Fiscal support for higher education and policy concerns at the state level during difficult financial times are discussed, with specific reference to the western states. States vary widely in several ways: the strength of their economies, the actions of legislatures and voters to reduce the revenues of the expenditure base of state and local governments, and the relative priority of higher education in competition for public resources. Some states in the West are expected to increase enrollments while others face declines. For institutions in states facing enrollment declines, fewer students usually mean fewer state dollars under enrollment-sensitive formulas. However, educational institutions can suffer with either more or less students. Areas of special concern to states are student access and retention, which are affected by student charges and financial aid and by efforts to enroll minority groups and disabled students. The following recommendations are offered: charges should be established at levels which reduce the effect of price on student choice among the public segments, and some programs should be funded for longer than 1 and 2 years. (SW)
HOW WILL HIGHER EDUCATION FARE IN STATE APPROPRIATIONS DURING A PERIOD OF FISCAL CONSERVATISM?

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FISCAL ENVIRONMENT

Business Week, certainly no champion of "big government," recently warned that the President "is shifting more of the burden of government away from Washington at a time when the local infrastructure is decaying, when the ability of states and cities to borrow is withering, and when state and local revenues are shrinking. The problems are so severe as to constitute a crisis for state and local government."

A recent survey conducted by the National Governors' Association showed that General Fund year-end balances among all states had declined from 9.0 percent of current expenditures in 1979-80 to 1.5 percent in 1981-82. The report indicated "a significant growth in real spending for FY 1981, but a decline in inflation-adjusted spending for [Fiscal Year 1982]. State Government real spending from FY 1980 [1979-80] to FY 1982 [1981-82] is estimated by the survey results to grow by $4.8 billion, of which Alaska accounts for $3.9 billion. About a third of the states show a real spending drop from FY 1980 to FY 1982. Over half of the states are predicting a drop in real spending from FY 1981 to FY 1982."

As true for the nation, states in the West vary widely in several ways:

1. The strength of their economies. Those dependent on a few products--except for oil--are in trouble. For example, State expenditures in Oregon are projected to decrease in real terms by 5 percent between FY 1980 and 1982.
2. The actions of legislatures and voters to reduce the revenues or the expenditure base of State and local governments. Virtually all of the states in the West have some constitutional or statutory controls over tax or expenditure increases.

3. The relative priority of higher education in competition for public resources. Although education enjoys a high priority in most states, many require expenditures for certain purposes (such as for retirement funding) before higher education.

Thus, although consensus seems evident on reducing taxes and expenditures in real terms, there is little agreement on what to cut or how to do so (whether across-the-board or by State priorities or by institutional decisions).

If the decisions are left to the institutions, research shows that they react in fairly predictable ways. A recent study by WICHE of three universities facing retrenchment discovered the following similarities:

Institutions in general, including the universities in these case studies, cut administrative and support services before they cut staff, faculty, or academic programs. Next, they tighten their belts by reducing expenditures in areas that do not affect academic programs. Such reductions are made in funds for maintenance, supplies, equipment, and travel; experimental programs; and selected cultural and student services. In more severe reductions, institutions freeze hiring non-academic employees and cut salaries.

If further reductions are required, institutions begin cutting and reallocating funds within their existing structure. They eliminate positions by attrition, perhaps reallocating the dollars saved to other programs; they increase or decrease offerings according to student demand; and, finally, cut funding to selected academic departments.

The WICHE study concludes with two questions which, in my opinion, are most essential in approaching retrenchment:

Does the typical choice to protect the core academic program at the expense of academic support services and peripheral activities adequately protect the quality of the student experience?
Another aspect of fiscal support in the West is that some states are expected to increase enrollments while others face declines. In its report, *Three Thousand Futures*, the Carnegie Council recently published the following projections:

- Western states expected to increase their enrollment by more than 5 percent by the year 2000: Idaho, Nevada, Utah, and Alaska
- States expected to experience enrollment increases or decreases up to 5 percent: Oregon, Wyoming, Colorado, and New Mexico
- States where enrollment is expected to decrease between 5 and 10 percent: California, Washington, and Montana

For institutions in states facing enrollment declines, the problem is clear: fewer students usually mean fewer state dollars under enrollment-sensitive formulas. For institutions with increasing enrollments, the problem is different though perhaps no less troublesome: state appropriations are strongly influenced by fluctuations in the economy so that fewer funds are available during periods when high unemployment encourages higher enrollments. Ironically, educational institutions can suffer with either more or less students.

AREAS OF SPECIAL CONCERN AT THE STATE LEVEL

With these facts as a context, I turn to two policy areas of special concern at the State level during difficult times.

Access and Retention

1. Student Charges and Financial Aid. The states have a fundamental interest in the right and ability of their citizens to attend postsecondary institutions. Since the charges paid by students are one important element of access, this fundamental interest suggests that fee policies should not be determined primarily by budget shortfalls or by the institutions themselves. It also implies that increases in student charges should be coordinat-
ed among institutions in order to ensure that students make decisions on the basis of their educational qualifications and interests rather than on the basis of cost. I also believe that student charges among public institutions should be established at levels which reduce the effect of price on student choices among the segments. Student financial aid should be provided in a manner and in amounts that do not influence student choice primarily because of price.

2. Efforts to Enroll Members of Minority Groups and Disabled Students. The number of students attending postsecondary institutions increased dramatically in the 1950s and 1960s. Some groups, however, did not participate in this growth, primarily certain ethnic and racial minorities and people with disabilities. During the 1970s, many states recognized the need to actively encourage their enrollment.

- With regard to students with disabilities, the need was to fund appropriate services related to education in a consistent and predictable manner, allowing disabled students to move through the institutions and into graduate programs if they were qualified educationally.

- With regard to members of underrepresented ethnic and racial minorities, the need was to recognize that financial aid alone is not enough. Early outreach is necessary to convince public school students to include postsecondary education in their plans; these students must be able to identify with people and practices within the institutions; and support services are necessary at crucial times, especially during the transition from high school to college, from work to college, and from undergraduate instruction to graduate school.

New Budget Formats

Traditionally, the states fund budgets for current operations through annual or biennial appropriations. Capital outlay budgets have emphasized one-time expenditures, generally for new construction.

We need to rethink these rigid budget formats in light of new circumstances. Certainly, most elements of current operations should be funded through annual or biennial budgets which are sensitive to changes in enrollments. Some programs, however, should be funded for longer times with thorough evaluation at various intervals—their support should not be simply "folded" into the base budget. Deferred maintenance and equipment replacement are two areas of increasing importance and should be funded on the basis of long-term plans based on careful analysis. New construc-
tion is declining in importance, and yet the old-budget format for capital outlay persists.

CONCLUSION

Higher education faces imposing challenges in the 1980s, but I am cautiously optimistic about the ability of institutions to meet them, and even to prosper. A recent poll in California indicated that higher education continues to enjoy a relatively high confidence, so that we don't face an era of anti-intellectualism or hostility. In addition, I think we have more enlightened policies among Western states regarding investment in human capital than we do in Washington where the prevailing attitude is that improvements in our physical capital stock will alone revitalize our nation's productivity. Again, Business Week summarizes the situation well: "Compounding the crisis are cuts in federal funding in the no less important area of human capital—job training, vocational education, and health care. Letting such public services decline could have high costs not only in social and political terms but also in terms of the operating environment for business."

While I am optimistic about the fortunes of higher education in the West, this should not suggest confidence or complacency. Especially important to the success of higher education is each institution's own self-restraint, its tough-minded priorities, and more effective evaluations. We should not fall into the convenient practice of defending every program because of its traditional stature; you will prosper only by becoming your own best critics and by linking programs to the changing needs of our economy and society. Further, this should be a time to emphasize the quality of higher education and the effectiveness of the educational process.

Finally, I believe that we need to reevaluate the relationships between higher education institutions and the other institutions in our nation: state and federal governments, the private sector, and the high schools. If leaders in higher education approach this task of rethinking in creative, ingenious, and service-oriented ways rather than relying on the traditional respect accorded higher education, then the 1980s will be favorable. My basic message is that, despite the New Age of Fiscal Conservatism, our future is more in our hands than is comfortable to admit.