



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

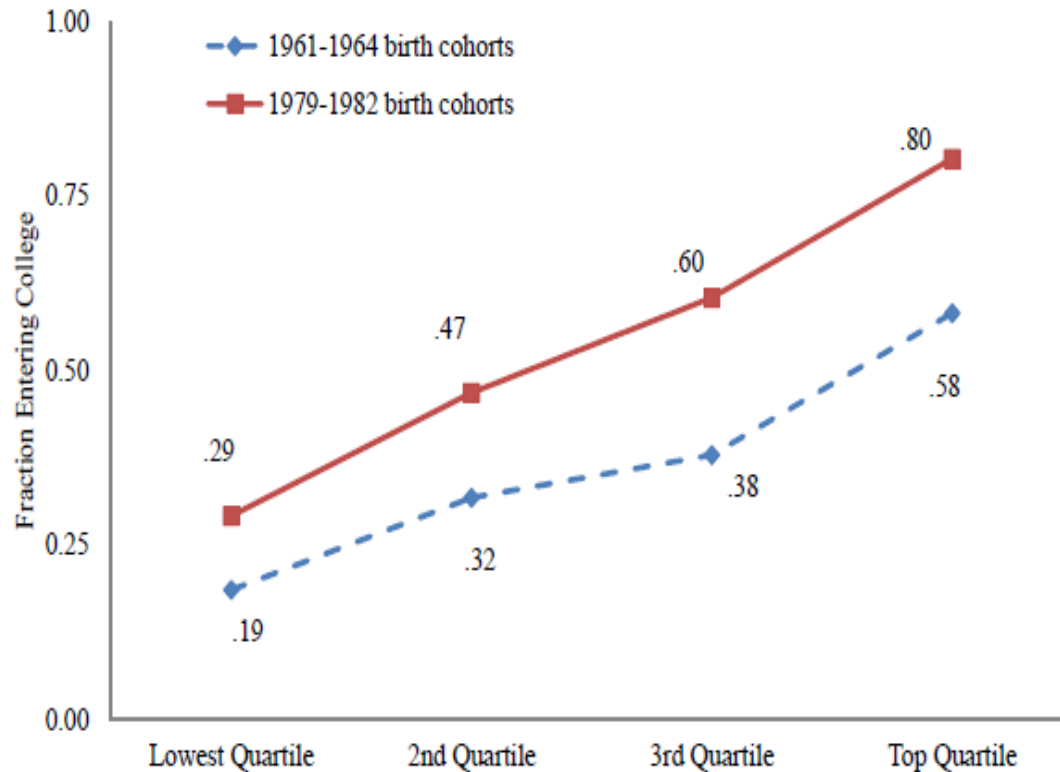
- High price, high aid model: economic & international context
 - High price, high aid model brings more resources into sector from those who can afford to pay. UK Economist Nicholas Barr:
“Countries typically pursue three efficiency goals in higher education: larger quantity, higher quality, and constant 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....

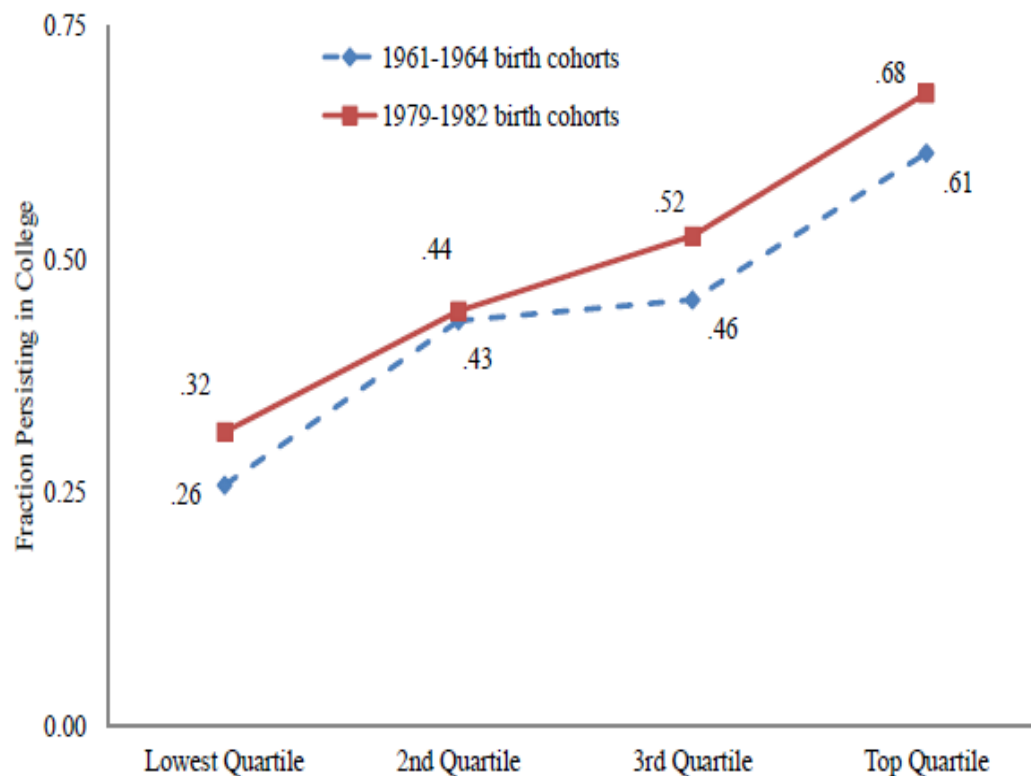
Figure 2: Fraction of Students Entering College, by Income Quartile and Birth Year



Source: Bailey & Dynarski (2011)

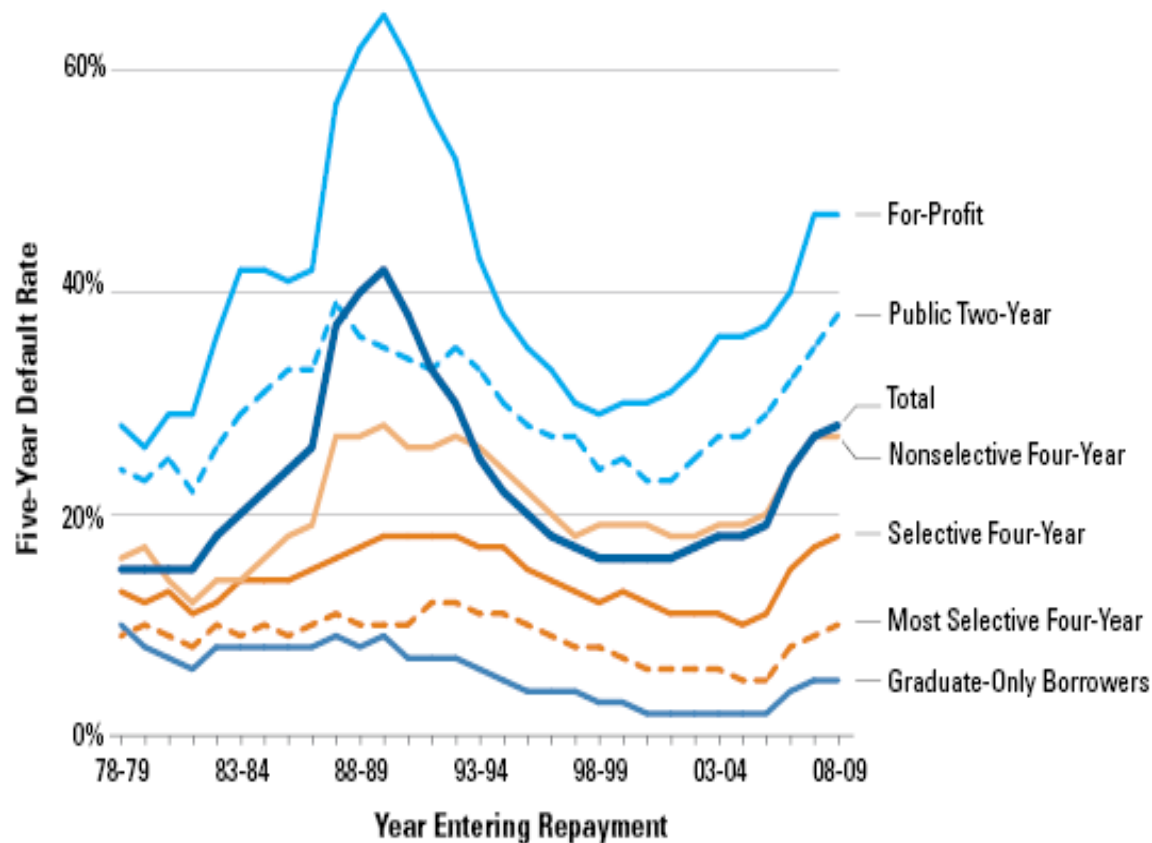
But... then... why....

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



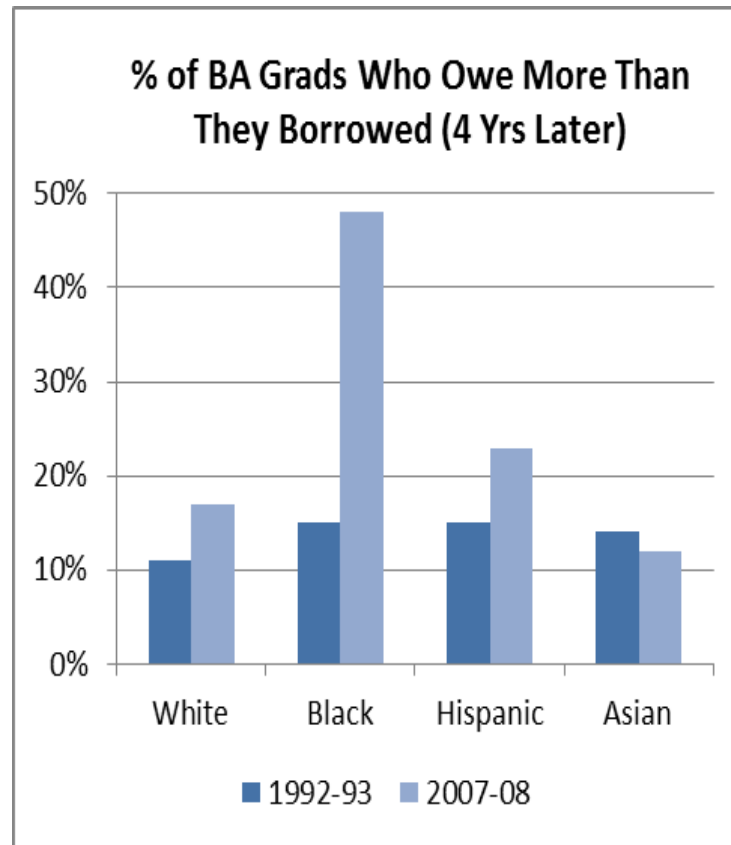
Source: Bailey & Dynarski (2011)

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



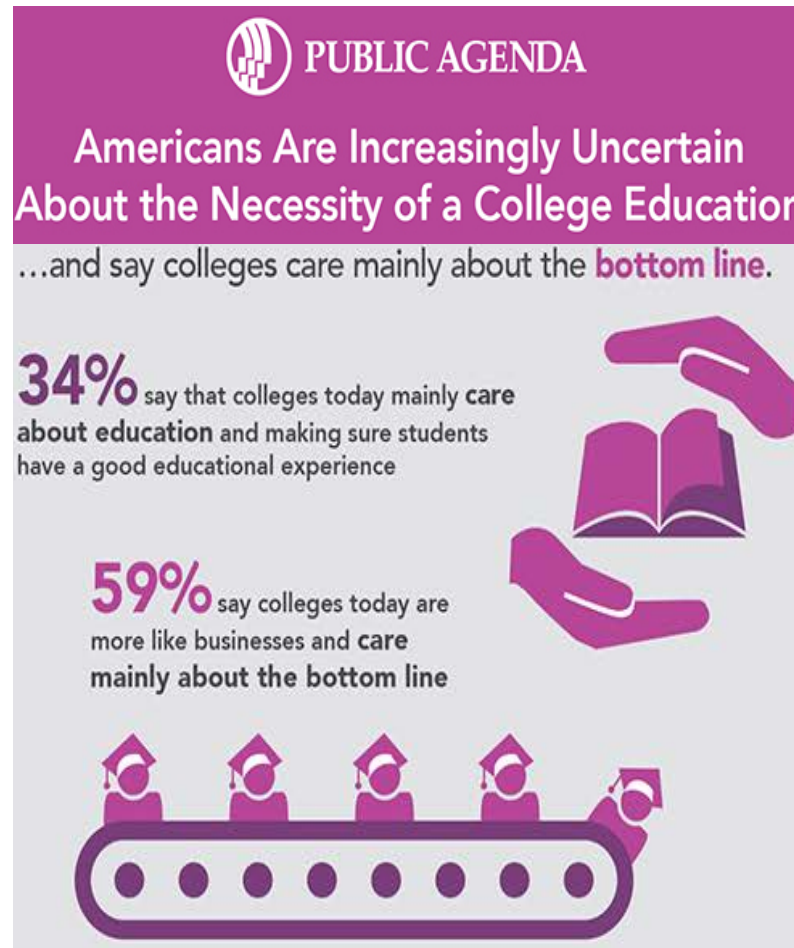
Source: College Board (2016) based on Looney & Yannelis (2015)

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



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

Waning Public Trust & Support



Source: Public Agenda (2016 Infographic)

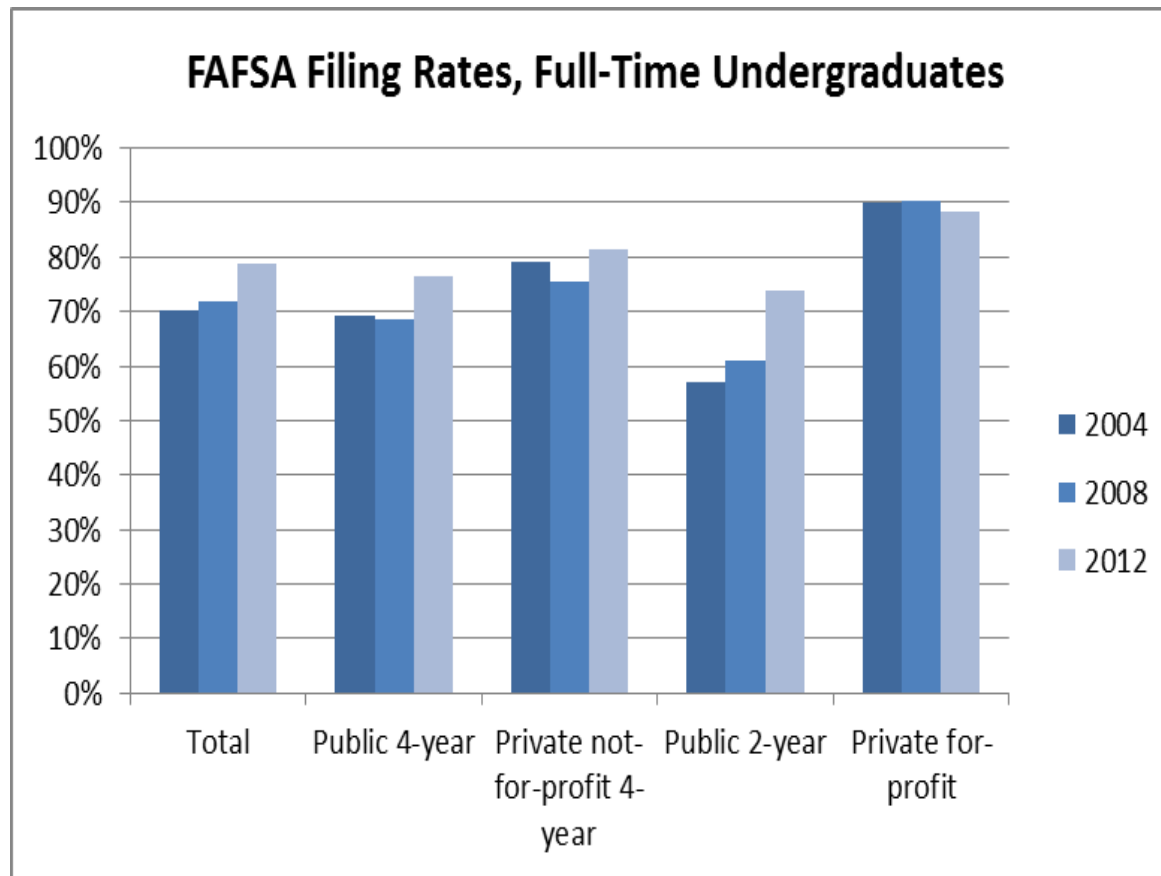
Has the U.S. Model Gone Too Far?

- 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

The collage consists of eight screenshots from the FAFSA website, arranged in two rows of four. The top row shows the 'What is the FAFSA?' section, the 'FAFSA Basics' section, and two pages of 'FAFSA Questions'. The bottom row shows the 'FAFSA Basics' section, the 'FAFSA Questions' section, and two pages of 'FAFSA Questions'. The screenshots are densely packed with text, checkboxes, and tables, illustrating the complexity of the 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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