

# State Finances and Higher Education in Trump Year Two

**By William Zumeta**

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**L**ittle in American politics and public policy has been unaffected by the presidency of Donald J. Trump, which entered its second year in 2018. Even though higher education is largely a function of the states in the U.S. system, federal policies recently enacted or on the horizon as of early 2018 will impact both the overall economy and the capacity of states to invest in higher education for their citizens. This chapter will first survey the economic landscape ahead, as best we can from the present vantage point, for the national economy shapes the fiscal context for states and their higher education systems. Then, I will examine recent evidence about the fiscal condition of the states while also trying to assess how recent and pending federal tax and other policy changes may affect their finances in the future. In the section that follows next, I report about recent

patterns of state financial support for higher education and also put those in a longer-term context. Then, because these are inextricably linked to state financial support of institutions, I show how public higher education tuition rates have fared. Tuition trends are also considered in relation to developments in student aid and student debt. After a brief summary, the final section offers some broad considerations for the future.

## **THE NATIONAL ECONOMY AND THE FEDERAL BUDGET**

In the years since the end of the Great Recession of 2007–09, U.S. economic growth as measured by gains in gross domestic product (GDP) has varied but has generally been sluggish, with annual gains in the range of two percent or a little higher (after adjusting for inflation) over

most of the period. Inflation has been low, generally at or below two percent per year, but average wages have gained only a little more than inflation.<sup>1</sup> Wage stagnation, a pattern in the U.S. going back decades, along with the severe shock of the Great Recession, is thought to have contributed to the popular disenchantment that helped fuel Trump's election. The first quarter of 2017 was little different in terms of growth, with the annualized GDP growth rate reported at 1.2 percent for the quarter. But this was followed by considerably stronger gains in the next two quarters, of 3.1 and 3.2 percent, respectively.<sup>2</sup> Preliminary figures for the fourth quarter were a bit lower, but still showed a solid growth rate at 2.6 percent (annualized).<sup>3</sup>

Measures of job growth in the economy continued in 2017 at roughly the strong pace of the later Obama years and the conventionally defined unemployment rate continued to fall, reaching a 27-year low of 4.1 percent in November 2017.<sup>4</sup> Figure 1 shows the steadily declining trend in the unemployment rate since the peak of the Great Recession when it

reached 10 percent of the labor force. Yet, in addition to stagnant wages and the dearth of "good" jobs, concerns remained about the historically low level of participation in the labor force, which is likely in part due to unattractive job opportunities for many. Also, some of the employment reported is part-time and temporary work, although even these numbers have been coming down for several years.

The answers to these economic doldrums (or at best mixed results) for the Trump administration and congressional Republican majorities were made clear by the end of 2017. First came a massive change in the federal tax system highlighted by drastic reductions in corporate tax rates, enacted just before Christmas 2017 and to take effect virtually immediately. Then, partly in response to the huge federal deficits these changes are expected to cause, talk of drastic cuts in federal domestic spending and subventions to states quickly emerged.<sup>5</sup>

Short-term effects of the tax changes on the economy may well be stimulatory. In anticipation of the large tax cuts, the U.S. stock market

**Figure 1. Seasonally Adjusted U.S. Unemployment Rate, October 2007 to October 2017**



Source: U.S. Bureau of Labor Statistics, *Current Population Survey*.

soared to unprecedented heights (before a sudden crash in early February 2018) and soon-to-be-reported corporate profits are expected to be strong. Some companies reported granting bonuses and even permanent wage increases to their workers in response to the corporate tax cuts. Despite the official deficit forecasts to the contrary, proponents of the new policies proclaimed that the tax cuts would pay for themselves by virtue of the economic boom they would induce.

Although the effects of such drastic and unprecedented tax changes are difficult to predict, most economists foresee much more modest economic impacts.<sup>6</sup> The Federal Reserve Board bumped up its official forecast for U.S. GDP growth from 2.1 percent to 2.5 percent for 2018, but foresees a drop back to the 2.0 to 2.1 percent range for 2019 and 2020. The longer term is even harder to foresee, of course. If the staggering deficits projected by non-partisan congressional analyses materialize, there will be longer-term negative effects on the economy's ability to sustain solid rates of growth. Relatedly, if federal, state, and local governments are unable to afford infrastructure investments (such as in transportation and education) widely seen to be badly needed, long-term growth prospects will suffer. Trump administration policies calling for sharply slowing rates of immigration to the U.S., while also deporting more immigrants, will slow the growth of a labor force already suffering from listless gains for demographic and other reasons. Slow growth in the younger labor force is likely to be a serious drag on the economy in the long term, as it has been in Japan and much of Europe for years.

In sum, the nation's immediate economic prospects do not look bad but it seems likely there will be a big price to pay in the future for the near-term "sugar high" resulting from tax cuts.

### STATE FISCAL CIRCUMSTANCES

Steady job growth notwithstanding, fiscal years 2017 and 2018 have been surprisingly difficult for many states.<sup>7</sup> The National Association of

State Budget Officers (NASBO), in December 2017, described revenue growth in these two fiscal years as "sluggish."<sup>8</sup> A quotation from the introduction to the summary of NASBO's December 2017 state fiscal survey report sums up the situation well:

Building and adopting fiscal 2018 budgets proved an especially challenging task for many states during 2017 legislative sessions, requiring a number of them to call special sessions to deal with their spending plans, and leading 11 states to start the fiscal year without a fully enacted budget and two states to go well into the fiscal year before fully completing their budgets. Enacted budgets [for fiscal 2018] reflect substantial limitations and caution on the part of policymakers as states contend with the effects of two consecutive years of sluggish revenue growth and particular spending pressures.<sup>9</sup>

Considering that the country has been in a period of economic recovery (i.e., growth from the bottom reached in the Great Recession) for more than eight years, the above is a sobering assessment. Indeed, in inflation-adjusted terms, total (50-state) general fund spending in fiscal 2017 barely exceeded its level in the last fiscal period before the Great Recession, fiscal 2008.<sup>10</sup> In a majority of states (27), real general fund spending in 2017 was still below that of 2008 and in 11 states the 2017 figure was more than 10 percent below the pre-recession level.<sup>11</sup> Most states had expected decent spending growth in fiscal 2017—4.8 percent in aggregate across the 50 states—but revenues lagged below forecasts and 22 states made mid-year budget cuts totaling \$3.5 billion.<sup>12</sup> In the end, aggregate spending growth came in at 3.5 percent while revenues grew just 2.3 percent, meaning that states as a group reduced their financial reserves.<sup>13</sup>

State revenues grew sluggishly for a variety of reasons.<sup>14</sup> Several states that are dependent on tax revenues from oil and gas extraction continued to suffer from low prices for those

commodities. In agricultural states, falling commodity prices have hurt state economies and revenues. In other states, natural disasters have played a costly role.<sup>15</sup> State tax cuts over the last decade are also a factor in certain states.<sup>16</sup> Finally, the long-term inability of state sales tax collections to keep up with the shift of the economy toward lightly taxed services and online sales has exerted an ongoing drag on state revenues.<sup>17</sup>

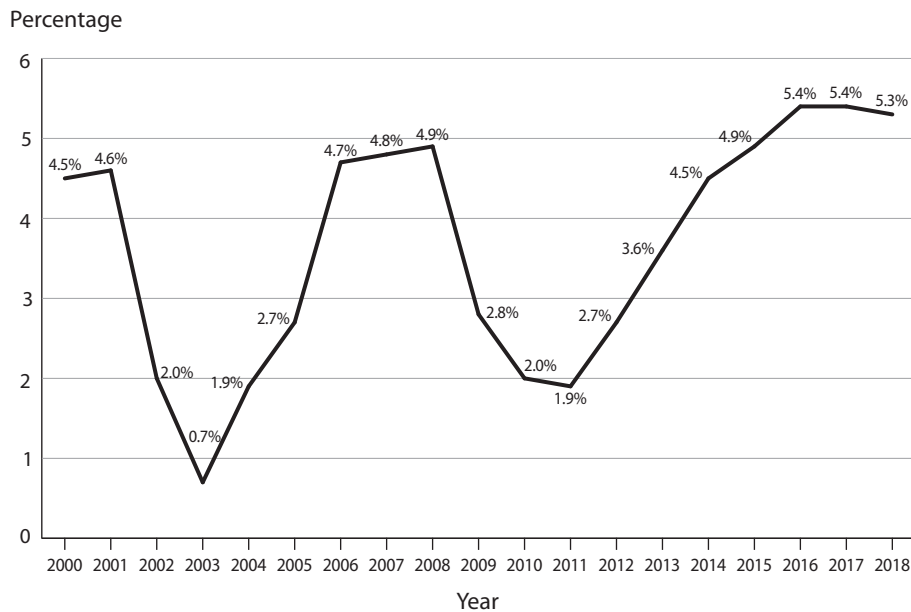
States thus tended to budget cautiously for the current fiscal year. Based on enacted fiscal 2018 budgets, NASBO reported in December 2017 that state general fund spending would again grow very modestly this year, by 2.3 percent overall across the 50 states, with the median state's growth rate just 1.7 percent over the previous year. This is far below the long-term (1979–2017) average of aggregate state spending growth, which is 5.5 percent.<sup>18</sup> The majority of states (26) enacted budgets with general fund spending growth below two percent and 15 of these states planned to reduce spending in 2018. These are unusual numbers in an overall economy that has been perking along fairly well.

There was some moderately good news to report, at least before the federal tax changes were enacted. NASBO's fall fiscal survey found that states overall expected their general fund revenues to increase by four percent in fiscal 2018, which, with low inflation and only moderate population increase, is a decent overall gain (if still below long-term averages).<sup>19</sup> About a quarter of the expected gain was attributed to tax and fee increases enacted by legislatures in 2017, and a number of states also planned to shore up depleted reserves with some of the increased revenue.<sup>20</sup> Indeed, NASBO reported that all 50 states have established some kind of "rainy day" fund or reserve account to help them prepare for unexpected expenses or revenue shortfalls. Although such funds in the past have helped only a little when serious recessions hit, the recent efforts to build up reserves are encouraging, especially for a sector such as higher education that is likely to be

an early target for budget cuts when state fiscal problems emerge. Figure 2 shows that median state rainy day fund balances as a percentage of general fund spending are at their highest level in this century (and probably of all time).

Still, these figures were all compiled before enactment of the huge federal tax changes near the end of 2017. Together with a number of related priorities of the Trump administration and its congressional allies, new federal policies present the prospect of unprecedented fiscal uncertainties for states going forward. The American Association of State Colleges and Universities (AASCU) rated "changes in federal law" led by the tax changes as the leading issue affecting state higher education policy for the first time in the 11-year history of its annual *January Top 10 Higher Education State Policy Issues* report, even ranking it ahead of "sluggish state revenue growth."<sup>21</sup> AASCU opined that, "changes in the federal tax structure will have wide ranging consequences for state tax codes and revenue outlooks in 2018 and beyond."<sup>22</sup> As higher education is often the "balance wheel" when state budgets are hurting, this is potentially ominous news for the sector, especially since state budgets are already so tight.<sup>23</sup>

The most publicized effect on states during the debate about the federal tax changes was the effort to eliminate federal tax deductions for state and local taxes paid. The deduction survived, but was capped at \$10,000 per year. This will make state and local taxes more onerous for at least some more affluent residents of higher tax states with higher real estate values, thus likely making it harder for these states to maintain support for higher education and other public functions. Other changes made by the tax legislation mean that many fewer taxpayers will be itemizing deductions at all, which may reinforce resistance to state and local taxes and is also likely to impact charitable contributions, including to colleges and universities. Also, most states link their tax collection systems to federal rules and definitions, so there will be complications for states at best

**Figure 2. Median State Rainy Day Fund Balance Over Time**

Source: National Association of State Budget Officers, *Fiscal Survey of the States, Fall 2017*.

and, most analysts think, negative effects on revenues for many.<sup>24</sup>

The surging federal deficits produced by the corporate tax cuts in the new law will almost certainly lead to pressures for large reductions in federal spending on social programs that assist states. About one-third of state general fund spending is supported by federal subventions and many of these will likely be at risk.<sup>25</sup> A case in point is the Medicaid program, a federal-state fiscal partnership—and one of the largest state budget expenditures—with relatively strong legal provisions entitling lower income people to health insurance. Republicans have proposed to cap federal contributions through block grants that would end the federal responsibility to respond to growth in needs. States would face a choice of either cutting back their own support for the program in spite of need, or trying to replace some or all of the missing federal support. In a conservative climate, similar federal cuts could be made in smaller social program areas like housing,

community development and the like. Federal aid to traditional public K–12 education is also at risk, of course, in part for ideological reasons. The overall result, if significant changes along these lines are enacted, is that states will be under much greater fiscal pressure to meet citizen needs themselves even as their ability to raise revenues is constricted. This would be very bad news indeed for public higher education whose relative position in state budget competition is fragile, as is demonstrated by the previously cited “balance wheel” research.

Some of these fiscal effects of federal policy changes on states could be felt as soon as the 2018 state legislative sessions end, as state policymakers budget cautiously to prepare for a potential wave of impacts. On the other hand, November 2018 also provides possibilities for changes in policy direction resulting from federal and state elections. In most congressional elections two years after a new president is elected, there are shifts in seats away from the party in power. With the turmoil in

government since President Trump's election, including a brief government shutdown in late January 2018, and with Republican majorities in both houses of Congress, there is a real possibility of large gains by Democrats this year that could at least blunt some of the potential changes in federal policy directions. At the state level, 36 of the 50 state governorships are up for election along with 82 percent of all state legislative seats.<sup>26</sup> Republicans currently have a historically large advantage, controlling all three power centers in 26 states (to the Democrats' eight states). At this juncture it seems likely that Democrats will gain at least some ground in state elections, which might serve to mitigate pressures on higher education support.

### **STATE SUPPORT FOR HIGHER EDUCATION**

States cut their support for higher education very sharply during the Great Recession and its aftermath, more than at any time since the Great Depression of the 1930s. Nationally, state and local operating support per student fell more than 25 percent in just four years, from \$8,327 in fiscal year 2008 to \$6,185 in fiscal 2012 (in constant 2016 dollars).<sup>27</sup> Still, this decline only exacerbated a longer-term pattern of volatile and gradually declining state support for higher education: According to the State Higher Education Executive Officers (SHEEO), per-student state and local support for higher education was \$9,235, or roughly \$900 higher in 2016 dollars in fiscal 1991 than in 2008.<sup>28</sup> Figure 3 shows that there has been a long-term decline in state and local operating support for higher education in relation to the nation's wealth (as measured by personal income), a trend that reflects both broad anti-tax sentiments and legislative measures beginning in the 1970s, as well as features of state budget structures that disadvantage higher education in relation to other claimants for funds.

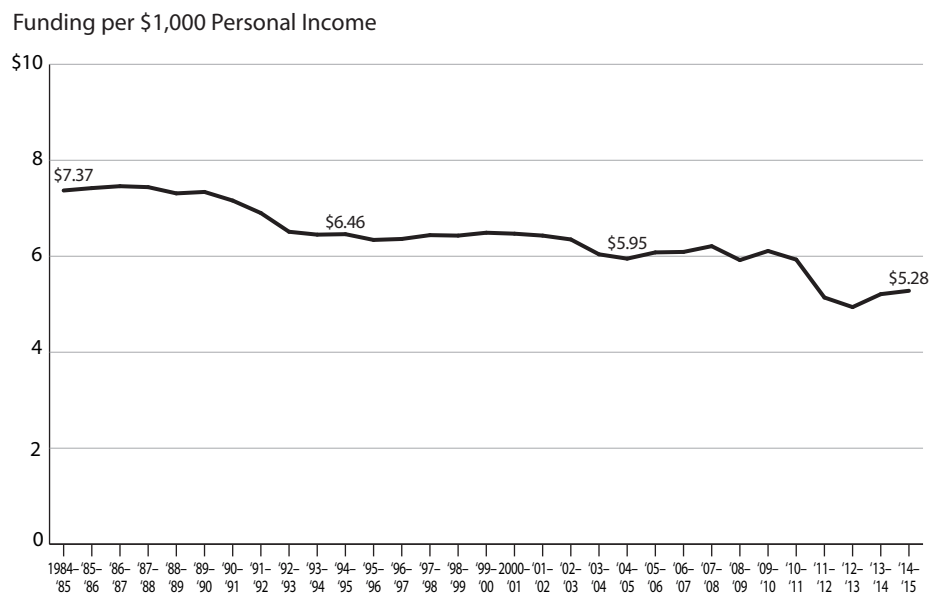
Higher education support suffers most deeply in recession periods and their lingering aftermath when state revenues are weak

and demands for other government services are urgent. In the past, states have faced great pressure during such periods to meet needs for Medicaid and other forms of public assistance and also to respond to criminal justice needs. In searching for places to make cuts in the budget, states usually cannot turn to the largest user of general funds, elementary and secondary education, for it is generally protected by constitutional or similar legal mandates to provide adequate support. Funds for higher education are more discretionary and, unlike in the other functional areas, higher education's "clients" (students) can be asked to pay more and usually will do so. Indeed, enrollments generally increase in bad economic times, especially in community colleges, as students seek to upgrade skills for a more competitive job market. The historical pattern has been that, once the effects of the recession fully recede, state budgets are again more kind to higher education while enrollments often fall back somewhat, thus improving the benchmark indicator of state support per student.

In the current century, however, the recovery of state support after recessions has been weaker than in the past. Since the low point of \$6,185 reached in fiscal 2012, state and local appropriations per student adjusted for inflation had, as of fiscal 2016, recovered less than half the ground lost since 2008, reaching \$7,116, or an increase of about 15 percent from 2012.<sup>29</sup> Part of this apparent gain in resources per student, however, is attributable to enrollment declines, largely concentrated in community colleges, in each of the last five years.<sup>30</sup>

The just-available data on state appropriations for higher education for fiscal 2018 from Grapevine and SHEEO shows a pattern broadly similar to that of the last few years, but with even weaker growth (Table 1).<sup>31</sup> Without any adjustment for inflation, the 50-state change in appropriations from fiscal 2017 to 2018 was just 1.6 percent (see first column of data), the weakest gain since the years immediately following the Great Recession. Moreover, just

**Figure 3. Average State and Local Funding for Higher Education per \$1,000 in Personal Income: 1984–85 to 2014–15**



Source: College Board, *Trends in College Pricing 2016*.

three large states—California, Florida, and Georgia—accounted for almost all of the gain.<sup>32</sup> This small gain was likely well below actual inflation of costs in higher education, which the Commonfund Institute recently calculated at 3.7 percent for 2017, based on its Higher Education Price Index.<sup>33</sup> Only 13 states provided higher education with an increase higher than this benchmark, led by Florida, which provided growth in appropriations of 11.3 percent (the only state above 10 percent). Other states above five percent in rate of increase were few: Nevada (8.9 percent), Hawaii (7.4 percent), Minnesota (7.1 percent), Louisiana (6.7 percent), Georgia (6.6 percent), Tennessee (6.5 percent), Rhode Island (5.7 percent), and Oregon (5.5 percent).

A remarkable number of states (19) reduced state funding for higher education in fiscal 2018 and a 20th state, Maine, made no change in its appropriation. North Dakota made the largest cut, at 14.6 percent, and Mississippi also levied a double-digit percentage reduction,

of 11.2 percent. Reductions were greater than five percent in one other state, Illinois (5.5 percent). Most of the states' budget cuts were fairly small, less than three percent, but Oklahoma cut 3.9 percent, Montana 3.3 percent, and New Mexico 3.1 percent. States dependent on energy revenues were prominent among those that reduced their higher education appropriations. Even if we look back two years, we find that no fewer than 15 states provided less support to higher education in fiscal 2018 than they did in 2016. In short, higher education in many states now faces what feels like a return to recessionary conditions.

The right-hand column of data in Table 1 provides a somewhat longer-term perspective, showing the percentage changes in states' higher education appropriations over the five years between fiscal years 2013 and 2018. Fiscal 2013 was for most states the first bounce-back year after the worst of the Great Recession. Nationally, state funding is up 20.7 percent over

**Table 1. One-Year (FY17–FY18) and Five-Year (FY13–FY18) Percent Changes in State Fiscal Support for Higher Education**

States	One-Year % Change, FY17–FY18	Five-Year % Change, FY13–FY18	States	One-Year % Change, FY17–FY18	Five-Year % Change, FY13–FY18
Alabama	3.9%	15.0%	Nebraska	0.9%	15.3%
Alaska	-2.5	-12.2	Nevada	8.9	31.7
Arizona	1.3	1.1	New Hampshire	2.2	49.4
Arkansas	1.2	-2.4	New Jersey	-0.8	9.4
California	3.8	52.5	New Mexico	-3.1	-0.5
Colorado	2.3	39.0	New York	1.9	14.6
Connecticut	-1.0	28.9	North Carolina	1.2	7.2
Delaware	1.0	9.5	North Dakota	-14.6	4.3
Florida	11.3	51.3	Ohio	-0.1	12.2
Georgia	6.6	30.4	Oklahoma	-3.9	-20.6
Hawaii	7.4	36.2	Oregon	5.5	48.0
Idaho	4.1	33.0	Pennsylvania	-2.4	1.2
Illinois	-5.5	1.3	Rhode Island	5.7	21.1
Indiana	1.6	13.9	South Carolina	0.3	20.6
Iowa	-1.6	3.6	South Dakota	-2.0	19.1
Kansas	-0.6	-3.9	Tennessee	6.5	26.8
Kentucky	0.2	-1.2	Texas	-1.6	18.0
Louisiana	6.7	-1.5	Utah	4.8	37.0
Maine	0.0	13.5	Vermont	2.3	5.7
Maryland	0.6	23.2	Virginia	-1.9	17.6
Massachusetts	1.3	24.6	Washington	1.5	35.5
Michigan	2.1	19.2	West Virginia	-2.7	-14.5
Minnesota	7.1	28.6	Wisconsin	2.4	29.7
Mississippi	-11.2	-2.7	Wyoming	-2.2	-2.5
Missouri	-2.3	6.2			
Montana	-3.3	20.6	<b>Total, 50 States</b>	<b>1.6</b>	<b>20.7</b>

Source: Center for the Study of Education Policy, Illinois State University, *Grapevine*, Fiscal Year 2017–18.

2013–18, which is barely more than higher education inflation over that period. The figures show wide variations in the rates of change across the states, ranging from percentage gains as high as 52.5 percent in California and 51.3 percent in Florida down to five-year reductions as deep as -20.6 percent in Oklahoma, -14.5 percent in West Virginia, and -12.2 percent in Alaska. In addition to these last three states, six more spent fewer state dollars on higher education in 2018

than they had five years earlier. These six with smaller reductions were: Kansas (-3.9 percent), Mississippi (-2.7 percent), Wyoming (-2.5 percent), Arkansas (-2.4 percent), Louisiana (-1.5 percent), and New Mexico (-0.5 percent). Many of the states that cut higher education support, especially those with large cuts, were energy-dependent states but others, notably Kansas and Louisiana, had simply made unwise tax reductions that sapped their fiscal capacity.<sup>34</sup>



The effects of the large size of California and Florida with their more than 50 percent increases in higher education support over this period somewhat distorts the national picture. With those two removed, the remaining 48 states only increased higher education support by around 14 percent in total over the five years.<sup>35</sup> Still, there were some other states with five-year gains exceeding 30 percent: New Hampshire (49.4 percent), Oregon (48.0 percent), Colorado (39.0 percent), Utah (37.0 percent), Hawaii (36.2 percent), Washington (35.5 percent), Idaho (33.0 percent), Nevada (31.7 percent), and Georgia (30.4 percent). Many of the states with large gains, however, had cut higher education support very deeply in the years affected by the Great Recession, so have only recently begun reclaiming lost fiscal ground.

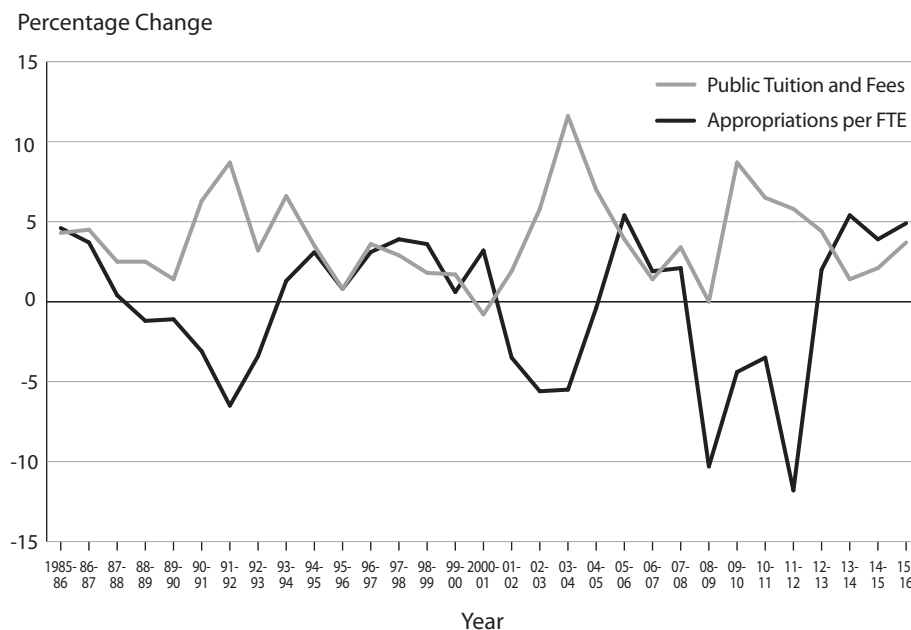
### TUITION AND STUDENT AID

In the past, rates of tuition increase in public higher education have been closely tied to the

generosity of state support. Figure 4 depicts this relationship clearly by plotting the annual percentage change in state support (dark line) against the average percentage change that year in public institution, state resident tuition (lighter line) over a 30-year period. When state support dips, tuition spikes as institutions seek to recover at least some of their financial losses so as to mitigate program cuts and layoffs. Since the last spike in the recession years and immediately afterward, average tuition increases have been quite moderate. According to the College Board, which provides the definitive annual survey of college tuition and fees, average published tuition and fees for the current (2017–18) academic year for full-time, resident undergraduates increased over the prior year in the public four-year sector by 3.1 percent and in the public two-year sector by 2.8 percent.<sup>36</sup> These rates of increase are very similar to those of the previous four years.

Yet, while quite moderate compared to the sharp price hikes of the preceding few years,

**Figure 4. Annual Percentage Change in Inflation-Adjusted per-Student State and Local Funding for Higher Education and in Tuition and Fees at Public Institutions: 1985–86 to 2015–16**



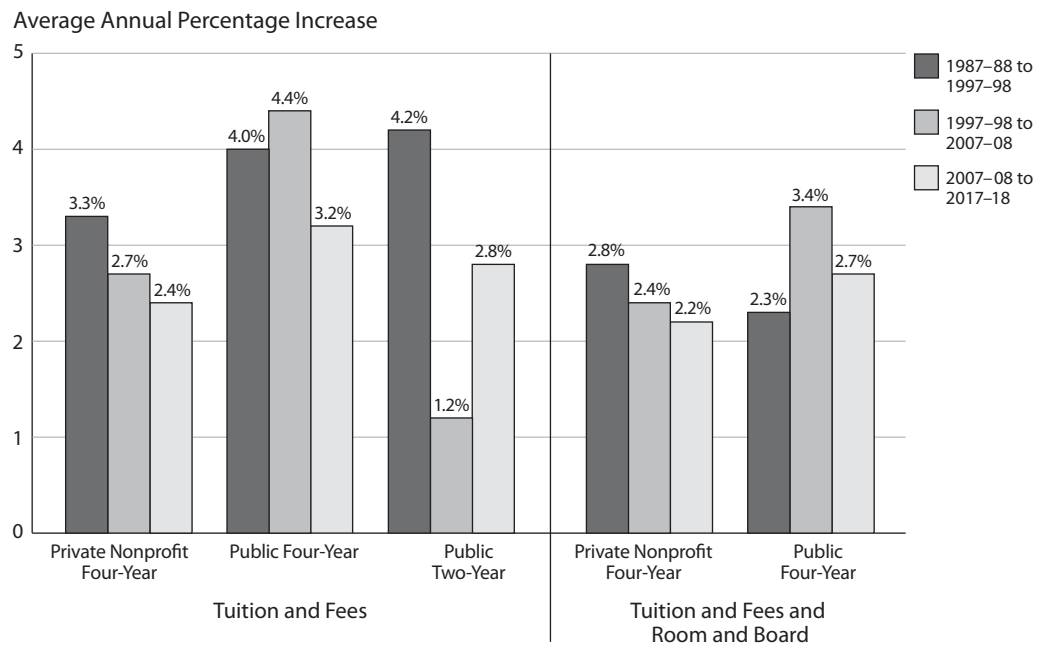
Source: College Board, *Trends in College Pricing 2017*.

these recent annual increases still exceed inflation rates in the general economy and the growth in most families' incomes. Thus, higher education prices continued their long, upward march in *real* (inflation-adjusted) terms. Figure 5 shows this graphically by depicting average annual inflation-adjusted price growth, by sector, over the past three decades. In the public four-year sector, as well as the private non-profit sector, real tuition growth has been at least a bit more moderate in the last decade than in the previous ones. In the public two-year sector, the 1997–98 to 2007–08 decade saw the most moderate real price growth but the last decade was at least better than 1987–88 to 1997–98 and the actual growth rate in the latest decade was lower than that in the public four-year sector. In any case, it is small wonder that, with published prices growing faster than inflation (and most people's incomes) almost every year for more than 30 years, citizens are very sensitive to the high price of college and let their elected

representatives know about it. In the present climate, it might well be problematic for public colleges to try to turn again to large tuition increases if states hit serious fiscal difficulties ahead and slash higher education support.

Federal, state and other grants, loans, work-study aid, and tax credits, usually termed generically “student aid,” are, of course, designed to soften the effects of college charges on students and families. According to the College Board, excluding repayable loans, the total of this aid came to more than \$144 billion in 2016–17. Federal and other known loan dollars came to another \$106 billion.<sup>37</sup> Although these are large sums, the fact is that the federal component, by far the largest part of the total, has been declining in inflation-adjusted terms for six years, since 2010–11. That was the year that the large Obama-inspired increases in Pell grants and the shift of student and parent loans from banks to direct federal lending were fully in place. Since 2010–11, federal Pell grant

**Figure 5. Average Annual Percentage Increase in Inflation-Adjusted Published Prices by Decade: 1987–88 to 2017–18**



Source: College Board, *Trends in College Pricing 2017*.

spending is down (in constant 2016 dollars) by 32.6 percent, work-study aid is down by 7.9 percent, and tax benefits for higher education are 24.7 percent lower. Perhaps surprising to some, the annual volume of federal education loans has also fallen by 19.1 percent.

By adjusting its data on published tuition and fees to account for federal and other aid available to students, the College Board has been able to calculate and report trends in average “net prices” paid (published tuition minus total aid excluding loans) by students as a group for the past few years. Of course, individual students pay very different net prices depending on whether or not they are aid recipients. Still, the trends provide a useful comparison of the growth of (non-repayable) student aid relative to published tuition prices.

According to the College Board’s figures, the average net price paid (in 2017 dollars) in the public four-year sector has climbed at a faster pace (19.7 percent) in the past five years (from 2012–13 to 2017–18) than in the previous half decade (from 2007–08 to 2012–13) over which average net price grew by 12.7 percent. The actual net price figures calculated by the Board were as follows (all in 2017 dollars): \$3,070 in 2007–08; \$3,460 in 2012–13; and \$4,140 in 2017–18.<sup>38</sup> The faster recent growth in net prices is due more to lagging aid than to rampaging posted prices, which actually grew by less than three percent per year during this period. For the public two-year sector, the comparable average net price figures were: \$350 in 2007–08; \$–620 in 2012–13; and \$–330 in 2017–18.<sup>39</sup> The negative net price figures for the two more recent years mean that, on average, two-year college students received more in non-repayable student aid than they paid in tuition and fees. Of course, none of these figures consider student living costs. Taking average published room and board costs into account (as an indicator of living costs) in addition to tuition and fees, the College Board calculated average annual student net costs for public four-year college students at \$14,940 and

\$8,070 for public two-year college students in 2017–18.

## CONCLUSION

As Donald Trump’s second year as president began in 2018, the immediate economic picture ahead looked fairly rosy, as he was fond of pointing out. And, in higher education, at least tuition growth was on a moderate track. Yet, there were signs of troubles ahead as states struggled to increase revenues even before feeling the effects of huge federal tax and policy changes. These changes will almost certainly expand the social needs states face while making it harder for them to raise revenues to meet the needs. Even absent another recession, these structural shifts seem likely to further drain state policymakers’ willingness to support higher education from tax funds. Traditionally when states have cut back support, public colleges and universities have turned to steep tuition hikes to at least lessen the effects on programs and staffing. The next time that deep and widespread state cutbacks occur, however, after so many decades of real growth in higher education prices, there may be much less tolerance from students and families and their elected representatives for another round of steep tuition increases. Public higher education may be in for some further belt tightening and consolidation, as well as more scrambling for alternative revenue sources, unless current federal policy directions can be turned around.

## NOTES

<sup>1</sup> There were some signs of improvement in the rate of real wage gains in the last months of 2017. See Casselman, “Economic Gains Benefit Low-Wage Workers” and “Signs of a Strong Economy Continue.”

<sup>2</sup> The GDP growth data are from: <https://tradingeconomics.com/united-states/gdp-growth>.

<sup>3</sup> CNBC, “U.S. Economic Growth Slows in Fourth Quarter on Surging Imports.”

<sup>4</sup> As of November 2017, the economy had added jobs for 86 consecutive months or more than seven years, the longest such streak on record. See Casselman, “Signs of a Strong Economy Continue,” p. A7.

<sup>5</sup> The Congressional Budget Office's official "scoring" of the fiscal effects of the tax legislation indicated an increase in the annual federal budget deficit by some \$1.46 trillion dollars over the next 10 years (Watson, "Why Some Senate Republicans Object to Tax Plan."). More realistic "dynamic scoring" by Congress's Joint Committee on Taxation, which includes a plausible estimate of increased revenues induced by additional economic activity, places the projected increased deficit figure at closer to \$1 trillion over the decade (Watson, "Senate Tax Plan Will Not Pay for Itself, Says New JCT Report.").

<sup>6</sup> Stein, "37 of 38 Economists Said the GOP Tax Plans Would Grow the Debt. The 38th Misread the Question." See also Watson, "Why Some Senate Republicans Object to Tax Plan."

<sup>7</sup> Most states' fiscal years begin on July 1 of the year prior to the named year and end on June 30 of the named year. So, fiscal year 2018 began on July 1, 2017 and will end on June 30, 2018. Just four states are exceptions to this arrangement.

<sup>8</sup> National Association of State Budget Officers, *Summary: Fall 2017 Fiscal Survey of States*, p. 1.

<sup>9</sup> *Ibid.*

<sup>10</sup> *Ibid.*, p. 4.

<sup>11</sup> *Ibid.*

<sup>12</sup> Note that this and subsequent annual change figures in this section are not adjusted for inflation.

<sup>13</sup> NASBO, *op. cit.*, p. 4. This weak performance followed revenue growth of only 1.8 percent in fiscal 2016.

<sup>14</sup> This account of sources of state revenue problems is based on American Association of State Colleges and Universities, *Top 10 Higher Education State Policy Issues for 2018*.

<sup>15</sup> See also Cassidy and Salsberg, "Storms, Fires Strain State Budgets," p. A3.

<sup>16</sup> See also McNichol and Waxman, *States Faced Revenue Shortfalls in 2017 Despite Growing Economy*.

<sup>17</sup> See also Gresko, "Top Court to Weigh Internet Sales Tax," p. A5.

<sup>18</sup> National Association of State Budget Officers, *The Fiscal Survey of States Fall 2017*, p. 15.

<sup>19</sup> *Ibid.*, p. 1. The distribution of gains was somewhat skewed across states, however, as the median state's expected revenue growth was only 3.2 percent.

<sup>20</sup> *Ibid.*, p. 6. In 2017, state legislatures enacted almost \$10 billion more in increases in taxes and fees than they approved in decreases.

<sup>21</sup> American Association of State Colleges and Universities, *Top 10 Higher Education State Policy Issues for 2018*, p. 1.

<sup>22</sup> *Ibid.*

<sup>23</sup> Delaney and Doyle, "State Spending on Higher Education: Testing the Balance Wheel Over Time," pp.343-68. The authors find that states tend to look to higher education more than other sectors for budget cuts in hard times. Other scholars have come to similar conclusions.

<sup>24</sup> American Association of State Colleges and Universities, *Top 10 Higher Education State Policy Issues for 2018*, p. 2.

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*, p. 1.

<sup>27</sup> Local support is generally included in such calculations because community colleges in many states receive some funding from local property taxes. The author calculated the 25.7 percent decline using figures from the State Higher Education Executive Officers, *SHEE: FY 2016 State Higher Education Finance*, p. 23.

<sup>28</sup> *Ibid.* Note that fiscal 1991, like fiscal 2008, was a high point in fiscal terms with state budgets enacted just before a recession's effects were felt.

<sup>29</sup> *Ibid.* The percentage increase was calculated by the author.

<sup>30</sup> *Ibid.*

<sup>31</sup> These figures include state (but not local) appropriations for higher education operating expenses and student aid. Grapevine is an annual survey of state financial support for higher education that began in the 1960s. See: <http://education.illinoisstate.edu/grapevine/>. In recent years it has worked in conjunction with SHEEO.

<sup>32</sup> Kelderman, "State Spending on Higher Education Has Inched Upward. But Most Public Colleges Can't Celebrate." This source reported that, with these states removed, aggregate state funding growth for the remaining 47 states was a meager 0.2 percent.

<sup>33</sup> See Strauss, "2017 HEPI: Highest Increase Since 2008."

<sup>34</sup> McNichol and Waxman, *op. cit.*; Gluckman, *op. cit.*; Mazerov, *Kansas Provides Compelling Evidence of Failure of "Supply Side" Tax Cuts*.

<sup>35</sup> Author's calculation from: <http://education.illinoisstate.edu/grapevine/>.

<sup>36</sup> College Board, *Trends in College Pricing 2017*, p. 9.

<sup>37</sup> These figures were calculated by the author from data in College Board, *Trends in Student Aid 2017*, p. 9. The College Board notes that the 2016-17 data were still preliminary at

the time of publication. The other data in this paragraph are from the same source. The author calculated the percentage change figures from the College Board's data.

<sup>38</sup> College Board, *Trends in College Pricing 2017*, p. 18.

<sup>39</sup> *Ibid*, p. 17.

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