1997 State Higher Education Finance and Policy Developments

by William Zumeta

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What economic, fiscal, and public policy challenges face higher education at the end of the twentieth century? Will the states—providers of most financial support for public higher education—help to meet these challenges? Or will their actions make the problems more difficult? This chapter examines state higher education policies, while also glancing at the ways the federal government affects that role through policy changes and management of the economy.

The chapter first examines the performance of, and prospects for, the national economy as of mid-1997, since the economy is a prime determinant of state government revenues. The condition of state treasuries, in turn, directly affects the flow of funds to colleges and universities. Tight state finances during recessions traditionally have led to cuts in higher education appropriations in favor of other politically and legally pressing demands. When financial times were tough, policymakers told colleges to tap other revenue sources and slow college enrollments.[1] State support for higher education would then tend to "catch up" during prosperity. Assessing current economic performance thus sets the table for our discussion of state higher education appropriations.

What were the longer-term trends in state fiscal conditions during the 1990s? How did higher education fare in acquiring resources from the states? What are the future fiscal prospects for academe when politicians at the federal level are devolving responsibilities and resources to the states in areas such as welfare? The second section of this article addresses these questions.

We next look at regional, state, and sectoral variations in state support for higher education. Here's the conundrum: Higher education is growing in social and economic importance in an era of long-term stagnation in its public support. The demographics are especially compelling: The coming of age of the "baby boom echo" generation necessitates substantially expanded enrollment capacity.

What has happened to tuition and other student charges? The level of tuition reflects the ability of higher education to secure state funding support, and thus indirectly the economic and fiscal health of states. Tuition growth rates declined as the economies of the states recovered and as states increased institutional appropriations in the mid-'90s. Still, the tuition growth rate continued to exceed substantially the inflation rate and family income gains. College attendance became less affordable just when students and society needed it the most.

A full picture of college affordability and public policy requires a look at grant and loan programs. What were the trends in state and federal student aid programs? What were the implications of federal proposals for substantial tax credits for higher education expenses?[2]

Last, we consider other state policies: access, accountability, and efficiency initiatives; education technology and distance learning; state prepaid tuition plans, and affirmative action policies.

THE ECONOMIC OUTLOOK

The National Picture [3]

The national economy, after many ups and downs following the recession of the early 1990s, grew robustly into mid-1997. Inflation-adjusted (real) annual growth in the Gross Domestic Product (GDP) ranged from 2.5 percent in 1996 (fourth quarter=3.7 percent) to 5.8 percent for the first quarter of 1997.[4] But forecasters predicted more ups and downs. In mid-1997, a private forecasting group said real annual GDP growth would fall to the 2.2-2.3 percent range during the rest of 1997, and to 2.0 percent in 1998 and 1999.[5] Temporary factors—a warm winter, inventory build-ups, and sharply falling oil prices—spurred recent growth, noted these forecasters. The group added that the Federal Reserve Board would likely bump up interest rates slightly, another modest step designed to slow things down. The goal: another "soft landing" for the economy in 1998, similar to the Fed's 1995 move that continued the economy's recent noninflationary, recession-free growth.[6]

These analysts thought that the Fed's intended scenario for the economy would likely result from this move, but they expressed concern that the central bank might wait too long to apply the brakes. The current economic expansion—75 months in June 1997, the third longest in U.S. postwar history—might share the fate of earlier expansions. In the 1960s and 1980s, accelerating inflation forced the Fed to tighten its monetary policies sharply, consumer confidence and the stock market plummeted, and the economy slowed to recession. These analysts predicted that there was a sobering 35 percent probabilty of this "boom-bust" scenario occurring in 1999.[7]

The long growth period, meanwhile, left aggregate economic indicators at their strongest levels in a generation. The May 1997 unemployment rate fell to 4.8 percent, its lowest level since 1973.[8] The consumer confidence index hit its highest level since 1965.[9] The inflation rate remained below 3.2 percent for nearly six years; the "core" inflation rate—excluding volatile food and energy prices—hovered around 2.5 percent. No strong braking action by the Fed was needed, said these forecasters, but they urged vigilance, since the factors holding down inflation could break up soon.[10]

For the denizens of higher education, who depended upon the health of the economy, mid-1997 economic conditions were as good as they were likely to be for any sustained period. There was no obvious end to the good times in sight, but it was too soon to say that the nation's economic managers had figured out how to avoid recessions permanently. The 35 percent probability of a recession in 1999 counseled caution; those in economically sensitive sectors such as higher education should be prepared.

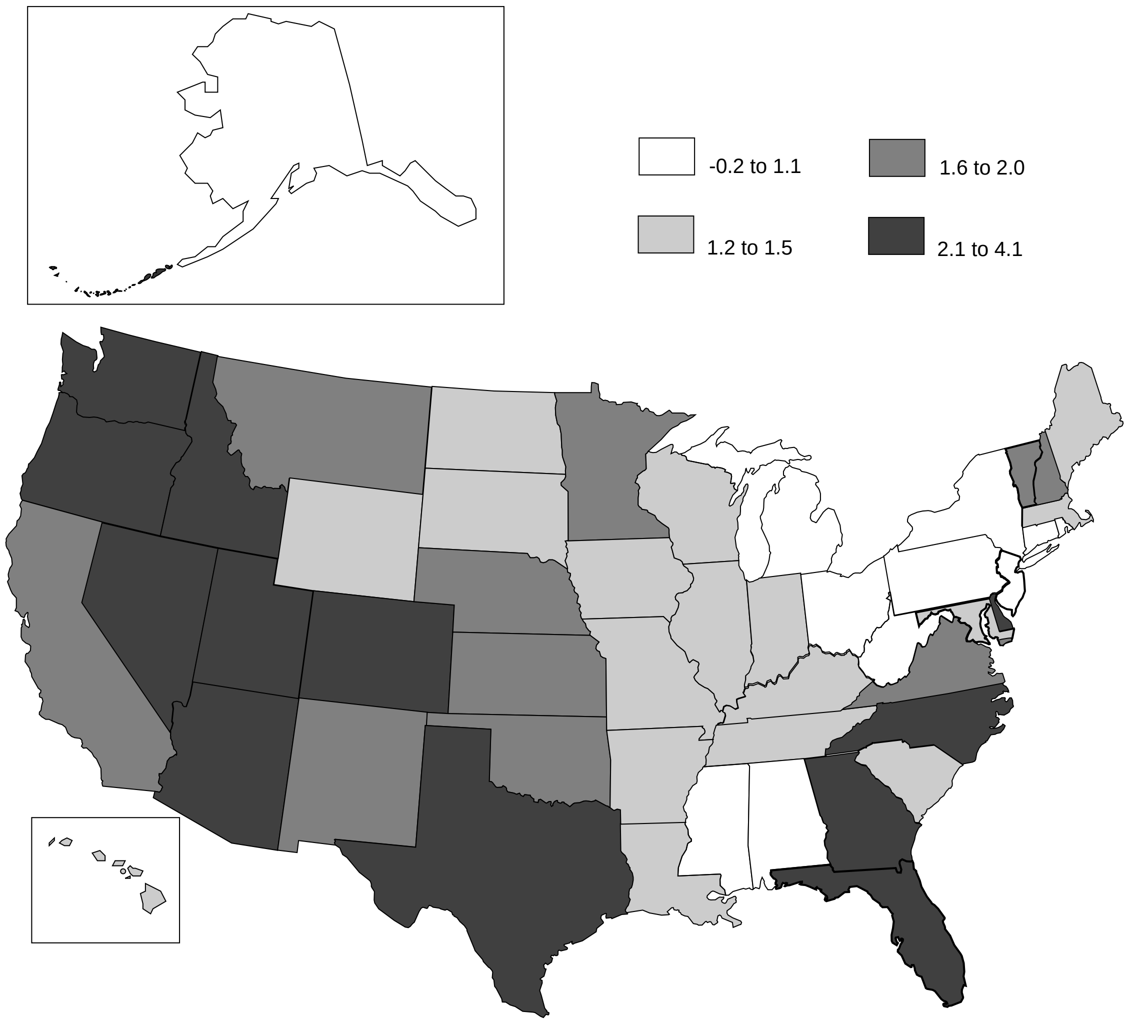
Regional Variations [11]

How have the economy's performance and prospects varied by region? As usual, the nation's Western and Southern regions led the way in economic growth, while growth in the Northeast and eastern Midwest remained sluggish. The top four regions in 1996 employment growth were: the Pacific Southwest (3.3 percent), the Pacific Northwest (2.9 percent), the West South Central (2.6 percent), and the South Atlantic (2.4 percent).[12] The weakest regions were, in descending order, New England, East North Central, East South Central, and the Middle Atlantic states.[13]

Forecasters expect these geographic patterns to continue for several more years (Figure 1).[14] The West is benefitting from growing population, Pacific Rim trade, and robust "industries of the future"— electronics, software, communications, aircraft, and entertainment. The South features a mild climate, attractive tax and regulatory policies, booming

FIGURE 1

WESTERN AND SOUTHERN STATES WILL ACHIEVE THE STRONGEST EMPLOYMENT GAINS (ANNUAL PERCENT CHANGE, 1996-2000)



SOURCE: Johnson et al., 1997, 30.

automotive, electronics, and service industries, and growing exports to Latin America. New Hampshire and Vermont, Minnesota, and the lower plains states of Nebraska, Kansas, and Oklahoma show considerable economic vitality. But high costs, sluggish population growth, and continued industrial downsizing hamper much of the Northeast and eastern portions of the Midwest. Labor shortages constrain the economic growth of many areas in the western parts of the Midwest.

STATE FISCAL CONDITIONS

How does this economic picture affect the fiscal condition of the states? States are in better fiscal shape than at any time in this decade, but an anti-tax, anti-spending political climate and its legal legacy constrain potential revenue inflows. In 1994, reported one state fiscal policy expert, 21 states had general tax and expenditure limitations.[15] Sweeping restrictions on local property tax collections forced several others, including California and Oregon, to finance functions formerly supported by local taxes. Political pressures have limited tax collection and spending in most other states.

The National Governors' Association and National Association of State Budget Officers have projected that FY 1998 would be the fourth consecutive year of aggregate state tax reductions. The estimated $4.4 billion in cuts would be the largest yet (Table 1). Budgets submitted by the governors—the latest available systematic budget information—have called for cuts in the revenue base in 36 states.[16] By far the largest cuts have come in state personal income taxes, but corporation taxes and sales taxes have also been reduced.[17] The recent election of Republicans to many state houses and legislatures has clearly affected fiscal priorities.

First quarter 1997 aggregate state revenue collections increased 6.0 percent over the corresponding 1996 figure, but this gain would have been 7.4 percent absent legislated limits.[18] Still, the last four quarters were the strongest period since 1990, when these data were first published.[19] All regions reported gains above 5 percent except the Mid-Atlantic region (3.3 percent). Preliminary data suggested the second quarter would show similar strength.

An April 1997 report showed aggregate revenue collections for FY 1997 (for most states, July 1, 1996–June 30, 1997) running about 1.1 percent above the estimates used in adopted FY 1997 budgets.[20] In FY 1996, general fund revenues exceeded estimates by an even larger margin (actual=+4.0 percent over the previous year; forecast=+2.6 percent).[21] These conservative revenue estimates resulted from the searing experience of the early '90s when many states, overestimating revenues, made painful mid-year budget cuts when collections fell short.

FY 1997 year-end treasury balances in most states, not surprisingly, stood at healthy levels.[22] The 50-state aggregate balance at the end of FY 1996 was 6.9 percent of the year's expenditures, the highest figure since 1980 and a far cry from the 1.1 percent nadir reached in FY 1991. The forecast for the end of FY 1997 was only a little lower, at 6.2 percent ($24.2 billion). The FY 1998 budget proposals of the governors' anticipated year-end balances equaled 5.1 percent of planned expenditures ($20.6 billion), though actual balances have exceeded these projections in recent years. Budgeting for hard-to-predict costs of changes in federal welfare and Medicaid policies partly explains the projected FY 1998 decline in the aggregate treasury balance.

The number of states projecting a year-end treasury balance of less than 3 percent of the year's expenditures rose from 12 in FY 1996 to 14 in FY 1997—four states expected balances below 1 percent—and to 18 for FY 1998 (Figure 2). Most low-balance states were located in the Northeast and East South Central regions, along with California, Idaho, Illinois, and Wisconsin. There were no signs of widespread fiscal trouble, but extended prosperity may have led more states to cut things a bit closer.

TABLE 1

ENACTED STATE REVENUE CHANGES, FISCAL 1979 TO FISCAL 1997, AND PROPOSED STATE REVENUE CHANGE, FISCAL 1998

Fiscal Year	Revenue change (Billions)
1998*	–$4.4*
1997	–4.1
1996	–3.8
1995	–2.6
1994	3.0
1993	3.0
1992	15.0
1991	10.3
1990	4.9
1989	0.8
1988	6.0
1987	0.6
1986	–1.1
1985	0.9
1984	10.1
1983	3.5
1982	0.4
1981	0.4
1980	–2.0
1979	–2.3

SOURCE: National Governors' Association and National Association of State Budget Officers, 1997, 9. Their sources were: Advisory Commission on Intergovernmental Relations, the Tax Foundation, National Conference of State Legislatures and National Association of State Budget Officers.

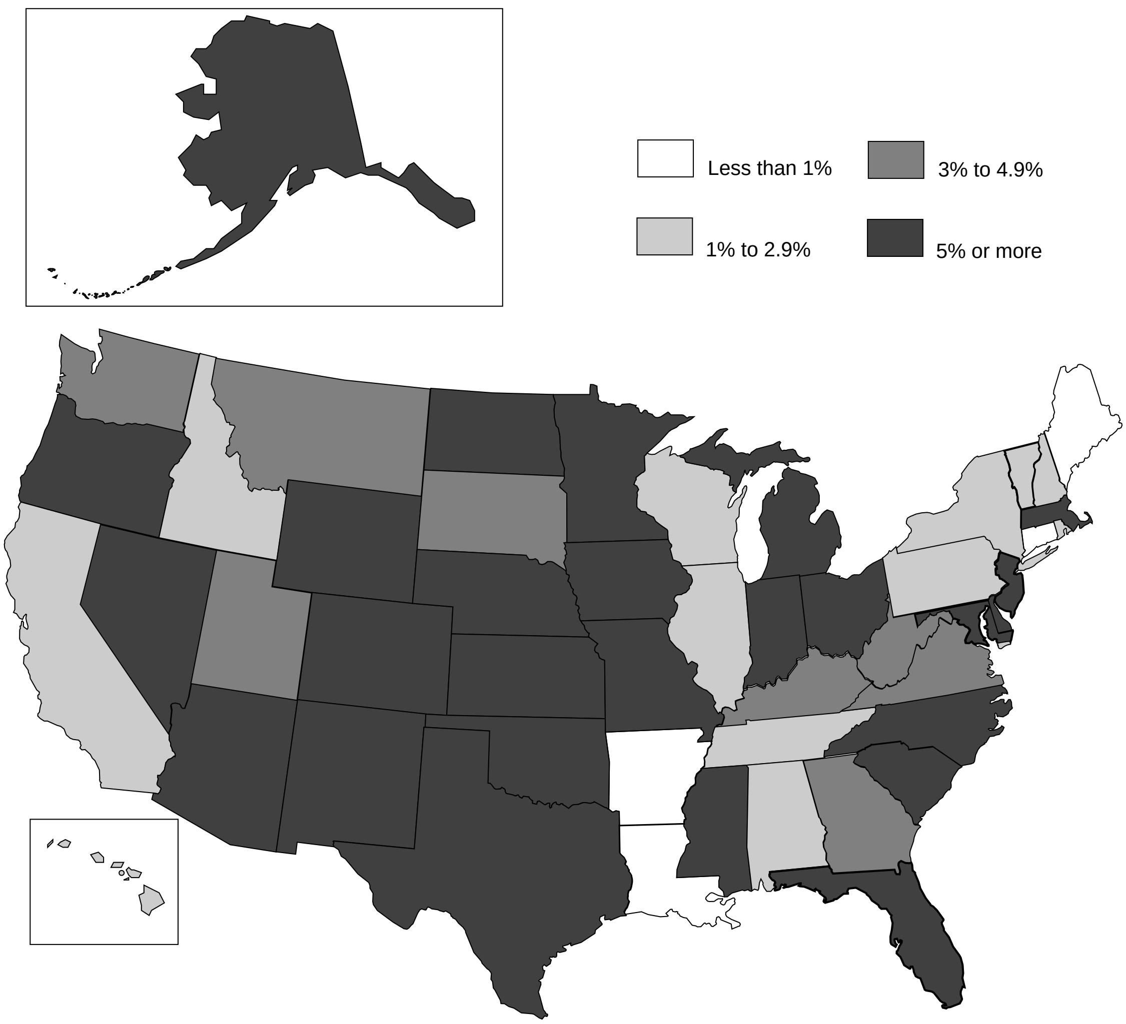
** State revenue change for fiscal 1998 is proposed.*

Aggregate state general fund spending increased annually by 10 percent or more in the late 1970s and mid-1980s, periods of healthy economic growth (Figure 3). During the current economic recovery, spending growth peaked at +6.3 percent in FY 1995—the last budgets enacted before the November, 1994 "Republican Revolution." They then decreased to +4.5 percent in 1996 and 1997 (estimated) and to +3.6 percent (estimated) in FY 1998.[23] The 1998 estimate was not far above the projected inflation rate—state general fund appropriations exceeded the inflation rate in just three years in the '90s—and not much larger than the *smallest* increase recorded during the recessionary period of the early '90s (+3.3 percent in FY 1993).

FY 1998, despite economic prosperity and healthy state treasury balances, seemed destined to feature relatively tight budgets.

FIGURE 2

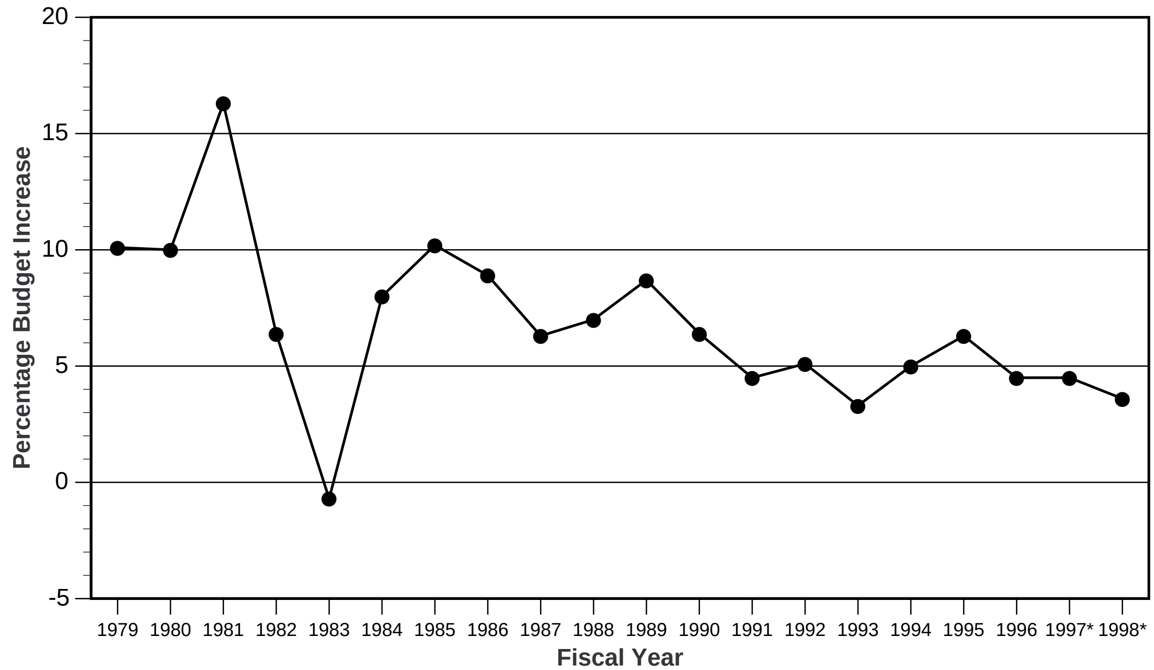
TOTAL YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES, FISCAL 1997



SOURCE: National Governors' Association and National Association of State Budget Officers, 1997, 14. Original source was National Association of State Budget Officers.

FIGURE 3

AGGREGATE ANNUAL STATE BUDGET INCREASES, FY 1979 TO FY 1998



SOURCE: National Governors' Association and National Association of State Budget Officers, 1997, 4. Original source: National Association of State Budget Officers.

** Data for these years are estimated.*

STATE BUDGETS: STRUCTURAL CONCERNS

Strong budget growth no longer assures gains in support for higher education because of increased competition with other major state functions for funding. Figure 4 shows the 1990s growth rate in aggregate state support for the five major claimants: elementary and secondary education, Medicaid, corrections, public assistance (AFDC),[24] and higher education.[25]

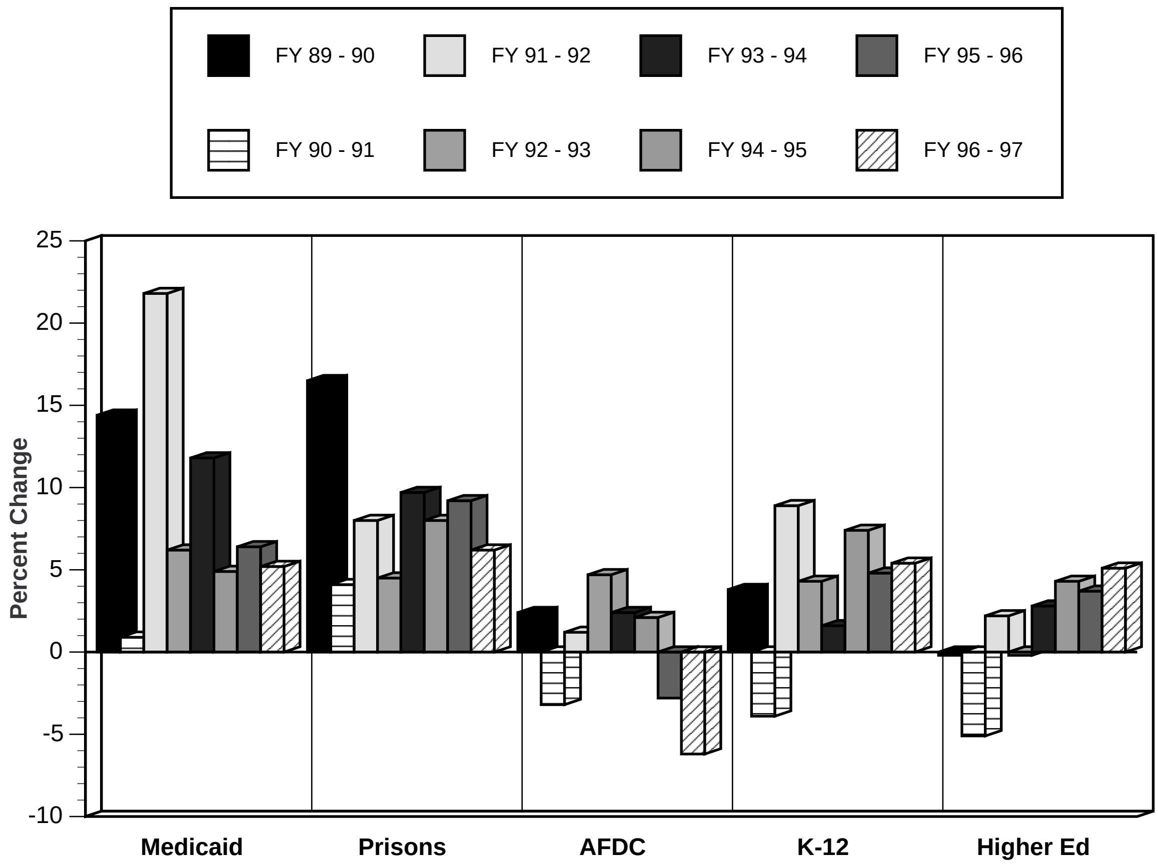
Higher education ran last among the five major functions in most years, though it outstripped welfare in the last two years as AFDC support plunged.[26] Higher education's projected 5.1 percent gain between FY 1996 and FY 1997 was smaller than the expected growth in K-12 funding (5.4 percent),[27] state Medicaid funding (5.2 percent in Figure 4; 7.2 percent according to more recent projections),[28] and corrections funding (6.2 percent).

Analysts noted several reasons for academe's inability to compete for state funding during the recession and subsequent economic and state revenue stagnation of the early 1990s. First, higher education, unlike other sizeable budget items, could tap alternative funding sources, including tuition increases, private support, and federal grants, to help offset the effects of state cuts. Next, the public image of higher education reeled from biting critiques.[29] Finally, difficult economic times led to increased welfare and Medicaid rolls and crime rates.[30] Demographics—not the economy—explained the relative budgetary success of K-12 education, as the children of baby boomers swelled school enrollments.

The other major state functions had another powerful budgetary impetus: Their expenditures were largely mandated. Higher education enrollments, in contrast, were "discretionary." Enrollments drive K-12 funding—at 31.6 percent of general fund appropriations in FY 1997, the largest state budgetary

FIGURE 4

ANNUAL CHANGES IN MAJOR EXPENDITURE CATEGORIES FROM STATE GENERAL FUNDS FY 1990 TO FY 1997



SOURCE: Mortenson, 1997c, 10. Data were collected by National Conference of State Legislatures.

commitment.[31] Medicaid—the second largest state general fund component, passing higher education in the early '90s—is a federally-mandated entitlement, funded partly by the states according to per-enrollee formulas dictated by the federal government. Until 1997, AFDC was also mandated, though states had more flexibility to reduce benefits and slash the rolls.

Finally, state spending on prisons is also relatively inflexible once criminals are sentenced to longer terms under determinate sentencing laws. Court orders also require many states to maintain specific staff to inmate ratios. Overall, appropriations for prisons climbed from 4.5 percent to 6.0 percent of the general fund nationwide between 1991 and 1997—proportionately greater than any other category, though Medicaid was a close second (Table 2). This competition led to a decline in the proportion of state higher education appropriations from 13.5 percent to 11.5 percent of state spending during the same period, despite a slight increase in FY 1997.

During prosperity, higher education in the past usually recovered ground lost in recessions and gained relative to the rest of the state budget. But there has been no catch-up in the current cycle. In 1997, the academic sector barely stabilized its share of state funds.

The competition for state general funding seems unlikely to abate. Most observers expect continued increases in K-12 enrollments for a decade, though with considerable geographic

TABLE 2

MAJOR COMPONENTS OF GENERAL FUND APPROPRIATIONS FOR FY 1991 AND FY 1997

	FY1991	FY1997
Corrections	4.5	6.0
Higher Education	13.5	11.5
K-12 Education	35.5	31.6
Medicaid	10.1	13.2
AFDC	2.9	2.2
All Other	33.5	35.5

SOURCE: Snell and Perez, 1996, 17.

variation.[32] Strong pressures for local property tax relief pushed states to make up lost school district revenues. Many school reform initiatives also required state funding.[33]

Spending growth on Medicaid recently eased for a few years, but this year's estimated 7.2 percent climb foreshadows a projected 7.7 percent growth per year through 2002.[34] Federal budget negotiations, a return of health care inflation, or recession-caused growth in "medically indigent" caseloads could again move state Medicaid spending growth rates into double-digits. States must help cover unexpected increases in clientele or costs as long as Medicaid remains a joint federal-state entitlement.

Growth rates in corrections funding remain relatively high as states operate more prisons, incarcerate more prisoners,[35] and provide more mandated inmate training and work programs.[36] But this growth moderated to 6.2 percent between FY 1996 and FY 1997, the lowest level in several years. A few states even showed slight decreases in corrections spending for the first time in years.[37] Violent crime rates fell, along with the size of crime-prone age groups.[38] These trends, combined with cost-effective alternatives to incarceration for less violent offenders,[39] may briefly moderate spending growth in corrections. But the public's continuing concern about crime, mandatory sentencing laws, prison construction, and a surge in the crime-prone age group population make renewed fiscal pressure from corrections inevitable.

A healthy economy and dramatic state and federal welfare reforms have moved more recipients into jobs. State AFDC appropriations were expected to decline 6.2 percent between FY 1996 and FY 1997 (Figure 4). In FY 1997, 32 states cut their AFDC appropriations,[40] and many states anticipated further reductions if the economy stayed healthy. But reduced welfare appropriations—now just 2 percent of general fund spending—will not affect the fiscal picture of most states (Table 2); nor would these cuts free up significant funds for higher education.

Welfare reforms harbor substantial downside fiscal risks to states, welfare recipients, and their families.[41] The 1996 federal Personal Responsibility and Work Opportunity Reconciliation Act converted AFDC to Temporary Assistance to Needy Families (TANF) beginning on August 1, 1997. Federal block grants to states for temporary assistance would enable aggressive state action to place all but the most disabled adult family heads in jobs. But work readiness and job search activities provide for little extended job training or postsecondary education.[42] Beneficiaries are prodded to seek work, sanctioned for failure to participate, and subjected to strict time limits for cash assistance and federal food stamp benefits. Noncitizen immigrants have become ineligible for federal Supplemental Security Income (SSI), Temporary Assistance to Needy Families, and food stamp benefits, though states could fund their participation from their own resources. The federal government is providing start-up funds to prepare many welfare parents for work and to enhance child care resources. States can help to fund these efforts, though maintenance of effort requirements have been made fairly lenient and less significant over time.[43]

Emphasizing work over welfare, policymakers assumed, would bear rich fruit. But only spotty anecdotal evidence supports this hope. Most former welfare recipients will at best obtain low-wage jobs that could not support their families, especially when transitional child care subsidies run out. The growing economy will produce many of these low-wage, low- or no-benefit jobs with few career prospects, but supply pressure from new job-seekers will probably only further depress the already low wages. The reforms would probably not lower high turnover rates, though it's possible that, lacking public assistance, some employees might cling to their jobs more tenaciously.[44]

States would assume the financial consequences if these drastic reforms failed, since block grant funding caps federal contributions at current levels. States would also face sharply increased needs for public assistance during the next economic downturn, with presumably no additional help from the budget-conscious federal government. Needing to balance their budgets by law, states might not respond fully. But, as in past recessions, most states would probably transfer some resources from higher education budgets to public assistance.

Welfare reforms might also affect higher education directly and adversely. The new policies discourage investment in the long-term work readiness of welfare clients through postsecondary education; community colleges, especially, would lose enrollments.[45] Worse, the likely negative effect of welfare reform on many families could mean that fewer students in the next generation will qualify for higher education.

Welfare reform appeared removed from the concerns of many in higher education. Some observers even optimistically embraced the move as reducing competition for state funds.[46] But welfare reform, in reality, has serious negative implications for academe with few offsetting positives.

STATE SUPPORT: A CLOSER LOOK

Recent Developments

What do the data show about state support of higher education and trends in the allocation of funds? Prosperity is associated with reduced regional differences in appropriations (Table 3).[47] The strongest regional aggregate percentage growth in state funding for higher education occurred, not surprisingly, in the Far West, Southeast, and Rocky Mountains. The Great Lakes and New England states also showed respectable 5 percent appropriations growth rates. But the Middle Atlantic (3.7 percent), Plains (3.2 percent), and Southwest states (2.2 percent) reported gains below 4 percent.[48]

No state reported spectacular higher education funding increases in 1997, but higher education gained back significant fiscal ground in 15 states. Three states showed low

TABLE 3

PERCENTAGE CHANGE IN APPROPRIATIONS FOR HIGHER EDUCATION, FY 1996 TO FY 1997

	General Fund	All Appropriated Funds
New England	4.9%	4.9%
Connecticut	4.4	4.4
Maine	2.0	2.0
Massachusetts	6.6	6.5
New Hampshire	–0.1	–0.1
Rhode Island	6.1	6.1
Vermont	0.2	0.2
Middle Atlantic	3.7	3.7
Delaware	0.4	0.4
District of Columbia	*	*
Maryland	3.5	3.5
New Jersey	4.2	4.2
New York	5.5	5.5
Pennsylvania	0.7	0.7
Great Lakes	5.0	5.0
Illinois	5.5	5.5
Indiana	10.0	10.0
Michigan	4.8	4.8
Ohio	5.6	5.6
Wisconsin	–2.0	–2.2
Plains	3.9	3.2
Iowa	1.8	1.8
Kansas	1.1	–0.2
Minnesota	2.3	2.3
Missouri	2.3	2.3
Nebraska	4.1	4.1
North Dakota	4.1	4.1
South Dakota	0.4	0.4
Southeast	7.3	6.6
Alabama	0.0	0.7
Arkansas	2.3	1.7
Florida	9.7	11.4
Georgia	7.1	7.1
Kentucky	4.9	4.8
Louisiana	9.1	8.9
Mississippi	4.4	–1.3
North Carolina	7.8	7.8
Puerto Rico	*	*
South Carolina	4.6	4.6
Tennessee	4.1	4.0

TABLE 3 (CONTINUED)

PERCENTAGE CHANGE IN APPROPRIATIONS FOR HIGHER EDUCATION, FY 1996 TO FY 1997

	General Fund	All Appropriated Funds
Virginia	9.0	8.9
West Virginia	5.3	4.1
Southwest	2.3	2.2
Arizona	3.0	3.0
New Mexico	4.5	4.5
Oklahoma	12.6	12.4
Texas	–0.2	–0.2
Rocky Mountain	3.2	6.0
Colorado	6.4	6.4
Idaho	3.0	3.1
Montana	4.3	3.7
Utah	–1.3	7.7
Wyoming	3.0	5.6
Far West	7.1	6.8
Alaska	–0.4	–0.4
California	8.1	7.8
Hawaii	–0.5	1.5
Nevada	6.3	6.3
Oregon	8.3	8.3
Washington	4.3	4.7
Total	5.2%	5.1%

SOURCE: Snell and Perez, 1996, 24-25.

** No report.*

double digit percentage gains—Oklahoma, 12.4 percent; Florida, 11.4 percent; and Indiana, 10.0 percent. Another dozen states, mostly in the West and South, reported increases of greater than 6 percent— more than twice the rate of inflation. Funding gains ranged from 2 to 6 percent in 20 states. Nine states reported FY 1997 increases of under 2 percent, and six states reported decreases. These 15 states, where colleges and universities lost purchasing power, showed no regional pattern.[49]

The only readily available sectoral data on higher education appropriations focuses on FY 1995 to FY 1997 gains.[50] State appropriations to community colleges continued to grow faster than total higher education funding—16 percent to 9 percent in this period—in the 41 states with comparable data for both years.[51] State support of student aid also continued to grow faster (11.6 percent) than total support in the 35 states with comparable data for both years.[52] Since community colleges did better than the 9 percent average, gains for other major segments—multicampus state universities (7 percent) and large consolidated state systems of higher education (6 percent)[53]—were below the average.

Longer-Term Trends

The long-term trends in public support for higher education remain unfavorable, despite modest recent gains. Analyst Thomas Mortenson has compared state support to their "ability to pay," measured by total personal income, over the last 23 years (Figure 5).[54] Personal income grew along with the economy but less of this wealth was spent on higher education or most other public services. Higher education support per $1,000 of personal income declined nearly 3 percent between FY 1996 and FY 1997.[55] In FY 1997, 36 of the 50 states registered declines; all 50 states showed a decrease in this measure of support since 1979. The $7.65 per $1,000 of personal income figure for FY 1997 was the lowest since the data series began in 1975 and represented a 32 percent drop from 1979, the peak year. Declines—steepest during recessions—were only rarely and temporarily interrupted during years of sustained prosperity (1985, 1990, and 1995).

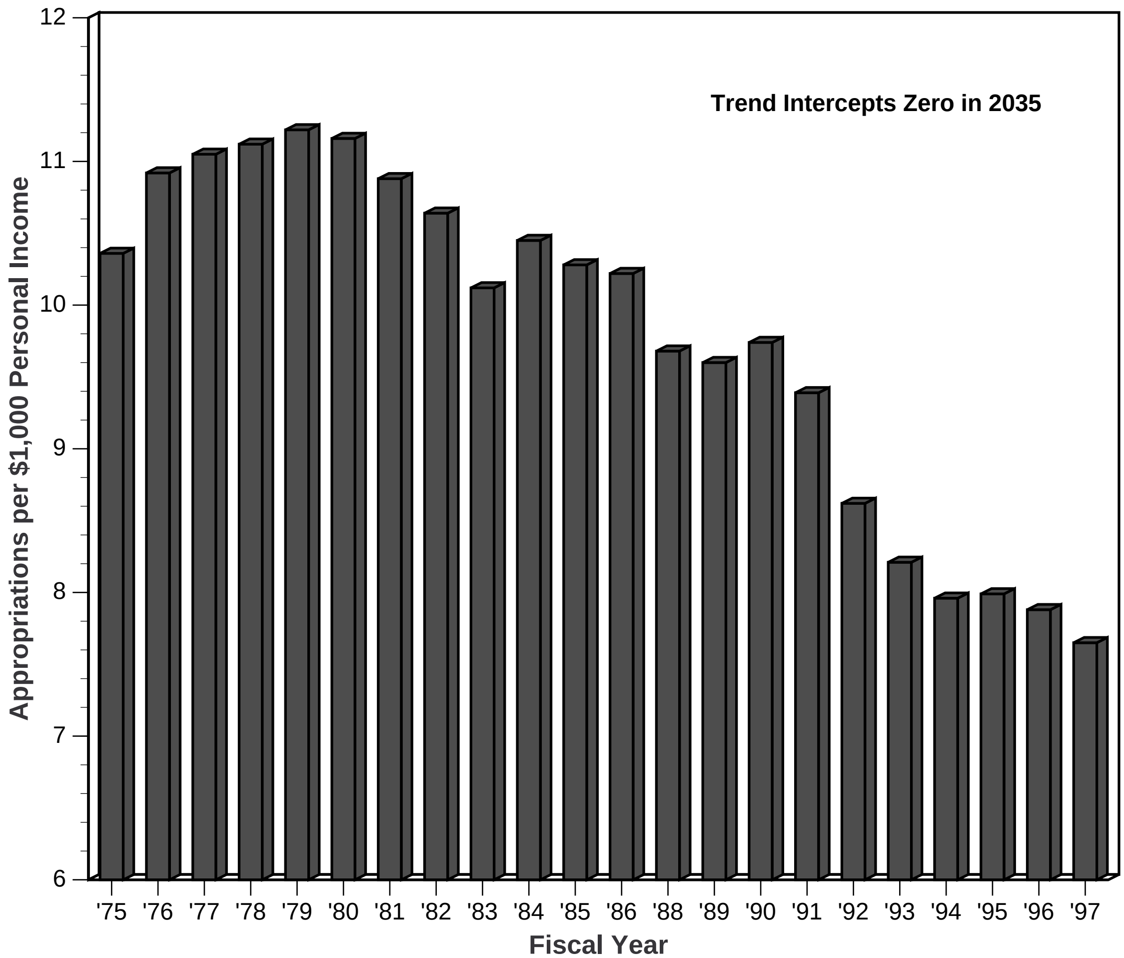
The rate of decline slowed during the current economic recovery. But even at current rates, Mortenson extrapolated, this trend would lead to zero state appropriations for higher education by 2035, with the zero point reached as early as 2014 in Vermont, 2015 in California, 2019 in New York, and 2021 in Virginia.[56]

Higher education's share of state and local government expenditures, Mortenson added, fell 21 percent from its 8.15 percent peak in 1982, to 6.45 percent in 1994.[57] The 1994 figure was just a little higher than higher education's share in 1965. Higher education's share of federal spending, Mortenson noted, declined from 0.95 percent in 1981 to 0.68 percent in 1994, roughly its share in the mid-1970s.[58]

Reduced governmental support has led to a steady, sharp increase in the student's share of higher education costs from 35.3 percent in

FIGURE 5

APPROPRIATIONS OF STATE TAX FUNDS FOR OPERATING EXPENSES OF HIGHER EDUCATION
PER $1,000 OF PERSONAL INCOME
FY 1975 TO FY 1997



SOURCE: Mortenson, 1996a, 1.

1979 to 47.8 percent in 1994 (Figure 6). College tuition and fees, as a proportion of all personal consumption expenditures, reached its highest level in 1994.[59] This cost shifting had serious consequences for higher education opportunity. The new federal tax bill with its tuition credits suggests that by mid-1997 elected federal officials got the message about public resistance to cost-shifting.

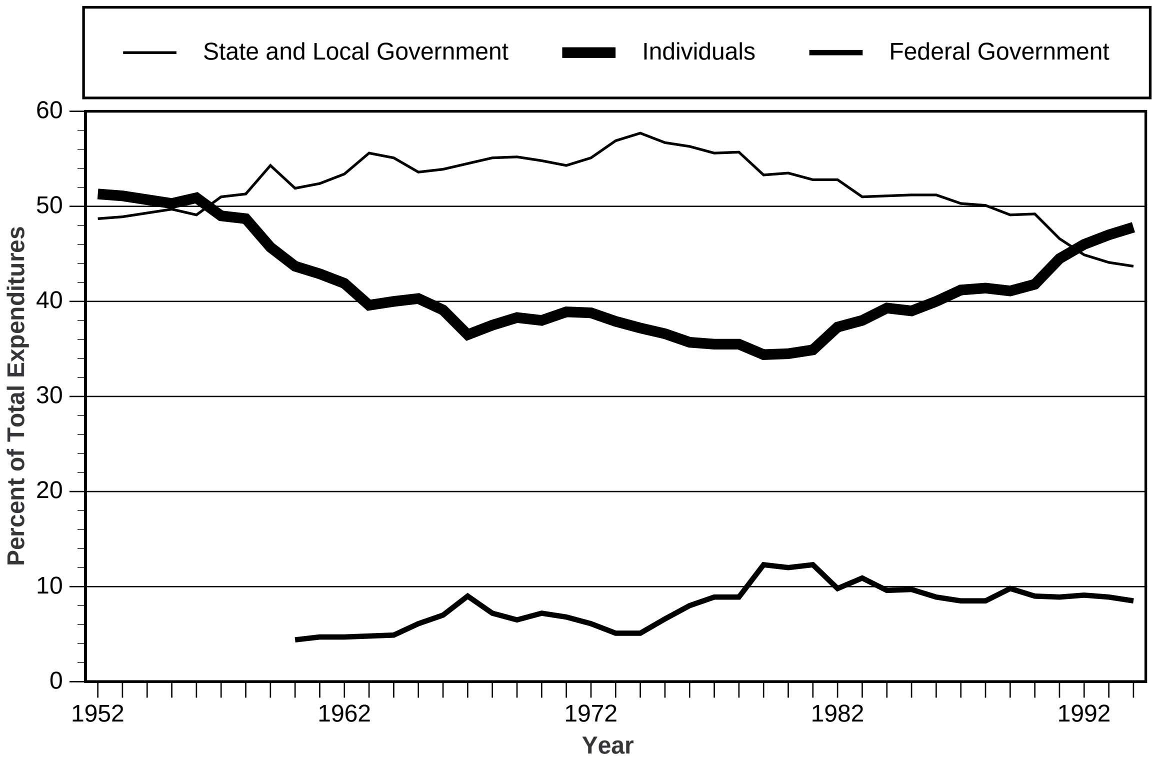
DEMAND FOR HIGHER EDUCATION

The deteriorating public investment in higher education matches poorly with societal needs. Technological change and worldwide trade have revolutionized labor markets and strengthened the demand for highly educated labor. Demand for postsecondary education is no longer limited to young people as older workers, too, seek new skills or advanced degrees and as employers seek systematic worker training.[60] Growth in economic rewards for advanced education shows no signs of abating (Figure 7). Members of the public, aware of these rewards, tell pollsters and public officials that they and their children expect affordable higher education.[61]

The coming of age of the “baby boom

FIGURE 6

DISTRIBUTION OF RESPONSIBILITIES FOR FINANCING HIGHER EDUCATION, 1952 TO 1994



SOURCE: Mortenson, 1996c, 10.

echo“ generation further increases demand for higher education. Figure 8 provides state-by-state forecasts of the percentage increases in high-school graduates—a proxy for growth in demand for postsecondary enrollment—expected over the next 10 years. The breakdown: 9 states, over 30 percent; 7 states, 20–29 percent; 15 states, 10–19 percent.[62] Some populous states faced large increases: Florida, 57 percent; California, 51 percent; Virginia, 35 percent; Maryland, 33 percent; Georgia, 30 percent; Massachusetts and Washington, 29 percent; North Carolina, 24 percent; Connecticut, 21 percent; Illinois and New Jersey, 17 percent; Pennsylvania, 16 percent; and Texas and New York, 15 percent. East and West show equal numbers of states with sizeable projected increases.

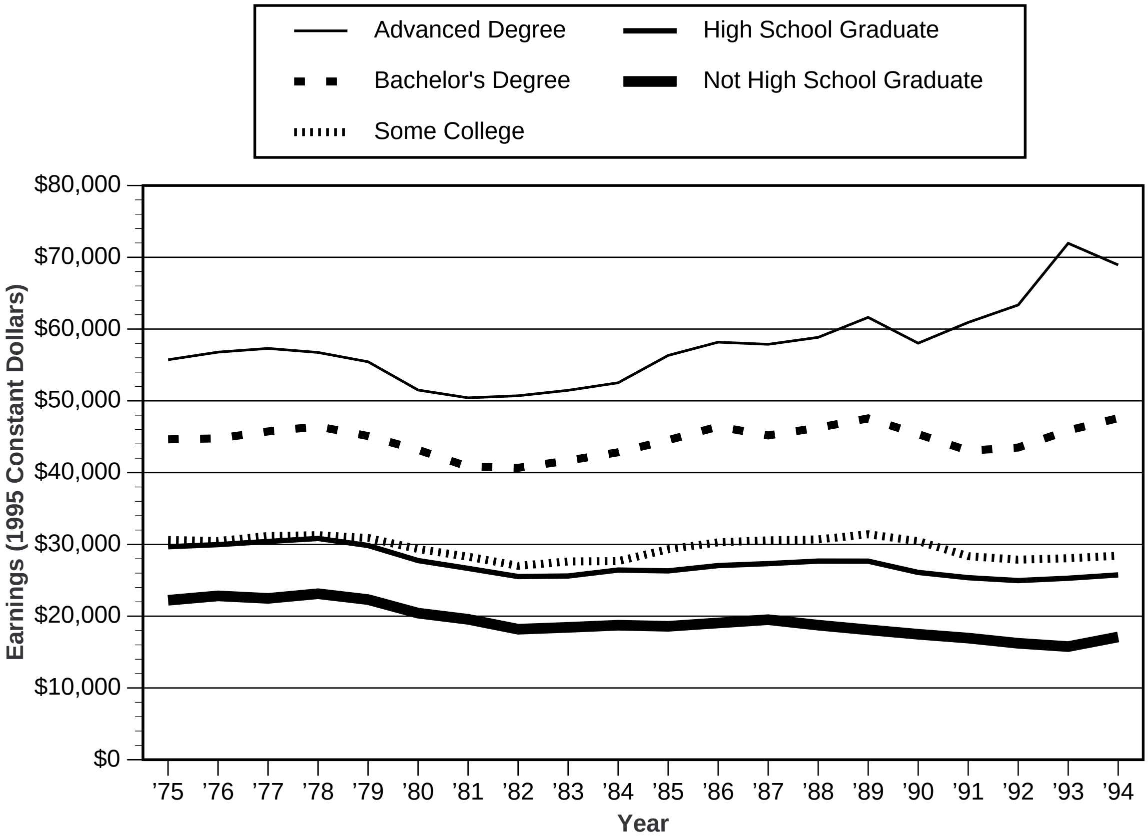
The U.S. Department of Education, assuming 1.5 percent annual growth between 1996 and 2006 among 18–24 year olds and extrapolating participation rates from historical experience, projects a 16 percent increase in national higher education enrollments.[63] Others consider this estimate conservative.[64] Many state officials, considering the pressures on state finances, cannot identify funding sources to meet this projected demand. But meet the demand they must to maintain economic prosperity and to accommodate a diverse young population.[65] The social equity challenge equals the economic challenge in importance, but the competition for state funds and taxpayer support promises to be fierce, especially during the next recession.

TRENDS IN TUITION AND STUDENT CHARGES

For many years, tuition and other required student charges grew at rates well above general price inflation and gains in personal and

FIGURE 7

MEAN EARNINGS OF MALE WORKERS 18 AND OVER BY EDUCATIONAL ATTAINMENT, 1975 TO 1994



SOURCE: Mortenson, 1997a, 4.

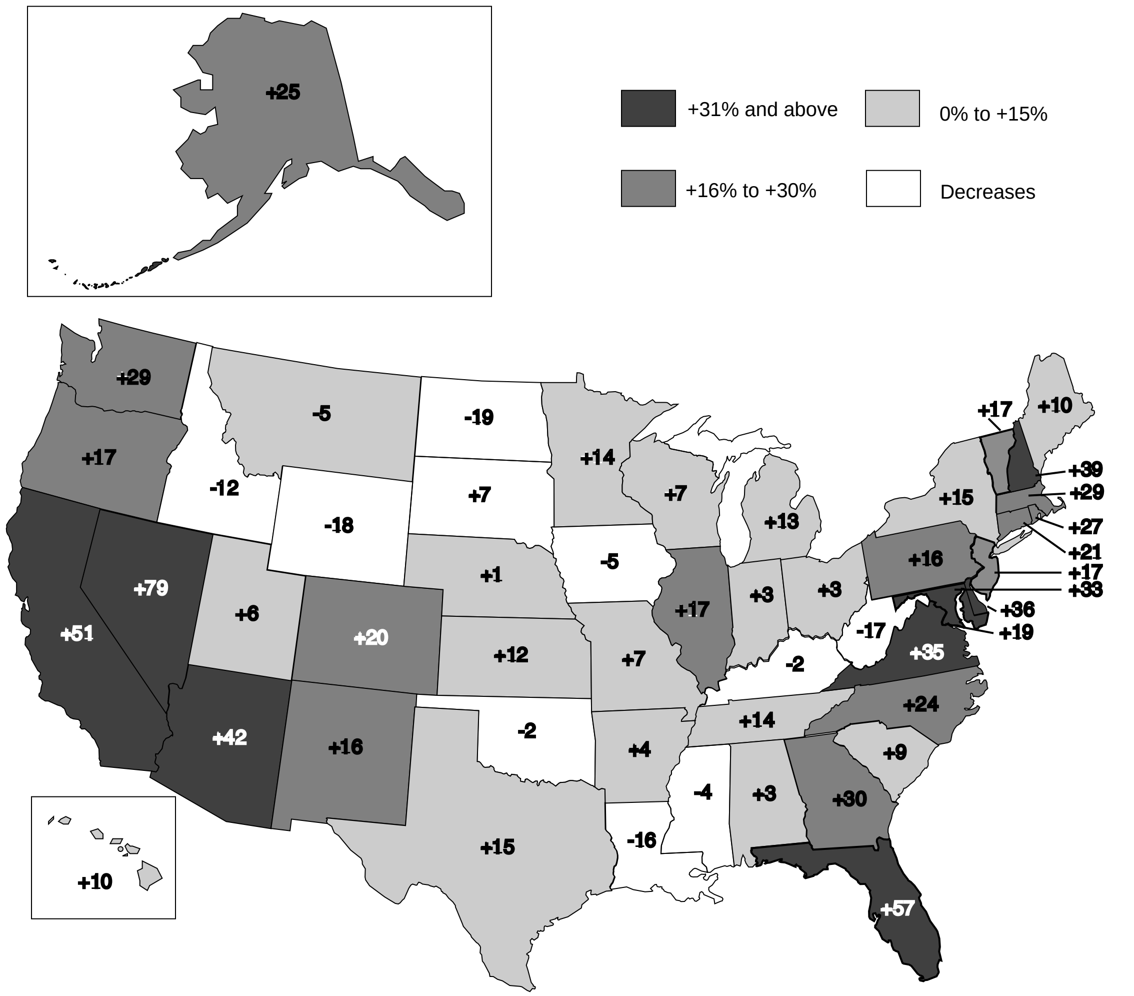
family incomes.[66] Public higher education saw especially rapid price growth during economic downturns, such as in the early 1990s, when institutions sought sharp tuition and fee increases to mitigate the effects of state funding cuts. Tuition growth rates in the independent sector were less cyclical over the last two decades, though consistently well above inflation and personal income gains.

Tuition growth rates have moderated in the last few years as state economies and appropriations to public colleges recovered and as public reaction to the earlier price trends pressed public and independent higher education (Table 4).[67] Still, annual tuition increases ranged from 5 to 6 percent in the mid-1990s—twice the rate of general price inflation—and many observers expressed continued concern about the declining affordability of college.[68] The Republican Congress established a commission to study college costs and ways to control them.[69] The issue was hot in many states.[70]

How much did tuition charged by public institutions to state-resident undergraduates increase between 1995-96 and 1996-97? The national average increase was 4.4 percent overall for "public colleges and state universities" and 5.4 percent for both public research universities and community colleges.[71] Among public colleges and state universities,[72] North Dakota (16.3 percent) and Texas (15.2 percent) were the only two states reporting double-digit increases.[73] In-state undergraduate charges in state colleges and universities in Connecticut, Idaho, Maryland, and New Jersey increased 8 to 10 percent, but most states saw considerably lower increases. The larger

FIGURE 8

PROJECTED CHANGE IN THE NUMBER OF HIGH SCHOOL GRADUATES, 1996-97 TO 2006-07



SOURCE: Chronicle of Higher Education, *1996, 6. Data are from Western Interstate Commission on Higher Education.*

increases tended to be in the Northeast and Midwest. The South and West showed smaller increases, reflecting stronger economic and fiscal conditions. Massachusetts and Oklahoma reduced student charges in 1996-97.

California and New York, the two largest "megastates," saw charges increase for state colleges and universities by only 1.2 percent and 2.5 percent, respectively, a respite from the large increases of the early 1990s.[74] The large increase in Texas, continuing the trend for that state, was exceptional among the other large states; Florida, Illinois, Michigan, and Pennsylvania reported 4 to 5 percent increases, close to the national average.

STUDENT AID

Government student financial aid programs, designed to buffer the needy from the enrollment-discouraging effects of tuition charges, took on increased importance as tuition climbed faster than income. The relative importance of aid from the federal government—by far the largest supplier of student aid—decreased in recent years. Federal grant

TABLE 4

AVERAGE ANNUAL INCREASE IN TUITION (WEIGHTED) AND FEES AT COLLEGES, 1987-88 TO 1996-97*

	Two-Year Colleges		Four-Year Colleges	
Years	Public	Independent	Public	Independent
1987-88	5%	6%	6%	8%
1988-89	4	7	5	9
1989-90	5	7	7	9
1990-91	5	8	7	8
1991-92	13	6	12	7
1992-93	10	6	10	7
1993-94	10	7	8	6
1994-95	4	5	6	6
1995-96	6	4	6	6
1996-97	5	5	6	5
Dollar Figures				
1996-97	$1,394	$6,673	$2,966	$12,823

SOURCE: The College Board, 1995; 1996a.

** Data in this table are weighted by enrollment, and represent cost increases for students who attend a certain type of college. Restricting the sample to institutions with two consecutive years' worth of data controls for year-to-year swings in the composition of the sample, but does not control for shifts in the sample's composition over longer periods of time.*

aid declined substantially: Combined spending for Pell Grants, Supplemental Educational Opportunity Grants (SEOG), State Student Incentive Grants (SSIG), and College Work-Study fell by $441 million (6.2 percent) in 1995-96, and by $920 million (12 percent) since 1992-93.[75]

The form of federal aid has shifted from grants toward loans.[76] Total federal loan volume grew by 8 percent in 1995-96, after adjusting for inflation. This rapid growth of unsubsidized loans meant higher costs to students and families.[77] These trends, combined with steady tuition and fee increases, reflect the shift in the burden of financing higher education to individuals and explain the political steamroller created by President Clinton's proposal for income tax preferences for personal expenditures on postsecondary education.

State grants play an increasingly important, though still limited, role in aiding students. State grants increased steadily in real terms, from $1.3 billion in 1985-86, and less than $2 billion in 1991-92, to around $3 billion in 1995-96.[78] But 1995-96 was not a banner year for the state grant programs. Total grant dollars awarded by the states grew by just 1.6 percent in between 1994-95 and 1995-96, and need-based aid to undergraduates—the key subcategory—increased just 0.6 percent.[79] Figure 9 depicts the sharp decline in the growth rate in this subcategory in 1995-96.[80] Nearly half the states (23 plus the District of Columbia) reported decreases in need-based undergraduate aid.[81] Most cuts were small: Only five states reduced this aid by more than 10 percent. The shift in state support from need-based aid to "merit"-based awards and awards to students studying in particular career fields appeared to continue.[82]

The previous pattern of healthy annual increases in state grants began in the early 1990s as a response to cuts in state appropriations and sharply increased tuition and fees. By 1995-96, with state appropriations recovering and tuition increases moderating, policymakers decided against further large increases in grants. But decreases in federal student aid and the tendency for charges to students to outstrip inflation and family incomes suggest this was a mistaken conclusion.

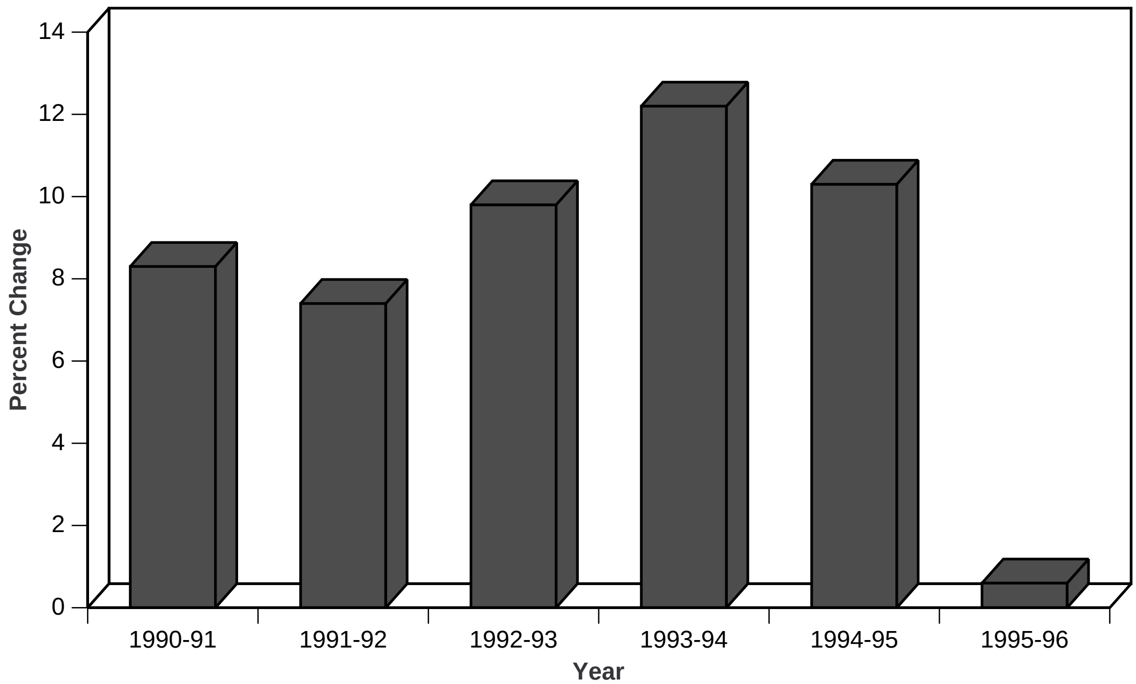
IMPLICATIONS FOR ACCESS AND QUALITY

Recent funding shortfalls constrain the ability of public colleges and universities to respond to student demands for access and specific programs and courses. In 1995-96, applications were up at 44 percent of public institutions and down at only 28 percent, according to a survey by the American Council on Education. Yet more public institutions report decreases than increases in enrollment (39 percent vs. 35 percent).[83] A sample survey of member institutions by the National Association of State Universities and Land-Grant Colleges shows other troubling effects:

- Financial aid requests increased—89 percent.
- Fees increased—86 percent.
- Administrative / staff positions reduced—84 percent.
- Building repairs deferred—64 percent.

FIGURE 9

TREND IN GROWTH RATE OF AGGREGATE STATE NEED-BASED GRANT AID TO UNDERGRADUATE STUDENTS, 1990-91 TO 1995-96



SOURCE: DeSalvatore and Hughes, 1997, 32-33.

- Funds for maintenance and grounds reduced—64 percent.
- Funds for equipment and supplies reduced—64 percent.
- Faculty positions left unfilled or cut—59 percent.
- Programs cut or consolidated—51 percent.
- New construction deferred—49 percent.
- Library acquisitions reduced or eliminated—46 percent.
- Administrative / staff pay frozen—43 percent.
- Instructional workload increased—38 percent;
- Class size increased—36 percent.[84]

The American Association of State Colleges and Universities asked its institutional leaders to "rank the areas of public higher education most hurt by the erosion of funding."[85] The leaders ranked programs and student access first, followed by building maintenance and faculty recruitment. Funding cuts threaten many student access and quality indicators, the study confirmed. The deferral of building maintenance and construction and equipment purchases also portend ill for capacity and quality.

Access, in this study, encompassed concerns about equitable enrollment and degree completion patterns among students of different ethnic and income groups. According to another national study, anxiety among freshmen about college affordability reached an all-time high in 1996.[86] Not surprisingly, these concerns increased rather steadily as parental income declined. They increased most among the lower income groups of students between 1989 and 1995,[87] and were greatest among students attending predominantly Black colleges.

Glaring, persistent ethnic and class differences in baccalaureate degree completions accompany these inequities in freshman matriculation (Figures 10 and 11). The new federal tax credits for college expenses and the upcoming modest increase in Pell Grants may slightly increase total enrollment and degree completion rates, but are unlikely to improve racial and economic inequities. The tax reforms, it appears, will direct the lion's share of benefits to upper-middle income students and their families.[88] The cost of these benefits, combined with continued federal focus on budget balancing, may reduce support for need-based student aid programs that help lower-income and minority students.

OTHER STATE POLICY ISSUES

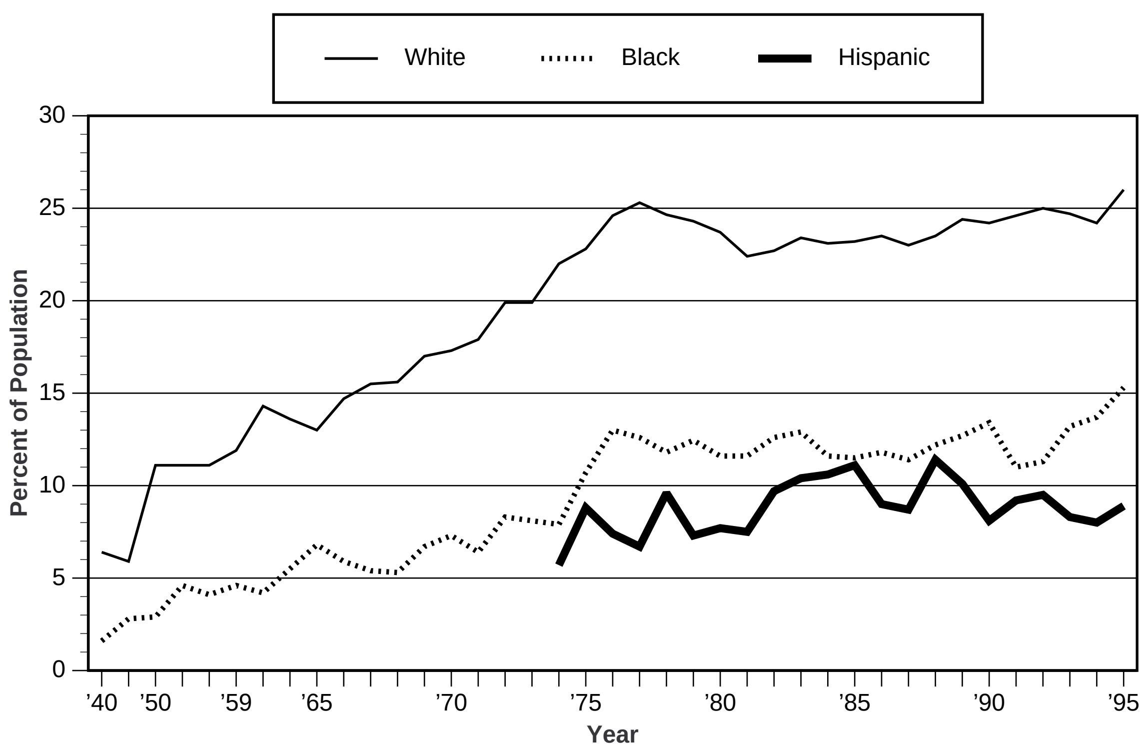
States deliberated several other key policy issues—all linked to fiscal, access, and affordability pressures—in 1996 and 1997. Here's a rundown:

Access, Accountability, and Efficiency

A new axiom dominates the public sector, especially higher education: getting the maximum "bang for the buck."[89] Severely limited tax and tuition revenues, combined with increased demands for service, give rise to this axiom. So does the conviction among many politicians and citizens that the academic sector is inefficient, resistant to change, and "arrogant."[90] Policymakers are asking academic leaders to match resources more closely to missions and goals, measure outcomes, and pursue efficiencies ruthlessly. These policymakers, wishing to increase access to higher education and respond to business concerns, emphasize outreach to students lacking ready access to campuses and employed students with time

FIGURE 10

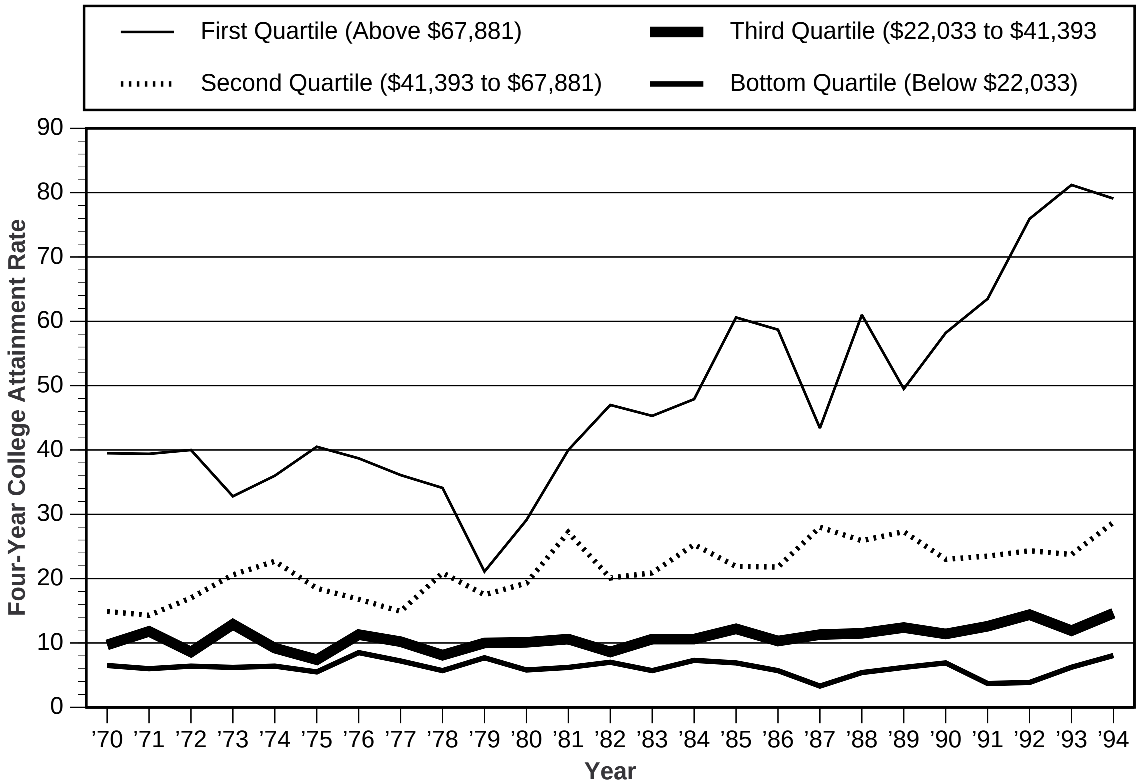
PERCENT OF PERSONS 25 TO 29 YEARS WHO HAVE COMPLETED FOUR YEARS OF COLLEGE OF MORE, BY RACE/ETHNICITY, SELECTED YEARS: 1940 TO 1995



SOURCE: Mortenson, 1997b, 5.

FIGURE 11

ESTIMATED CHANCES FOR A BACCALAUREATE DEGREE BY AGE 24 AND BY FAMILY INCOME QUARTILE 1970 TO 1994



SOURCE: Mortenson, November 1995, 1.

constraints. Their goal: producing "satisfied customers," assessed and measured within a framework of "accountability."

Several states attempted to tie resources to measured "outcomes": graduation rates, time-to-degree, employment, economic development, and student learning—and to other goals: enrolling targeted students, increasing faculty instructional workload, and implementing new instructional technologies.[91] Other states mandated or strongly encouraged public colleges and universities to develop, report, and improve results on these measures.

States might lose interest in accountability—term limits might even reinforce this tendency in state government— but if the new accountability and efficiency agenda does get implemented, it would truncate traditional academic autonomy. Disputes over this agenda between academic leaders and distrustful state policymakers have already led to abnormal turmoil and turnover in governance structures. State officials expressed strong dissatisfaction with system structures in Kentucky and Alabama,[92] and with coordinating boards or their policies in Tennessee, Texas, and Virginia.[93] Public trustees appointed by recently elected Republican governors, most notably in Minnesota, New York, and Virginia, took a more assertive role in institutional policy and management.[94]

Academic program reviews—Predictably, many states strongly pressured coordinating or governing boards to conduct academic program reviews to identify and justify or eliminate programs seen as duplicative or inefficient—measured by low enrollment, low degree output, or high-cost per degree—or not closely tied to the needs of the state or the mission of the institution. Graduate programs were particularly vulnerable. Louisiana, North Carolina, and Ohio substantially reduced academic programs in recent years; 1997 saw similar moves in Arkansas, Idaho, Illinois, Massachusetts, and Tennessee.[95]

Increased role for community colleges facilitating transfers—Several states have sought to expand the role of community colleges in educating students aspiring to the bachelor's degree. These policymakers believe that smoother transfer from two-year to baccalaureate-granting institutions would reduce per-student costs while accommodating more students,[96] but they do not believe that four-year colleges adequately facilitate student transfers. The colleges are often too choosy about accepting credits and do not provide community college students with consistent, accessible information pertinent to course selection. Nor do two-year colleges consistently counsel would-be transfer students into necessary courses, sometimes because counselors do not know which courses or sections the four-year college would accept.

Some states mandate common academic calendars, course numbering systems, and "core curricula" covering general education courses. Others require four-year institutions to admit community college transfer students and accept their credits, sometimes subject to a grade-point average minimum.[97] But these mandates, critics observe, could undermine academic autonomy and degree quality. Easy transfer threatens curricular coherence and integrity at four-year schools, according to one observer. States, this observer adds, base their mandated transfer policies on a distorted definition of educational quality that focuses "almost exclusively on specific skill acquisition and educational experiences that are 'good enough.' "[98]

Reducing remediation—States have also tried to reduce or cut remediation—campus-based pre-college courses for students deficient in basic academic skills.[99] Again, the states had three motives: "streamlining" higher education to accommodate more qualified students, reducing system costs, and pressuring secondary schools to prepare their graduates adequately for college work. But the lack of accompanying resources for the secondary schools or of a guaranteed successful reform program increases the risk that these policies would disproportionately affect low-income and minority students.

Educational Technology and Distance Learning

Heightened attention to educational technology has resulted in new possibilities that, for different reasons, excite educators and policymakers. Educators, for example, have responded to student and employer calls for instruction in computer-based analytical and communications skills.[100] State policymakers have looked to technology to meet demands for higher education without building new campuses. These policymakers have urged educators to reach out via "distance learning" to students in remote locations, the workplace, or those in metropolitan areas who could not come to campus regularly.

The movement is still in its beginnings, and even the leading states remain in an exploratory mode, noted a new NEA-sponsored report. States are studying emerging technologies, developing plans, collaborations, and governance arrangements, and making some sizeable infrastructure investments.[101] But many key issues remain undecided: faculty incentives and workload, intellectual property arrangements, standard-setting and academic program design, student support services, costs to students, and responsibility for oversight and policy and regulatory control. A parting of the ways looms over resource requirements, educational quality standards, and governance arrangements. Legislatures emphasize per-student cost savings, while academics focus on innovation and maintaining standards. Distance learning has a way to go before serving large numbers of students.

The Western Governors University initiative, begun in 1995, has sought to match students seeking distance learning with courses offered at member institutions. The "university" would facilitate degree attainment by distance learning alone or in combination with traditionally earned credits. With participation from most Western states—but not California, which has its own parallel initiative—WGU would advise and assess students entirely on-line, and would help them to fashion coherent programs. WGU itself would promote the concept and facilitate access for otherwise underserved students, while existing institutions would grant degrees. But this experiment, though intriguing and significant, is meagerly funded. WGU may have minimal immediate impact since substantial, regular legislative funding may require demonstrable workability, adequate capacity, and finalized accreditation.

Prepaid Tuition Plans

Concern about college affordability has resulted in state-legislated assistance to families in planning for and managing higher education costs.[102] "Prepaid tuition" plans offer state-sanctioned incentives for saving to meet college costs. The plans typically permit parents to invest, ideally beginning when children are young, in state-run funds that manage the savings and reinvest tax-deferred returns.

Some states have shifted the tax liability on withdrawals from parents to students, who are typically in a lower tax bracket.[103] States have usually tried to keep pay-in requirements—often monthly payments—small enough for many citizens to participate but large enough to cover estimated tuition costs at the time of enrollment. Some states have guaranteed to cover future tuition costs at state institutions if parents make the stipulated payments. But, unlike in the 1980s versions of these programs, many other states balk at making this guarantee.

States have also used more conservative assumptions about long-term investment returns. In May 1997, 13 states operated tuition prepayment plans—Maryland, New Mexico, and West Virginia enacted plans in 1997—and 21 more considered the possibility.[104]

Prepaid tuition plans are designed to meet the powerful demand on elected officials, particularly from middle-income citizens, for help in paying for college. Several analyses conclude that these state-subsidized programs offer the most aid to the middle class.[105] Low-income citizens rarely have the discretionary income to take advantage of the programs and are less likely to foresee their children attending college.

The programs have several other drawbacks. States that defer or waive income tax on earnings from college savings would forego substantial current revenue if the programs proved attractive. If inflation in college charges outpaces investment earnings—a strong possibility in light of the many budgetary pressures on states—these states might incur financial difficulties when students seek to cash in their tuition chits. States can minimize these difficulties by declining to guarantee full coverage of participant costs. But a large gap between the value of a family's state-sanctioned investments and public college charges would be politically problematic.

Affirmative Action

Most minority groups continue to participate in and graduate from college at lower rates than whites. Despite this discrepancy, Congress and the federal courts have spurred a backlash against affirmative action policies, notably in graduate professional school admissions. Two states also contributed to the backlash. In California, the University's Board of Regents, supported by the governor, ended affirmative action in admission to all programs at the University of California. Texas also ended affirmative action in response to a circuit court decision that currently applies only to Texas and two other states.[106] Other states may follow suit, by gubernatorial or legislative action, citizen initiative, or court action.[107] Preliminary data show drastically reduced minority enrollments in states that terminated affirmative action programs.[108]

President Clinton supports affirmative action admission policies as essential to building a successful, diverse, equitable society.[109] His leadership has probably helped to support the many on campuses with similar beliefs. But the outcome of federal court cases now in progress will probably determine the future of affirmative action.[110] Negative decisions could not only render these policies ineffective, but, given the current make-up of Congress and of many state legislatures, could set off legislative moves to bury such policies for many years.

CONCLUSION

Higher education, a key to prosperity and social comity in the twenty-first century, faces mixed prospects. Healthy economies meant a moderately good short-run fiscal outlook, at least relative to the early 1990s. But this calm should not lull the academy into somnolence. The current recovery in state support is decidedly weaker than in earlier periods of prolonged prosperity. Competing spending demands show few signs of abating. Citizens and elected officials resisted tax and spending increases or demand tax cuts. Higher education is squeezed between hard-to-resist claims on the state treasury from Medicaid, corrections, K-12 education, and welfare reform, and fiscal lids imposed by legislators and voters.

Citizens value higher education, but want greater affordability and efficiency. Accountability requirements increasingly link critically needed state appropriations to the "performance" of institutions on state-mandated indicators. Critical policymaking is emerging in this arena as policymakers realize that devising sound performance indicators requires input from institutions, including faculty.

Colleges and universities look to students and their families to make up for lagging government funding, particularly during periods of economic stagnation. But this approach—resulting in reduced participation and degree completion by lower-income and minority populations and dissatisfaction among others forced to pay more—reached the limits of political feasibility since real personal incomes are not growing.

Given the increased numbers of high school graduates seeking postsecondary education, the next economic downturn may exert extreme fiscal pressures on higher education. States will struggle to cope with increased spending demands that usually accompany recessions— Medicaid, prisons, and public assistance—just as their revenues fall off. If history is a guide, state budgetmakers will look to higher education for funds to reallocate to these pressing needs.

Administrators and faculty should look hard at how they do things and at opportunities provided by technological advances and modest innovation funds. We must serve our students well and efficiently under different, trying conditions. If we do not, those paying the piper will likely seek to call the tune. We may not like the music.

NOTES

[1] States faced legal mandates in many fields—matching federal Medicaid funding, adequately providing for public schools, and humanely housing prisoners incarcerated under mandatory sentencing laws, for example.

[2] The president and congressional leaders agreed on the outlines and magnitude of tax credits for higher education expenses as part of the five-year budget-balancing agreement, but details remained unannounced at the time of writing.

[3] Except where indicated, analysis and statistics cited in this section are drawn from the periodic publications of DRI / McGraw-Hill's U.S. Economic Service, mainly the monthly *Review of the U.S. Economy.*

[4] DRI / McGraw-Hill, 1997, i.

[5] Ibid. In late July 1997, Federal Reserve Chairman Alan Greenspan, predicted growth in the 3.00-3.25 percent range for 1997, with a drop back to 2.0-2.5 percent in 1998 ("Hopeful Greenspan delights markets," 1997).

[6] Brinner and Wyss, 1997, 6.

[7] Ibid., 7. These analysts adamantly disagreed with the claim that the era of business cycles—and recessions— has ended (4-5).

[8] Meyerson, 1997. This rate bounced back up to 5.0 percent in June.

[9] DRI / McGraw-Hill, iii.

[10] Brinner and Wyss, 4.

[11] Except as noted, this discussion draws heavily on Johnson et al., 1997.

[12] Ibid., 30. The national job growth figure for 1996 was a strong 2.1 percent. DRI uses nine regions: *New England*—Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont; *Middle Atlantic*—New Jersey, New York, Pennsylvania; *South Atlantic*—Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia; *East North Central*—Illinois, Indiana, Michigan, Ohio, Wisconsin; *East South Central*—Alabama, Kentucky, Mississippi, Tennessee; *West North Central*—Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota; *West South Central*-—Arkansas, Louisiana, Oklahoma, Texas; *Pacific Northwest*—Alaska, Idaho, Montana, Oregon, Washington, Wyoming; *Pacific Southwest*—Arizona, California, Colorado, Hawaii, Nevada, New Mexico, Utah.

[13] The Middle Atlantic states showed just 0.8 percent employment growth.

[14] Ibid., 29-30.

[15] McIntire, 1996a, 14-17 and 27-33. McIntire drew on data collected by the Advisory Commission on Intergovernmental Relations.

[16] National Governors' Association and National Association of State Budget Officers, 1997, 9.

[17] Mackey, 1997, vii, and National Governors' Association and National Association of State Budget Officers, 11.

[18] Boyd and Davis, 1997, 1-3. The authors, based at the Center for the Study of the States at SUNY Albany, noted that the aggregates they used were not entirely consistent from state to state. In most cases, they included general fund revenues only (3).

[19] Aggregate state revenue gained 7.3 percent in the second quarter of 1996 and 6.2 percent in both the third and fourth quarters (Boyd and Davis, 2).

[20] National Governors' Association and National Association of State Budget Officers, 1997, 9.

[21] Snell and Perez, 1996, vii.

[22] The data cited in these paragraphs come from National Governors' Association and National Association of State Budget Officers, 12-13. The data include year-end general fund balances and balances in budget stabilization accounts ("rainy day" funds).

[23] This figure, based on governors' proposed budgets, could increase, depending on factors such as legislative actions during 1997. With Republican governors in the ascendancy in the majority of states, the budgets of the governors have tended to be more conservative than enacted appropriations.

[24] The 1996 federal welfare reform legislation converted the Aid to Families with Dependent Children (AFDC) program to Temporary Assistance for Needy Families (TANF) as of August 1, 1997.

[25] Mortenson, 1997c prepared the graph from state data collected by the National Conference of State Legislatures (NCSL) in fall 1996.

[26] The robust economy and recent policy changes helped to reduce the welfare rolls.

[27] Governors asked for increases in state spending on K-12 education totaling 5.9 percent for FY 1998 (Liebschutz, Schneider, and Boyd, 1997, 2-3).

[28] National Governors' Association and National Association of State Budget Officers, 1997, 3. This publication did not provide figures for the other major policy areas shown in Figure 4.

[29] See, for example, Bloom, 1987; Bennett, 1987; Sykes, 1988; Smith, 1990; Zemsky, 1990; and D'Souza, 1991.

[30] During this period, states also felt the fiscal effects of several new federal mandates for increased Medicaid coverage (Lemov, 1995), and began to see the impact of lengthened criminal sentences on prison costs ("Three Strikes …," 1994).

[31] Snell and Perez, 20.

[32] Ibid., which cites U.S. Department of Education projections; also Liebschutz, Schneider and Boyd, 1997, 2.

[33] Liebschutz, Schneider, and Boyd, 1-2, 6-10.

[34] National Governors' Association and National Association of State Budget Officers, 1997, 3. These are February 1997 Congressional Budget Office projections. The steady increase in the average age of the Medicaid-eligible population, which includes many elderly, explains most of the increase in the growth rate.

[35] A federal Bureau of Justice Statistics report showed a 5 percent increase in state and federal prisoners in 1996, continuing a decade-long surge in prison populations from about 500,000 in 1985 to 1.18 million at the end of 1996 (Sniffen, 1997, A3). The United States trailed only Russia in the rate at which its population is incarcerated. A reduction in early releases, noted the report, greatly contributed to this increase; prisoners averaged longer sentences.

[36] Snell and Perez, 1996, 26-27. General fund spending did not usually include the full effects of capital expenditures for new prisons under construction in nearly every state.

[37] Ibid.

[38] Gest and Pope, 1996; Shapiro, 1997. A rapid increase in the size of these groups will begin in a few years.

[39] "Report: Build Colleges, Not Prisons," 2. This article cited a recent report by analysts at the Justice Policy Institute. The rapid growth in prison spending by states, argued the authors, was squeezing out support for higher education.

[40] Snell and Perez, 28.

[41] This analysis draws on Super et al, 1996, and McIntire, 1996b, but these authors are not responsible for conclusions drawn.

[42] At this writing, Congress and state capitals were negotiating the terms of limits on college attendance by welfare recipients. Some college attendance was likely to be permitted under federal law as "vocational training" to prepare for work, but probably for no more than a year—not time enough for most students to complete an associate degree. States might or might not take full advantage of these limited opportunities provided under federal law given the financing available (Lederman, 1997d).

[43] The decline in the welfare caseload caused by the economy made the initial federal block grants appear ample to most states (Walters, 1997). But the grants will look less attractive in the future, since their level funding took no account of inflation, population growth, or increased caseloads stemming from any economic dip.

[44] The reform did not adequately address long-term child care and health care subsidies. Beyond the planned transition period, how will low-wage mothers afford to meet these needs for their children? Absent a well-thought-out provision, many parents will likely risk their jobs to attend to sick or uncared for children, take them to emergency rooms for medical care, and engage in other understandable behaviors that undermine the goals of the reform. The alternative—child neglect—is likely to cost society more than welfare dependence.

[45] Trombley, 1997. Former City University of New York Chancellor W. Ann Reynolds organized a coalition of college presidents protesting policies that denied welfare recipients the opportunity to seek postsecondary degrees (Reynolds, 1997). Some two-year colleges will provide short-cycle work-readiness programs, including resume writing and job search skills, to welfare recipients.

[46] This view is consistent with the “race to the bottom” argument, which holds that, given the opportunity, states will maximize welfare spending cuts to become more attractive to businesses and upper-income taxpayers (Chernick and Reschovsky, 1996; Ehrenhalt, 1997).

[47] Table 3 shows changes in state appropriations for higher education for 1997 compared to 1996. No systematic data were yet available on FY 1998 state appropriations to higher education.

[48] Texas, which had a slight negative growth rate (–0.2 percent), dominated the figures for the Southwest.

[49] Absolute declines: Alaska, Kansas, Mississippi, New Hampshire, Texas, and Wisconsin; gains less than 1 percent: Alabama, Delaware, Pennsylvania, South Dakota, and Vermont; between 1 and 2 percent: Arkansas, Hawaii, Iowa, and Maine.

[50] Hines and Higham, 1997. This data set disaggregated state higher education funding into several categories, when possible, and compared two-year growth in these categories to growth in total higher education appropriations. This analysis provided a sense of states’ priorities within higher education. The data cited excluded capital funding and funds provided by local sources and tuition.

[51] State support for two-year colleges outstripped total higher education funding in two-thirds of these states.

[52] The student-aid gain exceeded the total gain in 19 of these 35 states.

[53] Four-year institutions dominate these categories.

[54] Mortenson, 1996a. Mortenson relied on the data on state appropriations to higher education collected by Hines and Higham and their predecessors.

[55] This 3 percent decline in the share of income spent on higher education occurred in a year when higher education’s share of state general fund spending slightly increased, for the first time in many years. State spending as a whole fell as a proportion of national income.

[56] Ibid., 7. Such trends are usually reversed before reaching such drastic turning points, but some observers called for privatizing much of higher education. For an analysis, see Breneman, 1997.

[57] Academe’s share of state and local expenditures decreased in 10 of these 12 years. The data cited in this paragraph come from Mortenson, 1996c. Local expenditures are relevant because many states provide substantial support for community colleges from local funds and because state and local revenue authority are typically closely intertwined.

[58] Mortenson, 1996c, 8. These figures primarily represented federal support for student aid, excluding research and other noninstructional federal support.

[59] Ibid., 8-9. This data series goes back to 1952. The latest year available to Mortenson was 1994.

[60] Trachtenberg, 1997.

[61] MGT of America and Elway Research, 1995; Immerwahr, 1997.

[62] The Western Interstate Commission on Higher Education compiled the data.

[63] U.S. Department of Education, 1996, ix-xi. This is the “middle alternative“ projection. The high and low projected enrollment increases were 27 percent and 3 percent, respectively.

[64] Macunovich, 1997.

[65] On the increasing diversity of the student body, see Western Interstate Commission on Higher Education (1991).

[66] Between 1980 and 1996, average tuition at public four-year colleges and universities increased by 256 percent, while the Consumer Price Index grew by just 79 percent (Christal, 1997b, 1). Thus, by 1997, the cost of four years of attendance at a typical public institution, including room, board, and other educational expenses, approached the median household’s annual income, which had changed little for many years (Institute for Research on Higher Education, 1997, 46-47). Even taking the effects of financial aid into account, the price of a four-year independent higher education climbed well beyond the median annual income (Ibid.).

[67] The averages in Table 4 were weighted by the enrollments at institutions. For public institutions, the averages applied to *state-resident* undergraduate tuition and required fees. States tended to raise less politically sensitive nonresident and graduate tuitions somewhat more rapidly (Washington

Higher Education Coordinating Board, 1997, Tables 1-10).

[68] Institute for Research on Higher Education, 1997; "Anxiety Over Tuition …," 1997.

[69] "A federal panel …," 1997.

[70] Christal, 1997b; Healy and Schmidt, 1997.

[71] Washington State Higher Education Coordinating Board, 1997.

[72] State ranks in terms of rate of increase tended to be similar across all three sectors.

[73] Four states reported double-digit increases in resident undergraduate tuition at public universities; eight states had double-digit growth rates at community colleges.

[74] Students in New York will fare even better in 1997-98, despite initial threats of sharp budget cuts and tuition hikes (Schmidt, 1997b).

[75] College Board, 1996b, 4. These figures were calculated from "estimates" for 1994-95 and "preliminary" figures for 1995-96.

[76] Grants as a percentage of all student aid (including state and private aid) reached a recent peak of 51.4 percent in 1991-92, but fell to 41.8 percent by 1995-96, according to College Board estimates (Ibid., 10). The decline resulted from a substantial relaxation of rules restricting federal direct and guaranteed loans in the 1992 Higher Education Act amendments. Total loan volume jumped 65 percent since these changes (Ibid., 3).

[77] Ibid., 3.

[78] Ibid., 4-5, 12. 1996 federal grants=$6 billion; total aid=$50 billion.

[79] DeSalvatore and Hughes, 1997, i. This study is the definitive annual survey of state aid programs. Nearly 99 percent of state grant aid went to undergraduates and approximately 85 percent was need-based. Just five states—California, Illinois, New Jersey, New York, and Pennsylvania—accounted for about 60 percent of total state grant aid. Many states provided only minimal support.

[80] Partial, preliminary data on state appropriations for need-based aid to undergraduates suggested some recovery in this category in 1996-97 (Mortenson, 1996b, 15). The latter survey was apparently conducted in summer, 1996 and was limited to the major aid programs in 29 states and Puerto Rico. Total anticipated aid spending by these programs was 4.5 percent higher than the comparable 1995-96 figure, but the figures from this survey for previous years do not correspond closely with the final, national figures reported annually by the National Association of State Student Grant and Aid Programs (NASSGAP).

[81] Calculated from DeSalvatore and Hughes, 32-33.

[82] Schmidt, 1997f. Methodological comparability limitations in the annual surveys make this trend somewhat unclear.

[83] El-Khawas and Knopp, 1996, 46. In contrast, many more independent institutions reported increases (52 percent) than decreases (32 percent) in enrollment.

[84] National Association of State Universities and Land-Grant Colleges, 1996, 8-9. The February 1996 survey sampled 50 institutions, designed to be geographically representative of NASULGC members; 44 responded. Figures shown are the percentage of survey respondents giving the indicated response.

[85] American Association of State Colleges and Universities, 1996, 3.

[86] Geraghty, 1997. This research program, the annual Freshman Survey conducted by the UCLA Higher Education Research Institute under the sponsorship of the American Council on Education, has surveyed a large, nationally representative sample of first-time, full-time college freshmen since 1966.

[87] Mortenson, 1996d. The increase was greater among the second-lowest and middle parental income quintiles than among the lowest quintile, probably because the poorest were more likely to receive grant aid. Even the highest two income quintiles showed increased concern about affordability.

[88] Burd, 1997.

[89] Osborne and Gaebler, 1992; U.S. Congressional Budget Office, 1993; Ammons, 1995. Similar ideas earlier pervaded the business sector; these powerful interests wanted to see them applied to government and higher education as well (Schmidt, 1996; 1997d; Levine, 1997).

[90] The recent outpouring of literature critical of higher education's prevailing morés and educational and business practices fed these perspectives. See, for example, Bloom, 1987; Sykes, 1988; Zemsky and Massey, 1990; and Levine, 1997.

[91] Schmidt, 1996; 1997d. South Carolina moved toward basing all state funding for higher education on performance on a complex set of indicators. Florida had similar plans. But most states with budget-linked accountability programs designed at only a small proportion of higher education funding to be earned for performance on specific indicators (Schmidt, 1996; Christal, 1997a).

[92] On Kentucky, see Healy, 1997b and Strosnider, 1997b. On Alabama, see Haworth, 1997.

[93] See Schmidt, 1997c, on Tennessee; Healy, 1997d on Texas; and Guernsey, 1997, on Virginia.

[94] Healy, 1996b. See Magner, 1997, on Minnesota; Schmidt, 1997a, on New York; and Healy, 1997e, on Virginia and other states.

[95] These reports are from Schmidt, 1997g.

[96] The points in this paragraph are drawn primarily from Schmidt, 1997e.

[97] States with mandated admission of community college transfers included Alabama, Arizona, Connecticut, Florida, Ohio, and, most recently, Texas (Ibid.).

[98] Quoted in Ibid. The official was James R. Mingle, executive director of the State Higher Education Executive Officers Association.

[99] See, for example, McMillan, 1997; Schmidt, 1997a; "The time and money …," 1997.

[100] Enghagen, 1997. This volume surveyed educational and legal issues associated with educational technology and distance education.

[101] Ruppert, 1997. Ruppert identified the leading states as Arizona, Colorado, Florida, Georgia, Iowa, Minnesota, North Carolina, Ohio, Texas, Utah, and Washington (vii).

[102] This section is based largely upon Levey, 1995; and Healy, 1996a; 1997c.

[103] A 1997 federal law made this possible. In April 1997, a bipartisan group of U.S. senators introduced a bill to exempt such withdrawals from taxes altogether (Healy, 1997c). Federal tax liabilities, strongly asserted by the Internal Revenue Service and ultimately upheld by the courts, had short-circuited an earlier movement toward prepaid tuition plans in the 1980s.

[104] Ibid. Some states offered different state-sanctioned investments and tax incentives, such as "college savings bonds."

[105] Healy, 1996a; "Prepaid tuition programs …", 1997. The federal General Accounting Office and the American Association of State Colleges and Universities conducted two key studies.

[106] Lederman, 1997b.

[107] Healy, 1997a; Lederman, 1997c.

[108] Lederman, 1997a. Texas recently changed public college admissions policies drastically, in part to insure the admissions eligibility of reasonable numbers of minority high-school graduates (Healy, 1997d). But how these policies will work out in practice remained unclear.

[109] Strosnider, 1997a.

[110] Lederman, 1997b.

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