

# RETHINKING FEDERAL STUDENT AID

## Battling Stagnant Wages and Economic Inequality to Keep Higher Education Accessible

By Barmak Nassirian

The basic framework for federal student aid programs, authorized under Title IV of the Higher Education Act, were devised in the Education Amendments of 1972. That year, the average hourly earnings for non-management private-sector workers in the United States peaked at \$4.03—equivalent to \$23.68 in 2018 inflation-adjusted dollars—a figure that has not been surpassed in the ensuing 45 years, according to the Bureau of Labor Statistics.

Unfortunately, continuously rising college tuition prices stand in stark contrast to this stagnant wage growth and the precarious equilibrium between household earnings and expenses. To ensure higher education remains accessible, Congress needs to reassess how federal dollars are distributed, including how these resources serve families with the most need.

### STAGNANT WAGES, GROWING DEBT

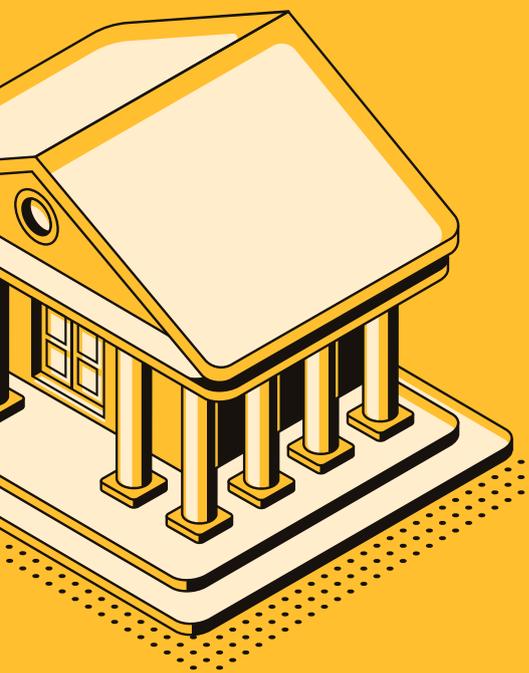
The wage stagnation experienced by the vast majority of American households means that, despite fluctuations due to recessions and expansions, today's average wages have the same general purchasing power as they did in the mid-1970s, states the Pew Research Center Fact Tank. Economic inequality has also increased alarmingly over that same period in the United States. The World Bank's GINI Index—which measures how much the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution—has risen from 34.6 in the United States in 1979 to 41.5 in 2016.

However, inflation-adjusted tuition and fees are now more than four times higher

than they were in 1973 at public four-year institutions, and nearly three times higher at private four-year colleges. While student aid does counter some of the discrepancy between escalating college prices and stagnant family incomes, it is not enough.

Tuition and fees minus all gift aid and related tax benefits in the public four-year sector, for example, nearly doubled over the last two decades, with the cost of attendance minus all gift aid and tax benefits increasing by nearly 70 percent over the same period, according to *Trends in College Pricing 2017* by The College Board. The analogous statistics for private nonprofit institutions are 19 percent and 29





percent respectively, but against a much higher baseline for tuition and fees.

These averages provide a macro-level explanation for the growth of educational debt as the primary way low- and middle-income families finance college, but what support do the neediest students require to attain a higher education? A future reauthorization of the Higher Education Act should properly answer this question for the purposes of policy development.

## HELPING THOSE WITH THE MOST NEED

In 2012, the lowest family income bracket—partially due to receiving more need-based aid and to choosing lower-cost institutions—had half the net tuition costs than the highest income bracket—\$13,699 as compared to \$26,580, respectively, according to *Indicators of Higher Education Equity* by The Pell Institute and the Alliance for Higher Education and Democracy at the University of Pennsylvania. However, this lower net cost still encompasses a whopping 84 percent of family income for the families with the least income, compared to only 15 percent for the highest income quartile. While aid programs mitigate some disparities in resources, they are far from levelling the playing field for needy families.

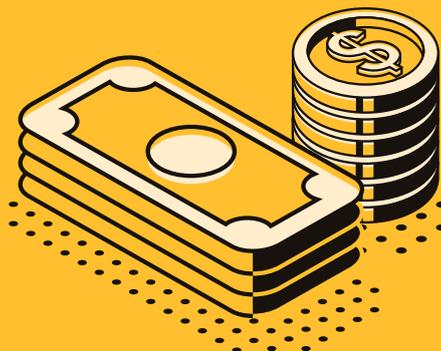
While the lowest income quartile's participation rate in higher education has improved significantly over the decades, students from these families confront far greater

debt burden even after all gift aid; have lower continuation and graduation rates; have a much higher probability of attending non-selective, for-profit institutions; and are more likely to default on their student loans after leaving school (including on low balances), states *Indicators of Higher Education Equity*.

Like so many other facets of American life, these indicators are not race-neutral. Beyond mere incomes, the racial wealth gap, which focuses on family assets instead of incomes and compares the net worth of Americans by race and ethnicity, demonstrates the challenges faced particularly by African-American families who confront college costs. Average wealth for white families is seven times higher than for African-American families, and a quarter of the latter have zero or negative net worth, compared to only one in 10 white families. Alarming, these differences persist even controlling for age, household structure, education level, income or occupation, according to the Economic Policy Institute.

Ironically, the student aid system's design exacerbates the unfair treatment of families with little or no net worth by overlooking the significant resources available to families with similar income who have considerable assets. This element of the Title IV need-analysis system negatively affects African-American families disproportionately.

Further compounding the challenge for all minority and underserved students is that their enrollment patterns place far fewer of them at institutions with sufficient resources to meet their financial needs and to provide the additional support services they need. Thus, they tend to be severely underrepresented at the nation's most selective and most affluent institutions and are also more likely than their white peers to enroll at for-profit institutions,



states a 2014 Center for Responsible Lending Policy Brief, *For-Profit Colleges and Students of Color*. Within the traditional higher education sector, their enrollment pattern favors two-year institutions against baccalaureate ones, and within the public four-year sector, regional campuses against flagships.

## IMPROVING LEGISLATION

The ongoing conversations about the next reauthorization of the Higher Education Act will provide an opportunity for Congress to comprehensively re-examine the pattern of distribution of federal dollars and to devise ways of making scarce federal dollars go further by directing these resources to venues with the greatest impact on populations most in need of federal assistance. Such venues would combine accessibility, program quality and the lowest costs for baccalaureate degrees. These attributes define AASCU institutions. **P**

*Barmak Nassirian is director of federal relations and policy analysis, AASCU.*

