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The New Economy: State Governments and Education

The longest period of post-World War II economic growth in the United States ended in 1991. After a short recession, the economy again started growing, at surprisingly high rates, and only recently has begun to slow. Despite this strong performance, many voice great concern about the country's economic future. The brutal deindustrialization of the late 1970s and early 1980s, the uncertain success of U.S. goods in the international market, the revolving regional recessions of the 1980s—first in the Southwest, then in the Northeast, Midwest, and West—and the ever-expanding turmoil in financial markets have created great uncertainty. Various effects of increasing income inequality in the country have become more apparent, confidence in the country's educational system has eroded, and the prospects for the young to buy homes are very different from those of their parents a generation ago. These concerns further contribute to apprehension about the future in the United States.

For most of this century, the federal government has been the principal forum for addressing economic development issues. Although the development role of the federal government remains central, federal policy has not responded to the recent development needs of states and regions. For both economic and political reasons, state government in the United States has been rejuvenated as an important public policy arena.

Economic development policy is perhaps the most dramatic example of revitalized state government. Even though states have exercised

important roles throughout the history of the country, they have not been perceived as leaders in development policy until recently. Structural economic change has altered the nature of the economic environment faced by states. The traditional policies adopted by state governments in support of their economies no longer meet the demands of the changing economy. The inadequacy of traditional education and training systems for the new economic reality is one dimension and one that falls largely within state government responsibility. Research and development, technical and scientific labor, venture capital, technology diffusion, and telecommunications infrastructure are but a few of the other important elements of the new economy, and ones to which state governments are directing their attention.

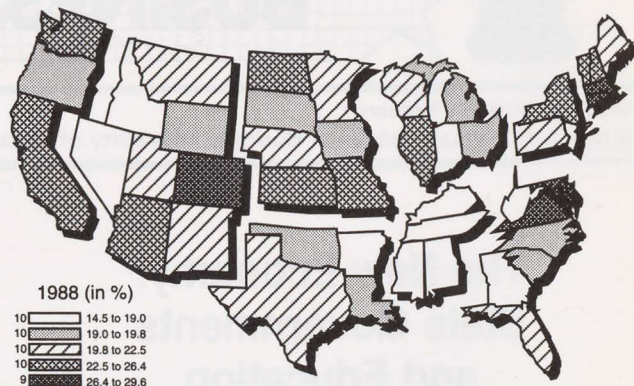
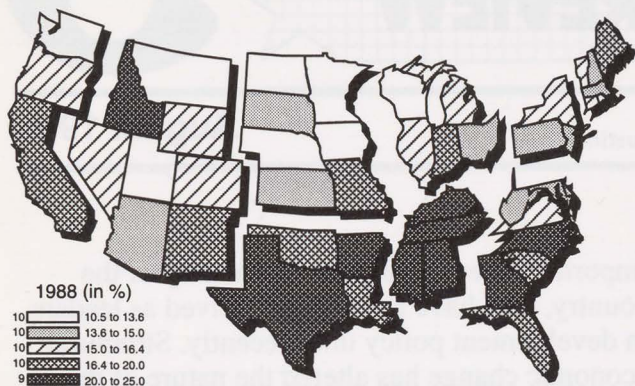
Investment in Human Resources

The development of human resources has become a central theme in discussions of the country's economic future. The emerging economy will require better-trained and higher-skilled workers, and most workers will be re-trained several times during their careers. Private sector training, conducted in firms, has expanded tremendously in recent years, and the level of spending for this training is estimated to be comparable to the level of public sector expenditures on education and training. The focus on human resource development affects all parts of the country's education system, including primary and secondary education, vocational education, community colleges, and universities. The substantial disparities in educational levels among the states have reinforced concerns about this country's future.

Figure 1
Educational Levels by State, 1988

a. Share of Labor Force with Less than High School Education

b. Share of Labor Force with College Degree



Reprinted with permission from *States and the Economy: Policymaking and Decentralization* by Robert H. Wilson, Praeger Publishers, an imprint of Greenwood Publishing Group, Inc., Westport, Connecticut.
Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*, March, various years.

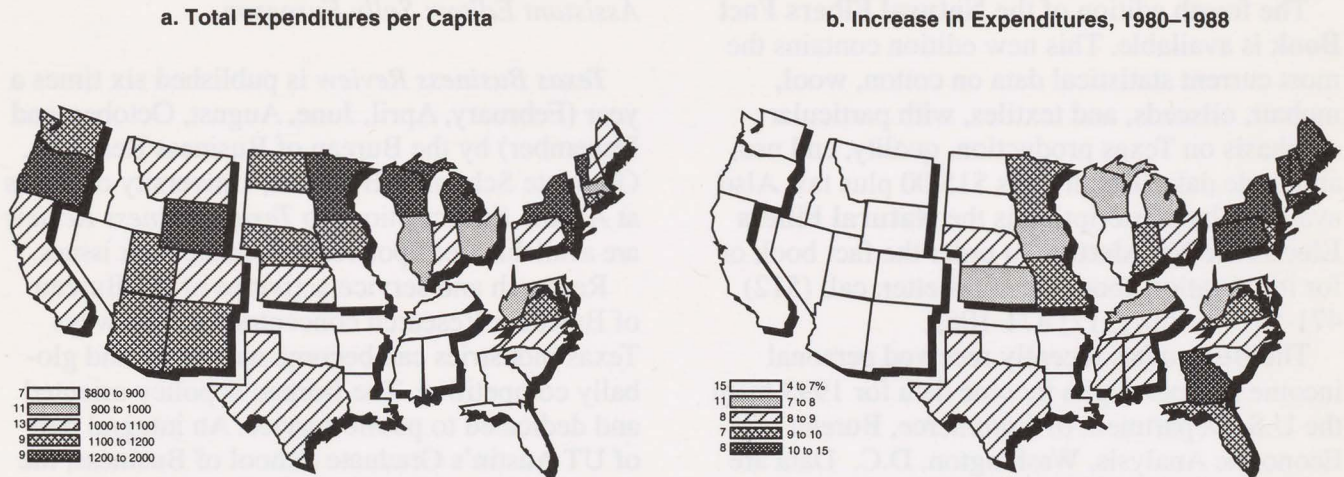
States have made considerable financial commitments to education and training even during a period of fiscal austerity. Although state resources are limited, additional funding is being found for education. One explanation for this public support concerns the issue of economic development. Investment in human capital is believed to increase opportunities for individuals and lead to stronger economies. There is, however, substantial skepticism about the effectiveness of the educational systems, and further increases in funding will likely be dependent on improvement in the performance of these systems.

The foundation of the educational system and of the quality of a state's labor force is the public school system. Many states with historically low levels of funding for public education have substantially increased funding. The links among poor public schools, high dropout rates, and the extremely poor prospects for high school dropouts are clear. State and local governments that do not satisfactorily redress this situation will be at a distinct disadvantage with respect to the labor force for the more promising sectors of the economy.

The increased requirements for high school graduation appear to meet the changing skill requirements of the economy. Strong general education is essential for the lifelong learning required for success in the changing economy. On this point there appears to be a convergence in thinking: education should be practical but the best preparation is not job-specific training but rather generic training. A sound general education provides the basis for quickly assimilating the specific training obtained on the job.

A number of education and training initiatives are directly linked to business development. The business assistance centers in community colleges and universities, customized training efforts, science and engineering education, and the prominent role of the private sector in the Job Training Partnership Act all constitute strategies directly attuned to the needs of businesses. While these initiatives provide further evidence that states are responding aggressively to economic change, the efforts are relatively small in the context of education's primary task, which is to prepare millions of individuals each year, through terminal programs or continuing education, for an enormous range of occupations. The challenge to

Figure 2
Direct Educational Expenditures per Capita by State, 1988



Reprinted with permission from *States and the Economy: Policymaking and Decentralization* by Robert H. Wilson, Praeger Publishers, an imprint of Greenwood Publishing Group, Inc., Westport, Connecticut.
 Source: U.S. Department of Education, *Digest of Education Statistics* (Washington, D.C., 1983-84 and 1991), pp. 16 and 38, respective years.

the educational systems is made more difficult given that the range of occupations and the numbers of individuals required in each occupation have been changing fairly dramatically and that the racial/ethnic composition of the student population is becoming increasingly diverse.

The Role of the States

State government leadership in education and training results from several factors. First and foremost, the major responsibility for the provision of education falls to the states. The dynamics of change, however, vary among the three types of institutions, public schools, community colleges, and institutions of higher education. Citizen concerns about public schools are expressed directly to school boards. Local control, even when eroded by state legislatures and boards of education, makes school reform and finance very salient issues. While many reform proposals emanate from educators, the process of debating and deciding on reforms incorporates broad public participation, and structural reforms are most often adopted at the state, not the local,

level.

In contrast, community colleges and other two-year institutions have for much of their history been attempting to establish missions that would garner public and business support, but only recently have they consolidated a sound institutional base and mission. They did so by identifying an unfilled need—workers with postsecondary education—produced by economic change, and enrollment has increased substantially in recent decades. University systems, in contrast, hold a privileged position among public institutions of education and rely much more heavily on internal planning than on external forces to shape their activities. Universities have responded to the human resource needs of the more technologically oriented sectors of the economy in many states and have proven to be crucial elements in several states with historically small, technically and scientifically trained labor forces. However, the continuing fiscal crises of states even threaten the independence long enjoyed by universities.

Although the federal government provides high levels of funding for specific activities, such

as job training, and has played a critical regulatory role in desegregation, on balance education continues to be considered as principally a responsibility of state and local government. The perceived inadequacies of the educational system have certainly arisen in national forums—but have not resulted in significant and far-reaching federal initiatives. The principal forum for addressing the widespread concern with education is the National Governors Association. In some respects, this organization has eclipsed the prerogatives of the federal government and certainly of the federal executive branch. While the lack of consensus may suggest that the issue is not yet sufficiently ripe for federal action, it is just as likely that divided federal government and the budget deficit will minimize federal leadership at least in terms of funding.

Imperatives of the international marketplace and federal policymaking may constrain the effectiveness and limit the range of initiatives of

state governments. Nevertheless, states are responding in innovative ways, and new state institutions and expenditure patterns are evolving to meet the needs of the emerging economy. As during other important economic junctures in the country's history, those states that understand and take advantage of the changing circumstances are in a better position to ensure their future prosperity. Although competition among states for external resources will not abate, the challenges presented by structural change and the politics of development policymaking have converged to force states to place greater emphasis on developing their internal resources, and this will prove useful to the states and the country.

— *Robert H. Wilson*
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Enrollments in Institutions of Higher Education, 1970–1989 (in thousands)

Year	All institutions			Four-year institutions			Two-year institutions		
	Total	Public	Private	Total	Public	Private	Total	Public	Private
1970	8,581	6,428	2,153	6,262	4,233	2,029	2,319	2,195	124
1975	11,185	8,834	2,351	7,215	4,998	2,217	3,970	3,836	134
1980	12,097	9,458	2,639	7,571	5,129	2,442	4,526	4,329	197 ¹
1985	12,247	9,480	2,767	7,716	5,210	2,506	4,531	4,270	261
1989 ²	13,458	10,515	2,943	8,374	5,694	2,680	5,084	4,820	263

¹ Large increase is due to the addition of schools accredited by the National Association of Trade and Technical Schools.

² Preliminary data.

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Source: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics* (Washington, D.C., 1991), table 167.

Funding Education in Texas

The 74th Texas Legislature opened to fiscal projections calling for a \$300 million decrease in higher education funding. Despite budgetary constraints, most of the proposed decreases were not enacted. Rather, with the biennium beginning September 1, 1995, public higher education will see a funding *increase*. Before adjusting for the 1.26 percent reduction for most general revenue appropriations, All Funds appropriations were increased by \$383.1 million, or 4.3 percent more than was granted for the current biennium.

The tables below provide a summary of the appropriations relevant to higher education in the state.

Table 1
State of Texas
Changes in Spending Authority for Some Functions
1996-97 from 1994-95 Biennium

Function	Amount (in millions)	Change (percentage)
General government	(114.9)	(5.9)
Health and human services	2,408.5	10.0
Education		
Public schools	2,015.6	10.5
Public higher education	383.1	4.3
Other	(98.7)	(3.0)
Subtotal, education	2,300.0	7.3
Judiciary	7.8	3.1
Public safety and criminal justice	(407.0)	(5.6)
Natural resources	258.4	17.5
Business and economic development	530.1	6.4
Regulatory	29.7	7.7
Other	(324.1)	(147.9)
Total change	4,688.5	6.2

Note: These data do not reflect a 1.26 percent reduction to be levied on most general revenue appropriations. Certain items, such as funds pledged to the payment of bonds or notes, will be exempt from the reduction.

Table 2
Changes in Spending Authority within the
Public Higher Education Category

Category	Amount (in millions)	Change (percentage)
Community colleges & other two-year institutions	(2.5)	(0.2)
General academic institutions	156.6	4.6
Health-related institutions	(92.3)	(3.4)
Higher education fund	250.0	125.0
All other higher education	71.3	5.4
Total change	383.1	4.3

Source: The University of Texas System, "Highlights of the 74th Texas Legislature, Regular Session," June 1995.

Announcements

The fourth edition of the **Natural Fibers Fact Book** is available. This new edition contains the most current statistical data on cotton, wool, mohair, oilseeds, and textiles, with particular emphasis on Texas production, quality, end use, and trade data. The price is \$15.00 plus tax. Also available by subscription is the **Natural Fibers Electronic Newsletter**. To order the fact book or for information about the newsletter, call (512) 471-5179 or fax (512) 471-1063.

The Bureau has recently received personal income and per capita income data for 1993 from the U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C. Data are available for 1969 through 1993 by county, metropolitan area, and state. For more information, call (512) 471-5180.

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