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Funding Higher Education: Preventing the Marginalization of Students in an Under-Funded and Extremely Competitive World

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Higher education in the 21st century is a necessary step in the steepening staircase to a decent middle-class existence. Globalization fueled by the proliferation of instant communication and innumerable other technological advances has created a world in which competition is no longer face to face, but spans continents in search of the most suitable individual. Without the opportunity to attend college, American youth would be swiftly marginalized in the modern economic system with little opportunity for advancement. American students with sufficient merit deserve the ability to gain a college education regardless of socioeconomic status. Student financial support wanes in an increasingly market-based system of higher education with an escalating enrollment demand. Consequently, debt weighs heavily on a significant proportion of graduates at a time when economic security is hard to come by.

In order to minimize harmful debt in the future and compensate for the exclusionary privatization taking place in the system of higher education, the federal government has the burden of providing assistance to move education into the realm of merit goods. State governments, even when considered collectively, do not have the capacity, scope, or motivation to efficiently bolster the system of higher education. State funding will waver with economic stress as balanced budget restrictions tailor spending. Federal investment in higher education in the form of targeted grants exempting needy first and second year students from tuition payments guarantees a globally competitive education for a greater number of American citizens. Such investment would alleviate economic stress on a significant number of lower and middle-class families with college-age students in a short time frame, effectively stimulating the shaky economy by putting money into the pockets of those hardest hit by the current recession. It would also allow for market forces to take effect and wean the system of higher education from absolute dependence on state funding, a process which would ultimately allow students to see beyond the penumbra of economic stress.

Privatization has become a popular trend in the last few decades as America embraced a rightward shift toward "less government provision of social services (like public higher education)" (Wolff 2007). Privatization emerges naturally as a market solution in the wake of funding cuts and provides a means for institutional survival by inflating tuition to balance the supply of and demand for education. The shift toward privatization comes at a time when the majority of college students attend public, not private institutions. America has not been alone in this process, for there is a "growing dissatisfaction in many countries with the rigidities and inefficiencies of the public sector generally, and a corresponding drift toward the market solutions...including privatization, deregulation, and decentralization of functions still considered 'public'" (Johnstone 1998). Streamlining of the public sector was further accomplished through the economic policies of Ronald Regan at the onset of a rightward shift and conservative awakening in the late 20th century. Although public universities do have the ability to thrive in an increasingly market-based system, students with limited resources may be marginalized in such a competitive environment.

Alongside and contributing to the assimilation of colleges and universities into the free-market economy lies the ever-increasing dependence on families instead of taxpayers to finance higher education. Since the cost of post-secondary education relative to the consumer price index is on the rise and has been since the late 1970s, debt has become an essential part of the college experience for many Americans.

> In the 1980s and 1990s, without any explicit policy decision, the nation drifted into a policy of heavy reliance on student debt financing of college, implicitly treating higher education as a private benefit for which recipients should shoulder even larger shares of the costs. An economy that demands more and better educated citizens operates at cross purposes with public policies that make access more difficult and more expensive. (Richardson *et al.* 1998)

The excerpt highlights the absurdity of Government consideration of higher education as a consumer good similar to any other at a time when young adults are experiencing more pressure than ever to become educated and present themselves as competitive players in the global job market. How can higher education be considered an entirely private good when the nation as a whole stands to benefit from a greater number of young adults pursuing the challenge of additional schooling? "We are on a collision course in which a historic demand for higher education—which has now become an embedded expectation for half the population—confronts a rapidly escalating rationing of enrollment by cost. Social tensions and rising resentment and anger are sure to follow" (Wolff 2007). The economic recession only exacerbates the situation. How Americans deal with such a predicament will dictate the extent to which future citizens will have an opportunity to attain higher education.

In order to confront the issues that arise from higher education as a competitive private good it is useful to consider the reasoning behind its development as such:

> The consumers of higher education are reasonably well informed and the providers are often ill informed--conditions which are ideal for market forces to operate. This market orientation has lead to elements of the reform agenda such as tuition, which shifts some of the higher education

> cost burden from taxpayers to parents and students, who are the ultimate beneficiaries of higher education, more nearly full cost fees for institutionally-provided room and board, and more nearly market rates of interest on student loans, all of which rely upon market choices to signal worth and true trade-offs. (Johnstone 1998)

The above argument is rather convincing in light of the negative consequences related to implementation. It considers the success of the system of higher education in terms of straightforward economic cost-benefit analysis. The students pay for an education with which they will potentially reap benefit. Such a reliance on tuition creates a system in which school administrators are held more accountable to the students they serve instead of an ill-informed taxpaying body. "The shift to reliance, even only in part, on tuition—and assuming financial assistance to maintain accessibility—shifts substantial influence from the faculty and the ministry to the student and family" (Johnstone 1998). If students and families are paying more for their education, students would experience greater pressure to take higher education seriously and succeed. Higher tuition creates an accessibility issue which cannot be solved by market forces.

Unfortunately, the logical arguments above only scratch the surface of the economic dilemma involved. Higher education cannot be considered strictly in terms of the cost to students and the benefit they incur. Students individually benefit from higher education, but the society they reside in benefits from having a larger educated population as well. The effect of educated people on society has interested theorists for centuries. Political philosopher John Stuart Mill hinted in his book *Utilitarianism* (1863) that he supported legislation granting university graduates extra voting power because they have a better idea of the right path for society. Although Mill held rather extreme views which would be immediately marginalized under the equal protection clause of the Fourteenth Amendment to the United States Constitution, his reasoning realistically implies that society will experience a boost in human capital as more college graduates become active citizens. Since society derives benefit from the interplay between institutions of higher education and students, it must be considered as an element of the economic tradeoff taking place. The result of the triangular relationship between the student, the institution, and society can be explained in economic terms as a positive externality. Externalities "exist when transactions between consumers and producers have an effect on third parties not accounted for by the market" (Baum 1995). Such conditions signal a lack of perfect competition and in this case would cause higher education to be under-consumed unless students or the system were supported by a third party such as the federal government. Without such support market failure looms as inefficiencies overtake productivity.

Increased accountability to students as consumers mentioned above is a common anti-elitist argument for a market system, and a logical one at that. It is important to realize that the privatization of the system of higher education is not a horrible turn of events, but simply an unavoidable change which when accompanied by sufficient Government consideration and support, has the ability to create positive outcomes.

Finally, to address the theory that when students pay more for education they have a greater motivation to succeed, one must consider where the majority of student tuition money originates: in the form of debt and parental support. Although some students are lucky enough to land a job which allows them to pay their way through college without financing or parental assistance, such cases are not exceedingly common. Considering students without survival experience in the working world, it seems evident a difference in tuition cost incurred by parents or lenders to be repaid years down the road (or potentially not at all) would not significantly influence motivation. Instead, students could be motivated by recognizing education as a merit-good and providing assistance to those individuals who display a promising capacity to learn. Thus students have the opportunity to work toward a tangible goal throughout secondary education in addition to general completion.

The tendency for institutes of higher education to embrace market solutions to a lack of funding is completely natural. Through such privatization, higher education becomes less dependent on economic irregularities surfacing as a reduction in state funding. Privatization also potentially excludes many lower and middle-class students. Relative tuition costs are rising while an economic downturn makes it difficult for states and the federal government to support public institutions of higher education to the degree that they could in the past without a change in tactics.

Along with the negative results of treating higher education as a consumer good comes the stark reality that such a shift in policy is not likely to change immediately. Free markets contain powerful forces which are difficult to combat in a globally dependent environment. The most concerned citizens and prospective students can do is embrace the positive effects of privatization and hope for an attitude adjustment from the Government leading to substantial student compensation.

Such a change must originate from the realization that higher education must be considered a merit good.

> It is not "fair" that bright and motivated students should be unable to further their education simply because their families cannot afford to pay. This suggests that we think of higher education as a merit good -- one to which all members of society should have access. The definition of merit good is dependent on social and historical circumstances and may be controversial. But economic reality and the current structure of the labor market make it difficult to argue that access to higher education should not be a merit good in our society. Average monthly income for college graduates is almost twice that for high school graduates, and the gap is growing. The unemployment rate of college graduates is about half that of the total labor force. Denying access to higher education is tantamount to denying access to economic success. (Baum 1995)

It is imperative that higher education is made available to individuals who display a propensity to succeed. Such motivation can only be gauged by performance within the secondary education system and standardized tests, an imperfect litmus at best. It is essential that such an argument is not misconstrued as promoting higher education for all as a necessity. Such an egalitarian interpretation is exceedingly controversial. If higher education was provided across-the-board, it would lose the credibility that makes it a ticket to economic opportunity.

Students in the 21st century are in the midst of a transformation taking place within the educational system. Each year more graduating high school students make the decision to continue their academic career through higher education. As of 2002, 63 percent of high school students went to college immediately after graduation, up from 52 percent in 1970 (Henry 2002). According to the US Department of Labor, in 2007 the percentage had risen to 67.2. Such trends signify not only that more students want to attend college, but more importantly that a greater number of high school graduates feel they have the ability to finance their education. To prevent rising tuition costs from deterring future attendance in the midst of an economic crisis, intervention is necessary at some level. America cannot afford to sacrifice higher education at the hands of recession.

The increasing percentage of college graduates leading up to the current economic crisis has changed the nature of the work world. As children in each generation accomplish higher levels of education than their parents, the rarity of attaining bachelors degree has all-but vanished. In the 21st century, college is the new high school: a mere check mark on the war path to gainful employment. Today it matters less that American students best their fellow citizens in terms of achievement in education and more that Americans are able to attain educations in numbers which will allow the nation to hold its own in a competitive global environment.

States have attempted to pass legislation providing students with two years of higher education without the burden of debt. Generally, such bills have failed. The state of Washington considered Senate Bill 6394 in the Washington Senate briefly in early 2008. The bill was sponsored by Senator Paull Shin and proposed "Exempting certain first and second-year students from tuition and fees at institutions of higher education" (SB 6394: 2008). Any student who registered with a Washington public university or community college eight months prior to enrollment and maintained "satisfactory academic progress" would have been eligible for such tuition exemption. The bill was too egalitarian in that it called for unnecessary expenditures on students with sufficient resources to cover the costs of education. The federal government already considers students for assistance based on their family's financial situation, and there is no reason to avoid such analysis at the state level. The bill failed because the cost of such exemptions would constitute an enormous percentage of the Washington budget at a time when legislators are already looking to cut costs. Most states do not generally have the budget provisions or national perspective necessary to provide effective relief to students involved in higher education. Support for students must be aimed at those in need and originate at the federal level where it constitutes a much smaller percentage of the budget.

"Less than 1 percent of the federal budget is devoted to higher education" (Baum 1995), a disturbing figure considering the consequences of leaving the system at the mercy of the markets. By implementing a targeted federal assistance program for the first two years of higher education while expanding debt financing options available for students, the federal government would be investing in the future of the United States of America. "If students who have the potential to increase significantly their productivity by furthering their education are not given the opportunity to do so, society will possess less human capital and fewer productive resources than it could. There will be a smaller pie for all of us to divide" (Baum 1995). It is essential that the federal government step in and aid students and their families in the pursuit of higher education at a time when it might seem wise to cut funding.

In a time of economic crisis it is attractive decrease spending in any way possible without sacrificing societal infrastructure including K-12 education and public services. For states, such a decrease in spending is a necessity. Balanced budgets are required as "most state constitutions prevent state governments from running deficits in their general operating budgets, but the nature and scope of these limits varies widely across states. Only one state, Vermont, has no balanced budget requirement" (Porterba 1995). Under such constraints and in light of the recession states must make cuts in order to balance the decreased revenues associated with a slowing economy. Since a large portion of the funding for institutions of higher education comes from state budgets and post-secondary education is rightly considered less essential than K-12 schooling and public services, colleges and universities lose funding forcing them to increase tuition or reduce budgets. Such an effect is unavoidable and not only represents the gravity of the current economic situation, but that the economic downturn has the potential to compound the effects on tuition created by increased privatization. The resulting tuition spike could be devastating to students and their families.

The federal government does not require a balanced budget. In fact, federal spending as economic stimulus has proved effective in several historical situations. Franklin Delano Roosevelt created the New Deal to combat the Great Depression. His programs increased federal spending and created a multitude of agencies and administrations to regulate and assist the ailing economy. His Public Works Administration used government money to finance the construction and maintenance of various utilities and parks which employed thousands of struggling citizens. All New Deal spending was essentially funded by debt, although the debt increased little under FDR due to his controversial slash of veteran's pensions. The New Deal was moderately effective in alleviating economic stress through government spending, but it was not until World War II that economic stimulus through debt-spending elevated the American economy, in light of astronomical debt, to a new high.

Since incurring debt is generally seen as an unfavorable yet unavoidable corollary of economic stimulus, the government must choose how it will distribute funds wisely. Most states fund public institutions of higher education receive state funding for operations in general. For example, Western Washington University projects it will claim 54 percent of its revenue ($127.8 million) from the State of Washington. The vast majority of the funds are allocated for general operations, although some may only be used for specific purposes (Western Washington University 2008-2009). Western Washington University is fairly typical considering other mid-sized public institutions throughout the country. Although a complete lack of state funding would obviously cripple a public university, the budget cuts proposed in the state of Washington are substantial enough to seriously impact university operations. Washington State is planning to cut $600 million in funding, which constitutes approximately 20 percent of state-provided funds for each institution. Essentially, the proposed measures will amount to at least 10 percent cuts to the budgets of public universities at a time when enrollments are reaching record levels (Perry 2008). Tuition will increase to compensate for revenue lost, thus dangerously increasing the burden on low and middle-class families already strained by economic hardship.

Instead of inefficiently injecting funding into state governments to cover the necessary budget cuts, a process which resembles a bailout at the state level, the federal government has the opportunity to effect positive economic and social change by expanding the framework of its existing loan programs to provide grants for needy students covering the first two years of their higher education. An example of such a program on a much smaller scale was the Promise Scholarship in Washington State. The Promise Scholarship was created in 1999 to decrease debt, assist lower to middle-class families in providing higher education, and generally lessen the income barrier for students who display a propensity for learning. Gary Locke, the governor of Washington from 1997-2005, was the prime advocate of the program.

> [Locke] believes family income should not be an obstacle to college. In 1999, the Washington's Promise Scholarship program was established to make the dream of a college education a reality for academically successful high school students. As a result, academic merit, not just financial need, is the leading criteria in a major state financial aid program...Washington's Promise Scholarships help alleviate the debt burden for middle-income families and make college more affordable for lower-income families by supplementing other financial-aid awards. (Promise Scholarship Archive 2004)

Locke is one of the few politicians who realized that support for higher education can and should be merit-based. Benefits of the Scholarship, which notably was discontinued June 30, 2006 due to a lack of state funding, included a significant reduction in borrowing by families of student recipients. Those families borrowed 30 percent less than comparable families of students who did not receive the scholarship. Another important benefit of merit-based assistance lies in the motivation some students derive from the knowledge that they are working toward a specific goal, in this case securing a place in the top 15 percent of their high school class. "71 percent of students said that the availability of the scholarship caused them to work harder academically in high school, and 59 percent of high school counselors and administrators agreed"

(Washington Promise Scholarship Publication 2003). The Washington Promise Scholarship is a perfect starting point for the federal government as it has been tested and has exceeded expectations at the state level.

Grants comparable to funding provided by the Washington Promise Scholarship will necessarily be merit-based not only because of the motivational benefits, but also in order to keep the scope of the federal program within realistic limits. By targeting only those in need cost is minimized and benefit is maximized. States which otherwise could develop a greater dependency on federal funds through blanket provisions must still make cuts, and institutions of higher education must streamline their operations in order to minimize deterrence on the basis of tuition price and embrace competition between institutions. Such competition promotes the efficiency and innovation that is inherent to modern capitalism.

Universities are already considering how they can become more appealing to prospective students comparatively. "'Because of the economy, we think we're more of an affordable option,' said James E. Blake, the executive vice president for finance and administration at Southern Connecticut State University. 'The trick is going to be to see if we have the resources to actually meet that demand'" (Levin Becker 2008). Southern Connecticut State, like many other universities, must present itself as an attractive alternative. Such perspective in the higher education system is not completely unappealing as it can potentially push institutions to become more responsive to student needs. Negative results arise when universities decide to cut costs and attempt to operate at a level which is detrimental to students. If tuition must be raised to maintain a decent standard, so be it. That is why it is necessary for the federal government to alleviate the stress which will be will unavoidably be felt by students from lower to middle-class families.

The privatization of higher education is difficult to avoid and remedy, especially when economic conditions are less-than perfect. Student assistance is the best path to take as it spreads the burden throughout the taxpaying nation and assures equal opportunity across states. The federal government can hope to recover expenditures on student assistance through an increase in the taxpaying base, a reduction in un-employment, increased spending, and general economic well-being. Higher education is the most forward-looking manifestation of economic stimulus. In light of the fact that some of the results will not be visible for years, the federal government can rest easy knowing they supported the position of America as a competitive global power in the coming generations and gave Americans the opportunity to fulfill their full potential. Higher education is the passport to a productive and enlightened future. Without it, nations and individuals alike will fail to meet future economic goals.

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