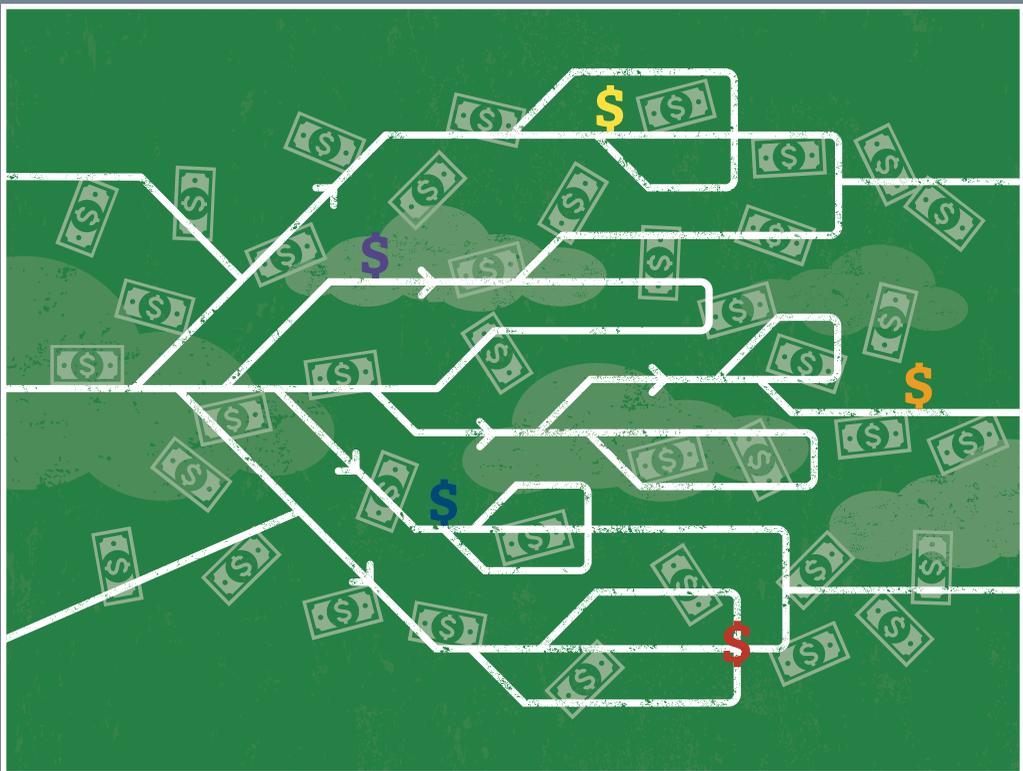


Undergraduate Financial Aid in the United States



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Section 1

Introduction: The New Centrality of Financial Aid

Over half a century ago, President Lyndon Johnson signed the Higher Education Act of 1965 into law, describing its goal as ensuring that “the path of knowledge is open to all that have the determination to walk it. It means that a high school senior anywhere in this great land of ours can apply to any college or any university in any of the 50 states and not be turned away because his family is poor.”¹ The act solidified the federal role in student financial aid, including the provision of federal grants, loans, and work-study assistance, which today remain the foundation of undergraduate aid for college.

Much has changed since then. On the positive side, college-going rates have increased for students across the income spectrum. Overall, the percentage of twenty-four to thirty-year-olds with at least some college experience rose from just 33 percent in the late 1960s to 61 percent in 2009, including many who enrolled for the first time well after high school.² And the earnings premium for a college degree remains near historically high levels.³ At the same time, college tuition has risen dramatically in real terms, in part due to the failure of state and local operating subsidies to keep pace with rising enrollments. Examinations of annual tuition increases may even understate the increasing cost of a college degree, as students are taking more years to finish. Finally, the *gaps* in college attainment rates between high- and low-income families are greater for recent cohorts than for those born in the early 1960s.⁴

Put these facts together—rising college enrollment rates and high returns to college, rising tuition costs, lengthening time to degree, and persistent inequality in attainment—and the centrality of financial aid policy to the future

1. Lyndon Baines Johnson, “Remarks at Southwest Texas State College Upon Signing the Higher Education Act of 1965,” November 8, 1965, archived online by Gerhard Peters and John T. Woolley, The American Presidency Project, www.presidency.ucsb.edu/ws/?pid=27356.

2. Author’s calculations using October Current Population Survey data. While Johnson’s remarks in 1965 focused on promoting access for high school students, many aid recipients today are older.

3. Sandy Baum, Jennifer Ma, and Kathleen Payea, *Education Pays 2013* (New York: The College Board, 2013).

4. Martha Bailey and Susan Dynarski, “Inequality in Postsecondary Education,” in Greg J. Duncan and Richard J. Murnane, eds., *Whither Opportunity? Rising Inequality, Schools, and Children’s Life Chances* (New York: Russell Sage Foundation, 2011), 117–132.

of undergraduate education in the United States becomes clear. Both the scale and the scope of financial aid policy have grown since 1965: more students are receiving more aid, and more types of aid, than ever before. Two-thirds of undergraduates will receive some kind of grant or scholarship, with over a third receiving a Pell Grant.⁵ In 2013–2014, full-time undergraduates received an average of over \$14,000 in total aid—a 50 percent increase (after adjusting for inflation) over just a decade ago—including over \$8,000 in grants, nearly \$5,000 in federal loans, and \$1,260 in other assistance, including education tax credits and work study.⁶ The stakes have never been higher to ensure the effectiveness of financial aid—not just for the sake of the stakeholders who provide it but for the sake of students themselves, who make the biggest investments of all.

To inform discussions of the future of undergraduate education in the United States, and the role of financial aid within it, this paper provides an overview of undergraduate financial aid—its motivations, its moving parts, and its controversies. Section 2 summarizes the fundamental motivations for providing financial aid. While the social value of financial aid may be taken for granted among those working within higher education, it is not always obvious to policy-makers who are trying to balance budgets in an era of fiscal constraint. Thus, a succinct review of the rationale for student aid can be helpful to have on hand. The heart of the paper, Section 3, provides an overview of undergraduate financial aid: who provides what, how, and to whom. Section 4 discusses several hot-button issues in contemporary financial aid policy, highlighting key sources of debate and incorporating research evidence where available. Section 5 concludes.

5. College Board, *Trends in Student Aid 2014* (New York: The College Board, 2014).

6. *Ibid.*