Making College Affordable: Rethinking Voucher-Driven Approaches to Federal Student Aid

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Introduction

Recent national opinion polls indicate that 74 percent of Americans believe that higher education is unaffordable, and 92 percent of college presidents agree. While analysts have offered several potential explanations for this perception, one has not garnered much attention: the lack of perceived affordability may stem from the financial aid system’s strong focus on the behaviors of “student-consumers” rather than education providers.

Financial aid in the United States is a $175 billion-per-year enterprise resting on a key set of principles and assumptions that have guided its operations for more than forty years without significant re-examination. First, its existence asserts that college attainment is an important public good benefitting the populace. However, it also treats the provision of higher education as the shared responsibility of both government and private citizens; aid is provided rather than taxpayer-supported free higher education. Given this shared relationship, and because American higher education originated with private colleges and universities, the system allows institutions of higher education complete autonomy in determining their costs of attendance. Finally, federal aid is primarily student aid. With an equity goal in mind, the system assumes that financial barriers to college attainment can be overcome with means-tested vouchers that discount the price for some individuals.

Despite these goals, over time family income has become an even stronger determinant of college attainment. Among people born in the early 1960s, there was a 31-percentage point income gap in the chances of Bachelor’s degree attainment, with just 5 percent of those from poor families completing college compared to 36 percent of wealthy students. Over the next twenty years, the gap grew to 45 percentage points primarily because the attainment of the wealthiest Americans raced ahead (up to 54 percent completing college) while Americans from more modest means made far smaller gains (increasing their chances to just 9 percent). Even
after controlling for cognitive achievement, family composition, race, and residence, the children of high-income families are 16 percentage points more likely to attend college than those from low-income families.  

Reformers seeking to redesign or re-imagine financial aid usually focus on the form of the voucher provided to discount college costs (e.g., grant, loan, or tax credit), its size, or the incentives to which it is attached (e.g., how many credits are required to receive aid, when it is distributed, etc.). Yet historically such efforts have met with remarkably little success, much like their counterparts in K-12 school reform, where frantic schemes to create change often result in little more than “tinkering towards utopia.” This may be because, as Terry Sanford wrote in 1971, “much of what has passed for a national approach to higher education has in fact been a willy-nilly, piecemeal, programmatic, annually determined, tardily funded, and not-always-released formula for the support of higher education.” We have yet to find a worthy solution.

Finding a better way to make college affordable requires directly dealing with two major challenges: colleges and universities admit many students who require more support in order to complete their degrees than is currently provided, and they focus on discounting the price of education rather than driving down costs. The current student voucher-driven approach to financial aid does nothing about either issue. In sharp contrast to K-12 education, where the federal government contributes at most 10 percent of revenue yet has strong accountability demands, in the postsecondary arena colleges and universities receive up to 90 percent of their support from student financial aid and yet are asked to do very little in return. This is striking to many close observers of educational policy including Stephen Burd of the New America Foundation, who recently reported “federal officials, for the most part, appear to be operating
under the [false] assumption that colleges are continuing to complement the government’s efforts to make higher education more accessible and affordable for the neediest students."

Given the national interest in college attainment paired with substantial economic inequality, we argue that it is time to address affordability concerns by refocusing financial aid policy on schools, rather than students, as the central unit of change. The litany of cost problems in higher education described in this paper makes it unlikely that altering student behavior with vouchers will ever succeed in making college affordable. Instead, greater progress may come through facing up to what is often considered a “sacred cow,” focusing attention on the colleges and universities where students are educated, and considering the role that government can play in aligning their behaviors with national needs.

The 21st century is a very different era from those gone by. The challenges we face are not merely economic, easily resolvable by investments in human capital, but are also political, social, and psychological. Movements for common schooling in the United States rested on concerns about sustaining a democracy, ensuring full participation of all citizens in decision-making, and serving the republic. An overtly individualized approach to funding skill development, such as that employed by today’s higher education system, reifies the atomization of Americans that arguably contributes to our many national and international struggles. In other words, a system of financial aid so grounded in human capital theory fails to acknowledge the social, cultural, and political determinants of educational attainment, and in doing so fails to meet its goals of promoting a meritocracy. Moreover, funding individuals whose choices do not effectively encourage price competition leads to too little accountability. A more cohesive approach that operationalizes the recognition of postsecondary education as a public good by directly funding schools to provide that education, while holding them accountable for aligning
with that mission, would heighten a sense of collective responsibility and social cooperation. It might also draw attention to the full range of inputs and processes required for high levels of educational attainment across family backgrounds.  

In other words, making educational institutions the centerpiece of federal financial aid policy could help instigate a long overdue national conversation about the purposes of postsecondary education and highlight the most pressing problem areas, which are located at the schools where the most disadvantaged students are concentrated. In this paper we argue that the original formulation of financial aid, focused on students, had unforeseen effects on state financing, institutional cost structures and behaviors, and families. With those effects now evident, it is time to consider a different model in which institutions of higher education are the locus of both public funding and public accountability. We briefly review the history and development of the current model, and then describe how a new one could be seeded.

**Three Critical Tasks for Ensuring Affordability**

More than 90 percent of American tenth-graders expect to attend college, up from just over 75 percent thirty years ago. Making college affordable at a time of massive participation will require (1) greater state investment and oversight, (2) more institutional responsibility for keeping costs down while maximizing the inclusion of all students regardless of family background, and (3) an approach to financing that is aligned with the resources, capabilities, and beliefs of today and tomorrow’s families and students. The current financial aid system fails to meet these requirements, for the reasons we explain in this section (how it came to fail is the topic of the next section of the paper). Perhaps the most important takeaway is that extant federal (and most state) policy only requires that students be allowed to use their financial aid at an institution to help cover their college costs; it does not require that states (or colleges and
universities) take steps to ensure those students can fully participate in college so that they gain access to the range of benefits higher education is purported to convey.

*The Importance of State Investment and Oversight*

The federal Title IV student aid program provides resources to undergraduates throughout all fifty states without asking that state governments do much in return. Relative to federal spending on Title IV, state spending on higher education (both in terms of resources for financial aid programs and appropriations for instruction) has declined.\(^{16}\) Declining state appropriations are tightly linked to increasing tuition at public institutions, and the declining purchasing power of state aid also reduces affordability at private institutions.\(^{17}\)

Some analysts contend that these trends are occurring because federal policy contains incentives for this behavior, to which states are simply responding.\(^{18}\) This is a very difficult claim to evaluate but regardless of what drives their actions, states are effectively helping to make college less affordable. In addition, given that state actions most directly affect public institutions, they are helping to differentially advantage institutions with more control over their resources. In turn, those private and for-profit institutions then compete with public institutions, which, unlike their peers, are held at least somewhat accountable to the broader public.

The manner in which states allocate the limited resources they provide to higher education is also disconnected from the federal goal of reducing the linkage between family income and college attainment.\(^{19}\) For example, states provide disproportionately more resources to flagship institutions, which educate the smallest number of the states’ disadvantaged residents.\(^{20}\) This is a long-standing trend: in 1972, Jerome Karabel pointed out that “the meritocratic model of higher education results in an ingrained elitism that unquestioningly accepts the expenditure of disproportionate sums on the most able.”\(^{21}\)
Instead of reinforcing the federal emphasis on need-based aid, states continue to distribute a substantial amount of aid based on “merit.” Moreover, state aid is usually administered to postsecondary education via mechanisms that are distinct from K-12 education, serving to perpetuate silos that are overwhelmingly consequential for low-income students with the greatest chances of falling through cracks during the transition to college.

For decades, the federal government has been virtually silent on the matter of state actions on higher education. Time and again, colleges and university leaders—especially in the public sector—have pointed to disinvesting state legislatures as the key source of rising costs. But it has been difficult to determine how to hold states accountable in a federal system that distributes its aid directly to students. In the meantime, costs of higher education continue to rise in nearly all states, despite evidence that the students with the lowest rates of participation in higher education fare better in terms of opportunities for education in states that keep their costs down.

A Clear Need for Institutional Responsibility

While the fortunes of public institutions are inextricably linked to both the behaviors of private institutions and states, they also possess substantial decision-making power. This is mainly, and especially, true for public flagship universities, which in recent years have substantially escalated many facets of the costs of attendance.

Are higher education institutions setting their costs based in part on the availability of federal financial aid, thus undermining efforts to promote access? This is another difficult question to examine, and most contemporary reviews on the topic find mixed evidence. Many of these studies focus on the Pell Grant as a potential cost driver, however, perhaps paying too little attention to the role of student loans. Student loans have overtaken grants as the dominant
form of federal student assistance, and while originally intended for middle-income families have now also become a de facto required form of financing for the poor as well. The availability of credit in sizable amounts and with few qualification requirements could contribute directly to cost-setting at some colleges and universities while contributing indirectly to costs at others. For example, it may be the case that loan availability drives costs directly at private and for-profit institutions (this is where the literature is most convincing on effects), and that in turn, those higher costs help to feed a broader perception that high costs are “normal,” and even convey quality. In their effort to provide at least some of the resources now found at their counterparts, public colleges and universities raise costs to reduce class size or provide better student services and non-academic amenities while community colleges raise them to compete with for-profits on their job training and placement advantages. It is thus through competition that effects on costs arise, and it is also possible that these costs would otherwise be rising faster if they were not offset or masked by more recent substantial declines in state appropriations. These subtleties may be easily missed in crude efforts to detect impacts of loan availability (following increases in limits, for example) on institutional costs.

While the research evidence is limited on this subject, the American public is quite clear: 77 percent of people surveyed believe that higher education institutions should reduce their tuition and fees. In comparison, 59 percent say state governments should provide more assistance, and 55 percent want the federal government to provide more assistance. Such polling data imply that even though schools often claim to hold needy students “harmless” from high costs using financial aid, the discounting they provide is insufficient. Even after financial aid, students with the lowest expected family contributions (EFCs) are still left with as much as $12,000 in unmet financial need each year, and many families from modest means but higher
EFCs face expectations with which they simply cannot comply. This may be helping to fuel the evident backlash against the use of student tuition for need-based financial aid, drawing distinctions between haves and have-nots becomes more difficult when the average student and her family have relatively fewer resources.

Even as it provides enormous subsidies to institutions indirectly through multiple grant programs and by backing student loans, the federal government is silent on how institutions of higher education distribute their institutional aid. Research indicates that much of that aid requires students to be academically meritorious, and far less often financially needy. In part, this appears to be driven by the preferences of states, which tend to provide few incentives for schools to invest money in matching need-based financial aid or supportive programs for aided students. Thus, it is fairly common for government and philanthropic aid to supplant institutional aid rather than supplement it, which may reduce the overall positive benefits to the student.

But in addition, four-year institutions have chosen to engage in an arms race over students, developing an industry of “enrollment managers” seeking to maximize prestige and revenue rather than promoting college attainment and affordability. Financial aid has become a weapon of choice, deployed to battle other schools, rather than to serve students.

Another major challenge is that many colleges and universities have grown accustomed to entrenched income-based segregation in higher education and are doing very little to reduce it. According to a recent report from the Century Foundation, today “high-socioeconomic status students outnumber low-SES students by 14 to 1 in the most competitive four-year institutions, yet low-SES students outnumber high-SES students in community colleges by nearly 2 to 1.” Only some public institutions appear to prioritize students from poorer family backgrounds, and
others are even transitioning to need-sensitive admissions, turning away students who would require financial aid.41

Moreover, the culture within some institutions of higher education has evolved as more students from poor families come to campus in a manner that seems to suggest subtle but insidious income-based differentiation of college experiences.42 This means that students with limited means live, study, and socialize apart from other more-advantaged students on their same campus. Colleges have financial incentives (and no clear disincentives) to cater to wealthier students by providing more amenities and an academic environment that facilitates their quest for social networking rather than an affordable experience.43 Research indicates that the resulting culture, a “college as country club” model, may be alienating to students on need-based financial aid.44 Moreover, while high-income students respond positively to the resulting higher sticker prices, seeking out colleges and universities that cost more money, students from low-income families continue to prefer institutions that cost less, period.45

Updating the Expectations for Students and Families
Whether or not a financial aid policy is effective at making college affordable depends on whether students and families embrace its requirements, norms, and values. Given the planned and effective massive expansion of college access, it is unsurprising that compared with their peers of the 1960s, today’s undergraduates have lower average levels of high school preparation, more varied family experiences with education, narrower social networks, less familial wealth, and yet substantially robust expectations for a college education.46

There is a rigorous body of research demonstrating that existing mechanisms for distributing federal student aid are too complicated for current students, requiring unreasonably high levels of information and financial expertise for effective use.47 While some informational
interventions have produced changes in student behavior, those impacts have occurred for targeted groups of students and are relatively small compared with the magnitude of the overall problem.\textsuperscript{48} Simplification has been very slow to occur and efforts have all focused on the initial access to aid, with little attention paid to the demonstrable problems that students have in holding on to their aid.\textsuperscript{49}

Moreover, the norms and values inherent in the current focus on loans assert that, because of higher education’s private returns, individuals must accrue some of the costs and should feel comfortable taking on debt to invest in their human capital development.\textsuperscript{50} As Sandy Baum and Saul Schwartz put it, “It is more constructive to think of the viability of the long-term investment in postsecondary education than of the discretionary income available to pay the annual bill.”\textsuperscript{51} In this way, the return to higher education is framed in economic terms of increased lifetime earnings observed some time in the future, but requiring significant near-term sacrifice.\textsuperscript{52} This is consistent with the position that education is an investment rather than a consumption good, and those who do not borrow are typically said to treat education as the latter.

Yet the fastest demographic growth in higher education is coming from communities that do not subscribe to this approach to understanding investments, instead choosing to focus on more traditional values that emphasize avoiding debt, no matter what the purpose. They do view education as an important lifetime investment, and they understand that the future returns are high, but like many families who lived in poverty or whose ancestors struggled to make ends meet, they do not view debt as a culturally acceptable way of life.\textsuperscript{53} Thus, even if economists deem it inconsistent with the treatment of education as an investment good, these families are unable to save sufficiently in advance, or to borrow, and thus have no choice but to compare the price of postsecondary education to their current family income.\textsuperscript{54} Recent research indicates that
these beliefs, rather than differences in financial knowledge or attitudes toward risk, help to account for observed racial/ethnic differences in borrowing behavior. In any case, it is unlikely that they will be easily overcome.

The needs analysis currently employed to assess eligibility for financial aid is also outdated, focusing on the computation of an “expected family contribution” that emphasizes intra-family transfers from parent to child. In fact, most undergraduates are not children (regardless of their age), are not receiving familial financial support (even when we might think they “should”), and are thus unable to come up with the EFC that is “expected” from them. Less than one-third (27 percent) of Americans report that their parents paid most of the costs of their college attendance (and just 22 percent said that grant aid paid most of the costs). The difficulties for families created by this part of the aid system spill over into interactions with institutional financial aid officers that are often unpleasant and counterproductive to the overall goal of making college affordable. Perceived as agents of the federal government, financial aid officers are often put into the difficult position of denying resources to individuals despite clear and evident need. Despite evidence that “the effect of a given subsidy may vary across groups due to relative differences in financial positions, academic preparation, access to information, the form taken by the subsidy itself, and interactions of these factors,” even reformers have advocated for further individualization of aid, rather than less. This sort of individual determination once again divides students and educators, rather than pushing educational institutions to find ways to collectively meet the needs of all students. The market-based approach also repositions students as consumers rather than pupils to be educated. Thus, in many ways it is difficult to call the current system “the best available,” rather, it simply means
that in practice, “the amount of aid students receive is in large part a function of the limited resources being rationed by the student aid system.”

A Brief History of the Decision to Aid Students, Not Schools
As recently as the 1960s, the role of government in providing educational opportunity was, with few exceptions, limited to states creating and maintaining broadly accessible colleges and universities through directly funding a high percentage of the cost of instruction at public institutions and maintaining tax-exempt status for private colleges and universities. Tuition at public institutions was very low and private college tuition averaged only about double the rate charged by public institutions. Even so, there was concern about the high cost of college attendance especially due to foregone income (the loss of income a student might have earned if working instead of attending college). Then, as now, it was widely believed that a substantial portion of young people from low-income backgrounds were capable of succeeding in college and that this constituted a source of talent that the nation could ill afford to squander.

The Benefits of a Robust Economy
In the 1960s, doing something to make a college education more accessible (as well as responding to many other domestic concerns) seemed feasible to political leaders at state and federal levels because it was a time of great national prosperity. In the aftermath of World War II, industry was booming because of great domestic and international demand for American products of many kinds. President Lyndon Johnson captured the sense of the time by spearheading a nationwide effort to improve life in America through his “War on Poverty.” His subsequent “Great Society” programs, together with programs initiated in the states, made college more accessible for students from both low- and middle-income families. Congress responded to the President by passing legislation aimed at improving education at all levels and
by reducing economic barriers to college attendance through student financial aid awarded on the basis of financial need. Together with state governments, Congress then added financing for a vast network of low-tuition community colleges.

Passage of the Higher Education Act of 1965 dramatically increased the federal investment in public higher education and provided grants and loans for students attending public and private nonprofit colleges. At first, federal student aid was mainly in the form of grants awarded on the basis of demonstrated financial need. New legislation also contained incentives for banks to consider the future earnings of college graduates as collateral for student loans. In this way, banks came to play a major role in financing college attendance.

Development of a Student-Focused Policy
At first, it seemed clear that federal aid to higher education would focus on institutions and students. In 1971, the Senate Subcommittee on Education debated a bill introduced by Senator Claiborne Pell, which aimed to establish as a policy of the Federal Government “the right of every youngster, regardless of his family’s financial circumstances, to obtain a postsecondary education.” The bill provided $1,200 for each student to attend college, and institutional grants of $1,000 to lower the amount of tuition paid. Institutional leaders were, of course, widely supportive of those institutional grants, but while Pell reported that the subcommittee “was prepared to accept the thesis of student aid as a right,” it changed its mind on institutional aid. In retrospect, he described the discussion this way:

[It] was interesting to watch. At the outset the subject was approached from a ‘yes’ or ‘no’ position. The Administration’s view was originally negative. Gradually the question changed from ‘yes’ or ‘no’ to one of ‘how.’ As the subcommittee went along, the Administration rethought its position and proposed institutional aid based on a percentage of the present student assistance funds received by the institution.61
But Pell grew concerned about the feasibility of institutional assistance because of questions about the constitutionality of aiding private institutions (a question that has since been resolved). He believed that once the concept of aid-to-students was firmly established, the concept of institutional aid “could then grow.” Successive amendments to the Higher Education Act, beginning in 1972 and accelerating after 1976, followed this trajectory, furthering the focus on students and away from institutions. Congressional action in the 1972 amendments seem motivated primarily by liberal Democrats and moderate Republicans who assumed that higher education benefited society and were convinced that students from lower-income families should be helped.

But at the very end of the 1960s, many campuses were still in revolt over the unpopular Vietnam War, and protests on public university campuses polarized supporters and opponents. Until then, people on both sides had looked upon public institutions, especially, as developers of the best and the brightest in society. Now they blamed institutions for both the war and opposition to it.

Moreover, the nation was experiencing early signs of a weakening economy due to the rising cost of the War on top of spending for Great Society and other domestic programs. Even so, the push to expand educational opportunity continued through open enrollment policies, more flexible scheduling for part-time students and an emphasis on recruiting minority students. But in addition, there was widespread fear that many private colleges were in danger of closing because they could not compete for students with low-tuition public colleges. In 1970, one admission officer at a private institution prognosticated that, “by 1985, all private education will be state assisted.”

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These challenges, and in particular stagflation (simultaneous inflation, high unemployment, and economic stagnation)\textsuperscript{68} drew the attention of Milton Friedman and other economists, who later formed the Chicago School. \textsuperscript{69} Friedman argued that the crisis could be resolved by relying more on the private sector rather than government. Encouraged by what became widely perceived as success in ending stagflation, Friedman further argued that the private sector could also replace government in the financing of higher education. Specifically, public and private higher education could—and he argued should—be financed almost entirely through loans to students. After all, he stated, society did not benefit enough from higher education (and particularly public higher education) to justify subsidizing students with low tuition.\textsuperscript{70}

W. Lee Hansen and Burton Weisbrod modified Friedman’s approach by calling in a journal article for increased public dollars in the form of grants (currently Pell Grants) awarded on the basis of demonstrated financial need. The core idea was that higher education would be financed through students rather than institutions, and the approach was easy to explain: from each according to their ability to pay and to each according to their need for assistance. Hansen and Weisbrod argued that low tuition in public higher education was wasteful because well-to-do families could afford to pay more for their children’s education and that it caused a sizeable redistribution of income from students from low-income families to students from high-income ones.\textsuperscript{71} Again, other opponents of low tuition in the public sector, and proponents of student loans, were concerned that it permitted public institutions to compete “unfairly” with the private sector.\textsuperscript{72}

Thus, the student aid-focused approach appealed to the many fiscally conservative but socially liberal Republicans, then a major wing of the party, who thought that financing higher
education in this way would primarily aid individuals and make institutions compete more for students, and that this in turn would hold down college costs and increase instructional quality. The approach also appealed to many liberal Democrats who favored redistribution of resources in favor of the poor. The members of Congress who thought this way were mostly from New England and Midwestern states. Together, they formed the nucleus of a majority coalition in Congress that enacted the Higher Education Amendments of 1972 and a great deal of student aid legislation thereafter.73

The idea of means-tested student-focused grants also represented a refinement and moderation of recommendations of the more than 37 policy reports and 137 research reports of the Carnegie Commission on Higher Education, as well as the Alice Rivlin studies.74 Clark Kerr was especially adamant that financial barriers could only be effectively removed by providing aid directly to students; institutional grants could not succeed. He was also concerned that other approaches would pit states and institutions against one another, exacerbating the political nature of the process.75 These recommendations, however, offered relatively little empirical evidence to support these contentions, for as Rivlin noted there was almost a complete absence of behavioral information—no one knew how students (let alone states or institutions) would react to changes in higher education financing.76

But there was already, in 1971, evidence of congressional distrust of public institutions77 and many people were coming to believe that higher education might better be financed through students. Thereafter, students attending private, for-profit institutions also became eligible to receive federal student aid.78 Proponents argued that in this way the federal government could assist in reducing the public-private tuition gap that private institution leaders alleged was placing the future of many colleges at risk of failure.79 Predictions by M.M. Chambers and others
that a student-aid-centered system would encourage institutions to raise tuition, and that this would result in an ever-increasing escalation of college attendance costs and dependence on loans, were simply not deemed credible.\textsuperscript{80}

After passage of the Higher Education Amendments of 1972, attention shifted to more specific questions about \textit{how} aid should be distributed to students. Differential price sensitivity of students at public and private institutions came to take center stage as a source of debate. Some argued that since resources are limited, public institutions should gradually raise tuitions and place greater reliance on student aid.\textsuperscript{81} The Higher Education Amendments of 1972 also sought to involve state governments in substantive, although meagerly funded, ways. For example, the State Student Incentive Grant Program was established to provide matching funds to encourage the states to create and expand student aid programs, but the federal program imposed no requirement that the federally matched scholarship be geared to tuition costs, nor was it even required until 1976 that state programs be open to students in private institutions.\textsuperscript{82} Another provision of the 1972 Amendments limited the amount of aid the lowest-income students attending public institutions could receive to one-half of the total cost of tuition, room, board, books, and other expenses. The same formula allowed students attending higher-priced private institutions to receive more aid. Federal student aid became increasingly price sensitive.

By 1979, even the associations representing public colleges and universities agreed to support higher and more price-sensitive maximum Basic Education Opportunity Grants, later renamed Pell Grants. Although several members of Congress and public college associations called for a balance between student and institutional aid, it became increasingly clear that the federal government’s role in financing higher education would be to only fund students. However, that conclusion was reached through a process that many questioned. As Chester Finn
wrote at the time (quoting James Perkins), “With respect to higher education, the federal government has made no decision. It has made bits and pieces of decisions about specific and limited issues.”

**Refocusing Aid on Institutions**

As we have demonstrated, legislation for the present student aid system provides little tangible guidance regarding institutional tuition levels, and few incentives for states to maintain institutional expenditures adequate enough to prevent public college tuitions from rising. As a result, each institution faces the choice of maintaining tuition at the lowest possible level or of raising it to “harvest” the federal student aid as an indirect institutional subsidy. It is evident that today’s system includes a mix of both, and that universities who strongly adhere to the latter model enroll the smallest percentage of low-income students, despite being among the wealthiest in the world. The Ivy League enrolls a total of 7,200 Pell recipients and has an aggregate of approximately $80 billion in the bank (its endowment). In contrast, Cal State Long Beach has 13,100 Pell recipients on one campus. Cal State Northridge has 15,000.

*Goals and Principles for an Institutional Model*

Instead of subsidizing colleges irrespective of how they spend their resources, the system could be reoriented such that the federal and state governments would reward institutions that focus on the public good by placing a premium on keeping college affordable for all students, constructing cultures of affordability, and prioritizing equity in student outcomes. This goal may be attained through reframing university culture, shifting the focus of student services to the needs of those most at risk, and increasing focus on instruction to improve the learning of all students. Most importantly, this approach encourages colleges to act as schools providing a unified educational experience rather than a differentiated, customer-driven one.
A multi-pronged approach is needed to achieve this, in recognition that the federal government has the capacity to act as a unifying leader in goal-setting for states, while states are more effective at stimulating changes in the behaviors of their institutions. In addition, we hypothesize that institutions may be more effective at producing changes in state behaviors if they act as coalitions with common interests.

It is critical to recognize that the suggestion that financial aid may have greater potential to achieve its desired outcomes if distributed via subsidies directly to institutions should not be interpreted to imply a belief that colleges and universities are the best judges of how to spend their resources. Far from it: as demonstrated throughout this paper, they appear to have great difficulty in doing so, but the federal government currently has little ability to play a role in assisting them. With greater subsidy will come greater accountability for both states and schools. Skepticism of the institutions themselves—and particularly their administrators—is only growing, not subsiding.

Operationalizing and Funding the Model
Under this new approach, institutions receiving Title IV financial aid would be subsidized according to the needs of their students, and held accountable for taking steps to develop and maintain an affordable and effective college experience. The purpose of this approach was nicely articulated by Michael McPherson and Morton Shapiro twenty years ago: “In addition to bolstering individuals’ capacity to finance education, we need also to reinforce colleges’ commitment to the education of disadvantaged students and to provide support to help them do it well.”

First, to receive Title IV financial aid, colleges and universities would need to demonstrate that they possess sufficient financial resources to provide an “adequate” college
education *on average*. (The determination of adequacy necessitates development at the federal level and needs to consider a range of outcomes. There are currently no parallels in higher education to state-level adequacy funding in K-12. For public institutions, this “match” should be provided by state appropriations. For private institutions, it should be provided by an endowment or tuition, but tuition should not constitute more than half of the match. In addition, private and for-profit institutions would not receive any Title IV financial aid unless public institutions in that state are *also* recipients. (In other words, aid to private and for-profit institutions could only supplement, not supplant, aid to public institutions.) This would increase the incentive for all forms of postsecondary institutions and their constituents to collectively pressure state legislatures to invest in postsecondary education.

The additional Title IV aid provided to institutions would be explicitly intended to discount the price charged to all students and to increase the resources devoted to the postsecondary education of disadvantaged students (those within 200 percent of the poverty line). Nearly all studies on funding in K-12 education agree that more funds are required to educate economically disadvantaged students to proficiency. In exchange for these financial resources, institutions would be held accountable for keeping growth in the overall costs of attendance (including room and board) in check, focusing the most resources to support students at greatest risk of non-completion, and demonstrating growth in the completion rates of students from all family backgrounds, adjusted for high school preparation and/or placement scores. Financial aid officers currently employed to administer student-focused financial aid could be redeployed in an effort to assist colleges and universities in achieving these goals.

For example, institutions might work to avoid exacerbating segregation in areas where students live during college. In Wisconsin, the University of Wisconsin–Madison offers a wide
range of on-campus housing options, with the most expensive option costing $6,500 per year more than the least expensive. As a result, some evidence suggests that students perceive an association between housing location and family wealth, and in fact there is residential segregation in housing on campus. At the University of Wisconsin–Green Bay, on the other hand, there is very little differentiation in housing prices (the range is just $600), and students report housing segregation based on educational seniority, not family wealth.

One option is for institutions to institute campus-wide programs that apply to all students, helping to unify the college experience. For example, schools could follow the model of Berea College, and require that all students work 10 hours per week in on-campus and service jobs. The approach mitigates privileged viewpoints about familial priorities among students who are not financially obligated to work.

Other efforts to ensure that all students can afford college can be developed through universal introductory courses and advising processes in which students are triaged according to their need for additional services such as financial counseling, family benefits eligibility, legal assistance, and other types of help that are often needed by many more students than are currently offered them. The current assumption is that middle-class students, most of whom qualify for nothing more than federal student loans, do not have significant family needs. Their challenges are often masked by the exclusion of debt from the needs analysis; students from families with modest family incomes and significant debt receive little help with their “expected family contribution,” no financial support while in college, and yet no grant aid.

*Feasibility*

Conditions today are very different from what they were in the early 1970s when the current financial aid system took shape. The social benefits of a college-educated populace are evident,
if not readily quantifiable.\textsuperscript{90} Few dispute that much social and economic progress over the last century derived from the expansion of participation in postsecondary education, or that college-educated adults pay far more in taxes than those without college educations.\textsuperscript{91} Even today’s academically marginal students appear to benefit from attending college.\textsuperscript{92} Americans are generally supportive of investments that help to make higher education more affordable. For example, most indicate that they would keep federal investments in financial aid the same (37 percent) or increase those investments (44 percent) if they were making up the budget. Moreover, fully two-thirds oppose state disinvestment in public colleges and universities.\textsuperscript{93}

Another reason to shift toward such a model at this stage in the development of American higher education is that concerns about the transfer of resources from non-users to users have been greatly alleviated by the very high rates of college participation now observed. Instead of one-third of the public enjoying subsidized college-going at the expense of the two-thirds not engaged in higher education, we face a future where 80 percent of children can expect to be users of higher education with the vast majority headed for public higher education. That great majority will carry the expense, and if this new system sufficiently increases demand among the poorest citizens, a head tax to fund it would be progressive—not regressive. It would be even more so if tax reform helped to ensure it. Even the non-users would stand to benefit, as the greater taxes paid by users can be used to finance the security of the relatively smaller fraction of non-users. A side benefit of this approach is that it will likely create more allies for financial aid, especially among middle-class families who are feeling squeezed and yet have little aid to which to turn.

To be clear, the goal of this approach is \textit{not} to relieve states of their obligations to support institutions of higher education but rather to further open up postsecondary access to all
Americans and assure a steady fiscal base for public institutions. Both of these goals are in the national interest, with the understanding that even public institutions have been nudged towards neglecting the public good and democratic decision-making in recent years. Again in the words of Terry Sanford, “The United States of America has not reached a final plateau and is not ‘peaking out.’ Timid voices from weary men are not reflecting the true America when they lamely talk of overproducing educated or trained men and women with advanced degrees, or say that college isn’t for everyone.”94

How might the institutions respond to a shift from student to school subsidies? Of course, we anticipate general friendliness to this approach from the public sector. For example, Mark Yudof of the University of California has called for an expanded federal role in higher education that includes funding for core and operating expenses.95 Moreover, some leaders in the private sector have proposed versions of these ideas over time, most notably in Michael McPherson and Morton Shapiro’s call for “cost of education” grants.96 That said, this refocusing moves far beyond the scope of those original ideas, and is intended to come with significant accountability, rendering it far less popular among powerful players. Back in 1971, Derek Bok, then-president of Harvard University, rejected proposals for federal institutional subsidies, arguing that they would add administrative costs and bureaucracy.97 We might expect similar objections from the American Council on Education today.

It is also possible that some will resist this refocusing on grounds that it is regressive, rather than progressive, or that will provide resources to the students or institutions that need them the least. While additional analysis is undoubtedly required (and intended, as this is merely an instigating piece) we suspect this is not true, and it is not the intention. It is the schools with the most disadvantaged students that need the greatest investments, and those are the schools that
should receive them if the policy is correctly implemented. Certainly, costs will be reduced for some students who can pay more than they will be charged, but history (and lessons from the K-12 sector) indicate that most of these students will instead turn to more expensive, private options, regardless—and in doing so essentially pay twice for higher education (once through taxes, again through tuition).

There are many other possible scenarios that could result from a switch to an institution-focused aid model, and given their potential effects perhaps it is best to try these ideas in the context of a demonstration program. For example, rather than working in tandem with the public sector, for-profit and private institutions may close en masse, restricting access (at least temporarily). States could fail to provide their required match, either because other costs preclude it, or because their leaders do not find value in postsecondary education. Students and families could misunderstand the changing landscape and fear that without student-focused aid, their opportunities for college would disappear. All change comes with risk, but the continuing the status quo is clearly risky as well.

Final Words
The last several decades have been littered with quickly conceived proposals for changing American education, very few of which have done much good. Thus, we want to conclude by noting that our proposal is not intended as a call to arms, but rather as a call for serious thought. We aim to instigate discussion at this point, not rash policymaking. We welcome feedback on this draft.
Endnotes

1. The authors thank Andrew Kelley and David Mundel for useful comments and feedback on an earlier draft. All errors remain our own.


4. The federal aid system distributes financial aid directly to students rather than institutions. States also distribute aid directly to students, but in addition they aid students indirectly by subsidizing public institutions of higher education. However, those appropriations are rarely accompanied by significant accountability for keeping costs down or ensuring the distribution of financial aid reinforces the federal focus on needy students. Arguably, the focus of federal and state direct aid systems on students rather than schools reinforces (or even contradicts) the emphasis of state appropriations on schools.


8. See the set of 15 papers issued by the Gates Foundation’s Reimagining Aid Design and Delivery initiative, and the overview by Libby Nelson, “Reimagining Financial Aid,” *Inside Higher Ed*, Washington DC, March 14, 2013. Papers that do address institutional incentives include those by the National Association of Student Financial Aid Administrators, the National College Access Network and the Institute for Higher Education Policy, which advocate for tying the relatively small fraction of funds in campus-based aid to college completion rates. The New America Foundation also calls for a small number of institutions (those charging poor students relatively high prices) to provide matching funds on the Pell Grant, and several other groups pushed for incentives to encourage institutions to focus grant aid on financial need. But overall, most proposals are variations on the current theme of student aid, with none seeking an overhaul of that fundamental approach.


Between 1900 and 1970, average annual inflation was approximately 2.5%. From 1970, the average rate accelerated, reaching over 13% by 1979. Inflation and unemployment steadily increased, with interest rates rising to 12% per year.


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84 Equity should not be mistaken for equality. This is not a radical call for ensuring equivalence in outcomes for all students but rather the adoption of a commitment that places a policy priority on raising prospects for college attainment of the currently disadvantaged, while also providing room to improving attainment of other students. It means that ensuring access to those resources, inputs, and services necessary to provide the “opportunity to learn”—that is, the opportunity to make progress toward established outcome goals in higher education. This will necessarily require inequality in inputs, as clearly demonstrated in k-12 education.
85 Experimental evidence suggests that prioritizing interdependence among all students (emphasizing community and learning from others) as opposed to independence in letters students receive to welcome them to campus can help reduce stress and potentially increase retention among undergraduates. N.M. Stephens et al. “A cultural mismatch: Independent cultural norms produce greater increases in cortisol and more negative emotions among first-generation college students.” *Journal of Experimental Social Psychology*, 48, 2012, 1389-1393.
87 Obviously, there are unanswered questions about how this would be funded. We are working on a discussion of possible reallocation of existing funds to these arrangements; this will be included in the next draft.

A Century Foundation task force on which the lead author of this paper served recently called for the U.S. Education Department to commission a rigorous study of how much more colleges educating disadvantaged students should be provided compared with their peers, noting that a 25 percent premium is common at the state K–12 level. Pages 40-41 of the task force’s report outlines strategies for pursuing adequacy lawsuits for higher education. Century Foundation, *Bridging the Higher Education Divide* (New York: Author, 2013).

There is a critical difference. We measure what we value, and we value what we measure.


Terry Sanford, “Who Should Pay the Bill?” *Change*, v3n3 (May 1971), pp. 6-7, 71

