



Does Society Invest Wisely in College? Central Challenges for US Model of Financial Aid

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U.S. Higher Education: All About Options

- Over 4,500 degree-granting postsecondary institutions
- Public, non-profit, and for-profit options
- Range of credential levels & types
- Range of institutional selectivity
- Hundreds of possible fields to study
- Among highest college enrollment rates in the world

Diversity & Flexibility Are Supported By U.S. Model of Financial Aid

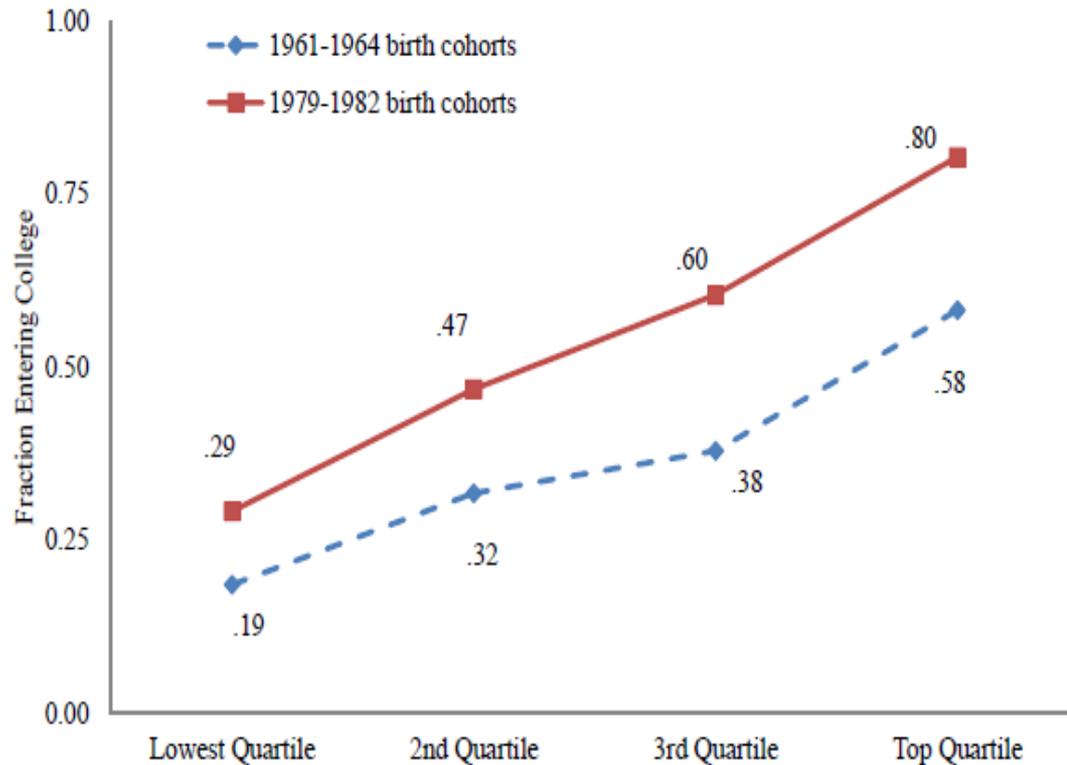
- High price, high aid model: economic & international context
 - High price, high aid model brings more resources into sector from those who can afford to pay. UK Economist Nicholas Barr:
“Countries typically pursue three efficiency goals in higher education: larger quantity, higher quality, and constant or falling public spending. Systems that rely on public finance can generally achieve any two, but only at the expense of the third: a system can be large and tax-financed, but with worries about quality (France, Germany, Greece, Italy); or high-quality and tax-financed, but small (the UK until 1990); or large and high quality, but fiscally expensive (as in Scandinavia)” (2010, pp. 3-4)

Diversity & Flexibility Are Supported By U.S. Model of Financial Aid

- High price, high aid model: economic & international context
- Pell grants as vouchers
- Nearly 2/3 of students receive some kind of grant aid
- As returns to college have risen, this model has facilitated the expansion of higher ed to both a wide variety of students and wide variety of institutions/programs

But... then... why....

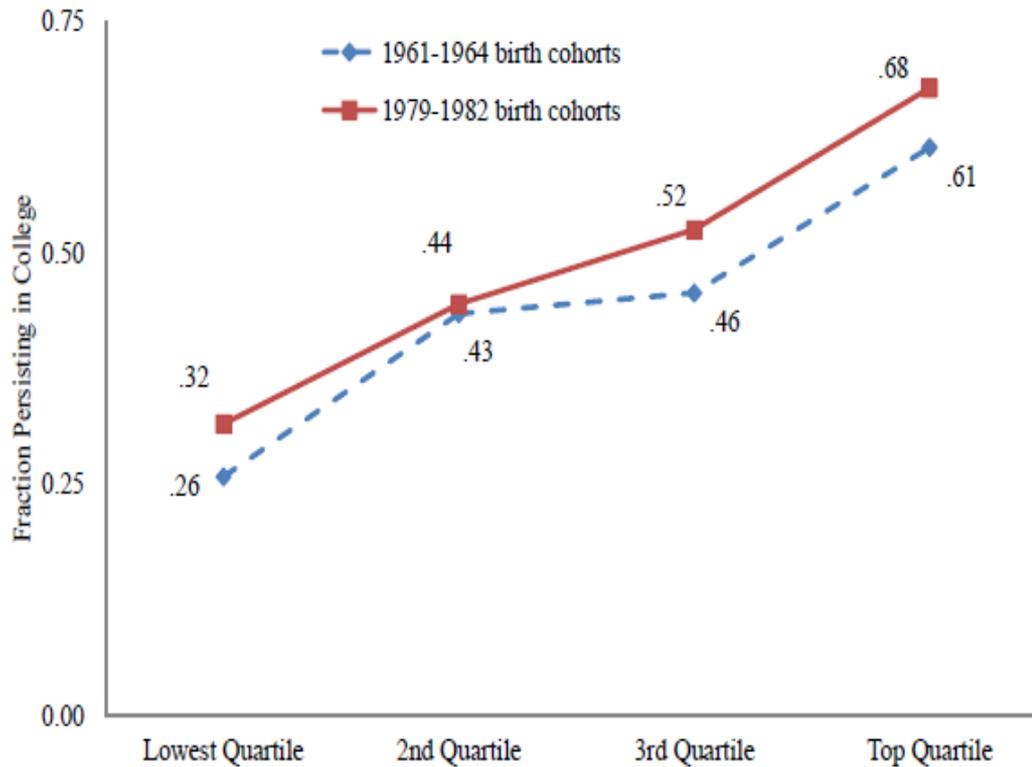
Figure 2: Fraction of Students Entering College, by Income Quartile and Birth Year



Source: Bailey & Dynarski (2011)

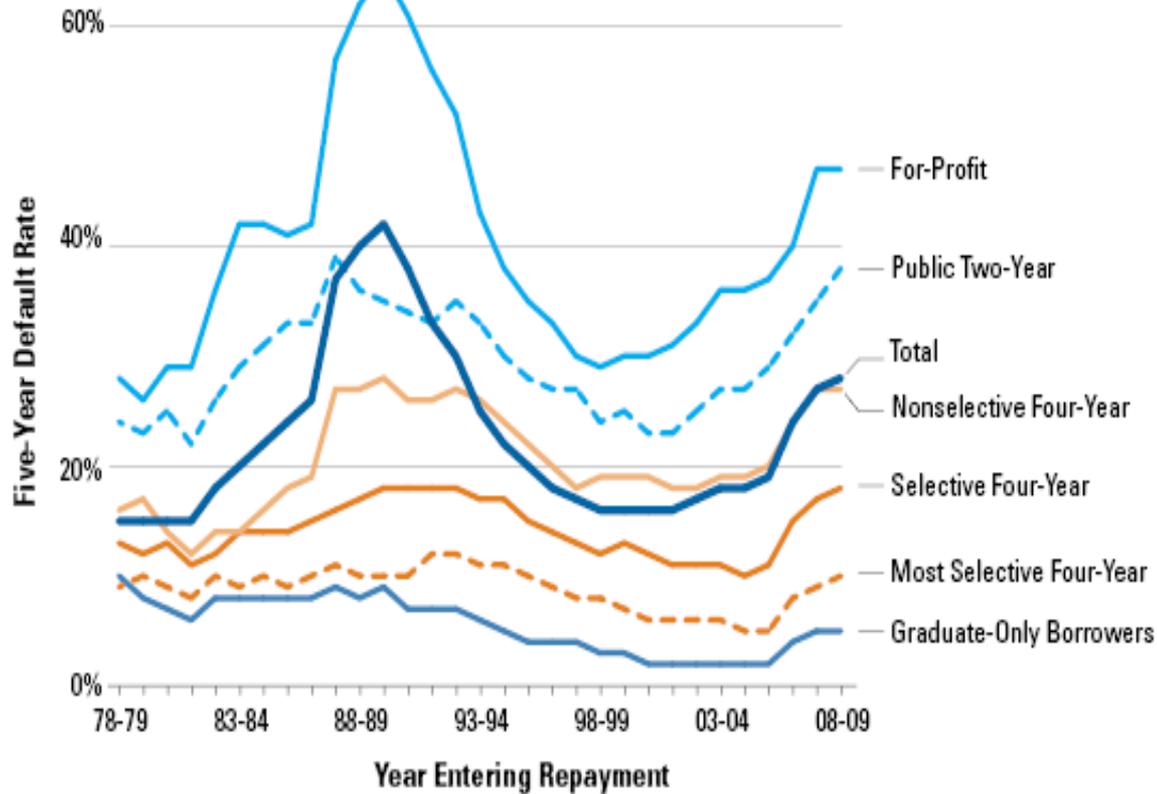
But... then... why....

Figure 4: Fraction of Students Persisting in College, by Income Quartile and Birth Year



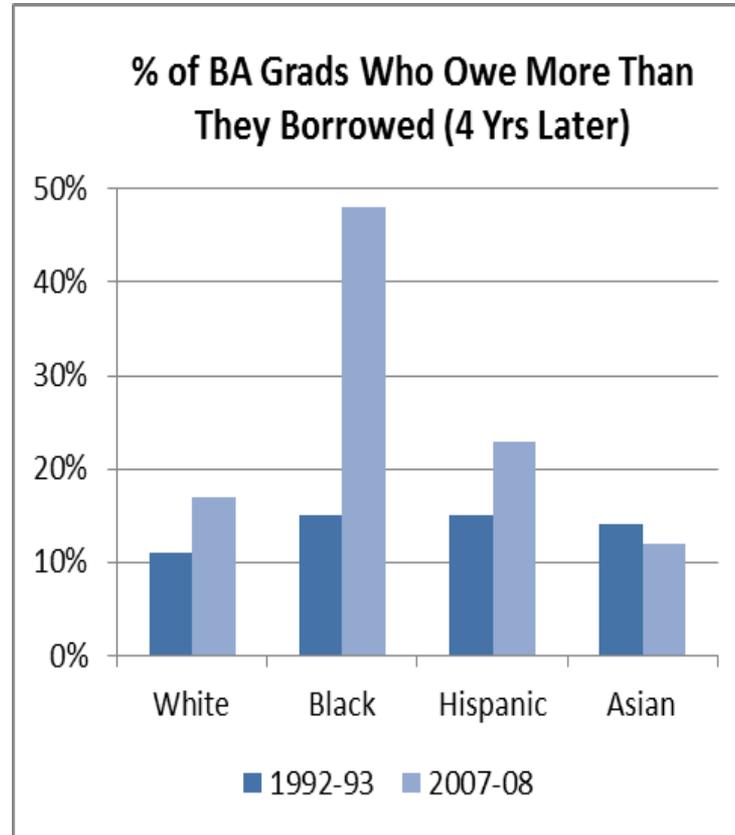
Source: Bailey & Dynarski (2011)

But... then... why....



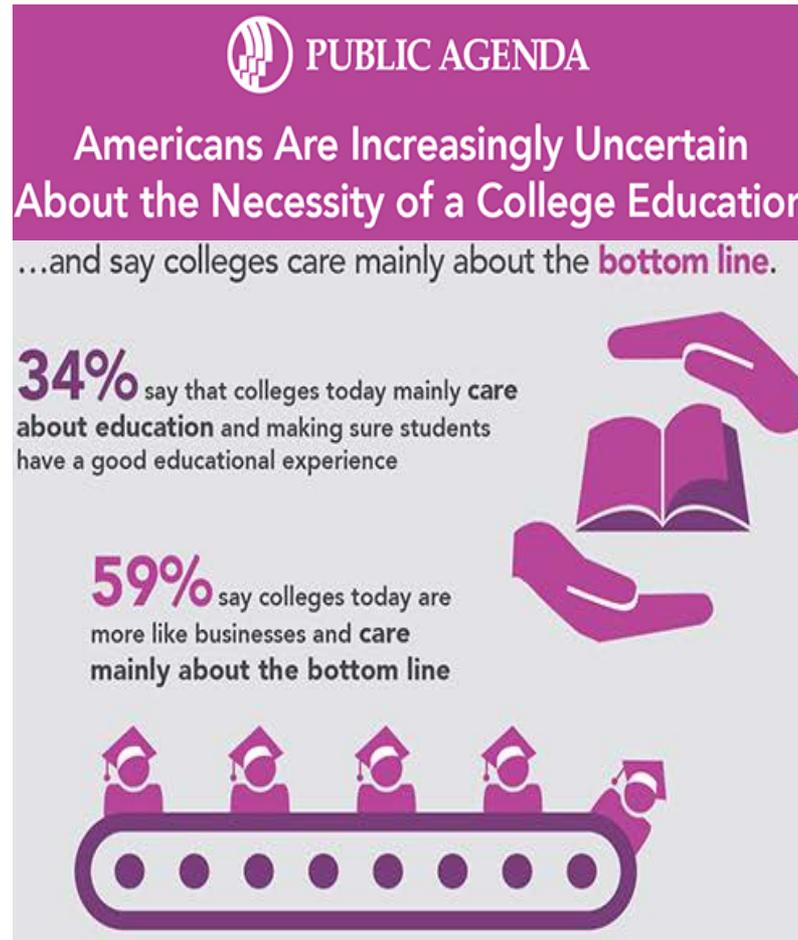
Source: College Board (2016) based on Looney & Yannelis (2015)

But... then... why....



Source: Scott-Clayton & Li (2016) Brookings Report

Waning Public Trust & Support

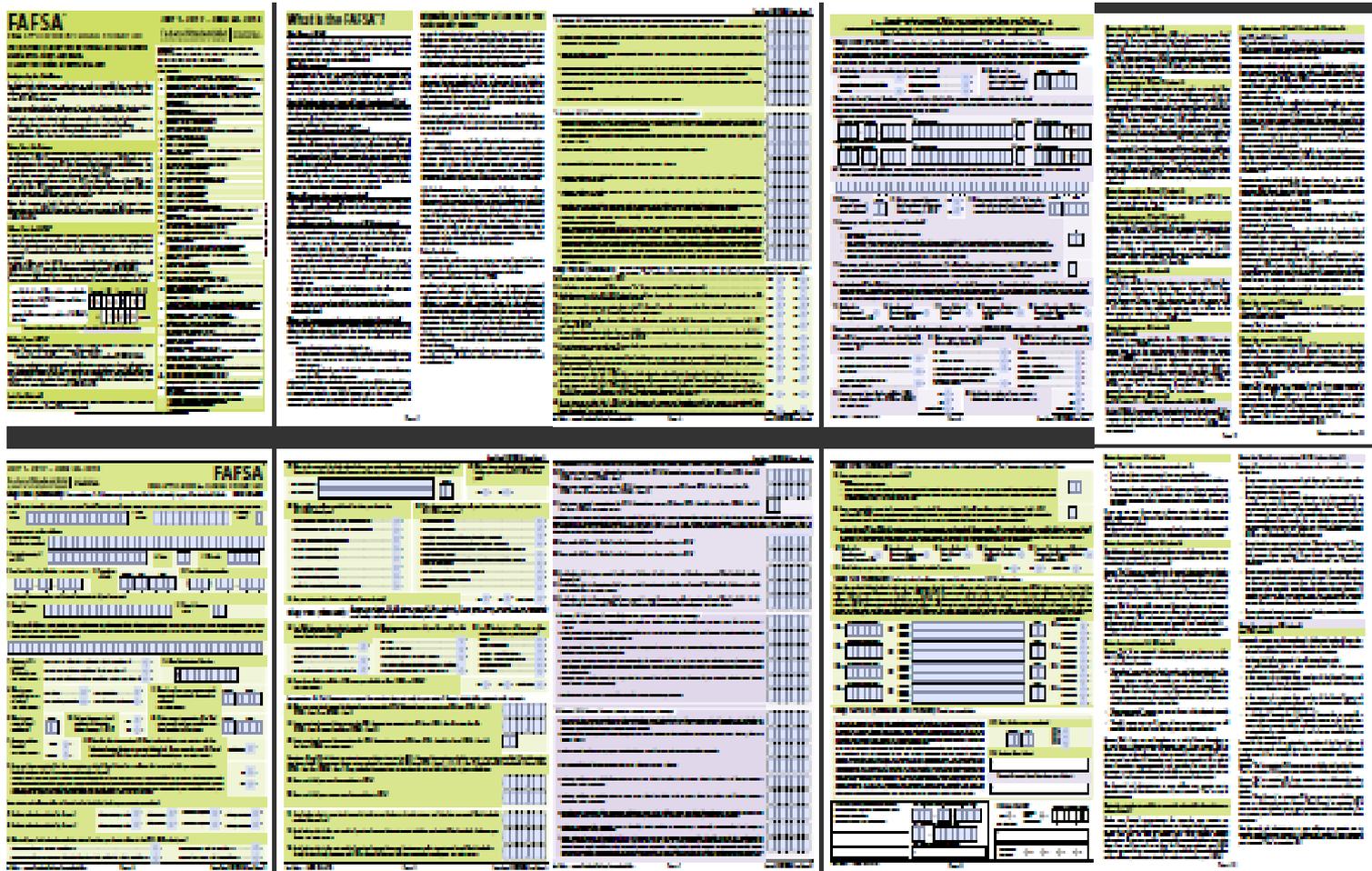


Source: Public Agenda (2016 Infographic)

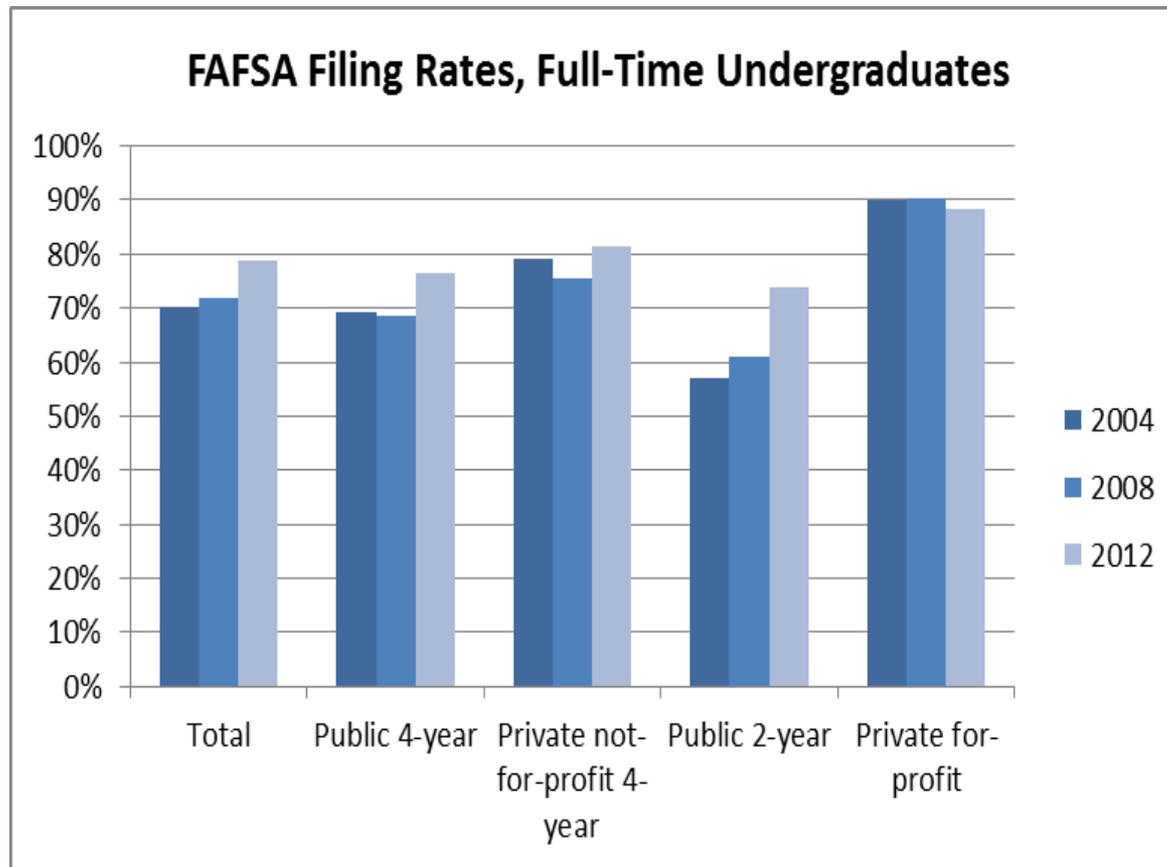
Has the U.S. Model Gone Too Far?

- Challenges of the U.S. model:
 - Complexity & confusion
 - Insufficient consumer information & protection
 - Incentives for access rather than success
- Will talk briefly about each of these and related reforms
- Do we need to throw out the model, or can it be fixed?

Complexity of Aid Application Process



Progress has been made, but still not enough



Complexity & Confusion

- The dreaded FAFSA: more than just an annoyance
- Simplifying the online form vs. starting from scratch
- Detailed info is not needed to determine Pell/loan eligibility
- Why not use tax data to determine eligibility automatically, eliminating need for separate application?

Consumer Information and Protection

- Complexity isn't just an issue re: financial aid – issue for college choices more broadly
- Can't make good decisions without good information
- Information alone may not be enough
 - Students need individualized, third-party guidance
 - Protection against predatory institutions (regulation)
 - Protection against income risk (student loan reforms)

Access vs. Success

- Federal financial aid (as well as many forms of state support as well) typically oriented towards enrollment, not completion
- Incentives are unavoidable – so might as well be aligned with stated goals
 - Structural incentives – e.g. 24 credit annual limit
 - Student performance incentives
 - Institutional performance incentives
- Students also need more than purely financial assistance & incentives : need structured supports while enrolled

A final complication: Interactions between federal and state support

- Shared responsibility for financial aid is a strength of US system
 - Increasing federal role both reflects and supports geographic mobility
 - Federal government better equipped to buffer economic shocks
 - State-level policies can better reflect state-specific demographic, institutional, and labor market profiles (e.g. MA vs WV)
- But interactions can be a challenge, too
 - Does increasing federal support reduce state spending on higher ed?
 - Can't make policy at one level without taking responses of other levels into account

Does Society Invest Wisely in Education?

- Investments in higher education have high payoff for society; now is not the time to scale back!
- But we urgently need reforms to reduce inequity, improve outcomes, and reduce risk
- Free college proposals may well be part of the solution
- But also important to recognize:
 - Challenges of U.S. system go beyond just price
 - U.S. system has fundamental strengths worth preserving, too

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