DOCUMENT RESUME

ED 472 453 HE 035 600

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TITLE	Fundamental Assumptions and Aims Underlying the Principles and Policies of Federal Financial Aid to Students. Research Report.
INSTITUTION	College Entrance Examination Board, New York, NY.
REPORT NO	RR-1
PUB DATE	2003-01-00
NOTE	6p.; Report from the National Dialogue on Student Financial Aid and the Pathways to College Network.
AVAILABLE FROM	For full text: http://www.pathwaystocollege.net/Pub/pub_products_findings.html.
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	EDRS Price MF01/PC01 Plus Postage.
DESCRIPTORS	*Educational Policy; *Federal Aid; Government Role; *Higher Education; Paying for College; *Student Financial Aid

ABSTRACT

As background to the National Dialogue on Student Financial Aid, this essay discusses the fundamental assumptions and aims that underlie the principles and policies of federal financial aid to students. These eight assumptions and aims are explored: (1) higher education is the province of states, and not of the federal government; (2) the costs of higher education are appropriately shared by taxpayers, parents, students, and philanthropists; (3) the role of the federal government has been to make up what low- and middle-income families cannot afford or can not borrow to bring at least state-sponsored public higher education within reach of any student who also will contribute through earnings and loans; (4) the role of the federal government is also to make student loans widely available; (5) the extent of state support is a policy decision appropriately made at the state level; (6) federal student aid is given without regard to academic promise or potential and with only minimal regard to performance; (7) federal aid to undergraduates, with few exceptions, is given without regard to course of study or intended occupation; and (8) the government should be the guarantor against the risk of default on student loans. Given these assumptions, it is reasonable to conclude that federal financial aid is going to be structured through Title IV, which can by no means be called a failure. Title IV is neither wrong nor broken, and need not be reformed fundamentally. (SLD)

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D. Bruce Johnstone

Research Report #1

January 2003

The College Board
National Dialogue On Student Financial Aid

Research Report 1

PATHWAYS TO COLLEGE NETWORK

JANUARY 2003

Fundamental Assumptions and Aims Underlying the Principles and Policies of Federal Financial Aid to Students

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United States federal student financial assistance programs—primarily Pell Grants and the various federally sponsored student loan programs—generated in the 2001-02 academic year an estimated $54.3 billion dollars worth of assistance, mainly in the form of loans. The federal budget outlay was more than $7 billion, counting the present value of future outlays for the budgetary cost of the federally sponsored loans. These Title IV programs assisted an estimated 39 percent of all undergraduates, including some 56 percent of full-time, full-year undergraduates in the four-year public sector, and nearly 67 percent of those in the four-year private non profit sector, and 54 percent of all students enrolled in less-than-two-year, for-profit postsecondary education.[1]

Given the size and stakes of these programs, the complexity of the U.S. higher education (or *non*system) and the politics and passions that arise whenever the federal government gets involved in higher education, it is not surprising that the federal financial aid system is the target of almost continuous (and sometimes quite heated) debate: Is the shift from grants to loans in the federal portion of governmental financial assistance to higher education students simply a more cost-effective use of taxpayers' money—or does the shift burden students with increasing and unfair debt, potentially driving them out of higher education altogether, or toward wrong life decisions? Is the federal government shirking its responsibility to extend and preserve equitable access to higher education? How would we know *equitable access* if we saw it? Does the "system" work at all, or is it in need of total overhaul?

These and other formidable and ambitious topics will be addressed as part of the College Board's National Dialogue on Student Financial Aid. But no judgment can be fairly made without evaluating the programs alongside the current fundamental assumptions and aims of the programs. My contribution in this brief presentation is to discuss what I believe these "fundamental assumptions and aims" to be and where, within these assumptions and aims, seem to lie the questionable, or "stress," points that might suggest new directions for the federal financial aid system.

The fundamental assumptions and aims, as I see them, are the following eight:

1. Higher education is the province of several states, not of the federal government.
2. The costs of higher education are appropriately shared by taxpayers (both state and federal), parents, students, and philanthropists.
3. The role of the federal government/taxpayer in the financial support of the general instructional costs of undergraduate education has been to make up, through grants and loan subsidies, what low- and middle-income families can neither afford, nor are able or willing to borrow, in order to bring at least moderate-tuition, state-sponsored public education within reach of any student who is willing also to contribute himself or herself through term-time and summer earnings and loans.
4. The role of the federal government is also to make minimally subsidized or unsubsidized student loans widely available, and in sufficient amounts, to bring higher-priced private higher education within reach for the student whose parents have contributed up to a reasonable limit, often with considerable indebtedness or depletion of assets, who are also willing to assume a substantial student indebtedness.
5. The extent of state support of publicly owned colleges and universities (and thus the level of public tuition charged to parents and students to lessen the taxpayer

1. *Trends in Student Aid 2002*. Washington, DC: College Board, 2002. *Educational Statistics Quarterly–Postsecondary Edition*. NCES.2002 Fall Quarter.

burden), in addition to any decision to subsidize private sector alternatives, is a public policy decision appropriately made at the state level.

6. Federal aid to students is given without regard to academic promise or potential, and with only minimal regard to performance.
7. Federal aid to undergraduates, with few exceptions, is given without regard to course of study or intended occupation.
8. It follows from assumptions #2 and #5 that student loans must be made generally available without requirement of collateral, cosignature, or risk-taking. It further follows, then, that government must be the guarantor against the risk of default.

Given these assumptions, three reasonable conclusions are:

1. *Federal financial aid is inevitably going to be structured much like Title IV.*
2. *By no means (even reasonable political license) can Title IV be called a failure.*
3. *Resist the urge to fundamentally reform it. It is neither wrong nor broken.*

At the same time, we should also consider the following "stress points" in these fundamental assumptions that suggest possible changes for the future.

1. The assumption of the ubiquitous parental contribution (within financial ability) begins to weaken with: (a) older financially independent students; (b) second degrees (graduate and/or advanced professional); and (c) students from other-than-intact nuclear families.
2. The assumption of a "fair" parental contribution based on some combination of current income, [some] assets, and certain special needs is less clear when "college savings" are brought into the equation.
3. Both of the "bedrock" financial aid concepts of the *expected parental contribution*, and the *primacy of need-based aid* are assumed, at least implicitly, to apply to higher education *through the baccalaureate degree*. Yet as graduate and/or advanced professional degrees become more and more important gateways to careers of remuneration and influence, the expenses of tuition and living costs fall to: (a) merit aid (applicable especially to Ph.D. study); (b) more student loans; (c) support from a working spouse or partner; and/or (d) continued support from those parents affluent enough to continue contributions beyond the baccalaureate. All of these sources tend to reinforce the disproportionate participation of those from more affluent backgrounds in the kinds of education (graduate and advanced professional) that are becoming increasingly important in accessing the more remunerative and influential positions.
4. The entire edifice of student financial assistance is built on the assumption, or principle, that tax-supported financial assistance is primarily to bring higher educational options "within financial reach" for those who would, in the absence of such assistance, be denied the particular opportunity: in short, on the *primacy of "financial need."* So-called "merit aid" from institutional price discounting almost certainly has nothing to do with extending higher educational opportunities, but it is nonetheless a legitimate institutional expenditure for what it can buy in the nature of a stronger and more diverse student body. Other-than-need-based assistance from public, or taxpayer, revenues is less easy to rationalize. However, it is becoming increasingly clear that politicians are going to insist on more and more dollars being spent to recognize "merit" and to appeal to the politically powerful middle- and upper-middle class tuition anxiety regardless of the difference that the expenditures may—or more likely may not—make in student enrollment behavior.
5. The concept of an *appropriate student share* (of the expenses of a college education) is based on the assumption that students will meet this "share" through some combination of term-time and summer earnings and borrowing, and that the student will make economically rational calculations of the amounts of time and future indebtedness that can be borne through either (or both) employment and/or borrowing. However, some students are working far more than almost any "rational" calculation would have them work to the clear detriment of their studies. To the degree that this "more-than-incidental" employment is taken on in an effort to avoid or to minimize borrowing, the student may be making an economically irrational choice that will jeopardize his or her academic success, and possibly lifestyle, when some appropriate amount of debt would be a "better" choice. On the opposite side of *consumer irrationality*, we assume that students will not borrow more, than they believe themselves capable of repaying, based on some (at least implicit) calculation of future earning power and the cost of debt amortization. However, there is some reason to believe that many students have very little awareness of repayments costs or of the incomes required to bear these without significant hardship, and that some are accumulating too much debt in relation to the earnings prospects of their chosen careers.

6. A final stress point of financial assistance is the (implicit) assumption that institutions compete on the bases of programs, prestige, and "student fit," and that institutions will not rationally award grant assistance in the form of price discounts that they cannot afford. By implication, institutionally awarded aid (mainly from private colleges and universities) is given not to achieve a social or public end, per se, as much as to maximize institutional goals, whether better quality students, more social and/or ethnic diversity, or simply greater net tuition revenue. But the fierce competition for the relatively static number of academically competitive undergraduate students able to pay (even with grants and loans) the high tuitions of private higher education has driven institutions to compete more and more by price discounting via financial aid which, as we saw in #4, has little or nothing to do with any of the traditional principles of student financial aid.

Thus, while the traditional fundamental assumptions underlying U.S. financial assistance to students tend to support a program at the federal level that will be very much like the present array of programs under Title IV of the Higher Education Assistance Act as amended, these so-called *fundamental assumptions* also suggest the new directions that federal financial aid may take if these assumptions continue to stress at the points described above.

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