

Helping Students Pay for College

Removing College Price Barriers: What Government Has Done and Why It Hasn't Worked, by Michael Mumper. State University of New York, 1996. 304 pages. ISBN 0-7914-2704-8.

The Business of Higher Education: The American University and Its Banking Function, by Noam Arnt. Garland Publishers, 1995. 151 pages. ISBN 0-8153-2241-0.

Reviewed by Edward St. John

In the 1980s, when state and federal support for higher education wavered and tuition charges climbed faster than inflation, enrollments at most institutions still continued to climb.

Given these and related developments, some analysts began to question whether students were responsive to higher tuitions and reduced student aid (Hansen 1983; Hearn 1993).

However, in the mid-1990s many institutions have begun to run into serious problems with students' ability to afford a college education. So in the past few years, a number of new strategies for dealing with affordability have begun to surface. A couple have proposed reductions in tuition (Hamm 1995; Rothman 1995). Others have proposed

expanding student aid (McPherson and Schapiro 1991), which is the position taken by the authors of these two books.

In *Removing College Price Barriers*, political scientist Michael Mumper of Ohio University reviews recent developments in higher education financing policies at both the state and federal levels, including the 1992 reauthorization of the Higher Education Act, and makes a proposal to strengthen the government role in making a college education more affordable. His book also offers an informed perspective on the recent politics of higher education finance.

Mumper's "feasible reform proposal" centers on revitalizing the Pell grants for the financially disadvantaged, which he suggests should be fixed at 75 percent of the national median price of attendance at public four-year colleges. As he points out, Pell grants have fallen well short of this level in the past decade. He also argues for changes in the cost provisions of the Pell program, for straightening out problems in the Guaranteed Student Loan Program, and for experimenting with novel approaches at the state level. Mumper's arguments are well crafted, but will not sit well with fiscal conservatives.

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In *The Business of Higher Education* Noam Arzt, a junior administrator at the University of Pennsylvania, examines the financial constraints facing three types of private institutions: high-priced and highly selective, fairly high-priced and moderately selective, and lower-priced and less selective. He explores whether these private universities might reduce their financial problems in subsidizing students by taking on banking functions, that is, by being direct lenders to students and encouraging advanced payments, which can then be invested. Arzt is especially good in his summary of the legal issues facing educational institutions with respect to pricing and financial aid strategies.

Rather than advocating expanding government aid to students, *The Business of Higher Education* looks at how colleges might use banking functions to reduce the growing tuition discounts they are now providing. (Some colleges now give back one-third or more of their tuition revenues to their students in aid.) Arzt argues that introducing new banking functions such as offering parents and students the opportunity to pay the full four-year tuition in advance, or becoming direct lenders to student families, could help institutions reduce the portion of their budget used for student grants, attract more wealthy students, and allow colleges to earn some money as banks do. He examines several institutions that have experimented with these banking functions, and finds some evidence that this strategy may be beneficial.

Do students respond?

Both authors base their suggestions on what has been the dominant belief about students' price response. This includes the assumption that students and their parents respond to a single net price (tuition minus grants), and that this response can be used in analyses of the effects of changes in tuition prices, price discounts, and scholarship grants. Mumper accepts this economic assumption without question; Arzt uses but adapts the construct. Both accept the net price view as it has been articulated by Leslie and Brinkman (1988)

and elaborated with variations by others such as McPherson and Schapiro (1991).

But greater complexities of student price response are now surfacing, some of which have caused chief financial officers and financial aid directors to have doubts about the way students actually respond to prices and student aid. Economist W. Lee Hansen was one of the first to argue that high tuition/high aid might be a more rational strategy than low tuitions for all in

New strategies for dealing with affordability have begun to surface.

public education (Hansen and Weisbrod 1969); and he later questioned whether federal investments in the Pell program had a real influence on participation rates (Hansen 1983). James Hearn has also found a "paradox" in the growth of federal student aid because it had so few measurable effects (Hearn and Longanecker 1985; Hearn 1993). And Stephen Dresch (1975) early on suggested that students respond differently to offers of aid from the way they do to tuition, and that major new aid programs may actually change the measurable effects of tuition and other prices for college. Interestingly, these counter assumptions have held up better to empirical examination than the net price assumptions (St. John 1993; St. John 1994a; St. John and Starkey 1994).

In spite of his neglect of these recent conceptual debates, Noam Arzt's banking approach recognizes that there is not a universal price-response metric. His approach can be criticized because it has not controlled for other factors that influence prices, but Arzt provides a way of discerning when student aid offers are inadequate for different subpopulations of applicants.

In contrast, Mumper ignores these deeper complexities altogether, assuming that all students respond to net tuition prices in a universally consistent way. (Pro-

vide more money and more students will enroll.) But it seems unlikely that either the Democrats or Republicans would support a massive expansion of the Pell program.

Financial planners need to break away from the old assumptions.

Even holding ground in the student loan program has become a political issue.

In this new economic and political context, higher education financial planners need to break away from old assumptions and think creatively about new ways of keeping colleges affordable (St. John 1994b). This may require a fundamental rethinking of current strategies rather than an expensive expansion of what already exists. In their separate ways, these two new books press us to begin some heavy rethinking. ■

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