Disparities in State Tax Effort for Financing Higher Education

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This paper argues that federal higher education funding and policies ignore state fiscal capacity and effort, both vital and pivotal aspects of any definition of an equitable system. The federal government perversely provides, by-in-large relatively more funding to institutions in those states that have greater fiscal capacity and exert less fiscal effort to support public higher education. In other words, it appears that the result of the overall federal policy is to reward richer states for the lack of tax effort for public higher education.[1] However, before discussing the role of the federal government in addressing disparities in state tax effort for higher education, it is important to analyze the disparate willingness of states to support higher education and various institutional sectors

In his first of four "canons" of taxation, Adam Smith stated that "the subjects of every state ought to contribute towards the support of government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."[2] Smith's statement reflects the need for governments to adopt progressive taxation policies that do not disproportionately burden lower socioeconomic populations. It also advances the concept that taxation for government services

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[1] A preferred method of measuring state tax capacity is a system developed by the Advisory Commission on Intergovernmental Relations (ACIR) called the "representative tax system" (RTS). "The RTS estimates the amount of revenues that each state government, with its local governments, could derive from imposing, at average rates, a standard tax system made up of the various taxes and quasi-taxes that are actually levied by states and local governments." See: Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort (Washington, D.D.: ACIR, August 1990), M-170, p.3. Also see K. Halstead, State Profiles: Financing Public Higher Education 1978 to 1994, (Washington, D.C.: Research Associates of Washington, 1994),, p. 47.

[2] Adam Smith, The Wealth of Nations, bk. V., chap. 3. The other canons were that taxes should be certain or predictable, convenient to pay, and cheap to collect.

should not be assessed and measured independently from the wealth of a state's citizenry. Thus, it is insufficient for governments to invest in human capital without accounting for wealth because richer governments putting forth the same tax effort as poorer governments will always appear to be making a much greater fiscal effort.

Using tax effort to adjust for wealth is particularly relevant when comparing how governments invest in human capital through education. Education constitutes a significant portion of most state budgets while also providing some o the greatest individual and social returns to state citizens. The causal-effect relationship of education and development is self-evident and now indisputable, with the contribution of higher education integral to the creation and dissemination of essential knowledge. Numerous studies have shown that the rates of return to investment in higher education continue to be significant for individuals and society.[3] Thus, it remains an important task of policy-makers to ensure that investment in higher education is adequate and equitable.

When making public investment determinations, it is helpful to conduct comparative studies regarding how states invest and use their fiscal capacity to support higher education. This study was devised to compare the willingness of states to invest in higher education and the various higher education institutional sectors. By comparing current state expenditures and fiscal tax effort for higher education, the data presented in this study shed some light on the various fiscal strategies employed by states in supporting the various higher education sectors, and in doing so reveal any disparities and inequalities that exist among the states.

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[3] Walter W. McMahon, Education and Development: Measuring the Social Benefits. (Oxford: Oxford University Press). See G. S. Becker, Human Capital (Chicago: University of Chicago Press, 1993), pp. 3-20; Also see L. Leslie and P. Brinkman, The Economic Value of Higher Education, (Phoenix: Oryx Press), pp.37-97 & M. B.

State Tax Effort Comparisons

For purposes of determining equity, interstate comparisons are useful in measuring the level of fiscal condition of education in and among states. According to Halstead, "the common identity which States must share in order to be compared is usually similar socioeconomic characteristics and organization."[4] Halstead further added that to conduct comparative studies between states, it is possible to group States by reason of similarity either in (1) basic socioeconomic strength to support [higher] education, (2) manner of organizing for education, or (3) emphases on educational components.[5] This study focuses on the first of Halstead's premises, measuring the socioeconomic strength to support higher education. Using accurate socioeconomic measurements to assess changes in a state's commitment to higher education is a common practice that is frequently used by policymakers and other governing officials.

One of the most important indicators used to compare and monitor changes in national, state, and local investment for higher education is tax effort. Information concerning the ability of governments to obtain resources for public purposes and the extent to which these resources are used enables officials to more accurately determine the value of existing fiscal practices. The tax effort of a government to support higher education is influenced by many historical, socioeconomic, and political factors. The tax effort of a state can be shaped by the people's interest and attitude toward different higher education sectors, the proportion of students enrolled in each sector, the people's attitude about government and taxes, the amount of taxes

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Paulsen, "The Effects of Higher Education on Workforce Productivity in the Fifty States." Paper presented at the annual meeting of the American Educational Research Association (New Orleans, La., 1994).

[4] Kent Halstead, (1975). Statewide Planning in Higher Education. (Washington, DC: U.S. Department of Health, Education, and Welfare), p. 46-47.

[5] Ibid.

citizens pay for programs other than higher education, and the wealth or fiscal capacity of a state or the people to support public investment in higher education.[6] The effect of any one of these factors, or any combination of factors, by any state to invest in higher education has always been difficult to determine. However, it is generally accepted that each of these factors plays an important role in the allocation of public resources to higher education students and institutions.

Tax effort is defined as the extent to which a government uses its fiscal or tax capacity to support higher education.[7] It can also be characterized as the level of taxpayer exertion made to fund a specific government service. By measuring the tax effort of a state to expend public resources for higher education, we are able to avoid problematic comparisons in state spending in simple dollar terms, because wealthier states have larger actual increases in aggregate and per student spending. Moreover, the use of tax effort allows policymakers to more accurately determine how economically disadvantaged states invest in higher education and other government services when compared to more economically advantaged states. When the fiscal capacity of a state to support higher education and other government services is not taken into account, which is frequently the case, aggregate and per student state-local expenditures usually show that wealthier states appear more committed to higher education and many other public services. Thus, it is important when determining relationships between expenditures and revenues, to account for variations in the overall fiscal capacity of governments and people to support these social enterprises.

State governments, more than any other single element in American society, have assumed the responsibility of financing public higher education. States together with local

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[7] Alexander and Salmon, pp. 174-175.

governments, provided over $60.6 billion in state tax funds for higher education in 2000-2001.[8] This constitutes nearly 40 percent of all revenues that all higher education institutions received in 2000-2001.[9] For most public colleges and universities, state governments are the largest single source of revenues for annual operating expenses. This high degree of state government reliance places public institutions in a precarious environment that is significantly impacted by economic and political fluctuations in fiscal support as witnessed in the 1980s and 1990s.[10] Also, although higher education has become nearly a universal necessity for states, it remains a discretionary part of state budgets making it extremely vulnerable to economic and ideological policy changes.[11] In so much as states are the primary source of revenue for the vast majority of public institutions enrolling approximately 75 percent of all higher education students, it is surprising that relatively little attention has been given at the federal level to the considerable differences in state expenditures and tax effort among states for supporting higher education.

Previous state tax effort research has primarily focused on declining trends in fiscal support for higher education by states during the last three decades.[12] The findings presented from these state tax effort analyses have been used to make ominous predictions about the future of state support for higher education.

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[8] Aggregate state appropriations include state appropriations for operating expenses, local appropriations, and state direct student aid assistance.

[9] Thomas Mortenson, Postsecondary Education Opportunity, 97 (July 2000).

[10] See Carolyn P. Griswold and Ginger M. Marine, "Political Influences on State Tuition-Aid Policy: High Tuition/High Aid and the Real World," Research in Higher Education, 35 (1). Also see: Edward R. Hines, Higher Education and State Governments: Renewed Partnerships, Cooperation, or Competition? ASHE-ERIC Higher Education Report No. 5. (Washington D.C.: Association for the Study of Higher Education, 1988), pp. MF-01.

[11] Edward P. St. John, Prices, Productivity, and Investment: Assessing Financial Strategies in Higher Education, ASHE-ERIC Higher Education Reports No. 3, (Washington, D.C.: Association for the Study of Higher Education, 1994), pp. 27-42.

The most widely accepted approach to determining how much tax effort states exert to support higher education as measured by spending per student relative to per capita personal income to the resident by using per capita personal income.[13] By calculating the percentage of per capita personal income that is spent on higher education for each student state tax effort can be determined and regularly compared with other states. Personal income provides an approximate measure of the capacity of state residents to pay taxes for higher education and other government services.

This study embraces a commonly used tax effort measurement to compare the fiscal effort or tax effort of states to one another.[14] This method analyzes tax effort by comparing state higher education expenditures per FTE student. Using this technique permits a tax effort analysis by a commonly accepted variable that takes into account important enrollment differences between states and institutional sectors. Another popular tax effort technique used by Halstead and Mortenson compares state investments for higher education by determining each resident's fiscal contribution to higher education per $1,000 of personal income. This method is used to conduct state tax effort comparisons in annual reports highlighted in The Grapevine and Postsecondary Education Opportunity.[15] State tax effort per $1,000 of personal income will only be briefly alluded to in this paper.

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[12] See Thomas Mortenson, Postsecondary Education Opportunity (January, 2001), pp. 12-16.

[13] See Carl Lieberman. (1998). Educational Expenditures and Economic Growth in the American State. (Akron, OH: Midwest Press), pp. 52-53.

[14] The tax effort calculation is defined as "the ratio of revenue)or expenditure) to the tax base." Personal Income or the Representative Tax System (RTS) are the most commonly used methods to determine the tax base of states. See: K. Alexander and R. Salmon, Public School Finance (Boston: Allyn and Bacon, 1995), p. 174. Halstead extends the tax effort measurement to what he calls "overall state and Family Funding Effort" in which he includes a combined set of inputs and output factors that incorporate not only tax effort, but a tuition factor as well. See Halstead, p. 54.

[15] See Edward Hines and James Palmer (eds.), The Grapevine. (Illinois State University); Also see T. Mortenson, Postsecondary Education Opportunity.

Procedurally, in this study, state tax effort for higher education spending by sector and per student are measured by combining state appropriations for operating expenses, local appropriations for operating expenses, and state student aid appropriations. Local appropriations are allocated to higher education institutions in only twenty-five states, while state student aid appropriations are annually appropriated in every state. Once aggregate state expenditures have been determined, state spending per FTE student by sector are calculated and adjusted to compensate for average state income disparities.[16] Then the states are ranked by their ability and willingness to support varying higher education sectors.

State Tax Effort for Higher Education

The vast majority of annual state spending for higher education emanates from state three primary sources. States appropriations which provide the lion's share of government revenues to colleges and universities, local appropriations to public community colleges which constituted over $4.5 billion in twenty-five states in 2000-2001, and state student aid appropriations which nearly reached $4 billion in 2000. Due to a variety of factors briefly discussed earlier in the paper, substantial disparities exist in state higher education investment. For example, state spending per FTE student for all higher education in the lowest ten expenditure states constituted only 54 percent of the national average in state higher education spending in 2000-2001. Many of the nation's wealthiest states fall far below the national effort average in exertion of tax effort for supporting higher education. As Figure 1 indicates, states that are found in the upper and lower right quadrants are wealthy states that differ drastically in their support for higher education. Of the 23 states located in the upper and lower right

[16] State per capita personal income data is provided by The Bureau of Economic Analysis.

quadrants only California, Wisconsin, New Jersey, Hawaii, Florida, Nevada, Michigan, Oregon, and Nebraska exert more tax effort for higher education than the national average. The willingness of some of these states to support higher education is demonstrated below in an indexed listing of high and low tax effort states.

All Higher Education

High Tax Effort States		*Low Tax Effort States*	
New Mexico	*183.5%*	*Vermont*	*17.9%*
Mississippi	*175.9%*	*New Hampshire*	*31.9%*
Arkansas	*165.5%*	*Maine*	*43.2%*
Wyoming	*148.6%*	*Rhode Island*	*46.7%*
Kentucky	*141.6%*	*Massachusetts*	*48.2%*
Idaho	*136.7%*	*Colorado*	*50.6%*
Alabama	*135.9%*	*New York*	*54.5%*
Hawaii	*135.2%*	*Alaska*	*59.9%*
California	*132.7%*	*Pennsylvania*	*66.9%*
Oklahoma	*124.4%*	*West Virginia*	*74.4%*
	US. Average	*100%*	

The states in the lower right quadrant are wealthy states that have low tax effort for higher education. The states located in the upper left quadrant are relatively poor states that invest heavily in higher education. The bottom left quadrant identifies states that are relatively poor and do not invest very much in higher education.

As Figure 1 shows, generally, in the northeast region of the United States, where public spending for higher education has traditionally been comparatively low, only New Jersey appears to exert enough tax effort for higher education to rank above the national tax effort average. Although Connecticut has above average higher education expenditures per FTE, its tax effort is substantially below the national average due the state's very high wealth. Outside the northeastern corridor of the United States, other wealthy states also exert tax effort far below the national average including Colorado, Virginia, and Illinois.

Insert Figure 1

On the other hand, many of the poorer states including New Mexico, Mississippi, Arkansas, Wyoming, and Kentucky are among the nation's leaders in tax effort per FTE for higher education. For example, Kentucky and Colorado are states that have comparable FTE student populations, yet Kentucky exerts over two and a half times more tax effort than does than Colorado for higher education. Kentucky also has much higher tax effort for higher education than all its neighboring states including Tennessee, West Virginia, Indiana, Ohio, and Illinois.

State Tax Effort for Public Four-Year Universities

When assessing state tax effort for higher education by institutional sector, significant differences emerge in the way states choose to finance higher education opportunities. Many states advance differing philosophies regarding support for one or another institutional sector. In most cases, states prioritize one of the three primary institutional sectors, public 4-year universities, public two-year colleges, private 4-year colleges and universities. In rare instances, all three institutional sectors are equally supported by the state. To better understand how states support different higher education sectors, this section of the paper will analyze state tax effort by each institutional sector, separately.

In every state public four-year universities receive the largest total amount of public funding for higher education. However state support per student for public four-year universities varies considerably. State spending for public four-year universities ranges from $14,851 per FTE student in Hawaii to $2,219 per FTE student in Maine. As Figure 2 shows, the national average for state spending per FTE student for public universities in $8,279. North Dakota, Alabama, Michigan, and Oregon are states that fund their public universities nearest to

the national average. When comparing state tax effort for public universities numerous states appear to be significantly investing in their public four-year sector while other states do very little for their public four-year universities. As shown in Figure 2, states in the upper right and left quadrant are spending at levels above the national average. Some of these states are also exerting significant tax effort in support of their public universities. States located in the upper left quadrant of Figure 2 including New Mexico, Mississippi, Arkansas, Wyoming, Kentucky, and South Carolina are among the nation's leaders in their willingness to fund public universities. A number of wealthy states in the upper right quadrant including California, Hawaii, Florida, Iowa, and Illinois are also funding their public universities at levels greater than the national average. States that exert the lowest tax effort in their funding of public universities are found in the lower right and left quadrants. Many of nation's more affluent states are found in the lower right quadrant where state willingness to support public universities is comparatively low. Colorado, New York, Pennsylvania, and Virginia are all wealthy states that exert little tax effort for public universities.

Insert Figure 2

The willingness of some of these states to support public four-year universities is shown below in an indexed listing of high and low tax effort states.

Public Four-Year Universities

High Tax Effort States		*Low Tax Effort States*	
Mississippi	*177.9%*	*Maine*	*28.9%*
New Mexico	*176.2%*	*Colorado*	*35.6%*
Hawaii	*176.5%*	*New Hampshire*	*37.6%*
California	*144.2%*	*Alaska*	*40.7%*
Arkansas	*142.8%*	*Vermont*	*51.1%*
Wyoming	*136.6%*	*South Dakota*	*61.7%*

Iowa	*132.8%*	*New York*	*64.8%*
Florida	*130.7%*	*Montana*	*65.3%*
South Carolina	*127.7%*	*Delaware*	*66.5%*
Kentucky	*120.6%*	*Pennsylvania*	*70.6%*
	U.S. Average	*100%*	

State Tax Effort for Public Two-Year Institutions

Public two-year institutions generate revenues from all three government sources analyzed in this study. State appropriations for operating expenses, local appropriations, and state student aid assistance provide the majority of public two-year institution funding. State appropriations account for the lion's share of public two-year institution funding, however, over $4.5 billion is allocated to two-year institutions in twenty-five states from local appropriations. By receiving annual support from multiple funding sources it should not be surprising that vast disparities exist in state expenditures per student and tax effort for public two-year colleges. In fact, through the use of these multiple funding sources, many states including Colorado, Maine, and New Hampshire provide more state support per FTE student to public community colleges than they expend for public universities. It is also important to note that state spending per student for two-year public colleges in nine states exceeds public university expenditures per student in New York, Ohio, Pennsylvania, and Louisiana.

When comparing state expenditures and willingness to support two-year public colleges, two interesting findings emerge. First, tax effort for public two-year universities varies considerably. State spending for public two-year universities ranges from over $8,000 per FTE student in Maine, North Carolina, and Wisconsin to under $3,000 per FTE student in Georgia, North Dakota and South Carolina. As Figure 3 shows, the national average for state spending per FTE student for two-year public colleges is $5,129, approximately 39% below state expenditures per FTE for public universities. States that expend resources for two-year

public colleges nearest the national average include Arizona, Hawaii, Texas, Alabama, Colorado, Pennsylvania, Illinois, and Virginia.

Second, when analyzing state tax effort for two-year public colleges numerous states appear to be significantly investing in their public two-year sector while other states do very little for their public colleges. According to Figure 3, states in the upper right and left quadrant are spending at levels above the national average. Many of these states are also exerting significant tax effort in supporting their public two-year campuses. States exerting high tax effort are in the found upper left quadrant of Figure 3 including North Carolina, Maine, Kentucky, Oregon, and Louisiana. Numerous wealthy states exert significant tax effort for two-year public colleges as shown in the upper right quadrant including California, Delaware, Massachusetts, Wisconsin, Nebaraska, and Michigan. States that exert the lowest tax effort for two-year public colleges are found in the lower right and left quadrants.

Insert Figure 3

Several states exerting the lowest tax effort for two-year public colleges are identified in the lower right and left quadrants of Figure 3. In the lower right quadrant many wealthy states which exert little fiscal support are shown including Maryland, Colorado, Florida, New Hampshire, and Ohio. The lower left quadrant shows the poorer states that also refuse to exert adequate tax effort for public two-year campuses. The willingness of some of these states to support two-year public higher education is shown below in the indexed listing of high and low tax effort states.

Public Two-Year Colleges

Highest Tax Effort States		*Lowest Tax Effort States*	
Maine	*175.6%*	*Vermont/South Dakota*	*0%*
Louisiana	*175.6%*	*Alaska*	*4.9%*
North Carolina	*172.1%*	*West Virginia*	*19.5%*
Wisconsin	*163.2%*	*South Carolina*	*23.1%*
Kentucky	*144%*	*North Dakota*	*26.6%*
Arkansas	*139.5%*	*New Hampshire*	*29.4%*
Nebraska	*139.4%*	*Indiana*	*31.3%*
Utah	*133.6%*	*Georgia*	*39.1%*
Oregon	*131.3%*	*Pennsylvania*	*44.4%*
California	*124.6%*	*Idaho*	*45.2%*
	U.S. Average	*100%*	

State Tax Effort for Private Four-Year Institutions

Since the passage of the Higher Education Act of 1965 and the subsequent federal amendments of 1972, private higher education institutions in the United States have increased their reliance on federal and state resources primarily through direct student aid programs.[17] After nearly three decades of direct student aid funding growth and expansion at the state level, state financing of private colleges and universities has become an important and increasingly controversial issue for policy-makers. Currently, nearly $2 billion annually is allocated to private institutions by state legislatures.

However, despite the consistent growth in public assistance to private campuses, state support for private higher education varies considerably from one state to the next. Generally, states where private colleges and universities have experienced a long historical presence, as they do in many of the old Colonial states, state funding for private higher education has

[17] It is also important to note the significance of the U.S. Supreme Court decision in Tilton v. Richardson in 1971. This ruling upheld the Higher Education Facilities Act of 1963 which allowed for the allocation of public resources for faciltiy construction at private colleges and universities. The Tilton case set off a wave of federal legislation where the Supreme Court upheld publicly aiding private higher education institutions while striking down similar programs aiding primary and secondary education. Once the legal barriers were cleared at the

always been part of the financial landscape. In other states and regions of the country such as the most western and southern states, very little interest in funding private higher education has been expressed by state legislatures. These historical developments have led to vast disparities in state expenditures per student and tax effort for private colleges and universities in the United States. Currently, state funding per FTE student for private institutions varies from $2,079 in New Jersey to $0 in Alaska, Wyoming, South Dakota, and Nevada.

When comparing state expenditures and willingness to support private higher education, wealthy states appear to fund their private higher education sector at greater levels than do poorer states. According to Figure 4, states allocating the largest amount of funds per student for private higher education are found primarily in the upper right quadrant. Many poorer states have also begun to support private higher education institutions but expend considerably less per student than their wealthier counterparts. Several of these states can be identified in the upper left quadrant of Figure 4.

Insert Figure 4

The data presented in this study also indicate that some states such as Florida, New Jersey, Michigan, Illinois, and Iowa exert over twice the national average tax effort for private higher education. However, many other states primarily located in the Far West, and in some cases, the South, exert far less tax effort for private higher education than do their more affluent northern neighbors. The willingness of some of these states to support private higher education is shown below in the indexed listing of high and low tax effort states.

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federal and state levels, state legislatures quickly enacted a series of direct student aid policies that providing public assistance to private colleges and universities.

Private Four-Year Institutions

Highest Tax Effort States		*Lowest Tax Effort States*		
Florida	*272.9%*	*Alaska, South Dakota, Wyoming, & Nevada*		*0%*
New Jersey	*266.5%*	*Montana*	*.35%*	
Michigan	*221.6%*	*Utah*	*.7%*	
Illinois	*213.2%*	*Hawaii*	*1%*	
Iowa	*208.7%*	*Arizona*	*2.32%*	
Texas	*195.5%*	*New Hampshire*	*3%*	
South Carolina	*193.2%*	*Idaho*	*3.43%*	

U.S. Average 100%

The Federal Government and State Tax Effort Disparities

The wide disparities in state expenditures per student and in state tax effort raise serious concerns regarding the role of states and the federal government in higher education. Since the Constitution makes no special reference to education or higher education, it has been assumed that the education enterprise is the legal and primary responsibility of the states. However, this does not mean that the federal government is prohibited from providing federal assistance to states or education institutions. History is replete with examples of federal legislation that have aided schools, colleges, and universities. In fact, many of the nation's most innovative educational experiments were initiated by the federal government such as the Morrell Acts, the Smith-Level Act, the G.I. Bill, and Title I and II, ESEA legislation.

Recently, some education experts have called for expansion of the federal role in education. However, most of the attention encompassing an increase in federal involvement has occurred in K-12 education.[18] Any previous expansion of the federal government's role in education at all levels was usually desired by those who believe that only by the infusion of federal funds or fiscal incentives can equalization among states be achieved. A federal effort to

[18] See A. Wise, The Fair Chance Act, Testimony before the Subcommittee on Elementary, Secondary, and Vocational Education of the House Committee on Education and Labor, 101st Congress, 2d Session, 1990, p. 61. Also see C. P. Lu, "Liberator or Captor: Defining the Role of the Federal Government in School Finance Reform," Harvard Journal on Legislation 28, no. 2, (Summer 1991), p. 564.

achieve a national level of financial support for all higher education students has been deemed consistent with other efforts to equalize educational opportunities at all levels. According to the National Education Association, "anything less than interstate equalization leaves students and parents in some states at a disadvantage."[19]

Unfortunately, current federal higher education policy does little to address the tax effort disparities between states highlighted in this paper. In fact, over three decades of federal direct student aid policies, and most recently, tax credit and deduction federal legislation, has simply advanced a "one size fits all" federal agenda ignoring the distinctive institutional interests and missions of public, private, and proprietary institutions. In establishing federal tax credits and deductions for higher education costs and expenses, students and institutions were granted comparable benefits regardless of state investment disparities or institutional missions. On the other hand, federal direct student aid policies have exacerbated inequalities between states because funds are disproportionately awarded to students attending higher cost institutions.[20] States that do not restrict their public colleges and universities from increasing their reliance of tuition-based revenues are more likely to disproportionately benefit from federal direct student aid funds. States that maintain a low tuition philosophy regarding their public higher education institutions, generally, are less likely to see their students proportionately benefit from direct student aid policies. The states that maintain low tuition strategies are primarily poorer southern and western states with relatively low per capita personal incomes by national standards, while many wealthier states primarily in the Northeast and Midwest, have the luxury to advance higher tuition strategies that indirectly benefit their

[19] National Education Association, What Everyone Should Know About Financing Our Schools (Washington, D. C. NEA, 1993), p. 30.

[20] F. King Alexander. (1998). "Private Institutions and Public Dollars: An Analysis of the Effects of Direct Student Aid on Public and Private Institutions of Higher Education." The Journal of Education Finance,

institutions that greater federal assistance. For high-tuition public and private institutions free from public constraints, the federal policies of the last three decades have proven extremely lucrative.

However, as shown above, not all wealthy states have high fiscal tax effort for public higher education. Many wealthy states, primarily located in the northeast region of the country, advance high tuition/high aid fiscal strategies for their public campuses while investing comparatively little public resources directly to their public colleges and universities. New York, Maine, New Hampshire, Vermont, and Massachusetts expend comparatively little resources on student attending public campuses, but these are these same states are among the nation's leaders when allocating public resources to private college and university students and institutions.

If the federal government were to attempt to correct for higher education expenditure and tax effort disparities between states, it should recognize two important factors. First, any federal plan should acknowledge the importance of investment in students and higher education institutions and confirm that adequate state investment in human capital is in the national interest. Such a plan should advance the value of human capital and knowledge-based investment in higher education and call for investment strategies at the state and national level keeping with that foundational objective. Second, the plan should be funded by the federal government at a level sufficient to maintain a competitive standard of federal funding and to provide an impetus for states to more adequately fund their higher education institutions. Any federal plan should provide fiscal incentives that reward states for maintaining "above average" tax effort in investing in higher education opportunities and institutions. States that would benefit from such an initiative include many poorer states such as Alabama, New

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Mexico, Mississippi, Kentucky, Wyoming, and Arkansas. Also, many wealthier states such as California, Hawaii, New Jersey, Wisconsin and Michigan would also benefit from the federal assistance due to their relatively high fiscal support of higher education. Under such a plan, states that refuse to invest in higher education or opt to divest below the national average or below their fiscal capacity would not receive federal assistance. This federal initiative would serve as an economic disincentive against maintaining low public support for higher education. States that would currently be negatively impacted include many wealthy states that provide comparatively little assistance for higher education such as New York, Virginia, Ohio, Massachusetts, Connecticut, Colorado, Washington, and Illinois. Poorer states that also would be negatively impacted by such a plan include West Virginia, Montana, Tennessee, and Utah.

Conclusion

The findings presented in this paper advance a number of important issues for policy-makers and higher education officials. First, significantly disparities continue to persist in the way that states finance higher education systems and sectors. Second, regardless of their limited wealth, many poorer states exert significant tax effort in supporting public higher education, while most wealthier states are unwilling to adequately support public higher education. Third, wealthier states, generally, exert more tax effort for private higher education than do poorer states. Fourth, states exerting high tax effort for public higher education also tend to be less reliant on tuition revenues while many wealthy states which exert low tax effort for public higher education usually rely heavily of tuition-based revenues.

These findings raise serious concerns regarding the effectiveness of higher education in the United States. The substantial disparities in state per student expenditures and tax effort demonstrate that drastic inequalities exist in higher education opportunities for students and

families. The willingness, or lack of willingness, of states to support higher education at adequate funding levels shows the understated importance of state residency in the United States. These fiscal disparities in state tax effort also demonstrate a need for the federal government to develop policies that do not exacerbate current inequalities among states. By taking into account state fiscal capacity and effort, the federal government could develop a new higher education policy that would provide economic incentives to ensure that all states provide adequate investment for higher education opportunities. A federal policy of this kind could help stabilize the highly volatile manner that states finance higher education.