



The Center for  
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## PRESS RELEASE

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### New Study Identifies Major Flaw in Financial Aid Programs

Washington, DC – The Center for College Affordability and Productivity (CCAP) has released a new study critical of current financial aid policies, *Financial Aid in Theory and Practice: Why It Is Ineffective and What Can Be Done About It*. The analysis finds that “policy makers have designed a convoluted financial aid system that inadvertently leads to higher tuition,” and that “many programs are ineffective and possibly counterproductive.” The findings hinge on the recognition that many financial aid programs contribute to the academic arms race, fueling the explosion in costs, which in turn have a negative impact on college affordability and access.

Perhaps the most serious flaw is a misunderstanding of how colleges respond to financial aid programs. Current practice takes the costs of educating a student as given, and then tries to offset as much of this cost as possible. But costs can be and are increased as a consequence of financial aid. “In other words, viewing the problem as how to distribute financial aid, *given* the costs of providing an education is inappropriate when costs are partly *determined* by the financial aid system.”

Other noteworthy contributions of the analysis include:

- Recommendations for reform that avoid the problems highlighted in the study (see the section titled *Recommendations for Reforming Financial Aid*).
- The concept of a “Prestige Curve” showing the positive relationship between spending and prestige is posited theoretically (see the section titled *Unintended Consequences: Ravenous Cookie Monsters Engaged in an Arms Race*) and verified empirically (see figure 9).

CCAP is a non-profit organization dedicated to research on higher education issues.

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