Each fall, the Forum for the Future of Higher Education culminates its research agenda during its annual symposium at the Aspen Institute, where Forum scholars present papers they have worked on throughout the course of the year. The Ford Policy Forum, which we chair, is an integral part of the Forum’s annual symposium. In early 2001, before recession was a certainty, the focus for the fall meeting of the Ford Forum was narrowed to the possible effects of the anticipated depression in higher education. As we know too well today, that prediction has come to be. After a 10-year run, the longest expansion in the history of the American economy ended in early 2001. The nation is now in a recession, and higher education faces a very different environment from that which prevailed in the mid to late 1990s.
The Ford Policy Forum studies key economic issues likely to influence the quality and performance of colleges and universities. It is designed to facilitate informed discussion and to develop policy recommendations and initiatives. In an effort to assess the effects of a recession on colleges and universities, several courses of action institutions might consider were discussed at our fall symposium. History played an important role in the deliberations, and the recessions of the early 1980s and early 1990s were studied to glean insights into how campus leaders might best cope with the effects of today’s recession.

Several perspectives were brought to bear on the issues. First, Craig Aase and Gary Krueger, chief financial officer and economics professor, respectively, at Macalester College, offered a case study of how their campus engaged in a budget and planning exercise to prepare for an institutional response to a recession should one occur. Second, Patrick Callan, president of the National Center for Public Policy and Higher Education, assessed the ramifications of recession from the state level. Given that primary responsibility for education in the United States lies with each of the 50 states, the effect of state budgeting policies and priorities on higher education is profound. Third, Clayton Spencer, associate vice president for higher education policy at Harvard University, discussed the national political context in which higher education must compete for diminishing revenues and attention in a time of recession and extremely limited focus on domestic issues other than homeland security and the economy.

The work of the 2001 Ford Forum scholars appears in this volume and is briefly summarized below. Additionally, we offer our analysis and perspective as presidents working to guide institutions through the current recession in as positive a manner as is realistically possible.

**AN INSTITUTIONAL CASE STUDY**

Rare is the institution whose finances are not sensitive to the business cycles of the nation’s economy. In the current economic environment, the need for contingency planning is clear. Craig Aase and Gary Krueger began to develop a financial crisis plan for Macalester College in the summer of 2000, well before recession was a given. To capture the effects of a recession on the college’s finances, they analyzed 25 years of Macalester’s financial data to assess the relationship of institutional revenues—endowment, tuition and fees, and gifts—to the nation’s gross domestic product (GDP) and the level of the Dow Jones Industrial Average. Their work focused largely on the effects of GDP and the Dow during the recessions of the early 1980s and early 1990s and enabled them to forecast the college’s net revenues based on various recession scenarios.

Macalester’s standing Long Range Planning Committee, chaired by Krueger, was charged with developing a plan to help the college make difficult choices in the event a recession should come to pass. Working with a model estimating a 10-percent reduction in revenues within four years, the committee employed an inclusive, collaborative process to develop strategies to address the shortfall. Following much discussion, a consensus emerged around a set of measures related to salaries, program budgets, and financial aid, among others. Specific levels were agreed upon for each of the measures that, when applied, fully offset the projected 10-percent revenue decrease.

Aase and Krueger emphasize that the real value of this planning exercise was that it helped raise consciousness...
among faculty and staff about possible budget cuts should the economy render them necessary. Absent pressure for immediate action, the groundwork for making difficult choices was laid while still retaining the fabric of the college community.

STATE POLICIES AND PRIORITIES
Patrick Callan assesses the effects on higher education of a recession from the perspective of state budgetary structures. Unlike any other major developed country, where centralized controls prevail, in the United States responsibility for education lies with each of the 50 states. Public higher education must compete with other state services for its share of available funds. Yet one analysis, which was prepared in 1998 and did not account for a recession, projects that by 2006 programmatic commitments will exceed revenues in 39 states. These “structural deficits” ranged from .1 percent to 18 percent across the states.

Historical patterns suggest that funding for higher education is particularly vulnerable in the current recession, as key state officials tend to view colleges and universities as more fiscally and programmatically flexible than most state agencies, whose programs often have relatively fixed spending levels. Further, the political popularity of the K-12 sector today far exceeds that of higher education. Another key factor affecting higher education’s financial health is growing enrollment demand, estimated to increase some 20 percent between 1999 and 2011.

The good news is that the 1990s were the best of times for public higher education, as funding increased at rates that exceeded enrollment growth and inflation. Public colleges and universities entered the new millennium in strong financial condition. Yet, even without major economic dislocation, extraordinary effort will be required on the part of states and institutions to meet the needs of the incoming generation of college and university students, the most racially and ethnically diverse—and the poorest in terms of financial resources—ever to seek higher education.

THE NATIONAL POLITICAL SCENE
Clayton Spencer discusses today’s national political context for higher education. Consistent with previous surveys, recent public opinion polls show that education is a top domestic policy concern, now cited after terrorism and the economy. Despite these results, higher education faces a challenging political context in the coming years based upon a number of factors. First, America’s war on terrorism has subordinated all domestic policy issues with the possible exception of the economy. Second, the federal discretionary budget is being squeezed by a number of forces including the recession, the expense of the war and security at home, and massive tax cuts. These economic pressures affect revenue sources for all institutions, forcing steeper tuition increases than in recent years at the same time that the political system is deeply skeptical about the cost of higher education. The net result is to render higher education more politically suspect precisely when competition for scarce domestic federal resources is significantly more intense.

Higher education faces competition not only from domestic priorities other than education, but also from the emphasis within education on the K-12 agenda. The overwhelming concern with K-12 issues threatens higher education in two basic ways. First, in today’s crowded legislative agenda, it is difficult for higher education to claim the attention of lawmakers. Second, higher education risks getting the wrong kind of attention: The policy concerns dominating elementary and secondary education—largely objective accountability measures to judge student achievement—are emphatically not those that have animated federal higher education policy since World War II.

Spencer outlines a number of approaches to encourage and support sound federal higher education policy making. She advocates pursuit of finite and focused goals, including most importantly that of ensuring access by removing the financial barriers that prevent low-income citizens from enrolling in our nation’s colleges and universities.
We have studied the economics of higher education for many years and have collaborated on much of our research and writing. We began our careers as economists, and our work reflects that perspective. Now, however, we are presidents, not professors, and thus we have a different vantage point from which to consider institutional and economic issues.

Expenses

In the past, writing as economists, we criticized the prevailing institutional response to the recessions of the early 1980s and early 1990s, namely, to defer maintenance and cut library expenditures. Across the board—in public and private institutions, liberal arts colleges, comprehensive universities, and research universities—the components of the operating budget that bore the brunt of those recessions were operations and maintenance and the library. We saw those cuts as the easy way out; despite their long-term consequences, they were unlikely to generate an uproar on campus—as would faculty salary freezes, staff layoffs, or cutbacks in instruction. Today, as college presidents, we see the merits of this approach, particularly if it is backed by a sound long-range plan such as that undertaken at Macalester. The political value, too, of warding off faculty and student protests should not be underestimated. Depending on the president’s agenda for the institution, it may be important to preserve political capital to accomplish other, broader goals, such as refocusing on a core curriculum or encouraging new forms of pedagogy.

In terms of the capital budget, the recession of the early 1990s was reflected by a striking, precipitous decline in capital expenditures. Once again, we opined that cutting the capital budget was an easy way out. In retrospect, though—and with our more recent perspective as college presidents—it could be that a short-term drop in the capital budget was the right course of action. Campus building did, indeed, resurge following the drought of the early 1990s.

Revenues

By far, the revenue source most adversely affected by prior recessions has been state operating subsidies. The states today are in terrible shape, with a cumulative budgetary shortfall of approximately $50 billion early in 2002. Based on total expected state revenues of $500 billion, the shortfall is 10 percent. Clearly, the most vulnerable institutions are state colleges and universities, where budget cuts are already wreaking havoc. It is true that public institutions have privatized to some extent in that their tuition revenues have risen from an average of 15 percent in the mid-1980s to 25 percent of total revenues today. However, 25 percent is still quite low compared with the more typical 70 to 75 percent of total revenues that tuition represents for many private colleges and some universities. Presidents of public institutions face an enormous and difficult task in these days of recession. James Duderstadt, president of the University of Michigan during that state’s difficult economic times from the mid-1980s to the mid-1990s, summed up the situation well when he said that while he was president, the University of Michigan went from being state supported, to state assisted, and finally to state located as Michigan’s tuition dependency increased dramatically.

To make matters worse, although it wasn't of great significance during times of tremendous economic growth, the percentage of state appropriations spent on higher education has declined over the last decade as infrastructure, health care, prisons, and K–12 have gained. With a shrinking pie, the smaller percentage translates to cuts in appropriations.

Additional revenue sources affected by recession are annual giving and endowments. The evidence indicates that philanthropy declines during recessions, and certainly colleges and universities experienced a significant decline after September 11 compared with other nonprofit organizations, at least for a couple months. In this climate, presidents need to consider questions such as whether to delay campaigns or to increase their endowment spending rates.
Another revenue source is government grants and contracts, which for research universities represent 20 and 30 percent of total revenues for public and private institutions, respectively. Despite the heavy lobbying and often loud complaining, the data show that federal grants and contracts are not very much affected by the business cycle. Thus, we expect that this source of revenues for most research universities will not be seriously affected.

**Tuition**

The significance of tuition should not be underestimated. For private institutions, tuition is the key to managing revenues. Fifty-five percent of all revenue at the average private research university comes from tuition; at the average private liberal arts college, that figure is 75 percent. Tuition revenues depend on three factors: the number of students, the sticker price, and institutional discounts off that sticker price.

As for numbers, the demographics bode well. The dramatic overall increase in college enrollment expected over the next several years, however, obscures regional differences. In California, for example, the growth from 2000 to 2010 in the number of high school graduates is expected to be 22 percent; in Massachusetts, 11 percent; whereas in Ohio, growth is projected to be flat, or zero percent. The numbers are affected by the enrollment rate as well, which at this point is roughly 67 percent; two-thirds of high school graduates enroll in some college or university within 12 months of graduating from high school. Economists and other observers expect that this rate will not be greatly affected by the recession, even if it turns out to be deeper and more prolonged than most people now anticipate. This view is based on the fact that the economic return to college attendance is at record levels now, and the opportunity costs of attending college have declined because well-paying jobs are scarcer for high school graduates.

With regard to sticker price, recessions exert downward pressure from the public as incomes shrink and upward pressure from within the institution as other revenue sources decline. For expensive, selective institutions with unmet demand—that is, long lines of students trying to get in—sticker price generally is keyed to the income levels of the top 5 percent of the population, beginning at about $155,000, above which students usually do not qualify for need-based aid. During the recessions of the early 1980s and early 1990s, this group fared relatively well—since 1980, the percentage of real disposable income allocated to higher education by the top 5-percent group has not changed significantly. Thus, we do not believe that sticker price is going to be significantly affected by recession, at least for selective institutions.

What will be affected is the neediness of the students. As neediness rises, the discount between sticker price and net tuition revenues rises as well. Many institutions attempt to ameliorate their discount through the strategic award of aid packages and at the same time compete for top students with merit aid. The combination of these strategies heightens the tension between need-based and merit aid. The combination of these strategies heightens the tension between need-based and merit aid. This tension and how presidents and institutions address it will be one of the primary and fundamental issues arising from the effects of a recession in higher education. Where they are still practiced, need-blind admissions and full funding of need are cherished values. The commitment to these val-
ues among alumni, faculty, students, and staff often runs deep; as a result, it can be quite painful when financial exigencies force the consideration of alternative approaches to admissions and financial aid.

CONCLUSION

Our attempt to help guide institutions through the current recession should not be interpreted to mean that we are predicting a long and deep recession. We can’t predict the business cycle. We do urge, though, that if a period of stringency is expected, campus leaders prepare for it.

At the local level, we suggest that first you do everything you can to anticipate challenges by preparing estimates of likely impacts on your institution and by devoting serious thought to contingency plans based on various scenarios. Second, educating your community is critical. Talks with faculty and staff groups about possible scenarios can be enormously valuable, both to mobilize community resources to find solutions and to cultivate buy-in for the direction ultimately chosen.

Finally, we believe that minimal budget cuts year after year are demoralizing and bad for the institution. If possible, target a reduction in the base budget that you believe will be adequate to allow return to a growth pattern.

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