



The Need for State Policy Leadership

HIGHER EDUCATION plays an increasingly central role in our economy and society. We believe the state-level public policy environment in which colleges and universities operate must change in significant ways to meet the challenges of the rapidly emerging knowledge-based global economy, particularly the need for more Americans to achieve knowledge and skills beyond the high school level. To address these challenges, states must improve their capacities for dealing with higher education issues and providing public policy leadership. These capacities have significantly eroded in recent years.

We have chosen to focus on the capacity to formulate and implement state policy—rather than institutional, national, or federal policy—for a reason. We recognize that states do not have an exclusive responsibility for higher education policy and performance. College and university governing boards play a major role in the higher education policy agenda, as does the federal government. However, states are the decision-making entities historically responsible for higher education policy, and they remain the ones best situated to frame a broad public policy agenda for all of education, with the greatest probability of success in maintaining focus and sustaining policy.

State policy capacity should be focused on the linkages between higher education and society, and not on the details of institutional management. The new policy environment will require organizations with credibility and leadership skills that can link higher education to the future of each state and the nation as a whole, build relationships between higher education and policy leaders, work across education sectors—with schools and colleges, with public and private education—and with agencies responsible for other dimensions of social and economic policy. In some states, this change will be one of emphasis, but in most it may require a different design for state policy than they have had before.

The purpose of the changes needed is clear: America must substantially increase its levels of educational attainment for its people—its priceless educational capital. We first state the reasons for this ambitious goal and then the unique responsibilities of states for achieving it. In the third section we list a number of principles or criteria by which we believe actions should be judged, and which raise questions for states.

The Challenge: Raising Educational Attainment

The current system of American higher education has produced some of the most respected colleges and universities in the world. This has been accomplished because we have built a generously financed, entrepreneurial, and institutionally diverse system with strong support and a high degree of independence from government, both federal and state. All this has been possible because of a remarkable degree of consensus that the interests of society are best served by strong educational institutions with considerable autonomy.

As strong and successful as many of our institutions are, there is increasing evidence of serious gaps in our national capacity and perfor-

mance in college access and degree attainment, some new and some old. Consider the following:

- ◆ **Global competition.** Several countries have now overtaken the United States in higher education access and degree attainment. Shortages of educated manpower are particularly acute in science and technology; several international competitors now far surpass the United States in degree production. As these countries invest in building their own systems of higher education, our country is also losing the foreign graduate students who have long contributed to the excellence of our doctoral programs.
- ◆ **A leaking pipeline.** The U.S. system of higher education is characterized by relatively low college-degree and credential completion. Only 68 percent of ninth graders graduate from high school in four years, and only 18 percent complete an associate's degree within three years or a bachelor's degree within six years of enrolling in college. Baccalaureate degree attainment rates for Latino and African-American young adults—the fastest-growing population groups in our country—are less than half of those for white and Asian-Pacific Islanders. The educational attainment of young Americans is declining. Unless these problems are addressed, the nation's competitive position in the world will deteriorate.
- ◆ **Workforce supply and demand.** Currently, the fastest-growing and highest-paid jobs require education and training beyond high school. The baby boomers—the best-educated generation in our history—will shortly begin to leave the workforce. Some labor market forecasts predict a significant shortage of college-educated workers over the next decade and a half, a situation that reflects a failure to produce sufficient graduates. A *Business Week* analysis has warned employers of an impending “wrenching manpower and skills shortage,” especially of college-educated workers.
- ◆ **Technological change.** The pace of technological change requires a continuous need to reinvent and develop the United States economy

(continued next page)

States must improve their capacities for dealing with higher education issues and providing public policy leadership.

A working group on *State Capacity for Higher Education Policy* was convened to develop this statement, which was approved by the National Center's Board of Directors in June 2005.

Robert Atwell, Chair
President Emeritus
American Council on Education

Patrick M. Callan
President
National Center for Public Policy and Higher Education

Joni E. Finney
Vice President
National Center for Public Policy and Higher Education

Dennis P. Jones
President
National Center for Higher Education
Management Systems

Aims C. McGuinness, Jr.
Senior Associate
National Center for Higher Education
Management Systems

Kenneth P. Mortimer
President Emeritus
Western Washington University
University of Hawai'i

Jane V. Wellman
Senior Associate
The Institute for Higher Education Policy

(from preceding page)

through attention to research and innovation that supports economic growth.

Changing the State Focus

In the post-World War II era, public policy for higher education has concentrated primarily on building, developing, maintaining, and overseeing

America must substantially increase its levels of educational attainment for its people—its priceless educational capital.

our institutions of higher education. The primary state role has been to oversee the institutions on behalf of the state, ensure efficient allocation of resources, avoid duplication of effort, and manage expansion to ensure an orderly disposition of funds. Approximately half of the states did this through statewide governing boards, with responsibility for governance of public institutions as well as for statewide planning; the others relied on coordinating boards, which focused on mission and program allocation, planning, student aid, and coordination of public and private institutions and higher education sectors. Economic access was maintained largely through low tuition policies and state-funded student aid programs that—when they existed—were also designed to enable students to choose independent institutions.

In the last decade, there has been a substantial change in the role of the state in higher education. There have been four major reasons for this: changes in state government; the shifting of greater financial responsibility to students and families; the growth of the for-profit sector and other new modes of provision of higher education; and greater student mobility across institutions.

- ◆ **Changes in state government.** The policy environment has profoundly changed state capacity to address higher education issues. Faced with increasing demands for public resources to finance health care, public schools, and other services—and public pressures to reduce taxes—many states have decentralized and privatized state services and altered the functions of existing boards and agencies. Greater political volatility—including intensified partisanship, greater use of the initiative process, and term limits—has created new challenges in sustaining long-term policy agendas across political and economic cycles.
- ◆ **Shift of responsibility for funding.** Nationwide, there has been a sea change in patterns of public financing of higher education as the costs of higher education have increased and the responsibility for paying for education has slowly shifted from the taxpayers—largely in the form of generous state subsidies to institutions, supplemented with need-based federal aid—to individual students. Tuition comprises an increasing share of revenues for public and private higher education. Because need-based financial aid has not kept pace with tuition increases, low- and middle-income students are slowly being priced out of colleges. Rising unmet financial need means that over 200,000 college-qualified students annually are unable to afford to go to college—even at their local community colleges.
- ◆ **New modes of providing higher education.** The growing for-profit sector and the expansion of distance learning are changing the higher education landscape. Accredited degree-granting proprietary institutions are the fastest-growing education sector in the country. These institutions frequently join their more venerable counterparts, the tradi-

tional nonprofit institutions, to advocate for a shift in state policies from subsidizing institutions to funding for student aid. This model has been very attractive in the current political environment, where public resources are severely constrained, and policymakers are looking for ways to accomplish public purposes through private and market-force means. While some traditionalists in higher education continue to view these new providers with skepticism, there is little question that they are here to stay, and have a legitimate and growing role to play in serving the public. Their presence has contributed to pressure for a shift in state policy, away from the historic focus on public institutions and toward greater attention to the contributions of all sectors to meeting student needs, improving student learning outcomes, and contributing to public priorities. The changes also present new policy challenges in terms of quality assurance and consumer protection.

- ◆ **Student mobility.** Another factor contributing to this shift of policy attention is that increasing numbers of students now obtain their education from courses taken at a number of institutions. Some do this through formal course transfer from one institution to another (including transfer from four-year to two-year institutions), but many do this by augmenting on-campus education with Internet-based instruction. Assuredly, public policy should reduce leakages in the educational pipeline, but individual institutions acting alone cannot realistically be held “accountable” for all aspects of a student’s education when they provide only portions of the education of many students. States must find new strategies to set goals and evaluate results for student learning outcomes that cut across individual institutions and are capable of benchmarking learning achievement at a statewide level. Traditional information systems, designed to support budget allocations to institutions, are inadequate for these new needs.

Because need-based financial aid has not kept pace with tuition increases, low- and middle-income students are slowly being priced out of colleges.

In almost every state, legislatures and governors have responded to the changed policy climate for higher education by refocusing the state role away from institutional oversight and regulation in favor of greater campus autonomy and market adaptability. Many states have loosened or abandoned traditional attention to mission differentiation, and are encouraging institutions to be entrepreneurial to best compete in the markets they deem most appropriate.

Higher education institutions have benefited unevenly from the deregulation movement. Many public flagships and well-positioned regional universities have probably come out ahead, some at the expense of serving the students and employers in their states. For many public flagship institutions, this loosening of regulatory restraints has resulted in increasing recruitment of out-of-state and academically meritorious students, attractive both for the hefty tuition checks they pay and for their impact on college ratings. Whether the majority of community and comprehensive col-

leges have been similarly advantaged is debatable.

Still, few would argue that the movement away from state regulatory control has been anything but good for individual institutions of higher education. But evidence over the past decade argues that it has not been equally beneficial for the state itself and for the public interest, which is more than the sum total of institutional interests. This evidence shows that some key functions that serve the public do not flourish in a market-defined climate: affordable college access, particularly for low-income students; addressing achievement gaps between racial and economic subgroups; retaining students to a degree or other objective; assuring learning results across multiple institutions; assuring adequate programs and student places in areas of public need and high costs, such as nursing and engineering; and responsiveness to high-priority needs of employers and communities. These issues, particularly concerns about escalating tuition and mission drift, are leading some states to consider reinstating tighter regulatory controls.

As old regulatory models have eroded, there has not been development of new forms of policy capacity capable of using state policy tools to address public needs—provided through public, private, nonprofit, or for-profit institutions. Addressing this problem will require new forms of state policy for higher education and different kinds of organizations and strategies, not a rebuilding of traditional structures that focus primarily on regulatory aspects of institutional oversight. States instead need to articulate broad goals for higher education, to devise approaches to accountability that assess progress toward these goals and identify performance gaps, and use state subsidies to improve performance. States must develop the tools to look at the broad intersection between higher education and public needs in order to make judgments about how to leverage performance improvements through strategic investment of resources. For most states, this means development of organizations that have the intellectual capacity and the political sophistication to provide and sustain policy leadership and engage key government, higher education, public school, business, and public constituencies.

Instead of zigzagging between either regulatory or market-based solutions, states must find ways to blend policy and market solutions in pursuit of the broader public interest. To do this will require more capacity for diagnosis of broad trends and the tools to leverage change using a variety of incentives including, but not confined to, funding. Contributions to the public agenda may come from private institutions, for-profit institutions, and collaboratives that draw across many institutions.

A Word about How to Proceed

Dramatically increasing the educational attainment of the population is unlikely under a business-as-usual scenario. Without state policy leadership to develop statewide priorities and effect change, traditional decision-making entities, built for other times and other public purposes and based primarily on institutionally focused issues, will crowd out these important public priorities. An independent, credible entity must be charged with this agenda—change will not happen solely through traditionally designed state agencies or the collaborative voluntary efforts of institutional leaders. In most states, this will require substantial redesign of the organizations and agencies that are currently in place. The specifics will differ across states, but whatever the organizational forms, the effective, sustained state policy leadership for higher education must include:

- ◆ A broad-based public entity with a clear charge to increase the state's educational attainment and prepare citizens for the workforce.

Profile: American Higher Education

Students

- ◆ There are 17 million college students, with 15 million (or 86%) enrolled at the undergraduate level.
- ◆ Forty-four percent of the undergraduates are enrolled in public 2-year, 36% in public 4-year, 2% in private 2-year and 18% in private 4-year institutions.
- ◆ Forty percent of the undergraduates are enrolled part-time.
- ◆ Of all undergraduates, 37% are non-white.

Colleges and Universities

- ◆ 4,200 colleges and universities offer degree-granting programs.
 - 26% are public 2-year institutions.
 - 15% are public 4-year institutions.
 - 18% are private 2-year institutions.
 - 41% are private 4-year institutions.

State Support for Higher Education

- ◆ States contributed \$48 billion in FY 1981, \$58 billion in FY 1991, \$67 billion in FY 2001, and most recently, \$63 billion in FY 2005 (adjusted for inflation). State subsidies grew 32% from FY 1981 to FY 2005.
- ◆ State and local government support per student (adjusted for inflation) was \$5,577 in FY 1993 and \$5,616 in FY 2004.

Note: Data on colleges and students are for fall 2002 and all dollar figures are adjusted for inflation (in 2004 dollars). Sources: For colleges and students, National Center for Educational Statistics (NCES), *Enrollment in Postsecondary Institutions Fall 2002 and Financial Statistics Fiscal Year 2002*, U.S. Department of Education, 2005; for state appropriations, *Grapevine*, Normal, IL: Illinois State University, 2005; for local appropriations, *State Higher Education Executive Officers, SHEEO Finance Survey*, 2005; for full-time equivalent enrollment, NCES, *Digest of Education Statistics*, U.S. Department of Education, 2005.

- ◆ Strength to counter inappropriate political, partisan, institutional, or parochial influences.
- ◆ Capacity and responsibility for articulating and monitoring state performance objectives for higher education that are supported by the key leaders in the state; objectives should be specific and measurable, including quantifiable goals for college preparation, access, participation, retention, graduation, and responsiveness to other state needs.
- ◆ Engagement of civic, business, and public school leaders beyond state government and higher education leaders.
- ◆ Recognition of distinctions between statewide policy—and the public entities and policies needed to accomplish it—and institutional governance. The role of statewide policy leadership is distinct from the roles of institutional and segmental governing boards.
- ◆ Information gathering and analytical capacity to inform the choice of state goals/priorities and to interpret and evaluate statewide and institutional performance in relation to these goals.
- ◆ Capacity to bring coherence and coordination in key policy areas, such as the relationship between institutional appropriations, tuition, and financial aid.
- ◆ Capacity to influence the direction of state resources to ensure accomplishment of these priorities.

The public interest is more than the sum of the interests of individual institutions.

Questions and Issues for State Leaders

No single organizational model of public policy has yet been proven to accomplish what we believe is essential to the nation's future—substantially increasing the levels of educational attainment for all Americans to ensure the necessary knowledge and skills for the economy and the

(continued next page)

Some labor market forecasts predict a significant shortage of college-educated workers over the next decade and a half, a situation that reflects a failure to produce sufficient graduates.

(from preceding page)

democracy. Therefore, while we believe the characteristics described above are useful, they surely must be open to frank discussion, debate, and refinement. We need a different language for talking about, and designing, these types of policy capacities, a language that gets us away from traditional ways of thinking about power and autonomy as a zero-sum struggle between institutions and government. The Working Group, under the auspices of the National Center for Public Policy and Higher Education, invites responses to these ideas.

To begin, we propose the following questions for states:

- 1) What are the issues of educational achievement in each state? Do states have the capability to produce the quantity, quality, and levels of educational attainment needed to sustain economic development and individual opportunity in the future?
- 2) Is there broad-based agreement about state priorities for improving performance in post-secondary education in the next decade?
- 3) Is there a statewide organization specifically charged with the responsibility of articulating state goals and recommending strategies to meet them? Does that entity have the resources—including people, data, and ties to state leaders—to enable it to be a credible

and effective presence in state policy for higher education?

- 4) Are the oversight responsibilities of states and institutional governing boards and the respective responsibilities for performance and public accountability clearly defined and differentiated?

We believe there is no conversation more important to the future of individual opportunity, economic prosperity, and higher education than the one proposed here. We urge state leaders to engage these issues. Our present models for state control and coordination of higher education are the legacy of earlier policy goals for rational growth, broad access, and high quality. Pursuit of them has made American higher education the envy of other nations. However, it does no disservice to the earlier policy leaders to note areas where success eluded them or events have overtaken their solutions. ♦

The National Center for Public Policy and Higher Education

The National Center for Public Policy and Higher Education promotes public policies that enhance Americans' opportunities to pursue and achieve a quality higher education. Established in 1998, the National Center is an independent, nonprofit, nonpartisan organization. It is not associated with any institution of higher education, with any political party, or with any government agency. It receives continuing, core financial support from a consortium of national foundations that includes The Pew Charitable Trusts, The Atlantic Philanthropies, and The Ford Foundation.

**152 North Third Street, Suite 705
San Jose, California 95112
Telephone: 408-271-2699
FAX: 408-271-2697
www.highereducation.org**

The National Center and the Working Group for *State Capacity for Higher Education Policy* acknowledges our debt to the many people who reviewed and provided comments on drafts of this statement. Professional affiliations listed are those used at the time of review.

J. David Armstrong, Jr. Florida Community College System	Donald E. Heller The Pennsylvania State University	David A. Longanecker Western Interstate Commission for Higher Education
Julie Davis Bell National Conference of State Legislatures	Stanley D. Ikenberry University of Illinois	Mario Martinez University of Nevada, Las Vegas
Tina M. Bjarekull Maryland Independent College and University Association	Richard T. Ingram Association of Governing Boards of Colleges and Universities	Dewayne Matthews Education Commission of the States
Hans Brisch Oklahoma State Regents for Higher Education	Larry Isaak Midwestern Higher Education Commission	Lillian Montoya-Rael New Mexico Regional Development Corporation
Joseph C. Burke The Nelson A. Rockefeller Institute of Government	Richard Jarvis Oregon University System	Richard Novak Association of Governing Boards of Universities and Colleges
Robert L. Carat Towson University	Stanley G. Jones Indiana Commission for Higher Education	Scott Pattison National Association of State Budget Officers
The Honorable Don Carlson Washington State Senate	Lee R. Kerschner California State University	David R. Pierce American Association of Community Colleges
The Honorable Ronald R. Cowell The Education Policy and Leadership Center	Jan Kettlewell Board of Regents of the University System of Georgia	Michael Rao Central Michigan University
Joseph Creech Southern Regional Education Board	C. Judson King University of California	Charles B. Reed California State University
Ann Daley The Evergreen State College	Jacqueline E. King American Council on Education	Paul G. Risser Oklahoma State Regents for Higher Education
Gordon K. Davies Kentucky Council on Postsecondary Education	Robert W. Kustra Midwestern Higher Education Commission	Janis Somerville National Association of System Heads
Alfredo G. de los Santos Jr. Arizona State University	David B. Laird, Jr. Minnesota Private College Council	David S. Spence California State University
Patricia S. Florestano Maryland Board of Regents	Paul E. Lingenfelter State Higher Education Executive Officers	Richard Wagner Illinois Board of Higher Education
Darryl G. Greer New Jersey Association of State Colleges and Universities		