

UNDERSTANDING HIGHER EDUCATION FINANCE

INTERVIEW WITH KEVIN CAREY
DIRECTOR, EDUCATION POLICY PROGRAM, NEW AMERICA

As part of a project on higher education finance supported by the Bill and Melinda Gates Foundation, Nate Johnson interviewed a number of experts and leaders to gather different perspectives on how major budget choices are made. The interviews have been condensed for publication so that the key insights are available to anyone who is interested.

This interview with Kevin Carey, author of [The End of College: Creating the Future of Learning and the University of Everywhere](#) (2015), addresses the financial barriers to higher education, the need for public support and subsidies for higher education as well as the need for partnerships, and a possible transformation of public universities.

I'm wondering if you would help me connect the dots between two works that you've been involved in. The first is your book, [The End of College](#), which is really a plea for a new way of thinking about what college is. The second is the financial argument in "Starting from Scratch," which posits that we need to move away from the voucher-based system of finance for higher education (that we've had in federal Pell grants) to something that is more institution focused and requires a greater level of shared commitment and responsibility between the federal government and the state.

My attempt with the book, and New America's attempt with "Starting from Scratch," is to begin with the needs and concerns of students in this day and age, and the problems they face and the challenges of the higher education system writ large, and to try to take seriously the challenge of doing a much better job both on the access and affordability side of things and also the quality side of things. The way that finances interact with that in both cases is interesting.

This information is really for consumers or students. You have advice about what to look for in a college that will deliver the best educational experience, right?

I think that's right, but the future that it posits, which I'm always at pains to emphasize, is not a future without higher educational institutions at all. It's just a future of higher education organizations that may or may not look very much like the colleges and universities that we have today. Partly because I think that some institutions will have to change, and partly because I think that the barriers to creating new institutions have been altered quite radically. The barriers part of it is very much substantially a financial issue.

The "Starting from Scratch" paper comes from a somewhat different perspective, and it's the perspective of the here and now. It's recognizing the fact that this year, and definitely the year after, and definitely the year after that, and for some number of years after that, the vast, vast majority of college students will attend, if you want to say traditional or at least existing colleges and universities, so that's one.

Two, I believe that irrespective of how things evolve in terms of new organizational models, there will be a great need for public support for and subsidy for higher education. The internet will not just wash all the costs away. We will need to find a way to make sure that higher education is accessible and affordable broadly, including for students from low-income families. We concluded that the existing system really has so many shortcomings that we actually want, in some ways, a more governmental system of managing those subsidies that the pure voucher system is just resulting in, either it is creating or exacerbating or at the very least, failing to solve a number of problems related to prices, debt, quality and so on and so forth.

Is a partnership like this, it's a pretty radical reconfiguration of the federal-state partnership, do you think it is within the realm of the politically feasible?

I don't think that the two are ultimately contradictory. I think the point of intersection between them is where in "Starting from Scratch" we say, under our proposal, which would essentially convert the Title IV program into a block grant for states, states can use this money to subsidize basically any kind of higher education or organization they want to.

There's no reason why we couldn't have private, nonprofit organizations that also are dedicated to student learning, but have a different academic model, a different credential model and use technology in very different ways. Any of those organizations could be supported by states under the "Starting from Scratch" framework. Under the current system, nobody is the gate keeper other than the accreditation process.

There's nothing in this "Starting from Scratch" proposal that says that states can only use their block grant money to fund accredited institutions, and that omission was very deliberate. I actually do think that the two things are compatible in that sense.

The students who are enrolled count for the purposes of figuring out are you serving low-income students. They would be subject to the same level of scrutiny that everyone else would be because a bedrock principle of ours is that if you're a higher education institution that's going to be accepting a lot of public money, you should be accountable to the public for the quality of the work that you do.

Because we give it to states, we feel like the states would do what they do, which is some would be more enthusiastic than others about trying to experiment, and that's fine, but the federal system that defaults to accreditation is, I think, very unfriendly to new models. Even the institutions that are new in some ways, it had to kind of warp and contort themselves to look like traditional colleges in ways that are weird or even a little bit dishonest.

To what extent do you think that's true for the way that state appropriations and governance are currently working around the country?

There's an old saying that the best time to plant a tree was twenty years ago, and the second-best time to plant a tree is today. I think we are, to some extent, planting an intellectual tree. It's what think tanks are here to do to really get people to think differently about what's possible, and not to be locked into the voucher system as the place you have to start.

States have not nearly as many strong incentives to be stewards of higher education quality in a way that actually balances innovation and consumer protection. Any time you leave things up to the states, you are almost by definition deciding to let things work better in some parts of the country than others. That's just the nature of American federalism, and it's a nature of part of the system. There really is no accountability now for states.

There is a strong element of state accountability both for investment and for outcomes in the "Starting from Scratch" plan. Ultimately, I think the argument for our plan is a strong one. It will probably take another

round of half measures that won't work before people can really psychologically admit to themselves that the New America way is the way to go.

What then happens to states in a recession?

The structure that we propose has certain requirements in certain match rates per state funding. Once you build the machine with those dials on it, you can turn the dials depending on the macroeconomic situation. You could simply dial back the required state match during a recession, which would have the effect of providing a stimulus of a cyclical federal to state subsidies in order to prevent pro cyclical cuts in state services, which is, of course, exactly what the federal government did during the last recession.

One of the other things I liked about the "Starting from Scratch" proposal was where every state is either creating bigger gaps between in state and out of state tuition, or increasing financial aid for in state students with things like the Hope scholarship in Georgia, with the explicit goal of keeping students in state, retaining the best and the brightest. The net result will be you'll have the same number of talented students, and you distribute around the states. You're spending billions of dollars on programs with a collective result of nothing. It explicitly addressed that gap by requiring states to accept students and charge them no more than their estimated family contribution regardless of their state of residence as one of the provisions, or one of the conditions of accepting the federal match.

We fundamentally have colleges existing in a market environment. That's the way things are. That's the way things should be, but we are in this situation where the best-case scenario for both public institutions and state policy makers is nobody goes to college in state.

Our plan is just an acceleration in the transformation of public universities into essentially private, nonprofit universities with a state association of some product. Our plan would radically change that calculus by essentially defining away out-of-state tuition. Now, a state could still have tuition preferences for in state students if it charged them even less than that. It could have admissions preferences for in state students, and we expect that both of those things would happen.

The ability to go to a good, affordable public university really is an absolute cornerstone of the American dream. There is no equation in which we think we are providing an egalitarian set of pathways to prosperity for people that does not include that.

The ability to become more of a market actor and to market for students nationally as opposed to within the state is very compatible with the aspirations that a lot of leaders of public institutions have about how they would like to transform their institution to become more competitive. For them, the deal of less state investment in exchange for more autonomy and more out-of-state students is not a bad deal. Then from the legislator's standpoint, they still have a prestigious institution, and they don't have to spend as much money for it. Everyone wins except for the in-state student who can't get in now. He or she doesn't know that he or she is the loser in this situation.

In a way, it seems even more morally nefarious because you're not only discriminating based on income, but you're discriminating against your own state's students within the high-income bracket.

I am a wholehearted believer in the idea that diversity is in itself a core educational value, and that students learn better in environments in which they are exposed to all kinds of intellectual, cultural, racial, ethnic, and other diversity. Believing that, I also think that it is incumbent on everyone else who believes that to hold institutions accountable when they abuse that idea as a way of pursuing policies that frankly are designed in their financial interest—but not in their educational interest.

We should assume that as independent self-interested organizations operating in several market environments, the market for students, the market for prestige, that colleges and universities will act predictively and logically. We can't rely on some kind of sudden collective turn to virtue as our solution.

I do continue to believe that we need to have an expansive sense of what's possible in terms of creating very new and very different kinds of higher education organizations and can't and shouldn't limit ourselves to the organizational forms that we have.

Kevin Carey previously worked as the policy director of Education Sector; as an analyst at the Education Trust and the Center on Budget and Policy Priorities; and as Assistant State Budget Director for the Indiana Senate Finance Committee. He also writes for The Upshot at The New York Times in addition to multiple other outlets.