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COLLEGE VS. UNEMPLOYMENT:
Expanding Access to Higher Education Is the Smart Investment During Economic Downturns

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ABSTRACT

In forming a strategy to deal with the severe economic downturn, President-elect Obama and his evolving brain trust of economic advisers should recall the largely successful and innovative efforts by the federal and state governments to avoid a projected steep post–World War II recession – in particular, the key role of higher education. Demand for higher education generally goes up during economic downturns. Expanding higher education funding and enrollment capacity may be as important as any other policy lever to cope with an economic downturn, including funding for infrastructure. Yet most state and local governments are in the midst of wholesale cutting of their budgets. Some 75 percent of all students in the US are in public institutions. Feeling the effects of repeated cuts in budgets, many multi-campus public systems are threatening to cap enrollment despite growing demand. Would it be smart to constrict access to higher education just when unemployment rates are potentially peaking? An exploratory Commission on Higher Education, not unlike what President Harry Truman formed in 1946, but with more urgency and possibly an initial budget, might provide a larger vision and contemplate a range of options. Short-term and immediate policies could include significant directed subsidization via state governments of the public higher education sectors; a large increase in federal Pell Grants for low-income students, already severely under-funded relative to demand; greatly expanded resources for direct loans; the possibility of a one-time grant for middle-income students to attend a participating public or accredited private institution; for some targeted age groups, federal unemployment compensation could be tied to enrollment access to an accredited higher education institution; and support of public college and university building programs as part of any new infrastructure investment program. Long-term goals should include an assessment of the overall health of the U.S.'s still famous, but strained, higher education system and what national and state goals might be conjured. Globally, those nations that resort to uncoordinated and reactionary cutting of funding, and reductions in access, will find themselves at a disadvantage for dealing with impact of the worldwide recession, and will lose ground in the race to develop human capital suitable for the modern era.

In forming a strategy to deal with the severe economic downturn, President-elect Obama and his evolving brain trust of economic advisers should recall the largely successful and innovative efforts by the federal and state governments to avoid a projected steep post–World War II recession – in particular, the key role of higher education.

Beginning in earnest in 1944, many leaders in Washington and in the state capitals throughout the nation worried about a return to Depression-era unemployment rates – President Roosevelt included.

There are many reasons that the expected recession turned into the beginning of an economic boom in the US after the war, one being high saving rates during the war and another being unanticipated and pent-up consumer demand. But another reason was proactive efforts to mitigate feared unemployment rates, to support industries with growth potential, and to fund yet another round of infrastructure development and expand public services.

One of the most important salves that came out of that era of policymaking, one that provides a guide for our present predicament, was large-scale investments and innovative policies by both federal and state governments to promote greater access to higher education.

The famed GI Bill, for example, was not simply an effort to open new opportunities for deserving returning veterans – many of whom had delayed their education or needed new skills to enter the job market. The unprecedented investment by the federal government in providing grants for college had another important purpose: to reduce projected unemployment rolls and, at the same time, help restructure the US labor market by producing a more skilled labor force.

State governments acted as a partner in that macroeconomic strategy. States such as California, under the leadership of Governor Earl Warren, expanded markedly the physical capacity of their public higher education systems by establishing new campuses, hiring new faculty, eventually creating their own scholarship programs to supplant the GI Bill, and subsequently reaping tremendous economic and social benefits from the investment in human capital.[1]

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The Role of Higher Education in National Economic Recovery Today

That basic strategy of expanding funding for individuals to attend a college or university and to get a degree, and funding the expansion of higher education institutions, is a key component thus far missing in the national debate over the route to economic recovery.

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The overall educational attainment of a nation is, in fact, much more important today than some sixty years ago. Broad access is increasingly viewed as vital for socioeconomic mobility, and demand for higher education generally goes up during economic downturns. Individuals who lose their jobs, or fear low prospects for employment in declining economies, see a university or college degree as a means to better employment prospects. In some measure, it is likely that enrollment demand will go up, particularly in the public higher education sector, because tuition costs are generally much lower than in the private independent and for-profit sectors. We are already seeing evidence that many students who had planned to attend private or out-of-state public colleges will turn to cheaper in-state options.

Yet most state and local governments are in the midst of wholesale cutting of their budgets, the initial rounds of large and succeeding cuts to their public higher education systems.

Some 75 percent of all students in the U.S. are in public institutions. Feeling the effects of repeated cuts in budgets, many multi-campus public systems are threatening to cap enrollment despite growing demand – including the California State University system, one of the nation's largest single four-year university systems.

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To make ends meet, places like CSU simply cannot afford part-time, let alone full-time, faculty to teach the classes – this despite a 20 percent increase in freshman applications. In the face of significant rise in demand, CSU plans to cut its enrollment by some 10,000 students. That would mean a net 10 percent cut in total freshman admitted for 2009-10 over the this academic year.[2] Most CSU undergraduates are in their mid-twenties, meaning a sizable number of students will be displaced, forced into an eroding labor market.

CSU's planned limit on enrollment is in reaction to successive years of major budget cuts, including a mid-year cut of some $66 million and probably larger cuts next academic year. CSU already took a $31.3 million cut earlier this year.

The ten-campus University of California system might follow suit. Adjusted for inflation and enrollment growth, state funding on a per-student basis at UC has fallen nearly 40 percent since 1990 -- from $15,860 in 1990 to $9,560 today in current, inflation-adjusted dollars. The president and the Board of Regents have made preliminary threats of a similar reduction to that of CSU in freshman admissions that would equate to a 6 percent overall reduction in the universities' system-wide undergraduate enrollment.[3]

Admittedly, such threats in the past have acted as negotiating positions with the state legislator and governor. But these are not ordinary times, and this is not an ordinary recession.

The net effect of any enrollment caps in the public four-year institutions is a seemingly unrealistic expectation that California's community colleges will act as a buffer. That won't happen. There will be no funding for expanding the community colleges, with one projection estimating that more than 250,000 students will be turned away – they will be cutting the number of part-time lecturers in the midst of unprecedented demand for classes. I sense that that number will be much larger without a proactive mitigation.

A similar cascading scenario will occur across the nation. Millions of students are already flocking to community colleges and public universities at a time of midyear cuts that are forcing colleges to lay off faculty members and cut classes; there is growing evidence that many higher education institutions are already freezing enrollment.[4]

In New York, Governor David Paterson faces a large budget deficit and plans mid-year cuts of some $348 million in the budget for SUNY's 64-campus system and CUNY. This comes on top of some $196 million in cuts made earlier in this fiscal year. All of this will have an impact on access and enrollment rates.

After a long period of declining public financing for higher education on a per student basis, most public universities and colleges have little room to yet again do more with less. State budget cuts for higher education already in the works will undoubtedly have a negative impact on student access rates for this academic year. But the largest impact will come in 2009-10 when tumbling state budget allocations will correspond with rising demand for higher education.

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Beyond bonds for construction, most states, like California, have severe limits on borrowing. Some may raise taxes to cover growing real and projected deficits; but most will cut deeply into public expenditures, including education.

Public university and college systems in California and other states are no longer interested in pitching in to expand enrollment without the resources; now they are pushing back, and enrollment caps are likely in my view. Every institution is increasingly sensing that it is on its own, and not part of a collective effort to serve a state, to serve a nation. No one that that I am aware of has modeled the potential impact of this cascading effect of the disparate actions of state governments, multi-campus systems, and individual institutions cutting budgets and cutting enrollment at a time of a large spike in enrollment demand.

The traditional lever of public college and universities to help cope with declining state and local revenues is to raise tuition and fees. However, I sense that we are at a point where significant fee increases, matched by rising unemployment rates and continued constrictions in credit markets, will cause a huge, artificial downward pressure on the ability of students to enroll in all types of institutions – from community colleges to major selective universities. Further, additional tuition revenue will likely not cover the added cost of expanding classes and campus infrastructure.

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U.S. Lags Behind Other Nations

The U.S. is already lagging behind many international competitors in the number of students entering and, even more importantly, graduating with a college degree. Slightly over a decade ago, America had the highest rate not only of students who entered a college or university, but also of those who then actually earned a bachelor's degree or higher. Now the US ranks a rather meager 16th in the percentage of young people who get a degree – behind Australia, Iceland, New Zealand, Finland, Denmark, Poland, the Netherlands, Italy, Norway, the UK, Ireland, Sweden, Israel, Hungary, and Japan. Indeed, and sadly, the U.S. is one of the few OECD nations in which the older generation has achieved higher rates of education attainment than the younger generation.[5]

Here is the gist of the problem: too few students who graduate from high school; too many part-time students; too high a proportion of students (nearly 50 percent) in two-year community colleges, most never getting a degree; too many part-time faculty; an absence of long-term goals at the national level and by state governments regarding higher education access and graduation rates; and to date no well-conceived funding models to ensure quality.

This is a problem that needs national leadership. The U.S. continues to grow in population. Today, the U.S. enrolls about 19 million students in degree-granting colleges and universities. If current participation rates remain flat, and states and federal governments don't further cut the budgets for higher education, we would grow by about 2.5 million students over the next fifteen years. But if the U.S. were to match the progress of our economic competitors and expand access to its growing population, one study indicates it would need to grow by more than 10 million students.

The deleterious effects of further and large-scale cuts to higher education, combined with modest improvements to an already inadequate financial aid system for low- and middle-income students, would pose a triple hit for the U.S.

First, access and graduation rates would decline in the near and possibly long term, depending on the depth of the economic collapse and the actions of government. The U.S. already has the highest percentage of part-time students among those enrolled in higher education when compared to economic competitors – not by choice largely, but a result of personal economic necessity. This indicates the fragility of current access rates.

Second, unemployment rates would climb higher and probably have disproportionate effects on working- and middle-class students.

Third, depending on the actions of other economic competitors, most of whom have concrete national policies to expand higher education access and graduation rates (the U.S. has no such policy), the U.S. will accelerate its international decline in overall educational attainment.

A Happier Scenario

Another and much happier scenario, however, would be that the federal government, in partnership with state governments, might view higher education as a vital component for economic recovery and long-term prosperity – on par with new investments in infrastructure and stop-gap measures to stabilize housing and credit markets.

How to adequately assess options and their costs and benefits is a complicated question. For example, what would be the potential impact of greater, or lower, access to college on, for instance, unemployment rates?

The incoming Obama administration must decide among a growing number of economic recovery initiatives, each with their own interest groups and heartfelt supporters. Everyone has his or her hand out. Weighing the benefits and costs of competing demands for federal tax dollars will be increasingly complex.

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An exploratory Commission on Higher Education, not unlike what President Harry Truman formed in 1946 but with more urgency, and possibly an initial budget, might provide a larger vision and contemplate a range of options – big-picture options that the myopic Spellings Commission simply ignored in its fixation with creating new accountability regimes.[6] Accountability is not an end, but a means, and that was seemingly lost on Secretary of Education Spellings and the Commission's leadership.

President-elect Barack Obama has repeatedly noted the importance of raising educational attainment rates, and improving the quality of education in the U.S. The Obama campaign did offer a number of important policy initiatives related to higher education. These included greater reliance on direct loans from the federal government (instead of subsidizing private bank loans), a long-overdue simplification of federal financial aid forms by linking applications to tax filings, marginal funding for community colleges to create more job-oriented programs, indexing Pell Grant maximum awards to the rate of inflation, and offering a one-time refundable tax credit of $4,000 to a student who agrees to 100 hours of public service over two years.

These are all good ideas. But they are simply not enough in light of mega-trends in the economy and America's underperformance in education.

1. *Short-Term*
   Short-term and immediate policies could include significant directed subsidization via state governments of their public higher education sectors relative to projected near-term enrollment demand – to essentially stop states or major public universities from capping enrollment or turning away large numbers of students. Federal Pell Grants for low-income students, already severely under-funded relative to demand, could be increased significantly in the amount awarded and the number of students receiving aid.

   Resources for direct loans could be substantially expanded with the possibility of a one-time grant for middle-income students to attend a participating public or accredited private institution that would also receive a small federal allocation. In return, these institutions would promise to reduce tuition for students enrolled in the federal program – perhaps by 5 percent for publics, and 10 percent for selective privates. Such programs, like the GI Bill, helped to galvanize the higher education institutions in the nation, public and private, into understanding their distinct and significant role in real or anticipated hard times.

Another idea might be to tie federal unemployment compensation with access to an accredited higher education institution – perhaps targeted to certain groups as an option.

Any infrastructure investment program might also focus a portion of its portfolio to support public college and university building programs that expand enrollment capacity, like classrooms, or meet research and faculty needs – such as offices and research labs. Such a program would reflect the federal government's brief but important investment in university and college building programs during the mid-1960s and could require matching funding from state governments or private enterprise.

There is always the question of whether to fund the individual students or institutions. Past federal policy has focused on funding of grants and loans to individuals. But there is urgency to venture, at least on a temporary basis, into funding key and largely public institutions – the main providers who have explicit public purposes.

2. *Long-Term*

Long-term goals need to assess the overall health of the U.S.'s still famous, but strained, higher education system and what national and state goals might be conjured. In states with projected long-term and large population growth, like Florida, California, and Texas, there has been no coordinated assessment of actual enrollment capacity. Can they grow to meet ambitious efforts to increase educational attainment levels? What would constitute a "smart growth" approach to capacity building?

Cost containment in higher education, particularly among selective institutions, and how to finance public higher education is also an important long-term policy issue that needs a macro-view. But the vast majority of public higher education, I would argue, is vastly under-funded, and, as many critics like to crow, overtly inefficient. What alternative models are there for financing public higher education? A national consideration of alternative funding models could help guide states, and public and private institutions, toward a funding goal that aligns with a national goal for educational attainment.

For good and bad, the U.S. higher education system has been relatively stable over the past fifty-plus years, subject to only marginal efforts at reform and reorganization. Stability is important for institution-building and focusing on the quality of what institutions are designated to do within their respective state network of public and private colleges and universities. But the lack of innovation and serious consideration of the overall fit of the current system with the current and future economic and socio-economic mobility needs of society may prove a significant problem for the U.S. – one among many.

States should not be left on their own to reinvigorate and use their higher education systems to mitigate the economic downturn or to, essentially, chart the future labor force and, ultimately, competitiveness of the U.S. Simply stated, they are not capable – now or in the recent past – of charting aggressive and enlightened policies related to higher education like they did in the now very distant past. As noted, they are hampered by growing and competing demands for the tax dollar including health care and prisons, and they face significant limits on their ability to launch a spending program suitable for meeting rising enrollment demand. Further, states generally lack a broad understanding or concern regarding issues

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related to national competitiveness and the larger problems of growing social and economic stratification. Arguably, now is the time for a strategic period of federal government and investment, targeted to individual students and supporting colleges and universities.

What will other nations do with their network of universities and colleges in the midst of the unprecedented turn in the global economy? The jury is out. Perhaps a few nations, and in particular their ministries of education, have grasped the role of higher education for mitigating the severe economic swing we are experiencing now. They will redouble their efforts to expand the role of higher education during the economic downturn, or at least protect that sector from large cuts in funding.

Those nations that resort to uncoordinated and reactionary cutting of funding, and reductions in access, will find themselves at a disadvantage for dealing with impact of the worldwide recession, and will lose ground in the race to develop human capital suitable for the modern era.

Like the Roosevelt and later Truman presidential administrations, the incoming Obama administration should more fully integrate higher education policy into its economic recovery strategy.[7] The U.S. is at a critical juncture in effectively combating the severity of the economic downturn, and higher education will either be an important mitigation, or a large-scale drag on economic recovery. What is missing thus far is the national leadership that can do something proactive.

NOTES

1 See John Aubrey Douglass, “Earl Warren’s New Deal: Post-War Planning and Higher Education,” *Journal of Policy History*, Vol. 12, No. 4, 2000: http://muse.jhu.edu/login?uri=/journals/journal_of_policy_history/v012/12.4douglass.html

2 See Gale Holland, “CSU May Cut Future Enrollment By 10,000,” *Los Angeles Times*, November 18 2008: http://www.latimes.com/news/local/la-me-csu18-2008nov18,0,855248.story; also Jack Stripling, “So Goes the Nation,” *Inside Higher Education,* Nov 13 2008: http://www.insidehighered.com/news/2008/11/13/cuts

3 “UC Regents Warn Freshman Enrollments Will Be Curtailed Without Sufficient Funding,” University of California Press Release, Nov. 20 2008: http://www.universityofcalifornia.edu/news/article/19016

4 Katherine Mangan, “Their Budgets Slashed, Public Colleges Share in Their Applicants’ Economic Pain,” *Chronicle of Higher Education*, November 19, 2008: http://chronicle.com/temp/email2.php?id=MgRYdjJgKPrWXFQSk2h5gdkt8sSkKDmn

5 See John Aubrey Douglass, “The Waning of America’s Higher Education Advantage,” CSHE Research and Occasional Paper CSHE.9.06. (June 2006): http://cshe.berkeley.edu/publications/publications.php?id=226; also "Wrong Trajectory: America Losing its Higher Education Edge," *California Magazine* May 2008 http://alumni.berkeley.edu/california/200805/freespeech.asp

6 See the special volume of the *History of Education Quarterly* on Truman’s Commission on Higher Education, vol. 24, no. 4 (Winter 1984): http://www3.interscience.wiley.com/journal/117959874/issue

7 There are other precedents and historical sources for rethinking the federal role in building the federal role, including the work of the Carnegie Commission on Higher Education in the 1960’s and 1970s. See: John Aubrey Douglass, "Higher Education as a National Resource, " *Change Magazine*; vol. 37, no 5. Sep/Oct 2005: 30-38: http://cshe.berkeley.edu/publications/publications.php?id=15