State governments provide the majority of support for higher education in the United States. Across all states in the year 2000, eleven percent of total expenditures were spent on higher education—a figure totaling 56 billion dollars. Without this level of subsidy from states, higher education as it is known in the United States simply would not exist.

Unlike other large state subsidized programs such as elementary and secondary education, higher education is not a service available to all. Instead, in different ways in different states, the provision of higher education is rationed. For example, higher education is rationed at selective institutions according to the characteristics of students. In every state, selective public institutions deny some state citizens access to their services on the basis of the citizens’ academic qualifications. It is hard to imagine other services being rationed in this way—for instance, limiting transportation services to only the best drivers would never be an acceptable method of rationing this state-provided good.

In perhaps a less familiar way, higher education is also rationed on the basis of price. Since even public higher education is not offered free of charge in every state, decisions about how much to charge for higher education are also necessarily decisions about who will be able to take advantage of this state service.

As a result of this rationing, both on the basis of academic qualifications and by price, public higher education is consumed primarily by higher income individuals. Access to higher education in the United States is inversely proportional to income. Even after controlling for

*Peabody College (LPO Dept.), Peabody #514, 230 Appleton Place, Vanderbilt University, Nashville, TN 37203–5721. Email: w.doyle@vanderbilt.edu

© 2007 Springer.
academic ability, low income children are less likely than their peers to attend higher education (Ellwood & Kane, 2000; Kane, 1999).

In effect, states subsidize higher education by using taxpayer money that they collect from all citizens through some combination of taxes. States then spend a large portion of that money on a service that benefits only a subset of citizens—a subset that is primarily made up of middle and upper income people.

This combination of circumstances led Hansen and Weisbrod (1969a) to assert that higher education redistributes wealth away from the poor and to the rich. They based this result on a study of the current costs and distribution of benefits of California higher education. Given that all people pay taxes, and mostly middle and upper-income persons receive a higher education, they reason that this is a benefit that is paid for by all income groups equally, but enjoyed mostly by the non-poor. They conclude that, unlike state programs for health care or welfare, higher education as a state service does not distribute funds in a progressive manner.

Hansen and Weisbrod’s assertions created a heated debate among scholars of higher education. The argument at the time was about the degree to which state subsidies for higher education may or may not redistribute wealth from the poor to the rich or vice versa. Conventional thought at the time assumed that voters and their elected representatives would prefer to support a program that would distribute funds in a progressive way, but had been hampered by poor policy design.

This may not be the case. Instead, what if voters and their elected policymakers recognized that the benefits from higher education as a state service accrue primarily to middle and upper income persons? If so, the regressive redistribution of benefits would result not from flawed policy design, but from a deliberate attempt on the part of state policymakers to create a program that provides a benefit mostly for middle- and upper-income voters.

This chapter will examine the theoretical and empirical support for the idea that the redistributional effects of higher education subsidies are the direct result of a rational effort on the part of policymakers to design policies that satisfy their constituents’ desires. This marks a shift away from the classic policy intervention literature, which assumes utilitarian motives on the part of policymakers, to the political economy literature, which uses formal theories of individuals interacting in strategic situations to explain how policymakers attempt to satisfy their own interests (Boix, 2003; Persson & Tabellini, 2002).