

Public fiscal administration essay



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Fiscal Institutions and Fiscal Performance shifts emphasis away from narrow economic factors to more broadly defined political and institutional factors that affect government policy and national debt. This collection brings together new theoretical models, empirical evidence, and a series of in-depth case studies to analyze the effect of political institutions, fiscal regulations, and policy decisions on accumulating deficits. It provides a fascinating overview of the political and economic issues involved and highlights the role of budgetary institutions in the formation of budget effects.

While our roundtable considered differences between two states as points of departure, we believe the principles identified in our exchanges apply to other state environments as well. In fact, a major objective of this paper is to encourage other states to consider these questions in light of their own policies and performance. These are the key questions our roundtable participants suggested that any state should ask as it seeks to improve the performance of its higher education institutions in advancing public priorities. 1.

To what extent has a state defined the public purposes it expects higher education institutions to help accomplish? Are the purposes a state seeks to achieve through its colleges and universities clearly articulated? Do institutional leaders and policymakers share a common understanding of those purposes? A first step for any state that seeks to improve the performance of its higher education system is to pose and publicly debate a core set of questions concerning that system: What is the rationale that

Justifies a state's spending for institutional appropriation, capital construction, or financial aid?

Is that rationale clearly defined? Is it consciously examined, debated, and reaffirmed at regular intervals in the arenas of public policy? Or have the arguments that justify a state's expenditures for higher education become vestiges of a distant past, subject to differing memories and interpretations? A state needs the political will to set the public agenda-to formulate clear definitions of the public purposes it expects higher education institutions to help attain. As the needs of society itself evolve, the ends a state seeks to achieve through its colleges and universities can also change.

For this season, the question of higher education's role in advancing the public weal needs to be revisited periodically. At the same time, a state needs to assess how well the policies and programs currently in place actually achieve their intended goals. In the absence of such periodic reviews, states tend to increase their expectations of higher education institutions-to add new expectations-without considering how the new expectations relate to those in place from an earlier time.

States must also work to maintain a balance between the evolution of their own public purposes on the one hand and the evolution of institutional goals on the other. A state that allows unspoken and implicit priorities to prevail over principles that are publicly debated and affirmed effectively accords more autonomy to institutions in pursuing their own directions. Ultimately, states that do not articulate their purposes may find themselves maintaining institutions for reasons that are increasingly vague and ambiguous. 2. How

well do a state's fiscal appropriation practices align with the mandates of its higher education policies?

What combination of policy mandate and incentives is most effective in motivating institutions toward the achievement of public purposes? Providing a rationale and framework for supporting higher education institutions is half the task confronting state policymakers. Through a combination of statutory authority and resource allocation, a state must work to ensure that institutions fulfill the public purposes its policymakers have identified. The authority of educational policy derives from the constitutional power of a state's elected representatives.

While respecting the operational flexibility of higher education institutions, these officials help determine institutional priorities by establishing state policies. Beyond the mandate of policy, however, a state must be willing to appropriate the resources needed to achieve given purposes. A state's budgetary appropriation to institutions is a most telling statement of public policy with regard to higher education; by the amount and the kind of funding it provides, a state sends an explicit or implicit signal about its priorities for higher education.

For reasons beyond its control, a state may sometimes fail to provide sufficient funding for institutions to carry out its public purposes to the extent or at the level of quality it desires. While unforeseen shortfalls in the budget are inevitable in some years, a state that systematically underfeeds its higher education system loses some ability to influence institutions in terms of quality or direction. Ultimately, a state and its higher education

system need to define what constitutes a reasonable exchange of product for price.

While some institutions prefer formula-driven or incremental increases in the funding they receive, public officials have occasionally sought to link a portion of an institution's funding to the achievement of a particular objective, such as enrollment, retention, or degree completion. A state must exercise caution to ensure that the funding incentives it establishes in fact motivate the behaviors it desires in institutions. The international perspective of our roundtable provided a telling example of the need for policymakers to ensure that the fulfillment of a public purpose falls within the interests of institutions themselves.

South Africa, until recently, used the technique of penalizing institutions whose students did not achieve acceptable levels of performance. Rather than spurring institutions to foster heightened achievement in their existing student bodies, this policy often caused Geiger education institutions to seek higher-achieving students in order to avoid incurring penalty, in effect heightening the barriers to access for many students.

The country is now finalizing a new funding system with incentives to institutions that improve the performance of lower-achieving students. Fiscal strategy is not the only means by which a state can influence institutional behavior. If designed carefully, with an awareness of what motivates institutions, however, the alignment of funding with the achievement of public purposes can be an effective means of improving a state's higher education performance. 3.

To what extent do a state's tuition and financial aid policies contribute to increased higher education participation and completion? The amount of tuition charged at public institutions, in addition to state programs of financial aid and assistance, are central elements of a state's fiscal policy. It sometimes occurs that a state's public officials have not formulated an explicit policy regarding tuition, and in such instances, the very lack of specificity constitutes a policy decision.

A primary lesson from the APSES research and from experience in many other settings is the importance of need-based programs of financial aid and assistance to foster higher education participation and completion among the most needy. Financial aid is the area in which a state's higher education policy intersects most substantially with federal programs; the kinds of financial aid a state makes available in conjunction with Pell Grants and other federal aid programs define the contours of affordability for students in that setting.

Both New Jersey and New Mexico exemplify a strong commitment to access, and both take substantial steps to ensure that financial need does not become a barrier to enrolling and completing a degree program in a college or university. In addition to its need-based programs of financial aid, New Mexico commitment to access results in a remarkably low tuition at the state's public institutions of higher education. The experience of many state policy environments makes clear, however, that low tuition in itself does not guarantee access for students.

Particularly in sparsely populated settings, where higher education institutions may be a considerable distance from a student's home, the decision to attend college entails a number of financial commitments that low tuition in itself cannot help a student to meet. Need-based financial aid is a critical element for any state that seeks to enhance the participation of students who have limited financial means. One of the most notable developments during the past several years is the growth in programs that award aid on the basis of academic merit without regard for financial need.

Georgia's merit-based program of financial aid, Helping Outstanding Pupils Educationally (HOPE), has proven to be a model for similar programs in other states. In New Mexico, the merit-based Lottery Success Scholarship Program has become enormously popular with voters, policymakers, and institutions alike. As with many other aspects of public policy, merit-based programs of financial aid tend to provide greatest benefit to members of the middle class.

No elected public official can fail to perceive the political benefit of programs that are popular with the largest block of voters in a state. Merit-based aid programs exemplify a different policy objective from that of providing financial assistance to the most needy. A state's motivation in providing such aid is to encourage more of its highest-achieving students to remain in the state—first by enrolling in its higher education institutions, and then, ideally, by choosing to live and work in the state after graduation, thus enhancing a state's educational capital.

Merit-based programs have certainly succeeded in attracting more of the highest-achieving students to pursue their baccalaureate degrees in their

home state; in doing so, they have relieved many high-achieving, mostly middle-class students and their parents of substantial costs they might otherwise have incurred in attending institutions out of state. Students of this type tend to have considerable mobility after graduation, however, and it is less clear whether merit-based programs encourage more of them to remain in a state after completing their degrees.

Much of the controversy centers on the question of whether a state's investment in merit-based financial aid occurs at the expense of its commitment to need-based aid. Most of those states that have invested in merit-based programs of aid during the past several years did not have strong historical commitments to need-based aid. In those cases, the introduction of merit-based aid has done no harm to students with greater financial need; in fact, some needy students have benefited because they qualify for the merit-based programs.

In states that have begun to blend merit-based with need-based commitments, however, it often appears that the appeal of merit aid has diminished the perception of importance attached to need-based programs. Beyond the obvious political popularity of merit-based aid, a state must ask whether such programs yield a long-term benefit of encouraging more of the best and brightest to remain in the state as workers and citizens.

If the answer is no, the question then becomes whether the dollars expended in merit-based programs might be more effectively spent enhancing programs that enable more of those with greatest financial need to attend college. 4. What role does the state interface agency-typically either a higher

education governing or coordinating board-play to ensure that a state's higher education institutions contribute effectively to the achievement of public purposes?

To what extent is institutional mission a factor in determining the responsibilities of institutions in fulfilling public purposes? Nearly every state in the United States has one or more agencies that serve as intermediaries between a state's lawmakers and its higher education institutions. The level of authority vested in a state interface agency varies: some states have a governing board with regulatory authority over public institutions, others a coordinating board that serves in primarily steering and oversight capacities.

The notable exception to this rule is the four-year sector in Michigan, which has no formal interface agency. Michigan's public universities rely on a council of presidents to achieve a unified approach in dealing with the state's lawmakers. While presidents of four-year universities stand in accord on many issues, each institution appeals individually to the Legislature and governor in the state's budget process, and the amount of funding each institution receives is a direct function of its historical allocation, modestly adjusted by lobbying efforts.

A state higher education interface agency can help reduce the inherent competition among public colleges and universities. In addition, an effective governing or coordinating board can play a vital role in making a state's system of higher education more efficient, more successful, and more accountable in terms of educational performance. The interface agency itself

must be accountable both to the public purposes a state has defined and to the needs of higher education institutions within the system it serves.

An effective interface agency can encourage collaboration among institutions; it can work in behalf of all colleges and universities to influence state government; and it can gather and provide information that documents changes in performance. One of the key roles a governing or coordinating road plays is that of providing information that influences decision making both in state government and in individual institutions.

The information disseminated by an interface agency can contribute substantially to the effectiveness of the state's higher education system, helping to sustain the interest of institutional leaders and policymakers in performance. The periodic distribution of comparative data helps sharpen and renew public officials' understanding of the purposes a state seeks to achieve through its higher education institutions, while also reminding institutional traders of the criteria that measure an institution's performance.

Indeed, the international perspective of the APSES project makes clear that the presence or absence of information in a given environment is itself a policy issue. One of the major differences between higher education environments in the United States and Mexico is the availability of information for evaluative or strategic purposes. In Mexico, the scarcity of information and the fact that most data are controlled by institutions often impede the work of improving the performance of higher education systems.

While the gathering and distribution of information are important functions of an interface agency, these roles in themselves will not ensure improvement

in the performance of a state's higher education system. An interface agency cannot be effective if it is a political weakling; it needs some measure of authority to motivate the behavior of institutions toward desired ends, whether in the form of incentives or simply the consistent support of sensible decisions by the governor and Legislature.

Certainly, the amount of resources available to an interface agency is an important part of the equation; no statewide board can hope to be effective if it lacks sufficient funding and staff. Ideally, the effectiveness of an interface agency rests on its power to influence elected policymakers and to craft policies and incentives that make the achievement of a state's policy goals fall within the self-interest of institutions themselves. The interface agency often plays a central role in devising appropriate measures of institutional accountability that help to ensure compliance with a state's policy objectives for higher education.

Even though expenditures for higher education now constitute a smaller share of state budgets, state support of higher education has grown in real dollars during the past two decades, and public officials naturally seek to ensure that the dollars invested yield discernible results. In some settings, a state's drive for institutional accountability has led to confrontations over such matters as faculty productivity or the assessment of student learning.

The interface agency plays a critical role in any successful effort to conjoin public officials' press for accountability with higher education's traditions of autonomy in the means of fulfilling its educational mission. An interface agency can help create accountability measures that provide a meaningful

index of progress in meeting a state's goals for higher education. It can also ensure that credible reports of performance reach legislators and the general public on a timely basis.

A state governing or coordinating board is by definition an agency that provides both support of and guidance to institutions as they pursue their individual strategic goals. Governing boards of individual colleges and universities can easily become captives of an institution's own ambitions, advocating those particular interests even t the expense of achieving broader state policy objectives. While affording institutions some measure of protection from the fluctuations of state politics, the interface agency helps ensure that individual institutions evolve in directions that are consistent with state policy goals.

One of the issues an interface agency can help address is the degree to which institutional mission should be a factor in the question of accountability to a state's public purposes. Successful degree completion, for example, is a goal that has meaning to every higher education institution. But would every institution be held equally accountable to a single graduation rate? Because institutions with different missions may serve different kinds of student populations, holding every institution equally accountable to a particular measure may prove neither efficient nor desirable.

At the same time, institutional mission can easily come to reflect an institution's aspiration to grow in directions that do not meet the greatest public need. Just as a state's expectations of higher education change over

time, mission often becomes a moving target, changing to accommodate the institution's internally driven goals-such as implementing more selective undergraduate admissions, establishing graduate programs, or expanding sponsored research programs-even if those purposes are fulfilled elsewhere in a state's higher education system.

The interface agency plays a critical role in facilitating a sustained interaction between a state's policymakers and its higher education institutions. In so doing, it helps ensure the continued strength and adaptability of policies to which all institutions are held accountable. No higher education institution that benefits from public funding should get an automatic " pass" on its obligation to help fulfill the public agenda, but a state should not expect every institution to achieve particular purposes in the same way.

Finally, it is fitting that a state should seek to hold institutions accountable for the " what" but certainly not the " how" of achieving public purposes. 5. What steps has a state taken to build the infrastructure and encourage higher education institutions to collaborate-with one another, with K-12 schools, with business and industry-in order to foster the goal of improved preparation as well as economic development? State policymakers play a key role in creating an environment that fosters collaboration between higher education institutions and other agents in areas that effect economic and civic vitality.

As major stakeholders, colleges and universities contribute to and depend on the educational and economic well-being of a state's population. The

development of more concerted partnerships between these institutions and K-12 schools is a key element in improving students' preparation for higher education study-and ultimately in increasing the number of students who pursue postsecondary education. By the same token, higher education's partnerships with business and industry can contribute substantially to the benefits that a higher education confers.

States in attractive geographic locations with fair climates can reap an educational and economic advantage simply because they draw many of the best and brightest from other settings. States that do not enjoy this advantage, however, must develop strategies to encourage higher education institutions to work with schools and other agencies, helping to maximize both college participation and the economic benefits higher education provides to a state's population.

Colleges and universities have the capacity to improve both measures by working in conjunction with a state's primary and secondary schools as their principal supplier of students, as well as with business leaders, who employ substantial numbers of their graduates. A state's most promising strategy in fostering collaboration is to create a framework and statewide incentives that help coordinate local initiatives. In this, as in other dimensions of achieving a state's public purposes, the levers of policy can help make collaboration with other stakeholders seem to be in the best interests of higher education institutions themselves.