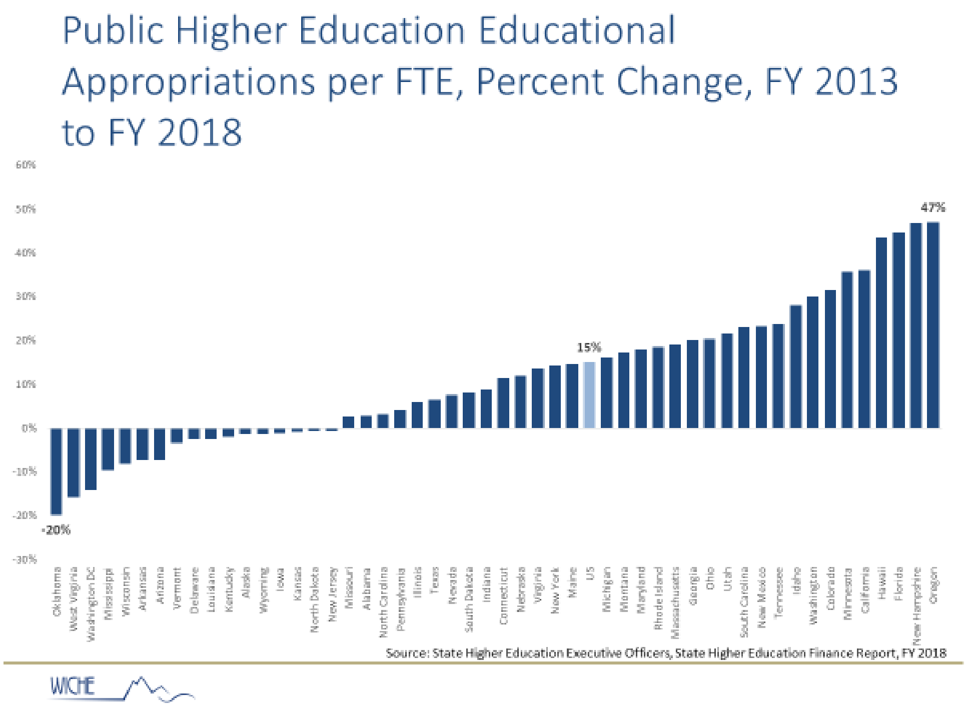

Figure 11. Public Higher Educational Appropriations per FTE, Percent Change, FY 2032 to FY 2018 from State Higher Education Executive Officers (2019).

Furthermore, the demands on higher education have and will continue to vary significantly. As Figure 12 shows, trends in the number of graduates from high school, which still provides the largest cohort for higher education enrollment, differ greatly from one region of the country to another. For example, the South, in particular, is projected to experience increases in the numbers of high school graduates (10 percent more graduates by 2025) (Bransberger and Michelau, 2016). At the same time, some other regions of the country, specifically the Midwest and Northeast, are already experiencing fewer new traditional-aged students to serve (Figure 12). And of course, these regional trends mask even further variation by state.

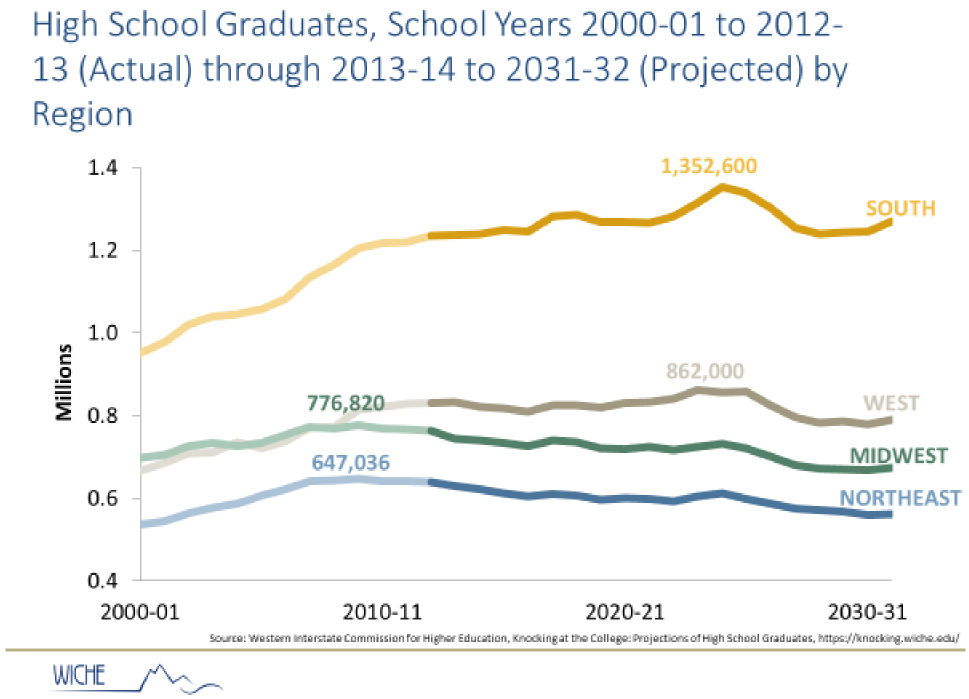

Figure 12. High School Graduates, School Years 2000-01 to 2012-12 (Actual) through 2013-14 to 2031-32 (Projected) by Region from Bransberger and Michelau (2016).

Higher education, however, is not doomed to this bifurcated state of affairs. It could gain back some of the lost love of the policy community by working more diligently to cut the costs, or at least contain the costs, of an enterprise that seems convinced that more is better and never enough. The SHEEO data presented earlier demonstrates that higher education has been demanding and commanding more funding per student than ever before, primarily through increased tuitions. Just because the market will bear it doesn't mean it is good policy.

We now know how to contain costs while still maintaining quality and opportunity, but it requires substantial change within the academy. Higher education should accept the reality that our current models of delivery must be adjusted, in part by going back to the past and requiring more teaching per professor and in part by going forward and using proven technologies to enhance learning.

Part of the answer should also be to recognize the hugely regressive disparity in public funds provided to the most selective, public universities, which traditionally serve the most financially able students, and the funds provided to community colleges that serve the least financially able students. Doing so could do much to repairing the rift between higher education and the policy and political communities.

In addition, the state policy community would be well served to be more intentional about its relationship to the federal government. The public is legitimately concerned about the rising costs of postsecondary education, yet the federal government has surprisingly few tools to directly influence how those prices vary for individuals from diverse backgrounds and in different states. For most students, because they attend public institutions, state policies are the most impactful, affecting how much they pay and how likely they are to achieve their educational aspirations.

Yet federal policies aimed at improving affordability – mainly financial aid programs and tax policies – are uniform across the nation and are intended to influence student behaviors. When examining their higher education finance landscapes, states should consider how their policies interact with federal policies to benefit students. At the same time, the federal government should seek to intentionally partner with states through a matching or incentive program that uses a metric for preserving or improving affordability for the students who face the highest financial barriers to accessing and completing a postsecondary education.

And this brings us back to *The Tale of Two Pities*

It is a far, far better thing that we do, if we find a way to do it together. It will be a far, far, better thing when higher education stakeholders respect policymakers, appreciating the difficulties they face, and working with them to address the needs of our nation and its citizens. And it is also far, far better when policymakers respect the leaders of higher education, trusting that they share their goals of serving the needs of our nation and its citizens. They should appreciate the perspectives of those leaders who understand the business of higher education better than do those who don't have to manage the enterprise.

We should all strive to make these times:

- *The age of wisdom; not foolishness,*
- *The epoch of belief; not incredulity, and*
- *The spring of hope; not despair.*

These may not be the best of times, but neither are they the worst. Working together, we can make them even better.

Resources

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