Report Links Federal Aid to Changes in College Tuition

By Don Sutherland

A just-published Federal Reserve Bank of New York Staff Report revealed that changes in credit supply to students impact college tuition. The paper noted that subsided federal loans, unsubsidized federal loans, and Pell Grant financing all have some "pass-through" effects on tuition, though subsidized federal loans have the largest impact.

The report's major findings include:

- The pass-through effect for subsidized loans is approximately 65 cents, meaning that every dollar of subsidized loans contributes to a 65-cent increase in tuition; the pass-through effect for Pell Grants is about 55 cents.
- Pell Grants reduced the net cost of college attendance, as those grants do not need to be repaid and the pass-through amount was less than one.
- Institutions with a larger share of federal aid recipients saw faster enrollment growth, which is consistent with the finding that federal aid promoted increased college access.
- For-profit institutions, which are more dependent on federal student aid than their non-profit peers, saw larger tuition increases than their non-profit counterparts, which is also consistent with the findings of a pass-through effect.

From a policy making perspective, this data suggests that increased Pell Grant funding should have a larger impact on mitigating a student's net cost of college attendance and increasing access to higher education than a similar increase in subsidized federal loans.