Recasting the Federal and State Roles in Higher Education

By Thomas J. Kane
Harvard Graduate School of Education
Forces Undermining Traditional Roles:

1. **Demographics:** College enrollment rates grew rapidly and size of college age population swelling again.
Demographic trends were alleviating costs, now they’re exacerbating costs!
Forces Undermining Traditional Model:

1. **Demographics:** College enrollment rates grew rapidly and size of college age population swelling again.

2. **State Medicaid Obligations:** Medicaid program has stretched budgets and raised the relative “price” of higher education.
Medicaid Spending as Share of GSP
Medicaid Cost Pressures: Making States Poorer

- Rapid growth in SSI coverage for disabled.
- Mandated expansion in Medicaid coverage for low-income mothers and children.
- Mandated expansion in coverage for Medicare beneficiaries.
- Increasing costs per enrollee.
- Aging of the population.
Federal Match for Medicaid Raises the Relative Price of Higher Education!

- The federal matching rate for state Medicaid spending ranges from 50 percent in CT, NY and CA to 80 percent in MS.
- $1 of Medicaid services only costs a state $.20 to $.50! (The rest is paid for with the federal match).
- The opposite is true of state higher ed: When the legislature cuts subsidies and raises tuition, they receive somewhat more federal subsidies.
Forces Undermining Traditional Model:

1. **Demographics:** College enrollment rates grew rapidly and size of college age population swelling again.

2. **State Medicaid Obligations:** Medicaid program has made states poorer and raised the relative “price” of higher education.

3. **Rising Cost of Quality:** With predominant classroom-based instruction, costs inevitably rise faster than inflation. Public institutions have not kept up with private universities.
## Costs Per Student Rise Faster than Inflation …Just to Keep Quality Constant

<table>
<thead>
<tr>
<th></th>
<th>1976</th>
<th>2000</th>
<th>%Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Educational and General Expenditures per Student at Public 4-Year University</td>
<td>$15,999</td>
<td>$24,770</td>
<td>55</td>
</tr>
<tr>
<td>Real Productivity per Hour Worked in Non-Farm Business</td>
<td>79</td>
<td>116</td>
<td>47</td>
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<tr>
<td>Real Mean Income of a 25-34 Year Old Male with a Graduate Degree (Full-Time, All Year)</td>
<td>$49,918</td>
<td>$74,252</td>
<td>49</td>
</tr>
<tr>
<td>State Appropriations per FTE Student in Public Higher Education</td>
<td>$6,040</td>
<td>$6,845</td>
<td>13</td>
</tr>
<tr>
<td>Real Tuition at Public 4-Year University</td>
<td>$1,992</td>
<td>$3,796</td>
<td>91</td>
</tr>
</tbody>
</table>
Faculty salaries at public research universities have fallen relative to private institutions.

The Faculty Salary Gap Has Grown by 1% per Year Since 1980

Erosion accelerates during recessions
Student per faculty ratios have risen at public universities and fallen at private institutions.
Are college entry rates “too high”?}

College Entrant Earnings Remain High Relative to High School Graduates

Employer demand has outpaced growing supply!
Recasting the State Role

- **Simplify Perceived Cost**
  - Carolina Covenant, Cal Grants, Georgia Hope, DC Tuition Assistance Grant Program=> all have a simple, compelling story for parents.

- **Facilitate Application Process**
  - Use state/local funds to help residents apply for federal dollars.
  - In most other means-tested programs (Food Stamps, welfare, unemployment insurance) applicants receive help.
Recasting the Federal Role

**Option 1: Simplify.**
- Limit factors to family income and family size.
- May alleviate both middle class anxiety and lack of access due to complications of aid process.
- Requires making trade-off between simplification and horizontal equity.

**Option 2: Use Loan Dollars to Bring Federal Limits back Closer to State Tuition Levels.**
- Is a dollar of grants 8 x more effective than a dollar in loans?
- Income Contingent Loan Forgiveness Tax Credits
Income Contingent Loan Forgiveness

Tax Credits

- Borrowers continue to make payments on their loans (direct or guaranteed). No need to create new loan origination or repayment system.

- Borrower receives a refundable tax credit for loan payments exceeding 10% of income above $10,000.

- Lenders report total principal and interest payments to the borrower and to the IRS.
Estimated Cost

- Preliminary estimate:
  - $7.3 billion
  - Estimated 87% of benefit goes to tax filers with incomes below $40,000.

- Current higher education tax provisions (Hope, Lifetime Learning, Loan Interest, and Tuition Deduction):
  $8.8 billion in 2005
Potential benefits

- Current loan programs and repayment options remain largely unchanged.
- Lessens debt aversion by reducing risk.
- Broadens tax base for means-testing federal education benefits: Forward-looking rather than backward-looking at student/parent income.
- Universal benefit: Valued by middle and higher income parents concerned about their child’s ability to pay.
A New State-Federal Partnership in Higher Education

- Federal government provides bundle of Pell Grants and Loans, with a larger income-contingent subsidy.

- States add their own grant dollars and institutional subsidies and provide the marketing.