US Higher Education and the Current Recession

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A review of the past four recessions, prior to the current one (1973–1975, 1980–1982, 1990–1991, and 2001–2003) reveals that on balance higher education in the United States weathered each of these economic storms reasonably well (*Chronicle of Higher Education*, October 10, 2008). But most observers agree that the current recession, officially announced as having begun in December 2007, is a different breed, with disconcerting similarities to the Great Depression of the 1930s. In particular, the current recession appears likely to become long-lasting, is global in nature, originated in the financial sector, has rendered relatively ineffective monetary policy, and is accompanied by sharp drops in consumer and investor demand. After years of neglect, Keynesian economic policy is being reintroduced via aggressive fiscal actions designed to increase aggregate demand in the economy. A prolonged depression seems unlikely for the world, since the country has learned from the mistakes made in the 1930s. However, the economic outlook is cloudy at best, with conditions likely to be more severe than in other post–World War II recessions. What might the current crisis mean for higher education in the United States?

Early Signs of Difficulty

While no definitive evidence has yet been revealed, early warning signs abound. Most state governments are experiencing a sharp drop in tax receipts. Thus, as states must operate with balanced budgets, expenditure cuts are being reported daily. In recent days, for example, the states of Washington, Nevada, Texas, Oregon, Idaho, and South Carolina have announced cuts in state appropriations to public colleges and universities ranging from 10 to 36 percent, and few states, if any, will avoid such cuts. While state support for public higher education has been declining as a share of institutional revenues for more than two decades, the severity of the current cuts may push public institution leaders to reduce enrollments, which they are normally reluctant to do. For example, California State University and the University of California system have recently announced plans to reduce entering undergraduates by several thousands of students. The new round of state cuts will prompt yet higher public tuitions, further dampening demand.

In past recessions, enrollment rates have actually jumped, as the opportunity cost of forgone earnings for the newly unemployed declines. While not yet definite, such an enrollment surge may not be happening this time around—in part because institutions are reluctant to keep expanding when revenues drop but also because of the rising student charges and uncertainty about the economy. The United States has been on a borrowing binge fueled by low interest rates for several years. Moreover, the economic downturn includes an unwinding of unsustainable debt levels, both in families and in businesses. Higher education has become more dependent on debt to cover student bills, but not only is the credit market now harder to tap but increasing numbers of would-be students may be reluctant to borrow more for higher education.

This phenomenon may particularly affect potential graduate and professional students, including those who might otherwise embark on PhD programs. The drop in state support and falling endowment levels have sharply reduced the number of new tenure-track positions being filled this year. Adding to the costs of college and university budgets will also be the drop in number of retirements, as many academics have experienced a 40 percent drop or more in the value of their defined contribution plans. Rather than retire and open up a position for a new PhD at a lower salary cost, many academics will now stay on well into their 70s.

Both public and private universities have highlighted private fund raising and the building of sizable endowments in recent years as a way to diversify revenues. Numerous universities have reported endowment losses of 25 percent or more in 2008, as virtually all asset classes have fallen in value. The logic of limiting spending from endowments to roughly 5 percent annually means that either less must be drawn from this source or spending will increase to unsustainable long-term levels. It is also unclear whether major donors will be able or willing to continue to provide substantial new gifts at previous rates in the current climate.

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Prospects

Much depends on what happens in 2009 and whether the fiscal stimulus developed by the Obama administration will recharge the economy. However, a prolonged recession and slow recovery may provide the context in which institutions will reexamine their policies and practices and bring an end to some of the extravagances that critics of higher education have railed against for years. Many outlays have been driven by competition for status and prestige, as well as to provide students with accommodations, services, and facilities approaching a luxury level. If families are forced to scale back in their spending and expectations (or do so on their own volition), this pressure will surely be brought to bear on the colleges and universities where their children enroll. Just as cultural change is calling for "green" campuses and worksites, pressure might come to pass for a leaner, more austere academic experience, at a lesser charge to students.

Institutional leaders, board members, and government educational officials face the following challenge: There is no evidence that the needs for a highly skilled and well-educated workforce are going to diminish, whatever course the economy takes toward recovery. At the same time, the conditions that provide access and opportunity to complete various forms of postsecondary education and training are languishing in this country, with essentially flat performance over the past quarter century. Furthermore, other developed countries are surpassing the United States now in percentage of the younger population with degrees and certificates, so the US first-mover status toward mass higher education has been eroded. Finding the will and the way to use the most effective educational resources is now both a moral and an economic obligation.■

Chinese Graduates' Employment: The Impact of the Financial Crisis

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Based on the statistics of the Ministry of Education, in 2009 higher education graduates will include more than 6.11 million in China, while in 2002 the total number comprised only 1.45 million. However, the employment rate of graduates in 2008 consisted of less than 70 percent. The increasing number of graduates seeking employment has been challenging for the Chinese government. The current economic crisis will surely deteriorate the condition further. Very likely, in 2009, close to 2 million graduates may not find jobs—many of whom are postgraduates, even doctoral graduates.

Causes of Employment Problems

Several factors are responsible for the dire situation of Chinese graduates' employment. The massive expansion of enrollment since 1999 is one issue. At the end of the last century China's exports were badly influenced by the Asian financial crisis that began in 1997. China's economic growth declined sharply, while at the same time domestic demand was not high enough to maintain the momentum of economic growth. To increase domestic demand the central government of China reduced interest rates dramatically for saving accounts. Yet this measure proved noneffective in getting people to increase their spending. In 1999, the Chinese government was encouraged to stimulate domestic demand by increasing higher education enrollment. This policy was accepted by the government. By 2008, the new enrollment of students in universities rose by about 6 million, providing Chinese universities close to 24 million students in total.

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While enrollment expanded, enrollment has not been carefully matched with student employment prospects. Before 1978, China adopted a centrally planned economic system. Beginning in 1978, a market economy was introduced into China, and the country opened its door to foreign investment. But this market-oriented policy was not adopted in China's higher education. Even today the new enrollment of students at almost all levels (with the exception of a small number of private colleges) is first arranged by universities and colleges and then approved by governments at various levels, often without a survey of market needs. With demands in the job market changing constantly, the tension created by the gap between the supply of graduates and the demand of employees has intensified. Consequently, too many graduates have majored in accounting, Chinese language and literature, law, and computer science, whereas jobs related with these fields are limited. At the same time, many companies cannot find qualified employees working in specific technical fields.

The major economic crisis that originated in the United States in 2008, also affects China. Amid the global financial crisis, China's economy has started declining in a surprising speed since summer 2008. Tens of thousands of foreign-invested companies in the eastern provinces of China, such as Guangdong and Zhejiang, collapsed, and millions of people lost their jobs. Employment in China has receded. Fewer positions are available for graduates and will be limited in 2009 and the next few years. For instance, in a job fair held by Donghua University, more than 30,000 graduates competed for 1,700 positions provided by foreign firms.

Measures by the Chinese Government

The Chinese government has taken some measures to try to solve the crisis of graduates' employment. The Chinese government hopes that injecting a huge investment into the economy will create jobs and relieve much of the pressure of grad-