DESIGNING STUDENT AID POLICIES FOR THE 1980'S

by Jane Louise Johnson

Introduction

Postsecondary education finance experts have long debated the relative merits of subsidizing students through low tuition levels at public institutions, or through student financial aid accompanied by higher tuition levels. The low tuition mechanism has been deemed to provide better student "access" to higher education since the prospective student directly confronts the stated tuition cost, need not fill out elaborate financial aid application forms, and knows exactly what costs will be long before actually beginning studies.

On the other hand, the student financial aid mechanism has been considered the form of subsidy more likely to provide both access and "choice" since it can target aid to students most in need of it and lets students "vote with their feet" to choose the college of their choice. Student aid that is need-based also produces a less regressive distribution of income than that resulting from low-tuition public higher education. As a public policy matter student aid can be used to redistribute income much like a progressive income tax.

Federal and State Policies

The federal government has remained committed to the student aid model since the passage of the Higher Education Act of 1965. Title IV of that Act, the most heavily funded section, contains student aid programs, such as Basic Educational Opportunity Grants (BEOG), designed to promote equal educational opportunity, access, and choice. Before 1965 throughout the course of American history the federal government subsidized higher education through various pieces of legislation — among them the Morrill Act granting endowments of land for agricultural colleges, the G. I. Bill for returning World War II veterans, and the National Defense Education Act for science and engineering students in the post-Sputnik era — that were designed to satisfy the nation's economic, social, and defense needs.

Memories fade easily over time; the federal government has not always targeted its financial subsidy to higher education so as to provide equal educational opportunity, nor is there any assurance that this policy implemented since 1965 will always be the top priority as national conditions and needs change over time. And there is no assurance that the student financial aid programs contained in Title IV will remain intact.

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But subsidies for higher education derive only in part from the federal government. By the provisions of the Tenth Amendment to the U. S. Constitution, education as a public activity was left to the states. At this level of government much more consistent patterns of higher education financing are evident. For what appear to be primarily historical reasons, some states have made extensive use of the student aid mechanism; others have funded higher education almost entirely through appropriations to public institutions, which in turn offer low or no tuition to students.

Regional patterns in state higher education financing appear to be related to the existence or predominance of strong private college sectors. States throughout New England, the Middle Atlantic area, and the upper Middle West typically allocate large amounts of state monies to student financial aid. The National Association of State Scholarship and Grant Programs (NASSGP) reports, for example, that in 1979-80 New York accounted for 32% of all student aid expended by states, Pennsylvania for 10%, Illinois for 9%, New Jersey and Ohio for 4% each. Smaller states such as Vermont and Rhode Island spent sizeable amounts on a *per capita* basis. In all of these states, private sector enrollment rates are relatively greater than the 25% level for the nation as a whole.

NASSGP also reports that whereas federal funds from the State Student Incentive Grant (SSIG) program comprised 9% of all student aid funds for the entire nation, in some states the SSIG funds are overshadowed by state funds that more than match the federal share. For example, SSIG funds constitute only 3% of all student aid funds in New York; 4% in Pennsylvania and Vermont; and 5% in Illinois and New Jersey.

Throughout the West and South, SSIG funds accounted for about 50% of all student aid funds; state funds just matched the federal share. Western and Southern states, with limited private sector development, have shown little interest in student aid. The emphasis has been on direct funding to public institutions, and as a result public tuition levels in these regions are below the national average. The National Association of State Universities and Land-Grant Colleges reports, for example, that 1979-80 tuition charged by its member institutions averaged $1,011 in New England, $925 in the Middle Atlantic, $858 in the Midwest, $683 in the West, and $602 in the Southeast. The American Association of the State Colleges and Universities reports that its institutions charged an average of $786 in the East, $732 in the Midwest, $624 in the South, and $496 in the West, with a national average of $660.

The Student Aid Mechanism

These regional distinctions in higher education financing appear to be well-established, altering little over time. However, within individual states the rationale and administration of student aid may change as conditions change. As at the federal level, the student aid subsidy mechanism can be targeted to accomplish various objectives. New York, a leading state in terms of both private higher education and state-funded student aid, offers a good example of changing policies and programs to solve changing problems.

One measure of the strength of New York's private higher education is the relationship of its enrollments to those in the public sector. Across the nation three full-time undergraduate students are enrolled in public institutions for each student in a private institution. But in New York, the ratio is only one and one half students in the public sector for each student in the private sector. The New York private sector, which began in colonial times, predates the State University of New York (SUNY) system, which belatedly took shape in 1948. New York's share of the Morrill Act land scrip was awarded to Cornell University, a privately-endowed institution, rather than to a state university.

Total support for higher education is not exceptionally high in New York, but student aid is well-funded. The state ranks only thirty-third in the nation in terms of higher education expenditures per $1,000 of personal income, and twenty-fifth in expenditures *per capita*, but spends 32% of all state-funded student aid in the nation. As early as 1913 New York initiated its merit-based Regents Scholarship program from which awards were made to students in both the public and private sectors. In 1961 the state initiated the Scholar Incentive program in which need-based awards ranged up to $600 annually for students in both sectors.

In 1974, with significant lobbying from the well-established private sector, the legislature passed the Tutition Assistance Program (TAP) to replace the Scholar Incentive awards. Annual TAP awards were $1,500 or tuition, whichever was less, for New York students enrolled full-time in public or private in-state institutions. When the maximum TAP award was raised to $1,800 in 1977 the increase benefitted private sector students entirely since only they paid tuitions at that level.

TAP is a need-based entitlement program, with progressive award schedules based on New York State net taxable income. Funding for the program has increased dramatically since 1973: total expenditures up by 400% (to $255 million in 1979-80), average awards up by 200%, and number of recipients up by 60%. Meanwhile funding for the older Regents Scholarship program, in which flat $250 awards are based on Scholastic Aptitude Test scores of high school seniors, has declined by one-third, from $30 million to $20 million.

From the beginning the TAP program has been popular with New York legislators, 74% of whom possess undergraduate degrees from private institutions. The program is also very popular with the New York private sector, which depends increasingly for survival on TAP-assisted students. The program has been sold to legislators, taxpayers, and the higher education community on the basis that it provides students the means to attend the college of their choice, in addition to the access provided by other financial aid programs such as the federal BEOG program.

What Student Aid Has Accomplished

But the TAP program was also designed to fulfill other goals. According to the report of the New York Legislature's 1974 Select Committee on Higher Education, the program was intended to foster competition between the public and private sectors and to utilize existinig capacity in the private sector rather than to expand facilities in the public sector. To foster intersectorial competition requires reducing the "tuition gap" between the sectors. To utilize existing private sector capacity means encouraging students to enroll in that sector, in order to reverse downward enrollment trends there.

How well the tuition gap reduction and enrollment trend reversal have been accomplished are a measure of the TAP program's efficacy. Private sector tuition has always been higher than public sector, and in recent years has increased more rapidly. Since 1973, one year before TAP came into effect, the average "tuition gap" between SUNY four-year campuses and private four-year institutions increased by 67%. But the student's average "net tuition gap" (taking TAP awards into account) increased by only 25%.

The reduction in net tuition gap from 67% to 25% has, of course, been accomplished with larger awards (up to the maximum $1,800) for students in the private sector. In 1979-80 private sector tuition averaged $3,700; at SUNY tuition was just over $1,000. Despite similar income levels among students at private colleges and at SUNY, average TAP awards in the two sectors were $1,230 and $504 respectively. The average difference between awards in the two sectors increased thirteen-fold between 1973 and 1980. The TAP award structure has effectively reduced the net cost differential between private and public institutions. While private sector students still pay higher tuition in absolute terms, they pay relatively less than in pre-TAP days, and also receive relatively larger state subsidies to attend college.

Evidence on enrollment shifts is equally impressive. Between 1973 and 1980 the private sector's share rose steadily from 35% to 39% of all full-time undergraduate enrollments in New York. The ratio of full-time undergraduates enrolled in four-year private institutions to those at SUNY four-year campuses increased from 1.64:1 to 1.79:1. The ratio of enrollments at four-year private institutions to those at SUNY community colleges rose from 1.26:1 to 1.98:1. In 1973 twenty students were enrolled in SUNY community colleges for each student in a private two-year college; by 1980 there were only eleven times as many students at SUNY community colleges as at the private two-year schools.

Interestingly, TAP has promoted these enrollment shifts without limitations such as the BEOG "half-cost rule" which limits awards to no more than one-half of total attendance costs, ostensibly in order to preclude a completely "free ride" for students at low-cost public community colleges. Under current TAP policy, a New York student at a public institution may receive a TAP award equal to the total amount of his tuition. A TAP half-cost limitation of the BEOG type would produce even more pronounced enrollment shifts, since it would further reduce the net cost differential between public and private institutions.

Financing policies in New York not only have encouraged students to attend private colleges, but also have encouraged those institutions to retain those students through graduation. While nearly half of the annual $255 million in TAP accrues to the private sector (in the form of tuition from students), this funding is supplemented by $68 million annually in direct institutional aid based on degrees granted at private institutions. These awards range from $330 for each associate degree, to $940 per baccalaureate degree, $650 for each master's, and $3,100 uer doctoral degree. Public sector institutions are not eligible for these degree-based awards.

By any measure the TAP program can be considered a success, from the perspective of both students and institutions. The New York experience with TAP shows the power of student aid policies to impact tuition and enrollment conditions within a state. In addition to providing student choice and a progressive redistribution of income, the program has provided appropriate incentives for students to attend private institutions and for these institutions to graduate the students. Thus New York has succeeded in its policy of preserving and augmenting its private sector.

What Student Aid Must Next Accomplish

Heading into the 1980's, tuition and enrollment conditions will continue to present problems to federal and state government and to institutions. Enrollment increases are projected to continue through 1981, capping a 30-year trend that has been marked by the expansion of higher education facilities and the construction of new institutions. After 1981 a projected drop in the traditional college-age population will begin. Despite enrollment declines, however, institutional costs may continue to rise. Most institutions experience high fixed costs for outlays such as tenured faculty salaries. Because of these high fixed costs, average cost per student may increase as enrollments fall. This paradox of lower enrollments and higher costs is expected to trouble higher education in the 1980's, given the length of time needed to adjust institutional expenditures.

Enrollments and institutional finances are inextricably linked. Falling enrollments will place pressure on tuition revenues for both private and public institutions. Particularly in the tuition-dependent private sector, student charges inevitably will continue to rise. If these increases are not matched in the public sector, the public-private tuition gap will continue to grow. Programs intended to reduce the public-private tuition gap may no longer succeed in that endeavor.

The demographic situation underlying these enrollment projections poses interesting possibilities for postsecondary education. Widely-cited demographic data indicate that the proportion of full-time students is decreasing for nearly all age groups and that the older the age group the lower the proportion of full-time students. Decreases in the traditional college-age group and increases in older age groups imply increased proportions of older, part-time students on college campuses.

The question facing post-secondary finance experts in the next decade is whether current policies and programs can be modified sufficiently to contend with these projected tuition and enrollment conditions. Can the federal government and those states that have committed themselves to the student aid model adjust their goals and programs enough to accommodate changing conditions and needs in postsecondary education? Or will a different mix of financing mechanisms be required?

The evidence from New York's experience with its Tuition Assistance Program indicates that student aid can be designed and administered to accomplish various objectives. When implemented in conjunction with programs of institutional aid, the possibilities are extensive.

The problems that challenge student aid policy makers in the next decade include the general enrollment decline, the accommodation of relatively more part-time students into postsecondary education than ever before, and a financial situation that appears bleak. The challenge is at once the basic and complicated task of preserving the higher education establishment.