Education—Tuition

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Book Summary

Financing College Tuition: Government Policies and Educational Priorities

Edited by Marvin H. Kosters

College education has long been viewed as a key to economic advancement in American society, but in the past two decades the cost of paying for college has become significantly more burdensome for many students and their families. The essays in this volume examine federal subsidies for college education in light of both the broader aims of education policy and the entire sequence of investments that parents and students make in education. In particular, the authors consider whether federal policy should give higher priority to college education than to education at lower levels, and estimate the degree to which larger federal subsidies for college tuition are likely to increase enrollment, especially for youths from low-income families.

The editor, Marvin H. Kosters, is a resident scholar and the director of economic policy studies at AEI. The other contributors are Stephen V. Cameron, an assistant professor of economics and public affairs at Columbia University; Eric A. Hanushek, a professor of economics and public policy and the director of the W. Allen Wallis Institute in Political Economy at the University of Rochester; James J. Heckman, the Henry Schultz Distinguished Service Professor at the University of Chicago; Caroline Minter Hoxby, an associate professor of economics at Harvard University; and Thomas J. Kane, an associate professor of public policy at Harvard University's Kennedy School of Government.

Growth in productivity and living standards in the U.S. economy largely reflects returns from growing investments. Those investments include private capital investments in productive equipment and structures and in housing, and public investments such as roads, parks, law enforcement institutions, and the military. Some of the most economically important investments, however, are investments that people make in themselves—in their own skills—through education and work experience. The real national investment that we make in education involves not only the time and effort that people put into learning, but also educational resources, such as teachers and schools. Most of the cost of those educational resources is publicly financed through the elementary and secondary levels.

Even at the college level, and especially at public institutions, much of the cost of educational resources is covered at public expense, but students (or their parents) are typically expected to bear some out-of-pocket costs. The main focus of this book is on the effects of policies intended to help families pay those costs so as to increase college enrollment.

Putting College Financing in Context

Education policy is usually considered in a somewhat fragmented way, with a focus on issues such as how class size should be determined and classroom construction should be financed at the elementary and secondary levels, whether larger subsidies to finance college-level schooling should be extended in the form of loans or grants, and how such additional funding should be contingent on income and wealth. Education policy is usually not discussed in terms of a strategy for investment in human capital, with such investment considered as a process that extends throughout childhood and adolescence. Nor is much attention given to what parts of our education system operate most effectively, what conditions might improve effectiveness, and whether policies achieve their intended goals. Emphasis shifts from year to year between setting performance standards and spending more money, between specific spending programs, and between schooling at different levels.

The essays in this volume discuss our education system as a whole, what we should expect of the system, and what policies contribute to its success. In view of the sharp increase in the market rewards for postsecondary schooling in recent years, the discussion is oriented mainly toward policies to improve the amount and quality of higher education. The authors consider the extent to which performance after high school might best be enhanced by paying more attention to earlier schooling. They also emphasize efforts to analyze underlying sources of differences in institutional performance and attempts to assess behavioral relationships to get a better understanding of different policy approaches.

Investment in education is seen in these essays not only as a key to improving economic well-being in the economy as a whole, but also as a process to ensure that opportunities to make educational investments are open to everyone. To address the latter issue, the enrollment gap in postsecondary schooling between youths from families with different income levels receives special attention in the book. The appropriate interpretation of the sources of this gap is important for considering different policy prescriptions.

To set the context for the discussion of policies to finance college-level schooling, the authors sketch some of the most important features of who pays for education at various levels. Although the federal government is not the main source of support for education at any level, it accounts for a larger share of spending at the college level than below. Most students and their parents face essentially no out-of-pocket costs through the high school level, and the market value of the time that students spend in school is very low during most of these years. To be enrolled in college, students usually need to pay some tuition costs out of pocket, and the value of the time they spend in school increases with each additional year of schooling they accumulate. Even at the college level, people who attend public institutions pay less than 20 percent on average of the direct costs of attending college. Although out-of-pocket costs (mainly tuition costs) have increased more rapidly than prices as a whole, the main reason is not that the costs of public colleges have risen especially rapidly but that a declining portion of costs has been covered by state spending.

In his introduction, Marvin Kosters looks at the historical context for current issues in financing college-level schooling and sketches out the issues that are taken up in the four essays that follow. Eric Hanushek compares the performance of college-level schools with that of elementary and high schools. Caroline Hoxby analyzes the major sources of the differences in relative performance. Thomas Kane examines finances at the postsecondary level. He also evaluates the implications for policy of his interpretation of evidence about the effects on college enrollment of differences in tuition levels and of changes in grants. Stephen Cameron and James Heckman present evidence they interpret as indicating that long-term, family-related factors that influence the adequacy of preparation for college-level work are more important determinants of college enrollment and successful performance than the financial squeeze between out-of-pocket college costs and low family income. This summary highlights the most noteworthy elements in the story the authors present.

Performance Comparison: Higher Education vs. Primary and Secondary Education

The performance of higher education in the United States is generally regarded as better than the performance of primary and secondary schooling. Achievement tests show disappointing results for U.S. students through high school compared with the results for students from other countries. Although the fraction of youths that completes high school has historically been quite high in the United States, other countries have been catching up rapidly. Moreover, even though real spending per pupil almost tripled between 1960 and 1990, there has been no noticeable improvement in test-score performance. In order to improve educational performance at the elementary and secondary levels, it seems necessary to improve the incentive structure for effective management of existing funds. More money seems unlikely to help much, and perhaps the most constructive step the federal government could take would be to conduct experiments that might help us better understand how policy could be improved.

Since concern about education is centered on the quality of elementary and secondary schools, while colleges and universities are generally viewed as being quite successful, an emphasis on policies for the most successful part of the system at the expense of the most troubled parts seems misplaced. It suggests that we are admitting defeat in the cause of reforming elementary and secondary schools and that we will rely on colleges to provide, through remedial instruction, what the earlier schools did not provide.

Hanushek's preference, based on an examination of past efforts to help schools, is for the federal government to be much more active in developing a knowledge base for effective reform. In his view, turning even a small portion of tax breaks and subsidies for higher education into a systematic experimentation effort at the elementary and secondary levels holds much more promise for improving the human capital of our youths than recent policies do.

In her comparative assessment of the performance of school systems at the high school level and below and at the college level, Caroline Hoxby focuses on differences in market structures. She notes that higher education is more competitive in three important ways: college-level customers have more scope for choice across geographic areas; private colleges are more prevalent as alternatives to publicly financed schools than are private schools through the high school level; and college students shoulder more of the costs, which stimulates interest in choice for students and competition among colleges for students.

Competition has also increased in the marketplace for college-level schooling, while the opposite has occurred at lower schooling levels. In 1950, for example, the average college faced competition from about thirty other colleges, while today the average college faces direct competition from eighty-five other colleges. At the elementary and secondary levels, on the other hand, the number of school districts in the United States has declined from 85,000 in 1950 to fewer than 15,000 now. In addition to these changes, a shift away from local levels in the sources of financing schools has increased the relative importance of satisfying state legislators rather than local parents.

The significance of these changes in competition is underscored by results of Hoxby's research that show how school and student performance are affected. For example, this research shows that in metropolitan areas where private elementary and secondary schools have a 10 percent larger share of students, public school students have achievement scores eight percentage points higher, attain almost two additional years of higher education, and earn wages that are 12 percent higher.

Despite concerns about the performance of elementary and secondary schools, devoting more federal money to higher education is appropriate in Hoxby's view. For one thing, federal money can have more leverage in higher education because only a very small share of funding for elementary and secondary schooling is raised and distributed at the federal level. Further, increased funding can be more productive in the more competitive higher education market than at lower levels, partly because the money can be channeled through students and their families rather than to institutions. In addition, Hoxby cites evidence suggesting that using some resources in higher education for remedial purposes may be the least expensive way to compensate for schooling inadequacies at lower levels.

Analyzing the Factors behind College Enrollments

Thomas Kane notes that college enrollment rates on average have increased as the gap between the wages of college and high school graduates has widened in the 1980s and 1990s, but that enrollment rates have not increased very much for youths from low-income households. Although the most straightforward interpretation of this relationship is that low-income families have a hard time paying the out-of-pocket costs of college, Kane recognizes that the underlying reasons are not well understood. Nevertheless, research on the importance of out-of-pocket costs for enrollment decisions has mainly looked at the effects of differences in tuition costs at public colleges and universities and at changes in federal policies to help low-income families finance college costs.

The evidence Kane summarizes is somewhat mixed. On the one hand, differences in tuition costs seem to have had substantial effects on enrollment rates. On the other hand, subsidies to low-income families in the form of grants to pay tuition seem to have had very little consequence. He suggests that well-designed experiments to learn more about the effects of those subsidies would be worthwhile.

Kane also describes and critiques the recent increases in tax expenditures to finance college tuition and discusses possible alternative approaches to relying so heavily on the parents' incomes to set grant and loan eligibility. In view of the economic and demographic forces pushing college enrollment rates up, Kane suggests that the real challenge over the next decade will be to design a financial aid system that does not discourage family earnings or savings, that motivates students to make the most of the value of the resources at their disposal, and that allows students from all family backgrounds to make worthwhile investments in college.

The small increase in college enrollment for youths from low-income families has raised concerns about the perpetuation of relative income status across generations.

Although an increase in the proportion of the workforce with college-level schooling will tend to reduce wage inequality by putting downward pressure on their relative pay, the wages of college-level workers would still remain higher on average than the wages of those with less schooling.

The relationship between college enrollment and family incomes raises questions about inequality of opportunity, about the reasons for systematic college enrollment differences, and about the effects of policies to encourage more youths from low-income families to complete college. If low college enrollment is mainly attributable to an inability to finance the out-of-pocket costs of attending college, more generous grants or loans might lift enrollment by youths from low-income families and substantially reduce differences in opportunities to attend college. If family background characteristics that influence the adequacy of preparation for college are the main forces at work, however, little effect on enrollment and successful college performance could be expected from policies that provide more money to finance college tuition. It might instead be necessary to encourage constructive changes earlier in the cycle of child and adolescent development, perhaps by improving elementary and secondary education. Those are the issues analyzed by Stephen Cameron and James Heckman.

The inability to finance college tuition is much less important as a cause of low college enrollment than has been suggested by studies of the effects of differences in college tuition, according to Cameron and Heckman. They find that long-term effects, as measured by family background characteristics and as reflected in test-score results, are much more important determinants of college enrollment than family income. Differences in tuition appear to affect enrollment, mainly in two-year colleges, but effects of family income are so weak and statistically unreliable as to show that the inability to finance out-of-pocket costs for college is not a major factor influencing enrollment. One reason, of course, is that extensive financial assistance is already available in the form of grants and loans from government and private sources. That availability has weakened the links between family income and the ability to pay college tuition. And additional subsidies such as the tax credits to finance college enacted in 1997 therefore do little to encourage college enrollment. An estimated 90 percent of the money goes to the families of youths who would have attended college in any case.

Conclusion

These studies emphasize the importance of assuring that youths who are adequately prepared for college-level education can take advantage of the opportunity, whatever the income level of their families. To raise college attendance and improve the prospects for success in college, policy should focus on ensuring that more students graduate from high school and obtain the skills and motivation required to perform college-level work successfully. In view of policies that are already in place, providing additional funds to finance college tuition can be expected to do little to encourage college enrollment by youths from low-income families.

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