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Aiding Needy Students — By Ending Pell?

A hearing Tuesday before the Senate Finance Committee, on the effectiveness and validity of “tax exemptions and incentives for higher education,” could have gone in many different directions.

The senator who chaired the hearing, Sen. Charles Grassley (R-Iowa), has spent much of the last year [examining excessive executive compensation](#) and other perceived abuses by nonprofit organizations, including colleges and universities. One of the witnesses was the author of [a recent book](#) on the admission of often underqualified rich kids by elite public and private research universities. Questions about the tax-exempt status of big-time college sports have been [much in the air](#). And underpinning the Finance Committee’s [announcement of the hearing](#) last week was the suggestion that federal tax breaks for college costs have led colleges and universities to raise their tuition excessively.

In dribs and drabs, the two-hour “oversight hearing” went in those and numerous other directions as well. For instance, Bridget Terry Long, associate professor of education and economics at Harvard University, [debunked the notion](#) that federal tax breaks have resulted in higher college tuition. Patricia McGuire, president of Washington’s Trinity University, [offered a spirited rebuttal](#) to the suggestion underlying Grassley’s criticism (and that of Daniel Golden, [the author of the book](#) on elite college admissions) that private colleges are bastions for rich students and overpaid administrators.

And at one point, Grassley went so far as to suggest that the Internal Revenue Service should look into whether a select group of big-dollar donors to Harvard University really deserve a tax break for their gifts, since, he speculated, many of them had received a “personal benefit” — the admission of their children to the university — in exchange for their contributions.

But at its heart, the session was what few might have predicted: a virtual revival tent for the need for federal policy makers to do much more to improve access to higher education for students from low-income families. Most of the witnesses, in one way or another, said they believed the federal tax code, in conjunction with the Education Department’s grant programs, could be better used than they are now to deliver college aid to the financially needy.

That basic notion is fully consistent with the emerging consensus in higher education — backed by reports like the one from the Secretary of Education’s [Commission on the Future of Higher Education](#) and books like last year’s [Equity and Excellence](#), and put into action by [new financial aid policies](#) at a growing number of colleges — that need-based aid should be expanded and that the entire system for delivering student financial assistance needs to be simplified so that more low-income students can navigate it.

“Anything that simplifies the process and gets the dollars to the students who have need is the direction we have to move in,” said James J. Duderstadt, president emeritus and University Professor at the University of Michigan (and a member of the Spellings commission), who joined other panelists in questioning whether the existing tax credits for college costs — notably the Hope Scholarship, which were a hallmark of the Clinton administration — further those goals, since the vast majority of the benefits go to families with incomes over \$100,000.

But at a time when Congress is about to change hands and the Democrats are poised to take power are eager for fresh ideas, the one big concept that emerged from Tuesday’s hearing — and that Democratic leaders on the Finance Committee seized on — would be seriously controversial in many financial aid circles.

Susan M. Dynarski, an associate professor of public policy at Harvard University’s Kennedy School of Government, suggested that the government’s student grant programs, including the Pell Grant Program, and the various federal tax breaks for college costs be merged into one mammoth tax credit program.

Because the tax breaks she envisions would be refundable (meaning that it would be available even to taxpayers who owe no taxes), delivered to students and families at the time they pay tuition (rather than after the fact, at tax time), and cover tuition, fees, room and board, they would help low-income students who would not otherwise attend college, not just the

middle-class students who are the primary beneficiaries of existing college tax breaks like the Hope Scholarship, Dynarski said. The other major advantage of a single program, she said, is that the current maze of grant and tax incentives is too confusing for many low-income families to maneuver, which turns some number of them away from college altogether. (She noted that the publication that explains the tuition tax breaks is 82 pages long.)

“The goals of reform should be to focus the incentives on those who are on the margin of attending college and simplify the incentives so that families can understand and respond to them,” Dynarski said in her testimony, which summed up [a larger proposal she made last month](#)

with a co-author, Judith E. Scott-Clayton, also of the Kennedy School. “We want to deliver a simple message to students that college will be affordable.”

Given that the Pell Grant Program is the bedrock federal financial aid program, cherished by advocates for low-income students, Dynarski’s proposal may have sounded like nails on a chalkboard to the college lobbyists in the hearing room, some of whom looked visibly uncomfortable as Dynarski discussed it. “Talk of ending Pell is like taking a Louisville Slugger to a hornet’s nest, in terms of what it’d stir up,” said Travis Reindl of Jobs for the Future, where he directs a program on college access and affordability sponsored by the Lumina Foundation for Education.

Cynthia J. Littlefield, director of federal relations for the Association of Jesuit Colleges and Universities, was among those who bristled at the Dynarski proposal, which Sen. Max Baucus (D-Mont.), who will head the Finance Committee when the 110th Congress begins work in January, seemed intrigued by. “The Pell Grant Program is fairly simple, the problem with it isn’t that it hasn’t worked well — the problem is that we haven’t had funding,” she said, noting that the Pell Grant maximum has remained flat for five straight years.

“The notion that everything is so complicated and we just have to roll it into one system is too simplistic. It’s our experience that when you consolidate programs, often the value and intent of some of the programs that were consolidated are totally lost,” Littlefield said. And often, she said, the amount of money available for the combined programs declines, too.

Dynarski said she was not wedded to any one approach: “I’d be fine doing the reverse, taking all the money that’s flowing into the tax credits and throwing it into a “Super Pell” Grant, she said. “I just want it simple and well-funded and generous.”

The key thing, Dynarski said, is not to let a “lack of imagination” or “knee-jerk defensiveness of Pell” impede the possibility of doing better by more students. “There’s a lot of political support [from middle-income families] for the tuition tax deduction,” she said. “I’d like to take that same support but leverage it to get more money for Pell. Turning it into one big program could leverage the political power of the middle class to help poor students.”

Other witnesses and some lawmakers, including Sen. Blanche Lincoln (D-Ark.), pointed out potential practical pitfalls in Dynarski’s proposal, notably the challenge of making tax credits refundable and what would happen if a student received the tuition credit upfront and the IRS determined later that he or she didn’t actually qualify for it, a point raised by Michael Brostek, director of tax issues for the U.S. Government Accountability Office.

And alternative ideas were offered, too; Sen. Charles E. Schumer (D-N.Y.) said he planned to introduce legislation in the new Congress to combine the three existing tax breaks for college costs into one, which would “represent a significant simplification for millions of taxpayers.”

Dynarski said she was as surprised as anyone that her proposal became so much the center of attention at Tuesday’s hearing. “I think it just shows that people are hungry for ideas. People just want to get more money for students. I think there will be a lot of ideas.”

— [Doug Lederman](#)

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