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Introduction

MOST COLLEGES AND UNIVERSITIES, with the likely exception of for-profit institutions, see themselves as motivated by a mission beyond simply staying in business and making money. The idea that the members of a campus community share a purpose or set of purposes leads naturally to the idea that everyone who participates in that community should have a voice in how that mission is pursued.

On some campuses, the model of shared governance provides meaningful voice for multiple constituencies in institutional decision-making. Faculty and staff, and sometimes students, participate with administrators and trustees in deliberations over the challenges facing the college or university. At other institutions, the lines of responsibility are much more tightly drawn. But in all cases, decisions about how to further the mission, as well as about how to ensure financial strength, affect all members of the community.

Sometimes competing priorities make consensus difficult. But even in the presence of shared objectives, communication problems frequently make for difficult conversations. The goal of this book is to facilitate communication among groups on campus by creating a common vocabulary and encouraging modes of thinking that allow participants to better see other viewpoints and grapple with the trade-offs involved in making sound decisions.

How you see problems depends on where you sit. The same person with the same history and values may have different information and weigh facts differently depending on her current position and responsibilities. Moreover, participants come to the table with different backgrounds and experiences, different vocabularies, and different ways of analyzing situations.

The hope that inspired this book is that people in different positions with different responsibilities can exchange ideas, respecting each other's perspectives. Even if they cannot reach consensus, understanding each other's languages and communicating about their values and priorities can ease tensions, allow for decision makers to be influenced by differing views, and create a sense of a community with shared goals, even when decisions are controversial.

Shared governance does not make a college or university into a majority-rule democracy. Trustees have a legal and moral responsibility to ensure the long-term financial health of the institution. Faculty have expertise and experience that give their views special weight in matters of curriculum and in the hiring and retention of their colleagues. But a campus with shared governance is not a collection of fiefdoms, with each group ruling in its own sphere. Instead, an effective system of shared governance should help people understand how to coordinate the variety of responsibilities that make up the campus, enabling the whole operation to work well, with constructive deliberation across constituencies.

It is often difficult for people with expertise and responsibility to communicate effectively with others who don't share their vocabulary or their priorities. People who care passionately about their work and their communities may struggle to objectively evaluate options that are limited by choices over which they have had no control or by scarce resources. It is a challenge to be open to the idea that alternative perspectives may improve one's own judgments no matter how much experience and knowledge one has.

The authors of this book were longtime faculty members. We are both economists who have studied higher education for many years. Although our primary affiliations have been with liberal arts colleges,[1] we have also spent many years consulting with a wide variety of colleges and universities and as advisors and analysts for a broad range of higher education associations, thinking deeply about many types of colleges and universities, from top research universities to the broad-access institutions that are especially important for students without strong academic preparation, particularly first-generation and low-income students. Over the years we have found this intellectual "travel" broadening. We have come to appreciate that institutions with different traditions, student bodies, and financial constraints in some ways live in different worlds, but that all these institutions have some kinds of problems in common. They must, for example, meet the financial demands of various programs and constituencies, help the students with the greatest need while attracting others who can help pay the bills, and understand what "success" is in their particular environment.

We have spent much of our careers communicating with non-economists about issues people see quite differently depending on whether their primary focus is social equity, fiscal responsibility, academic freedom, intellectual rigor, or another central aspect of the missions of higher education institutions.

As economists, we know how resistant many people are to the terminology of our discipline and how much they disagree with and fear the idea of allowing resource constraints to guide decisions about intellectual, ethical, or social issues. We also know how difficult many economists find it to make sense of values and concerns that don't translate easily into a cost-benefit calculus. We have learned (sometimes the hard way) that our favorite vocabulary and jargon (opportunity cost, marginal this and that, price elasticity of demand) can be more off-putting than enlightening. But we also know how valuable economic reasoning and concepts can be for analyzing a wide range of issues, many of which have little to do with money or material goods—and how inadequate these concepts can be if relied on exclusively or applied blindly. We are convinced that sharing concepts is a first step toward using them wisely and constructively.

Underlying all the discussion in this book is the conviction that the primary goal of campus decision-making is to further the institution's educational mission. There is no clear answer to many of the dilemmas that colleges face and certainly not one right answer that will fit all colleges and universities or even all similar institutions. But inadequate understanding of the fundamentals of institutional finances and the lack of a common language for debating the pros and cons of difficult decisions almost always add to the difficulty of reaching consensus on constructive solutions. A shared understanding of the facts and concepts will not eliminate differences in priorities or predictions about the future. But it will provide the basis for more constructive dialogue. Poor communication increases the likelihood of pursuing ineffective policies and strategies that diminish the chances of furthering the institutional mission.

Despite significant differences in the structure, missions, and financing of different types of higher education institutions, all must pursue their missions in the face of resource constraints, balancing short-term and long-term goals. This is true of both public and private institutions, of universities with broad missions including research and the education of graduate students, as well as of community colleges focused principally on the first years of postsecondary education. It is true of colleges and universities ranging from the most selective to those accepting all comers. The concepts and principles contained in these chapters should be useful for anyone faced with the reality of required trade-offs in an educational environment.

We have chosen a few specific examples of the choices facing institutions that might be facilitated by the type of analytical approach we encourage. Different issues will rise to the top or create the greatest controversy at different institutions and at different times. But the same tools will be relevant. Some of the issues we address gained prominence early in the pandemic, as colleges and universities saw revenues declining and expenditures rising while they were forced to pivot quickly to online operations. Others have been high priority items on institutional agendas for decades.

These issues illustrate matters that frequently create tensions on college campuses as well as in public discourse and policy conversations. There are many other problems that can benefit from a similar form of analysis. Very few campus issues should be viewed as purely economic in nature. College finances are supportive of the central educational mission, not the primary motivating factor. Nonetheless, the understanding and application of basic economic concepts can frequently raise the quality of debate on campus.

The issue-based chapters of this book focus on the following questions:

Is a college a business?

Discussions between faculty members and trustees—or other groups on campus—can easily be derailed by a fundamental difference in the way members of the community think and talk about the enterprise. Is it a business much like any other, striving to satisfy the demands of customers? Are increasing revenues, cutting expenditures, and adding to the endowment reliable measures of success? Should supply and demand determine salary structures? Under what circumstances should departments with small and declining enrollments be subsidized by those for which there is greater demand? Should decisions about the curriculum be separate from budgetary considerations? Should social justice priorities outweigh net revenue considerations in enrolling students and providing them with financial aid? These questions can elicit emotional reactions from many on campus. The tools we offer may bring different constituencies closer together as they wrestle with the choices these questions require.

How should we think about the compensation budget?

Controversies about cost-saving measures such as cutting contributions to employee retirement accounts and furloughing employees were center stage during the pandemic. Could budgets possibly be trimmed enough without cutting into this core of institutional expenditures? Is reducing employment a better alternative than cutting compensation levels? Should maintaining retirement contributions take precedence over salary increases? These issues are not easy to resolve.

Do we really have to cut the budget?

Looking at questions from multiple perspectives can lead people to re-examine their own conclusions. Before taking a side on where the budget should be cut—if it should be cut at all—it is helpful to pose a range of questions. Many issues, from deferring maintenance to cutting noninstructional expenses to freezing hiring, can benefit from this type of analysis. And increasing revenues is an alternative to cutting the budget in search of fiscal stability.

Can pricing and financial aid policies be more transparent?

Concerns about declines in enrollment because of the physical and financial impacts of the pandemic or because of longer-term demographic and geographical trends are particularly stressful at the most tuition-dependent institutions. Understanding the differences between need-based and non-need-based aid, combined with insights into the price-sensitivity of different groups of students and the relationship between discounts and net tuition revenues, provides a starting point for judgments about the most appropriate policies and practices.

What is the role of college endowments?

A small number of colleges and universities hold the vast majority of all endowment assets. For these privileged few, questions arise about whether it is really necessary to make difficult choices when circumstances are temporarily strained. Many more campuses have to debate whether or how much to increase temporarily the draw on the endowment during hard times. Shared understanding of the sources and role of endowments can inform these debates.

Before jumping into these campus issues in more detail, the first three chapters provide background for challenging conversations. Chapter 1 paints a picture of higher education institutions in the United States, their students, and the credentials they award. It also includes data on college prices, the financial aid available to students to help pay those prices, and the family incomes supporting those students. In chapter 2, we provide a brief economics lesson, defining terms—such as demand, opportunity cost, and price sensitivity—that are helpful in addressing issues that arise on campus, and providing examples of how they can be meaningful. Readers with a background in economics will already be familiar with those concepts but may not have thought about how they apply to the daily issues faced on campus. Chapter 3 provides a parallel introduction to concepts in college financing such as the discount rate and gross versus net tuition revenues. Financial officers and others with responsibility for ensuring the fiscal stability of their institutions will be familiar with the building blocks of college finance. But they may not always focus on the ways in which nonprofit academic institutions differ from for-profit companies producing a range of other goods and services.

The remainder of the book addresses specific campus issues—not attempting to provide solutions to the problems with which campus participants are grappling but discussing alternative ways of looking at questions and evidence to reach reasonable conclusions that everyone can understand.

Our aim is to strengthen and broaden understanding of concepts that can help all participants analyze the pros, cons, and trade-offs of difficult decisions and provide the basics of a common language for discussing and debating the many challenges institutions face.

The idea of our discussion is not to focus primarily on the bottom line or the dollars and cents of providing higher education, but to help frame judgments considering the interaction between resources and outcomes, the trade-offs involved in many campus decisions, and the differing perspectives of people with shared goals but different and, sometimes conflicting, roles, responsibilities, and priorities. Economic concepts and reasoning can help all involved to think about how even the clearest choices eliminate other options, about how marginal reductions in vital expenditures need not cause serious harm, and about how decisions affect different members of the community.

The COVID Crisis

Since March 2020, when colleges and universities sent their students home for what most people thought might be just a few weeks, questions about the financial costs of the pandemic, how institutions will manage, and what the impact will be on faculty, staff, and curriculum—in addition to students—have accumulated. By the time you are reading this, we hope that many of the answers will have become clearer, but the terrible consequences of the Delta variant, followed by the Omicron variant, and the persistent political issues regarding public health measures suggest that the crisis is far from over. COVID offers a good, if painful, opportunity to think about how to respond to a serious but hopefully temporary crisis, as well as a sizeable one-time inflow of funds to address that crisis.

In February 2021, the *Chronicle of Higher Education* estimated institutions lost an average of 14 percent of their revenues compared to the preceding year. Overall, state budget cuts, tuition freezes, lost dormitory revenues, and enrollment declines, combined with emergency expenses, added up to an estimated $183 billion: $85 billion in lost revenues, $24 billion for COVID-related expenses, and $74 billion in anticipated future decreases in state funding.[2]

Early on, many institutions had to make quick decisions about cutting expenses to make ends meet. Many froze salaries and hiring, cut back on contributions to retirement accounts, furloughed workers, and took other steps that made life harder for faculty and staff.

By March 2021, Congress had passed three COVID relief spending packages that, combined, allocated $69 billion in aid to postsecondary institutions—not enough to compensate for all the losses, but enough to take a significant bite out of them. And because budgets in many states have come through better than predicted, some public institutions will not face funding cuts as draconian as they had feared.

The allocation of federal funds to individual institutions depended on enrollment levels, with low-income students counting more than others and additional allotments for minority-serving institutions. Colleges and universities have one year after the final disbursement to spend their emergency relief funds. About half of the funds must go directly to students.[3]

What is the best way to spend the remainder of the money? Differences of opinion are inevitable. Covering the expenses directly associated with the pandemic, such as the transition to virtual learning, COVID testing, and physical accommodation on campus, is an obvious area, and Congress required that some funds go to monitoring and suppressing the spread of the coronavirus.

One challenge is that the federal funds represent a one-time infusion of cash. To the extent that they make up for lost revenues that will return to the annual budget once enrollment recovers, they should diminish the need for budget cuts. But they are unlikely to be adequate for spending increases that have long been at the top of the list.

Salary and benefit increases are not one-time expenses. A 1 percent increase in compensation requires extra funds for years to come. But many institutions reduced their contributions to retirement benefits and/or froze faculty salaries during the pandemic. If they had known in advance that they would have this "windfall" from the federal government, these steps might not have been necessary. Compensating faculty and staff for the salary sacrifice they were forced to make would be a reasonable approach to consider.

If the starting point is the pre-pandemic situation, the one-time federal funds won't cover a continuing increase in the budget. But these funds do call for rethinking the necessity for cuts the institution made that will have a lasting impact.

What will happen when the crisis is over, whether that means really stamping out the virus or reducing it to a permanent simmer? One camp asserts that "this changes everything"—COVID has forced us to rethink both teaching and learning and the economics of higher education. Others anticipate, with a sigh of relief, that we can now return to "business as usual." We hope that higher education institutions have learned some lessons from the pandemic. We have a more tangible sense of the strengths and limitations of online learning; we have more dramatic evidence of the large variations in the circumstances students face in coping with unanticipated hardships; we have more evidence that colleges benefit from building in flexibility in response to crises that are certain to happen from time to time in some form. These lessons won't "change everything," but they could form the basis for valuable conversations among all the constituencies on campus.

Socioeconomic and Racial Inequality

The mission of higher education institutions includes improving the society in which they operate—not just improving the lives of the students they educate. All participants in the education enterprise have reason to engage not only in issues of racial and socioeconomic inequities on their own campuses, but also with realities of the larger environment.

Basic facts about the circumstances of different groups of students and their opportunities to enroll and succeed in different types of postsecondary institutions provide critical background.

In 2020, median family income for families with children between the ages of 6 and 17—who might be thinking about how they will finance college—was $81,600. But it ranged from $54,700 for Black families to $121,700 for Asian families. More than a third of Black families with children have incomes below $40,000.

Incomes of Families with Children Ages 6 to 17, 2020

	Median	Share below $40,000
All	$81,600	23%
White	$86,300	21%
Black	$54,700	37%
Asian	$121,700	14%
Hispanic	$61,500	29%

Source: US Census Bureau (2021), "Current Population Survey, Annual Social and Economic Supplement," FINC-03.

Paying for college requires saving, not just paying out of current income. Families with low net worth struggle to send their children to college, even when they do not have low incomes. Wealth is even more unevenly distributed than income. The wealthiest 1 percent of families in the United States hold about 40 percent of all household wealth. The wealthiest 20 percent hold almost 90 percent of the wealth. A quarter of families have less than $10,000 in wealth.[4] Racial inequalities in wealth are stark, with the median wealth of White families between the ages of 35 and 54 almost five times as high as the median for Black families and four times the median for Hispanic families.

Median Family Wealth by Race/Ethnicity and Age, 2019

	Median Wealth (in thousands of dollars), 2019					
	White	Black	Hispanic	Other	White/ Black	White/ Hispanic
Under 35	$25.40	$0.60	$11.20	$13.50	42.3	2.3
35 to 54	$185.00	$40.10	$46.10	$154.50	4.6	4
55 and over	$315.00	$53.80	$115.50	$213.20	5.9	2.7

Source: Bhutta et al., "Disparities in Wealth by Race and Ethnicity."

Compounding differences in financial circumstances, preparing and applying for college, making enrollment choices, and succeeding in earning a degree is more challenging for first-generation students than for those whose parents have the experience to provide guidance. In 2020, when 48 percent of adults 25 or older in the United States had an associate degree or higher and 38 percent had at least a bachelor's degree, only 21 percent of Hispanic adults and 28 percent of Black adults had completed bachelor's degrees.

Educational Attainment of Adults Ages 25 and Older, 2020

	AA or higher	BA or higher
All	48%	38%
White	48%	38%
Black	38%	28%
Asian	67%	61%
Hispanic	30%	21%

Source: US Census Bureau, "Educational Attainment in the United States," Table 1.

Children from different racial and ethnic groups, at different levels of income and wealth, and with parents with different educational backgrounds grow up in vastly different circumstances These differences are associated with how well prepared they are for college, how well they can navigate the enrollment process, and what kinds of external support—financial, academic, and social—they need to succeed in college.

Responding effectively to the challenge of creating a more diverse community is likely to require not only financial trade-offs but also a willingness to respond positively to a broader range of cultural expectations and educational practices. This need is sometimes framed as switching perspective from expecting students to be ready for college to also expecting the college to be ready for the students it enrolls.

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