Federal, state, and local governments devote tens of billions of dollars each year to subsidizing colleges, universities, and their students. Higher education institutions, in addition to using both public and private funds to allow their tuition levels to be significantly lower than the cost of education, award students almost $20 billion a year in direct grant aid (College Board 2002). Although there is a general consensus that these funds are devoted to increasing educational opportunities, the reality is that a variety of motivations underlie these policies, and their success in moving the United States toward “universal education” is mixed.

State governments provide the bulk of their support in the form of appropriations to public colleges and universities. The federal government’s funding is dominated by direct financial awards to students. Private contributions are a combination of funding for institutional operations—primarily in the private, nonprofit educational sector—and institutional grant aid to individual students. It is useful to focus separately on each of the players in this financial aid partnership before attempting an overall evaluation of the effectiveness of these policies in promoting universal education. Because Thomas Kane and Peter Orszag address the issue of state appropriations elsewhere in this monograph, I focus here on direct aid to students.
The Federal Government

The federal government provided about 70 percent of total student aid dollars in 2001–02, including about $18 billion in grants and tax credits—45 percent of the total gift aid awarded (see figure 1).

Figure 1. Federal, State, and Institutional Student Aid, 2001


Purportedly, the goal is to encourage enrollment and persistence in appropriate educational institutions for all qualified students. However, recent directions in federal aid policy bring the primacy of the goal of increased access to higher education into question. Although funding for Pell Grants, the central federal program for low-income students, did increase by more than 50 percent in real terms over the five years from 1996 through 2001, an increasing proportion of federal subsidies has been directed at middle- and upper-middle-income students, rather than at those with the most limited financial resources. Tax credits for tuition payments now amount to about $5 billion per year, approximately half the total Pell Grant amount (College Board 2002). Other tax code provisions, including the tax-free status of interest on a variety of forms of college savings, subsidize only those who are affluent enough to save and to pay taxes. Large subsidies are also going to college graduates who take advantage of the federal student loan consolidation program, which allows many college graduates with currently comfortable incomes—including those who borrowed under the non-need-based, unsubsidized Stafford Loan Program—to lock in low interest rates on their loans for long periods of time. These policies serve a useful purpose in easing the burden of financing college for many middle-income students and families struggling to balance their budgets. However, in addition to being highly questionable on equity grounds, the redirection of federal subsidies away from those who need them most reduces the efficiency of public policy.

Public expenditures are efficient if they change behavior in directions consistent with policy goals. In the case of student subsidies, the goal should be to encourage those who might otherwise not enroll or persist to earn degrees to do so—not to increase the already significant benefits accruing to those who would make this choice under any circumstances.

The enrollment patterns of low-income students are much more price sensitive than the enrollment patterns of more affluent students. In other words, the more financially secure the recipients of aid dollars, the more likely they would have gone to college and earned a degree in any case. Although they surely welcome the subsidy and their lives are significantly eased as a result, few qualified middle-income students and virtually no upper-income students are likely to actually decide to go to college just because they are given a subsidy. Low-income students, unlike those with more ample resources, make a decision about whether to go to college, not just about where to enroll. Federal policies designed to increase access are efficient if and only if they target those students whose behaviors they can significantly alter, that is, students with very limited financial resources.

The basic structure of federal student aid policy, with Pell Grants for low-income students at the core, guaranteed loans to assure liquidity, and matching funds to provide incentives for states and institutions to provide need-based subsidies to students, is compatible with the fundamental goal of moving toward universal access. However, the system has not evolved to meet the increasing needs of low-income students. The maximum Pell Grant, which covered about 80 percent of average tuition at public four-year institutions in the mid-1970s, now covers just over 40 percent. Further, close to 80 percent of federal student aid is in the form of loans, and fewer than half of the new non-
refundable tax credits go to taxpayers with incomes below $40,000 (College Board 2002). Combined, these policies signal a diminished priority on the federal role in assuring access to higher education for all qualified students.

**State Governments**

In addition to their appropriations for institutional operating budgets, state governments provide about $5 billion each year in direct grant aid to college students (College Board 2002). These state aid programs developed at least partially in response to the federal government’s program of matching funds for need-based state grant aid through State Student Incentive Grants (SSIG), now known as Leveraging Educational Assistance Partnerships (LEAP).

Like the federal government, state governments are increasingly targeting financial aid at middle-income students who are unwilling to pay for particular schools, rather than at low-income students who are unable to pay for any postsecondary educational opportunities. Whereas in 1994 virtually all state grant aid was allocated based on financial need, now more than a quarter of these funds are distributed based on other criteria, generally measures of academic merit defined by either grades or test scores (NASSGAP 1996 and 2002).

This policy shift is both inefficient and inequitable from a national perspective because it generates disproportionate subsidies for relatively affluent students who would enroll in college without this added incentive. It is not difficult to understand the motivation behind this new trend in state policy. Although the balance of political power between low-income citizens and those who are more affluent is clearly a significant part of the explanation for increasing state subsidies to the middle class, economic rationales also have a role. State governments are responsible only for the economies within their own borders; they are implementing grant programs designed to keep their best students in the state. State merit-based programs are working on the assumption that students who go to college in the state are more likely to stay when they enter the labor market, contributing to the state’s economy. This is likely an inefficient approach even at the state level, given the high cost of educating students and depending on the success of the policy at decreasing long-term mobility, but it is consistent with the mission of the state governments.

In spite of the advantages for states, however, student aid policies designed to keep students close to home are not efficient from a national perspective. A student’s decision to enroll in Georgia instead of Alabama does not constitute a meaningful change in behavior from the perspective of national social welfare. It is unrelated to the goal of universal higher education.

Just as efficiency is defined differently at the federal and state levels, policies that are clearly inequitable from a national perspective may be quite consistent with equity from the standpoint of the states. The absence of state need-based grants in North Dakota creates no horizontal inequity to be grappled with by the state legislature. From the national perspective, however, the wide variation in subsidies for college students in different states is a major violation of the principle of horizontal equity. The reality is that U.S. citizens face very different levels of access to higher education, depending on their state of residence.

In terms of dollars, state appropriations for operating expenses, which add up to about $64 billion a year for public degree-granting institutions (CSEP 2003), are much more important in affecting college access than are state student aid policies. Institutional subsidies are sensitive to cyclical economic forces, causing tuition to rise most rapidly during tight economic times, when students and families are least able to meet rising costs. The announcements in many states of double-digit percentage increases in tuition at public colleges and universities for the 2003–04 academic year fit this pattern. The increases are a direct response to severely constrained state budgets in a period of economic slowdown.

If federal student aid policies provided adequate guarantees of need-based grant aid, this pattern would shift the responsibility for access to the federal government, where it belongs. The inadequacy of federal funding, combined with the tendency in many states to reduce student grants...
at the same time that tuition is escalating, cause cyclical state funding to create cyclical access to higher education. In addition to providing more-adequate aid dollars, federal policy should be designed to encourage states to allocate their funds more consistently over the business cycle.

States, if they were committed to universal access to higher education, would tilt their funds back in the direction of students with financial need. They would also make greater efforts to hold low-income students harmless in the face of rising tuition by increasing grant budgets when large tuition and fee increases are imposed. A federal government dedicated to universal access to higher education would design programs to diminish the horizontal inequity resulting from the wide variation in state policies.

Colleges and Universities

Just as policies that appear to be constructive from the perspective of states may be inconsistent with the national agenda, colleges and universities have goals that divert resources away from national social welfare and the goal of universal access to higher education. Whether they are public or private, institutions must focus on attracting students who will improve their profiles, allowing them to both offer better educational experiences to their students and attract more resources from the state, from private donors, and from students willing to pay the cost of attendance. Public higher education as a whole has a fundamentally different mission than private higher education. However, with the possible exception of public two-year colleges, the underlying goal of making education accessible to all students does not motivate individual public colleges and universities in the same way that it should define state or federal policies. As much as we like to think of colleges and universities as fulfilling the social mission of providing access to opportunity for all, from each institution’s perspective it is efficient to use funds to compete with other colleges and universities for desirable students.

During the 1992–99 period, there was an increase of a little more than 60 percent in inflation-adjusted dollars in grant aid that students received from their institutions, but the increase was heavily weighted in favor of higher-income students. As indicated in Table 1, at both public and private four-year colleges, students from the top income quartile received the largest grant increases in both percentage terms and absolute dollars. Middle-income students fared better in the private sector than in the public sector, where their aid grew most slowly.

This changing distribution of institutional aid dollars reflects a shift from focusing on access for students with limited financial resources to using aid to compete with other institutions for desirable students. Non-need-based aid affects choice, not access to higher education. Choice among institutions is an important part of policies designed to increase educational opportunity. In addition to the importance to individuals of being able to enroll in the most appropriate institutions, there may well be social benefits to reducing the stratification of higher education. However, in terms of the agenda of increasing access to college, a student’s choice between two competing institutions that provide similar opportunities is not important.

Colleges currently engaged in potentially destructive competition for a finite group of desirable students are not likely to change course on the basis of arguments about social welfare and a national policy agenda. Institutional decision makers are both aware of and sympathetic to the goals of increased access and opportunity. Cognizant as they may be of the reality that scarce resources are being dissipated with no increase in the pool of qualified students and no increase in the opportunities received by those students, left to their own devices, colleges will likely continue to adopt policies that appear to be in the best interest of the institution.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Lowest Income Quartile</td>
<td>$1,900</td>
<td>$2,300</td>
<td>+21%</td>
<td>+$400</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>Middle Income Quartiles</td>
<td>$2,500</td>
<td>$2,700</td>
<td>+8%</td>
<td>+$200</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>Highest Income Quartile</td>
<td>$2,400</td>
<td>$3,200</td>
<td>+33%</td>
<td>+$800</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td>Private</td>
<td>Lowest Income Quartile</td>
<td>$5,500</td>
<td>$6,200</td>
<td>+13%</td>
<td>+$700</td>
<td>53%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Middle Income Quartiles</td>
<td>$6,400</td>
<td>$7,500</td>
<td>+17%</td>
<td>+$1,100</td>
<td>55%</td>
<td>63%</td>
</tr>
<tr>
<td></td>
<td>Highest Income Quartile</td>
<td>$5,500</td>
<td>$6,800</td>
<td>+24%</td>
<td>+$1,300</td>
<td>35%</td>
<td>51%</td>
</tr>
</tbody>
</table>

The Goal of Universal Education

The complexity of the student aid system is a significant problem, reducing its transparency and interfering with effective access to funding. However, it is appropriate that different levels of government, as well as the institutions themselves, participate in the financial aid partnership and that they provide a variety of forms of subsidy. Federal grants should be supplemented by institutional grants at colleges and universities with relatively high tuition levels. Grants should be supplemented by loans for students whose earnings will allow them to repay in the future. The basic structure of student aid is not the core problem, but recent policy decisions have weakened both equity and efficiency.

Even as insurmountable financial barriers to college participation and success persist for many low-income students, competing priorities are playing an increasingly prominent role in student aid. Nonetheless, progress furthering the goal of universal higher education requires recognition of the progress we have made and the value of current efforts.

Table 2.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>42.1%</td>
<td>47.7%</td>
<td>54.4%</td>
<td>+12.3*</td>
<td>+6.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+29%**</td>
<td>+14%</td>
</tr>
<tr>
<td>Second</td>
<td>53.5%</td>
<td>61.4%</td>
<td>67.1%</td>
<td>+13.6</td>
<td>+5.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+25%</td>
<td>+9%</td>
</tr>
<tr>
<td>Third</td>
<td>63.3%</td>
<td>70.0%</td>
<td>76.2%</td>
<td>+12.9</td>
<td>+6.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+20%</td>
<td>+9%</td>
</tr>
<tr>
<td>Highest</td>
<td>68.6%</td>
<td>79.4%</td>
<td>81.7%</td>
<td>+13.1</td>
<td>+2.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+19%</td>
<td>+3%</td>
</tr>
</tbody>
</table>

*Numbers in italics are percentage point increases.
**Proportional increase.
Source: Data provided by Thomas Mortenson, editor and publisher, Postsecondary Education Opportunity, 2002.

The persistent differences in enrollment rates by family income are discouraging (see Table 2). The percentage point increases in college participation rates have been fairly even across the income distribution over the past 20 years, although during the 1990s the increase at the top was smaller than for less-affluent students. The proportionate increase in college enrollment has, however, been significantly larger for students from the lowest family income quartile than for other students. In other words, it is possible to view the gap as having narrowed. Student aid has certainly played some role in the increased enrollment rates. Pell Grant funding has increased 43 percent in real terms since 1997. The decline in the widely disparaged grant-loan ratio is primarily a function of a large increase in the availability of loan funds as a result of the introduction of the unsubsidized Stafford Loan Program; the ratio of federal grant aid to subsidized loans fell only slightly, from 42 percent in 1991 to 40 percent in 2001. Despite its distributional problems, the tax credit program provides about $2 billion per year of subsidies to taxpayers with incomes below $40,000, most of whom require subsidies to make college a reality (College Board 2002).

In addition to these core federal programs, the federal government has policies in place that effectively generate a considerable amount of nonfederal funding for low-income college students. Federal matching funds for state need-based grants currently generate about $80 million per year of state funds for the Leveraging Educational Assistance Partnerships (LEAP). At the institutional level, federal matching funds for Supplemental Educational Opportunity Grants (SEOG), Perkins Loans, and Federal Work Study (FWS) provide the basis for more than $500 million in institutional subsidies to students with financial need. The federal guaranteed student loan program generates about $75 billion dollars per year in private loan funds for college students (College Board 2002). In other words, the federal government plays a significant role in leveraging funds for students with documented financial need from other participants in the higher education funding process.

Because the perceived interests of states and institutions are different from the interests of the nation as a whole, it is primarily the federal government’s responsibility to further the goal of increasing access to college. Carrying out this responsibility requires a combination of its own funds and shaping incentive structures for its partners in the higher education financing system that will motivate states and institutions to choose to allocate more of their funds in a manner consistent with national access goals. The feder-
Federal government should revitalize the LEAP program of matching funds for need-based state grant aid and create subsidies to encourage colleges and universities to devote more of their aid funds to enrolling lower-income students. These policies may also have a significant impact beyond the direct effect of the dollars provided, as they increase consciousness of the need for targeted subsidies and the sense of public responsibility for those subsidies.

The Access Agenda: Limits and Inclusiveness

If as a society we truly aspire to ensuring access to higher education regardless of students’ ability to pay, we should set this as a visible and central priority and redirect our education financing system toward need-based subsidies. Perhaps advocates for low-income access are too narrowly focused, however. Public policy might more effectively demolish financial barriers to higher education for low-income students if we acknowledge the limits to the potential for student subsidies to generate universal access, as well as the other valid and desirable components of public higher education financing policies.

Differences in enrollment rates within achievement quartiles signify very real financial barriers to college access that a stronger financial aid system might allow students to overcome. As Table 3 indicates, 97 percent of high school graduates in the highest achievement test quartile and the top quartile of the income distribution enroll in college, but only 77 percent of those in the lowest income quartile with the same qualifications continue their education after high school. This is about the same as the proportion of the most affluent students with the lowest test scores who go to college (NCES 1997).

The patterns suggested by the data in Table 3 provide some insight into the complexity of the access problem. The differences between enrollment rates at the top and the bottom of the income distribution are significantly larger at lower levels of achievement. Low-achieving students from the highest socioeconomic status (SES) quartile are more than twice as likely as low SES students at the same academic level to enroll in college. High-achieving affluent students, in contrast, are only 25 percent more likely than their low SES counterparts to enroll. This difference is surely explained by a complex array of factors, but it is an indication that we have been more successful at reducing barriers for academically successful students than for others. The fact that the differences in enrollment rates along the achievement scale are so much greater for low SES students than for higher SES students is also an indicator of the interaction among finances, academic achievement, and the expectations and aspirations associated with family background.

Table 3. College Enrollment Rates by Socioeconomic Status and Achievement Test Quartiles, 1994

<table>
<thead>
<tr>
<th>Test Quartile</th>
<th>Low SES</th>
<th>Middle SES</th>
<th>High SES</th>
<th>% top SES/ % bottom SES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>35.9%</td>
<td>49.4%</td>
<td>77.3%</td>
<td>215</td>
</tr>
<tr>
<td>Second</td>
<td>50.2%</td>
<td>66.2%</td>
<td>85.3%</td>
<td>170</td>
</tr>
<tr>
<td>Third</td>
<td>62.5%</td>
<td>78.7%</td>
<td>90.3%</td>
<td>144</td>
</tr>
<tr>
<td>Highest</td>
<td>77.6%</td>
<td>89.3%</td>
<td>96.7%</td>
<td>125</td>
</tr>
<tr>
<td>Total, 1994</td>
<td>48.9%</td>
<td>70.7%</td>
<td>91.3%</td>
<td>187</td>
</tr>
</tbody>
</table>

*Socioeconomic status (SES) is determined by a combination of parental income, education, occupation, and household items.

The reality is that subsidies to more affluent students, despite their clear shortcomings in terms of both equity and efficiency, can actually strengthen the commitment to all students. Low tuition levels at public colleges and universities make state support for higher education very important to the middle class, which does not view this part of the budget as an antipoverty policy, but as the provision of a vital service to all citizens. State merit-based aid programs may increase support for state subsidies to students in general. Federal tax credits may also help to increase the acceptance of the federal role in subsidizing college students. In this sense, the visibility and the political appeal of the new programs could work in favor of low-income students.

There is a very real danger in the message current public policy conveys. The central national goal of access to post-secondary education for all qualified students has been obscured. The federal government has created an environment in which the priority of providing educational opportunity is overshadowed by the demands of the middle class. State and institutional policies reflecting other less efficient and less equitable priorities have become widely accepted. A concerted national effort to reinstate the fundamental values underlying the partnership constituted to ensure access to higher education regardless of ability to pay is a prerequisite to closing the current insurmountable gap between financial aid and college costs facing many low-income students.

This central social goal may, however, be furthered by more flexible thinking. Not all differences in college enrollment rates are attributable to finances. And as the price of a college education continues to escalate, fears about affordability are becoming increasingly widespread. Public policy designed to make college financing more manageable farther up the income scale is likely to become increasingly necessary.

Conclusion

In recent years, financial aid policies have been increasingly focused on goals other than removing financial barriers to higher education. Political pressure has resulted in the
implementation of aid policies designed to reduce the sacrifices required of middle- and upper-income college students and their families. Competition among colleges and universities has resulted in the implementation of aid policies designed to change the particular institutions chosen by students for whom going to college was never in doubt.

The federal government is the only entity with either the mission or the capacity to take responsibility for the national agenda of removing the financial barriers to higher education. The vital social policy agenda of improving this strong but complex and imperfect partnership will require a combination of well-targeted federal funding, added incentives for all partners to increase their subsidies to low-income students, and revitalization of the sense of public responsibility for ensuring educational opportunity.

References


Mortenson, Thomas. 2002. Editor and publisher, Postsecondary Education Opportunity. Oskaloosa, IA. Data provided directly to the author.


1 See Heller 1997 for a review of the relevant literature.

2 For a detailed analysis of the impact of merit-based state grant programs, see Heller and Marin 2002.

3 A recent study suggests that marginal students who attend college in-state are between 8 percent and 10 percent more likely to reside in the state 16 years after graduation than are those who leave the state for college (Groen and White 2001).

4 This discussion abstracts from the distinction between ability and achievement, which is clearly vital in this context.