Responsibility for education in the United States lies with each of the 50 states, unlike any other major developed country, where centralized controls prevail. The great variety of state budgetary and higher education structures complicate efforts to project the impact of a recession. It is possible, however, to assess past policies and to generalize about the prospects of proposed initiatives. Patrick Callan, president of the National Center for Public Policy and Higher Education, looks at the effects on higher education of the recession of the early 1990s and outlines the issues facing colleges and universities during the current economic downturn.
Higher Education's Vulnerability

Public higher education—including funding for student financial aid—must compete with other state services for its share of available funds. Higher education's share has declined in the past decade, although that does not reflect a deliberate policy decision to substantially curtail state funding. Rather, because all but one state must have balanced budgets, a gain for one service necessarily means a loss for another. Enormous growth in programmatic services such as Medicaid, combined with the political popularity of the K–12 sector and federal mandates, as well as shifting priorities, have led to the declining shares. Another cause is the perception of key state officials, who see colleges and universities as being fiscally and programmatically flexible: whereas most state agencies have programs with relatively fixed spending levels, institutions can save money by, for example, increasing class sizes and changing course offerings. Furthermore, they can maintain and even increase spending levels by shifting larger proportions of their costs to students and their families by raising tuition.

Clearly, higher education is vulnerable in its competition with state services. One analysis projects that by 2006, 39 states' programmatic commitments will exceed their revenues. These “structural deficits” ranged from 0.1 percent of expenditures in Oregon to 18 percent in Nevada. These projections, it must be noted, were made in 1998 and did not account for a major recession. A day of reckoning is coming, when either taxes must go up or budgets must be cut to maintain current services.

In absolute terms, however, for the last several years of the 1990s, higher education enjoyed unprecedented increases in state appropriations and so has entered the new millennium in robust financial condition. Nonetheless, the structure of state finance, as well as historical and political patterns, suggest that higher education will be particularly vulnerable in the current recession.

The Recession of the Early 1990s

For additional insight into the political and fiscal dimensions of state finance, we need look no further than the recession of the early 1990s. From that experience, several generalizations are possible:

- A national recession affects states differently. In the 1990s, the recession was very severe in the Northeast and in California but had relatively little impact in many other states. Furthermore, although a national recession may be short, individual states may face financial stress for significantly longer periods.

- In addition to the impact of a national recession, individual states may face financial stress for a number of reasons beyond their control. Among these in the early 1990s recession were Medicaid costs, federal mandates, public school enrollments, inelastic tax systems, and corrections policy.

- When states face fiscal constraints, the extent to which state services are required to absorb revenue shortfalls varies across states and, within states, across services. Higher education is likely to absorb proportionally more revenue shortfalls than other services. When this occurs, the state and higher education institutions are likely to shift shortfalls to students and their families by raising tuition.
THE CURRENT RECESSION
The structural characteristics of state and higher education finances have not changed significantly since the recession of the early 1990s. Other factors are very different, however—particularly in terms of demographics and policy—and so will influence state and higher education responses to the current recession.

The good news is the strong financial position of higher education. During the 1980s and 1990s, state appropriations held steady and increased modestly. Indeed, the decade of the 1990s was the best of times for public higher education, as funding increased at rates that exceeded enrollment growth and inflation.

Less heartening than higher education’s financial health are three important differences between the early 1990s and today: the challenges of enrollment growth, the dilemmas of tuition policy, and the mismatch between the public policies of the 1990s and today’s needs.

Enrollment Growth
The substantial state budget shortfalls projected within the next decade will intersect with growing enrollment demand. As is well documented, the nation’s colleges and universities are projected to experience unprecedented enrollment growth over the next 10 years. The U.S. Department of Education estimates that total college enrollment will grow from 14.8 million students in 1999 to 17.7 million in 2011, an increase of some 20 percent. This problem of absolute growth will be compounded by the tremendous diversity of the new students, large portions of whom are expected to be from low-income families and from ethnic groups with historically low college-attendance rates.

Increased enrollment pressures, particularly during times of financial crises, highlight the ongoing critical question of maintaining opportunity in America: How can states resolve the converging issues of changes in the ethnic composition of enrollment pools and the related problems of students in financial need?

THE TUITION CONUNDRUM
Setting tuition—the price that students and their families must pay to attend college—is a problem that seems to defy rational solution. There is probably no other public policy issue in higher education on which the great preponderance of expert opinion is so completely at odds with the American public. Policy experts overwhelmingly favor “high tuition–high aid” strategies that concentrate public subsidies on those least able to afford college. The general public, on the other hand, consistently favors lower tuition, with recognition of the need for financial aid for qualified students.

Public college tuition rates for the last three decades reflect the structure of state finances and the exigencies of state politics: when state revenues decline, higher education budgets are squeezed, and the revenue gap is typically filled by tuition increases. Since 1971, the steepest tuition increases have occurred in times of economic hardship, times when personal income declines, unemployment rises, and public economic anxiety is high, making the political unpopularity of tuition rates inevitable. When economic times improve, tuition is stable or even reduced, producing a roller-coaster pattern for public higher education tuition. Students pay greatly increased tuition during a recession, whereas their successors benefit from a backlash that reduces the price they pay.
PUBLIC POLICY AND TODAY’S NEEDS
Tuition and financial aid policies adopted in the 1990s reflect a middle-class backlash stemming from the fear that higher education was becoming less accessible just when the new economy made it seem more essential than ever. New programs were designed to address middle-class anxiety over the price of college, rather than the need to include the growing number of potential students from low-income and ethnic groups who are currently poorly served and often inadequately prepared.

In many states, the major initiatives were the establishment and support of non-means-tested merit aid programs. These programs grew rapidly: from 1996–97 to 1999–2000, state non-need-based financial aid increased 90 percent, whereas state need-based aid grew just 24 percent. At the federal level, tuition tax credits prevailed. The beneficiaries are families with taxable incomes in the $40,000 to $90,000 range, particularly those with students at colleges that charge high tuition. Clearly, only students and their families who owe taxes are eligible; lower-income families that do not pay taxes do not benefit. Furthermore, unlike tax credits, need-based student aid must compete at the federal level with other domestic programs in the annual appropriations process, a competition that inevitably intensifies during recessions.

CONCLUSION
The incoming generation of college and university students will be the most racially and ethnically heterogeneous—and the poorest—ever to seek higher education. They arrive at a time when education and training beyond high school is no longer discretionary for full participation in the civic, economic, and social life of the United States. It will require extraordinary effort on the part of states and colleges and universities to meet the needs of these students, even without major economic dislocation.

The public policy initiatives of the 1990s did not position the states well for the demands of the next decade. Some initiatives—merit aid for students of affluent families and tax credits that excluded low-income Americans—may, in retrospect, be remembered as public policy’s contribution to “irrational exuberance.” Nevertheless, the assets states and their colleges and universities bring to this new era should not be underestimated. Unlike the 1960s, most of the capacity to accommodate the new enrollments already exists. The financial condition of public higher education is generally strong. Public confidence in the enterprise is high.

The issue will ultimately be one of values and priorities. What will the states and the colleges choose to protect during times of recession—times of difficult choices, of contentiousness, and of compromise? As college has become the gateway to full participation in American life, the stakes in maintaining and enhancing college opportunity have never been greater.