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# THE EFFICACY OF STUDENT FINANCIAL AID: ARE THE PROPOSED FUNDING REDUCTIONS AND PROGRAM LIMITATIONS WARRANTED AND IN THE BEST INTERESTS OF AMERICA'S CITIZENRY?

by Steve Herndon

## *Introduction*

It seems almost axiomatic to propose that the concept of student financial aid is under attack. Of late, the American public has become skeptical toward student aid thanks to recent accounts of fraud and abuse, and negative reports concerning loan default rates. These incriminations, for the most part representing the exception rather than the rule, received nationwide attention by way of a television expose aired by CBS on the program "60 Minutes." Similar reports and accusations have appeared in newspaper articles in cities throughout the country.

The aftermath of these disclosures is that many observers are now arguing that the huge and costly enterprise of student financial aid is overextended, that perhaps the value of its outcomes does not justify the amount of resources provided, and that public subsidies should be curtailed. Indeed, it would appear that our legislators are engaged in a great debate about the future of student aid, especially over the wisdom of expanding it still further to serve future classes of students. Some critics claim that the American public is already overeducated and that student financial aid is simply overbuilt.

## *Proposed Funding Reductions and Program Limitations*

The criticisms of student aid, coupled with a paucity of fiscal resources at both the federal and state levels, has placed student aid in an extremely vulnerable position. Nowhere is this more apparent than in the recent legislative enactments of Congress. Federal student aid programs have undergone no fewer than three major reductions in appropriations since the Reagan Administration took office in January of 1981. These cuts have included: (1) rescissions from the FY '81 budget; (2) reductions in program ceilings imposed by the Omnibus Budget Reconciliation Act; and (3) further reductions below the Reconciliation levels in the FY '82 appropriations bill.

Furthermore, the executive branch is considering reducing funding of campus-based aid — the Supplemental Educational Opportunity Grant (SEOG), National Direct Student Loan (NDSL) and College Work-Study (CWS) programs — in half, from \$1.1 billion at present to \$500 million in 1983-84. To exacerbate the situation further, a proposal has also been made by the Administration to eliminate graduate

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and professional students from participation in the Guaranteed Student Loan program. If enacted, these proposals in combination could have sweeping deleterious effects on undergraduate and graduate enrollments in 1983-84.

### *Problem*

The proposed funding reductions and program limitations have the potential to limit seriously "access" to and "choice" of higher education — laudable educational ideals that we as Americans have revered for many years. This author believes that these are important equal educational opportunity tenets, worthy of serious appraisal before federal legislation greatly limits their attainment. Based on the effectiveness of student financial aid in facilitating the attainment of "access" and "choice" are the proposed cutbacks really warranted and in the best interest of the American society? This paper will attempt to answer these questions.

### *Goals and Objectives of Student Financial Aid*

In order to ascertain the efficacy of student aid programs, one must first consider their intended goals and objectives. Historically, student aid has been used to achieve a variety of public purposes. Over the years, aid has been provided in order to reward highly talented students, to assist needy students, to expand student choice, to reward past contributions to society as in the case of assistance to veterans, to ensure the survival of educational institutions, to meet the demand for skilled laborers, to remedy past injustice, and most recently to address broader political objectives such as financial relief for middle-income families. In most states, the major objective of student financial aid, however, has been to provide sufficient financial support so that, in combination with federal and institutional funds and parental and student contributions, each qualified student who demonstrates need can afford to attend the postsecondary institution of his or her choice. This goal embraces the concepts of "access," "choice," and "retention" which are familiar in the language of student financial aid policy today. These three salient concepts are worthy of review.

An examination of the literature reveals that the public policies that guided the development of student financial aid programs during the early years of their inception, were primarily designed to facilitate student "access" to higher education. Policymakers generally subscribed to the notion that many students were unable to attend postsecondary institutions simply because they lacked the financial resources to do so. Increasing the amount of variable financial aid was thus intended to facilitate "access" to postsecondary education among students from low income families.

With the proliferation of state and federal financial aid programs and the massive expansion of low-cost public institutions which took place during the 1960's, public attention shifted somewhat from the issue of "access" to the question of "choice": What kind of institution does the student attend became the question. Since many students were now able to obtain sufficient support to enable them to attend some kind of educational institution, the question of where one attends college took on increasing importance.

A growing body of research (Astin, 1975, 1977) suggests that important outcomes are associated with the type of institution the student attends. In the short-term, the student's institution can make a substantial difference in the quality of the educational experience. In the long-term, the type of institution from which the student graduates can have a lasting impact on later vocational and career development. For example, recent research on college dropouts (Astin, 1975) shows that the student's chances of completing a program of study vary according to the type of in-

stitution. In other words, even when social background, ability, aspirations, and high school achievements are taken into account, the probability of a student's being able to complete a baccalaureate degree is substantially greater in certain types of institutions than in others. Consequently, many researchers argue that institutional "choice" may be a more important issue than mere "access" to postsecondary education.

The goal of "retention" is primarily concerned with the rate at which enrolled students complete a predetermined period of study. It is typically computed on the basis of academic years or persistence to the completion of degree requirements. An underlying premise of the concept of "retention" as it relates to student aid is that mere "access" to higher education in and of itself does not warrant the enormous expenditures for students to participate in postsecondary education. Something more is desirable. These expenditures should have some positive effects on student "retention" in addition to providing "access" and "choice." Aid recipients should be expected to persist for a reasonable length of time beyond initial entry into college so that they are able to (1) take advantage of what institutions of higher learning have to offer, (2) determine whether or not these services will be of benefit to them, and (3) complete degree objectives.

#### *The Literature on the Impact of Student Financial Aid*

Having reviewed the major goals of student financial aid, it is now possible to attempt to ascertain the extent to which these objectives are being accomplished. An examination of the current research pertaining to the impact of student financial aid is in order. This literature consists of an extensive collection of research dating back to the 1950's. It includes numerous single characteristic and single institution studies as well as several major investigations which have sought to bring together the narrowly focused studies, to synthesize them, and to offer some general conclusions about student aid and its relationship to "access," "choice," and student "retention." These major investigations have made an important contribution to the collection of equal educational opportunity research, as well as to the general literature on higher education, and are a logical point of departure in assessing the efficacy of student financial aid.

#### *Access and Choice*

One of the first to conduct a thorough review of the literature pertaining to the impact of financial aid on student "access" and "choice" was Fife (1975). In his investigation, Fife sought to synthesize many of the narrowly focused studies and to draw some general conclusions about the effectiveness of student assistance programs. He reviewed some one-hundred and sixty-five different sources before reaching his conclusions. Although he found that the formulas for distributing the funds under these programs differed, and all too often the funds appropriated fell far short of program purposes, Fife concluded that student assistance did play a significant role in the achievement of "access" and student "choice." To achieve a more equitable system, however, Fife offered the following four suggestions: (1) a student and his or her family must be assured early in the student's formal education that financial aid will be available for postsecondary education; (2) an announcement of the amount of aid available should be made before the student is required to select an institution so that this decision is not dictated by purely financial considerations; (3) to achieve equal educational opportunity, the determination of student need must be based on one method of need analysis used by all organizations which award student aid; and (4) sufficient funds should be provided to meet the financial need of all eligible applicants.

Unfortunately, many legislators and other public policymakers fail to acknowledge the findings of researchers like Fife. Instead they cite the findings of

various U. S. Census Bureau studies as evidence that student aid has had little impact on removing financial barriers to access to postsecondary education. Examination of two sources, a study by Suter of the U. S. Bureau of the Census (1977) and another by Leslie for the ERIC Clearinghouse on Higher Education (1977) show the dichotomy.

From available data, Suter was able to determine "college participation rates" by family income during the period 1968-1975. These participation rates were obtained by dividing the number of 18-24 year olds enrolled in postsecondary education by the number of 18-24 year olds in the population. His findings reveal that participation rates for lower income persons changed very little during the period under investigation. Participation in some of the higher income ranges even declined moderately.

Suter's study does reveal that postsecondary participation rates for blacks increased dramatically between 1970 and 1976. Rates for higher income blacks, however, were substantially higher than rates for lower income blacks. Furthermore, the increases for high-income blacks were considerably larger than those for low-income blacks.

The investigation conducted by Leslie utilized U. S. Census Bureau data together with data from the Cooperative Institutional Research Program (CIRP). Leslie was able to show that participation rates in postsecondary education actually declined during a period when student costs and student financial aid appropriations increased dramatically. His overall findings were very similar to those of Suter: participation rates for lower income students changed very little, while participation rates for higher income students dropped somewhat.

Ostensibly, the results of these two studies provide little evidence that a meaningful expansion in the college participation rate of students from low-income families occurred during a period in which federal and state student aid expenditures increased significantly. As a consequence, adversaries of student financial aid surmise that income differentials between students enrolling in different types of educational institutions have widened rather than narrowed. Thus, these observers conclude that student aid has not had any profound impact on removing financial barriers to "access" to higher education — a conclusion difficult for most financial aid administrators to accept.

Legislators and other policymakers should be cautioned about making inferences from research cited, however. Research such as that conducted by Suter and Leslie is greatly limited because it was not designed to assess directly the impact of student assistance, and therefore the methodologies used are inadequate in examining the effectiveness of aid programs. A compelling need exists for research that reflects a better conceptual framework and that employs the use of longitudinal research design techniques. Multivariate analysis is the best method for such research because it permits the researcher to separate the independent effects of different variables. One recent study which employed such a research methodology was conducted by Astin (1978).

The major purpose of Astin's study was to determine how secondary school students' decisions about what type of postsecondary institution to attend were influenced by various federal and state financial aid programs. The findings were intended to provide a basis for the development of future public policy concerning financial aid programs.

The principal empirical base of the study consisted of a large-scale longitudinal data file which tracked students' college choices at three points in time: the beginning of the 11th grade, mid-way through the 12th grade, and at college entry. Specific data for each student included early college choices (11th and 12th grade), high school grades and ability test scores (PSAT, SAT, and ACT), and various per-

sonal characteristics (sex, race, family education and income). Multivariate analyses of these data were conducted to determine how students' institutional choices were affected by (a) student characteristics, (b) the characteristics of the students' higher education environment, (c) state and federal financial aid programs, and (d) student aid packages offered by competing educational institutions.

The findings of the study indicated that although student "choice" is indeed related to various financial aid program characteristics, the actual causal connections between receipt of financial aid and student choice remain somewhat ambiguous. Several important relationships can be identified, however.

Astin found, for example, that students living in states with large amounts of federal BEOG dollars per student frequently remained in their home state and chose either small, nonselective, private colleges or public community colleges. These students were more likely to change their choices to relatively low-cost, nonselective institutions located near home, community colleges in particular.

It was learned that in states with large amounts of federal GSL dollars per student, more students attended college out-of-state and more chose high-cost and highly selective institutions.

Astin found that students who live in states with large amounts of federal campus-based program dollars (SEOG, NDSL, CWSP) per student were also more likely to choose prestigious, selective, and high-cost institutions, but they were more likely to attend college near home.

The findings of the study revealed also that the magnitude of state student financial aid programs was associated with a number of student "choice" outcomes. In states with substantial aid programs, high-ability students were more likely to choose private institutions and low-ability students were more likely to choose public institutions, especially two-year colleges. One possible explanation offered by Astin for this result was that state aid programs frequently have a merit component which limits eligibility to the highest-achieving students.

Existence of a strong and effective state aid program also appeared to encourage students to select a college in their home state. This relationship was confined largely to students in the higher ability ranges, however.

With respect to competing aid offers, Astin reported that the student's final choice among competing institutions could indeed be affected by comparative financial aid offers. His findings indicated that students were most likely to opt for those institutions offering the largest grants. He found that decisions were not generally sensitive to the relative amounts of loan or work-study support offered. Furthermore, the total size of the aid package showed little relationship to student "choice," once the relative size of the grant offer was taken into account.

Astin's findings also revealed that when students choose between competing public and private institutions, the "net tuition," i. e. tuition minus total financial aid, of the private institution carried the most weight in the final decision. The smaller the "net tuition" of the private institution, the more likely the student was to opt for that institution instead of the public one. Once the effect of the "net tuition" of the private institution was taken into account, neither the "net tuition" of the public institution nor the relative "net tuitions" of the two competing institutions were of much consequence in the final decision.

In conclusion, Astin's study provides important insight into how various types of aid programs are related to student "choice." Without question, his findings revealed that various federal and state financial aid programs do have an impact upon student "choice" decisions.

#### *Retention/Persistence*

The last student aid goal to be examined in order to determine the efficacy of the

support is "retention." Financial aid and its impact on persistence has been investigated in a number of recent studies.

With regard to specific types of financial aid received, Fields and LeMay (1973) found that there was no relationship between receiving a scholarship or grant and persistence. Results from other research have not supported their finding, however. A study conducted by Astin (1973) showed that receiving a grant would increase the odds of graduating from college in four years by 10 percent, and if the grant represented a significant proportion of the student's support, the increase was 15 percent. W. Blanchfield (1971) found that the size of a scholarship was positively correlated with the probability of persisting. His study was controlled in such a way that he was able to demonstrate that the relationship between receiving a scholarship and persistence was not merely an artifact that resulted from making such awards primarily to more able students.

Research has shown that loans have no relationship to persistence, which is one possible explanation for the proposal to eventually eliminate new funding for the NDSL program. This result was substantiated by Blanchfield (1971) and Astin (1973). Blanchfield also found that the percentage of college expenses financed by loans did not correlate significantly with attrition. He postulated that receiving a grant was more reinforcing to the student than receiving a loan and provided a greater sense of security. Thus, he argued, a grant provided more incentive to persist. Loans, on the other hand did not, he contends, provide motivational support for the student.

Summerskill's (1962) somewhat antiquated review of the literature reported inconclusive results in all of the research relating work-study programs to persistence. Conversely, Astin (1975) found that participation in college work-study programs seemed to enhance student retention, especially among women and blacks. Furthermore, work-study appeared to have its most consistently positive impact among students from middle-income families.

Astin (1975) analyzed the impact of various financial aid packages involving combinations of grants, loans, and work-study on college persistence. In general, his data revealed that any form of aid appeared to be most effective if it were not combined with other forms of assistance. This was particularly true of work-study programs, which tend to lose their beneficial impact when combined with grants or loans. Astin's findings indicate that this loss was especially noticeable among low-income students. Similarly, grants were most effective if the student received no loan. The only combination associated with greater persistence was work-study and major, rather than minor, loan support.

In yet another study, Astin (1973) noted that if a student did not receive any financial aid from the college at all (either grants or loans), the chances of graduating in four years were reduced by 15 to 20 percent. This finding, perhaps more than any other, best illustrates the impact of student financial aid on student "retention."

Collectively, the findings from these persistence/retention studies have important implications for financial aid packaging policies in the future. Only the awarding of scholarships, grants and work-study has been found to increase a student's chances of persisting in college. Although not definitive, recent research indicates that loans do not increase retention rates. Thus, the research suggests that there are ways that the current financial aid delivery system might be improved, and more systematic research on the effects of different amounts and combinations of financial aid is certainly called for, but unequivocally, student financial aid programs do have positive effects on student "retention."

#### *Summary and Recommendations*

This author's review of the major studies assessing the impact of student aid on its

stated goals of "access," "choice," and "retention" has brought several things to mind. Most importantly, it does appear as if the principal objectives of financial aid are being accomplished. For the most part, the research cited in this article seems to document this assertion.

Unfortunately, however, many of the available Census Bureau studies used in appraising "access" are limited because they have not been designed to assess directly the impact of student assistance, and therefore the various methodologies used are inadequate in examining this question. With regard to the goal of "choice," there is a dearth of longitudinal research that provides data about the college-going decision-making process of students from the early secondary level through final postsecondary graduation. With respect to "retention," complex interaction among the variables — type and amount of financial aid, need, and college costs — make it difficult to determine ways in which various types of aid can be packaged so as to enhance the student's chances of persisting in college. Additional research employing multivariate analyses that enables the researcher to deal with the interaction of effects is sorely needed.

Considering the complexities of these analytical problems and the large sums of student aid involved, legislators might consider allocating a fraction of aid appropriations to systematic research on these interacting factors before employing wholesale programmatic cutbacks that greatly limit the attainment of equal educational opportunity. Such research would surely provide a better empirical basis for developing future student aid policies. Such studies must be accomplished before there can be a true assessment of the effectiveness of student financial aid programs.

### *Conclusions*

The author's belief is that student aid expenditures continue to represent a good investment in America's future. Access to higher education by means of student financial aid produces benefits for individuals in the form of personal development, economic opportunity, and self-satisfaction, and benefits for society in the form of political, economic, and cultural advancement. At a time when our legislators are attempting to resolve an appreciable unemployment rate, education appears to be a better solution to the problem than unemployment insurance and welfare.

For the students who are motivated to pursue postsecondary education, the research clearly shows that receiving financial aid can be an important factor in the attainment of their educational goals. This author firmly believes that higher education brings about enlightened thoughts, that thoughts beget actions, that actions become habits, that habits change to character, and ultimately, that character dictates an individual's destiny. Thus, since the research documents that student financial aid facilitates the education of the less affluent, shouldn't it be considered an investment in our American citizenry worthy of our continued support?

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