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Give the Middle Class A Break on Education

By Richard W. Riley

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The Washington Post

President Clinton's agenda for higher education will provide desperately needed assistance to lower- and middle-income Americans who are struggling to meet the costs of college. Virginia Postrel ["Clinton's College Plan: Educational Inflation," Outlook, March 30] and other critics of the plan, however, have challenged it with a barrage of rhetorical "what ifs" framed in the most dire terms. It is time to debunk these unfair attacks.

The president offers a comprehensive approach designed to help the broadest range of students within the constraints of a balanced budget. For the financially neediest students, it provides a significantly larger Pell Grant, reduced student loan fees and more college work-study jobs. For middle-income students, it offers new relief in the form of college-related tax cuts: a tax credit called the Hope Scholarship (patterned after a successful program in Georgia) and a tuition tax deduction.

America's middle class does need help to deal with what I call "the tuition squeeze." These families earn too much to qualify for aid awarded on the basis of financial need but too little to pay tuition costs out of pocket. We believe that a family earning $40,000 or $50,000 while trying to pay for college should benefit from the kind of middle-class tax relief that Democrats and Republicans agree is warranted.

There are sound economic reasons for it, too. Throughout the Industrial Age, America used the tax code to stimulate private-sector investment in plant and equipment. As our economy becomes increasingly knowledge-based, we should use the tax code to encourage people to invest in themselves and their children through education.

Criticisms of the plan fall into five general categories. The most common attack asserts that the tax proposals primarily benefit students who already plan to go to college. If this same argument were used to judge the proposed $500-per-child tax credit, it would mean the credit could be made available only for children who would not have been born but for the tax break. That is absurd. These education-related tax breaks are intended to provide relief to families that rely on increasingly higher levels of debt to pay college costs.

Whether a family sends a child to college is not the only issue. For some, the extra support could make a four-year college affordable rather than a two-year college. It could allow a student to drop a second or third job and focus more time on academics, resulting in a greater likelihood of earning a degree. Or it could lead to less reliance on loans.

A second criticism is that the tax proposals would encourage colleges to drive up tuition. But this criticism would seemingly apply to all federal aid for higher education, and in fact the evidence suggests that such aid has not had much effect on tuition costs. Pos\trel noted that college tuition rose rapidly in the 1980s, but she failed to recognize that inflation-adjusted federal aid fell about one percent per year during that time. Conversely, during the latter half of the 1970s, real federal aid rose while real tuition levels remained roughly flat.

Postrel's argument would suggest that Georgia should have experienced rapid tuition increases, since the Georgia Hope Scholarship was introduced in 1993. But since 1992, tuition costs at public two-year community colleges in Georgia have risen less than in the nation as a whole.

Several factors would discourage colleges from using the tax proposals as an excuse to raise tuition. In higher education, the level of competition today is intense, and subject to increasing media scrutiny. Private colleges and state legislatures are limiting tuition growth, often tying it to the rate of inflation for the entire economy. Some colleges are seeking competitive advantage by promoting a tuition cut. Much of the impetus behind these trends is the wealth of information available to cost-conscious students and families about paying for college.

Postrel and others argue that expanding college enrollment would erode the quality of education and make it "an extension of high school." President Clinton's plan would provide a basic level of financial assistance to any student who works hard and earns admission to college. The plan aims to make college universally available, not required. Postrel's claim that community colleges would take on "people who do not want to be in school" reflects a lack of understanding of the proposal.

A similarly unfounded complaint is the prediction that the tax proposals would lead to grade inflation. As the argument goes, students on the verge of slipping below a B-minus average will "guilt" their professors into upping their grades to preserve the tax break. Georgia officials report no evidence of any such problem since the inception of that state's program -- about half of the Georgia Hope Scholarship recipients lose the award after their first year because they fail to earn a B average.

The same can be said for federal aid programs. In 1986 Congress mandated that students must meet "satisfactory progress" requirements (defined as a cumulative C average by the end of their second academic year) in order to continue receiving federal student assistance. A 1992 review of the impact of these requirements found no evidence of grade inflation.

A fifth complaint strikes me as the worst of the lot -- that the tax proposals would lead to "too many" students going to college. This criticism carries no small hint of arrogance and elitism, considering that it typically comes from those who benefited from some of the best university educations in the world. The federal role in higher education is to expand access for all Americans, and that is precisely what these proposals would do.

The writer is secretary of education.

Hope Scholarships: Powerful Incentive for Colleges to Raise Their Tuition Charges

Question: Over the next five years the President's plan would provide taxpayers with more than $36 billion to help them finance their own and their children's college educations. What assurances can you provide that colleges, universities and trade schools will not simply raise their prices to capture this benefit for themselves?

Answer: Postsecondary education institutions face a number of pressures that should keep tuition inflation to a minimum. For example, community college fees are heavily influenced by the community member who takes just one course at a time. These students would not be eligible for Hope Scholarships, and even with the aid of the tuition deduction, would be sensitive to price increases. We also believe that the competition for students among postsecondary institutions will make these schools reluctant to impose higher costs

The possibility for tuition inflation is inherent in many types of student assistance, whether in the form of a scholarship or grant program, or in the form of a tax credit or deduction. We do not believe such concern is warranted enough to deter us from seeking to expand the benefits Americans have realized from student financial aid, particularly when the increases and decreases in student aid over the past three decades have produced little evidence of a relationship between federal aid and college tuition levels.

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see further discussion of this issue on next page

In Georgia--where the HOPE Scholarship idea began in 1993--tuition at public two-year colleges grew by 13 percent between the 1992-3 and the 1995-6 academic years, compared to the national average of 21 percent. Independent colleges in Georgia report that the availability of HOPE Scholarships has mitigated tuition increases by enabling these institutions to reduce the share of tuition revenue that is earmarked for institutional financial aid.

Student Aid and Increased College Costs

Question:
It seems that the more money the Federal government puts into student aid, the more colleges charge for tuition. In fact, college costs -- which have risen dramatically over the last 10 years -- continue to outpace inflation and the growth in median family incomes. Wouldn't the Administration's tax proposals and the Department's request to increase funding for Pell Grants, and Work-Study simply encourage institutions to continue to jack up their prices?

Answer:
While this theory may grab headlines, it simply is not true. Let's review the facts:

- More than half of the undergraduate students enrolled in postsecondary education don't receive any student aid at all and must pay for it out of their own pockets. Only 32 percent of all undergraduate students receive Federal aid, and only about 23 percent receive grant assistance.

- If anything, the relationship between costs and Federal funding suggests that cutting student aid leads to tuition increases.

    - From 1975 to 1980, total Federal student aid increased 183 percent while college costs increased by 42 percent for public institutions and 49 percent for private institutions.

    - From 1980 to 1985, total Federal student aid increased only 58 percent while college costs increased by 50 percent for public institutions and 62 percent for private institutions.

    - From 1985 to 1990, total Federal student aid increased only 34 percent while college costs increased by 33 percent for public institutions and 82 percent for private institutions.

Hope Scholarships: Pressure for Grade Inflation

Question: How can you be certain that this proposal, by linking an arbitrary B-minus average to the $1,500 tax credit, will not simply encourage grade inflation?

Answer: For years, professors have withstood pressure to raise grades for students who need to maintain a high grade point average in order to gain admission to graduate and professional schools or receive scholarship aid. We believe that the B-minus grade point average required for a student to be eligible for a second $1,500 Hope Scholarship will not put significant additional pressure on professors to increase the grades of their students. We understand that Georgia has seen no evidence of grade inflation at the collegiate level since it instituted its program several years ago.

Some may argue that the wide availability of the Hope Scholarship tuition credit makes it different from other grade pressures. We think this is an overstatement. A student's grade point average is relevant only in the second year for which a $1,500 Hope Scholarship tuition credit is claimed. In addition, there are a number of variables that influence whether a student will claim the credit. Thus, it will be difficult for most instructors to know whether the grade they give to a student will affect the student's (or the student's parents') taxes. Ultimately, professors need a grading system that is equitable for all students, not just those with particular incentives.

Tax Proposals Don't Help Poor

Question:

Is it true that the two major tax proposals would not benefit students from low-income families, and would do little to expand access to higher education?

Answer:

The tax proposals are a targeted, middle-class tax cut. The tax proposals would provide significant benefits to working families that are struggling to pay for college, and we hope the tax proposals will result in more children from working families going on to college.

The tax proposals are not intended to assist the very neediest students and families. The neediest students need grant support -- provided at the time they are going to pay the tuition bill and buy books. That is why we have proposed to raise the Pell Grant maximum award by $300 to $3,000 in fiscal year 1998 -- the largest increase in two decades.

NOTE: A report released by the National Association of Independent Colleges and Universities last Friday concluded that enrollment at independent colleges and universities seems to be steady among students from lower- and upper-income brackets, he said, but it has been falling among students from families that earn $45,000 to $60,000 a year. Those students have found that they do not qualify for existing federal aid because their families earn too much. Yet their families do not earn enough to pay tuition at private colleges and universities out of their own pockets. Our tax proposals will benefit these middle-income families.

Tax Proposals Don't Help Poor

Question: Is it true that these two major tax proposals would not benefit students from low-income families, and would do little to expand access to higher education?

Answer:

- The tax proposals are targeted, middle-class tax cuts. While these tax proposals may not assist the very neediest of students and families–those with little or no tax liability–the proposals would provide benefits and expand access for millions of working citizens.

- More than 60 percent of the Department's entire proposed fiscal year 1998 increase in discretionary spending – over $1.7 billion – would go to fund Pell Grants for low-income students.

  - 348,000 or almost 10 percent more students will get Pell Grants

  - 3.6 million will get larger Pell Grants

  - Over 5 years, the Pell Grants program will get about $9 billion more than the 1997 level

- The Department's student aid budget for 1998 complements the higher education tax proposals by greatly increasing aid to the neediest students. It includes:

  - A Pell Grant maximum of $3,000, the highest in history, and need analysis changes that will increase the number of independent students qualifying for aid by over 200,000.

  - Another significant increase in the Work-Study program–expanding the number served to almost a million..

  - Origination fees on loans to needy students will be reduced from 4 to 2 percent, saving students $2.6 billion over 5 years.

- There appears to be broad support for cutting taxes. Why not give cut the taxes of the working families who are struggling to put their kids through college? They deserve a break. Even a family making $40,000 year has a tough time paying $10,000 a year for a 4-year public college or $25,000 a year for a private one.

Big Tax Cut; Modest Increases in Pell Grants

Question:

Why have you chosen to give over $38 billion in tax cuts to middle income families while asking for only $1.7 billion more for Pell Grants, which generally assists students from low-income families?

Answer:

It is misleading to compare the $38 billion in tax cuts to the $1.7 billion increase in Pell Grants. The $38 billion in tax cuts is a five year estimate of the cost of the tax proposals. Over the same time period, we will provide more than $40 billion in Pell Grants.

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Why College Costs Have Increased

Question:
Why are college costs increasing more rapidly than inflation?

Answer:
Between 1990-91 and 1995-96, college costs, in the form of tuition and fees, and room and board charge increased at public colleges from $4,757 to $6,252 (31 percent) and at private colleges from $12,910 to $17,207 (33 percent). Over the same period, the consumer price index rose rose by only 17 percent

GAO[1] found that two factors were most responsible for the increases in tuition: (1) rising expenditures, and (2) greater dependence on tuition as a source of revenue.

- Rising expenditures were the result of increases in the cost of instruction, administration and research which accounted for two-thirds of the increase in expenditures above the rate of general inflation.
- Greater dependence on tuition as a source of revenue reflects the reduction in the level of State institutional subsidies. Between 1980 and 1994, these subsidizes declined as a percentage of total revenue declined 14 percentage points while tuition as a share of revenue rose from 16 percent to 23 percent.

At private, non-profit colleges and universities, two recently released studies[2] showed that:

- actual tuition costs at private colleges and universities had increased much more slowly than published tuition rates;
- the factors most likely to push tuition and fees higher at private colleges were technological improvements, financial aid, and faculty salaries and benefits; and
- colleges are trying to control costs by cutting their budgets, by operating their physical plants more efficiently, by restructuring debt, by deferring maintenance of campus facilities, by cutting administrative posts, and by not filling open faculty positions

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[1] Tuition Increasing Faster Than Household Income and Public Colleges' Costs, General Accounting Office, August 1996.

[2] 10 Facts About Tuition at Independent Colleges and Universities and A Commitment to Affordability, National Association of Independent Colleges and Universities, 1997

Unfavorable Assessment from the Joint Economic Committee

Question:
On February 18, the Joint Economic Committee of the U.S. Congress issued a report that was highly critical of the President's higher education tax proposals. JEC called Hope Scholarships "a program with significant regulatory burden that does not address investment and growth as effectively as would providing opportunities for the more efficient private sector to allocate resources." Furthermore, the Committee found that the tax credits and deductions could be difficult to administer, may not increase college enrollment as intended, and may give smaller community colleges and proprietary schools incentives to raise their tuitions. How do you respond?

Answer:
Though I would never claim expertise on matters governed by the U.S. Tax Code, it seems to me that we in fact encourage certain behaviors and advance societal goals through the tax system. For example, family formation is supported by exemptions for dependents and tax schedules that generally result in higher tax burdens for individuals than married couples or heads of households. Additionally, we agree with the Senate leadership that families should receive a $500 tax credit for each dependent child. Finally, the tax deduction for mortgage interest payments encourages home ownership. Surely, there are dozens of other examples.

We believe that both our citizens and our Nation are well served by encouraging education and training beyond high school. Nearly 80 percent of high school graduates from high-income families immediately attend college after graduating from high school. Low-income students are about half as likely to continue their educations in college. We are proposing significant increases in the Pell Grant program to encourage these students to attend college by easing the financial burden and, thus, to narrow the gap in college attendance between low- and high-income students.

Middle-income high school graduates are likewise less likely to attend college immediately after high school. Fewer than 60 percent of these students, who also typically do not receive Pell Grants, continue in college immediately following high school. We believe it is important to close the college attendance gap between high- and middle-income high school students as well.

In short, we believe our higher education agenda addresses the clearly identified need to close the gap in college attendance rates.

IRS Intrusion into the Internal Affairs of Postsecondary Institutions

Question:

How can you be certain that the Internal Revenue Service will not unnecessarily intrude into the internal academic and business affairs of college, universities and trade schools in its administration of Hope Scholarships?

Answer:

The Secretary of the Treasury and the Secretary of Education, operating in close consultation, will have authority to issue regulations to implement the provisions of the Hope Scholarship tax credit and tax deduction.

The Secretary of the Treasury generally would be authorized to issue regulations to implement this section of the Internal Revenue Code. For example, the Secretary of the Treasury would have authority to issue regulations providing appropriate rules for record keeping and information reporting. These regulations would address the information reports institutions of higher education would file to assist students and the IRS in determining whether a student meets the eligibility requirements for the credit and calculating the amount of the credit that is potentially available.

However, certain terms would be defined by reference to the Higher Education Act of 1965. The Secretary of Education would have the authority to issue regulations under those provisions as well as authority to define other education terms as necessary. The Secretary of the Treasury and the Secretary of Education would coordinate their work in developing their respective regulations.