

2nd Annual HEPI Lecture

**The Destruction of Public Higher Education in
America, and How the UK Can Avoid the Same Fate**

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Thanks very much to the Higher Education Policy Institute for inviting me tonight and thank you to all of you for attending this lecture. This is the second Higher Education Policy Institute Lecture and it is very very gratifying for me to be the second in line after Lord Dearing.

I was invited, I expect, in order to bring the average quality and standard of these lectures down to some reasonable level so that it can continue on in the future. I will be giving a talk tonight about an issue which is very near and dear and of concern to me and it is basically about Higher Education in the public sphere in the United States.

Let me just assure you that first of all I have spent half of my adult life in the public sector in the government of the United States and politics and the other half of my adult life in academe in the United States as a Professor. In government I became something of an expert in Washington politics and in academe I have inadvertently become something of an expert in academic politics. There is a difference. There is a relationship, at least in the United States, where Washington politics is shall we say “dog eat dog” and academic politics is precisely the reverse. So I do have a degree of expertise in that area but one area I do not have expertise in, where you, at least many of you, do, concerns higher education here in the United Kingdom.

Two other points of quick reassurance. First, the system of higher education in the United States is by most measures enormously successful. It is a good system right now. It is a system that attracts students, both undergraduates and graduate students from all over the world, it's a system that in terms of research facilities, capital expenditures, the quality of faculty, continues to be by many accounts the best in the world. My concern is about the direction that it is heading in, particularly the public part of that.

Eighty per cent of American students in higher education attend a public university - that is a university that is sponsored and financed, at least in part, by the state. Many of you, over here, when you think about American universities have a tendency to think about Harvard or Yale or Stanford or MIT - all wonderful universities and I've had occasion to attend them and also teach at, at least one of those prestigious

universities. But again 80% of American students and 80% - at least 80% - of the research that goes on, and the faculty appointments, are in the public sector. The public sector in the United States is still in, as I've said, a quite healthy condition. But what is being lost, and certainly is in danger of being lost, and arguably is being lost, is a public mission with regard to the higher education system in the United States both in the private and the public sector. And I will explain that point in a moment.

A final point of reassurance, at least with regard to context for this discussion, is that I understand that you are in the midst of a debate here, by many counts an historic debate, about the future of higher education here in England and the UK. I am not an expert, as I said, but from what I have seen of that debate, and I have read the proposals, I understand that the proposal is controversial but I must say to you, quite honestly, I don't understand why it is controversial. The proposal seems to me quite good, quite logical, quite reasonable and the bottom line to me is that the government - that is the nation - will be investing more in higher education. A system of zero interest loans and special accommodation made for poor families, strikes me as exactly the right direction, I wish we in the United States had a similar system. So everything I say tonight must be taken in the context of all of those points that I've just made.

Let me just begin by saying, with regard to a kind of an historic reference, before the Second World War the system of higher education in the United States was a highly elite system: it was designed for a relatively small number of people. The system was designed in part - if you believe the rhetoric surrounding it prior to the Second World War - to educate America's leaders, but again people have in mind a very small number of leaders. It was subconsciously elite: there was not much of a public system of higher education - that all came after the end of the Second World War and reached full flowering in the 1960s and early 1970s.

That public system supported largely by the state and the state university systems, not so much in the North East, mostly in the Midwest and the West, flourished, grew dramatically in the post-World War II era. There was a 10 fold increase in the number of students during the 1950s, '60s and early 1970s, a huge increase in state budgets and the federal government in the United States provided research funding and a dramatic increase through the National Science Foundation, through the

national institutes of health, through the defence advance research projects administration, through many federal agencies and also specific funding for poor students - aid in the form of what were called Pell Grants, named after Senator Claiborne Pell of Rhode Island that would pay a large portion, in fact virtually all, of the tuition of very poor students, certainly all of their tuition at public institutions and a large proportion of their tuition at private institutions.

So we had therefore in the post-World War II era in the United States two major forces at play, one at the state level in terms of expanding dramatically state funding of state universities and at the federal level, both on the research side and also with regard to helping poor students from poor families afford tuition at the state schools and to a large extent at the private schools as well. Now if you look at the statements given by public officials and by university presidents and by university executives generally in the United States during those years there is unmistakably a public mission to higher education. People talk again and again of the importance of public education for the United States as a whole, if not for the world. People talk over and over again about higher education as being a source of public benefit for the country. The talents of society needed to be mobilised for the good of society and not only in the sciences and in mathematics but also with regard to economic growth and new ideas.

Again and again we would hear the leaders of higher education talk about the public good - that democracy, American democracy, needed citizens with broad public vision. There were complex problems in the post-World War II era that needed to be addressed by people, and by citizens, who possessed a university degree or possessed access to university education.

Now obviously much of this was in the shadow of the threat of the Soviet Union. That Soviet threat reminded people, in fact inspired people, to think about higher education, certainly in science and math and in economics, as a public goal. It was impossible, it was thought, to really truly compete with the Soviet Union in science and math and other areas without a broadly educated public. A broadly educated public that had access, again, to not just kindergarten through 12th grade, primary and secondary education, but also higher education.

Now in more recent years, beginning in the 1980s, there has been a decline in the public mission of higher education in the United States. If you listen to the pronouncements of public officials, people involved in education, university presidents, university executives, people in the not-for-profit sector, when they talk about higher education there is less and less reference, fewer and fewer references made, to the public good that comes from higher education or comes from a populace a larger and larger proportion of whom have access to higher education. More and more of the rhetoric is of a different kind and I will get to that in a moment but let me first explain what is happening.

States - state governments - have sharply cut back support for public universities over the last 20 years. In each of the last four economic recessions in the United States - that is in the mid-1970s, in the early 1980s, in the early 1990s and most recently in 2000-2001 - state higher education spending per student declined markedly. And each of those recessions marked a decline that was never made up. In the last recession, the 2000-2001 recession which the nation is still just struggling to get out of, we see that states are still not repairing the damage that they have done with regard to university budgets. In fact public universities, as a result, have had to raise their tuitions dramatically. Since 1980, in the United States public universities have increased their tuitions, adjusted for inflation, by 107% - that's in real terms, adjusted for inflation. In 2003, last year alone, more than 25 state colleges and university systems increased their tuitions by 10-20% over inflation. In the University of Arizona for example, the tuition went up 39%, In Iowa State it went up 22%. You get the broad point?

The federal government, meanwhile, with regard to Pell Grants and grants related to Pell Grants for students from poorer families, has dramatically cut the Pell Grant system. Let me give you again the relevant data here. In 1986 the federal grants covered 98% of tuition expenses at four year public universities in the United States virtually all of those tuition expenditures. Today, Pell Grants, mostly Pell Grants, (federal grants for students from poorer families) cover 57% of the tuition expenses at four year public universities. Now you see obviously how those two sets of facts I've given you are related: as the tuitions have risen at public universities obviously the Pell Grants fulfil less and less of the tuition role that they had filled before. The Pell Grants have not risen relative to inflation at the same time. So you have the federal

government pulling back in effect, state governments raising tuitions all over the United States, and therefore you have a situation in which many young people from many moderate income and poor families simply do not have the access to higher education that they once had.

More generally there has been a decline, as I indicated, in the mission of public education. Instead of a public investment for a public return, instead of the rationale being to mobilise the most talented members of society for the good of society, for social leadership in a more complex world - the kind of rhetoric we heard in the 1950s, '60s and early 1970s - the emphasis has shifted. There are two major sets of missions we hear now. One has to do with personal or family investment, that is higher education is thought to be a personal or family investment and not all that dissimilar from an investment in the stock market or an investment in real estate. To the extent that the family can afford to make the investment, the family ought to be making that investment: it's a wise and prudent investment. We hear more and more the term "human capital," a perfectly appropriate economic term, I use it quite often, others of you in this room have used it but it is used in the context of, again, higher education being a private investment and with the expected higher private return for those individuals capable of making that investment.

The second related theme we hear more and more of, again if you parse the rhetoric and parse the language coming out at the beginning of the 1980s, is that higher education should provide a possibility of upward mobility for talented individuals. That is meritocracy is not necessarily for the good of society as a whole: meritocracy is a notion of fairness that is linked to individual upward mobility. It's only fair if every child can make the most of his or her inherent talents and abilities for his or her own future gains. Now the challenge stated over and over again is to make it possible for young people of more modest means to borrow against their imputed wealth, the wealth that presumably they would gain privately if they had an opportunity to fully develop their inherent talents and abilities. Again there is nothing wrong with this idea, just as there is nothing wrong with the more broad notion that I mentioned a moment ago, of education as an opportunity for anybody to invest in their future wealth, but it's very different - both of these ideas are quite distinct - from the dominant ideas that one heard in the 1950s, '60s and '70s about social good, about the public good that attached to higher education.

Now why the shift from the '50s, '60s and early '70s to the '80s, '90s and even today? And how is that shift related to the decline in state support and federal support of public higher education? I think partly the shift in emphasis has to do frankly with the fall of the Soviet Union. If you trace very carefully the rhetoric pre-Berlin Wall, and after the Berlin Wall in 1989 there is something of a different flavour. As I said a moment ago pre the fall of the Berlin Wall and the implosion of the Soviet Union there was a sense in which we, Americans, were all in it together, higher education was very important as a matter of ensuring, although it was not stated exactly in this way, the defence of the nation. The Higher Education Policy Act, the acts of 1958 and '59, just like the National Defence Highway Act of 1956 were vehicles by which public goods were generated under the rubric of national defence.

The National Defence Highway Act actually is very interesting because the entire system of interstate highways was developed under the Eisenhower administration. But if you go back to the debates in Congress over why those investments were important you see that it was all about, according to the individual members of Congress who were supporting the National Defence Highway Act, it was all about getting munitions rapidly from Boston to San Diego and to Dallas and everywhere else in the event of a national emergency. Very little talk about economic development, very little talk about the good of the nation in any respect other than national defence. Similarly with the National Defence Education Act of 1958 and the related act in 1959, again the rhetoric is about keeping up with the Soviet Union, particularly after Sputnik. After the fall of the Berlin Wall we don't obviously hear the same kind of rhetoric. We shift to a much more individualised concept of public interest. The shift may also have to do with the fact that the generation of Americans who experienced the Depression and the Second World War were now moving out of positions of public responsibility, out of positions of public leadership. Their quite powerful and palpable sense of social solidarity that came out of the Depression and out of the Second World War was not directly accessible to the post-war generation that simply did not experience the Depression and the Second World War.

There was also, thirdly, an economic literature that emerged - began to emerge actually in the 1950s and '60s but came into full flower in the '70s and '80s - about human capital and about the returns to individual investment, having to do with public

education, especially higher education. Higher education in the United States is coming to resemble any other kind of personal service industry. Products, higher education products, are sold on the market: there is a kind of marketisation that has set in and you see it increasingly over the last 10 or 15 years.

There is intensifying competition between universities for students, especially the highest qualified students. Students, prospective students, and their families are seen, and repeatedly described, as customers or consumers who must be attracted to the university, who must be satisfied, who must have a good experience at the university if they are to tell other students of the university, if they're going to spread the brand name of the university. We hear more and more references to universities as being brand named service industries and the university brand becomes very important.

Part of the competition takes place in the realm of student services. Universities in the United States compete by providing better and better amenities fancier dormitories, more student counselling, ever more lavish, student centres, beautifully manicured grounds. Now some of this was going on, certainly before the 1990s, but I want to stress that this all accelerated dramatically in the 1990s. And so now we see a kind of all-out competition.

There is an entire sub-set of the industries of marketing and advertising devoted to higher education in America. They have fancy brochures, there are video tapes that are available showing the student amenities and the students sitting in rapt attention listening to whoever is pontificating at the moment, students playing Frisbee on the lawns, those beautiful green lawns of universities. And obviously all of these student amenities are contributing to driving up the costs - naturally they would drive up the costs - but that seems not to be too much of a problem for the top 20% of families, socioeconomically, who are the focus group at whom a lot of the advertising and marketing is aimed.

And there are many, many stories - a colleague of mine named David Kirk, Professor David Kirk at the University of California, Berkeley, has written a book recently - on the marketing of higher education in the United States. He has come up with the following - I did not know it but in his book he refers to, for example, Beaver College in Pennsylvania, a small college with what became an unfortunate name. In America

it's a kind of colloquial vernacular, it refers to a kind of rude expression. So that the college, the heads of the college, decided that they would get together, they had focus groups, they hired some high priced marketing executives and they wanted a college name, a higher education university name that would be very attractive. They went through every possible combination and they came up with Arcadia.

The focus group, the marketing people, thought that Arcadia denoted something wonderfully rural and sublime, romantic and so it would be Arcadia. But instead of college the marketing people also discovered that most American parents preferred university to college, university sounded larger and more serious. So Beaver College became Arcadia University. And interestingly applications to Arcadia University soared. So the marketing people were to that extent correct.

US News and World Report, a magazine, a periodical, weekly periodical, has run for a number of years a table showing the comparative ranking of US universities and colleges by many criteria. But the rankings and the ratings on US News and World Report have contributed to - have kind of both inspired and created - almost a feverish quality to the competition among American universities to be rated higher than their competitors or their perceived competitors. And this has caused a lot of them, that is colleges and universities, to engage in the kind of gaming exercise to prop up their ratings under the US News and World Report ratings system. For example, the more selective you are - the more students you turn down as an institute of higher education - the higher your rating. So there is a great competition among college and universities to turn down more students. Leading Duke University, for example, to actually go out beating the drums trying to get a lot of people, a lot of young people, to apply who don't have any chance of getting admitted but the theory being the more applications the more rejections and the more rejections the better for the US News and World Report rating system.

Another criterion the US News and World Report uses to judge how good a college or university is, is the percentage of alumni who contribute money to the college or university. The larger the percentage of alumni you contribute you get additional points toward your US News and World Report rating. Well this has led to a gaming by some universities. In Cornell University, if somebody who is an alumnus or alumni of Cornell has not contributed to Cornell for five years they are presumed to

be dead. This has improved Cornell's rating considerably. And I could go on with many other examples but you get my point.

There is also along with the marketisation of higher education a greater and greater emphasis on vocational and pre-career university courses and the advertising and marketing of vocational and pre-career accounting, law, economics, finance, engineering, applied sciences. These are becoming very, very popular. Undergraduate curricula in these areas are expanding dramatically, and faculty who are teaching in these areas are paid better and better. And simultaneously the classics; literature, history, some of the basic sciences have become poor stepchildren. Because you see it follows that as you envision higher education as a system of private investment for private return and as that sinks into the public's mind it naturally follows that the concept of a liberal arts education or an education in humanities or education in broad-based social sciences or in classics or whatever has less and less justification in the public's mind.

There is also, as I mentioned, a widening disparity in the salaries, in the compensation, of the faculty. Depending upon the opportunity costs the faculty are presumably enduring being faculty instead of being in private industry. That is a faculty member who teaches finance - a very popular course, you can imagine, given the remuneration of people who find themselves in Wall Street - a faculty member who teaches finance is paid much more in most universities than a faculty member who may be similarly trained but who teaches economics. And in fact a member who teach merely economics or introductory economics or macroeconomics is paid far more than a faculty member who teaches literature or history. And those widening gaps, those widening salary differentials, continue to widen because again once you internalise the notion of the higher education project being about private return for private investment then obviously individual members of the faculty begin thinking to themselves and understanding their mission in private rather than public ways. In fact there is a Professor Robert Barro - some of you may know him, he's an eminent economist - a few years ago he made headlines because Columbia University - he's at Harvard and Columbia University - wanted to hire him away from Harvard. Columbia offered Professor Barro \$300,000 plus a furnished apartment on the west side of Manhattan, plus private school tuition for his children.

Professor Barro went back to Harvard or at least went to the Harvard provost and said “well?” And the Harvard provost understood full well what that “Well?” meant and Harvard matched Columbia's offer. It has become very frequent, in fact it has become the standard in the United States, for faculty if they do want to have a raise simply to get an offer from another university and then go back to their own university and ask them to meet that offer. And again those faculty who are teaching in those career specialties with the highest personal return to students tend to get by far the highest remuneration. The consequence is a kind of undermining of the collegial quality and the cross-disciplinary quality and the liberal arts project in public higher education.

And finally with regard to marketisation let me mention one other trend and that is the close and increasingly close collaboration between public higher education and indeed much of private higher education in the United States and private industry on research, on what is to be researched, on capital investments and laboratories and buildings and so forth, individual members of faculty increasingly become consultants to private industry. Not necessarily a bad thing: in fact if you understand the purpose of the university to be to enhance the private return on private investment it's clearly consistent with that. But there are adverse consequences, which I will turn to now.

The first adverse consequence from the marketisation of higher education in the United States concerns social stratification. The most prestigious brands of higher education increasingly are available only to those who can pay for them. A recent study of the 100 top ranked universities in America, that is the most prestigious according to US News and World Report, whose graduates have the major advantages in the job market in terms of getting good jobs at high pay, shows that only 10% of the students at these 100 most prestigious universities - only 10% of the students - come from families in the bottom half of the income ladder. So overwhelmingly the most prestigious universities in the United States, the 100 most prestigious, are catering to students from families in the top half. Hence given that these degrees are related to getting the best jobs you can see how social stratification is perpetuated if not aggravated.

In 1979 students from the richest 25% of American homes were four times as likely to attend college as those from the poorest 25%. Now, students from the richest 25%

of American homes are more than 10 times as likely to attend colleges and universities as those from the poorest 25%. The cost for low income families of sending a child to a four year public institution in the United States has risen from 13% of family income in 1980 - this is the one year cost – the average cost for low income families of sending a child to a four year public institution has risen from 13% of family income in 1980 to more than 25% today.

Now this degree of social stratification, the headlong movement toward making university, higher education, accessible only to students who are from families in the upper reaches of income and less and less accessible to students in the lower income reaches comes at precisely the wrong time because those of you who have been following what has happened to income and wealth in the United States know that the disparities have widened considerably. In fact we are facing today in the United States the widest disparities in income and wealth we have seen since the 1920s and by some measures since the 1890s. The top 1% of American families by wealth has as much wealth as the bottom 95% of American families put together. And so if anything you would expect and want from a social standpoint the trend to be exactly in the opposite direction, that is broaden access to higher education for America's children from more modest backgrounds.

The second unfortunate consequence of the marketisation of higher education in America, this retreat from the concept of public mission, is a potential loss of universities as centres of basic learning. By basic learning I mean basic research, fundamental inquiry, learning that does not translate itself easily into applied economic value. As the curricula of American universities and as the research agendas migrate closer and closer and closer to the private sector there is less and less room and less and less incentive and less and less money available to pursue the more basic inquiry and the more basic research that may be unrelated to any direct application.

This is potentially dangerous to the American economy overall, because as you are aware - and I'm certain the same phenomenon exists here in Britain - companies, large companies, are going global - they are less and less connected to any particular country or nation. Capital is now global. Where capital goes increasingly depends upon where capital can get the highest return on that investment around the world.

And where capital can get the highest return on investment depends in part on where it can get the most productive people, where the infrastructure for developing ideas, solving problems, innovating, is the best. If your universities, if your system of higher education, migrates toward applied knowledge, away from the production of basic knowledge, it may therefore hurt your overall economy in terms of its capacity to generate the people and the talent you need for broad based problem solving and innovation regardless of its specific applications.

And finally there is a worry that I have with regard to the corruption of the universities' role in society of speaking truth to power of a university's role as a centre of inquiry and critical inquiry about not only the nature of truth but also of public policy. Years ago university presidents in the United States very often made quite controversial speeches. During the Vietnam War, during the civil rights movement, during the McCarthy era - Joe McCarthy in the United States, the Communist witch hunt era - University presidents stood up, made controversial provocative and in some cases very courageous statements about what society should be doing.

It is very hard to find a university president in the United States these days willing to stand up and say something that is controversial. Why is that? Well partly because universities are now so dependent upon a flow of money from the private sector. Now you might say if universities are dependent on the public sector there might be a chilling effect as well. But what happened 20 years ago or 30 years ago or 40 years ago was that universities could be so certain of the flow of public funds, of their endowments, of the public dedication to the public purposes of the university that it was entirely acceptable and expected that university presidents and others in the university would speak out in ways that might be controversial or provocative. But if you buy into the notion of the university as a place where private investments bear fruit for private returns that kind of speaking truth to power role is less and less possible.

Now I come to the end of my remarks. These have not been exactly uplifting, and I don't mean them to be downbeat - that is I want to emphasise again that the system of higher education in America is in many respects a very strong and good system. I have benefited enormously from it, I am part of it, I celebrate it, it is among the strongest in the world. But the retreat from the public mission is a dangerous trend,

though it is not yet a crisis. I don't want to be so presumptuous as to tell you in this country, or to suggest even to you, what you should be doing but I do want to end on this cautionary note because it seems to me that what I've said should offer a cautionary tale to all of you.

I do believe that moving toward a system of variable fees and personal loans makes a great deal of sense, as I said at the outset. As I've looked over the proposal offered by the government here, with regard to higher education, I am very hard pressed to see what is controversial about it, it seems an eminently sensible proposal to me. But as you move down this road, which is a very sensible road, what I urge you to do, is what I have urged this government and other governments to do with regard to other ideas that may have their roots or may bear a resemblance to the market or certainly the American market. Take what is valuable, take what is useful, but do not take to excess what we have in the United States.

Use the market, use market incentives. It is very wise to use market incentives. But use them for public purposes. Understand that with regard to higher education there is a fundamental public purpose to be served, and even though the market may be an extraordinary device for sorting, for pricing, for determining who gets what, ultimately the market in the service of the public good is the most powerful potential device we have for ensuring that higher education serves public purposes.

Thank you all