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ABSTRACT

The impact of federal student financial aid policy on states and state responses to federal programs are assessed. After reviewing federal and state student aid during the past decade, the State Student Incentive Grant program (SSIG), is discussed, along with the effect of federal policy on SSIG. Perspectives of the state legislatures, governors, and state higher education executive officers concerning the impact of federal student financial aid programs are considered, based on survey results. Factors that affect state responses are examined, including the following: inflation, demographic trends, tuition, and reduced federal funding. In addition, a state budget policy perspective on financing higher education is discussed. The following state programs of student financial assistance are covered: scholarship programs, work study programs, loan programs, and tax incentive programs. In addition, state innovations, including interstate cooperation and loan collection efforts, are described. Lastly, federal-state interactions in student aid financing are outlined, and policy and program options from a state perspective are summarized. Appendices include a bibliography and data on student aid by state and on state demographic trends. (SW)

FINAL REPORT

STUDY OF THE IMPACT OF FEDERAL STUDENT FINANCIAL AID POLICIES ON STATE DECISIONS

Prepared for
NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

April 1983
(Revised May 1983)

George J. Nolfi
Study Coordinator

PREFACE

The National Commission on Student Financial Assistance requested a summary description and analysis of the impact which Federal student financial aid services have had on state programs. The major questions were:

1. What is the impact of Federal student financial aid policy on states?
2. What was the impact of the Federal State Student Incentive Program on state scholarship programs?
3. What position have governors, state boards of higher education, and state legislatures taken in response to Federal programs (and changes in these programs)?
4. What new initiatives in higher education finance have states taken?

This study resulted from close collaboration between University Consultants, Inc., the Study Coordinator and four groups: the National Governor's Association, the National Conference of State Legislatures, the State Higher Education Executive Officers Organization (SHEEO), and the College Entrance Examination Board--Washington Office. These organizations provided data collection and analyses and each submitted an individual report to the Commission. This overall report combines the results of those five study efforts and sections of this report are either written expressly for this document by the study coordinator and consultants or adapted from or reprinted directly from sections of the four organization reports. This is the final report of the State Impact Study coordinator to the Commission.

Many have contributed the work on which this report is based. Those involved from each organization are listed on the next page. I wish to

extend my thanks to each for their colleagueship, their professional contributions and for their helpful criticisms on earlier drafts of this report. I wish also to thank Mary Moran, our Commission Project Officer for her guidance and penetrating observations preventing our diverse group from straying from Commission needs.

Given their combined competence and diligence, I must remain responsible for any failings which may remain in this report.

George J. Nolfi, Ph.D.
State Impact Study Coordinator

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"Another Look at SSIG"
"Summary of College Board Studies on the SSIG Program"

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*Each of these reports (titles above) appears as a separate report available through the ERIC system. Sections of this report are reproduced directly from those reports, so as to permit combining findings and observations on each issue.

EXECUTIVE SUMMARY

1. Student Aid Financing-- eral Outlines

a. States have responded to proposed and actual Federal reductions and changes in Student Financial Aid by these measures:

- o Studies of the need for increased Federal aid at the state level.
- o Expansion of state scholarship programs.
- o Creation of new state work-study or loan programs.
- o Consideration of academic rather than need-based state grants to students.
- o Continuation of existing state programs.

b. The State Student Incentive Grant Program by the late 1970s persuaded an additional 20 states (all those that had not previously done so) to establish state need-based scholarship program. Thirty states increased their state grant programs by more than the amount required for the Federal SSIG match. Fifteen states depend on Federal funds for as much as 45-50% of the state program. As much as 45% of all SSIG funds go to students entering private colleges. The largest state aid programs are in New York, Pennsylvania, Illinois, New Jersey and California where large numbers of students attend private colleges with the help of that aid.

2. The State Student Incentive Program

a. State Student Incentive Grant has met the original objectives:

- o SSIG has stimulated creation of new state scholarship programs where there were none before.

- o SSIG has reinforced existing grant programs and provided Federal support for state decisions to expand such programs.
- o The existing SSIG has served to save state scholarship programs from state budget cuts because of the Federal matching dollars that would then be lost.

b. SSIG suffers from these limitations:

- o The program and the amount of money a state receives does not grow with state willingness to expand state appropriations and serve more recipients.
- o Federal dollars have begun to shrink, which conveys a negative incentive.
- o States might desire the flexibility to use some of the funds as support for new programs, such as state-corporate work study experiences.
- o All Federal programs serve full-time or half-time students whereas many older students can only take one or two courses on a part-time basis because of family obligations.

c. Federal Policy on SSIG should consider:

- o Expanding SSIG to stimulate state increases in scholarship aid on a 1:2 or 1:3 match.
- o Allowing states to use SSIG funds to develop academic merit and/or state work-study programs, once the state scholarship funds are "over matched."
- o Permit states to use SSIG funds for less than half-time student with low incomes, family obligations and economic need; that is to create new programs to serve clientele now bypassed by Federal and state programs, particularly less than half time adult students.

3. Federal-State Concerns

Congressional concern about the impact of Federal policy changes on state higher education systems appears to be well grounded:

a. State officials complain about the confusion and delay caused by a pattern of annual proposals to Congress to change the grant and loan programs erratically, and denounce delays in issuing Federal needs tests for grants and loans.

b. States cannot always make decisions to raise taxes or allocate additional funds for higher education within the same fiscal year of Federal decisions. All states, especially those with biennial budget cycles, may endure delays of 18 to 36 months in adjusting state aid to accommodate shifts in Federal student aid policy.

c. The easiest emergency solutions are those of creating new aid programs without state appropriations, of which the leading example is the state revenue bond programs for student or family education loans. Even these solutions take time to legislate, more time to implement, and many more months to prepare a bond issue and new loan program to serve relatively few colleges.

4. The State Response

a. States do not appear to raise tuition and fees at public collegesin direct response to Federal policies. New York City (1975), and more recently Michigan, Illinois and California - states that have a long tradition of low public university tuition to provide access -- appear to raise tuition mainly when there are too few dollars in the state treasury for higher education. Early knowledge of the availability of Federal grant and loan funds can make such

decisions easier for state policymakers who can assure themselves that needy students will not be excluded by the higher fees--expenses of the most needy will be taken care of by Federal funds.

b. Despite Public perceptions to the contrary, cuts in Federal student aid programs have been far more modest than originally anticipated. However, states report more applicants for grants, loans and work opportunities. Many states have increased state appropriations in one or more of these programs in response to student pressure and the perception or expectation that Federal aid may be further reduced.

c. During 1982 and 1983, many states faced severe revenue shortfalls due to decreased sales and/or state income tax revenue. This diminished the range of responses available to state decision-makers.

d. Surveys revealed that, in general, states are not reliant upon Federal policy to drive state policy. States adapt their higher education policies for strong and not easily deflected motives - e.g., to preserve the private sector, to pursue equal opportunity and access or to implement a low (or high) tuition policy. Since 1976 Federal policy has been too unstable (as survey respondents complain) for there to have been any clear cut policy to which states could respond even if they wanted to.

e. To the extent they have occured, state responses have taken the following forms:

   o BEOG/Pell Grants, along with low public college tuition, are perceived as having amelioriated the "access" problem, putting less pressure on states to provide other solutions to provide

their own access program.

- o Federal "access" and "choice" programs do induce and sustain (1)increases in marginal enrollments in public institutions and (2) marginal preferences for private higher education. Netting these two effects may show either Federal programs costing the states more or less in institutional subsidies e.g. a state may have to pay out more in capital type subsidies if Federal aid causes more students to enroll in public institutions than it causes to choose private institutions.
- o When the Federal government threatens the ending of a program (e.g. FISL) unless the states are involved, responsiveness is great - e.g. when the Feds demanded state administration of GSL.
- o Surveys suggest that the continuation of SSIG is maybe a brake on any tendency for states to reduce their conforming grant programs.

5. Sensitivity of States to Federal Policy

a. State policy is more dependent on the state revenue situation, state political trends, the priorities of a governor, the legislatures tradition of support and the advocacy efforts of state higher education constituencies than upon federal policy.

b. The issue of "appropriate balance" between the share of higher education cost by Federal, state, local, institutional and family sources does not seem to be the guideline for state decision making.

c. Where states have responded to federal policies in designing their own student financial aid programs, and sensitivity to Federal policy has been great, it is due to special circumstances.

d. Perception of the Federal policy impact is divided, with few definitive conclusions.

5. Effect of Federal Programs On State Program Expenditures

a. The Federal dollars and leverage has been small over the dollar amount appropriated by states, but considerable over state program characteristics on selected matters such as the imposition of need testing measures for grants and loans.

b. It is impossible to obtain accurate data on historical trends in state and Federal program expenditures by state, broken down by Federal, state-local, and family self-help share. State education and general expenditures don't include subsistence costs, and E&G revenue data since the late 1970s has changed definitions. It was not possible to re-construct or refine the data necessary given secural variations with higher education (see section C of this chapter VII).

c. It is important to distinguish "leverage" resulting when states take into account the fact of Federal expenditure from "leverage" pressuring states to change their own policy goals. There is much leverage in the former sense, little in the latter sense. Also leverage" is a much larger issue for Pell grant and GSL programs than SSIG due to the sheer size of those programs. The leveraging situation is different according to the following categorization states:

o States with large pre SSIG programs and large current overmatch of fedeal SSIG share tend to have:

-a high percentage of enrollments in private colleges,

-a policy of high public tuition,

-a high percentage of Catholics in the populations.

7. Substitution Impact of Federal Aid Funds for State Expenditures

a. The state surveys suggest that the question of substituation effect is largely conjectural. For example, if there had not been Federal aid: would parents have sacrificed more? would aggregate enrollment be less? would states have provided more aid? The answers are unclear, yet many informed observers believe there have been substituation effects but that it is unclear what they are and particularly their extent.

b. Better specific data collection should permit generation of trend data for each state of the percent on postsecondary education cost borne by Federal, state, local, institutional and family sources, by year, by sector (see state data chart proposed below in text). This would permit the monitoring of changes in "distribution" or "balance" of the cost of education between Federal, state, local, and self-help sources in the future.

8. Correlates of State Rankings in Student Aid Expenditures

a. The strongest predictive correlates of a large state student aid program are:

- o percentage of students in private sector institutions
- o relatively high public tuition level, and all of the top quartile of states in per capita student aid expenditures are states which are in the group above the median in percentage of students attending independent colleges or high public tuition level.

b. Another dynamic will best at work in a period of rising tuitions at public institutions. The question inevitably arises, how much can the state treasury benefit, net, if tuitions are increased and student aid programs are increased to fully offset the tuition increases for students from families up to some determined income bracket?

9. Rationale Behind Existing "Appropriate Balance" in the States

a. The "appropriate balance"* (not only between the Federal and state role but between the Federal, state and private roles) vary. States fall into certain categories:

- o states that subsidize students via low tuition (e.g. California) and/or build a range of geographically easily accessed institutions.
- o states that don't (e.g. Vermont, New Hampshire).
- o states which say they will provide a small amount of student aid money to expand student access but rely on GSL and campus-based programs, not state programs, to provide for choice.
- o states which will pay for student subsistence, access, and choice--these are typically the pre-SSIG states and, further, these are states with a large private college enrollment (New York, Pennsylvania).

b. Capitation formulas for funding public higher education work in reverse when states experience a decline in enrollment (e.g. in states like California). In shrinking enrollment times, not only is money for cost of institutional expenses shrinking, but average cost per student may be increasing.

*See Chapter VII

- o Savings from subsidizing private college students vanish. If public sector enrollment is falling, the subsidy of students in the private sector may compete with public institution money. As soon as you have excess places in public institutions there are rarely substantial savings to increased student aid for private state enrollments.
- o Any limit increases or decreases in SSIG may be one new factor in these times of fiscal stringencies. However, the SSIG may be more important as a brake on cutbacks than it was an incentive for growth. There may be some real advantages to a shared cost model when the states have supported its Federal enactment.

10. Notable Programs

a. Several states set the pace not only for other states but for the Federal government. New York established a scholarship program in 1915, a loan program in 1957, and already has family savings and tuition tax credit programs in operation. Pennsylvania has shown how to link Federal, State and campus programs by a system of telecommunications. Washington has a work study-program that includes the private sector. Illinois, New Hampshire and Massachusetts were among the first states to use tax-exempt revenue bonds for non-Federal loan programs.

b. States create new aid programs ahead of the Federal government and/or in concert with Federal policy, and also because of Federal cutbacks. However, many states lag behind the innovator states either for lack of finances or sufficient political support for higher esducation in their state.

c. Notably, adult students less than half-time, including those seeking retraining due to economic shifts and those seeking to reduce their welfare and unemployment insurance dependency, are bypassed in state student aid programs. In a few instances (e.g. Adult Recurrent Education Career Development Grant Proposal pending the Massachusetts State legislature 1975-83) programs of this type have been proposed but not yet implemented. Federal incentives to stimulate such programs could be effective. Numerous studies, some by individuals associated with this study have develped the rational for such a public investment in recurrent education.

AN EXPANDED SUMMARY OF THIS REPORT APPEARS AS CHAPTER VII: SUMMARY: FINDINGS AND REFLECTIONS ON STATE IMPACT AND QUESTIONS FOR FUTHER ANALYSIS

I.

FEDERAL AND STATE STUDENT AID: THE PAST TEN YEARS

A. Intentions, Rationale and Consequences

(1) Federal Basic Grants as a Predictable Given

(2) Broadening the Student Aid Eligibility Beyond Low Income Students "Choice" and Private Institutions

(3) The New Constituencies With a Stake in Student Aid Programs

(4) Increasing Pressure From Middle Income Families and Private Institutions

(5) Effects of MISAA on State Persepctives

(6) The Question of Appropriate Balance: The Federal Challenge Since 1980

INTENTIONS, RATIONALE AND CONSEQUENCES

(1) Federal Basic Grants as a Predictable Given

The Federal posture on student financial aid policy has been characterized by portable direct aid to students, a guaranteed entitlement intended to eliminate financial barriers to access, and coordination of diverse sources of student support. The idea that the coordination of the various sources of student support should occur only in the process of aid packaging remains a serious approach to the problem of coordination. The model allows for a variety of initiatives, state, private and institutional, and for "fine tuning" at the aid officer level, the level closest to the individual student. The model assumed that educational access for students for the lowest income families was the central Federal concern. This group of students needed resources if they were to attend a low-tuition public institution. They needed a uniform guarantee unconditional on the availability of aid from other sources for access to a degree-granting college to be in reality a national right.

(2) Broadening the Concern to Aid Others Besides Low Income Graduate Students: "Choice" and Private Institutions

In the 1970s, the low-income focus of Federal student aid programs became less and less single-minded. Subsequent statute reflected increasing concern about other groups of students and about attendance at other types of institutions. Between the 1972 and 1976 amendments to the Higher Education Act, two concerns preoccupied Washington policy makers dealing with the implementation of the 1972 program. First was a concern that the

program would be fully funded at the levels of eligibility initially established. Second was a concern with abuses and higher rates of default in Federal loan programs. Elsewhere, however, other concerns moved to the top of the agenda. Both institutions and families grew more and more concerned with inflation and the difficulties of keeping up with it in the face of an unusually severe recession and large increases in the price of energy. Because the revenues and expenditures of state governments were also affected, there was increasing resistance to programs of matching formulas mandated by the Federal government. Further, the end of the draft made institutions more aware of the possibility that enrollments might not always grow. The impact of these factors on student aid programs was considerable, although neither the inflation, the recession, the rise in energy prices the shift in national security strategies or the demographic threat, to enrollments were nearly as severe as like factors in the late 1970s and early 1980s. Yet the pressures were severe enough that the College Scholarship Service (CSS) of the College Board came under great pressure from both parents and institutions to liberalize its means test in the interest of greater aid eligibility for the children of middle-income parents. The CSS did so, followed by the American College Testing Service (ACT). Some private colleges reinstituted merit aid to attract more students and many of them increased the amount of tuition increases required by inflation to provide revenues to devote to internally generated student aid. State governments felt more pressure to fund "choice" aid programs to sustain their private institutions and less pressure to fund equal opportunity programs when Basic Grants came to be seen as a reliable source of funds for this purpose.

(3) The New Constituencies With a Stake in Student Aid Programs.

A much larger set of constituents sought a stake in student aid programs, aid programs became more expensive and could no longer so easily be coordinated by the simple method of building a package of aid on the foundation of each student's Basic Grant. These developments also meant that suggestions of coordinating aid by the kind of formula mandate used in the welfare programs would not be politically feasible. The states, understandably, wanted to federalize existing entitlements of this type, not to create new ones.

Viewed in this light, the 1976 amendments to the Higher Education Act were most significant in what they did not do. They did not mandate a stiffer means test for the campus based programs. They did not restrain the volume of aid under the GSL program, despite program abuses; rather, rates of return to lenders were "pegged" to the cost of money for the first time to assure continued loan availability. The SSIG program was not relegislated as a Federal-state formula entitlement program of the welfare type. Growth in the dollar volume of appropriated funds, rather than explicit program coordination, was seen as the answer to the problem raised by the new constituencies.

(4) Increasing Pressure from Middle Income Families and Private Institutions

The interval between the 1976 amendments and the Middle Income Student Assistance Act of 1978 (MISAA) was marked by still greater pressures on behalf of middle income families and the private institutions. The phenomenon is not easily explainable in economic terms. Real family incomes were rising fairly rapidly. The demographic boom generally [illegible]ained

enrollments. One explanation of the pressures behind MISAA would be that it was not hard times so much as dislocation of expectations that was responsible. Much of the real growth in middle class incomes stemmed from the earnings of second family breadwinners entering the labor market for the first time. Those families with a second breadwinner resented the "taxing" of the new earnings under the conventional student aid means tests, as also the "taxing" of increasing home equity. Those families without a second breadwinner often found their standard of living dropping. At the same time, the private institutions found that while total enrollments tended to stay the same or increase, there was no longer enough growth to maintain enrollments in unpopular departments. A smaller fraction of total enrollments in a particular department had been manageable in the period of rapid growth. That particular department just did not grow as rapidly as the institution as a whole. But now a bad match between enrollments and costs came to raise painful questions that were, it seemed, the handwriting on the wall namely, what would happen if total enrollments declined? MISAA was responsive to such unsettling, but not dire conditions.

(5) Effects of the MISAA on State Perspectives

The results of MISAA are well known. A much liberalized means test for Basic Grants, virtual elimination of any income test for GSL and an ever more advantageous interest subsidy structure (resulting from "pegging") brought extremely rapid growth in the student aid programs and their Federal costs. There came to be a real likelihood of federalizing the entire student aid system through sheer generosity. But for the arrival of real demographic declines in the 18-22 year old age cohort and rising inflation,

it would have been tempting for the states to withdraw altogether from the field. The programs that were growing rapidly were the Federal entitlement programs about which the states were least consulted, and the changes were sudden. A major California study concluded that it remained in the state's interest, and in the interest of fairness to the students, to coordinate Federal and state programs closely, but that this would have to be done on an annual basis, so unpredictable had Federal action become.

Another result of Federal generosity was increased discussion of the possibility of "capturing" Federal student aid to provide fiscal relief for the states. The possibility that states could raise tuition levels at public institutions to make their students eligible for more Federal aid had been a worry as far back as the 1972 legislation, but now came to be considered seriously by the states themselves, usually for the first time e.g. the California study refined to above, and interviews with executive, legislated and higher education policy-makers who were in office during the late 1970's. In all probability, the private institutions really did, in a sense, raise tuition to capture more Federal aid. The large tuition increases of 1978-81 were described, and fairly, as efforts to catch up with inflationary increases in operating costs that had occurred in prior years. Nonetheless, it is hard to believe that the institutions would have chosen this period for such increases if the abundance of Federal aid had not allayed their anxiety about the effect of rising tuition charges on enrollment numbers as the country passed the crest of the demographic wave.

(6) The Question of Appropriate Balance: The Federal Challenge Since 1980

Since 1980, of course, the Congress, the states and the institutions have had to try to come to terms with the policies of an Administration that regards student assistance as having a much lower priority claim on Federal fiscal resources than the Administration just preceding it. This new outlook does not necessarily mean attaching less importance to the pursuit of educational goals by students and institutions. The present Administration is, in effect, laying down a challenge: other parties besides the Federal government must decide who should pay and who is willing to pay the cost of these pursuits. The challenge is to parents, students themselves, state governments, institutions and philanthropy.

The challenge is not necessarily wrong because responding to it is so difficult, but it is very difficult. For the last five years, the serious questions about who should be willing to pay how much, and how the efforts of the parties should be coordinated, have been muted by the fact of Federal largesse. Not only has the discussion of such issues been muted, but also the tell-tale statistical signs which would otherwise show us which way the wind is blowing. For example, no one really knows whether the willingness of families to pay the cost differential between public and private higher education has declined greatly over the past decade, slightly or, conceivably, not at all. The abundance of student aid resources provided by the Federal government has sustained demand for private higher education, forestalling changes in behavior which would have given us clues about changes in attitude.

Similarly, the eagerness of the Federal government to assume more of the costs of higher education has made it unnecessary for the states to demonstrate just how high a priority they attach to their own role in assuring "access" and "choice". Again, we do not know how acceptable loan financing of the costs of attendance has really become to parents and students, as opposed to current sacrifices on the part of families, because GSL subsidies were so generous it would have been foolish for students and families not to use the program, however credit-adverse they might otherwise have been.

This masking effect extends also to efforts by colleges and universities themselves: we do not know what resources they would have been willing and able to devote to augmenting their own student aid resources if Federally provided aid had not been so abundant in the last five years. We can have guesses about all of these matters, but the evidence, at best, consists of straws in the wind.

Before MISAA, however, a kind of balance among the roles of the various parties seemed to be emerging in practice. It was not farfetched to assume that state government budgets would, on average, meet something like two-thirds of the costs of instruction at public institutions and perhaps somewhat more of these costs at public community colleges. At the same time, the Federal Basic Grant program was meeting most of the subsistence costs of students from families in the lowest income quartile. Low tuition and the Basic Grants were effectively meeting the much discussed goal of "access"--the elimination of at least the purely financial obstacles to young people from poor families attending some college.

In this implicit scheme of things, the Federal campus-based aid programs were then free to address the need for assistance toward tuition expenses of students from families in both of the lower two quartiles of the income distribution. Implicitly, students from the next to lowest quartile could reasonably expect from their parents a contribution at least equal to basic subsistence costs, whereas students from the bottom quartile could not. The lowest income group needed at least some subsistence aid and both groups needed aid for tuition exceeding minimum levels.

The role of state programs was often thought of as parallel to that of the Federal campus based programs in this respect--to permit choice of an institution, usually private but sometimes public, charging tuition above minimum levels. Especially generous states might extend eligibility for grants to students from above-median income families, and private institutions charging very high tuitions might do so from their own resources. But it was expected that most of the aid received by students from families with above-median incomes would be in the form of loans, especially GSL loans, and that the aid benefits of these students would mostly take the form of interest subsidies. GSL loans would, of course, be available also to students from below-median income families to close the last part of the gap between family resources and the cost of attendance at expensive private institutions.

Most student aid officers in, say, 1975 would have been reasonably content with a distribution of burdens along these lines, if Federal and state governments provided adequate funding for the various programs to play these roles and if GSL lenders made appropriate amounts of credit available.

The Carnegie Council on Higher Education suggested that there might be a consensus roughly along the same lines. But it was a consensus that was never to be. The stresses being experienced by families and institutions were simply too great and MISAA resulted.

Absent anything like such a consensus in 1983, how can analysis best serve the Commission? Analysis will not make it possible to discern a de facto consensus about the balance of funding roles that could be counted on to hold up even if Federal funding for student aid is now reduced. The Commission will have to make its own judgments about such matters, and it will have to count on the implicit fairness of its recommendations to make them persuasive. What analysis can do, that may be useful to the Commission, is to provide certain building blocks that it can use to assess the tendency of alternate proposals, in interaction with some important secular trends. Some of the more important of these analytical building blocks are discussed in Section II A below.

B. Characteristics of State Grant Programs in 1982-83

(1) Who Benefits From State Programs?

(2) How Much Aid is Received and What Policies Affect the Utility of Aid?

CHARACTERISTICS OF STATE GRANT PROGRAMS IN 1982-83

Characteristics of the state student aid programs are described in detail in reports of the annual surveys of the National Association of State Scholarship and Grant Programs (NASSGP). Rather than duplicate this effort, we extracted data from the 1982-83 report and organized it according to two questions that, in our judgment, are relevant to Federal policy:

- Who benefits from state programs?
- How much aid do students receive and what limits the utility of this aid to the student?

Many states have more than one program. In addition, the state programs vary according to whether they serve undergraduate or graduate students and whether or not awards are based on need. Not all of the state programs are covered in every response to the NASSGP survey questions, while as many as 113 programs are covered in some of the responses.

(1) Who Benefits From State Programs?

In this section, we describe the eligibility criteria that students must satisfy, award rates and reasons for denial, programs for undergraduate and graduate students, and the distribution of aid according to several economic and demographic characteristics.

Eligibility Criteria

The data on eligibility requirements cover programs that serve graduate and undergraduate students and need-based and non-need programs.

Of the 103 state programs for which information on eligibility criteria is provided, only six require U.S. citizenship of recipients. Ninety-seven programs are open to permanent residents in addition to U.S. citizens, and 52 allow participation by refugees.

Regarding residence in the state, programs generally allow dependent students to participate as soon as their parents become state residents. The residency requirements for independent students vary from six months to more than 36 months. (See Table 1.)

Table 1

Distribution of Residency Requirements
for Independent Students

	Required Residency Period (in months)				
	6	12	24	36 or more	Total Number of Programs
Number of Programs	5	74	5	3	87

Source: National Association of State Scholarship and Grant Programs, 14th Annual Survey: 1982-83 Academic Year.

Forty of 108 programs use some measure of academic merit to award aid. Seven use test scores; 20 use grades or class rank; and 15 combine test scores with grades or class rank.

Percent of Applicants Who Receive Aid and Reasons for Denial

Like the data on eligibility requirements, the data on applications processed and reasons for denial cover graduate, undergraduate, need-based and non-need programs.

Data on expected application volumes, numbers of awards, and reasons for denial for 1982-83 were estimated for 81 programs. These programs are expected to receive about 2.6 million applications and make awards to 51 percent of the applicants. Estimates of the percent of applicants to be aided range from 1.8 percent to 100 percent. Twenty percent of the programs cited lack of need as the reason for denying aid to applicants, and 36 percent cited lack of program funds.

Undergraduate and Graduate Students

Of 105 need-based programs, 19 serve both graduates and undergraduates, 73 undergraduates only, and 13 graduates only.

Distribution of Aid Among Economic and Demographic Groups

Given the diverse state policies on eligibility and the reasons for refusal, how is the aid awarded among various economic and demographic groups? Table 2, reproduced from the NASSGP survey, shows the distribution of aid among many classes of recipients. The data cover programs providing need-based aid to undergraduate students. The reader should note that, in some cases, the data cover only a small number of states and thus, according to NASSGP it is impossible to determine whether the data are representative of all undergraduate need-based programs. Nevertheless, since this is the only data available, it is included in this summary.

About 38 percent of the aid in the 1982-83 academic year is estimated to be going to families with incomes of less than $9,000 a year, 18 percent to those with incomes of $25,000 or more, and the remainder to those in the $9,000 to $25,000 range.

Government policies in a variety of areas have been concerned with equalizing opportunities for minority group members and women. We find that about 18 percent of state program aid is going to black students, about nine percent to Spanish-American students, and about 56 percent to women.

In addition, many educators have been concerned with the opportunities available to adult students to improve their education or develop new skills for second careers. Approximately 14 percent of the aid is going to students "Total of all States Reporting" table 2 who are 26 years or older, many of whom attend school part-time. Little of the state aid serves such students -- only one-fifth of one percent of the aid is in support of part-time undergraduates.

chart total of all states reporting--give chart appropriate page number

2. How Much Aid is Received and What Policies Affect the Utility of Aid?

Knowledge of the distribution of aid among broadly defined economic and demographic classes gives some measure of how well public policy objectives regarding distribution are met. However, it is also important to examine the benefits to individual students. Two aspects of the benefit question are examined here: First, the simple question of how much aid is received by individual recipients, and second, the more subtle question of how public policies enhance or reduce the benefit that the student can obtain from the funds he or she receives.

Amount of Aid Received

In 1982-83, maximum awards in all types of programs are reported to range from $200 to $18,413 although the high end of the range is not at all representative of state programs. Maximum awards above $3,000 are rare, with most state programs giving maximum awards over $2,000 serving graduate and professional students.

Average awards of all types of state programs are expected to range from $175 to $2,000 a year. Only a small number of programs give average awards in excess of $2,000, and most programs that make average awards exceeding $1,000 serve graduate and professional students. A distribution of average and maximum awards appears in Table 3.

Table 3

Distribution of Average and Maximum Awards

Amount	Number of Programs: Maximum Awards	Number of Programs: Average Awards
Less than $500	10	18
$500 to $999	20	48
$1,000 to $1,499	15	
$1,500 to $1,999	27	28
$2,000 and more	38	—
Total	110	92

Source: National Association of State Scholarship and Grant Programs, 14th Annual Survey: 1982-83 Academic Year.

Of course, average awards per state grant recipient may not be a good measure of how a state is meeting the need for assistance because a state may make large grants to only a small proportion of needy students. State policies vary regarding the number of needy students they aid. One measure of need in a state is the number of Pell Grant recipients in 1981-82. Since Pell Grants are available only to undergraduates, this is a measure of the need of undergraduates only. A crude measure of aid relative to need is the amount of state funds devoted to need-based undergraduate programs per Pell Grant recipient in the state. This is not the average amount of state aid that Pell

recipients get, but simply the amount of funds in state need-based undergraduate programs divided by a measure of the needy population. It should be emphasized that this measure only reflects aid to students in the form of grants and does not necessarily reflect the efforts of the state to maintain a public university system or subsidize private colleges.

Some states that rank high on the criterion of average award per recipient of state aid tend not to rank as high on the criterion of funds per Pell Grant recipient. In fact, of the 10 states with the highest average award per state aid recipient, only three rank among the highest 10 in funds per Pell recipient. Table 4 shows state aid awarded, state aid recipients, Pell recipients, average awards, and ranks according to the two criteria.

Limits on the Utility of Aid

Many states place restrictions on the use of aid. Laws or regulations often prohibit students from carrying the aid across state boundaries or restrict them to either private or public institutions. Such policies may achieve public policy objectives such as strengthening in-state institutions or achieving some desired balance between public and private colleges. The benefits of achieving such objectives, however, are traded off against a cost to the recipient in the form of restrictions on where the money may be used.

Data on the restrictions on the use of aid cover 104 programs of all types. In 57 of the programs, awards can be used at a wide variety of institutions -- traditional two- and four-year private and public colleges, nursing schools, and post-secondary business and trade schools. Fifteen states have programs that support students only at private colleges, 10 that support students only at public colleges. In all but one of these states, however, there are other programs that serve students in the other sector.

Only 11 states have major programs that provide portable aid, i.e., aid that can be used in another state.

II.

RESULTS OF SSIG PROGRAM ANALYSIS: A SPECIAL CASE

A. The SSIG Program

B. SSIG & Incentives for Increased State Spending

C. SSIG & Maintenance of Current State Efforts

D. The Effects of Eliminating SSIG

E. Summary of CB Studies on the SSIG Program

F. What Can an SSIG Matching Formula Try to Accomplish?

(A) The SSIG Program

In 1972 Congress added to the Higher Education Act a new program of State Student Incentive Grants (SSIG) for states "to assist them in providing grants to eligible students attending institutions of higher education."[1] As interpreted in Office of Education regulations, SSIG had two purposes: to encourage the creation of state student grant programs and to encourage increased state expenditures on such programs. The original legislation specified that beneficiaries of the SSIG program were to be undergraduates with substantial financial need. The program was a Federal-state partnership, with the Federal government providing dollar-for-dollar matching to states up to the limit of annual Federal appropriations.

In 1979, as background for the pending reauthorization of the Higher Education Act in 1980, Janet Hansen of the College Board prepared an extensive analysis of SSIG.[2] This study noted that since its creation, the program had been characterized by disagreements about its goals, its relation to other Federal grant programs, and its success as an incentive to states. The report attempted to assess these three issues and consider options for the program's future.

This 1979 study is summarized in another paper prepared by the College Board for the Commission.[3] Its most important conclusions were that after five years of operation:

> the SSIG program can be credited with providing over $200 million in Federal funds to assist students with demonstrated financial need to attend postsecondary institutions. It has led to the extension of state grant programs to all

> states and to some expansion of state spending. The program has not to date been an effective incentive for most states to expand their grant programs, though such expansion is now its only explicit goal, nor has it contributed significantly to coordination among Federal and state grant programs. While some proposals have been put forward to link Federal and state efforts in a more systematic way, this objective cannot be realized as long as the various grant programs of both levels of government are characterized by such different designs and purposes.[4]

Four years have passed since those conclusions were reached and many things have changed. The program itself was changed in the 1980 Education Amendments, though in the end only in comparatively minor ways. More significantly, serious economic problems have become a fact of life for the Federal government and for most states as well. The days of rapidly rising expenditures on student financial assistance have ended, and Federal spending has levelled off or declined, though college costs continue to increase. States find themselves being asked to pick up the slack, but fewer and fewer are in a position to do so.

Under these circumstances, it is worth taking another look at the SSIG program, to see whether changing conditions suggest any different conclusions about it. In particular, this section will attempt to answer the following questions:

- What has happened to state expenditures on student grants since 1979?
- Do any states have Federal incentives to increase their funding, given declining appropriations in SSIG?
- How important is Federal funding in maintaining state appropriations in times of economic distress?

- o Have states continued to use all of their SSIG allotments or have some returned portions to the Federal government rather than appropriate adequate matching money?
- o Have "overmatched" states kept up their outlays on student grants, even though they could cut back without losing Federal funds, or have they cut back on their own efforts?
- o If Federal SSIG expenditures were eliminated, how many students might be affected?
- o If SSIG were reduced or abolished, what would the impact be on state grant programs?

(B) SSIG And Incentives for Increased State Spending

State spending on student grants has continued to grow in the early 1980s. Though exactly comparable statistics are not available, it appears that need-based grants to undergraduates, which constitute the bulk of state grant efforts, reached $976 million in 1982-83, compared to 375 million in 1977-78. Nationwide, expenditures on such grants were up 9.6 percent between 1981-82 and 1982-83.[4] For reasons similar to those cited in the College Board's 1979 report, however, it remains difficult to attribute much of this increase to the presence of Federal incentives.

In assessing the effectiveness of SSIG incentives, the 1979 report divided the 50 states and the District of Columbia into "pre-SSIG" and "post-SSIG" groups (see Table 1). The 28 pre-SSIG states are those that had student grant programs before the Federal government set up an incentive for their creation. The remaining 23 states established their state grant programs post-SSIG and at least in part as a response to Federal encouragement. Throughout the early years of the SSIG program, the bulk of Federal appropriations went to the pre-SSIG states because of the program's enrollment-based allotment provisions and because pre-SSIG states enroll most

Table 1: Pre- SSIG and Post-SSIG States

Pre-SSIG States

California	Iowa	Missouri	South Carolina
Colorado	Kansas	New Jersey	Tennessee
Connecticut	Maine	New York	Texas
Delaware	Maryland	Ohio	Vermont
Florida	Massachusetts	Oregon	Washington
Illinois	Michigan	Pennsylvania	West Virginia
Indiana	Minnesota	Rhode Island	Wisconsin

Post-SSIG States

Alabama	Georgia	Montana	North Dakota
Alaska	Hawaii	Nebraska	Oklahoma
Arizona	Idaho	Nevada	South Dakota
Arkansas	Kentucky	New Hampshire	Utah
District of Columbia	Louisiana	New Mexico	Virginia
	Mississippi	North Carolina	Wyoming

SOURCE: Janet S. Hansen, The State Student Incentive Grant Program: An Assessment of the Record and Options for the Future (New York: College Entrance Examination Board, 1979), pp. 15 and 16.

of the nation's students. In 1977-78, for example, the pre-SSIG states received 84 percent of all SSIG funds. A similar situation exists today: in 1981-82, pre-SSIG states received about 80 percent of Federal allocations.

The significance of this division of Federal funds between pre- and post-SSIG states is that funds going to the former have little incentive effect because of "overmatching." Though SSIG is ostensibly a one-to-one Federal-state matching program, the Federal share is limited by the amount of annual appropriations. With total state spending near a billion dollars, and with the Federal share of these expenditures never exceeding $77 million, it is obvious that the Federal contribution to large state programs is much less than one-to-one. Any state in which Federal dollars represent less than 50 percent of the total effort is said to be overmatched.

The 1979 report noted that the pre-SSIG states were all significantly overmatched and could have spent much less than they actually did and still received all of their SSIG allotments each year. Nevertheless, pre-SSIG states had increased their spending on grants enormously between 1971-72 and 1977-78, accounting for $438 million of the $461 million increase in all state spending during that period. Clearly, their decisions to expand their programs were influenced by considerations other than the Federal incentive program.

It remains true today that the pre-SSIG states, while continuing to receive the bulk of Federal appropriations, remain for the most part significantly overmatched. Table 2 shows estimates of Federal dollars as a percent of state grants in 1978-79 and 1982-83. With the notable exception of Maine, all the pre-SSIG states still spend considerably more than they receive from Washington. In fact, the percentage of Federal funds has actually declined in 14 of these states, suggesting that state spending has grown

Table 2: Federal SSIG Dollars as a Percentage of Total State Student Grants

Estimates for 1978-79 and 1982-83

Pre-SSIG States	1978-79	1982-83
California	14	12
Colorado	8	12
Connecticut	10	11
Delaware	32	23
Florida	21	16
Illinois	4	4
Indiana	6	5
Iowa	5	5
Kansas	16	16
Maine	21	48
Maryland	22	22
Massachusetts	14	13
Michigan	9	9
Minnesota	4	5
Missouri	14	17
New Jersey	5	4
New York	2	2
Ohio	9	9
Oregon	12	10
Pennsylvania	4	4
Rhode Island	10	6
South Carolina	8	6
Tennessee	24	12
Texas	22	10
Vermont	4	3
Washington	27	26
West Virginia	14	13
Wisconsin	6	7

Post-SSIG States	1978-79	1982-83
Alabama	44	50
Alaska	50	50
Arizona	50	50
Arkansas	50	20
District of Columbia	50	48
Georgia	35	28
Hawaii	50	41

Idaho	50	50
Kentucky	16	14
Louisiana	50	47
Mississippi	50	49
Montana	50	50
Nebraska	50	50
Nevada	50	50
New Hampshire	50	44
New Mexico	50	37
North Carolina	50	38
North Dakota	48	27
Oklahoma	50	11
South Dakota	50	48
Utah	25	50
Virginia	38	38
Wyoming	28	50

SOURCES: National Association of State Scholarship and Grant Programs, 10th Annual Survey and 14th Annual Survey.

faster than Federal. Minor changes may be explained by the fact that graduate students became eligible for SSIG in 1980, and so state programs for them began to count in establishing the ratio between Federal and state spending. But need-based graduate student grant programs are very small relative to spending on undergraduates, so changes in the overmatching ratio of more than a few percentage points probably represent real increases in state effort.

Maine is an interesting case, demonstrating that in overmatched states SSIG did not prevent a significant decrease in state effort. (The next section, however, explains how 1980 legislative changes will alter this situation in the future. Maine's grant program, which had reached nearly $1.2 billion in 1980-81, has fallen to $550 million in 1982-83, just enough to qualify for its full share of Federal matching. The state grant director reports that both the governor and state legislature are "very negative to the grant program."[5] In this instance, the SSIG program has acted more as a brake, keeping spending from falling so low that Federal matching dollars would be lost, instead of as an incentive to program expansion.

In fact, an erratic record of increases and decreases from year to year in both pre- and post-SSIG states suggests that state decisions about appropriation levels for student grants are more influenced by internal concerns than by the Federal program. Table 3, reprinted from the most recent survey of the National Association of State Scholarship and Grant Programs, shows the annual percentage gains or losses in need-based scholarship and grant programs for undergraduates from 1977-78 to 1982-83. Even states like Indiana, which shows a 50 percent increase in grant activity over the five -year period, have had years when there were decreases in program funds. Colorado, though significantly overmatched, saw its grant program decline by 23 percent over the period.

Despite ups and downs in the post-SSIG states, it is in these states that the 1979 College Board report concluded that the real impact of the SSIG program might be found. These were the states that established student grant programs at least partially in response to the Federal program and were not for the most part overmatched in the 1970s, as Table 2 demonstrates. The present review of the situation in post-SSIG states reveals that there have been more incentives for them than for the pre-SSIG states in recent years, but that these incentives may be diminishing. Moreover, not all states have responded to the incentives that have existed.

The 1979 report noted that by 1977-78 the post-SSIG states were distributing $23 million to students, only $10 million of which was provided by the Federal government as SSIG matching. Thus, $13 million annually in new state assistance had been made available by the creation of new state programs. In 1982-83 post-SSIG states expect to spend about $47 million on need-based grants, most of it going to undergraduates. They expect to get about $14 million of this in Federal matching money from SSIG. Thus, states are putting about $20 million more annually from non-Federal sources into their state grant programs than they were in 1977-78.

Some of this is certainly due to SSIG. Thirteen of the post-SSIG states are still essentially evenly matched in their grant programs. (Even matching means here that Federal funds account for between 46 and 50 percent of the state program, as reported on Table 2.) For these states, increases in the Federal appropriation provide them with incentives to increase their own state spending. As Table 4 shows, Federal appropriations increased until 1979-80,

when they reached $76.75 million. Since that time, however, funds from Washington have either remained level or declined. Until they reached the point of matching their share of $76.75 million, the evenly matched states continued to have an incentive to increase their spending on student grants.

Table 4: Annual Federal SSIG Appropriations

Fiscal Year	To Be Spent in Academic Year	Amount (in Millions)
1974	1974-75	$19.00
1975	1975-76	$20.00
1976	1976-77	$44.00
1977	1977-78	$60.00
1978	1978-79	$63.75
1979	1979-80	$76.75
1980	1980-81	$76.75
1981	1981-82	$76.75
1982	1982-83	$73.68
1983	1983-84	$60.00

SOURCE: U.S. Department of Education.

Table 5: Annual Increases/Decreases in States Spending on Comprehensive Undergraduate Need-Based Grants

Changes Between Years	Number of States With Increases 10% +	Increases 5-10%	Increases 0-5%	Decreases
1977-78 to 1978-79	25	13	7	6
1978-79 to 1979-80	29	7	6	9
1979-80 to 1980-81	18	5	9	19
1980-81 to 1981-82	19	3	9	20
1981-82 to 1982-83	19	7	12	13

SOURCE: National Association of State Scholarship and Grant Programs, 14th Annual Survey, p. 153.

This point is only just being reached in a number of the post-SSIG states. Many of them have not responded fully to the Federal incentive in the past and actually returned part of their SSIG allotments to Washington rather than appropriate sufficient state funds to match them. In 1979-80, nine post-SSIG states spent less than their full Federal share. This number has been decreasing, however, until in 1982-83 the Department of Education anticipates that only one state (Alabama) will return SSIG dollars. This suggests that, while it took a long time, the Federal incentive has finally pulled virtually all of the state programs up to at least a level where all Federal dollars are being matched by the states to which they are originally distributed. The corollary of this accomplishment, however, is that these states no longer have any incentive to do more, since Federal appropriations are not increasing.

The six post-SSIG states that were already overmatched in 1978-79 and the seven others that became overmatched by 1982-83 had of course already lost any Federal incentive to increase their programs. In most of these states, growth continued for reasons other than the presence of SSIG matching money.

Three of the post-SSIG states (Alabama, Utah, and Wyoming) have gone from overmatching to even matching over the period 1978-79 to 1982-83. Alabama actually did away with state appropriations for grants altogether, and now relies on something called "alternative matching" for its state matching share. Under alternative matching, the Department of Education permits a state to collect student aid funds from institutions, match them with Federal SSIG dollars, and return them to the schools for distribution to students approved by the state. A handful of states have used alternative matching at

one time or another or for a part of their SSIG program, but Alabama is now employing the mechanism to withdraw state funds completely and still qualify for its share of Federal dollars.

Finally, as reported in the 1979 College Board study, it should be noted that whatever incentive effects have existed in the post-SSIG states have been bought at a price. Of the 1981-82 Federal appropriation of $77 million, $62 million went to the overmatched pre-SSIG states, exerting little pressure to increase state spending. Another $5 million went to post-SSIG states that were already overmatched in 1978-79.

In summary, then, many states have continued to increase their expenditures on student grants, but for reasons mostly apart from the existence of a Federal incentive program. Few states had any real dollar incentive from SSIG to increase their spending after 1978-79. The handful that did have responded, bringing up their state effort to the point where they too will have no further reason to do more unless SSIG appropriations are increased. SSIG has not in the past kept overmatched states from cutting their efforts on occasion, though the next section will show that this is changing because of new rules enacted in 1980. As the 1979 report concluded, SSIG has created a climate favoring the expansion of student grant programs, even when such expansion was not strictly necessary to capture Federal matching money, and it may have persuaded some states, even overmatched ones, to commit themselves to larger programs than they otherwise would have. But with declining Federal appropriations, it gives neither overmatched nor evenly matched states tangible benefits, since expansion of their own grant programs will not increase their share of Federal funds.

(C) SSIG And Maintenance of Current State Efforts

Though SSIG has never been a particularly effective incentive to states to increase their student grant expenditures, it appears that it is becoming increasingly important in insuring that current levels are maintained. This is true because of the coincidence of two events: the addition of a new maintenance-of-effort requirement for SSIG in the Education Amendments of 1980, and the emergence of serious fiscal problems in many states. Given the 1980 legislative change, it might be argued that SSIG now has a third purpose -- the maintenance of current state spending on student grants -- in addition to its original goals of encouraging the creation and expansion of state programs. Assessing the program in light of this new goal leads to different conclusions about the program's usefulness than were drawn in the previous section, when only SSIG's effectiveness in increasing state spending levels was considered.

The 1980 Education Amendments added a new provision stating that to qualify for Federal SSIG matching, a state program must provide "for State expenditures under such program of an amount not less than the average annual aggregate expenditures for the preceding three fiscal years or the average annual expenditure per full-time equivalent student for such years."[7] Such a requirement would have had little impact on the program in the 1970s, when annual increases in state spending were the norm, though the previous section suggested that it might have caused problems for a few states who did suffer annual decreases in program activity from time to time. But the requirement will be much more significant in the 1980s, when states are under severe

fiscal pressure and budget cuts are becoming more common. In this climate, SSIG may play an important role in discouraging states from reducing their student grant efforts.

Table 5 shows a noticeable slowing in the annual growth rate of state grant programs after 1979-80. Increasingly the trend is to small annual increases or even declines in state spending, as contrasted to the relatively large annual increments that characterized state programs earlier in the 1970s. With 37 of 50 states covered in a recent survey expected to show more expenditures than revenues in their government accounts for Fiscal Year 1982 without corrective action,[8] it seems reasonable to expect pressures to cut student grant programs to mount in the years ahead unless economic conditions improve dramatically.

Under these circumstances, SSIG could be a significant prod to states to keep their grant programs at least level funded, since failure to do so threatens receipt of all the Federal matching money. Ironically, though, Washington is requiring states to keep up their spending at the same time that Federal appropriations are on the wane (see Table 4).

In fact, the reduction in Federal matching money threatens to put some states in a "catch-22" situation in 1983-84. These states have laws authorizing state appropriations to match Federal dollars, rather than more open-ended language simply authorizing expenditures on student grants. Thus, when Federal appropriations fall, state appropriations will decrease in a similar fashion. When this happens, though, these states will no longer meet the maintenance-of-effort requirement, even though they may still be matching Federal dollars on a one-for-one basis. The Department of Education is

considering legislative and regulatory solutions to this problem. The situation is symptomatic, however, of SSIG. As the 1979 College Board study reported, the program has experienced several attempts to impose Federal requirements without a concomittant willingness in Washington to match the states' commitment to their grant programs.

(D) The Effects Of Eliminating SSIG

For the past several years, the Reagan Administration has proposed elimination of the SSIG program. Thes 1984 budget includes no funds for the program, offering instead additional dollars for revamped Pell Grant and expanded Work-Study programs.

While this scheme might not result in a reduction in overall Federal support of student aid programs, it will have a major impact on states, especially coming when state budgets are already severely strained. The extent of the problems states would face is detailed in responses to the most recent survey of the National Association of State Scholarship and Grant Programs (NASSGP).[9]

NASSGP asked state grant program directors how their states would respond to elimination of the SSIG program. Of 39 respondents, five said their state-level grant programs would disappear altogether. Another 25 said there would be no replacement of lost Federal funds by their states. Only five said they thought some or all of the lost funds might be made up from state sources. Four respondents said they didn't know what the outcome would be in their states.

What would the effect of these changes be on students? The impact on SSIG recipients, who numbered over 278,000 of the 1.2 million recipients of state

need-based grants in 1981-82,[10] would vary from state to state. Most of the grant directors responding to the NASSGP survey felt that their states would drop students from their programs rather than reduce average awards if total available funds were reduced. A few, however, said they would make across-the-board reductions rather than eliminate recipients outright. This variability, coupled with incomplete survey responses, makes it difficult to estimate how many students nationwide would find their awards smaller or eliminated altogether. The significant thing to note, however, is that abolition of the Federal SSIG program would remove at least $60 million (the most recent Federal appropriation) in Federal matching dollars from state grant programs, with little likelihood that any significant amount of this money could be replaced from other sources. With need-based grants for undergraduates now averaging slightly over $700 nationwide, this suggests that nearly 85,000 students would be affected if all states chose to cut the number of awards they make, and more if some states reduced all grants proportionately.

(E) Summary of Selected Studies on the SSIG Program

The 1979 study noted that, since its creation as a dollar-for-dollar Federal matching grant program in 1972, the SSIG program had been characterized by disagreements about its purposes, its relation to other Federal grant programs, and its success as an incentive to states. The report attempted to assess these three issues and consider options for the program's future.

In writing implementing regulations for the program, the Office of Education (OE) had the task of defining objectives for an undertaking whose legislative authorization was fairly general and vague. OE established two explicit goals for the program: (1) to encourage the creation of state student grant programs, and (2) to encourage increased state expenditures on such programs. Implicit goals were (1) to increase the Federal assistance available to needy undergraduates, and (2) to foster better linkages between state and Federal grant programs.

The program was probably successful in meeting the first objective of encouraging the creation of state grant programs. In 1972-73 ("pre-SSIG"), only 28 states funded and operated need-based grant programs. By 1977-78,

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* From Summary of College Board Studies of the SSIG Program, Hansen, J., College Board, Washington, D.C.

all 50 states and the District of Columbia had such programs. Even though the number of state student grant programs was growing prior to the inception of SSIG, it seems unlikely that all of the jurisdictions without state grants would have added them in the five years after 1972 without the spur of the SSIG program.

It is more difficult to give SSIG credit for the large expansion of state student aid efforts that took place in the 1970s. To examine the question of SSIG's effectiveness as an incentive to states, the College Board study divided states into two groups: the 28 "pre-SSIG" states with programs in existence in 1972-73 or before and the 23 "post-SSIG" states with programs created after that year.

Overall, state programs grew enormously, from $274 million in 1971-72 to $735 million (including $59 million in Federal SSIG funds) in 1977-78. Of this additional $461 million, however, the states with post-SSIG programs spent only $23 million. States with pre-SSIG programs spent the remaining $438 million.

The pre-SSIG states received the lion's share of Federal SSIG funds under the program's enrollment-based allotment provisions because they enroll most of the nation's students. They also, however, spent significantly more each year on student grants than was required for them to receive their full Federal allotment. In other words, in this ostensibly one-to-one Federal-state matching activity, they were "overmatched." In fact, states that were significantly overmatched accounted for $417 million of the $438 million increase in pre-SSIG student grant spending between 1971-72 and 1977-78. Since these states could have spent much less than they did and

still received all of their SSIG allotments, their decisions to expand their programs apparently were influenced by considerations other than the Federal incentive program.

The real impact of the SSIG program might therefore have been expected to occur in the states that established student grant programs at least partially in response to the Federal program and which were not for the most part overmatched in the 1970s. Indeed, by 1977-78 the post-SSIG states were distributing $23 million to students, only $10 million of which was provided by the Federal government as SSIG matching. Thus $13 million in new state assistance was available.

Nevertheless, the post-SSIG state programs received only a small proportion of Federal SSIG dollars (16 percent in 1977-78), meaning that most of the Federal funds (nearly $50 of $59 million in that year) did not go to states where they might have had a significant effect on state expenditures. Moreover, the new state programs accounted for just a tiny fraction (3 percent in 1977-78) of all state outlays on student grants. Thus only a small part of the total state effort on student assistance seemed susceptible to Federal influence. Further, even some of the post-SSIG states were reaching the point of overmatching by the late 1970s, meaning that future incentives to enlarge their grant programs would require increased Federal appropriations for SSIG. Finally, not all the post-SSIG states responded even initially to Federal incentives. Through fiscal year 1977, nine states had never fully utilized their SSIG allotments, and in fiscal year 1977, 14 states used less than their full share.

Three structural features limited SSIG's effectiveness as an incentive for more state spending. These included the program's "closed-ended" matching provision (with matching limited to available appropriations), its fixed base year, and its enrollment-dependent allocation formula that treated all states alike despite large differences in their grant efforts.

Despite these limitations, however, it would be unfair to conclude that SSIG was completely ineffective as an incentive. It apparently created a climate favoring the expansion of student grant programs, even when such expansion was not strictly necessary to capture Federal matching money. In addition, the extra funds provided by the program may have persuaded some states, including overmatched ones, to finace aid programs larger than their own resources would have allowed. Despite these positive effects, though, the SSIG program gave overmatched states few tangible benefits, since expansion of their own grant programs did not increase their share of Federal funds.

In terms of what might be called the program's implicit goals, SSIG also had a mixed record. Looked at just as a student aid program, by the late 1970s it added $77 million annually to the amount of financial assistance the Federal government made available for undergraduates with demonstrated financial need. Since few states were able to give awards to all eligible students, the Federal allocations did aid additional needy students by supplementing state appropriations.

The program did not, however, do much to foster better linkages between state and Federal programs. The much larger BEOG (now Pell) grant program provided more impetus for coordination because of its size, and SSIG

contained no requirements or incentives encouraging states to coordinate with Federal efforts. Moreover, the possibilities for coordination were limited in any event by major differences that existed between Federal and state programs.

As they approached the 1980 reauthorization of the Higher Education Act, policy makers seemed to have three options with regard to the SSIG program. They could have phased it out, on the grounds that the program had met its original purposes insofar as possible. They could have continued the program in its existing form or perhaps made "tinkering" changes; for example, to ease administrative problems or to require states to put up new money as matching funds through some kind of change in the base year requirement. Or they could have changed the program in major ways by creating new goals for it.

In considering these options, a number of policy issues had to be addressed. Phasing out the program raised questions of the extent to which the Federal government had a moral commitment to keep faith with the states. State officials often fear that they will be left holding the bag when Federal interests shift, and some states had hesitated to enact qualifying state student grant programs because of uncertainty about whether the Federal commitment to SSIGs would continue and at what level. Changing the program to introduce new state requirements ran afoul both of a "laissez-faire" tradition in the program and of objections to the Federal government dictating rules when it provided such a small percentage of the funds. Attempting to enhance the incentive feature of the program -- an efficiency issue -- conflicted with the goal of treating all states in the

program equally. Concentrating funds on post-SSIG states, for example, where they might encourage the greatest amount of additional state spending would penalize the pre-SSIG states who were willing to aid students early-on without any impetus from the Federal government. Finally, attempts to impose new rules would have run headlong into the historic problem of meshing uniform national standards and 50 state programs of very diverse purposes and design.

The difficulty of finding equitable ways to increase the incen ve effects of the SSIG progra.n was demonstrated in 1980, when the Carter Administration proposed altering the "base year" calculation for determining how much state money is available for Federal matching. The idea was to give all states a tangible incentive to increase their own spending on student grants, something not many had under the existing program. The Administration proposed to do this by changing the base year against which current state spending was compared from a fixed year (for each state, two years prior to first participating in SSIG) to a rolling base year. After full phase-in, in each program year only increases in state spending over the previous year would be eligible for matching.

The proposal would have affected individual states in quite varied ways. States with large programs (the pre-SSIG states) would have had to make relatively small increases to qualify for their full share of Federal funds, while those with small programs (for the most part, the post-SSIG states) would have had to increase their expenditures more rapidly. If all states had responded to the new incentives, the impact of Federal dollars would have been increased while at the same time the disparities between low

and high-spending states might have been reduced. Experience with the program suggested, however, that states with smaller programs might not be willing or able to expand their programs fast enough to capture their full share of Federal funds under the new rules. The Administration's plan, therefore, could have resulted in a shift in program funds to the states with larger programs (which already got the lion's share of Federal SSIG appropriations) and an increase in the existing disparities among state programs.

In the spring of 1981, sensing that state grant programs were in a period of rapid change due on the one hand to threatened cutbacks in Federal student aid funding and on the other to state fiscal problems, the College Board sent a brief questionnaire to states to supplement data normally gathered by the National Association of State Scholarship and Grant Programs every fall. Results indicated that the outlook for state grant programs varied significantly among states. Some state programs continued to grow. Overall, however, the rapid increases of the 1970s appeared to be over. In 1981-82 it seemed that there would be a dramatic levelling off of state grant outlays. Of 42 questionnaire respondents, only 17 expected to see program increases. Sixteen expected level funding ("at best") and 7 expected decreases. These figures were startling when contrasted to the experience of the previous five years, when increases in state grant programs from year to year were much more clearly the order of the day.

1. Higher Education Act, as amended, Title IV, Part A. Subpart 3.

2. Janet S. Hansen, The State Student Incentive Grant Program: An Assessment of the Record and Options for the Future (New York: College Entrance Examinination Board, 1979).

3. "Summary of College Board Studies on the SSIG Program, " prepared for the National Commission on Student Financial Assistance, February 22, 1983.

4. Hansen, p.28.

5. Annual surveys of the National Association of State Scholarship and Grant Programs (NASSGP).

6. NASSGP, 14th Annual Survey, p. 25.

7. Higher Education Act, as amended, Title IV, Section 415C (b)(7).

8. National Governor's Association Office of Research and Development and National Association of State Budget Officers, Fiscal Survey of the States 1981-82 (Washington, D.C.: 1982).

9. NASSGP, 14th Annual Survey, pp 144-147.

10. Figures provided by the U.S. Department of Education

(F) What Can an SSIG Matching Formula Try to Accomplish?

The preceding section indicated some--and only some--of the diverging adjustments that states with quite legitimately differing policies might be inclined to make as they enter a period in which coordination of Federal and state programs will predictably be high on state, if not Federal, agendas. The Federal government can help the effort at coordination most by making its policies stable and predictable at least a year or two ahead.

The Federal government cannot impose a coordination scheme on all the states without both challenging the legitimacy of differring state emphases and erecting the kind of overwhelming incentives and penalties familiar in the welfare and employment insurance systems. The main instrument that is left, then, for the Federal government to use in playing a role in the coordination process is the state Student Incentive Grant (SSIG) program. This has always been a small program, and if it is not to grow to a size that would make it the vehicle of imposing a welfare-like conformity, it probably cannot grow by more than a factor of four or five.

What state behavior can the matching rules of the SSIG program constructively promote, within roughly this constraint on its size? In the past, the principal incentive it has provided is for states with no student aid programs at all to establish very modest ones. For states with large programs, whether access or choice oriented or both, the matching conditions of the SSIG program have mainly been thorns under the saddle, at best an incentive to accelerate motion in an already desired direction and at worst an annoyance. Could the program do better?

If it is accepted as a premise that the program is never likely to be funded at a level such that the incentive is meaningful, then the hope of

attaining Federal objectives must be set aside even if wholly legitimate. It was simply a mistake to think, as many did some years ago, that SSIG matching funds could constitute sufficient inducements for a reluctant state to shift its emphasis from "access" to "choice" or to provide for interstate portability of state grants where support for institutions located in the state itself was a major reason for having a state grant program at all. It would probably be the same kind of mistake to lay down as a condition for SSIG matching that a state's means test must be in conformity with Federal standards. State allotments would simply not be large enough to induce such behavior against a state's own inclinations.

There are, perhaps, only three kinds of objectives that make sense on the premise of modest appropriations and modest state allotments. First, SSIG can continue to provide an incentive for every state to maintain at least a small program, thereby providing familiarity with student aid programs as an instrument of state policy. Second, SSIG matching can serve as an incentive for the procedural coordination of Federal and state aid--as opposed to substantive coordination. An agenda of items for procedural coordination would be the grant calendar, verification of non-confidential information and paperwork simplification for students and institutions. There is a clear Federal interest in procedural coordination, even if Federal and state governments agree to differ on substantive questions, for the reason that the Federal government provides both the first component of student aid packages (Pell Grants) and also the last components (awards from the campus-based programs and GSL loans). What the states provides comes in between, and the effectiveness of the final components of Federal aid depends importantly on orderly administration of the state programs.

A third objective of SSIG matching could be to encourage the states to experiment with program variants they have not yet tried. SSIG program regulations might say that a state must experiment with at least one of a number of suggested innovations it has not tried before to obtain full matching. The list might include merit aid, aid for summer school enrollment, special cost allowances for handicapped students, aid to graduate students, loan forgiveness grants to freshmen, or very selective portability. Aiding proprietary school students would have been an appropriate item for such a list, instead of requiring it of all states in the way attempted some years ago. The point here is that states might willingly and usefully try modest innovations with the modest incentive of SSIG matching where an attempt at coercing the states into conformity on some major item of policy would be clearly inappropriate.

Of course, the premise that the SSIG program will remain small can be rejected. If one takes the opposite premise that Federal SSIG matching could someday be in amounts large enough for the states to accept major Federal mandates, then one can think again about the desirability of requiring such things as portability. Imposing such conditions on Federal matching is inevitably heavy-handed to some extent. But it can be made less so by a graduated matching formula. For example, dollar-for-dollar matching could be provided for the first part of a state's allotment with no condition imposed except an easily manageable maintenance-of-effort requirement. If a major aim of Federal policy toward the states were simply to increase total state funding for student aid, a second part of each state's allotment could be made available for matching increases in states' funding at, say, a ratio of one

Federal dollar for three additional state dollars, and without further conditions. A final portion of the state's allotment could be reserved for raising the Federal matching rate to one-for-one if the state's program provided coordination with Pell Grants or portability.

It is essential in any such scheme both to rank the priorities of Federal policy and to estimate the likely resistance from the state level to particular Federal objectives. The highest matching rate and largest sub-allotment must be provided for the Federal objective that states are most likely to resist. If in the case of a particular Federal objective this means that funds will not be sufficient to provide an adequate incentive for the states to adopt other program features of higher Federal priority, then the SSIG matching formula is just not a very practical way of attaining the particular Federal objective.

Analysed and implemented in this way, SSIG matching provisions can be a flexible though necessarily limited instrument of Federal policy if the SSIG program is large enough. The approach is certainly heavy-handed from some constitutional perspectives, but it is worth bearing in mind that charges of overbearing Federal policy in matching programs are most widespread and vehement when the Federal government has asked the states to do much with inadequate incentives. A measured set of incentives, based on an adequate analysis of their likely reception at the state level can in principle avoid mutiny.

The largest practical difficulty with the kind of matching scheme just described--assuming Federal appropriations that are large enough to exert leverage--is that the traditional policies of the states are so varied that a

matching rate that provides a minimally effective incentive to one state provides an unnecessarily generous one to another. What will induce a reluctant state to accept, say, portability is quite unnecessary to influence the decision of another state that has long embraced the portability principle. In terms of Federal leverage--not in terms of the end use of funds--much of what is spent in such a scheme is necessarily wasted. Unless a high level of funding for such a scheme is desired, not only for incentive effects, but also as a form of revenue sharing, the results are likely to be disappointing.

III.

RESULTS OF SURVEYS OF STATE IMPACT OF FEDERAL STUDENT FINANCIAL AID PROGRAMS

A. The Legislature's Perspectives

B. The Governor's Office Perspective

C. The State Higher Education Executive Officer's Perspective

(A) THE LEGISLATURE'S PERSPECTIVE

Based on a survey of state legislature leaders, nearly one-half of the state legislative leaders in higher education believe Federal student aid programs had an impact on what the states have been doing, yet almost as many of those interviewed believe that the states spent about the same as they would have otherwise on student assistance.

Thirty-four percent of the respondents said the Federal programs caused their states to spend more on student aid, 14 percent said the Federal programs caused them to spend less, and 46 percent noted that the Federal programs caused them to spend about the same as they would have otherwise.

TABLE 1: Responses to the Question:

"From your experience, would you say that the various Federal student aid programs caused your state to spend more, less or about the same as it would have otherwise for student aid?"

	More	Less	About the Same	Don't Know
All Respondents (N = 74)	34%	14%	46%	6%
Legislators (N = 56)	30%	14%	46%	9%
Designated Staff (N = 18)	44%	11%	44%	0%

Those legislators who perceived an impact from Federal aid described it as a cycle in which increased Federal aid led to increased numbers of enrolled students and increased costs for institutions, which necessitated increased tuition for students and, therefore, the need for increased student aid.

This cycle continues to operate, particularly in light of current spending restraints on the Federal government and the states.

Most of the states had loan and/or grant programs of their own. Legislators from 10 states (Colorado, Florida, Indiana, Maryland, Minnesota, New York, Pennsylvania, South Dakota, Texas and Vermont) claimed their states had a special commitment to helping students finance their postsecondary education and, therefore, had been providing aid to students in higher education prior to enactment of the major Federal programs. Legislators from Florida, New Jersey, North Carolina, Oregon and Texas acknowledged that their student aid programs supplemented by design the Federal programs. Legislators from Arizona, Idaho and Missouri said that because of the conservative nature of their states, student aid programs were generally unpopular, with one saying they were viewed as "giveaways." The attitudes of the few legislators who believed Federal programs caused their states to spend less was exemplified by one who commented: "If someone else is willing to spend it, why should we?"

The states that have spent more or less in general on student aid (see Table 2) do not exhibit any discernible patterns of similar characteristics based on region, size or "professionalism" of the legislature, with one exception: respondents from seven of the 13 western states indicated that Federal student aid programs caused their states to spend more. One state (North Carolina) appears on both the more and less list. In most of the states we talked to more than one respondent and sometimes their perceptions differed.

TABLE 2: STATES WHERE RESPONDENTS SAID THAT FEDERAL STUDENT AID PROGRAMS AFFECTED STATE SPENDING ON STUDENT AID. (Grouped by region)

	More (N =20)	Less (N = 10)
East	Maine Massachusetts New Hampshire New Jersey Pennsylvania	Delaware Vermont
South	Alabama Kentucky North Carolina Tennessee	Florida Louisiana North Carolina Texas
MidWest	Michigan Minnesota Missouri Oklahoma	Wisconsin
West	California Colorado Hawaii Montana Oregon Utah Washington	Arizona Nevada Oregon

Most legislative leaders in higher education believe that Federal student aid programs have not affected state spending on specific higher education items: institutional support, student in private colleges and universities, and two-year institutions.

Despite the evidence of an impact of Federal assistance programs on overall state spending in higher education, the results are different when our respondents were asked about spending for more specific items. Fifty-five percent said their states would have spent the same for institutional support, 22 percent would have spent more, and nine percent would have spent less. The respondents said that state spending on students in private colleges was impacted slightly more by the Federal programs. Forty-seven percent responded that their states would have spent about the same, 27 percent would have spent more and seven percent would have spent less. For over a third (34%) of our respondents, Federal assistance programs encouraged state spending in two-year institutions, only one percent said it discouraged such spending, while 57 percent said it had no effect on state spending.

Those legislators who noted an impact on spending for students attending private colleges and universities suggested that the states, unless restrained by constitutional prohibitions, were forced to do things for students in private colleges because of what they had done for students in public colleges. On the other hand, one respondent claimed the Federal programs reduced the pressure on his state to provide support for students in private colleges. In addition, there was no evidence that the Federal programs have had any impact on tuition tax credit proposals.

Those states that have spent more in these specific categories (see Table 4) do not exhibit any discernible similar characteristics based on state size or professionalism of the legislature. Inspection of regional groupings reveal that respondents from seven of the 12 southern states indicated that Federal student aid programs caused them to spend more for private education, while respondents from eight of the 13 western states noted that the Federal programs caused them to spend more on two-year institutions.

TABLE 3: THE IMPACT OF FEDERAL STUDENT-AID PROGRAMS ON STATE SPENDING FOR SPECIFIC ITEMS OF HIGHER EDUCATION.

	More	Less	About the Same	Don't Know
Institutional Support	22%	9%	55%	14%
Students in Private Colleges	27%	7%	47%	19%
o-Year Institutions	34%	1%	57%	8%

N = 74

TABLE 4: STATES WHERE RESPONDENTS SAID THAT FEDERAL STUDENT AID PROGRAMS CAUSED THEIR STATES TO SPEND MORE ON SPECIFIC ITEMS IN HIGHER EDUCATON. (Grouped by Region)

	B*	C*	D*
EAST	Delaware Maryland Massachusetts Pennsylvania	Maryland Massachusetts Pennsylvania	Connecticut Maryland Pennsylvania Vermont
SOUTH	Arkansas Kentucky Louisiana Mississippi Texas	Alabama Arkansas Florida Georgia Kentucky Tennessee Texas	Alabama Arkansas Florida North Carolina
MIDWEST	Illinois Kansas South Dakota	Illinois Iowa Michigan Missouri Oklahoma	Illinois Iowa Kansas North Carolina South Dakota
WEST	Alaska Arizona Hawaii Montana	Alaska California Colorado	Arizona California Idaho Montana Nevada Oregon Utah Washington
	N= 16	N= 17	N= 21

* B= more spending for institutional support (see Question 5)
C- more spending for students in private colleges (See Question 6)
D= more spending on two-year institutions specifically (See Question 8)

Examination of Tables 2 and 4 further reveals that respondents from nine states (Alabama, Arkansas, California, Kentucky, Maryland, Massachusetts, Montana, Pennsylvania and Texas) said that their states spent more on higher education in at least three of the four categories because of Federal student aid programs.

o Current fiscal conditions are forcing the states to reassess and alter their thinking and spending on student aid.

Since most states are facing revenue shortfalls which will require either massive tax increases or large spending cutbacks or both, our respondents indicated that their states are being forced to re-evaluate their thinking on student aid. Maryland has appointed a task force to conduct a thorough review of student aid policies. Florida's study commission has completed its work and its recommendations are currently under consideration by the legislature. Idaho has appointed a Task Force on Higher Education to develop a legislative package for next year's session. The Task Force includes members from commerce and industry in an attempt to include the private sector perspective in its deliberations.

In other states, the prospect of reduced state revenues and, perhaps, reduced Federal student aid funds, has led to a search for alternative methods of financing student aid. A number of states have established revenue bond authorities to generate money for student loans. In some of the states there are trigger mechanisms--the bonds would be issued only if there are major changes in the Guaranteed Student Loan Program. Proposals for state work-study programs are also proliferating, with appeals made to the private sector to help finance them. Parallel to the national government's proposals in math and science education, some legislatures are

considering loan forgiveness provisions as incentives to attract math and science majors into teaching those subjects after they graduate.

Although a number of our respondents suggested that enactment of tax increases in their states might allow level funding of higher education programs, in many states spending cutbacks will be the reality. Colorado anticipates a two percent across-the-board spending reduction. Idaho expects a 10 percent reduction in aid to institutions. Louisiana's state departments are being asked to submit budgets at 85 percent of last year's spending levels. Due to declining oil revenues, Alasks is re-evaluating its five percent loan program with various forgiveness provisions. A tightening up of the program is expected, and there is a proposal to raise the interest rate from five to eight or nine percent.

As the current legislative sessions continue, the uncertainty of the availability of state revenues overshadows all substantive policy decisions. Many of our respondents simply did not know what their states would be doing this year in higher education policy.

- Present fiscal conditions also make it difficult to predict state reactions to changes in Federal student aid programs.

Responding to the two questions dealing with potential changes in the SSIG program, a majority of the legislators claimed their states would leave spending about the same. Reducing the Federal appropriation would be more of an incentive to increased state funding than substantially increasing the matching requirement, but only slightly (15% to 12%).

According to our respondents, 20 percent said their states would increase their spending on student assistance, 14 percent would decrease

spending, and 47 percent would leave spending the same, if the Federal government required the states to share the cost of all its grant and loan programs for students.

Those legislators and designated staff who responded to the general question about alterations in the Federal program (only 24 of 74 did so) remarked that some of their states would increase funding if the Federal government used the stick of increased matching requirements. In addition, legislators in Kansas, Massachusetts, Oregon, Pennsylvania and Washington believed their states would increase spending to close funding gaps for students caused by possible reductions in Federal student assistance.

Table 5 indicates that legislators in five states, (Florida, Kentucky, Massachusetts, Montana, and Texas) believe their states would increase funding under all the circumstances presented. One respondent from these states noted that since the Federal government seems intent on pulling back, it has put a lot of pressure on the states to fulfill the expectations of students who want to go to college. In contrast, Table 6 presents the states whose legislators said funding would decrease under the alternatives presented. There do not appear to be any discernible patterns here. Three states (Idaho, Indiana, and Washington) appear on both tables. Since in most states we talked to more than one legislator, perceptions on what their states might do sometimes differed.

- Recommendations from our survey respondents about the Federal student aid programs include: stabilize the programs, keep the middle class student eligible, and collect those defaulted loans.

Most of the legislators we talked to were not dissatisfied with the

current programs. They evinced concern that the myriad of changes in recent years in eligibility requirements, rules, and regulations, have made it increasingly difficult for students, institutions of higher education, and the states to plan and determine their needs. According to the legislators, establishing stability in the programs would be the most desired action the Federal government could take.

Another concern of the legislators was their perception that the student from the middle class home has been eliminated from eligibilty for the Federal aid programs. They view the proposed self-help provisions and extended needs tests as exacerbating this problem. One legislator feared that Federal policy is generally pointed in the direction of making higher education elitist. Others noted that increased tuition, even at the public institutions, made the costs of a college education difficult for middle class families to meet without help from government. This evoked further concern about maintaining access to higher education for all students.

Finally, legislators were concerned with the collection problems on defaulted loans, with one legislator calling the administration of the Federal programs an "abomination." Other legislators worried that the bad publicity attendant to the collection problems have made it difficult to sell student aid programs to skeptics in their states.

TABLE 5: STATES THAT WOULD INCREASE THEIR SPENDING FOR SSIG AND TOTAL SHARING OF COSTS.

A*	B*	C*
Florida	Florida	Connecticut
Hawaii	Hawaii	Florida
Kentucky	Indiana	Idaho
Massachusetts	Kentucky	Indiana
Montana	Massachusetts	Iowa
New Jersey	Montana	Kentucky
Rhode Island	Oklahoma	Massachusetts
Texas	Texas	Montana
	Washington	North Carolina
	West Virginia	Oklahoma
		Tennessee
		Texas
		Vermont
		Washington
N=8	N=10	N=14

*A = States that would increase SSIG spending if Federal appropriations remained the same but matching requirements were increased substantially. (See Question 13)

Table 5 continued

*B = States that would increase SSIG spending if Federal appropriations were reduced but matching requirements remained the same. (See Question 14)

*C = States that would increase spending if states were forced to share the cost of all grant and loan programs with the Federal government. (See Question 15)

TABLE 6: STATES THAT WOULD DECREASE THEIR SPENDING FOR SSIG AND TOTAL SHARING OF COSTS.

A*	B*	C*
Alabama	Colorado	Alabama
Arizona	Kansas	Arkansas
Delaware	Louisiana	Arizona
Idaho	South Carolina	Indiana
Indiana		Maine
Louisiana		Maryland
North Ca		

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TABLE 5: STATES THAT WOULD INCREASE THEIR SPENDING FOR SSIG AND TOTAL SHARING OF COSTS.

A*	B*	C*
Florida	Florida	Connecticut
Hawaii	Hawaii	Florida
Kentucky	Indiana	Idaho
Massachusetts	Kentucky	Indiana
Montana	Massachusetts	Iowa
New Jersey	Montana	Kentucky
Rhode Island	Oklahoma	Massachusetts
Texas	Texas	Montana
	Washington	North Carolina
	West Virginia	Oklahoma
		Tennessee
		Texas
		Vermont
		Washington
N=8	N=10	N=14

*A = States that would increase SSIG spending if Federal appropriations remained the same but matching requirements were increased substantially. (See Question 13)

*B = States that would increase SSIG spending if Federal appropriations were reduced but matching requirements remained the same. (See Question 14)

*C = States that would increase spending if states were forced to share the cost of all grant and loan programs with the Federal government. (See Question 15)

TABLE 6: STATES THAT WOULD DECREASE THEIR SPENDING FOR SSIG AND TOTAL SHARING OF COSTS.

A*	B*	C*
Alabama	Colorado	Alabama
Arizona	Kansas	Arkansas
Delaware	Louisiana	Arizona
Idaho	South Carolina	Indiana
Indiana		Maine
Louisiana		Maryland
North Carolina		South Carolina
North Dakota		Washington
Pennsylvania		
South Dakota		
N=10	N=4	N=8

Table 6 continued

*A = States that would decrease SSIG spending if Federal appropriations remained the same but the matching requirements were increased substantially (See Question 13)

*B = States that would decrease SSIG spending if Federal appropriations were reduced but the matching requirements remained the same.

*C = States that would decrease spending if the states were forced to share the costs of all grant and loan programs with the Federal government. (See Question 15)

REGIONAL DEFINITIONS

EAST	Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, West Virginia
SOUTH	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas, Virginia
MIDWEST	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska*, North Dakota, Ohio, Oklahoma, South Dakota, Wisconsin
WEST	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana,, Nevada, New Mexico*, Oregon, Utah, Washington, Wyoming*.

*States with no respondents to the survey

(B) THE GOVERNOR'S OFFICE PERSPECTIVE

This is the report of a survey conducted by the National Governors' Association (NGA) for the National Commission on Student Financial Assistance. This work is part of the process of developing an NGA report on the interaction of Federal and state higher education policies. The choice of using a 50 state survey of governors' offices as distinct from using other methodologies was basically made by the Commission based upon a desire to have parallel interviews in state higher education executive offices, state legislatures and governors' offices.

A technical elements section describes the survey methodology and discusses the usefulness of the results for policy formulation. Readers are cautioned not to use raw survey results without first understanding the caveats in the technical elements. A copy of the survey instrument is attached. Questions are not repeated in the text, only referenced by question number.

Effect of Federal Student Aid on State Higher Education Spending (Questions 1 & 2). When asked about the effect of Federal student aid on state student aid spending respondents said the Federal aid caused:

More state spending	12
Less state spending	7
About the same state spending	23
Don't Know	1
TOTAL	43

In the cases where more spending was said to result from Federal assistance, the matching provision of the State Student Incentive Grants (SSIG) were most often cited as the cause. Other causes cited were the demonstration effect of the Federal programs in calling attention to needs for student assistance and cutbacks in previous Federal student assistance efforts.

In the cases where less state spending was said to result from Federal aid, the most commonly cited effect was displacement, although the term was not used. The effect described was one where a state might have acted to meet certain needs had the Federal government not acted to meet those same needs.

In the majority of cases, respondents did not see any effect of the Federal spending on state spending. Their logic was typically that the state decision-making process for the student aid was basically independent of the Federal decision-making process and its results.

Federal Impact on Form of State Assistance. Respondents were asked whether Federal programs had caused their state to emphasize grants, loans, or any other form of state assistance and to volunteer reasons for any such effects. Some respondents did not answer the question and several gave multiple responses. The results are:

Grants	7
Loans	20
No Effect	13

Those indicating that the Federal effect had been to encourage grants most often cited the SSIG program which clearly caused and causes some

states to make expenditures for grants that they would not otherwise make. Those indicating loans typically cited the Guaranteed Student Loan (GSL) program which states typically participate in administering. Those citing no effect were typically in states that are not particularly active in student assistance programs. Officals of three states volunteered that Federal programs had encouraged their state to provide student assistance through work-study programs.

Federal Impact on Institutional Support. The question on Federal impact on state institutional support found officials in states willing to speculate on the subject. Of these about 60 percent (22) indicated that there had been little or no effect. Eleven felt that the Federal effect had been to increase state institutional support and four believed that state support was reduced because of Federal student aid. Some of those indicating that Federal student aid caused more state institutional support reasoned through the following logic: (1) Federal student aid has improved access which has created higher enrollment in public institutions, (2) state costs for institutional support increase with enrollment, therefore (3) Federal assistance has caused states to spend more for institutional support.

Federal Impact on Private Education (Question 6). Federal aid was seen as having little or no effect on state support of private higher educational institutions by 63 percent (24) of those expressing a view on this subject (38). Of those reporting an effect, most (12) saw the effect as being more state aid rather than less (2).

Federal Impact on Tuition Tax Credits (Question 7). Most states do not have tuition tax credits, so it is not surprising that 35 out of the 38

respondents speculating on the effect of Federal student aid policies on tuition tax credit policies reported no effect.

Federal Effect on Policies Toward Two-Year Institutions (Questions 8 & 9). Overwhelming majorities of respondents agreed that Federal student aid policies had had no effect on state support of two-year institutions relative to four-year institutions (34 of 42) and on forming new two-year institutions (36 of 42). Six respondents in each case indicated that Federal aid had encouraged two-year institutions, generally based upon reasoning that Federal student aid increased effective demand for the services of such institutions.

Other Federal Effects (Question 10). The other effects of Federal aid most volunteered by respondents were:

1. Increased access to higher education,
2. Increased enrollment resulting from access and
3. Effects of unstable Federal student aid policies.

Student Aid in this Legislative Session (Questions 11 & 12). The responses indicate that the legislature has, or has had, before it, proposals to increase or decrease student aid substantially in 28 of 43 responding states and that a governor's proposal was involved in 18 of the 28 cases where proposals were under consideration. These numbers should not be considered a significant indication of trends as respondents varied in whether or not they thought various proposals were serious enough to mention and in their implicit definitions of significance when dealing with budget changes.

In six of the states proposals relating to math and science education were under consideration. These are typically either assistance for summer

programs for existing teachers or loans which are forgiven if the borrower teaches math or science for a stipulated period of time. Significant changes in assistance to private institutions and/or students and expanded work study programs were mentioned in several states.

Sensitivity to Federal Policy Changes (Questions 13-17). According to the responses, if the Federal SSIG appropriation were held constant and the state matching share raised, 26 of 34 responding states would have their appropriations unaffected by the Federal policy change. This is a logical response for a state that is already in an "overmatch" situation. In seven of the 37, the respondent speculated that state spending would increase--a logical outcome for any state following a policy of doing what is required to obtain the Federal funds and no more. One respondent indicated a decrease in state spending, suggesting that at some point the match could become so expensive that a state would drop out of the program.

Confronted with a hypothesis of reduced Federal SSIG funding with no change in match nearly 80 percent (30) of the respondents (38) indicated that state funding would remain about the same. This suggests in most states such a Federal cut would, in effect, be passed through to the students. Officials of six states indicated there would be an increase in state spending, though not necessarily enough to offset 100 percent of the Federal reduction. Officials of two states indicated they would reduce their state funding under this circumstance.

Twenty-nine of those interviewed agreed to speculate on what their states would do if confronted by a matching requirement in all Federal student assistance programs. Nineteen, or about two-thirds, indicated that state funding would remain the same. In those cases, the effect of the

Federal policy change would be to redirect some state support from existing state programs into matching the Federal funds. Six respondents indicated this Federal policy change would result in increasing state student assistance spending and four indicated state spending would be reduced.

When asked to specify Federal policy changes that would cause states to spend more on student aid, 36 persons took a stab at the question. Officials of eight states indicated there were no such Federal policy changes. These eight states are among those with the most significant fiscal problems in the nation. Most of the remaining respondents indicated that some attempt would be made to increase state spending to offset some of the impact of the Federal cut. The officials being interviewed are persons specializing in higher education who would know reasonably well whether attempts would be made to sell governors and legislatures on compensating for Federal program cuts in student aid. However, they are not in a good position to speculate on the outcome of such attempts, so many simply indicated there would be some pressure to offset the impacts of Federal cuts. Officials of a few states, generally those with lesser fiscal problems, indicated specific Federal program changes that would probably result in increased state funding by their state. Included were dropping the SSIG program, tight means tests for GSLs and state matching requirements on all programs.

If there were more state spending on student aid, it would not necessarily equate to more state spending on higher education. Of 33 respondents willing to speculate on this, exactly two-thirds said higher student aid would mean a reduction in funding for other higher education programs.

Suggestions on Federal Student Aid (Question 18). Thirty-three of the 43 respondents accepted the opportunity to volunteer suggestions on Federal student aid [illegible]. Eight of these comments concerned only one subject--stability in Federal policy. It seems clear that having Federal student aid policy continuously "up in the air" has caused difficulty for state officials as well as students.

Many of the other comments were generally supportive of current Federal programs designed to improve access to higher education by lower income students. Other volunteered comments did not follow any particular pattern. The respondent from a state with particularly high living costs believes that Federal student aid programs should reflect cost of living differentials. Another respondent objected to tying Federal student aid to Selective Service registration. Another suggested that the Federal government concentrate on its base student aid programs first and deal with specialized programs only as a supplement to the base. Another suggested emphasizing loan programs at the Federal level. Yet another wanted better coordination at the Federal level of student loan programs of various agencies (e.g., HHS, VA, Department of Education) that provide student assistance. One suggested that the unemployment insurance rules create a disincentive for work-study programs.

Suggestions were mixed on Federal emphasis on merit versus need. Some wanted more consideration of merit; others suggested the Federal programs should concentrate on need. Several state officials suggested that the Federal government improve its procedures to avoid delinquencies. Someone suggested that the Federal government waive repayment of student loans for those persons who accept and hold jobs targeted as having national value (e.g., math and science teaching, rural medical care).

(C) THE STATE HIGHER EDUCATION EXECUTIVE OFFICER'S* PERSPECTIVE

The Effect and Impact of Federal Policies

IA. (1) To what extent have the Federal student financial aid programs affected your state's student assistance programs and policies? (2) How has this impact manifested itself? (3) Identify the changes in the state programs, the time period within which they occurred, and the nature of the relationship to the applicable Federal policy.

The states fall into two major groups in response to the impact issue. The larger group of states indicated that overall, there has been no significant impact of Federal programs and policies on the states' programs and policies, although many of these states did indicate that the SSIG program had an impact (in many cases, it was the only impact cited). In states where there had been no existing state grant program, SSIG was credited as the incentive for establishing one. Many states which did have existing state grant programs indicated that Federal participation had facilitated an expansion of the program. Most noted the importance of GSL.

A smaller group of states indicated that the Federal student aid programs had been the foundation on which state programs were structured.

IB. (1) Have Federal student financial aid policies and programs in general served to leverage the appropriation of additional state postsecondary support, or has it had a different effect? (2) Has any

*The State Higher Education Executive Officer (SHEEO) is generally the Chancellor of Higher Education or executive director of the state's higher education coordinating board.

particular program (SSIG, Pell, etc.) generated more or less leveraging of state support? (3) Differentiate between state student aid funds and other state support of postsecondary education.

Most states felt that Federal policies have not, in general, served to leverage additional state support, although many states which felt that there had been either no leverage or minimal leverage did indicate that SSIG had had "some" or a "slight" leveraging effect.

The states which did perceive a leveraging impact saw it arising out of the SSIG and GSL programs.

IC. (1) Dealing specifically with SSIG, what would be the impact on your state if the Federal contribution were to be eliminated or reduced? (2) Indicate the impact in terms of the state student grant program in particular and student access in general. (3) Are there changes in SSIG which might make the program more efficient? (4) Should SSIG be expanded to allow the states more discretion in the use of the funds (e.g., for work programs instead of soley for grants)?

Approximately seven states indicated that there is a possibility that the state grant program would be eliminated if the Federal contribution were eliminated.

Four states responded that eliminating or reducing the Federal contribution would have a very significant effect.

Another seven states indicated that elimination or reduction of the Federal contribution would have a significant impact, but not a devastating one.

Nine states indicated no impact or a minimal effect if the Federal contribution were to be eliminated or reduced.

Of the twelve states which responded to the question in terms of access/choice, half indicated the impact would be on access, not choice while the remaining six indicated choice might be affected, but not access.

Only a few states (in each of the above-groups) were able to indicate whether or not the state would likely reduce the number of grants or the size of the awards; these categories split evenly. Most states could not predict which way the state would react in that respect.

A number of states from each of the categories ranging from "elimination" to "no impact" indicated that the state would still come up with a package for students with the greatest need. Many states indicated that middle class students would be hardest hit, with a number of states indicating that students at independent schools would feel the most impact; this response came primarily from states whose programs are largely geared to students at independent institutions.

Most states indicated that they would not replace the Federal contribution.

Almost without exception, the respondents said that the SSIG program is efficient and well run. Many feel it is the most efficient Federal program. A number stated that it is a good model for the ideal state-Federal partnership.

Overall, the states don't oppose discretionary use of SSIG funds, but many stressed that discretion should be flexible and permissive, not mandatory or inflexible. Most states favor keeping the program the way it is (but don't object to there being discretion for states who so desire). A few states favor the idea and would in fact use the money in work-study programs. Two states favor abolishing SSIG and using the funds for college work study.

ID: (1) Have Federal student financial assistance policies affected the distribution of students attending independent versus public institutions in the state? (2) Have these policies affected the distribution of students within the public institutions (2-year, 4-year, etc.)? (3) Have the Federal policies affected the aggregate number of students attending postsecondary institutions in the state? (4) Have any changes been weighed towards one or more particular categories of students? (5) To what extent has the state taken action to either reduce or capitalize upon such changes?

Virtually no state was able to respond to this question using quantitative data; there apparently is none. Some states are in the process of studying the matter but no results are in yet. The respondents answered this question based on their own sense of the matter. The majority of states indicated that there is no relationship between Federal policies and programs and shifts in student demographic variables. Many states have experienced increased enrollments at public institutions, with a larger increase at two-year schools. In fact, the increased enrollment at two-year schools was the most common variable among the states. This is seen as being reflective of unemployment and the economy. Other than the several states which are responding to an increased demand for technical/science programs, none gave any response which indicates that action is being taken to reduce or capitalize upon changes.

Private enrollment levels have remained stable in many states, increased in a few and decreased in some. Some respondents observed that there may be a tie between grant money reductions and private school enrollment decreases.

Some states indicated that community college enrollment increases are in part due to a "new kind" of student, i.e., the adult student. Some respondents also feel that the low cost of these schools enables some people who might otherwise not have had access to attend at the postsecondary level.

Changes again seem to be weighed toward the middle class student; it is this student who may be more likely to spend his or her first two years at a community college and then move to a four-year school or attend a four-year public rather than private institution.

Some states attribute enrollment increases to students who are seeking an education in technical, engineering or science areas. Several states are attempting to respond to this by strengthening these programs. One or two states have entertained the possibility of "loan forgiveness" programs in these areas.

IE. (1) To what extent have Federal student financial assistance policies and programs affected state policies towards postsecondary education other than student financial aid? Included in this would be tuition and fee levels, enrollment caps, aid to independent colleges and institutional expansion/program review decisions.

The majority of respondents (approximately 20) indicated that Federal programs and policies have no direct impact on policies other than financial aid. Of the 18 respondents who discussed tuition increases as being affected by external policies, one half indicated that the state's own budget and policies are the key [illegible] The other half said that Federal policies have had some effect [illegible] tion increases, in that Federal funding made it "easier to justify" these increases. One of these states

which indicated that Federal policies directly affected a tuition increase indicated that this was the case only with the state's medical school.

Only one state noted that fees have been kept lower as a result of Federal funding.

Only a few states have enrollment caps. One that does indicated that this is just now occurring and would have happened sooner without Federal funds. Several others states that have caps have them only at the professional school level or in science/technical programs; this is not necessarily seen as being tied to Federal funding.

IF. (1) Is Federal student aid policy better or less well understood in the context of its impact upon the state than other Federal activities? (2) If there is a difference, describe your perception of the reasons.

The state higher education executive officer split on this one. Generally, smaller states and those with less complex state government systems feel that student aid policies are better understood. This seems to be a function of active student aid officers' organizations and of good communications between congressional delegations and institutions and governing/coordinating boards. Larger, more complex states generally indicated that student aid is less well understood, often pointing to medicare/medicaid as a program which is better understood.

GROUP II. STATE RESPONSE TO FEDERAL POLICIES

IIA. (1) Is analysis of the impact of Federal programs centralized in your state? (2) Which agency or office (or offices) handles such analyses? (4) Is legislative and executive analysis coordinated? (5) How and by whom?

There was a fairly even split on this question. Generally, if a state's analysis is centralized, that analysis is done by the SHEEO office. In states where repondents indicated that analysis is "decentralized" or "not centralized," any analysis which is done is most often performed by the SHEEO office, although in several states where the analysis is decentralized it is performed by the entity most affected, e.g., the state guarantee agency deals with GSL matters; the institution deals with campus-based program matters, etc.

Legislative and executive analysis is often not coordinated; to the extent that it is, this is accomplished by the SHEEO or the governor's office.

A fairly common response, especially in smaller states, was "everyone does a lot of talking and communicating with one another" even if there is no formalized analysis process.

IIB. (1) How, if at all, has your state responded to the major changes in Federal student aid policy, such as the eligibility changes in Pell and GSL?

Approximately 10 states indicate that there was no response or no major impact as a result of eligibility changes in Pell and GSL. About as many indicate that response was of a lobbying nature. A similar number discussed operational or proposed state GSL or bond issues for state loans. Five responded that their state supported the changes or, even if they didn't agree in principle, changed state requirements to be consistent. A few states mentioned development of state work-study programs as a response, and one state is developing a state need-based program. About four states were unclear as to response.

Overall, more states were concerned with GSL than Pell in this respect. Of the states which have of are proposing new loan programs, more view it as a response to Federal actions.

IIC. (1) Have changes in Federal policy been announced with sufficient lead time to enable the state to respond in reasonable fashion? (2) Has the state engaged in sustained analysis of the impact of Federal student aid policy, or is such analysis done on an ad hoc basis? (3) Has there been sufficient information regarding changes in Federal policy available to the state sufficiently in advance of implementation to allow for an appropriate state response?

Most of the states feel that there is not sufficient lead time given. Of those which think there is enough time, many credit not the Federal government but an intervening agency (e.g., the state's Washington office, NASFAA, SHEEO) with getting the information to them in time. Pell changes and Social Security changes were often cited as recent examples of cases where time was insufficient.

Analysis is ad hoc in most states.

Most feel that information is insufficient, although fewer than those who think lead time is insufficient. Again, other entities are credited with providing sufficient information where it is felt to exist.

Several states blame their own infrastructure for perceived inefficiency.

IID. (1) What is the relationship between your state's economic condition during the period covered, state support for postsecondary education and Federal student aid policies? (2) Have the Federal policies tended to be countercyclical or have they exacerbated economic swings? (3) Have state efforts been countercyclical or consistent with economic conditions?

Many states with poor economies feel that at a time when they are being hit with fiscal problems, the Federal government is pulling back when it should be giving more support. Most feel that Federal policies exacerbate economic swings while state efforts are consistent. Many, however, perceive this issue as a state problem, not necessarily tied to Federal policies.

IIE. (1) What is the appropriate balance between state and Federal involvement in postsecondary support? What role should the state play in the relationship between the Federal government and the institutions in the distribution and use of student financial aid funds? (2) What, if anything, should be done to revise the relationship between Federal student aid policies and states? (3) Include here programmatic suggestions as well as policy changes, at both the state and Federal levels.

There were almost as many different responses as respondents. Overall, many feel that the Federal government is and should be the primary source of aid, with the state supplementing that assistance.

States split in the role in distribution of funds. Many see a value in state oversight, some see a waste of money with the state in the middle. Generally, respondents felt that the state should help when it can and not intrude if not necessary.

IV.

UNDERSTANDING THE CONTEXT OF STATE RESPONSES TO FEDERAL STUDENT AID POLICIES

A. Factors Which Will Affect State Responses

(1) Inflation

(2) The Demographic Environment

(3) Public Sector Tuitions

(4) Program, Complexity vs. Simplicity

(5) The Incidence of Austerity

(6) Impact of Federal Assistance Reductions

(7) Fiscal Conditions, Long Run

B. A State Budget Policy Perspective on Financing Higher Education

(1) Consensus on Some Basic Points

(2) What Education Costs

(3) Who Pays the Cost of Education?

(4) Private and Public Providers

C. Analytic Models of State Responses to Federal Policy

(1) The Rational Model

(2) The Behavioral Model

A. Factors Which Will Affect State Responses

(1) Inflation

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(6) Impact of Federal Assistance Reductions

(7) Fiscal Conditions, Long Run

FACTORS WHICH WILL AFFECT STATE RESPONSES

(1) Inflation

There is an increasing consensus that double-digit inflation--or even higher single-digit inflation--is behind us. Although market interest rates have come down, however, there are obvious signs of hedging against the recurrence of rapid inflation, indicating that no one can be certain that the consensus is right. What is much more certain than the end of inflation is that policy makers and ordinary citizens will be more on guard against its recurrence. This means that real interest rates, and especially long term rates, will continue to be somewhat higher than they otherwise would be. This in turn means that it will be less advantageous to be in the position of borrowing or paying off debts and more advantageous to save and to lend. And if high rates of inflation do return, there will be enormous pressures for indexation of practically all obligations for the future payment of money. A major lesson of the 1970s, well-learned by practically everybody, is that indexation offers the only way that private parties can protect themselves contractually against inflation and that public policies can achieve the results they were intended to have.

If this is a reasonable assessment of the outlook, then an obvious result will be that, at any given level of interest subsidies, the GSL and NDSL loan program will impose much greater real burdens on borrowers than in the 1970s. That may be as it should be, but one should be alert for the implications of so pronounced a shift. When the interest payable by borrowers under the GSL program was seven percent and the rate of inflation was 10 percent, the real cost of borrowing was obviously a negative three percent. Allowing for the deductibility of interest payments in the income tax system, it was probably a negative four percent for an average borrower.

In contrast, the present nine percent interest rate in a world of real inflation of, say four percent, represents a real positive interest rate of five percent, or perhaps three percent allowing for deductibility. This swing is between seven and eight percentage points. In this new kind of environment, it will make sense, as it has not in the recent past, to regard student borrowing as a genuine form of self-help and to worry about whether students are piling up too much indebtedness, since their loans will not be "forgiven" by inflation in the same way.

Just as inflation cuts two ways in terms of economic advantage, so does disinflation. The revenues of state governments will not grow as rapidly, either nominally or in real terms, (because of bracket creep). State debt will not be "forgiven." On the other hand, institutions will not experience so rapid an erosion of the real value of their fixed income endowment funds or of their NDSL revolving funds. The ramifications of a shift to a relatively disinflationary environment will be felt in every area of higher education finances and economics, but the three most important implications would seem to be these:

- If the balance between loans and other sources of student finance remains nominally the same (as measured, say, by the average proportion of loan aid in aid packages) it will in fact be shifting markedly in the direction of a greater student share. If that is desired, fine; if it is not, the role of parental contributions, earnings, grants and subsidies will have to be increased.
- Programs that encourage saving in anticipation of college expenses will be much more attractive. Of course, saving will be much more attractive even without specific programmatic encouragement, but artificial incentives might make saving a much more important

resource than it has been in recent memory. If the full potentialof saving for college is to be realized, however, means test treatment of savings should be reaxamined. Perhaps savings should be "taxed" at a preferential low rate (by the means tests, whatever happens in the Federal income tax).

- In designing the structure of loan programs more attention should be given than in the recent past to the view that regards educational expenses as an investment to be amortized??? over the productive life of the investment--that is, over the span of the student's working career. The size of student grants and subsidies in the late seventies and the inflationary advantage to student borrowers has recently made such a calculus largely beside the point. In particular, the unpredictability of inflation has made the calculations involved in designing an income-contingent loan plan utterly unreliable, because even a two percentage point difference in the long run inflation assumption can spell the difference between an extravagantly money-losing and an extravagantly money-making scheme of this kind. If inflation has really ended--or even if it only kept in narrow bounds--then such plans deserve to be considered seriously again.

(2) The Demographic Environment

During the 1970s, the total number of persons of traditional college-going age was increasing in the nation as a whole and in almost every state. The total number of persons nationwide in the 18 to 22 age bracket is now declining and it is recognized, that this presents difficulties for the higher education system because commitments to physical plant and to faculty are generally inflexible.

What is perhaps not fully realized is that the demographic decline introduces much greater complexity into the kind of analysis that should be involved in financing state student aid programs. In the early 1970s, it was quite clear that a state grant or subsidy that shifted the enrollment of one student from the public sector to the private would be bound to save the state money. The cost of new facilities and staff to serve the "swing" student in a public institution could hardly be less than the necessary grant or subsidy that shifted his enrollment. Usually it would have been a great deal more. That is no longer so obvious, and the advantage or disadvantage to the state has to be calculated with a fairly sharp pencil. This is partly because in almost no state will there need to be additional physical plant to accommodate the "swing" student if he attends a public institution. Faculty, possibly; buildings almost never.

But is also a complicated calculation for two other reasons. One is that the demographic outlook is quite different in each state. The states will be more different from each other in the period of demographic decline than they were in the period of growth. A good deal may depend on whether the main industries of the particular state have been, are, or will be in decline also, encouraging the migration of families with members who will be of traditional college age. Second, many state grant programs are designedly tuition sensitive programs. That is, the size of the grant to the individual student increases dollar-for-dollar (or according to some other ratio) with the tuition he must pay a particular institution. This price sensitivity of student grants had the worrisome consequence, even in the 1970s, that it relaxed somewhat the discipline on private institutions in setting their prices. For some proportion of their students, an increase

in tuition expenses could be passed wholly or partly through the state. But in the 1980s such a pass-through is even more troublesome. The private institutions will be competing for the shrinking number of 18 to 20 year olds. Sometimes this will result in downward discipline on the tuitions they charge. Some colleges will hesitate to raise tuitions because they will not want to lose students to cheaper institutions.

But this will not be a consistent (and reassuring) pattern. This is because more and more institutions will be practicing a form of what economists term price discrimination for the same competitive reasons. They will be raising their nominal tuition ("full tuition") to create an increase in funds for their own student aid programs to recruit students who might otherwise chose a competitive institution. Other things being equal (in particular, applicable means tests), fewer and fewer students will actually pay this full tuition charge from their own or their parents pockets. But tuition-sensitive state grant formulas are characteristically tied to these nominal tuition levels. This means that part of what a state pays under such a formula will go not to aiding students eligible for aid under the state's rules, but to other students not of its choosing--for example, out-of-state students.

This is not necessarily a frightening thing. Many private institutions were already practicing such price discrimination in the 1970s, and a good many have already gone about as far as they can go, i.e., a further real tuition increase could cost them as many enrollments of full-tuition paying students as they could gain by offering more internally generated student aid. Further, it is surely of some value for a state to support the

autonomous efforts of its private institutions to survive. But it becomes a highly tricky policy issue for each state to resolve in light of the widely varying roles for private sector institutions envisioned by the different states.

(3) Rising Public Sector Tuitions

Average constant-dollar tuition charges at public institutions probably reached an historical low point in the early 1970s as a result of the open access philosophy, the rapid growth of public community colleges and lagging inflation adjustments in tuition levels. We have plainly seen a trend of rising nominal tuition levels since that time, and the increases may well already be real. The end of rapid inflation should mean that catch-up increases are now likely really to catch up. The pressures on state budgets from the taxpayers' revolt, the recent recession or both are most severe in some of the states which have made the largest commitment to low tuition in the past--e.g., Michigan and California.

If considerably higher public sector tuition levels are the trend--and they seem to be--then there will be major changes in the context in which Federal and state student aid policies are framed. In the early 1970s, the emphasis of Federal student aid policy, as expressed by the Basic Grant program, was on providing students from low income families with funds toward meeting subsistence costs, counting on the states to assure that tuition charges would be low enough not to present an insurmountable obstacle to obtaining a postsecondary education. At least half of the grant of a student with maximum eligibility of $1,400 was, in effect, earmarked

for subsistence costs at any institution costing less than $2,200 to attend. Although state Equal Opportunity Program (EOP) programs continued to be funded and served a variety of special needs, by the mid-1970s state governments could generally rely on a combination of low public tuition and Basic Grants to deal with most of the "access" problem. They were free to concentrate marginal resources on programs that would enhance "choice."

Now, in a world of higher public sector tuitions, new dynamics are at work. On the one hand, student aid from state sources may be needed to offset the higher tuitions even for those low income students who choose public institutions. If the real value of Basic Grants (now Pell Grants) continues to decline, state grants may have to allow for their subsistence costs also. This means that state aid programs will have to be designed, just as are the Federal campus-based programs, to recognize all of the elements of cost that enter into the expense budgets of all institutional categories of students--public as well as private. The need for coordination of Federal and state benefits will be much more serious, if gaps or unintended generosity in "coverage" are not to become conspicuous and embarrassing. Gaps are likely to occur where subsistence costs are ineligible for state support, or where family contributions (perhaps together with self-help) are presumed to cover tuition expenses below a certain level, as a kind of "deductible." Unintended generosity is likely to arise where a state program is given the same general kind of structure as the Pell Grant program under a formula providing that an expected family contribution (perhaps including a self-help contribution) is to be deducted from a maximum cost-of-attendance allowance. It is not enough to assure

adequate coordination in such a case merely to have rules that make it impossible for the total of Federal and state grants to exceed cost of attendance or some fraction of cost. Wherever a single increment in expected family contribution will be deducted from both a Federal entitlement maximum and a state entitlement maximum, the sum of the student's entitlements may decline at each higher income bracket more than either the Federal or state means tests tells us that ability to pay increases. The only way to be sure that this miscarriage of intent does not occur is to calculate the student's Pell Grant entitlement and to treat it, for the purpose of the state calculation of eligiblity, exactly like an additional family contribution. But this, in turn, means that the Federal program has to be highly predictable. Otherwise, the cost to the state of any given program, parsimonious or generous, will be largely conjectural. In a period when state constitutional requirements for balanced budgets are going to make state budgeting a much more agonizing affair, introducing a great deal of guess work in budget estimates for state student aid may appear simply unacceptable. The practical choice may well be between having a Federal Pell Grant Program that is predictable some years into the future or having state programs vulnerable to charges of poor coordination.

(4) Program Complexity vs. Simplicity

Again and again in the 1970s, Federal student aid programs were marred by public criticism and occasional scandal. Students and institutions (or their agents) kept finding new ways to exploit the Federal programs, ranging from the legal use of loopholes through failures to make required disclosures to outright misrepresentation.

There is no need to assume that these developments reflected some kind of moral decay. The eligibility criteria for the programs, the formulas that determined benefits, and the delivery systems for conferring the benefits had just become too complicated. Complexity operated to undermine program integrity in three ways. First, it made it impossible as a practical matter to anticipate the loopholes which would result from all the possible combinations of all the possible program regulations. Second, the possibility of checking on the truth, orderliness and legality of all the actions that made the system work by direct policing also became increasingly difficult as there came to be more things to check. Without an enforcement apparatus it would be impossible to check on even a sample of transactions large enough to deter cheating. Third, complexity alters the moral perspective of students. If they understand the system--the temptation for themselves to cheat is much less than if a chaotic system conveys the idea that everyone is getting all he can.

Therefore, there are great advantages to simplifying the aid system as a way of bolstering its integrity, and the logic of this will be as sound in the 1980s as in the 1970s. But there are two basic ways to achieve simplicity. The first is to give everyone quite legally the advantage that before was only to be gained by abusing the system. For example, if parents are believed commonly to underestimate asset values is a means test, and policing of their representations is impossible, then the means test can be revised to disregard assets. A whole category of cheating is eliminated at one stroke, but the program becomes more expensive, other things being equal. The second way to achieve simplicity is just the opposite. For

example, if there is abuse of a deduction allowed in a means test, the deduction can just be eliminated. The program will cost less.

It is not by any means certain that program simplification will be attempted on any large scale in the 1980s. The impulse will be there, however, and at least some simplifications at the margin will recommend themselves, for reasons of program integrity among others. Will the tendency be in the direction of simplifications that cost more, or ones that cost less? Surely in the direction of simplifications that cost less, given a general outlook of fiscal austerity at both the Federal and state levels. And there is another advantage to simplifications that reduce program costs. What happened in the 1970s was that the generosity of the system removed much of the incentive for student aid officers to do the kind of policing they could best do. When funds are scarce, funds misused are funds not available to student who badly need them. For student aid officers, getting money to really needy students is what they perceive to be their most professionally and morally urgent task. If funds are so plentiful that policing the system does not seem to matter much in the prosecution of this task, then policing becomes something that is important in itself but that can nonetheless be set aside if more urgent matters arise. Sad to say, scarcity of aid tends to support the integrity of student aid programs.

(5) The Incidence of Austerity

The analytic building blocks offered in the foregoing give us some clues about the kind of student aid system that would respond to the changed policy environment of the 1980s. There are clear pressures toward a leaner,

possibly simpler, system featuring greater coordination between Federal nd state programs and more cost-of-education sensitive formulas (as opposed to family resource-sensitive ones). A larger fraction of both state and Federal aid is quite likely to go to students attending public institutions. One can expect a good deal of friction to accompany these developments.

What, then, is the bottom line? Who will bear the brunt of austerity and--almost equally important--just how will they bear it? The first point to keep in mind in assessing these questions is that the impact of a reduction in a subsidy on an activity is much like the imposition of a tax on it. And who really bears the brunt of a new tax on an industrial activity depends on whether those engaged in it can pass on the burden of the tax to those who are their suppliers (through paying less for raw materials and labor, say) and also on whether they can pass it on to those who buy the product. That depends on how willing suppliers are to do without the market the activity represents for them and on how willing customers are to do without the product.

Where the product is higher education, it is likely that some part of the burden of austerity in student aid will borne by faculty. Faculty salaries are the largest part of controllable costs in institutional budgets, and many faculty have no where else to go to sell their services. Private institutions are likely to bear part of the costs since their student customers will still be able to decide to attend cheaper public institutions instead, although closely coordinated state student aid and tuition policies will tend to lessen this effect. But some part of the real

burden of austerity will surely be borne by students themselves and their familes. It is as hard to imagine as it is undesireable that higher education as a whole will simply price itself out of its market.

How will this greater burden be felt? It will perhaps be felt in part in more demanding family contribution estimates coming out of the authorized means tests. Pressures for greater coordination among programs and the attractiveness of simplification will tend in that direction. But there is a fundamental difficulty in telling parents that they are richer than they were thought to be a few years previously even when their real incomes remain the same.

The burden of less generous student aid could fall on students themselves, or indirectly on their parents, through larger "self-help" requirements. As we have seen, a winding down of inflation means that student loans will become a much more serious form of self-help as real interest rates and repayment burdens rise. But there has also been a strong tendency in recent years for private institutions to establish self-help expectations of new kinds, usually a flat amount or a percentage of costs, applicable to all students. The self-help expectation now includes the money a student could be expected to save from summer employment. Then presumed earnings from term-time work were added, then presumed borrowings especially at high cost college.

In a way, this is straight-forward enough. "Self-help" rightly suggests expecting students to take responsibility for their own educational choices. It further suggests the educational and social value of actually experiencing the autonomy of self-support. Yet it is worth bearing in mind

that the first large increases in self-help expectations occurred when private colleges found, in the mid-1970s, that liberalizations in the expected family contribution generated by the CSS means test resulted in too many students needing too much aid--more than the institutions could give. An increased self-help expectation was a way around this result. The increase in the self-help expectation could offset some or all of the decrease in parental contribution. That is to say, the self-help contribution took over some of the role of being the aid-rationing mechanism in the system that the family contribution schedule was before the liberalization. Accordingly, there was not, and has not been, a serious effort to estimate just how much students could or should really be expected to earn or borrow. For if the self-help expectation should be too high in some cases, the resources of the parents, now less heavily taxed by the family contribution schedule, could come in to make up the difference. Obviously this is more onerous on very low income families whose expected contribution is zero or close to zero under either the more demanding or the liberalized means test. And it tends to make more of the grant aid available specifically for cost-of-attendance-sensitive awards rather than for family-income-sensitive ones.

(6) Impact of Federal Assistance Reductions

The Federal government has begun to reduce its role in supporting activities of state and local governments. Estimated Federal grant outlays for FY 1983 are lower than actual outlays in FY 1981 and the President's budget projections envision growth in grants as slower than the rate of inflation. It is generally believed that real (inflation-adjusted) Federal grants to state and local government will decline in the future.

The governors, in the 1983 NGA Winter Meeting February 27-March 1, indicated major concerns over the impact of Federal deficits on states and adopted a resolution indicating that non-defense discretionary spending (which includes many grant programs) should grow slower than the rate of inflation from FY 1984 to FY 1988. The governors indicated that "means-tested and other critical entitlement programs" (a category that includes Guaranteed Student Loans) should have "almost full funding."

This stress on maintaining Federal funding for means-tested programs is consistent with the views of the governors on appropriate state and Federal roles, as discussed below.

Enough returns are now in on the effects of 1981 and 1982 reductions to support some general statements on how states, with exceptions, are handling both absolute reductions in Federal grant programs and the continued erosion of grant purchasing power resulting from freezes of various kinds. It is clear that states are acting to mitigate the adverse impacts of Federal funding changes. Some of these actions are nearly automatic. Stricter eligibility standards in some programs can throw recipients into state general assistance programs, for example. Other mitigation has taken place in state funding for some relatively low cost activities. Still other mitigation has taken place through state use of the increased flexibility accorded state officials in the block grant programs.

However, state attempts to mitigate damages from Federal program reductions have fallen short of what would be required for state governments to provide the same funding formerly provided by the Federal government. Thus, any changes in Federal student assistance policy will find the states in a circumstance where they are under substantial pressures to deal with

past and new additional cuts in programs outside higher education. This situation affects higher education funding by adding to the general "tightness" of state fiscal conditions.

The current state fiscal situation was recently characterized in a joint publication of the National Governors' Association and the National Conference of State Legislatures (NCSL) as "extremely bleak." Indicators of problems abound: balances are low and sometimes negative; states which almost never borrow short term are borrowing; total state employment is decreasing; revenues are down from estimates and estimates are down from earlier estimates; many states have frozen hiring, cancelled equipment purchases or taken similar actions. Five legislatures met in special session in late 1982 to enact tax increases. Twelve states have already acted this year to increase broad-based taxes and 14 have raised less significant taxes, made temporary tax increases permanent, or speeded up tax collection. Indications are that another 14 will increase taxes this year.

The basic cause of this situation is the recession, but there will be a hangover even after the recession is behind us. State officials will try to restore their balances and many, burned by the 1981-83 experience, may try to siphon off some current revenues for "rainy day" funds. Deferred maintenance will take its toll as will legitimate claims of employees for "catch up" pay increases to make up for periods when pay was frozen.

The result is that, in the short term, state officials are preoccupied by fiscal problems and are busy considering what to cut. As a result, they are unlikely to initiate new programs or replace Federal funding for major Federal programs such as student assistance in their current fiscal circumstances.

(7) Fiscal Conditions, Long Run

Absent recession, state tax systems generally provide approximately the revenues required to continue existing state services, including matching inflation in the large percentage of state budgets sent to local governments for roads, schools and other purposes. However, this general conclusion is not applicable to each and every state as some state revenue structures are more elastic (responsive to personal income changes) than others.

The key longer run fiscal question is whether state decision makers will be willing to do more than continue existing services and, if so, what they will choose to finance. Trends since the early 1970s suggest that the state government share of gross national product (excluding state activities financed with Federal funds) has been dropping. Trends also indicate that state governments are picking up a higher share of state-local costs, particularly evident in the financing of elementary and secondary education. If continued, these patterns would suggest no massive expansion of state governments into new programs with replacement of local tax sources in financing local government enjoying a high priority.

One indication of what state officials will do in the future is what they are saying today about their attitudes on expansion of state government spending and taxing. While there are exceptions, and no one has a precise count, the pronounced policies of state officials today appear significantly less supportive of expanded government roles and spending than in at least a decade. This would suggest that there are limits on the likelihood that states will expand their funding to assume responsibility for major program adjustments of the Federal government.

B. A State Budget Policy Perspective on Financing Higher Education

(1) Consensus on Some Basic Points

(2) What Education Costs

(3) Who Pays the Cost of Education?

(4) Private and Public Providers

(B) A STATE BUDGET POLICY PERSPECTIVE ON FINANCING HIGHER EDUCATION

(1) Consensus on Some Basic Points

There are several premises regarding higher education that are so widely accepted that they can be taken as given for the purposes of this paper. They are:

Public Interest in Higher Education - It is generally believed that there are some benefits to society in providing higher education beyond those benefits which can be captured by the student in the form of future earnings. These benefits include having a strong scientific community to lead to economic progress and technology for defense, having an educated citizenry as the best security that democracy will work, and producing progress in health care, the arts and culture, understanding of business and government processes, etc.

Education and Social Mobility - There has long been attachment to the concept of "equal opportunity" although the phrase means different things to different people. The basic thought is that Americans, regardless of the circumstances of their birth, should have equal opportunities to become President of the United States, or to achieve various other economic and/or social aspirations. Education is seen as one of the primary ladders by which youth climb from where they began to the heights they seek.

Faith in the Marketplace of Ideas - Although there are exceptions, there appears to be a general acceptance of the concept that society should not, through governments, attempt to control beliefs in academic settings. For many, protection of this principle requires that a considerable distance be maintained between governments and those who decide what will be taught and researched in academic settings. Some individuals particularly concerned

about this independence believe it can only be assured by the maintenance of a strong private sector within higher education.

State and Federal Roles in Achieving Basic Objectives - State and local governments have always assumed primary responsibility for providing education to serve as a ladder for economic and social mobility. Any young American can normally attend public higher education institutions within reasonable commuting distance. While public higher education is not free, it is not expensive. In 1981, tuition and required fees at public two-year institutions ($387) represented less than the minimum wage for three weeks of work. The Federal role in providing this basic educational service has been quite limited. The Federal government has provided comparatively small amounts to fund a changing set of special prioritites (e.g., reading, bilingual education, higher education for health professions, and now math and science) and relatively large amounts targeted at the disadvantaged (e.g., ESEA Title I and successor programs Pell Grants and GSL).

In overall perspective there are three fundamental financial questions in higher education: (1) how much will be spent on higher education, (2) where will the funds come from and (3) what will be the relative role of private and public institutions?

(2) What Education Costs

Broadly speaking, the national costs of higher education are a function of (1) the number of students and (2) the services provided to those students, including (a) the mix of services provided to students (e.g., how much medical training relative to theater), (b) the "technology" used to provide services in each area (e.g., types of faculty training, equipment, course loads, class sizes, etc.) considered appropriate and (c) the prices paid to factor inputs such as faculty salaries.

In the world before state and Federal assistance to students and privateinstitutions, the decision about the factors driving the cost of higher education were made in a marketplace with few constraints. The constraints that did exist (e.g., accreditation) were effective only because they were respected in the marketplace. Now, however, state and Federal officials are paying a significant percentage of the costs of the higher education system as a whole. To a significant degree the determination of what education will cost in a public institution is a function of what state officials are willing to spend and what those officials will let the institutions charge students.

From a Federal perspective, one important question is how total costs of higher education will be affected by Federal policy. The effect of Federal grant support of institutions is, for example, cost increasing. That is, when the Federal government provides institutional support, the intended result is higher institutional spending than would otherwise be the case.

Unlike grants to institutions, Federal student aid is not deliberately administered to increase costs and outputs of educational institutions. Obviously, however, Federal spending on student aid does make some real resource injections into higher education. On the Federal side, these real resources can be measured as the sum of grants, tax expenditures and the subsidy element of the loan programs. From a state/local perspective, the maximum Federal contribution of resources is the above minus the added state/local costs (e.g., administration) which appear to be directly caused by the Federal involvement.

A key question is what effect Federal resources have when channelled through various vehicles into the higher educational system. In broad terms, the possibilities are:

- o Federal resources increase total system costs and, it is hoped, system outputs;
- o Federal resources do not increase total system costs but alter who pays those costs by:
  - substituting for resources that otherwise would be provided by state government,
  - substituting for resources that otherwise would be provided by students, including those who pay their bills; or
  - substituting for resources that otherwise would come from private sector sources other than students (e.g., donations).

(3) Who Pays the Cost of Education?

A second critical question is how responsibility is divided in paying education costs. The significant choices are:

- o students, either on a current basis or through loans;
- o state and local (mostly state) governments; and
- o the Federal government.

As used in this discussion, the "student" refers to the student and all his or her non-governmental financial backers. Other potential payors (private contributions, endowment income, privately sponsored scholarships) are probably not large enough to be significant for public higher education institutions.

It is possible to stand back from the hurly-burly of state and Federal decision-making to take an academic approach to the question of who pays. One view affecting state decision making is that of the economist for whom the applicable logic is reasonably clear. Most higher education has some benefits that are captured by the student--higher earning power in the future, enjoyment in going to school, future ability to be effective in social life, athletics or whatever. There are also benefits to society, although experts do not agree on how to quantify them and then there are costs: the costs of providing the education, the costs of maintaining the student's health and providing room and board, and the costs of student opportunities foregone, including lost wages and working experience. Conceptually, what the student should pay should be related to the benefits which the student is expected to receive. If the student gets 80 percent of the benefits, then perhaps the student should pay 80 percent of the cost.

This, however, is by no means the only view expressed on this point in state capitols. Another view holds that the key value to be sought is access to higher educational opportunity. In this view, the appropriate policy is the one which imposes the least possible cost on student. Imposing costs on students, over and above the opportunities foregone, is perceived to discourage consumption of higher education, although the magnitude of the effect is disputed.

The decisions made by state officials have important implications for the costs of Federal policies. Current Federal higher education policy provides almost no guaranteed support for suppliers (educational institutions) but considerable support for the customers (students). The

maximum cost of such a policy is set by what percentage of total cost is charged to the students. In the case of private institutions, this percentage inherently approaches 100 percent, but for state institutions it does not. State decisions on tuition levels will have impacts on the costs of Federal student aid programs.

(4) Private and Public Providers

While the impact of public policies on private higher education is debated, the primary arguments concern the magnitude and desirability of effects, not the direction of impact. The growth of public institutions has affected growth of private ones. Had states not put the resources they did into their own institutions, all education would be private. The result would be more students in private institutions than there are today, but less students in total in higher education today because of higher costs and less geographic access. Second, in particular instances, the expansion of state-supported higher education has demonstrably damaged the ability of private institutions to provide the quality of education they had been accustomed to providing to the share of the market they once served.

It can be argued that these results are undermining the foundations of private higher education and that they eventually will destroy all but the very strongest of the private institutions, that a strong private sector is essential for one reason or another, and thus that the policies should be changed or their deleterious effects mitigated in some fashion. Conversely, it can be argued that the vital question is access and excellence and that if states provide these in higher education, no consequence in the private sector can be too severe.

While the philosophical questions in the private-public debate are difficult to resolve, the specific options for action to enhance the role of the private sector are easily understood. If enhancing the private role is the desired outcome, public policies must increase the attractiveness of private institutions relative to public ones. This could be done by making private institutions more attractive, public institutions less attractive or both. Public institutions can be made less attractive by deliberately reducing their quality (not really an option) or increasing the costs of attending them. Private institutions can be made more attractive by giving them public money directly or reducing the effective student cost of attendance by public scholarship and loan programs.

C. Analytic Models of State Responses to Federal Policy

(1) The Rational Model

(2) The Behavioral Model

(C) ANALYTIC MODELS OF STATE RESPONSES TO FEDERAL POLICY

There are two basic ways to consider state responses to Federal student aid policies. The first is analytic; the second, behavioral.

(1) Rational Model

An analytic approach begins with the assumption that the state decision makers have roughly the same facts as the analyst and that the state decision-making process produces results that coincide with an analyst's view of rational behavior. These are the easiest kinds of analyses because all the analyst has to do is ask what he or she would do if a state official.

For this type of analysis, the relevant factor is "the state" which gets viewed anthropromorphically as having a mind of its own. This is a very misleading view, as will be noted in the discussion of behavioral approaches.

Before we introduce a Federal policy change, the "state" will have set its policies on how much of that spending will be financed by students, and how issues of private and public higher education should be handled. This means there will be a "solution in place" regarding appropriation levels, tuition levels, aid to privates and state student aid spending and policies. This solution will presumably reflect circumstances unique to each state, including the wealth of students and institutions, the preferences of the voters, the fiscal capacity of the state and whatever else is relevant to the decisions involved.

It is possible, but unlikely, that a Federal policy change will change the state's view of the optimality of its solution. For example, a Federal

decision to expand institutional aid will not automatically produce state concurrence that the cost of education should go up, nor would a decision to make more loans to students automatically cause the state to decide that students should pay more or less. The Federal action may, however, have the effect of making it possible for the state to shift some costs to the Federal government. From a state perspective, this is desireable because doing so spreads the costs over the entire nation while retaining the benefits in the state. The resources thus freed could be used for any number of popular steps as either tax cuts, new spending or both.

From an analytic perspective, the Pell Grants defray a significant percentage of student costs for a relatively small proportion of the students. Because the ceiling of Pell Grants has the effect of providing major assistance to students in high tuition private institutions, increases in tuition at state institutions would be offset for participating students by higher Pell Grants. However, it would appear that not all of any tuition increase would be offset. If the effective Pell Grant ceiling for public students is one-half of educational cost then only one-half of the tuition increase would be offset. Other things being equal, one would expect the existence of Pell Grants to encourage higher tuition at state institutions. The extent of the impact would depend upon the percentage of total tuition paid by Pell Grant holders and how comfortable state decision makers would be in either absorbing the other half of the tuition costs increase or assuming the student could absorb it. When these factors are considered, the overall impact of the existence of Pell Grants on the tuition decision would appear to be minor.

Analytically, the availability of GSL would also appear to cushion the blow of tuition increases on the student and parents. However, the penetration of public sector student populations at the undergraduate level with student loans is not high. Not surprisingly, the greatest GSL market penetration is in graduate schools and private institutions. In addition, the GSL subsidy is nowhere near 100 percent of tuition. From a student perspective, how much subsidy is involved depends upon alternative interest rates and sources of funds other than borrowing. But in terms of state tuition policy, GSLs defray only a portion of increased student costs from tuition increases and then only for loans to a relatively small proportion of the students.

Smaller "campus based" programs also reach a small percentage of the student body and therefore have only minor, if any, impact upon state decisions.

Thus, analytically one would expect the presence of the Federal programs to lend some weight to arguments for increasing state tuition. However, because of incomplete market penetration of the Federal programs, tuition increases would affect a significant number of low income students not receiving assistance (e.g., part time students) and a large number of the middle income persons who are the subject of considerable concern when tuition policies are set.

(2) The Behavioral Model

The previous discussion describes a theoretical approach to potential reactions of state policy makers to Federal student assistance policy, but these are not necessarily the factors actually taken into account by state

decision makers. This section explores the differences.

The three basic policy choices listed above (how much is spent for education, who pays it, and what happens with public support of the private intitutions) represent three of about 20-30 major decisions that tend to be decided as part of a state's budget process for the same reasons that most major Federal policy decisions involving money get decided in the Federal budget process.

Power relationships vary from state to state and over time in the same state. However, there are a number of higher education decisions that a legislature and governor can, and sometimes do, effectively leave in the hands of the higher education community lead by a higher education coordinating board or equivalent. Those decisions include the logic for allocation of funds among institutions, the decisions on supporting new programs (within a higher education bottom line) and discontinuing old ones, etc. The higher education community, particularly if it can put up a common front, may have effective control over these matters even if it lacks any formal delegation of power.

However, elected officials cannot give to higher education officials the power to decide the total state funds going into higher education any more than they could let the comparable decision for welfare be made by welfare officials. Thus, the decision on the overall size of the public higher education pot is made centrally. The private-public balance decision tends to be made centrally also as private institutions find it difficult to believe that a single coordinating board can carry out dual roles of overseeing a total private-public set of institutions and at the same time

have clear responsibility for the health of the public institutions alone. The stronger private institutions tend to have many substantial friends in high places (including alumni in legislatures) who are not inclined to delegate decisions on dealing with private institutions to others.

Finally, the tuition decision is typically made (or controlled indirectly) in the legislature as well. First, tuition is considered a matter of extreme political sensitivity. Second, if universities were allowed to set tuition at any level they wanted the decision on how much to spend would effectively be taken out of the hands of elected officials. University officials could consider their appropriation as a contribution, set total spending and spend whatever they believe to be necessary by setting tuition to match the difference between their desired total spending and revenues from other sources.

For Federal education assistance to have any effect on state legislatures and governors directly (as distinct from having an effect through advisors such as state higher education coordinating agencies), it would be necessary for those oficials to know what Federal policy is. Interviews by both NGA and NCSL suggest that there is very little knowledge in governors' offices and the legislature about specific Federal programs such as Pell Grants. This fact is itself relevant as public officials acquire knowledge that they think they need to make their decisions. Their lack of specific knowledge of Federal student aid programs suggest that these officials do not feel they need to know about Federal programs to make their state decisions. This evidence is consistent with two hypotheses: (1) these decision makers rely on the recommendations of others (e.g., state higher education coordinating boards) and these others have this knowledge

or (2) the knowledge is viewed as irrelevant. We reject the other possible inference (that the knowledge is relevant and the officials are not capable of acquiring or retaining it) because of the ability of the same types of officials to recite Federal program information in great detail where it is key to state decisions as is the case with Medicaid and highway programs.

State higher education agencies and budget offices did their work on state FY 1984 higher education budgets in the summer and fall of 1982. For them to take Federal policies into account in preparing the budget for FY 1984 (School Year 1983-84) they would have to be able to predict Federal policies applicable to that year. This would not have been an easy task in mid-1982 as the Congress was then debating major student aid issues affecting FY 1983 and the President had not yet formulated his recommendations for FY 1984. State officals constantly complain about uncertainty in Federal programs. Their complaint typically is that they cannot tailor their actions to Federal policy because Federal policy is undecided. The NGA questions to governors' office education advisors included an open-ended opportunity to make suggestions for improving Federal student aid. Reducing uncertainty was one of the major points made by persons volunteering suggestions.

As legislatures consider FY 1984 budgets in early 1983, there is a limit to what they could know about Federal policies likely to be in effect for the fall of 1983 and subsequent years. They could know that the student aid decision was a cliffhanger during 1982. They could know that there is a special commission on student aid that has not yet made recommendations. They could know that the President has made proposals which would have massive effects on Federal student aid. They could know that some Members

of Congress are likely to resist these changes. They could know that Congress is under considerable pressure to cut spending. Finally, they could know that sometimes the President wins with Congress and sometimes he does not. Given such a political climate, state legislators are not likely to base their FY 1984 higher education decisions on Federal student aid policy.

Thus, with present policies unknown and policies for the relevant future unknown and unpredictable, it would not be surprising to find in general that state officials do not give major weight to Federal policies in deciding state policies. This conclusion is also suggested by the way in which state higher education decisions are made. In states, the budget process has a logic of its own which affects how these decisions are made.

The state budgeting process is normally incremental. That is, with exceptions particularly for new governors, it is not normal for state officials to start their budget consideration from a blank slate or from levels which a budget director or comparable person might want to recommend. Instead, the consideration of the future starts with the present. States have counterparts to the Federal concepts of baseline or current services. Conceptually, this is what the state would spend if it continued present policies adjusting only for workload (e.g., changes in number of welfare recipients) and for changes in uncontrollable prices.

The details of the process vary, but typically budgets will be considered around some sort of a baseline or norm which varies with the fiscal conditions of the state and the predilections of the persons to whom the budget submissions are made. In a normal year, budget consideration in the executive branch would typically examine a current service level, one or

more levels above it, and reductions in it. In effect, this means the executive is looking at proposals for additions to and cuts from the current budget base, not at the whole budget. Ambitious attempts to change this approach (e.g., zero base budgeting) have quickly reverted to it.

It is hard for Federal officials who deal with Federal grant programs to understand the difference in volatility between state (and local) budgeting and Federal budgeting. In Federal programs in fields such as higher education, the Federal presence is overlaid on a basic system of service maintained and paid for by state and local governments. In such a system, it is possible to consider emphasis on math and science programs while ending support for professional education, completely eliminating a public services jobs program while starting a whole new manpower program, etc. This policy volatility would probably not be tolerated by the public if it affected them directly. However, what the public sees are schools, universities, roads and other public services maintained by a relatively stable flow of state and local funding. To understand state budgeting, Federal officials might imagine a Federal budget composed entirely of the same kinds of functions. This would be like having a budget of the National Park Service, the Geological Survey, the Weather Service, the FAA and the Bureau of Prisons, perhaps also including stable grant programs such as Community Development Block Grants and Social Service Block Grants.

The budget process in state legislatures is often more incrementally oriented than even that of the executive. Power on the key committees that control money is normally held by relatively senior members who are looking at the pattern of current spending as the reflection of decisions they made in their last session. Their instinct in making good use of the review time

they have available is to focus on changes in that pattern, particularly any proposals to spend more money or make cuts.

A strong focus on the increments tends to concentrate attention on change and comparative change rather than the base. If the overall approach is to maintain current service levels without tax increase, this approach will tend to be reflected in detail (including in higher education). For example, when states go through funding reductions, hiring freezes and cutbacks in purchases, the austerity tends to be spread around all agencies. In a more normal year, the overall focus of typical state budgets is current services, state-controlled price increases (state employee pay, higher education pay, increase in elementary and secondary support, welfare payment levels) roughly at the rate of inflation plus workload adjustments such as those now being made to put more money into the corrections function. When a governor and legislature find it appropriate to propose significant new tax increases, they will normally ensure that the base of support will be broad because new purchasing power will affect school teachers, state employees, the university system, etc. This is not to say that there never have been massive changes in state funding patterns or that small differences in increments repeated year-after-year do not ultimately result in major policy change, but that the entire state process has the elements of stability characteristic of Federal review of the Park Service which is very different from Federal review of education programs.

Thus, from a behavioral perspective, one would expect to find that state higher education funding decisions are little touched by Federal student aid decisions. Instead, one would expect to find a pattern of consistency

between decisions affecting higher education funding and decisions affecting other state funding. On a national basis the patterns probably relate to state fiscal condition, which in turn relates to business cycles--not Federal student aid policies.

The pattern one would expect from behavioral analysis of how decisions are made corresponds closely to that reported by state officials in the NGA survey described elsewhere in this report. Strong Federal inducements (e.g., participation in GSL and SSIG) have triggered the direct state responses sought by Federal policy, but are not perceived as having a strong impact on state institutional funding or tuition decisions.

V.

Rationale Behind the De Facto "Balance" in the Distribution of Education Costs Between Federal and State Government and Student/Parents

A. Views on Appropriate State and Federal Roles

Over the past two years, governors and state legislators have paid considerable attention to the appropriate roles for the Federal government and state and local governments. Several governors have made proposals of their own on this subject and the governors collectively have addressed it in their discussions with the President and his staff on "New Federalism" proposals. The governors (and state legislators) have taken positions that can be summarized by distinguishing between basic state and local services and major programs involving income redistribution.

The governors have shown considerable willingness, assuming satisfactory transition arrangements, to accept state and local financial responsibility for what might be called basic services. These services were provided by state and local governments before the Federal government became involved with them. They have never been explicitly listed by the governors, but have been illustrated (e.g., education, transportation). They presumably consist of such things as fire protection, police protection, local schools, libraries, water supply and sewage (excepting federally mandated sewage treatment plant construction), parks and recreation, mental health and institutional support for higher education.

On the other hand, governors and state legislators have consistently opposed shifting to the states programs which involve large quantities of means-tested assistance--specifically food stamps, Medicaid and Aid to Families with Dependent Children (welfare). Other means-tested programs (e.g., subsidized housing, Pell Grants, Guaranteed Student Loans and certain child nutrition programs) have received less attention in the "New Federalism"

discussions but have characteristics akin to welfare and Medicaid. The importance of a Federal role in providing access in higher education is explicitly recognized in the NGA policy position quoted in the introduction to this report.

One key reason why state elected officials recognize their own limits in accepting responsibility for means-tested programs is that their cost is determined by national circumstances beyond the control of those officials. A recession strikes and the number of persons who pass means tests in Michigan grows rapidly. Farm prices drop and Nebraska revenues drop and the number of persons who pass means tests rises simultaneously. This concern extends to the states now having the highest fiscal capacity and lower concentrations of target populations. The oil producing states have recently seen oil drilling drop by 50 percent; oil shale goes from boom to bust; and copper mines close. The state with the currently highest fiscal capacity (Alaska) expects the bulk of its oil resources, almost its sole state revenue source, to be exhausted in a decade.

Not only are state tax revenues and costs of means-tested programs subject to national economic phenomena and national policy in the short run, but the need for means-tested programs is also a function of longer term trends. A significant part of the poverty population in the Southeast results from persons made surplus by the mechanization of agriculture. Much of the poverty in the southwest can be tied to migration. New refugees are part of the poverty population in several states. No governor can be quite sure where growth in poverty populations will occur. Perhaps in the Midwest as basic industries lose out? Perhaps in the Southwest if it outruns its water supply? Because of uncertainties over which states might gain and lose from

using national taxes to support means-tested programs, governors from states that currently pay more national taxes than they get in spending have been comfortable in supporting extension of Federal financial responsibility for these programs.

Accepting state responsibilty for major means-tested programs subjects individual states to both the expenditure and the revenue consequences of such uncontrollable changes in the future. In addition, it would create substantial inequities in the present. The greatest needs for means-tested expenditures tend to coincide with the least capacity of state and local governments to raise money. Mississippi, for example, leads the nation in the percentage of persons in poverty (1979 income) with a 24.5 percent poverty rate versus 12.5 percent nationally and trails the nation in state and local fiscal capacity. As measured by the Advisory Commission on Intergovernmental Relations' representative tax system, Mississippi's fiscal capacity is 69 percent of the national average.

Thus, the reluctance of state elected officials to assume responsibility for means-tested entitlement programs is based upon disparities between state capacity to handle such programs and concern over the impact of uncontrollable national phenomena on state costs. This concern is an important background factor to consider in relation to proposals that would assume state acceptance of responsibility for the current clientele of Pell Grants, Guaranteed Student Loans or even SSIG.

VI.

Noteworthy Programs of Student Financial Assistance

VI. Noteworthy Programs of Student Financial Assistance

D. Selected Noteworthy Programs of Student Financial Assistance

(1) State Scholarship Programs

(2) State Work-Study Programs

(3) State Loan Programs

(4) State Tax Incentive Programs

(5) Other State Innovations

(6) What Exemplary Programs Reveal And the Impact of Federal Student Aid Policy

VI. Noteworthy Programs of State Financial Assistance

Noteworthy programs of state financial assistance are student or collegiate aid programs authorized by state officials and worthy of consideration by other states.

Federal legislators on occasion have discovered a state program working so well that it has been elevated to national status by an Act of Congress. For example, the Federal State Student Incentive Grant (SSIG) program was established to encourage more states to follow the lead of those which had already developed state scholarship programs. Also, the Guaranteed Student Loan program was in 1965 modeled on the New York State subsidized loan program (1957) which, in turn, was designed to resemble the Massachusetts Higher Education Loan Plan the year before.

Although many good ideas and constructive programs are invented at the Federal government and flow out to the states, so also do states function as the "laboratories of democracy." States, for example, have established student college work-study programs with private corporations whereas the Federal college work-study is restricted to campus and non-profit organizations. Also, the concept of tuition tax credits or parent savings program for college has already been enacted in New York State and proven effective at the state level prior to passage at the Federal level.

Therefore, an exemplary program may provide ideas either for other states or for Federal decision-makers.

The following discussion will not exhaust the list of worthwhile programs but will focus on the major developments already enacted. Most of the examples will be those aiding widespread graduate students either with money, information or delivering systems, or other attractive features.

1. State Scholarship Programs

New York established Regents Scholarships in 1913 to assist talented and worthy youth to attend college. The New York programs of state scholarship assistance reached the $75 million level in 1972-73 (twice the amount of any other state). Named the Tuition Assistance Plan, New York State appropriated $296 million in 1982-83 and served 342,000 undergraduate students. Although the average award of grant money was $867, the size of grants ranged from $200 to $2100. Students attending vocational education programs are also eligible.

The New York program requires a relatively simple test of need based on family which is verified by submission of the Federal income tax form. The calculations ignore assets such as farm land, other real estate, stocks and bonds.

New York students can use the funds only at institutions within New York State. This has caused nearby states whose grants are "portable" across state lines to retaliate by denying use of their state grants in New York. However, New Yorkers have numerous colleges and appropriate so much money two and three times that of other large states--so that no change in portability is likely in the near future.

Governors and legislators in New York obviously place a high priority on student aid. They listen to the recommendations of prominent businessmen, educators and foundation executives who state the case are formulated the basic outline of the financial recommendations. New York drew upon the expertise of leaders such as Henry Heald, M. George Bundy, Francis Keppel and Nils Wessel, each of whom chaired a distinguished higher education study commission. Involving prestigious leaders in a periodic review of higher education needs and state solutions 15 central to the expansion of the program and an exemplary feature of the program.

Recommendations are actively promoted not only by the college and university presidents but also by the college trustees, many of them well known and powerful industrialists, bankers, farmers, clergymen and philanthropists. Their support of the necessary state appropriations remains a critical component of the New York program.

South Carolina finances the most generous state scholarship awards. A $13 million appropriation in 1982-83 allowed 7,500 students to receive an average of $1,731, the highest average award in the nation and more than the average Pell Grant award.

Pennsylvania with an $89 million program, served 122,750 students with an average award of $725. What is exemplary is that the Pennsylvania Higher Education Assistance Authority has the computer capacity to calculate simultaneously the Pell Grant eligibility and the Pennsylvania grant and prepares for the college aid offices the appropriate letters affirming or denying eligibility. PHEAA operates the most advanced computerized financial aid service in the nation. PHEAA places computer terminals and printers in many of the larger colleges and universities for financial aid processing and communication. These capacities make PHEAA the most service-oriented provider of state aid in the nation.

Vermont with a $6.5 million program, carefully links state grants and Federal eligibility to the cost of education at private or public universities. The Vermont Student Assistance Corporation also has one of the most thorough student information systems. One of seven VSAC counselors (financed by a Federal Talent Search Grant) visits each high school and provides many pamphlets not only on public scholarships but private scholarships as well.

Most state programs are based on financial need. Some states also appropriate funds according to academic excellence or talent, requiring either school officials or community leaders to nominate an outstanding high school senior. Massachusetts is one of several states with honors scholarships.

Note: Many states with small state scholarship programs provide alternative support for more than 95 percent of the students in public colleges by charging relatively low tuition. In effect, low tuitions may constitute a public subsidy in lieu of scholarships for virtually all in attendance.

2. State Work-Study Programs

The Federal work-study program assists many college studerts in working their way through college at part-time jobs at non-profit organizations at the college or university--in the campus library, laboratories, cafeteria and elsewhere. Students receive at least minimum wage. Sometimes the job resembles or relates to their subsequent career, through this is not a program requirement.

The state of Washington enacted a work-study program for college students with a 1982-83 appropriation of $4.8 million. The funds may be used for:

		state/employer
1.	campus jobs	80/20%
2.	non-profit organizations	65/35%
3.	profit-making business (off-campus)	65/35%

The Washington state program includes not only the financially needy but middle income students. The average stipend is for $1,400 for 12-15 hours a

week (19 hours maximum). A high priority is placed on matching the students' career goals and educational program with the employer's needs -- e.g., for a future engineer or accountant. Another goal is to decrease reliance on student borrowing for the 4,000 participants.

Minnesota includes as eligible employers people over 65 years of age or handicapped persons who need assistance on a part-time basis.

Washington and Colorado require that compensation for the work be pegged at the prevailing wages of full-time employees, at 100 percent or (Colorado) 85 percent or more--unless they are given less than full responsibility. Colorado has a 20 hour per week limit and award size is between $1,100-$1,600 for most students.

Work and "working one's way through college" has a long tradition of support. Five states established such programs before 1982 but another dozen states are considering similar legislation.

Pennsylvania provides a $700,000 summer work program and lists job opportunities on a computerized matching service with individuals who choose to work in a particular area.

Meanwhile, the Reagan Administration has proposed increasing the Federal college work-study program. It is possible that the Federal government could stimulate expansion of state work-study programs and of private sector programs with relatively modest administrative funds, seed money for "job placement."

3. State Loan Programs

New York in the late 1950s early 1960s established a public service corporation to promote and guarantee student loans from banks. This was the first state to provide for state assumption of interest payments on the loan

while the student remained in school. The New York model provided the framework for the Federal Insured Student Loan program and the Guaranteed Student Loan program, a decentralized state program that has grown in size while holding default rates to a comparably low level.

New York also operates a state supplemental loan program for health/medical profession students with eligibility for sums well above the Federal HEAL program. At a cost of $486,000 a year, 210 students borrow up to $2,500 (in addition to GSL) with the state paying a special allowance to the banks equivalent to the Federal program. New York bills the students quarterly for interest payments.

Alaska since the early 1970s has operated a state student loan revolving fund. State funds were appropriated to allow borrowing of up to $6,000 a year for undergraduates and $7,500 for graduate students at an interest rate of 5 percent. Undergraduates have up to five years to complete an undergraduate program and eight years for education through a graduate degree. Repayment begins one year after studies have been completed. If a borrower remains in Alaska, as much as 50 percent of the loan principal and interest may be forgiven. Hundreds of students migrate to Alsaka to establish residence only to find the cost of living 40 percent higher than that of the "Lower 48." Still, the Alaska program remains the most generous of state education loan programs fueled by the substantial oil and mineral wealth of that territory. As of 1983, the 5 percent rate was under review and eligibility may be tightened further.

After the 1981 Federal budget appeared, associations of colleges in several states proposed the use of tax-exempt revenue bonds to expand student

loan programs. For a while it appeared that many students would lose eligibility for Federal loans and that many colleges would subsequently lose enrollment.

Illinois was the first state to enact a statute providing for a new state authority enpowered to raise capital for the sale of tax-exempt revenue bonds. The bond proceeds would then be assigned to colleges which would make the loan funds available to students who needed more than the Federal program allowed. Maryland, Massachusetts, Iowa and Florida were among the states who in short order passed similar legislation. Two years later Northwestern University sold ten million dollars worth of bonds to make parent loan funds available to pay the term bills at that institution. Three other colleges followed that lead.

New Hampshire adopted a different model as did Maine. The legislature simply amended the charter of a Health and Higher Education Authority which was already familiar with the workings of the investment market. The New Hampshire statute also authorized a campus to establish an Education Loan Corporation if it could obtain a relatively high credit rating from the Wall Street agencies-- Moody's or Standard and Poor. As a result, Dartmouth College in 1982 became the first college to sell ten million dollars of tax-exempt bonds to make education loans with the help of the New Hampshire Authority.

Massachusetts in late 1982 held the first statewide sale of tax-exempt bonds for nine colleges at once. A new College Student Loan Authority issued $20 million of tax-exempt bonds to provide for loans of up to 75 percent of the costs of education. Payment could extend for as long as 15 years. The bond prices enabled the loans to be made at 12 1/2 percent interest.

Kentucky was the first state to authorize the same state agency administering state scholarships and Federal loans to handle any of the non-Federal student loan progrmas. Pennsylvania, Vermont and New Jersey also expressed the intent to use an existing higher education assistance agency to sell tax-exempt bonds if necessary.

These programs have grown relatively slowly for these reasons.

1. Tax-exempt bonds for student loans carry no provision for in-school interest subsidy and go into repayment almost immediately. Therefore, they are really parent or family loans unless a college can absorb payments for the students for a while.
2. The college must enjoy good to excellent financial health to be "credit worthy" in the eyes of investors. Many schools have limited endowment or have incurred other debts, usually for buildings, and cannot obtain the kind of credit rating needed to reassure cautious investors. States generally do not place their "full faith and credit" behind the bonds but simply convey an exemption from state and Federal taxes for the bondholder. Many public universities cannot pledge any collateral due to state constitutions or statutory provisions requiring a separate appropriation.

Setting up authorities and arranging to market bonds requires the extensive involvement of investment specialists, bankers, financial advisors, attorneys and accountants. Paperwork and expenses for each bond issue are substantial, although usually financed out of the proceeds of the bond issue.

A careful review of state and alternative loan programs by Arthur Hauptman for the College Board led to "proceed with caution" conclusions. Neither all states nor all colleges will be able to sell enough tax-exempt bonds to keep

students, families and higher education afloat. Only 15 colleges actually participated in their non-Federal guaranteed program in the time period 1981-83.

Furthermore, the Federal tax-exemption is itself a Federal subsidy. Institutions and individuals, often wealthy, who purchase the bonds do not have to pay taxes on the income from the bonds as they mature. The cost to the Federal government and U.S. Treasury is direct and potentially substantial. The Illinois program and most of the other state loan programs are designed to supplement, not replace, the Federal loan programs. Federal policy-makers can benefit, however, from some of the exemplary features of several of the programs:

- o the availability of loan money for up to $7,000 per student or 75 percent of the cost of education;
- o the loan repayment terms of up to 15 years, five years longer than the ordinary Federal loans (except for loans sold to and consolidated by Sallie Mae;
- o the use of thorough credit checks on families or parents borrowing on behalf of children in college; and
- o the pledging of some local college or university credit to maintain the integrity of the loan program, especially timely and diligent loan collection activity.

4. State Tax Incentive Programs

New York enacted a Parents and Students Savings Plan (PASS) to allow families to establish a tax-sheltered savings account to pay for future postsecondary education. Parents may set aside up to $750 each year in a PASS Fund or account for each of their children. PASS provides for two types of

tax exemptions, a state tax exemption of the amount deposited in the PASS account and deduction of the interest earned on the account each year. The purpose is to stimulate serious saving activity by parents 10 or more years ahead of enrollment of the beneficiary in college. Taxes are only paid after the student leaves school and then by the student, who usually has a much lower income.

During 1982, New York officials estimated that more than 15,000 persons used the plan. It stimulated savings (of assistance to the economy) and encourages development of a long-term plan for higher education by parents and families.

New York also offers a Tuition Deduction Plan of up to $1,000 a year or one-half of tuition paid less TDP awards, whichever figure is less. The students must attend a college in New York State on a full-time basis. One cannot claim both a PASS and Tuition Deduction for the same year, however. The program is another stimulus to attending a college within New York State and towards considering enrollment at a private college if the family has some taxable income.

The PASS program is more like the IRA than the Education Savings Account proposed in January 1983. ESA would allow deduction of only the interest on these accounts and only to parents up to $40,000 of annual income, phasing down deductions as the income approached $60,000.

The PASS and TDP program have worked in New York State. Although they do reduce tax revenues for the state and to an extent for the Federal government, these programs stimulate either savings or an investment in more education

than otherwise would be affordable. Other states may consider several of these features. Also Federal officials may find some of the ingredients to be exemplary and adoptable.

5. Other State Innovations

1. Interstate Cooperation

Most states charge higher tuition for out-of-state students. Some states deliberately waive tuition or make exceptions in the spirit of reciprocity and cooperation:

A. Minnesota and Wisconsin have several metropolitan areas where a "common market" agreement provides for the same tuitions for students attending a public college or university whether in Minneapolis-St. Paul or the Wisconsin schools or in Duluth or Superior.

B. Illinois and Iowa agreed to an "Ilowa" higher education collaborative including sponsorship of a graduate center in the Quad Cities region on the Mississippi River.

C. The New England Board of Higher Education provides, through a six-state compact, for in-state tuition to be paid for various health, oceanographic and other specialists studying in a member state.

D. Many states "purchase" or contract for student seats in other state medical, dental, and veterinary schools.

2. Loan Collections

Seven states have enacted laws which enable guaranteed student loan agencies to attach the state income tax rebates of student loan defaulters. New Jersey, Iowa and Utah were among the first states (late 1970s) to enact

statutes that essentially provide this process. This may test and prove the wisdom of a similar IRS provision.

6. What Noteworthy Programs Reveal about the Impact on States of the Federal Student Aid Policy

States sometimes invent programs later adopted by the U.S. Congress and made available to the entire nation. Government scholarships and loan programs were invented and refined first at the state level. States serve as a laboratory for testing new concepts.

2. States vary widely in their willingness to invent or to expand student financial aid programs. New York provides a much higher level of support and more types of programs than most other states. Many states, due to a lack of resources or strong commitment, do not adopt programs even though they are needed.

3. States often choose to supplement Federal programs such as college work-study or scholarship programs and may introduce greater flexibility, e.g., higher wages or use of private business or an emphasis on work placement designed to meet a student's career needs.

4. Although insured student loan programs were invented at the state level, none of the new non-Federal student loan revenue bond programs will provide either the favorable terms or the interstate portability of the guaranteed student loan program. In fact, only the more well-to-do families and/or colleges may be able to use these plans in these states which adopt the plan. However, to make the Federal programs work better, states may agree to find new ways to use state revenue departments to help collect loans from student defaulters.

5. A few states will expand student aid or develop new programs no matter what the Federal government does. Many others have responded to Federal incentives and designed compatible, supplementary, or matching programs. Others will provide for students only that aid which the revenue situation and ideology of state leaders permit.

VII

SUMMARY:

FINDINGS AND REFLECTIONS ON STATE IMPACT AND QUESTIONS FOR FURTHER ANALYSIS

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* This chapter contains perspectives and observations interpreting the findings of this study which, in each case, have been agreed permanently by one or more (but not necessarily unanimously) of the authors (Nolfi, Kramer and Cronin) It is intended to be a stimulus to thought and to suggest hypotheses which are suggested by current information and the informed judgements of various people interviewed but which warrants further research to be proven conclusively.

A. Student Aid Financing: General Outline of the Federal State Interaction

1. Student Aid Financing--General Outlines

a. Institutions in all states participate in Federal higher education assistance programs, especially the Pell Grant, College Work Study, NDSL, GSL and scholarship programs.

b. The proportion of minority students in higher education will increase dramatically (to 35-50%) in several states by 1990 due to demographic patterns in southwestern and industrial states.

c. The State Student Incentive Grant Program by the late 1970s persuaded an additional 20 states (all those that had not previously done so) to establish state need-based scholarship program. Thirty states increased their state grant programs by more than the amount required for the Federal SSIG match. Fifteen states depend on Federal funds for as much as 45-50% of the state program. As much as 45% of all SSIG funds go to students entering private colleges. The largest state aid programs are in New York, Pennsylvania, Illinois, New Jersey and California where large numbers of students attend private colleges with the help of that aid.

d. States have responded to proposed and actual Federal reductions and changes in Student Financial Aid by these measures:

- o Studies of the need for increased Federal aid at the state level.
- o Expansion of state scholarship programs.
- o Creation of new state work-study or loan programs.
- o Consideration of academic rather than need-based state grants to students.
- o Continuation of existing state programs

2. The Federal-State Student Incentive Program

a. State Student Incentive Grant has met the original objectives:

- o SSIG has stimulated creation of new state scholarship programs where there were none before.
- o SSIG has reinforced existing grant programs and provided Federal support for state decisions to expand such programs.
- o The existing SSIG has served to save state scholarship programs from state budget cuts because of the Federal matching dollars that would then be lost.

b. SSIG suffers from these limitations:

- o The program and the amount of money a state receives does not grow with state willingness to expand state appropriations and serve more recipients.
- o Federal dollars have begun to shrink, which conveys a negative incentive.
- o States might desire the flexibility to use some of the funds as support for new programs, such as state-corporate work study experiences.
- o All Federal programs serve full-time or half-time students whereas many older students can only take one or two courses on a part time basis because of family obligations.

c. Federal Policy on SSIG should consider:

- o Expanding SSIG to stimulate state increases in scholarship aid on a 1:2 or 1:3 match.
- o Allowing states to use SSIG funds to develop academic merit and/or state work-study programs, once the state scholarship funds are "over matched."

- o Permit states to use a portion of the SSIG funds for less than half-time student with low incomes, family obligations and economic need.
- o Permit SSIG funds to be used to create new programs to serve clientele now bypassed by Federal and state programs, particularly less than half time adult students

3. Federal-State Concerns

Congressional concern about the impact of Federal policy changes on state higher education systems appears to be well grounded:

a. State officials complain about the confusion and delay caused by a pattern of annual proposals to Congress to change the grant and loan programs erratically, and denounce delays in issuing Federal needs tests for grants and loans.

b. States cannot always make decisions to raise taxes or allocate additional funds for higher education within the same fiscal year of Federal decisions. All states, especially those with biennial budget cycles, may endure delays of 18 to 36 months in adjusting state aid to accommodate shifts in Federal student aid policy.

c. The easiest emergency solutions are those of creating new aid programs without state appropriations, of which the leading example is the state revenue bond programs for student or family education loans. Even these solutions take time to legislate, more time to implement, and many more months to prepare a bond issue and new loan program to serve relatively few colleges.

4. The State Response

a. States do not appear to raise tuition and fees at public colleges

in direct response to Federal policies. New York City (1975), and more recently Michigan, Illinois and California -- states that have a long tradition of low public university tuition to provide access -- appear to raise tuition mainly when there are too few dollars in the state treasury for higher education. Early knowledge of the availability of Federal grant and loan funds can make such decisions easier for state policymakers who can assure themselves that needy students will not be excluded by the higher fees--expenses of the most needy will be taken care of by Federal funds.

b. Despite Public perceptions to the contrary, cuts in Federal student aid programs have been far more than originally anticipated. However, states report applicants for grants, loans and work opportunities. Many have increased state appropriations in one or more of these programs in response to student pressure and the perception or expectation that Federal aid may be further reduced.

c. During 1982 and 1983, many states faced severe revenue shortfalls due to decreased sales and/or state income tax revenue. This diminished the range of responses available to state decision-makers.

d. Surveys revealed that, in general, states are not reliant upon Federal policy to drive state policy. States adapt their higher education policies for strong and not easily deflected motives - e.g., to preserve the private sector, to pursue equal opportunity and access or to implement a low (or high) tuition policy. Since 1976 Federal policy has been too unstable (as survey respondents complain) for there to have been any clear cut policy to which

states could respond even if they wanted to.

e. To the extent they have occured, state responses have taken the following forms:

- o BEOG/Pell Grants, along with low public college tuition, are perceived as having ???the "access" problem, putting less pressure on states to provide other solutions to provide their own access program.
- o Federal "access" and "choice" programs do induce and sustain (1)increases in marginal enrollments in public institutions and (2) marginal preferences for private higher education. Netting these two effects may show either Federal programs costing the states more or less in institutional subsidies e.g. a state may have to pay out more in capital type subsidies if Federal aid causes more students to enroll in public institutions than it causes to choose private institutions.
- o SSIG was initally a strong incentive for the past SSIG states to create programs of need based student aid to match available Federal dollars.
- o When the Federal government threatens the ending of a program (e.g. FISL) unless the states are involved, responsiveness is great - e.g. when the Feds demanded state administration of GSL.
- o Surveys confirm that the continuation of SSIG is a strong brake on any tendency for states to reduce their conforming grant programs.

5. Sensitivity of States to Federal Policy

a. State policy is more dependent on the state revenue situation, state political trends, the priorities of a governor, the legislatures tradition of support and the advocacy efforts of state higher education constituencies than upon federal policy.

b. State policy regarding student financial aid has generally been formulated independently of Federal actions, with internal state factors being dominant. Federal programs and policy have provided a "floor" of access which has, however, made possible more flexible state and institutional actions. For example a large difference exists between pre-SSIG and post-SSIG states in terms of their level of state effort for state scholarship programs.

c. The number of state legislative higher education policy analysts or close observers of Federal aid policy on student assistance is quite limited. Many legislators and most governors must rely heavily on the state higher education staff and briefing from Washington-based organizations. Governors spend time on many other Federal programs -- highways, health, energy, etc -- higher education issues have had their own separate governance structures that have assured the state leading pressure in education. Higher education is usually a large component of state budgets.

d. The issue of "appropriate balance" between the share of higher education cost by Federal, state, local, institutional and family sources does not seem to be the guideline for state decision making. Again, decisions at the state and institutional level are affected by a variety of specific local factors and result in a particular pattern of "balance". Rather than specifying or

determining the "balance pattern" which results, the Federal aid policies have provided general boundaries to the range of possible (and actual) existing patterns of balance or distribution of cost.

e. The available data suggests that very little of state student financial assistance policy and the expenditures that flow from it all is directly determined by Federal policies. There are two main reasons for this conclusion.

- o States that have large state scholarship programs appear to have created them more for internal state reasons such as preservation of the private higher education sectors or because they have decided on a state policy to have a high tuition policy in the public institution, or because there exists in the state's economic or political ethos a major commitment to postsecondary education.
- o Federal policy has been too erratic and unpredictable for states to plan or regularly build on it. States often don't understand "what feds are up to" and by the time states can respond the Federal government has changed its posture (e.g. Minnesota's efforts 1980-83).

f. Where states have responded to federal policies in designing their own student financial aid programs, and sensitivity to Federal policy has been great, it is due to special circumstances:

- o In a small state a $500,000 Federal match is, in fact, a real incentive to develop a new state scholarship program.
- o Pell Grants to students at community colleges and GSL for students at high cost institutions, combined with low tuition commuter institutions has effectively expanded access. In

California, for example, the legislature expressed little concern about whether low income students have adequate funds to cover living expenses since the combination of available low cost community colleges and the availability of Pell Grants to community college students have insured that students living at home with parents would have enough funds.

- o States are clearly sensitive to a threat of withdrawal of Federal funds. For example, when the Federal policy to the states phased out the Federal insured loans (FISL), unless the states set up guarantee agencies, all states got into line by 1980 even those that had previously refused to accept the concept of loans under state administration.

g. States have spent more money to respond to Federal policy, but driven mostly by state timetables and revenues.

- o Since Federal aid (and state tuition policies generated) has a sustained net marginal enrollment in public institutions, the Federal programs have likely induced state spending through increased basic institutional support for publicly supported institutions. Federal aid that enables more students to go to public institutions also enables more students who would have gone to public institutions to go to private institutions. Therefore the net effect of such shifts is different in each state.
- o Steep cuts in Federal aid programs could lead even more students to go to public institutions instead of private institutions. A larger enrollment in public institutions can require even greater state subsidies for basic public

institution support. Therefore it is in the interest of many states to keep Federal aid at a high level and keep as many students in the private sector as possible in periods of constrained state budgets.

- o Adjustments to changes in Federal policy cannot be made, rapidly at the state level very rapidly a log of 18 to 36 months is a realistic time frame for expected state responses.
- o State revenues depend on range factors as does the availability of resource of any given purpose. Revenues in many states depend on the health of local and regional industries--automobiles or tractor production, agriculture, timber and housing, even oil. It must not be assumed that Federal incentives or cutbacks will stimulate new state appropriations without a state revenue capacity and priority for higher education.

h. Perception of the Federal policy impact is divided with few definitive conclusions.

- o Nearly one-half of the state legislative leaders in higher education believe Federal student aid programs had an impact on what the states have been doing, yet almost as many of those interviewed believe that the states spent about the same as they would have otherwise on student assistance.
- o Most legislative leaders in higher education believe that Federal student aid programs have not affected state spending on specific higher education items: institutional support, students in private colleges and universities, and two-year institutions.

- o Current fiscal conditions are forcing the states to reassess and alter their thinking and spending decisions on the level of student aid.
- o Present state fiscal conditions also make it difficult to predict state reactions to changes in Federal student aid programs.
- o The strongest recommendations from our survey respondents about the Federal student aid programs include: stabilize the programs, keep the middle class student eligible, and collect those de lted educational loans.

6. Effect of Federal Programs On State Program Expenditures

a. The Federal dollars and leverage has been small over the dollar amount appropriated by states, but considerable over state program characteristics on selected matters such as the imposition of needtesting measures for grants and loans.

b. On issues such as a state policy to expand aid to the private education sector, it temds to be internal state factors, not Federal policy, which are determinative. The best documented Federal leverage is evident in the creation of new state programs established in the post-SSIG states.

c. In overmatched SSIG states, it is clear that a strong constituency for state student grant programs exists outside the state government.

d. In a post-SSIG state which is now overmatched, it is likely that SSIG created a constitutency which then sought further expansion of the state investment.

e. Why should a post SSIG state undermatch? Some state ???is , and, they do not see a net benefit to the state treasury in the long run to match SSIG, (as opposed to other approaches to higher education access policy) and there are few strong internal state pressures to spend state money on scholarships.

f. It is impossible to obtain accurate data on historical trends in state and Federal program expenditures by state, broken down by Federal, state-local, and family self-help share. State education and general expenditures don't include subsistence costs, and E&G revenue data since the late 1970s has changed definitions. It was not possible to re-construct or refine the data necessary given secural variations with higher education (formats for future data gathering are presented in section C of this chapter).

g. It is important to distinguish "leverage" resulting when states take into account the fact of Federal expenditure from "leverage" pressuring states to change their own policy goals. There is much leverage in the former sense, little in the latter sense. Also "leverage" is a much larger issue for Pell grant and GSL programs than SSIG due to the sheer size of those programs. The leveraging situation is different according to the following ???? of states:

o States with large pre SSIG programs tend to have

  -a high percentage of enrollments in private colleges,

  -a policy of high public tuition,

These factors provide very strong motives for a large state student aid program accompanied by a strong private sector.

o Other states that overmatch, whether pre SSIG or post SSIG

There must be a constituency for student aid in these states beyond the state government. The nature of such constituencies is discussed elsewhere in this report.

- o States that undermatch SSIG:

  These states apparently have decided that either a shift of burdens from families to governments is undesirable or that it is too risky to rely on continued SSIG funding.

7. Substitution Impact of Federal Aid Funds for State Expenditures

   a. The state surveys suggest that the question of substitution effect is largely conjectural. For example, if there had not been Federal aid: would parents have sacrificed more? would aggregate enrollment be less? would states have provided more aid? The answers are unclear, yet many informed observers believe there have been substitution effects but that it is unclear what they are and particularly their extent. Hence, substitution impact is impossible to estimate precisely. There are too many questions:

      - o Would enrollment (public and/or private) have just been lower without Federal programs?
      - o Would parents and students have been willing to sacrifice more for college?
      - o Would factors of production have been paid less? E.G. faculty?
      - o Would the states have provided more aid?

   b. Better specific data collection should permit generation of trend data for each state of the percent on postsecondary education cost borne by Federal, state, local, institutional and family sources, by year, by sector (see state data chart proposed below in text).

This would permit the monitoring of changes in "distribution or "balance" of the cost of education between Federal, state, local and self-help sources in the future.

8. Correlates of State Rankings in Student Aid Expenditures

a. The strongest predictive correlates of a large state student aid program are:

- o percentage of students in private sector institutions or
- o relative by high public tuition level, and (all of the top quartile of states in per capita student aid expenditures are states which are in the group above the median in percentage of students attending independent colleges or high public tuition level)
- o a variable such as percentage of Catholics in the population.*

b. The prospensity of a state to go far above what is needed for SSIG matching appears to be a function or at least correlation of per capita income within the state. At the time the federal SSIG policy was made, ew York, California, Connecticut, for example, rank high and they remain high SSIG overmatch states.

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* It may be that states in which a large proportion of elementary-secondary school costs for education at the elementary-secondary education levels are borne by parents are more likely to have substantial state student aid programs. This may reflect the awareness that the U.S. Supreme Court does allow student aid at the postsecondary level for graduates of private sectarian elementary-secondary schools.

c. Except for per capita income most data on state fiscal capacity do not provide strong correlates useful in predicting large student aid programs.

d. State officials are rarely aware of their rank vis a vis other states in any variables (and hence this is only rarely a factor. The higher education need is presented and if policymakers have some money to expand state aid, internal state reasons rather than the relative rank to other states determine whether a program is enacted or expanded.

9. A Caveat - Different Incentives for States in the 1980's

The vast majority of Federal aid for higher education student assistance does not go through the states. The conscious Federal policy is to aid the brand of students, rather than directly support institustions and certainly not to build up state programs -- a relatively minor goal and small fraction of the Federal higher education budget. Viewed in that context, the consequent impact has been small. For example, SSIG is a tiny fraction of either the Pell Grant or GSL program.

On the other hand, massive Federal programs intended to provide a "floor" of access through a guaranteed basic entitlement and through the availability of other funds based on need, have clearly made it possible for states and institutions to lessen their concern regarding direct student assistant issues and has given impetus to other state and institutional priorities and options. In that sense, the Federal policy has been highly effective in its intended purpose of reducing financial barriers to post secondary education.

Anti deficiency requirements of state constitutions in the past have meant that states have historically quickly moved back into

"current-services" surplus when economic recovery takes hold. All the gloomy talk about the states' fiscal prospects ignores this experience. Why won't it happen the same way again? It may, or the structural economic problems in many states may be no great as to make difficult cystical recovery.

Another dynamic will be at work in a period of rising tuitions at public institutions. The question inevitably arises, how much can the state treasury benefit, net, if tuitions are increased and student aid programs are increased to fully offset the tuition increases for students from families up to some determir d income bracket? This is a calculation quite like the one private colleges go through when they estimate how much of the new revenue generated by a tuition increase will have to be devoted to paying the increase on behalf of aided students through additional student aid. In both cases the net benefit-to the state or the institution--is only what is left, if aided students are to be "held harmless".

But when a private college goes through such a calculation, both the means test and the elements of cost of attendance involved are the same--namely, the ones the institutions use for student aid pruposes in general. Where a state attempts the same kind of calculation to find out how much it will gain if the eligibilities of its students under Federal programs are fully used, it must allow in the calculation for every difference between the applicable Federal aid state means test and eligible cost rules. If not, it cannot be guaranteed that the state will be better off and no student worse off, except very approximately. Only those Pell Grant eligibles for whom the calculation of the grant maximum minus family contribution yields a figure in excess of the allowed percentage of cost stand to have part of an increase in tuition paid on their behalf by the

Pell Grant program, and only the allowed percentage of the increase. Who they are and where they are can be hard to determine without elaborate coordination mechanisms. And it is, of course, not much help in dealing with an irate constituent to tell him that benefits have been only approximately held harmless, or only for most students.

One can speak here of a dynamic having almost a life of its own, because the budget pressure on both Federal and state governments that first demands program coordination to make sure that the combined effects of Federal and state programs neither leave gaps in coverage or have unintended tax-like effects as tuitions are increased.

The very fact of increased coordination and the predictability it requires then makes it very tempting to fine-tune tuition increases to "capture" for the benefit of the state any Federal student eligibility that would otherwise go unused. Ever since 1972 there has been occasional concern about the possibility that the states would capture Federal aid entitlements through increases in tutition. But the fact was that Federal and state programs were simply too ill-coordinated for anyone to make the critical hold-harmless calculation. Coordination by "stacking," with other aid added to the Basic Grant entitlement, does not provide a formula for a guarantee of support, let alone support that would precisely hold students harmless against a rise in tuition. To have such a formula, each student's basic grant must be treated as equivalent to a family contribution and the same means test and expense allowance schedules must be followed by the state program. In the 1970's, a few people argued that state government were attempting to "capture" basic grant entitlements by imposing tuition increases, but if the states were, they were doing it in an exceedingly clumsy way. There was certainly no convincing evidence that tuition

increases of the late 1970s were intended primarily as a "capturing" maneuver.

With the incentives for Federal and state governments for close coordination of student aid programs becoming stronger, however, capturing Federal aid becomes more feasible and represents a kind of dividend. If a state coordinates its programs closely with the Federal programs to rationalize the components of the system as a whole, there is both a good chance of saving money through the rationalization itself and a further opportunity to save money (the "dividend") by fine tuning tuition and aid increases to capture Federal funds. Only one thing now impedes this kind of evaluation: the unpredictability of Federal funding for student aid. If it becomes more predictable, we may see an important shift in the balance of tuition-sensitive Federal and state aid in the direction of greater concentration of aid funds among students attending public institutions. At the same time, a larger proportion of all aid might well become more cost-sensitive than family-resources sensitive-i.e., amounts of aid received varying more with differences in costs of attendance than with differences in family incomes and asset positions.

B. Policy And Programs Options From A State Perspective

1. Rationale Behind Existing "Appropriate Balance" in the States

   a. The question may not be important for states since, for example, if a state has a large percentage of private college enrollment, what it views as an appropriate balance may vary without reference to a national pattern. States can have different but equally "appropriately balanced" patterns. What is "appropriate" is what different state legislatures decide is appropriate in their state unless the Federal government is prepared to say many states are

"wrong" in the "balance"* they have selected.

b. The "appropriate balance"* (not only between the Federal and state role but between the Federal, state and private roles) vary. States fall into certain categories:

- o states that subsidize students via low tuition (e.g. California) and/or build a range of geographically easily accessed institutions.
- o states that don't (e.g. Vermont, New Hampshire)
- o states which say they will provide a small amount of student aid money to expand student access but rely on GSL and campus-based programs, not state programs to provide for choice.
- o states which will pay for student subsistence, access, and choice--these are typically the pre-SSIG states and, further, these are states with a large private college enrollment (New York, Pennsylvania).

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* The term "balance" or "appropriate balance" are those chosen by the Commission on Student Financial Assistance to describe the distribution of the burden of the cost of postsecondary education between families, students, state and local governments, federal governments, institutions entail. Federal policy could argue to a minimum balance level, which the state if they choose could exceed. Some states have adopted policies that tuition should be a certain percentage of total cost. While K-12 education, postsecondary education is trans-state phenomenon and is hence appropriately both a state and federal concern.

c. If the states are accepted to have legitimate reasons for their very different policy goals, then there cannot be a nation-wide formula for what is an "appropriate balance". What is appropriate depends on whether the state has a goal of doing more for "access" or "choice" or subsistence than the Federal government's goals would entail.

2. Effects of Demographic Variables

a. There are three ways in which demographic variables help explain state behavior.

- o States which had unusually rapid growth in 18-25 year-old cohort in the past (e.g. California) considered a student aid program very attractive. Under these demographic conditions, financing student attendance in existing private colleges can enable a state to avoid building additional public institutions, yet still provide educational opportunity.
- o States which have an expanding public sector higher education capacity and also has a rapidly growing state student aid program (e.g. Florida, Georgia, South Carolina and California).
- o State situation (e.g. Texas, Masachusetts, Arizona, California) where there has been first a shifting industrial mix with other emerging high tech sector (electronic, hospitals, etc.) where people are well paid, together with a larger low tech sector: that is where there is a wide distribution in terms of incomes and occupations; and a second belief in the advantages of more education in terms of benefits to both the state and to individuals. States which are more homogeneous in terms of employment may see less benefit from student aid expenditures.

b. Capitation formulas for funding public higher education work in reverse when states experience a decline in enrollment (e.g. in states like California). In shrinking enrollment times, not only is money for cost of institutional expenses shrinking, but average cost per student may be increasing.

- o Savings from subsidizing private college students vanish. If public sector enrollment is falling, the subsidy of students in the private sector may compete with public institution money.

  As soon as you have excess places in public institutions there are rarely substantial savings to increased student aid for private state enrollments.

- o Any limits, increases or decreases on SSIG may be one new factor in these times of fiscal stringencies. However, the SSIG may be more important as a brake on cutbacks than it was as an incentive for growth. There may be some real advantages to a shared cost model when the states have supported its Federal enactment. Also, the Department of Education is only one source of Federal higher education assistance. The Social Security payments to college students are being phased out. Department of Defense higher education programs -- academics, ROTC, reservists, National Guard - as well as VA benefits are very substantial. NSF and HEAL grants and loans also account for an impressive share of support to certain students and universities.

c. The end of 18-22 cohort growth, especially if the growth has been especially rapid, can bring an abrupt halt to the state's savings

from shifting a marginal enrollment to the private sector through student aid. Over capacity in the public sector appears suddenly and creates new pressures.

d. States with a bi-modal technological base (e.g. Texas, Massachusetts, Florida) with high and low technology industry sectors perceive a stronger investment rationale for support of higher education. They have the means and the will to do more than other indications would suggest they would do.

e. Those states which have spent more for higher education on a liberal equity and access rationale are also the states which have created other anti poverty programs that give higher education stiff fiscal competition when the going gets rough.

g. Two-income households help states fiscally to the extent they rely on income and payroll taxes to finance higher education.

3. The Problem of Intermittent and Part-time Enrollment

A special problem is presented the states by the eligibility of part-time and independent students for aid under the Federal programs. Should the states feel constrained to follow the Federal lead in this matter? Should the Federal government exert pressure (e.g., through the SSIG program) to persuade the states to do so? Not following the Federal lead here results, at the very least, in a glaring failure of coordination.

Stepping back in the coordination problem, we can see that it results from a pattern of college attendance that is simply different from the one addressed by the major student aid programs, Federal or state. These programs assumed as typical a student whose academic obligations were incompatible with full-time employment for at least as long as the four

consecutive years traditionally devoted to gaining a bachelor's degree. The student's resources and budget (usually meager) were estimated on this assumption and the role of student aid was to fill the gap between them.

But that is not the way many students go to college at all! Some have always relied primarily on their own earnings to put them through. Part-time enrollment often permitted full-time jobs. Students who were genuinely independent often were so by reason of the fact that they interrupted their studies for one or more periods to engage in full-time work and save money for the day when they would enroll again.

Not all part-time and independent students fit this pattern of self support. Some have done so because of special, often disadvantageous, personal circumstances such as ill health. But more typically, those who enroll part time or intermittently do so because such an enrollment pattern permits them to solve for themselves, and advantageously, the problems student aid programs address: how to meet the cost in time and money of obtaining an education. They often do so because they assess opportunity costs in obtaining higher education differently than the young, full-time four-year student is expected to do. They do not want to give up the standard of living, let alone the family arrangements, that part-time or intermittent enrollment permits them to sustain.

This kind of enrollment pattern presents a dilmena. It seems hard to deny such students altogether the benefits other student receive for no other reason than the self-reliance they demonstrate (although it somehow does not seem to most people unfair to deny people other aid, e.g., food stamps, if they are successfully self-reliant). At the same time, it is extremely difficult to determine the eligibility of such students on the basis of verifiable criteria and clearly equitable formulas. Private and

sensitive living arrangements are often too relevant: just why did the student leave home and how completely has he/she really left? What can the spouse of a successful business executive reasonably expect that spouse to contribute to educational expenses? What standard of living should be protected from the family contribution "tax" on the earnings of someone employed full time and attending college part time?

There is the further complication that student aid can easily become a kind of extra unemployment insurance in a flexible enrollment pattern. When good jobs are hard to get, a period of full-time enrollment can bring an independent student a very useful income supplement. A rule of thumb whose validity is supported by the experience of the GI Bill is that the greater the fraction of aid eligibility representing subsistence expenses, the more likely the use of aid as an income supplement becomes.

A possible way for the state to look at all of these problems would be this: A meshing of Federal and state student aid programs through adequate coordinating mechanisms is surely desirable. But those part-time and independent students who choose such patterns of enrollment not because they are advantageous patterns, but out of hardhsip, are only too likely to need help from the basic income maintenance programs of our society. These are predominantly Federally controlled-unemployment insurance, welfare and foodstamps. Involvement with these Federally mandate programs will ordinarily bring intrusion enough into the lives of people who seek their benefits. It might be better for the states to avoid duplicative intrusion by leaving the support of these students to the Federal student aid programs, which could then be coordinated at the Federal level with the basic income maintenance program. If one believes the states are in a better position to help such students and prefer a more modest federal role,

a case for states responsibility to aid less than half time students can be made.

C. Formats for Future Data Gathering to Permit Precise Analysis of the Changes Over Time in the Distribution of the Cost of Education Between Federal, State,Local, Institutional and Self-Help Sources. The existing historical data does not permit the precise analysis of actual changes in "balance" of distribution of costs of postsecondary education between the several sources of funds this data is not uniformly detailed over the period and the selected needed supplementary studies have been done only in certain years. If data were kept such that the attached two charts could be filled out each year and the self help contribution derived (Note this variable is a dependent variable calculated so that the sum of lines 5-24 in the chart equals line [illegible] like accounting balance sheets) then in the future a precise analysis of the impact of federal programs on "balance" could be performed.

CHARTS ON THE NEXT TWO PAGES

4. Notable Programs

a. Several states set the pace not only for other states but for the Federal government. New York established a scholarship program in 1915, a loan program in 1957, and already has family savings and tuition tax credit programs in operation. Pennsylvania has shown how to link Federal, State and campus programs by a system of telecommunications. Washington has a work-study program that includes the private sector. Illinois, New Hampshire and Massachusetts were among the first states to use tax-exempt revenue bonds for non-Federal loan programs.

b. States create new aid programs ahead of the Federal government and/or in concert with Federal policy, and also because of Federal cutbacks. However, many states lag behind the innovator states either for lack of finances or sufficient political support for higher education in their state.

c. Notably, adult students less than half-time, including those seeking retraining due to economic shifts and those seeking to reduce their welfare and unemployment insurance dependency, are bypassed in state student aid programs. In a few instances (e.g. Adult Recurrent Education Career Development Grant Proposal being considered by the Massachusetts Higher Education Assistance Corporation and which has been pending in the Massachusetts State legislature 1975-83*) programs of this type have been proposed but

*See bibliography appendix for further information

not yet implemented. Federal incentives to stimulate such programs could be effective. Numerous studies, some by individuals associated with this study have developed the rational for such a public investment in recurrent education.

5. Private Sector Initiatives

a. Two sources of support for colleges have become more important in the 1980s.

- o Parental or family support, in the form of savings for education.
- o Corporate support, in the form of contributions or work experience or partnership programs with universities.

b. Corporations have helped and can help by:

- o Making gifts of funds for higher education institutions, e.g. for scholarship and/or loan programs.
- o Matching employer gifts to the college of their choice.
- o Paying college education for their employees through tuition reimbursement schemes.
- o Participating in state work study and cooperative education programs as employers.
- o On occasion companies have adopted or co-sponsored higher education programs in science, engineering, computer education, management, or the humanities.

Many states would expand their programs or meet new goals with additional corporate support.

6. Additional Future Policy Considerations

a. States generally have these higher education finance policy options.

- o Keep public college and university tuition low. This keeps access open but ignores the "ability to pay" of many middle income families.
- o Raise tuition but establish sufficient state scholorship, loan and work opportunities for students.
- o Assist families whose children want to attend private college through a state grant program, payment for degree completed, savings incentives and other aid (New York).

b. States having (in their own judgement) sufficient revenues permitting expanded state higher education grant programs on the basis of need. The other options include:

- o Establish academic merit scholarships to recognize talent and encourage excellence.
- o Raise tuition but establish sufficient state scholarship, loan and work opportunities for students.
- o Help families whose children want to attend private college through a state grant program, payment for degrees completed, savings incentives and other aid (New York).
- o Financing work-study programs not only with non-profit but with corporate organizations, where possible tied to career and college majors of participating students.
- o Promote Federal loan programs and augment them with state dollars, e.g. higher loan limits for medical students (New York) or pay the interest on auxiliary loans.

- Stimulate corporate giving for colleges and financial aid through test policy and/or by matching grants at the state level.
- Pursue joint industry-higher education development of degree programs and corporate tuition plans for employers.

VIII.

Additional Observations

VIII. Additional Observations

General Discussion: Inferences from Available Information

(1) Why State Programs Differ
(2) Changes in Guaranteed Student Loans
(3) Changes in Pell Grants
(4) Tuition Tax Credits
(5) Education Savings Accounts

B. Student Aid in State Messages and Budgets

C. State Tax Treatment of Education Cost

D. Education Tax Expenditures of Individual States

The effect of federal financial aid has been to increase the access of lower income persons to higher education provided by private and state-supported institutions. Federal policy changes will neither be reinforced nor negated by state decisions on funding of educational insitutions or tuition--their impact will be felt by the students themselves.

The Federal State Student Incentive Grants (SSIG) have had mixed effects. They stimulated, and continue to stimulate, state programs in some states that would otherwise not have state student assistance programs over and above those provided by state public higher educational institutions. In other states, the Federal program encourages states to do what they already would be doing without Federal involvement and, in some major cases, what they were doing before the Federal program began. At a minimum, changes in this program are likely to be reflected, more or less dollar for dollar, in state scholarship assistance (depending of course on the matching formula).

Termination or major restriction of Federal student assistance programs would have a major deleterious effect on private higher educational institutions, in terms of their viability, quality, and accessibility to low income students. Deterioration in these dimensions would increase pressures on states for action to overcome these problems, but the pattern of state action would be uneven nationally, and would not be enough to offset the Federal impacts.

By a small margin, state legislative leaders in a higher education indicate that Federal student financial aid programs have influenced their state's policies in higher education, but not all agree on the direction of that influence. This conclusion is based on a telephone survey of 74 legislators in 47 states, almost all of whom chair their legislature's committees responsible for higher education policymaking. Almost one-half of the respondents (48%) claimed the Federal student aid programs affected their state's decisons to spend more or less on student financial assistance. Almost as many respondents (46%) noted that the Federal programs caused their states to spend about the same as they would have otherwise for student aid. Thus, it is difficult to determine the impact of further changes in Federal student aid programs.

Much of the discussion by state legislators of current spending on student assistance is dominated by the current bleak fiscal conditions of the states. The evidence from the survey suggest that the availability of fewer dollars is forcing states to consider alterations in their thinking about student aid. In some states the strategy is to give higher priority to more needy students, while in others spending priorities have shifted toward the meritorious middle-class student who can no longer qualify for Federal aid because of a relative lack of need. In almost all of the states, current legislative sessions are focusing on ways to raise revenue, cut spending, or both.

Despite t[illegible] that state spending on higher education has been affected by Fe[illegible]ent assistance programs, when asked about state spending on specific facets of higher education--institutional support, students in private colleges and two-year institutions--the impact is less

well perceived by the legislators. The survey also revealed that the members most responsible for higher education have little specific knowledge of Federal student aid programs and their effect on the states. The result is that many legislators are heavily dependent on State Higher Education Commissions and the Office of the Governor for policy direction on student financial aid.

Lack of stability from year to year was the major complaint of the survey respondents when discussing the Federal student assistance programs. "Leave them alone for a while" was the legislators most preferred recommendation.

In the past, it would appear that state higher education financial policies have had little sensitivity to the characteristics of Federal student assistance targeted at the needy potential student. The causes of this low lack of sensitivity (e.g., tendencies by state decision makers to maintain a constant student share of instructional costs, rapidly changing and uncertain Federal policy) are unlikely to change in the future, so the impact of these programs on major state financing decisions should continue to be slight.

Federal policies have had an impact on state student aid programs. By taking responsibility for millions of needy students, the Federal government has reduced pressure on states to handle such students with grant programs of their own or through allocations of the resources of individual state higher educational institutions. The Federal government incentives for states to begin student aid programs through the SSIG program have had some marginal influence on state spending. (These are detailed "in Summary of College Board Studies on the SSIG Program.")

In FY 1981, the last year for which Census data is available, state higher educational institutions (excluding auxiliary enterprises such as student housing) spent $27.6 billion on higher education. In the same year, the Federal government spent $6.8 billion on higher education. The Federal total excludes substantial research purchased from higher educational institutions and includes funds spent outside higher education (e.g., for student expenses other than tuition and fees). Of the state spending, approximately $6.1 billion was financed by tuition and fees, suggesting that tuition and fees finance about 22 percent of state higher education spending. These numbers suggest that the Federal impact on higher education has been substantial, with as much money involved as all tuition payments by all students.

It would be ridiculous to suggest that spending of this magnitude has had no impact on state higher education policies. Unquestionably it has. However, the impacts of state and Federal financing have been quite different. States spend most of their money subsidizing higher education providers, the public institutions, so they can provide their product at low price to all students. The Federal government spent much of its direct higher education instructional subsidy money subsidizing consumers, especially a targeted group of low income students.

The two sets of policies overlap only in those cases where the Federal government subsidizes providers, which it now does only to a limited degree and for very special reasons, and when the state governments subsidize consumers which states, with Federal encouragement, now do, although most of them much less than the Federal government does. Otherwise, the two policies are basically complementary. The Federal government has been committed to providing substantial student assistance to those attending either private or public institutions. When a student chooses a public

institution, both the student and the Federal treasury benefit from the state-provided subsidy. Substantial Federal support of needy students has also made it easier for states to pursue their policies. State and institutional student assistance funds are used to provide even deeper subsidies to needy students by supplementing Federal funds. States support some students who would not meet Federal need criteria or could have such small assistance amounts that they might not be able to attend state or private institutions without state aid.

In broad terms, the major Federal policy issue is whether to continue what has become an established Federal role in student assistance. One option is to pull back from this role by some device or devices that cut eligibility, require larger contributions from students and their parents or otherwise cut Federal costs. If the Federal government were to withdraw from current student assistance patterns, state governments (including the higher educational institutions) could be expected to attempt to fill the most obvious void by redirecting current student assistance funding. However, this would not solve the resulting problems as no amount of reshuffling of $1 billion (state student assistance) would fill gaps left by withdrawal of $6.8 billion of Federal spending. Substantial Federal cutbacks in student assistance would also put pressures on states to increase their student assistance funding, just as Federal withdrawals from other areas have increased pressures for spending in them. However, patterns of state spending do not change easily or quickly.

Given the incremental tendencies of state resource allocation, it would not be realistic to expect state student aid funding to increase at a rate of over, say, 15 percent a year even in the best of times. At a time when

employee wages are being frozen and other programs being cut back (the current situation), increases of this magnitude are extremely unlikely. Even a 15 percent increase in a billion dollar base does not provide a lot of replacement for $6-7 billion in Federal funds. In addition, it should be remembered that many persons involved in education programs have different ideas of educationally effective policies. Strong claims are being made that success or failure of education of the disadvantaged is determined between age 3 and grade 3. This argument, if accepted discourages state resource allocation to programs designed to draw disadvantaged students into higher educational institutions and encourage state officials to follow a pattern of concentrating resources on lower grades.

This report concludes that changes in Federal student aid have had, and will have, little if any, effect on state policies in support of higher education and the apportionment of higher education costs between students and taxpayers. It also concludes that there has been some effect in the area of state scholarship programs, stimulated through the SSIG program; however, meeting a need through Pell Grants and GLS may have caused added state allocations (in some states) in the absence of a Federal program.

These conclusions suggest one other. Federal student aid spending of the magnitudes involved should have had more major effects somewhere in higher education other than the effects on states described above. It would appear that those effects were largely felt where Federal policy-makers intended that they be felt: (1) in the access of needy students to higher education and (2) in helping to maintain the viability of private higher educational institutions and encouraging them to maintain a mix that included significant numbers of needy students.

While it is true that Federal withdrawal from, or substantial restriction of, current patterns of student assistance would have a significant effect throughout higher education, it would seem that the effects would be concentrated primarily upon disadvantaged students and private institutions. Obviously Federal cutbacks adversely affecting either of these groups would create pressures for state action. These pressures could in turn create some compensating actions, constrained by state fiscal conditions, decision makers' commitments to hold down state taxes and pressures from other quarters. However, experience with other Federal policy changes, the aversion of state officials to adopting large numbers of means-tested entitlement programs and the nature of the state resources allocation process all suggest that states might do their best to mitigate damages to private institutions and the disadvantaged but would not avoid major damages vis-a-vis the expectations created by current policies.

These observations on the downside of Federal policy change --restrictions, cutbacks, reduced funding--also apply on the upside. Federal officials can, from past history, have some considerable confidence that the state officials will not negate the impact of expanded student assistance by sharply altered state behavior. The state track record is that tuition's share of public institutional costs has not gone up, even though many experts believe that it should, and that state scholarship programs have expanded alongside Federal efforts.

The State Student Incentive Grant Program had two original purposes encouraging the creation and the expansion of state student grant programs. By 1979 the first purpose had been met: all states had created programs of need-based grants for undergraduates. SSIG was less successful in inducing increased state spending, in large part because Federal expenditures fell short of matching many states' efforts. This conclusion remains true today.

In fact, declining Federal appropriations threaten to erode SSIG's influence on the expansion of state programs altogether.

In 1980, however, Congress added a new maintenance of effort requirement to SSIG and thus might be said to have given the program a new purpose. In a time of extreme budgetary pressures on state governments, encouraging the continuation of current spending on student grants might be an important new effect of SSIG. Threats to eliminate the program are worrisome to states, given the fiscal climate. Most state grant directors expect that they would be unable to replace lost Federal funds from other sources and that they would have to cut either the number or the size of student awards.

(1) WHY STATE PROGRAMS DIFFER

The states have had quite different purposes in mind as they have framed their student aid program in the past. Some have wanted "access" or equal opportunity programs. Some have wanted primarily "choice" programs. Others have wanted both. Some states have seen a large student aid role for themselves, others have seen only a small one. The building blocks of analysis presented here do not say anything about the wisdom of these choices. For one thing, the importance of maintaining a large private sector is properly more central a concern for some states than for others. So is maintaining a low tuition policy for public institutions more important for some states than for others. But supposing that these different emphases continue, what should state governments be especially alert to in the environment of the 1980s, lest the changes outlined here distort state policy if not offset by program adjustments?

For states that have emphasized equal opportunity objectives and wish to continue to do so, the concern must be the possibility that resources for a guaranteed floor of cash support for really low income students will be

drained away developments in the direction of more relaxed means tests, greater cost-of-attendance sensitivity in aid awards, efforts to capture Federal aid and, especially, self-help requirements. Two devices that would offset this tendency and maintain a focus on the poorest students would be to scale grant amounts upward from a minimum grant at the zero family contribution level or to disregard some part of a national self-help expectation--i.e., not treating this amount as equivalent to an additional family contribution. These devices are compatible with the greater simplification and coordination with Federal programs.

For states who have wanted primarily "choice" oriented programs, most of the trends described earlier in this paper would seem to be going in their direction. What is likely to be troublesome for them is any resulting weakness in the kinds of support for "access" which has been complimentary to their emphasis on "choice." In particular, higher tuitions at public institutions and less generous Pell Grant awards to students from very low income families could make them think again about whether they wish to firm up access guarantees--possibly by doing exactly what it was suggested that states which have traditionally chosen "access" programs might wish to do. An alternative might be to have a two-part program. The first part could guarantee that the sum of expected family contribution, Pell Grant, reasonable self-help through earnings and a state grant would equal standard subsistence expenses. The second part of the program could then treat the whole of this subsistence allowance as equivalent to family contribution for the purposes of a choice-oriented formula.

The preceding are essentially political problems. The difficult technical problems for the choice-oriented states will be to avoid a situation in which state dollars do not end up paying for too much of each

tuition increase at private colleges, thereby underwriting the institutional budgets of these institutions, including "internally generated" student aid going to students ineligible for the state's own programs, e.g., out-of-state students. A way to avoid this is for the state to fix a maximum eligible cost well below average actual cost of attendance at private institutions in the state. Self-help and loan self-help in particular could then be relied upon to meet remaining costs--including the cost of marginal tuition increases. This approach, of course, would make students and their families support restraint in setting private sector tuitions. The difficulty with this approach, of course, is the attractiveness to both institutions and the Federal government of building in a major self-help expectation before grant aid, not after as suggested here. Plainly it is unfair to ask for a reasonable amount of self help twice.

Those states that have mounted programs in the past with both substantial "access" and "choice" components will be the states with the largest stake in close coordination with the Federal programs. Perhaps such coordination is impossible as a practical matter because of the unpredictability of the Federal programs or disagreement with Federal policies on means-test mechanics, allowable costs of attendance and self-help expectations. If so one answer might be a formula treating each student's Pell Grant as an addition to family contribution as estimated by the state's own procedure, disregarding any Federal self-help expectation, and then limiting the state share of needs unmet by Federal grant and family contributions to some fraction--say, two thirds--of costs as allowed by the state. The remaining third would constitute a self-help contribution coming

neither before nor after grant aid. Under such a scheme it would be possible--though not cheap--to assure that low tuition public institution students would seldom have to borrow to meet their self-help share and that private institution students generally would, but not excessively.

What is the probable impact of Federal policy options likely to be considered by the Commission on state policy. These are discussed in this section for each of the major Federal proposals.

(1) Changes in Guaranteed Student Loans

From the perspective of Federal officials worried over the budget, the student loan subsidy program is a substantial current outlay. From a state perspective, however, true loans at a fairly high interest rate by historical standards are involved. These loans are not perceived as equivalent to grants by state officials, students or parents. This means that a loan is not really as good as low tuition in encouraging access. Perhaps more important, state officials are unlikely to be able to use the availability of loans in defending tuition increases to most students or their parents.

As a result, enhancing the loan program by such actions as removing the income cap, lowering the interest rate and/or establishing contingency forgiveness for certain public interest post-graduation employment would not seem likely to affect state policies regarding tuition significantly.

NGA does not have longitudinal data on the sources of support of public higher educational institutions by which one could analyze, by state, the percentage of total public higher education costs that are paid by tuition and fees. Such information would be "best evidence" of the historical impact, if any, of Federal student aid decisions. The

little evidence we do have (Paul Brinkman, Higher Education Financing: 1978-1980 (NCHEMS), 1982, p.28) suggests that tuition as a percentage of the sum of tuition and fees and state appropriations has dropped from 23.0 percent in 1975 to 21.7 percent in 1980. These data would tend to support the conclusion that state appropriations and tuition decisions have not been driven in a high tuition direction by Federal policies.

The GSL really performs two functions: (1) lowering the effective interest cost for those who borrow and (2) providing access to credit for some persons who would not get it otherwise at any price. If the Federal government were to drop GSLs, some states would probably try to achieve the access objective and part of the subsidy objective with revenue-bond-financed state loans. Without substantial state subsidy, such loans would have to have relatively steep interest rates to cover a loss reserve, and administrative and borrowing costs. Interest while in school probably could not be subsidized, but some measure of access could be maintained by such a program. The Federal outlay savings would be offset in part by increased Federal tax expenditures associated with the additional use of tax-exempt financing. The wealthier private institutions might also seek to fill a loan program gap caused by Federal withdrawal from guaranteed loans.

A natural consequence of restrictions on the GSL program would be some fall-off in enrollments relative to what would be the case if the GSL program continued unchanged. This would be likely to exacerbate strains on the higher education system resulting from enrollment fall-offs, but would be indistinguishable in effect from the other causes of fall-off. The fall-offs would probably affect the private sector disproportionately. Higher education interests can be expected to react to such fall-offs by

seeking real increases in support per student which would be necessary to maintain current programs and personnel in the face of enrollment reductions.

The differential impact of GSL restrictions on various types ofinstitutions will obviously depend upon what the restrictions are. However, restrictions such as requiring more student contributions as a basis for eligibility, lowering family income limits and eliminating eligibility for certain classes of students would appear likely to affect the higher cost institutions most adversely. These would be particularly the privates, but also the larger state institutions with graduate and professional programs.

(2) Changes in Pell Grants

Pell Grants serve a relatively small segment of the higher education student body, the students with the clearest financial need. The disadvantaged students to attend the higher quality state and private institutions, and allow these institutions to try to reach these students at a reasonable, though substantial, cost.

Pell Grants represent one of the strongest redistributive Federal policies. Each grant moves a substantial amount of money to a highly targeted group of individuals. The education financed by the grant offers the prospect of allowing the student to have much more earning power than he or she would have without it.

There are a number of state scholarship programs which resemble Pell Grants in being based upon need and providing significant amounts of assistance per student. Some of these were in existence before Pell Grants and some came into existence after BEOGs (predecessors of Pell Grants). Comparative statistics on the state and Federal programs in FY 1983 are shown below:

	Pell Grants	State Need Grants
Number of Awards (thousands)	2,500	1,253
Amount of Awards (millions)	2,419	976

The National Association of State Scholarship and Grant Programs, the state officials administering scholarship programs, provides an annual survey detailing the characteristics of these programs. Because there are multiple programs in some states, the survey covered 108 programs for the 1982-1983 academic year. Of these, 38 require applicants to apply to the Pell program also and 24 subtract the Pell Grant from the state determined need for assistance to generate a net need to be met by the state. Twelve programs do this without looking at the Pell Grant application. In roughly two-thirds of the programs, responsibilities for overawards are handled by the institutions.

The pattern of these state programs is very uneven. Some states have only the programs they need to take advantage of Federal SSIG funding while other states substantially overmatch the Federal funds. In the aggregate, the state programs are underfunded in the sense that substantial numbers of applicants are turned away for lack of funds.

The data suggest a diverse pattern of present practice and thus reactions to changes in the Pell Grants that would vary by state and by institutions within states and with SSIG policy. Some states appear to be in the student assistance business at the state level only through the incentive of SSIG. In those states, elimination of SSIG would likely eliminate these programs in some states and at best reduce total grants by the amount of the Federal component in others. These states would, of course, be the ones least likely to try to replace any losses from the Pell Grants.

In other states, the forces at work with a reduction in Pell Grants would be reasonably clear. Those favoring these programs would probably seek to achieve funding that would replace all of the Pell Grants, thereby

maintaining the same student aid pattern as before. State officials would probably be considering these requests along with other major requests to replace lost Federal assistance in such major fields as mass transit operating costs and low income energy assistance. The result might be some increased allocation of state student assistance funds and a substantial redirection of existing state funding. That redirection would probably result in (1) lower total grants than the combination of Pell and state grants had been before for the most needy students, (2) more concentration of state funds on the most needy person and/or (3) some other rationing of the available grant funds, e.g. on Academic potential.

The institutions themselves would also have to decide how to accept the impact of loss of Pell Grants on their own programs. Here the impact of Federal retrenchment would probably cause some institutional filling of the resulting gap at the expense of the size of total awards to students with awards and a rationing of awards, presumably toward the most needy students.

(3) Tuition Tax Credits

The purpose of tuition tax credit proposals would be to reduce the effective cost of higher education by allowing those paying a student's cost to reflect some of these costs in lower taxes. Proposals for the credit vary in terms of what costs would be recognized, how they would be recognized (e.g., partial credit or full) and what maximums would be involved.

Assuming that the credits would be related to the amount paid, they would tend to reduce the cost (in percentage terms) of attending high cost institutions more than low cost ones. Other things being equal (which they are not), this should benefit the privates more than the state residential institutions and the state residential institutions more than those institutions normally attended by persons who live at home. Overall,

however, it should increase the consumption of higher education by making that consumption cheaper.

The impact on state spending and tuition policy would depend upon how the credits were structured. Theoretically, a credit or deductibility of some college costs would reduce the impact of higher tuition on voters and thus make it easier to raise tuition. In practice, state officials and voters may not consider deductibility or credits. For example, state income and sales tax payments are deductible, but this fact is rarely discussed in the context of decisions on state tax increases.

(4) Education Savings Accounts

The Administration's budget includes a proposal for education savings accounts. Parents could contribute $1,000 per child per year to these accounts with lesser contributions permitted for parents with adjusted gross income above $40,000. Unlike IRAs, the contribution would not be tax deductible but interest and dividends would not be included in adjusted gross income if eventually used to defray costs of tuition, room and board for the student.

If successful in generating substantial savings for higher education, the proposal would have a modest effect in increasing the ability of parents to pay students' education costs. Other things being equal, it should mean less funding would be required in state and Federal student aid programs. However, if reaction to this incentive is comparable to reaction to the much stronger incentive of the IRA, participation would be highest among the most affluent eligible persons. Those who were just barely meeting costs of food and lodging, children's clothing and other expenses would be the least likely to participate. Such a pattern would suggest that the same arguments that have persuaded state officials to hold down the share of education costs paid by students would continue to be influential in the future.

B. STUDENT AID IN STATE MESSAGES AND BUDGETS

The research staff of the National Governors' Association (NGA) ????? its state messages. State higher education policy and federal student assistance could not be adequately understood without reference to state budgets and governors' messages--the policy documents common to all states.

Documentation of Policy Decision-Making Processes in State Governments. Compared to the federal government, it is very difficult to understand the motivations underlying policies in a state. In the Federal government, the positions of interest groups are normally formally documented in printed form, such as published transcripts of hearings. In state governments this is not true. Hearings are often not recorded and transcripts are practically never published. In the federal government, staff work is normally made available to the public. Sponsored research is published and adequately catalogued. The work of staff agencies--such as the Office of Management and Budget, General Accounting Office and Congressional Budget Office--is often published. The general press and specialized newsletters follow positions of the players as policy is made.

The normal processes of state government do not produce this degree of documentation and, when documentation exists, it is no easy feat to collect it from 50 states. There are very few uniform policy-oriented documents among states. Of these, some important ones are state budgets, state-of-the-state, inaugural and budget messages of the governors and enacted legislation (which has little relevance to federal student aid policy because in any given year there is little legislation enacted on student aid other than appropriations bills).

Methodology. This report is based upon a review of the governors' inaugural messages in those states which had inaugurations this year, state-of-the-state messages, budget messages and actual state budget documents. In total, 45 states are covered. Those not covered are primarily states where the legislative session does not begin until April and one state (Kentucky) which will not be acting on either budgets or legislation this year. Each of the messages and/or budget documents were examined to determine the treatment of higher education. While the recommendations of the governors do not control the decisions of the legislature, the governors' recommendations shape ultimate legislative action as both the governors' and the legislatures tend to respond to the same economic and political forces in each of the states.

Relative Emphasis on Student Aid. Higher education was not high on the agendas of the governors this year, as measured by the attention paid to it in major messages. The current economic situation and its effects on state revenues preoccupied most of the governors. Policy initiatives tended to fall into three fields: (1) economic development, (2) crime and (3) elementary and secondary education.

Higher education tended to be discussed in the messages primarily in terms of the contributions it could make to improving elementary and secondary education and economic development. For elementary and secondary education, the contributions of higher education most often cited were improved teacher preparation, retraining of teachers in science and mathematics and increased requirements for admission, particularly in math and science. For economic development, the contributions higher education could make improved technical assistance to business, research in high tech areas (plus agriculture or acquaculture in a few states) and generally

maintaining programs that would attract new high tech employment.

Student assistance in higher education was mentioned in a few of the messages, generally in connection with programs to improve the teaching of math and science in elementary and secondary schools through the provision of student loans with forgiveness for teaching in that field or grants to enable elementary and secondary teachers to improve their capabilities in these fields.

Spending Recommendations for Student Aid. The typical governor's budget message covers every major item of state expenditure. Thus, state student assistance was mentioned in many of the budget messages. However, this mention was typically in the context of some decision-rule being applied to higher education as a whole.

The decision-rules most often applied were ones that were consistent with decision-rules being applied throughout the state's budget, not just to higher education or student aid. The decision-rules varied primarily with the fiscal position of the state. The most frequently encountered decision-rules were variants on attempting to maintain existing programs. Examples (in order of increasing funding) are:

(1) Maintain the absolute dollar level spending of the prior year;

(2) Maintain the program level of the prior year with adjustments for changing demand for loans and grants;

(3) Increase by some uniform percentage (3-5 percent normally) and

(4) Maintain the program level of the prior year with adjustments for demand and price levels (particularly tuition).

In several states, governors recommended that their current medical scholarship programs be converted to loans because the unmet demands of medical personnal are not as pressing as they once were.

There were a few exceptions to the general patterns described above. The governor of South Dakota indicated dissatisfaction with the distribution of affordability of higher education (poor get aid, rich can afford it, middle level groups fall through the cracks) and indicated he would be submitting legislation for a new student loan program. The Alaska governor referred to a "college loan program that's nearly grown out of control." The budget document shows the program growing rapidly, but contains no proposals to limit growth. Alaska, with substantial oil revenues, provides up to $6,000 a year per student ($7,000 for graduate study) for student loans for Alaska students attending school in or out of the state. Much of the loans are forgiven if the students return to Alaska.

Iowa's governor focused on "the gap between tuition costs of our private colleges and universities and the Regents (state) universities." He judged the adequacy of the state tuition grant program by the degree to which it closed that gap and proposed that the maximum tuition grant award be increased. As a result, he expected the grant to shift from closing 57 percent of the "gap" in FY 1983 to 64 percent of the "gap" in FY 1985.

Impact of Federal Policies on State Policies. In the messages and budgets of the 45 states studied, there were no predictions of future Federal student aid policy, no descriptions of those policies and no explicit ties between the policy recommendations and Federal policy. There was one reference to Federal policy changes having affected past state policies, though only small amounts are involved. On page I-370 of the four inches of Wisconsin's budget, the following appears:

The Board requests $9,774,000 GPR (presumably general fund) ... in 1983-84 and in 1984-85 to restore GPR base funding for the grant program. GPR base funding was eliminated in 1982-83 because of significant increases in federal special allowance revenue. Projections for the 1983-85 biennium indicate sufficient special allowances are no longer available to fund WHEG (Wisconsin Higher Education Grants). The program provides average grant awards of $320 to an estimated 31,800 students annually.

Potentially Relevant Data. The Illinois budget provides some data on sources of student aid that are generally not provided in state budgets. According to the budget, FY 1982 financial aid (including loans) in Illinois (public and private) was divided among sources as follows:

State	20.8 percent
Federal	19.3
Other*	38.7
Institutional	21.1

* Includes guaranteed loans.

The state provided roughly twice as much of its assistance to students in public institutions as private. The Federal assistance (excluding loans) provided slightly more financing for public than private education, while institutional support was concentrated in the private sector. Slightly more "other" assistance was provided to the public sector than to the private.

The Illinois budget also indicates trends in financial assistance. In FY 1982 the "average financial aid received per student at ing Illinois

institutions" was $3,131 in private institutions, $1,962 in public universities, and $449 in the community colleges.

Implications of this Review. This review totally supports the finding that Federal student aid policies appear to have no impact on state institutional support programs and tuition policy. Somewhat less support is provided for the conclusion that Federal programs (particularly SSIG) had had an impact on state student aid grant policies. However, the findings are not inconsistent. With SSIG policy perceived as either stable or unpredictible, no change in state policy would, in the FY 1984 budgets, be associated with a change in Federal policy. This is not inconsistent with a finding that the initiation of SSIG or its terminations would change state policy.

C. STATE TAX TREATMENT OF EDUCATION COSTS

This section is part of the work done by the research staff of the National Governors' Association (NGA) for the National Commission on Student Financial Assistance. It was suggested by NGA on the grounds that the full range of state policies affecting student assistance could not be understood without understanding state tax expenditures as well as state direct expenditures on student assistance and institutional support.

The Concept of Tax Expenditure. Analyses of the Federal budget have long recognized that the Federal government can provide nearly identical subsidies to particular activities through either the spending system or the tax system. The concept is now so widely recognized that the President's budget includes a compilation of tax expenditures and the Congressional

Budget Office does an annual analysis of them. The concept is less widely recognized at the state level in terms of compilations, but there is a wide variety of tax expenditures to be found in state personal income taxes.

Methodology. The methodology for this paper was quite simple. State income tax forms for 1982 income (typically the returns due on April 15, 1983) were collected along with instruction booklets and explanatory material and supplemental forms for each state with a personal income tax. These materials were then reviewed and all special credits, deductions and exemptions related to the educational status of the taxpayer and/or taxpayer's dependents were extracted. The resulting state-by-state listing appears as Appendix A.

Federal Tax Treatment of Educational Expenses. Because state income tax forms and concepts of taxable income and deductions are typically modeled on the Federal system, understanding Federal tax treatment of education is essential to understanding state tax treatment of the same subject.

Federal law allows as a deduction certain expenses of earning income, such as special tools and union dues. Education is treated as a candidate for one of these deductions. Thus, the test for deductibility of education is whether it is necessary for the taxpayer to maintain his or her current employment. A typical education deduction is expenses of a teacher who must take a few courses or lose certification. Generally, education for a change or upgrading of employment (e.g., a teacher going to law school) is not deductible. Education costs associated with non-employed full-time students are normally not deductible. Thus, with exceptions, education costs are treated like other consumption expenditures.

Federal law does recognize contributions, such as contributions to

churches or colleges, as deductible from gross income in figuring the income subject to tax. The value of deductibility varies with the situation of the taxpayer. Those who do not itemize (typically lower income taxpayers who are not homeowners) get no advantage from deductibility of charitable contibutions with a minor exception enacted in 1982. For those who itemize, the value of the deduction depends upon the marginal rate (bracket) of the taxpayer. For example, a deduction of $1000 is worth $50 for someone in the top (50 percent) bracket; $25 for someone in the 25 percent bracket, etc.

Tax credits differ from deductions in that the reduction in tax is identical regardless of the taxpayer's tax bracket. There are no Federal tax credits for education.

State Patterns. Most states with income taxes follow the Federal practice on treatment of educational expenses without exception. However, some states have made special provisions for higher educational costs.

State Tax Credits. Credits against income tax liability are provided in the state tax systems of Idaho, Indiana, Michigan and North Dakota. These credits are provided for donations to higher education institutions. In North Dakota, the credit is only for contributions to private colleges, but in the other three states it would appear to be available for contributions to private and public institutions. The credit also applies to public libraries and public broadcasting in Michigan and non-profit private high schools in North Dakota. Typically, the credit is available only for contributions to institutions in the state offering it. The terms of the credit provisions are shown below:

	Percent Donation	Ceiling	Max. Ind./Joint
Idaho	50	20 percent	$50/100
Indiana	50	100	100/200
Michigan	50	20	100/200
North Dakota	50	40	250/250

Vermont has no special provision for parents but allows students to claim a credit of $10 on their return.

Personal Exemptions. In New Jersey a dependent under age 22 attending college full time results in an additional exemption to be added to the number of dependent exemptions. Each of these exemptions offsets $1,000 in adjusted gross income in calculating taxable income. The same exemption (also $1,000) is applicable in New York, but only for students attending educational institutions in New York.

Deductions. North Carolina taxpayers get a deduction of $660 for each dependent who is a full time higher education student.

In New Mexico a special deduction is provided for persons who (a) do not itemize on their federal return and (b) contribute to the "New Mexico Education Assistance Foundation."

Special Education Fund. New York allows taxpayers to contribute up to $750 per year per dependent to a special education fund similar to an IRA. Subsequent interest and dividends kept in the fund are not taxable. The fund is to be used to meet higher education expenses.

D. EDUCATION TAX EXPENDITURES OF INDIVIDUAL STATES

This attachment identifies the operation of education tax expenditures in those states with tax returns for 1982 income indicating such tax expenditures.

Idaho: Idaho allows individual taxpayers a tax credit for contributions made to non-profit private and state higher educational institutions. The credit allowed is one-half of the contribution with a ceiling of 20 percent of the taxpayer's Idaho tax liability and a ceiling of $50 on individual and $100 on joint returns.

In conjunction with Federal and state deductibility, this provision reduces the costs of donations considerably for higher income taxpayers. A married couple in the highest Federal bracket making a contribution of $100 would receive in tax advantages:

Federal Income Tax	$50.00
Idaho Income Tax	
Deductibility (approx.)	3.75
Credit	50.00
TOTAL TAX SAVINGS	103.75
Total Contribution	100.00
After Tax Cost of Contribution	-3.75

Incentives for lower bracket taxpayers would be considerably lower because the charitable deduction is lower for these taxpayers. Non-itemizing taxpayers would still benefit from the credit but not from deductibility from either state or Federal taxes.

Indiana: There is a similar credit program in Indiana. The maximum credit is double that of Idaho's ($100 for individual, $200 on joint returns) and the credit is 50 percent of contributions. The credit cannot exceed tax owed.

Michigan: Michigan's tax expenditure includes libraries and public broadcasting as well as Michigan colleges and universities. The ceilings are 50 percent of the donation, $100 on individual returns ($200 joint) and 20 percent of tax liability.

An interesting contrast is provided by Minnesota which allows deduction of tuition, transportation and non-religious textbook expense. However, this deduction is available only for education through the 12th grade. The deduction is limited to $500 for dependents through the sixth grade and $700

in grades 7-12.

New Jersey: The New Jersey approach is to provide extra tax benefits to persons with dependents under age 22 attending college full time. In addition to being counted as a regular dependent, the dependent is counted again (like the Federal double exemption for blindness) for the exemption amount of $1,000.

New Mexico: New Mexico confines its provision of a special deduction to people who do not itemize on their federal returns. Contributions to the New Mexico Education Assistance Foundation are deductible in calculating New Mexico taxable income.

New York: New York has two tax expenditures to reduce the after-tax cost of higher education.

Taxpayers are permitted to deduct $1,000 per dependent attending a higher educational institution within the state.

Under New York's PASS Fund Deductions. a parent may invest in a separate account up to $750 per child per year to defray later higher education expenses. The amount contributed each year is subtracted from income, just as contributions to an IRA are adjusted out of income in federal returns. In addition, the interest and dividends on funds in the account are not tax deductible. There are provisions for tax recapture if the funds are not used for higher education.

North Carolina: In North Carolina, taxpayers can take a deduction of $660 for each dependent who is a full-time higher education student.

North Dakota: North Dakota provides its tax credits for donations to non-profit high schools and non-profit private colleges in North Dakota. The credit is for 50 percent of the contribution with maximums of $250 and 40 percent of the tax liability.

Vermont: A full-time student filing a return in Vermont can claim a credit of $10, but no more than tax owed. This credit is only available on the student's return, not the parent's return.

APPENDIX ONE
THE MIX OF GRANT, LOAN AND WORK AID

BY
MARTIN KRAMER

APPENDIX ONE "THE MIX OF GRANT LOAN AND WORK AID" BY MARTIN KRAMER

[The following is excerpted from an essay appearing in Meeting Student Aid Needs in a Period of Retrenchment, NEW DIRECTIONS FOR HIGHER EDUCATION #40, Jossey-Bass, San Francisco, 1982]

It is also a misleading perspective of MSAA years to see the present effort to find more aid resources as primarily a problem of finding new sources for student loans. While the search for new loan sources is certainly relevant and urgent, meeting the need for grants and scholarships tends to have higher priority where the institution has some choice in the use of funds.

There are two arguments for this position, and they apply more or less equally to allocating funds of the institution to either loan or job creation programs. First, the students, who are really poor must have some grant aid as a practical matter. Going to college at all, certainly if it is a private college, will often depend on their receiving substantial grant assistance. This is because the amount they will be able to earn and be willing to borrow ordinarily not be enough to meet their college costs, even with very attractive work and loan programs.

Second, opportunities to work and borrow are made available by the general economy to all its participants, but gifts are not. Many kinds of credit available to families can be made to substitute for student loans. Even in a terrible economy, there are usually jobs for people to do although they may sometimes be terrible jobs. It is appropriate for an affluent student aid system to provide more certain and more desirable

jobs and loans to students than the general economy would otherwise provide. But in a retrenched student aid system, the first claim on reduced resources must be to provide grants and scholarships. A student and his family may be asked to find a job or a loan from noninstitutional sources, but not usually a scholarship.

Suppose a college is able to increase its funding for student aid by $500,000. Consider what is entailed by allocating these funds to a work-study program. The college may benefit from the work the student does, although it must be work of marginal value, if funds to hire people to do it are not already included in the institution's budget. The work may also provide valuable experience to the student employed. But in taking a work-study job, students give up time they might use to earn money in an unsubsidized job with either the institution or another employer. If a student receives his award of the new money as a grant, he can have the grant and his unsubsidized earnings as well. If he gets such a job, he is clearly better off. Even if he does not get such a job, he is no worse off receiving the money as a grant than as a work-study stipend. Much the same is true of the choice between providing loans or grants. If the student can get credit not subsidized by his college, he is better off receiving college funds as a grant. Even if he could not get such credit, he is at least as well off.

In general, a college or a university maximizes the impact of added student aid funds and stretches resource optimistically by giving grants priority over creating jobs and supplying loan capital, unless the use of funds in providing jobs and loans is very highly leveraged--that is, produces several times as many wage or credit dollars as the institution invests. Each institution must decide for itself what its leveraging

factor should be, taking into account the value of student work and the future repayment of loans. A factor anywhere between three and 10 could be realistic in all the given circumstances--the relative scarcity of grants, loans, and jobs, and the returns to the institution and its educational program from job and loan programs. One hesitates to make this point because it may lead people to neglect development of new job and loan programs that could, in fact, be leveraged to a degree that would make them the best use of additonal aid dollars in many cases. But a widespread bias in favor of job and loan programs needs to be counteracted by a reminder of the importance of grants and leveraging.

APPENDIX TWO

TABULAR STUDENT AID DATA BY STATE

APPENDIX TWO

Tabular Data On Student Aid By State

(1) Total Dollars--State Needs-Based Comprhensive Grants and Scholarships (Undergraduate)

(2) Percent Changes in State Needs-Based Comprehensive Undergrad Grants and Scholarships

(3) GSL Loan Volume (Commitments), FY73, FY79, and FY82

(4) Federal Obligations for Pell and Campus-Based Aid, FY72

(5) Federal Expenditures for Pell and Campus-Based Aid, FY78

(6) Federal Expenditures for Pell and Campus-Based Aid, FY81

TOTAL DOLLARS -- STATE NEED-BASED COMPREHENSIVE GRANTS AND SCHOLARSHIPS (UNDERGRAD)
($ in Thousands) 1972-73 and 1977-78 to 1982-83

	1972-73	1977-78	1978-79	1979-80	1980-81	1981-82	1982- (Est
ALABAMA	N.A	546	1,737	2,131	1,427	505	1,70
ALASKA	N.A.	141	150	240	312	329	23
ARIZONA	N.A.	1,201	1,596	1,643	1,637	2,283	2,3
ARKANSAS	N.A	500	747	1,174	2,046	1,603	2,2
CALIFORNIA	26,708	78,371	78,694	78,812	85,540	86,363	90,2
COLORADO	N.A.	9,771	9,390	9,755	6,364	7,278	7,4
NNECTICUT	1,705	6,801	7,604	6,690	7,189	8,792	9,0
DELAWARE	N.A	540	502	456	453	544	59
ISTRICT OF COLUMBIA	N.A.	873	928	1,073	787	1,118	1,1
FLORIDA	713	8,270	9,186	9,847	11,527	12,302	14,03
GEORGIA	N.A	2,807	3,175	2,641	3,567	3,493	4,64
HAWAII	N.A	298	496	451	516	737	73
IDAHO	N.A	360	409	507	512	496	48
ILLINOIS	51,200	74,150	79,625	83,052	85,573	89,634	95,1
INDIANA	8,255	19,650	21,100	27,674	23,255	20,576	29,4
IOWA	4,233	11,525	13,541	15,196	15,544	15,629	17,2
KANSAS	1,146	4,435	4,415	4,613	5,100	5,004	4,9
KENTUCKY	N.A	3,838	4,193	4,991	6,627	6,322	6,5
LOUISIANA	N.A	595	641	823	1,062	2,220	2,2
MAINE	150	531	1,091	1,360	1,179	537	55
MARYLAND	3,425	4,487	4,738	5,552	5,741	5,721	5,1
MASSACHUSETTS	7,947	14,599	15,465	13,650	16,365	17,071	16,8
MICHIGAN	13,555	27,699	28,816	30,531	27,821	28,626	30,8

($ in thousands)

	1972-73	1977-78	1978-79	1979-80	1980-81	1981-82	198 (e
MINNESOTA	4,646	17,892	22,156	18,400	26,500	28,019	30,
MISSISSIPPI	NA	1,064	1,064	2,516	1,302	1,321	1,2
MISSOURI	NA	6,330	6,465	8,144	9,817	8,941	8,8
MONTANA	NA	330	351	392	353	390	4(
NEBRASKA	NA	409	865	1,074	1,196	1,119	1,0
NEVADA	NA	173	172	291	287	150	1
NEW HAMPSHIRE	NA	372	450	526	631	592	5
NEW JERSEY	23,222	26,475	36,448	41,213	43,649	39,774	47.
NEW MEXICO	NA	546	553	646	720	720	1,(
NEW YORK	75,000	220,000	232,900	252,200	245,507	280,280	296,
NORTH CAROLINA	NA	2,570	2,734	3,504	3,694	3,299	3,1
NORTH DAKOTA	NA	339	327	496	585	672	7
OHIO	16,000	23,638	25,925	28,100	27,402	31,864	33
OKLAHOMA	NA	1,672	1,846	2,265	2,041	2,265	9
OREGON	1,296	3,853	6,366	7,090	6,260	7,669	8,
PENNSYLVANIA	58,852	72,308	71,791	78,100	79,879	77,572	89,(
RHODE ISLAND	539	2,797	3,305	3,792	4,616	5,936	6.
SOUTH CAROLINA	150	8,907	9,837	10,930	11,069	12,631	12,
SOUTH DAKOTA	NA	236	265	221	427	431	4
TENNESSEE	1,171	2,777	3,668	5,978	6,475	6,439	7,
TEXAS	3,000	12,824	12,948	13,851	12,981	18,697	22,

($ in thousands)

	1972-73	1977-78	1978-79	1979-80	1980-81	1981-82	1982 (EST
VIRGINIA	N.A.	2,468	3,369	3,698	3,829	3,733	4.9
WASHINGTON	884	4,292	4,046	4,501	4,677	5,304	6.4
WEST VIRGINIA	425	2,690	2,906	3,022	2,462	4,300	4.1
WISCONSIN	4,921	21,243	22,815	21,631	21,397	20,829	23,0
WYOMING	N.A.	56	195	251	52	49	20

Source: Annual surveys of NASSGP

Figures include Federal SSIG funds

COMPREHENSIVE UNDERGRAD GRANTS AND SCHOLARSHIPS

SELECTED YEARS

	1977-78 to 1978-79	1978-79 to 1979-80	1979-80 to 1980-81	1980-81 to 1981-82	1981-82 to 1982-83	1977-78 to 1982-83	1972- to 1982-
ALABAMA	254.8	10.0	-33.0	-64.6	236.7	211.4	N.A
ALASKA	6.4	60.0	30.0	5.4	-28.9	66.0	NA
ARIZONA	32.9	2.9	-0.2	39.3	4.9	99.3	NA
ARKANSAS	49.4	57.2	74.3	-21.7	39.4	347.0	NA
CALIFORNIA	.4	.2	8.5	1.0	4.5	15.1	237.
COLORADO	-3.9	3.9	-34.8	14.4	2.7	-23.5	NA
CONNECTICUT	11.8	-12.0	7.5	22.3	2.6	32.7	429.
DELAWARE	-7.0	-9.1	-0.7	20.1	9.0	9.8	N.A
DISTRICT OF COLUMBIA	6.3	15.6	26.5	41.7	0	28.1	NA
FLORIDA	10.8	7.2	17.1	6.7	14.1	69.3	1,868
GEORGIA	13.1	-16.8	35.1	-2.1	33.0	65.5	NA
HAWAII	66.4	-8.9	14.2	42.8	-0.1	146.9	NA
IDAHO	13.6	24.0	1.0	-3.1	-3.0	33.6	NA.
ILLINOIS	7.4	4.3	3.0	4.7	6.2	28.3	85.9
INDIANA	7.4	31.2	-16.0	-11.5	43.1	49.9	256.
IOWA	17.5	12.2	2.3	0.5	10.6	50.0	308.
KANSAS	0	4.5	10.6	-1.9	-0.3	12.5	335.
KENTUCKY	9.2	19.0	32.8	-4.6	3.7	70.8	N.A.
LOUISIANA	7.7	28.4	29.0	109.0	0	273.1	N.A
MAINE	105.5	24.7	-13.3	-54.5	2.4	3.6	266.
MARYLAND	10.0	12.4	3.4	3.1	-0.6	31.3	71.9
MASSACHUSETTS	5.9	-11.7	19.9	2.3	-1.5	15.1	111.4
MICHIGAN	4.0	5.9	-8.9	2.9	7.9	11.5	127.9

PERCENT CHANGES

	1977-78 to 1978-79	1978-79 to 1979-80	1979-80 to 1980-81	1980-81 to 1981-82	1981-82 to 1982-83	1977-78 to 1982-83	1977 to 1982
MINNESOTA	23.8	-17.0	44.0	5.7	10.3	72.8	565.
MISSISSIPPI	0	136.5	-48.3	1.5	-5.6	17.2	N.A
MISSOURI	2.1	26.0	20.5	-8.9	-1.5	39.2	N.A
MONTANA	6.4	11.7	-9.9	10.5	2.6	21.2	N.A
NEBRASKA	109.3	25.5	11.4	-6.4	-5.6	158.2	N.A
NEVADA	0	69.2	-1.4	-47.7	0	-13.3	N.A.
EW HAMPSHIRE	21.0	16.9	20.0	-6.2	-2.2	55.6	N.A.
EW JERSEY	37.7	13.1	5.9	-8.9	18.3	77.8	102.
EW MEXICO	1.3	16.8	11.5	0	38.8	83.2	N.A
EW YORK	5.9	8.3	-2.7	14.2	5.8	34.8	295.
ORTH CAROLINA	6.4	28.2	5.4	-10.7	-3.1	24.4	N.A.
ORTH DAKOTA	-3.5	51.7	17.9	14.7	7.1	112.3	N.A.
OHIO	9.7	8.4	-2.5	16.3	6.3	43.2	111.
KLAHOMA	10.4	22.7	-9.9	11.0	297.4	438.3	N.A.
OREGON	65.2	11.4	-6.1	15.2	10.5	120.0	554.
ENNSYLVANIA	-.7	8.8	2.3	-2.9	14.8	23.1	51.4
HODE ISLAND	18.2	14.7	21.7	28.6	14.9	144.9	1,165
TH CAROLINA	10.5	11.1	1.3	14.1	2.8	45.7	7,554
UTH DAKOTA	12.3	-16.6	-93.2	0.9	0	82.6	N.A.
ENNESSEE	23.2	63.0	8.3	-0.6	14.0	146.6	527.
EXAS	-14.6	26.5	-6.3	44.0	22.5	78.6	663.
UTAH	49.0	-19.1	0	-22.1	-6.5	-12.3	N A.
V	20.5	8.1	17.0	13.5	17.5	103.1	173.

PERCENT CHANGES

	1977-78 to 1978-79	1978-79 to 1979-80	1979-80 to 1980-81	1980-81 to 1981-82	1981-82 to 1982-83	1977-78 to 1982-83	1977 to 1982
MINNESOTA	23.8	-17.0	44.0	5.7	10.3	72.8	565.
MISSISSIPPI	0	136.5	-48.3	1.5	-5.6	17.2	N.A
MISSOURI	2.1	26.0	20.5	-8.9	-1.5	39.2	N.A
MONTANA	6.4	11.7	-9.9	10.5	2.6	21.2	N.A
NEBRASKA	109.3	25.5	11.4	-6.4	-5.6	158.2	N.A
NEVADA	0	69.2	-1.4	-47.7	0	-13.3	N.A.
EW HAMPSHIRE	21.0	16.9	20.0	-6.2	-2.2	55.6	N.A.
EW JERSEY	37.7	13.1	5.9	-8.9	18.3	77.8	102.
EW MEXICO	1.3	16.8	11.5	0	38.8	83.2	N.A
EW YORK	5.9	8.3	-2.7	14.2	5.8	34.8	295.
ORTH CAROLINA	6.4	28.2	5.4	-10.7	-3.1	24.4	N.A.
ORTH DAKOTA	-3.5	51.7	17.9	14.7	7.1	112.3	N.A.
OHIO	9.7	8.4	-2.5	16.3	6.3	43.2	111.
KLAHOMA	10.4	22.7	-9.9	11.0	297.4	438.3	N.A.
OREGON	65.2	11.4	-6.1	15.2	10.5	120.0	554.
ENNSYLVANIA	-.7	8.8	2.3	-2.9	14.8	23.1	51.4
HODE ISLAND	18.2	14.7	21.7	28.6	14.9	144.9	1,165
TH CAROLINA	10.5	11.1	1.3	14.1	2.8	45.7	7,554
UTH DAKOTA	12.3	-16.6	-93.2	0.9	0	82.6	N.A.
ENNESSEE	23.2	63.0	8.3	-0.6	14.0	146.6	527.
EXAS	-14.6	26.5	-6.3	44.0	22.5	78.6	663.
UTAH	49.0	-19.1	0	-22.1	-6.5	-12.3	N A.
V	20.5	8.1	17.0	13.5	17.5	103.1	173.

(In thousands)

	ACADEMIC YEAR 1972-73		ACADEMIC YEAR 1978-79		ACADEMIC YEAR 1981-82	
ALABAMA	$11,181		$22,166		$45,717	
ALASKA	180		365		1,078	
ARIZONA	8,164		22,526		72,369	
ARKANSAS	3,552		10,244		22,349	
CALIFORNIA	104,305		111,789		583,719	
COLORADO	22,029		16,321		74,212	
NECTICUT	30,136		144,306		158,129	
ELAWARE	984		9,848		15,794	
STRICT OF COLUMBIA	3,840		27,919		36,963	
LORIDA	21,940		74,300		164,505	
EORGIA	10,885		27,910		50,365	
AWAII	2,399		8,132		17,489	
DAHO	3,259		3,891		18,574	
LINOIS	182,851		165,860		324,825	
DIANA	32,305		52,519		118,758	
IOWA	19,280		52,568		100,623	
ANSAS	11,578		42,651		97,677	
ENTUCKY	8,128		22,196		63,738	
UISIANA	9,757		15,573		57,125	
AINE	6,151		15,337		43,277	
RYLAND	18,322		39,833		97,148	
ACHUSETTS	28,667		165,877		302,689	
MI N	19,736		101,790			

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	ACADEMIC YEAR 1972-73		ACADEMIC YEAR 1978-79		ACADEMIC YEAR 1981-82		
INNESOTA	$30,407		93,214		197,366		
IISSISSIPPI	7,020		$12,751		$27,702		
IISSOURI	15,552		28,848		105,340		
ONTANA	4,306		5,285		16,960		
EBRASKA	11,052		46,265		59,050		
EVADA	972		2,930		10,291		
W HAMPSHIRE	2,631		11,871		33,210		
N JERSEY	47,636		184,688		251,728		
N MEXICO	10,025		7,132		17,610		
L YORK	174,065		554,703		965,262		
RTH CAROLINA	5,803		17,511		35,131		
RTH DAKOTA	10,998		18,999		25,354		
OHIO	29,043		105,880		230,261		
LAHOMA	5,760		13,799		32,369		
REGON	9,839		16,079		65,365		
NNSYLVANIA	88,744		310,792		506,535		
ODE ISLAND	8,339		18,573		40,978		
H CAROLINA	1,889		4,140		9,940		
TH DAKOTA	7,511		22,081		44,309		
NNESSEE	10,292		25,468		60,219		
XAS	65,151		68,997		131,780		
ITAH	5,793		22,880		33,778		
E	3,054		11,667		21,445		

	ACADEMIC YEAR 1972-73		ACADEMIC YEAR 1978-79		ACADEMIC YEAR 1981-82		
VIRGINIA	$13,576		$63,867		$104,467		
WASHINGTON	20,902		14,793		65,993		
WEST VIRGINIA	6,134		10,296		36,099		
WISCONSIN	26,077		83,728		159,869		
WYOMING	1,342		2,195		5,586		
OTHER [a]	16,124		50,682		141,123		
TOTAL	$1,198,523		$2,983,957		$6,100,473		

[a] Other includes the United Student Aid Fund, American Samoa, Guam, Puerto Rico and the Virgin Islands.

(Thousands of dollars)

(For Academic Year 1972-1973)

	Pell a/	SEOG	CWS	NDSL b/	Total
ALABAMA	—	3,640	6,463	4,528	14,631
ALASKA	—	142	296	136	574
ARIZONA	—	2,189	2,344	3,164	7,697
ARKANSAS	—	1,721	3,764	2,176	7,661
CALIFORNIA	—	21,333	22,428	32,381	76,142
COLORADO	—	2,742	3,124	4,354	10,220
NECTICUT	—	2,783	2,984	3,964	9,731
ELAWARE	—	518	634	686	1,838
STRICT OF COLUMBIA	—	1,566	1,318	2,267	5,151
LORIDA	—	5,077	7,631	7,589	20,297
EORGIA	—	3,784	7,216	5,145	16,145
AWAII	—	621	1,072	697	2,390
DAHO	—	748	1,066	857	2,671
LINOIS	—	10,469	11,947	14,917	37,333
IDIANA	—	4,852	5,547	7,839	18,238
IOWA	—	3,455	4,231	5,308	12,994
ANSAS	—	2,995	3,221	4,315	10,531
ENTUCKY	—	2,717	5,381	4,306	12,404
UISIANA	—	3,897	6,443	4,387	14,727
AINE	—	884	1,342	1,229	3,455
RYLAND	—	3,006	4,243	4,437	11,686
ACHUSETTS	—	7,716	8,950	10,991	27,657
N AN	—	9481	10,537	13,307	33,325

(Thousands of dollars)

(For Academic Year 1972-1973)

	Pell [a]	SEOG	CWS	NDSL [b]	Total	
INNESOTA	-	4,810	5,341	6,630	16,781	
ISSISSIPPI	-	2,690	5,436	3,443	11,569	
ISSOURI	-	4,555	6,241	6,816	17,612	
ONTANA	-	975	2,011	1,290	4,276	
EBRASKA	-	1,843	2,239	2,479	6,561	
EVADA	-	218	381	368	967	
I HAMPSHIRE	-	1,038	888	1,284	3,210	
I JERSEY	-	5,012	6,106	5,267	16,385	
I MEXICO	-	1,280	1,758	1,643	4,681	
YORK	-	19,453	19,891	24,843	64,187	
TH CAROLINA	-	5,199	9,318	7,108	21,625	
TH DAKOTA	-	1,101	1,227	1,401	3,729	
OHIO	-	9,847	11,735	14,222	35,804	
AHOMA	-	3,144	3,858	4,696	11,698	
EGON	-	3,133	3,522	4,125	10,780	
NSYLVANIA	-	10,614	14,630	13,493	38,737	
DE ISLAND	-	1,178	1,199	1,570	3,947	
CAROLINA	-	2,094	4,799	2,752	9,645	
H DAKOTA	-	1,227	1,541	1,383	4,151	
NESSEE	-	4,071	6,756	5,574	16,401	
AS	-	10,404	15,955	10,384	36,743	
AH	-	1,820	1,800	1,817	5,437	
	-	851	693	942	2,486	

(Thousands of dollars)
(For Academic Year 1972-1973)

	Pell a/	SEOG	CWS	NDSL b/	Total		
VIRGINIA	-	3,545	6,522	4,718	14,785		
WASHINGTON	-	3,707	4,194	6,078	13,979		
WEST VIRGINIA	-	1,885	3,382	2,553	7,820		
WISCONSIN	-	6,050	5,778	7,635	19,463		
WYOMING	-	529	481	605	1,615		

a/ The Pell Grant Program did not begin until FY 73.

b/ NDSL obligations include the federal capital contribution only.

(Thousands of dollars)

(For Academic Year 1978-1979)

	Pell	SEOG	CWS	NDSL	Total	
LABAMA	37,242	3,925	8,865	4,955	57,087	
LASKA	664	261	385	133	1,543	
RIZONA	18,786	2,995	4,412	4,427	30,620	
RKANSAS	16,413	1,548	4,426	2,137	24,524	
ALIFORNIA	132,531	29,454	37,120	36,892	235,997	
OLORADO	17,203	2,778	5,905	6,339	33,445	
NECTICUT	12,957	2,384	4,749	4,300	25,390	
ELAWARE	3,157	603	1,051	811	5,622	
STRICT OF COLUMBIA	11,956	1,763	2,725	2,234	18,678	
ORIDA	57,553	6,745	12,675	8,479	85,452	
ORGIA	32,093	3,814	9,670	3,755	49,332	
WAII	3,218	858	1,417	609	6,102	
AHO	3,772	828	1,377	1,317	7,594	
LINOIS	72,313	11,717	17,846	14,452	116,330	
DIANA	28,864	5,487	8,214	7,446	50,131	
IOWA	16,351	4,014	5,250	4,539	30,154	
NS	17,490	2,819	4,135	3,867	28,310	
NTUCKY	24,005	2,749	7,104	3,373	37,231	
ISIANA	34,149	3,991	7,082	4,710	51,032	
AINE	8,156	4,840	5,531	3,405	21,959	
ARYLAND	23,818	4,604	6,613	4,528	39,563	
ACHUSETTS	48,974	12,395	24,499	16,267	102,135	
MICHIGAN	58,214	11,226	14,530	9,133	93,115	

(Thousands of dollars)

(For Academic Year 1978-1979)

	Pell	SEOG	CWS	NDSL a/	T, I		
NNESOTA	32,897	7,695	9,935	6,468	56,995		
SSISSIPPI	30,222	2,664	7,233	3,091	43,210		
SSOURI	30,238	7,616	8,509	6,837	50,200		
NTANA	5,182	713	2,300	826	9,021		
BRASKA	11,664	1,606	2,818	2,626	18,714		
VADA	1,958	451	748	692	3,869		
HAMPSHIRE	5,218	2,927	3,411	2,865	14,421		
JERSEY	~~44,369~~	5,113	10,481	6,420	66,383		
MEXICO	11,518	2,346	4,358	2,429	20,651		
YORK	226,256	20,702	32,668	28,726	308,352		
H CAROLINA	45,662	6,354	10,791	6,006	68,813		
H DAKOTA	6,416	1,971	2,307	1,417	12,111		
OHIO	58,186	10,527	17,042	14,961	100,716		
AHOMA	23,696	2,981	5,621	3,804	36,102		
EGON	17,973	5,580	8,846	6,857	39,256		
NSYLVANIA	72,712	13,277	19,424	15,802	121,215		
DE ISLAND	8,628	1,889	2,703	2,134	15,354		
CAROLINA	26,308	2,887	6,671	1,711	37,577		
H DAKOTA	9,034	1,804	3,119	2,101	16,058		
NESSEE	37,819	4,311	8,421	4,728	55,279		
XAS	78,573	12,103	22,875	9,416	122,967		
AH	5,326	1,605	2,501	2,326	11,758		
R	4,266	3,358	3,577	2,043	13,339		

(Thousands of dollars)

(For Academic Year 1978-1979)

	Pell	SEOG	CWS	NDSL a/	Total		
IRGINIA	24,380	4,295	8,813	5,606	43,094		
ASHINGTON	21,459	7,971	9,839	7,592	46,861		
ST VIRGINIA	9,586	2,046	3,791	2,010	17,433		
ISCONSIN	29,265	10,435	8,734	8,514	56,948		
YOMING	1,617	391	640	524	3,172		

a/ NDSL includes only the federal capital contribution

Federal Expenditures for Pell Grants and Campus-Based Aid, FY
Academic Year 1981-82
(in thousands)

	Pell [a]	SEOG	CWS	NDSL [b]	TOTAL		
LABAMA	$49,260	$5,777	$10,858	$2,841	$68,736		
LASKA	1,298	342	587	176	2,403		
RIZONA	27,471	4,933	5,892	2,495	40,791		
RKANSAS	23,390	2,423	5,726	1,494	33,033		
ALIFORNIA	160,589	36,413	46,247	19,347	262,596		
OLORADO	23,823	4,465	6,200	2,632	37,120		
IECTICUT	17,052	5,084	6,969	2,403	31,008		
LAWARE	4,758	868	1,269	448	7,343		
TRICT OF OLUMBIA	12,282	2,681	4,280	1,383	20,626		
ORIDA	81,082	10,393	16,240	5,003	112,718		
ORGIA	41,068	5,844	11,632	3,079	61,623		
WAII	3,883	1,219	1,725	621	7,448		
AHO	6,368	1,158	1,723	746	9,995		
LINOIS	93,187	16,011	21,060	8,886	139,144		
DIANA	47,935	7,525	9,975	4,683	70,118		
OWA	28,980	5,136	6,927	3,204	44,247		
NSAS	23,329	3,627	5,318	1,624	33,898		
NTUCKY	36,317	3,906	8,849	2,092	51,164		
ISIANA	37,790	4,395	10,543	2,925	55,653		
AINE	12,218	5,122	6,059	1,735	25,134		
RYLAND	32,489	5,733	8,405	2,810	49,437		
ACHUSETTS	66,900	20,205	31,540	8,189	126,834		
N	88,533	13,436	17,734	6,324	126,027		

ACADEMIC YEAR 1981-82
(in thousands)

	Pell	SEOG	CWS	NDSL	TOTAL		
MINNESOTA	$45,384	$9,821	$12,070	$3,984	$71,259		
MISSISSIPPI	37,719	4,524	8,861	1,785	52,889		
MISSOURI	44,378	6,274	10,543	4,218	65,413		
MONTANA	7,831	976	2,386	529	11,722		
NEBRASKA	17,228	2,426	3,582	1,683	24,919		
NEVADA	2,813	604	917	288	4,622		
NEW HAMPSHIRE	8,565	3,302	4,603	1,436	17,906		
NEW JERSEY	61,136	8,091	12,239	3,803	85,269		
NEW MEXICO	14,422	2,595	5,079	1,111	23,207		
NEW YORK	300,004	28,676	44,298	17,093	390,071		
NORTH CAROLINA	54,499	8,714	13,826	4,311	81,350		
NORTH DAKOTA	9,356	2,145	2,459	649	14,609		
OHIO	92,100	13,913	20,577	8,592	135,182		
OKLAHOMA	23,750	3,950	6,589	2,633	36,922		
OREGON	26,481	7,325	8,895	3,357	46,058		
PENNSYLVANIA	121,467	20,750	27,852	9,112	179,181		
RHODE ISLAND	13,815	3,623	4,720	1,006	23,164		
SOUTH CAROLINA	34,936	4,344	8,096	1,875	48,701		
SOUTH DAKOTA	12,366	2,240	3,348	836	18,790		
TENNESSEE	49,108	6,129	10,235	3,067	68,539		
TEXAS	84,963	17,629	30,191	7,769	140,552		
UTAH	9,937	2,178	3,149	1,304	16,568		
VERMONT	6,174	3,632	4,151	1,081	15,038		

Academic year 1981-82
(in thousands)

	Pell	SEOG	CWS	NDSL	TOTAL		
VIRGINIA	$41,808	$6,810	$10,893	$3,295	$62,806		
WASHINGTON	30,630	8,975	10,679	3,735	54,019		
WEST VIRGINIA	15,131	2,705	4,556	1,472	23,864		
WISCONSIN	43,400	11,698	11,785	4,620	71,503		
WYOMING	2,495	497	594	200	3,736		
a/	Does not include the Alternate Disbursement System Program, which amounts to approximately $28.4 million for academic year 1981-82.						
b/	Includes Federal Capital Contributions only.						

APPENDIX THREE

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BIBLIOGRAPHY

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APPENDIX FOUR

SOME PROMINENT DEMOGRAPHIC TRENDS BY STATE

MOST PROMINENT DEMOGRAPHIC TRENDS BY STATE

Alabama	33.6%	of all public school students are minority.
Alaska	28.4%	of all public school students are minority. high percentage of youth in population lowest death rate; male majority.
Arizona	33.7%	of all public school students are minority.
Arkansas	23.5%	"
California	42.9%	" largest population 23.7 million. most college students, most urban state.
Colorado	22.1%	of all public school students are minority. highest percent of college grads (23%).
Connecticut	26 %	of all public shool students are minority lowest birth rate.
D.C.	96.4%	of all public school students are minority. highest in nation.
Delaware	28.8%	of all public school students are minority. lowest marriage rate.
Florida	32.2%	of all public shool students are minority. oddest median age (34.7 yrs). highest cancer death rate.
Georgia	34.3%	of all public school students are minority.
Hawaii	75.2%	" highest of any state. male majority, fewest alcoholics, highest life expectancy (73.6 years).
Idaho	8.2%	of all public school students are minority. lowest in mountain states. most millionaires per capita.
Illinois	28.6%	of all public school students are minority. largest number of elected officials.
Indiana	12 %	of all public school students are minority.
Iowa	4.1%	"

Kansas	12.7%	of all public school students are minority.
Kentucky	9.1%	lowest proportion of high school graduates (52%).
Louisiana	43.4%	of all public school students are minority.
Maine	.9 %	lowest in nation.
Maryland	33.3%	of all public school students are minority. lowest proportion of speeding motorists.
Massachusetts	10.7%	of all public shool students are minority. lowest divorce rate.
Michigan	21.3%	of all public school students are minority.
Minnesota	5.9%	
Mississippi	51.6%	lowest per capita income. highest stroke death rate.
Missouri	14.8%	of all public school stu[illegible]inority.
Montana	12.1%	[illegible]
Nebraska	10.5%	[illegible]
Nevada	18.9%	highest housing growth in U.S. highest murder and rape rates. highest auto fatality rates. highest alcohol consumption.
New Hampshire	1.3%	of all public school students are minority. third lowest in U.S.
New Jersey	28.4%	of all public school students are minority. lowest auto fatality rate.
New Mexico	57 %	of all public school students are minority. highest proportion of American Indians (8%). highest proportion of women motorists and speeding drivers.
New York	32 %	of all public school students are minority. least growth during 1980's. Second largest racial diversity.

North Carolina	31.9%	of all public school students are minority. lowest proportion of union workers. Most prisoners per 100,000.
North Dakota	3.5%	of all public school students are minority. male majority. Least crime.
Oklahoma	20.8%	of all public school students are minority.
Oregon	8.5%	"
Pennsylvania	14.9%	" by far the lowest in the Midwest. Least mobile population.
Rhode Island	8.2%	of all public school students are minority.
South Carolina	43.5%	" lowest life expectancy (67.96 years).
South Dakota	7.9%	of all public school students are minority. lowest murder rate.
Tennessee	24.5%	of all public school students are minority.
Texas	45.9%	" lowest and high unemployment rates in U.S. lowest in Kent County 0.4%, highest is Starr County 38.3%.
Utah	7.3%	of all public school students are minority. youngest median age 24.2 years. largest average household size.
Vermont	1.0%	of all public school students are minority. second lowest in U.S. Most rural state. most expensive colleges (both public and private).
Virginia	27.5%	of all public school students are minority.
Washington	14.1%	"
West Virginia	4.3%	" highest heart disease rate. Highest unemployment rate.
Wisconsin	9.3%	of all public school students are minority. lowest in Great Lakes.
Wyoming	7.5%	of all public school students are minority. lowest abortion rate in U.S.

Institutions of higher education will have to plan for a decline in the size of the cohort graduating from high school. This decline will last until 1998. It is caused by the decline in births following the Baby Boom years. The Baby Boom sharply increased birth rates from 1946-1964; it was followed by a slump in births that lasted from 1964-1978. We are currently seeing an increasing birth rate, but of much smaller size than the Baby Boom rates, due largely to the smaller size of the family, new occupational opportunities for women, and new patterns of living singly.

Differential fertility means that not all families have the same number of children. The birth rate decline was primarily a white and middle-class phenomenon, while a proportionate increase in minority births and children raised by single-parent families and multiple-earner families suggests that more of these youth will be unprepared for college during the decade. Blacks and women are now proportionately represented among college populations, while Hispanics are not, and may form a growth group in higher education.

Higher education analysts have systematically ignored the rapidly increasing percentage of minorities in American public schools, now 46 percent in Texas, 43 percent in California, and 32 percent in New York.

Regional differences will increase during the decade. Some Sun Belt states are already encountering major increases in the number of elementary school children, teacher shortages, need for new school construction etc.,

while Frost Belt states do not show much of an increase, and will not for some years. This trend suggest that by the end of the decade, higher education in the Sun Belt will have already expanded, while Frost Belt states will continue to constrict their higher education enrollments.

As a consequence, state and regional policymaking authority will increase during the decade. Higher education will have to get used to a smaller contingent of white, middle-class students from suburban backgrounds in their entering classes, and will have to provide new programs in order to attract minorities, older adults, and programs offered in conjunction with industry, the military, and other users of educational services.

Minority Student Enrollment of
25 Largest City School Stytems: 1978, 1968

	1978 Student Enrollment	Percent Minority	1968 Student Enrollment	Percent Minority
New York City	998,947	71.3	1,063,787	54.2
Los Angeles	556,236	70.3	653,549	42.6
Chicago	494,888	78.5	582,274	61.5
Philadelphia	244,723	69.0	282,617	61.0
Dade County Miami	556,236	70.3	653,549	42.6
Detroit	220,657	85.8	296,097	61.2

THE "ECHO: OF THE BABY BOOM FINALLY REACHES THE SCHOOLS:

	LOWEST ENROLLMENT POINT	NEXT PEAK
AGE 5-9 (GRADES K-4)	15.4 MILLION IN 1983	19.7 MILLION, 1994
10-13 (GRADES 5-8	12.6 MILLION IN 1986	15.1 MILLION, 2000
14-17 (GRADES 9-12)	12.8 MILLION IN 1990	16 MILLION IN 2000
FOR ALL GRADES	43.4 MILLION IN 1984	51.1 MILLION IN 2000

SOME OTHER FACTS:

BIRTH RATES, ALTHOUGH ADVANCING, ARE STILL LOW - AT THE PEAK OF THE BABY BOOM, 36 MILLION WOMEN OF CHILD-BEARING AGE PRODUCED OVER 4 MILLION BABIES. TODAY, ABOUT 52 MILLION WOMEN ARE PRODUCING ABOUT 4 MILLION BABIES A YEAR.

THESE NATIONAL TRENDS WILL BE MUCH MORE VISIBLE IN THE SUN BELT. THEY WILL COME MUCH LATER TO THE FROST BELT STATES. IN FACT, SOME STTES ACTUALLY INCREASED PUBLIC SCHOOL ENROLLMENTS IN THE 1970's: ARIZONA, NEVADA, IDAHO, WYOMING, UTAH, FLORIDA, COLORADO
MUCH OF THE INCREASE WAS OUT-MIGRATION FROM THE FROST BELT STATES.

THE COUNTRY IS BECOMING MUCH MORE DISSIMILAR BY REGION, FOR EXAMPLE, COLLEGES IN THE SUN BELT STATES WILL EXPERIENCE ALMOST NO DECLINE IN ENROLLMENT, WHILE FROST BELT COLLEGES WILL DECLINE 30-50 PERCENT IN ENROLLMENTS BY 1995.

APPENDIX FIVE

INTERSTATE COMPARISON AND STATE DATA AND CHARACTERISTICS OF GOVERNMENT, DEMOGRAPHY, PROGRAMS AND EDUCATIONAL SECTOR

Federal student aid policy has been primarily student-centered and need-based through the 1970s. The tremendous influx funds into the states, either directly through state budgets or indirectly to students resideing there, has had a major impact on state postsecondary education policies. Indeed, there are likely to be spillovers on other eucation programs, as well as public sector services.

Any Federal policy affects sttes in a unique manner, given the individual tate's characteristics. Yet some states have common characteristics that allow them to be grouped for analysis. The following post-secondary tuition policy. These include fiscal or budgetary characteristis, governance, and histrical behavior.

Note: A large percentage of these characteristics are found in David Breneman's work.

FISCAL OR BUDGETARY CHARACTERISTCS.

TAX CAPACITY

The ability of a state to generate tax revenues depends on underlying strength of its economy. This determines the dollar value of its tax base. The state can choose how extensively to tax. A measure of tax capacity developed by the Advisory Commission on Intergovernmental Relations indicte what revenues a stase can potentially raise, relative to others.

PERSONAL INCOME PER CAPITA

The income of residents in the state indicses their relative ability to pay for public services of all types. It iw particularly important to post-secondary education, since the family ultimately supposrts some portion of the sutdent's costs. It may also be informative to know something about how this income is distributed. If there is a large proportion of poor families, the need for student aid programs may be greater.

ECONOMIC GROWTH

The growth of a state's economy and population will impact postsecondary eduction in may ways. It will create both new demands, as well as supply of, revenues. If groth in student populations accompanies economic growth, stress on existing facilities could occur, although most states have unused capacity. The conomic growth will generate higher tax bases in certain sectors of the conomy. The types of education curriculum could also be impacted if this growth alters the composition of the economy.

SHORT-RUN CONDITION

The current fiscal condition of state budgets is the worst in recent history. Many states are having problems avoiding a deficit. During most of the 1970s states were able to maintain operating balances of more than 5% the minimum necessary for fiscal health. This allowed them to expand and

resturcture elementary/secondary programs, as well as post-secondary. Current deficit problems are requiring states to cut back on programs they otherwise would not. It is also likely to throw states off their long-run trend line in terms of spending patterns and priorities. This is a difficult variable to keep track of, however, since states are constantly changing tax and expenditures decisions to cope. NCLS is the most current source for statistics of this type.

BUDGET ALLOCATION TO HIGHER EDUCATION

The percent of a state's budget allocated to a particular public service gives some idea of its relative priority. This could be measured by the percent of state expenditures only,or the percent of state and local expenditures. This will differ depending on the governance structure in post-secondary finance and, therefore, the relative importance of the local government's involvement. Which is more appropriately depends on the policy focus.

GOVERNANCE

The level of centralization of decision-making can be measured in fiscal terms and/or indicated by actual govenance struture. The level of centralizationw ill acfect the ease of policy dcisions, as well as their uniformity throughout the state. A major distinction in state governing board.

PUBLIC/PRIVATE MIX

The governance and coordination of policy will be very different in states with primarily public institutions versus those whith a high proportion of private institution and enrollments. In some sense, the Federal policies have aided states in maintaining both their public and private institutions. The policy choices in the 80's will be difficult if Federal aid continues to slow an/or the sturcture is changed. The ability and willingness of states to maintain their private colleges and universities will be affected by fiscal conditions,as well as other factors. The relative proportion of their public and private sectors will differentiate the states on the Future tuition and student aid policies

HISTORICAL BEHAVIOR

In many instances, future state behavior can be best predicted by past behavior. If states have been traditionally high spenders on education, they are likely to continue in that direction until major sectoral changes take place.

EDUCATION EXPENDITURES PER CAPITA OR PER $1,000 PERSONAL INCOME

While this variable is indicative of public sector spending in education, it is the result of both the costs of providing education services, as well as the relative tastes or demand for education services. One should be cautious about interpretation of this ranking.

PROPORTION TUTITION FEES/TOTAL REVENUES

The state's relative reliance on student and family for financing of post-secondary is indicative of the state's overall policy. Some states have implemented policies that reduce financial barriers to entry to a low majority of the student population. This is perhaps relfected in low tuition levels, low proportion of tuition plus fee revenues to total revenues, and low out-of-pocket expenses, or high levels of need-based student aid. Again, when interpreting these statistics, one must keep in mind that the costs in terms of input to education, as well as other sources of revenue (e.g., Federal) will affect these measures.