



COMMONWEALTH of VIRGINIA

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Virginia Peninsula Chamber of Commerce's
Leadership Institute Class' Education Day

“HIGHER EDUCATION IN VIRGINIA: WHAT CAN WE AFFORD?”

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Good morning. I am glad to have this opportunity to talk with you about the role that higher education will play in Virginia's future. I am especially glad to see that you have chosen to devote a full day of the Leadership Institute's program to a discussion of education. One of my foremost goals as Director of SCHEV is to stimulate a broad, extended public discourse about education. Before I leave here today, I hope you will share with me your thoughts on how to engender that discourse.

As I have talked with various groups around Virginia about the role of higher education in training workers for business and commerce, I've consistently made the following point – while higher education has a central role in developing the workforce, workforce development is not the central role of higher education. Preparing students for their careers is one important aspect of undergraduate education, but the faculty of our colleges and universities have additional obligations to our students – obligations that are broader and deeper than workforce development. Our job is to help them develop in intellect and character not just for their life of work but more importantly for the work of life.

There is a great deal more that might be said about these other obligations. Indeed, I have spoken at some length on this topic on many occasions. Today, however, I must direct our attention to several critical issues that will profoundly affect the ability of our colleges and universities to fulfill these obligations.

This is a critical time in higher education, here in Virginia and in the nation at large. We find ourselves at a crossroads, where we are no longer able to continue along the path we have been on, and must make important decisions about which future course to take. Our dilemma has been well described in several recent national reports such as the Rand Corporation's *Breaking the Social Contract: the Fiscal Crisis in Higher Education*, and the National Commission on the Cost of Higher Education's *Straight Talk About College Costs and Prices*. We are caught between two diverging trends – the demand for higher education is increasing at the same time that higher education is becoming less and less affordable.

Why is the demand for higher education increasing? One reason is simple demographics. After declining through the late '80s and remaining relatively flat through much of the '90s, the number of high school graduates has started to rise again. Graduating high school classes in Virginia are projected to grow through 2003, dip for a few years, and then peak around 2007. As you might imagine, this increase in high school graduates translates into an increase in entering college freshmen.

Another, more long-term reason, has to do with the shift in the U.S. economy away from blue-collar industrial jobs and toward white-collar information technology jobs. This shift has made college education more important than ever. A glaring indication of this importance can be found in the salary differential between college graduates and non-college graduates. On average today, someone with a bachelor's degree can expect to earn \$18,000 more per year than someone whose formal education ends with a high school diploma.ⁱ Moreover, this gap is only expected to widen in the future. In its report, *Breaking the Social Contract*, The Rand Corporation estimated that by 2015 male workers with only a high school education will earn more than one-third less, in real terms, than they did in 1976.ⁱⁱ

What this means is that a college education is rapidly becoming, not the key to a golden future, as it was in the past, but rather the key to *a* future. A college diploma will soon become a minimum requirement for productive employment – the modern day equivalent of a union card. Those who are unable to obtain this union card are likely to be left behind.

Unfortunately, at the same time that a college education is becoming a minimum requirement for success, it is also becoming less and less affordable. Over the 15 year period from 1983 to 1998, per student expenditures for educational and general programs in Virginia's colleges and universities increased from \$3,754 to \$8,134, or by about 32 percent more than inflation. Similar cost increases in the medical industry over this period came to be known as the "health care crisis" and precipitated major reform. While the overall cost of higher education shot up 32 percent more than inflation, per student state appropriations in Virginia rose from \$2,542 to \$4,858, about 17 percent more than inflation. In other words, the cost of higher education increased at twice the rate the public was able to subsidize.

In the short-run we can, and have, made up the difference with tuition increases. But sizeable increases in tuition also make a college education less affordable for most families. Indeed, the worry of many families that college was being priced beyond their reach prompted Virginia's three-year old freeze on tuition at the public institutions.

The looming crisis engendered by these diverging trends – increasing demand and decreasing affordability – has fostered a heated debate. At one end of this debate, we hear that the only solution to skyrocketing cost increases is skyrocketing increases in public funding. At the other end, we hear that higher education is rife with fat and waste and that what is needed is a sobering dose of belt-tightening austerity. The truth is that neither of these so-called solutions address the underlying structural causes of the current crisis and both are tantamount to placing a Band-Aid on a gunshot wound. It is only when we are able to raise the level of the debate above such sterile knee-jerk assertions that we will be able creatively address the problems that lay before us.

This debate has also led to a lot of apparently conflicting numbers being tossed around. If you have tried to follow them in the media coverage, you may feel like you are watching a statistical scrimmage in which it is impossible to locate the ball or understand the rules of engagement.

What accounts for the discrepancies? In most cases selective truth telling. For example, a recent report by the Business Higher Education Council stated that per student public support for higher education was \$729 less in real terms in 1998 than in 1990. Given that information, a reasonable individual might assume that public support of higher education in Virginia has declined. Is that true? No!

In fact, the Center for Higher Education at Illinois State University recently cited Virginia for posting the fourth highest increase in support for higher education in the nation last year. Why the discrepancy? 1990 was the peak funding year before the recessions of the early 1990s. Moreover, it preceded a major restructuring effort in Virginia, in which our colleges and universities brought down their costs, and thereby their funding needs, by streamlining their operations.

A more even-handed analysis of state support of higher education in Virginia would look at a longer, more representative timeframe. For example, the Department of Planning and Budget has determined that from 1974 to 2000, per student public support for higher education in Virginia increased by 90 percent in real terms.

Moreover, a more comprehensive analysis of state support would include measures beyond just general fund appropriations. For example, the standard calculation of state support ignores the unusually high level of charitable (and other) contributions provided to Virginia’s public colleges and universities. Because those endowments are publicly supported through favorable tax treatment, they are a vital part of the public contribution to the cost of higher education in public and private institutions. Indeed, only five other states surpass Virginia in the level of such “other” contributions to the revenues of public institutions of higher education, and every other southern state is much lower.ⁱⁱⁱ Lastly, Virginia’s generous support of private colleges through the Tuition Assistance Grant, or TAG, program should also be included in any analysis of public support for higher education and would substantially increase the overall level of contribution.

But the real question is always not how much you paid – by that measure \$50,000 Air Force toilet seats would be a good thing – rather, it is what you got for what you paid. In

Virginia, we are fortunate in that the answer is quite a lot. We are blessed with one of the best systems of public higher education in the country. *U.S. News and World Report*, *Kiplinger's*, and others regularly rank Virginia's public colleges and universities as the best in the nation. Since Virginia's total appropriation per student – that is tuition support combined with state general fund appropriation-ranks around the national average, this means that for our average expenditures we are obtaining an excellent product. This is no doubt why *Money Magazine* recently included five Virginia institutions among their top "best buys" (the College of William and Mary, James Madison University, Mary Washington College, the University of Virginia, and Washington and Lee). Only New York State had more institutions listed among the top fifty.

But even if we are getting a "good buy," we must face the reality that the cost of higher education cannot continue to increase at rates that outpace inflation year after year. What is the answer? We must do three things.

First, skip the polemics and statistical sophistry, and engage in an honest dialogue. We owe it to Virginia's students and citizens to move beyond the empty rhetoric of more money/less waste-more taste/less filling, and toward a real discussion of where we are and where we need to go. We need serious, creative deliberation about purpose and public policy rather than partisanship and polarization.

Second, build on the track record of excellence we have in the Virginia system of public higher education. We need to free our public colleges and universities from the perverse incentives and micro-management of our current funding system so that they can do an even better job of producing a high quality education at a reasonable cost in the future. There is no reason to believe that bureaucratic central planning can do any better here than it has in every other part of the world.

Third, hold our public colleges and universities truly accountable for the results they achieve with the taxpayer dollars entrusted to them. Our public colleges and universities ought to be subjected to the kind of fiscal discipline that the private sector faces every day. Those that perform their missions well should be financially encouraged and rewarded. Those that do not perform their missions well should be financially disciplined.

Can we afford to take these steps? Can we muster the political will to put politics aside long enough to develop coherent public policy? I maintain that we cannot afford not to.

ⁱ The June 1998 issue of *Postsecondary Education Opportunity* reports the following average annual income figures for 1996: \$20,874 for individuals with a high school education only; \$37,970 for individuals who have earned a bachelor's degree.

ⁱⁱ Roger Benjamin and Stephen J. Carroll, *Breaking the Social Contract: the Fiscal Crisis in Higher Education*, Rand Corporation, 1998, p.7.

ⁱⁱⁱ *Higher Education: Tuition Increasing Faster Than Household Income and Public Colleges' Cost*. General Accounting Office. August 1996.