The Recession Is Not Over for Higher Education

By William Zumeta and Alicia Kinne

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Although 2010 was not officially a recession year, it felt like one. Economic growth was anemic and unemployment barely moved below ten percent—from its 10.1 percent peak in 2009. Inflation and interest rates stood at near depression levels at year-end. Leading economists foresaw several years of slow growth at best with unemployment staying above the five-to-six percent range for another half decade.[1]

The state of the economy directly affects state tax collections and budgets, which in turn determine the fiscal fortunes of higher education, especially its public sector. States cut higher education appropriations substantially during these years, but the worst may be ahead. Federal aid to the states to the tune of $120 billion in FY 2009 and FY 2010—including valuable stimulus funding—left little for FY 2011.[2] But this funding is expiring before state revenues regain their health and long before the social needs accompanying economic hardship have receded.

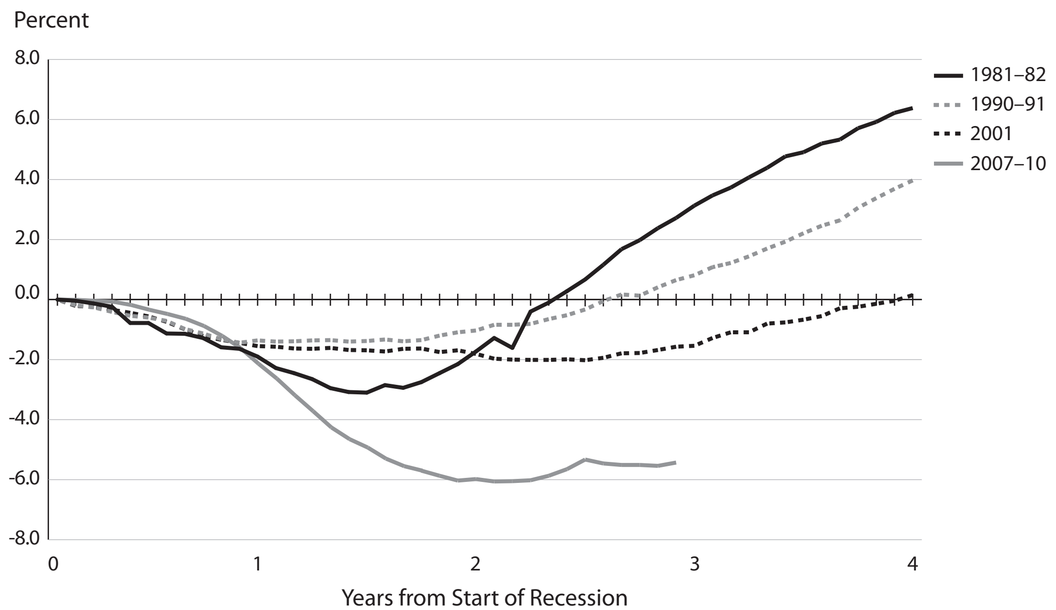
This chapter summarizes the economic outlook and the fiscal condition of the states before turning to trends in state appropriations to institutions, tuition, and student aid. Last, it speculates on the direction of higher education as the economy continues to languish.

THE ECONOMY

The deepest recession since the Great Depression of the 1930s evidently ended in mid-2009 when slow growth in the nation's Gross Domestic Product (GDP) resumed. The GDP growth rate—near four percent in the first quarter of 2010—fell back to 1.7 percent and 2.5 percent (preliminary), respectively, in the succeeding quarters.[3] The number of new jobs began to increase in late 2009, after falling each month for more than a year and a half.[4] But the weak job growth rates, averaging about 80,000 per month in 2010, failed to dent the unemployment rate, which remained at 9.8 percent in November after a weak monthly job gain of just 39,000 (preliminary).[5] The U.S. lost a staggering eight million jobs as a result of the recession and an unprecedented 40 percent, or 6.3 million of the unemployed, remained without work for more than six months.[6] In December, Congress extended unemployment benefit eligibility to 99 weeks, the longest such period in the history of the program. Figure 1 shows the depth of this downturn and the unprecedented (at least since the Depression) persistence of high unemployment.

The stagnant economy played a major role in Republican successes in the midterm Congressional elections. The GOP gained 63 seats to retake the House and picked up six Senate seats.[7] This political turnabout took further major stimulus spending off the table as policymakers turned, perhaps prematurely, to reducing the government's massive budget deficits. Still, President Obama secured a one-year reduction in Social Security taxes as part of

Figure 1. Percent Change in Nonfarm Payroll Employment Since Start of Recession



Source: Adapted from the Center on Budget and Policy Priorities, November 10, 2010.

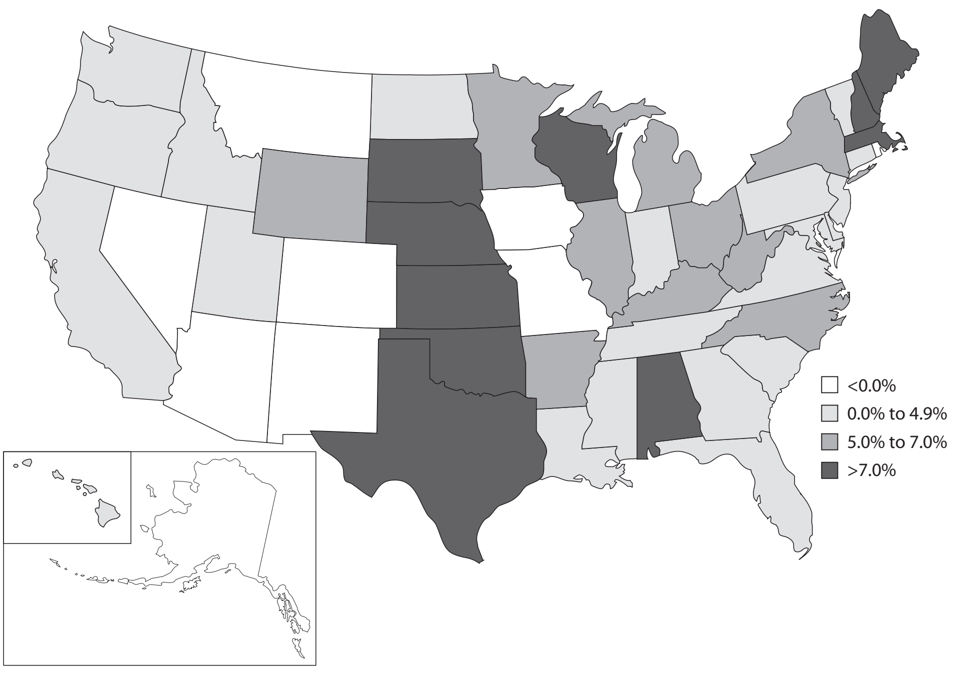
an agreement to extend the Bush-era tax cuts, and the independent Federal Reserve Board injected $75 billion per month in purchasing power through the purchase of Treasury bonds.[8] Some big questions remained: Would such stimulus work while consumer and lender confidence remained weak? Would consumers buy again and would firms and banks invest to meet unproven demand?

Inflation and interest rates indicated the depth of the economic malaise. The "core" inflation rate—excluding volatile food and energy prices—was just 0.9 percent for the year ending in August. Some observers thought this rate—well below the Fed's target range of 1.5 to two percent annual inflation—created risk of a deflationary spiral that would truly sink the economy. The Fed kept interest rates at historic lows to induce economic activity, but with limited success. Figure 2 indicates the grim economic conditions in the states as of the July-September, 2010 quarter. Many private economists shared Fed Chairman Ben Bernanke's December forecast of a half decade of slow growth and high unemployment.[9]

STATE FISCAL CONDITIONS

FY 2010 represented the most difficult budget year for states since the Depression and FY 2011 looks much the same.[10] Since 2008, revenues from sales, personal income, and corporate income taxes have fallen sharply.[11] Reduced revenues and increased demand for services such as Medicaid and public assistance will force states to close nearly $300 billion in budget gaps between FY 2009 and FY 2012.[12] States closed just over half of this amount between 2009 and early 2010; some $120 billion remains

Figure 2. Change in Coincident Index[1] of State Economic Conditions, July to September, 2010 Compared to Previous Three Months



Source: Federal Reserve Bank of Philadelphia, October 26, 2010.

[1] The coincident index combines four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). A negative coincident index means that state economic conditions have declined in the previous three months.

through FY 2012.[13] For FY 2011, Arizona closed a $3.1 billion budget gap; Florida closed a $4.1 billion deficit, and Illinois fixed a $13.5 billion shortfall.[14]

To close budget gaps, state legislatures reduced total general fund spending by 4.2 percent for FY 2009 and by an additional 6.8 percent for FY 2010.[15] Weak revenues forced 43 states to cut budgets in mid-year FY 2009 by $31.3 billion; FY 2010 mid-year cuts in 40 states totaled $22 billion.[16] Emergency federal funds provided by the 2009 American Recovery and Reinvestment Act (ARRA) mitigated the impact of deep state revenue declines on critical services such as Medicaid (by $87 billion) and education (by $48 billion).[17] ARRA funds comprised an astounding 30 percent of total state general fund spending over the past two fiscal periods.[18]

In August 2010, the federal government provided states an additional six months of enhanced Medicaid funding and an additional $10 billion in support for education.[19] Yet, states will likely spend nearly all of their ARRA dollars by the end of FY 2011; much less was available for constructing FY 2011 budgets than for the prior year. Observers expect the loss of these funds, coupled with the slow recovery of state revenues, to result in continued difficult fiscal conditions.[20]

To balance their FY 2011 budgets, 46 states addressed gaps totaling $125 billion, or 19 percent of their general fund budgets.[21] Upwards of 30 states raised taxes, significantly in some cases.[22] States also cut corrections, K–12 and higher education, state pension plan contributions, and other employee-related costs. In 2009 and 2010, 40 states cut corrections spending, including prison closures and changes in sentencing, parole, and probation policies. Up to 39 states cut K–12 education funding, including school aid and teacher and administrator compensation. Similarly, 39 states made cuts to higher education while increasing performance expectations, eliminating programs, and reorganizing systems. Most states also consolidated agencies, sold assets, and increased taxes to meet constitutionally mandated balanced budgets.[23] Last, “nearly all states have instituted hiring freezes, at least 75 percent have eliminated vacant positions, and more than half have laid off and furloughed workers since the recession began in December 2007.”[24]

Only six states reported FY 2011 mid-year budget gaps by November 2010, a possible sign of stabilizing state economies.[25] Regardless, the financial outlook remained bleak as states prepared FY 2012 budgets. State tax collections improved by September 2010, but the gains—far below historical averages at a similar point after a recession—mostly resulted from legislated increases.[26] The economies of eight states continued to decline during the third quarter (Figure 2) and a majority of states saw only modest improvements in tax collections. State tax collections in the second quarter of calendar 2010—the latest complete data available—were still down by nearly 15 percent from the same quarter of 2008.[27]

The “great recession” probably ended in summer 2009, but deep and abiding weaknesses in employment and retail sales led to predictions that state revenues will not return to 2008 levels until late 2012 or early 2013.[28] More ominously, the National Governors Association projects that state budgets may not fully recover to post-recession revenue and spending levels in inflation-adjusted terms until close to 2020. Its reasons include providing for population growth, the effects of inflation, and paying for deferred expenses and investments.[29]

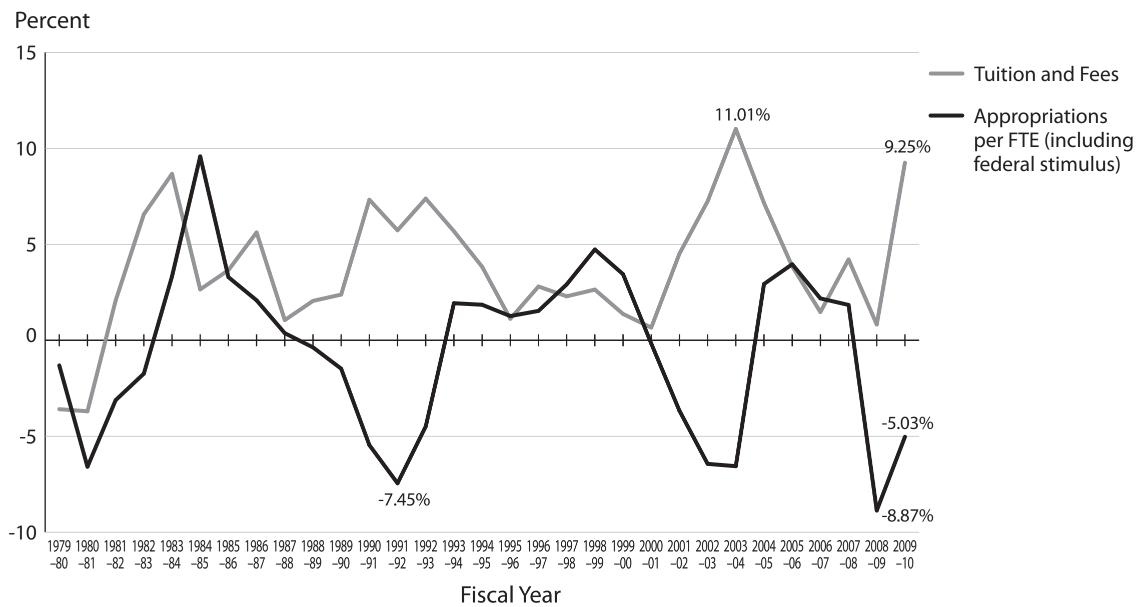
EFFECTS ON HIGHER EDUCATION

Higher education comprises the third largest portion of state general fund budgets, behind K–12 education and health care including Medicaid. But, unlike these functions, neither constitutional funding mandates nor linkages to federal matching dollars protect higher education. Knowing its clients can be charged more in a pinch, states disproportionately cut its support in hard times.[30] Even after accounting for federal stimulus money, 43 states reduced higher education appropriations between FY 2008 and FY 2010—eight states cut appropriations by more than ten percent.[31] Tuition rises almost proportionately to the decrease when states cut support (Figure 3). This year, as expected, states cut higher education more deeply and increased tuition more sharply than during "normal" times.[32]

Table 1 shows the change in states' support of higher education from FY 2008, the last pre-recession budget year, through FY 2011, with and without federal stabilization funding included (second and third columns from right). These (preliminary) figures do not adjust for inflation or enrollment increases. Across all 50 states, 35 appropriated less than three years earlier. The average change in appropriations for all 50 states was negative 5.77 percent. Considering federal help, the figure falls only modestly to 28 states with three-year declines while the average change in appropriations for all 50 states, including federal support, was a decrease of just over two percent. Even with the federal support, 13 states cut higher education funding by more than ten percent. South Carolina, the worst case, reduced total support by more than 30 percent over these three years, followed by Arizona (28 percent) and Alabama (25 percent). FY 2012 could be even worse for higher education budgets because state revenues remain quite weak and federal support will be unavailable.

The majority of states (29) were still cutting higher education funding in their most recent budgets (rightmost column). Eight states reduced appropriations by more than ten percent in FY 2011 compared to 2010. In FY 2011, state and federal support totaled $79.1 billion—down close to half a percent from FY 2010. The deepest cuts occurred in Missouri (21.4 percent), Hawaii (18.4 percent), Idaho (16.9 percent), and Arizona (15.9 percent). Most states with large declines over the three-year span were still cutting in 2011. Of the few states with

Figure 3. Annual Percentage Changes in State Higher Education Appropriations[1] per FTE and in Tuition and Fees at Public Four-Year Institutions (in 2009 dollars), 1979–80 to 2009–10



Source: College Board, 2010a, Figure 10a.

[1]State tax appropriations in FY 2007–08 to 2009–10 include federal stimulus dollars

Table 1. Change in Total State Support for Higher Education, including Federal Education Stabilization Funds (ESF), FY 2008–2011[1]

State	FY 2008 Total State Support	FY 2010 Total State and Federal Support	FY 2011 Total State Support	FY 2011 Total State and Federal Support	Change in State Support 2008–2011	Change in Total Support 2008–2011	Change in Total Support 2008–2011
Alabama	$ 1,961,808,342	$ 1,567,854,978	$ 1,455,273,417	$ 1,574,016,962	–34.81%	–24.64%	0.39%
Alaska	299,228,000	332,535,400	342,798,500	342,798,500	12.71	12.71	2.99
Arizona	1,315,406,400	1,188,032,000	1,025,534,200	1,025,534,200	–28.27	–28.27	–15.85
Arkansas	879,882,230	918,942,386	901,799,213	915,440,578	2.43	3.88	–0.38
California	11,814,421,000	11,105,625,750	11,757,885,000	11,974,885,000	–0.48	1.34	7.26
Colorado	747,481,054	830,300,989	676,318,216	765,512,315	–10.52	2.36	–8.46
Connecticut	1,034,480,989	1,051,192,571	1,066,961,253	1,066,961,253	3.04	3.04	1.48
Delaware	243,130,000	242,518,560	212,455,800	212,455,800	–14.44	–14.44	–14.15
Florida	4,448,930,438	3,965,981,203	3,738,916,518	4,094,788,120	–18.99	-8.65	3.15
Georgia	2,953,507,623	3,085,213,447	2,984,188,158	2,984,188,158	1.03	1.03	–3.39
Hawaii	554,292,000	607,366,000	491,020,000	513,020,000	–12.89	–8.04	–18.39
Idaho	410,595,600	406,828,600	343,297,000	348,063,900	–19.60	–17.97	–16.88
Illinois	2,948,632,100	3,133,876,400	3,185,176,200	3,185,176,200	7.43	7.43	1.61
Indiana	1,528,494,000	1,639,843,351	1,567,194,065	1,567,194,065	2.47	2.47	–4.64
Iowa	873,709,364	827,395,000	758,772,875	758,772,875	–15.15	–15.15	–9.04
Kansas	825,697,884	793,700,801	754,758,804	795,182,338	–9.40	–3.84	0.19
Kentucky	1,320,540,000	1,273,786,000	1,203,584,100	1,260,856,700	–9.72	–4.73	–1.03
Louisiana	1,707,668,337	1,600,321,395	1,213,247,863	1,502,840,343	–40.75	–13.63	–6.49
Maine	275,867,961	271,842,010	268,113,275	279,022,511	-2.89	1.13	2.57
Maryland	1,555,048,366	1,672,886,493	1,596,129,339	1,596,129,339	2.57	2.57	–4.81
Massachusetts	1,335,981,876	1,069,739,771	1,169,672,476	1,244,975,446	–14.22	–7.31	14.08
Michigan	2,033,709,000	1,905,703,800	1,869,659,000	1,869,659,000	–8.77	–8.77	–1.93
Minnesota	1,574,499,000	1,565,412,000	1,381,065,000	1,381,065,000	–14.01	–14.01	–13.35
Mississippi	1,045,937,317	1,006,477,155	932,494,907	1,008,862,433	–12.17	–3.67	0.24
Missouri	1,021,705,137	1,176,135,730	928,982,622	968,935,126	–9.98	–5.45	–21.38
Montana	196,547,880	217,028,166	172,375,276	209,541,869	–14.02	6.20	–3.57
Nebraska	657,011,774	622,962,181	653,935,362	653,935,362	–0.47	–0.47	4.74
Nevada	620,032,581	593,440,682	558,866,922	558,866,922	–10.94	–10.94	–6.19
New Hampshire	133,093,000	141,857,000	141,870,000	141,870,000	6.19	6.19	0.01
New Jersey	2,044,508,000	2,083,600,000	1,956,300,000	1,956,300,000	–4.51	–4.51	–6.51
New Mexico	1,058,394,058	892,949,545	874,736,332	886,623,832	–21.00	–19.37	–0.71
New York[a]	4,748,469,680	5,042,738,091	4,702,035,925	4,934,079,192	–0.99	3.76	–2.20
North Carolina	3,837,233,489	3,985,327,424	4,022,438,686	4,141,659,405	4.60	7.35	3.77
North Dakota	253,901,000	300,891,000	311,678,000	311,678,000	18.54	18.54	3.46
Ohio	2,288,294,736	2,278,284,961	1,846,474,128	2,155,276,790	–23.93	–6.17	–5.71
Oklahoma	1,098,881,179	1,086,715,968	1,015,017,746	1,074,812,732	–8.26	–2.24	–1.11
Oregon	725,761,919	692,600,919	577,319,676	616,271,291	–25.71	–17.77	–12.39
Pennsylvania	2,193,274,000	2,135,351,000	2,012,002,000	2,108,381,000	–9.01	–4.03	–1.28
Rhode Island	191,329,662	178,828,051	161,968,445	173,313,331	–18.13	–10.40	–3.18
South Carolina	1,211,068,342	1,027,443,696	817,634,079	931,391,739	–48.12	–30.03	–10.31
South Dakota	196,133,172	163,121,788	185,250,977	196,616,485	–5.87	0.25	17.04
Tennessee	1,598,765,500	1,639,256,300	1,659,586,381	1,659,586,381	3.66	3.66	1.23
Texas	6,343,669,747	6,869,834,161	6,476,380,455	6,476,380,455	2.05	2.05	–6.08
Utah	812,337,500	745,782,700	714,802,000	734,639,800	–13.65	–10.58	–1.52
Vermont	90,801,444	91,223,426	91,927,401	92,468,041	1.22	1.80	1.35
Virginia	1,885,553,314	1,702,321,947	1,691,183,270	1,892,917,704	–11.49	0.39	10.07
Washington	1,767,760,000	1,657,620,000	1,611,438,000	1,611,438,000	–9.70	–9.70	–2.87
West Virginia	562,253,000	517,837,103	492,800,710	527,395,510	–14.09	–6.61	1.81
Wisconsin	1,228,373,932	1,191,512,368	1,420,721,709	1,420,721,709	13.54	13.54	16.13
Wyoming	290,504,588	313,857,760	343,389,743	383,889,743	15.40	24.33	18.24
Totals	**80,744,607,515**	**79,411,898,027**	**76,337,431,024**	**79,086,391,455**	**–5.77**	**–2.10**	**–0.41**

Source: Grapevine-State Higher Education Executive Officers Finance Survey (SHEF), January 2011.

[1] The NY data include only state support for CUNY, SUNY, and state student financial aid. NY data on file in earlier Grapevine reports for FY06 and FY09 include monies for additional items and may not be consistent with the data reported here.

healthy gains in 2011, several had lost little or no ground in the prior years (North Dakota, Wisconsin, and Wyoming for example). California, Massachusetts, South Dakota, and Virginia showed signs of a turnaround—states where significant gains in 2011 partially offset earlier substantial reductions.

Here are some illustrative examples of the effects of budget cutting. The University of Colorado system laid off 79 employees, and increased employee workloads and their required contributions to health and retirement plans when the state reduced FY 2011 higher education funding by $62 million. Washington reduced funding for the University of Washington by 26 percent for the 2009–11 biennium, and authorized tuition increases of up to 30 percent over the two years at the state's public four-year institutions. The six public universities and 34 community and technical colleges reduced services, cut administration, and furloughed and laid off staff when the state cut an additional six percent in direct aid in its FY 2011 supplemental budget.[33] The state projects a $5.7 billion shortfall for the remainder of FY 2011 and the 2011–13 biennium. Voters recently rolled back taxes and made future increases more difficult, thereby raising the prospect of an "all cuts" approach to closing the budget gap.

California faces an immense $28.1 billion dollar budget gap for FY 2011 after closing a $19 billion gap in its original 2011 budget.[34] In 2010, California cut the University of California, California State University, and the Community Colleges systems' funding by up to 20 percent.[35] But lawmakers reduced the impact by increasing FY 2011 support from three to 12 percent although these gains may not survive the latest budget gap.[36]

The downturn hit the upper Midwest hard. Illinois lawmakers cut $100 million from the FY 2011 budget for higher education. They also authorized institutions to borrow money to cover some of their FY 2010 expenditures if the legislature could not appropriate funds by the end of the fiscal year. But the state fulfilled its funding obligations as of August 2010.[37] Higher education appropriations in Michigan fell by 23 percent between 2003 and 2008, after adjusting for inflation.[38] The University of Michigan increased out-of-state enrollments to almost one-third of the student body to compensate for significant funding losses.[39]

The South offered an equally grim picture. In a severe case, the University of South Carolina lost 47 percent of its state support since 2008.[40] Nevada was projected to have the biggest FY 2011 budget gap of any state in the Mountain West, while Utah saw the biggest drop in overall state spending, almost 25 percent, between 2008 and 2010. These states set different priorities though. A 24 percent cut in Nevada's 2010 higher education budget forced elimination of academic programs. Utah, in contrast, largely protected the higher education budget by reducing spending only 3.5 percent.[41]

Several states coupled reduced funding with aggressive performance-based budgeting. Indiana's legislature worked with the state's Commission for Higher Education to link base funding to increases in degrees awarded, on time graduations, low-income student degree completions, and transfers from two-year to four-year schools.[42] Consistent with this focus on degree productivity and efficiency, the state used the performance funding system to guide budget cuts in the most recent fiscal year.[43]

Oregon's "Reset Cabinet" developed options for preserving and improving critical state services, given large state revenue shortfalls.[44] The cabinet recommended giving increased weight to degrees, instead of enrollments, in higher education funding. In 2010, Tennessee, with the longest running performance funding system among the states, enhanced its limited approach by approving the Complete College Tennessee Act. The act moves higher education support from inputs—including enrollments—to a completions-based model.[45] Colorado, Georgia, and Louisiana are giving their higher education institutions greater autonomy, including authority to raise tuition, if they improve performance, including achieving higher degree completion rates.[46]

TUITION AND STUDENT AID

Many states—seeking to mitigate substantial funding reductions—are authorizing substantial increases in tuition and fees. In 2010, the University of North Carolina system—long proud of its traditionally low tuition—increased tuition by $440, an average of nearly 16 percent, to help offset budget cuts.[47] The comparatively high level of baccalaureate degree attainment formerly characteristic of the West has fallen below the national average.[48] Faced with enormous budget deficits, western states partially offset reduced appropriations by increasing their relatively low tuition levels. In-state rates rose by 30 percent at the University of Washington, 32 percent at the University of California, and nearly 40 percent at California State University in the last year and a half. Even California's community colleges, which boasted the lowest charges in the nation, raised fees (tuition) by 30 percent.[49]

Some institutions increased tuition by as much as 23 percent in the current year. Substantial hikes sometimes followed earlier large increases. Arizona and Georgia raised tuition by 24 percent and 28 percent, respectively, at their flagships in 2009; the national average was 6.4 percent in that year.[50] Georgia, West Virginia, and California increased community college tuition by over 30 percent in this same two-year period.[51] By contrast, many Northeastern states limited tuition increases despite significant appropriations cuts. New Jersey Governor Chris Christie signed a budget capping tuition increases at four percent. Community colleges in Maine, Alabama, and Mississippi froze tuition for the 2010–11 academic year.[52]

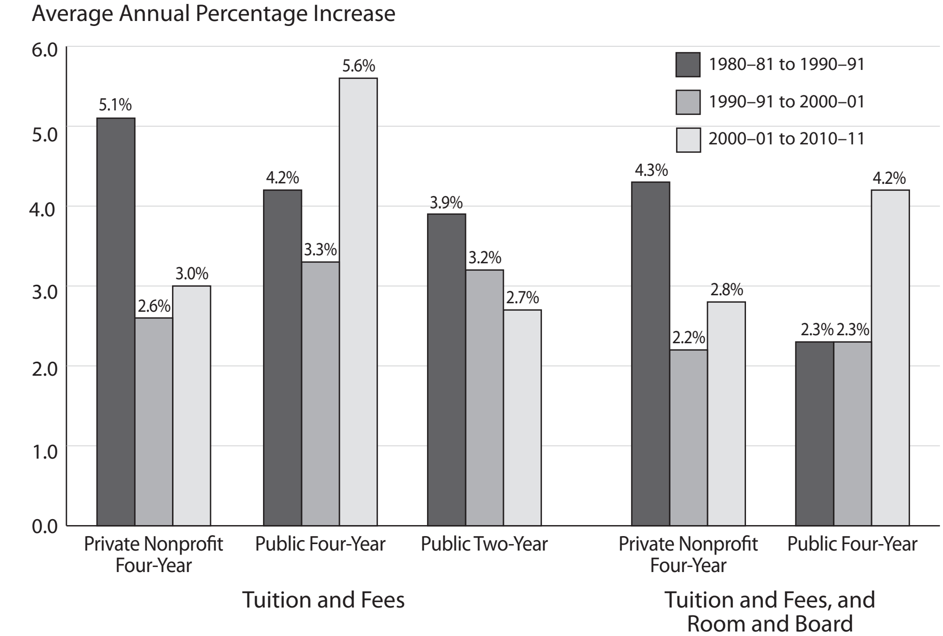
The average sticker price for college—tuition, fees, room, and board—rose nearly 70 percent since 1991–92, after adjusting for general inflation. But state and federal financial aid programs permit many students to pay much less than the sticker price. After accounting for financial aid, the average net cost of college rose faster than inflation at all institutions and, at public colleges, faster than average family income since 1991–92.[53] Thus, tuition grew sharply as a share of the cost of higher education.[54] Cuts in state support explain the faster pace of tuition increases at public four-year colleges relative to private nonprofit four-year schools in the past decade (Figure 4).

The average "sticker price" at public four-year colleges climbed by 6.1 percent in 2010–11, though the "net cost" of college actually decreased in 2009–10 (Figure 5).[55] Total grant aid per full-time equivalent undergraduate student increased by about $1,100 (22 percent) in 2009–10, mostly because of large increases in student financial aid through ARRA, the Post-9/11 G.I. Bill, and the Making Healthcare Affordable to All Act.[56] This unusual development represents a substantial effort by the Obama Administration to support higher education in the beleaguered states.

Including ARRA, the federal government spent $41.3-billion on grant aid for undergraduate and graduate students in 2009–10. That's a 72 percent increase from $25.2 billion in 2008–09, or about $16.1-billion in constant dollars.[57] The stimulus bill increased total Pell Grant spending by 58 percent, from $17.9-billion in 2008–09 to $28.2-billion in 2009–10. A 16 percent increase in the maximum Pell Grant, to $5,550, drove the jump—the largest one-year increase in its history. Nearly eight million students received Pell Grants in 2009–10, up from 6.2 million in 2008–09.[58] Aid for military veterans grew by 131 percent from $4.1-billion in 2008–09 to $9.5-billion in 2009–10, the result of the Post-9/11 GI Bill.[59]

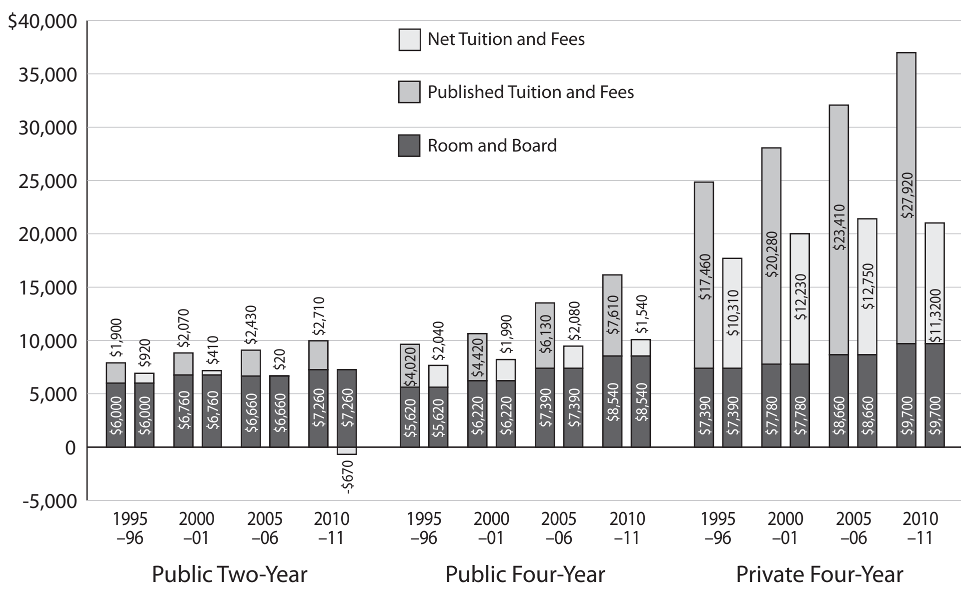
ARRA also created the American Opportunity Tax Credit (AOTC), a more generous version of the Clinton-era Hope tax credit for college tuition paid. AOTC provides a credit of up to $2,500, up from $1,800, and phases it out at a higher income level: $160,000 for married couples filing jointly, instead of $100,000. The AOTC is partially refundable for the first time,

Figure 4. Average Annual Percentage Increase in Inflation-Adjusted Published Prices by Decade, 1980–81 to 2010–11



Source: The College Board, *Annual Survey of Colleges,* October 2010; National Center for Education Statistics, Integrated Postsecondary Education Data System.

Figure 5. Published Tuition and Fees, Net Tuition and Fees, and Room and Board, Constant 2010 Dollars, Full-Time Undergraduates, 1995–96, 2000–01, 2005–06, and 2010–11 (Estimated)



Source: College Board. 2010a, figure 7.

so students and families with little or no tax liability can receive up to $1,000.[60]

The Making Healthcare Affordable Act (health care reform) provided $36 billion to the Pell Grant program, $2 billion to rebuild and expand community colleges, and $750 million to improve college access and completion.[61] The act also revamped the federal student loan program by eliminating the fees and guarantees paid to private lenders. The Congressional Budget Office estimated that this change would save nearly $68 billion over 11 years. Some of the funds will be used to expand Pell Grants and create an expanded income-based repayment option.[62]

The financial aid picture was different at the state level. Enrollments increased in most states, as is typical in hard times. But many states reduced student financial aid, just as the demand increased. Texas reduced available grant aid by just over 12 percent in 2008–09, the latest year for which complete data are available. Pennsylvania, long known as one of the most generous states, eliminated one-fifth of its available grant aid.[63] In contrast, some states with smaller programs increased grant aid. Oregon and Arizona nearly doubled grant aid while Hawaii saw a 400 percent one-year increase. A need-based grant program created in Oregon in 2008 provided a significant one-year boost to student aid funds there. Arizona tied the increase in available aid directly to large tuition increases. That state funds financial aid from a portion of tuition fees—a kind of "Robin Hood" funding arrangement.

Aggregate national figures on state grant aid are not available for the worst of the downturn years. Need-based grant aid for undergraduates—nearly 70 percent of all state grant aid—increased by 4.5 percent in 2008–09, while non-need based grant aid increased by 7.3 percent.[64] This disparity continued the weaker growth in need-based aid of recent years. The aggregate state grant-aid growth figures for 2009–10 and 2010–11 may be well below recent gains and could move into negative territory.

Patterns of student borrowing changed substantially in recent years. The volume of nonfederal borrowing—mostly private lender loans providing few protections and no subsidies for students—decreased sharply. Federal unsubsidized Stafford and parent (PLUS) loans are now a greater portion of the total borrowed. "After peaking at 25% of total education loan volume in 2006–07 and 2007–08, nonfederal loans declined to 11% of the total in 2008–09 and just 8% in 2009–10."[65] Student borrowing also seemed to have leveled off at an average of nearly $20,000 per borrower in 2008–09. The mean debt of graduates only increased slightly from 1998-99 levels, after adjusting for inflation.[66]

Student borrowing in the burgeoning for-profit postsecondary sector is now a significant policy concern. Almost all students earning four-year degrees from for-profit institutions graduate with debt—a $32,700 median in 2007–08 compared to $20,000 at public four-year schools.[67] The Obama Administration has expressed great concern over the disproportionate number of for-profit student dropouts with high loan default rates. A new "gainful employment" rule, proposed by the Department of Education, would eliminate federal financial aid for programs at colleges where high proportions of students do not repay the loan principal or incur excessive debt relative to their salaries.[68] The for-profit sector vehemently opposed the rule, which is likely to be tied up in partisan conflict in Congress.

CONCLUSION

The year 2010 ended on a note of great economic uncertainty. The weak fiscal condition of most states—no longer aided by federal stimulus funds—boded ill for higher education. More budget cuts are likely—perhaps more than the usual belt-tightening can accommodate—resulting in furloughs, layoffs, and big tuition hikes. The public shows little stomach for tax increases. Higher education may therefore face major downsizing and restructuring, even as the nation must sharply increase its degree output to cope with global economic competition.

NOTES

[1] Zumbrun, 2010, citing Federal Reserve Chairman Ben Bernanke.

[2] National Governors Association, 2010, viii.

[3] Rampell, 2010.

[4] Center on Budget and Policy Priorities, 2010.

[5] Rich, 2010.

[6] Ibid.

[7] Cook, 2010.

[8] Zumbrun, 2010. The latter action aroused opposition among conservatives who talked of ways to rein in the Fed.

[9] Ibid.

[10] Fiscal years for 46 of the 50 states begin on July 1 of the calendar year preceding the named year.

[11] Dadayan and Boyd, 2010.

[12] National Governors Association, 2010, viii. In budgetary parlance, a budget gap is a shortfall between projected revenues and projected expenditures assuming no cuts in services. When a gap is evident, either revenues must be increased or expenditures reduced to eliminate the gap and balance the budget.

[13] National Governors Association, 2010, viii.

[14] McNichol, Oliff, and Johnson, 2010.

[15] National Governors Association, 2010, viii. These figures exclude federal funds.

[16] Ibid, viii.

[17] Ibid, vii.

[18] Ibid, viii.

[19] Johnson, Oliff, and Williams, 2010.

[20] Dadayan and Boyd, 2010.

[21] McNichol, Oliff, and Johnson, 2010.

[22] Ibid.

[23] Stewart, 2010, 12.

[24] Ibid., 13.

[25] Conservative forecasting likely also played a role as states had few reserves to fall back on if forecasts were wrong.

[26] Dadayan and Boyd, 2010, 1.

[27] Ibid.

[28] Ibid, 19.

[29] Stewart, 2010.

[30] Delaney and Doyle, 2007.

[31] Grapevine-State Higher Education Executive Officers Finance Survey, 2010. These figures represent absolute dollar decreases with no adjustment for inflation or increased enrollments.

[32] Johnson, Oliff, and Williams, 2010.

[33] Ibid. At the time of writing, further revenue shortfalls appeared that promised even more reductions to higher education in the current fiscal period.

[34] Marois, 2010.

[35] Rosenhall, 2010.

[36] "In Turnabout on State Budget…," 2010.

[37] Kelderman, 2010a; 2010b, 57.

[38] Ibid, 57.

[39] Jaschik, 2009.

[40] Kelderman, 2010c, 64.

[41] Hebel, 2010, 70.

[42] Stewart, 2010.

[43] Zumeta and Kinne, 2011.

[44] "Governor's Reset Cabinet," 2010.

[45] Zumeta and Kinne, 2011.

[46] Stewart, 2010.

[47] Kelderman, 2010c, 64.

[48] Keller, 2010, 76.

[49] Ibid, 76.

[50] Washington Higher Education Coordinating Board, 2010, 5.

[51] Ibid, 9.

[52] Sewall, 2010, 50; Washington Higher Education Coordinating Board, 2010, 7.

[53] "The Soaring Price of College," 2010, 9.

[54] State Higher Education Executive Officers, 2010, 9.

[55] College Board, 2010a, 3. The increase was 6.0 percent at public two-year colleges and 4.3 percent at private nonprofit (four-year) schools.

[56] College Board, 2010b, 3.

[57] Supiano, 2010.

[58] Ibid.

[59] Ibid.

[60] Field, 2010.

[61] Basken, 2010.

[62] Baker and Herszenhorn, 2010.

[63] National Association of State Student Grant and Aid Programs, 2010, 13.

[64] Ibid. These funds were budgeted largely before the recession had hit states hard.

[65] College Board, 2010b, 18.

[66] Ibid, 19.

[67] Ibid, 18.

[68] Blumenstyk, 2010.

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