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Summary

Presidents of Oregon's public universities desire greater autonomy and worry that budget constraints will limit access to higher education. The state has an opportunity to relieve both their concerns by funding students rather than institutions.

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“Despite higher tuition, private schools are able to provide greater assistance to low-income students because they allocate financial aid based largely on need.”

Free the universities, fund the students

By Nick Weller

Presidents of Oregon's public universities recently informed the Board of Higher Education that their schools need greater freedom from state regulations. The presidents also suggested that budget difficulties might reduce access to higher education. Last year the Oregon Institute of Technology considered an opportunity to separate from the state system, in part because of the promise of autonomy and stable funding. Both goals could be realized if Oregon began providing money directly to students, rather than institutions.

Oregon taxpayers funded the Oregon University System to the tune of more than \$738 million in state general fund money in the 1999-2001 budget, not including millions in lottery and federal funds. Funding is allocated directly to institutions, subsidizing tuition for all students. Thus, students with a family income of \$150,000 pay tuition—subsidized by taxpayers—equal to that paid by students with incomes below the poverty line.

In the 1997 Cascade Policy Institute report *Power to the Student*, economist Randall Pozdena, Ph.D., writes that although many justify government support of higher education for egalitarian reasons, current funding benefits relatively well off students more than those with less income. He explains that in aggregate, families with less income do not use public universities enough to recoup in tuition subsidies what they pay in taxes to fund the universities.

Many would be surprised to learn that private universities in Oregon are more low-income friendly than public universities. A 1994 statewide study of students attending Oregon colleges and universities found average family income was higher at state public schools than private schools. The percentage of low-income students was also higher at independent institutions than at public schools. Despite higher tuition, private schools are able to provide greater assistance to low-income students because they allocate financial aid based largely on need.

Across-the-board tuition subsidies may lower the overall quality of education at government universities. Because tax-financed universities appear to be less expensive students logically accept lower quality, according to Carleton College eco-

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conomic professor Jenny Wahl in her report *A bigger bang for the public buck: Achieving efficiency and equity in higher education*. Of course, Wahl writes, not all private schools are better than their public counterparts, but studies reveal that students are willing to accept a lower-quality education in exchange for lower tuition.

An alternative funding method could be more effective for both students and taxpayers. Pozdena proposes that Oregon provide direct aid to students instead of funding institutions. Universities would be able to set their own tuition, and it would likely rise in response to the elimination of institutional funding. However, lower income students would still be better off. Because direct aid targets only those who actually need financial assistance, the state could provide greater support for them even while reducing total higher education spending.

Pozdena further argues that aid should be available to low-income students attending private universities to create greater competition and quality in higher education. Higher nominal tuition may also spur quality demands from students at public universities as Wahl's research suggests.

Each student is worth more to a university when the sticker price better reflects real costs. By placing these student-consumers in the driver's seat, the legislature can remove higher education mandates without fear of adverse consequences. Greater autonomy coupled with accountability to students is a recipe for success at Oregon's institutions of higher learning.

University presidents are correct in asking for greater autonomy and the legislature should couple such change with direct funding of students. This approach will help schools react to new developments in the higher education market and encourage students to demand better education, while directing higher education dollars to where they have the greatest impact.

Nick Weller is education policy analyst at Cascade Policy Institute, a Portland, Oregon think tank.

“Student centered funding is the ideal method to give schools more freedom while making them accountable to students.”

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