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This historical perspective and creative 'burden-sharing' approach to financing a college education was presented at a conference in December 1988 at the Brookings Institution in Washington, D.C. Look for the article in "New Ways of Paying for College," a book to be published in Fall, 1989, by ACE/MacMillan.

The late 1980s find the American public deeply concerned about paying for higher education. In recent years, annual increases in college tuitions have exceeded inflation, growth in family and per capita incomes, and returns that savers can reasonably expect to receive on investments. Moreover, federal programs of student financial aid, after undergoing tremendous growth during the 1970s, leveled off just as tuition costs surged upward. Increases in state and institutional student aid could not compensate fully for rising college charges and the declining value of federal awards. Increasingly, student aid took the form of loans, with uncertain implications for young borrowers. Families who were unlikely to qualify for student aid on the basis of income also exhibited growing dismay about how to finance postsecondary education for their children.

What role should the federal government play in addressing these concerns and in fostering the development of new financing mechanisms? We approach these questions by first defining a framework for analyzing the federal responsibility for higher education finance. Then we use that framework to describe how the federal government currently carries out its part in sharing the costs of higher education. We review evidence of shifts in financing patterns that have occurred in recent years. We look at the context in which decisions about the federal role will be made, particularly the financial and demographic issues, and conclude by discussing how the federal government should respond to recent concerns about college finance.

Federal Roles and Responsibilities: A Framework for Analysis

In a recent study of the financing of higher education in five countries, D. Bruce Johnstone observed that the burden of educational costs must be shared by some combination of four partners or sources of revenue: parents, students, taxpayers, and institutions (that is, colleges or universities, which in turn obtain revenues from organized philanthropy and individual donors).[1]

The United States is unusual in the extent to which the burdens of college costs are shared relatively equally among these four sources. Parents are expected to contribute to the expenses of their children's higher education to the extent that they are financially able. Students, too, are expected to work or borrow to meet a share of college costs. These costs include not just living expenses, as in many other countries, but part of the instructional costs of higher

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education as well. Even public institutions, which receive large subsidies from state taxpayers, charge some tuition, and private institutions are heavily dependent on tuition income. (In other countries, there are often no tuition charges for higher education, or, if they exist, the government pays them for nearly all students, especially citizens.) State and federal taxpayers support both colleges and students, with states taking the lead on institutional support and the federal government providing the lion's share of student financial assistance. Finally, philanthropists and individual donors (both current and past) pick up some of the burden by providing current operating support and by contributing to endowments.

This relatively equal sharing of the burden of paying for college has an important consequence. It helps explain why access to higher education is so much wider in the U.S. than in many other countries. Countries that do not expect contributions from all the partners educate a substantially smaller proportion of their population.

"The participation of students as partners in financing is crucial in maintaining access to higher education."

The burden-sharing model, by highlighting the role of the various partners, refines and amplifies our understanding of the federal government's responsibilities for financing education beyond high school. For the past quarter-century, Washington's responsibilities have been seen as essentially twofold: providing financial assistance to students to promote equal educational opportunity, and supporting researchers in universities (and the research capacities of universities). This shorthand description of the first responsibility, while accurate as far as it goes, is inadequate to describe the full extent of federal involvement in sharing and adjusting the burden of college costs. Thus, in this essay, we use Johnstone's burden-sharing model both to describe the range of current federal responsibilities and to assess whether Washington should sponsor new financing mechanisms.

Reexamining existing policies in this light, we see that the federal government carries out its part in sharing the costs of higher education by providing grants to students from families without adequate resources to pay for college on their own. Through these outright grants, federal taxpayers pick up part of the burden of paying for college. This need-based assistance is consonant with the widely recognized special responsibility of the federal government for equalizing educational opportunities for disadvantaged, underserved populations.

Signs
Burde

Washington also uses federal tax dollars to encourage the other partners to pick up their shares of the burden of college expenses. The federal government enables students to invest in their educations through student loans. It is generally agreed that private credit markets will not make loans available to young students with no work experience or credit histories. The federal government overcomes this "market imperfection" by providing loan capital to students through Perkins Loans and, more significantly, by creating access to private credit markets through the default guarantees and loan subsidies of the Stafford Loan program. It also enhances student employment through the College Work-Study program.

In addition to encouraging the private sector to open credit and employment markets to students, the federal government encourages parents to contribute to the higher education of their children, chiefly through provisions in the income tax code. Parents with a child who is a full-time student at an institution of higher education may continue to declare the child as a dependent for income tax purposes. Savings incentives such as Clifford Trusts were cut back in the 1986 tax reform, but tax-advantaged methods of savings still exist, and a new savings incentive, College Savings Bonds, goes into effect in 1990 (see the discussion below). Parents can also borrow to meet educational expenses through a federally sponsored Parent Loan program that provides only minimal subsidies but carries a guarantee against default and for which there is no income limitation on eligibility.

Last among the federal encouragements, and again through the tax code, Washington promotes philanthropic donations to colleges and universities by exempting charitable donations from taxable income.

In addition to sharing the burden of paying for college, the federal government provides counseling and academic support services to disadvantaged youth and adults, primarily through the so-called TRIO programs. These services take on added importance in the light of mounting evidence that early academic preparation and motivation are vital adjuncts to financial aid in helping at-risk students navigate successfully through high school and college.

These, in summary, are the ways in which the federal government acts to relieve the burden of postsecondary expenses and also to encourage others to bear their share of the costs. Now we ask: Is the pattern of burden sharing among the partners changing in ways that might call for a federal response?

Signs of Shifting Burdens

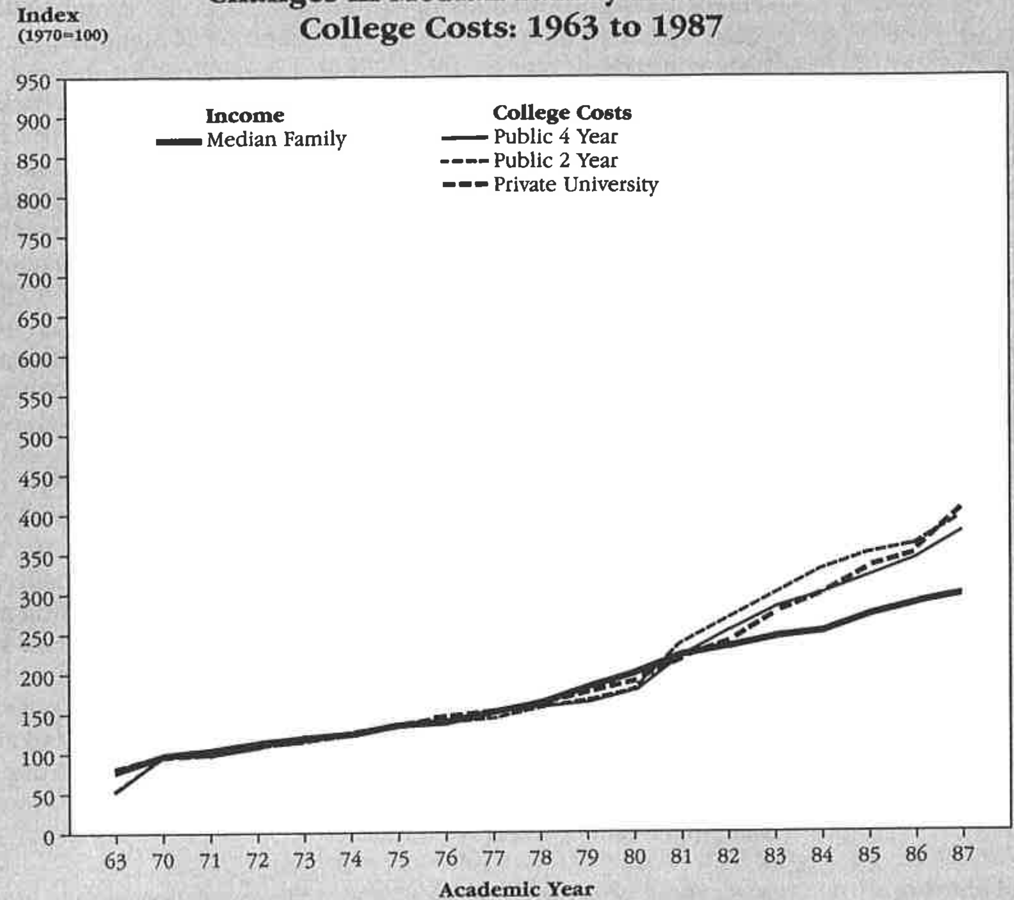
Data about who pays how much for higher education in the United States are frustratingly elusive. Nevertheless, a brief look at some basic statistical relationships indicates that the burdens of paying for college have shifted over time.[2] Sometimes these shifts have resulted from explicit policy decisions. Especially in recent years, however, the shifts have occurred more as a result of general economic and fiscal pressures than from a strong desire on the part of policymakers to alter the balance of responsibility for meeting college costs. Whatever the reason, the burdens on parents and students have been increasing.

Chart 1 provides visual evidence of the increasing pressures felt by parents generally in meeting their share of college costs and suggests why rising tuition levels and the affordability of college have become major political issues in the last several years. The chart shows that college costs and median family incomes (both indexed with 1970 levels set equal to 100) rose at about the same rate until about 1980, when family income increases began to lag behind the growth in expenses in all sectors of higher education.

Charts 2 and 3 (again indexed with 1970 equal to 100) show the

CHART 1

Changes in Median Family Income and College Costs: 1963 to 1987

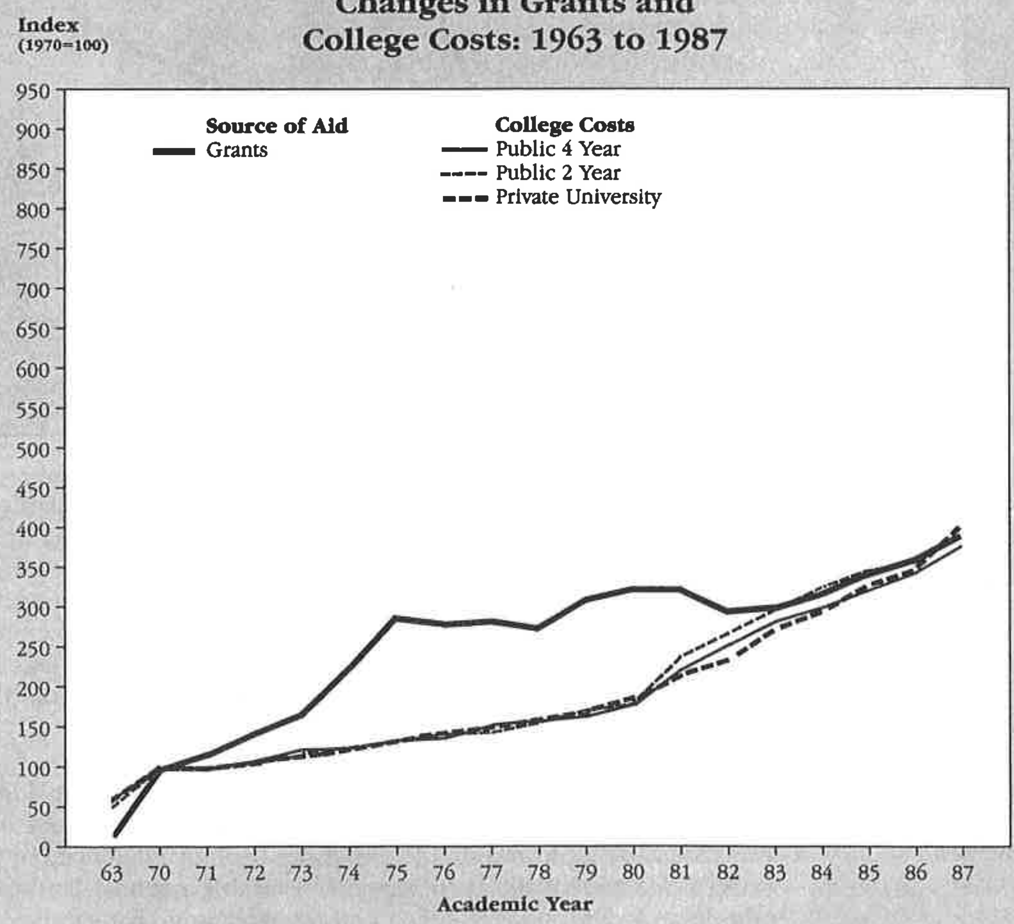


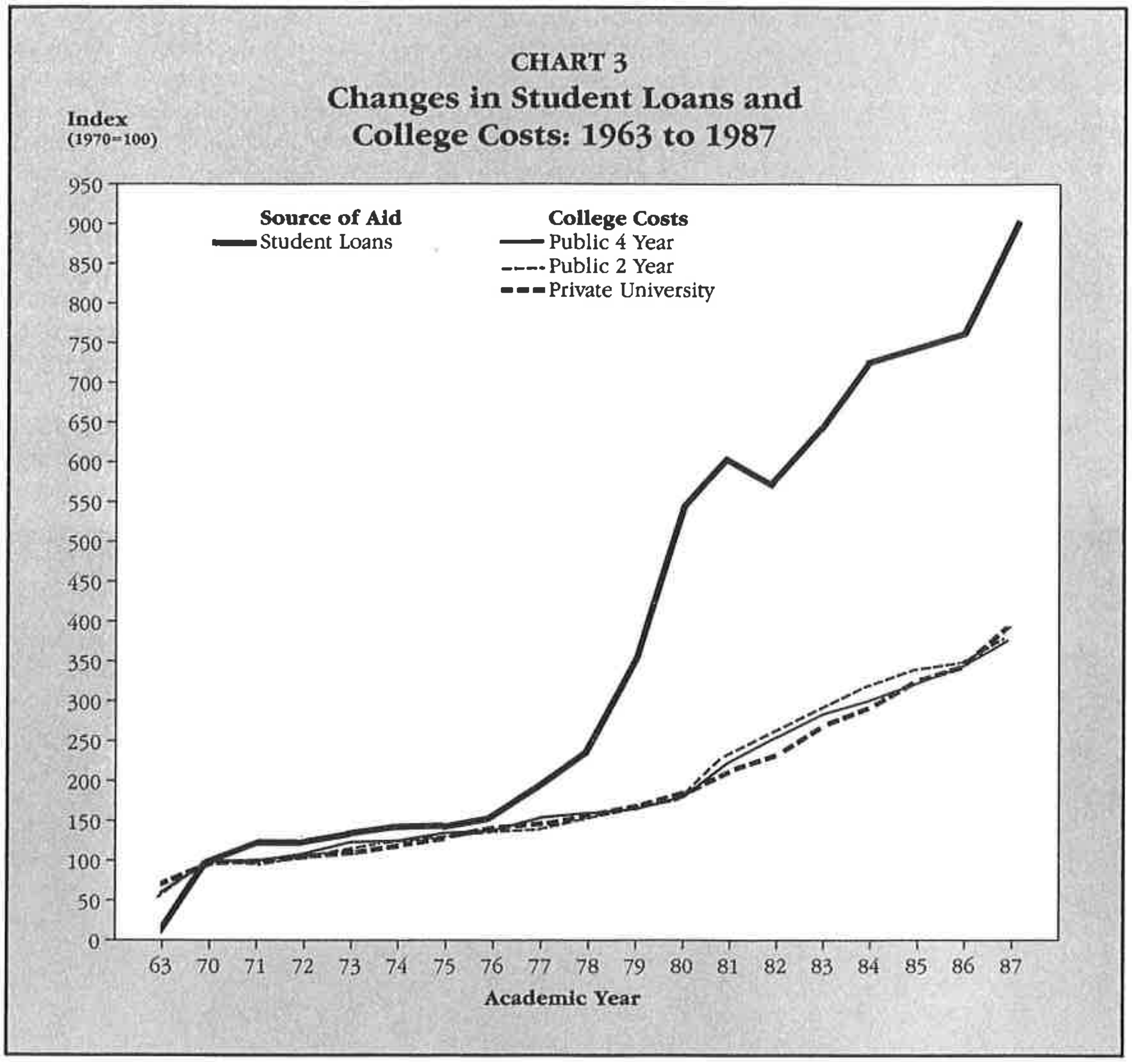
growing burden on parents and students—especially those who might consider applying for need-based financial aid. Chart 2 shows how college costs have changed relative to grant aid. The grant index was below the index for college costs in the 1960s but then rose noticeably above the cost index in the 1970s, suggesting that the cost burden was shifting from poorer families to the providers of grant assistance. Growth in federal grant programs was largely responsible for this change. In the 1980s, however, the burden of paying for college shifted back toward families, as the grant index fell relative to the costs of attendance. Here, as in the previous decade, changes in federal grant aid were responsible. Although state and institutional grants grew in the 1980s, as federal grants languished, they did not make up for the losses in aid from Washington.

Chart 3 provides another view of the shifting burden, focusing on student loans. Parallel growth in the indexes for loan availability and college costs in the early and mid-1970s suggests that the student share of college expenses was generally stable. Then, in the late 1970s, after passage of the Middle Income Student Assistance Act, the loan index started growing much faster than the cost index. Grant aid had not yet begun to slow, so the immediate effect of increased student borrowing may have been to reduce the burden on parents, at least for a few years. More recently, however, grant aid fell behind the growth in college costs, and new eligibility restrictions in the Stafford Student Loan (formerly Guaranteed Student Loan) program limited its use as a replacement for the parental contribution. Hence, the growing disparity between the loan and cost indexes indicates that students, particularly at lower income levels, are assuming more responsibility for paying college bills.

The graphic data—although oversimplified—support anecdotal evidence about the shifting burdens of college expenses over the

CHART 2
Changes in Grants and College Costs: 1963 to 1987





past quarter-century. Costs are outstripping income increases for virtually all families. Lower-income families who could qualify on the basis of financial need found their burdens lightened in the 1970s, as the federal government picked up a larger share. In the 1980s, however, the burden shifted back again toward parents and students, with the latter borrowing ever more heavily to make up for both slow-growing family incomes and grant aid that has failed to keep up with rising college costs. Given these changes, should the federal government respond and if so, how?

A Context for Decision: Deficits and Demography

Decisions about the appropriate federal role in financing higher education will not be made in a vacuum. Our views about what Washington should and should not do are strongly influenced by two critical features of the current and foreseeable national landscape: the huge federal budget deficit and the changing characteristics of the American population.

The deficit will be the overwhelming fact of political life in the period ahead. Although largely ignored during the recent presidential campaign, it surfaced as a major concern as early as the interregnum between the Reagan and Bush administrations. President Bush vows to resist any tax increase or cuts in defense and Social Security programs and promises to reduce the deficit through a "flexible freeze" on most other federal spending and through growth in the economy at large. Legislators from both parties doubt that meaningful reductions in the deficit can be made in such relatively painless ways. Thus, the stage is set for a major confrontation on the nation's economic future.

Our own view is that however these issues are resolved, little or no new money is likely to be available for federal education programs any time soon, and it is possible that significant cutbacks could occur. To fulfill his promise of being an "education president," George Bush may try to increase spending in this area at the expense of other social programs. Congress has demonstrated over the past eight years its support for education in general and for student assistance programs in particular, as it resisted calls for massive cutbacks from the Reagan administration. But this executive and congressional goodwill will be increasingly difficult to translate into real growth in federal education programs.

Even if new monies become available, moreover, important trade-offs will have to be addressed. Should elementary and secondary education or preschool education programs be given a higher priority for additional funding than college programs? Will uncontrollable costs in the Stafford Loan program eat into the appropriations available for financial assistance in the form of grants? What will happen to need-based financial aid programs if eligibility for federal funds is broadened to families who do not now qualify for federal assistance on the basis of financial need?

This latter question takes on special urgency in light of the demographic changes under way in the United States. Families are increasingly headed by single parents, often women, whose economic prospects are limited. Even now, a fifth of American children live in poverty. Moreover, minority-group children, who will make up a third of the U.S. school-age population by the turn of the century, often are precisely those who need educational assistance most—those who drop out of high school at higher rates and enroll in college at noticeably lower rates.

Arguments about equity aside, it is increasingly apparent that the nation can no longer afford to overlook these human resources. If labor market needs are to be met and economic growth encouraged, more of the children from traditionally underserved groups must graduate from high school and participate in postsecondary education. Adequate financial aid alone will not make this happen, but insufficient financial resources will constitute a serious barrier to more equal participation by these groups. In an era of sharp fiscal constraint, this fact, too, greatly influences our judgments about how limited resources should be allocated.

Old Rules and New Responsibilities

Having looked at the current federal role in postsecondary finance, at evidence of shifting financial burdens, and at the context in which decisions about future federal responsibilities must be made, we now come back to our initial questions: What should Washington's response be to current concerns about financing higher education? What responsibility should the federal government take for new financing mechanisms? We present our answers within the framework of the burden-sharing model, examining whether and how the federal government should pick up more of the burden directly from families, encourage and assist parents and students with their shares, or both.

The most widely discussed proposals for new financing options, savings plans and tuition futures, emphasize assisting parents with their responsibilities. Most propose some kind of subsidy, usually a tax benefit, to create an incentive for parents to plan ahead and save for college. Almost certainly, such plans would provide most of their benefits to middle- and upper-income families that can afford to save for their children's educations.

On the assumption that new federal resources will be scarce, we give a higher priority to improving the buying power of direct grant assistance for the financially needy than to providing tax benefits for the middle class. Demographic changes suggest that programs such as Pell Grants will come under increasing pressure. The need for grant aid will certainly grow to the extent that the nation is successful in efforts to encourage more students from traditionally disadvantaged backgrounds to continue their educations. We suspect that it will be all Washington can do to keep the buying power of Pell Grants at current levels. Should new money unexpectedly be available, however, we think that providing more of a guarantee of assistance (for example, by making Pell Grants a true entitlement at some higher level than today) for students whose capacity to bear the burden of college costs is limited is more important than providing federal incentives to families who have the capacity, if not the will, to pay for college.

In other words, we do not favor a major federal investment in savings and tuition futures plans. Congress's recent enactment of a limited College Savings Bond plan goes as far as we think Washington should go in this direction. This plan, scheduled to go into effect in 1990, will allow parents a tax exemption for the proceeds of U.S. Savings Bonds if the bonds are used to pay for tuition and required fees (net of financial aid). Tax benefits are phased out beginning with families with adjusted gross incomes of $60,000 and disappear entirely at $90,000 (with income limits each year adjusted for inflation). The rules about who can benefit from the tax exemption and what education expenses are eligible are carefully circumscribed to keep federal subsidies limited.

The availability of these education savings bonds, coupled with the college savings plans adopted in a number of states, should satisfy the need for explicit public policies aimed at encouraging family savings for college. The task now is to popularize the program and maximize its potential as a catalyst for precollege saving and investment. We do not, however, favor further expansion of such federal subsidies, either through wider eligibility for savings bonds or through a federal tuition futures plan.

The concept of tuition futures, pioneered in Michigan and under development in eight other states, has proven far more problematic than its sponsors originally indicated. The financial risks to government are uncertain and potentially high. The strongest argument for a federal plan, to avoid the Balkanization of higher education that might result from multiple state plans, has lost force as states themselves have become warier of the concept and more inclined to enact savings plans instead.

"Costs are outstripping income increases for virtually all families."

Our comments to this point have reflected our preference for emphasizing current federal responsibilities for the financially needy rather than creating new financing mechanisms. In a similar vein, we think that attention should be paid to the way Washington encourages students to bear their share of the college cost burden, especially through student loans. The participation of students as partners in financing is crucial in maintaining access to higher education. Federal student loan programs (under which students now borrow $11 billion annually), together with the much smaller but important federal support for work-study, facilitate student "self-help" in the college finance equation. We have seen that the student-borne share of costs is growing, and we are concerned that the emphasis on loans versus grants has gone too far, especially for disadvantaged and low-income students. Yet there seems little likelihood that borrowing levels can be reduced in the foreseeable future; in fact, they are likely to grow.

We would therefore like to see some kind of insurance built into student loan programs to protect borrowers against the risk of low future earnings. The theory behind student loans is that education is in part an economic investment and that loans enable students to invest in themselves and the greater economic rewards that their education will bring. Although these assumptions undoubtedly hold true in general, there will always be individuals whose education does not pay off in the expected economic ways. Student repayment provisions could be adjusted to protect borrowers against this risk. This idea can only be suggested, not fully explored, here. But we suggest that this area would be a more appropriate target for federal subsidization if funds were available than some of the new financing tools under discussion.

Also important, but not possible to explore adequately here, is the larger issue of the structure and uncontrollable expense built into the federal student loan system. The government's cost exposure in Stafford Loans makes this program a shaky foundation for student assistance—and erodes support for grant programs. Rising default claims projected for the years ahead, combined with higher payments to lenders if interest rates rise, could generate another crisis-driven search for cost savings and could destabilize program operations, as students and institutions learned in the early 1980s. For the long haul, whether through restructuring or tightening of the current system, federal policymakers should consider reducing loan subsidies that are not directed toward needy students and stabilizing the long-term obligations that the government incurs when it guarantees loans to students and parents.

Having emphasized our judgment that the appropriate federal role in financing college should remain primarily the traditional one of lightening the burden of families of limited financial means, we turn now to proposals to reform dramatically the way in which grant subsidies to such families are given. Particularly, we refer to the proposals recently advanced by the Democratic Leadership Council and by Professor Charles Moskos in a report for the Twentieth-Century Fund to make federal student assistance contingent on participation in community or national service activities.[3] We cannot give our full analysis here, but we are wary of such proposals. Although advocates of national service may have worthy goals, a national service plan, in our view, cannot replace existing student aid programs. A critical roadblock is fiscal. Students who are not needy and those who are—who currently receive need-based financial assistance—cannot both be accommodated within the plans as currently described, yet the enlarged program that would be required by a "voluntary" plan open to all cannot be supported by the funds currently devoted to student aid. Moreover, some analysts have argued that educational opportunity would be restricted, rather than expanded, by a system that tied federal education benefits to mandatory national service.[4] There may be a role for the federal government in supporting some kind of smaller, more experimental undertaking, perhaps using education assistance as an incentive but not involving wholesale replacement of the existing student aid system. Here again, though, questions of budgetary trade-offs must be addressed head-on.

"The concept of tuition futures has proven far more problematic than its sponsors originally indicated."

Finally, the federal government should look beyond narrow financing mechanisms as it assesses how best to carry out its responsibility to equalize educational opportunity in an era of limited resources and demographic change. So-called guaranteed access programs, such as Eugene Lang's "I Have a Dream" Foundation model and the newly enacted New York State Liberty Scholarship program, include assurances of adequate financing for college as an incentive for young people to stay in school and acquire the proper academic preparation for higher education. But they also recognize the importance of individual guidance, tutoring, and encouragement in reaching at-risk youth. Perhaps the best and most equitable use of incremental federal funds in an era of fiscal constraint would be to support the federal TRIO programs, which bring such services to educationally and economically disadvantaged students. ✦

Notes

[1] D. Bruce Johnstone, *Sharing the Costs of Higher Education: Student Financial Assistance in the United Kingdom, the Federal Republic of Germany, France, Sweden, and the United States* (New York: College Entrance Examination Board, 1986).

[2] Data in Charts 1, 2, and 3 are taken from College Board, *Trends in Student Aid* (New York: College Entrance Examination Board, various editions, 1983-88).

[3] Democratic Leadership Council, *Citizenship and National Service: A Blueprint for Civic Enterprise* (Washington, D.C.: DLC, May 1988). See also Charles C. Moskos, *A Call to Service: National Service for Country and Community* (New York: Free Press, 1988).

[4] See, for example, Richard Danzig and Peter Szanton, *National Service: What Would It Mean* (Lexington, Mass.: D.C. Heath, 1986).