

MEMORANDUM

As the overwhelming majority of our academic community would approve, working with better students will make an institution a better place to get a quality education. This is arguably the first strategy of becoming a top-notch institution. Good faculty, lab equipment, research facilities all sure matter. However, no matter how quality is an institution's faculty, how much research they have made, how rich are the research facilities, first-class universities need academically passionate students. Here the difficulty is where to get these competitive students. The most probable answer is that competitive kids are everywhere and with all the diversity, they come from various backgrounds. Therefore, the university's goal of becoming a national top-ranked institution requires recruiting top high school graduates from every segment of the society, and needless to say, these talented students are coming from diverse backgrounds and are out awaiting to be discovered.

Recruiting a talented and diverse student body has a positive impact on the quality of education by two means: The contribution coming from the classmates or dorm friends, shortly peers, broadens the academic and social understanding of our students -namely *peer effect* (Winston, 2005)- and more important than that, the graduates who had the chance of having more interaction with diverse peers in their college years would have a more liberal understanding of living together with people coming from diverse backgrounds according to a study of Patricia Y. Gurin of the University of Michigan (cited in Schmidt, 2001). The latter, making our country a more tolerable territory and a land of mutual understanding, is also a matter of education but goes beyond the educational settings and relates to our nation's future as well in terms of peace, fairness and opportunity for all.

Then the question becomes whether our college system is becoming more affordable or not. Citing from the College Board (1999), Baum (2001) finds out that the American colleges' cost of attendance has been more expensive in the last three decades. Table 1 shows the cost of attendance to colleges as a proportionate of family income. While the public four-year institutions' cost of attendance was 42% of low-income families' income in 1971-1972 academic year, it became 61% in 1999-2000. The figures were 13% and 17% respectively for middle-income families while no significant change has occurred for high-income families; the cost relative to the family income even decreased from 6% to 5% over the time. Another study of Maag and Fitzpatrick (2004) includes similar results regarding college tuition. During the decade of 1990s, the cost of public four-year institutions increased 30.2 percent while median family income grew only by 12.9 percent. Overall, attending to college for many students, namely the low- and middle-income families' children, has become even a tougher task in terms of economic conditions and a need to compensate the desirable students has increased.

Table 1. Cost of Attendance Relative to Family Incomes

	Public Four-Year Universities		
	Low Income	Middle Income	High Income
1971-72	42%	13%	6%
1976-77	41%	13%	6%
1981-82	42%	13%	5%
1986-87	48%	13%	5%
1991-92	56%	15%	6%
1996-97	63%	17%	6%
1999-00	61%	17%	5%

Source: The College Board, *Trends in College Pricing*, 1999, p.15

Then, one might wonder if the government aid programs and subsidies are enough and work out to serve the needs of those who are willing to continue to postsecondary education. To be able to answer this question, there is a need to follow the trends in government financial aid. These trends have a three fold view (Long, October 4, 2005, lecture notes): First, need-based grants have not maintained their value over the time. In other words, the percentage of government aid relative to the tuition of higher education institutions decreased. Second, there is a move from grants towards loans, which makes it more difficult especially for low-income family children to attend to quality institutions. The elimination of generous Social Security Student Benefit Program in 1982 by the Congress can be a good illustration to get a sense of governments' thinking about the financial aid in recent years. Some low-income families already in financial challenges might not think of receiving loans as financial aid to avoid facing more debt. In particular, if the financial aid is needed for the first child of such a family, the awareness of the family from the stand point of education may be low. It is to say that the lack of a former member of the family who graduated from college and making a higher amount of money compared to that of a high school graduate may prevent the family to realize the value of higher education. And third, the role of the states has been growing, mainly in terms of merit-based aid, which self-explanatorily aims the merit rather than the need.

Combined together, suggesting to remember the importance of institutional financial aid, the above information gives a new signal to use of all possible resources and **to stretch the limits of the**

university budgets in providing financial support while trying to gain as much revenue from student tuition as possible. This would be very much parallel with the institutional goal of becoming a national top-ranked university. The issue is not new, however. Many universities have already begun to follow such a track, that is recruiting competitive high school graduates to compete with other universities. A study of Breneman, Doti and Lapovsky (cited in Baum, 2001) puts forward that colleges now use more financial aid funds to recruit the ones who are ready to take challenge.

It should be kept in mind, nevertheless, that there are shortcomings of this strategy. The university does currently have a need-blind admissions procedure and it does not guarantee to meet full financial need of students with aid. Since the main purpose of such an institutional aid policy is to target the desirable students from various backgrounds, the ones coming from the low-income segment would need higher amounts of aid. That probably means that the appropriation for institutional financial aid in the budget of the university would have to be increased. Then the institution will have to spend additional effort to cover such an increase in its institutional spending, like fund-raising and endowment increasing campaigns. These extra efforts will put pressure in staff working for these departments and additional hiring might be needed; which, on the other hand, will mean a higher salary spending.

Second, the changes in economy have had asymmetrical effects on families' affordability with different income levels and as seen in the above table, low-income families were affected the most in terms of college affordability. Yet, offering institutional financial aid will be based on merit, like the case of the states and federal government. This, in turn, may mean for a public university to face more criticism from our community of awarding middle- and upper-income families' children more than those of poor families. The preceding students have already competitive advantage against the poor in admissions process in terms of attending better schools, acquiring knowledge from a better designed curriculum, having chance of more extracurricular activities and so on. In fact, a study of McPherson and Schapiro (1998, cited in Baum, 2001) acknowledges this by laying out that fewer schools accept prospective students "without regard to financial circumstances" (p.45) and those who are more needy are at a disadvantage.

The question of "offering aid to whom?" is not that easy to answer. Yet, the idea is simple. **Paying more to those with the greatest promise of peer quality**, as Winston (2005) names it. A study of Sacerdote (2001) in Dartmouth College among the roommates found out that there is a significant relationship between student's freshman year GPA and those of the roommates; so, it is directly related to the academic level of a student. It also affects the decisions of socialization, in other words joining social groups. Another study of Winston and Zimmerman (2003) among three selective colleges found that students in middle of SAT distribution do worse if they share their rooms with someone in the bottom 15% of distribution. From our institution's stand point as a public four-year college, especially the study

of Kremer and Levy (2003) which was conducted in a public university makes interesting points. Male students assigned to roommates who reported drinking in the previous year, interestingly, had $\frac{1}{4}$ -point lower GPA while male students drank before college sharing the same room with another drinking friend had a lower GPA as much as $\frac{2}{3}$ of a point.

On the one hand, there is certainly no mathematical formulas in deciding which students receiving aid or how much aid they should receive. On the other hand, it is clear that students' test scores, high school GPAs and recommendations all play an important role. Having said that, there is a need to consider the above mentioned and other admissions criteria in great care. The credibility of standardized tests has been questioned by many. Thanks to their revised curricula, a group of high schools have a clear advantage in helping their students to get higher scores. In a recent critique, SAT was under heavy attack by a former Educational Testing Service (ETS) research psychologist, who claimed that work on SAT failed to point out that African-Americans were more successful on more difficult questions than non-Hispanic whites with the same SAT scores (Mathews, 2003). In addition, students' GPAs might mislead the admissions office with increasing criticisms on "grade inflation". As for recommendation letters, there are numerous examples showing that faculty members write identical letters for different students. Recommendation letters and GPA, indeed, are two pitfalls of admissions procedure and deserve a higher attention. As many would appreciate, no faculty member would want to be responsible of a student's disappointment of not getting acceptance from a college s/he awaited during the whole secondary education to get in. Depending on the wealth and facility availability of high schools, the extracurricular activities prospective students mention also show a great deal of deviation. It should be remembered that there are many schools in poor communities which do not have good arts or sports infrastructure and those needs are sometimes offered with a fee, which in turn, makes it almost impossible for lower-income children to benefit from. The reality that some students have to work after school hours also should draw attention in financial aid decisions for fairness reasons.

Given previously, a good financial aid strategy to follow can be a "strategic maximization" (McPherson and Schapiro, 1998), which briefly suggests to admit the best students by providing them an institutional aid they need while trying to maximize the school's revenue. There are only a very few schools stuck with the "need-blind, full-need" approach now as it seems to be a very costly alternative, and those most selective private colleges and universities who are able to continue with this strategy enjoy the high levels of endowment, which is unfortunately not a case for a public university like ours.

The university aid office can offer different options. There are federal campus-based programs such as Supplemental Educational Opportunity Grants (SEOG), work-study programs which subsidize needy students, and Perkins Loans with low interest. However, as said earlier, the low-income families would be reluctant to get aid in the form of loans to avoid further financial burdens. Baum (2001)

emphasizes that while loans can only solve liquidity problems temporarily, grants are able to offer long-term solutions. This issue deserves attention during financial aid decisions in the sense that middle-income families have the ability to pay back the debt they incur during their children's education. Baum (2001) gives an example of an empirical study which found that median undergraduate debt for college graduates between 1993 and 1995 was \$9,500. The study also finds that only 17 percent of these graduates had to make monthly payments with more than 20 percent of their incomes, and more than half of the loan-receivers did only use less than 10 percent of their incomes, which all seem to be manageable financial burdens.

The outcome of institutional financial aid procedure should serve to maintain the fundamental characteristic of American higher education system, awarding the "needy and deserving" students (McPherson and Schapiro, 1998). Thanks to an institutional aid program the talented young adults would be encouraged for further education, which eventually will increase the quality of the university. Such a financial leverage provided by the university will serve in two ways: First, it will help many promising high school graduates get into college who would not have otherwise attended, namely an "access" issue; and second, it will help those who would attend the college anyway better handle their expenses, namely "affordability" (Long, October 6, 2005, lecture notes).

Since tuition prices have larger effects on enrollment rates at lower income levels, an institutional aid policy is expected to offset or to minimize the negative effects of economical conditions of low-income families on the continuation of their children to tertiary education. Tom Kane (1999, cited in Baum, 2001) points out that low-income students, even the brightest ones, are less likely than others to continue to higher education because of lacking access to capital.

Conclusion

The university's goal of becoming a top-notch institution requires the recruitment of talented and promising individuals for all educational reasons. On the short-term as a peer effect which directly relates to school settings; and on the long-term, as a liberal perception of life which breaks down the prejudices and demolishes intolerances. Therefore, maximum effort needs to be spent to provide institutional aid for a diverse student body. However, there are financial barriers for students to go on to higher education, to quality schools, in particular. American colleges are becoming more and more expensive that the increase in their tuition levels exceed the inflationary increases. Low- and-middle income families have to spend a bigger portion of their income in order to pay their children's bills. Government aid programs, on the other hand, become less adequate and do not maintain their value to cover the needs of the families. There is also a move from grants to loans, which clearly makes low-income families more vulnerable to send their children to quality colleges.

An institutional aid program which promotes the quality of the individual seems inevitable for the university to reach its goal. Yet, a great deal of attention has to be given at the admissions and financial aid process to select the right student and to give the right amount of aid. The criteria measuring the quality of students may mislead the officials who have to deal with thousands of papers and scores, which, according to Fallows (2003, p.1) makes the system “chaotic” and “overloaded.”

While there are a number of packaging options during financial aid decision-making such as “need-blind, full-need” and “budget stretch” (McPherson and Schapiro, 1998), the one which tries to combine these two, namely “strategic maximization” seems to be the most suitable one for our institution. Given the fact that federal and state governments’ financial aid levels do not maintain their real values, a public university targeting to become *crème de la crème* should both consider to give institutional aid and to gain the possible highest amount of revenue at the same time. There are several packages the university can offer. Putting aside its own resources, the major ones are the federal campus-based programs such as Supplemental Educational Opportunity Grants (SEOG), work-study programs, and Perkins Loans.

While the main rationale of giving institutional aid is to put the bar at a higher level for the university, it should also be remembered that the feature of American tertiary education tradition has always been to offer aid to “needy and deserving” students from the stand points of both access and affordability. The aim of offering aid is certainly valuable in terms of intra-institutional purposes; yet it also has significant effects on society by benefiting from the development of talents, increased productivity, reinforced justness and equity, and thus fostered peace, which we need the most at the final stage.

References:

Baum, Sandy. (2001). "College Education: Who Can Afford It?" *The Financial of Higher Education*. Michael B. Paulsen and John C. Smart, eds. New York: Agathon Press.

Fallows, James. (2003). "The New College Chaos." *The Atlantic Monthly*, November.

Long, Bridget Terry. (October 4, 2005). *Lecture Notes*. Cambridge, MA: Harvard Graduate School of Education.

Long, Bridget Terry. (October 6, 2005). *Lecture Notes*. Cambridge, MA: Harvard Graduate School of Education.

Maag, Elaine and Katie Fitzpatrick. (2004). "Federal Financial Aid for Higher Education: Programs and Prospects." Urban Institute.

Mathews, Jay. (2003). "The Bias Question." *The Atlantic Monthly*, November.

McPherson, Michael and Morton O. Schapiro. (1998). *The Student Aid Game*. Princeton, NJ: Princeton University Press.

Schmidt, Peter. (2001). "Debating the Benefits of Affirmative Action." *Chronicle of Higher Education*, May 18.

Winston, Gordon. (2005). "Peer Wages, Tuition and Price Discounts." Williamstown, MA: Williams Alumni Review, summer.