Is Higher Education Too Important to Fail?

By Dan Lundquist

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"Is Higher Education Too Important to Fail" was delivered on March 13, 2018, at the Saratoga Springs Torch Club, where he serves as vice-president.

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Education—learning—has always existed and always will. It is "evergreen." The institutions that *provide* education are another matter, however. No human invention endures unchanged forever. Churches are closing at a record pace. Threatened potable water supplies, Federal deficit spending, and the impact of (and non-reaction to) climate change remind us of the fallibility of human leadership writ large.

Education, and its disorganized delivery system (or "non-system" as the former chancellor of SUNY tagged it), *is* too important to fail—more important than buggy whips, eight-track cassettes, Pan Am, Kodak, or Lehman Brothers. But does that undeniable importance make current institutions invulnerable?

The entire, very diverse higher education sector in the United States is in high-visibility trouble, assailed by a dizzying number and variety of threats. Addressing the how-to-adapt issues, though, seems stalled at the starting gate. Ways and means, funding in particular, are lost in a briar patch somewhere. Single-agenda advocates—parent groups, teacher unions, school boards, and governing boards—drown each other out while the incoming student population grows more diverse and needier all the time.

The one thing everyone agrees on is how important education is. But unlike most other pillars of American society, in higher education the can is not kicked down the road…*it is kicked in continuous circles*, to everyone's detriment.

Nostalgia for "purposeful inefficiency"

Classicist Christina Elliott Sorum was a lifelong champion for and ardent supporter of higher education, the liberal arts in particular. I knew her for fifteen years and we worked together as deans for the last few years of her life. Writing in the Winter 1999 *Daedalus*, Christie talked about what she waggishly called "the purposeful inefficiency" of that special and classically American institution, the residential liberal arts college.

We all loved Christie (in 2005 the American Council of Learned Societies dedicated a special selection of essays on higher education's challenges and opportunities in her memory) for her intellect, compassion,

boundless energy, and mischievous wit. A thoroughly modern woman, Christie's influences stretched back to ancient times and her mentors were rooted in the nineteenth century.

The champion of "purposeful inefficiency" died unexpectedly in 2005, three years before global economic crisis would force acknowledgment of many new and unexpected "difficult questions." But some had seen this coming for a long time. To meet the challenges and create new opportunities, American higher education in the twenty-first century needs a combination of legacy and vision, leadership guided by experience and focused on a sustainable new model. In the intervening dozen years, we have seen the challenges expand to affect all sectors, from small private liberal arts colleges to two- and four-year publics. The for-profit proprietary schools have been hit hard too.

In 1974, an Amherst College economics professor, the late James R. Nelson, flatly asserted that any business that continuously let its costs and prices increase would someday cease. A student asked him, "So you're saying the American car manufacturers will someday collapse?" The professor's reply was "Yes, and so will banks and American higher education…*and they should*!"

Nelson presaged the calamity of the financial and automobile industries, and his insight may prove equally applicable to education. The frequency of appearance and intensity of tone of news reports examining higher education costs and value strongly suggests Nelson is closer to being right than many would ever have believed in 1974, or even on most campuses in 2019. We know the "value proposition" of higher education still trumps its alternative, but skepticism seems to be eroding the gap and fueling cries for reform.

Some are asking, is it right to charge all the market can bear?

What other industry or sector (that has survived) would sit back and wait to let consumer market or central regulatory forces determine their fate?

College and Chrysler: Liberal arts and tail fins?

Many chafe at comparisons between dot.coms and dot.edus. But many compare admissions recruiters to used car salesmen, and some use the metaphor to make important marketing points. One astute college president has been on the stump urging compatriots to "create value, find effective ways to articulate it, and deliver those messages to the appropriate audiences" so they will see the value *and be willing to pay for* a private college education. Recently that same president said, "We are like a BMW – a very good expensive car—we need people to want to buy that car!"

There is good news and bad news for, in this case especially, most of private higher education. The good news is that many families *do* very much want to "buy": they are sold on the value of the degree-as-credential, if less certain about the value of the actual experience.

The growing bad news is research shows they (1) cannot afford to pay now, (2) are increasingly unwilling to pay later (through debt), and (3) are unwilling to pay at the level colleges and universities are expecting (unless their child is truly exceptional and has the opportunity to attend an exceptionally prestigious college).

Careful what you wish, plan, and work for, all you colleges. Ironically, your sales messaging has been sufficiently effective that, when combined with parents' hopes for their children, it adds fuel to the backlash of frustration growing daily. If post-secondary is as indispensable as a medicine, some (including some of the people running for president) are asking, is it right to charge all the market can bear?

The Situation Today

College spending and their price tags continue to increase, fueling anxiety at large.

A review of public data shows the effect of what I call "deterrent pricing": price tags go up while revenue goes down because more

discount is used as an enrollment incentive and fewer even apply, scared away by sticker prices and having little-to-no understanding of net price (actual cost to them). Five sobering trends merit particular mention.

The first is price/revenue disconnect. In the past ten years, the "sticker price" of private non-profit four-year colleges and universities has increased by 19% while revenue from tuition and fees has dropped 13%.

At the same time, we see revenue/expenditure disconnect. The most prestigious universities spend between 31% (Harvard) and 213% (Chicago) *more* on student instruction than their students pay.

Third, to add to the urgency of the enrollment issue, there are fewer college-ready students from families who are able or willing to pay; the "supply chain" of high school graduates is weakening. Reports from secondary schools and the Census Bureau confirm there will soon be fewer 18-year-olds. Even in regions where the numbers are larger, such as the west and south, fewer of these 18-year-olds will have parents who are college grads, and many of them are under-prepared (as the growth in college remediation budgets attests); both parental educational level and readiness for college-level work are significant factors in predicting college success and completion. The well-publicized increase in college closures in the Northeast is stark evidence of this trend.

Fourth, even though affluent families see the value of a college degree, they hedge more, negotiating for merit scholarships. Research (including testimony from parents and guidance counselors) shows they will "settle" for a second-choice college if it saves them money. Recent headline-grabbing pay-to-play admission scandals aside, for most value increasingly trumps prestige.

Finally, consider the success a number of lower price public universities have had offering all students in-state tuition. SUNY's new "Free Tuition" program—just by virtue of sheer public relations value—is eroding higher-price-tag privates' enrollment *even though some privates actually cost less after financial aid*. At the same time, the public sector struggles with government cutbacks, as the recent declaration of financial exigency in Alaska starkly illustrates.

The Impact on Colleges: Moody's and S&P produce a cavalcade of Negative Outlook forecasts

The news from the annual *Survey of College and University Admissions Directors* (conducted by *Inside Higher Ed*) is ominous. 61% of colleges didn't meet admissions goals by May 1 (up slightly from 60% a year ago). 71% of private bachelor's institutions didn't meet goals by May 1 (up from 59% a year ago). And 32% of all institutions—in violation of NACAC's principles of good practice—reported recruiting students after May 1 who committed to other institutions (up from 29% last year).

Why the price pushback? Why is behavior changing?

Relative to a "market basket" of major goods/services—and income—college price is an outlier. Between 2000 and 2012, while family income stagnated, health care costs rose by 21%, which seemed shocking, but higher education price tags went up *sixty-one per cent*. When today's parents attended college, it typically cost 10% of their family's income; today it is nearing a third. It just *feels* out of line to parents…and it may be. Though we have an almost religious reverence for higher education, we deny consumer-intuitive behavior at our peril.

Moody's has noticed, as the *Chronicle of Higher Education* reported:

> The prospects for higher education are bleak, according to Moody's Investors Service, a credit-rating agency that on Tuesday changed its outlook for the sector from "stable" to "negative."
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> In a report, the agency cited financial strains at both public and private four-year institutions, mainly muted growth in tuition revenue. But it also cited "uncertainty at the federal level over potential policy changes." (Harris, "Moody's")

Standard & Poor's has noticed as well:

> Higher education will face many of the same challenges

> in 2018 that it has in previous years, but additional state and federal pressures suggest a bleak outlook for the sector this year, according to the ratings agency Standard and Poor's.
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> "S&P Global Ratings believes institutions with limited flexibility, whether that be in programming, financial operations, enrollment, resources, or student draw, could face credit pressure in the upcoming year," analysts for the ratings agency wrote in a report issued on Tuesday. (Harris, "Outlook")

All the evidence says colleges and universities, with the exception of the richest and strongest schools, are facing a crisis "hidden in plain sight," one we thought we had reasonably anticipated and reasonably-well positioned our institutions for "sustainability." Across the affluence spectrum, ability and willingness to pay is decreasing. We are even seeing the "affluence paradox": as ability to pay *increases*, willingness to pay *decreases*. More and more students are going to their "second choice" colleges because of cost, a trend also seen overall in charitable giving in America as wealthier cohorts give less than their poorer counterparts.

If the more-affluent current parents are balking at paying today's costs, what will the next generation of parents—the first American generation predicted to be less well off than their parents—do? The next cohort of less-affluent parents will have an even more difficult time paying *even if college prices freeze today*. Yet they continue to rise.

What are higher education leaders thinking?

Here are selected takeaways from the annual *Inside Higher Ed*/ Gallup polls, which include two- and four-year public and private institutions.

Surveys of college and university CFOs reveal that just over one in four business officers (27%) strongly agree they are confident about the sustainability of their institution's financial model over the next five years. Fewer (13%) strongly agree their model is sustainable over 10 years.

In the survey of college and university presidents, 70% of presidents said their institutions would face budget shortfalls and increased competition for students this year, in a climate of cutbacks of state and federal aid. But fewer than 30% said they expected to take the sort of strong actions—cutting administrative positions, freezing salaries, changing faculty roles or teaching loads—that would suggest deep concern, let alone panic, about their institutions' financial futures. Nearly two-thirds of presidents are confident about the sustainability of their institution's financial model over the next five years, but that proportion falls to half when the question is about the next ten years.

In its report of November 6, 2014, the Association of Governing Boards (a college trustees' trade group) noted that inattentive college and university governing boards are putting American higher education at risk. The higher education environment is rapidly changing, yet boards function as they have for decades *and even then disagree with or misunderstand what they ought to be doing*. "If there's an underlying theme to the report it was that in some ways the business model of higher education is breaking."

Besides the repeated warning calls from independent rating agencies like S&P and Moody's, what has happened in the years since AGB issued their "insider alert"?

What are higher education leaders doing?

When I speak to higher education leadership groups—boards and presidents, and senior officers—the common reactions include "it won't happen here," "we've heard this all before," or "times are challenging but we are doing well." Then I ask, "why *won't* it happen to your institution?" and "what are you *doing* to plan for future challenges?" Usually the reply is, "well, we have small classes, stress undergraduate research, are introducing globalism and career prep in the curriculum," etc. Hardly distinctive sustainability tactics that shore up a differentiating value proposition.

Are these institutions doing any special strategic planning? No, for they (1) are too busy in general, or (2) are already working

on an accreditation review (*not the same thing*), or 3) have a strategic plan in-progress (usually one re-stating time honored pillars and lacking any perhaps unsavory but necessary Plan B).

When I politely suggest using reality rather than aspiration as a starting point for planning, I receive mildly disdainful "that's unambitious!" looks. Acknowledging the difficulty of being brand-champions and cheerleaders while also being hard-eyed pragmatists into the bargain, I remind people there is always more room to maneuver today than next year. I also recognize the constraints of shared governance yet try to appeal to the leader-stewardship ethic by querying, "but are we really hostages to collegiality?" Survival of the institution may mean some people will lose their jobs, and that is hard to contemplate; it means pitting the institution's interests against those of some of our colleagues. One unusually candid college president said, "self-surgery hurts too much." But I, for one, would rather have change be driven by insiders, vested "owner operators," rather than external political, economic, or market forces.

Solutions Will Require Courageous Conversations and Disruptive Leadership

Recognizing that every institution is different, I would like to offer suggestions I believe colleges must examine to remain vibrant, effective, and solvent as we proceed through the 21st Century.

Distinctiveness. Distinctiveness means not only having special value that is relevant to your target audience, but having it "pushed out" to them in ways that catch their attention, "stick," and resonate. Prospective students are mobile and have many options, while most colleges have a zip code and fairly fixed curricula. Your demographic has to want, understand, and be shown a connection to what you offer, and it is the college's responsibility to "own" that process.

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Operations. 85% see serious sustainability challenges yet less than a third are doing anything about this (per a KPMG report). Schools need to be willing to examine, affirm or change their business models (cost overhead, mergers, etc.), prioritize what is important, cost it out, match that against realistic revenue, draw a line, and eliminate below-the-line. Sacred cows (tenure, limits on course loads, health care, TIAA, academic and extracurricular programs, etc.) will threaten us. Expensive new priorities, such as LSU spending $28 million on a football "operations facility" while facing a $700 million backlog in deferred maintenance, including a "decrepit" library, may have to wait.

Over the past thirty years, spending on administration has ballooned nationally, going from $13 billion in 1981 to $122 billion in 2015 (cost of instruction is still the largest expense and it grew as well, but was outpaced by the rate of growth in administrative spending).

Collaboration. Call it getting rid of silos or creating synergy, but whatever you call it, insist on on-going efforts that balance efficiency while sticking to mission. Colleges and universities must promote culture change that insists on big picture collaboration and does not tolerate turf protection.

There are no silver bullets. Each campus culture and college market position is unique, requiring custom intelligence and insight garnered from their experience. Who better than non-partisan peers to bring data and insist that acknowledging reality is not a lowering of ambitions? There will be winners and losers in the years ahead, and the "winners" will be those who proactively adapted—not panicked or capitulated—early. The AGB report should be heeded: there is always more room to strategically maneuver now than later. Education is forever, and some classic core content is, too. But much is changing, as are delivery systems and pedagogies.

Conclusion

Five-and-a-half years ago the prescient Tom Friedman wrote:

> We are leaving an era of some 50 years duration in which to be a president, a governor, a mayor *or a college president* was, on balance, to give things away to people; and we are entering an era – no one knows for how long – in which to be a president, a governor, a mayor *or a college president* will be, on balance, to take things away from people. [my emphasis]

The environment in which we operate has changed for everything, at all levels of importance. For higher education leaders to continue to act as if their institutions are sacrosanct is a dereliction of duty. Change and adaptation are usually difficult, and the unique culture of higher education makes leading change tougher, and that challenge is made even more complex by the distribution of institutional and academic agency within our institutions. Consensus-based decision making and strategic planning combined with piecemeal strategies have yielded a status quo that, it is abundantly clear, must be interrupted.

The choice is to lead or to be driven by external forces (the economy, regulation, government funding, and consumer preference), *to own disruption* or be *compelled by it*.

Higher education is too important to fail—but it will *change*, as have other important legacy pillars like hospitals, arts organizations, financial institutions, the auto industry…and even churches.

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Upcoming Club Events

CENTRAL PA

October: The Ups & Downs of Suspension Bridges & the Highs & Lows of their Builders - *Harry West*
November: Soils: Why are they important to you, your community & the world? - *Gary Petersen*
December: Renewable Energy - *John Golbeck*

DURHAM-CHAPEL HILL, NC

October 16: Duke Chapel - *Lois Oliver*
November 20: Environmental Risk Assessment - *George Woodall*
December 18: US Health Care System - *Randy Madry*

ERIE, PA

October 2: The Black Forest in Germany - *lrene Fiala, PhD*
November 6: History of the Womens Club of Erie and the Women Behind It - *Melinda Myer*
December 4: Christmas - Poland and Erie - *Regina Jaworski*

FOX VALLEY, WI

October 10: Electric Cars... Really? - *Eric Hanson*
November 14: TBD - *Kris Stahl*

HAGERSTOWN, MD

October 15: Einstein's Theories of Relativity - *Bill Soulis*
November 19: Black and Blue: United States Colored Troops from Washington County - *Jack Ebersole*

MONTGOMERY COUNTY, VA

October 8: Is there Truth in History? - *Skip Jubb*
November 12: What Charles Dickens Gave us Besides Scrooge - *Lou Talbut*
December 10: It's Beginning to Sound a Lot Like Christmas - *David Hudgins*

ST. CATHARINES, ON

October 10: Buffalo Torch Club Guest
November 13: Not Just Tourists - *Denise and Dr. Ken Taylor*
December 12: Speaking on a Musical Theme - *Shelley Griffin*

Please check with individual clubs to confirm these dates.

(Clubs: Be seen here! Send your dates, or the link to your schedule online, to info@torch.org.)