

12-1-2013

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Tehmina Khwaja

*COMSATS Institute of Information Technology, Pakistan*

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### Recommended Citation

Khwaja, Tehmina (2013) "Rethinking Financial Aid Policy," *The William & Mary Educational Review*. Vol. 2 :  
Iss. 1 , Article 11.

Available at: <https://scholarworks.wm.edu/wmer/vol2/iss1/11>

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# Rethinking Financial Aid Policy

Tehmina Khwaja

## Executive Summary

In the face of competition from other nations, higher education in the United States has slipped from the status it has enjoyed over the years. With the economic downturn and changing demographics, new challenges have emerged that necessitate reevaluation of higher education policies. One consistent trend in recent years has been the steady increase in college tuition rates which has put higher education out of reach for many capable aspiring students. The lack of accessibility of higher education is detrimental to the economic growth of the country since a vast number of talented students who cannot afford to go to, or stay in, college are not able to enter the job market as trained professionals. Financial aid policies can go a long way in addressing these issues. Redistributive policies geared toward capacity building are recommended to enhance accessibility of higher education. The short term outcomes of such policies will be an increase in equality of opportunity and diversity on college campuses, while in the long run such policy change will lead to economic prosperity of the country and uplift of the communities of the individuals who benefit from these policies.

## Introduction

The Virginia Higher Education Opportunity Act of 2011 also known as the Top Jobs Act states:

*The objective of this chapter is to fuel strong economic growth in the Commonwealth and prepare Virginians for the top job opportunities in the knowledge-driven economy of the 21st century by establishing a long-term commitment, policy, and framework for sustained investment and innovation that will enable the Commonwealth to build upon the strengths of its excellent higher education system and achieve national and international leadership in college degree attainment and personal income, and that will ensure these educational and economic opportunities are accessible and affordable for all capable and committed Virginia students.*

To achieve this worthy objective, and as noted in the Act, it is imperative to make higher education accessible and affordable to all citizens. In the

current climate of economic uncertainty, many capable individuals who wish and/or need to obtain a college education are unable to realize their dreams because they do not possess the financial means to do so. For such aspiring students, financial aid and assistance can facilitate college attendance and completion.

The current situation of higher education accessibility and affordability leaves much to be desired. Davies (2006) documented worrying statistics of how the United States measures up against other nations with the country slipping in terms of rates of the young population's higher education attainment. Davies (2006) demonstrated as well how the states fare in terms of affordability with almost all states, including Virginia, scoring an F on the affordability report card. With rising tuition costs, increasing numbers of students rely on financial aid to attend comprehensive universities (Hemelt & Marcotte, 2011).

## Financial Aid and Student Persistence

The positive link between needs-based financial aid and low income students' college persistence is well supported in the literature (Alon, 2011; Curs & Harper, 2012; George-Jackson, Rincon, Martinez, & Hillman, 2012; Lassila, 2011; Novak, McKinney, & Baum, 2011; Singell, 2004). This link between financial aid and low income student retention is even more significant by racial groups as decreasing levels of financial aid exacerbate racial inequalities (Kim, 2004; St. John, Paulsen, & Carter, 2005). Students from wealthy backgrounds often receive institutional and state grants, but their persistence is not dependent on these grants (Alon, 2011).

When aid is available to low income students in response to legislative mandates, it is not always sufficient to aid low income students' persistence; for instance, the initial financial aid for students in Science Technology, Engineering, and Mathematics (STEM) fields, meant to offset high tuition rates in these fields, does not keep pace with rising tuition costs over time (George-

Jackson, Rincon, Martinez, & Hillman, 2012). George-Jackson et al. (2012) observed that these increasing costs particularly impact low income students, and suggested a reevaluation of the differential tuition and aid policies in STEM fields.

Since lack of, or fluctuation in, financial aid impacts low income students more than high income students (Alon, 2011), the financial aid that is currently being given to students from more prosperous homes should be diverted to those who belong to low socioeconomic status (SES). The framework recommended for this policy change is Lowi's redistributive technique (Fowler, 2009). A redistributive policy is "one that shifts resources or power from one social group to another" (Fowler, 2009, p. 243). Within this framework, students from low SES homes will be given more financial aid opportunities than those that are from high SES homes. McDonnell and Elmore's (1987) policy instrument of capacity building, defined as an investment in "material, intellectual or human resources" (p. 134), is the main intent of this redistribution. Other policy instruments recommended by McDonnell and Elmore (1987), including mandates, defined as rules "governing the actions of individuals and agencies" (p. 138); inducements, the allocation of financial or in-kind resources in exchange for "production of value" (p. 138); and hortatory policies, defined as policies that are meant to persuade through symbolism and imagery (Fowler, 2009), can be used in combination with capacity building to ensure implementation of the redistributive policy.

The impact of such policy change will be far reaching. If more students from low SES backgrounds gain access to higher education, and if they are able to persist with financial support, they will, in turn, be able to augment their socioeconomic status with greater economic opportunities. An outcome of this individual prosperity will be the economic uplift of their communities. Thus, this investment in human resources will have considerable implications as students, their communities, and, eventually, the nation as a whole will benefit from this investment.

Many students miss out on financial aid opportunities that are available to them because they are either unaware that such opportunities exist (Lassila, 2011) or find the system too complex to comprehend (Melguizo & Chung, 2012).

### **The Politics of Financial Aid**

Since most higher education policy making occurs at the state level in the United States (Cheslock & Hughes, 2011), the politically driven nature of higher education policy at the state level merits attention for effective advocacy. Doyle (2012), for example found that liberal ideology of state policy actors is not related to increase in financial aid; however, legislative professionalism and higher levels of financial aid are correlated. Doyle (2012) also observed that financial aid is driven by the relative strength of private institutions of higher education in a state. Support for the high percentage of financial aid offerings by private, selective institutions can also be found in Melguizo & Chung (2012).

Tandberg (2010) found a correlation between liberal ideology and state spending on higher education and concurred with Doyle (2012) that state legislative professionalism and higher education spending are correlated. The correlation between legislative professionalism and support of higher education comes as no surprise, as more professionalized legislatures are comprised of highly educated legislators who are sympathetic to higher education (Tandberg, 2010).

Tandberg (2010) also found that a state's higher interest group ratio has a significant and positive influence on spending on higher education. If institutions pool resources and approach the powers that be with knowledge and tact, they can achieve their policy goals. In the loosely coupled system (Birnbaum, 1988; Weick, 2000) of education, an incremental approach which "emphasizes mobilized interest groups which negotiate solutions to problems in an environment of limited knowledge," rather than a rational approach which "explains policy change as the result of mobilizing coherent solutions to problems on the basis of knowledge and authoritative consensus" (Leslie & Berdahl, 2008, p. 310) might be more effective. Thus, advocates of increasing spending on higher education financial aid can use the system to their advantage.

### **Conclusion**

Promotion of postsecondary education is essential to economic prosperity and its long-term benefits to individuals, society, and the nation as a whole cannot be denied. Access of low income students to a college education must

not fall prey to a political system based on self-interest and profit. Diversion of financial aid from high income students to low income students is strongly recommended, as this policy change will pay dividends in the long run. Not only will it lead to economic prosperity for the individuals, but also their communities. The beneficiaries of financial aid can contribute greatly to uplifting their communities, thus achieving the policy objective of capacity building.

### **Implications and Recommendations**

In light of the significance of financial aid for retention of students in general, and low income students in particular, it is important to note and remedy the current situation in which students from more affluent families are beneficiaries of financial aid that could enable students from low SES homes to attend and persist in college. Policymakers at both the state and institutional levels should also ensure clear communication about financial aid opportunities to make sure that students do not miss out on opportunities that are available to them.

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### *About the author*

*Tehmina Khwaja is a PhD student in the Educational Policy, Planning, and Leadership program, focusing on Higher Education.*