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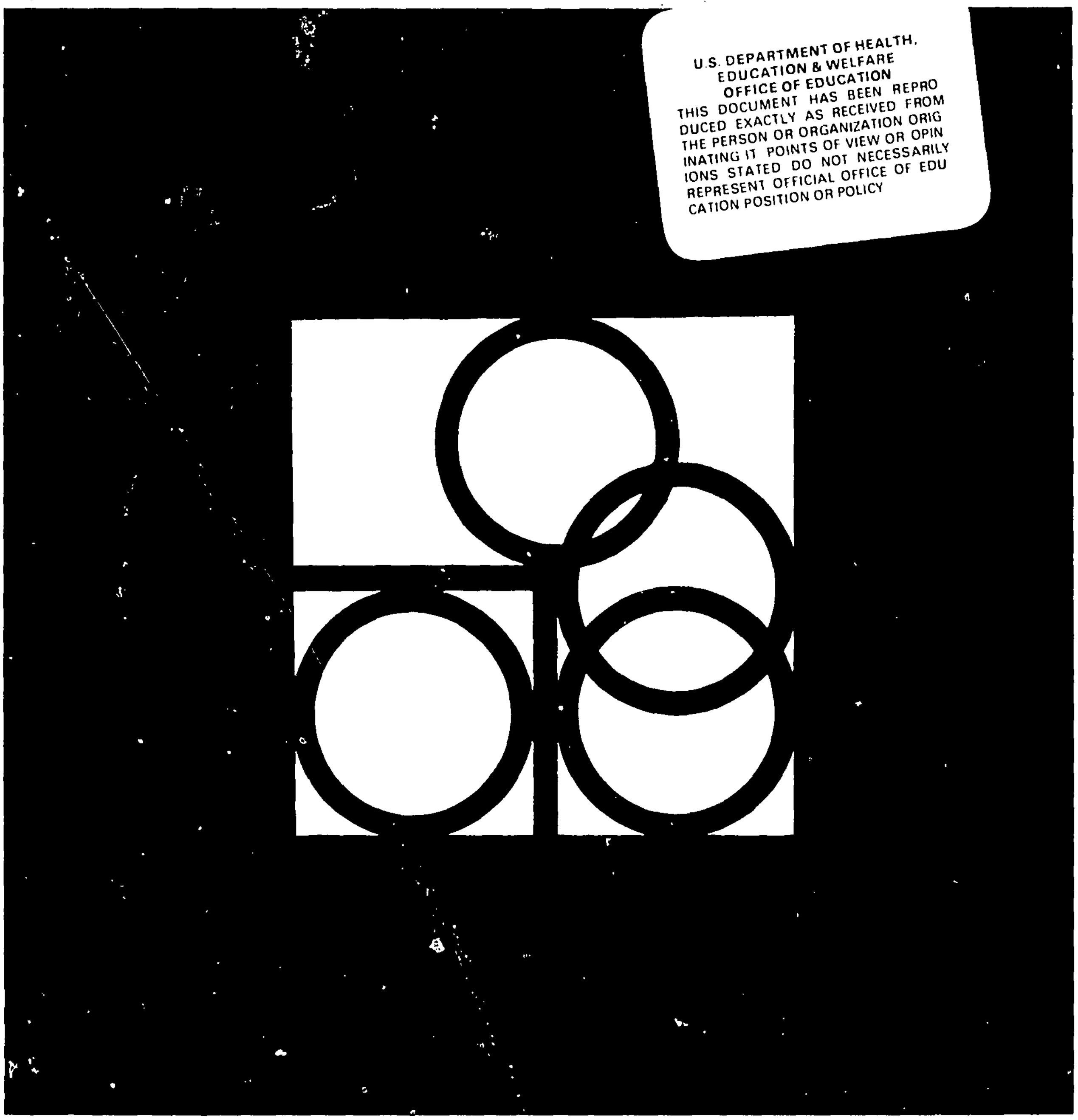
ABSTRACT

This document discusses the various methods that might be used in funding higher education, with special emphasis on access to colleges and universities as related to educational finance. There are two major theories regarding the funding of higher education. The first is the individual benefits theory. Those who represent this theory claim that the individual student is the primary beneficiary of the education and therefore that the student should absorb most of the costs of getting an education. Those who support the second theory, the societal benefits theory, claim that society is the main beneficiary of higher education and that society should, therefore, be responsible for the financial burdens. The author agrees with the latter theory and feels that in order for access to higher education to be truly equal to all persons, society and not the individual must bear the major portion of education costs. (HS)

The Rationale for Various Plans for Funding American Higher Education

Larry L. Leslie



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The following text was presented as an address to the annual Pennsylvania Association for Higher Education conference in Harrisburg, Pennsylvania on May 1, 1972.

INTRODUCTION

I understand my assignment to be to discuss with you the question of access to higher education, with regard to the rationale for various plans for financing students in higher education and the rationale for various plans for financing higher education institutions themselves. Obviously, these topics are related. My approach will be to focus on finance, using this as the primary medium, but I will draw the implications to access as I move along. This approach seems to make sense because access issues are tied very closely to finance. Indeed, the access question is clearly at the root of the present debate over how higher education should gain its fiscal support. To illustrate, it has been argued that if we should decide to opt for the student voucher system, many problems of equal access would be automatically resolved.

BACKGROUND

I will begin by briefly setting the stage. Here I will provide the background for the current and future task of financing higher education, including how the present higher education bill is being paid. Second--and this will be the heart of my statement--I will discuss the various current plans for funding higher education, including the rationale for these plans. Obviously, the access question will surface in this second section. Third, although this is not part of my charge and therefore I may be foolish to attempt it, I shall try to make some conclusions.

"Setting the stage" seems to be absolutely essential to this discussion. One can hardly talk about plans for changing the present system of financing higher education, without first talking about what is. Thus, this first part of my statement deals with the present and projected costs of higher education, which of course must consider enrollment patterns and projections. Surely it must also include the magnitude of the present financial crisis--if indeed there is such a crisis. And, it must include how the *present* bill is being paid. Although this last inclusion might appear gratuitous, a considerable number of proposals appear to be ignorant about who is presently underwriting the higher education system.

First, then, how much are we now spending? In 1970-71, total expenditures for higher education were $24.2 billion. This year we will spend almost 10 percent more, or $26.5 billion. The National Center for Educational Statistics tells us that by the 1980-81 academic year, we will be spending $43.8 billion. These are the latest figures and they are considered to be quite reliable.

During the past two years, state expenditures for public higher education have increased at the rate of 26 percent--a rather healthy increase, at least so it would appear on the surface. Twenty-six percent for two years or a 13 percent increase for each of the past two years would *seem* to be wholly adequate. And yet the present state of American Higher Education has been described as one of crisis. How can this be? A Brookings Institution study for the Carnegie Commission showed that per student costs necessarily increase 3 percent per year plus inflation--or, about a minimum of 6.4 percent per year per student at the present rate of inflation. The National Association of State Universities and Land-Grant Colleges puts the comparable figure at 10 percent per year. Note that this is to maintain a standstill status. Also note that these figures were increases *per student*. Now during the past 2 years, when the 26 percent expenditure increase was occuring, student enrollments were up 17 percent. Therefore, simple arithmetic reveals that the 26 percent "increase," in fact, represents roughly a 2 or 3 percent decrease in terms of dollars per student needed in order to maintain a standstill status. Further, some types of institutions fared considerably better than others, thus inflating the figures for the less fortunate. State universities, and to a lesser extent, state colleges were among the less fortunate. Only community colleges generally appear to have fared well.

All this is by way of pointing out the absolute necessity of assessing our financial condition in light of enrollment increases. Stated another way, technically, there is no chance to completely "hold the line" in the financing of higher education. Any state legislature which "holds the line" is in fact significantly cutting the budget in terms of present dollars. This is true even if enrollments were to stay the same--something that is not likely to happen in any state.

What then *does* the future hold regarding enrollment patterns? The 1970 enrollments were 7.9 million. Freshmen enrollments last fall were up 12 percent over the levels of the fall of 1969. They have risen commensurately for ten years. Whether this trend will continue is another question. The business of making enrollment projections is a sticky business indeed. The Census Bureau for example estimates that college enrollments by the year 2000 will be between 9.3 million and 19 million--an error term of over 100 percent. The wide range is attributed to such factors as: changing societal attitudes toward education, the amount of financial support that will be available to students, the growth of community colleges, changes in admissions practices, and perhaps most important of all, changing fertility rates. The lower projection of 9.3 million is based upon the October, 1970 percentage of the 5-34 aged population attending some educational institution, while the higher figure is an extrapolation of the same percentage increases that occurred between 1950 and 1970.

Obviously, the 9.3 million to 19 million range is too wide to be of much use. Therefore, *considering all factors, the National Center for Educational Statistics predicts college enrollments of 13.3 million by 1980.* The Center predicts a 70 percent enrollment increase in the public sector and an 8 percent increase in the private sector. Thus, in 1980, there would be 11 million students in public higher education and 2.3 million in private higher education. Again, the 1970 enrollments were 7.9 million. In short, most everyone agrees that enrollments will go up; the only question is by how much.

This brings us back to whether indeed there is or at least, will be, a financial crisis in higher education. My mere presence on this platform indicates that there is at least a perception of such a crisis in the minds of some.

I should at least mention, however, that the majority of the economists, who are studying higher education, do not perceive there to be any crisis at all. It is interesting, although not very informative, to listen to the bantering going on between the two groups of economists. There is a little doubt in my mind that the dialogue is really about little more than terminology.

Both groups agree that there are indeed widespread, serious, immediate, and long range financial difficulties in store for our colleges and universities. Allow me to cite some of the evidence. Earle Cheit's Carnegie Commission Study on the financial status of forty-one colleges and universities, chosen as representative of the major types of higher education institutions, provides perhaps the most broadly based data. Utilizing as the criterion whether an institution's current financial condition forced upon it a loss of quality or a loss of services, eleven institutions were found to be "in difficulty," eighteen were designated as "headed for trouble," and twelve were classified as "not in trouble." No class of institutions was found to be free from financial difficulty, although financial trouble was more likely to be found in private institutions, urban institutions, regional universities, and those having high student aid and high faculty salary costs. Based upon this study, the Carnegie Commission estimates that roughly 1,000 institutions, enrolling 4 million students (56 percent of the total) could be considered "headed for financial trouble."

William Jellema's excellent study of the financial status of the members of the Association of American Colleges--which includes almost all private institutions in this country--paints at least an equally pessimistic picture. The AAC found that "average" institutions enjoyed a net surplus in 1968, but experienced net deficits in 1969. By 1970, the average deficit per year was

$131,000 or five times what it had been only a year earlier. According to Jellema, the full significance of these figures can only be appreciated in light of the fact that these greatly increased deficits occurred during a period when operations were being curtailed, faculty members were being discharged or were simply not being replaced, and academic programs were being reduced. Between 40 and 60 percent of all private institutions are now running deficits with the situation being from serious to critical. One-fourth of all deficits are in excess of 7 percent. For this group, the range of deficits is from 7.4 percent to 29.1 percent of the current fund budget. In the conclusions to a follow-up survey, Jellema estimated that 107 of the colleges which responded would have totally depleted their liquid assests in 1970-71, if deficits remained at the reported 1968-69 levels. On the basis of the revised 1970-71 budget estimates, 122 institutions will have now depleted their liquid assets and at the moment, may reasonably be called "broke." At this rate an estimated 365 of the nation's 762 private, accredited, four-year institutions will have no liquid assets within ten years.

A 1971 report of the National Association of State Universities and Land-Grant Colleges showed deficits also to be emerging in public colleges and universities, where the enrollment pressures are greatest and where there is strong competition for the tax dollar. Alabama A & M, Florida State, Oklahoma State, Rutgers, Houston, Michigan, Maine, Alaska, and Vermont Universities all reported deficits for 1970-71. Furthermore, the total may almost double this year with an additional sixty institutions kept solvent only by the severest economic measures.

A crisis? Perhaps not. Shall we call it, instead, a severe economic depression? But what does the future promise? On this point, the economists and the educators are in general agreement. The proportion of state budgets allocated to higher education will probably remain stable in the decade of the 70s. There are high priorities facing the states, including health services, the environment, and mass transportation. Thus, significant additional funds for higher education will very likely result only if the size of the total resource pool is also enlarged. In all likelihood, institutions will look more and more to the federal government and to higher tuitions to meet the increasing costs.

The last part of this background information section deals with how the present bill is being paid. It is necessary to know who is now paying the bill, before talking about how much more each segment *should* pay. The first insight required is that one listen very carefully to precisely what is being said. For example, if only tuition and fees are considered, currently about 16 percent of all public and 40 percent of all private institutional expenditures for "educational and general" purposes come from this source. However, if tuition and fee income is applied, as it more commonly is, to the more narrowly defined "instruction and departmental research" categories, it accounts for about one-third and four-fifths of the expenditures of public and private institutions, respectively. In addition, as any student and any parent knows, there are other costs to be born. And this is where the careful listening is required. When room and board costs and the costs of travel and books, etc. are added, students and their families will have born nearly $22 billion of the cost of higher education during the coming academic year. This will be approximately 75 percent of the total costs of higher education listed by the Carnegie Commission. But there is more. This figure does not include non-degree or part-time students which would substantially raise the percentage figures. Even more important from the cost side, it does not include student foregone income. Foregone income is a cost the economists tell us must be charged to higher education. It is the amount that would have been earned by students if they had joined the work force instead of going to college. Today, this concept, which first entered the literature in 1960, is almost universally accepted. When foregone earnings are added to the total costs of higher education, estimates are that the true portion of the total higher education cost that is born by the student and his family cannot possibly be less than two-thirds and is probably closer to seven-eighths. Three-fourths or 75 percent seems to be the most commonly accepted figure among economists.

Let me now briefly summarize this background information.

1. The total dollars spent (not including dollars foregone) on higher education this academic year are $26.5 billion, approximately three-fourths of which is born by students and their families.[1] By the 1980 academic year, the costs will be $43.8 billion.

2. The relative amount of financial support will probably not increase at the state level. Increases will occur only if the total pool of resources is enlarged. Thus, the federal government and/or the student and his family will be asked to share more of the burden.

3. The present financial condition of higher education, although perhaps not absolutely desperate, is indeed bleak, which means that new funding strategies must be examined.

CONSIDERATION OF THE VARIOUS PLANS

On then to the second part of this discussion--what are the various plans for financing higher education, what are the rationales for these various plans, and what are their implications for access? There are, of course, more plans for the financing of higher education then reasonably can be discussed here. Fortunately, almost all plans have certain common threads or "strategies" which *can* be described and examined.

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[1] It is not clear from Commission reports just what is included in the $26.5 billion figure. When all amounts are considered, three-fourths is probably quite accurate.

The basic argument concerning funding, among concerned observers, is whether higher education should be financed through students or through institutions directly. Necessary to the analysis is an understanding of the philosophy or theory behind each viewpoint. Underlying the differences of opinion as to how higher education should be financed is the basic question "who benefits from higher education?" For it is argued that he who benefits, should pay; at least so goes the rhetoric.

Again, there is a dichotomy. Some argue that it is the individual who benefits. Others argue that it is society. Let us examine these two viewpoints. Exponents of the individual benefits theory list as evidence: significantly greater lifetime income, greater productivity and thus attractiveness to employers, and the improved lifestyle of college graduates as opposed to non-graduates. For these reasons, it is argued, the individual should pay for his education through full cost tuition and fees. If the student lacks the necessary resources, loans should be made available. This philosophy is sometimes used to argue for grants to low income youth.

The second viewpoint is that society is the real beneficiary of higher education because college educated persons are more open-minded, critical, and socially responsive. Therefore, society, through the local, state, and federal governments, should provide the major support for higher education. There are differences within this second viewpoint as to whether societal support should be given *directly* to the institutions or *indirectly* to institutions through students. I shall generally use the term *student vouchers* in speaking of this latter mode.

THE INDIVIDUAL BENEFITS THEORY

Having stated the general viewpoints, the soundness of the evidence will now be examined. First the individual benefits theory: Probably the major evidence supporting this argument is that college graduates on the average earn approximately $200,000 more in their lifetimes than do those who are not college graduates--clearly a significant sum if indeed it can be ascribed to the college diploma. In actuality, the economists tell us the figure is probably much too high. Lee Hansen, of the University of Wisconsin, estimates that 25 percent of the difference in lifetime earnings between the two groups can be attributed to ability and motivation. In other words,. the two groups are not really comparable. College graduates are more likely to earn higher incomes simply because they are better motivated and better endowed for economic success in our society. Their persistence in college is *prima facie* evidence of this. Further confounding the picture is the fact that present income is worth a good deal more than future income. Therefore, income foregone due to college attendance, is especially costly. Also, taxes must eventually be paid on that greater, anticipated income. Thus, Hansen and Weisbrod estimate that the true dollar income to be eventually earned is not $200,000 but is $89,000, and furthermore, when corrections are made for the present-day value of future earnings, *the actual lifetime earnings of the college graduate over the non-college graduate is $20,900.* For women it is even less. To quote Hansen and Wiesbrod, "Viewed in this light--the light in which, incidently, an ordinary investment is viewed in business capital markets--higher education is a good deal less valuable than is commonly believed." [2]

Holding the counter-arguments for just a moment, let us take a quick look at graduate education. Using the same techniques, Hansen and Weisbrod find that an average male can expect about $27,000 of additional lifetime income, having a present value of $5,800 as a result of his investment in graduate education. At the master's level the return is very small indeed, whereas it is somewhat larger for the Ph.D.

If this is so, why is higher education so attractive to so many? Some of the reason is undoubtedly tied up in the phenomenon of our credentialing society. The economists apparently fail to consider that ability and motivation are not sufficient to obtain credentials; academic degrees are needed for this. Thus, adjustments lowering the economic value of the B.A. may not be entirely

[2] W. Lee Hansen and Burton A. Weisbrod. *Benefits, Costs, and Finance of Public Higher Education,* Chicago: Markham Publishing Company, 1969, pp. 26-27.

valid. Attempts to adjust for the incomparability of college and non-college graduates would appear to be, at the very least, moot.

But even more significant in assessing the individual benefits of higher education is what was referred to earlier as the improved life style with a college degree. The term often used by economists is *psychic income*. Psychic income is really foregone income, but is income foregone forever. It is the amount of earnings which were foregone in favor of some preference in life style. To illustrate, each of you has probably rejected some offer of increased income because you were not prepared to pay the particular "costs" of accepting that income. For example, undoubtedly, some of you have declined an offer of a higher salary from a large urban college or university for "personal" reasons. The professor who declined vastly improved earnings through industrial employment in favor of "the good life of academe" may be a creature of the past, but he does demonstrate my point. In these cases real income was foregone in favor of psychic income.

In some cases psychic income may be purely the value attached to status. How else can we explain the ever increasing college enrollments, even among prospective teachers, in the face of the higher earnings of the members of certain lesser status occupational groups, such as plumbers, auto mechanics, policemen, and firemen. The difference can no longer be ascribed to the security resulting from the college degree. The prospectus for gaining employment as a teacher, for example, is considerably less than for many jobs which do not require the baccalaureate. Perhaps another part of the answer is in the greater potential for higher earnings even though these earnings may never materialize. But this too must be considered psychic income, if it is not, in fact, ever gained. When Clark Kerr writes of the very real possibility that we may need to pay more--not less--for those persons who hold the less desirable jobs, he is talking about psychic income.

If I may continue on this tangent for just a bit longer, the Carnegie Commission and the United States Office of Education estimate that until 1980 at least, only 20 percent of all jobs reasonably will require the holder to possess a B.A. Yet we are currently admitting nationally 50 percent of all high school graduates, and the figure is about 70 percent in California. Although dropout rates are considerable and these data are contentious, clearly there is some point at which our society *may* become overeducated. It *can* happen. About two months ago, it was reported that unemployment rates among college graduates in Sweden ran as high as 50 to 75 percent. The reasons are an exacerbation of the same conditions which appear to be developing in this country--near universal higher education supported by considerable government subsidies. Admittedly, there are other purposes of higher education besides preparation for work. However, anyone who has spoken to an unemployed or underemployed teacher, aerospace engineer, or college professor, knows this to be a real rather than an imagined, issue.

Does this have any implications? At this point no one can say. Logically, one might predict fewer financial incentives for enrolling in higher education, although because this would probably work against equal educational opportunity, such a development is doubtful at present. More likely is the eventual possibility of a kind of penalty in the form of higher tuition.

THE SOCIETAL BENEFITS THEORY

Now to the societal benefits theory. Proponents of this philosophy point out that the individual's economic productivity is shared by society in the form of taxes. They also point out that the college educated occupy fewer jail cells, have fewer auto accidents, are healthier, and have lower absentee rates from their jobs. In comparison to non-graduates, college graduates less frequently receive welfare and unemployment compensation, thus reducing the total transfer payments required of society. In a report to the Committee for Economic Development, Edward Denison showed that the education of the labor force accounted for 23 percent and the advancement of knowledge accounted for 20 percent of the growth in the gross national product between 1929 and 1957. These figures have dropped only modestly since 1959. Further, in this country education is still considered the primary route to social mobility. Many of those who maintain that only the individual benefits from higher education, also argue for subsidization of the higher education of the poor. By so doing, they necessarily acknowledge that an important social benefit of higher education is the equalization of opportunity. Thus, it seems to me, they defeat their own argument.

All this is not to say that the individual fails to benefit from higher education, because obviously he does benefit, what the analysis does show is that the individual probably benefits a good deal more in a psychic than monetary form. In conclusion to this question, there is little to suggest that one side--society or the individual--benefits significantly more than the other. Clearly those who argue that there are very little if any returns to either side cannot, from my analysis, be taken very seriously.

DISCUSSION

Now then, where do each of these theories lead? The individual benefits position argues for full cost tuition. The societal benefits position argues for tax support of either institutions or individuals. Under the individual benefits theory, if the individual needs government aid, government loans should be available. In the case of low income students, some proponents of this position argue for grants rather than loans. Many, however, recognize the inconsistency between the individual benefits theory and any support to individuals--that would be a societal benefits doctrine. Arguing for grants would clearly seem to be an admission of the social benefits of higher education *vis-à-vis* equality of economic opportunity.

There *are*, nevertheless, those who use the individual benefits theory to argue for full cost tuition and educational grants to the poor. Interestingly, these persons are often the more liberal economists and educational spokesmen, persons who would ordinarily be expected to be on the social benefits side of most such questions. In this case, they find themselves closely allied with Milton Freedman, the leading spokesmen of free-market economic theory.

Now let me review where we are up to this point. First, we have shown that the individual benefits theory argues for very high or full cost tuition. It argues for student loans to the non-affluent, although we have not yet discussed the nature of those loans. We have also seen that some spokesmen invoke the individual benefits theory to justify grants to low income youth as the best means to equalize educational opportunity. Second, we have seen that under the societal benefits theory there are two major funding modes: students and institutions.

INDIVIDUAL BENEFITS PLANS

Now let's move on to some variations in loan forms, and some variations in forms of student grants or supplements and in institutional grants. The rationale for each is our major concern here.

Loans come under the individual benefits theory. Loans are already a major source of financing higher education. Students borrowed $1.5 billion this year; in fact, 28 percent of all student assistance was in the form of loans. Forty-three percent of all private, four-year college sophomores and 33 percent of public, four-year college sophomores borrowed to support their higher education this academic year.

Loan proposals generally take one of two forms: conventional, that is, a fixed schedule loan, and the income contingency loan. In a conventional loan the borrower knows in advance the rate of interest and the period of the loan. He can only guess at what his problems will be in repaying the loan. On the other hand, under the income contingency loan the borrower knows the repayment rate but only as a percent of unknown future income. He knows what the maximum repayment period will be and he knows the upper limit of the amount he will have to repay. This limit may be some maximum loan rate, such as 7 percent, or some multiple of the original debt, such as 150 percent. Simply stated, the advantages of the income contingency plan are seen as two. First, the amount of repayment is a function of later earnings. Second, and because of the first reason, contingency loans have an equalizing effect; that is, those who earn more will subsidize the education of those who earn less.[3]

Income contingency loans would seem to have considerable promise in rapidly, if not immediately, increasing the total financial resources presently available to higher education. As a rationale, it has been suggested that the contingency loan plan would free colleges to set their own priorities while increasing the number of low income students, but in such a way as to cause these students to invest in their own education. This is, in my view, an important point and one which is not usually a part of the rationale of other funding modes. It has also been suggested that this kind of loan would ultimately enhance the financial conditions of private colleges and universities by eliminating the church-state problem, while at the same time allowing students to *afford* private schooling. Further, it is maintained that contingency loans would match low and middle income students with institutions having vacant student stations. Finally, the income contingent loan plan would reduce disparities in educational expenditures among rich and poor states, thus again tending to equalize educational opportunity.

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[3] D. Bruce Johnstone, "Income Contingent Loans: What Role in the Financing of Higher Education?" The Ford Foundation, December, 1971.

In opposition, others point out that society, not the individual, is the major beneficiary and thus society should carry most of the financial load. These persons insist that the present policy of low tuition in public institutions is a better way to insure equal educational opportunity, because most low income students would be reluctant to obligate themselves for a long period of financial repayment. They also point out that there are at least serious technical problems with the plan. First, they fear that legislatures would use contingency loans as an excuse for decreasing total support; and second, they point out that no college or private agency has resources sufficient to operationalize such a system. Indeed, the Ford Foundation recently decided not to finance income contingency loans for precisely this reason.

Howard R. Bowen, who is in my view the most thoughtful and perceptive of the higher education economists--which I suppose means he agrees with me, or rather I with him--has pointed out two additional problems. First, says Bowen, the plan is highly inequitable between high and low income students. The student from a high income family ends up his college career with little or no debt, while the student from the low income family might owe 5,000 to $20,000 depending on the length and nature of his program. Second, and I quote from Bowen, "from the social point of view the use of loans does not achieve one of its avowed objectives, namely, to place the cost of higher education upon the students. The true economic cost of higher education consists of the use of resources *at the time* the education occurs. If these costs are financed by loans, the true economic cost is born *at that time* by the ultimate lenders, whether they be private savers or taxpayers. They are the ones who give up the needed resources. Later, when the interest and the principal are repaid, no economic resources are used and no social cost is involved. Repayment is then merely a transfer payment from debtors to creditors."[4] Bowen tells us that we might more clearly understand this fact by recognizing the futility of trying to transfer the costs of war to future generations. Clearly the costs of war are born, at that time, by those making the financial sacrifices.

So much for loan plans, but before leaving the discussion under the individual benefits theory, a few things must be said about full cost tuition. If such a plan were to become a reality, an assessment of the true costs of services would seem to be essential. Students and their families could and would properly demand that they be assessed no more than the *true* full costs. Clearly, the true costs of higher education vary by field and by level. Although there is considerable disagreement as to specific relative amounts, the ratio of costs for lower division, upper division, and graduate education are roughly estimated to be

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[4]Howard R. Bowen, "Who Pays the Higher Education Bill? in *Financing Higher Education: Alternatives for the Federal Government*. M.D. Orwig, Editor, The American College Testing Program, Iowa City, Iowa, 1971, p. 281-298.

approximately 1 to 2 to 6. In other words, lower division is clearly the least costly, with upper division costing about twice as much, and graduate education about six times as much. To further complicate the issue, there are wide variations according to discipline, with lesser costs being incurred in the social sciences and humanities, and the greatest costs being incurred in the physical sciences. It seems clear that what the economists call "market imperfections" are so severe according to level and field, that government subsidy of certain levels and fields would absolutely be required. With this would go the philosophical justification which was behind full cost tuition in the first place--i.e., the individual benefits view. Perhaps the clearest illustration of the dilemma can be brought to mind by recalling the relatively small returns to the individual of graduate education. Yet, graduate education would cost approximately four times more than undergraduate education. Therefore subsidies would probably be mandatory.

Another problem with full cost tuition when tied to grants for the poor, is that in any plan to subsidize some at the expense of others, there is always some new group that is denied educational opportunity. This group is that which is just rich enough *not* to obtain a subsidy and yet too poor to pay the increased costs necessary to provide subsidization for others. The significance of this problem has been demonstrated over the past decade in private institutions where each tuition increase--increases that were required for more than any other reason to provide scholarships for disadvantaged students--eliminated a new group of prospective tuition payers.

A final proposed plan falling under the individual benefits theory, is the tax credit plan. Under this arrangement, taxpayers would be permitted to deduct from their federal income taxes an amount related to the tuition and fees paid by the taxpayers and their dependents. The rationale for this plan is that those who pay most of the taxes ought to enjoy most of the benefits. It is further argued that educational expenditures lead to a higher future tax capacity which is a good national investment. Further, tax relief to parents removes the threat of federal interference with campus autonomy.

Critics of the plan, however, point out that such a system would be regressive; lower income groups would not benefit. They believe that private institutions would raise their tuitions, and that Congress would be satisfied that it had served the need, and that no additional legislation would be required. Presently, this plan appears unlikely to be adopted.

SOCIETAL BENEFITS PLANS

Let us move now to plans which fall under the societal benefits umbrella. Under the societal benefits rubric, there are two major approaches to meeting the costs of higher education

Again, the arguments are vigorous. One side argues that funds should be given directly to the institution, thus allowing financial certainty, thoughtful long-range planning, and the protection of institutional integrity. The other side holds that funds should be given to the student, who would in turn direct the money to the institution of his choice. The justification for this latter position is that by channeling funds through students, freedom of student choice would be maximized, equal educational opportunity would be insured, institutions would be required to be more responsive to the consumer (society), and tuition differentials between public and private institutions would be minimized, as would the direct influence of the government in institutional affairs. Supporters further list as rationale, that the voucher would:

1. encourage the fullest use of available facilities both public and private ,
2. make possible continued and effective competition between public and private higher education , and
3. encourage diversity at the undergraduate level.

The primary fear regarding the student funding mode among public institution spokesmen is the belief that many students would select private institutions, thus drawing support away from the public sector. Other arguments are that the student voucher funding pattern would promote religion and segregation (raising constitutional questions), and would lower "quality" because colleges would offer curriculum with "sales appeal" rather than programs that are necessary and sound. Further, opponents argue that vouchers:

1. would give students more influence and would encourage them to seek more power,
2. would require the institutions to get financial relief through students when they should get it directly as a matter of right, and
3. would be used by legislatures to save money.

At the root of the voucher notion is the question of access. Presently, most governmental aid to students does *not* go to low-income youth. This is especially true at the federal level where the majority of student aid is in the form of grants through such instruments as social security programs and the GI bill. In addition, there are indirect subsidies in the form of tax free grants and fellowships and special dependency regulations of the internal revenue service.

Such conditions are only part of the reasons why lower income youth attend college in smaller proportions than do higher income youth. Because I am sure you are all aware of the overwhelming evidence in support of this statement, I shall only remind you that at all ability levels, the percentage of higher SES students is two or three times greater than the percentage of lowest SES students in college. It is for this reason, more than any other, that proponents of new funding forms are seeking to target societal support on low income youth.

Thus, for example, the Carnegie Commission has advocated a "national entitlement" to increase equality of opportunity. Both the Carnegie Commission and the present Senate version of the national higher education legislation favor institutional aid *only* to support equality of opportunity. The Carnegie Commission favors grants to low income students with full cost tuition going to the institution enrolling these students. The Commission believes that through this means the basic responsibility for financing higher education would remain with the states, that institutional autonomy would be preserved, that there would be no constitutional problems, and that this form of federal support would not encourage a reduction in state support. The now-famous Newman report generally supports the Carnegie and Senate approaches and argues further that financing higher education through students would allow greater flexibility in where, how, and when students chose their higher education.

There are certain general arguments, both pro and con, for providing general, direct support to institutions. Those who argue in favor of general, direct supports point out that this approach fosters the integrity of the institution; it allows the college to set its own priorities and spend its own money as it sees fit; it *assures* financial aid to institutions; and it has the support of most of the higher education professional societies. It also appeals to every college, and thus is politically popular in every congressional district.

The problems with general direct aid to institutions are:

1. It is difficult for the federal government to select or reject institutions.
2. Some money would go to institutions of very low quality, to others that really do not need it, and still to others that serve very little social purpose.
3. The money will often not be spent wisely.
4. Institutions agree that there ought to be support, but they clearly cannot agree on the formula for distribution.
5. Institutional support will lead to institutional control by state and federal government.[5]

I will mention only a few other suggested forms of institutional support. None of these will be revelations to you. The various pros and cons, however, might be of interest.

A more specialized form of institutional support is the categorical grant. In this case funding is based on certain criteria, or on the performance of certain tasks, or for the

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[5]Clark Kerr, "New Challenges to the College and University," *Agenda for the Nation* (Washington: The Brookings Institution, 1968).

developmental of certain programs. The rationale for such programs is that they are responsive to national needs; they allow flexibility in adjusting to massive changes either abroad or at home; they supplement state and private support for higher education rather than replacing it. And, they can also aid in the establishment of new enterprises.

On the debit side, categorical grants allow the government, rather than the institution, to establish priorities. By so doing, institutional autonomy is jeopardized, the delicate internal balance of higher education is upset, and the temporary nature of categorical grants provokes instability in personal careers and institutional income.[6] Perhaps most important of all, higher education's role as social critic is less likely to be served.

The final plan, which I will mention, appears at present to be no more likely to be realized than the tax credit plan. This final plan would involve revenue sharing with the states. Proponents of this plan point out that it would strengthen the states and thus bolster the intent of the constitution. It would cause income redistribution because it is progressive income tax funds that would be shared. And it would draw political support from state governers and legislatures. Critics fear the chaos that would occur as a result of fifty different higher education policies,

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[6]Ibid.

many of which would be unenlightened. Critics also fear greater state control of institutions, and they fear that the states would withdraw their own support of higher education.

CONCLUSIONS

Let me see now if I can summarize where we are at this point. We have talked about individual and societal benefits of higher education. We have pointed out that the individual benefits theory suggests full-cost tuition and student loans. We have observed that some proponents of the student voucher mode believe their plan to be dependent upon acceptance of the individual benefit theory. I believe we have shown that this thinking is not sound. We have seen that under the social benefits theory it is possible to argue for either the student funding mode or the institutional funding mode. And finally we have talked about the rationale and the counter arguments for each funding mode. Now let me see if I can make some conclusions.

I think it is first crucial to realize that equal access is the overriding value behind the best articulated and the most likely to occur, suggested forms of funding. This is clear in the case of the recommendations of the Carnegie Commission, the Ford Foundation, and the Newman Task Force. It is also the gist of the Senate version of the higher education bill.

A second conclusion deals with the matter of individual versus social benefits. First, it seems clear that both society and the individual do gain from higher education. The exact division of these benefits is unclear; however, it is doubtful that either society or the individual benefits far in excess of the other. Thus, because the individual and his family are now absorbing no less than two-thirds and perhaps as much as seven-eighths of all higher education costs, there does not appear to be justification *on these grounds* for raising the student's share even higher. If we deem it appropriate, *on some other grounds,* to assess middle and upper income groups the full-cost of higher education, so be it. But let us not pretend there are no social benefits from higher education. Let us also be aware that we are imbibing in a form of double taxation. And let us be aware that if we do not readjust the full tuition costs on the basis of level and field we will be perpetrating triple taxation as a minimum.

It would seem at least more equitible, to argue for very low or no tuition, with the primary funding of higher education being the progressive income tax. Such a plan would necessarily include special subsidies for low income youth and some significant form of subsidy to private higher education.

The problem of financing private higher education is perhaps the most difficult of all to resolve. A redressing of the current competitive imbalance between private and public institutions demands immediate attention. The financial condition of private colleges is such that unless this imbalance is alleviated, they cannot survive. To this much I agree. However, the oft-suggested solution that public institution tuition, be raised, I believe, would not be in the best interest of either the private institutions or of the whole of higher education. Higher tuitions would have the effects of protective tariffs, which always seem to lead eventually to more severe problems. Higher tuitions would add prohibitively to the cost of higher education for the great mass of students from middle income families. Further, it is doubtful whether such measures would alleviate the financial difficulties of the greatest number of troubled private institutions--those which are experiencing the greatest enrollment difficulties. I am speaking of the small, rural, religious, single-sex and "local" colleges. I doubt that protective tariffs would significantly alter the diminishing number of students selecting these kinds of institutions.

Further, protection of the diversity within higher education, represented by private institutions, and the autonomy of private colleges is probably contingent upon the nature of the financial relief finally obtained. For these and the afore-mentioned reasons, contracts between the states and private institutions to educate students, would appear to make good sense. Contracts would encourage diversity and decrease the negative effects of tuition imbalances, while at the same time protecting institutional autonomies.

The Carnegie proposal involving grants to accompany low income students, on the other hand, would probably work to the detriment of private institutions because of the greatly increased student services and expanded curriculum demanded by low income groups, especially those of minority races. A contractual arrangement would seem far superior.

IMPLICATIONS FOR ACCESS

Now what does all this mean in terms of access? The implicit theme of this paper is that access policies are primarily matters of finance. To consider access questions, without talking about plans for funding, would be folly. It would be to raise hopes without providing the means for realizing goals related to equal access.

What I am saying is *that the course we choose regarding funding will dictate how we react to the problems of access*. There is no consideration more basic to the several alternative plans for funding than access. The Carnegie and Senate plans would go a long way in equalizing access, but only at considerable costs to institutional autonomy, especially in the area of goal setting. Frankly, I do not think it wise for most if not all private colleges to get into the business of educating minority groups. There is simply not enough faculty talent and not enough in the way of fiscal resources to develop the special programs demanded. Rather, certain institutions should be designated to meet this need--among other needs--and contracts awarded. Some public and some private institutions are doing yeoman service in this area now. The colleges originally founded to serve blacks are one group--but only one--of such colleges.

High or full cost tuition plans would also improve access for some, but would tend to deny access to others. Grants directly to institutions might improve access, but we cannot be very sure about this. Contracts to institutions for the education of students, on the other hand, if coupled with low tuition in public colleges, would greatly improve access, at little cost to institutional autonomy, while going a considerable distance toward solving some of the financial problems of private schools.

FUTURE FINANCING OF HIGHER EDUCATION

As the last item, what does the future promise for the financing of higher education? It seems clear that several of the newer funding forms will come to pass, although it is doubtful that any mode will or should predominate. Federal and state grants to students, probably with full tuition grants to institution, are one such likely form. General institutional grants and categorical grants will continue although perhaps at a slightly to moderately reduced rate. There will also be some redressing of the competitive balance between private and public colleges although the public institutions will maintain a competitive edge. One vehicle will be some sort of public subsidy of certain students who attend private colleges. Loans, especially those of the contingency variety, will also increase as tuition continues to rise nationally only slightly more slowly than in the past decade. As indicated earlier, total governmental support of higher education will not increase substantially on a relative basis. If significant new income sources are to be found they will most likely occur through productivity gains within institutions. However invidious to faculty, there appears to be no real alternative, over the long run, to greater "output" through increased student faculty ratios in the form of larger class sizes and/or increased teaching loads. With academic instruction consuming 50 percent of the budget in all kinds of institutions of all sizes, there seems to be no escaping this conclusion. We will almost certainly have to look to the largest budget area for savings.

Finally, and I will close with this. Although these projections seem defensible under present conditions, any one of a number of possibilities, if not likelihoods, could upset the delicate balance. Two such likelihoods relate to the eighteen year old vote. If, as now appears very likely, the courts should continue to support the elimination of nonresident tuition, or, if the courts should rule eighteen year olds to be adults and thus legally independent of family income for purposes of receiving loans and grants, we would have a whole new ball game on our hands.

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