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ABSTRACT

The purpose of federal support for the general educational goals of higher education is examined in this testimony. Such support for higher education currently amounts to \$3.4 billion, exclusive of research and veterans educational benefits under the GI bill. Two roles are identified for federal support of higher education: (1) the role of increasing access to postsecondary education by concentrating resources on direct financial aid to students on the basis of need; and (2) the role of encouraging a diversity of educational programs that will be responsive to the particular educational needs of citizens. The Administration's view is reaffirmed that the best way to achieve these goals is through student aid rather than general financial support for institutions. It is suggested that the major part of federal budget resources should be devoted to student grants rather than student earnings subsidies and student loans. The Basic Grant program should be the foundation of higher education legislation, which would permit a maximum grant of \$1400 for all classes of students. Suggestions are offered for perfecting the access role of this program. Coordination of federal and state programs is also recommended. (LBH)

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STATEMENT BY
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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
BEFORE THE
SENATE SUBCOMMITTEE ON EDUCATION
COMMITTEE ON LABOR & PUBLIC WELFARE
Wednesday, July 23, 1975

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Mr. Chairman and Members of the Subcommittee, in preparing for these hearings we in the Executive Branch have been endeavoring for some months to review the Federal role in student assistance. I would like this morning to review with you the positions to which we have been led by our discussions. Such a review will, I think, be useful in indicating the features of the higher education legislation which we would hope to see come out of your deliberations. The outcome of your actions will have major influence for years to come on the vitality of our system of higher education and on the kinds of educational opportunities available to all our fellow citizens.

The major question which we must address is the purpose of Federal support for the general educational goals of higher education. Such support for higher education currently amounts to \$3.4 billion, exclusive of research and veterans educational benefits under the GI bill. We believe two roles can be identified for Federal support of higher education:

- First, there is the role of increasing access to post-secondary education by concentrating resources on direct financial aid to students on the basis of need.
- Second, there is the role of encouraging a diversity of educational programs which will be responsive to the particular educational needs of our citizens.

If these are the purposes of Federal support for higher education, we then reach the question of how they can best be achieved. Let me reaffirm the Administration's view that the best way to achieve these

goals is through student aid rather than general financial support for institutions. Institutional aid formulas are prone to inadvertent bias, tend to create artificial incentives, are difficult to target fairly, and invite detailed regulation of the educational process. On the other hand, student aid ultimately results in revenues for colleges and universities and also contributes to their financial viability. Moreover, it has the great advantage of providing this support in a way which permits the maximum impact of available Federal dollars on the goal of extending educational opportunities. It has the further advantage of encouraging institutions of higher education to be responsive to the educational needs of our people through the mechanism of student choice, rather than through an elaborate system of regulation.

If Federal support for higher education should primarily be in the form of student aid, the next question concerns the type of student aid that should have the priority claim on Federal funds. Student earnings and student loans will continue to be indispensable to many students in financing their higher education costs, but we believe that the major part of Federal budget resources should be devoted to student grants. This is for very straightforward reasons. Private unsubsidized employment can and does provide students with earning resources which dwarf what the Federal government can do. The earnings of full-time undergraduate students alone exceed \$5 billion a year. Private credit can and does provide a vast volume of lendable funds for student loans. Over \$7.5 billion is outstanding in guaranteed student loans alone.

But only public and philanthropic student resources are available for student grants. The Federal government does and should continue to encourage the private sector to provide jobs and loans to students. But if the Federal government does not provide grant funds, they will simply be unavailable in equivalent magnitude from other sources.

If the Federal role in providing grant assistance is, therefore, crucial, we must ask what the criteria for awarding Federal grant funds should be. We come here to the familiar arguments about whether student aid should promote "access" or "choice." Since they are both important goals, I think it is worthwhile to define these terms carefully. By access, I mean the goal of providing reasonable assurance that the sum of what a student's family can be expected to contribute, the amount he can be expected to earn, and his grant aid, should be enough to enable him to attend a low-cost college, the kind of institution increasingly available in many of the States. The amount families can be expected to contribute is, of course, a matter of continuing controversy. The amount a student can be expected to save from summer earnings is estimated by the College Scholarship Service at between \$500 and \$700. Combining modest termtime earnings with summer earnings, the student's contribution can be expected to reach the \$800 to \$1,000 range.

The goal of choice, on the other hand, I would define as the opportunity to attend any one of a broad spectrum of institutions, including at least moderately expensive private ones in the \$3,000 to \$4,000 cost range. This can be achieved through a combination of family contributions,

student earnings, grants, and loans.

The Administration strongly favors authorizing legislation under which the Federal government would contribute to both the goal of access and the goal of choice, stated in terms of these modest definitions.

- Access to higher education opportunities is a major underpinning of the broader national goal of equal opportunity.
- Choice aids the health and autonomy of our educational system. Without it we have less chance of reaching a system which responds to the needs of individuals rather than to the commands of government.

Accordingly, to the extent feasible, we should go beyond assisting access and also help make it possible for students to choose the kind of education they want.

It follows from the principles I have outlined here that the Basic Grant program should be the foundation of higher education legislation. The program, if funded to permit a maximum grant of \$1,400 for all classes of students, would assure access in the terms I have defined. As you are aware, Mr. Chairman, with the recently enacted carryover authority we will reach this full funding level for three classes of students in the upcoming academic year.

For your review of the legislation governing the Basic Grant Program, we would like to make a series of suggestions designed to perfect the access role of the program. Chief of these will be a change from the

half-of-cost limitations on awards to students to a half-of-need limitation (cost less family contributions). This change would provide added equity to the program by insuring that, within the provisions of the formula, students with differing income levels would receive grants which amount to an equal percentage of their unmet needs, rather than different percentages, as is the case under the one-half-cost limitations. For example, under the one-half cost limitation, a student with a \$300 family contribution attending an institution costing \$1500 would receive \$750 or 63 percent of his need, while the same student would receive a grant of \$600, or 50 percent of need, under the half-need rule. In other words, by meeting 50 percent of need, this change would place the student with a higher family contribution in the same position as a lower income student with a zero family contribution, who must meet 50 percent of his need under both approaches.

The place to start in developing a program to deal with the problem of choice is also the Basic Grants program. Although the resources now devoted to the program mainly contribute to achieving the goal of access, we believe that a factor favoring choice is built in by the half-of-cost rule and would be strengthened by a half-of-need rule. This results from the fact that a Basic Grant pays one-half of college costs for low-income students, up to a maximum college cost of \$2,800. In other words the Federal government, through the program, shares in the increased cost assumed when the student chooses a more expensive educational program -- at least up to the maximum level of \$2,800.

Some suggested changes in the Basic Grant formula would have no helpful relationship to these features which promote the objective of choice. One often discussed would be to eliminate any cost or need limitation in the making of awards. The effect of such a change would be to reduce the amount of earnings which a low-income student would be expected to contribute toward his educational expenses in order to attend a low-cost institution. Since all students who attend higher cost institutions and who have need are normally expected to make a contribution from their own earnings, we would not recommend this change. We believe that when the goal of access is reasonably assured we ought to devote the remaining available resources to the goal of choice.

Another widely discussed change--with exactly the opposite tendency to that just considered--would be to reduce expected family contributions used in calculating awards. Whereas the previously considered change would concentrate marginal resources on the lowest-income students, this one would concentrate resources exclusively on students who are not poor. This is because students from really low-income families are already expected to provide little, if anything, from family resources. Accordingly, only relatively better-off students would benefit from statutory or regulatory easing of family contribution rules.

It is not enough, however, to comment on the relative merits of different possible changes in the Basic Grants rules in order to make it both a program for access and a program for choice. Your committee will also

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be examining the balance among Federal programs in higher education and will be looking at Federal costs. I should, therefore, give you our perspective on these problems also.

Here a useful starting point is the FY 1976 budget. It shows a request of \$1.050 billion for Basic Grants, \$250 million for work-study, \$44 million for State Student Incentive Grants (SSIG), and funding for the student loan programs of \$683 million. As you know, these figures stem from a careful weighing of all the claims on Federal fiscal resources in a period when restoring the nation's economic health requires stringent limitations on any new Federal spending programs. We, therefore, believe that any new higher education legislation must be designed in such a way that programs will make sense if funded within current budget constraints. The budget itself proposes part of the solution--to rely on a fully funded Basic Grant program, on the Work-Study program, on a growing Federal/State partnership, and on Guaranteed Student Loans, rather than continuing the SEOG program or continuing Federal capital contributions to the NDSL program.

We are encouraged by the efforts being begun by many States in response to the authority contained in the State Student Incentive Grant program. However, it is still true that four States now account for over 60 percent of State-funded student aid. Many other States devote their funds for higher education almost exclusively to institutional support. This pattern of predominance of institutional support does promote low

tuition at public institutions but it does not take into account the differing financial needs of lower-, middle-, and upper-income families, nor does it help students to afford private institutions.

I believe the States should be consulted concerning their role in achieving the goals of access and choice before the Congress makes any final decisions on the shape of the higher education legislation now before it. A modestly greater State emphasis on student aid could make a substantial contribution. A good use for State resources would be student aid programs which promote choice. Federal/State collaboration in pursuing this goal could take many forms. At a minimum, there should be a serious effort to coordinate Federal student aid in the form of Basic Grants with aid under a Federal/State program. This coordination could take a very direct and simple form. For example, the States could be offered Federal matching toward making up the difference in cost between a Federal Basic Grant program with an award ceiling of \$1,400 and a Federal/State program with a higher ceiling. This would automatically increase public sharing in the costs of choice, as well as the number of middle-income students qualified for grants.

There are other models for coordination of Federal and State programs also. At a minimum, we believe that any formula for distribution of Federal matching funds among the States should be based primarily on aggregate need and should not be biased for or against States which have chosen to rely primarily on public or private institutions.

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To conclude this overview, Mr. Chairman, let me stress how important we consider the efforts of your committee to renew the Federal higher education legislation. Your committee is undertaking this task at a time when only the clearest set of priorities will enable the Federal government to make its greatest possible contribution to the opportunities of our millions of students and to the health of our system of higher education. It is for this reason that I have explored with you the basic choices which we must face in deciding on the shape of the higher education legislation.