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Use of State General Revenue for Higher Education Declines

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The current economic downturn is putting heavy pressure on state budgets. The National Conference of State Legislatures estimated that as states were drawing up their fiscal year 2003 budgets, more than a quarter faced deficits exceeding 10 percent of their general fund budgets. In response, many are sharply reducing appropriations — including those for higher education.

State support for public higher education also declined markedly during and immediately after the 1990-1991 recession, as shown in the figure below. The figure shows general revenue appropriations for higher education (from the Center for Higher Education and Educational Finance) relative to overall state revenue (from the Census Bureau's State Government Finance series).

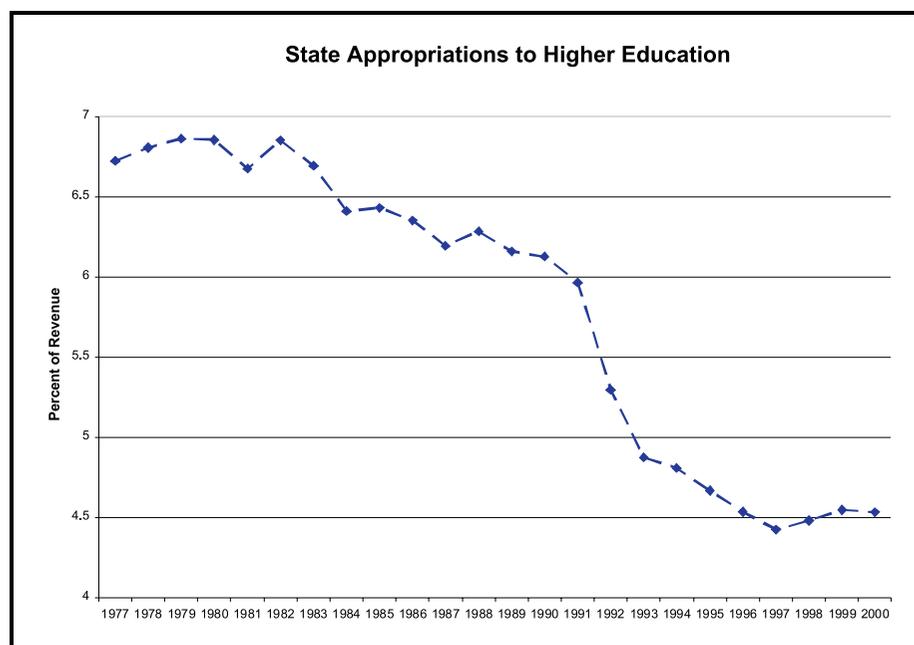
As the figure shows, 6.7 percent of state revenue was devoted to higher education appropriations in 1977. By 1989, that ratio had fallen to 6.2 percent. Between 1989 and 1993, however, it declined from 6.2 percent to 4.9 percent. By 2000, it had fallen to 4.5 percent.

Although the decline represents a small share of total state revenue, it is large relative to appropriations for higher education. For example, if the 1977 ratio to total state revenue had been maintained, state appropriations for higher education would

have been \$27 billion higher — a 48 percent increase relative to their 2000 level of \$57 billion.

Political constraints on tuition increases have prevented tuition revenue from fully offsetting the reduction in state appropriations. As a result, spending per student has fallen at public higher education institutions relative to private institutions. In 1977, spending per student at public universities amounted to 63 percent of spending per student at private universities. By 1996, that ratio had fallen to 53 percent. The decline in relative spending levels manifests itself in faculty salaries and student-faculty ratios, raising concerns about the ability of public higher education institutions to maintain the quality of the education they offer.

For further reading, see our forthcoming Tax Policy Center discussion paper: "State Support for Higher Education, Medicaid, and the Business Cycle."



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