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Newsletter

It's Hard to Justify This Higher Ed Spending Gap. So Why Does It Persist?

Should the rich continue to get richer?

In a working paper published last month by the National Bureau of Economic Research, Zachary Bleemer of Princeton and NEPC Fellow Jesse Rothstein of the University of California at Berkeley argue that they should not—at least when it comes to higher education.

Highly selective Ivy League institutions invest more than five times as much in student instruction as the less selective public institutions that are the most common destination for Americans who attend four-year schools. This was not always the case.

At the turn of the 20th century, higher education was a lot less selective. Even Harvard was open to all high school graduates (as long of course as they were male and, in most cases, white). It was also lower-spending relative to other schools. Even by 1929, Ivy League schools spent "just" twice as much as non-flagship public institutions. Similarly, state flagship public universities at that time spent only 21% more than other public universities, as compared to 50% more today.

Spending gaps grew along with the demand for a college education. Today, 40% of Americans aged 25-29 have bachelor's degrees, as compared to 5%-10% in the early 20th century. Finding themselves for the first time with more applicants than seats, colleges and universities started implementing "meritocratic" admissions tests, often as a temporary stopgap measure. Yet discrepancies in the level of selectivity of higher- and lower-demand schools exploded, stabilizing only in the 1970s.

But the spending gaps took much longer to stabilize. While some of this was fueled by soaring tuition and philanthropic donations, Bleemer and Rothstein also point to the key roles played by federal aid for research, student tuition and loans, as well as variations in state support for more- and less-selective public institutions. In other words, the growing inequities were taxpayer funded.

The spending gap between more and less selective institutions finally stabilized about 15 years ago. But within-school stratification is a growing trend, as colleges increasingly offer honors colleges and "high value" majors such as engineering and business that establish stricter admissions standards than the institution as a whole—practices that tend to reduce participation by students from lower-income families. These programs also receive additional funding. Even within a given institution, the rich get richer.

It is well established in K-12 education that money matters. Schools that spend more money on their students achieve better outcomes than schools that spend less. Although the research body for higher education is smaller, Bleemer and Rothstein explain that the findings are similar. Research in K-12 also suggests that, compared to their counterparts from more affluent families, educational resources are relatively more important for students from low-income families.

Which leads Bleemer and Rothstein to ask why even public universities are directing fewer resources to educate less affluent students? They examine the evidence for multiple potential justifications. In all cases, they find the possible answers to be wanting.

For example, they find that the benefit of attending a selective (and higher spending) college is generally the same or even greater for students with lower measured prior achievement. They also find no evidence to support the most common utilitarian rationale: the idea that society should spend more on higher-achieving, affluent students because they are more likely to accomplish goals that benefit society than they would be if they attended lower-spending, less selective colleges.

They conclude:

> Colleges and universities in the United States are highly stratified by students' pre-college academic achievement, with the highest-achieving students attending colleges that spend dramatically more on instruction than those that lower-achieving students attend. Neither of these is a necessary feature of a higher education market; universities need not be as stratified by academic achievement as they are in the United States, nor do resources need to be so inequitably distributed. There is little economic evidence justifying the status quo on efficiency grounds, and substantial room for skepticism. Whether this feature of the American higher education system persists depends on whether universities – and their primary owners, the American public – wish it to.

NEPC Resources on Higher Education

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