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Increasing Socioeconomic Diversity in American Higher Education

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Access to higher education is important to America because it contributes to economic growth and to social and economic mobility, core values of our society. Over the past decade or so, the deterioration in aggregate growth of real incomes has been a challenge for institutions of higher education, putting downward pressure on tuition revenue growth, increasing demands for financial aid, and reducing public sector support for higher education due to constrained tax revenues.[1] The distribution of income across families also matters for colleges and universities, and over the past several decades, income inequality has significantly increased in the United States.[2] Greater access to higher education for low-income students would help moderate the increase in income inequality because of the economic returns to education beyond high school. But increasing income inequality itself is in fact exacerbating the challenges facing colleges and universities, making it more difficult for institutions of higher education to combat it.

The coincidence of these two trends—the decline in aggregate growth of real incomes and the increase in income inequality—presents an extremely tough challenge for higher education. As we recover from the Great Recession that resulted from the financial crisis of 2008, some of the pressures facing American higher education will moderate, but if income inequality continues to increase, colleges will face continuing challenges, and will not be able to contribute effectively to reversing the negative economic trends of the past forty years.

If we are truly committed to economic and social mobility in America, changes in policies to encourage greater access on the part of low- and middle-income students to higher education are needed. A variety of policies could contribute to a more socioeconomically diverse group of students making it to college and university and graduating.

These policies can be grouped into several categories. First, because increased income inequality has contributed to the current challenges, directly addressing income inequality would help ameliorate the situation. Also, government policies could be better targeted at encouraging institutions to increase the representation of low- and middle-income students at their schools. In addition, policies targeted to changing the choices low-income students make as they decide whether and where to go to college would also help.

In the end, the economic success of our country depends on increasing access to higher education. In addition, our core values as a nation depend on equal opportunity, and greater access to higher education is central to this.

Policies to Address Increasing Income Inequality

Real income growth that is skewed toward high-income families creates challenges for higher education. High-income families are willing and able to pay higher tuitions, desiring the services that those high sticker prices make possible. At the same time, low-income families' resources lag further behind, increasing the need for financial aid. As a result, greater income inequality increases the demand for services at one end of the income distribution at the same time that it increases the need for financial aid at the other end, putting colleges and universities in a difficult position. If they want to attract students from across the income distribution, colleges and university face pressures to increase spending on facilities and services to please students from wealthier families while at the same time increasing financial aid to attract low-income students. These are trends that many suggest are not sustainable. To the extent that financial aid does not keep up because of these pressures, higher education access for low-income students will deteriorate. With increasing income inequality, the opportunity cost of taking a low-income student increases for institutions.

The higher education sector, given the current incentives that institutions face, cannot address rising income inequality in America on its own. The government could help, either by addressing income inequality directly, or by targeting policies to encourage institutions to increase the socioeconomic diversity of their student bodies. A variety of policies would contribute to this.

Policies to directly affect income inequality include tax, expenditure, and regulatory policies. Federal policies could make it easier for individuals to organize into labor unions to bargain for better wages and benefits. The minimum wage could be increased a reasonable amount, and the Earned Income Tax Credit for low-income families could be expanded. Likewise, greater expenditure could be devoted to improving pre-school and K–12 education, particularly in disadvantaged communities. And tax increases could contribute to greater income equality while also addressing our fiscal deficit concerns.

At this moment of constrained federal and state budgets, and concerns about the role of government in our society, it seems unlikely that major progress will be made in these areas. But in the long run, these issues deserve thoughtful exploration. One can believe in the importance of relying on the private sector and markets, but still believe that there is a role for the government to play in the distribution of the benefits of our market economy across all members of our society. When the implications of increasing income inequality are considered by enough of our society to be detrimental to economic growth and to our commitment to equal opportunity, perhaps policies at this level will start to change.

Improving Policies Targeted at Institutions

Target Public Subsidies More Effectively

Despite declining public sector support for higher education, both state and federal governments continue to spend significant resources there. Historically, the state and federal governments have trusted higher education institutions to use these resources wisely in service of their educational missions. That trust has eroded, for a variety of reasons, including rising costs. Rather than reducing support, a preferred response is for the government to target their interventions more specifically toward the goals considered in the public interest. Recent proposals by the Obama administration to develop a rating system hope to accomplish this, although concerns about what would actually be included in such a rating system, and its possible unintended consequences, are currently being discussed.

A simpler and more targeted intervention might prove more effective. If the government's policies are meant to increase access on the part of all families regardless of their incomes, then access to some federal and state monies could be tied to accomplishing this. Institutions receiving large subsidies, either through direct grants or tax advantages, could be required to demonstrate success in this area to maintain access to those resources.

Many government policies increase the resources available to colleges and universities, and these resources can be used to increase quality (by adding programs, faculty, and other expenditures on academic and extracurricular programs, all increasing costs).[3] Or, they can hold down tuition for all students, as was the case historically at most public institutions. Or, they can use the resources to reduce the net price for families depending on their incomes, through need-based financial aid policies. If the government really wants to encourage greater access, government policies need to create incentives for schools to use resources for the third option on the margin relative to the first two.

Anti-trust Policies: Encourage Cooperation in Service of Mission

In the 1990s, the Justice Department accused a group of selective institutions of colluding on financial aid awards. The results of these actions have included less cooperation and greater competition for students, through pricing and financial aid awards. But much of this competition has in fact benefited high-income students through greater merit aid.[4] If the resources necessary to finance increasing merit aid came from reducing expenditures on academic and extracurricular programs, this in fact would be a change that reduced costs and price at the same time. But, it is likely that the resources for merit aid instead have come from financial aid for needier students. Allowing institutions committed to socioeconomic diversity to cooperate on limiting merit aid in service of mission would actually contribute to institutions fulfilling the objectives of many of the government's programs aimed at increasing access. To spend significant government resources on Pell grants and loans for low- and middle-income students, and then create incentives for institutions to offer merit aid rather than need-based financial aid, seems counterproductive.

This is an issue not just for selective, private nonprofits, but also for public institutions. With declining support from state governments, the public institutions are starting to behave increasingly like the privates. For example, they spend significant amounts on merit aid and recruit out-of-state and international students who pay higher tuitions. All of this reduces spaces for low-income students at institutions with limited capacity.

Allowing schools to cooperate to avoid the "arms race" in spending generally could help to keep costs lower across the board. At the moment, it is difficult to know whether all schools could accomplish this. Spending that is considered an extra amenity at some schools might be thought to be important to mission at other institutions.

Encourage Three-year Degrees

Each institution determines its requirements for graduation. Many institutions are committed to a four-year program, believing that this is necessary to maintain the integrity and quality of the degree. But, one of the major costs of going to college is the opportunity cost of not being in the work force. This is a bigger hurdle for low-income students, who are more price sensitive than their high-income peers. Working toward a three-year option that does not jeopardize quality (or not by much) could contribute to increased low-income access. Schools could either be encouraged to offer summer options, or to allow greater transfer of credits from other schools. Wesleyan University is experimenting in this area. Institutions should have the ability to vet courses at other institutions to determine if their standards are similar, but blanket prohibitions on credits should be discouraged (for example against credits earned at community colleges or online), and greater flexibility in options could be encouraged.

Of course, many colleges and universities, particularly public institutions, do not have a strong record of graduating students in four years, or even six years. Increasing the share of students who go to college who actually graduate with a degree in four to six years would significantly improve matters. A variety of interventions could improve graduation rates.[5]

Improve Our Methods of Ranking Institutions

Ranking are here to stay. In fact, the government is getting into the business. The ranking with the most influence among the more selective private, nonprofit and public colleges and universities is the one done by *U.S. News and World Report*. The rankings include many variables, but nothing that directly measures diversity of the student body. Many schools, through their mission statements and through their financial aid policies, state that they are committed to attracting a socioeconomically diverse student body. They do this in service of equal opportunity and fairness, as well as to improve the quality of the education they offer by having students on campus with differences in background and life experiences. Students learn from difference, and will be entering a society that is increasingly diverse; college is seen as the place to learn about how to navigate and succeed in such a world.

If *U.S. News and World Report* included some measures of diversity in their rankings, it would increase the incentives for schools to allocate resources to accomplishing this. At the moment, the rankings give almost no credit to a school that makes a decision to reallocate resources to financial aid from other expenditures. In fact, this is likely to reduce one's ranking, since many of the other items in the rankings are measured by resources spent on these items.

Even for those who believe a single ranking makes no sense (including this author), making this information part of the ranking would make it more easily available to everyone. This would help lower- and middle-income students decide among schools, in terms of the likelihood of their finding at place at a particular school.

Because socioeconomic diversity of the student body at an institution is related to the selectivity of the school and the academic credentials of the students, *U.S. News and World Report* would have to take this into account, in much the same way it does with expected graduation rates. But, this challenge is not insurmountable, and proposals exist for doing this.

U.S. News and World Report has been approached to make such changes, but has not done so. One option would be for all those schools that include socioeconomic diversity in their mission statements to refuse to participate until such a change is made, but this seems an unlikely path for a variety of reasons. An alternative would be for the administration, including the president, to recommend such a change. Another option would be for a third party to replicate as closely as possible the *U.S. News and World Report* rankings each year, and then report how they would change with these variables added.

Increase Data Availability

Another option to increase accountability for socioeconomic diversity would be for schools to report more data, including both the net price and the share of students by income quintile each year. This would give families a very easy way to see whether those schools that state that they are committed to socioeconomic diversity actually are accomplishing what they claim.

The last reauthorization of the Higher Education Act required schools to make available net price calculators for families, and there are current proposals to simplify the calculators, reducing the amount of data needed to generate a projected net price for a particular family.

Making the actual data available has advantages over such an approach. First, it is relatively inexpensive. Institutions have these data, and it would just be a matter of reporting them annually. These data, plus the share of students receiving Pell grants, would give families a very good sense of the socioeconomic diversity of the student body.

Also, net price calculators do not give students and families any idea about the likelihood of being admitted and actually offered the net price calculated. Only about sixty of the private, nonprofit colleges and universities with the largest endowments are need blind and meet full need, so that the net price calculated is not all students need to know. In fact, high need might work against them getting admitted if the school is need-sensitive in the admissions process. Or, they might not be offered the net price, if schools do not meet the full need of all admitted students. Net price calculators do not report whether the school is need blind or meets full need, and this information is not generally made clear on schools' websites, unless need blind or committed to meeting full need. The actual share of students by income levels at a particular school gives families some sense of how many students at each income level schools are actually admitting.

Reporting these data would also put pressure on schools to live up to their mission statements. These data could also be used by *U.S. News and World Report,* as proposed above, in a ranking that included socioeconomic diversity.

Improving Policies Targeted at Students

Student Loans

There has been much concern about debt burdens of students. In fact, the average loan burdens are not excessive, especially given the expected benefits of attaining a college degree.[6] Lifetime earnings are significantly higher and unemployment rates are significantly lower for those with a college degree. Stories of recent graduates with high debt levels and no job prospects are not borne out by the data. While some individuals may be jobless with large debt burdens, anecdotal stories do not reflect the experience of most college graduates and should not drive policy.

Given that the public sector is moving away from supporting investments in higher education and that individual students and their families are being expected to contribute more of the cost, it is vital that access to loans be maintained. Low- and middle-income families face liquidity constraints and market failures that prevent them from borrowing in the private market to finance worthwhile investments in education. Access to federal loans, which address these market failures, is vital to maintaining access to higher education for these families.

There are a variety of proposals currently being discussed to increase the income contingency characteristics of student loans, as well as other aspects of the program.[7] These would improve the federal loan program, since investment in higher education is of course uncertain for any one individual. Income contingent programs in other countries, including the United Kingdom and Australia, can be used to inform changes in our programs.[8]

Historically, education was considered an important public good and supported more aggressively by state governments. With the shift toward reduced public support, a robust loan program with income contingent repayment options would help make access available to financially constrained families, and also maintain the progressivity of government involvement in supporting higher education. Those with lower incomes in the future in some circumstances would be expected to pay back less, just as under past support through state tax revenues, lower-income families through the progressive tax system contributed less to supporting public expenditures on higher education.

Improve Information for Low- and Middle-Income Students

High-ability, low-income students are underrepresented at the selective private, nonprofit institutions.[9] Getting greater information to such students about their options can increase their application rates to more selective schools than they would otherwise consider.[10] The College Board is currently working to increase access to information so that more talented lower-income students apply to more selective colleges and universities than they would otherwise. It is important to combine such efforts with greater incentives for schools to allocate resources to financial aid.

Otherwise, increased applications will not translate into greater lower-income access at these schools. With very few of these schools committed to need-blind admissions and meeting full need, and some of these schools on the verge of moving away from these policies for financial reasons (Grinnell, Wesleyan), without policies that encourage greater commitment to allocating resources to financial aid, increased applications may result in more talented (as opposed to more) low-income students attending selective schools (improved matching), but overall access will not improve.

Conclusions

Socioeconomic diversity, like racial diversity, is of critical importance in higher education. Concerns about legal challenges to affirmative action policies have increased the salience of socioeconomic diversity policies to indirectly promote racial diversity. But both types of diversity are important in and of themselves and we should not have to choose between them. Attention should now turn to policies that effectively focus on class and income, as a complement to, rather than a substitute for, race. As this chapter suggests, there is a great more we could do to address background income inequality outside of higher education; promote policies to encourage institutions to prioritize socioeconomic diversity; and give all students the information and resources necessary to go as far as their talents will take them.