

The New Finance of Public Higher Education

By William Zumeta

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Among his recent publications: "State Higher Education Financing: Demand Imperatives Meet Structural, Cyclical and Political Constraints," in E. P. St. John and M. D. Parsons (eds.), Public Funding of Higher Education: Changing Contexts and New Rationales (Johns Hopkins Press, 2004). His chapter on "Public Higher Education in Washington State: Aspirations Are Misaligned with Fiscal Structure and Politics," in R. Ehrenberg (ed.), What's Happening to Public Higher Education, will be published by Greenwood Press for the American Council on Education in 2006.

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Like the old gray mare, public higher education ain't what it used to be. Taxpayer disinvestment has significantly changed the enterprise from the postwar years, the Great Society era, and even the Nixon/Ford/Carter period. This article shows why and how this change occurred, its apparent effects and consequences—including increased privatization and marketization—and its implications. The essay also updates the state of the economy, the condition of state and institutional finances, and developments in educational opportunity.

HIGHER EDUCATION FINANCE AND THE ECONOMIC CYCLE

The ups and downs in America's modified market-capitalist economy profoundly affect higher education. Public colleges and universities still depend on public subsidies to support central *instructional* functions,

though the taxpayer's share of total costs has declined.¹ Higher education fares comparatively well in state appropriations when the economy is strong and government's coffers are relatively full, such as in the prosperous late 1990s.² But even here, as in the previous upturn, the good times for higher education rolled in late.

Stagnant or declining state revenues reverse the sector's fortunes. In seeking budget cuts, legislators and executive budget-makers look to higher education—still the third largest component of states' general fund spending.³ Higher education becomes the "balance wheel" in often-desperate calculations as policymakers try to meet increased demands for public assistance, indigent health care, and criminal justice services. Try as they will, budgeters usually cannot reserve sufficient "rainy day" funds for sudden downturns. Responding to political pressures, elected

officials generally cut taxes instead of building these funds sufficiently to offset the inevitable cyclical declines.

The sector has two other uniquely attractive features (to budget-cutters). First, meeting the demand for higher education is desirable but not mandatory, or even as urgent as meeting K-12 enrollment demand or caseloads and legal requirements in Medicaid, criminal justice, and public assistance. Legislators can postpone postsecondary enrollment increases. Second, higher education can moderate the effects of budget cuts by increasing client charges, though serious consequences result from resorting extensively to these tactics.

CURRENT MACROECONOMIC DEVELOPMENTS

Macroeconomic trends were finally looking up in mid-2005, though the late summer hurricanes created a bump and increased uncertainties. A painful, halting recovery followed the deep recession of 2000–01. Job growth was especially sluggish; total employment did not reach pre-recession levels until January 2005.⁴ Continued outsourcing kept manufacturing employment—jobs tending to pay well, thereby swelling tax revenues—below the pre-recession level. But most macroeconomists foresaw prosperity ahead. Healthy net job growth in July (207,000) kept the unemployment rate at its post-recession low point of 5.0 percent,⁵ and even the hurricanes produced only a slight increase. Gross Domestic Product—the standard measure of national output—grew at a solid 3.4 percent annual rate for the second quarter of 2005.⁶ The inflation rate ran at an acceptable 2.5 percent despite soaring energy prices.⁷

The Federal Reserve Bank planned to assure stable economic growth⁸ while containing inflation by increasing interest rates at the “measured pace” it employed since mid-2004.⁹ Most economists supported these moves, though the Economic Outlook Group of Princeton, New Jersey, foresaw a 25 percent chance of a mild recession in 2006 precipitated by high energy prices, rising interest rates, and excessive consumer debt.¹⁰

THE CHANGING FEDERAL ROLE IN HIGHER EDUCATION

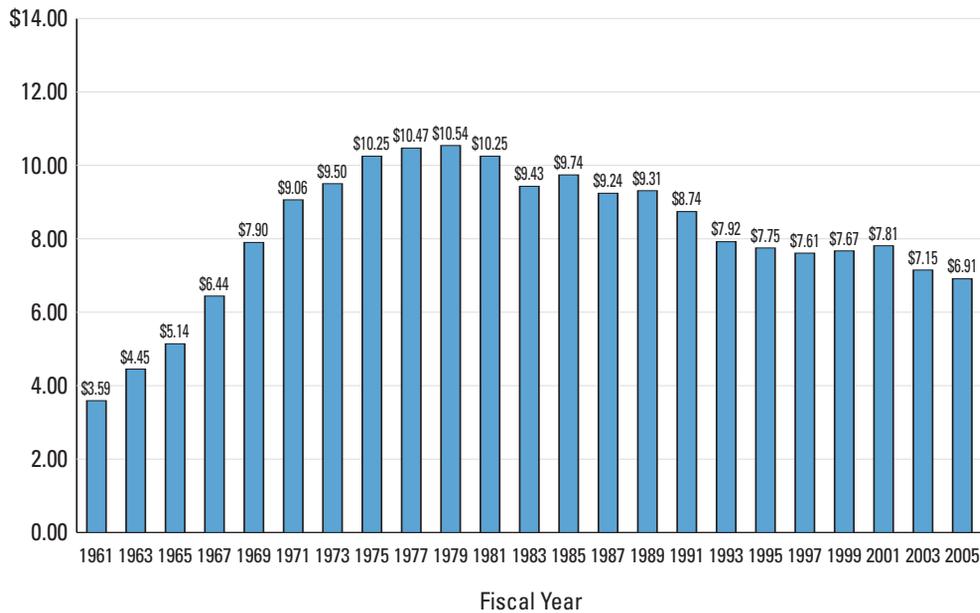
The important federal role in U.S. higher education focuses on support for students and research; the states provide basic institutional support and oversight.

Federal grants and loans—including guaranteed loans—provide about \$81 billion in aid to college students (about two-thirds of all such aid),¹¹ and federal research support to universities approached \$25 billion in Fiscal Year (FY) 2003.¹² But federal grant aid flagged in recent decades, loans assumed an increased share of student aid, and student debt grew rapidly.¹³ Education tax credits, initiated by the Clinton Administration in 1998, reached an estimated \$6.3 billion in 2003–04 or about eight percent of all aid.¹⁴ These shifts, argued many analysts, helped relatively affluent students to complete college, but did little for the enrollment and degree completion prospects of low- and moderate-income students.¹⁵ The chances of a young person in the top income quartile attaining a bachelor’s degree by age 24 reached nearly 75 percent by 2003—almost a 30 percentage point increase between 1977–79 and 2001–03, noted one analyst. The chances for a student in the bottom income quartile remained nearly unchanged—a shockingly low 8.6 percent in 2003.¹⁶

The uncertain future of federal student aid concerns advocates for higher education and educational opportunity. Long-term budget deficits confronting the federal government—created by the need to subsidize an aging population¹⁷ and now by disaster relief costs—will pressure domestic discretionary programs such as student aid. More immediately, the Higher Education Act reauthorization wending its way through Congress in late 2005 promised to increase access to federal aid to students in nontraditional (mostly for-profit) institutions without expanding program funding commensurately.¹⁸ Needy students in traditional colleges may suffer, while aggregate educational opportunity increases minimally at best. Finally, heightened interest by federal policymakers in pricing, aid practices, and accountability dimensions, such as graduation rates and assurance of student learning, could presage unprecedented federal involvement in the inner workings of colleges.¹⁹

STATE FINANCES

The Decline in State Investment. The states—still the key governmental players for public higher education—shifted their focus away from the academic sector after 1980. Figure 1 depicts the steady decline over the past quarter century in state operating appropriations to higher education per \$1,000 of personal income, a standard measure of economic

Figure 1. Appropriations per \$1,000 Personal Income

Source: Derived from Mortenson, 2005b, 1.

wherewithal. The decrease in this key ratio occurred *in all fifty states* and amounted to more than one-third overall.

Why did this disinvestment occur just as the significance of higher education for economic and social development, as well as personal advancement, became increasingly recognized? “Personal advancement” may be part of the answer: many feel that because higher education is now so crucial to one’s “life chances,” that people will invest without subsidies or with only the modest subsidies provided by government loans. Also, some “privatization” in post-secondary education becomes acceptable or even desirable in an age where many express greater confidence in the private sector. Privatization is manifested both in the increased share of the financial burden assumed by students and families and in the growth in private, for-profit postsecondary schools.

Resistance to public spending, which took on renewed vigor beginning around 1980 as well, also limited investment in higher education. About 30 states adopted tax or expenditure limitations—some in the late 1970s and early 1980s and others after 1990.²⁰ Finally, the competition heated up for limited

state tax funds. During the 1980s and 1990s, states emphasized K-12 education reform and fiscal equalization, and sentencing reforms that increased prison and other criminal justice costs. Most important, states faced the fiscal implications of an aging population needing subsidized long-term care and of rapid health care inflation affecting Medicaid and employee health insurance costs.²¹

In sum, higher education competed for public support against voracious budget consumers with arguments going against the grain of the ascendant political ideology and the structural characteristics of state budgets. Economic downturns and their often-lengthy aftermath enhanced the sector’s structural disadvantages.

State policymakers, within political limits, often permit higher education to fend for itself fiscally rather than starve it; that is, they acquiesce (or more) to substantial tuition increases. Figure 2 shows the annual percentage changes in average published tuition and fee charges to state-resident undergraduates attending public four-year colleges and universities from 1988–89 to 2004–05.²² Research universities—many with substantial applicant surpluses at

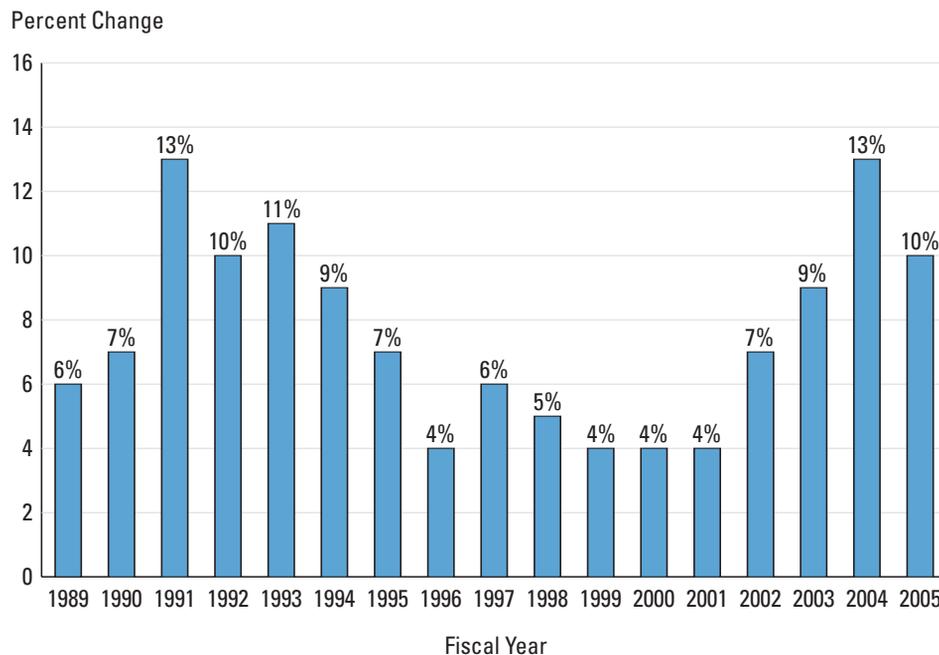
their still-subsidized prices—showed the sharpest tuition increases in this sector.

Some “flagship” and other selective state universities, noting the long-term slide in state support, have sought greater autonomy—sometimes termed “charter university” status analogous to charter K-12 schools—presumably permitting them to levy substantial tuition increases and retain the revenue.²³ In return, these universities offered, in principle, greater performance and accountability guarantees. Wary state policymakers favored the promise of accountability but feared uncontrolled tuition increases for state residents, excessive recruitment of non-resident students who pay more, and loss of their policy influence. Future state support for charter universities is unclear at best; so is a means of calculating annual tuition increases that plainly differentiates the old and new regimes. Brave speculative talk notwithstanding, few, if any, public universities could live without all state budgetary support under any reasonable assumptions about tuition increases or private philanthropic support.

Figure 2 shows a clear relationship between the periods of state fiscal stress and constrained appropriations to higher education—roughly the first half of the decades of the 1990s and 2000s—and the most dramatic tuition increases.²⁴ All annual increases substantially exceeded inflation, two to three percent per year, during this period. Thus, the sticker price of public higher education increased sharply in real terms, continuing a trend that began in 1980. Average tuition and fees at public four-year institutions nearly tripled *in inflation-adjusted dollars* between 1980–81 and 2004–05; the increase at public two-year colleges was close to 2½ times.²⁵

There is a new twist on this story: a recent estimate of “net price” trends of higher education to the average student—taking into account federal grants and tax benefits, state and institutional grants, and the published tuition price—produced surprising results.²⁶ This average net price *fell* from \$1,500 to \$1,300 (in constant 2003 dollars) between 1993–94 and 2003–04 at public four-year colleges and universities, and from \$400 to –\$400 at public two-year

Figure 2. Percent Change in Average Published Tuition and Fee Charges in Public Four-Year Institutions:¹ 1988–1989 to 2004–2005



Source: The College Board, 2004a, 8.

¹ Enrollment-weighted.

schools—average aid, that is, exceeded tuition in 2003–04.²⁷ These figures, if accurate, reflect the effects of federal tax benefits available largely to middle-income students, state grants that include substantial non-need-based aid, and institutional grants aimed at competing for top students, not necessarily the most needy. These estimates should next analyze how patterns of higher education attendance, pricing, and aid affect students in different income groups.²⁸

Recent Ups and Downs. The most recent economic cycle exaggerated the long-term roller coaster pattern in state support of higher education. The 2000–01 recession and its aftermath produced the worst fiscal crisis for states in 60 years. The year-end balance in state treasuries in aggregate across the 50 states—a broad indicator of state fiscal health—fell from a healthy 10.4 percent of general fund expenditures at the end of FY 2000 to a decidedly unhealthy 3.2 percent three years later.²⁹ The states taken together, noted one estimate, cut about \$195 billion from their projected spending over FY 2002–04 to balance their budgets at enactment;³⁰ the majority then made further mid-year budget cuts.³¹ These drastic retrenchments removed around 1.5 million low-income people from health insurance rolls, reduced access to child care assistance in 23 states, and caused per-pupil state aid for K-12 schools to fall (in inflation-adjusted terms) in 34 states.

The spending cuts made up an estimated 41.5 percent of the gap-filling effort—the chief strategy. Borrowing and one-time measures, such as payment date shifts (24.4 percent), followed.³² Tax and fee increases covered only 13.5 percent of the gap; rainy day funds and federal fiscal relief each provided just over ten percent.

Higher education, as expected, suffered painful appropriations declines of four percent between FY 2002 and FY 2004, despite enrollment and inflationary pressures, the largest such reduction ever recorded.³³ Funding declined in 29 states over the two years: by over 20 percent in Colorado, Massachusetts, and South Carolina and by more than ten percent in Maryland, Missouri, Oregon, and Virginia (Table 1).³⁴ Another eight states—including huge California, Illinois, Michigan, and Texas—cut higher education funding by five to ten percent. Only a few small states escaped real per-student cuts in state support, taking into account inflation of about four percent and recession-induced enrollment increases. Unbalanced state budgetary coping actions emphasizing spending

cuts, borrowing, and one-time measures, noted CBPP, hurt long-term fiscal capacity while failing to enhance the revenue structure. These actions would lead to structural imbalances between revenues, interest costs, and resurgent expenditure demands from the retrenched sectors³⁵ and threatened hopes for “catch-up” support for years to come.

Recent developments bear out this analysis. Projected year-end balances for states as a group headed down again after improving at the end of FY 2004. The projected declines: from 5.5 percent of expenditures in FY 2004 to 4.5 percent for FY 2005, and to 3.8 percent expected a year later.³⁶ The number of states projecting year-end balances below a slim three percent increased from 14 to 21 from FY 2005 to FY 2006.³⁷ Aggregate state budget growth from year to year improved from a low of 0.6 percent in FY 2003 to 6.6 percent in FY 2005—just above the 6.5 percent average for 1979–2006 (Figure 3).³⁸ But governors’ proposed FY 2006 budgets—though usually more conservative than the final tally—summed to just a 3.8 percent gain over FY 2005. Five states projected they would end FY 2005 with lower expenditures than in the previous year, while ten governors recommended FY 2006 budgets with decreased expenditures.³⁹

Policymakers took a conservative posture on taxes and revenue projections. Total state revenues are unlikely to grow by more than five to six percent per year even with continued economic improvement. The governors, in contrast, optimistically projected Medicaid expenditure increases of just five percent (state and federal funds combined) in FY 2006 despite the eight to nine percent annual increases estimated by the Congressional Budget Office.⁴⁰ An 8.5 percent growth rate in Medicaid expenditures in FY 2004 and in FY 2005 (projected) resulted in a nearly \$6 billion, 50-state budget shortfall for the two years combined despite extensive cost containment efforts. The projected imbalance between revenue growth and Medicaid expenditures—a large item in state budgets—presents a structural challenge for other state-supported functions including higher education.

More generally, relatively few states appeared able to maintain past growth rates in higher education appropriations through 2010 without significant structural changes in revenues or expenditures.⁴¹ The problem is most serious in states facing sizeable growth in high school graduating classes. These future cohorts, one analyst adds, will include substantially more minority

Table 1. Two-Year Percentage Change in Higher Education Appropriations: FY 2002 to FY 2004 (in thousands of dollars)

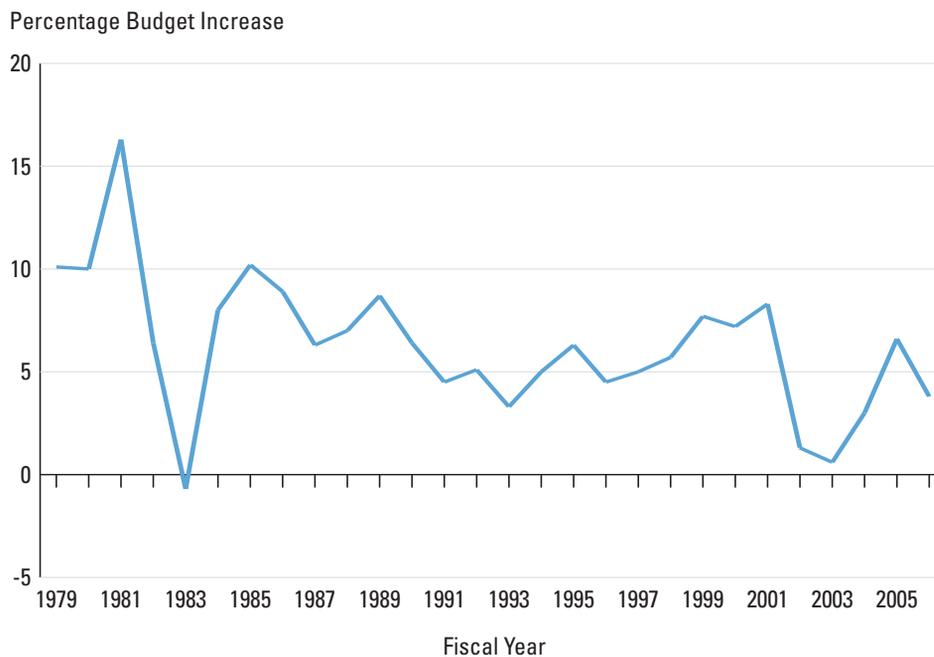
States	FY 2002	FY 2004	Two-Year Change (%)	States	FY 2002	FY 2004	Two-Year Change (%)
Massachusetts	\$1,017,564	\$783,207	-23.0%	New Jersey	\$1,755,016	\$1,733,511	-1.2%
Colorado	756,809	591,511	-21.8	Rhode Island	174,473	172,816	-0.9
South Carolina	834,907	664,994	-20.4	Connecticut	753,681	750,975	-0.4
Virginia	1,631,856	1,340,942	-17.8	Ohio	2,084,535	2,080,196	-0.2
Missouri	974,646	838,597	-14.0	Maine	239,002	239,110	0.0
Oregon	664,930	588,920	-11.4	North Dakota	200,401	200,430	0.0
Maryland	1,282,883	1,140,032	-11.1	North Carolina	2,442,690	2,446,604	0.2
California	9,473,522	8,561,100	-9.6	Montana	149,838	150,576	0.5
West Virginia	392,051	357,966	-8.7	Delaware	186,398	191,289	2.6
Oklahoma	796,312	731,375	-8.2	Indiana	1,321,191	1,360,318	3.0
Michigan	2,257,732	2,080,228	-7.9	New York	3,602,215	3,713,547	3.1
Illinois	2,904,184	2,703,279	-6.9	Mississippi	765,014	797,246	4.2
Minnesota	1,379,832	1,286,715	-6.7	Alabama	1,115,999	1,164,219	4.3
Wisconsin	1,194,852	1,117,395	-6.5	New Hampshire	107,573	112,532	4.6
Texas	5,139,663	4,850,213	-5.6	Florida	2,664,200	2,808,694	5.4
Iowa	786,640	753,915	-4.2	Arkansas	623,806	659,055	5.7
Utah	628,032	603,196	-4.0	Alaska	204,706	217,245	6.1
Kansas	712,923	685,832	-3.8	South Dakota	143,163	152,299	6.4
Pennsylvania	2,011,695	1,934,475	-3.8	New Mexico	605,193	644,385	6.5
Washington	1,370,921	1,323,134	-3.5	Kentucky	1,039,117	1,115,174	7.3
Nebraska	516,249	498,809	-3.4	Vermont	71,354	76,841	7.7
Arizona	884,175	859,799	-2.8	Louisiana	997,813	1,098,721	10.1
Idaho	323,118	315,145	-2.5	Hawaii	349,231	398,836	14.2
Tennessee	1,071,512	1,046,163	-2.4	Wyoming	161,917	196,935	21.6
Georgia	1,707,734	1,671,850	-2.1	Nevada	346,845	482,655	39.2
				Total	\$62,820,114	\$60,293,002	-4.0%

Source: Center for Study of Higher Education Policy, Illinois State University, <http://coe.ilstu.edu/grapevine/table2.htm>.

and low-income students whose often-weaker preparation makes them more costly to educate.⁴²

Data on FY 2006 state appropriations for higher education were incomplete at this writing but, overall for the 40 states for which they were available, generally reflected continuation of the very modest recovery begun in the previous year (Table 2).⁴³ Twenty-one of the 40 reporting states had appropriations increases of five percent or more. Another eight states showed modest gains of greater than two but less than five percent. Still, 13 of the 40 (nearly one-third) reported a very weak gain of two percent or less (eight states) or zero or a decrease (five states). Appropriations gains of two percent or less were not enough to keep up with current inflation, much less enrollment growth, or provide any recovery from past budget cuts.

Hawaii led all reporting states with an appropriations increase in FY 2006 of approximately 20 percent; Alabama was next at around 15 percent followed by Montana at about 13 percent. These and most of the other handful of states with relatively robust one-year growth, one finds upon close examination of the historical data, appear to be seeking to offset an earlier pattern of stagnancy or decline covering several years or even longer.⁴⁴ Unfortunately, some states have yet to come out of the doldrums. West Virginia cut higher education funding another six percent in FY 2006 after reductions of more than ten percent over the previous two years. Illinois cut another 2.6 percent following a reduction of four percent over the prior two years. Mississippi and Missouri made smaller reductions in FY 2006 (less

Figure 3. State Annual Percentage Budget Increases:¹ FY 1979 to FY 2006

Source: National Governors Association and National Association of State Budget Officers, 2005, 3.

¹ FY 2005 figures are based on the change from FY 2004 actuals to FY 2005 estimated. FY 2006 figures are based on the change from FY 2005 estimated to FY 2006 recommended.

than one percent) but these also followed prior retrenchment. Tennessee provided no increase in FY 2006 following a two-year period when appropriations were reduced by 1.6 percent.

Trends in State Student Aid. The partial privatization of higher education finance includes an increase in the proportion of state appropriations going to students as scholarships and other aid, rather than to college treasuries. This share grew from 7.1 percent of state higher education funding in 1993–94 to 10.2 percent in 2003–04.⁴⁵ This significant increase reinforces long-standing federal policy, which provides portable aid to students who “vote with their feet” by choosing which institution to attend. Public institutions resist this trend as drawing away funds from their hard-pressed budgets. But private nonprofit colleges and universities support the shift since it increases their access to state funds.

Both sectors are increasingly concerned by the growing assertiveness of private for-profit institutions—including “virtual universities”—at the state and federal levels. This sector has gained increased access for its students to some state student aid pro-

grams and has lobbied intensively for inclusion in the federal programs reauthorized by the federal Higher Education Act.⁴⁶ But, note observers, strengthening a powerful competitor for student aid without providing a substantial funding increase affects total access little while it hurts the students served by nonprofit institutions.

One closely watched student-based funding scheme was a radical new policy in Colorado, dubbed the College Opportunity Fund, whereby the state provides most funds for undergraduate education as grants to students.⁴⁷ Students may take their state vouchers to accredited public colleges or take a reduced amount to private, nonprofit institutions. The policy could, if followed to its logical conclusion, lead to closure of some public campuses. The results of this policy experiment may also affect funding policies in other states.

Figure 4 illustrates a key development in student aid programs. For many years, states based most aid to students on financial need. Beginning with Georgia’s HOPE scholarship program in the early 1990s, which provides full-tuition grants to students

Table 2. Appropriations of State Tax Funds for Operating Expenses of Higher Education: FY 2005 Revised and FY 2006 Enacted

State	FY 2005 Revised	FY 2006 Enacted	% Change 06/05	State	FY 2005 Revised	FY 2006 Enacted	% Change 06/05
(dollars in thousands)				(dollars in thousands)			
Alabama	\$1,209,494	\$1,390,022	14.9%	Montana ¹	\$152,582	\$172,767	13.2%
Alaska	235,022	249,773	6.3	Nebraska ²	505,624	542,425	7.3
Arizona	921,520	974,291	5.7	Nevada	518,537	559,616	7.9
Arkansas	685,113	732,957	7.0	New Hampshire ¹	115,367	117,172	1.6
California	9,080,666	9,926,200	9.3	New Jersey	1,890,323	2,025,077	7.1
Colorado ¹	591,511	594,649	0.5	New Mexico	677,935	NA	—
Connecticut	788,372	826,529	4.8	New York	4,050,883	4,361,561	7.7
Delaware ¹	203,478	216,419	6.4	North Carolina	2,628,507	NA	—
Florida	3,121,315	NA	—	North Dakota	201,545	215,283	6.8
Georgia	1,927,965	2,079,359	7.9	Ohio	2,101,592	2,111,733	0.5
Hawaii ¹	409,727	492,171	20.1	Oklahoma	762,829	836,072	9.6
Idaho	324,203	334,951	3.3	Oregon ^{1,3}	586,552	612,820	4.5
Illinois	2,685,921	2,615,389	-2.6	Pennsylvania	2,015,637	2,047,114	1.6
Indiana ¹	1,417,481	1,430,424	0.9	Rhode Island	173,442	182,368	5.1
Iowa	743,170	779,847	4.9	South Carolina	677,838	719,162	6.1
Kansas ¹	715,830	754,550	5.4	South Dakota	162,939	165,394	1.5
Kentucky	1,119,608	NA	—	Tennessee	1,122,978	1,122,978	0.0
Louisiana	1,266,958	NA	—	Texas	4,882,239	NA	—
Maine	242,971	247,943	2.0	Utah	625,593	NA	—
Maryland	1,175,708	1,253,112	6.6	Vermont ¹	79,023	82,043	3.8
Massachusetts	916,345	918,127	0.2	Virginia	1,480,522	1,594,605	7.7
Michigan	1,977,258	NA	—	Washington	1,427,598	NA	—
Minnesota ¹	1,273,328	1,365,500	7.2	West Virginia	339,407	319,122	-6.0
Mississippi	789,648	782,540	-0.9	Wisconsin	1,103,602	NA	—
Missouri ¹	861,421	856,133	-0.6	Wyoming	213,738	221,012	3.4

Source: Center for Study of Higher Education Policy, Illinois State University; <http://coe.ilstu.edu/grapevine/FY05.htm>, October 17, 2005.

¹ No revisions to FY 2005 enacted.

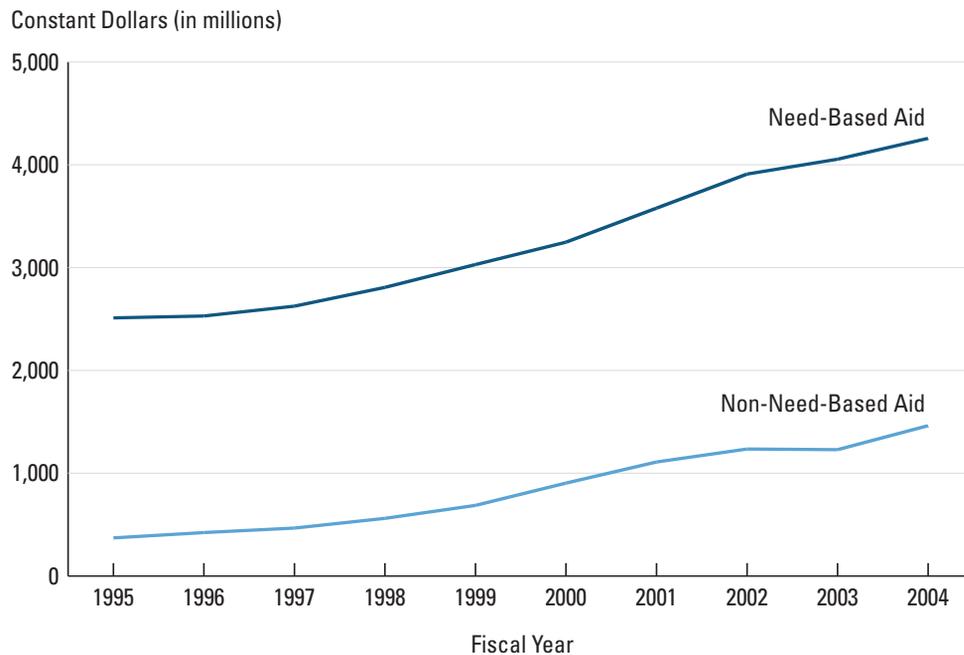
² Preliminary estimate.

³ Estimates from biennial.

— No data was available as of October 17, 2005.

on the basis of academic performance, the proportion of total state aid awarded for reasons other than need climbed sharply.⁴⁸ This share exceeded 25 percent of total aid in 2002, up from about ten percent a decade earlier.⁴⁹ The lion's share of non-need-based aid—and most of the increase—is in academic “merit-based” grants that go disproportionately to students from middle- and upper-income families. These programs, critics insist, divert scarce funds from the most needy

to students who would probably attend college without the aid. This observation is true, but Figure 4 shows that need-based aid also showed a healthy increase—nearly 70 percent in constant dollars between 1994–95 and 2003–04.⁵⁰ Middle class concerns about college affordability may have made a political response to this group a prerequisite for sustaining support for increased need-based aid. These relationships merit closer state-by-state analysis.

Figure 4. Total Need-Based and Non-Need-Based State Grant Aid:¹ FY 1995 to FY 2004

Source: Derived from *National Association of State Student Grant and Aid Programs, 2005, 3.*

¹ In constant 2004 dollars.

IMPLICATIONS OF RECENT FINANCING TRENDS

Attitudes about the financing of higher education have shifted significantly over the past quarter century; so have the facts on the ground. Federal student aid moved sharply from emphasizing grants for needy students to accentuating loans and tax credits that best suit middle-income and affluent students. The result: further increases in the already-large gap in bachelor's degree completion rates between low-income and upper-income students. Now the federal government appears poised to open its aid programs to the rapidly growing numbers of for-profit sector students without substantially increasing appropriations. States are beginning to reinforce the long-standing competitive principles underlying federal higher education policy by providing more support directly to students, not institutions. The outcome of the Colorado higher education “voucher experiment” could accelerate this trend sharply.

State disinvestment was closely related to the accelerated marketization of higher education. Public colleges and universities naturally sought alternative

financing as state appropriations fell behind inflation and enrollment growth. With the acquiescence, to a point, of state policymakers, they turned to higher tuition rates, then to recruiting more out-of-state and foreign students, to “self-sustaining” instructional programs and more private fund-raising, to pursuing more grants and contracts, and to chimerical revenue sources—for most institutions—such as patents and technology licensing. Most institutions tapped at least some of these sources, but some types of schools, especially research universities, inevitably fared better than others.

In any case, increased focus on these sources shifts institutions away from their basic instructional and service missions. How do state resident undergraduates of modest means fare when a college shifts its attention to unsubsidized but financially profitable educational programs or to out-of-state and foreign students? How can community colleges and comprehensive public universities replace state appropriations with often-restricted contracts or private gifts without neglecting needy students?⁵¹ Even selective research universities—best positioned to tap most

alternative sources, especially by raising tuition—risk selling a part of their soul to the extent no one will pay for traditional public missions like humanistic scholarship, social critique, and the like.

Finally, as public institutions increasingly seek to raise funds privately, private schools seek more public funds, thus further intensifying competitive pressures. The upward pressure on tuition has reinforced the shift of state funds into student aid, an area where private and for-profit institutions now compete. In short, competition has broadened and intensified.

CONCLUSION

In autumn 2005, the fiscal fortunes of higher education showed short-term relief from the recent downturn. But few analysts predicted that future government support would make up for past losses or even keep up with demand. More likely: continued inadequate and unstable public support will lead to a scramble for alternative revenues, to more tuition increases, and greater dependence on other private funds over time. New competitors are already vying for the inadequate pool of public funds that is increasingly distributed as portable student aid. Increasingly, states and institutions distort the original purposes of aid and poorly serve educational access for those in need by using student aid to compete for “desirable” students.

Encouraging private entrepreneurial behavior and using market mechanisms to make social choices, some argue, are quintessentially American. Yet, serving civic rather than merely institutional ends means that public higher education must generate adequate support for a rebalancing towards values the marketplace will never adequately represent. The higher education community must also convince the public and its elected representatives that its own values are not already too transformed to be trusted with implementing this mandate.

NOTES

¹ States typically provide well over 50 percent of the financing for *degree instruction*—as opposed to research, medical programs, and myriad auxiliary enterprises—even to public research universities, which often lament the small share of their total funding provided by their state sponsors. This state share is substantially higher in comprehensive colleges and universities and in community colleges.

² This point mainly applies to state support of public colleges and universities, but private institutions, especially

their students, often receive significant state support that is similarly affected. The economy even affects federal support for higher education because its gyrations affect federal revenues and deficits, which in turn pressure “domestic discretionary” items in the federal budget, including student aid.

³ Higher education was second largest until the recession of the early 1990s when it was surpassed by Medicaid, which is now far ahead. Elementary and secondary education is the largest state general fund expenditure category. In FY 2004 across all 50 states, elementary and secondary education accounted for 35 percent of general fund spending, Medicaid 16.5 percent, and higher education 11.5 percent (National Governors Association and National Association of State Budget Officers, 2005, 1-2).

⁴ Henderson, 2005. Ironically, about two-thirds of the total net job gain during the Bush Administration has been in government employment (Havemann, 2005).

⁵ Havemann, 2005.

⁶ Shinkle, 2005.

⁷ Leonhardt, 2005.

⁸ Shinkle, 2005.

⁹ Leonhardt, 2005.

¹⁰ Havemann, 2005.

¹¹ College Board, 2004b, 1, 2. The figures are for 2003–04.

¹² Figures from the National Science Foundation reprinted in “Top Institutions...,” 2005.

¹³ Loan dollars per student grew about 73 percent more than grant dollars over the most recent ten-year period (author’s calculation from College Board, 2004b, 4). Average loan aid per FTE student was \$5,840 in 2003-04 (Ibid., 13).

¹⁴ Ibid.

¹⁵ These students and their families cannot benefit from tax credits since they generally do not pay income taxes on their small incomes. Other influences are also at work, including state pricing and student aid policies (see below), and factors affecting student preparation for college (Ellwood and Kane, 2000).

¹⁶ Mortenson, 2005a, 3.

¹⁷ Center on Budget and Policy Priorities, 2005.

¹⁸ Swenson, Warren, and Boggs, 2005.

¹⁹ Zumeta, 2004. Much of the discussion of federal accountability issues in this chapter is germane to public as well as private higher education.

²⁰ National Conference of State Legislatures, 2005.

²¹ Kane and Orszag, 2003.

²² The public two-year colleges showed a similar pattern over this period, though the annual increases were typically a bit lower.

²³ Jones, 2005.

²⁴ The pattern was similar in the early 1980s recession period and its aftermath.

²⁵ Calculated from data in College Board, 2004a, 8. The average increase for 2005-06 for public four-year colleges (not shown in chart) was 7.1 percent. For public two-year colleges the average increase fell to 5.4 percent after two years of gains in the nine percent range (College Board, 2005, 4).

²⁶ College Board, 2004a, 16.

²⁷ These figures exclude room, board, and other costs.

²⁸ The College Board has begun this type of analysis but, as of this writing, had not published figures beyond 1999–2000.

²⁹ National Governors Association..., 2005, 14.

³⁰ McNichol, 2004.

³¹ National Governors Association..., 2005, 1. Thirty-seven states made mid-year cuts in both FY 2002 and FY 2003.

³² McNichol, 2004. The figures in the remainder of this paragraph came from the same source.

³³ Reasonably complete records only go back to the late 1960s. Cutbacks were probably worse in the Great Depression.

³⁴ California was close at -9.6 percent.

³⁵ McNichol, 2004.

³⁶ National Governors Association..., 2005, 14. The last figure is based upon projections in governors' proposed FY 2006 budgets. Data from enacted budgets were not available at the time of writing.

³⁷ Ibid.

³⁸ Ibid., 3.

³⁹ Ibid.

⁴⁰ The figures cited in this paragraph came from Ibid., 3-6.

⁴¹ Jones, 2003. Donald Boyd of the Rockefeller Institute of Government at SUNY-Albany developed fiscal projections for this study.

⁴² Mortenson, 2005a, 9-12, cites authoritative, state-level projections of high school graduating classes by the Western Interstate Commission on Higher Education.

⁴³ Data are from the "Grapevine" data files of the Center for the Study of Higher Education Policy at Illinois State University.

⁴⁴ For example, Hawaii's 20.1 percent appropriations jump in FY 2006 nearly tripled its aggregate gain (7.1 percent) over the previous decade. Alabama's 14.9 percent FY 2006 gain was not far behind the mere 18.1 percent its state support had increased in the prior decade. Many states saw substantial cuts in their appropriations between FY 2002 and FY 2004.

⁴⁵ National Association of State Scholarship and Grant Programs, 1994; National Association of State Student Grant and Aid Programs, 2005.

⁴⁶ Swenson et al., 2005; Burd, 2005.

⁴⁷ Fischer, 2005.

⁴⁸ A number of states imitated the HOPE model. Some non-need-based aid is awarded on the basis of a student's field of study.

⁴⁹ College Board, 2004b, 15. Data are from the NASS-GAP surveys cited earlier.

⁵⁰ Calculated from data in National Association..., 2005, 3.

⁵¹ See Pusser, 2005, for essays that explore these issues.

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