States and Higher Education: On Their Own in a Stagnant Economy

By William Zumeta

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Four years after the onset of the "Great Recession" in late 2007—and more than two years after its official end in June 2009—the U.S. economy remained bedeviled by slow, inconsistent GDP growth, persistently high unemployment (9.0 percent of the labor force in October 2011) and many uncertainties. Most experts foresaw several years of sluggish performance at best.

This outlook is bad news for public higher education, which has depended upon state funding for most of its instructional mission. Many states reduced higher education appropriations sharply over these recessionary years, but FY 2012 brought more deep cuts. Nor could states count on federal support, which provided substantial help over the previous three years. FY 2012 also brought serious rethinking about the basic rationale for state-supported public higher education.

This chapter summarizes the recent performance of—and outlook for—the U.S. economy. It tracks the impact of the weak economy on state revenues, budgets, and support for higher education; looks at the effects of the Great Recession and its aftermath on students—especially tuition increases and debt accumulation—and assesses the latest trends in student aid. The conclusion posits likely scenarios for public higher education as the federal government and many state governments seem poised to reduce support further.

THE ECONOMY

The U.S. economy—sluggish during the first half of 2010—picked up noticeably later in that year. Some observers hoped that a sustained recovery was underway when the unemployment rate, a key indicator of economic health, declined gradually from its 10.1 percent peak in 2009. But the economy sputtered in the first two quarters of 2011 to growth rates of just 0.4 percent and 1.3 percent, respectively.[1] Contributing to this lethargic performance were disruptions caused by the massive earthquake and tsunami disaster in Japan in early 2011, energy and food price spikes, continuing concerns about financial instability in the eurozone, the effect of mortgage foreclosures on the U.S. housing market, and the end of the federal stimulus. The Commerce Department initially estimated a 2.5 percent annual growth rate for the third quarter of 2011—better, but still anemic for this stage of a post-recession recovery.[2]

Unemployment remained stubbornly high. Figure 1 shows average quarterly unemployment rates beginning in pre-recession 2007. A modest downward trend in unemployment began at the end of 2009. But the decline ended in 2011 with the rate still around nine percent. High unemployment reduces aggregate consumer purchasing power and willingness to spend.[3] Consumer spending represents about 70 percent of the economy, so unemployment, in turn, hinders growth potential. Seeing weak demand, firms hesitate to ramp up production or hiring, and banks will not lend for what they see as risky investments in expansion. Meanwhile, inflation rates also jumped, from the low one percent range in 2010 to close to four percent by September 2011.[4]

Following Keynesian prescriptions, the independent Federal Reserve Board used monetary policy to stimulate demand while the Obama administration relied on fiscal policy. In 2009, President Obama secured Congressional passage of the $887 billion American Recovery and Reinvestment Act (ARRA); it later reduced payroll taxes. The evident insufficiency of these and smaller steps led others to offer a politically influential alternative diagnosis. This analysis identified the size of the federal budget deficit—not weak demand—as the primary economic problem. It called for reducing, not increasing, federal spending, while arguing that the Fed should lessen the danger of excessive inflation by restraining its use of stimulative monetary measures.

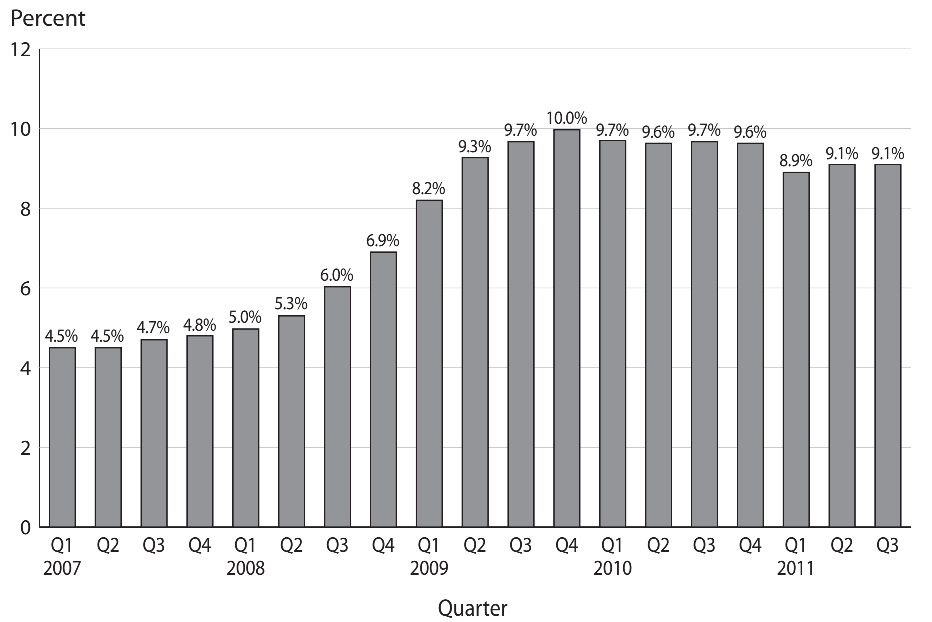
The resulting political impasse over macroeconomic policy seems unresolvable before the November 2012 elections. There may be little change before 2014 because any ensuing measures would take at least a year to have much impact. Meanwhile, plausible external shocks, such as natural disasters, threats to energy supplies and prices caused by instability in the Middle East, or a global financial panic precipitated by the inability of the eurozone countries to resolve their sovereign debt crisis, could easily tip the nation, or the globe, into another recession or worse.

THE STATES

State government treasuries feel acutely the effects of the economy. An economy that turns "south" quickly and sharply affects states' major revenue sources: personal income and sales taxes, and corporate income taxes. State revenues declined more steeply during the Great Recession than ever before.[5] Over the course of the economic downturn, from FY 2009 through FY 2011,[6] states had to redress a staggering $388 billion in aggregate imbalances between actual revenues and planned spending.[7] ARRA provided nearly 40 percent of the money states used to balance their budgets during these years. But states still sharply reduced funds for core services, such as K–12 education, health care, social services for the needy, and, of course, higher education.[8]

After hitting bottom, state revenue collections grew moderately during FY 2011. Revenues increased by 10.8 percent in the spring quarter of 2011, a promising trajectory as states planned for their FY 2012 budgets.

Figure 1. U.S. Average Quarterly Unemployment Rate, 2007–2011



Source: U.S. Department of Labor, Bureau of Labor Statistics.

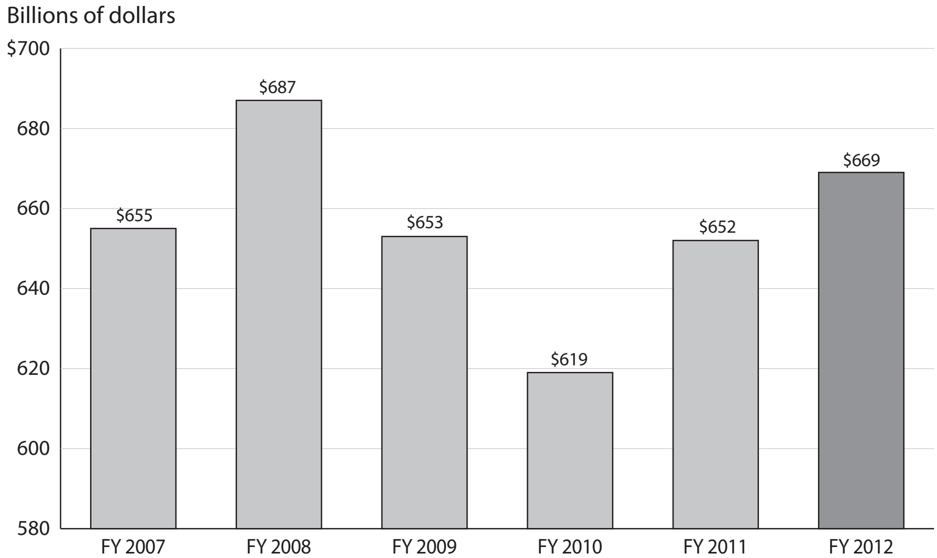
Still, these revenues remained lower than in the spring 2007 quarter.[9] Meanwhile, states confronted population growth, recession-induced demands for services, and the waning of federal ARRA support—only an estimated $6 billion nationwide in FY 2012.[10] The states, according to a July 2011 estimate, had addressed another $91 billion in gaps between projected revenues and "current services" expenditure requirements in enacting their FY 2012 budgets.[11]

Despite some exceptions, the states did not close their budget gaps via tax increases or drawing on already depleted reserves.[12] Instead, most states made yet another round of spending reductions. The Center on Budget and Policy Priorities classified the FY 2012 service cuts made in 38 states as "major," though most cuts followed earlier deep reductions. Education and health services, which represent much of state budgets, inevitably suffered a large share of the service reductions. K–12 class sizes grew and the rolls of health and social programs for the needy declined. At least 16 states laid off workers or cut their pay or benefits. State and local governments eliminated at least an estimated 577,000 jobs since August 2008—reductions that are now widely acknowledged to contribute to the nation's sluggish economic performance.[13]

In aggregate, states' FY 2012 budgets called for estimated increases in revenues and expenditures of 1.9 and 2.7 percent, respectively, over FY 2011. But these increases—virtually no increase at all taking inflation into account—must be understood in context. States budgeted FY 2012 spending at a lower level than FY 2008 expenditures, even without adjustments for inflation or caseload increases (Figure 2).

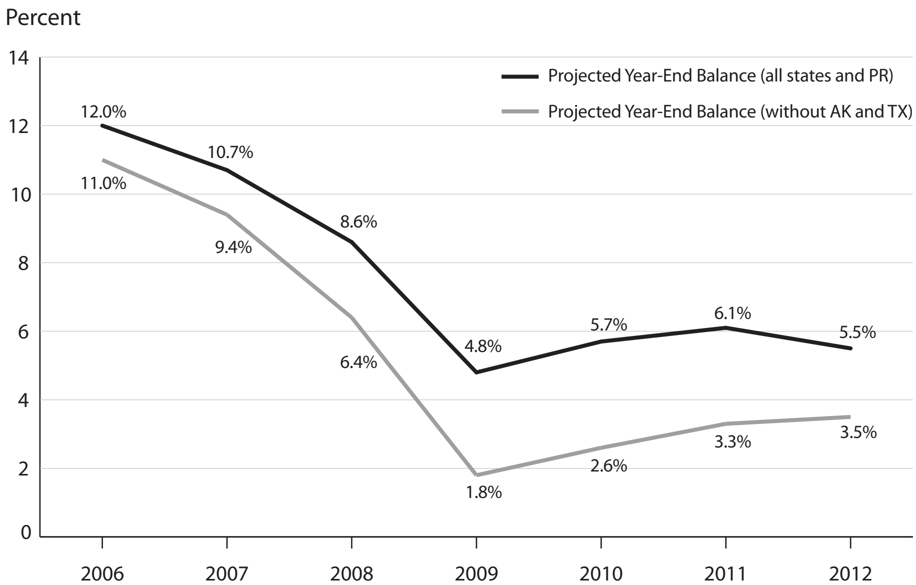
The fiscal condition of most states remains precarious. Figure 3 shows the trend in aggregate fiscal year-end balances in state treasuries, including reserve and "rainy day" funds, as a percentage of the year's expenditures.[14] This standard measure of fiscal stability declined

Figure 2. Total State General Fund Spending, FY 2007–FY 2012



Source: National Association of State Budget Officers, 2011.

Figure 3. Projected State Year-End Balances as a Percentage of General Fund Spending, With and Without Alaska and Texas



Source: National Conference of State Legislatures, *State Budget Update,* Summer, 2011.

steeply during the Great Recession. Removing Alaska and Texas, two unusual states with large balances, the remaining aggregate balance at the end of FY 2011 fell to 3.3 percent of the year's expenditures. The projected figure for FY 2012 is little better.[15] Prudence requires a minimum balance of five percent of expenditures, according to a traditional rule of thumb. Yet, two recent steep economic downturns suggest this size balance cannot ensure against the need to respond to unforeseen events by making disruptive, midstream budget changes.[16]

Problems for painfully crafted FY 2012 budgets emerged by early autumn of 2011. Incoming revenues in California, Florida, New York, New Jersey, and Washington fell below budgeted levels in the early months of the fiscal year.[17] A September blog post from the executive director of the National Association of State Budget Officers noted states' concerns about the economy. Would revenues, the director asked, meet expectations underlying their budgets? "This is notably different than the cautious optimism exhibited this spring when revenue collections were improving," he said. "I think it is likely that a number of states may have to revise their economic forecasts downward."[18]

Still, the director cautiously predicted less widespread or deep midyear budget cutting than in the recent past, while noting many economic, and therefore fiscal, uncertainties. The unlikely renewal of federal support, the low level of state reserves, and the infeasibility of tax increases while individuals and businesses were hurting,[19] meant that any sizeable revenue shortfalls would result in further sharp budget cuts. Higher education is among the most likely targets for budget cutters in such circumstances.

HIGHER EDUCATION FUNDING: BIG CHANGES AFOOT

Table 1 shows the changes in state appropriations for higher education, including student aid, between FY 2007—before the recession's onset—and FY 2011 and FY 2012.[20] The table includes federal ARRA funding, where applicable, but this amount was minimal in FY 2012. The figures are in nominal dollars, that is, they are not adjusted for inflation or enrollment growth.

In total, higher education in the 49 reporting states saw a three percent decrease in funding between FY 2007 and FY 2012. Twenty-eight states reported decreases in appropriations. Funding reductions over the five-year period ranged as high as 33 percent in New Hampshire, 32 percent in Arizona, 24 percent in South Carolina, and 20 percent in Nevada. Reductions in higher education funding ranged from ten to 19 percent in another eight states, led by Michigan's 19 percent cutback. Thirteen more cut funding by five to nine percent.

Inflation, though subdued because of the recession, was a significant factor in this five-year period. At the same time, enrollments grew substantially in most states, because people often turn to postsecondary education to improve their competitiveness in a difficult job market. Taking these factors into account, constant dollar appropriations per full-time-equivalent student fell nationally by nine percent in FY 2009, by a further six percent in FY 2010, and by another four percent in FY 2011.[21] In total, purchasing power per student decreased by approximately 18 percent in just three years.

FY 2012 was the worst year yet because federal ARRA funds had largely run out. In aggregate, the 49 states reported a seven percent decrease in appropriations for higher education compared to FY 2011. Forty states reported reductions, ranging as high as 41 percent in New Hampshire, 25 percent in Arizona, and 21 percent in Wisconsin. Fifteen other states reported appropriations cuts of more than ten percent. Ten more made cuts of between five and nine percent. Plainly, higher education is hurting in most states.

The Center on Budget and Policy Priorities judged that 25 states made "large, identifiable cuts in funding for state colleges and

Table 1. State Fiscal Support for Higher Education, by State: FY 2007, 2011, and 2012[a]

	FY 2007 (Revised if Necessary)	FY 2011			FY 2012				
	State Monies[b]	State Monies[b]	Total Federal Stimulus Monies[c]	Total Support	State Monies[b]	Total Federal Stimulus Monies[c]	Total Support	Percent Change FY07–FY12	Percent Change FY11–FY12
Alabama	$ 1,685,067,489	$ 1,424,917,051	$ 118,743,545	$ 1,543,660,596	$ 1,470,951,799	$ 0	$ 1,470,951,799	-13%	-5%
Alaska	286,003,000	342,153,588	0	342,153,588	355,184,600	0	355,184,600	24	4
Arizona	1,196,750,400	1,087,207,100	0	1,087,207,100	814,457,600	0	814,457,600	-32	-25
Arkansas	796,303,595	902,799,213	13,641,365	916,440,578	903,589,798	0	903,589,798	13	-1
California	11,320,800,000	11,860,154,000	217,200,000	12,077,354,000	10,500,578,000	0	10,500,578,000	-7	-13
Colorado	689,786,249	676,318,216	89,194,099	765,512,315	647,496,274	0	647,496,274	-6	-15
Connecticut	923,951,455	1,076,131,375	0	1,076,131,375	944,554,802	0	944,554,802	2	-12
Delaware	233,226,000	212,455,800	0	212,455,800	213,193,700	0	213,193,700	-9	0
Florida	4,390,185,206	3,766,832,070	350,463,938	4,117,296,008	3,622,861,769	0	3,622,861,769	-17	-12
Georgia	2,774,268,032	2,915,441,043	57,298,847	2,972,739,890	2,631,581,219	0	2,631,581,219	-5	-11
Hawai'i	503,627,000	427,351,750	22,000,000	449,351,750	512,327,897	0	512,327,897	2	14
Idaho	375,281,600	343,297,000	4,766,900	348,063,900	333,669,600	0	333,669,600	-11	-4
Illinois	2,848,129,600	3,200,025,000	0	3,200,025,000	3,585,962,200	0	3,585,962,200	26	12
Indiana	1,456,514,140	1,564,730,685	0	1,564,730,685	1,549,460,261	0	1,549,460,261	6	-1
Iowa	804,448,696	758,711,929	0	758,711,929	739,051,670	0	739,051,670	-8	-3
Kansas	788,720,641	754,758,804	40,423,534	795,182,338	739,612,189	0	739,612,189	-6	-7
Kentucky	1,253,992,000	1,222,151,212	57,272,600	1,279,423,812	1,235,421,786	0	1,235,421,786	-1	-3
Louisiana	1,459,847,337	1,292,584,372	289,592,480	1,582,176,852	1,290,047,558	0	1,290,047,558	-12	-18
Maine	256,024,310	266,111,697	10,578,070	276,689,767	269,055,422	1,747,417	270,802,839	6	-2
Maryland	1,450,214,753	1,596,129,339	0	1,596,129,339	1,598,431,091	0	1,598,431,091	10	0
Massachusetts	1,256,792,868	1,138,650,196	76,053,721	1,214,703,917	1,150,151,325	0	1,150,151,325	-8	-5
Michigan	2,035,388,000	1,869,659,000	0	1,869,659,000	1,641,658,900	0	1,641,658,900	-19	-12
Minnesota	1,400,500,000	1,381,065,000	0	1,381,065,000	1,283,690,000	0	1,283,690,000	-8	-7
Mississippi	879,465,904	932,494,907	86,198,888	1,018,693,795	954,183,795	0	954,183,795	8	-6
Missouri	978,771,911	959,555,562	41,442,153	1,000,997,715	930,089,844	0	930,089,844	-5	-7
Montana	171,368,691	172,375,276	37,166,593	209,541,869	202,105,316	0	202,105,316	18	-4
Nebraska	604,025,649	653,935,362	0	653,935,362	647,843,378	0	647,843,378	7	-1
Nevada	593,775,719	550,168,604	0	550,168,604	473,255,848	0	473,255,848	-20	-14
New Hampshire	123,966,000	141,870,000	0	141,870,000	83,299,717	0	83,299,717	-33	-41
New Jersey	1,973,721,000	2,050,400,000	0	2,050,400,000	1,998,300,000	0	1,998,300,000	1	-3
New Mexico	–	–	0	–	–	–	–	–	–
New York	4,568,118,300	4,750,369,239	281,943,267	5,032,312,506	4,659,422,236	14,349,474	4,673,771,710	2	-7
North Carolina	3,466,352,712	3,848,231,284	119,220,719	3,967,452,003	3,927,064,866	0	3,927,064,866	13	-1
North Dakota	215,719,000	311,678,000	0	311,678,000	343,964,303	0	343,964,303	59	10
Ohio	2,208,183,856	1,994,908,607	287,802,662	2,282,711,269	2,013,797,074	0	2,013,797,074	-9	-12
Oklahoma	1,033,365,199	1,046,029,585	59,794,986	1,105,824,571	945,260,277	0	945,260,277	-9	-15
Oregon	640,983,571	609,339,325	40,823,654	650,162,979	598,020,319	0	598,020,319	-7	-8
Pennsylvania	2,153,998,000	2,012,002,000	96,379,000	2,108,381,000	1,824,528,000	0	1,824,528,000	-15	-13
Rhode Island	196,360,781	157,433,531	13,841,106	171,274,637	163,535,192	30,210,703	193,745,895	-1	13
South Carolina	1,127,265,244	817,634,079	113,757,660	931,391,739	852,653,640	0	852,653,640	-24	-8
South Dakota	178,777,732	185,250,977	11,365,508	196,616,485	200,724,924	0	200,724,924	12	2
Tennessee	1,505,273,700	1,659,586,381	0	1,659,586,381	1,409,997,274	0	1,409,997,274	-6	-15
Texas	5,709,136,834	6,270,811,568	0	6,270,811,568	6,464,046,632	0	6,464,046,632	13	3
Utah	718,208,600	696,914,700	37,975,100	734,889,800	728,929,400	0	728,929,400	1	-1
Vermont	85,923,033	93,731,614	495,811	94,227,425	87,922,922	0	87,922,922	2	-7
Virginia	1,854,731,000	1,702,243,400	201,734,434	1,903,977,834	1,624,026,722	0	1,624,026,722	-12	-15
Washington	1,631,059,000	1,592,882,000	0	1,592,882,000	1,362,200,000	0	1,362,200,000	-16	-14
West Virginia	455,444,801	492,800,710	34,594,800	527,395,510	536,224,000	158,781	536,382,781	18	2
Wisconsin	1,166,361,635	1,458,595,814	0	1,458,595,814	1,153,558,680	0	1,153,558,680	-1	-21
Wyoming	276,929,650	344,287,021	40,508,405	384,795,426	336,097,525	0	336,097,525	21	-13
49-State Total[d]	**74,703,109,893**	**75,585,164,986**	**2,852,273,845**	**78,437,438,831**	**72,554,041,345**	**46,466,375**	**72,600,507,720**	**-3**	**-7**

Source: Preliminary data from *Grapevine* FY 2012 survey of state appropriations for higher education. Courtesy of James Palmer, Illinois State University.

[a] FY2012 figures on state support for higher education represent initial allocations and estimates reported by the states and are subject to change.

[b] State monies include state tax appropriations and other state funds allocated to higher education. Funds used for modernization, renovation, or repair are excluded.

[c] Includes education stabilization funds used to restore the level of state support for public higher education.

[d] No data available for New Mexico.

universities, with direct impacts on students" in their FY 2012 budgets.[22] Arizona leads the list of notable reductions.[23] Added to $230 million in cuts from its public universities over the prior three years, Arizona's $200 million reduction for FY 2012 brought per-student state funding to less than 50 percent of pre-recession levels. The state has eliminated more than 11 percent of the academic workforce since the recession began. It closed eight extended campuses, and merged, consolidated, or disestablished 182 colleges, schools, programs, and departments. It also reduced state support for community colleges by half.

Other states also undertook drastic reductions. The state's FY 2012 budget reduced funding for the University of California and the California State University systems by $650 million each. Reduced funding of 27 and 28 percent, respectively, since 2008, led to large tuition increases at these two exemplary systems. Colorado, already a low funding state, decreased allocations to its state universities by 11.5 percent between FY 2011 and FY 2012. It also reduced a means-tested stipend program for undergraduates by 21 percent.

Florida and Georgia each cut their large, popular, and well-known state scholarship programs by around 20 percent, while reducing higher education appropriations. Michigan decreased support to public universities by 15 percent; 20 percent for schools that raised tuition too much. Minnesota reduced funding for the University of Minnesota and the Minnesota State Colleges and Universities system by about 12 percent each. A seven percent cut in Missouri added to a decade-long trend that decreased support for universities by 28 percent and for community colleges by 12 percent. New Hampshire reduced its (already meager) support for its university system by almost half and for its community colleges by 37 percent.

Unlike many other states, New York and North Carolina traditionally sought to keep public university tuition as low as possible. Deep funding cuts in these states have increased willingness to allow substantial and inevitable tuition increases. Ohio had once sought to protect higher education from budget cuts, seeing academe as aiding the state's troubled economy. But that sector took a ten percent funding cut in the FY 2012 budget under Governor John Kasich, who took office in 2011. Pennsylvania reduced its FY 2012 funding for its state system and "state-related" institutions by 18 and 20 percent, respectively. Tennessee reduced funding for the University of Tennessee system by 25 percent.

Texas reduced "general revenue spending" on higher education by nine percent over two years. Failing to fund any enrollment growth, it reduced financial aid awards under the Texas grant program by ten percent. Washington cut higher education funding by $500 million in the FY 2011–13 enacted budget. Continuing revenue shortfalls assured more cuts to come. The state reduced funds to the University of Washington by more than 50 percent since FY 2008; tuition increased sharply in response. Wisconsin cut $250 million from the state university system in FY 2012 and $70 million (25 percent) from the technical colleges. The state also froze property tax levies that support the technical colleges for two years.

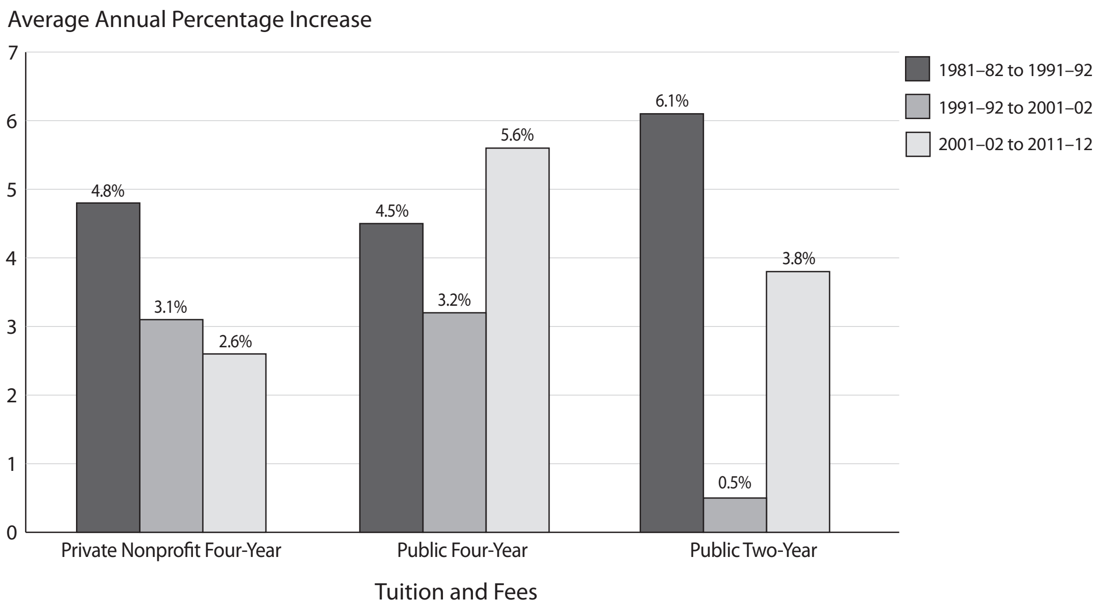
The unprecedented magnitude of the cuts to state support for higher education over just a few years only accelerated a long-term pattern. Inflation-adjusted state support per student fell by 23 percent from 2000–01 to 2010–11, according to College Board economists.[24] The proportion of higher education financing coming from state and local governments, notes another source, fell from more than 60 percent in the mid-1970s to 37.7 percent in FY 2009, while the student and parent share climbed from 30 to 50.5 percent.[25] State support for higher education operating expenses as a percentage of personal income, a broad-based measure of societal commitment, declined by more than 40 percent, from over $10.50 per $1,000 in the 1970s to about $6.30 in 2011.[26]

The structure of state budgets and associated legal mandates helps to explain the long downtrend trend. Students in K–12 education, Medicaid clients, and state prisoners exert strong political and even legal claims on state resources. Higher education enrollments, in contrast, are treated as discretionary. Most important, unlike these other claimants, colleges can charge clients a substantial part of the cost for their services. No other major state service has an equivalent to tuition. A strong anti-tax and pro-privatization sentiment has affected state politics since the 1970s. Services that benefit clients and that can be charged for—higher education is the poster example—will be and should be billed to them, in this view, to reduce demands on the taxpayer. Higher education's well-documented benefits to graduates in the labor market may thus undermine its claim to public subsidies.

TUITION AND STUDENT AID TRENDS

Tuition charges in public colleges and universities rose as state support for public higher education fell. Faster tuition increases during recessions accelerated an inexorably upward long-term pattern. Average tuition in community colleges nationwide increased from $1,149 in 1980 to $3,029 in 2010, in constant 2009 dollars. The comparable figures are $1,896 in 1980 and $6,257 in 2010 for public comprehensive colleges and universities, and $2,818 in 1980 and $7,953 in 2010 for public "flagship" research universities.[27] Figure 4 graphs inflation-adjusted annual average tuition growth by decade.[28] Tuition grew the most at public four-year institutions since 2000; it grew the least at private nonprofit four-year schools. But tuition growth in all sectors substantially exceeded both inflation rates and the modest gains in average family incomes.[29] This long-term

Figure 4. Average Annual Percentage Increases in Inflation-Adjusted Published Prices, by Decade: 1981–82 to 2011–12



Sources: The College Board, *Annual Survey of Colleges; NCES, Integrated Postsecondary Education Data System (IPEDS).*

Note: Each bar in Figure 4 shows the average annual rate of growth of published prices in inflation-adjusted dollars over a ten-year period. For example, from 2001–02 to 2011–12, average published tuition and fees at private four-year colleges rose by an average of 2.6 percent per year beyond increases in the Consumer Price Index.

trend, stoked by dramatic jumps induced by the economic downturn, understandably provoked public anxiety and political reaction. Public colleges and universities are caught in a squeeze play as state support drops sharply while the public and politicians begin to resist large tuition increases.

Average (enrollment-weighted) tuition and fees, reported the College Board, increased by 8.3 percent for public four-year colleges and universities and by 8.7 percent for two-year colleges between academic years 2010–11 and 2011–12.[30] These hikes follow average increases for the two sectors, respectively, of 8.0 percent and 6.6 percent for 2010–11, and of 7.0 percent and 7.8 percent for 2009–10.

There is some good news. To help students cope with tuition costs, the federal government, states, institutions, and private sources provide students and their families with billions of dollars annually in scholarships, grants, tuition waivers, tax benefits, and loans. The College Board estimated the total provided in 2010–11 at $227.2 billion, plus another $7.9 billion in loans from state and private sources.[31] A remarkable shift in federal funds from loans to Pell and veterans' grants increased student grant aid from $25.4 billion to $49.1 billion between 2008–09 and 2010–11. As a result, according to the College Board, average *net* tuition and fees—that is, subtracting all nonrepayable aid from gross tuition charges—increased by only 1.4 percent per year beyond general inflation between 2006–07 and 2011–12. Published tuition and fees climbed by 5.1 percent annually. So, aid substantially moderated, but did not eliminate, the growth in costs for recipients. Still, student debt levels continued to climb. In 2009–10, the latest year available, the 56 percent of bachelor's graduates from public institutions who borrowed—a new high—reported average debt of $22,000, up from $20,100 in 2008–09.[32]

States also provide tuition aid: $10.8 billion in 2009–10, including $8.9 billion in grants to 4.1 million undergraduates.[33] Despite severe budget pressures that reduced funding for most functions, states increased undergraduate grant aid by 3.7 percent in 2009–10: FY 2010 for most states.[34] Still, the aggregate increase was well below most recent years. State grant increases failed to keep pace with steep tuition hikes in most public colleges and universities. Reversing recent trends, need-based grant aid grew by 4.5 percent, while non-need based aid only increased by 1.6 percent.[35] This reversal, along with the large growth in need-based Pell grants, signifies, at least, better targeting of aid dollars to needy students.

CONCLUSION

Uncertainty continues to characterize the near term economic outlook. At best, the recovery from the Great Recession of 2007–09 is likely to remain weak. But states face many pent up demands for restoring services to K–12 education, health care, and corrections even if the recovery strengthens. These services will take priority over restoring substantial funding to higher education, if history is a guide.

The unique ability of higher education to mitigate budget cuts by charging its clients more plays a larger role than ever in budgeting. Tuition prices rose sharply, but enrollments still strongly increased during the recent recessionary decade.[36] This consumer response reinforces the claim that higher education is primarily a "private," not a "public" good. That is, it is argued, most benefits go to individual students who thereby obtain better job prospects, not to society. Student willingness to absorb tuition increases challenges the classic argument for strong taxpayer support of higher education.

Drastic budget cuts have intensified debate about the repositioning of higher education. Universities, particularly flagship state research universities, seek substantial freedom from state-imposed restrictions, especially in managing their program mix and business and financial processes. Such freedom, their representatives argue, will result in lower operating costs and more effective and entrepreneurial responses to market opportunities. These universities seek additional revenue streams from full-cost, or even profitable, educational programs—including university extension and distance education—and from contract research, technology transfer, and sophisticated private fund raising. Most important, they seek freedom to raise tuition closer to market levels, to differentiate tuition by field, and to enroll more out-of-state and international students who pay premium rates.

Such behavior is probably inevitable as the state withdraws what was once core academic funding. But these behaviors threaten their ability to serve the needs of their states, to offer programs in low-paying fields, and to provide opportunities to disadvantaged students. Universities, while understandably chafing at direction from governments that reduce support, do not wish to forego the tens or hundreds of millions of state dollars remaining in their budgets. States, in contrast, increasingly view their support as incentives to respond to public priorities. There is plenty of friction and much to be learned.[37]

Reduced public support in exchange for greater institutional discretion is less attractive to colleges and universities lacking drawing power, affluent students, extensive research capacity, or historic endowments to cushion transitions. Public comprehensive institutions and community colleges, particularly those outside populous metropolitan regions, face an uncertain fate if the new regime takes permanent hold. Yet these institutions must provide most of the additional capacity needed to meet educational goals set by the Obama administration.

The federal government could play a larger helpful role, but fiscal and political challenges may preclude that possibility.[38] What happens in the nation's economy and politics over the next few years may determine much about its future, as well as that of higher education in the modern, globalized, "human capital" economy.

NOTES

1 Trading Economics, 2011. These figures are annualized rates, adjusted for inflation.

2 Tanzi, 2011.

3 The official unemployment figures substantially understated problems in the labor market. The Labor Department estimated the "underemployment" rate would be over 16 percent if discouraged workers no longer actively seeking jobs and those involuntarily underemployed because of market conditions were also counted ("U.S. Firms," 2011).

4 McFerron, 2011.

5 Dadayan and Ward, 2011, 1. In the second quarter of calendar year 2009, state revenues were down more than 16 percent from the prior year's level (Ibid, 4).

6 The fiscal years of most states run from July 1 of the year prior to the named year to June 30 of the named year. Thus, January 1, 2012 was the first day of the second half of FY 2012 for 46 of the 50 states.

7 Calculated from National Conference of State Legislatures, 2011a, Figure 1.

8 Williams, Leachman, and Johnson, 2011.

9 Dadayan and Ward, 2011, 1.

10 ARRA provided $31 billion to states in FY 2009, $68 billion in FY 2010, and $59 billion in FY 2011 (Williams, Leachman, and Johnson, 2011, Figure 1).

11 NCSL, 2011a, Figure 4.

12 See NCSL, 2011b; Williams, Leachman, and Johnson, 2011. NCSL reported that, in aggregate, states actually reduced taxes and fees slightly in preparing for FY 2012, after a number of years of net increases (8).

13 Williams, Leachman, and Johnson, 2011.

14 These figures include 48 states and Puerto Rico that reported for all fiscal years.

15 Thirty-two states projected lower balances at the end of FY 2012 than in FY 2011. Only 14 forecasted higher balances and three expected no change (NCSL, 2011a, 4).

16 Only 19 states projected ending 2012 balances of five percent or greater (Ibid).

17 Cooper, 2011; Klopott, 2011; Mildenberg, 2011. Washington State, Cooper notes, already faced a $2 billion hole in its recently enacted biennial budget that must be carved out from about $8.8 billion of planned spending not legally protected.

18 Pattison, 2011.

[19] Pear, 2011.

[20] The figures cover 49 states and were the latest available as of December 23, 2011. New Mexico did not report. Illinois State University's *Grapevine* project and the State Higher Education Executive Officers (SHEEO) jointly compile these data.

[21] Baum and Ma, 2011, 4.

[22] Williams, Leachman, and Johnson, 2011, 11.

[23] Ibid, 11-14.

[24] Baum and Ma, 2011, 18.

[25] Mortenson, 2011, 1.

[26] Ibid, 3.

[27] Ibid, 5.

[28] Adapted from Baum and Ma, 2011, 13 (Figure 4).

[29] Indeed, Baum and Ma report that, during the most recent decade, average family income actually fell (2011, 24).

[30] Ibid, 3. Excluding the large increases in huge California, they added, the national averages fall to 7.0 percent for public four-year schools and to 7.4 percent for two-year colleges.

[31] Baum and Payea, 2011, 3. These are preliminary figures.

[32] Ibid, 19. The comparable 2009–10 figures for private, nonprofit college graduates were 65 percent borrowing an average of $28,100.

[33] National Association of Student Grant and Aid Programs, 2011, 2.

[34] Ibid, 3.

[35] Calculated from Ibid.

[36] Baum and Ma, 2011, 25.

[37] Zumeta and Kinne, 2011.

[38] The recent growth in Pell grants and veterans' benefits for students have helped, but deficit reduction efforts will likely threaten these gains.

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