



Foreign Aid

By Kevin A. Hassett

The financial-aid system for college students is in a state of disarray. Federal aid and programs administered through the tax code are bureaucratic and include unfair provisions. Congress should stop using programs with a track record of little success and start using those that will give students the opportunities—and financial aid—they deserve.

Student aid is once again top priority in Washington. The House passed a bill recently that cut interest rates on student loans in half. Rep. David Obey (D-Wis.) and Sen. Robert Byrd (D-W.Va.) developed a budget resolution, signed by President George W. Bush in mid-February, that included an increase in the maximum Pell Grant and an increase in a government grant to needy students, to \$5,400 from \$4,050. Democrats have also suggested plans to enact a new tax credit for college tuition that provides a 100 percent credit for up to \$3,000 in education expenses annually.

These measures will please middle-class voters who were going to send their kids to college anyway, but will likely do little or nothing to increase enrollment. What is worse, these wasted efforts fail to address the fundamental flaws in a student-aid system that has become a public policy embarrassment. Never has so much money been showered on so many, with so little effect.

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2004, that university announced that a Harvard education would be free to all students whose family income was below \$40,000. The following year applications increased.

But why? Even before the policy was introduced, there was already enough student aid that

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any student should have easily expected to be able to afford a Harvard education. Applications soared because even the brightest high school graduates could not make sense of the befuddling array of available aid programs.

This illustrates what research has shown for years: far too many students can afford college but just do not know it. Who can blame them?

Student Loans and Financial Aid

In order to qualify for direct federal aid, for example, a prospective college student's family must fill out the Free Application for Federal Student Aid, (FAFSA) a 128-question monstrosity that seeks details that are too esoteric even for a tax return. The FAFSA is then mailed to the Department of Education (DOE), which computes each family's ability to pay, and mails that to the family and colleges in March or April. It is virtually impossible for a typical student to project the DOE's ruling ahead of time. Given the late notification

date, many students decide on their college long before they have any idea what it will cost.

The primary federal grant, the Pell Grant, is administered through this FAFSA process. In the 2004–05 academic year, \$13 billion was doled out. Despite the largesse, Pell Grants do not seem to increase college enrollments one bit. The best explanation for that failure is that plans are often made before loan amounts are known.

The programs administered through the tax code are worse. For 2005, Internal Revenue Service publication 970 listed twelve distinct special tax provisions for higher education, including the Hope Credit of \$1,500 for the first two years of college, the Lifetime Learning Credit of up to \$2,000 a year, a special provision that allows parents to access traditional IRAs, a program to allow student-loan interest to be deductible, Coverdell Education Savings Accounts, and an education savings bond program, to name half of them. Eligibility for one tax benefit often depends on whether you have opted to take one of the others.

But budget-busting tax provisions make no sense at all. The sound economic justification for providing government subsidies to higher education is that students face liquidity constraints—that is, they are unable to borrow as much money as they need to attend college.

Given that justification, however, tax credits are an illogical policy. After all, parents often do not get their tuition money back until they file their tax return for the previous year by April 15. In order to qualify for the credits, they need to have the money to pay tuition in the first place. But the failure to have the money in the first place is the justification for the government subsidy.

Accordingly, one should not be surprised to learn that tax credits also have been found to have little or no impact on college enrollment. Bridget Terry Long of Harvard University concluded after a careful study of federal tax credits that there is “no evidence of increased postsecondary enrollment among eligible students in spite of the stated goal to increase access to higher education.”

Bulldozing the Current System

Imagine if you lived in a small town, and each subsequent mayor decided that his legacy would be new playground equipment in the town park. It might be nice in the beginning, but after awhile the park would be so cluttered with equipment that there would be no place to toss a Frisbee or have a barbecue. At that point, a wise mayor would bulldoze the redundant playground equipment and start from scratch. Sadly, when such demolition is in order, Congress is tinkering with yet another jungle gym.

Given the high stakes, Congress must do better. They can begin by recognizing that we have a financial-aid Tower of Babel, and break out the wrecking ball. They should shelve all the tax provisions and fold almost all government subsidies into a single grant program that is easy to understand, with an award amount that can be disclosed to families long before college applications are mailed.

The best place to start would be to mimic the successful state systems. Georgia’s Hope Scholarship Program pays in-state tuition at any public college in Georgia for any student who is able to maintain a B average in high school. This

easy-to-understand program has been found to have significantly increased both enrollment and college graduation rates.

At the federal level, the Social Security Student Benefit Program, which mailed benefits that were explicitly identified well ahead of time to children over eighteen years of age, was found, unlike virtually every other federal program, to have a significant effect on enrollment. Copying these programs would be a whole lot more sensible than expanding programs that we know do not work.

A just society must provide equal opportunity to its citizens. Aid for higher education is a big part of that process, but a college financial-aid system that takes a graduate degree to understand defeats itself.

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