

**Higher Education Appropriations and Public Universities:
The Role of Medicaid and the Business Cycle**

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In the United States, state governments historically have taken the lead in financing higher education. Over the past twenty years, state government support for higher education has gradually waned. One result has been the widely publicized rise in tuition at public institutions. Another result, less well recognized, has been a widening gap in expenditures per student and average faculty salaries between public and private institutions. In this paper, we document the substantial decline in state support for higher education and explore the effects of the business cycle on higher education subsidies. We also examine the relationship between the Medicaid program and state higher education spending, and look at the impact of declines in state appropriations on the relative quality of public higher education institutions. The underlying story that emerges from this analysis is that pressure from other state budget items, especially Medicaid, has been crowding out appropriations for higher education. Reductions in higher education appropriations during the recession in the early 1990s were made permanent, as states struggled with mounting Medicaid costs. At the same time, state policymakers have been hesitant to raise tuition to fully offset these cuts — resulting in widening gaps in faculty salaries, faculty/student ratios, and expenditures per pupil between public and private institutions. These pressures will be exacerbated by demographic and social shifts in the future.