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ABSTRACT

Higher education was perhaps the nation's largest growth industry during the period 1955-1970. Budgets for all higher education institutions rose more than seven-fold, from an estimated $4 billion in 1955 to an estimated total of $28 billion in 1970-71. Current fund income rose more than five-fold to $19 billion, an average annual increase of 13.5% for the period 1955-56 to 1965-66. Federal monies granted to higher education institutions increased from $500 million in 1955 to $4.4 billion in 1968. College and university administrators tended to gamble that funds from outside sources would continue to come in; however, the private institutions are not experiencing financial difficulties based on an actual decrease of funding. This paper explains some of the current aspects of the financial crunch with regard to the manner in which it affects individual colleges and universities in the South. It also indicates some of the steps that colleges and universities are taking or must take in order to improve their short- and long-term financial condition, and underlines possible positive outcomes of financial adversity. (Author/HS)

Financing Higher Education

Institutional Response to Financial Stress:

Stop-Gap Measures or Fundamental Change?

Higher education was perhaps the nation's largest growth industry during the period 1955-1970. Budgets for all higher education institutions rose more than seven-fold, from an estimated $4 billion in 1955 to an estimated total of $28 billion in 1970-71. Current fund income rose more than five-fold to $19 billion, an average annual increase of 13.5 percent for the period 1955-56 to 1965-66. Federal monies granted to higher education institutions increased from $500 million in 1955 to $4.4 billion in 1968.

Many institutions recognized the dangers in the pace of expansion but the momentum was hard to control. They tended to gamble that funds from outside sources would continue to come in.

The growth pace in funds for higher education began to slow down in the last few years of the 1960's, as shown in reports produced by the National Science Foundation. In 1964, federal funds obligated by all agencies to universities and colleges increased 15 percent over 1963. In 1965, federal funds grew by 41.9 percent over the 1964 level. However, starting in 1966 the increase dropped to 30.6 percent, to 10 percent in 1967, and to 2 percent in 1968. By 1970, federal support decreased by 7 percent, some $227 million less than federal support of colleges and universities for fiscal year 1969.

During the years of increased funding the prestige of higher education was never higher. However, recent decreases in funding make it clear that "this sacred cow isn't as sacred as it once was thought to be." John Folger, Executive Director of the Tennessee Higher Education Commission, suggests that newsmen might sum up the situation in a headline such as:

Universities Spurned by Rich Suitor
Refuses to Make Support Payment!
Claims No Marriage

Although 21 institutions of higher education closed their doors in 1970, it would be erroneous to assume that all institutions are in dire financial straits. Secretary of Health, Education and Welfare Elliot Richardson has described the situation as "not a general 'crisis' but a 'crunch'—a crunch which affects institutions differently, and has been brought on by the convergence of a number of different economic and political forces."

This issue of Financing Higher Education serves to point out some of the current aspects of the financial crunch with regard to the manner in which it affects individual colleges and universities in the South. It also indicates some of the steps which colleges and universities are taking or must take in order to improve their short- and long-term financial condition and underlines possible positive outcomes of financial adversity.

Short-Term Institutional Response to Crisis

Of more immediate concern than the number, percentage, causes or characteristics of institutions encountering current financial difficulties (See pages 4 and 5 "Dimensions of the Crisis" in this issue of Financing Higher Education) is the manner in which colleges and universities are attempting to deal with their adverse situations.

Frequently, response by Southern institutions to financial adversity may be classified as short-term attempts to bolster the system, as opposed to the more fundamental long-term efforts which are needed to effect enduring improvement in financial condition.

Clearly the need for some type of response has been great, particularly at privately supported institutions, at institutions located in metropolitan areas, at national research universities with high dependence upon federal support, and among most small, black, privately supported institutions.

Institutions which are faced with more rapid expense that income growth and are unable to continually raise tuition for fear of pricing themselves

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out of the market find themselves ready to go beyond such belt-tightening measures as postponement of commitments to new programs and faculty. As the financial situation worsens, cuts and reallocations come to be made within the existing academic structure, while institutions and departments seek funds from a variety of sources in an effort to increase income. With prospects of a steadily worsening financial situation, the creation or regeneration of planning and budget committees often leads to the elimination of special research centers, institutes, or other hard-to-define "non-essential" programs. On occasion, and all too often only as a last resort, adversity will result in a full-scale reconsideration of university purposes and programs. (Fig. 1).

Attempts to reduce costs have ranged from such simple measures as charging $1.25 for the mailing of

FIGURE 1

Institutional Response to Financial Difficulty

Financial Condition of Institution	**Indicators of Financial Difficulty**	**Responses to Financial Difficulty**
Not in Trouble	Funds increasing at rate in excess of 10%/year Program and enrollment growth controlled Projected funding levels reasonable in terms of probable availability of funds Endowment principle stable or increasing	*Postponement* Postponement of new faculty appointments Postponement of new program commitments
Headed for Trouble	National funding picture in doubt Surplus in operating funds decreasing rapidly Tuition rising rapidly Unrecognized changes in student body composition Unaware of trends in institutional or national fund sources Significant increases in new expense categories Excessive transferring of funds among institutional accounts	*Belt Tightening* Defer maintenance Reduce travel Look for new income sources to meet probable fund deficits Freeze faculty and staff positions Reallocate funds within existing structure
In Trouble	Endowment principal expended for current operating purposes Deficits in operating funds Borrowing from private sources	*Basic Reconsideration of Purpose* Eliminate "non-essential" faculty and staff, and programs Establish planning and budget committees Assess institutional priorities, programs and resources Reorganize curriculum with eye toward cost-efficiency Explore Inter-institutional cooperative programs Consider institutional merger Close institution

Nicholls State University's catalog on the one hand to Southwestern at Memphis developing plans for moving gradually from a deficit budget of over $500,000 for 1970-71 to a balanced budget by 1972-73.

The search for additional fund sources is typified by activities at several Southern institutions. Consider the following:

- Davidson College has hired a new director of deferred giving who has responsibility for increasing development funds through the solicitation of annuity or life income contracts. Such contracts allow a donor to pledge and receive the income from a gift during his or her lifetime. Upon the donor's death, the principal is transferred to the college's endowment.
- Duke University is instituting variations of Yale's Tuition Postponement Plan whereby a student may postpone up to $800 of tuition costs per year if he agrees to pay 0.4 percent of his adjusted gross income for each $1,000 borrowed each year for a period of not more than thirty-five years.
- University of Miami alumni support increased by $36,643 over the previous year's total to $663,643 in 1970-71. Chiefly responsible was a telephone campaign which raised $233,229, an increase of $76,000 over the previous year.
- Livingston State University (Alabama), in order to aid fund raising, became the first school in the country to contract with American Express and the second school in the country to contract with Bank Americard and Master Charge for the handling of gifts.
- A number of Southern institutions have sought membership in the Common Fund for Nonprofit Organizations, a corporation which assists educational institutions in achieving investment results by arranging for professional investment management services.
- Urban Southern institutions are considering actions similar to those in Cleveland, Ohio where higher education institutions through the years have benefited greatly from the One Percent Cleveland Compact. Through the compact, 33 companies have undertaken to give at least one percent of their income before taxes to Cleveland area colleges and universities.

Additional help in suggesting ways in which colleges and universities may be able to increase revenues, cut costs, and/or introduce more effective administrative procedures has recently come from the Academy for Educational Development's Management Division which has published a laundry list of ideas entitled "319 Ways Colleges and Universities are Meeting the Financial Pinch." All or most of the suggested measures might not in fact result in a saving of funds nor would anticipated outcomes necessarily be desirable from a philosophical point of view. However, a random listing of only several of the 319 items suggests the diverse kinds of action which institutions could consider:

Investing cash over the weekend—into the market on Friday afternoon, out of the market on Monday morning.

Loaning securities in endowment to operating businesses and oil properties for higher return.

Employing more part-time evening faculty who are not entitled to fringe benefits.

Purchasing packaged instructional units instead of hiring a new faculty member.

Reducing the number of faculty committees or determining the cost of such committees and then requiring greater output to justify cost.

Simplifying procedures for student payment of tuition and fees; installing an optional credit card system for this purpose.

Establishing in next year's budget the upper limit of spending for each budget center on campus.

Dividing the catalog into sections, printing each section in the number of copies needed; not sending prospective freshmen the course descriptions for advanced courses, which they don't need.

Reducing subsidy on faculty and administration dining rooms.

Southwestern at Memphis, West Virginia University and Louisiana State University serve as examples of institutions undertaking more comprehensive cost reduction measures.

Consider their actions:

- Guidelines for preparation of the 1971-72 budget at Southwestern at Memphis included the following points: No personnel additions or replacements; no salary increases; across-the-board reduction of all administrative, instructional, fiscal and divisional budgets on the order of 10 to 15 percent; no travel expenses except those which are directly related to the conduct and support of the college; no new equipment; review and adjustments in work assignments for service personnel to better serve the total needs of the college; reduction in the purchase of books; reduction in the outlays for special events and publications.
- West Virginia University has approached cost cutting with an eye toward "conserving funds for projects that better serve the state." In this regard the business education program was dropped because extensive programs were available at neighboring colleges. A Human Resources Institute was

(*continued on page 6*)

Dimensions of the Crisis

Within the last year several studies of the financial condition of higher education institutions have helped to demonstrate the magnitude and sources of the financial crisis affecting higher education.

The Carnegie Commission on Higher Education, basing its estimate on Earl Cheit's findings in *The New Depression in Higher Education*, has estimated that as many as 435 (19 percent) of all higher education institutions are in financial difficulty—meaning that the institution's current financial condition has forced upon it a loss of quality or a loss of services that were regarded part of its basic program (Figure 1). An additional 1,000 institutions (42 percent) might be regarded as headed for trouble. These institutions have been able to meet current programs and quality standards but can no longer plan on support for evolving program growth. By the Commission's estimate, perhaps only 905 institutions (39 percent) are "not in trouble," meaning that they can meet current quality and program standards and can with some assurance plan desired program growth.

Private institutions as noted in the Association of American Colleges survey *The Red and the Black* are encountering severe problems, with the "average" institution moving from a surplus of $39,000 in 1967-68 to an average deficit of $20,000 in 1968-69 and $131,000 in 1969-70. Projected deficits for 1970-71 increased to almost $160,000 per institution, an eight-fold increase in only a two-year period.

The current financial crisis or crunch in higher education did not come as a complete surprise. As early as 1967, Cornell University and *Fortune* magazine surveyed 20 primarily private colleges and universities and found that most of these institutions had no idea where money to cover anticipated deficits of considerable size would come from.

A down-turn in the economy and increased competition for state funds have combined to transform anticipated deficits into actual current fund deficits. Meanwhile, expenditures continue to grow faster than anticipated income.

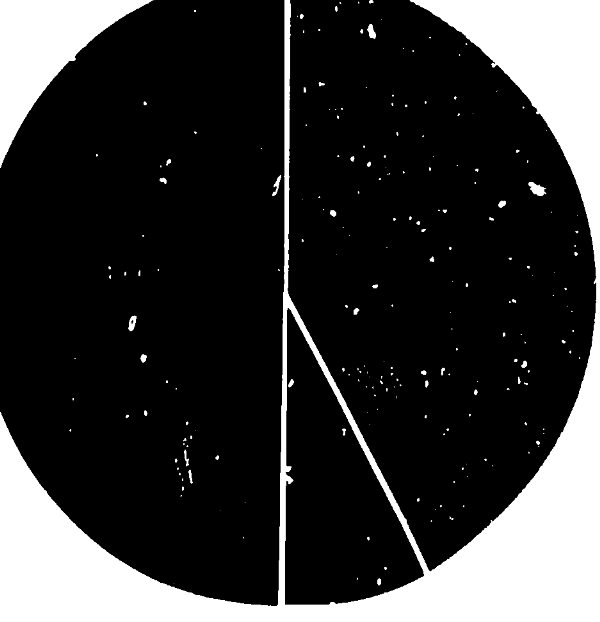
Current financial difficulties have been particularly heightened in the private sector by the relative decline of voluntary support. Nationally, as noted in Table 1, the total voluntary dollar support actually reported for higher education institutions in 1969-70 ($1,472,309) was only 61 percent of the amount projected in 1962 ($2,422,902).

Contributions from "other groups and sources" were over twice the amount of the projected total, but actual contributions from religious denominations and from business and corporations yielded less than half of their projected amounts.

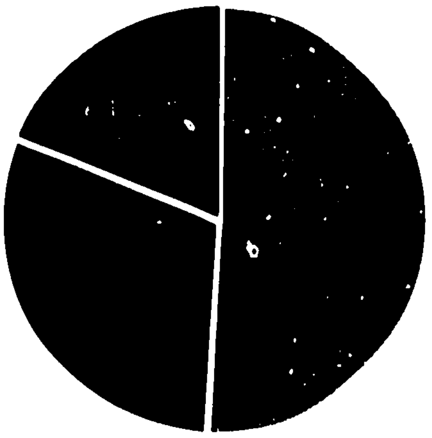
In making their estimates of the total voluntary dollar support to be projected for 1969-70, the Council for Financial Aid to Education assumed that educational and general expenditures for higher education would amount to about $11 billion or 1.5 percent of an estimated 1970 GNP of $700 billion. It was also assumed that private gifts and sources would account for about 22.4 percent ($2,422,902,000) of educational and general expenditures.

Educational and general expenditures for 1967-68 represented 1.55 percent of the 1968 GNP and, at a continuation of this rate, would have amounted to $15.1 billion for the academic year 1969-70, based upon a 1970 GNP of $976.5 billion. If voluntary support would once more have constituted 22.4 percent of education-

FIGURE 1 FINANCIAL STATUS OF INSTITUTIONS OF



All Public Institutions
5,300,000 Students



Public and Private Universities
2,380,000 Students

al and general expenditures, the total voluntary support dollars figure would have been approximately $3,382,400,000. Unfortunately the total actual voluntary support figure of $1,472,308,580 reported by CFAE for 1969-70 represents only 43.5 percent of this amount. Voluntary support as a percent of educational and general expenditures has shown a steady decline from 18.2 percent in 1962-63 to 13.1 percent in 1969-70 while government funds and tuition and fees have remained relatively stable as a percentage of educational and general expenditures.

According to *People's Colleges in Trouble*, a study made by the National Association of State Universities and Land Grant Colleges (NASULGC), public institutions, often forbidden by law to show deficits, began running deficits in the academic year 1966-67. The number of institutions reporting operating fund deficits increased steadily from two in 1966-67 to 14 in 1969-70, with no likelihood of a decrease in the near future. Of the 14 institutions, five are located within the SREB region—Florida State University, Southern University, Alcorn A & M, Tennessee State University, and Virginia State College.

A recent update of the NASULGC study indicates that 27 of 55 early respondents among multi-campus public institutions reported "standstill budgets" for 1971-72, with appropriations less than 10 percent higher than the previous year's budget. Nine additional institutions indicated their appropriations had actually declined since 1970-71.

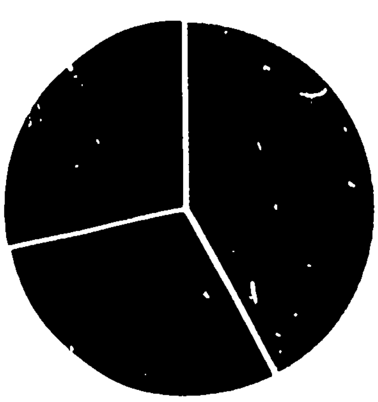
The "New Depression" in higher education is not like the depression of the 1930's which was analyzed by the American Association of University Professors in *Depression, Recovery, and Higher Education,* (1937). Unlike the depression of the 1930's, today's enrollments are still increasing at a rapid rate while expenditures for student aid (and sometimes for the prevention of and recovery from campus disturbances) mount. Pressures for new programs are exerted while funds are at a standstill or even decreasing. While most faculty enjoyed a real increase in purchasing power during the 1930's despite a median 15 percent cut in salaries, the recent period of high inflation has, for the most part, wiped out salary gains. Although today's economy is in "recession," higher education may really be experiencing a "New Depression."

TABLE 1

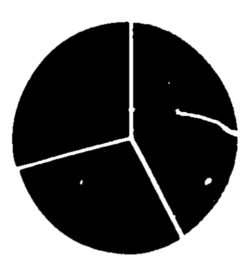
Projected Versus Actual Voluntary Financial Support for Higher Education Institutions, 1969-70

Source	($000's) Projected Amount 1969-70	($000's) Actual Amount 1969-70	Percent
Business and Corporations.....	508,157	222,416	43.7
General Welfare Foundations...	520,759	359,316	69.0
Alumni........................	591,487	314,348	53.2
Non-Alumni....................	524,622	365,547	69.7
Religious Denominations.......	215,604	83,358	38.7
Other Groups and Sources......	62,273	127,324	204.5
Total....................	**2,422,902**	**1,472,309**	**60.8**

HIGHER EDUCATION, UNITED STATES, SPRING 1970



All Private Institutions
1,935,000 Students



Public and Private Liberal Arts Colleges
770,000 Students

NOT IN FINANCIAL TROUBLE

HEADING FOR FINANCIAL TROUBLE

IN FINANCIAL DIFFICULTY

5

dropped, as various university departments were fulfilling the research function. Finally, West Virginia University's laboratory high school was transferred to control of the local county board of education since it was felt that student teachers could be trained in public schools throughout the state.

- Louisiana State University has considered a number of austerity measures, including suspension of the periodic maintenance and minor alterations program, postponement of the opening of the Assembly Center, elimination of the general equipment fund, reducing the library book fund, a moratorium on any new programs, cancellation of sabbatical leaves for the second half of the year, reduction of support for the University Press and "Southern Review," cutting back on horse shows, Farm and Garden Week and authorized travel.

Responding to Adversity: Private and Public Institutions

Responses on the part of private institutions to deficit financing and of public institutions to financial adversity, however defined, have been similar, but with minor variations.

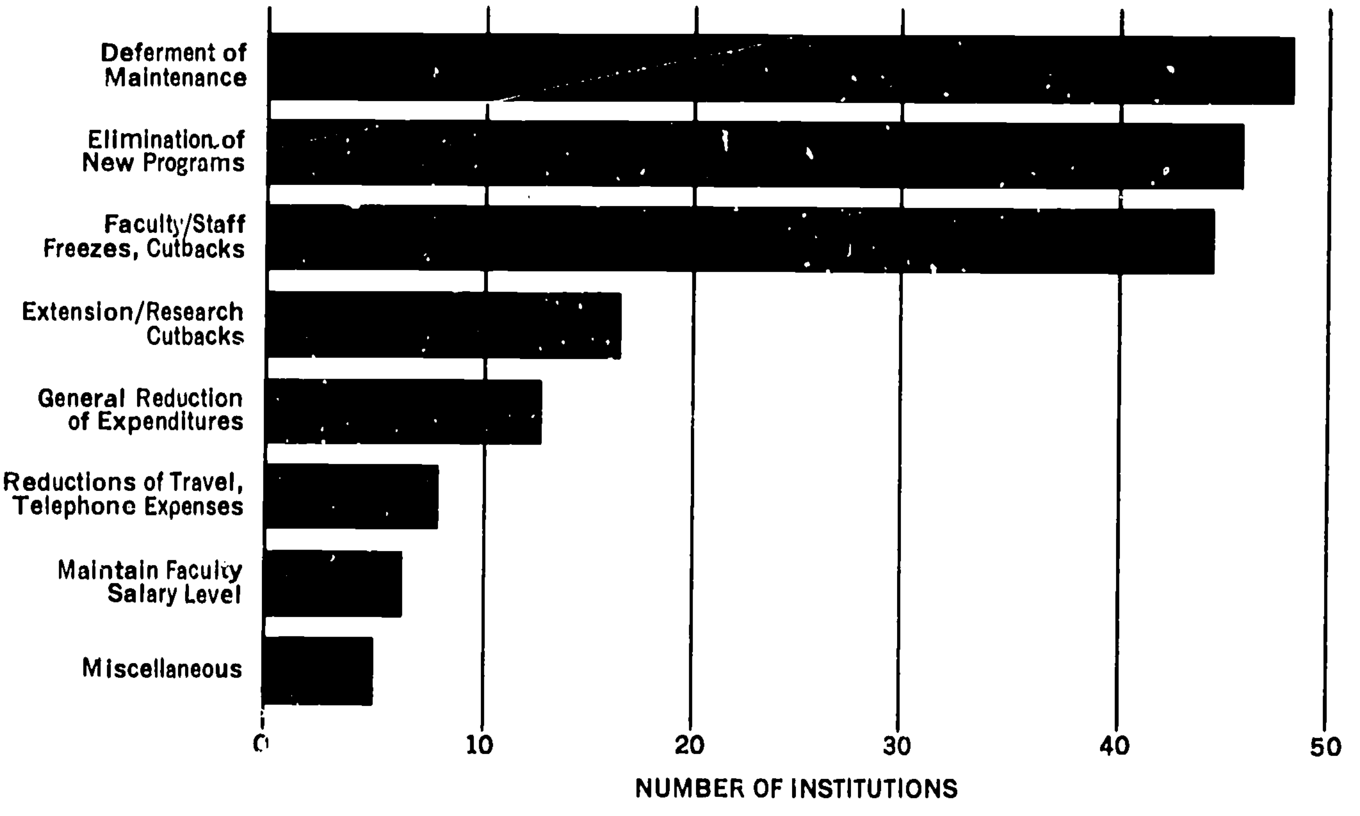
Private colleges and universities have tended to meet their deficits by borrowing from others—including current fund sources—or by transferring funds from unappropriated surpluses. Many private institutions have, in effect, decided to borrow from themselves by covering deficits with the flow of cash. Advance payments of monies (generally tuition) are used in order to pay for services yet to be rendered while funds are transferred among a number of accounts in order to meet current bills. This may be a not entirely inappropriate stopgap practice but could be dangerous, especially if deficits increase to the point where an institution is not able to put all the money it has borrowed from itself "back in the box" in time to meet its bills.

Responses of private institutions to financial adversity have reflected considerable emphasis upon fiscal management. The most significant responses have been to defer maintenance, retrench expenditures, transfer funds from other reserves, borrow from endowment, spend the principal of funds functioning as endowment, cut back on depreciation allowance, and spend appreciation of endowment funds.

Publicly supported institutions generally have not had to resort to borrowing on as large a scale as

FIGURE 2

Economy Measures Taken by 78 Major State Universities



private institutions. Within the SREB region, the University of South Carolina has found it necessary to dip into unrestricted endowment principal to meet current operating expenses and avoid a deficit.

Approximately seven out of eight institutions responding to a survey by the National Association of State Universities and Land Grant Colleges in 1971 had taken one or more economy measures in order to combat rising costs. The most frequently employed measures were deferment of maintenance, elimination of new programs, faculty/staff freezes, extension/research cutbacks, general reduction of expenditures, reduction of travel/telephone expenses, and avoidance of faculty salary increases (Fig. 2).

Some of the measures mentioned can probably help to improve the overall financial condition of colleges and universities in the short run; however, they may not, even collectively, be sufficient for solving long-term problems. More fundamental changes are needed.

Toward Long-Term Change: Positive Outcomes of Adversity

The short term has provided some impetus for reorganization, greater cost-consciousness, and more attention to increased efficiency, productivity and program goals. More often it has remained for a deepening of the crisis to force institutions to consider and deal with fundamental issues.

Institutions of higher education, like individuals, often find it easier to deal with symptoms of a disease than the basic causes. But sometimes adversity has focused attention and activity upon such basic problems as the need for developing an institutional capability for long-range planning, the need to reexamine basic assumptions and policies under which higher education institutions derive their support, and the need to win public support for higher education.

The emergence of budget planning committees gives promise that future program growth will be the product of rational decisions as opposed to opportunistic drifting into areas where outside monies happen to be available. The need for a logical plan relating program growth to fund sources is perhaps more evident today than it was in 1959 when Sidney Tickton published *Needed: A Ten Year College Budget* and when Beardsley Ruml and Donald Morrison, authors of *Memo to a College Trustee*, focused attention on possibilities of large educational economies through reorganization of the curriculum.

Those anticipating a need to go beyond stop-gap measures in combatting financial difficulties may wish to examine a recently published volume in the Carnegie Commission on Higher Education Series by Howard Bowen and Gordon Douglas entitled *Efficiency in Liberal Education*. The volume explores the possibility that cost savings can result from revision of an institution's entire instructional program to include various teaching combinations, including Ruml and Morrison's combination of large lecture and small discussion groups, programmed independent study, tutorials combined with independent study, independent study aided by modern educational technology, as well as conventional instruction.

In a number of institutions the current financial crisis has provided impetus for the establishment of management information systems and program planning and budgeting systems. At a very minimum, lessons learned from the current financial crisis have enhanced the ability of colleges and universities to recognize the nature of the problems confronting them, to explore existing options, and to consider what steps could and should be taken to alleviate their condition.

The greater recognition and acceptance of the need for comprehensive planning has also led to a more thorough understanding of danger signs which might serve as indicators of financial difficulty. Institutions which are unaware of changes in student body composition, which have heavy dependence on tuition as a source of income or have property assets costing more to maintain than they yield may be inviting trouble. Similarly, institutions with little knowledge of faculty productivity, costs per teaching hour or inventories of facilities and equipment may also be incapable of instituting cost controls, performing cost analyses, or reviewing institutional or program objectives and priorities.

A well developed capability for institutional self-analysis is essential if a college or university is to recognize significant changes in budgeted departmental instruction and research, educational and general, or student aid expenditures. With such a capability, future "plans" are less likely to be based upon hopes that significant gift income or enrollment increases will occur despite clear past evidence to the contrary.

Institutions pressed by financial troubles have also benefited from a greater inclination to examine and recommend changes in funding policies. Private colleges and universities which in 1970-71 increased tuition on the average by about 40 percent over 1968 levels have been forced to recognize that they cannot continue to pass higher costs on to the student indefinitely.

The percentage of students enrolled in private colleges and universities has decreased steadily from about 50 percent in 1949 to 33 percent in 1967 to 25 percent in 1970. As a result, privately supported colleges and universities have come to recognize that direct grants or loans to students are as important to their institutions as are various types of direct categorical institutional support if the more than $1,000 per year gap between what students pay and what it costs to educate them is to be closed.

Public and private institutions alike are urging the elimination of restrictive line item state budgets. They have also been actively involved in the process of searching for an equitable means of distributing general federal institutional aid.

A third major area to which higher education institutions must grant further attention is that of encouraging greater involvement with the surrounding community. If colleges and universities are to turn their current financial situation around, they are going to have to maintain and, where necessary, restore public confidence in higher education. This means demonstrating that they are reasonably efficient in their internal operations, that they are governable, and that they have a unifying set of purposes which the public can understand and be willing to support.

Each institution must decide if and how it may make its resources available in solving community problems. Broadening field experience opportunities for students, expanding community use of college or university facilities and extending adult education programs to meet community needs more fully should yield benefits both for the educational program and for the neighboring community.

A touch of adversity can help to bring about much needed change in colleges and universities, but lack of resources, like lack of food, cannot be tolerated indefinitely. Passage of the federal higher education bill providing general institutional aid may held to alleviate the short-term financial crisis. Such aid will be of little benefit, however, unless the monies are applied so as to help in bringing about needed long-term changes.

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