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....

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

% of BA Grad Who Owe More Than They Borrowed (4 Yrs Later)

Source: Scott-Clayton & Li (2016) Brookings Report
Waning Public Trust & Support

Americans Are Increasingly Uncertain About the Necessity of a College Education

...and say colleges care mainly about the bottom line.

34% say that colleges today mainly care about education and making sure students have a good educational experience.

59% say colleges today are more like businesses and care mainly about the bottom line.

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