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ABSTRACT

Basic questions concerning the debate over tuition tax credits and expanded student aid and perspectives about the relationship between college costs and family income are discussed. The fundamental policy issues, rather than strictly economic issues, are the focus of attention. The most obvious challenge to existing policy has been support for the tuition tax credit, which is in effect a federal scholarship awarded without reference to financial need. It is suggested that support for need-based aid is waning on campus as well as in government. With the recognition that financial need formulas were based on arbitrary and debatable judgments came experimentation with the components of the Basic Opportunity Grant formula to increase aid going to middle and upper income students, and a growing sense of unease in the student aid community regarding the credibility and public acceptability of financial need analysis. There also has been the question of whether parents should be responsible for paying college costs for their children in light of the fact that a number of students are claiming financial independence from their parents. The prospect of declining enrollments in the 1980s poses another challenge to existing student aid policy, since colleges will be influenced by the financing policies of state and federal governments. A few predictions about policy issues are offered. (SW)

DISTRIBUTION OF FINANCIAL AID:

IS ANYONE REALLY HURTING?

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Paper prepared for presentation
at College Board National Forum
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* The opinions expressed here are solely those of the author and should not be attributed to the trustees, officers, or staff of the Brookings Institution.

The title of this session, "Distribution of Financial Aid: Is Anyone Really Hurting?" appears to ask an economic question, suggesting that discussion of the alleged plight of middle income students should be conducted in those terms. Having watched the issue develop in Washington over the last year and a half, however, I am convinced that a narrow economic approach not only misses the dynamics involved, but fails to address the important challenges to student aid policy that have surfaced largely as a result of the debate. Consequently, although I will say a few words about the economic questions raised in the conference program, I want to direct the discussion toward the more fundamental questions that the debate over tuition tax credits and expanded student aid have raised.

On a personal level, I saw the middle income issue emerging well over a year and a half ago during my brief stint on the policy staff at HEW. Secretary Califano was picking up signals from the Hill that sentiment for some sort of middle income aid was building, and he asked for a memo on the subject. While at Brookings, Checker Finn and I had investigated the relationship of college costs and family income for our book on private higher education, and had discovered that over the 15-year period from 1961-62 to 1975-76, college costs had not risen faster than either median family income or per capita disposable income. Thus, my HEW staff sent the Secretary those statistics, arguing that the "middle income squeeze" was not supported by the data, and that there were no grounds for changing the department's policy of concentrating aid on low income students. The Secretary's political antennae were far better than ours, however, for he sent that memo (and several more like it) back with the message that something had to be done about the middle income plight. I decided then that the issue was not one of simple economics, to be defused by demonstrating that "spiraling college costs" had been more than matched over time by "spiraling family incomes." Subsequent events have amply confirmed that view.

Those of you who followed the tuition tax credit debate know how the debate proceeded. First, the Congressional Budget Office published figures similar to those we had sent to Secretary Califano, showing the rough constancy over time in the ratio of college costs to family income. The Congressional Research Service then weighed in with evidence suggesting that, on an after-tax basis, college costs had risen faster than disposable income. Critics, in turn, disputed the CRS figures on a variety of technical grounds having to do with uncertainty over the incidence by income class of state and local taxes.

While these debates were being waged in the pages of the *Washington Post* and elsewhere, various analysts introduced additional arguments into the debate:

-- The rapid growth of Basic Opportunity Grants, it was argued, made it possible for colleges to allocate greater shares of campus-based aid to middle income students.

-- Attention was drawn to the growth of "no-need" scholarships as a source of aid for higher income students.

-- The cumbersome phrase "sibling overlap" was used to explain that many families currently have two or more youngsters in college, but that the number of such families, with the attendant financial burdens, will drop sharply in the 1980's.

-- Still others argued that the issue is largely psychological, reflecting a growing hostility of an inflation-battered middle class toward handouts to the poor. The Basic Grant schedule, for example, was seen as penalizing those parents who save, while rewarding those who do not (or cannot).

-- It was also noted that family incomes today are comprised much more than in the past of salaries from two earners, therefore depriving families of the ability to add a second income during the high outlay college years.

-- Some analysts believe that families are less willing now than in the past to sacrifice for college since the financial payoff to the degree is less certain.

-- And, the high rate of inflation is blamed by some for undermining the ability of families to save for college costs, as rapid price increases erode the value of savings.

I believe there to be a measure of truth in each of these arguments, particularly those that stress the psychological factors. On strictly economic grounds, I would argue that the bulk of evidence suggests that the "middle income plight" has been much exaggerated, particularly when it is asserted that the burden of paying for college now is much greater for the typical family than it was 10 or 20 years ago. It is also true, however, that the data are imperfect and there are serious problems in trying to make accurate or meaningful comparisons of this type over time. And, of course, the "typical" or "average" family nowhere exists.

Having said that, however, I believe it would be a mistake to concentrate solely on ever-more refined attempts at measurement, treating the issue as narrowly economic. Instead, the events of the last year have demonstrated vividly how uncertain are the principles on which student aid policy is founded. I would turn your attention in the remainder of this talk to several fundamental policy issues that must be decided if student aid is to be placed on a secure and permanent footing.

The most obvious challenge to existing policy came in the wave of support for the tuition tax credit, which is in effect a federal scholarship awarded without reference to financial need. Even the Carter administration's hastily-prepared counter-proposal for increased student aid broke with the need-based principle, for in its earliest form, it called for flat $250 grants to all students with family incomes from $16,000 to $25,000. Although the education subcommittees of the House and Senate revamped the administration proposal to link grant size to family income, this episode makes it clear that political support for limiting student aid to the most needy -- in essence, a policy of redistributing income -- has sharply diminished. Reports that a growing number of colleges are using financial aid to recruit middle and upper income students, disregarding the computations of financial need analysis, suggests that support for need-based aid is waning on campus as well as in government.

It is possible to put another interpretation on these events, however. The rallying cry for the tax credit was the alleged inability of middle and upper income families to meet rapidly rising college costs -- essentially a claim that financial need analysis computations are either faulty or too niggardly. This argument had two results. First, it gave rise --as we have seen--to a largely inconclusive attempt to compare the current burden of college costs on median income families with the comparable burden of a decade past. Second, and more importantly, the spotlight was turned on the assumptions and details of both the federal and private needs analysis systems. What had hitherto been known by a few was now abundantly clear to many--that these financial need formulas, rather than being "scientific" and beyond criticism, were fraught with necessarily arbitrary and debatable judgments. The treatment of assets, the amount of income required for necessities and how that varies with family size, the percentage of income available for college costs after the minimum level has been met, the amount of student self-help that can be expected--decisions about these and other features of need analysis are inherently judgment calls over which reasonable people can differ. In fact, the federal and private systems do differ in significant ways, with the federal formula until recently being the more stringent.

The upshot of this discovery has been a rush of Congressional tinkering with the components of the Basic Opportunity Grant formula to increase aid going to middle and upper income students, and a growing sense of unease in the student aid community regarding the credibility and public acceptability of financial need analysis. In a paper prepared for a conference on student aid policy held this summer at the Aspen Institute, Arthur S. Marmaduke, Director of the California Student Aid Commission, argued that a critical need exists for a politically legitimate forum in which basic policy questions such as the following can be decided:

--Who should decide what a parent can pay for a dependent student?

--Who should decide what self-help expectations there are for dependent students?

--Who should decide what independent students can pay?

--Who should decide who is self-supporting?

--Who should decide what are the appropriate costs of education to be included in student budgets?

As long as such basic questions as these are at issue, the country's mixed system of student aid, public and private, will not be on a stable footing.

John Silber, President of Boston University, has presented a second challenge to existing finance policy with his Tuition Advance Fund proposal. Writing in the July 1978 Atlantic Monthly, he states:

> "In order to achieve authentic educational opportunity, we must introduce the old-fashioned American principle that the person who receives the benefit is the one who ought to pay for it."
>
> "The Tuition Advance Fund offers precisely that solution by gently but firmly transferring the burden of financing higher education from the backs of the parents to the shoulders of the student."

In these two brief sentences, Silber has not only managed to call into question, by implication, the existence of social benefits to higher education -- the main rationale for public subsidy -- but more importantly, he has stated that parents should no longer bear the responsibility for paying college costs for their children. It is the second point that poses the newer, and more perplexing, policy question. If parents are not assumed responsible for college costs, then student aid can no longer be based on family income. Indeed, the number of students claiming financial independence from their families has been growing rapidly, posing difficult problems for those who must assess such claims in determining financial need. If the issue of parental responsibility remains in flux, as seems likely, it will be difficult, if not impossible, to fashion public policies that treat students and families equitably.

Many families, for example, will continue to accept financial responsibility for college costs regardless of the drift of public opinion. For this reason -- and because any wholesale abandonment of a claim on parents' resources would be enormously costly to the public -- it is unlikely that Silber's vision of a nation of financially independent college freshmen will materialize. Nonetheless, many students do not receive the money from parents that financial need analysis says they should.

How is public policy to treat such students? Should the fact that the parents' actual contribution is less than expected be ignored on the grounds that the expected contribution, as calculated, is a private responsibility, whether met or not? Or should the parents' contribution be accepted for what it is -- an optional, unenforceable payment -- with public subsidies tailored to the actual resources that a student has? The second approach, although appealing, is unacceptable for public policy, since an optional parental contribution would contradict both the logic and purpose of a system that bases subsidies on family income. The result, however, will be inequitable treatment of students, brought about by the unwillingness of some parents to make the expected contribution.

The prospect of declining enrollments in the 1980s poses yet another challenge to existing student aid policy, for the fate of many institutions -- mostly private -- will be heavily influenced by the financing policies of state and federal governments. If large numbers of small, private colleges are not to close, ways must be found to stabilize or narrow the tuition gap between public and private campuses. Many suggestions have been advanced, but the proposals involving student aid boil down to a choice between two basic approaches:

(1),a high budget option, with sharply increased public subsidies to students attending high cost institutions, and (2), a low budget option that seeks to redirect state aid away from institutions and into need-based student aid, causing public tuitions to rise and limiting subsidies to low income students. The first approach would make the private sector financially more like the public, while the second would make the public sector more like the private; both will face strong opposition.

It is not yet clear what actions state governments will take if enrollments decline sharply, nor is it clear whether the federal government will play an active role in trying to influence the outcome of what could be a decade or more of retrenchment. What is clear is that student aid will be central to any strategy adopted by the states or federal government, with the prospect of yet more change for these programs.

I do not know how these basic policy issues will be resolved. Questions as central as those raised by Arthur Marmaduke would seem to call for a quasi-public commission to serve as a forum; some may be addressed as part of a forthcoming reauthorization of federal student aid programs, while still others will be resolved through the steady accretion of political decisions and bureaucratic regulations. I will close, however, with a few predictions.

First, federal control over the need-based grant system seems likely to expand, throwing into doubt the continued existence of the private needs-analysis services in their current form. Pressures of accountability and the need to rationalize procedures governing this multi-billion dollar operation will increase the tensions of maintaining separate private and public services, and a single system for determining financial need seems inevitable. Control over the policies governing the distribution of grant aid will shift decisively from private to public hands.

This shift in control will affect the institutions as well, particularly if the campus-based aid programs are continued. With a uniform procedure for determining student financial need, institutions that flagrantly disregard the formula in dispensing their own aid funds will be threatened with the loss of federal campus-based support.

Turning from grants to loans, there is little doubt that borrowing will continue to play an important role in undergraduate finance, although precisely in what form is hard to say. The Tuition Advance Fund will go the way of its precedessors, the Educational Opportunity Bank and the National Student Loan Bank. Although these income-contingent loan plans have many appealing features, they have not fared well politically. It is far too easy for critics to conjure up visions of young graduates staggering under the weight of massive debt, leading either to poverty, default, or bankruptcy.

More conventional loans will continue as financial mainstays, but with some resolution of the long-standing debate over the need for two programs--National Direct Student Loans (NDSL) and Guaranteed Student Loans (GSL). The failure of GSL to ensure loan availability for all eligible students, even after 13 years of operation, sharply rising subsidies, and the creation of a secondary market to increase liquidity, suggests that this program, rather than NDSL, may come under fire in the near future. Or, it may be converted into a parents' loan program, a change that has some support within HEW.

Finally, what of the future of private colleges, and the potential changes in student aid that might help them weather the turbulent 1980's?

A coherent approach that attempted to correct the worst imperfections in the market for higher education services would require an active federal stance, in order to break down the price barriers that restrict students in their choice of campuses. Not only would the gap between public and private college charges need to be reduced, but also that between in-state and out-of-state tuitions within the public sector. Were these artificial price differences brought more into line with the actual cost of educational services in the various campuses, one would have some reason to accept the market verdict on the fate of institutions. An analysis of how the federal government could encourage more rational pricing through incentives built into student aid is presented in our book, Public Policy and Private Higher Education, but a realistic appraisal of the likelihood of intentional federal intervention into college pricing policies would have to put the odds against at roughly 10 to 1. Thus, the debate over student aid policy that has been conducted under the code words of "access" and "choice" is likely to continue without dramatic resolution. Tinkering, not fundamental change, will be the order of the day.

These stabs at forecasting the future of undergraduate finance should be taken lightly, for events will almost certainly blunt their accuracy. Of far great importance is the need to rethink the purposes and principles underlying student aid now, before the economic crunch facing higher education in the 1980s kills the chance to make reasoned -- as opposed to desperately ad hoc -- policy choices.