The Promise and Perils of Universal Higher Education

The Business Cycle

The ability to increase college enrollments—particularly the enrollment of students from low-income backgrounds—varies over the business cycle. In a recession, student ability to pay often declines, necessitating a concomitant increase in price discounts to maintain the economic diversity of our nation’s campuses. However, recessions are precisely when institutions and state and federal governments feel pressure to limit, rather than increase, financial aid. At private colleges, an economic downturn typically means sluggish endowment growth or even absolute decline, as was the case nationally during the 2000–01 and 2001–02 academic years. Given the squeeze in this nontuition revenue source, colleges find it especially dif-
ficult to increase the gap between sticker price and net tuition revenue.

Public institutions’ principal revenue source, state appropriations, is very tightly linked with the business cycle. The decline over the past decade in the share of the state budget going to higher education (as health care, in particular, has garnered a rising share) means that a reduction in overall state spending has an even more disastrous impact on public colleges and universities than was previously the case. Further, a growing deficit makes it difficult for the federal government to make up for the loss of institutional revenues, either by increasing federal grants and contracts (reducing pressure on the budgets of research universities) or by directly increasing federal financial aid. The bottom line is that prospects for increased access are much better when the economy is flourishing than when it is not.

Access to Higher Education

While the U.S. enrollment rate is the envy of much of the world—around two-thirds of high school graduates enroll at one of the nation’s 3,500 or so nonprofit colleges and universities within one year of graduation—the discussion from the 2002 Ford Policy Forum made it clear that a number of other countries are engaging in substantive reforms of their higher education systems with an eye toward surpassing the United States in terms of access. Innovations abroad include voucher-type funding schemes, moves toward decentralization while at the same time attempting to avoid the negative consequences of unbridled competition, and, in general, trying to better align private and public goals.

What are the prospects and perils of universal higher education in this country? Sandy Baum, economics professor at Skidmore College and an independent consultant on financing issues, knows more about how students pay for college than just about anybody. Her work on student loans, for example, has changed the way many policy makers and researchers consider that all-important issue. Tom Kane, professor of policy studies and economics at the University of California, Los Angeles, is one of the premier researchers on higher education economics in the world. Jim Rosenbaum is a professor of sociology, education, and social policy at Northwestern University. His most recent book considers a topic crucial to the one at hand—career options for young men and women who choose the job market over higher education.

The experiences of these scholars, who represent two disciplinary perspectives (economics and sociology) and are employed within different sectors of higher education (a private liberal arts college, a public research university, and a private research university), along with their range of expertise, have helped us focus on the broad range of challenges associated with universal access.

Inequities

We are justifiably proud of the access gains achieved in this country. As noted in last year’s report, Ford Policy Forum 2003, a study by the Organization for Economic Cooperation and Development found that 33 percent of the relevant age cohort in the United States in 1999 had received bachelor’s degrees versus, for example, 16 percent in Italy and Germany and 29 percent in Japan and Canada. But even with 2 out of 3 high school graduates enrolling in college, and 1 out of 3 young men and women earning four-year degrees, we are left far from what most would define as universal access. Jim Rosenbaum emphasizes the striking difference between college enrollment rates and graduation rates, arguing that this gap results at least in part from the fact that large numbers of high school students have less-than-adequate college preparation. Even of those who are prepared, many come from families with limited ability to contribute to their educational costs.

Whether the result of financial difficulties or otherwise, the persistent gap in enrollment rates between talented high school students from low-income families and those from affluent backgrounds is perhaps the most dis-
tressing aspect of the higher education scene in this country. Sandy Baum presents data showing that 97 percent of top high school performers from high-income backgrounds enroll in college, while only 78 percent of top high school performers from low-income backgrounds do so. Despite decades of policy discussions and massive government expenditures, a top-performing, low-income high school student is no more likely to attend college than a low-performing student from an affluent family.

Regardless of the value of low-performing students attending college (a topic Jim Rosenbaum addresses in detail), for our expansive higher education system to lose more than 1 out of 5 talented high school students from modest economic backgrounds is extremely problematic. This worry is exacerbated when considering the work on college choice in which the two of us have been engaged. Not only do more than 80 percent of the most affluent students in the country enroll somewhere in higher education, half of them choose one of the 150 or so moderately or highly selective schools—colleges and universities with national reputations and sizable educational subsidies (the difference between educational expenditures and the net price students pay). However, students from the lowest income brackets have enrollment rates in the neighborhood of 30 percent, and of those, only about 15 percent enroll at one of the nation’s selective schools. The probability that a student from a high-income family will attend a “name brand” institution is 40 out of 100 (80 percent times 50 percent). The comparable figure for a student from a low-income family is only 5 out of 100 (30 percent times 15 percent).

Do recent trends give us hope that these issues will be successfully addressed? Probably not. First, we face a record cohort of potential college students, but thus far have been unwilling to offer them affordable access. The graduating high school class of 2009 is expected to have some 3.2 million members, surpassing the all-time record set in the late 1970s. Many of these students will be unable to contribute toward the cost of their education in a way that public and private colleges would hope. Is it feasible that the kind of increase in need-based aid required to fill that gap will be forthcoming?

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State Funding and Medicaid

With nearly 4 out of 5 college students enrolled at a public college or university, public institutions will have to play the dominant role in moving toward universal access. Unfortunately, though, while the pool of state funds allocated to financial aid is small, over the past decade a higher and higher proportion of state financial aid has been distributed based on merit rather than need. As public institutions seek to move toward privatization in terms of increasing the share of revenues derived from tuition, they would be more successful at holding needy students harmless if they concentrated their scarce aid dollars on need. While we consider the movement of aid away from need and toward merit to be highly unfortunate, particularly when public institutions are increasing sticker prices at rapid rates, the larger problem involves the overall state allocation toward public higher education.

Tom Kane and his co-author, Peter Orszag, senior fellow at The Brookings Institution, show that the share of the state pie garnered by higher education has been falling, from 7.3 percent of state expenditures in 1977 to 5.3 percent in 2000. If the 1977 share had been maintained, state support of higher education would have been a whopping $21 billion higher than was actually the case. Is there hope of reversing this trend? Kane and Orszag show that as the share allocated to higher education has fallen (along with the share to infrastructure), the share to primary and secondary education has been maintained, and the share to corrections has risen slightly. Most of the increased expenditures have gone to Medicaid expenditures. As Kane and Orszag explain, incentives embodied in the Medicaid funding mechanism—states get a federal match for each dollar they spend—make it unlikely that the rise in the share of state expenditures going to Medicaid will be reversed without federal intervention. The message is as clear as
it is surprising: any hope for progress toward universal access to higher education in this country depends on the states’ ability to rein in Medicaid expenditures.

Federal Funding and the Deficit

Could the federal government step in and increase its contribution to health care, thereby releasing state funds that could go toward higher education? Could the federal government at the same time increase its own commitment to need-based aid? An examination of the facts makes it hard to be optimistic.

Table 1 shows that the federal budget picture is expected to worsen significantly over the course of the next decade. The Congressional Budget Office (CBO), on whose work the table relies, is required to base its official projections on current law. But current law, which shows the budget moving into surplus in 2012, includes various features that are not part of the current policy intentions of the administration or Congress. Indeed, some features of current law were designed more or less explicitly to understate the implications for future deficits of some recent and continuing policy commitments.

Thus, current law anticipates the expiration of recent tax-cutting legislation, even as the president strongly advocates extending these provisions. Similarly, it is widely anticipated that Congress will intervene to adjust the alternative minimum tax (AMT)—which has no automatic adjustment for inflation or for the recent reductions in tax rates—to prevent it from raising the taxes of many millions of taxpayers in the years to come. The official August 2003 projections from the CBO similarly had to ignore the costs of Medicare reforms (which had not passed Congress at that point) and also, by law, had to project that discretionary (nonentitlement) spending would grow at the rate of inflation rather than, more realistically, at the same rate as the economy.

Table 1.

<table>
<thead>
<tr>
<th>Projected Federal Budget Surpluses and Deficits (in billions)</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
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<tr>
<td>CBO Projections Based on Current Law</td>
<td>-480</td>
<td>-341</td>
<td>-225</td>
<td>-203</td>
<td>-197</td>
<td>-170</td>
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<tr>
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<tr>
<td>Extend Tax Cut</td>
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<td>-60</td>
<td>-118</td>
<td>-128</td>
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<td>-136</td>
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<td>Reform AMT</td>
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<td>-8</td>
<td>-25</td>
<td>-37</td>
<td>-51</td>
<td>-68</td>
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<tr>
<td>Reform Medicare</td>
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<td>-10</td>
<td>-34</td>
<td>-42</td>
<td>-49</td>
<td>-55</td>
</tr>
<tr>
<td>Discretionary Growth</td>
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<td>-36</td>
<td>-65</td>
<td>-99</td>
<td>-135</td>
<td>-174</td>
</tr>
<tr>
<td>Total</td>
<td>-16</td>
<td>-114</td>
<td>-242</td>
<td>-306</td>
<td>-363</td>
<td>-433</td>
</tr>
<tr>
<td>Projections Based on Current Policy</td>
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<td>-455</td>
<td>-467</td>
<td>-509</td>
<td>-560</td>
<td>-603</td>
</tr>
</tbody>
</table>

Conclusion

When all the appropriate adjustments are made to produce more realistic federal budget projections, it becomes clear that the nation’s budget deficit is likely to continue to rise throughout the coming decade. Thus, only a dramatic reversal of current federal fiscal priorities could free up resources that might enable the federal government to ease the burden of growing medical care costs facing the states, or to substantially expand its own investments in higher education.

Whether additional resources from the states and from the federal government should in fact be allocated to higher education depends to an important degree on the costs and benefits of expanding access. To shed light on that question, the work reported on here explores the promises and the perils of universal higher education.

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