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INCOME-RELATED BARRIERS TO POST-SECONDARY EDUCATION

Challenge Paper Prepared by

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The opinions expressed in this paper are those of the author and not necessarily those of the Council of Ministers of Education, Canada

Introduction

- 1.1 Income-related barriers to post-secondary education (PSE), come in two forms: direct and indirect.
- 1.2 "Direct" barriers are those with which policy-makers are most familiar, since it is they that most student assistance programs are intended to alleviate. This set of barriers is purely financial in nature, and refers to the set of conditions that prevent people who are qualified and motivated enough to attend PSE but cannot due to lack of resources. Direct barriers are in effect barriers of affordability that can be alleviated or exacerbated by government policy.
- 1.3 "Indirect" barriers are a broad set of conditions, often income-related, which discourage people who are undecided about pursuing PSE from doing so. This set of barriers mainly affects people who, although likely possessing enough talent to pursue PSE, have few role models who have done so and have never received much encouragement at home or at school to pursue their education. Indirect barriers are best thought of as barriers of motivation and inadequate career planning which especially affect people from lower-income backgrounds. While they are not "financial barriers" per se, these barriers are income-related and governments and other educational partners are in a position to alleviate them
- 1.4 Direct barriers affect people who want to go to PSE; indirect barriers affect people who are undecided about their educational plans but who likely have the capacity to study at the post-secondary level. There is, of course, a third group of people who face an entirely different set of barriers: those who have neither the capacity nor the interest in studying at the post-secondary level. Many of the youth who are considered "at-risk" - often from families mired in chronic poverty or with a history of substance abuse - chose not to pursue their education because they become "divorced" from formal education at a relatively early age. Not only are such people unlikely to enter PSE, but they are also unlikely to finish high school. Their barriers are certainly income-related (at least indirectly), but because the depth of their alienation from the formal education is so great, their problems deserve a completely separate treatment. This paper will concentrate simply on the direct and indirect barriers.

Direct Barriers

2. Direct financial barriers are those sets of financial conditions that prevent qualified, motivated individuals from attending PSE due to inadequate resources. Governments that wish to minimise the number of direct financial barriers to PSE that is, to keep PSE affordable - have to pursue one or a combination of three avenues. First, they may keep prices (in particular, tuition) down; second, they may offset prices through student assistance; or third, they may increase student or family resources through programs designed to increase savings.

2.1 Tuition & Costs

- 2.1.1 From an economist's point of view, the costs of attending PSE are as follows: the first - and for most students the largest - cost of education is foregone earnings from participation in the labour force. The next largest cost would be tuition, followed by books, etc. Living costs would not be considered a cost of attending PSE, since subsistence (food and shelter) would have to be taken care of regardless of attendance in PSE. Given this cost equation, an economist would say that the "cost" of attending PSE has barely changed over the past decade, even though tuition costs have increased substantially. This is because tuition is still a fairly small component of total cost. One could even argue that the "cost" has decreased in real terms because the increase in tuition has been offset by the decline in forgone income that has accompanied the deterioration of labour market prospects for people with only a high school education.
- 2.1.2 However, from a student or family's point of view, the cost equation is somewhat different. While the overall cost is a consideration, the primary barrier is simply scraping together the required capital for each year of study. Viewed from this perspective, education has become considerably more expensive over the past few years, the combination of rising tuition and stagnant incomes is the primary culprit.
- 2.1.3 Rises in tuition are not automatically cause for concern. If student price response to tuition were quite inelastic, then an increase in tuition might not cause a drop in enrolment. Similarly, if incomes were rising or student aid levels rose enough to offset a drop in demand (see below, section 2.2.3), then a rise in tuition would not necessarily create a "higher" barrier to access.
- 2.1.3 While there is little evidence on price responses of Canadian students, data from the United States shows that the extent of price elasticity for higher education is highly dependent on family income. Students from low-income families are found to be price-sensitive while students from higher income backgrounds are much less so, if at all. The California Post-secondary Education Study (1980) estimated that "lower-income students are approximately twice as price-responsive as middle-income students" and that "high-income students are about two-thirds as responsive as middle-income students".¹ Note though that while the relationship between tuition increases and enrolments is clear, the effects of tuition increases on students already enrolled in PSE institutions is less so. The most recent evidence suggests that changes in tuition have no discernible effect on persistence for university students, but that mid-stream increases in tuition do have significant negative enrolment effects on community college students.
- 2.1.4 This differentiated response to tuition prices suggests that governments do not have to

¹It should be noted that most American studies that measure the price effect of tuition hold the rate of private return on education constant as part of their *ceteris paribus* assumptions. An increase in the perceived value of a university or college degree has a positive effect on enrolment, which may wholly or partly counteract the negative enrolment effects of tuition increases. This explains why enrolment may hold steady or even increase in the face of price increases.

keep tuition low (or free) in order to maximise access. In particular, it suggests that in theory introducing price discrimination in favour of students from less affluent backgrounds would allow rises in tuition without discouraging participation from lower-income groups. The "sticker" price of tuition would be the same for all students, but through increased grant aid, students from lower income backgrounds would face a lower net price. Holding tuition constant, such a use of grant-based student financial assistance would have the same effect as a general reduction in tuition but at a lower cost. Conversely, a hike in tuition combined with a significant increase in the amount of grant aid awarded (30% or more of the total value of extra tuition brought in by the increase) would allow institutions to receive more money without worsening access.² This strategy³ is known in the student assistance literature as the high tuition/high aid strategy, and jurisdictions that have implemented it (such as Minnesota) do not appear to have access rates significantly different from jurisdictions which have maintained low tuition strategies.

2.2 Effective student assistance

- 2.2.1 The first task of student assistance is to make sure that students have enough cash on hand to see their studies through to completion. Arguments about what mix of loans and grants to provide within any student assistance package are purely academic if the total amounts being provided are inadequate to the task at hand.
- 2.2.2 From the human capital point of view, all student aid at the university level at least could probably be delivered in the form of non-forgivable loans because university graduates are virtually guaranteed lifetime returns on investment that will vastly exceed the amount borrowed. However, high levels of debt in the transition to the workforce can be debilitating and easily lead to defaults and bankruptcies. This suggests that some assistance should be given in the form of non-repayable aid either at the time aid is awarded, or in the post-study period, or both.
- 2.2.3 However, grants (i.e. non-repayable aid) are useful not just for containing debt but also, as noted above, to offset tuition fees and create a lower "net price" for students with lesser means. Evidence from the United States shows that students do respond positively to grants which offset tuition fees. However, this response declines over time. That is, a grant matters more to access and retention if it is given early in a student's studies. The further they proceed in the studies, the more indifferent students are as to

² Of course, the amount of the set-aside must increase as tuition increases, since with every increase, the number of students needing some sort of offset will increase. In the US, a number of smaller private institutions with "sticker" tuition rates of \$10000 (US) or more, are now spending more than 60% of every marginal tuition dollar in student assistance. National Association of College and University Business Officers 1996 Tuition Discounting Executive Summary

³See James C. Hearn and David Longanecker, "Enrollment Effects of Alternative Post-Secondary Pricing Policies" Journal of Higher Education Sept/Oct 1985 pp. 485-508, and James C. Hearn & Melissa Anderson, "The Minnesota Financing Experiment" in Rethinking Tuition and Student Aid Strategies, New Directions in Higher Education no. 89 pp. 5-25

whether or not they receive aid in the form of a loan or a grant, at least from the point of view of retention.

- 2.2.4 Theory and some practice show that a grants-based discriminatory pricing regime can offset the negative effects of tuition in a cost-effective manner. However, there is reason for some caution in this approach. Net price theory is based on students (and presumably their families as well) having a perfect understanding both of tuition charges and the financial assistance system. However, there is significant evidence to show that students and parents have a far less than perfect understanding of tuition charges and the student assistance system. One recent American study showed that the public overestimates the sticker price of a year's tuition by a factor of two; another showed that low-income parents were least likely to understand the student assistance system and assume that all assistance was merit, rather than need-based.⁴ As sticker price (and thus the scope of the investment) increases, it becomes increasingly important to focus on improving not just the student assistance product, but the information about that product as well. In this respect, all Canadian jurisdictions seriously lag behind their American counterparts.

Indirect Barriers

3. All of the direct barriers apply only to people who have already decided to attend post-secondary education and are trying to make financial arrangements in order to allow them to do so; they do not apply to people who never decide to apply to post-secondary education in the first place. For those individuals who effectively take themselves out of the running for PSE at the age of 12 or younger, the availability of loans and grants available at the age of 18 is not very useful.
- 3.1 If jurisdictions wish to maximise their human resources, then they must increase the level of education of their citizens and encourage more young people to pursue their education into the post-secondary level. In order to do so, more resources must be devoted to encouraging as many people as possible to want to attend post-secondary education in the first place. Not everyone with the ability to attend PSE wants to - or believes they can do so, and this desire is itself indirectly linked to income.
- 3.2 The characteristic of wanting to attend post-secondary education is most closely linked to parental expectations of educational attainment. Children from families where attending a post-secondary institution is virtually taken for granted are vastly more likely to end up in PSE than children from families where there is no such expectation. In turn, the likelihood of parents bringing such a set of expectations to bear on their children is closely linked to the parents' own highest level of educational attainment. The danger here is that class comes to replicate itself through the generations based on

⁴American Council on Education, "Public Perceptions of College Prices", <http://www.acenet.edu/programs/DGR/tuitionsurvey.html>; Lorayn Olson and Rachel Rosenfeld "Parents and the Process of Gaining Access to Student Financial Aid", Journal of Higher Education, July/August 1984 pp.455-480.

educational attainment; children of the educated become educated themselves, while children of the less educated find themselves in a sort of quasi-permanent educational underclass.

- 3.3 There is no easy way to break this cycle and increase rates of continuance (that is, persistence in education from the secondary to the post-secondary level). As noted above and in numerous other studies, financial assistance is of little use since the decision to not pursue an academic career is made long before most people are aware of financial aid - often as young as 12 years old.⁵ More active strategies must be used to encourage students to persist in their studies, and these interventions may have to begin as early as primary school. Yet because of the crucial role that family plays in children's decisions regarding education, effective methods of encouraging educational persistence have to target families as well as students, and moreover do so in a manner that does not involve substantial state intrusions into family life.
- 3.4 One interesting set of experiments in the United States has been "assured access grants". These are voucher-grants given to students attending schools in low-income areas for good grades in secondary school (occasionally, this extends down into primary school as well), redeemable only if they go on to attend post-secondary education.⁶ The theory is that these financial incentives will encourage post-secondary attendance not only through the act of providing financial support to children from poorer backgrounds, but also because in doing so such children will over time come to have the expectation that post-secondary education is an appropriate and natural destination. In short, it will make children want to attend PSE because they will know that others expect them to do so, and that others believe in their abilities enough that they will actually give them money to go.
- 3.5 Another approach that seems to show some promise is to tie improved career information in the secondary system to early and frequent information about educational programs at the post-secondary level and about student financial aid. The example provided by the Indiana Career and Postsecondary Advancement Center (ICPAC) is a good one. Working in tandem with secondary and post-secondary schools, ICPAC provides Indiana students with a extensive career guidance publications in grade 9, which complement the state curriculum and help students in their choice of high school courses. In grade 11, the relationship between post-secondary education and career is brought into the mix with the distribution of another, and information on all state schools is provided to the high school students. From grade 9 onwards, students and their parents begin receiving ICPAC's 80 pamphlets on the benefits of post-secondary education, the costs of doing so, how to save money and how to access student financial assistance, etc., on a regular basis. ICPAC also operated a 24-hour hotline and website to provide assistance In part because of this initiative, the state's

⁵See especially the March 1987 Senate Report of Federal Policy on Post Secondary Education (p.48-9)

⁶Another variation on the same theme is to ensure free tuition to low-income students who maintain satisfactory standing throughout high school, as is the case in Indiana.

participation rate among high school graduates went from 41.63% in 1987 to 49.58% in 1991a jump of nearly 20% in four years.⁷

Recommendations:

An overall strategy to increase higher education participation by low-income students should therefore include the following elements:

Information is key -start early. Many students make their choice not to participate in post-secondary education very early in life. A program that encourage early career planning and promotes greater education as the key to greater earnings - along the lines of the program developed in Indiana - should be implemented in all provinces.

Use special encouragement for low-income students. "Assured access grants" for lower-income students demonstrating satisfactory academic progress, provided they start early enough in a child's life, are a promising avenue for policymakers.

Ensure that student aid maximums are sufficient. The first task of student aid systems is to ensure that student have sufficient cash to finish their studies. Student aid maximums should be reviewed much more frequently than is currently the case, in order to minimise the amount of unmet need amongst students.

Reduce the net price of education for low-income students through increased use of grants: Forgivable loans have not proved to be the panacea many thought they would be in the early 1990s. Debt has risen for students, costs have continued to escalate for governments, and for low-income students, the net price of education has increased enormously. Government should once again move to providing targeted "up-front" grants for low-income students.

Don't overestimate the effects of tuition. Allowing tuition for general undergraduate or college programs to rise too is undesirable, because parents will begin thinking education is too expensive and not encourage their children to attend. But the effects of small tuition increases are virtually undetectable. And in any case, spending a lot of money to control tuition is a much poorer policy choice than spending a similar or slightly lesser amount of money on grants to low-income students.

⁷See Don Hossler & Jack Schmidt, "The Indiana Postsecondary-Encouragement Experiment", in Rethinking Tuition and Student Aid Strategies, New Directions in Higher Education no. 89 pp. 27-39