



## A MATTER OF MONEY

*by Chester E. Finn, Jr.*

Everyone is familiar with certain claims made for American higher education: It is the largest and most equitable system in the world; its research and scholarship are unsurpassed; it is the engine driving the American Dream Machine. And indeed, it is all these things. It is one of our national glories.

At the same time, however, it is expensive—and getting more so. Long nurtured through the munificence of state and federal governments, private philanthropy, and grateful alumni, colleges and universities are beginning to find that these resources have limits.

The nation's colleges and universities had combined incomes of almost \$40 billion in the 1975–76 academic year, up from about \$13 billion a decade earlier. (College and university enrollments almost doubled during the same period, climbing from 5.9 million to 11.1 million students.) When the “foregone income” of college students is added in, according to economist Howard Bowen, the grand total of all “costs of college” was actually around \$85 billion—almost as much as we pay for national defense.

Curiously, while Americans muster these vast sums year after year, they pay little heed to a fundamental, underlying question: Who *should* pay for higher education? That is, is it a public or a private good? Should it be financed primarily by the entire populace via the tax system, or by students and their families via tuition?

We are far closer to an answer with respect to elementary and secondary education, where the public schools are universal, wholly supported through tax revenues, and therefore “free.” Private schools remain an option; but if they were suddenly to disappear, the American commitment to free public elementary and secondary education would remain. Over the past century it has become an established right.

Not so higher education, where financing is mired in a swamp of unresolved disputes and half-perceived responsibilities. Unlike the situation in France, say, where a centralized Ministry of Education dictates national policy on everything from admissions to curriculum, in America the creation, gov-

ernance, and financing of colleges and universities remains where the Tenth Amendment left it: in state and private hands. Each state operates its own network of public colleges and universities. In some states, admission to many of these institutions is selective, not universal. In most jurisdictions, the student must pay part of his tuition costs, not to mention room and board.

Besides state schools, there are, of course, the private campuses supported primarily by tuition, philanthropy, and miscellaneous federal grants and contracts. Because they receive little, if any, state money, it now costs a student an average of \$2,000 more per year to attend a private college (\$5,110) than to attend its public counterpart (\$3,000).

The federal government has never assumed *any* overall responsibility for education per se, nor for the support of schools and colleges as institutions. Yet today Washington directs billions of dollars into the higher education enterprise through hundreds of program or agency channels, many of them roundabout and some of them fairly well concealed. Though the portion of university budgets supplied directly by Washington has eroded in recent years, in fiscal 1978 the federal government nevertheless pumped about \$14.3 billion into activities related to higher education (including scientific research).

The principal means of federal support (more than half the total) for higher education is student aid, which generally flows from Washington to individual recipients. It is snagged by colleges and universities only to the degree that they manage to enroll federally aided students. (This is a far cry from the direct "institutional aid" for which the schools have long been clamoring.) Federal help to students comes in protean forms—grants, loans, subsidized jobs. With rare exceptions, these programs have one of three purposes: assistance for needy or otherwise "disadvantaged" students; aid to those pursuing certain careers (such as nursing) or academic specialties (such as specific foreign languages); and stipends for persons who fall into other categories of government responsibility (ex-GIs, for example).

A second, more direct source of federal support for higher education is actual payments to colleges and universities—about \$4.7 billion in 1978, most of it earmarked for particular programs, studies, and research projects that may be ancillary to student instruction. Sixty percent of these direct payments pay for scientific research and development, which is heavily concentrated in relatively few institutions.\*

\*Of the nation's 3,000 colleges and universities, only one in five received *any* R & D money from Washington in 1975. The top 100 accounted for 85 percent of the total, ranging from \$5.4 million at Florida State to \$68.7 million at M.I.T.

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A third significant (though less visible) source of federal funds consists of "tax expenditures"—money that individuals can keep and use for higher education because the Internal Revenue Service, honoring various exemptions, does not collect it. There are deductions for charitable contributions to higher education, for example. Scholarships and fellowships are not taxable. Most parents may take a tax deduction for children in college.\* These and other provisions will account for roughly \$2.1 billion in uncollected federal revenues in 1978.

What matters most in bringing federal money into campus coffers is what *kind* of college it happens to be. A school can increase its dollar yield from Washington by deliberately changing certain of its own features and practices. Some changes (such as admitting more federally aided students) are easier to make than others (such as adding a medical school to a small liberal arts college). But all such maneuvers—and most universities have high-powered "development" officers to think them up—carry the risk of allowing the autonomy of the academic community to be compromised by the regulations that seem to be attached to every federal dollar.

It is not surprising—and it may often be socially beneficial—that universities are willing to take such chances. Virtually every one of the programs funneling cash into the colleges was designed by Congress to accomplish a specific national purpose such as equal opportunity, vocational training, or scientific research. The money thus serves as a lure. Former Yale President Kingman Brewster has called this practice the "now that I have bought the button, I have a right to design the coat" approach by Washington to its own largesse. Perhaps more accurate is the Senegalese saying that a man with his hand in your pocket must move with you. So long as higher education remains an instrument rather than an object of federal policy,

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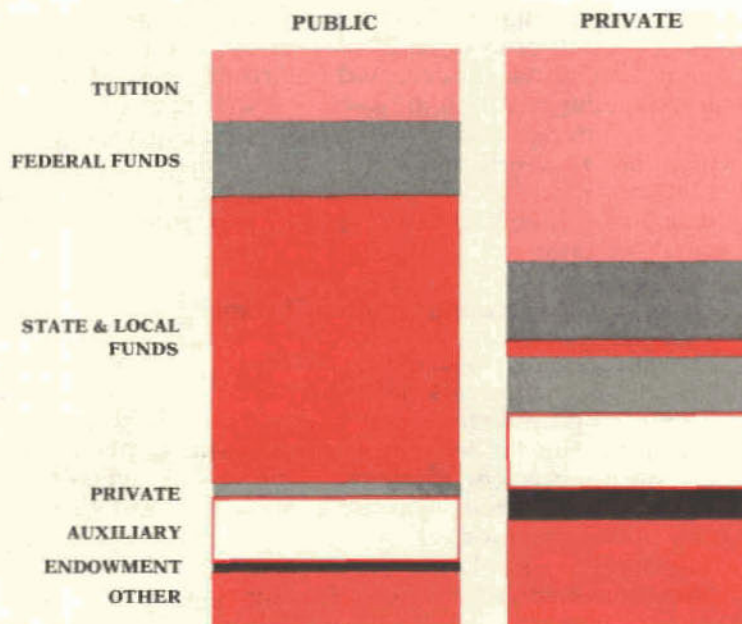
\*In June 1978 the House of Representatives passed a bill to provide a new tax credit for college (and private school) tuitions. Its fate at this writing is uncertain.

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### SOURCES OF REVENUE FOR COLLEGES AND UNIVERSITIES

Sources of income vary greatly for public and private schools. Overall, the percentage of revenues obtained from tuition, endowment, and state governments has increased since the early 1970's; the federal share has declined. Costs include pay for 1 million "professional" employees, up from 700,000 in 1967. Teachers' median 1976 salary: \$16,313.



Source: National Center for Education Statistics. 1976 data.

Washington will continue to demand a payback of some sort from institutions that seek its money. Often, this payback comes in the form of decreased "sovereignty." It is illuminating to watch erstwhile "statist" academics suddenly discover that Jefferson may have been right after all about the limits of government. "The published *mea culpas* of prominent liberals," Stanford University Vice President Robert Rosenzweig recently observed, "have developed into a tidy cottage industry."

The states have a completely different role in financing higher education. They are more concerned with education per se, and they also make a sharper distinction between public and private institutions, providing very little support for the latter. For their public colleges and universities, however, the states

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provide sizable subsidies. Together with local governments (which ordinarily help foot the bills for community colleges), they supply, on average, half the total current revenues of these campuses. In the past decade, higher education's share of total annual state budgets has risen by an average of 85 percent.\*

State governments almost always cut up the educational pie on the basis of the number of students the public colleges enroll. But now that the number of college-aged youths is declining—it will drop some 25 percent by 1990 before it picks up again—the system has created unfortunate incentives. It is already impelling rival public campuses to compete fiercely for students; to lure applicants away from more expensive private institutions; to duplicate the academic offerings of other schools; and to downplay—even scuttle—whole programs and departments that lack “student appeal,” regardless of their intellectual importance.

### **The Implications of Decline**

The enrollment imperative also forces administrators of public colleges and universities to keep tuitions as low as possible, usually by pushing the state's per-student subsidy as high as possible. It also means being less than enthusiastic about proposals to steer more federal money into private schools. This public-private internecine warfare is one of the most visible imbroglios in academia today.

The implications of declining enrollments for the financing of higher education are profound. There is no reason to suppose that society will agree to consign a mounting percentage of its wealth to an enterprise serving a dwindling percentage of its people. Indeed, economist David W. Breneman predicts that outlays for higher education, which accounted for 3.4 percent of the federal budget in 1976, will slip to 2.4 percent by 1983.

This “retrenchment”—as academics persist in calling it—will have diverse consequences. Some economically shaky institutions are likely to go under. But it would be a mistake to gauge the health of higher education by noting whether every college in existence in 1978 is still a going concern in 1990. As with any dynamic industry, higher education is marked by bold starts and occasional tragic endings. But it is significant that the number of colleges and universities still continues to rise, if at a slower pace than during the giddy 1960s, when a new college or

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\*The several states differ markedly in their generosity. In 1973–74, state and local outlays per full-time student in public colleges and universities ranged from \$871 in Oklahoma to \$3,087 in Alaska.

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university was opened about once a week. Even the beleaguered private sector, after a slight dip in the early 1970s, has resumed its upward climb in numbers.

Some new campuses are unconventional institutions—such as the “proprietary” or profit-making trade schools—that look more like industrial parks than like the stereotypical liberal arts college with ivy-covered Georgian buildings. Yet as the liberal arts baccalaureate brings dwindling economic rewards—the inexorable result of our success in awarding it to so many more people—it will not be surprising if more and more students seek educational experiences of a different order, be it job-oriented training or, as David Riesman observes, the spiritual succor of fundamentalist theology.

Insofar as it turns to government for relief, higher education will probably be disappointed. State legislators show scant inclination to change their historic pattern of support for public but not private campuses. As for Washington, there seems little prospect of unrestricted “institutional aid.” Federal research programs and other forms of “categorical” funding will continue and probably grow. But they do little to support the central academic activities of colleges and universities.

These are familiar concerns that now appear more alarming because higher education no longer enjoys (as it once did) the full support of national economic growth and prosperity. Still, there is no need for gloom or despair. For all its rigidities and idiosyncracies, the American higher education system is surprisingly resilient. Despite the frequent jeremiads issued by campus publicists, the crises of the past 200 years have always faded away; and the system as a whole has emerged stronger from each new storm. Analysts looking back two decades hence may well wonder what all the fuss was about.

