the institute for college access & success

How Congress Can Recession-Proof Public Higher Education

Economic downturns wreak havoc on public higher education.

Here's how the federal government can help.

A long-term decline in state funding for public higher education is one major driver of the rising cost of college — and the attendant spike in student debt. The Great Recession decimated public higher education funding[1], and while Congress stepped in to provide a temporary funding boost, state spending had not fully recovered before the COVID-19 recession hit.[2]

While emergency federal relief helped keep public higher education afloat during both the Great Recession and the COVID recession, it was a stopgap rather than a permanent and comprehensive solution. In addition to making major new investments in public higher education, the federal government should harness its unique deficit-spending powers to smooth the volatility of state budgets and break the harmful cycle of state cuts.

How Declining State Funding Hurts Students

State budget cuts have led to higher tuition costs — which, in turn, have contributed to a long-term rise in student debt burdens — as well as reduced institutional resources, which can mean fewer course and program offerings, larger class sizes, and cuts in student services.[3] Overall, state funding cuts make it both more expensive for students to attend public colleges and harder for them to complete a degree.

Declining state funding has also exacerbated longstanding inequities and placed a disproportionate burden on BIPOC students and students from low-income backgrounds. From 2006 to 2018, per-student state and local appropriations revenue continued its long-term downward trend and tuition revenue as a share of total revenue per student increased across every type of institution. Per-student revenue gaps persisted in particular for community colleges, Historically Black Colleges and Universities (HBCUs), and other Minority-Serving Institutions (MSIs), all of which disproportionately educate BIPOC and students from low-income backgrounds.[4]

What Congress Can Do

There is ample evidence that funding for public colleges and financial aid takes the form of a "balance wheel" in state budgets.[5] Unlike the federal government, states are required to balance their budgets. State funding cuts for higher education often occur when states face significant pressure to fund other crucial state programs — including K-12 education and healthcare for low-income children and families — on limited or suddenly reduced revenues.

To make up for funding shortfalls, states shift costs onto students via increased tuition and fees. In addition, many selective public colleges recruit students — higher-income state residents, as well as out-of-state and international students — who can afford to pay more tuition, leaving many lower-income students behind. States are also reticent to make long-term investments given the fear of having to continue funding during future downturns, budget limitations, and enrollment declines.

To address this, TICAS, along with other prominent higher education advocates and scholars, has called on federal lawmakers to preemptively act to "recession-proof" public higher education via an automatic funding mechanism that kicks in during economic downturns to sustain and stabilize state funding for public colleges and student financial aid.[6]

Such a mechanism — which should be built into a comprehensive federal-state partnership for public colleges — would be triggered by state and/or federal economic conditions (such as unemployment rates). When triggered, the federal government would temporarily increase its funding share to keep state funding stable.[7] As part of this funding partnership, states should be required to sustain or increase their own investments at all other times.

Without new federal investments and powerful incentives, states will continue to face competing funding pressures and, during economic downturns, will balance their budgets by cutting funding for higher education — leaving families to shoulder ever more of the cost.

"So much of the progress that could be made at the state level is stymied by the fact that we have no funding stability."

— California Higher Education Budget Expert

Beyond COVID: Moving from Crisis Response to Long-Term Recovery

Unlike the Great Recession, the COVID-19 pandemic upended higher education virtually overnight. As campuses shut down and classes transitioned online, schools lost significant auxiliary revenue and faced higher outlays in the form of refunds, the costs of transitioning to online instruction, and increased spending on health and safety measures. State finances were in freefall. Absent major federal intervention, many colleges faced potential financial ruin.

As in the Great Recession, the federal government stepped in to provide emergency aid. This time, though, federal aid — parceled across three emergency spending packages — came quickly, with significant funding set aside for higher education.[8] And while this aid — most of which went directly to colleges — had the intended effect of alleviating the immediate financial concerns of most institutions, it was widely recognized as temporary.[9]

And, though federal aid included state maintenance of effort requirements, Congress also gave the Education Department broad waiver authority. It remains to be seen whether states will seek such waivers. Take Kansas: absent a waiver, the state must devote $106 million more to higher education over the next two years in order to meet its federal maintenance of effort requirement and retain the nearly $2 billion it received in federal aid.[10]

While the COVID recession was unique in many ways (for example, college enrollment declined, unlike what typically happens during economic downturns), it once again illustrated the precariousness of state funding for public higher education. While it is too early to know the COVID recession's long-term impact on state finances and enrollment patterns, if history is a guide, it may lead to further spending cuts and greater cost burdens for students and families down the line.[11] This makes it especially important for Congress to act now to implement longer-term policies to keep public higher education afloat across economic cycles.

Legislative Momentum is Building

For the first time, a major higher education bill that is advancing through Congress includes a recession protection provision. The House version of the Build Back Better Act, introduced in September 2021, includes America's College Promise, a new federal-state funding partnership to provide tuition-and-fee-free community college to all students (in states that opt in). It also includes a related provision to help states stay in the program even during economic downturn. The mechanism allows states to request a waiver to the state match and maintenance of effort requirements during periods of elevated state or national unemployment.

Another bill introduced during the 117th Congress — Senate Budget Committee Chairman Bernie Sanders' (I-VT) College for All Act — also included an automatic stabilizer provision. Though the bills differ in how the mechanisms are constructed, both are aimed at smoothing out state investments in higher education and protecting students and their families from unanticipated large tuition increases.

Unemployment Insurance as a Model for Recession Protection

Enacted in 1935, the state unemployment insurance (UI) system provides a model for recession proofing; additional federal resources are sent to states when their budgets are stretched due to declining tax revenue. The UI system provides workers who have lost their jobs with about half of their weekly wage for up to 26 weeks. During economic downturns, the Extended Benefits (EB) program is automatically triggered, providing workers an additional 13 to 20 weeks of benefits. Although the federal government pays only the administrative costs of UI, it pays half of the cost of EB.

Research shows that UI helps workers who have lost their jobs regain economic stability. But it could be more effective. Recent calls to address design flaws that diminish the program's utility during periods of extreme economic downturn suggest lessons for the proper design of a higher education automatic stabilizer.

ENDNOTES

[1] Center on Budget and Policy Priorities. 2017. *A Lost Decade in Higher Education Funding*. https://bit.ly/3nCXTET.

[2] State Higher Education Executive Officers Association. 2020. *State Higher Education Finance: FY 2020*. https://bit.ly/3ke9bxe.

[3] Center on Budget and Policy Priorities. 2018. *Unkept Promises: State Cuts to Higher Education Threaten Access and Equity*. https://bit.ly/2DZfTny.

[4] The Institute for College Access & Success. 2021. *Dismantling Dire Disparities: A Closer Look at Racially Inequitable Funding at Public Four-Year Colleges and Universities*. https://bit.ly/3CaW466.

[5] Delaney, J., & Doyle, W. 2011. *State Spending on Higher Education: Testing the Balance Wheel Over Time*. Journal of Education Finance, 36(4), 343-368. https://bit.ly/3umteeu.

[6] See: The Institute for College Access & Success. 2019. *Better Together: How a Reimagined Federal-State Partnership to Fund Public Higher Ed Could Help Bring College Within Reach for All*. https://bit.ly/3Epn0Rj; Bipartisan Policy Center. 2020. *A New Course for Higher Education*. https://bit.ly/3tO-4RYs.

[7] In a 2020 report, a task force of experts at the Bipartisan Policy Center suggest a different approach: building up state rainy day funds for higher education that states can drawn upon during downturns: https://bit.ly/3tO4RYs.

[8] In response to the COVID-19 pandemic, the federal government has so far passed three emergency aid packages: the CARES Act (2020), the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (2020), and the American Rescue Plan Act (ARP) (2021). These bills included more than $76 billion in new funding for higher education, much of it sent directly to colleges and students. (The ARP included significant relief funds for state and local governments that some states may use for education related spending.)

[9] Lederman, Doug. July 28, 2021. "Post-COVID Optimism on College Finances." *Inside Higher Ed*. https://bit.ly/3AhD05r.

[10] Lefler, Dion. May 6, 2021. "Kansas Senators Find Extra $53 Million for Higher Ed to Preserve $2 Billion in COVID Aid." *The Wichita Eagle*. https://bit.ly/3nC22sE.

[11] Robert Kelchen, Dubravka Ritter, & Douglas Webber. 2021. *The Lingering Fiscal Effects of the COVID-19 Pandemic on Higher Education*. Federal Reserve Bank of Philadelphia. https://bit.ly/3kKrESr.