



The Promise and Perils of Universal Higher Education

Each fall, the Forum for the Future of Higher Education culminates its research agenda during its Annual Symposium at the Aspen Institute, where Forum Scholars present papers they have worked on throughout the year. The Ford Policy Forum, which we chair, is an integral part of the Forum's Annual Symposium. After focusing in 2001 on the effects of the economic recession on higher education and in 2002 on what U.S. colleges and universities can learn from reform efforts in other countries, the 2003 Ford Policy Forum turned its attention to the topic of universal higher education. These topics are linked in fundamental ways: Affordable access to higher education is inextricably tied to the economy, and the reforms in higher education around the world frequently are modeled after those in the United States. Other nations are particularly interested in achieving or surpassing the U.S. college enrollment rate.

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The Business Cycle

The ability to increase college enrollment—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 difficult 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 appropriated for higher education (as health care, in particular, has garnered a rising share) means that a reduction in overall state spending has an even greater impact on public colleges and universities than previously. 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

Although 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 approximately 3,500 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 attempting to avoid the negative consequences of unbridled competition, and general efforts to better align private and public goals.

What are the prospects and perils of universal higher education in this country? As always, the key to the success of the Ford Policy Forum lies in the quality of the people we enlist to focus on issues and write papers. Sandy Baum, economics professor at Skidmore College and an independent consultant on financing issues, knows more about how students pay for college than almost anyone. Her work on student loans, for example, has changed the way many policy makers and researchers consider that all-important issue. James Rosenbaum is a professor of sociology, education, and

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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. Thomas Kane, professor of policy studies and economics at the University of California, Los Angeles, is one of the world's premier researchers on higher education economics. His coauthor, Peter Orszag, is an accomplished senior fellow at the Brookings Institution.

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

Before their papers are presented, we would like to briefly set the context for the discussion about universal access to higher education.

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. Even with two out of three high school graduates enrolling in college and one out of three young men and women earning four-year degrees, however, we are left far from what most would define as universal access. James 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. Moreover, many of those who are prepared come from families with limited ability to contribute to their educational costs.

Whether the result of financial difficulties or other problems, the persistent gap in enrollment rates between talented high school students from low-income families and those from affluent backgrounds is perhaps the most distressing aspect of higher education in the United States. Sandy Baum presents data showing that 97 percent of top high school performers from high-income backgrounds enroll in college, whereas 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 college attendance by low-performing students (a topic Rosenbaum addresses in detail), for our expansive higher education system to lose more than one out of five talented high school students from modest economic backgrounds is extremely problematic. This worry is exacerbated when considering the work on college choice in which we have been engaged. Not only do more than 80 percent of the most affluent students in the country enroll in higher education, but half of them choose one of the approximately 150 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, stu-

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dents 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 to the cost of their education in a way that public and private colleges would hope. Is it probable that the kind of increase in need-based aid required to fill that gap will be forthcoming?

State Funding and Medicaid

With roughly three out of four 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, the pool of state funds allocated to financial aid is small, and over the past decade an increasingly higher proportion of state financial aid has been distributed based on merit rather than on 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 harm-

less if they concentrated their scarce aid dollars on need. Although 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.

Thomas Kane and Peter Orszag show that the share of

the state pie garnered by higher education has fallen as that devoted to Medicaid has risen dramatically. As the authors 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—and for maintaining educational quality—depends in large measure 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 next decade. The U.S. Congressional Budget Office (CBO), on whose work Table 1 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-lowering 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 reduction in tax rates—to avoid 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.

Conclusion

When 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, we now turn to three papers that explore the promise and perils of universal higher education.

Table 1.

Projected Federal Budget Surpluses and Deficits (in billions)						
	2004	2005	2006	2007	2008	2009
CBO Projections Based on Current Law	-480	-341	-225	-203	-197	-170
Adjustments						
Extend Tax Cut	3	-60	-118	-128	-128	-136
Reform AMT	0	-8	-25	-37	-51	-68
Reform Medicare	-7	-10	-34	-42	-49	-55
Discretionary Growth	-12	-36	-65	-99	-135	-174
Total	-16	-114	-242	-306	-363	-433
Projections Based on Current Policy	-496	-455	-467	-509	-560	-603
					2004- 2008	2004- 2013
CBO Projections Based on Current Law	2010	2011	2012	2013	-1,445	-1,397
Adjustments						
Extend Tax Cut	-141	-287	-412	-447	-429	-1853
Reform AMT	-86	-81	-60	-73	-120	-489
Reform Medicare	-62	-68	-75	-88	-143	-491
Discretionary Growth	-215	-259	-306	-357	-349	-1,659
Total	-504	-695	-853	-965	-1,041	-4,492
Projections Based on Current Policy	-649	-704	-692	-754	-2,486	-5,889

Source: www.ombwatch.org