Coping with Recession:

Public Policy, Economic Downturns and Higher Education

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Executive Summary

The current recession, which coincides with a surge in college enrollments, will test our nation's values and priorities. If state budgets remain tight or become even tighter—at a time when college has become the gateway to full participation in American life—will the states and colleges maintain college opportunity for Americans?

No one can answer that question today. But a look at the recession of the 1990s brings some tough lessons for state policymakers seeking to preserve opportunity for their residents:

1. **When revenue shortfalls are allocated among state services, higher education is likely to absorb larger cuts than other sectors.** Public higher education must compete with K–12 schools, welfare, Medicaid, corrections, and other services for state funding. Relative to these other services and agencies, colleges and universities are perceived by state policymakers as having more fiscal and programmatic flexibility. For instance, many higher education institutions have separate budgets, revenue streams, and reserves.
2. **When higher education faces cuts in state funding, the state and higher education institutions are likely to shift shortfalls to students and their families by raising tuition.** Formulas for setting tuition are early victims of tight budgets. The steepest tuition increases in the public sector have occurred during recessions as states shift their costs to users, including students and their families.
3. **During a recession, states are unlikely to make new or additional investments in student financial aid that will offset increases in tuition. Indeed, student aid may be reduced.** For example, in California over the first three years of the 1990s' recession, state support for public higher education was reduced. The higher education institutions raised tuition, while state-funded student financial aid was decreased by 15%. One result of these and related policies: California's public institutions served some 200,000 fewer students.

What's Different about the Current Recession?

One difference is "good news": the robust financial condition of higher education. National averages can conceal unevenness among sectors, institutions and states, but in general the decade of the 1990s was the best of times for public higher education. After accounting for inflation, average revenues per student increased to an all-time high during the decade. But there are three significant challenges:

1. **Enrollment Growth and Diversity.** States that experience budget shortfalls in this decade will face a situation quite different from that in the last recession: the new fiscal constraints will come during a period of growing enrollment demand. Over the next 10 years the student body will also become increasingly diverse. It will include larger proportions of students from low-income families and from historically underrepresented ethnic groups.
2. **The Dilemmas of Tuition Policy.** Tuition for public higher education is on a roller-coaster pattern: When state funding is sufficient, tuition tends to remain stable or is even reduced. But when higher revenues are needed or when state support falls below expectations, tuition is increased. One generation of students coasts downhill with stable or even declining real tuition charges; the next labors uphill with the increased price. And it's the students who enroll during difficult economic conditions who face the uphill climb.
3. **The Mismatches Between Public Policies of the 1990s and the Needs of the New Decade.** During the next decade, the cohort of prospective students will include larger proportions of students from low-income families and underrepresented ethnic groups. Yet the major policy initiatives of the 1990s in higher education did not focus on the needs of these groups. Many states established or increased support of non–means tested ("merit") student aid programs. At the federal level, establishing the tuition tax credits was the major initiative of the 1990s. Both merit-based student aid and tuition tax credits are likely to have at most a marginal impact on the enrollment of underserved populations; these programs generally benefit those with middle- and upper-middle incomes.

The Stakes Have Never Been Greater

The current recession coincides with the third great wave of college enrollments. This generation of students will be the most ethnically heterogeneous—and the poorest—ever to seek higher education. It will require extraordinary effort for states and colleges and universities to meet the needs of these students, even if the economy avoids a prolonged downturn. The public policy initiatives of the 1990s did not position the states to meet the demands of the coming decade. Nevertheless, the assets that states and their colleges and universities bring to this new era should not be underestimated. What will the states and colleges choose to protect during a time of difficult choices? The stakes in maintaining and enhancing college opportunity have never been greater.

Introduction

This essay is about recessions and the major policy considerations that states and institutions must face in the current economic downturn. I will discuss the public policy implications of three major variables in the course of the essay: (1) each of the 50 states has a unique higher education system; (2) each state also has unique revenue and budgetary processes; and (3) each recession is a unique, unpredictable event with its own unique causes, impacts, and duration. To these variables, one must add such conditions as a state's demographic characteristics and economic trends.

The politics of scarcity are very different from the politics of prosperity—and different in ways that are often inimical to financial support of higher education.

My focus will be on higher education policy, and I cannot overemphasize its importance. Skeptics will tell you that state public policy is a myth, and that politics is all there is. Politics is certainly more visible than policy, but policy is just as real. State *policies* look to desirable, even ideal, outcomes. In contrast, state *politics* look to the practical and the feasible, and political considerations weigh heavily on elected state officials who must make the key decisions about funding public services. The politics of scarcity are very different from the politics of prosperity—and different in ways that are often inimical to financial support of higher education.

State higher education policy, therefore, will be the setting for this essay. Within this setting, my observations are not guided by any generally accepted concept (if indeed there is one) that explains the complex interactions between government and higher education institutions. Rather, I first want to describe certain aspects of state financing of colleges and universities, focusing on those that were most affected by the recession in the early 1990s. Then I will discuss selected aspects of the current recession, particularly how it differs from earlier ones. I will close with a final observation on the present recession.

The Context: State Budgeting and Higher Education's Vulnerability

The great variety of state budgetary and higher education structures may prevent us from finding broadly applicable methods to cope with recession, but we can generalize about policy initiatives, past and prospective. A principal story of American higher education has been one of growth: growth in enrollments, in the number of public institutions of higher education, and in state support for these institutions. Such growth would not have occurred without positive federal and state public policy initiatives. The results justify the policies—for example, the percentage of people in the United States 25 years of age and older who have at least a bachelor's degree has increased from just over 20% to just over 25% during the past decade.[1] But we must not forget that in the early 1990s, during the recession, higher education was sometimes in severe competition with other state services for financial support.[2]

In this part of the essay, I will describe the state financing structures and policies that support public higher education, then I will discuss economic projections that suggest these structures can cause financial stress for higher education in the near future, and finally I will touch on major aspects of the recession of the early 1990s.

The Structure of State Revenues

Under our federal system, responsibility for education is with the 50 states. (In many other countries, education is under national control.) Federal initiatives—in particular, the Land Grant legislation and the G.I. Bill—were seminal policy actions. It was the individual states, however, that implemented the historic expansions of opportunity. Each state responded based on its own unique political and social conditions—for example, Land Grant status may be with the state's major public research university, as in California and Illinois; with a separate public university, as in Iowa and Michigan; or with an independent university, as in New York.

This diversity of state higher education structures is mirrored by the diversity of state revenue structures.

This diversity of state higher education structures is mirrored by the diversity of state revenue structures. These revenue structures are distinguished from that of the federal government by their low elasticity—that is, state and local revenues from existing taxes do not grow as rapidly as personal income, while federal revenues grow more rapidly. The major reason for the difference is the heavy reliance of many states on sales taxes—taxes on goods sold. During the period of prosperity from 1992 to 1997, the increase in state revenue from state and local taxes soared, rising on average by 31%. In 1997 sales taxes

[1] U.S. Bureau of the Census, as reported in "Economic Focus: Educational Attainment," *The Wall Street Journal*, Aug. 22, 2001, p. B8.

[2] Harold A. Hovey, *State Spending for Higher Education in the Next Decade: The Battle to Sustain Current Support* (San Jose: National Center for Public Policy and Higher Education, July 1999), p. 8.

represented 40.9% of state and local revenue, and property taxes 34.2%; income taxes accounted for only 24.8% of state revenues.[3]

These national averages tell a story about state revenues, but they also obscure important differences that have implications for managing state budgets and determining state policy. For instance, New Hampshire derives 78% of its state and local revenue from property taxes, while Alabama derives only 15% from that source. Nevada, on the other hand, derives 75% of its state revenue from sales taxes, but in Oregon only 13% comes from that source. Delaware relies on income tax to provide 54% of state revenues and South Dakota and Texas have no income tax at all.[4] These differences determine how states are affected by, respond to, and ultimately recover from recessions.

Higher education's declining share of state expenditures does not represent any deliberate policy decision to substantially curtail state funding.

Public higher education—including funding for student financial aid—must compete with other state services for its share of available funds. Because all the states but one are required to have a balanced budget, a gain for one legitimate, worthy state service—say, Medicaid—means less for another—say, higher education. National data, for example, show that in 1987 Medicaid received slightly over 10% of state spending, and higher education received slightly over 12%. By 1990, however, spending for Medicaid slightly exceeded that for higher education, and by 1995 Medicaid's share was more than 19% and higher education's share just over 10%. For fiscal 2002 state governors have recommended an increase of some $25.1 billion for prescription drugs under Medicaid—almost double the amount spent in fiscal 1998.[5] This example is not an isolated one.

Higher education's declining share of state expenditures does not represent any deliberate policy decision to substantially curtail state funding. Indeed, state support for higher education has often increased in absolute dollars, even as its share declined. The reasons for the decline in share can be found in the nature of the competition for state funds, the growth of other state services, political priorities, and the perceptions of key state officials. In his detailed assessment of the competitors for state funds, Harold Hovey looked at the

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[3] Kendra A. Hovey and Harold A. Hovey, *CQ's State Fact Finder 2001* (Washington, D.C.: CQ Press, 2001).

[4] Ibid.

[5] National Governors Association and National Association of State Budget Officers, *The Fiscal Survey of the States* (Washington, D.C.: June 2001), pp. vii and 14.

public schools, which receive the largest share—roughly one-third of state expenditures—and noted that:

> This group is politically formidable because it does many things that public higher education does very little of or not at all: (1) active lobbying from the grass roots while legislators are in session; (2) endorsement of candidates; (3) support of endorsed candidates with campaign workers and campaign contributions; and (4) retaliation against perceived opponents by such devices as supporting opponents in primary challenges and general elections.[6]

He might have added that public school leaders are often less reluctant than higher education leaders to publicly oppose tax cuts that threaten their state appropriations.

The impact of Medicaid on other state services is well known. As the National Governors Association notes, "Because of the large percentage of state budgets that Medicaid commands, Medicaid spending increases are felt throughout state government, affecting resources allocated for other key services, such as education."[7]

Like the public schools, Medicaid enjoys a political edge over higher education. Hovey explains how changing Medicaid eligibility standards to reduce state expenditures would mean risking the publicity of throwing elderly nursing home residents "out on the street."[8]

Higher education's competitive position is also weakened by the perceptions of governors, legislators, and key executive and legislative staff members. Relative to other state services and agencies, colleges and universities are seen as having fiscal and programmatic flexibility. Unlike other state agencies, many higher education institutions have separate budgets and reserves of their own. Campuses are also assumed to be able to absorb temporary fiscal adversity by translating budget cuts into payroll cuts, since many campuses are not bound by collective bargaining agreements. Unlike state agencies whose programs have relatively fixed spending levels (some set in statute, others mandated by court decisions and federal requirements), colleges and universities can save money

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[6] Hovey, *State Spending for Higher Education*, p. 42.
[7] National Governors Association, *Fiscal Survey of the States*, p. 13.
[8] Hovey, *State Spending for Higher Education*, p. 44.

by increasing class sizes and changing course offerings—and even by reducing enrollments. Higher education can also shift costs to students and their families by raising tuition.[9] Ironically, the fairly recent tendency on the part of some colleges and universities to characterize themselves as "state related" and "state affiliated," in hopes of attracting private support, may also undermine the perception of state responsibility for their support.

Although higher education is vulnerable in the competition for state resources, it nevertheless entered the new millennium with several years of historically unprecedented increases in state appropriations.[10] It is still uncertain whether these recent gains are now threatened, but it is clear that 2001 may mark the end of higher education's very best of financial times.[11] Some 17 states faced budget shortfalls in fiscal 2001.[12] I do not know all the causes of these current difficulties, nor will I speculate on whether they indicate just a blip, a short-term recession, the beginning of a long-term economic downturn, or a new plateau. I do believe, however, that regardless of the effects of the current recession, the medium-term fiscal prospects of higher education—public higher education, particularly—are quite problematic.

The Continuing Battle to Sustain Current Support for Higher Education

In 1999 Harold Hovey, one of the nation's leading analysts of public finance, examined the consequences of the inelasticity of state revenue structures.[13] As personal incomes rise, people spend incrementally less on taxed goods and more for nontaxed services, and thus increases in state revenues do not keep pace with increases in personal income. At the same time, however, the costs of maintaining state services increase—owing to demography, workload formulas, inflation, and other factors—and they increase at a faster rate than the revenues available to support them. The result is that for every increase of

[9] Ibid., p. 20.
[10] Corina Eckl and Arturo Pérez, "State Budget & Tax Actions 2001—Preliminary Report," *NCSL News* (Denver: National Conference of State Legislators, Aug. 1, 2001), p. 4; National Governors Association, *Fiscal Survey of the States,* p. 1.
[11] "Colleges Brace for the Economic Downturn," a Special Report in *The Chronicle of Higher Education,* Apr. 20, 2001, pp. A10–18.
[12] Eckl and Pérez, "State Budget & Tax Actions 2001," p. 1.
[13] Harold A. Hovey, *State Spending for Higher Education.* My discussion also relies heavily on Steven D. Gold, ed., *The Fiscal Crisis of the States: Lessons for the Future* (Washington, D.C.: Georgetown University Press, 1995).

10% in personal income—the cost of current services in the base year—state and local tax revenues rise only by about 9.5%.[14]

Hovey projected that, based on maintaining current services over eight years from 1998, the cost of state programmatic financial commitments would exceed state revenues in 39 states and that in the eighth year the average "structural deficit" for the 50 states would be 3.8% (see Table 1). In other words, the data from 1998 indicated that most states were living above their long-term means. (Some states have since enacted tax cuts.)

Table 1

State and Local Surplus (or Shortfall) as a Percentage of Baseline Revenues In Year Eight of Fiscal Projections

Rank	State	Percent	Rank	State	Percent
1	Iowa	2.7%	27	North Carolina	–3.7%
2	Nebraska	1.5		**United States**	**–3.8**
3	North Dakota	0.9	28	Utah	–4.3
4	Ohio	0.9	29	South Carolina	–4.6
5	Kentucky	0.5	30	Vermont	–4.6
6	Connecticut	0.4	31	Alabama	–4.8
7	Michigan	0.4	32	South Dakota	–5.0
8	New York	0.3	33	Indiana	–5.7
9	Maine	0.1	34	Montana	–5.7
10	Minnesota	0.1	35	Georgia	–6.5
11	Massachusetts	0.0	36	Washington	–6.7
12	Oregon	–0.1	37	Virginia	–6.8
13	Illinois	–0.4	38	Colorado	–7.0
14	Pennsylvania	–1.3	39	Maryland	–7.1
15	West Virginia	–1.4	40	Texas	–7.8
16	Wisconsin	–1.5	41	New Hampshire	–8.2
17	Missouri	–1.8	42	Florida	–8.8
18	Kansas	–1.9	43	Tennessee	–9.1
19	Mississippi	–2.0	44	Arizona	–10.5
20	Oklahoma	–2.1	45	Wyoming	–10.6
21	Arkansas	–2.3	46	New Mexico	–12.0
22	Louisiana	–2.5	47	Idaho	–13.2
23	California	–2.8	48	Hawaii	–15.1
24	Rhode Island	–2.9	49	Alaska	–16.4
25	Delaware	–3.0	50	Nevada	–18.3
26	New Jersey	–3.3			

Source: Hovey, *State Spending for Higher Education*, p. 10.

[14] Hovey, *State Spending for Higher Education*, p. 6.

Hovey's projections were made during the high point of economic prosperity. These projections did not assume, I must emphasize, a major recession, but rather only an end to the economic boom and an eventual return to the normal growth patterns of the previous quarter century. Hovey's projections were not embraced enthusiastically by either political or higher education leaders. The clear implication was that a day of reckoning for most states would come—a day when either taxes would have to be increased or budgets would have to be cut in order to *maintain* current services. Like most of us, elected officials tend to ignore bad news about the future.

Hovey also predicted that state higher education budgets would be uniquely vulnerable when the day of reckoning arrived, even if the country experienced a return to normal growth rates and no significant downturn or recession. If state budgetmakers asked higher education to absorb only its proportional share of reduced revenue growth, college appropriations would fall, on the average, approximately 0.5% short of the amount needed to maintain current services. New initiatives could not be supported without commensurate reductions in base budgets. Maintaining higher education's current share would call for a major reversal of trends over the last quarter century. States would have to increase their appropriations for higher education, on the average, at a rate 1 percentage point above appropriations for other state and local spending over the eight-year period. In a third of the states, the annual growth of state higher education spending would have to exceed growth in other state programs by 2 percentage points or more (see Table 2).

In other words, the rates of expenditure growth in the mid and late 1990s were not sustainable, even in normal economic times. Between 1993 and 1998, a period that Hovey characterized as "about as good as it gets in state funding of higher education," college and university appropriations increased at rates that exceeded enrollment

Table 2

Spending Increases Needed Over Eight Years To Maintain Level of Services in 1998

Rank	State	Annual Extra Budget Growth Needed for Higher Education*	Eight-Year Spending Growth Rate: All Programs	Eight-Year Spending Growth Rate: Higher Education
1	Vermont	5.3%	41.0%	83.3%
2	Nevada	4.9	75.4	114.8
3	Hawaii	4.3	45.3	79.5
4	New Mexico	3.3	52.2	78.9
5	Arizona	3.3	60.6	86.9
6	South Dakota	3.2	40.2	65.7
7	Wisconsin	3.0	36.9	60.8
8	Florida	2.9	46.3	69.6
9	Minnesota	2.8	38.0	60.3
10	Kansas	2.8	37.2	59.2
11	Washington	2.7	44.9	66.4
12	Connecticut	2.4	31.8	51.1
13	Maryland	2.4	40.5	59.6
14	New Hampshire	2.2	44.5	62.0
15	Iowa	2.1	32.0	48.7
16	Oklahoma	2.1	33.7	50.4
17	Alaska	2.1	43.6	60.3
18	Pennsylvania	1.9	32.5	47.4
19	Montana	1.7	43.1	56.7
20	Colorado	1.7	50.8	64.2
21	California	1.7	38.9	52.3
22	Rhode Island	1.6	33.7	46.8
23	North Dakota	1.5	33.2	45.0
24	Oregon	1.4	43.2	54.8
25	Nebraska	1.4	35.9	47.4
26	Missouri	1.3	36.9	47.5
27	Delaware	1.3	43.8	54.3
28	Louisiana	1.3	33.3	43.7
	United States	**1.0**	**39.5**	**47.7**
29	New York	1.0	32.5	40.5
30	Georgia	0.8	50.0	56.4
31	Massachusetts	0.8	36.1	42.3
32	Texas	0.7	45.5	51.5
33	Idaho	0.6	57.8	62.3
34	Virginia	0.5	41.6	45.7
35	Wyoming	0.3	42.4	44.5
36	Utah	0.1	51.0	52.1
37	Michigan	0.1	31.7	32.6
38	Illinois	0.0	33.4	33.8
39	Tennessee	0.0	45.4	45.4
40	Maine	–0.1	31.3	30.4
41	Ohio	–0.2	32.1	30.5
42	Indiana	–0.2	38.7	36.7
43	New Jersey	–0.5	37.1	33.3
44	Arkansas	–0.5	40.2	36.2
45	South Carolina	–0.5	40.0	36.0
46	Alabama	–0.6	38.9	34.3
47	Kentucky	–0.8	35.4	28.6
48	Mississippi	–0.9	37.4	30.5
49	West Virginia	–0.9	29.4	22.0
50	North Carolina	–1.3	45.9	35.3

*Positive values indicate that maintaining current services will require state spending for higher education to increase at a faster rate than that for other state programs. Negative values indicate that the state is projected to be able to maintain current services by increasing spending for higher education at a slower rate than that for other programs.

Source: Hovey, *State Spending for Higher Education*, p. 15.

growth or inflation.[15] The structure of state finance, as well as historical and political patterns, suggest higher education's vulnerability to economic slowdown or recession.

Recent Experience: The Recession of the Early 1990s

For additional insights into the political and fiscal dimensions of state finance, we need look no further than the national recession of the early 1990s.[16] At least five generalizations are of significance:

- A national recession affects each state differently: In the early 1990s, the recession was very severe in the Northeast and in California, but it had relatively little impact in many other states.
- Although a national recession may be short, individual states may face financial stress for much longer periods.
- During a national recession, individual states may face financial stress for a number of other reasons. Among such factors in the early 1990s: rising Medicaid costs, new federal mandates, higher public school enrollments, court rulings, voter initiatives, inelastic tax systems, and corrections policy.
- When states face fiscal constraints, the impacts on state services vary across states, within states, and among service sectors.
- When revenue shortfalls are allocated among state services, higher education is likely to be required to absorb proportionately larger cuts than other sectors. When this happens, the state and higher education institutions are likely to shift shortfalls to students and their families by raising tuition.

Will these generalizations from the last recession be useful in the current situation? I do not know, but I do know that when higher education has to face the impact of a recession, it will do so under different conditions and policies than it did in the early 1990s.

What's Different?

The structural characteristics of state finances and state higher education

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[15] Hovey, *State Spending for Higher Education*, p. 8.

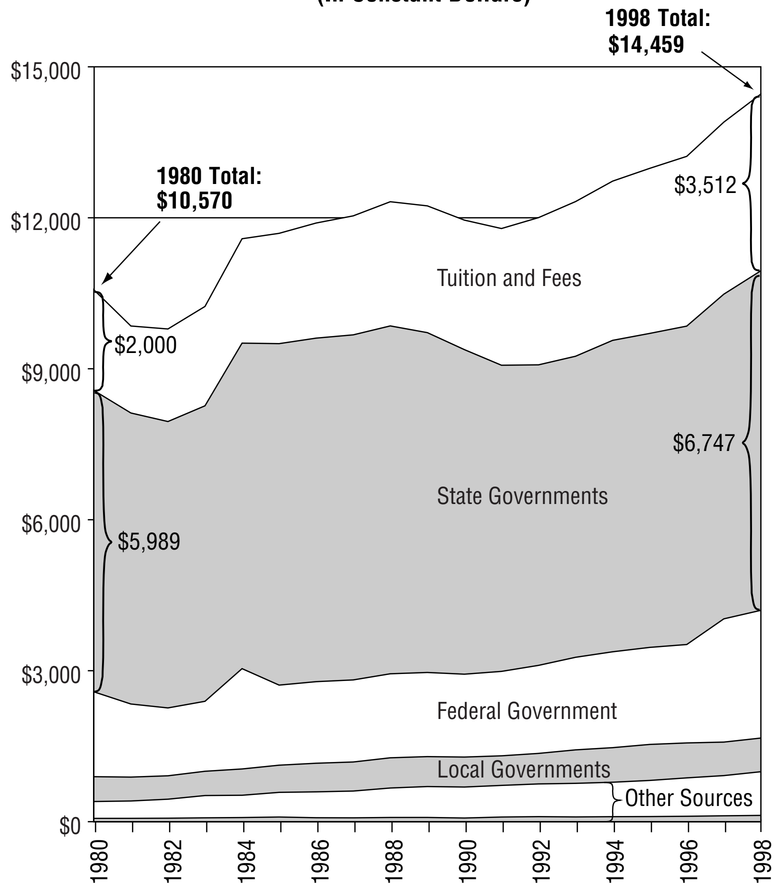
[16] My discussion of the early 1990s recession draws heavily on two studies: Gold, *The Fiscal Crisis of the States* and Patrick M. Callan and Joni E. Finney, eds., *Public and Private Financing of Higher Education: Shaping Public Policy for the Future* (Washington, D.C.: American Council on Education/Oryx Press, 1997).

finance have not changed significantly since the recession of the early 1990s. Other factors, however — demographic in part, policy driven in part — will be different and will influence state and higher education responses.

One difference is "good news": the robust financial condition of higher education at the beginning of the new century. The decade of the 1990s was indeed the best of times for public higher education. Average revenues per student increased (in constant dollars) to an all-time high of $14,459 in 1998 (see Figure 1). State appropriations and tuition and fees account for about 70% of revenues for public colleges and universities. State support, after declining in the late 1980s and early 1990s, increased faster than inflation and enrollment growth in the middle and late 1990s. Revenues from tuition also reached an historic high in 1998. These trends continued through the end of the decade. From 1998 to 2000, as reported by researchers at Illinois State University, state appropriations per FTE (full-time-equivalent) student, measured in constant dollars, increased by 14.5%.[17] Tuition at public institutions also continued to increase from 1998 to 2000, by 7% in four-year public institutions and by 10% in community colleges.[18]

Figure 1

Revenues for Public Institutions per Full-Time-Equivalent Student (In Constant Dollars)



Sources:
Finance figures: National Center for Education Statistics, *Current Fund Revenues and Expenditures of Higher Education*, Fiscal Years 1980–1988, 1987–1995, 1996; *Current Fund Revenues and Expenditures of Degree Granting Institutions*, Fiscal Year 1996; *Integrated Postsecondary Education Data System—Peer Analysis Program* (2000).
Full-time-equivalent enrollment figures: National Center for Education Statistics, *Digest of Education Statistics*, years 1984 through 2000.
Current Price Index: U.S. Bureau of Labor Statistics, *Current Price Index for All Urban Consumers*.

Of course, these national averages conceal unevenness and varying patterns of support among sectors, institutions and states, and even within states. They also mask the bumpy ride of public finance for many states and

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[17] *Grapevine: A National Database of Tax Support for Higher Education* (Normal, IL: Center for Higher Education and Educational Finance, Illinois State University, 1999–2001). Internet publication: http://www.coe.ilstu.edu/grapevine/.
[18] The College Board, *Trends in College Pricing, 2001* (New York: College Board Publications, 2001), p. 15.

institutions that suffered the most during the recession in the early 1990s and then benefited the most in the boom times of the middle and late 1990s. Nevertheless, the national data indicate that—whatever the future may hold—public higher education entered the new century financially strong. State appropriations held steady and increased modestly during the 1980s and 1990s. Fears and allegations of state disinvestment were false alarms. Tuition and fees did rise considerably faster than appropriations and other revenue sources during this period, and higher education's *share* of state appropriations did fall in most states. But the states maintained and improved their support for higher education over these years, and the financial condition of public higher education was significantly strengthened.

I now turn to three less-heartening changes that have taken place since the last recession: the challenges of enrollment growth, the dilemmas of tuition policy, and the "mismatches" between the public policies of the 1990s and the needs of the new decade.

UNPRECEDENTED ENROLLMENT GROWTH

States that experience substantial budget shortfalls within this decade will face a situation quite different from that in the last recession: the new fiscal constraints will come during a period of growing enrollment demand. (During the 1990s recession, in contrast, higher education enrollments were relatively stable.) Over the next 10 years the student body will also become increasingly more diverse.

The number of high school graduates began to increase in the mid-1990s and will continue to increase through 2008, when the nation will graduate the largest public high school class in its history—3.2 million students—exceeding the class of 1979, the peak year of the baby boom, by more than 60,000 graduates. The class of 2008 will include 332,000 graduates from private high schools (an increase of about 30% over the mid-1990s).[19]

Having more high school graduates will mean, of course, more college applicants, and the nation's colleges and universities are expected to experience

[19] Western Interstate Commission for Higher Education and The College Board, *Knocking at the College Door* (Boulder: WICHE, Feb. 1999), pp. 1–4.

unprecedented enrollment growth over the next 10 years. The Department of Education estimates that total college enrollment will grow from 14.8 million students in 1999 to 17.7 million in 2011, an increase of some 20%.[20] The new enrollments will not be evenly distributed across the country, however. Some states will experience little change or even decreases. Others, particularly on the Pacific coast and in the Southwest and Southeast will have to find places for substantially higher numbers of prospective college enrollees.[21] The projections do not assume dramatic improvements in high school graduation rates. Should public school reforms prove successful, the numbers graduating from high school and enrolling in college would exceed projections. Several states that will be most challenged to accommodate additional enrollments already suffer from low college participation rates.

The principal question for public higher education will be how to accommodate additional students without commensurate additional state support. But the problem of absolute growth will be compounded by the greater diversity of the students; many states are likely to see increases in both the absolute numbers and relative proportions of potential students from low-income families and from ethnic groups with historically low participation rates. For example, between 1990 and 1998 the Hispanic population in Arizona increased by 50%; in California, by 31%; and in Florida, by 43%. Over the same period, the African American population in Florida increased by 28%; in North Carolina, by 14%; and in Nevada, by 72%.[22]

The unevenness of higher education opportunity across the states was one of the principal findings of *Measuring Up 2000*, the National Center for Public Policy and Higher Education's comparative study that evaluated state higher education performance.[23] Many of the states that will see significant increases in the number of high school graduates also have low college participation rates, high percentages of children in poverty, and projected revenue shortfalls (see Table 3).

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[20] Debra E . Gerald and William J. Husser, *Projections of Education Statistics to 2011* (Washington, D.C.: U.S. Department of Education, National Center for Education Statistics, NCES 2001-083, Aug. 2001), pp. 25 and 29.

[21] *The Chronicle of Higher Education: Almanac Issue 2001–2,* Aug. 31, 2001, p. 8.

[22] William Chance and William Pickens, "On a Collision Course: Enrollment Growth in Higher Education and Tight State Budget Conditions" (San Jose: National Center for Public Policy and Higher Education, prepared in 2001, unpublished), Table 2, p. 10.

[23] *Measuring Up 2000: The State-by-State Report Card for Higher Education* (San Jose: National Center for Public Policy and Higher Education, 2000), p. 10.

Table 3

Challenges Facing High-Enrollment-Growth States

	Change in # of High School Graduates (1999–2010)	Projected State Budget Shortfall (–) (2000–2006)	% Children in Poverty	Participation Score in Measuring Up 2000	
				Grade	(Index Score)
Nevada	75%*	–18.3%*	14%	D+	(67)**
Arizona	34%*	–10.5%*	25%*	C	(75)
Florida	26%*	–8.8%*	24%*	D+	(67)**
Georgia	25%*	–6.5%*	20%	F	(52)**
California	21%*	–2.8%	25%*	B+	(88)
New Jersey	20%*	–3.3%	14%	B+	(87)
North Carolina	20%*	–3.7%	20%	D	(66)**
Washington	19%*	–6.7%*	16%	C–	(72)
Maryland	16%*	–7.1%*	16%	A	(93)
Colorado	15%*	–7.0%*	12%	B–	(80)
Connecticut	15%*	0.4%	19%	B+	(88)
Oregon	13%*	–0.1%	16%	D	(64)**
Tennessee	13%*	–9.1%*	23%*	D–	(60)**
Virginia	13%*	–6.8%*	14%	B–	(82)
Texas	12%*	–7.8%*	25%*	D	(66)**
Idaho	11%*	–13.2%*	18%	D	(64)**
New York	9%*	0.3%	25%*	B–	(80)
United States	9%	–3.8%	21%	—	—

Note: The "participation score" comprises three indicators: high school to college rate, young adult enrollment, and working-age adult enrollment (National Center for Public Policy and Higher Education, p. 168).

* The challenge to the state is equal to or greater than the national average.

** The state received a score of "D" or "F" for participation in *Measuring Up 2000.*

Sources: U.S. Census Bureau; Hovey, *State Spending for Higher Education;* National Center for Public Policy and Higher Education, *Measuring Up 2000.*

These high-growth, high-poverty states with projected budget shortfalls are likely to be the states where the future of higher education opportunity in the country will be determined. Many of these states also need to invest heavily in higher education capacity and in need-based financial assistance. But these are states where revenues are most likely to be adversely affected by an economic downturn or a recession, and higher education budgets will likely be under the greatest pressure.

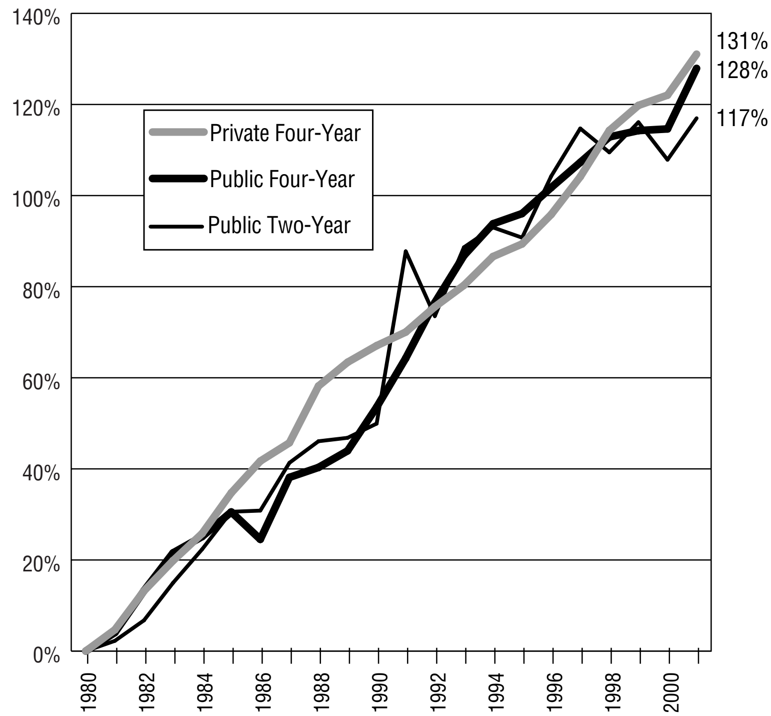
Increased enrollment pressures, particularly during times of financial crises, highlight the continuing, critical question of maintaining opportunity in America: How can states resolve the converging and overlapping issues of changes in the ethnic composition of enrollment pools, and increased numbers of students in financial need?

THE TUITION CONUNDRUM

Setting tuition, the price that students and their families must pay to attend a public college, is a problem that seems to defy rational solution—or even broad agreement about what would constitute "rationality." There is probably no other public policy issue in higher education on which the great preponderance of expert opinion—policy experts, scholars and many higher education leaders—is so completely at odds with the preferences of the American public. Policy experts overwhelming favor "high tuition—high financial aid" strategies that would concentrate public subsidies on those least able to afford college. While there is little support for free public higher education, the general public consistently favors low to moderate tuition with financial assistance for qualified and motivated students who are unable to afford college.[24]

Figure 2

Percentage Change in Tuition Since 1971, All Institutions (In Constant Dollars)



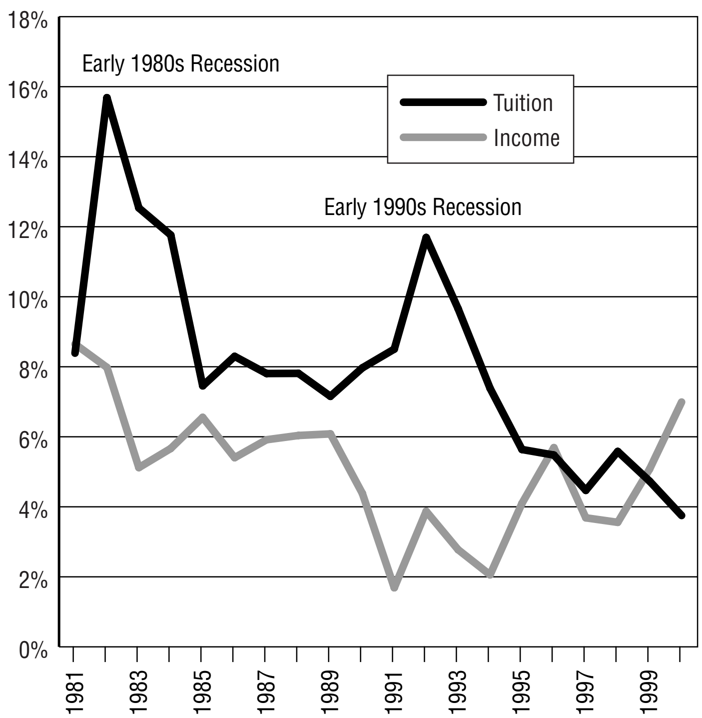
Source: The College Board, *Trends in College Pricing 2001.*

Since 1980, tuition at public and private institutions has risen significantly (see Figure 2). As discussed earlier in this essay, the structure of state finances and the exigencies of state politics squeeze higher education budgets when state revenues decline. States and colleges typically fill this revenue gap with tuition. The steepest tuition increases have occurred in times of economic hardship (see Figure 3)—times when personal income declines, unemployment rises, and public economic anxiety is high. This is probably one major reason for the political unpopularity of tuition

[24] See John Immerwahr and Steve Farkas, *The Closing Gateway: Californians Consider Their Higher Education System* (San Jose: The California Higher Education Policy Center, Sept. 1993); John Immerwahr, *Enduring Values, Changing Concerns: What Californians Expect from Their Higher Education System* (San Jose: The California Higher Education Policy Center, Feb. 1997); John Immerwahr, *The Price of Admission: The Growing Importance of Higher Education* (San Jose: National Center for Public Policy and Higher Education, 1998).

Figure 3

Percentage Change in Income and Public College Tuition from Previous Year



Sources:
Income: U.S. Bureau of the Census, "Median Income for Four Person Families, By State" (2001).
Tuition: Washington State Higher Education Coordinating Board, *Tuition and Fee Rates: A National Comparison*, volumes 1985, 1990, 1995, 2000.

increases. When sharp tuition increases are enacted to fill gaps in state revenues, they rarely adhere to the "high tuition–high aid" model. The freed state dollars—rather than being used to increase need-based financial aid for college students—are expended to support programs of higher political salience, such as Medicaid, public schools and corrections. In both good times and hard times, state and federal financial aid have lost ground to tuition (see Figure 4).

During good economic times, the reasonable and salutary principle that increases in tuition should be gradual, moderate, and predictable is not difficult to follow. But a recession is defined by economic changes that are sudden, large, and unpredictable. Recent history has shown that:

- Formulas for setting tuition are early victims of a recession.
- The steepest tuition increases in the public sector have occurred during recessions as states seek to shift their costs to users, including students and their families. The following comments, from a 1976 study,[25] illustrate this cost-shifting strategy:

> Campus administrators were very outspoken against tuition increases until the legislature indicated that these would be the only source of new money. They changed their minds fast.
>
> —*Panel of university chief budget officers*

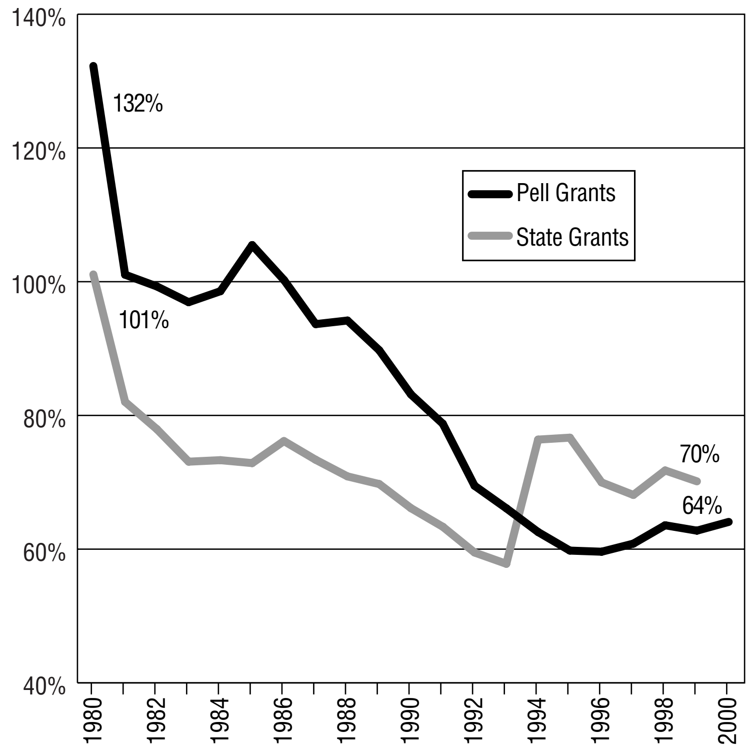
> Essentially, there will be level funding for 1976–77, offset in part by a portion of amounts that governing boards are able to raise by increased tuition and fees.
>
> —*State budget officer*

[25] Frank M. Bowen and Lyman A. Glenny, *State Budgeting for Higher Education: State Fiscal Stringency and Public Higher Education* (Berkeley: Center for Research and Development in Higher Education, 1976), p. 60.

- Because a state's most pressing problem during a recession is lack of revenue, states are unlikely to make new or additional investments in student financial aid that will offset increases in tuition. Indeed, student aid may be reduced, exacerbating the problem. An example from the recent past: In California over the initial three years of the 1990s recession, state support for the University of California was reduced by 19%, for the California State University by 12%, and for the community colleges by 1%. The higher education institutions raised tuition, but state-funded student financial aid was reduced by 15%. One result of the financial aid cuts and related policies: California's public institutions ended up serving some 200,000 fewer students.[26]

Figure 4

Pell Grants and State Grants per Recipient as a Percentage of Public Four-Year Tuition



Note: Data not available for state grants in 2000.
Sources:
Tuition: Washington State Higher Education Coordinating Board, *Tuition and Fee Rates: A National Comparison*, volumes 1985, 1990, 1995, 2000.
Federal and State Aid: The College Board, *Trends in Student Aid 1980 to 1990; Trends in Student Aid 1987 to 1997; Trends in Student Aid 2001.*

Higher tuition in the public sector is often thought to improve the competitiveness of the independent sector. But public sector tuition is seldom raised to a level that would improve competition. And when student aid does not increase commensurately with tuition, financial aid may be reallocated from the independent sector to the public sector as higher tuition brings more students into eligibility. This was the case in California, where the share of state financial aid dollars supporting students at independent campuses dropped from 42% in 1990–91 to 34% in 1993–94, but increased from 51% to 62% over the same period for students in the public sector. Similarly, in New York, the Tuition Assistance Program (TAP) was established in the mid-1970s as a need-based entitlement with the primary purpose of permitting students to attend private colleges and universities. From 1991 to 1996, New York's public institutions mirrored the steep tuition increases

[26] Patrick M. Callan, "Five Years in Retrospect: The California Higher Education Policy Center, 1992 to 1997," in *The California Higher Education Policy Center: An Assessment* (San Francisco: The James Irvine Foundation, March 1998), pp. 28–29.

seen throughout the country. TAP expenditures to CUNY and SUNY students increased by 180% and 97%, respectively, while expenditures to undergraduates at independent institutions increased only 7%. By 1996 more TAP funding was supporting students at New York's public institutions than students at independent institutions. When TAP was established, its maximum award paid for approximately half the average tuition at independent institutions, but in 1996 it covered only 26%.[27]

In difficult economic times, all attempts to rationalize tuition policies founder.

Public higher education tuition is on a roller-coaster pattern because, regardless of formulas, it remains stable or is even reduced when state funds are sufficient to cover the cost of education. But when institutional costs rise to the point that higher revenues are needed or when state support decreases or falls below expectations, tuition is increased. One generation of students coasts downhill with stable or even declining real tuition charges; the next labors uphill with the increased price. In difficult economic times, all attempts to rationalize tuition policies founder. But the roller-coaster pattern continues: during a recession students pay higher tuition, and their successors may benefit from a backlash that reduces the price.

The Politics of Tuition

Tuition increases are likely to remain an important tool in the repertoire of state and institutional response to recession. But the experience of the 1990s is instructive, for it reveals the political limits of this tool, and the force of the backlash when the public believes that increases have been excessive. In New York State, between 1990 and 1995 tuition increased from 4.2% to 7.7% of median household income; in California, the increase was from 1.7% to 3.1%.[28]

Public opinion research during this period of economic volatility showed that the middle class in particular feared that higher education, just when it seemed more essential than ever, was becoming less accessible. As middle-class families weighed in on this issue, elected officials, first at the state and then at the federal level, began searching for ways to relieve public apprehensions. By the mid-1990s, of the five states that had raised tuition by the largest percentages from 1990 to 1995 (California, Massachusetts, New York, Oregon, and Virginia), four had frozen tuition or slowed the rate of growth significantly. Tuition rollbacks

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[27]Callan and Finney, P*ublic and Private Financing*, pp. 97, 218, and 219.
[28] Kent Halstead, *State Profiles: Financing Public Higher Education 1978 to 1976* (Washington, D.C.: Research Associates of Washington, 1998), pp. 11 and 67.

followed in several states; most of them occurred after the economic crisis had passed, financial aid had been restored, and lost enrollment had been recovered, but public resentment remained. Governor Pete Wilson of California and Governor George Pataki of New York had supported steep tuition increases in the early and mid-1990s. Faced with adverse public opinion, and with reelection campaigns before them (Wilson in 1994; Pataki in 1998), both governors backed away from their earlier positions. In Wilson's case, this meant reneging on an agreement with public college and university leaders that called for annual tuition increases of up to 10%.[29] Prior to Wilson's reversal (and perhaps accounting for it in part), Gray Davis, the gubernatorial candidate who succeeded Wilson in 1998, proposed an amendment to the state constitution that would have frozen tuition and restricted future increases.

While tuition freezes and rollbacks were under way in some states, others initiated new programs of student support, programs that were not means-tested, and that provided new subsidies to middle-income students. At about that time, based on focus group information, President Clinton featured middle-class tax credits in his 1996 reelection campaign. I will comment on these programs in the next section. It is sufficient here to note that these programs came in the wake of steep tuition increases and public opinion polls reflecting middle-class anxiety over the price of a college education.

A final word on public opinion. In an afterword to a national public opinion survey published in May 2000, Deborah Wadsworth, president of the Public Agenda organization commented: "For most Americans, higher education is a public policy success story." She then identified some future scenarios "that might cloud the public's current rosy outlook." The first of these, "problems with affordability," merits quotation in full:

> If large numbers of American families begin to feel that they can no longer afford to send their youngsters to college, higher education might easily become a "hot button" for the public. Tougher economic times that force colleges and universities to raise prices or reduce admissions could affect the public's view that anyone who really wants a college education can get one. What's more, tougher economic times might well increase families' anxiety

[29] Mario C. Martinez and Thad Nodine, "California: Financing Higher Education Amid Policy Drift," in *Public and Private Financing of Higher Education*, edited by Patrick M. Callan and Joni E. Finney (Washington, D.C.: American Council on Education/Oryx Press, 1997), p. 94.

> about their ability to cover their share of college expenses, as well as the availability of jobs for themselves and their children just coming out of college. Graduates' willingness and ability to shoulder substantial loans could drop dramatically in a less hospitable job market. An economic downsizing could upset the apple cart; cash-strapped Americans would likely greet any sign of diminishing access or rising costs with dismay. As we have seen, Americans see higher education as the gateway to a good job and middle class lifestyle. If that gateway is threatened, we might expect to see considerable public distress.[30]

Student Support

Generous state financial support in the 1990s left higher education in sound financial condition at the end of the decade. As discussed in earlier sections, in the coming decades many states that have had low college participation rates will be faced with significantly higher enrollment demand. And the cohort of prospective students will include larger proportions of students from low-income families and from historically underrepresented ethnic groups. When college finances were healthy in the 1990s, it might have been expected that new state programs would have focused on these needs of the latter groups. It is clear that the new programs did not.

Instead, the major initiatives in many states were the establishment and support of non–means tested ("merit") student aid programs. States responded to middle-class financial anxiety about college costs, to concerns about "brain drain"—the migration of high-achieving high school graduates to out-of-state colleges—and to the attraction of rewarding student achievement. These programs grew rapidly. From 1996–97 to 1999–2000, state non-need-based financial aid increased by 90%, from $459 million to $873 million; state need-based aid grew by 24%, from $2.6 billion to $3.2 billion.[31] The structures of the merit programs vary considerably across states, but most are likely to have at

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30 John Immerwahr and Tony Foleno, *Great Expectations: How the Public and Parents—White, African American and Hispanic—View Higher Education.* (San Jose: National Center for Public Policy and Higher Education, May 2000), pp. 33–34.

31 National Association of State Grant and Aid Programs, *28th Annual Survey Report, 1996–97 Academic Year* (Albany, NY: New York State Higher Education Services Corporation, March 1998), table 1; and *31st Annual Survey Report, 1999–2000 Academic Year* (Albany, NY: New York State Higher Education Services Corporation, April 2001), table 1.

most a marginal impact on the enrollment of underserved populations. Instead, these increasingly well-financed programs with politically potent middle-class beneficiaries now compete with need-based financial aid for state support, a competition that is certain to intensify during a recession.

At the federal level, a program for tuition tax credits was the major initiative of the 1990s. The beneficiaries are families with taxable incomes between $40,000 and $90,000, particularly those with students at colleges that charge high tuition. What appears to be an unintended consequence is that states with low-tuition public colleges and universities can shift costs to the federal government by raising tuition and encouraging eligible students and families to claim the credit. However, only students and families who owe taxes are eligible; lower-income students and their families who do not owe taxes are not eligible.[32] Most states and public institutions have not yet raised tuition to capture this new federal subsidy, probably because of the relatively generous state appropriations of recent years and the political unpopularity of tuition increases. In a recession, however, it is unlikely that states or public colleges and universities will leave this federal subsidy "on the table," even though tuition increases to capture the subsidy will impede access for low-income students without increases in need-based student financial aid. However, recent history suggests that recessions are the time when states are least likely to make such investments. And federal tax credits may make it easier to reduce state subsidies for higher education, and to shift support to other parts of the state budget. At the federal level, need-based student aid, unlike tax credits, must compete with other domestic programs in the annual appropriations process, a competition that inevitably intensifies during recessions.

It is not the purpose of this essay to evaluate these state and federal initiatives. Whatever their merits, they represent another variable in the complexities of public financing for higher education. In responding to the recession, states will face enormous difficulties in understanding and working with the interactions among state grant programs, federal grant and tax credit programs, institutional aid, student qualifications, and family tax liabilities. I do not envy their task.

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[32] See Kristin D. Conklin, *Federal Tax Credits and State Higher Education Policy* (San Jose: National Center for Public Policy and Higher Education, Dec. 1998).

Concluding Observation

The current recession coincides with the third great wave of college enrollments. The first was the G.I.s after World War II; then their children, the baby boomers. The current cohort includes many who, like the G.I.s, will be the first in their family to seek college admission. This generation of students will be the most racially and ethnically heterogeneous—and the poorest—ever to seek higher education. And these students arrive at a time when postsecondary education and training are essential for full participation in the civic, economic, and social life of America—for, if you will, participation in middle-class life.

It will require extraordinary effort on the part of states and colleges and universities to meet the needs of these students, even if the economy avoids a major, prolonged recession. The public policy initiatives of the 1990s did not position the states to meet the demands of the coming decade. Some initiatives—merit aid for students of affluent families, tax credits that exclude low-income Americans—may come to be remembered as public policy's contribution to "irrational exuberance."

Nevertheless, the assets that states and their colleges and universities bring to this new era should not be underestimated. Unlike the 1960s, most of the capacity to accommodate the new enrollments already exists. The financial condition of public higher education is generally strong. Public confidence in the enterprise is high.

Recession will test our nation's values and priorities. What will the states and the colleges choose to protect during a time of difficult choices? College has become the gateway to full participation in American life, and the stakes in maintaining and enhancing college opportunity have never been greater.

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Coping with Recession: Public Policy, Economic Downturns and Higher Education, by Patrick M. Callan (February 2002, #02-2). Outlines the major policy considerations that states and institutions of higher education face during economic downturns.

Competition and Collaboration in California Higher Education, by Kathy Reeves Bracco and Patrick M. Callan (January 2002, #02-1). Argues that the structure of California's state higher education system limits the system's capacity for collaboration.

Measuring Up 2000: The State-by-State Report Card for Higher Education (November 2000, #00-3). This first-of-its-kind report card grades each state on its performance in higher education. The report card also provides comprehensive profiles of each state and brief states-at-a-glance comparisons. Visit **www.highereducation.org** to download *Measuring Up 2000* or to make your own comparisons of state performance in higher education. Printed copies are available for $25.00 by calling 888-269-3652 (discounts available for large orders).

> ***Beneath the Surface: A Statistical Analysis of the Major Variables Associated with State Grades in* Measuring Up 2000,** by Alisa F. Cunningham and Jane V. Wellman (November 2001, #01-4). Using statistical analysis, this report explores the "drivers" that predict overall performance in *Measuring Up 2000.*
>
> ***Supplementary Analysis for* Measuring Up 2000: *An Exploratory Report,*** by Mario Martinez (November 2001, #01-3). Explores the relationships within and between the performance categories in *Measuring Up 2000.*
>
> ***Some Next Steps for States: A Follow-up to* Measuring Up 2000,** by Dennis Jones and Karen Paulson (June 2001, #01-2). What are the next steps states can take to improve performance in higher education? This report provides an introduction to the kinds of actions states can take to bridge the gap between the performance areas identified in *Measuring Up 2000* and the formulation of effective policy.
>
> ***A Review of Tests Performed on the Data in* Measuring Up 2000,** by Peter Ewell (June 2001, #01-1). Describes the statistical testing performed on the data in *Measuring Up 2000* by the National Center for Higher Education Management Systems.
>
> ***Recent State Policy Initiatives in Education: A Supplement to* Measuring Up 2000,** by Aims McGuinness, Jr. (December 2000, #00-6). Highlights education initiatives that states have adopted since 1997–98.
>
> ***Assessing Student Learning Outcomes: A Supplement to* Measuring Up 2000,** by Peter Ewell and Paula Ries (December 2000, #00-5). National survey of state efforts to assess student learning outcomes in higher education.
>
> ***Technical Guide Documenting Methodology, Indicators and Data Sources for* Measuring Up 2000** (November 2000, #00-4).
>
> ***A State-by-State Report Card on Higher Education: Prospectus*** (March 2000, #00-1). Summarizes the goals of the National Center's report card project.

Great Expectations: How the Public and Parents—White, African American and Hispanic—View Higher Education, by John Immerwahr with Tony Foleno (May 2000, #00-2). This report by Public Agenda finds that Americans overwhelmingly see higher education as essential for success. Survey results are also available for the following states:

> *Great Expectations: How Pennsylvanians View Higher Education* (May 2000, #00-2b)
> *Great Expectations: How Floridians View Higher Education* (August 2000, #00-2c)
> *Great Expectations: How Coloradans View Higher Education* (August 2000, #00-2d)
> *Great Expectations: How Californians View Higher Education* (August 2000, #00-2e)
> *Great Expectations: How New Yorkers View Higher Education* (October 2000, #00-2f)
> *Great Expectations: How Illinois Residents View Higher Education* (October 2000, #00-2h)

State Spending for Higher Education in the Next Decade: The Battle to Sustain Current Support, by Harold A. Hovey (July 1999, #99-3). This fiscal forecast of state and local spending patterns finds that the vast majority of states will face significant fiscal deficits over the next eight years, which will in turn lead to increased scrutiny of higher education in almost all states, and to curtailed spending for public higher education in many states.

South Dakota: Developing Policy-Driven Change in Higher Education, by Mario Martinez (June 1999, #99-2). Describes the processes for change in higher education that government, business and higher education leaders are creating and implementing in South Dakota.

Taking Responsibility: Leaders' Expectations of Higher Education, by John Immerwahr (January 1999, #99-1). Reports the views of those most involved with decision-making about higher education, based on a survey and focus groups conducted by Public Agenda.

The Challenges and Opportunities Facing Higher Education: An Agenda for Policy Research, by Dennis Jones, Peter Ewell, and Aims McGuinness (December 1998, #98-8). Argues that due to substantial changes in the landscape of postsecondary education, new state-level policy frameworks must be developed and implemented.

Higher Education Governance: Balancing Institutional and Market Influences, by Richard C. Richardson, Jr., Kathy Reeves Bracco, Patrick M. Callan, and Joni E. Finney (November 1998, #98-7). Describes the structural relationships that affect institutional effectiveness in higher education, and argues that state policy should strive for a balance between institutional and market forces.

Federal Tuition Tax Credits and State Higher Education Policy: A Guide for State Policy Makers, by Kristin D. Conklin (December 1998, #98-6). Examines the implications of the federal income tax provisions for students and their families, and makes recommendations for state higher education policy.

The Challenges Facing California Higher Education: A Memorandum to the Next Governor of California, by David W. Breneman (September 1998, #98-5). Argues that California should develop a new Master Plan for Higher Education.

Tidal Wave II Revisited: A Review of Earlier Enrollment Projections for California Higher Education, by Gerald C. Hayward, David W. Breneman and Leobardo F. Estrada (September 1998, #98-4). Finds that earlier forecasts of a surge in higher education enrollments were accurate.

Organizing for Learning: The View from the Governor's Office, by James B. Hunt Jr., chair of the National Center for Public Policy and Higher Education, and former governor of North Carolina (June 1998, #98-3). An address to the American Association for Higher Education concerning opportunity in higher education.

The Price of Admission: The Growing Importance of Higher Education, by John Immerwahr (Spring 1998, #98-2). A national survey of Americans' views on higher education, conducted and reported by Public Agenda.

Concept Paper: A National Center to Address Higher Education Policy, by Patrick M. Callan (March 1998, #98-1). Describes the purposes of the National Center for Public Policy and Higher Education.

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