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Foreword

Critical Issues in Higher Education Finance and Policy: Historical, Social, and Institutional Perspectives

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This special issue of *Educational Considerations* is focused on higher education, with particular emphasis on finance and policy issues. In 1996 the 17th Annual Yearbook of the American Education Finance Association entitled, *A Struggle to Survive: Funding Education in the Next Century* focused on the critical issues in funding for higher education and offered strategies for change in the next century (Honeyman, Wattenbarger, & Westbrook, 1996). We are now several years into the next century and survival is still a serious issue for many higher education institutions, both public and private. Public higher education institutions are now state assisted, rather than state supported. At many institutions student fees often account for a nearly equal or higher percentage of revenue than state sources. For example, at Purdue University the Fiscal Year 2003 general fund budget summary shows that for the first time in the history of the university, the percentage of revenue from student fees (47.6%) outpaced the percentage of revenue from state appropriations (44.5%) (Purdue University, 2002). Given the current economic climate, this type of scenario tends to be the rule rather than the exception at state institutions. Private institutions are also suffering as their endowment values have plummeted, and their reliance on those funds for institutional support has lessened. It is within this context of financial uncertainty that the theme for this special issue was selected. This special issue presents a collection of five articles that give the reader a broad view of the historical, social, and institutional perspectives that influence higher education finance and policy decisions. The next section provides a brief summary of the articles and their relevance to higher education practitioners and scholars.

Overview of Articles

In the first article, *Challenges Confronting Small, Private Liberal Arts Colleges: The Historical Context*, Stephen P. Wanger provides a brief history of higher education, beginning with the founding of Harvard in 1636 through post World War II. He then discusses the impact of issues, such as the expanding federal role in higher education, diminishing state support, shifting student demands, and unfunded student aid. The article concludes with a synopsis of administrative responses to those challenges. Wanger analyzes the recommendations of presidents, administrators, and higher education experts to counter or adapt to the challenges and concludes that they may be summarized by implementation of two key proposals: adoption of common business practices; and engagement of strong leaders. This article provides the background and historical context for the articles that follow. Higher education practitioners and scholars can gain great insight into the critical issues that confront higher education in the 21st century by understanding its historical roots of American higher education and being cognizant of potential responses to the present day challenges they confront.

David W. Leslie's article, *Renewing Higher Education's Social Contracts: Transparency out of Chaos,* (supported by the National Center for Postsecondary Improvement under the Educational Research and Development Center program) makes two key points: (a) The social contract under which higher education operates is sufficiently complex that understanding how it performs will require a broadly inferential strategy; and (b) this strategy can probably begin by making far better use of existing data than is now made. He puts the social contract between higher education and society into perspective and then discusses the competing missions between "reputation-seeking" and "prestige-seeking" activities. He then points out that the problem is not so much in identifying elements of higher education's mission, or in identifying the public's expectation, but is rather in how these mutual expectations are managed and how public accountability occurs. Since states and institutions vary in how they manage these expectations, Leslie contends that "inferring anything about a 'social contract' clearly must be just that — an inference." In order to accomplish this, he suggests assessing data and information that are available, and then determining how it might help in understanding and interpreting the social contract. This article assists the reader in understanding the social contract between higher education and society and provides concrete suggestions on how to inferentially evaluate the social contract. As Leslie states, "if we can find a way to disaggregate first and simplify second, perhaps the complexity of the picture will be easier to absorb and understand — by both researchers and the attentive publics to whom we speak."

In contrast to the first two articles that are historical and conceptual in nature, the next three articles are quantitative research studies. First, *The Influence of Aid and Income on Persistence at a Small Private College*, authored by Charles N. Landreth and Robert O. Riggs, examines student financial aid practices of one institution. Specifically, they examine the influence of income and gift aid on persistence to graduation at a selective, private, coeducational liberal arts college. When the government excluded home equity from aid calculations, institutions were forced to modify their financial aid policies to maintain enrollment goals while reducing the cost of aid. As a result, many institutions sought to recruit a higher percentage of full-paying students so that they could keep their keep their financial aid budgets from escalating out of control. The purpose of Landreth and Rigg's study was to gain insight into the retention implications that emerge from aid practices. They found that recruitment of high income, high ability students, although fiscally desirable, can have a negative impact on an institution's retention and recruitment goals. Colleges and universities, regardless of size and type, need to recognize the consequences of their financial aid practices and acknowledge their impact on student retention and recruitment. This article is an important contribution to the field in that it shows how an

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institution's financial aid policy impacts student success as well as its ability to attract new students. Although a private liberal arts college was the subject of the study, the findings are significant and should be communicated to all types of institutions. In difficult financial times, higher education administrators need to be aware of the consequences of their financial aid policies on their "customers."

Another quantitative perspective on higher education finance is found in the article by Michael Stump, *Long-Term Debt at Public Four-Year Colleges and Universities*, where he explores the relationships among long-term debt, current fund revenues, and endowment value. He uses the Integrated Postsecondary Education Data System [IPEDS] data files, developed and maintained by the United States Department of Education's National Center for Education Statistics [NCES] for his analysis of fiscal years 1992-1997. As Stump points out, "debt involves an ethical dimension, which includes decisions about policy and institutional values." His study provides a model for debt analysis by determining what relationships exist among current fund revenues and expenditures, long-term debt, and endowment value. His model has great value to higher education administrators and policy makers as they evaluate their long-term debt strategies and policies, especially in times of economic uncertainty.

The last article in this collection, *College and University Long-Term Financing in Context: Implications for Institutional Strategy*, by James A. Schultz, discusses findings from an analysis of institutional data from the 1990s on relationships between long-term debt and other key variables. Like Stump, his data source was the IPEDS data files, but for fiscal years 1988-1989 through 1995-1996. He then considers the implications of these findings for institutional management of long-term debt during the first decade of the 21st century. Long-term financing is an important tool for institutional strategic planning and financial support; therefore, those with responsibility for these functions at all levels and types of institutions can benefit from an understanding of the issues and consequences associated with incurring long-term debt.

Conclusion

Institutions of higher education approached the 21st century with great anticipation of better financial times; in 2002 however, many are still struggling to survive. State revenue shortfalls as a result of the recession have translated into decreased state support for higher education. The consequence at many public institutions is financial crisis. Most have been forced to raise tuition and look for other sources of revenue, usually from private sources. Some institutions are incurring greater long-term debt to pay for needed expenditures. Many private institutions are also in financial straits with their endowment incomes reflecting the stock market's reaction to the recession. Hence, both public and private institutions need to be cognizant of both the conceptual underpinning of the issues and alternative finance and policy strategies. During these difficult times an awareness and understanding of critical issues can provide guidance to researchers, as well as provide useful background information and suggestions to those that are in the trenches. Higher education is confronted with a multitude of finance and policy issues, making it impossible to address all of them in one venue. However, the collection of in this issue of *Educational Considerations* should provide the practitioner and scholar with a new perspective of the historical, social and institutional context of some of the critical issues in higher education finance and policy.

I offer my personal thank you to the authors that contributed to this special issue. Your research and perspectives are a valuable contribution to the field. As the critical issues unfold and new ones emerge, the dialogue and analysis must follow. Let it now begin…

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