Higher Education Finances: In Recession Again

By William Zumeta

William Zumeta *is associate dean and professor of public affairs, and professor of education policy at the University of Washington. He has also taught at UCLA, the University of British Columbia, and the Claremont Graduate University.*

Zumeta, author of Extending the Ladder *(Lexington Books, 1985), and co-editor of* Washington Policy Choices: State Strategy for the Nineties *(University of Washington, 1990), is widely published in the higher education literature. In addition to his ongoing work on state higher education finance, he is currently studying the waning appeal of science and engineering careers to the most able U.S. students and the associated policy implications.*

Recession overtook the U.S. economy in early 2001 after a decade of steady, often heady, economic growth.[1] Higher education felt the effects when many states cut enacted budgets during 2002 after revenues lagged estimates.[2] FY 2003 looked worse as states depleted reserves and ran out of accounting gimmicks and easy spending cuts. Analysts foresaw little relief before FY 2004 because state tax revenue health lags economic recovery by a year or more.[3] Policymakers asked students and families to plug the gap by paying higher tuition and fees, despite rising unemployment and stagnant incomes. States honed these techniques in earlier recessions, but this time a "baby boom echo" demographic bulge, and an economy more dependent on advanced education and skills brought about an unprecedented demand for higher education. This chapter explains these developments and their implications for higher education.

THE ECONOMIC DOWNTURN

The U.S. economy sputtered in 2001, well before the September terrorist attacks, after a record run of economic prosperity that dominated the 1990s. Many e-commerce companies saw their speculative bubbles burst, manufacturing activity and business investment spending declined, and the stock market abruptly halted its spectacular rise. The economy was in decline during the first two quarters of 2001, though that was unclear at the time.[4] September 11 brought a further tailspin in profits and stock prices when fear and increased safety spending hurt travel and related industries. Business investment dried up, and the third quarter saw a further decline in GDP.[5] Economic growth for 2001 fell to just 0.3 percent[6]—a sharp drop after four consecutive years when growth rates exceeded four percent.[7]

This bump in the road was short-lived; by early 2002, observers noted an apparent turnaround. Growth perked up to a 2.7 percent annual rate in the fourth quarter of 2001, the economic engine then shifted into high gear—a brisk 5.0 percent pace in the first quarter of 2002[8]—as companies replenished depleted inventories while consumer spending remained surprisingly strong. Then, there was another crash in the second quarter as the inventory replenishment cycle peaked without any significant gains in new business investment, consumer spending finally felt the effects of layoffs and the stock market decline, and the dollar showed signs of being overvalued.[9] The July estimate of the April-June growth rate was a weak 1.1 percent.[10]

Some observers talked in late 2002 of a "double dip" recession (two recessions in quick succession).[11] But most government and independent analysts seemed to believe the worst was over. "The stumbling stock market and falling dollar are the last gasp from unwinding the excesses of the late 1990s," argued the late July edition of the respected DRI-WEFA *U.S. Economic Outlook* forecast. "Once these bubbles have fully deflated, the economy will be on a firmer footing."[12] "The second quarter will probably be the low point for GDP growth this year," projected DRI-WEFA, with growth improving to a 3.0 percent pace in the third quarter and 4.6 percent in the fourth.[13] This publication foresaw healthy annual gains of 3.5 percent and 3.7 percent for 2003 and 2004, respectively.[14] This optimistic forecast assumed no new terrorist attacks, no extended war against Iraq, no rapid crash of the overvalued dollar, and no stream of further revelations of corporate accounting shenanigans. In any case, state tax revenues would lag the recovery by many months since unemployment was predicted to climb from 4.0 percent of the labor force in late 2000 to 6.0 percent by the third quarter of 2002, and then to decrease sluggishly through 2004.[15]

STATE FISCAL STRESSES

Citizens who depend on state financial support should pull for these optimistic economic scenarios. State budgets were in sad shape in early FY 2003. Economic doldrums quickly affect revenues, which depend on sales and business taxes in most states. These inflows are slow to recover because high unemployment persists long after recessions are officially over.[16] Recessions also produce increases in spending demands for such "irresistible" needs as public assistance and medical aid to the indigent. Welfare rolls have not yet increased dramatically in the current slowdown, but Medicaid trends are frightening to budgeters. Medicaid expenditures—close to 20 percent of all state spending[17]—grew by 11 percent in FY 2001 and by more than 13 percent in FY 2002.[18] Governors' budgets for FY 2003 projected a six-percent Medicaid growth rate, an optimistic estimate given current economic conditions and trends in health costs. About 30 states reported Medicaid budget overruns in each of the previous two years.[19] Exceeding this figure in FY 2003—a strong possibility—means finding savings elsewhere in already tight state budgets.

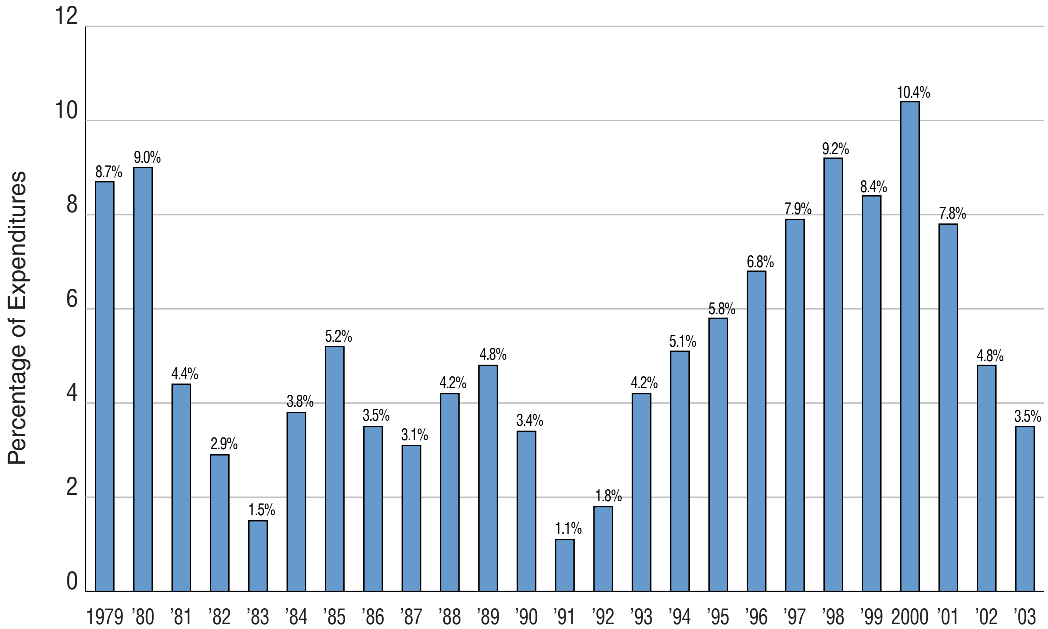
The states in aggregate had to cover budget shortfalls of $37 billion in FY 2002; one authoritative survey foresaw a staggering $58 billion gap in FY 2003.[20] During FY 2002, 39 states reduced their enacted budgets by about $15 billion.[21] Many states used across-the-board budget cuts; 11 states laid off employees.[22] The other 39 states made up the rest by spending from reserve funds, tapping special revenue streams like tobacco settlement funds, and using accounting gimmicks "that would make the accountants at Enron and WorldCom blush."[23]

State reserves declined from a healthy 10.4 percent of the previous year's aggregate expenditures at the end of FY 2000 to an estimated 4.8 percent at the close of FY 2002.[24] Reserves would drop to 3.5 percent of expenditures by June 30, 2003, based on governors' recommended budgets for 2003 (Figure 1). Budget writers would choose between spending cuts and unpopular tax increases once reserves are depleted and creative accounting maneuvers exhausted—bad news for universities and other state-supported agencies, given the public's lack of enthusiasm for tax increases.[25] Figure 2, depicting estimated FY 2002 year-end balances by state, shows northern tier states in stronger fiscal health than southern states, with some exceptions.

Planners initially envisioned an eighth consecutive year of net tax-cutting in FY 2002,[26] but recession-induced budget gaps led to the first net tax increase across the 50 states since the early 1990s (Figure 3). The governors' proposed budgets augur more tax hikes in FY 2003 with net tax and fee changes expected to produce an additional $2.4 billion.[27] Most increases would come from "sin" taxes on alcohol and tobacco, though a few states planned sales or income tax hikes.[28]

Figure 1

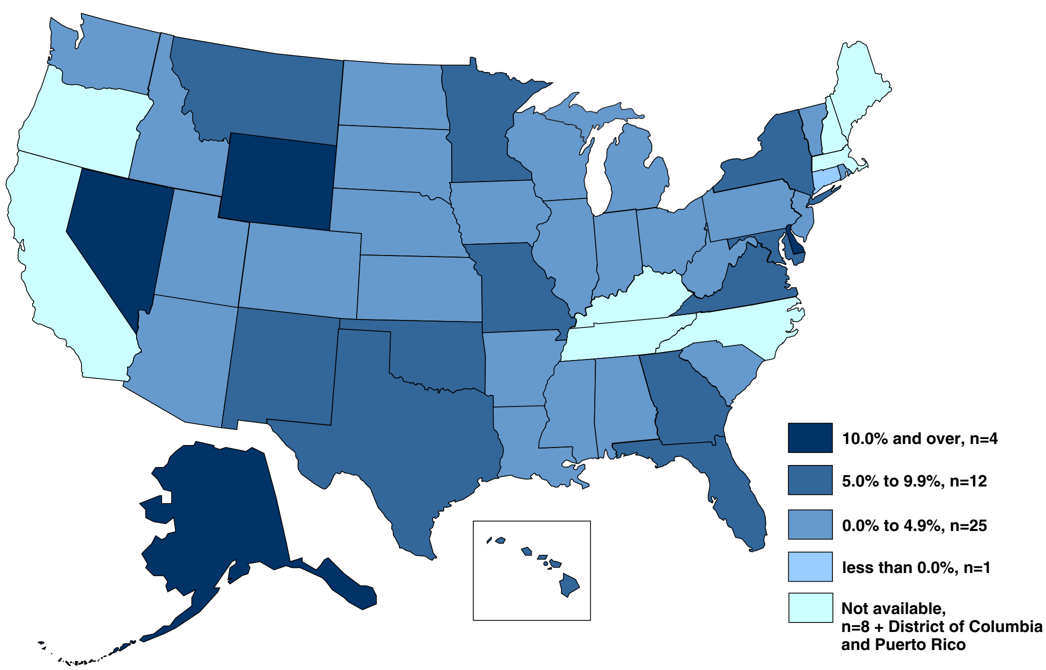
Total Year-End Balances as a Percentage of Expenditures, FY 1979 to FY 2003



Source: National Governors Association, 2002, 15.

Figure 2

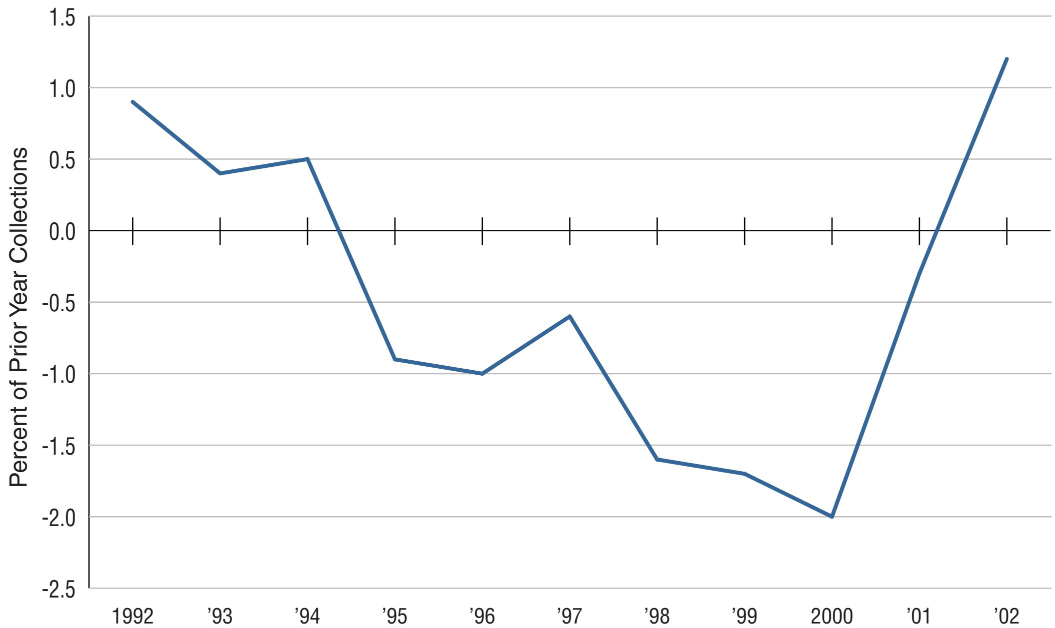
State Year-End Balances, FY 2002 Ending Balance as a Percentage of General Fund Expenditures



42 states reporting as of July 22, 2002
Source: National Conference of State Legislatures, 2002a, 13.

Figure 3

Net State Tax Changes, Percent of Prior Year Collections by Year of Enactment, 1992–2002



Source: Adapted from National Conference of State Legislatures, 2002a, 14.

State revenue prospects appeared weak despite these projected revenue increases. FY 2002 revenues came in below budget in 37 states (February-April 2002 estimate), and the estimated aggregate revenue shortfall across all states was 5.6 percent.[29] A survey that included revisions to FY 2002 budgets made up to early April 2002 found that 39 states had revised budgets, that 24 of these 39 states experienced revenues below the revised levels, and nine of the remaining 11 states also had shortfalls.[30] In the April survey, 33 states reported spending overruns beyond budgeted amounts reflecting Medicaid and other recession-induced costs; 40 states and the District of Columbia had reduced or would reduce spending to address budget gaps in FY 2002.

Governors offered relatively optimistic FY 2003 budgets, typically promulgated in January 2002. These budgets projected an aggregate revenue gain of about five percent over the previous year.[31] More recent data were less sanguine.[32] A summer survey of FY 2003 revenue information for 40 states reported planned aggregate revenue gains of only 3.7 percent above FY 2002. Only nine states expected growth of more than five percent; seven states projected revenues below FY 2002 levels.

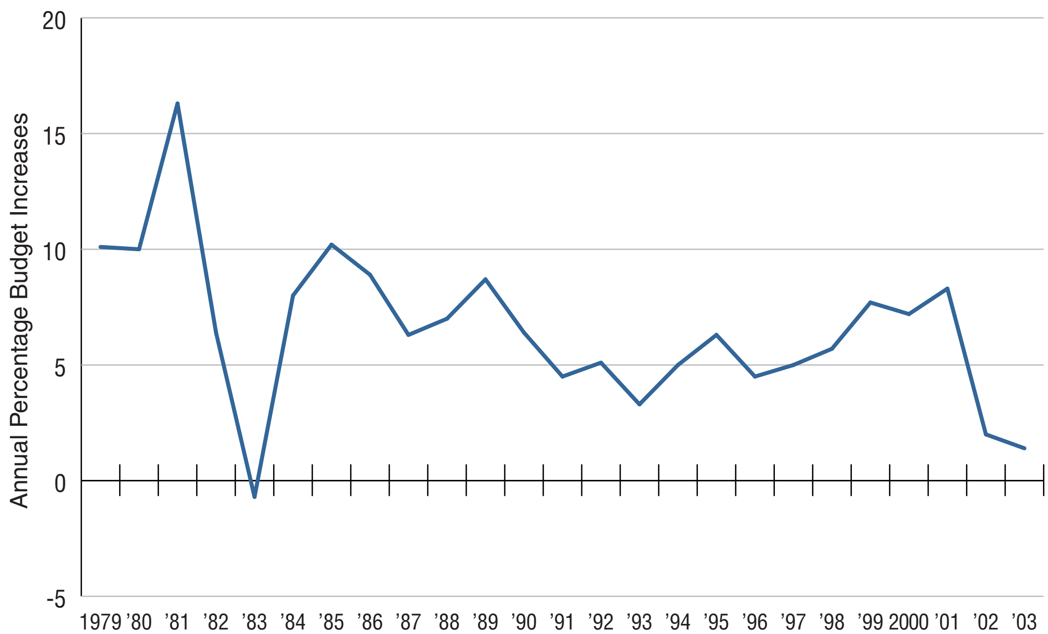
This data does not suggest generous state support for major agencies and functions, especially "discretionary" programs such as higher education. Figure 4, depicting annual percentage increases in aggregate state general fund expenditure budgets, shows the effects of economic troubles on state spending. The dips in the curve in the early 1980s, early 1990s, and the past two years follow recessions closely.[33] The estimated increase for FY 2002 is just 2.0 percent, the lowest since a 0.7 percent decrease in 1983. The annual growth would further weaken to a minuscule 1.4 percent, based on governors' proposed budgets for FY 2003.[34]

IMPLICATIONS FOR HIGHER EDUCATION FUNDING

States provided fairly strong support for higher education during the peak years of the economic boom. Appropriations grew 6-7 percent annually from FY 1998 through FY 2001—

Figure 4

Annual Percentage Budget Increases, FY 1979 to FY 2003



Source: National Governors Association, 2002, 4.

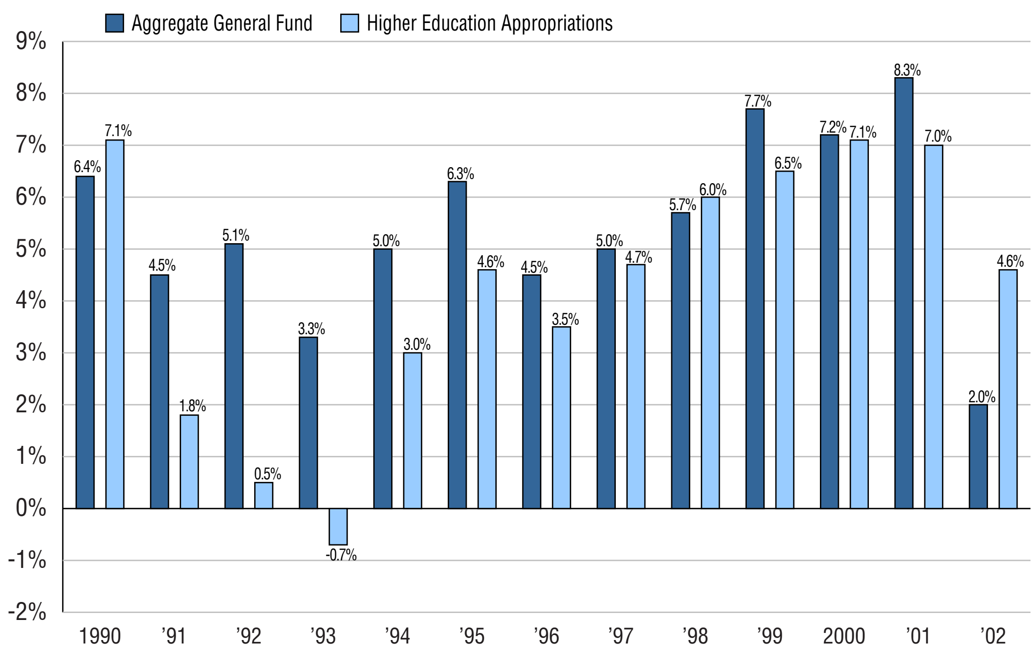
a rate similar to overall state general fund spending gains in these years. But higher education appropriations showed considerably smaller rates of growth during most of the 1990s—policymakers cut appropriations substantially during the recession of the early 1990s, and did not provide "catch up" funding for higher education for several years (Figure 5). Budgeters became cautious in their projections after the sudden downturn of 1990-91 forced states to resort to highly unpopular tax increases to balance their budgets. These increases led to intense political pressure for expenditure limitations and tax cuts even when prosperity returned.

Priorities in most states during much of the 1990s favored elementary and secondary education, welfare and its reform, prisons, and health care (especially Medicaid) over higher education. These expensive state-supported functions had a structural advantage in budgeting: Their costs were largely determined by caseloads because states must support all eligible individuals—K-12 students, prisoners, and Medicaid enrollees. Caseloads for many of these functions tend to rise in hard times, creating further pressures to make cuts elsewhere. Higher education enrollments, in contrast, are "discretionary"—colleges can always defer capacity expansion. The largest discretionary item in most state budgets—and therefore the most obvious target for reductions—higher education also has alternative sources of revenue: tuition, endowments, gifts, and grants.

This differential targeting in downturns makes catch-up funding for the academic sector imperative in periods of prosperity. But higher education at best enjoyed a modest fiscal recovery during the recent boom. Policymakers missed the opportunity to reduce the large backlog of deferred facilities' expenses and to prepare for the inevitable enrollment surge as the children of baby boomers came of age.[35] State support had declined by mid-2001, even before FY 2002 budgets were enacted. Still, the combined planned increase for higher education over FY 2001 for all 50 states was 4.6 percent, well above the inflation rate and the projected increase in all state spending.[36] But five states reduced higher education spending in FY 2002 enacted budgets, and

Figure 5

Growth in State Higher Education Appropriations vs. Growth in Aggregate State General Fund Appropriations, 1990–2001



** FY 2002 figures are based on the change from FY 2001 actual to FY 2002 estimated.*
Source: Compiled from information taken from Palmer 1998, 2001, 2002, and National Governors Association, 2002

another eight fell behind the inflation rate.[37] Most states with healthy appropriations increases were in the West or Northeast. Many states in the Southeast and the "Rust Belt"—the northern tier of states from New York and Pennsylvania west to Minnesota and Iowa (but excluding Illinois)—showed small gains or declines.[38]

FY 2002 student aid support in enacted budgets grew by 6.6 percent in the 34 states where year-to-year comparisons were possible.[39] Also faring well were historically black public colleges in Mississippi, Missouri, North Carolina, Oklahoma, Tennessee, and Texas—states affected by desegregation agreements with federal authorities. Reversing a recent trend, two-year colleges did not receive better state support than four-year schools—only 12 of the 41 states where such appropriations were distinguishable awarded larger increases to two-year colleges. The reverse occurred in 14 states, and the two sectors received similar increases in the remaining 15 states. Seven states provided direct funding to independent, nonprofit institutions, but this sector received larger increases than public colleges in only New Jersey and Pennsylvania. Public institutions fared better in Alabama, Florida, Iowa, Louisiana, and New York.

The worst news in FY 2002 came when many states cut spending in mid-year after revenues fell below budgeted levels.[40] Higher education, a summer 2002 survey noted, was the most common target for rescissions in appropriations.[41] Cuts in the 19 states facing rescissions included hiring freezes, travel restrictions, and postponed maintenance and construction. Several states also added tuition surcharges.[42] Enrollment demand increased during the recession, especially at community colleges, but many institutions reduced course sections, thereby turning students away or delaying their progress.[43] Last year's deep budget cuts in Massachusetts will leave a permanent impact: Nearly 12 percent of the employees at the University of Massachusetts–Amherst took early retirement.[44]

FY 2003 began amid widespread signs of fiscal belt-tightening in higher education.[45] Table 1 shows FY 2002 and FY 2003 state appropriations for higher education for the 45 states where data was available as of October 2002.[46] Appropriations in 21 states declined between enacted budgets in FY 2002 and FY 2003; Missouri and Oregon, each showed decreases of more than 15 percent; declines in five more states—Idaho, Iowa, South Carolina, Utah and Virginia—exceeded five percent. Fourteen states cut appropriations by zero to five percent, and another 14 increased appropriations by less than three percent. Thus 35 of the 45 reporting states reduced FY 2003 purchasing power for higher education, despite enrollment increases in many of them.

What impact did budgetary stringency have on colleges and universities? The economy's condition and the demographic bulge in some states led to unprecedented enrollment pressures on community colleges.[47] In FY 2002 many community colleges added non-reimbursed enrollments—9,000 in Washington and 40,000 in California. College officials, while reluctant to cap enrollments officially, said that underfunding precluded purchase of equipment or hiring of staff needed to meet demand. Budget cuts even affected vocational-technical fields facing labor shortages. Non-degree adult education, ESL classes, and classes aimed at stimulating college attendance among high school students were cut as colleges saved resources for their highest priorities. Some community colleges contemplated higher admission standards—anathema to believers in the "open door" mission.

Cost cutting took many forms: job cuts at Virginia Tech and the University of Virginia;[48] rescissions of promised pay raises in Massachusetts; terms and temporary closures in Tennessee,[49] and early retirements in Idaho, Massachusetts, and New Jersey.[50] Tennessee and Wisconsin linked state funds for research to economic development;[51] Alabama and Tennessee tried to eliminate subsidies to sports programs,[52] and several states imposed new or higher fees, especially for technology services.[53] But colleges also deferred replacement of older computers and systems and cut spending on technology-related instructional innovations and on-line courses.[54] As often occurs in hard times, institutions protected core people and traditional functions at the expense of newer activities. Online education, noted one analyst, was vulnerable because it added to the cost of education, despite early claims of cost reductions.[55] Texas, in relatively good fiscal shape, offered to match private dollars raised for computer equipment, faculty training, and scholarships.[56]

A silver lining appeared in the dark fiscal clouds hanging over "megastates" California and New York, where governors and legislators, facing large FY 2003 deficits, spared higher education from the substantial reductions made elsewhere.[57] California faced an astonishing $23.6 billion budget deficit—one third of the huge state's general fund—but the three major public systems took budget hits of only a few percent. State officials preserved funding for additional enrollments and merit salary increases for faculty and staff—and avoided fee increases. The California State University system confined reductions to technology, equipment, library materials, and maintenance. The University of California system cut these areas as well as outreach programs to the state's K-12 schools. The governor's revised spending plan proposed an 80 percent reduction in the appropriation for the California Postsecondary Education Commission, the state's higher education policy research and data collection agency.

New York faced a $6.8 billion budget gap that took more than two months into the new fiscal year to close. But the state funded the State University of New York and the senior colleges of the City University of New York at FY 2002 levels and *increased* aid to CUNY's two-year colleges. Concern remained, though, that rosy assumptions underlay the California and New York budgets.

TRENDS IN TUITION AND STUDENT AID

Public colleges and universities usually increase tuition sharply to mitigate the effects of stagnant state support during economic downturns.[58] Some observers, noting that tuition growth rates have exceeded general price inflation for many years and seeing the negative reaction to the last round of sharp increases, predicted greater-than-usual resistance to the latest efforts to push up higher

Table 1

Appropriations of State Tax Funds for Operating Expenses of Higher Education: FY 2002 (Enacted and Revised) and FY 2003

State	FY2002 Enacted	FY2002 Revised	FY2003 Enacted	% Change Enacted 2003/2002
	(in thousands of dollars)			
Alabama	1,116,129	1,115,999	1,148,152	2.9%
Alaska	204,837	204,706	212,747	3.9
Arizona	949,926	884,175	907,227	-4.5
Arkansas	653,386	625,112	625,987	-4.2
Colorado (a)	781,303	756,809	817,236	4.6
Connecticut	761,942	753,681	762,600	0.1
Delaware	189,228	186,398	192,889	1.9
Florida	2,837,584	2,725,210	2,916,595	2.8
Georgia	1,699,438	1,707,734	1,734,481	2.1
Hawaii	349,159	349,231	369,649	5.9
Idaho	330,853	323,340	305,337	-7.7
Illinois (b)	2,922,598	2,904,184	2,787,048	-4.6
Indiana (c)	1,321,191	(no revision)	1,326,682	0.4
Iowa	830,226	786,640	769,854	-7.3
Kansas	715,585	712,923	712,027	-0.5
Kentucky (d)	1,084,605	1,063,668	1,094,599	0.9
Maine	239,892	239,002	242,082	0.9
Maryland	1,297,406	1,282,690	1,301,845	0.3
Massachusetts	1,009,921	1,017,564	989,019	-2.1
Michigan	2,273,532	2,257,732	2,263,572	-0.4
Minnesota	1,382,576	1,379,832	1,419,395	2.7
Mississippi	805,964	765,014	775,243	-3.8
Missouri (e)	1,049,504	974,646	875,070	-16.6
Montana	149,738	149,838	146,034	-2.5
Nebraska	525,220	521,316	520,691	-0.9
Nevada	346,845	(no revision)	370,593	6.8
New Hampshire	107,608	107,573	111,135	3.3
New Jersey	1,798,085	1,751,643	1,791,323	-0.4
North Dakota	201,497	201,497	201,497	0.0
Ohio	2,181,991	2,084,535	2,112,609	-3.2
Oklahama	824,891	796,312	811,474	-1.6
Oregon (f)	714,837	679,831	604,330	-15.5
Pennsylvania	2,035,092	2,044,695	2,011,110	-1.2
Rhode Island	174,939	174,473	169,438	-3.1
South Carolina	896,773	856,200	830,305	-7.4
South Dakota	141,973	143,163	148,588	4.7
Tennessee	1,073,136	1,071,515	1,153,989	7.5
Texas	5,074,633	5,135,147	5,209,765	2.7
Utah	608,644	586,208	566,431	-6.9
Vermont	73,195	71,354	75,455	3.1
Virginia	1,681,646	1,631,856	1,545,680	-8.1
Washington	1,373,895	1,370,342	1,375,255	0.1
West Virginia	392,051	392,051	393,695	0.4
Wisconsin	1,192,913	1,194,852	1,220,788	2.3
Wyoming	169,929	161,917	189,786	11.7

Source: Palmer, 2002.

Notes to Table 1:

(a) Does not take into account a gubernatorial order restricting four percent of FY03 appropriations at the beginning of the new fiscal year.

(b) FY 2002 and FY 2003 appropriations to public universities include $45 million for contributions to the state group health insurance fund.

(c) FY 2003 figures reflect appropriated amounts. Administrative reductions totaling $12.7 million have been implemented for FY 2003, but in conformance with long-standing Grapevine definitions, they have not been included above.

(d) The FY 2003 appropriations budget was not passed by the General Assembly, therefore these figures are based on a spending plan implemented by the governor.

e) These figures do not include additional withholdings by the governor for FY 2002.

(f) FY03 figures reflect the most recent (fifth) special legislative session actions and are as of September 17, 2002. Certain cuts approved during the fifth special legislative session are automatically repealed if voters approve a measure to increase the state income tax that will be decided at a January 28, 2003 special election.

education prices. The evidence did not bear out this hypothesis. Enrollment-weighted average tuition growth for in-state students at four-year public institutions jumped from the 3.5 to 4.5 percent range in FY 1998–2001 to 7.7 percent in FY 2002.[59] This hike was the largest increase since gains of 10.8 percent in 1992–93 and 8.6 percent in 1993–94 when the aftermath of the last recession depressed state appropriations. In-state tuition rate increases at public two-year colleges averaged 5.8 percent in FY 2002, a larger average than in the three preceding years combined. FY 2002 tuition hikes at independent four-year colleges averaged 5.5 percent—a percentage in line with recent increases in this sector.

Tuition hikes in 2002–03 reflected the accumulating impacts of the economic downturn on state and institutional finances. Tuition and fees at public four-year colleges, the College Board calculated, averaged 9.6 percent higher than in the previous year; public two-year colleges charged 7.9 percent more.[60] These increases were similar to the hikes in the recessionary period of ten years earlier. Independent four-year colleges and universities continued to raise their prices at similar rates to the recent past, averaging 5.8 percent in 2002–03.[61]

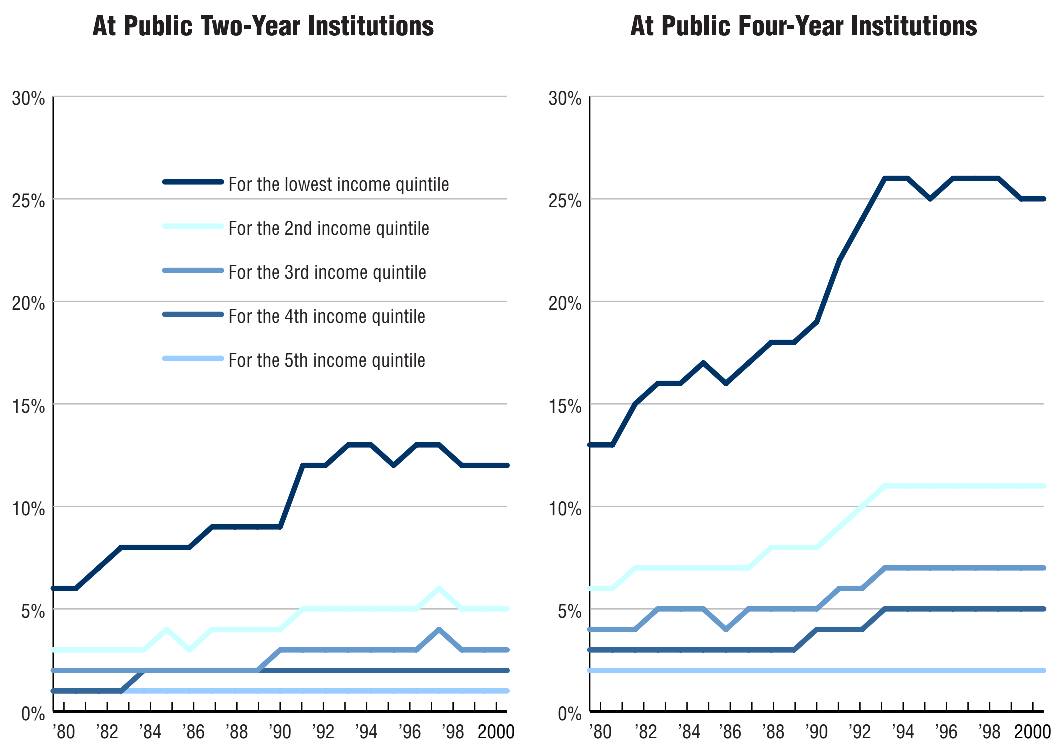
Figure 6 shows the long-term effects of the post-1980 pattern of annual college price increases well above rates of inflation and of growth in typical family incomes. Steady, rapid, inflation-adjusted growth in public college and university tuition has substantially affected college affordability for lower- and middle-income families, but had little financial effect on affluent families.[62]

Scholarships and grants can, in theory, mitigate the effects of price increases on college affordability and access *if* student aid funding responds to increases in tuition prices. To improve access, states must direct funds to students who would not enroll absent this aid. A recent analysis found no correlation between public college and university tuition changes and state need-based student aid funding changes between 1985 and 2001 for public "flagship" research universities, "state colleges and universities," and community colleges.[63] Some states accompanied tuition increases imposed during recessions with additional state scholarship funds, but elsewhere student aid suffered cuts similar to those faced by other programs. States usually enhanced student aid in good times when tuition gains were moderate. The net result was no systematic correlation between prices and state aid.

The rapid growth of "merit-based" aid, the fastest-growing component of state aid, has probably worsened this situation. This aid, awarded on the basis of grades and test scores, goes disproportionately to affluent students who would likely attend college absent the support. Between 1995–96 and 2000–01, non-need-based aid—dominated by the merit aid category—jumped from 15 to 24 percent of state aid.[64] Observers disagree over political potential for shifting funds from one pot to the other. But the rapid gains in merit funds may have limited the growth of need-based support essential to assuring access to less affluent students.[65] Student aid funding, in any case, is unbalanced across the states. In 2000–01, the contributions of only 14 states

Figure 6

Trend in Share of Income Required for Tuition



Source: National Center for Public Policy and Higher Education, 2002, 5.

exceeded the $480 national average in state grant dollars per full-time-equivalent undergraduate student. Another 21 states and the District of Columbia provided less than $250 per student. Three states had no student aid program at all.[66]

Early indications suggested sustained funding of student aid programs during the economic downturn. Total state support for scholarships and grants increased 14.5 percent between the 1999–2000 and 2000–01 academic years, the biggest total increase in more than 20 years. This support, enacted before the recession, included an 11.9 percent increase for need-based aid.[67] Only six states reported spending decreases; 43 reported increases. State scholarship agency officials, as late as April 2002, reported no signs of cutbacks in student aid; preliminary estimates of 2001–02 aid suggested an aggregate gain in excess of ten percent, to $5.15 billion.[68] As for 2002–03, there was "little indication that state lawmakers have been considering cuts in student-aid budgets."[69] Time would tell how long this resolve would hold up.

Students also benefited from positive developments in federal aid. The Pell Grant program, the largest need-based federal grant program, resumed its growth in 1996–97 after several years of stagnant funding, and grant aid subsequently grew faster than loan aid.[70] But the recession and tax cutting meant the federal budget again faced deficits that threatened the future of student aid. A proposal for Pell funding, passed by the Senate Appropriations Committee in July 2002, would increase the maximum Pell grant by just $100 (2.5 percent) in FY 2003.[71] The probable results: increased student debt and decreased access for needy students if tuition continues to rise.[72] Federal tuition tax credits—costing $12 billion annually in lost revenue—are only available to families with enough income to owe taxes and with sufficient resources to save for future college expenses. The credits do not reach students from low-income families whose attendance is most at risk.

CONCLUSION

Higher education, like the nation, faced an uncertain economic future in late 2002. The economy teetered on the edge of a second recession while state revenues remained stagnant at best. The recession generated powerful spending pressures, especially from rapid growth in Medicaid and other health costs. State treasuries faced up to 18 months of revenue weakness after a recovery, followed by years of conservative budgeting. In most states, the political climate promised no immediate revenues from new or increased taxes even if prolonged public sector starvation eventually tempered the "taxpayer revolt" mentality.

Public colleges and universities should prepare for several years of weak growth at best or even for inflation-adjusted declines in state support. Tuition and fee increases can provide some fiscal relief but the political limits of this strategy may be quickly reached when payers and voters suffer from stagnant incomes or unemployment. And higher tuition without increased need-based student aid reduces access to students whose participation rates most need a boost.

The rise of the knowledge economy and the growing college age youth cohort has increased the demand for college. But will the nation meet the need? Barring a shift in the thinking that underlies state budgeting, higher education may be in for a sea change involving cost cutting, new ways of reaching more students, and privatization. Workers "on the ground" in public colleges must keep policymakers aware of the effects of these trends in higher education, particularly on aspiring students who cannot pay their way into proven programs and institutions.

NOTES

[1] March 2001 marked the onset of the recession, but the National Bureau of Economic Research (NBER) officially made the declaration months later after inspecting mountains of economic data (Behravesh et al, 2001, 4).

[2] FY 2002 was July 1, 2001–June 30, 2002 in most states.

[3] National Governors Association (NGA), 2002, 1.

[4] U.S. Department of Commerce, 2002.

[5] Ibid.

[6] Ibid.

[7] Behravesh et al, 2002, 9.

[8] U.S. Department of Commerce, 2002. These figures represent quarterly changes, adjusted to an annual rate and for price changes, in Gross Domestic Product or GDP, the standard measure of aggregate economic growth.

[9] Behravesh et al, 2002, 1.

[10] Gosselin, 2002, A8.

[11] Baldwin, 2002; Gosselin, 2002.

[12] Behravesh et al, 2002, 1.

[13] Ibid.

[14] Ibid., 9.

[15] Ibid., 8.

[16] The shift in the economy to largely untaxed services and the growth of Internet sales not taxable under federal law resulted in a further long-term drag on state tax bases.

[17] NGA, 2002, 2.

[18] Ibid., 6.

[19] Ibid.

[20] National Conference of State Legislatures, 2002a.

[21] NGA, 2002, 1.

[22] Ibid. Higher education was a favorite target for cuts, according to the National Conference of State Legislatures (NCSL, 2002a, 6).

[23] This quotation is from Arizona Senate President Randall Gnant (Republican) at the annual meeting of the National Conference of State Legislatures in late July 2002 (quoted in Thomas, 2002, A22). Several states tapped substantial portions of their expected future tobacco settlement payments by selling this revenue stream at a steep discount for immediate cash to pay current bills.

[24] NGA, 2002, 14-15.

[25] Broad tax increases continue to have little political appeal in most states, according to reports from the 2002 mid-summer NCSL conference, (Thomas, 2002, A22).

[26] NGA, 2002, 11.

[27] NGA, 2002, 10. This figure now appears likely to be exceeded.

[28] Thomas, 2002. The NCSL summer survey showed 16 states had enacted tax increases for FY 2003 and 10 had raised fees. Indiana, New Jersey, and Pennsylvania each raised taxes by more than $1 billion and Tennessee was close behind at $900 million (NCSL, 2002a, 8).

[29] NGA, 2002, 10.

[30] NCSL, 2002b. Data cited in this paragraph came from pages 1-2 except where otherwise indicated. Just after the end of FY 2002, 26 of the 42 data-reporting states told NCSL that revenue collections for the year had fallen below the previous year's level (NCSL, 2002a, 5).

[31] NGA, 2002, 11.

[32] The data cited in the rest of this paragraph come from NCSL, 2002a, 7.

[33] The figures shown for FY 2003 are based upon governors' proposed budgets.

[34] These figures are from NGA, 2002, 5. The July 2002 reports were little different. The NCSL summer survey (NCSL, 2002a) computed a cumulative spending gain for the 42 reporting states of 1.8 percent for FY 2002. Twelve states reported spending decreases between 2001 and 2002. Projected aggregate spending growth for 2003 (40 states reporting) was 1.6 percent; 15 states expected to spend less than in 2002.

[35] Western Interstate Commission on Higher Education, 1998.

[36] Schmidt, 2002b, citing Palmer, 2002.

[37] Schmidt, 2002b.

[38] Ibid.

[39] The observations and data cited in this paragraph are from Schmidt, 2002b.

[40] Massachusetts was an exception. Lawmakers took until November 2001 to pass a FY 2002 budget. The enacted budget therefore reflected the trend toward declining revenue more than in other states. Appropriations for higher education declined 6.2 percent from FY 2001, the largest decrease in the U.S. (ibid).

[41] NCSL, 2002a, 6. This estimate may be low since more states imposed across-the-board spending reductions that affected public colleges and universities.

[42] Painful emergency mid-year tuition increases were reported at public colleges in Massachusetts, Missouri, Ohio, and South Carolina (Associated Press, 2002). The largest hikes were in Massachusetts (7.8 percent) and Ohio (up to six percent on top of a 7.1 percent average increase that took effect the previous fall).

[43] Evelyn, 2002a, describes such reductions in the community colleges of North Carolina where enrollment demand surged.

[44] Morgan, 2002b. Rutgers University and the University of Idaho each expected about 75 faculty to retire soon in response to similar budgetary pressures (Fogg, 2002).

[45] Public higher education is the major focus here, but independent colleges and universities also felt the effects of the economic downturn. Endowments suffered in the bear stock market, charitable giving fell off, and strapped families found it harder to manage private college tuition costs (Pulley, 2002; Van der Werf, 2002; and Van der Werf et al, 2002).

[46] Palmer, 2002.

[47] Evelyn, 2002a and b cite examples in Arkansas, Maryland, New Jersey, New Mexico, North Carolina, Oklahoma, Pennsylvania, Utah, Virginia, and Washington. The instances cited in this paragraph were reported in these articles.

[48] Hebel, 2002. Cuts in faculty positions, including tenured faculty, were considered likely in Nebraska as the legislature met in special session to make a second round of deep budget cuts (Schmidt, 2002a).

[49] Morgan, 2002a.

[50] Fogg, 2002.

[51] Selingo, 2002c.

[52] Kellogg, 2002.

[53] The University of Texas at Austin also sought to impose a new "infrastructure fee" on students to help fund building maintenance and construction costs. But the state's attorney general vetoed this initiative on legal grounds (Selingo, 2002b).

[54] Carnevale, 2002a, b.

[55] Carnevale, 2002a, A29.

[56] Ibid., A30.

[57] Selingo, 2002a. The points in this paragraph and the next one come from this article.

[58] Mortenson (2002) documents this pattern systematically.

[59] Computed from figures in The College Board, 2001a, 6.

[60] The College Board, 2002, 5.

[61] Ibid.

[62] Analogous growth curves for independent-college tuition resemble the curves for four-year public colleges, but they slope upward even more steeply (National Center, 2002, 5). All the curves shown end in 2000; they do not reflect the impact of the most recent economic downturn.

[63] Mortenson, 2002.

[64] De Salvatore and Hughes, 2002.

[65] Heller, 2001.

[66] De Salvatore and Hughes, 2002, 81.

[67] Schmidt, 2002c. This article was based on De Salvatore and Hughes, 2002.

[68] Schmidt, 2002c.

[69] Ibid.

[70] The College Board, 2001b, 7, 12.

[71] Burd, 2002.

[72] Recent studies argue that current financial aid policies leave many needy students poorly served (Advisory Committee, 2001, 2002; St. John, 2002).

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