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Making postsecondary education available to all those who aspire to it and have the ability to participate has been a clearly articulated goal of public policy over the last two decades. We have made considerable strides toward reaching this goal, but new problems have emerged in the meantime.

One of the issues that has become more pressing in recent years is the question of choice among educational institutions available to students from varying backgrounds. Limited choice is an important issue, not only for low-income students, but also for students from middle-income families, whose access to higher education is generally assured, but whose parents might not be able to finance their educations at high-cost institutions. Part of the goal of equal access to higher education should be to allow students at all income levels to choose the alternatives most suited to their own personal needs. It is certainly reasonable to expect students who choose high-cost schools to make larger long-term financial commitments, but the choice of schools should be available.

This essay focuses on the causes of the emerging perception among middle-income students that their educational opportunities are being restricted, and offers some potential solutions.

The Problem

Trends in College Costs and Family Income

During the 1970s, both student aid programs and low-tuition public colleges proliferated. Family incomes grew more rapidly than college costs[1] and there was widespread complacency about our society's ability to continue increasing access to higher education. But in the 1980s, the picture changed dramatically. Federal student aid became less generous and costs of college attendance, particularly in private institutions, skyrocketed, while family incomes were stagnating.[2]

The combination of tuition, room and board at public four-year colleges and universities was about 13 to 14% of median family income from the early 1960s through the early 1980s. It has now risen to around 16%. The change in the affordability of private institutions, on the other hand, has been startling. The percentage of median household income required to cover private college or university costs stayed steady at about 32% for universities and 25% for four-year colleges from the early 1960s through 1980–81. But these ratios rose dramatically during the last decade, to about 49% for universities and 37% for colleges by 1991–92 (Gillespie and Carlson, 1983; College Board, 1993).

As the cost of higher education has outstripped the growth in family incomes in recent years, the question of how students from middle-income families can afford to pay for college has become an increasingly vexing one. Recent research suggests that the percentage of students at high-cost private colleges who come from middle-income

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families has declined more than the percentage of these students in the national population over the last decade. Between 1978 and 1989, the percentage of "middle-income" ($40,000–60,000 in 1989 dollars) families in the population with heads of household aged 45 to 65 fell from 27% to 25%. The percentage of all college students who came from this income bracket fell from 26% to 25%. While these numbers give no indication of reduced access for this group, there is evidence that choice was restricted. The percentage of students attending a select group of elite private colleges and universities who were from families in this income bracket fell from 22% to 18% over this time period. For all four-year private,nonsectarian colleges, the decline was from 24% to 22%. Public universities experienced a similar pattern, with the percentage of their student bodies coming from middle-income families falling from 29% to 26%.[3] Apparently, more middle-income students are choosing public four-year colleges which tend to be closer to home and lower in cost than the universities (Schapiro et al, 1990).

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In addition to the rising private college cost/income ratio, changes in the overall distribution of income during the 1980s may help to explain changing attendance patterns. There has been considerable discussion of the "shrinking" middle class—the idea that fewer households now fall into a reasonably defined, middle-income category than was true before the 1980s. But perhaps more important for our purposes is the fact that a lower proportion of total personal income now goes to those in the middle of the distribution than was the case in the 1970s. Between 1980 and 1991, the percentage of total income going to the third quintile of American families (with incomes between about $29,000 and $43,000 in 1991) fell from 17.5% to 16.6%. The same phenomenon can be seen if we define the middle-income group more broadly, to include the middle 60% of the population—excluding only the poorest 20% and the richest 20% of families. The incomes for this broadly defined middle class ranged from about $17,000 to $63,000 in 1991. Their share of total income fell from 53.3% in 1980 to 51.4% in 1991 (Bureau of the Census, 1993, p. 463).

While the share of income going to those in the middle has declined, the share going to those at the top has risen. The upper fifth of families had 41.5% of total income in 1980 and 42.2% in 1991. This means that incomes in the middle have fallen *relative* to incomes at the top. The middle quintile had 42% as much income as the top quintile in 1980 but only 38% as much in 1991. This decline in their *relative* incomes has made it increasingly difficult for middle-income families to support what they consider to be an acceptable standard of living. Combined with the rising relative cost of college, this phenomenon helps to explain the squeeze being felt by middle-income families. As the economic status of the middle class has declined relative to the upper-income families, they have felt less able to pay for college.

Social Priorities

Part of the middle-income "squeeze" is the very real change in the price of higher education, and private higher education in particular, relative to family income. But the strength of the negative public reaction toward higher education pricing is more readily understood if we also acknowledge changes in attitudes and priorities. Their relative income decline doesn't mean that middle-income families can buy fewer goods and services than they could a decade ago. Purchasing power for average families did stagnate in the 1980s, but it was about 3% higher in 1991 than it had been in 1980 (Bureau of the Census, 1993, p. 457). These families have not been able to increase their consumption as much as they would like to, or as much as wealthy families have been able to. Families who choose to purchase higher education have to make increasingly difficult choices about how to allocate their limited resources. The prevalence of new and exciting ways to spend money—computers, VCRs, compact disc players, expensive sneakers—makes paying for college *feel* like a bigger sacrifice. But there are more dollars left over for discretionary spending than there were a generation ago.

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One implication of these observations might be that if people would put education at the top of their list of "non-necessities," higher education would, in fact, be "affordable" for many Americans who do not now perceive it as such. The reality is a little more complicated. There is no clear line between necessities and discretionary spending. One family's luxury is basic to another family's well-being. And even if education were at the top of this "list," few people would suggest that education could reasonably be a family's *only* discretionary spending.

The critical point is that "affordability" is a subjective phenomenon. Many families who could easily pay for private college if they limited themselves to basic necessities quite reasonably do not consider college affordable. The debate is not really over how many dollars there are, but how much consumption of other goods and services families should have to sacrifice in order to finance higher education.

The affordability "crisis" in higher education has been precipitated by the real increase in college costs; but it has also been exacerbated by increasing inequality in the distribution of income, the prevalence of consumerism, and the reluctance of many families to sacrifice current consumption for the sake of education. Some families do not believe the payoff to the investment in education is worth the cost. Others believe someone else (the government, the institution, the student) should bear the burden. Combined, these factors have created a situation where the cost of college is certainly outpacing willingness to pay, and may be outpacing ability to pay.

Subsidies to Students

Before discussing potential solutions to the middle class choice problem, it is useful to examine the extent to which these students and their families really are responsible for the cost of education, and the extent to which they are being subsidized. The subsidies received by students in both the public and the private sectors include direct student aid from public sources, institutional funds, and other private sources. But they also include indirect subsidies, in the form of tuition levels which do not cover the full cost of education. In the fall of 1986, according to calculations based on data from the National Postsecondary Student Aid Study, the overall average subsidy received by dependent students in public colleges and universities was about $6,200. In private institutions it was $5,400. These amounts are equivalent to $7,900 and $7,000, respectively, in 1992 dollars (Schwartz and Baum, 1992).[4]

While students in the private sector receive more direct student aid (averaging $3,600, compared to $900 in 1992 dollars in the public sector), those in the public sector receive institutional subsidies, in the form of subsidized tuition, of about $7,000. In the private sector, these indirect subsidies average only $3,400. Clearly, tuition in the public sector is not a good indication of the cost of educating young people.

It is important to think about the distributional consequences of the differences between direct student aid and indirect institution-wide subsidies. Because a high (but decreasing) percentage of direct student aid is need-based, subsidies in the private sector decline as family income increases. Low-income students (from families with income below $26,000 in 1992 dollars) receive total subsidies averaging about $8,700.[5] Subsidies to the middle-income group average about $7,300, while higher-income students (from families with incomes of $65,000 or more) average about $5,600. The weight of institutional subsidies in the public sector makes the numbers there look quite different: $8,300, $7,700, and $8,200, respectively. The middle-income group is receiving *lower* subsidies in the public sector than *either* richer or poorer students because students from low-income families are eligible for financial aid, even when they attend relatively low-cost institutions. The explanation for the higher subsidy levels at the upper-end of the income distribution lies in the fact that students from wealthier families tend to go to higher-cost colleges, which have higher educational expenses and larger tuition subsidies. Higher-income families can afford to send their children to the state universities, while middle-income families are, in increasing numbers, sending their children to the state colleges (Schapiro, et al, 1990). Young people from higher-income families may also be more likely to receive scholarships based on academic achievement.

The pattern of subsidies in the two sectors raises some interesting questions about the future of middle-income students. If the number of these students who do not see private colleges as a viable choice continues to increase, this group will swell the ranks of public colleges. While the total subsidy they receive toward their educations may decrease as they receive lower-cost educations, their reliance on indirect subsidies, funded by state taxpayers, will increase. The cost to the public treasury of migration from the private sector could be significant.[6] Private college affordability is a vital issue, not only for those students interested in this educational choice, but also for those currently served by the public sector, on whom there could be a significant ripple effect.

Potential Solutions

There can be no simple solutions to a problem that emerges from a confluence of such a variety of forces. The cost of producing higher education has grown out of proportion to other prices and incomes; the relative position of the middle-income segment of the population has deteriorated; and parents' willingness to sacrifice current consumption for an uncertain investment in their children's education appears to have diminished. Nonetheless, there are some directions in which we should clearly move if we hope to avert a major crisis.

Controlling Costs

The tuition spiral is a complex issue, the fundamentals of which have not been addressed in this essay. It is, however, impossible to propose solutions to the problem of diminishing educational choice for middle-income students without touching on this question. The public and private sectors are in very different situations and their appropriate courses of action differ. Because the choice issue under discussion relates primarily to private college costs, I will put the public tuition issue aside. Private college administrators, government officials and higher education finance experts all agree that tuition cannot continue to increase 6%–8% per year. Some slowdown is already occurring. But more fundamental changes will be necessary.

"The critical point is that affordability is subjective."

Financial aid budgets are growing much more rapidly than other costs, and the net tuition revenues gained from tuition increases are diminishing. Whether or not Washington imposes restrictions on the federal aid available to students at institutions whose tuition levels rise too rapidly, private colleges and universities will have to make radical changes to remain viable. Whether these changes will take the form of reduced competition over athletic facilities, reduced student support services, larger classes, shorter degree programs or a variety of other possibilities remains to be seen.

Whatever successes may be realized in holding down costs, there is little doubt that the price of a private education will appear out of reach to many middle-income families for years to come. Other solutions must accompany any cost-cutting innovations.

Encouraging Saving

Both saving and borrowing for college seem to have fallen out of favor in recent years. The saving side of the problem is not limited to education. Savings rates as a percentage of personal disposable income have fallen from 7.9% in 1980, to 6.4% in 1985, and 4.7% in 1991 (Bureau of the Census, 1993, p. 448). The increased inequality in the distribution of income has contributed to diminished savings rates for all but the richest Americans. A national problem exists which is related not only to education, but to other forms of personal investment and to retirement planning. Current consumption overshadows all other demands on our resources, even investments which promise to have a significant positive impact on the future incomes of our families.

Clearly, finding ways to encourage middle-income families to save more, despite the decline in their relative incomes, is an important part of maintaining educational choice. However, small changes in monetary incentives are not going to address this fundamental problem. Empirical evidence suggests that the personal savings rate is not very responsive to incremental changes in the rate of return. Most of the economic research on the impact of IRAs, for example, indicates that this policy generated very little new savings. It benefited primarily the relatively wealthy, who already save more than the IRA-allowed amount. (See, e.g. Burman et al, 1990 and Garner, 1993.)

It is unlikely that people will significantly increase their savings for college simply because of a small increase in the rate of return. We should be wary, in particular, of policies like tax-deductible savings plans, which provide larger subsidies to people in higher tax brackets than to those in lower brackets who manage to save the same amount. Tax credits could easily be substituted to create a more equitable policy.[7] Moreover, plans for unsubsidized payroll deductions and incentives for employer-matching funds could be very important. People do respond to other forms of behavioral incentives and these possibilities should be explored.

"We must rely more on cost-cutting, saving and borrowing than on increased subsidies."

We should not make the mistake of using tax dollars (or reducing tax revenues through deductions) to subsidize savings which can occur at no public cost. Despite the squeeze being felt by middle-income families, they do have significant amounts of discretionary income; more positive attitudes about saving and the value of education, combined with a sense of responsibility for their children's opportunities, can make it possible for these families to save for parental contributions.

Borrowing for College

Borrowing for higher education, while it has increased in volume over the last decade, has come to be looked upon very negatively. Concern over the increasing loan/grant ratio, public attention to default rates and fraud in the student loan program, and a generally critical attitude towards higher education have all contributed to this sense of being forced to borrow for college as an unfortunate plight. Families who do not hesitate to take out loans for fancy new cars balk at the idea of borrowing to finance educations that are likely to pay high rates of return for a lifetime. At the same time that avenues for educational savings are widened, the reasonable aspects of borrowing have to be clarified. Access to liquidity should be assured and unfounded fears of borrowing dispelled. For many families, paying in the future will make sense because home mortgages will be paid off and there will be no more dependent children requiring support.

Despite recent controversy over the role of home equity in determining parental contributions, the existence of this wealth cannot be ignored in a discussion of middle-income families and borrowing for college. Home equity constitutes about one-third of family net worth in the United States (Bureau of the Census, 1993, p. 476) and is particularly significant for middle-income families. The nonliquid nature of this wealth helps explain the political pressures which led to its recent elimination from the Federal Methodology need analysis formula. Many private colleges, however, continue to include home equity in their need analysis for institutional funds.[8]

It is true that middle-income families frequently are not eligible to borrow against their homes the amount required to pay parental contributions based on combined income and assets. The appreciated value of their homes would be out of their price range if they were buying today. Nonetheless, homeowners have a greater ability to pay for college than do renters with similar incomes. They are earning implicit rent from owning these homes, and they have net worth which is significantly greater than that of nonhomeowners. The solution to the problem should come in the form of an adjustment to need analysis which protects families whose equity in their homes is out of proportion to their incomes and in the form of increased available liquidity to families whose assets are nonliquid.[9]

The advent of unsubsidized loans for students may be a positive step in assuring the necessary liquidity to increase educational choice for middle-income students. But they hardly provide the ideal complete solution for ensuring middle class choice. Student loans may be replacing parental contributions. If nonliquid assets are a significant explanation for a family's limited ability to pay, it is certainly reasonable for the parents to borrow, rather than shifting even more of the burden to the student. The trend toward this type of intergenerational transfer raises a set of more fundamental questions about how our society approaches higher education.

"Clearly, tuition in the public sector is not a good indication of the cost of educating young people."

Another concern that must underlie all of our discussions about how to help middle-income students pay for the colleges of their choice is that we should avoid transferring scarce public funds from low-income families to middle-income families. This means that we need to think carefully about the distinction between liquidity and subsidies. Assuring access to borrowing at reasonable rates and finding low-cost ways to encourage savings among the middle class are important steps for both of these reasons.

Public Information Needs

The role of information in helping middle-income families pay for college should not be underestimated. We must inform families about how important saving is and about the rationality of borrowing. But we also have to make sure there is adequate information about college costs and about programs available for assistance. Middle-income parents overestimate by close to 20% the amount they will have to pay to send their children to private institutions (Shapiro et al, 1990). The limits on middle-income choice are certainly attributable to real financial constraints; but they are augmented by the illusion that all private colleges are high-cost and that middle-income families have nowhere to turn for assistance.

Values and Priorities

The general decline in the savings rate is an indication not only of tight financial times, but also of a focus on present consumption. The shifting of the burden for financing higher education from parents to students and the general sense of entitlement which strengthens demands from people at all income levels for subsidies from the government and from institutions, are signals of a set of values and priorities in which education is not at the top.

Unfortunately, encouraging saving and supporting reasonable levels of borrowing will be ineffective unless families believe that higher education, and particularly high-cost higher education, is an investment worthy of some sacrifice. One of the side effects of the public discussion of college affordability and of the weaknesses of the financial aid system has been a loss of faith in institutions of higher education. There are frequent indications in the media of public disaffection with higher education. Discussion of faculty time use, of costs that are out of control, and of the questionable financial benefits of a degree both reflect and intensify skepticism about the integrity of our educational system. No amount of information about the feasibility of financing educational choice can create meaningful opportunities unless underlying confidence in educational institutions and a sense of parental responsibility for providing opportunities can be strengthened.

Conclusion

Under the current system, lower-income students get more financial aid as college costs increase. Upper-income students can still manage to pay. But middle-income students are caught in the middle. We have to help them solve their problems without reducing the amount of aid—already inadequate—available to those with even more limited resources. This means we must rely more on cost-cutting, saving and borrowing than on increased subsidies. College participation rates for students from families in the upper 75% of the income distribution decreased slightly at the end of the 1980s, but remain above the levels of the early 1970s. For those in the bottom quartile, on the other hand, participation rates are lower now than they were 20 years ago (Mortenson and Wu, 1990). We can't afford to allow this trend to continue. Access to higher education for low-income students has to be increased at the same time that we find viable policy options to help middle-income families finance high-cost educations. This is not a simple task in a society where the position of the middle class is deteriorating relative to that of the wealthy and where the cost of one year at a private college has risen to about a third of the average family's annual income.

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Notes

[1]Average tuition and fees rose about 6% a year from 1965 through 1980. The pattern changed radically in the early 1980s, with an 11.2% annual change between 1980 and 1982. Median household income grew about 7% a year during the 1970s (Bureau of the Census, 1982–83, pp. 163, 429).

[2]Federal Pell Grant aid went from $3.869 billion in 1980–81 to just over $6 billion in 1992–93 (in 1992 dollars). However, real Federal Pell Grant aid per recipient fell slightly in real terms, from $1,466 to $1,453 in 1992 dollars over that time period. Recipients also received lower real grant aid from the SEOG program (College Board, 1993).

[3]While the share of lower-income families in the overall population increased dramatically during this decade, the share of lower-income families in all types of institutions fell. The declining share of middle- and lower-income students in these institutions was balanced by an increasing share of upper-income students. In private colleges, the jump was from 32% to 39%.

[4]Direct subsidies are the sum of grant aid from all sources and the subsidy component of guaranteed loans, assumed to be 30% of face value. Indirect subsidies, calculated from the Higher Education General Information Survey (HEGIS) are based on cost of education less gross tuition. Details of the calculations are available from the author.

[5]Like those cited above, these figures are based on calculations from the 1986 NPSAS data, which include 1985 income figures and 1986 subsidy levels. The numbers have been inflated to 1992 dollars to make them more meaningful, but do not reflect changes in subsidy patterns since 1986.

[6]Total costs for the public sector can, of course, be held in check by constraining enrollments. This would probably result in middle-income students taking places currently held by lower-income students in the public sector, and lower-income students suffering reduced access.

[7]Refundable tax credits, which are subtracted from tax owed, provided equal dollar subsidies to all taxpayers who save a certain amount. The subsidies associated with deductions from income, on the other hand, are an increasing function of marginal tax rates.

[8]This observation is based on conversations with numerous financial aid officers from a variety of private colleges.

[9]Any adjustment to the need analysis system which creates measured need puts a strain on institutional funds. However, the goal should be an equitable system, not one which perpetuates inequities already built into the system. Need created by one change may be balanced by other modifications which reduce measured need.