At Issue:

Did expansion of the Pell Grant program lead to tuition hikes?

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yes

Give most people free money to buy something and they'll demand more frills and willingly pay higher prices. With that in mind, President Obama's expansion of the Pell Grant program has almost certainly enabled colleges to inflate tuition.

Numerous variables are at play in college pricing beyond Pell, including federal loans, scholarships, state subsidies, etc. And, because not-for-profit colleges call last year's spending this year's "costs," it is hard to nail down the precise inflationary effect of Pell, especially over the short term. Long term, however, it is pretty clear that Pell and other aid have fueled tuition escalation.

Over the last quarter-century, inflation-adjusted aid ballooned from $4,452 per student to $14,745. Much of that took the form of loans, but grants moved from $2,264 to $6,994. Concurrently, average tuition, fees and room-and-board charges increased from $8,453 to $17,860 at public colleges and from $21,048 to $39,518 at private institutions. In absolute terms, aid has increased by $10,293 per student — very close to the $9,407 rise in public-college prices.

This strongly suggests that aid, including Pell, enables tuition inflation. Other research indicates that private colleges not only raise prices in response to the availability of aid but also dollar-for-dollar in response to increases in Pell Grants. So, too, do public colleges for out-of-state students.

Which brings us to academia's favorite inflation scapegoat: cuts in state and local support, which supposedly are forcing the price hikes. In the short term, there is probably some truth to this. The long-term evidence, however, is quite different.

First, the explanation doesn't apply to private schools, which like publics have raised their charges at rates that greatly exceed normal inflation. More directly, state and local funding overall, adjusted for inflation, has risen about 29 percent over the last 25 years, although on a per-pupil basis it has fallen. However, for every dollar that per-pupil subsidies have dropped, schools have raised two dollars through tuition.

But isn't Pell aimed at truly low-income students, and therefore likely to have no effect on sticker prices, even if overall aid is inflationary? Pell has become less targeted but probably has little direct effect on maximum prices. However, schools likely replace their own aid money with Pell, and redirect theirs to less needy students. That redirection, in turn, enables them to increase sticker prices.

So has Pell expansion provided inflationary fuel? It's hard to prove but is almost certainly the case.

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no

Both tuition and federal financial aid have risen over the past decade, but it is a mistake to conclude that parallel timing proves causality. Many have examined this possible relationship and have concluded that increasing student financial aid does not cause higher tuition. One study concluded that an increase in the maximum Pell Grant results in less unmet need so it puts *downward* pressure on tuition growth.

The dynamics of financial aid and tuition differ among the various higher education sectors. For public universities, the critical figure is per-student education expenditures. If increases in financial aid caused higher tuition, then presumably higher tuition would contribute to increased education expenditures. However, per-student education expenditures at public universities have been almost flat, at 1 percent above inflation, for 20 years, according to U.S. Department of Education data. Increased financial aid has not produced higher per-student education expenditures, so increased federal student aid is not why tuition has risen at public universities.

The driving force behind increases in public university tuition has been the reduction in per-student appropriations by state governments. Education expenditures at public universities are typically paid for with revenues from student tuition, financial aid and state appropriations. Over the past decade, state appropriations per student have declined by 32 percent. Public universities have raised tuition primarily to fill the funding gap left by this significant change in revenues.

At the same time, the number of public university students has increased by 23 percent since 2000. Many of these students come to college with fewer financial resources and are unable to contribute as much toward their tuition as previous students. This has strained public universities' finances as they strive to maintain stable education expenditures per student. Federal financial aid has expanded access and made college affordable for more students. In short, financial aid shifted how students paid their tuition but did not generally increase the total revenue (tuition plus state appropriations) per student received by the university.

In summary, the increased availability of financial aid for students has not caused higher tuition at public universities. Rather, increased financial aid has provided an opportunity to millions of low-income students who otherwise would not have enrolled in college.