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# Federal Reauthorization of the Higher Education ActProvides Feds the Opportunity to Bring Access and Choice

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Abstract:

*First, a college-educated individual will return much of his or her additional income to our society in the form of tax dollars. Second, the college-educated individual's earnings are spent and invested throughout our economy, enhancing the earnings of others. Third, the immediate family members of a college-educated individual receive an enhanced quality of life. Fourth, state-supported need-based grants help reduce brain drain from the state.*
*What can the Bush Administration and Congress do?*
*First, rather than eliminating Perkins Loan and SEOG programs as a way to fund Pell increases, the Bush administration should renew our commitment to providing access for all students. Second, the timing and method of conducting needs analysis should be examined. Third, the federal government should consider launching a pilot study with a test group of universities to determine if a simplified needs analysis is effective at increasing college enrollment of qualified but needy students. Fourth, the federal government should continue to increase the annual borrowing limits for the Stafford Loan program. Fifth, states should increase need-based aid given directly to students. Only when the federal government, state governments, and postsecondary institutions invest together will we provide both access and choice.*

The year 2007 is a watershed year for higher education as the U.S. Congress attempts to reauthorize the Higher Education Act of 1965. President George W. Bush has suggested sweeping changes that will affect the entire financial aid landscape, from the elimination of the Perkins Loan Program and Supplemental Educational Opportunity Grant (SEOG) programs to increasing Pell Grants over the next five years.

This is an appropriate time for educators and pundits to debate the merit of federal and state financial aid to higher education. What purposes was it originally created to serve? Has it met those goals? What value does governmental support of higher education bring to society and to the individual receiving aid? Additionally, how have postsecondary institutions' aid policies changed with new market forces?

The original intent of the Higher Education Act of 1965 was to bring *access* and *choice* to economically disadvantaged students. The original Basic Educational Opportunity Grant (BEOG), now the Pell Grant, opened the doors of universities to students who did not have the means. Thomas Kane (1999) points out that there is little evidence that links these federal grants with an increase in low-income student college attendance.

Clearly a college degree is of great value to the individual receiving the degree. But is it good public policy to invest our tax dollars in higher education? Data shows that federal and state support of an individual's education is an investment in the public good.

It is good public policy to invest in higher education for needy students. College educated individuals provide benefits to our society as a whole. College graduates provide tax revenues and make purchases that stimulate the economy to a greater degree than high school graduates.

This is an appropriate time for educators and pundits to debate the merit of federal and state financial aid to higher education. What purposes was it originally created to serve? Has it met those goals? What value does governmental support of higher education bring to society and to the individual receiving aid? Additionally, how have postsecondary institutions' aid policies changed with new market forces?

*What purposes was federal financial aid originally created to serve?*

The original intent of the Higher Education Act of 1965 was to bring *access* and *choice* to economically disadvantaged students. The original Basic Educational Opportunity Grant (BEOG), now the Pell Grant, opened the doors of universities to students who did not have the means. This was supported by the National Direct Student Loan, now Perkins, along with the SEOG and Federal Work Study.

To determine the appropriate family financial contribution for the student's college expenses, the federal government adopted the needs analysis formula created by the College Scholarship Service (CSS). The intention of the CSS was to eliminate cost as a factor in the college selection process. If a family is expected to pay a predetermined amount of money, in theory they could select a college or university without regard to cost.

Of course it has not worked out this way. Neither the federal government, state governments, nor most post-secondary institutions themselves have assigned enough financial aid resources to fully meet the need of all students. Consequently, families are asked to pay much more than their expected family contribution (EFC). Enrollment managers call this "gapping the student."

Has federal aid increased access or only choice? Using 1970 as a base year, three years before the advent of BEOG, approximately 11 percent of the U.S. population had a bachelor's degree. By 2003, the percentage of our population with a bachelor's increased to 27 percent (U.S. Census, 2004). But before we congratulate the Pell program, Thomas Kane (1999) points out that there is little evidence that links these federal grants with an increase in low-income student college attendance. He believed that although low-income students know the cost of tuition, they know little about the availability of federal grants due to the complex nature of the application process.

State governments are also major players in the funding of postsecondary education. They are involved in two ways: first they subsidize public universities. Second, they offer need-based grants. Many of the state need-based grants reach middle class students. Illinois' Monetary Award Program (MAP) for example, is awarded to students with EFCs as high as $9,000. Most state grants enhance the buying power of federal grants and allow students more choice among institutions.

When a state government subsidizes a public university, it is providing education at a discount to all students, regardless of need. Vedder (1999) argued that by giving public universities financial support, the state government is using tax dollars from the low- and middle-income students to educate the affluent. He suggested offering vouchers directly to students and eliminating state subsidies to public universities. Kane's (1999) research showed that a family with a $90,000 income received twice the higher education subsidy from federal, state, and local government compared to a student with $20,000 family income, primarily because they were more likely to avail themselves of the opportunity to attend a university.

McPherson and Shapiro's (1998) research showed that the percentage of the wealthiest students attending public four-year institutions increased from 15.6 percent in 1980 to 20.1 percent in 1994. Middle-income students, increasingly resistant to pay private school tuition, are opting for state institutions. They point out that in the same time span, middle-income students' share of public institutions rose from 20.4 percent to 25.2 percent.

The recent shift in pricing at Miami University of Ohio may signal a change in the way state schools price themselves. Miami priced its tuition at $21,586 for both resident and non-resident students. But resident students are given a scholarship "based upon need, ability, and talents, with special emphasis on helping low- and middle-income families..." (*Miami* 2005). This is a good first step in shifting resources to more needy as well as deserving students, improving both access and choice.

Beyond federal and state grant aid, institutional merit scholarships have become increasingly popular. Merit awards are used by many postsecondary institutions to shape their classes. Targeted at the most desirable students, merit scholarships ignore need and focus on other factors important to a postsecondary institution - grade point average, standardized test score, ethnic heritage, athletic, music, artistic ability, or field of study.

An "arms race" for higher merit scholarships and institutional grants is being encouraged by college guidebooks. These "higher education experts" suggest a family reject the institution's first aid offer and ask competing schools to match each other's aid packages. This "let's make a deal" mentality has a negative effect on academic quality. For every additional dollar spent on financial aid, potentially one less dollar is spent enhancing the academic quality of an institution (Ehrenberg, 2000).

Consider a small private school that conducts a price war with local competitors. After the first recruiting cycle, they see both the size of their class and their tuition discount rate rise. All their growth in revenue comes from a larger class size. In subsequent years, they need to increase the size of the merit awards because their competitors have matched or exceeded their offers.

One college president remarked to the author of this article that their students actually pay less, in inflation-adjusted dollars, to attend the institution than students of ten years ago. He pointed out that net revenue per student actually declined when taking inflation into account over a ten-year period. Yet he fears reducing merit scholarships will encourage middle-class, low-need students to enroll at competing institutions.

Do merit awards encourage access or only choice? Many institutional merit awards are given to students who already planned to attend college. In many cases, they encourage students to select institutions where the student's standardized test score is higher than the institution's average. McPherson and Shapiro (1998) created an interesting metric that assigned a dollar value to each SAT point that exceeded the institutional average. At that time, they computed each SAT point beyond the institutional average was worth $13.26 at private institutions and $5.71 at public institutions.

For example, a National Merit Finalist, selected an institution with an average SAT far below her own because they offered her a full tuition scholarship. Her first choice Ivy League Institution expected her to pay the full tuition price. Since her future plans included law school, she concluded that it would not be worth the price to incur debt as an undergraduate when she will be borrowing for law school.

Many postsecondary educational institutions use consultants to help determine an appropriate amount of merit scholarship to offer students. The formulas crafted are based on past history of who enrolled and who did not enroll and how much scholarship and grant awards it took to be successful.

The same consultants help institutions determine the appropriate "gap" between a student's expected family contribution and the total value of their package. Since federal and state aid have not kept up with the rising costs of higher education (Baum, 2003), most private institutions can meet only a portion of need. As that "gap" grows each year, a clear and compelling case needs to be made to our legislators that higher education is a worthy investment for the public good.

*Is it good public policy to fund higher education?*

According to U.S. Census data from 2003, individuals with a high school diploma earned an average of $28,254 versus a college graduate who earned $51,532. Clearly a college degree is of great value to the individual receiving the degree. But is it good public policy to invest our tax dollars in higher education? Data shows that federal and state support of an individual's education is an investment in the public good.

First, a college-educated individual will return much of his or her additional income to our society in the form of tax dollars. The college-educated individual will pay substantially higher federal and state income taxes than a high school graduate. Over the course of an individual's working life, a college graduate will return to the government much more tax dollars than was spent educating him or her. The education dollars spent by the Serviceman's Readjustment Act of 1944 (G.I. Bill), for example, returned many times its cost in increased tax revenues.

Second, the college-educated individual's earnings are spent and invested throughout our economy, enhancing the earnings of others. Additional earning power means more spending power. The value of a college education will be spent buying durable goods and services throughout our economy.

Third, the immediate family members of a college-educated individual benefit from an enhanced quality of life. Children of college-educated individuals are provided with more opportunities for education, better medical care, etc.

Fourth, state-supported need-based grants help reduce brain drain from the state. When a student attends a postsecondary institution in his or her home state, the student is likely to continue living in the state, contributing to its economy. It makes good economic sense for a state to invest in its own citizens, particularly those who might not otherwise attend college.

The current mix of federal, state, and institutional financial aid has created a confusing and contradictory program of largesse and frustration for students, families, and educators.

Congress has acted under the mistaken belief that increasing financial aid, or for that matter, increasing the guaranteed student loan borrowing ability of students, will give private colleges and universities license to increase their tuition costs. By looking at the figures, one can see that totaling the maximum Pell Grant ($4,310) a first year Stafford Loan ($3,500), SEOG ($2,000), and a Perkins Loan ($3,000) totals just $12,810, a far cry from the typical $25,000 price tag of private education. Any increase in borrowing will leave a sizable gap between total aid and sticker price.

The Bush administration and Congress can make higher education more affordable for those most in need by increasing the Pell Grant program. In addition, they can help both needy and middle-class students by increasing the amount an undergraduate can borrow each year through the Stafford program.

The Clinton administration's Hope Scholarship and Lifetime Learning tax credits cost $7.7 billion dollars in 2006, yet do little to encourage enrollments of those who might not otherwise attend college. Students from families in the tax brackets that benefit from these tax credits already attend college in significant numbers.

Consider how an individual or a family makes a buying decision. They are interested in the sticker price, the net cost, their monthly payment, and total borrowing. A tax credit is an afterthought because it does not help the family pay their current tuition bill. To encourage as many qualified students as possible to attend college, emphasis must be placed on grants, scholarships, and loans that can be immediately applied to their tuition bills. In the future, it would be helpful to conduct research that examines the impact tax credits have on the decision whether or not to attend college. I suspect the "buyer" has little knowledge of the tax credits and therefore, the credits play no role in the decision process.

First, rather than eliminating Perkins Loan and SEOG programs as a way to fund Pell increases, the Bush administration should renew our commitment to providing access for all students by ending the Hope Scholarship and Lifetime Learning tax credits and shift those funds to Pell, SEOG, and Perkins grants and loans. Pell is estimated to cost $12.7 billion in the coming year (*U.S. Department of Education* 2004). An infusion of $7.7 billion into federal grant and loan programs would make higher education significantly more affordable for needy students.

Second, the timing and method of conducting needs analysis should be examined. By moving up the entire process to the early fall the year prior to enrollment, the federal government could reduce the pressure on private institutions to offer early merit awards.

Currently, students complete the Free Application for Federal Student Aid (FAFSA) after January 1 of the year they plan to enroll. Consider how students are making college choice decisions earlier than in the past. Many students report that they have made their "short list" of colleges by the conclusion of the junior year.

Since students are trying to make decisions earlier, many colleges and universities, particularly private ones, are offering merit scholarships in the fall of the senior year to demonstrate affordability and encourage students to commit early. These schools are gambling that they would have awarded much of this money through the needs analysis process after receipt of the Student Aid Report (SAR).

Access and choice need to be balanced with the competing needs of offering merit awards. The lateness of the needs analysis process puts pressure on private post-secondary institutions to offer merit scholarships in the fall as a way to demonstrate their affordability to prospective freshmen. These merit awards reward early applicants without regard to need. Since many low-income and first generation college students apply later in the cycle, they do not receive the benefits of this process.

Third, the federal government should consider launching a pilot study with a test group of universities to determine if a simplified needs analysis is effective at increasing college enrollment of qualified but needy students.

Kane (1999) proposed simplifying the needs analysis formula. His research showed that reducing the formula to family income and family size would capture two-thirds of the variance in the congressional formula. By simplifying the needs analysis, the federal government may encourage more individuals to pursue post-secondary education.

Fourth, the federal government should continue to increase the annual borrowing limits for the Stafford Loan program. The Bush administration and the U.S. Congress took a positive step increasing first year student Stafford borrowing to $3,500 and second-year borrowing to $4,500. Stafford and Perkins loan programs are the most affordable and accessible loan programs for needy students. Raising the borrowing limits by at least $1,000 for each successive year of study will help the student afford annual cost increases.

Fifth, states should increase need-based aid given directly to students. This is a matter of economic competitiveness and it encourages both choice and access. Further study should be done to determine if the Miami University tuition model has been successful and if it could be used to guide other state university's pricing.

Only when the federal government, state governments, and postsecondary institutions invest together will we provide both access and choice.

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