

WHAT NEXT?

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(Note: State Higher Education Finance is an annual study of state appropriations for all of higher education and state support, net tuition revenue, and full-time-equivalent enrollment in public institutions. With the enormous assistance and cooperation of data providers in the states, the SHEEO staff works to provide accurate and consistent information on these data, without editorial comment or judgment of any kind. This essay of editorial comment, separate from the main study, is a departure from that practice due to the urgency of the current situation in American higher education.)

The enrollment and finance data from State Higher Education Finance FY 2009 and the recently released *Grapevine* survey of appropriations for FY 2010 make it clear: Higher education in the United States is at a critical juncture.

Enrollment demand has grown relentlessly for more than a quarter century, from 7.0 million in 1980 to 10.8 million in 2009, with no signs of stopping. Even with substantial increases in state and federal funding for higher education, public financial support has not generally kept pace with enrollment growth and inflation. These trends have contributed to increases in tuition and fees in virtually every state. In some states, they are also responsible for less visible, but material reductions in opportunity, quality, and student success.

While state support for higher education has been resilient, state policymakers have struggled with increasingly severe economic recessions. In every recession over the past 35 years, enrollment has grown, while state funding has not kept up with enrollment and inflation. During economic recoveries, states historically have “caught up” by providing more support. The historical pattern provides reassurance and clear evidence of enduring public commitment, but the current recession and a convergence of other pressures on states and the American economy have eroded the ability of states to rebuild their financial support for higher education. As a result, the resiliency of public financial support for American higher education is threatened, putting quality, capacity, and the underlying ability to meet student and societal needs at risk.

The decline of state funding per student was particularly severe following the recession of 2001-2002. A reasonably strong recovery followed from FY 2005 to FY 2008, but ended abruptly with the recession of 2009. In FY 2009 state support fell \$2.8 billion to \$77.9 billion, but \$2.3 billion in federal funds to stabilize state higher education budgets offset the loss. FTE enrollment growth (3.4%) and inflation (1.5%) were partially absorbed by institutions and partially financed by tuition and fee revenue.

FY 2010 state funding (as reported by *Grapevine* and summarized on the following pages) has fallen another \$2.7 billion to \$75.2 billion. Federal stabilization funds raise the FY 2010 total to \$79.4 billion, about \$1.3 billion less than states alone provided in FY 2008. Enrollment meanwhile continued to grow even faster, in some states by more than 10%. Per student costs are falling, due to the unrelenting growth of enrollment without commensurate growth in financial support.

These national trends illustrate the fundamental dynamics of the situation, which affect every state. In some states, the situation is much worse than the national view—severe budget shortfalls and unmet educational needs are reaching crisis proportions, and budget reductions are continuing. Looking ahead, the dimensions of the current financial and enrollment crisis are:

- About 5% of FY 2010 appropriations are underwritten with federal stabilization funds that in many states are exhausted, or nearly so;
- Federal funds targeted on education helped cushion the effects of the recession on *all* state services, not just education. But the federal focus on education and the normal inertia of incremental budgetary practices could inappropriately put education at greater risk when the stabilization funds are exhausted;
- State revenue has fallen at an unprecedented rate and a recovery will, at best, take several years according to the National Association of State Budget Officers; and

- Even with recent dramatic enrollment growth, current enrollment almost surely understates student demand. Many students who would otherwise enroll instead find themselves deterred by tuition increases, budget-driven enrollment caps, and course cancellations.

These trends are significant, but the issues at stake are deeper than money and enrollment demand. Public higher education, and education at every level, must help the United States meet the challenges posed by the aging of America's best-educated cohort and by a global economy where other nations are gaining on or passing the U.S. in educational attainment. Our future depends on educating many more American citizens to a higher level of knowledge and skill than required in the 20th century. It is inconceivable that this can be achieved without sustained and growing state support for higher education.

While the United States still enjoys a reputation for the world's finest system of higher education, we are in great danger of complacency. Our reputation is based disproportionately on the achievements of students and faculty at our most prestigious, selective, and most generously financed institutions—which enroll fewer than 10% of our students. Our country is rich in expertise and intelligence, as well as economic power. With our financial and intellectual wealth, we have no excuse for failing to achieve the critical national priority of educational excellence at scale.

Money is deeply relevant in two ways, both how we use it and the adequacy of the amount we devote to education. Taken as a whole, our educational system does not function at the level required for national success in the 21st century. Higher education is an indispensable national resource in helping public schools overcome a shortage of highly qualified teachers, in providing an adequate supply to business leaders of employees with the higher levels of knowledge and skill demanded in the global economy, and in helping all our people realize their potential as well-educated workers and citizens.

We can and must solve these serious, complicated problems, not by throwing money at them or by wishful thinking, but by confronting the fundamental issues of growing educational needs and limited resources. No country has ever improved the quality and scope of its educational system by persistently reducing its budget. While some may wish this were possible, it is not. Nor can colleges and universities improve their scope and quality without focusing on essential priorities and increasing productivity and efficiency, most especially when resources are limited. Both renewed, sustainable public support and a more productive and effective educational system are needed.

State support plays an irreplaceable role in financing higher education in the United States, but higher education is far from the largest component of state budgets. A relatively modest increase in the percentage of state revenue devoted to higher education (gradually increasing over several years the average state budget allocation to higher education by one percentage point—from 6.5% to 7.5%, for example) would generate a 15% increase in average state support for higher education. The critical questions are not whether changes on such a scale are feasible (a one percentage point change is a matter of priority, not feasibility), but questions of strategy, potential impact, and the trade-offs and benefits among different revenue and spending policies.

Focusing on priorities is a shared responsibility, not just the job of colleges and universities but also of state and federal governments, businesses, and families. We all must re-examine the ways we spend, save, and invest in light of priorities and the future well-being of our nation and our children.

Public support for higher education is not optional, not in the United States nor in any nation intending to be competitive in the global, knowledge economy. Complacency about the adequacy and quality of public higher education puts the future of the American people in jeopardy. America needs a reinvigorated partnership between the states and higher education, more effective and productive educational systems, and an unwavering commitment to educational excellence and widespread student success.

What will we do next?