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SEEKING SUSTAINABLE PUBLIC UNIVERSITIES:
The Legacy of the Great Recession
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Katharine Lyall
University of Wisconsin and the Carnegie Foundation for the Advancement of Teaching

ABSTRACT
The business models under which most public universities in the U.S. operate have become unsustainable. They were put in place when state economies were stronger and there were fewer programs making competing claims on state funds. The current Great Recession has made things worse, but the unsustainability of current business models derives from longer-term trends that will prevent state investment in higher education from rebounding to prior levels. States and universities are making both incremental and structural changes in response. Incremental changes work within existing financial and governance parameters to effect cost savings and/or to extend services; they stretch the use of existing or shrinking resources. Structural reforms change financial and/or governance parameters to create different incentives, which focus on performance, outcomes, and stabilizing capacity. A number of these new models are summarized including: “charter” and “public authority” models, the Virginia tiered system model, the Oregon public endowment model, and the UK income-contingent model. Current conditions create both a challenge and an opportunity for statewide higher education systems to re-define their missions and priorities to sustain their public universities for the future. Whether changes are made by drift or by design will determine how well public universities can contribute to the growth of the country in future decades.

> *It used to be the role of governments to provide for the purpose of universities; it is now the role of universities to provide for the purpose of governments.” ….*
>
> Sir Howard Newby, CEO Higher Education Funding Council of England

The business models operating most public universities in the US have become unsustainable. Most were put in place in the 1970s when states were in much stronger economic and financial condition and there were fewer competing needs for state resources. Since then, the expansion of Medicaid, corrections, infrastructure and state aid to K-12 schools have steadily squeezed state budgets and their commitments to higher education.

There is no doubt that the current Great Recession has made things worse, reducing state revenues and increasing claims on states’ safety net social programs. But the unsustainability of the current business models is not due to cyclical changes; it derives from more fundamental long-term changes in states’ economic bases, in the growth of competing programs and in the political processes, which inhibit state legislatures from getting their budgets in order. Underlying all this is a clear shift from viewing the benefits of higher education as a social, collective good to regarding it primarily as a private, individual benefit. This frees both political and academic policymakers to consider new business models that promise more sustainable access to higher education than may be possible with future state budgets.

American public universities are creatures of their states. The Morrill Act of 1862 encouraged states to make grants of federal lands within their borders for the creation of public universities and by 1875 nearly every state had established its “land grant university” with a mission to offer study in both classical and applied fields of knowledge. Particular emphasis was placed on providing agricultural study and research essential to the economic development of a new nation. This mission has subsequently made these universities a focus for the most respected science and technology expertise is the world.

Most states also developed a network of teachers colleges designed to train K-12 teachers. These institutions generally had a local flavor, were closely connected to their local schools, and emphasized professional training, not research. In the 1970s, these institutions began to grow into comprehensive universities, offering bachelors and masters degrees in a wide array of fields. In addition, many states developed an array of community colleges and/or technical colleges with missions to provide post-secondary training and options to transfer on to a four-year campus.

In the 1970s, many states became concerned about the proliferation of institutions of higher education and their ability to support these institutions financially. Enrollments grew briskly and the original funding formulas, usually capitation formulas, translated into large and rapidly increasing investments in public higher education. Popular expectations for access to affordable college opportunities were high and expressed at the ballot box. In response, most states developed statewide "systems" of higher education that placed the governance of public universities under a single statewide governing or coordinating board.[1] These "systems" were expected to prevent unnecessary duplication of campuses and programs, police institutional missions against "mission creep", ensure statewide access for students of all incomes and backgrounds, and manage competition among universities for resources. More recently, they have taken on responsibility for boosting state economic development through research, entrepreneurial activity, and creation of spinoff enterprises.

Fast forward to 2011, and we see that the expectations and enthusiastic projections of these early years remain largely intact, while the capacity of states to sustain financial support—for institutions or for students—has shrunk. Competing claims for state resources to support K-12 education, Medicaid, prisons, tax cuts, and infrastructure have grown rapidly, squeezing down the share of state resources allocated to higher education. One result has been a shifting of the costs of higher education from states to students. In some states such as NY and California, which had virtually free tuition for many years, student costs have risen from de minimus amounts in the 1950s to 40% or more of instructional costs today. More typically, the student share has grown from 25-50% of costs as states have underfunded the formulas in place for so many years. In many instances, states have simply abandoned their formulas and made higher education funding a 'residual' in the budget after other programs.

The State Higher Education Executive Officers (SHEEO) association tracks and reports these trends in annual financial reports. Its latest report, State Higher Education Finance FY 2010, notes that: "Enrollments in 2010…continued to grow to a record high. 10.8 percent higher than 2008 and the most rapid ten-year growth rate since 1970." Noting that state funding has failed to keep pace with enrollments and inflation, the report states, "As a result, in 2010 constant dollars, state and local support per student sank to the lowest level recorded in more than 30 years." This situation will persist well into the future. States will continue to disinvest in higher education, even when the Great Recession eases and revenues recover. The National Governors Association explains why future state budgets will recover very slowly: "even when recovery begins, states will continue to struggle because they will need to replenish retiree pension and health care trust funds and finance maintenance, technology and infrastructure investments that were deferred during the crisis…the bottom line is that states will not fully recover from this recession until late in the next decade," U.S. higher education needs a new business model that enables public universities to be sustainable over the next several decades, and more independent of the cyclical fortunes (and better or worse management) of their states' budgets.

Universities and their leaders have been slow to recognize the permanency of these trends. In part, this reflects the very deep commitment most academics have made to the value of education as a public good and their buy-in to individual institutional missions to advance their states. An example, by no means unusual, is "The Wisconsin Idea", first articulated in 1904 by university president Charles Van Hise, who stated, "the boundaries of the university are the boundaries of the state". The slogan captured the then-unusual notion that a public university should extend its knowledge and resources to help all parts of the (relatively rural) state, not simply serve students admitted to its campus in Madison. The Wisconsin Idea spread nationally and helped to boost Extension programs to prominence in many states of the Midwest and West. It has been deeply internalized by faculty, staff, and administrators. Similar investments have been made by public universities in most states and this part of their mission is a point of pride within the university community.

The academy has also found it difficult to cope with the shifting focus of public (and business) policies from longer-term to short-term payoffs. While the payoffs to research and lifetime benefits of learning stretch out over decades, state governments increasingly make short-term, scrambling spending decisions driven by the urgent need to balance the budget for another year or biennium; sustaining investments with long-term payoffs becomes increasingly difficult to champion and sell to the public. (We see a similar policy struggle at the federal level as Congress and the President debate whether to reduce the national debt by spending cuts, revenue increases, or some combination that sustains the nation's productive long-term capacity.)

And so higher education advocates for public support and lobbies for sustained public investment in terms that have fading relevance in the political arenas where decisions are made. Universities are "right" but their voices mean less and less. (The notable exception is the argument made for sustaining academic research as an economic driver for states. One consequence is that new state investments, when they are made, tend to be earmarked for specific research or other projects, while general cuts are taken from the broader instructional mission.)

Finally, and perhaps most basic of all, the underlying view of who benefits from higher education has shifted. Despite a number of well-done research studies[2] showing that benefits are roughly equally split between "public" and "private" payoffs, policymakers continue to shift costs from public to private sources. It is precisely because the externalities of higher education are so large that the nation established public institutions with significant public subsidies. As Congressman Paul Ryan recently said: "When you subsidize something you get more if it." ---exactly the principle behind enabling talented students who could not otherwise afford college to attend. The very pressing question for the next decades is whether/how states and public universities can sustain educational opportunities and educational quality as these public subsidies disappear.

The Great Recession is forcing both states and universities to face this question with more urgency. It is no longer sensible or responsible to say 'just wait for things to improve'. Instead, new more sustainable business models must be evolved that fit each state's social and political history but recognize that the bottom line is preserving higher education's capacity to serve, adapt, and move ahead.

INCREMENTAL VERSUS STRUCTURAL CHANGE

Expectedly, early approaches to solving this dilemma have centered on marginal or incremental changes to the way universities operate. By "marginal" or "incremental" I do not suggest that these changes may not have significant impacts on costs and/or access, but only that they work within the existing governance and financial frameworks that have been in place for many years. They stand in contrast to "structural" changes, discussed in a later section, that alter the fundamental political/legal/financial relationship between the state and its higher education institutions. Structural changes touch many constituencies, both inside and outside the academy and thereby excite even more complicated responses from stakeholders than incremental change.

- A wide variety of incremental innovations have emerged as universities, their faculty and students, and community associates wrestle with the challenges of declining public support and rising demand. These include:

- Accelerating study to reduce costs--by instituting a 3-year baccalaureate either by reducing required credits to degree or by incorporating year-round study, as opposed to the traditional 9-month academic year. A variation, adopted by eight states, allows students to graduate from high school two years early and use those years to start collegiate study in a community college.[3]

- Policies to reduce time-to-degree have been adopted by a number of universities which may charge more for credits exceeding some threshold number, limit the number of times a course can be re-taken, or even restrict the total number of credits that can be required for a BA degree.(see for example, Wisconsin and the California State University System).

  Note that such acceleration plans may reduce costs (and time to degree) for students, but do not reduce costs for institutions; they do enable institutions to serve more students in any given time period (increase 'throughput') and therefore maintain or expand access. The particular way in which such plans are fashioned, how students are selected for accelerated programs, and how academic standards are applied determine whether acceleration will result in more college graduates or just more 'throughput' along the education pipeline.

- Use of instructional technology to reach more and/or cut costs---The lure of a technological solution to teaching more, more efficiently is a persistent goal. The most careful study of the educational and economic impacts of instructional technology has been done by Carol Twigg for the Lumina Foundation [4] who finds that the "mixed use"(a combination of online and personal instruction) of IT for large introductory college courses can deliver better learning outcomes at a saving of about 8% to instructional budgets. The main effect is to enable faculty to apply their time more effectively in large classes. At the same time, universities have found it difficult to sustain the very large investments in hardware and software, and its replacement, required to make IT an integral part of the entire curriculum. And experienced faculty often find that interacting with students online is more demanding and time-intensive than traditional lecture-quiz section formats for introductory courses.

More recently, attention has turned to the possibility of using online instruction exclusively for the first year or two of a baccalaureate program (see California Commission on the Future of the UC, 2010).[5] This is a re-conception of what undergraduate education might look like, quite different from simply using IT for specific courses within the undergraduate curriculum and really belongs in the structural change category discussed below.

- Change enrollment mix to generate more revenue---The most common approaches to generating more revenue from a fixed number of enrollments is to shift the mix of students to include more non-residents and international students

(University of California system), both of which groups pay full-cost tuition. This can be thought of as one way to stretch cross-subsidies among students so that non-residents and international students subsidize the education of state residents.

This approach can appear counter-intuitive politically. Legislators and ordinary citizens frequently view non-resident students as “taking places that would otherwise go to residents”, but careful analysis shows that by admitting some non-residents it is possible also to serve more residents. In Wisconsin, for example, two non-resident students pay enough to ‘create’ a place for one additional resident who would otherwise not have been admitted at all. Thus, adjusting the pattern of cross-subsidization becomes both a complex and potentially productive means of meeting the financial challenge of increasing demand. But it requires continual political education to be accepted and sustained. [Note: most public universities already incorporate in their tuition and fees a pattern of cross-subsidies among undergraduates and graduates and across various types of academic programs, although this is not typically made explicit.]

- Substitute more ad hoc faculty and/or modify tenure and evaluation policies—Reliance on ad hoc, non-tenured faculty has increased significantly at most public universities over the past decade. This lowers personnel costs—both because ad hoc wages are lower and because most ad hoc staff do not receive full fringe benefits---and creates flexibility in the ability to change courses and programs. But it also weakens commitment of faculty to the institution and its students outside of the immediate classroom. Ad hoc faculty usually have little input into governance decisions bearing on curriculum, academic quality, or research. Students complain that obtaining references for jobs or graduate school is an increasingly difficult task when an ad hoc instructor may have moved on by the time the student is a senior. In short, changing the faculty mix has stretched instructional dollars but comes at a price to students.

While these and other incremental approaches represent good faith efforts to adapt to the new fiscal environment, one is struck by the conflicting goals and sometimes contradictory incentives that such approaches embody. Enrollments are increased because states and the US require a more college-educated workforce, but overcrowded classes and labs often reduce graduation rates; shortening time-to-degree allows academically capable students to save college expenses, but may work against goals of diversity and reaching more lower- and middle-class students; greater use of instructional technology enables more students to be taught with fewer faculty, but simultaneously reduces student-faculty contact, a key factor in persistence and success in college.

As well, some of these incremental approaches do not actually address their stated goals. For example, accelerated degree policies may reduce the costs to students and families, but do not reduce costs to the institution which remains responsible for providing quality services to a larger number of ‘throughput’ students. (In fact, it could be argued that by shortening the cycle-time for degree completion such programs may increase certain institutional costs, such as advising, lab equipment, and residence hall depreciation.)

The appeal of incremental approaches is that they are largely compatible with business as usual, enable the institution to look responsive, and occasionally are sufficient to carry a university through the financial crisis…at least, in the near term.

STRUCTURAL INNOVATIONS

As the Great Recession drags on, university leaders. and some political leaders, are beginning to face the future more realistically. They understand that even with an improvement in state revenues and a return to job growth, states are very unlikely to return support per student levels to pre-Recession amounts. Paul Lingenfelter, Director of SHEEO says: “We clearly need to make changes in the financing and delivery of higher education in the United States.”[6] This is a shift from his perspective in prior years that state support of higher education will bounce back when the economy rebounds.

Although the Obama Administration has championed the preservation of Pell Grants and other federal financial aid programs, it has said that all federal programs are ‘on the table’ during the extensive federal budget/deficit reduction negotiations under way for 2012. Indeed, a group of academic leaders have recently proposed several ways in which Pell awards could be focused better and the costs of the program reduced. [7]

All these admissions signal a greater willingness to consider making permanent structural changes to the relationship between public universities and their state governments. States like Georgia, that gained national visibility by launching the HOPE program to increase college-going in the 1990s, are now cutting back or abandoning those commitments as too expensive for the state to honor. In Wisconsin, the Wisconsin Covenant, which committed to financial aid for high school students who maintained a good academic record and avoided drugs, is being phased out in the current state budget (some 75,000 students who have already met the requirements will have their covenants honored.) Because planning for college—both academically and financially—has received such emphasis over the past decade, these very visible public retreats from prior commitments create a deep sense of uncertainty in students, parents, and educational institutions. The century-long commitment to higher education as a public good is faltering, and states and universities are in search of a sustainable alternative, a new model for the future. Fortunately, there are some.

Recently, the Lumina Foundation published its recommendations for key ways state governments can help refocus higher education's business model in Four Steps to Finishing First in Higher Education; A Guide for State Policymakers (November 2009):

- Reward institutions that focus on students completing quality programs, not just attempting them.
- Reward students for completing courses and degree or certificate programs.
- Expand and strengthen lower cost, nontraditional education options through modified regulations.
- Invest in institutions that demonstrate the results of adopting good business practices.

Note that following these recommendations would require states to "reward" as well as to cut, to focus rewards on performance/outcomes, and to support good business practices and provide regulatory relief where it can improve outcomes. Each of these entails a political discipline that has often been missing from state decision making.

The following state examples suggest the variety of new models that some states and universities are willing to try; some have been in place for several years and others are entirely new concepts. None is without risks, but continuing on the current path contains growing risks to the sustainability of public higher education.

PUBLIC BUT INDEPENDENT: "charter status" in Michigan, Ohio; "public authority", Wisconsin

Several states have, or are pursuing, models that maintain their universities as public entities but move them from functioning as just another state agency to more independent status. The University of Michigan was established in the state constitution with "charter status", enabling it to operate as an autonomous institution. It has full authority over its own personnel, procurement, tuition, and construction (i.e. does not have to use state processes for these functions); members of its governing board are elected statewide. State government funds certain programs/projects of statewide importance but state support constitutes less than 7% of the university's total budget. It is a public, but independent, entity serving public purposes.[8]

Newly elected Governor Kasich in Ohio has announced that he intends to propose "charter status" for Ohio's 14 public universities in the coming year.[9] Ohio State University president Gee has embraced the exchange of greater flexibility for further budget cuts. The Inter-University Council of Ohio, representing the 14 universities, has put forward some principles to guide the development of the proposal.

In Wisconsin, the chancellor of UW-Madison has made the case for flexibility in the face of large budget cuts. She has proposed converting the university from state agency status to a "public authority" following the successful model of UW Hospital, adopted 15 years ago. Under this model, the university would remain a public institution but have its own governing board (with some publicly appointed members) and responsibility for its own personnel, purchasing, tuition, and capital expenditures. It would be audited annually and observe the state's public meeting and information laws. In exchange, UW-Madison would accept a larger share of the UW System's budget cut, providing some relief to the smaller campuses in the state. [10] The governor has put this proposal in his current budget, generating considerable controversy. The UW System has put forward an alternative proposal that would delegate these operating flexibilities to the system and omit the independent campus governing boards. Unfortunately, full consideration of the "public authority" proposal has been caught up in a larger controversy generated by Gov Walker's move to eliminate collective bargaining rights for public employees in Wisconsin. This initiative, and the large demonstrations against it, captured nationwide attention and have created suspicions within the academy about how a "public authority" model might work, although there is widespread agreement that the university cannot sustain its commitment to the Wisconsin Idea without greater operating flexibility to manage cuts and raise additional funding.

Lousiana State University also proposed a separate package of management flexibilities and formed the Louisiana Flagship Coalition of civic and business leaders to lobby for the package, including personnel, purchasing, and other state regulations that they estimate would save $50M over the next five years. The governor's initial reaction was supportive but it is unclear whether the flagship initiative is included in his current budget proposal.[11]

In New York state, the legislature adopted a 2011 budget that gives SUNY flexibility to manage its own purchasing and construction projects, but denied the system similar flexibility for tuition setting and entering into public-private partnerships, indicating that lawmakers would prefer to grant those flexibilities to a single campus, SUNY-Buffalo. [12]

SYSTEMWIDE FLEXIBILITY: the Virginia tiered system

While most of the innovations and experiments in other states have focused on individual institutions (most often the 'flagship'), in 2005, Virginia restructured its entire public higher education system in a way that all institutions, large and small, could participate.

Governor Warner described it this way: "Under the bill, three levels of autonomy will be available to all public institutions of higher education, with the level of autonomy depending on each institution's financial strength and ability to manage day-to-day operations.[it] requires the institutions to develop six-year academic, financial and enrollment plans that outline tuition and fee estimates as well as enrollment projections, to develop detailed plans for meeting statewide objectives, and to accept a number of accountability measures, including meeting benchmarks related to accessibility and affordability. Financial incentives will be available to schools which meet state objectives."

The implementing statute defines a three-tiered system with rising levels of institutional autonomy as institutions derive more of their revenues from non-taxpayer sources. The first tier provides flexibility in purchasing, personnel, and construction; the second and third tiers allow increasing autonomy for institutions that meet certain criteria including at least a AA- bond rating. Institutions that meet their specified 6-year state objectives also receive certain financial incentives including the interest earnings on their tuition and fee revenues, mandatory re-appropriation of un-expended year-end balances, and rebates on service fees now paid by the universities to other state agencies. University employees at the time of the agreement were given a choice of whether to remain classified employees of the state or become employees under the new university personnel system. Regardless of personnel system, all employees remained under the same retirement and health insurance programs. Each institution retained its own governing board and a state coordinating board, the State Council on higher Education in Virginia (SCHEV). [13]

By 2010, Virginia universities were approaching completion of their first six-year plans and Virginia governor Bob McDonnell in December 2010 appointed a Commission on Higher Education Reform, Innovation and Investment to recommend ways to increase enrollments in public and private universities, award more degrees in "high demand" disciplines, boost research, and "ensure that a significant increment of state funding follows students to public and private colleges"

In February 2011, following the first 6-year cycle of institutional plans, the Virginia legislature approved a new higher education funding policy that included enrollment-based funding, targeted financial incentives for meeting enrollment, degree-completion, graduation, and other benchmarks, and a partnership between government, business, and the universities to increase the number of graduates in science, technology, engineering, and mathematics--all basically consistent with the Lumina recommendations. [14]

The important lesson from the Virginia experiment is that it has proven possible to implement a nuanced flexibility system that enables public institutions with different sizes, revenue sources, and operational capacities all to benefit and operate more effectively to achieve state goals. Thus, it is not necessary to split off a 'flagship' campus, or to hold it to the operating procedures of smaller institutions and other state agencies in order to achieve flexibility gains—these gains can come from all public institutions working under the same tiered process. The Virginia model maintains close connections between state government and its public universities but focuses on outcomes important to the state and provides incentives to achieve those outcomes. It shifts focus from process to outcomes.

Other states are considering models that put a greater separation between state government and universities, either by establishing financial independence or by giving higher education political independence ("charter status").

PUBLICLY ENDOWED UNIVERSITY: the Oregon proposal

This proposal aims to freeze the state's current annual contribution to the University of Oregon by converting it from an annual appropriation to an endowment. The state's current appropriation would be used to pay interest and amortization on an $800M bond, which would be matched by the university with $800M in private gifts. The resulting $l.6B endowment would yield the annual appropriation currently made to the university, but ensure that it would continue regardless of future ups and downs in-state revenues. The proposal ensures that state expenditures for the university will not rise in future and provides some stability for the university's basic instructional budget.

This is not a riskless model, but it does have some distinct advantages. It would stabilize the university's future public revenue stream and save considerable time, effort, and expense of lobbying for a public subsidy every year. It would help overcome the suspicion of private donors and alumni that their own contributions might be offset by future cuts in state funding. The state would be freed of annual budget requests from the university, would see the real cost (after inflation) of its contribution decline over the years and could focus on working with the university to address access and other state needs. Freeing university appropriations from volatile state revenue cycles should also make tuition increases more predictable, enabling families to plan realistically for college costs.

The risks to the university of this plan include the possibility that the endowment might fail to achieve the minimum 4% rate of return needed to equal current support (unlikely) or that rampant inflation in the future might erode the real purchasing power of the income.

The bill (Senate Bill 242) would effectively end the university's status as a state agency and create a state Higher Education Commission to coordinate all seven public universities and 17 community colleges. Individual universities would be free to establish their own campus governing boards. The Oregon Senate voted unanimously for the bill in March 2011, but the Oregon University System put forward an alternative proposal that would include all seven universities and President Lariviere agreed with the governor to delay his request for the flagship for one year.[15]

This same tension between 'flagship' and other campuses is also playing out in Wisconsin, where UW-Madison's "New Badger Partnership" has been included in the governor's budget, but a competing Systemwide proposal that would grant the desired flexibilities to the System, instead of the individual campuses, is under debate.

Across the country, statewide higher education systems are struggling to find a new mission that adds value, and not just bureaucracy, to the operation of their component universities. Earlier, systems were able to coordinate higher education budget initiatives, allocate funding to address statewide goals, and provide a sense of cohesion among diverse institutions. For the past decade, however, systems have largely been required to be conduits for passing state budget reductions to the campuses, a function that has their universities asking for help in handling budget cuts, tuition increases, private fundraising, and meeting competition for faculty…all essential to maintaining access and quality for the future.

It is perhaps not surprising that in both the Oregon and Wisconsin cases, the initiative for "flexibility to manage cuts" has come in the first instance from the flagship campuses which have the greatest capacity to raise private revenue and to manage their daily operations. Only when these flagship proposals have caught on, have there been systemwide alternatives offered. The challenge is to find ways of freeing the flagships to sustain their competitive research and quality against global competitors while helping smaller campuses to manage better within their capacities. This is a challenge to system leaders and their boards, to evolve their role in a way that recognizes the new operating environment for their institutions and actively assists them in this transition.

INCOME-CONTINGENT FINANCING: The UK

Other countries (Australia, New Zealand, UK) have already moved to a new way of financing higher education that is designed to expand the number and percentage of their populations that can go to college. Known generically as "income-contingent" financing, it is designed on the principle that "Students do not pay charges, only graduates do; and then only if they are successful". The most recent and succinct description of this approach can be found in the Browne Report [16] which was charged with finding a way to sustain higher education access and affordability for British students in the face of a proposed 80% cut in university support. Their solution was to shift government support from block grants to higher education institutions to up-front financing for students.

Under this approach, the government pays the costs of instruction upfront and loans students an amount for their living costs. When they graduate, students pay back a portion of their earnings on a sliding scale ranging from 1.4%-5.9% of earnings above $30,000. Payments cease when they have repaid the total cost of their education or after 30 years, whichever comes first. Individuals who take low-income jobs, or leave the job market for any reason make no payments; if they subsequently re-enter the workplace or work at higher-paying jobs, they begin to repay on the sliding scale. The Report estimates that 40% of graduates would repay the entire cost of their education, with the rest repaying a portion or none; this implies an ongoing government subsidy.

While the Report does not specify, the proposal would imply that the government would bond for the upfront cost of the plan at the government borrowing rate and use the repayments towards servicing the interest on the bond. It is not clear whether British students could use this system to attend universities in other EU countries.

Advantages of this approach are that it removes almost all financial impediments to higher education study for students and ensures a progressive and affordable repayment later. The parameters of the program can be adjusted to encourage graduates in high-need fields, to make repayments more/less progressive, and to expand students' choice of where to study. A particularly interesting feature of the plan is that it would be administered by a single Higher Education Council that would be independent from the government—a kind of Federal Reserve body—that would insulate the plan from political manipulation. Repayments would be handled efficiently through the tax system.

Risks include the fact that long-term sustainability of the plan depends on reasonable job and wage growth for graduates; the possibility that some universities may fail if unable to attract sufficient students; the incipient incentives for faculty to migrate to other opportunities; and the moral hazard that an incentive may be set up for some graduates to keep their work effort/income below the $30,000 repayment level.

If this approach were adopted by an individual U.S. state, the "EU" problem would have to be resolved: would state residents be permitted to use their grant in other states? How would a single state ensure that it could collect repayments due from graduates working in other states?

MOVING THE BOXES ON THE ORGANIZATION CHART: Connecticut, Louisana

Of course, it is always tempting to re-organize the governance structure of higher education in the hope of gaining great efficiency. For example, Connecticut Governor Malloy has announced a plan to merge the state's four-year university system with its twelve community colleges under a single statewide Board of Regents. Governor Jindal also has proposed consolidating five governing boards into a single statewide higher education board. Simultaneously, other states are considering greater autonomy for public universities, giving them greater independence from statewide mandates and one-size-fits-all oversight.

This highlights a fundamental difference of view about how complex organizations can operate most efficiently: Are the best outcomes derived from centralizing control and unifying processes or by decentralizing operating decisions closest to the clients?

Experience with corporate and public reorganizations teaches us that there are often significant, but hidden, costs of reorganization that may offset any explicit savings. Individual networks are broken, trusted working relationships are disrupted, willingness to take risks to advance collective goals may be reduced as organizations react to reorganization by becoming more conservative in their decision making. Where reorganization seems to work best is where the goal is better service, not cost saving per se, and tangible rewards are available for success.

WHAT SHOULD WE MAKE OF ALL THIS?

There is an uncommon amount of ferment in American higher education today. Both universities and states are seeking a new relationship, a new business model, that can sustain the quality and access of American higher education into a future that promises steady reductions in public support and exploding competing needs. Belief in "bounce back" of state investment in higher education is fading; the search for a sustainable public university model is on.

The majority of citizens, inside and outside the university, want to keep the "public" in public universities—but "public" takes on many different meanings. Some of the 1960s concepts still linger: access for all, affordability through low tuition, public service to business and communities, but there is a growing willingness to recognize that some of these goals must be subordinated to others. The struggles now are about who will decide these priorities and how to come to grips with the fact that states are no longer majority stakeholders in their universities. Indeed, for many public flagship universities students and private donors far outweigh taxpayers as the major investors in public higher education. Their voices are growing.

More states and universities are considering structural, rather than incremental, change. They are looking for ways universities can manage continuing budget cuts more efficiently by gaining autonomy and independence from outdated government processes and focusing on educational outcomes.

Concepts of "control" are beginning to give way to "performance". If "public" continues to mean that state government controls all the essential operating aspects of universities (pricing, who is served, how employees are hired and paid, etc) performance in terms of graduation rates, research success, and service will decline. The taxpayers will 'control' an eroding asset, but the public purposes of higher education will fade. Sustainability is a growing goal for public universities.

New models are coming from many states and even from other countries that compete with us for faculty, students, and research opportunities globally. College-going rates in many other countries now exceed those in the U.S., as does the share of population with post-secondary credentials. We would do well to watch and learn and resist the easy view that everything "made in America" is best.

The mission of systems is under challenge; governance structures put in place 40-50 years ago no longer suffice either to ensure that public purposes are sustained or to provide effective value-added to the work of their component institutions. In many states, the higher education system or coordinating board has proven a weak advocate for maintaining state support, serving more as a conduit for passing cuts to institutions. Old regulatory mandates to police mission creep and minimize program duplication are less valued in an environment that looks to market competition or managed competition to ensure quality and responsiveness to the client. Thus, the emergence in a number of states of proposals to split off their flagship campuses.

Systems have a unique opportunity to develop new models that fit a 21st Century mission; to do this, they will need to re-define their responsibilities to assist their institutions in facing the very real challenges ahead. Performance of systems, as well as performance of campuses, will determine whether the statewide system structure remains or disintegrates under persistent fiscal pressures.

How these changes are made, whether by drift or by design, will determine much of what American public universities can contribute to the growth of the country in the coming decades. There is considerable urgency to the search for sustainable public universities, as the global environment is alive with competitors who have already redesigned their higher education policies. Sid Caesar once asked a mountain climber: "What can you do if the rope snaps?" the answer: "There's lots you can do—but not much time to do it!"

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1. Governing boards generally are responsible for overseeing the management of individual institutions whereas coordinating boards' responsibilities focus on ensuring that statewide service is provided with a minimum of program duplication. In many states, institutional governing boards operate within the statewide policies established by a coordinating board .A few states, like Wisconsin, have a single statewide board that functions as both a governing and a coordinating board.
2. Barbara Wolfe and Robert Haveman, "Social and Nonmarket Benefits from Education in An Advanced Economy" iin Yolanda Kodrzycki, Education in the 21st Century: Meeting the Challenges of a Changing World, 2003
3. New York Times, Feb19/10.
4. Carol Twigg, "Improving Quality and Reducing Costs: The Case for Redesign" in Lumina Foundation, Course Corrections: Experts Offer Solutions to the College Cost Crisis, 2005, pp. 34-49
5. Final Report of the California Commission on the Future of the University………
6. Press release announcing SHEF 2010 report, March 8, 2011
7. Becky Supiano, "Student Aid Experts Suggest Trims for Pell Grant Program", Chronicle of Higher Education, April 18, 2011
8. Of the following 15 top public research universities, all but two received less than 25% of their financial support from their states in 2008: Univ Michigan (7%), Univ Virginia (7%), Penn State (9%), Ohio State(13%), Univ of Iowa (16%), Univ Illinois (17%), Univ Wisconsin-Madison (19%), Indiana Univ-Bloomington (20%), Michigan State (22%), Purdue (22%), Univ Texas (23%)UNC-Chapel Hill (23%), Univ Minn-Twin Cities (26%), Univ Calif-Berkeley (29%), Iowa State (31%) .It seems likely that all these amounts have declined in the subsequent three recession years.
9. Denise Dick, "Charter Universities Idea Piquing Interest", Vindycom, March 10, 2011
10. Gov. Scott Walker's 2011-13 Budget proposal reflecting UW-Madison Chancellor Martin's "New Badger Partnership" available at www.wis.gov. The UW System's alternative proposal, "The Wisconsin Idea Partnership" is available at www.uwsa.edu and Chancellor Martin's compromise proposal requested by the Joint Finance Committee , as well as the UW-Madison faculty's Principles for the New Badger Partnership outlining the assurances and conditions they would look for in any final "public authority" legislation are available as links to the University of Wisconsin-Madison website; www.universitywiscosinmadison.edu.
11. Jan Moller, "LSU Would Operate Under Different Rules Than Other State Campuses", The Times-Picayune, Dec 3, 2010 and "Gov. Bobby Jindal Proposes Tuition Increases, Consolidated Board in His Higher Education Overhaul", The Times-Picayune January 31, 2011, both at nola.com
12. Eric Kelderman, "N.Y. Budget Takes Another Bite Out of SUNY and Omits Most Regulatory Freedoms, The Chronicle of Higher Education, March 31, 2011
13. Further details are available in the Virginia 2005 Restructured higher Education Financial and Administrative Operations Ace and in Lara K. Couturier, "Checks and Balances at Work: the Restructuring of Virginia's Higher Education System" (National Center for Public Policy and Higher Education, June 2006)

14. Virginia Governor's Office press release, "Governor McDonnell Announces Investment in Higher Education, at Virginia.gov, December 3, 2010 and Zinie Chan Sampson, "Virginia Legislators Approve Higher Ed Legislation", Associated Press, Feb 2, 2011.
15. See Oregon Senate bill 242 and Doug Lederman, "Agreement in Oregon, For Now", Inside Higher Ed, April 1, 2011; exchange of letters between Gov Kitzhaber and UO President Lariviere, March 12, 2011.
16. Browne Report, Securing a Sustainable Future for Higher Education, October 12, 2010 at www.independent.gov.uk/browne-report.