CENTRE FOR GLOBAL HIGHER EDUCATION

Centre for Global Higher Education working paper series

Academic capitalism, privatization and five decades of misguided federal higher education funding priorities and policies in the United States

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Working paper no. 77
December 2021

Published by the Centre for Global Higher Education,
Department of Education, University of Oxford
15 Norham Gardens, Oxford, OX2 6PY
www.researchcghe.org

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ISSN 2398-564X

The Centre for Global Higher Education (CGHE) is an international research centre focused on higher education and its future development. Our research aims to inform and improve higher education policy and practice.

CGHE is a research partnership of 10 UK and international universities, funded by the Economic and Social Research Council, with support from Office for Students and Research England.

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Academic capitalism, privatization and five decades of misguided federal higher education funding priorities and policies in the United States

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Abstract

The purpose of this Center for Global Higher Education (CGHE) working paper on U.S. federal higher education policy is to discuss how market-based federal higher education funding policies over the last five decades has led to consequences that have been detrimental to student access at American public colleges and universities. Evidence shows increasing inequality in higher education opportunities for low income and underrepresented students due to the redeployment to the private sector of public funding. Since the passage of the federal direct student aid funding policy, the United States has fallen from first among OECD countries in bachelor's degree attainment for 25-34 year olds to sixteenth in bachelor's degree

attainment, and eleventh in lower levels of tertiary attainment for the same age group. For the first time in U.S. history, the younger generation is being less well educated than the generation before them. This paper highlights the problematic market-based federal funding policies that have aided this educational attainment decline and increased inefficiency in higher education. It also calls for new federal funding policies and directives to incentivize states to reinvest in its public colleges and universities in order to improve affordability and decrease student indebtedness.

Acknowledgment: The formation of this Working Paper took place in the ESRC/OFSRE Centre for Global Higher Education, funded by the U.K. Economic and Social Research Council (award numbers ES/M010082/1, ES/M010082/2 and ES/T014768/1). This policy paper was based on an earlier presentation in June 2021 for the Centre for Global Higher Education at the University of Oxford. It relies on two decades of research including U.S. Senate and House of Representative Congressional hearings, public higher education policy advocacy associations including the American Association for Public Land-Grant Universities (APLU), American Association for State Colleges and Universities (AASCU) and the Bipartisan Policy Center’s (BPC) Task Force on Higher Education Financing and Student Outcomes.

Introduction

As the U.S. Congress considers many issues involved in the reauthorization of the Higher Education Act, the challenges facing public colleges and universities are complicated and have never been more fiscally daunting. Importantly, state government disinvestment continues to challenge the nation's ability to provide affordable educational opportunities for the next generation of students. Student tuition and fees continue to escalate outstripping estimates based on earlier predictions. Student indebtedness today has surpassed $1.73 trillion exceeding credit card debt at approximately $840 billion, and auto loan debt at approximately $1.21 trillion. It has become the nation's largest individual and family debt issue second only to home mortgages which is approximately $10.7 trillion at the end of the third quarter of 2021.[1] Furthermore, evidence continues to increase regarding growing inequality in higher education opportunities for low income and underrepresented students. Since the passage of the federal Pell "voucher" grant and loan funding policy, more commonly known as direct student aid, the U.S. has fallen from first among OECD countries in bachelor's degree attainment for 25-34 year olds to sixteenth in bachelor's degree attainment and eleventh in lower levels of tertiary attainment for the same age (OECD; Mortenson). For the first time in U.S. history, the younger generation is being less well educated than the generation before them.

On this eve of the 50th anniversary of the 1972 Higher Education Amendments Act, the nation is positioned to advance new policies that could be more effective and efficient in providing affordable higher education opportunities. During the last three decades the U.S. has witnessed widespread market failure in higher education due to the lack of institutional accountability and appropriate consumer information about college and university pricing. According to McMahon (2009), "there are sources of market failure in higher education markets that cause fully privatized markets to be inefficient. For example, there is poor information about what the non-market benefits really are and also about specifically what the public benefits are. Where

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[1] See "Debt: A Current Picture of Student Loan Borrowing and Repayment in the United States." *Nitro* (2021). Also see the Center for Microeconomic Data, the *Federal Reserve Bank of New York* (Quarter 3, 2021).

there is poor information, private markets fail, and the result is economic inefficiency" (pp. 12-13).

A significant outcome of these federal funding policies over the last fifty years has been that they have proven to be a boon for private, religious and for-profit institutions to the detriment of public institutions nationwide. Student financial aid began the process of private marketization in 1972, after the passage of the Higher Education Act of 1965 and the 1972 amendments which granted federal student vouchers directly to students rather than institutions through Basic Educational Opportunity Grants (BEOG) in 1965 which became Pell Grants in 1972. According to Slaughter and Rhoades (2004), these direct student aid vouchers which were dispersed in the form of grants and loans, "were gradually expanded from covering full-time, traditional age students attending public and not-for-profit private colleges and universities to supporting students at proprietary institutions" (p. 35). Pell Grants were federally funded vouchers and the federally subsidized and unsubsidized loan programs established a vehicle that would form an eventual major shift of the cost of higher education from public taxation on to the shoulders of students and their families. In 2019 the federal student loan programs disbursed more than $90 billion in student loans and constituted a kind of consumption tax on the users who borrowed the money (Department of Education, 2019). Recent decades have proven the detrimental financial and educational impact to public institutions of this private market shift. Rebuilding the fiscal capacity of public colleges and universities is today of foremost importance. No longer are the federal discussions centered on reauthorizing the Higher Education Act simply about expanding federal voucher grant aid and federal student loan maximums. There, too, are a number of significant federal funding policies that are national issues and are consequences of federal funding policies such as the "free college" movement for public community college students, elimination or reduction of student loan indebtedness, and the use of federal funding leverage to hold states accountable for decades of declining disinvestment. These issues seek to return to the public funding policies and practices that were in place decades ago when the U.S. ranked first among OECD countries in higher education access and educational attainment.

Post-Higher Education Act 50 years later: "Wild West"

What are the consequences and challenges after five decades since the adoption of a federal market-based student voucher and loan system for higher education? Currently, there is in play a federal higher education funding strategy that is mission-blind to colleges and universities, whether they serve the rich, poor, middle class, or shareholders. This indiscriminate funding approach, premised on marketplace choice by the student, has given a marked advantage to private not-for-profit and for-profit colleges and universities over public institutions. The federal student voucher and loan funding approach has created what a number of higher education policy leaders have referred to as an unaccountable "Wild West" funding system that is unlike most OECD countries (Reed & Alexander, 2011; Alexander 2018; Young 2019). Unfortunately, the student voucher and loan funding approach has done nothing to improve overall accessibility of higher education for low-income students. In a report from the Georgetown Center on Education and the Workforce, Carnevale (2021) asserts that "a child from a low-income family who has top test scores in kindergarten has a 31 percent chance of graduating from a four-year college and getting a good job by age 25. While a child with low test scores in grade school who comes from a family in the top income quartile has a 71 percent chance of graduating from a four-year college" (pp. 1-3).

To better understand the actual results of decades of federal student voucher and loan policy, it is important to highlight four important developments that occurred along the way. *First*, with the passage of the Middle-Income Assistance Act in 1978 which expanded the earlier federal loan programs, middle- and upper-income students gained access to vast amounts of federal student loan funds. This act essentially raised maximum caps to make more loan-based assistance available to middle- and upper-income families while giving incentive to institutions to increase tuition at faster rates. This entitled students to borrow more and rapidly acquire more debt themselves. This cost-push inflation of the costs and subsequent loan reliance in the 1980s and early 1990s has now ballooned to $1.73 trillion and is now

projected to exceed over $2 trillion in 2025 and $3 trillion by 2038[2]. Importantly, this misconceived market-based approach stimulated institutions to rapidly raise tuition and fees and utilize student loans to consume the available revenues from expanding student debt. Most public colleges and universities could not take full advantage of this student voucher grant and loan incentives due to state legislative political restraints that prevented public institutions from raising tuition as readily as private not-for-profit and for-profit institutions. These political “cost controls” placed on public colleges and universities by state governors and legislatures constrained public institutions from maximizing the fiscal incentives inherent in the federal voucher grant, and especially, the federal subsidized and unsubsidized loan programs.

The *second* significant development that M. M. Chambers (1968) and other higher education finance experts predicted, was that the federal student voucher and loan system initiated the beginning of what would become a general decline in state support for public higher education. The result of this state government disinvestment has been that state funding of higher education is approximately fifty-three percent below the state tax effort in 1980. This tax effort measure clearly shows that spending as a percentage of public higher education support by per capita income has been on the long-term decline (Mortenson, 2019). State governments began reducing tax effort in public higher education funding in tax effort to the point that the federal government is now the primary funding source for public higher education institutions. The result is that the federal market-based system provides nearly $160 billion through vouchers, student loans and tax credits, while the states spend only about $90 billion.[3] If these trends continue, the U.S. will completely federalize higher education funding in the next few decades (Alexander, 2017; Basken, 2019). It is doubtful that Congress intended for this to occur and that its policies would stimulate state government’s methodical exit from funding of public higher education.

[2] Figures calculated by the Federal Reserve Bank of New York and Saving for College, “Total US Student Loan Debt Outstanding.”
[3] See fiscal Year 2019 Annual Report/ Federal Student Aid. p.11. 2019 Federal aid disbursement to students was in grant and loan aid was $121,772 billion. American Opportunity Tax Credits (AOTC) are not included in this report.

Third, a critical development in the mid-to-late 1980s was that the federal student voucher and loan, along with tuition-based state student aid programs, would become so lucrative to private investors that another new institutional sector would enter the higher education landscape, for-profit colleges and universities. For-profit institutions took full advantage of the federal student aid market-based approach and captured significant profits on the backs of student borrowers. Currently, among all public, not-for-profit and for-profit four-year institutions, the percentage of for-profit college and university students, awarded federal direct student voucher grants and loans was greater than the other institutional sectors. In 2018-19 seventy percent of for-profit undergraduate students received federal loans, and sixty-five percent of undergraduate students attending for-profit institutions received federal grants (National Center for Education Statistics, 2021). As may be expected, these for-profit institutions have one of the lowest university completion rates and many of the highest student loan default rates in the nation. According to a report by The Institute for College Access and Success, more federal student loan borrowers from for-profit institutions who entered repayment in 2016 had by 2018 defaulted on their loans more than any other institutional sector. To put this statistic in perspective, for-profit institutions in 2016-17 had nine percent of all student enrollment and by 2018 had thirty-three percent of all student loan defaults (Kvaal, 2019).

Federal attempts to increase accountability and control of the widespread use of funds by for-profit institutions was initiated by the Clinton administration by creating the State Postsecondary Review Entities, or SPREs. These SPREs were designed as regulatory state entities that could help the federal government determine which institutions should be allowed to grant degrees, which should get public money, and which shouldn't be able to do either. Unfortunately, several influential higher education organizations and associations played an effective role in killing this new regulatory system, which enabled thousands of federally reliant new for-profit institutions to be created and prosper at the expense of needy students and

taxpayers in the next two decades. The debates encompassing this issue continue at the federal level and show little potential in addressing this accountability problem.[4]

Fourth, a consequence attributable to both the federal student voucher and loan policy along with decades of state decline in appropriations, is that many public universities have privatized their educational missions. Substantial fiscal evidence shows that beginning in the 1980s as states were starting to reduce funding to public institutions and unwilling to raise taxes policymakers left public universities with little choice but to raise student tuition and fee revenues to the detriment of low- and middle-income, in-state students (Burd, 2018; Marshall 2019). Newfield (2016) observed that public colleges and universities have been following this commercial model since the early 1980s and today's challenges reflect this market-based thinking and operational practice.

One development of market-based privatization of public universities has been that the desire to generate private revenues has led public universities to turn away from their in-state students and obligations in favor of more lucrative higher income out-of-state students (Jaquette, 2017). Increasingly, this trend could eliminate the distinction between "in-state" and "out-of-state" students. Over the last two decades flagship public universities such as the University of Alabama, the University of Virginia, University of Michigan, South Carolina University, and the University of Colorado have shifted their enrollment strategies toward out-of-state students and the revenues that accompany these higher-income students.

The Public College and University Market Decline and Societal Impact

We are just beginning to grasp the impact that state disinvestment and privatization has had on underrepresented students that need affordable public colleges and universities. This market-based trend has among other detriments damaged racial

[4] See Alexander Shebanow education documentary film *Fail State*, winner of the William Randolph Hearst Award for education documentary of the year 2019. Fail State is an investigative *documentary film* on for-profit colleges, student loan debt, and American higher education.

and social equity (Hamilton & Nielsen, 2021). Newfield succinctly captures the cause of the public university funding dilemma stating that “When state funding was high,…, poor and middle-class students could finish college in spite of the sky-high tuition at U.S. private universities, since state funding kept public college fees very low. Now…low public funding equals high tuition, equals high student debt, equals lower access, equals lower college attainment – period.”

Student costs and privatization have combined to reduce student access to public colleges and universities in the U.S. The fact that the U.S. ranking among OECD countries in educational attainment among younger generations is declining is just one result of misdirected federal funding policy. In the last decade the rates among U.S. high school completers enrolling in college declined for Asian, Hispanic, Black students, while the rate for White students remained flat. These data also show that vast gaps exist in attendance from eighty-two percent for Asian students and fifty-seven percent for Black students (National Center for Education Statistics, 2021, p. 22-23).

Other indicators show that the failure of federal funding policy has had further harmful effects. Social and racial educational inequity has persisted and the promise by private sector institutions to expand access and to better control student tuition has not occurred. Freedman (2013) observes in an article in *The Atlantic* that “we like to view higher education as the great equalizer that leads to social mobility but selective colleges have long been accused of perpetuating class divides, rather than blurring them” (p. 1-2). For example, the nation’s wealthiest private universities, the same universities that promised to expand underrepresented student access, have fewer low-income students as a percentage of their enrollment than they did decades ago (Strauss, 2018). Universities such as Washington University in St. Louis, Tulane University and the University of Chicago all have lower percentages of Pell Grant and low-income students than they did in the 1970s even though these universities are located in cities with very high poverty rates. The Ivy League with eight campuses and over $140 billion in endowment support, enroll only approximately 10,000 Pell-eligible students. In contrast, the University of Central Florida enrolls over 22,000 low-income students more than doubling the entire Ivy

League, while UC Riverside, UCLA, University of Florida, California State University Long Beach, and Arizona State are among public universities that enroll more federal voucher eligible students on each campus than the entire Ivy League combined. Thus, if providing greater access for low-income students is the objective, then we should be consistent in our concern about the failure of progress in improving social mobility and racial equity.

From yet another perspective, there should be increasing anxiety about the plight of public institutions and the comparative fiscal disadvantage that they face when compared to their private counterparts. When comparing total expenditures per FTE student of public and private four-year universities in 2017-18, the data indicate substantial differences favor decisions by private students to attend private universities. According to the National Center for Education Statistics, total four-year public university spending per FTE averaged nearly 34% or $15,940 less than average spending at four-year private university (NCES, IPEDS, 2021). For public and private research universities, 2016-17 data show that the total educational and general (E&G) expenditure per FTE disparity is even greater favoring private research universities (Education Trust, 2021). Research indicates financial resources matter greatly for student completion (Bound, Lovenheim, & Turner). Hillman (2020) documents that college spending “is the largest single factor and is larger than students’ academic preparation” for ensuring student success (p. 3).

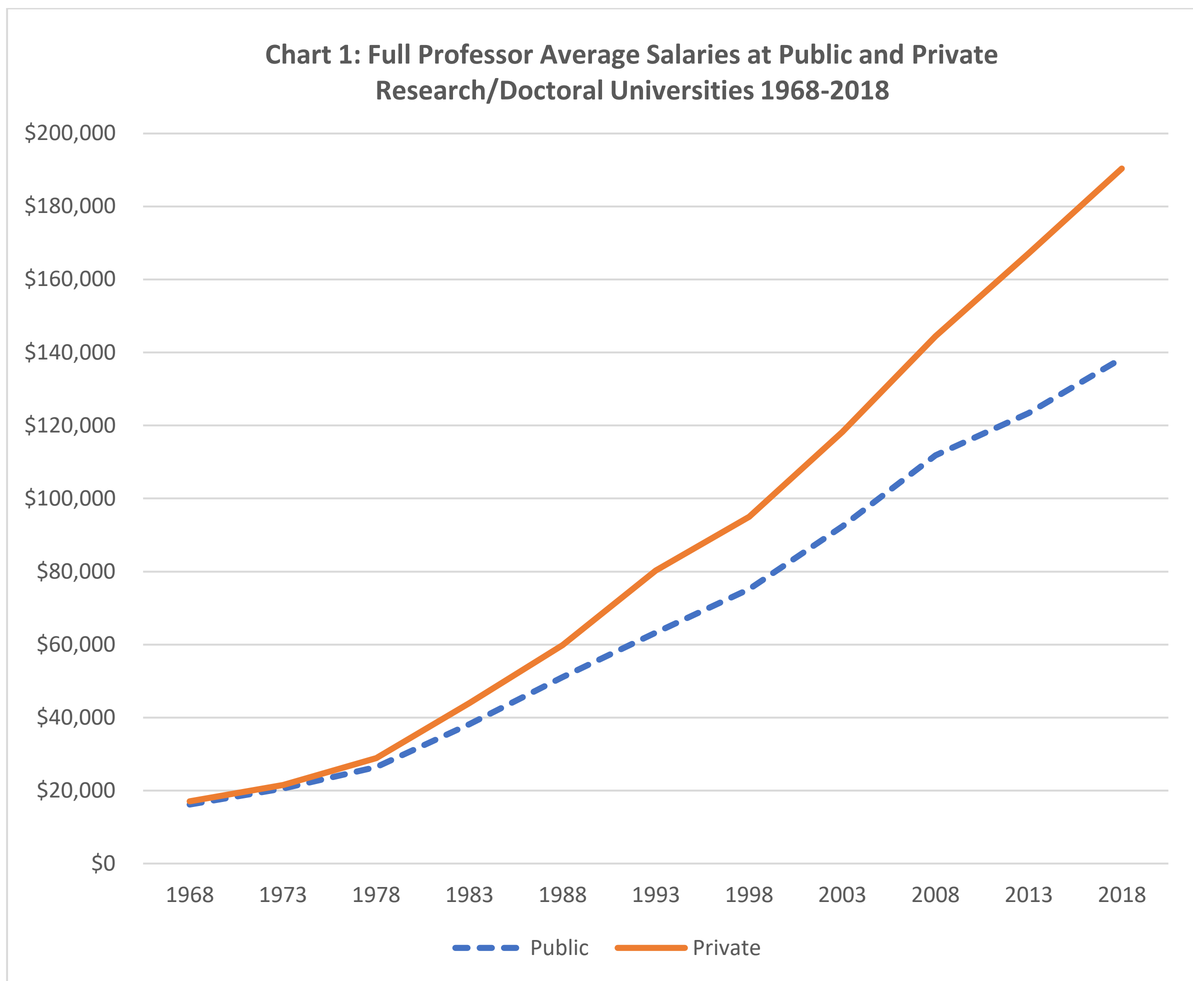
Another important consequence of the combination of the effects of the federal voucher and loan policies is the aforementioned relative decline in state funding of public universities and the increasing market advantage favoring private research university faculty over public research university faculty. In 2007 Geiger pointed out that the “extraordinary prosperity of private research universities was fueled principally by escalating tuition, which rose six-fold in current dollars. More accurately, net tuition revenues per student measured in constant dollars, increased by one hundred and thirty-eight percent from 1980-2000.” He further showed that “the 1980s and 1990s were prosperous decades for public universities in historical terms, but not when compared with private universities. And more of the additional

money (at public universities) came from student tuition not from state appropriations" (Geiger, 2007).

This rising negative development for public institutions had been predicted at the inception of the federal voucher grant and loan programs. Less than one year after the new law was established, Seymour Harris a Harvard economist argued in the *New York Times* of a bigger problem, which would allow colleges with the autonomy to frequently raise student tuition, to extract more money from students, money that could be used to raise professors' salaries.

Over the last four decades this inequality has generated substantial concern from public college and university leaders over the last two decades as funding disparities continue to widen. According to Commonfund Institute[5] and National Center for Education Statistics data, in 1968 public research/doctoral university full professor average salaries were $16,160 while private research/doctoral university salaries averaged $17,057, a difference of $897. In 2018 private university full professor average salary was $190,365 while public university full professor average salary was $138,377, a difference of $51,988 (see Chart 1). Over this period the private university faculty spending advantage has increased from 5.5% to 37.5%. When adding the most recent 2020-21 faculty salary data that public research/doctoral university full professors average $146,020 while private research/doctoral faculty average $202,199, a difference of $56,179 or a disparity from 5.5% in 1968 to 38.5% in 2020-21.

[5] Commonfund Institute calculates the "*Higher Education* Price Index" (HEPI) which is an inflation index designed specifically to track the main cost drivers in *higher education*.



Source: Update FY1967-FY1976: National Center for Education Statistics: FY1977-FY2018.

When analyzing these data closely, the growing disparity not only means that most of nation's best public research universities are losing ground relative to their private research peers in the competition to hire and retain quality faculty, but also to non-peer private institutions as well. For example, senior faculty at Babson College, Wellesley College, Santa Clara University, and the University of Richmond are paid more on average than senior faculty at the University of Virginia and the University of Illinois at Urbana-Champaign. Senior faculty at private Chapman University in Anaheim are earning more than senior faculty at the University of California at San Diego, UC Santa Barbara, and UC Irvine.

A number of studies have documented this increasing problem in fiscal salary disparities in order to better understand the fiscal effects for public universities and their students (Alexander, 2001; Rippner & Toutkoushian, 2015). This fiscal

academic marketplace disadvantage is not limited to public research universities. The American Association of University Professors (AAUP) data indicate that among Master's degree public and private universities similar salary disparity trends have occurred, but to a much lesser degree. As these numbers show the market-based federal student voucher and loan programs have placed public universities in a precarious financial position when compared to their private university counterparts. This federal funding approach has provided extensive fiscal resources to private higher education while reducing comparative financial ability of public universities to compete in acquiring and retention of quality faculty.

Furthermore, as noted above, other research shows the student voucher and loan funding approach has not increased low-income student access or positively impacted the social mobility of disadvantaged student populations. As spending data indicate, the federal approach has not created a more efficient system and is actually incentivizing spending growth which has led to higher student tuition increases and massive student indebtedness. In order for federal policy makers to better address these increasing challenges it is imperative to understand the underlying assumptions that led to this major federal funding shift to a federal student voucher and loan system.

Where the Federal Funding System Went Astray

What policymakers may not recall is the intensity of the policy debates that pitted the demands of private institutions against those of public colleges and universities. This debate essentially lasted from 1965 to 1972, and little has been done since that time to assess how effective these policies have been or which institutions have been the ultimate beneficiaries of these federal directives.

During the two decades before the 1972 passage of the Higher Education Act amendments, private higher education had watched its share of the nation's student enrollment decrease dramatically due to state creation of additional public colleges and universities. Advocates for private higher education, in their opposition to public institutions, rested their fiscal claims on the presumption that the federal government

should fund the thousands of private institutions that had been established since the formation of the United States.

As observed above, with the passage of the Higher Education Act of 1965 and the Educational Amendments of 1972, the United States significantly transformed federal higher education policy to a voucher system of funding students rather than to institutions. This policy shift became the principle mechanism of federal support of colleges and universities and marked the culmination of two decades of political and social debate. The issues debated were more than limited programmatic discussions about federal support for higher education, rather they were generated from deeper national concerns regarding how fiscal resources could be expanded beyond public institutions.

The heart of the debate centered on a clash between two philosophies. One philosophy argued for direct funding of public institutions or institutional aid centered on the rationale that the government’s role in supporting higher education should be to establish well-funded public institutions that could operate tuition-free or at low fees (Chambers, 1968). Such was a continuation of the educational objectives advanced in the common-school movement and the republicanism of the nation’s founders emphasizing great and expanded access through the reduction of financial barriers. The policy debate in the 1960s voiced opposition to the distribution of federal higher education funding from direct aid of institutions to the indirect means of routing funds through the students and then, indirectly to the institutions. Concern was expressed by the advocates for public institutions that a dominant student voucher funding approach would encourage institutions to increase their tuition, producing an escalation that would require ever-increasing costs to attend college. As Gladieux and Wolanin (1976) asserted “students who qualify for the available aid would be included, while others would have to resort to loans or other means to cope with the inflationary spiral” (pp.18-38).

It was maintained by public institutional associations and educational leaders that institutional aid would be the most effective policy for keeping student charges affordable. The advocates for direct institutional funding argued that federal funds

would enable public institutions to reduce the charges of all students, and that free public higher education, accessible to all, should be the paramount goal (Chambers, 1968). This philosophy was consistent with the Education and Secondary Education Act of 1965 (ESEA) in accord and consistent with state financing mechanisms in place at the time. State legislatures throughout the United States had primarily used institutionally-based funding methods to support public postsecondary education. During the 1960s and early 1970s, only limited resources were allocated through direct student voucher programs while institutionally-based resources were distributed by states to public colleges and universities.

The second philosophical position in the debate was advocated by most clerical and private institution leaders. It maintained that the government should use its funding programs to keep all colleges, public and private, on a high-fee basis, while operating a vast system of scholarships, loans, and other student vouchers at a high level sufficient for students lacking financial resources be able to attend the institutions of their choice public or private. To reach this objective, it was argued that the direct student voucher approach was preferable to institutionally directed state and federal funds, and that colleges and universities should charge student fees approaching or approximating the full cost of operation. It was further maintained that this funding approach would enable the public and private institutions to compete for public resources on an equitable basis. Slaughter and Rhoades (2004) pointed out that this process of marketization of higher education began in 1972 “when the Higher Education Act of 1965 was amended to give aid to students rather than institutions.” They further explained that “the shift initiated a degree of market like competition among institutions for federally subsidized student tuition dollars” (p. 35-36).

Additionally, as student demand grew and the availability of expanded federal loans to middle class families increased, colleges and universities began raising student tuition faster than before. This was predicted by many economists like Friedman who theorized that inflation occurs when too much money is available for limited goods. As Mitchell (2021) asserts that in the 1960s and 1970s “government had put dollars into families’ hands through the defense loan program in the defense loan program

and the Guaranteed Student Loan Program" which "increased the number of people willing to pay for college. Colleges responded to that increase in demand by raising prices" (p. 30). Mitchell further points out that Congress in its rapid adoption and expansion of the student loan programs had created a mess with a series of unintended consequences. "Congress had passed the two loan programs hastily, with deference to banks and schools and little thought to the perverse incentives that might lead to even higher tuition and taxpayer costs" at the federal level (p. 31).

In attempting to rationalize this unregulated market-based model with the increasing need of low- income students, private advocates of this approach suggested a series of supplemental programs that were based on the high-tuition, high-aid philosophy. Among the most prominent programs were federal and state tax-supported scholarships, government loans and guaranteed loans for undergraduate and graduate students, student work opportunities, tax credits for tuition payments and lifetime surcharges on earnings to repay student loans. Proponents of this "student choice" approach argued that by leaving higher education to the student or the consumer demand, institutions would become more efficient and effective in providing educational opportunities for all citizens.

At the time of the inception of the federal voucher grant and loan programs Alice Rivlin, the new assistant secretary of the Department of Health, Education, and Welfare, convened a national panel to study the future role of the federal government in financing expanded access. Rivlin believed in the power of market-based consumerism and allowing students armed with a federally funded voucher in the form of grants and loans. She believed that students would then be able to increase competition among colleges and universities which would create market pressure that would keep college tuition from rapidly escalating. Rivlin also supposed that under this system that was already in place that poor and minority students would gain greater access to the nation's most prestigious institutions (Mitchell, p. 33).

Public college and university leaders pointed out that the federal funds be allocated directly to public institutions because the voucher model of grants and loans would be a stimulus and incentive to raise tuition. According to Allen Ostar, head of the

American Association of State Colleges and Universities the voucher approach will result in an “escalation which would require ever-increasing student financial aid funds to enable students to meet the ever-increasing costs of going to college.”

As observed above, among the leading advocates for directly funding colleges and universities and not moving farther down the federal voucher aid path was M. M. Chambers who expressed concern that any or all of the direct student voucher and loan policies would eventually diminish state tax support of public institutions by shifting the support of higher education from state taxes to private tuition and fees paid by the student. This would constitute a shift backward to a higher education policy that predated most measures of federal funding. As observed above, advocates of public institutions also were concerned that these student voucher and loan programs would entice institutions to drastically increase student tuition while also giving credence to the philosophy that education was primarily an individual benefit.

In the late 1960s and 1970s state legislative political pressure in most states began to call for increases in student tuition and fees. In response, public proclamations were made by the Board of Regents of the University of Wisconsin, Iowa and California.[6] In a statement, the University of Iowa Board of Regents proclaimed “the effort to shift costs from the taxpayers to student borrowers is in reality only a shift from one kind of taxation to another.” They further added that “indebtedness at the end of a college career has the effect of undesirably restricting educational and vocational choices (pp. 98-99),” as well as reducing the rate-of-return on the individual investment in education.

During that time proponents for private higher education argued that the great diversity of the American higher education system was in substantial jeopardy because private higher education could no longer compete with state-subsidized public colleges and universities. Their argument was that a federal higher education funding model should be based on money following the student and flow to any

[6] At the time of these proclamations, the University of California was tuition-free for in-state Californian students.

institution regardless of its mission. Therefore, the protection of the diversity of institutions and the creation of a more competitive government funding model was a primary objective of this argument rather than increasing access for low-income students.

Private institutions advanced demands for access to both federal and state dollars, and in so doing defined the era from 1965 through 1972, as documented in a number of Carnegie Commission on Higher Education Reports. The Carnegie report maintained that prominent and wealthy private institutions were headed to financial ruin if tuition gaps and population shifts continued to take place nationwide. Among the institutions named in the report as being in financial trouble or hardship were Stanford University, Tulane University, Boston College, New York University and Harvard (Carnegie, 1972, pp.198-200). Little to no financial evidence was ever produced to substantiate these claims that such prominent private universities were actually facing significant hardship other than a national enrollment shift toward public institutions due to expanded educational access and the fear of the recent growth of the community college system.

Another factor that fed significantly into the debate and would prove to be a major miscalculation was the assumption that state governments would, of their own volition, maintain or increase their current levels of fiscal commitment to public higher education. Federal policymakers were convinced that public colleges and universities would continue to be supported primarily by their state governments. Any new federal funding policies were anticipated to supplement state funding, not replace them. As Chambers and others predicted, this presupposition would prove in error as state governments began to reduce funding in 1981, producing the ongoing ballooning of student tuition and the privatization of public colleges and university missions and practices that we experience today in state institutions.

A last substantive development that occurred with the passage of the 1972 reauthorization was the creation of the State Student Incentive Grant (SSIG) which would later be renamed Leveraging Educational Assistance Partnership Program (LEAP). This federal law created a matching grant program designed to give

incentives to state governments to create state student voucher programs or increase funding for existing ones. As observed above, prior to 1972, most states funded higher education entirely through institutional funding to public colleges and universities. In most states, providing public resources to private and clerical institutions posed a twofold problem of public accountability and state constitutionality prohibitions. However, a 5-4 U.S. Supreme Court ruling in *Tilton v. Richardson* (1971) cleared the path to allow states to allocate public tax funds from existing funding formulas and future taxes to private and sectarian institutions through a student voucher approach. This SSIG and LEAP federal funding system effectively incentivized states to shift a portion of higher education funding to a market-based student voucher system. Within a decade after *Tilton v. Richardson*[7] and the SSIG matching program stimulated thirty-nine states to reverse state restrictions against adopting direct student voucher aid programs as a means of channeling state funds into private higher education (Breneman & Finn, 1978).

In the coming decades several states including California, Ohio, Illinois and New York adopted state student voucher programs with formulas that disproportionately aided higher tuition institutions. Ultimately, *Tilton* also cleared the path for many state funded merit-based student voucher programs that were market-based and did not draw any distinctions between public, private and for-profit institutions.

Leveraging Future Federal Funding

As observed above, the current federal financing system of student vouchers and loans has permitted states to reduce their tax effort to public institutions. The need to apply federal leverage to public colleges and universities and a new federal funding model including a federal-state match or “Maintenance of Effort” (MOE) legislation has never been greater. In the Higher Education Act (HEA) reauthorization efforts in 2007, a first maintenance of effort provision was added, using federal leverage to protect higher education from dramatic state funding cuts. The same MOE language drafted in 2007 in HEA was successfully transferred into the American Recovery and Reinvestment Act (ARRA) in 2008, 2009, and 2010, which allowed states to use

[7] See *Tilton v. Richardson* (1971), 403 U.S. 672 (1971).

education stimulus funds only if they did not cut their higher education budgets below 2006 funding levels. In 2007 and 2008, forty-eight state governors and the National Governor's Association strongly opposed the federal maintenance of effort (MOE) provision. Six weeks after the MOE provision was passed by Congress, nineteen states cut their higher education budgets to the threshold, the point of where the federal penalties would be imposed. This federal leverage proved very effective by discouraging further state disinvestment. For example, Tennessee at that time had a $1.1 billion higher education budget, but cut funding within $13 of where the penalties applied. Oregon and Colorado reduced their higher education budgets within three dollars of the federal penalties. This MOE approach helped stem even more state disinvestment in public colleges and universities.

More recently, three recent economic stimulus packages including the Coronavirus Aid, Relief and Economic Security Act (CARES) and the Health and Economic Recovery Omnibus Emergency Solution Act (HEROES) were passed by Congress all include maintenance of effort (MOE) provisions. It is too early to determine the effectiveness of these provisions. However, history has shown that the use of MOE or federal matching funds to incentivize states to invest in their public colleges and universities to enhance funding has proven very effective. Numerous Congressional hearings and policy advocacy groups in the last two decades, in addressing the problem of student tuition increases, have endorsed the use of MOE provisions and possible federal matching funds as a way to stimulate greater state investment.[8] Unfortunately though, no new longer term federal funding policies have been adopted and, today, the student voucher and loan funding approach continues to be the nucleus of federal higher education policy.

[8] Reauthorizing the Higher Education Act: Ensuring College Affordability: Hearing of the Committee on Health, Education, Labor, and Pensions, United States Senate, 114th Congress (2015). Retrieved from http://www.gpo.gov/fdsys/ ; Barriers to Equal Educational Opportunities: Addressing the Rising Costs of a College Education: Hearing before the Committee on Education and Labor, U.S. House of Representatives, 110th Congress (2007). Retrieved from http://www.gpoaccess.gov/congress/house/education/index.html ; U.S. House of Representatives subcommittee on 21st Century Competitiveness, United State house of Representatives, 108th U.S. Congress (2003); Bipartisan Policy Center. *A New Course for Higher Education: Strengthening Access, Affordability, and Accountability* (Washington D.C.: 2020).

A Retrospective View of the Dilemma

Currently, political debates are focusing on the adverse consequences of the failed federal scheme that has featured market-based consumer misinformation, student tuition escalation, massive student indebtedness, state disinvestment, the privatization of public colleges and universities, and increased educational social and racial inequities. Discussion in policy circles now focuses on the revival of free student tuition, elimination of student indebtedness, opening of greater access, and supporting of institutions that are committed to advance public missions that are of common benefit to all.

It is further disturbing to note that when comparing the U.S. with 37 OECD nations in measuring total public and private expenditure on institutions as a percentage of GDP, that despite ranking first in total expenditure for tertiary education, the U.S. ranks 34th (36%) in the world and below the OECD average (66%) in public expenditure for tertiary education. When comparing aggregate private expenditures for tertiary education institutions, the U.S. ranks 4th (64%) only behind Japan (71%), the United Kingdom (71%), and Australia (65%) (OECD, pp. 264-265, 247). Unfortunately, a significant portion of the private expenditures measured in these data include student debt as a private expenditure. Other nations that have adopted similar privatization funding strategies to that of the U.S. such as the United Kingdom/England, and Australia which have similar private to public aggregate expenditure ratios also are experiencing significant student loan indebtedness issues. For example, since increasing tuition fees from 3,000 pounds in 2006 to 9,000 pounds in 2012 and abolishing maintenance student grants in 2016, England has witnessed skyrocketing student indebtedness. At year end 2020-21, the value of outstanding student loans exceeded 160 billion pounds and Government forecasts indicate by 2050 the value of outstanding student loans will exceed 560 billion pounds (Bolton, House of Commons Library).

In retrospect, influential policy-makers should have listened more carefully to the insights and forecasts of M. M. Chambers and other public institutional leaders. Salvaging private colleges and universities at the expense of public institutions has proven not only detrimental to public higher education, but destructive of rational

objectives of expanding student access and educational attainment. England is one of a number of countries that has moved in a similar policy direction emulating the U.S. voucher and loan scheme. This has already led to increasing student costs and indebtedness much like that of the United States. The U.S. government policies and the outcomes that have led to a regressive intergenerational taxation shift should provide important forewarning to other countries that are considering this federal market-based approach as a direction to expanding educational attainment and greater economic prosperity.

Conclusion

Joseph Stiglitz maintains that such ill-advised marketing of education contributes dramatically, to intergenerational inequality, while market forces help contribute to increasing inequality. Much of the inequality that exists today is a result of government policy that has accommodated *private factions* and *self-interest*. The U.S. has encouraged this ill-fated market-based student voucher and loan system to develop for five decades. From its inception, the federal market-based policies were designed to aid private institutions and to provide them with distinct advantages over public colleges and universities. The misguided market funding approach has contributed to the decline of the U.S. in educational attainment, ranking it 16th in the OECD in terms of the younger generation's college completion while the older generation aged 55-64 years old ranks first. If the federal market-based student voucher and loan funding approach is the path taken for the foreseeable future, as Newfield (2021) predicts "we will keep getting more of its familiar features: public budget austerity, marketization, privatization, selective cross-subsidies favoring business and technology, precarisation of professional labor, and structural racism" (p. 77).

The prevailing politics of higher education has outweighed common equitable purposes and expanding student educational attainment. Establishing new directions for federal funding are essential. The federal policies of the last fifty years have proven lucrative for private, religious and for-profit institutions and have had detrimental financial and educational impact to public colleges and universities.

Rebuilding the fiscal capacity of public colleges and universities to serve the educational needs of the succeeding generations should be the primary objective of federal funding.

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