Reimagining the Public University

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In recent years, public universities have faced a troubling question: Can they remain financially solvent while serving their own residents at the low tuition rates that were common several decades ago? In other words, can they have their cake and eat it too? A recent survey of flagship state universities conducted by the Washington Post concludes that the answer is probably no.

Among the 50 state universities surveyed, 44 have experienced a decrease in their percentage of in-state students in the past decade. Just 51% of the students at the University of Michigan in fall 2016 were actually Michigan residents, down 13 percentage points from 10 years before. With the continuing decline in legislative appropriations for higher education, public universities are trying to fill the gap by recruiting higher-paying out-of-state students.

This is part of a frantic effort by public universities around the country to sustain a financial model they inherited from the 1950s and 1960s. That model relied upon generous state appropriations to subsidize low-cost tuition for qualified state residents, while allowing a minority of out-of-state students to matriculate at inflated rates. It was common across the country for state governments to provide well over half of university budgets through annual legislative appropriations, with the remainder covered by tuition, gifts, and various grants.

At that time, few private institutions could match the range of research programs offered at flagship state institutions, particularly in costly fields like engineering and the sciences. Out-of-state students

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willing to pay premium tuition widely pursued admission to these schools. With enrollments in excess of 25,000 and in some cases 40,000, these universities dwarfed private schools in scale but offered a great deal of educational “bang for the buck.” Public institutions such as the University of California, the University of Michigan, and the University of Wisconsin held their own against competition from Harvard, Yale, Princeton, Stanford, and other elite private institutions. Flagship universities in Illinois, Minnesota, North Carolina, and Virginia also earned high rankings. Degrees from those schools were judged as equivalent or even superior to degrees from the top private universities.

It is clear in retrospect that the early post-war decades represented the heyday of public higher education in the United States. During this period, flagship universities had few rivals for state funds and, with their alumni well-represented in the legislatures and the “baby boom” generation headed off to college, they were well-positioned to demand a rising share of state budgets. Across the nation, nearly 20% of state budgets flowed into public universities at a time when state-funded pensions, health care, and K-12 education were relatively inexpensive. The post-war political environment favored generous investments in elite public educational institutions, which encouraged an increased share of 18-year-olds to enroll in state schools and attracted some of the most able young Americans to college teaching.

That model has gradually come apart. New realities of state budgeting, combined with demographic changes, the growing costs of higher education, and the increasing demand for college and university services in a high-tech economy, have made mid-century funding levels unsustainable. Public universities have also invested heavily in brick-and-mortar infrastructure for decades — investments that are increasingly less valuable as the shift toward online education continues apace.

In order to flourish, public universities will need to acknowledge the new educational landscape and initiate bold reforms. They can do this by, among other things, appealing to demographics beyond the 18-year-old cohort they have traditionally recruited and by restructuring some of the administrative and academic models that have developed since the 1950s. State schools must also let go of certain long-held habits and notions about the role of public universities.
As recently as 1987, the state of California provided roughly 50% of the total budgets for the University of California's Berkeley and Los Angeles campuses; by 2012, the proportions at both institutions were down to 22%. In 1987, the University of Virginia received 37% of its budget from the state; in 2012, that figure had fallen to 14%. A similar pattern exists in states around the country. The gradual withdrawal of public support from flagship universities has sent academic leaders frantically searching for funds via higher tuition for state residents, recruitment of foreign and out-of-state students, government contracts, and private donations.

The collapse of the old model is also taking a toll on the quality of education offered at these schools. Public institutions are losing top faculty to wealthy private colleges and universities that can afford to pay higher salaries, while the best high-school graduates pursue admission to private schools at the expense of public institutions.

By and large, top private colleges and universities have surpassed public institutions in academic and research quality. For example, only one public university was listed among the top 20 schools in the 2020 rankings of major academic institutions by U.S. News & World Report, and just six public universities are ranked among the top 30 institutions in the nation. These public institutions are outranked not only by traditionally elite private schools like Harvard, Princeton, and Yale, but also by institutions such as Vanderbilt, Northwestern, and Duke, which have surged into the top tier of American research universities in recent decades. This reversal in fortunes between the nation’s public and private institutions was never anticipated during the higher-education boom of the 1950s and 1960s, and is only now being recognized as a national problem in need of dramatic and creative solutions.

So what happened over the last four or five decades to reverse the momentum in higher education from public to private institutions? The answer lies in a fairly straightforward mix of political and financial factors that have squeezed public institutions while leaving private institutions free to exploit new developments in the American political economy (such as the stock-market boom of recent decades).

State universities rely upon two main revenue sources to finance undergraduate education—state appropriations and student tuition. It was not uncommon during the ’50s and ’60s for state appropriations to
cover up to 80% of the costs of flagship universities, with the bulk of the remaining funds coming from tuition (which was heavily subsidized for in-state students). Today, after decades of attrition, state appropriations cover on average only about 30% of those costs. In some cases, as at the University of Michigan and the University of Virginia, state appropriations cover less than 15% of total costs, to the point where it may no longer make sense to describe these as public institutions.

Some have attributed this shift to nefarious motives on the part of legislators bent on cutting higher-education budgets. A recent article by the Atlantic’s senior editor, Ronald Brownstein, suggests that institutional racism may be to blame, noting that the increase in racial minorities attending public colleges has correlated with higher tuition: “This historic shift away from tax dollars funding the bulk of public higher education comes precisely as the nation’s youth population is... more racially diverse than ever.” The real explanation, though, is not so simple or so malevolent. Declining state appropriations are due to at least three major trends that cannot be easily reversed.

First, and perhaps most important, states are faced with increased budgetary pressures. Since the heyday of public universities in the 1950s and ’60s, state governments have taken on more fiscal responsibilities, squeezing the funds available for higher education. Today, states must finance the rising costs of Medicaid, welfare, K-12 education, and public-employee pension funds, all of which are protected by powerful advocacy and voting groups. A study by the American Academy of Arts and Sciences found that, due to mandatory spending programs and other pressures, states are often forced to make painful cuts elsewhere. As a result, “Between 2008 and 2013, states cut appropriation support per FTE [Full Time Equivalent] student in the median public research university by more than 26 percent.”

According to research published by Douglas Webber in Education Next, “state and local public-welfare spending is easily the dominant factor driving budget decisions, with a $1 increase [in] per capita spending associated with a $2.44 decrease in per-student higher education funding—enough to explain the entire average national decline.” In other words, public higher education has suffered from “crowding out,” as new items backed by powerful interest groups vie for limited state funds.

In response to these cuts, public universities have increased tuition on average by some 37% since 2008. Several states, including Alabama, Arizona, California, Colorado, Georgia, and Hawaii, have increased
rates by over 60%; Louisiana more than doubled its price tag. Tuition now provides nearly half of all revenues for public institutions across the country, up from around 35% in 2008 and 25% in 1989. This suggests that the increases reflect a long-term trend in the financing of public education, rather than a short-term response to the Great Recession of 2008.

As the U.S. economy has recovered in recent years, some states have begun to increase appropriations for higher education, albeit at modest levels of less than 5% per year. According to a survey released earlier this year by the Illinois State University’s Center for the Study of Education Policy and the State Higher Education Executive Officers Association, state funding for public higher education across the country increased by 1.6% for the last fiscal year — the lowest level of growth in five years. Despite this modest growth in appropriations, state funding for public universities in real terms remains well below its 2008 level, even as student enrollments have increased. James Palmer, the survey’s editor, explained that this “is the consequence of many factors, including political decisions to decrease or not raise taxes, downturns in certain sectors that state economies rely upon, or the need to direct tax revenue to address underfunded pension obligations.”

Second, student loans have played a role in altering public-university budgets. While the rise in tuition rates has begun to slow a bit from its rapid rise in the ’90s and early 2000s, student borrowing has continued apace. A 2014 report from the Cleveland Federal Reserve Bank began by listing three salient facts: “Total student loan debt outstanding has quadrupled since 2003. Student debt now exceeds all other forms of consumer debt—even credit cards. Student debt has the highest delinquency rate of any consumer loan category.” State colleges and universities have been counting not only on real tuition dollars, but on federally subsidized debt for some time now. These figures suggest that even if state appropriations had remained constant, these institutions would still have sought more funds to meet their ever-expanding budgets in a bid to remain competitive with private universities.

Third, relationships between school administrators and state legislatures appear to have shifted in recent years. Mitch Daniels, the president of Purdue University and former governor of Indiana, argues that many universities complaining about budget cuts are partly responsible for their poor financial situation, noting that some schools “have stockpiled dollars and the legislatures figured that out.”
While there are sometimes good reasons to save for a rainy day, Daniels, who has been on both sides of the negotiating table, notes that legislatures will often decline budget requests if schools don’t really seem to need the money. And if state legislatures take a skeptical attitude toward university administrators’ requests for more funds, the administrators often shoulder some of the blame. “Schools have not conducted themselves in a way that inspires confidence,” says Daniels, citing as an example the University of Missouri’s recent decline in enrollment following the administration’s questionable conduct during campus protests in 2015.

According to the Center on Budget and Policy Priorities, states reduced spending on public higher education by 16% between the 2008 recession and 2017. But these national averages mask some real differences among states. Arizona, for instance, cut its higher-education budget by 54% between 2008 and 2017. Indiana managed to slightly increase its spending during that time, by 0.2% per student. Daniels explained that his state has been fortunate, and that “in some other states, you’d think it was a misprint how much their higher education budget has been cut.” Not all public universities are equal, and the relationships between individual schools and state legislatures can matter a great deal.

THE EVOLVING COLLEGE REALITY

Beyond budgetary battles, state schools must also contend with changing demographics and the new demands on higher education that come along with a high-tech economy. As Michael Crow, president of Arizona State University, put it, public colleges “have inherited a public social infrastructure investment system that is completely inadequate.”

In the early 20th century, local governments began to pay for K-12 education, but no one considered it a scandal if a quarter of the students dropped out before graduation—not everyone needed a high-school education. It was assumed that only about 5% of high-school graduates would move ahead to college or university. At that level of demand, state governments had little trouble funding public higher education. The costs were not prohibitive; just a few public institutions operated in each state, and most had modest enrollments. There were also fewer competitors for state funds.

Since then, the number of students who feel they must receive advanced education has risen exponentially. These feelings are justified: According to Crow, at least 90% of American students must graduate from high school, and more than 60% will need to attain some degree
or certificate after that, in order for the United States to remain competitive. For example, 70% of Koreans aged 25 to 34 have a college degree, compared to 49% of Americans in that age group.

Yet while this drive toward increasing educational achievement may seem like a positive trend, many aspiring college students do not fit the traditional mold of an 18-year-old seeking a four-year residential experience. And that population of traditional students is actually shrinking; as Mitch Daniels noted, “We’re not making enough babies.” This has put many schools in a bit of a fix, as colleges and universities expanded for years to accommodate greater numbers of such students following the baby-boom era.

There are other forces reshaping the student body too. As Thomas Lindsay, the director of the Center for Innovation in Education at the Texas Public Policy Foundation, notes, “The new majority of college students are over 25, working full time with a family of their own to support.” Only around 20% of college students are in the 18-22 age group and enrolled in a four-year program. The remaining 80% of students need different kinds of institutional support; currently, around 36 million Americans have spent some time in college but left without attaining a degree. Daniels has argued that these less conventional students present an “opportunity and a duty” for public universities who wish to both provide a service and remain competitive.

Arizona State University has attempted to rise to this challenge. Among other innovations aimed at helping unconventional students, ASU launched a partnership with Starbucks in 2014 to offer free tuition to employees who work an average of at least 20 hours a week; around 2,000 employees in the program have received degrees so far.

Another way to respond to decreasing numbers of traditional four-year students is to offer more flexible, online education options. According to Lindsay, taking classes online and working toward some competency-based degree is the new “ticket to the American dream.” Online courses can also reduce costs for public universities, though most have only just begun to realize those gains. For long-established brick-and-mortar schools, it may not seem like enough to make up for immediate budget shortfalls.

To do so, universities have opted to raise tuition. But residents understandably object to subsidizing a university through tax dollars while also being charged high tuition. That is the higher-education dilemma in a nutshell: Colleges are losing state appropriations but cannot increase tuition
sufficiently to make up for the losses. In some cases, the same legislatures that cut appropriations have also mandated ceilings on tuition increases.

States have also taken to admitting more out-of-state or foreign students, who can be charged much higher tuition. That may help in the short run, though education officials have faced backlash from state residents complaining that these students are taking slots that should be reserved for in-state students. Moreover, this is often a devil's bargain for public institutions, since the bells and whistles that schools need to attract such students—lavish dormitories, upscale cafeterias, top-of-the-line recreation facilities—are usually costly. If non-resident students are going to receive tuition bills comparable to those at highly ranked private institutions, they are bound to ask for corresponding amenities.

At the same time, state universities are providing reduced tuition for some outstanding non-resident students in order to improve the overall reputation of their institutions. While it cuts into revenues, school officials hope that it will enable them to recruit good faculty, attract more research grants and philanthropic donations, and garner more applications from high-performing out-of-state students willing to pay full tuition. It is a gamble with unclear odds of success.

Other schools are increasingly relying on private philanthropy, which Mitch Daniels has argued is a poor long-term solution since “much of the money that is raised goes either for a donor’s particular interest—which is often not at the top of a university’s priority list—or to brand new initiatives.” Such donations “don’t do anything to reduce the current cost structure.”

And even if a school can persuade philanthropists to give large donations, and professors can be pushed to increase revenues through research grants or partnerships, the inflow of funds available through these avenues will not be large enough to make a dent in the institutional bottom line. Moreover, it is not uncommon to hear some faculty and administrators complain that universities chasing these dollars are making schools ever more like businesses, or that “corporatizing” higher education compromises academic freedom. In spring 2018, for example, the Montana State University faculty voted to turn down $5.7 million from the Charles Koch Foundation, a decision made on the basis of political and ideological considerations. Given the changing look and feel of higher education, public universities must find new solutions to their financial problems.
So what are university administrators to do? Some are hoping for tax increases to augment the flow of funds into their institutions, though they realize that those additional funds are likely to be gobbled up by other state priorities. This strategy may be doomed from the start. As Richard Vedder of the Center for College Affordability and Productivity notes, state and local tax rates have remained steady over time, with the average right around 10% of income: “We are remarkably close to the biblical concept of a tithe. That’s what people will tolerate. Anytime it nudges up too far above that, you get a revolt.”

Reduced tuition for in-state residents has long been a middle-class entitlement taken for granted by taxpayers and hopeful students. Yet it is also a lottery of sorts since most residents—even those with children—will never be able to take advantage of it. Their children may not go to college, or they may not be admitted to a competitive state university—especially one focused on recruiting out-of-state students. As this reality sinks in, fewer members of the middle class will vote to send their tax dollars to these institutions.

There are a few steps that state governments and public universities can take to address these challenges. First, it would help if state legislatures cut governmental strings and let schools experiment with new models of delivery to compensate for reduced appropriations. Arizona State University, for example, has successfully launched online education systems, restructured departments, and implemented other innovations to assist working students.

In 2019, ASU’s Tempe campus was ranked the most innovative school in the country by U.S. News & World Report—ahead of MIT and Stanford—for the fifth straight year in part because of its dedication to encouraging unconventional students to get ahead and allowing all students to customize their education. For example, students can choose between 7.5-week or 15-week semesters. Qualified Uber drivers are offered a pathway to a fully funded college degree through ASU’s online system. ASU president Michael Crow explained that the university’s “willingness to try new ideas is not a casual thing, but something intentionally built into the fabric of the institution.”

Schools can also slash administrative costs, as Daniels has done at Purdue, without diminishing the quality of academic instruction.
According to a joint analysis by the American Institutes for Research and the New England Center of Investigative Reporting, administration has been the fastest-growing item in college and university budgets, having increased by more than 50% between 1987 and 2011. Andrew Gillen, a senior researcher at the Institutes, reported “a mind-boggling amount of money per student that’s being spent on administration.”

Though some college presidents have vowed to cut costs, many policy experts doubt their sincerity. According to Vedder, “They’ll say, ‘We’re making moves to cut costs,’ and mention something about energy-efficient lightbulbs, and ignore the new assistant to the assistant to the associate vice provost they just hired.” If universities are serious about cutting costs, they can start with their bloated administrations.

Similarly, it is past time to start cutting some academic departments. The proliferation of new areas of study—particularly in the humanities and the social sciences—has contributed to excess administration, courses with low enrollments, and many undergraduate and doctoral degrees that offer little value after graduation. Since 2009, Arizona State University has shuttered dozens of departments, combining some into larger disciplines.

Reformers also frequently stress the importance of getting students in and out of college more quickly. The Texas Public Policy Foundation, for example, has championed the $10,000 bachelor’s degree, in which general education requirements can be completed online and students can get credits for achieving competency rather than just completing the target amount of “seat time.”

Getting students through college in three years has also been a major goal for Daniels at Purdue. So far, about 5% of students are enrolled in such abbreviated programs, which can save money for both students and universities. Daniels has called the four-year degree “an American idiosyncrasy.” Under his leadership, Purdue is seeking to incentivize summer study to speed things up; after all, he notes, “very few businesses shut down for 22% of the year.” Michael Crow, too, has argued that his university’s goal should be “to move students through as quickly as possible.”

Last, universities can adapt their academic calendars to the changing needs of today’s students by experimenting with longer semesters, shorter vacations, and classes that are held on more than four days out of the week and at a wider range of times. And if students are going to stay for four years, they should be able to get a second degree—in a foreign
language, for instance. Many motivated students have also taken advantage of the proliferation of honors colleges at public universities, which are not terribly expensive to operate but provide a level of education on par with those of elite private schools.

**REFORMING FOR THE FUTURE**

As valuable as these reforms are, however, they will not be enough to entirely curtail the financial pressures on public universities. There is simply too much higher-education infrastructure in some states, often as a result of political decisions rather than educational ones. Vedder notes that Detroit alone has five different public colleges and could save some money by merging institutions. Daniels has consolidated two local campuses, giving them one administration—“one chancellor, one provost, one admissions office.”

Something even more radical may be warranted. If states still want to incentivize students to go to college, they might consider offering vouchers, such as those provided by the G.I. bill, in which higher-education funds would be sent directly to deserving students rather than to public institutions. The vouchers could even be means-tested, since wealthier students already have the resources to attend college. Vouchers could be limited to in-state universities, or states could arrange among themselves whether to accept one another’s vouchers. Vedder suggests developing interstate compacts so that states with smaller populations and larger education infrastructures can enroll more students from states with bigger populations and smaller infrastructures.

Vedder has also suggested that state universities—particularly elite ones—could consider privatizing. The state of Pennsylvania already has different categories of public support for schools—Pennsylvania State University, for instance, is categorized as a “state-related” university, along with Temple University and the University of Pittsburgh. This means it is neither a public nor private institution, unlike the 14 state-owned higher-education schools in Pennsylvania. While all state-owned schools have the same in-state tuition costs, Penn State merely receives an annual appropriation and can set its own tuition and fees. Whereas in 1970 the government funded 62% of the budget, it now supplies only 14%. By privatizing schools that receive low levels of support from the government and sending higher-education dollars directly to students, states could potentially re-invigorate their higher-education institutions.
If flagship institutions were privatized, there would certainly be less pressure on them to offer admission to in-state students, a potential drawback. But if students were given a voucher to attend, they would have the power to choose from a variety of public or private institutions in the state. Michael Crow has asked the Arizona legislature to consider this model, which would make ASU more like a charter school and less like a state agency.

Vedder has also argued that, because the boards of public colleges are comprised of political appointees, schools often suffer. Many board members have little idea how to run a university, and their terms are often so short that by the time they understand the basics they are out of office. At the University of Michigan, it is arguably even worse, as the board is elected by popular vote. According to Vedder, “voters don’t know who they’re voting for. You get nincompoops.” Privatizing universities could assist in this matter, as experienced university leadership would have greater leeway in determining the structure of university boards. And better boards matter, as most Americans still want college educations for their children and would be drawn to schools that show themselves to be good stewards of tuition dollars.

For all their flaws, flagship public institutions in the post-war era have provided hundreds of thousands of working- and middle-class Americans with an affordable avenue of upward mobility. The top 20 public universities still enroll more than three times as many students as the 20 most prestigious private institutions, and in-state tuition and fees at those institutions ($13,500 on average in the 2019-2020 school year) remain more affordable for middle-class families than those at the leading private institutions ($55,500 on average).

The great state universities are not going to disappear, and many will maintain a standard of excellence, but in an age of inefficient governments trying to do all things for all people, they will not have the money to compete as they once did with high-performing private institutions. The financial model built in the post-war years is no longer sustainable under present circumstances. Academic leaders have tried to circumvent this reality by raising tuition, recruiting out-of-state students, and employing other short-term fixes that fail to address the fundamental problems at hand. It is time they adapt their practices to a new and, in some ways, fundamentally different education marketplace.