



# Does federal financial aid affect college enrollment? Evidence from drug offenders and the Higher Education Act of 1998



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## ABSTRACT

In 2001, amendments to the Higher Education Act made people convicted of drug offenses ineligible for federal financial aid for up to two years after their conviction. Using rich data on educational outcomes and drug charges in the NLSY 1997, we show that this law change had a large negative impact on the college attendance of students with drug convictions. On average, the temporary ban on federal financial aid increased the amount of time between high school graduation and college enrollment by about two years, and we also present suggestive evidence that affected students were less likely to ever enroll in college. Students living in urban areas are the most affected by these amendments. Importantly, we do not find that the law deterred young people from committing drug felonies nor did it substantively change the probability that high school students with drug convictions graduated from high school. We find no evidence of a change in college enrollment of students convicted of non-drug crimes, or of those charged by not convicted of drug offenses. In contrast to much of the existing research, we conclude that, for this high-risk group of students, eligibility for federal financial aid strongly impacts college investment decisions.

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## 1. Introduction

Urban areas in the United States are characterized by persistently high levels of inequality and concentrated poverty (Glaeser et al., 2008). There are a number of potential explanations for the persistence of disadvantage in certain neighborhoods, but local disparities in access to and investment in quality education are arguably two of the most important. While much attention has been paid to urban inequality in terms of K-12 education, less work has focused on urban disparities in higher educational attainment. There is ample evidence that low-income students invest less in college than their higher-income peers, even after controlling for pre-collegiate characteristics, which is consistent with credit constraints driven by the high cost of college attendance and with information constraints that bind differentially for lower-SES families (Belley and Lochner, 2007; Bailey and Dynarski, 2011; Lovenheim, 2011; Bettinger et al., 2012; Hoxby and Turner, 2013). At the same time, the private returns to obtaining a college degree are at historically high levels (e.g., Autor et al., 2008; Goldin and Katz,

2007), and there is growing evidence that educational attainment and education policies more broadly can influence intergenerational income mobility (Black and Devereux, 2011). Thus, understanding how government policies can influence the college investment behavior of low-income, urban youth is of primary policy interest.

Federal financial aid, in the form of Pell Grants and both subsidized and unsubsidized Stafford loans, is the primary policy tool the Federal government uses to support college attendance among students at the lower end of the income distribution. Federal aid is quite generous: in the 2012–2013 school year alone, the U.S. government gave out over \$47 billion in grant aid and over \$100 billion in loan aid to college students (College Board, 2013). A question of central concern is how, or if, this aid increases the likelihood that high school graduates, in particular those from disadvantaged backgrounds, enroll in and graduate from college.

The majority of existing research on the impact of federal aid is hampered by the fact that, by construction, cross-sectional variation in federal student aid is correlated with differences across students in family finances, which is almost certainly correlated with unobserved factors that also affect the likelihood of investing in college. A lack of exogenous variation across students in aid eligibility makes it difficult to credibly identify the effect of that aid

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on college enrollment, and recent reviews of the financial aid literature highlight the lack of consistent results (e.g. Deming and Dynarski, 2009; Kane, 2006).

This paper contributes to our understanding of how federal financial aid can affect inequality through its impact on education by examining the effect of a unique, short-term, shock to the availability of aid in an at-risk population of central importance for urban policy-makers: teens convicted of drug offenses. In 1998, amendments to the Higher Education Act (HEA98) specified that, beginning in 2001, any student convicted of a drug offense was ineligible for federal financial aid for one to two years post-conviction, depending on the student's criminal record. The fact that HEA98 focused on drug convictions made it particularly important for low income students living in urban areas; there is little evidence that rates of drug use vary in a substantive way across urban and regional areas (Johnston et al., 2012), but geographic variation in policing policy means that urban residents are approximately 40% more likely to be arrested for drug offenses than otherwise identical people living in suburban or rural places.<sup>1</sup>

We estimate the impact of HEA98 on college enrollment in a difference-in-difference framework, comparing college attendance among those with and without drug convictions in the years surrounding the law change, using the 1997 National Longitudinal Survey of Youth. We find that HEA98 significantly and substantially reduced the probability that students with drug convictions attended college immediately after graduating from high school. Consistent with the geographic distribution of policing, these effects are concentrated predominantly in the sample of students living in urban areas, who represent the majority of those with drug convictions in our data. The observed responses also are highly consistent with the structure of the law: we estimate that students with drug convictions took an average of 28 additional months to enroll in college post-HEA98, which is statistically indistinguishable from the specified two year ineligibility period.

Our estimates are suggestive of a small effect of the eligibility change on the probability students with drug convictions ever attend college or obtain a bachelor's degree (BA). However, these estimates are imprecise due to the small number of individuals with drug convictions in our sample. Overall, the largest impact of the law is on delayed entry into college: HEA98 created an involuntary "double gap year" for the most at-risk students of an at-risk group. While most of these students eventually enroll, such delays reduce the returns to a college education, as the higher wages that accompany collegiate attainment are realized for two fewer years. Furthermore, we present suggestive evidence that respondents with drug convictions have worse outcomes in the two years post-high school after the implementation of HEA98, with weakly lower workforce participation and higher pregnancy and subsequent conviction rates.

To the best of our knowledge, this analysis is the first to estimate how the enrollment decisions of recent high school graduates respond to exogenous federal aid eligibility changes that operate through the current federal financial aid system, rather than

manipulation of the system itself (Bettinger et al., 2012).<sup>2</sup> We underscore that HEA98 affected the college enrollment decisions of a particular group of disadvantaged students. On the one hand, this presents a potential limitation in generalizing our results to a larger group of low-income and at-risk students, although the extent to which the response of students with drug convictions to financial aid would differ systematically from the response of disadvantaged students more generally is unclear. On the other hand, drug offenders are of particular policy interest, especially in relationship to persistent inequality in urban communities.

Our results also provide direct evidence on the effects of excluding convicted criminals from federal assistance programs more broadly, which has been the overwhelming trend in federal and state policies over the past several decades.<sup>3</sup> To the extent that these policies make it more difficult for those with criminal records to participate in the legitimate sector, they may increase the likelihood that these people return to illegal activity (Bushway and Sweeten, 2007). Our findings that affected students are more likely to face a subsequent drug conviction and do not engage in productive activities when they are dissuaded from attending college due to the HEA98 rule are consistent with this hypothesis. These results further support the contention that the social returns to higher education and human capital investment in this population are likely to be particularly high (Lochner, 2004).

The paper proceeds as follows: in the next section, we provide additional background on the HEA98 as well as current research on financial aid and college enrollment. We then describe our data and analytic approach in Section 3. Section 4 presents results, and we conclude with a discussion in Section 5.

## 2. The Higher Education Act of 1998 and High School Drug Offenders

The main purpose of the HEA98 was to re-authorize the Higher Education Act of 1965, which was the original act that set up the current federal financial aid system. However, the HEA98 included a provision that restricts the federal financial aid eligibility of students who have been convicted of drug-related offenses. The amendment specifically stated that:

"A student who has been convicted of any offense under any Federal or State law involving the possession or sale of a controlled substance shall not be eligible to receive any grant, loan, or work assistance under this title during the period beginning on the date of such conviction..."

The ineligibility period was one year for the first possession conviction, two years for the second, and an indefinite ban for a third offense. Students convicted of selling a controlled substance were ineligible for two years after a first offense and indefinitely for subsequent offenses. Under the law, students could regain eligibility earlier if they completed a drug rehabilitation program that included unannounced drug tests and was recognized by a federal or state licensed medical board. The temporary aid ban went into effect in 2001, and through 2007, students filling out the Free Application for Federal Student Aid (FAFSA) were asked whether they have been convicted of possession or sale of illegal drugs in state or federal court. Students who failed to answer the drug conviction question were ineligible for aid (GAO, 2005).<sup>4</sup> The eligibility

<sup>1</sup> All law enforcement agencies in places with more than 250,000 people regularly provided drug enforcement as a central part of their mission, compared with only 87% of local police departments serving 2500 people or fewer (Hickman and Reaves, 2006). Trends in self-reported usage rates presented in Johnston et al. (2012) imply that there has not been substantive or statistically significant variation in illicit drug use by high school students with respect to their urban status since the early 1990s.

<sup>2</sup> Seftor and Turner (2002) exploit the introduction of the Pell Grant and shows that that enrollment among older, "non-traditional" students increased when this program was introduced. Bettinger (2004) uses panel methods and discontinuities in Pell eligibility among students in Ohio and finds that Pell grants increase persistence and decrease "stop-out" behavior. However, he highlights that many of his results are unstable, which underscores the need for more study of how students react to financial aid availability using plausibly exogenous variation in aid. Bettinger (2004) also does not examine enrollment, focusing instead solely on persistence.

<sup>3</sup> For example, ex-felons currently are excluded from participating in federal contract work, federally funded housing assistance, TANF, and food stamps (GAO, 2005).

<sup>4</sup> From 2007 onward, students were only asked about convictions that occurred while they were receiving federal financial aid, meaning that all first-time applicants were eligible on this margin. This is not relevant for our study, as our period of analysis extends through 2003.

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