



## Do Public Universities Use Resources to Widen Opportunity?

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State universities and other public institutions of higher education were created in the United States for the purpose of widening access – and political leaders still argue that these institutions make it possible for wider arrays of Americans to attend and graduate from college. This goal continues to be touted, despite the fact that state governments have sharply cut back their contributions and forced public universities to find other ways to survive in competitive markets.

Public universities often have more discretion than most government agencies – to decide which applicants to admit and to charge different effective prices to admitted students and their families. Our research looks at how public universities now use increased budgetary discretion. More often than not, we find, they are responding to tight fiscal constraints by redistributing support toward more privileged students, contrary to the declared public goals.

### Tight Finances and Shifting Priorities

Higher education in the United States is financed through a complex array of channels. Funds to pay for research, instruction and facilities, and student aid come from the federal government, state governments, private donors and philanthropic institutions – and, of course, from students and their families in the form of tuition. In recent times, the mix has changed sharply.

States have been reducing their contributions to higher education for many years, and the declines accelerated after the recent Great Recession as state revenues contracted. Average state and local appropriations (calculated in relation to the number of students studying full time) recently reached very low levels – leaving universities more reliant on tuition revenues. As states contribute less, leaders of public universities push for more budgetary flexibility – including the right to raise tuitions and set various tuition levels for different sets of students.

Higher educational institutions juggle multiple goals. They pursue prestige by fostering research and attracting academically excellent applicants, and they may value ethnic and racial diversity and broad social access. Politicians often place the highest priority on maximizing access and affordability, but the universities themselves feel a need to compete for students with the most desirable characteristics – and, increasingly, they want and need more tuition revenue.

### What Public Institutions are Doing

The practice of “tuition discounting” or price discrimination – charging different prices for similar students – has long been part of revenue and enrollment management strategies at private colleges and universities. Now it is also practiced by state universities looking to admit and recruit not just any and all students, but especially those who can pay high tuitions – or those who have the best grades and test scores.

- In 1995, eight percent of newly enrolled full-time undergraduate students got merit aid from public institutions, but it became 18 percent by 2007. Over the same period, the percent receiving need-based aid merely inched up, from 13 to 16 percent.
- From 1996 to 2012, public colleges and universities allocated a decreasing portion of grants to students in the lowest quartile of family income.
- The new strategies of aid allocation have been used to increase revenues by attracting either wealthier students – who can pay all or most of total tuition prices – or higher-achieving students – who increase institutional prestige.

Our research analyzes public higher educational expenditures in the various U.S. states to decipher the overall effects of cutbacks in public funding and the increased budgetary flexibility allowed to individual institutions in many states. Preliminary findings suggest that decreasing state appropriations are leading universities to shift resources around. Many institutional officials divert (shrinking) state appropriations away from institutional needs such as instruction toward funding more student aid. Yet at the same time, public universities are ramping up tuition sticker prices and differentials in aid grants to favor some kinds of students over others.

In states where institutions have been granted more budgetary autonomy, we find that subsets of students are charged more variable tuition prices. Regardless of contexts and rules governing public universities, we also find that types of institutions leverage aid for predictable goals.

- Prestige matters: Institutional aid tends to favor high achieving students more than low-income students who are the chief beneficiaries of federal aid and much of state-level student aid.
- Greater social opportunity matters in regards to race and ethnicity, but not class. Institutions with proportionately more minority students discount full tuition more often, but this is not the case when low-income students are a higher proportion of all students.

### **Broadening Access Will Require More Funding and Better Coordination**

President Obama has proposed plans to make college more affordable and graduation more predictable, especially for low- and middle-income college students. New rules can restrict diversions of federal need-based aid funds to other purposes. But our research shows that unintended shifts of resources toward the privileged are not likely to end until changes are also made at the state level. In the middle of the twentieth century, America's state universities delivered quality higher education to expanding numbers of students who paid uniform low tuition. But now public institutions are raising and manipulating tuitions to make up for shrinking support from taxpayers. State governments say they want public universities to widen access, control costs, and improve graduation rates, but by cutting public funding, many states are creating perverse incentives for universities to adjust their pricing strategies. As a result, several universities shift resources away from instruction and need-based student aid. Less educational opportunity is the predictable result.

**Read more in Luciana Dar and Sarah Yoshikawa, "Higher Education Institutions Matter: Federalism, Representation and Redistribution," University of California, Riverside, August 2013.**