Moral Dimensions of Public Funding of Higher Education

LS 707: Ethics Final Project

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Preface

To give away money is an easy matter and in any man's power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in every man's power – nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble.

Aristotle

Abstract

The aim of this paper is to analyze the moral aspects of higher education public funding. This paper highlights trends in the public funding of higher education and offers two theoretical frameworks (egalitarianism and neo-liberalism) that explain the ethical implications of the diminishing support of public funding for higher education in the form of direct subsidies to public institutions of higher education and to students in the form of financial aid. I conclude that the privatization of public colleges and universities and the shift of state governments' financial aid funding based on merit rather than financial need are severely threatening the public and social priorities of higher education, as well as, the needs of individuals and the nation.

Background and context of public funding of higher education

The sources and types of public funding of higher education are broad and extensive. Federal, state, and local governments provide allocations of tax dollars in the form of direct subsidies for instruction and university-based research and development. In addition, not-for-profit (private and public) institutions of higher education receive indirect support from federal, state, and local governments by providing tax exemptions for property and various educationally related enterprises carried out by the institutions.

All sectors of institutions of higher education also receive public funding indirectly in the form of student financial aid. Financial aid includes scholarships, grants, loans, and work-study funds to offset students' educational costs. Financial aid funding is used to pay for students' direct educational costs charged by the institution, e.g. tuition, fees, housing, and meals, and it is used to pay for indirect educational costs, e.g., books, transportation, and miscellaneous expenses. Student financial aid is portable, which means it goes wherever the student enrolls; however, it is usually distributed through the institution on behalf of the federal and state governments.

In addition, the federal government provides tax incentives for families who are saving for college, already paying higher education costs, or are repaying student loans. The "Qualified Tuition Program" named after section 529 of the Internal Revenue Service (IRS) code, provides tax advantages to students and their families for saving for college expenses. The "Hope and Lifetime Learning Credit" allows a wage earner to claim a federal tax credit for the qualified tuition and related expenses of the student or take a tuition deduction of up to $4,000 of qualified expenses for education paid during a tax year. Also, a wage earner, who has made payments on federal student loans may claim the interest paid on these loans as a deduction of income when filing taxes.

Although there is a myriad of sources and types of public funding for higher education, the primary focus of this discussion as it pertains to the moral dimensions of public funding of higher education relates to two areas: 1) direct subsidies to public colleges and universities and 2) student financial aid.

The U.S. higher education financing system has been facing serious challenges for the past several decades. During the late 1980s, economic retrenchment, the rise of market forces, and increased competition for declining public appropriations had begun to erode the foundation upon which higher education had flourished in the decades following World War II (Gumport, Iannozzi, Shaman, & Zemsky, 1997). This was the period of time that the perception of higher education had become more of an individual good rather than a public good. It resulted in greater levels of public scrutiny and calls for accountability.

The higher education financing issues that began in the 1980s were exacerbated further beginning in the 1990s by globalization, privatization, stratification, and technology (Zumeta, Breneman, Callan, & Finney, 2012). Also in the 1990s, higher education fees increased considerably, particularly at private institutions, and since the turn of the century, higher education fees also increased significantly at public institutions of higher education (College Board, 2013a; College Board, 2008; College Board, 2000).

During the 1990s, college affordability became a powerful political issue. During this time, “the political meaning of college affordability shifted away from a focus on access to higher education for low-income students and toward the financing problems facing middle- and upper-income families” (Zumeta, et al., 2012).

At the beginning of the new century, public policies and public support of higher education were as unsettled as it had been since the 1980s. The first decade of the new century had been marked by two recessions: 1) the early 2000s recession, which was brief and shallow (Kliesen, 2003) and 2) the Great Recession of 2007-2009 (U.S. Bureau of Labor Statistics, 2012). Even though the Great Recession ended in June 2009, the U.S. Bureau of Labor Statistics (2012) claims that many statistics currently describe the U.S. economy as not having yet returned to its pre-recession values.

Due to the Great Recession and the economy's continued weak recovery, state cuts to higher education funding have been severe and universal for the past five years. States have less revenue sources and have been reluctant to raise taxes (Oliff, Palacios, Johnson, & Leachman, 2013). According to Oliff et al. (2013), after adjusting for inflation, states are spending 28% less per student on higher education nationwide in the current 2014 fiscal year than they did in 2008. State funding cuts have major implications for public postsecondary institutions because for many it accounts for a significant percentage of revenue that is used to support instruction.

To compensate for the declining state appropriations for higher education, public colleges and universities across the country have had to increase tuition. "The average annual published tuition at four-year public colleges has grown by $2,308 or 34% since the 2008-2009 academic year" (College Board, 2013a). Paul Lingenfelter (SHEEO, 2013), President of the State Higher Education Executive Officers Association, states that "the depth of the 2008 recession and the economy's slow recovery are reflected in funding, enrollment, and net tuition numbers for 2012, and as a result, tuition revenues are up substantially due to higher prices and more enrollments, but not enough to offset losses of public funding. Students are paying more, while public institutions are receiving substantially less money to educate them."

The wherewithal of states, localities, and the federal government is strongly tied to their fiscal capabilities. There is less funding, greater need, and an unwillingness to increase government revenues in other ways. Governments are looking for ways to cut spending and improve performance. Consequently, there are attitudes and incentives embedded in the current funding arrangements to address improvements in higher education. For example, many state governments are adopting performance-based funding policies that are expected to improve students' success at the postsecondary level. Twelve states have performance-based funding for higher education in place, four states are transitioning to performance-based funding, 19 states are having formal discussions on performance-based funding, and 15 have no performance-based formal activity going on (NCSL, 2012).

Simultaneously, the maximum Pell Grant, which is a federal student aid program that was created explicitly to help the underprivileged gain access to college and lift them into the middle class, seems to have lost its focus. According to the report, *Trends in Student Aid 2013* (College Board, 2013b), "the maximum Pell Grant covered 87% of average public four-year tuition and fees in 2003-04, but only 63% in 2013-14 (and 31% of tuition, fees, room and board)" (p. 30).

To make a bad situation worse, both state governments and four-year public institutions of higher education are shifting funding allocations for student financial aid away from disadvantaged students to students from affluent backgrounds. In contrast to the mission of the Federal Pell Grant Program, financial aid funding from state governments is often based on academic merit. According to data provided by the National Association of State Student Aid and Grant Association Programs (2013) as much as 26% of state gift aid was awarded in 2011-12 on the basis of achievement rather than financial need compared to 24% (in constant 2012 dollars) in 2001-02. While the fraction has increased slightly, the growth nevertheless, reflects the growing emphasis on state-funded merit-based financial aid.

The state government's financial aid funding model of shifting more funds to affluent students and away from disadvantaged students is exacerbated by the financial aid awarding practices at public four-year institutions. Marian Wang (2013), a reporter for ProPublica, which is an independent, non-profit newsroom that produces investigative journalism in the public interest, states that "ProPublica analyzed new data from the U.S. Department of Education showing that from 1996 through 2012, public colleges and universities gave a declining portion of grants – as measured by both the number of grants and dollar amounts – to students in the lowest quartile of family income."

The Trends in Student Aid 2013 (College Board, 2013b) report confirms this trend as well. The report highlights that "in 2011-12, on average, low-income dependent students who enrolled in public four-year colleges and universities received about five times as much total grant aid [from federal, state, and institutional sources] as those from families with incomes of $106,000 or higher ($8,890 vs. $1,760) but they only received 30% more institutional grant aid ($1,690 vs. $1,280)" (p. 10). This demonstrates that public colleges and universities are directing more of their institutional aid resources to students who can afford to pay rather than to students who do not have sufficient means to pay for their educational expenses.

As public colleges and universities become more dependent on tuition as a source of revenue due to the loss of public funding and their desire to enroll students who can pay and improve their academic profile, they are following private colleges' practice that began in the 1980s called "tuition discounting." Tuition discounting is administered by awarding two types of institutional financial aid: 1) grants that meet students' financial needs and 2) grants in excess of students' needs. The former is often called "need-based" financial aid and the latter is often called "merit-based" financial aid.

Students' borrowing to pay for their educational costs has increased significantly as well. *The Trends in Student Aid 2013* (College Board, 2013b) report reveals that of the "57% of public four-year college bachelor's degree recipients who graduated with a debt in 2011-12 had borrowed an average of $25,000, which is 22% more ($4,500 in 2012 dollars) than the average debt of the 52% of the 2001-02 graduates who had higher education debt" (p. 21).

A major challenge faced by both the federal and state governments is how to reform the financing of higher education in response to the pressures of the rising demand for higher education, heavily constrained public budgets, and student affordability. David Ward (2007), President of the American Council on Education, states that "increasingly governments are questioning their obligation and their willingness to pay the full cost of expanded access and, at the same time they are actively encouraging higher education to seek alternative revenues" (p. 12).

The moral dimensions of higher education public funding

There are moral dimensions associated with the public funding of higher education. I offer two different frameworks – egalitarianism and neo-liberalism – that help explain the ethical issues at hand.

Egalitarian values of public funding of higher education

Egalitarianism is the position that equality is central to social justice. In his 1971 book, *A Theory of Justice*, John Rawls, developed the most influential and widely used theory of social justice. Rawls views the human agency through the lens of social structures; that is to say, individual actions and choices are influenced and determined by social institutions that distribute benefits and burdens among members of society (Lamont & Favor, 2013). Hence, for a public postsecondary institution of higher education to be just, it must provide equal opportunities to a range of liberties among all students regardless of their socio-economic class.

According to Rawls (as cited by Bou-Habib, 2010), public policy must be structured in such a way as to ensure the greatest possible income prospects for the most disadvantaged members of society, the so-called 'difference principle,' subject to the constraints imposed by the 'fair equality of opportunity principle.' The latter principle requires that persons of equal talent should have equal opportunities to access jobs and that social contingencies should not favor one over the other. Fair equality of opportunity understood in that way has priority over the 'difference principle'" (pp. 488-489).

The notion of equality of opportunity is Rawls' first principle of justice, but it is followed by the second principle, which requires any social or economic inequality that exists within society to satisfy two conditions: 1) positions and offices are first open to all under conditions of equality of opportunity and 2) these positions and offices are to be the greatest benefit to the least advantaged members of society. The first principle and part of the second principle are often referred to as "distributive justice," while the second principle is known as the "difference principle" (Lamont & Favor, 2013).

This moral argument follows an egalitarian belief in equal opportunities for all, especially those who are the most disadvantaged. It also provides practical policy guidance. Rawls argues that distributive justice is not only ethically imperative, but it is also an efficient and effective way to distribute financial resources. Rawls' view of "justice as fairness" seeks to reconcile considerations of equality, efficiency, and liberty.

Rawls' theory of justice is particularly relevant to college opportunity and educational finance. The fair equality of opportunity principle applies to the rising costs of public higher due to diminishing state appropriations for higher education. Financial concerns present barriers at every stage of the college selection process and have both direct and indirect influence on student enrollment behavior. The opportunity to attend college is fundamental to liberty and social justice; therefore, low-income students could be treated unjustly when price barriers prevent them from pursuing academic goals.

The difference principle is relevant to both state governments' practice of earmarking financial aid funds based on merit rather than financial need and institutions' practice of tuition discounting because it requires a distribution of financial aid in a manner that provides the greatest benefits to the least privileged students.

Following a pure egalitarian approach to public funding of higher education certainly follows the norms of social justice, but it would strain the fiscal capacity of governments and postsecondary institutions. It could, in fact, cause fiscal insolvency. There simply is not enough funding to meet all the financial needs of students who seek a higher education.

Neo-liberal values of public funding of higher education

Neo-liberalism is based on the idea that the ideal world order should be a “free” and “fair” competition between individuals. It refers to a political-economic philosophy that has had major implications for government policies beginning in the 1970s and has been increasingly prominent since the 1980s. Hence, the question of the compatibility of moral values and an economic system based on the pursuit of self-interest as it relates to higher education financing has been around for the past several decades.

Amable (2011) states that “without the assumption of any teleology, the pursuit of self-interest by individuals is held to have beneficial consequences for society through market exchange. The play of interests will bring about improvements in society. Human beings are considered to be endowed with a natural fellow-feeling. The aspiration to improve one’s condition based on self-love and the desire to obtain the sympathy of other individuals ensure that humans can live together in a peaceful and orderly way. Self-interest is inseparable from the desire for the sympathy of others. In this sense, capitalism is made moral by the natural behavior of individuals.” (pp. 14-15). As such, neo-liberalism is the notion that competition between individuals will improve not only the individual but society as a whole.

Neo-liberal forces are pushing public colleges and universities toward privatization and performance-based funding models, whereby states are retrenching from their traditional investment in higher education and students are shouldering greater financial price burdens. This shift has resulted in a college education becoming more of a private good, rather than a public good. The argument for neo-liberal policies replaces the social contract and the public good with personal responsibility and competition.

The states’ practice of providing merit-based funds rather need-based to students and the public institutions’ shift in awarding institutional aid to “buy” students whose families have the ability to pay for college demonstrate neo-liberal policies in practice. It illustrates how the current socio-economic system operates, its values, and the outcomes for both individual students and our country as a whole. In addition, the race for better rankings among colleges using tuition discounting to attract students with high ACT or SAT scores leads to a side effect of restoring meritocracy.

Conclusion

People put faith in higher education as one of the most effective ways to help individuals become economically secure. *Public Agenda*, a nonpartisan and nonprofit organization whose mission is to improve public problem solving through research, engagement and communications, found in a study that one of the public's biggest concerns is about affording college. The *Public Agenda* (Bittle, Rochkind, & Ott, 2011) study found that "the public views higher education as one of most important long-term solutions to individuals' financial stability and the economy's growth." Nevertheless, higher education funding policies seem to be driven more by neo-liberal ethics than by egalitarian, reducing the opportunity for poor students and increasing the opportunity for wealthy students to receive a college education.

There is significant inequality in higher education access and attainment. There are growing gaps between children from high- and low-income families in college entry, persistence, and graduation. In a study, Bailey and Dynarsky (2011) found that "rates of college completion increased by only four percentage points for low-income cohorts born in the early1980s relative to cohorts born in the early 1960s, but by 18 percentage points for corresponding cohorts who grew up in high-income families." Students who have earned bachelor's degrees earn significantly more compared to students who have earned high school diplomas. "In 2011, median earnings of bachelor's degree recipients with no advanced degree working full time were $21,100 higher than those of high school graduates" (Baum, C. L., Ma J. & Payea, K., 2013).

This illustrates the "have" and the "have not" divide. It also raises the question of the original purpose of public colleges and universities, which is to ensure that a student (no matter the wealth of her parents), has the opportunity for higher education access.

Timothy Noah (2012), author of *The Great Divergence: America's Growing Inequality Crisis and What We Can Do About It,* eloquently states the following:

> "Today it can feel as though we live in a society that's the precise opposite of Rawls' ideal. The first principle isn't economic equality; it's economic inequality. Any effort to minimize income differences is held politically suspect, an intrusion on economic liberty. Whenever the government proposes any action that might redistribute income downward, it must demonstrate that the most economically favored will somehow benefit. If the favored few don't believe they'll benefit, they can usually persuade their allies in Congress to block it." (p. 192)

The shrinking commitment of public funding for higher education is telling of the governments' and public postsecondary institutions' values and priorities, and it shows how they decide to make trade-offs based on their intrinsic values, market pressures, and the influence of corporations. As evidenced by practices and outcomes, both state governments and public institutions of higher education have played a role in society's stratification. The government and public colleges and universities should do their best to make sure higher education is accessible to all who wish to be educated. Hence, I advocate the egalitarian model of ethics for public funding for higher education.

A college education does not carry a guarantee of a good life or even financial security, but the evidence is overwhelming that for most people, education beyond high school is a prerequisite for a secure lifestyle and significantly improves the probabilities of employment and a stable career with a positive earnings trajectory. It also provides tools that help people to live healthier and more satisfying lives, to participate actively in civil society, and to create opportunities for their children (Baum et al., 2013).

Higher education benefits individuals as well as it benefits society as a whole. Increasing college enrollment and attainment is the only viable route to economic prosperity – for individuals – and for the nation (Lumina Foundation, 2012). Education quality and equity are essential for the country's economic and social prosperity (Kanter, 2011). Citizenship now calls for higher levels of critical thinking, problem solving, and social and political interaction skills in a multicultural context that higher education, at its best, can cultivate and hone (Zumeta et al., 2012). The need to provide quality and affordable public higher education is immediate and ongoing.

We should not assume that public-funded higher education is a basic right, nor should we assume that it is a privilege for which students alone should pay. Simply, many poor students are being left out because four-year public higher education institutions have become unaffordable. We must strike a balance between the portion of public funding and the student's contribution according to what would most improve the lifetime prospects of the most disadvantaged members of society.

Higher education is a social and economic equalizer. It is understandable that public funding of higher education decisions must be made based on fiscal realities; however, these decisions <u>must</u> be tempered by egalitarian norms of justice and fairness. This demands significant political will, and it necessitates a higher commitment from policy- makers and higher education leaders.

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