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Reversing the Balance Wheel Principle

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Introduction

The aim of the paper is to discuss and summarize the main issues connected with state funding policies in higher education. Using the concepts of 'balance wheel' and 'roller coasters', it tries to consider the possibility of reversing the *balance wheel principle* during the times of economic recession, and to evaluate its effect on *roller coaster pattern*. It makes an attempt to consider alternative ways of state funding of higher education, particularly in times of economic crisis. Furthermore, certain important issues related to the state funding policies of higher education are raised and discussed throughout the paper: public value of higher education relative to other public sectors, social return versus private return to higher education, changing demographics, increasing student numbers and diversity, the increasing value of higher-level qualifications on the competitive job market, and the most challenging task facing academia - rising tuition fees. All these issues are to a certain degree associated with the state appropriation policies towards higher education. Therefore, the paper touches upon these issues in relation to state funding of higher education.

The main challenge of higher education – defining its public good value

The major challenge facing the higher education in the times of economic downturn is meeting the increasing demands with limited resources. Cutting state appropriations to higher education in such periods necessitates the search for alternative funding sources, which in the most cases is reflected in the rise of tuition fees and which directly affects student affordability. This issue is connected with universal access and equity.

Besides, another issue that rises in regards to state funding policies during recessions is that financial shortage turns university into a market-driven corporate-type organization, because economic crisis necessitates certain strategic changes in university management and operation that are business-oriented. These tendencies have often risen discussions regarding public versus private value of university and its significance relative to other public sectors like Medicare and Medicaid. The success of proving the public-value priority is directly related to the decision of state government on which sector receives more funding support. It is a fact that higher education has been the 'traditional biggest loser' of public funds in times of recession. The well-known arguments of its self-sustained nature for generating private funds and its easier adaptability to changing environment compared to other public sectors, have produced the notion of a 'balance wheel' principle (Hovey, 1999) in the sphere of higher education finance. This means that in times of economic hardships the state government cuts the largest portion of funds to higher education, and vice versa, in times of economic prosperity, the higher education receives a large lump-sum of state funding. Therefore, as already mentioned, the paper tries to consider the possibility of turning the balance wheel in opposite direction during recession periods, i.e. not cutting funds to it but on the contrary, giving it an increased support, which is especially important if the changing demographics, growing numbers of minority and low-SES students and the necessity of higher education for future economic development are considered. Moreover, all the major issues – access, equity and quality – are affected by state policies towards higher education. As Callan (2001) notes, 'Historically, public policy – state and federal – has been the engine driving opportunity in the United States. Whenever the nation has sought to expand opportunity or to create a more level playing field, colleges and universities have responded. And in the future as in the past, the defining element of educational opportunity will be access: which individuals and groups are included and which excluded. Opportunity will continue to flow from society's values and priorities as expressed in the policies of state and federal political bodies. Higher education opportunity is inextricably tied to overarching questions about the distribution of public resources and to the priorities and incentives – explicit and implicit – that affect government's support of students and institutions' (Callan, 2001: 93). Thus, success of proving the public good value of higher education is tied to receiving public resources that will enable universities to retain those core values, and open access to the growing number of students and maintain the quality of instruction at the same time.

Key issues of state policies towards higher education funding

The key questions in drafting state policy regarding higher education have usually been: how many institutions are there? What type of institutions are they? Where are they located? How are they supported? How are resources allocated among them? These questions become even more important and call for deeper scrutiny in the times of economic recessions when the lack of resources and funds hamper the realization of the missions of universal access, equity and high quality.

Besides, one of the tensions in the policy debates on affordability is the extent to which declining state support has been the culprit, forcing institutions to raise tuition sharply, versus the view that inefficiency is the real culprit, with lax management and an institutional "arms race" for prestige driving costs far higher than they need be (Breneman, D. 2006: 2A).

It should be emphasized that the issue of state funding of higher education needs to be considered together with external socioeconomic factors. 'Neither the problems nor the solutions to the issues of opportunity are likely to be found by examining higher education in a vacuum' (Callan, 2001: 93). As Callan notes, three major factors should be taken into consideration while analyzing state funding policies of higher education. The first factor is that each state has a unique higher education system. The second factor is that each state has a unique revenue and budgetary processes. The third factor to be considered is that each recession is a unique, unpredictable event (Callan, 2002). Berry and Berry (1999) also mention the influence of social, political and economic factors in state policy adoption process, 'Internal determinants models presume that the factors causing a state to adopt a new program or policy are political, economic, and social characteristics of the state. …Such models assume that once a state is aware of the policy, it is internal characteristics of the state that determine if and when an adoption will occur' (Berry and Berry, 1999). McGuinness (2005) stresses the importance of political and economic dynamics of each state while drafting state policies in regards to higher education, 'In addition to the obvious differences in size, population, and enrollments, the fifty states differ significantly in history, culture, and political and economic dynamics. These differences are further reflected in overall performance of their higher education systems, financing policies, governance, and in state regulatory culture related to higher education' (McGuinness, 2005: 205).

State appropriations are the most widely-spread type of state funding of higher education institutions. Performance-based funding (Lingenfelter, 2008; Herbst, 2007) based on institutions' meeting benchmark, improving performance through increased student achievement and graduation numbers, and other quantifiable measures is a considerable contribution to universities' financial viability and further development. The issues like quality control, academic freedom, institutional accountability and autonomy naturally rise while designing the state policies on higher education funding.

The states finance universities based on certain criteria. The progress of each state in higher education improvement is reported by the initiative, *Measuring Up*, where the evaluations of the performance of states in regards to the level of success in higher education system are presented biennially. *Measuring Up 2008* focuses exclusively on results, outcomes, and improvements. State performance is evaluated, compared, and graded in six key areas:

1. **Preparation for college:** How well are high school students prepared to enroll in higher education and succeed in college-level courses?
2. **Participation:** Do young people and working age adults have access to opportunities for education and training beyond high school?
3. **Affordability:** How difficult is it to pay for college when family income, the cost of attending college, and student financial aid are taken into account?
4. **Completion:** Do students persist in and complete certificate and degree programs in college?
5. **Benefits:** How do college-educated and trained residents contribute to the economic and civic well-being of each state?
6. **Learning:** How do college-educated residents perform on a variety of measures of knowledge and skills?

These indicators help policymakers and state officials draft future policies on supporting higher education in each state. These measurements might be most useful during recession periods to monitor the economic influences on higher education.

What is special about the year 2008?

The year 2008 presents certain specific challenges to higher education. Increasing enrollments, changing demographics, particularly, growing numbers of ethnic minority and low-SES students, and decreasing resources to meet the demand are among the most significant processes that the state officials and policymakers need to consider while designing new policies. 'The number of high school graduates began to increase in the mid-1990s and will continue to increase through 2008, when the nation will graduate the largest public high school class in its history – 3.2 million students – exceeding the class of 1979, the peak year of the baby boom, by more than 60, 000 graduates. The class of 2008 will include 332,000 graduates from private high schools (an increase of about 30% over the mid-1990s) (Western Interstate Commission for Higher Education and the College Board 1999, in Callan, 2002: 10). The increase in high school graduates naturally means the increase in student applicants, and considering the demographic changes, it means the growth of diversity in student body. 'States that experience budget shortfalls in this decade will face a situation quite different from that in the last recession: the new fiscal constraints will come during a period of growing enrollment demand. Over the next 10 years the student body will also become increasingly diverse. It will include larger proportions of students from low-income families and from historically underrepresented ethnic groups' (Callan, 2002: v).

Besides, the increased student numbers necessitate extra funds and facilities. 'By 2008, some two million additional students will seek entry into our colleges and universities (National Center for Education Statistics, 1998), but projected state support will not be commensurate with that growth. Costly construction of new facilities, the past solution to growth, is unlikely, given the political limits to raising taxes and shifting funds from other public services, such as public K-12 schools, health care, or welfare, all of which have legitimate claims on public funds' (Hovey, 1999 in Callan, 2001: 85). Hence, the competition for state appropriations presents further challenge.

Competition for state appropriations

Healthcare, K-12 schools and higher education have always been competing for state funds by proving their supremacy in 'producing more valuable public good' than others. As already mentioned, higher education has traditionally lost larger share of public funds than other public services in times of economic recessions. 'In state budgets during that recession, higher education was the biggest loser with respect to share' (Gold, 1995 in Callan, 2001: 85). As an instance, during the recession of the 1990s, for the country as a whole, 'the share of higher education in state budgeting dropped from 14 percent in 1990 to 12.5 percent in 1994, a 10.7 percent reduction in overall spending for higher education. Even more significantly, between 1992 and 1994, for the first time in forty years, there was an absolute decline in state dollars spent on higher education' (Callan, Finney, Braco, & Doyle, 1997 in Callan, 2001: 85).

State priorities in terms of budget allocation changed significantly. 'From 1990 to 1992, Medicaid began crushing state budgets with annual increases of 20.6 percent, 28.0 percent, and 29.5 percent…Medicaid's share of state spending nearly doubled from 10.2 to 19.2 percent of state budgets from 1987 to 1995. In 1990, Medicaid spending first displaced higher education as the second largest state spending category, second only to elementary and secondary education' (Roherty, 1997: 4-5). As a result of redirecting the priorities, higher education funding system was modified to keep pace with the ongoing developments. The modification was reflected in the introduction of business-oriented strategies, and in the most cases in the increase of tuition costs. These strategies again raised controversies regarding public good value of university.

Tuition fees and state appropriations

Rising tuition fees has been one of the debatable issues related to higher education funding policies (Geller, 2004; Heller, 2001; Kane, 1999; McGuiness, Jr., 2005). The response of states, colleges, and universities to the deep cuts in state budgets is to increase tuition. In 1993-94, for instance, tuition increases surpassed state appropriations as the largest revenue source for higher education…. During the strong economy and with growing state appropriations to higher education, states and colleges are unlikely to move aggressively to raise tuition in order to capture federal dollars. However, when the economy turns down, states will face lower revenues and colleges and universities will see reduced budgetary increases, perhaps even cuts. Whether the states and the higher education institutions will continue their self-imposed restraints on large tuition increases remains to be seen' (Callan, 2001: 86-92).

There is a clear evidence that if state appropriations are curtailed to higher education, the need to increase tuition and fees naturally rises. Hauptman (1990) discusses the explanations for the rise of college charges that are often given by the institutions: colleges face increasing prices for what they purchase; colleges are using tuition increases to finance expanded or improved services; the proportion of revenues from nontuition sources is contracting; increased availability of student aid has led colleges to raise their student charges; competitive pressures have convinced many colleges to increase their tuitions (Hauptman with Merisotis, 1990: 26-27). Therefore, state appropriations act as a kind of leverage to halt the tuition rise

‘In the public sector, tuition and fees from students are roughly 15 percent of total current fund revenues. For these institutions, state appropriations are a much larger source of funds than tuitions, representing 45 percent of all public sector revenues. From the perspective of tuitions as a percentage of what it costs to educate students, tuition and fee revenues are about 20 percent of education and general (E & G) expenditures at public institutions (Hauptman with Merisotis, 1990: 9). Hence, curtailing state appropriations to public universities means depriving them of the crucial portion of the source of their viability and triggering them to rise tuition and fees. ‘State and federal policies in the 1980s and 1990s did little to address the educational opportunity gaps as they emerged and widened. From the early 1980s to the mid-1990s, states shifted responsibility for higher education away from taxpayers and toward students and their families, as tuition rates for public higher education increased by about a third (in real terms) without commensurate increases in need-based student financial assistance. Between 1980-81 and 1994-95, the percentage of college and university revenues derived from tuition increased by 32.9 percent, while that derived from state government declined by 21.6 percent (National Center for Education Statistics, 1998: 343 in Callan, 2001: 87). During roughly the same period (1976-77 to 1996-97), tuition and fees at public institutions increased by 375 percent, although the Consumer Price Index increased by slightly more than 150 percent (Institute for Higher Education Policy, 1999: 12 in Callan, 2001: 87). The incomes of some segments of the population may have matched these increases in tuition, but the increases had a decidedly disproportionate and adverse impact on low-income families (Callan, 2001: 87). ‘In New York State, for instance, between 1990 and 1995, tuition increased from 4.2 to 7.7 percent of median household income; in California, the increase was from 1.7 to 3.1 percent (Halstead, 1998: 11, 67 in Callan, 2001: 87). In California, the combination of tuition increases and reduced state appropriations drove down higher education enrollments (particularly in the state university and community college systems) by two hundred thousand at a time when the rate of unemployment was approaching 10 percent (Usdan & Callan, 1998: 29 in Callan, 2001: 87).

In times of economic recession there is high rate of unemployment. The youth aspires to receive better education for improving future career chances under the conditions of rising competition. However, if the increase of tuition costs hampers enrollments, the natural consequence is the loss of human capital (Schultz, 1961). This fact exacerbates economic crisis. It causes brain drain to other states (or countries), and hence, adversely affects economy.

However, another side of the argument is that ‘when the states contribute more to public institutions, tuitions, by formula, will tend to rise faster than when the states’ funding is more constrained’ (Hauptman with Merisotis, 1990: 16). Hence, the issue of regulating tuition price rises. The questions discussed in this respect are the following: who should regulate the price? Should the state be authorized to regulate the prices? If yes, then the issue of institutional autonomy rises. Universities obviously are against state regulation, because they perceive it as an intrusion in their autonomy. However, on the other side the state government has to address the issue of affordability. Therefore, this issue presents a kind of chicken-and-egg dilemma to policymakers, state officials and universities.

Hauptman and Merisotis (1990) offer “Rainy Day” budgeting approach while discussing the tuition rise dilemma. ‘Tuition / funding formulas can strain institutional budgets during times of economic recession, as revenues are reduced both because of lesser availability of state funds and lower tuition revenues. A preferable alternative would be for states and public institutions to smooth out these cyclical effects by setting up reserve funds when state funds are more plentiful to supplement the funding that is available during economic hard times. This kind of “rainy day” budgeting approach would help to protect students enrolled in public sector institutions against large-scale tuition increases such as those that occurred during the recession of the early 1980s’ (Hauptman with Merisotis, 1990: 16).

Another important issue to be considered in the tuition rise issue is the factor of the influence of external agents and political manipulations. Political aspirations of the state governors often influence the policy decision-making significantly. ‘In California and New York, Governors Pete Wilson and George Pataki advocated or supported steep tuition increases in the early and mid-1990s. Facing adverse public opinion and with reelection campaigns ahead, both governors backed away from their earlier positions. In Governor Wilson’s case, this meant the reversal of a negotiated agreement with public college and university leaders that called for future tuition increases of 10 percent a year. Prior to Wilson’s reversal, Gray Davis – the prospective gubernatorial candidate who became governor of California in 1999 – proposed a (failed) amendment to the state constitution that would have frozen tuition and restricted future increases' (Callan, 2001: 88).

Which Way to Turn 'A Balance Wheel'?

Changes in socio-political and economic spheres influence higher education policies. The above discussed issues of affordability and tuition rise are directly affected by the external factors. 'Significant changes in the societal context of U.S. colleges and universities – demographic, economic, and technological – are already beginning to force us to reconsider traditional policies and practices' (Callan, 2001: 83). Hence, finding novel ways of implementing traditional policies seem to be becoming increasingly appealing to educators, policymakers, lawmakers and state officials. Reversing the traditional *balance wheel effect* (Hovey, 1999) policy could serve as one interesting example to illustrate the point.

As already mentioned, a common assumption has always claimed that in the periods of economic downturn higher education receives the first blow of budget cuts. 'Colleges and universities have done disproportionately well in times of good state budgets and disproportionately poorly in tight budgetary times'– the phenomenon or action usually known as the *balance wheel effect* (Hovey, 1999). However, a recent article from the *Chronicle of Higher Education* highlights a different approach to the matter offered by the education officials and authorities in Midwestern States. Having considered the economic crisis facing the states, the state officials came to the conclusion that they can actually turn this process to the benefit of higher education rather than cut its budget.

> 'Paradoxically, being in such a difficult economic environment seems to have worked to the benefit of many of the region's public colleges as the nation's economy took a downturn this year. That's because state officials throughout the Midwest have

come to see public colleges as key players in the long-term transformation of their economies, and look to them to provide needed work-force training and spawn new industries. Rather than regarding spending on higher education as discretionary enough to be slashed when times get tough, many lawmakers have come around to the view that pulling their states out of economic trouble requires putting more money into public colleges and student aid. In a reversal from how they dealt with past economic downturns, those Midwestern states that faced budget deficits this year seemed less inclined to cut appropriations to public colleges to free up money for other needs than they were to cut spending on other programs while trying to keep public colleges' budgets intact.

"I think there is a real good understanding among policy makers in the Midwest that the path to economic security and stability runs through the college campus," says Larry A. Isaak, president of the Midwestern Higher Education Compact, an organization that tracks policy developments in the region. Mr. Isaak says governors and legislators throughout the region now realize that they need to be getting their constituents into college if those people are to make a decent living and the state economies are to be nationally and globally competitive. "The difficulty they have," he says, "is finding resources to do that in the most effective way". Governor Strickland, a Democrat, persuaded lawmakers to pass a package of bills calling for the state to spend $250-million in bond funds over five years to train more Ohio residents in fields related to science, engineering, mathematics, and technology. The 2007-9 biennial budget that Wisconsin lawmakers approved in November 2007 included $10-million to finance the creation of a "star fund" at the University of Wisconsin at Madison, to help it recruit talented professors and keep faculty members from being lured away. Getting more people through college was both a major priority and a challenge for many of the Midwest's leaders. Not only are most states in the region experiencing little population growth or outright population declines, they also are becoming much more racially and ethnically diverse, making it imperative for them to do a better job educating minority and low-income students if they are to have a well-educated work force' (*States Look to Transform Their Economies and Improve College Completion, The Chronicle of Higher Education, 2008, No. 55)*.

In addition to the arguments mentioned in the article, one might consider another fact that cutting public funds to higher education institutions turns them into business-like enterprises. While in some instances this process brings financial gains to universities, the general counter-argument is that corporate-type governance of academia puts certain core values characteristic of higher education under question. 'Social institutions such as universities and colleges serve long-standing and stable missions for society and have core set of values to support such a mission' (Gumport, 2000, cited in Kezar, 2004: 430). Therefore, shifting the financial burden towards higher education institutions might cause the decline of efficiency of academic work. This in most cases pertains to study programs, curriculum, and autonomy of academic staff. ‘If we continue to subsume the academic functions of the university into its corporate identity, building institutions for the sake of the institutions themselves and losing sight of the fact that it is in teaching, research and scholarship that universities make their distinctive social contributions, we will impoverish the university as institution and pave the way for the shift of its academic functions into a generic corporate environment’ (Marginson & Considine, 2000: 35, cited in Kezar, 2004: 429). Furthermore, if we consider universities as political systems (Birnbaum, 1991), where ‘economically prestigious’ departments bring in most money and enjoy more power and influence over others, in the case of shrinking state funds to public universities, livelihood of less financially profitable departments, might be at stake. This way the values of comprehensive, creative education might also be lost.

Besides, ‘An open systems approach is also receiving some attention in recent years, and the emphasis has expanded beyond structure. Clark (1998), Eckel (2003), Gumport and Pusser (1999), and Leslie and Fretwell (1996) (cited in Kezar and Eckel, 2004: 384), examined governance from an open systems perspective, focusing on how broader economic, political, and cultural forces affect campus decision making. They showed how shrinking public funding causes institutions to grapple with harder decisions that need to be made rapidly, the need to accommodate more students with less money, and the rise of accountability related to decision making’ (Kezar & Eckel, 2004: 384).

If after the above arguments, short-term results of *the reversed balance wheel effect* policy still do not seem so clear, longitudinal studies might appear a useful way to track the longer-term results of increased state funding of higher education in the form of more socially and economically engaged youth (ethnic minorities and low SES, in particular), better healthcare and less crime rates. This way higher education will prove both its 'public good' mission and act as an effective contributor to business and economy, in which case public funding will justify itself. After all, one might ask a question: perhaps a number of economic downturns (if not all of them) could actually derive from increasing lack of access to higher education in youth? In response to the posed question, 'Critics suggest that diverting resources from higher education will lead to growing economic and social disparities, increased expenditure on social welfare programs, inability to compete in an increasingly technological world economy, declining quality of living, and diminished civic engagement' (Higher Education Research Institute, 1998, in Kezar, 2004: 431). 'Public opinion surveys during this time of economic volatility and significant hardship showed that the middle class in particular feared that higher education, just when it seemed more essential than ever, was becoming less accessible' (Callan, 2001: 87-88). Therefore, policymakers, educators and law makers should consider all the above arguments when asking a question: which way to turn *a balance wheel* when we are standing at the crossroads of communitarian (education as social / public good), neoliberal (education for individual gains), and utilitarian (the blend of the two) philosophies?

Diffusing and evaluating the policy

Leader-Laggard Model

It could be assumed that by not cutting state budgets to higher education, the Midwestern states provided an example of regional diffusion and *Leader-Laggard Models* for all the other states (Berry and Berry, 1999). Moreover, if this horizontal diffusion model turns into a nationwide vertical influence model (Berry and Berry, 1999), the *Reversed Balance Wheel* principle might yield certain significant results in terms of access to higher education. The only difference would be that instead of national government, the Midwestern states would serve as policy pioneers in spreading the policy to Northeastern states. However, as already noted in the beginning, each state has its history of socioeconomic and political development and its peculiarities of education system. Besides, the standard of living, GDP per capita, demographic composition and labor market opportunities of each state will condition different developments of adjustment of the policy. Therefore, constant evaluation and monitoring of the innovation should be the solution.

Opting for Event History Analysis?

The optimal method to evaluate and monitor the success of the policy could be the event history analysis. 'In event history analysis, we conceive of a risk set, that is, the states that (at any point) are at risk of adopting the policy in question because they have not previously adopted' (Berry and Berry, 1999: 190). The peculiarity of the policy of the Reversed Balance Wheel is that there is no previous precedent of adopting such a policy in previous years in any of the states. There is no collective memory of adopting such a policy. Besides, 'The dependent variable – being the probability that a state in the risk set will adopt during year t – is not directly observable' (Berry and Berry, 1999: 190). Therefore, implementing maximum likelihood techniques might present certain challenges to the educators. However, if each individual state undertakes continuous assessment of the progress of the policy, the results will be beneficial not only for the education system but for the economy and social wellbeing as well.

Changing the Roller Coaster Pattern - Who pays and who benefits?

As already discussed above, tuition rise is affected by economic fluctuations. It is a well-known fact that 'public higher education tuition is on a roller-coaster pattern because, regardless of formulas, it remains stable or is even reduced when state funds are sufficient to cover the cost of education. But when institutional costs rise to the point that higher revenues are needed or when state support decreases or falls below expectations, tuition is increased. One generation of students coasts downhill with stable or even declining real tuition charges: the next labors uphill with the increased price. In difficult economic times, all attempts to rationalize tuition policies founder. But the roller-coaster pattern continues: during a recession students pay higher tuition, and their successors may benefit from a backlash that reduces the price' (Callan, 2002: 16). Therefore, it becomes evident that certain generations are put at a disadvantage at the expense of more 'fortunate generations'. This fact might breed the feeling of social injustice, and cause social segregation of the public. Therefore, the issues of public value of education once again justify the importance of the *reversed balance wheel principle* that will regulate the *roller coaster pattern* and leverage the education opportunities of different generations.

Besides, the discussions on private and social rates-of-return to tertiary education appear to play a significant role in further fortifying the public good value of education, and hence, the importance of maintaining state appropriations to higher education for balancing *roller coaster pattern* and yielding benefits to the wider public. 'In the early 1970s, the Carnegie Commission on Higher Education completed a landmark study that evaluated individual and societal benefits – and responsibilities – regarding higher education. ‘It was the Carnegie Commission that provided the classic formulation of the question that came to shape the public policy toward higher education: “Who pays? Who benefits? Who should pay?” The commission’s own answer, echoing the success of the California Master Plan, was that higher education benefits not just the individual but society as a whole; the return on the societal investment is not an educated citizenry but a more vital and productive national work force’ (Zemsky and Wegner, 1997: 61).

In June 1973, the commission concluded that in relation to higher education, “the proportion of total economic costs borne privately (about two-thirds) as against the proportion of total economic costs now borne publicly (about one-third) is generally reasonable” (Breneman and Finney, 1997: 30). Private and social-rates of return to higher education raised a number of questions for policymakers in order to help them justify the finances spent on it and the policies conducted to maintain the effective higher education system.

The widely debated issue on who should pay for higher education and who actually benefits engendered the discussions on private and social rates-of-return to higher education, where the unmeasurable social benefits are widely debated and where Rawlsian (1971) theory of social justice seems to be the most plausible rationale for financing higher education. As already noted, the economic benefits are still to be evaluated.

It is rather difficult to measure the benefits of investment that might often not be immediately tangible but that can show up benefits in the long-run. ‘Instructional products, delivered primarily as degrees or courses, often generate a value unmeasurable except over 5-to-10-year periods, well beyond any budgeted point of delivery' (Lombardi and Capaldi, 1996).

In addition, the results of measuring rates-of-return have been 'sensitive to different estimation techniques (Cohn & Hughes, 1994; Eckaus, 1973 in Heyneman, 1995: 563). 'Nor has there been much progress incorporating student responsibility and effort, or classroom condotions into the models, in spite of the fact that these factors are critical determinants of the 'opportunity to teach' (Killingworth, 1993 in Heyneman, 1995: 563).

'No one has yet developed a method for estimating the total return that society is getting or might get on its investments in higher education' (Rivlin, 1961, p.137 in Heyneman, 1995: 564). However, even if the individual rates-of return appear to be higher than social, we should always bear in mind Adam Smith theory stating that if each and every individual benefits than the society at large benefits.

Furthermore, 'Gutman reminds us that, in a democracy, whenever there is insufficient empirical evidence to answer a question conclusively, the highest authorities in determining public policy are representatives elected by the voters. And if they choose to subsidize higher education, there is no evidence strong enough to suggest that this is a mistake' (Heyneman, 1995: 567).

The state should design – and it is its primary duty - a general framework conducive to reaping high social returns from higher education. If private fund – raising, diversification of sources and business entrepreneurship are increasingly falling on the shoulders of higher education institutions individually, then the responsibility of the state should be to create the favorable socio-political or economic environment, so that the whole public at large – within and without the higher education realms – reaps the social benefits of higher education that is revealed not only in better health conditions and social stability but in general social cohesion

(Heyneman, 2007) and public integration as well. As Seville and Tooley (1997) argue, the state should turn higher education into general public good, so that even those who do not have opportunity to go to higher education institutions benefit from the common good created and produced by those who are fortunate enough to go through the higher education experience.

Therefore, private versus social returns to education raise an important issue for the future of higher education funding. The social and private rates-of-return to higher education should be further investigated, more precisely, scrutinized in order to produce reliable and tangible results.

Conclusion

In conclusion, state policies towards higher education influence different spheres of socio-economic development of society, affect human capital production and contribute to the wider social welfare. ‘Recession will test our nation’s values and priorities. What will the states and the colleges choose to protect during a time of difficult choices? College has become the gateway to full participation in American life, and the stakes in maintaining and enhancing college opportunity have never been greater (Callan, 2002: 20). Cutting of budget to education as a way out of the difficult economic situation should never be approved. On the contrary, the lack of education should be considered as one of the major befallen misfortunes and hence, the support for education should be unquestionable.

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