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## **For Colleges, This Is Not Just Another Recession**

By DAVID W. BRENEMAN

Every decade since 1970 has opened with a recession. However, as we work our way through yet another one, we should not complacently view it as just one more turn of the cycle. What distinguishes the recession of the early 2000s from previous downturns is that it is posing much more serious questions about the values of our society and the strength of our commitment to educational opportunity. Those questions involve fundamental issues about affordability and access for all qualified students.

Given such high stakes, what are we doing in response? Have we learned from the history of past recessions? Are we doing anything differently this time around?

A look back at our economic history over the past 30 years suggests that each recession had different causes, effects, and ramifications. Taken together, however, they can provide some insights into where we now are, and where we need to go.

The recession that marked the early part of the 1970s shocked most college and university leaders, who had grown accustomed to the seemingly boundless enrollment growth generated by the postwar baby boom. Yet tougher times were definitely at hand. Indeed, in *The New Depression in Higher Education*, a prominent study in 1971 for the Carnegie Commission on Higher Education, Earl F. Cheit reported that, of the 41 institutions he had visited, most were in financial trouble or headed that way.

It was a time of economic stagflation, with slow rates of economic growth and rising inflation. Productivity gains came to a virtual stop, the energy crisis erupted, and college graduates struggled to find employment. The market for those with doctoral degrees was also depressed in most fields, and faculty members experienced declining real incomes throughout the decade. Enrollments continued to rise, but the crest of the boomer generation was passing, and a new era of slower enrollment growth was about to begin.

The one bright note was the passage of the Education Amendments of 1972, which defined a prominent role for the federal government in providing financial aid for low-income students. The Basic Educational Opportunity Grants -- now called Pell Grants -- were created, student-loan programs were expanded, and the nation pursued a commitment to ensure access to higher education for all qualified students.

The recession that hit in the early 1980s reflected the impact of foreign competition -- Japan, Inc. was the nemesis -- particularly in automobile production and electronics. The nation's schools received much of the blame for the country's economic woes. *A Nation at Risk*, a 1983 report from the Secretary of Education, indicted the public schools for failing to educate graduates with the skills and training to keep America competitive.

The election of Ronald Reagan at the decade's beginning was a turning point. The new president assailed liberal government policies as the root of our economic problems, promoting instead steep tax cuts, reduced regulation, and a much-diminished role for government in the nation's life. His policy toward education was to attack the federal role in both K-12 and higher education and to seek to abolish the newly created U.S. Department of Education. Although he did not succeed in that effort, he did manage to slow the growth of student-aid and other federal education programs during his years in office.

Meanwhile, colleges and universities grappled with double-digit inflation and declining numbers of high-school graduates. To recoup their losses, many institutions began to raise tuition sharply -- and were surprised and delighted to discover that even double-digit tuition increases did not deter students from attending. (Only later did economists point out that declining labor-market opportunities for high-school graduates had driven up the value of a college education.) Such tuition increases continued long after inflation in the general economy was under control -- in part to make up for declining state appropriations in the public sector, and in part to compensate for the growing need to discount tuition selectively for those who couldn't or wouldn't pay the full price in the private sector.

The decline in high-school graduates introduced a decade or more of increased competition for students, which the advent of rankings of "best colleges" by *U.S. News & World Report* and other publications intensified. Higher education had clearly entered the market economy, and educational leaders focused significantly more time and resources on marketing, enrollment management, pricing, and fund raising than ever before.

In the early 1990s, the end of the cold war and the slowdown in defense spending, which hit states like California particularly hard, helped drive another recession. The impact of increased foreign competition also took its toll, and corporations downsized, laying off middle managers to cut costs and enhance competitiveness. For the first time in recent history, between 1991 and 1992, state appropriations for higher education declined.

Most institutions responded by again increasing tuition sharply, a response well honed in the last recession and actively encouraged by many governors. Economists and educational analysts settled on "high tuition, high financial aid" as the optimum policy for state governments. Yet that policy posed a dilemma: During recessions, states typically allow tuition increases but rarely support the increase in need-based student aid required to ensure access to low-income students. In California, for example, enrollments dropped by more than 200,000 students in the early 1990s, as student aid declined while tuition rose.

The recession of the '90s also highlighted the growth in competing demands -- from Medicaid, prisons, roads, and elementary and secondary education -- on the state-revenue dollar. The states' share of public higher-education revenues peaked nationally in 1979 at 62 percent and has declined steadily ever since, in response to new needs pressed on the states by changing demographics, particularly the aging population. Leaders of public higher education sought more private support, raised tuition whenever possible, and generally diversified their revenue sources. An oft-quoted sardonic comment among many presidents of public institutions became, "We used to be state-supported, then we became state-assisted, and now we are state-located." Other chief executive officers talked about leading "privately financed public universities."

Yet the steep rise in tuitions had begun to create acute concerns about how families could pay for college, and the ensuing political pressure led to new policies. Having encouraged public universities to raise tuition just a few years earlier, several governors stepped in to slow the pace through tuition freezes or even rollbacks. Meanwhile, the focus on access for low-income students, which had dominated

federal policy and much of state policy for at least two decades, lost ground to new efforts to help middle and upper-middle-income families afford college. President Clinton promoted and signed into law federal tax credits for tuition, and the states developed a variety of programs, including tax-preferred savings plans for education, tuition-futures markets, and merit-based aid like the HOPE Scholarship program in Georgia.

The recession of the early 1990s gave way to one of the longest periods of economic growth in our country's history, with soaring stock prices, low unemployment, low inflation, and growing productivity -- an economic nirvana. Alas, it turned out that much of this "new economy" was built on promotional hype. The dot-com boom imploded, companies folded, stock prices fell, unemployment jumped, and state revenues dried up. The consequence: the recession of the early 2000s, where we find ourselves today.

While it is too soon to speak with certainty, it appears that this recession may be short and swift, with recovery already under way. Yet despite its possible brevity, the economic downturn has had a big impact on state budgets. The financial situation this time around is much more severe.

In February, Raymond Scheppach, executive director of the National Governors Association, reported that the total deficits of 41 states are twice the level reached in the previous recession. Similarly, state budget cuts for higher education appear to be running higher than in previous downturns, while tuition increases at some public institutions are truly exceptional: 15 to 30 percent or more. The situation at the University of Wisconsin suggests that political hardball is also reaching new levels, as the Board of Regents, concerned by budget cuts, announced a decision to suspend new enrollments, only to have the legislature threaten to cut the budget by another \$44-million. Talk about privatization is much more common now, although most public institutions would be hard pressed to replace state support by any other revenue source. Even though state dollars are a declining share of total revenues, the endowment required to produce that annual revenue stream is beyond the reach of most institutions.

The stress on state budgets comes as no surprise to those who study them. As Scheppach noted, the tax base that states rely on was designed for the manufacturing economy of the 1950s, "not the high technology, international, and service-oriented economy of the 21st Century." And, as the columnist Neal Peirce has observed, "State tax systems focus heavily on taxing goods but exempt most services -- even though services, from legal and accounting to real estate and information technology" are key sectors in today's economy.

Increasingly, tax revenues are insufficient to support the myriad social services expected of state governments, including public higher education. The shift of many social-service obligations from Washington to the states has only amplified this problem. The late Harold A. Hovey, a former budget director in Illinois and Ohio, estimated in 1999 that the high level of economic activity was masking structural deficits in 39 states. His analysis, which many states ignored at the time, was prescient.

While public institutions are dealing with shrinking state support, private institutions have not escaped unscathed from this recession either. Declining endowments have forced many institutions to cut expenses, and high and rising tuition continues to be a barrier to many families feeling the effects of economic uncertainty. Tuition discounting has become an art form on many campuses, as fewer families are able or willing to pay the full price of tuition. The disparity in wealth among institutions within the private sector continues to grow, with a small but steady rate of closures occurring at the weaker end of the spectrum. Those most at risk are poorly endowed, tuition-dependent colleges with enrollments under 1,000.

The economic difficulties that today's institutions must now grapple with are especially burdensome

because higher education now faces an enrollment surge similar to that experienced during the baby boom. A 1999 report published by the Western Interstate Commission for Higher Education and the College Board noted that "the number of high-school graduates began to increase in the 1990s and will continue to increase through 2008, when the nation will graduate the largest public high-school class in its history -- 3.2 million students -- exceeding the class of 1979, the peak year of the baby boom, by more than 60,000 graduates." During the recessions of the 1980s and 1990s, the absence of increased enrollment pressure served to cushion the economic blows somewhat, but that cushion will not protect either students or institutions this time around.

Indeed, the most weighty policy question facing higher education is whether, and how, we will accommodate and educate the burgeoning numbers of young people, many of them first-generation students from low-income families, in an increasingly strained higher-education system. In a recently released report, "Losing Ground," the National Center for Public Policy and Higher Education documents the probable implications of recent economic trends for diminished collegiate access for low-income students. Most states, however, are relying on increased tuition to cover college costs and have ignored the argument for increased need-based student aid to keep the doors of college open to students from low-income families.

Moreover, as we continue to shift the burden of paying for higher education from the general taxpayer to students and their families, the issue of student debt, and how far it can be pushed, must also be faced. Up to now analysts have generally argued that debt levels for most graduates are manageable, but the trend is ominous. According to "Losing Ground," college seniors from lower-income families accumulated an average debt of \$12,888 in 1999, compared with \$7,629 in 1989, as measured in constant dollars.

We rely on debt by default, as it is the only way to fill the gap between family resources, need-based grants, and rising college prices. As a result, we may unduly influence graduates' choice of occupation, as they abandon low-paying fields such as teaching in their anxiety about loan repayment. A worse danger is that we will price higher education out of the reach of vulnerable young people who need the education to be productive citizens but who will back away from the amount of borrowing required.

That is why breaking out of the cycle of not coping proactively with recessions has far more urgency than ever before. But based on what's occurred so far, one is forced to conclude that the evidence for societal learning is scant. Especially on the issue of how states budget for and support higher education, we have clearly failed to learn and adapt to the underlying economic realities.

For their part, state government leaders operate in a political environment that precludes taking a longer view, leaving all government functions vulnerable to the vicissitudes of the annual budget cycle. Not a single state has found a way to smooth the ups and downs of the business cycle on higher education, indicating how politically difficult the task is. The institutions' long-term response has been to focus on other sources of revenue rather than on significant and permanent cost reductions. Thus, when state budgets are cut, colleges and universities respond with short-term, across-the-board cuts, with every expectation of restoring them when times improve.

The result? Recessions occur regularly -- if not at totally predictable intervals -- and the dysfunctional response of slashed higher-education budgets and sharp increases in tuition appears destined to continue. The states and higher education are locked into an entirely predictable and repetitive dance, with few signs that we are learning how to avoid its worst features.

Many higher-education and political leaders seem to be ignoring the structural difficulties and simply waiting the tough times out, counting on the economic cycle to, once again, take care of itself. In 1991,

*The Chronicle* published an article, "[Academic Leaders Predict Major Changes for Higher Education in Recession's Wake](#)." In it, many educational leaders predicted a new era -- one in which higher education would have to focus on efficiency and increased productivity, with heavier teaching loads, reduced student services, larger classes, fewer tenured faculty members, and leaner administrations. At the same time, however, several of those interviewed suggested that the enemy of fundamental change was the view -- common among faculty members and administrators -- that "this too shall pass."

And yet, can anyone deny that the balance of the 1990s supported that view? The economy soared, budgets rebounded, and, in most states, higher education was not forced to make permanent changes. This reinforcing experience makes it doubly difficult for administrators to argue in 2002 that higher education is experiencing anything but another short-run downturn, soon to be replaced by a growing economy, increased state support, and the continuation of business as usual. It will be a brave administrator who will put his or her career on the line in arguing now that fundamental changes are necessary in the way we manage our business. We may have cried wolf once too often.

One change that many observers have heralded as a significant new competitive factor that will force change in traditional institutions has been the rapid and surprising growth in recent years of degree-granting, for-profit colleges and universities. While the evidence is not all in, it appears that these new entities are largely expanding the market, rather than competing directly with traditional suppliers. The University of Phoenix, DeVry University, Strayer University, and the other successful for-profits that have emerged in recent years are developing niches among previously underserved groups, like working adults. Our traditional institutions can learn valuable lessons from these new entities, particularly in their focus on accessibility, convenience, and service to nontraditional students, but the notion that traditional institutions as a group are threatened or likely to be run out of business by these aggressive new colleges is simply nonsense.

Instead, colleges and universities have adapted incrementally to such new competitors and the increased volatility of state budgetary support. Growing financial uncertainty has resulted in a slow but steady shift away from tenure-track faculty positions, in favor of greater use of part-time faculty members and a significant increase in the number of full-time, non-tenure-track positions. In fact, faculty salaries in the public sector, formerly on a par with peer private institutions, have slipped precipitously in that comparison, making it easier for private colleges and universities to lure away academic stars.

The search for alternative revenue sources has also placed increased emphasis on acquiring research funds, a prime means of financial support for faculty members and graduate students, as well as indirect cost recovery for institutions. Private fund raising is now mandatory at virtually all public two-year and four-year colleges, making institutional development one of the major growth sectors in higher education. Recruiting efforts focus on the higher-paying out-of-state students, as well as on international students who are able to pay their way. Divisions or schools of continuing education are enlarged and pressed to earn financial surpluses for their campuses. Auxiliary activities such as bookstores, food service, and maintenance are outsourced to private companies, in the hope that savings will result. Colleges are exploring their own distance-learning opportunities, in some instances creating for-profit entities to develop and market educational materials to a hoped-for global marketplace.

One would have to say that such incremental adaptations have been reasonably successful, on their own terms. In an imperfect world, public college and university leaders have worked hard to diversify revenue sources, to seek out financial efficiencies, and to continue to serve enormous numbers of citizens seeking the benefits of higher education. In particular, leaders have embraced the reality that institutions are being forced to make their way in an educational marketplace, creating value and service that enable enrollments -- and educational quality -- to be sustained. They have not done this without criticism and without failures, but over all the system remains strong. Whether it can maintain that

strength indefinitely is the pressing question.

The danger lies in the cumulative effect of the incremental changes, each one seemingly minor but collectively altering the nature of the enterprise. At some point, quantitative change yields to qualitative change. The quality of faculty life may slowly erode to the point that highly talented people are no longer attracted to the academic profession. The freedom to conduct meaningful research may be undermined by pressures to teach longer hours and more students. The constant search for new sources of revenue may irreducibly change the social role of higher-education institutions, as they become increasingly entrepreneurial enterprises. All of these changes are visible in today's colleges and universities; it remains to be seen whether their onward march will prove to be inexorable.

In the meantime, one conclusion from the current recession is clear: We will not be able to provide affordable, high-quality education for growing numbers of deserving, yet lower-income, students unless government finance in many states is radically reformed. While it is easy to point to mistakes that governors and legislators make during boom times -- tax cuts, tuition freezes, and other often shortsighted policies -- the cost of those mistakes is greater than they used to be, given the inadequate base on which most state-revenue systems depend. Once the good times cease to roll, states are thrown into a much worse situation than ever before.

This is a problem that higher-education leaders cannot solve on their own, although it does seem that the leadership has been unusually quiet in not arguing the case for change. Perhaps the issue of state tax policy has become so "hot" politically that no one -- whether governor, legislator, or college president -- dares touch it. Higher-education leaders would seem to be in a reasonable position to document and argue for the need to reform state finance, but mounting this effort is not without risk of financial retaliation from irritated politicians.

Yet one longs for the day when a sensible conversation can be undertaken regarding the methods by which we finance public purposes. Among the issues to be explored are taxation of all economic activities, including services and Internet sales; instituting income taxes in those states without them; and reducing the inequities present in most state tax systems. For public college and university leaders, no more serious challenge to intellectual and social leadership exists.

*David W. Breneman is a University Professor and dean of the Curry School of Education at the University of Virginia.*

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Section: The Chronicle Review

Page: B7

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