



Global Issues in Higher Education

What American Colleges Should Know

With the economic return to college reaching the highest levels in decades, it is no surprise that individuals and nations are looking to increase their investments in higher education. Skills developed at the postsecondary level are even more important in the new economy than the old, and all indications are that the economic payoff of higher education is likely to remain very high in the foreseeable future. A number of countries have undertaken substantive reforms of their higher education systems in recent years. Michael McPherson and Morton Owen Schapiro, presidents of

Macalester College and Williams College, respectively, and co-chairs of our Ford Policy Forum, note that although most countries appear to emulate the United States as they engage in higher education expansion and reform, we in the United States could learn a great deal from examining the experiences of other countries.

The U.S. Model

It is not at all surprising that other countries would be interested in modeling their higher education systems after ours. Our more than 3,400 nonprofit higher education institutions enroll around 15 million students, including more than half a million foreign nationals. The latter number makes the United States the largest net exporter of higher education services in the world. Our impressive college enrollment rate—almost two-thirds of high school completers enroll within one year of graduation—is very high by world standards. According to a study by the Organization for Economic Cooperation and Development, 33 percent of the relevant age cohort in the United States in 1999 had received bachelor's degrees versus, for example, 16 percent in Italy and Germany and 29 percent in Japan and Canada.

While the majority of students in the United States attend public colleges and universities, a signif-

icant number (slightly more than one-fifth) are enrolled in private institutions. This mixed system of private and public institutions is quite unusual by international standards, as is the contribution that private funds make to total higher education revenues. The most recent available data, from the late 1990s, show that around 35 percent of all revenues come from endowments, gifts, and tuition payments made by families. This percentage, up from less than 25 percent two decades earlier, reflects how private funds are compensating for the declining role of state funding. In 1980, states provided 45 percent of all higher education revenues (mainly in the form of state operating subsidies), a figure that has since fallen to 33 percent. The “privatization” of American higher education—although probably less prevalent than commonly believed in this country and abroad—is nonetheless vividly shown by the fact that public institutions, which used to receive almost two-thirds of their revenues from state governments, now receive only slightly more than half their revenues from state sources, while tuition has risen from only 15 percent of revenues to 25 percent. As other countries anticipate large increases in college enrollment in the years ahead, they are following the example of the United States by seeking to rely more heavily on private funds.

But the road toward privatization is not always a smooth one. The British government recently announced a proposal to nearly triple college charges, raising tuition from a maximum of \$1,780 to \$4,850. Not surprisingly, with this kind of proposed increase, the mechanism for payment would change from the current upfront method to paying after graduation. In addition, students from lower-income families could apply for grants of up to \$1,620 to assist in paying for living expenses. Having tuition cover a greater percentage of the cost of education, allowing graduates to repay educational costs after graduation, and attempting to “hold needy students harmless” from tuition increases have all been key ingredients in the financing of U.S. higher education for some time.

Japan, a country which, like the United States, has a substantial private higher education sector, has been grappling with the fact that its institutions are quite vulnerable both to the business cycle and to changes in student demand. The combination of a prolonged economic re-

cession and strikingly adverse demographic changes has led to substantial overcapacity in higher education in Japan and has pushed numerous private institutions to the brink of financial insolvency. A recent report shows that heavy losses in 2001 at roughly one out of four private Japanese universities threaten the continued existence of this once thriving sector. By all accounts, the situation deteriorated further in 2002, and no turnaround is expected in the near future. Closure of private colleges and universities is now commonplace in Japan.

These are but two of many examples of how difficult it is to replicate what we sometimes take for granted about U.S. higher education—the expectation that the burden of educational costs will be borne by a combination of federal, state, and local governments; institutions; and students and their families. On the other hand, a careful examination of U.S. higher education suggests that even our venerated system leaves a number of things to be desired.

Although enrollment rates for virtually all racial and economic groups are at or near record levels, gaps by income and by race are generally greater than they were a generation ago, as gains by students from affluent backgrounds and by whites have outstripped gains by students from low-income families and by students of color. Equally worrying, while 95 percent of upper-income high school students with test scores that place them in the top third of their peers enroll in college, the comparable percentage for top high school students who come from lower-income families is only 75 percent. Thus, one out of 20 talented and affluent high school graduates fails to pursue a higher education degree, compared with one out of four talented high school graduates from lower-income backgrounds.

Moreover, the bulge in high school graduates (the graduating class of 2008 is expected to have some 3.1 million members, matching the all-time record set in the late 1970s) in combination with a refocusing of financial aid dollars by the federal government, state governments, and private and public colleges and universities away from need-based and toward merit-based criteria, suggests that there will be an even larger number of deserving high school graduates who will fail to find a place anywhere

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within American higher education. Perhaps we in the United States can learn from other countries how to achieve greater success at making higher education an equalizing force in our society rather than yet another force contributing to stratification.

Global Perspectives

To help U.S. campus leaders and policy makers understand the changes happening in higher education around the world, we selected three outstanding scholars with vast experience in the comparative analysis of international higher education to write papers and lead the discussion for the Ford Policy Forum.

Bruce Johnstone's job was to identify the unique features of American higher education by contrasting them with what occurs in other countries. Although we have been loosely referring to our higher education "system," Johnstone points out that it is a system in name only. The absence of the kind of national ministry of education that is commonplace abroad helps to explain a degree of decentralization and autonomy that we often take for granted. The presence of an extensive private sector alongside a public one is also unusual, as is the role of private governing boards. Financial reliance on nongovernmental funds and the resulting responsiveness of our higher education institutions to the public, the peculiar degree of modularization of academic degree programs, and the separation between undergraduate and graduate training are also quite rare by international standards. Lastly, and perhaps most significantly, our preoccupation with accessibility has produced higher education opportunities that are virtually unheard of elsewhere in the world.

Alan Wagner addresses the convergence of higher education in the United States and that of other countries. He categorizes the approaches followed abroad as being "broad based," where the goals of educational institutions go beyond simply educating young adults; "innovative," where new policies regarding performance-based funding and the like differ substantially from what had been the case in the past; and "driven by sustained policy attention," where there has been a continual process of reform. There are many examples of interesting experiments in other countries, such as voucher-type funding schemes,

that could inform policy in the United States. With an increase in the number of students studying at colleges and universities outside their home countries, higher education is becoming another of the world's global industries, thereby making it more important than ever for countries to consider their higher education systems in an international context.

Barbara Sporn discusses the shift in many European nations toward a U.S. model that embraces institutional autonomy. A variety of familiar aspects of U.S. higher education have been applied across Europe to varying degrees, including a strengthening of institutional leadership, changes in governance, implementation of methods of accountability for teaching and research, professional staff development, and the like. Concentrating on one country, Austria, with particular emphasis on the Vienna University of Economics and Business Administration, Sporn evaluates specific examples of educational reform. The bottom line is that competition—a mainstay of American higher education—is being introduced abroad.

Lessons Learned

Are there easy lessons to be learned from these accounts that can make U.S. higher education stronger? We identify a few broad suggestions.

First, the decentralization of American higher education allows a healthy degree of competition that contrasts with the monopoly situation prevalent in much of the rest of the world. As other nations attempt to increase autonomy within their higher education sectors, we in the United States should be careful to protect our own institutions from attempts to stifle individual incentive, whether through legislation aimed at restricting a college's ability to shape its student body in a way that supports its institutional mission or through regulatory bodies attempting to impose a common set of evaluative measures

across diverse institutions. The key point is that monopolies often result in lower quality at higher prices. The remarkable freedom that our nation's colleges and universities enjoy helps explain why our schools tend to be so unusually innovative and responsive.

On the other hand, a negative consequence of unbridled competition can be that individual players act in a manner inconsistent with the public good. The movement away from need-based financial aid toward awarding aid based on merit is one example of how states and institutions pursuing their private interests can lead to socially undesirable outcomes. In this case, creating incentives aimed at aligning private and public goals is likely to be a much more desirable action than the introduction of direct controls.

Protecting institutional autonomy does not mean that the government should abdicate its responsibility to consider the broader goals of our nation. Doing so without undermining the freedom that our colleges and universities presently enjoy, however, requires a great deal of careful thought. As nations throughout the world attempt to imitate the United States in moving from a highly regulated higher education industry to one that is much more decentralized, the last thing we should do is make a significant move in the opposite direction.

Finally, perhaps the greatest irony in the financing of U.S. higher education is that public colleges and universities are even more vulnerable to the business cycle than are private ones. This is not to say that private colleges and universities are unaffected by a recession. Overcapacity in the private sector becomes apparent during economic downturns, as has occurred in Japan. But the heavy reliance of public institutions on state operating subsidies leaves these schools largely at the mercy of state legislators. With the recent decline in the share of state expenditures directed to higher education (and corresponding increases in the share allocated to corrections, health care, and infrastructure), a reduction in the size of the state budget proves particularly devastating to many public colleges and universities. Moreover, their natural recourse is to raise tuition by significant amounts (as in England) precisely when students and their families are least able to come up with additional money. At private institutions,

increases in financial aid often mute the full impact of tuition hikes. Needy students attending public institutions, however, are often in a more tenuous situation given that the relationship between gross tuition and need-based aid is looser at public than at private institutions. With a number of states now facing budget shortfalls not seen for decades, our impressive record of access to higher education is threatened.

Conclusion

Globalization has transformed one American industry after another. In U.S. higher education, our academic programs and our revenue streams have changed with the increase in student mobility and the freer exchange of knowledge across borders. Comparative analysis can allow us to identify best practices, reinforcing our system's strengths and avoiding the mistakes made by others. The work reported on here whets the appetite for more in-depth explorations.

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