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The Crisis of American Higher Education

by Frank H. Wu

American higher education is headed toward financial crisis. Yet disaster is not inevitable. Simply put, there are not enough students to pay the full tuition that institutions wish to charge, and schools are struggling to balance budgets. Although colleges and universities, the traditional type that are either non-profit or public, share a set of unique academic values, they are business ventures as well, facing the economic rules of supply and demand. And as enterprises, they are vulnerable.

American higher education reflects the ideals of the nation, with higher education serving as the dynamo of the dream of upward mobility. A fair interpretation of the recent past, however, signals the

loss of confidence in civic culture. More importantly, the identity of the students and the enthusiasm about the schools are related. Increasing demographic diversity has correlated to decreasing financial support, in particular at the state schools that enroll the preponderance of students. The dual narratives of access to schools for diverse populations and divestment of support by government officials explain the current mess. The goal—and struggle—for students is to improve their lot in life; for their schools, to balance the budget.

The access story is impressive, as the student body has transformed during the past half-century. Women, African Americans, immigrants, and working-class whites were kept out on a legal basis, then in turn admitted, though relegated to second-class status, before finally being accepted as equals. These changes are dramatic. The “college man”—or, for that matter, the “college woman”—is no longer rare. The proportion of the population who have completed a four-year degree has continued to grow. Now, not quite a third of people aged 25 and over hold a baccalaureate. Since the mid-1970s, or in the span of two generations, that constitutes a doubling of the percentage among whites and a tripling among blacks.[1] The overall percentage of women who possess a bachelor’s degree now has reached parity with men.[2]

Despite the polite respect for women’s colleges such as the “Seven Sisters” and their affiliations with male analogues in the Ivy League, gender discrimination prevailed until the civil rights movement of the 1960s. Harvard, founded in 1636 to train clergy (who could only be male), had allowed women in graduate programs earlier, but it began awarding degrees to Radcliffe co-eds only in 1963, combining admissions in 1975, and implementing equality in admissions two years later; Radcliffe ultimately merged into Harvard in 1999. Yale and Princeton began taking female undergraduates in 1969.

The Congressional chartering of Howard University in 1867, located in Washington, D.C., as part of Reconstruction was the most profound means to make available to African Americans the learning that had been denied them. With white faculty, it opened its doors to everyone, including a sizable Native American enrollment. Almost a century later, President Lyndon B. Johnson delivered a speech on its campus announcing the concept of “affirmative action.”[3] His metaphor was the foot race in which one of the runners has been shackled (“hobbled by chains”) even as the other contestants sped ahead. As William Bowen and Derek Bok showed in their massive study, *The Shape of the River*, these policies were effective.[4] By and large, those who were given the chance did themselves proud by it. Others groups, such as Jewish and Asian American students, faced their own struggles for acceptance, but their barriers to entrance have more recently been removed. The GI Bill expressed a commitment to higher education as a public good, ensuring military veterans (predominantly white) would be able to afford to complete degree programs.

Later, groups of students who historically had a hard time gaining acceptance into universities came into their own. The disability rights movement had a catalyst in higher education. It embraced the notion that equality called for the accommodation of difference rather than the enforcement of sameness. Gallaudet University had been chartered in 1864 to teach deaf persons using American Sign Language. The “Deaf President Now!” (“DPN!”) movement of 1988 was a week of uproar that the world heard. The successful campaign inspired activists who would proceed to win passage of the Americans with Disabilities Act in 1991. It guaranteed deaf students the interpreters they depend on at other institutions, among the many arrangements made to welcome individuals from the paraplegic to the mentally ill.

Yet the simultaneous divestment story is no less important. Public higher education has lost its primary

patron, the state, and the withdrawal of public investment has been severe. Higher education has alternately been perceived as a reward to be distributed exclusively, to those who are deserving and have sufficient wealth to bear the expense, or an opportunity to be offered openly and freely, in the spirit of democracy and to secure the national interest. These changes have correlated to attitudes about the social contract writ large. Since the “taxpayer revolt” of the 1970s, the majority has indicated that individuals ought to provide for themselves.

The University of California (UC) system is exemplary of both phases, better funded and worse. The UC system is the finest system of public higher education in America. The UCs, with the California State University (CSU) system and the state’s community colleges, were organized in 1960 through a comprehensive “master plan,” with an explicit expression of the bargain between the government and its constituents.[5]

For approximately a generation, the promise was that the state would invest in its people. Tax revenues subsidized the California schools at all levels, such that the bulk of the operating budget came from sources other than what students paid. Those who attained a higher level of education would prosper. Their human capital would enable them to be entrepreneurial and contribute back. The language was earnest and true. Residents were able to attend by paying only nominal “fees.” The amounts, well under \$1000 in the 1960s, were modest enough a student could realistically attempt to work her way through school. Only out-of-state students were asked for actual “tuition,” and even they eventually could establish themselves as residents and obtain the same deal.

The overarching goal in this heyday of the “Great Society” was to promote America in the Cold War with the Soviet Union. The “Sputnik moment” had given rise to beneficial anxiety. When the Soviet Union launched the first-ever artificial satellite, Sputnik, in 1957, the American establishment was surprised. The enemy had outclassed us with a beachball-sized device orbiting the earth at a low level. Our own space program was not ready and had to “play catch up.”

No single event before, or since, has provoked as much study of what have been dubbed “STEM” fields: science, technology, engineering, and mathematics. Suddenly equations were patriotic. The “space race,” like the corresponding “arms race,” tested democratic ideals against Communist ideology. The mandate of “big science” had been foreshadowed by the proposals put forward by Vannevar Bush.[6] After overseeing “the Manhattan Project” to develop the atomic bomb during World War II, he advocated for creation of the National Science Foundation.

Federal funding thus became the dominant model for research, prescribing new norms for scholarly endeavors. The self-funded gentleman amateur dabbling in “natural philosophy” gave way to the professional whose credentials were accumulated in a set sequence from graduate school to post-doctoral fellowship to tenure-track appointment. STEM disciplines became priorities. Peer review led to disbursement of enormous grants, and accounting protocols were put in place to administer laboratories. The work by its nature was amenable to measurements of success. The humanities, however, never received comparable public funding.

By the 1980s, even the elite institutions were forced into competing for funds and grants. Although there always had been a friendly rivalry in higher education, it could not become all that intense without an agreed-upon set of criteria for analyzing relative rank. The introduction of rankings, and the subsequent evaluation of professors and institutions, altered the incentives and influenced behavior in everything from admissions rates, faculty compensation, the value of televised athletics, and the construction of buildings. The proprietary Gorman Report, surveying the reputation of graduate programs in the 1970s, led to the popular compilation of the US News & World Report annual ratings, which came to the forefront in the 1980s. The weekly magazine came to have the commanding position

in higher education, imposing its judgment on all. The UCs, like the other top public universities, such as the University of Michigan and the University of Virginia, became caught up in the contest. They had to bid for star faculty and promising students.

Private liberal arts colleges resisted for a spell. “The Annapolis Group” pledged that they would not participate in what they regarded as nonsense. They were named for St. John’s College, the “Great Books” school with a campus in the Maryland capitol. As it became apparent that students and parents, worried about the youngsters moving back home to work as baristas with a taste for philosophy, relied on the rankings beyond all reason, almost all schools capitulated. They become conscious of their brand, promoted through marketing campaigns and displayed in “high touch” tours. Schools that are able have added amenities to attract students. A movement upward in rankings could lead to a monetary bonus for a college president as a comparable jump in stock price for her private sector counterpart; a movement downward, a dismissal.

The means by which students and their families pay for higher education became a concern following World War II. Leaders of selective private institutions, came together to address the subject in the late 1950s. They agreed to expend their financial aid resources based on need. These schools would not fight against each other to entice students based on grades and test scores. The schools, comprising eight Ivy League schools and the Massachusetts Institute of Technology (MIT) that joined the “overlap group” convenings, referring to commonly admitted students, went about their business until they were sued in 1991 by the United States Justice Department for collusion. Their discussions looked like price-fixing in violation of the Sherman Anti-Trust Act. All of them settled except MIT.[7]

They subsequently persuaded Congress that their actions served the public interest and carved out an exception to the law in 1994, section 568, to permit some fifty-seven colleges and universities to resume their conversations.[8] These schools pledged to admit students without regard for their ability to pay. The schools with the budgetary wherewithal said that they would satisfy all financial need for all admitted students. To belong to this category of schools conferred honor, as among these schools, students’ decisions of whether to enroll or where to enroll would not be determined by their or their families’ ability to pay tuition. Schools promoted themselves as “need-blind” even if they could not meet the strict guidelines of section 568.

Meanwhile, the Higher Education Act of 1965 expanded the federal role in higher education. Perhaps its most significant sections related to financial aid. The federal government disbursement of moneys necessitated bureaucracy and regulations. The “Pell grant,” named after its sponsor, U.S. Senator Claiborne Pell of Rhode Island, was allocated to students who demonstrated financial need, pursuant to a formula. The Free Application for Federal Student Aid (FAFSA) became the entry point for all forms of assistance as it standardized the process. The proportion of “Pell grant” recipients as a school became a quantification of its accessibility. A school with robust numbers is doing its part for students who do not come from privilege. Vassar College, for example, has advanced “strivers” through its largesse.

Under this regime, accreditors—non-government actors—took on a gate-keeping function, and their approval was required. A school had to be accredited for its students to be eligible for federal financial aid. Virtually all schools had to pursue the approval, because debt-financing of higher education became the rule. The mean for students graduating today is \$35,000 of loans. Students at for-profit institutions, who drop out, or who earn post-baccalaureate degrees, typically owe more than that.[9]

Consequently, the movement for accountability and transparency has led accreditors to impose metrics for “student learning outcomes” and collect data on “gainful employment.” The customary mode of

delivering information has been criticized as Luddite and not adaptive to online innovations. The next transition is toward assessing competence rather than “seat time,” sizing up skills directly instead of via a proxy.

Students are not the only ones facing potentially crippling financial debt. They might not be aware of it, but their schools, more than a trivial number, are in a precarious position too. The closure of Burlington College and the averted demise of Sweet Briar College are but the publicized examples of a widespread predicament. As pundits warn that the liberal arts verges on worthless, offering a poor “return on investment,” the colleges that have prided themselves on offering a classic curriculum struggle to make ends meet.

There is ample argument about why tuition has become hyperinflated, spiraling upward at a rate beyond overall inflation. Among the hypotheses are the diminution of state support; compliance with regulations and competition for rankings; the ready availability of student loans; executive and staff bloat and inefficiency; building sprees; and luxuries such as gourmet food.

On the revenue side of the ledger, the sources of income for a school are clear. Almost all schools are “tuition dependent,” meaning the bulk of their operating budget comes from what students pay them. The calculation is simple: the total is equal to the enrollment multiplied by the tuition, minus what is returned through financial aid. Public schools rely on a state subvention. Private schools boast endowments, in some instances substantial—for the few of superlative prominence, enough to eliminate tuition for most students. Both public and private schools hope for ongoing philanthropy, an “annual fund” to which alumni contribute, and they usually run auxiliary operations such as parking garages that may bring in a bit of cash.

The ultimate trouble for the schools is the advent of aggressive “tuition discounting.” Fewer and fewer students “pay retail.”^[10] Unlike the earlier forms of return to aid, emphasizing financial need, this “tuition discounting” is utilized to recruit desirable students or to fill what otherwise would be empty seats. But it is similar in that these sums are transferred from one student to another student. They are not derived from scholarship endowments. Although few people have noticed the phenomenon, it likely would violate the expectations of many since the money flows in a decidedly regressive manner from, on average, the needier to the wealthier.

Regardless, the net result for the school is a shortfall that is not being made up. If a deficit is run repeatedly, without adequate income from an endowment to cover it or any means of replenishment, the foreseeable result is insolvency. While some schools that have closed have reached that juncture, others have contemplated that option before the point of no return. Burlington was financially distressed, and while Sweet Briar possessed money on hand, it was expending in a predictable trajectory that would lead to nothing.

As schools have offered reductions to hit enrollment targets, they have become dependent on the practice. Since everyone engages in it, they are locked into mutual ratcheting of markdowns. Some schools now collect in the aggregate only slightly more than half of their published tuition. The National Association of College and University Business Officers (NACUBO) tracks these rates. The association has reported year upon year of unprecedented “tuition discounting.”^[11]

Law schools are an excellent case study of the phenomenon. Legal education is said to be the capstone of the liberal arts. In the past half-dozen years, law schools have come under attack in the same terms as liberal arts colleges. They have experienced the risks of a poor applicant pool, poor in the sense of size and qualifications, and resorted to the same tactics of tuition discounting, with much talk about closures and mergers. The ensuing publicity has destroyed the allure of law as leading to material reward. With a glut of graduates, schools are reeling.

Reputable studies repeat that cost-benefit analysis favors higher education. If an individual wished to be purely utilitarian, it would be a sure bet to enroll in a four-year degree program. There is considerable variation by institution and major. The hyperbole about higher education lacking value threatens everything: people hesitate as they confront uncertainty.

The dual narratives about higher education, of access and divestment, are within our control. In our lifetimes, a college degree has come what a high school diploma used to be; a graduate degree, what a baccalaureate degree once was.

If America is to continue to be a leading nation, it is in higher education that we must lead. It is possible.

Notes

[1] The Census Bureau collects this data in its Current Population Reports. See Camille L. Ryan and Kurt Bauman, "Educational Attainment in the United States: 2015 Population Characteristics (2016) for a summary; see the U.S. Census Bureau Educational Attainment tables for detailed statistics, <https://www.census.gov/hhes/socdemo/education/>.

[2] Women have exceeded men slightly, within the statistical margin of error.

[3] The text of his 1965 Commencement address is reproduced at [PBS](#) and a video recording is available at [C-SPAN](#).

[4] William G. Bowen and Derek Bok, *The Shape of the River: Long-Term Consequences of Considering Race in College and University Admissions* (Princeton Centenary ed. 2000).

[5] A digital replica of the original "master plan" document is available at the University of California archive.

[6] Vannevar Bush, *Science: The Endless Frontier* (1945).

[7] The judicial decision is *United States v. Brown University*, 805 F. Supp. 288 (E.D. Pa. 1992). A press account is Anthony DePalma, "M.I.T. Ruled Guilty in Antitrust Case," *New York Times*, Sept. 3, 1992, B10.

[8] Improving America's Schools Act of 1994, [section 568](#).

[9] Mark Kantrowitz, "Why the Student Loan Crisis Is Even Worse Than People Think," *Money*, Jan. 11, 2016.

[10] Kellie Woodhouse, "Discounting Grows Again," *Inside Higher Ed*, Aug. 25, 2015.

[11] The NACUBO study is proprietary; a summary is available [here](#). A press account is Rick Seltzer, "Discounting Hits New Highs," *Inside Higher Ed*, May 16, 2016.

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