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Abstract

This paper evaluates the effects of the Basic Educational Opportunity Grant program in light of an analysis we made earlier, shortly after the program was established by Congress in 1972. After tracing the evolution of the BEOG program, we discuss it as a type of negative income tax program. Over the years Congress broadened eligibility and thereby reduced the targeting of the program on lower-income youth even as appropriations for the program were greatly expanded.

The effects of the program are then analyzed. We find little evidence, from the early 1970s (before BEOG) to the late 1970s (with BEOG), that enrollment rates rose for college age students from families with below median relative to above-median incomes. There has been, however, substantial growth in the proportion of BEOG recipients who are classified as independent students. And the proportions of BEOG recipients attending private colleges has risen.

We conclude that BEOG has contributed more to the goal of widening student choice and thereby helping hard-pressed private colleges than to the goal of expanding opportunities for youth from lower-income families to attend college.

Good Intentions and Mixed Results:
An Update on the Basic Educational Opportunity Grants

It is now ten years since the 1972 amendments to the Higher Education Act of 1965 established the Basic Educational Opportunity Grants (BEOG) program. Has the program evolved as we suggested it might, when we analyzed it in 1974?[1] Has it increased college attendance of young people from low-income families? Has it eased the plight of private schools? To what extent have the program's outcomes been affected by its redirection over the years? What are the prospects for change over the next several years? These are the questions we hope to answer here.

Our original analysis depicted BEOG as a variant of a negative income tax program; i.e., the maximum grant payable to a student is similar to the guranteed income level. We indicated how the law, the regulations, and their interpretation offered the distinct possibility that the grants would over time become less targeted on students from lower-income families. We also indicated that the outcome of the program would depend on how college tuition charges changed. And we discussed the difficulties of evaluating a program whose purposes were likely to change as it evolved.

History

The brief history of BEOG can be divided into several phases: the first extends from its inception to the changes embodied in the Middle

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[1]"Basic Opportunity Grants for Higher Education: Good Intentions and Mixed Results," Challenge (November/December, 1974), pp. 45-50. Available as IRP Reprint No. 159.

Income Student Assistance Act of 1978, the second from then until late 1980, and the third began with the Reagan administration in 1981.

In the first phase, the numbers of eligible students expanded rapidly. Eligible applicants were limited to full-time freshmen in 1973-74 and to full-time freshmen and sophomores in 1974-75. Eligibility was then broadened to include all freshmen, sophomores, and juniors in 1975-76, and to embrace all undergraduates beginning 1976-77 and continuing to the present.

The next phase began with passage of the Middle Income Student Assistance Act (MISAA) in 1978. This legislation came in response to outcries from the middle-income class that they were neither rich enough to finance college education for their children nor poor enough to qualify for needed financial aid. The public discussion focused largely on whether tuition and other student costs had risen more or less than had median family income over the prior decade. While the results of these analyses were conflicting, enough heat was generated to cause Congress to recast the BEOG program. The MISAA broadened eligibility standards mainly by raising the "break-even point"--the level of income at which the grant falls to zero--for both dependent and independent students.

What the third phase of BEOG will bring remains unclear. After making a complete review of all student financial aid programs, Congress in 1980 passed a new set of amendments to the Higher Education Act of 1965. The size of the BEOG maximum grant was scheduled to increase gradually, from $1,900 in 1981-82 to $2,600 in FY 1985, at which point the maximum grant would meet 70 percent rather than 50 percent of the costs of attendance. However, these entitlements were to be scaled down if sufficient federal funding was not available. The 1980 amendments--which renamed the BEOG as Pell Grants--also scheduled several important changes in need analysis, to take effect in 1982-83.

The Reagan administration has taken steps to cut back on the 1980 plan. The 1981-82 maximum grant has been reduced to $1,750. The benefit formula is also being reconsidered. Particularly at issue are the 1980 provisions to exempt a home of any value from the countable assets and to reduce the implicit tax rates (the rates at which the grant is reduced as income increases) on independent students. Also in doubt is the schedule set in 1980 for increasing the maximum benefit. Thus, it seems unlikely that the third phase will unfold as Congress planned it in 1980.

Table 1 shows how the BEOG program evolved from 1976-77, when it went into full operation, through 1980-81. Student participants and grant levels remained relatively constant through 1978-79. In 1979-80 the number of participants rose sharply and average grant size increased as a result of the MISAA legislation that expanded and restructured the program. More students were served by the program in 1980-81, but reductions in both the minimum and maximum grant levels had the effect of reducing average grant size.

The growth of the BEOG program is impressive. Starting from zero in 1972-73, the participation rates (BEOG recipients as a percentage of all undergraduates) reached almost 24 percent by 1976-77. As a result of subsequent changes, an estimated 33 percent of all undergraduates received grants from the program in 1980-81.

Alterations in the Formulas

The best way to understand how the program has evolved is to contrast changes in the determinants of the size of BEOG grants (see Table 2). The schedule of grants based on these determinants is shown in Table 1. Since the first year of the program in 1974-75, the maximum grant has gone up relatively little, i.e., from $1,400 to $1,750. However, Congress roughly doubled the break-even points. This was done by (1) raising the family-size offsets, and (2) reducing implicit tax rates. The family-size offset for a dependent student in a family of four persons was raised from $4,650 to $7,700; for single independent students it was increased from $3,050 to $3,850. The implicit tax rate was reduced for all except the independent, single student. For the family of a dependent student, the rate was cut from a variable 20-30 percent to a flat 10.5 percent; and for the independent, married student the rate was dropped from 50 percent to 25 percent.

As a result of these changes, the representative break-even points have gone up sharply, as follows: (1) for a dependent single student, from $14,316 in 1974 to $26,462 in 1981; (2) for an independent single student, from $2,450 to $5,916; and (3) for an independent married student with no children, from $7,450 to $13,000. In making these calculations, we used the same assumptions as in 1974, except that we assumed a school cost of $3,500 or more for 1981 rather than $2,800 or more in 1974. This school cost figure is twice the amount of the maximum allowable grant. It would not be unreasonable for the reader to adjust the assumed exclusions and deduction in column 4 of Table 2 upward, to

Table 1

Characteristics of BEOG Program
1976-77 to 1980-81

Academic Year	Minimum/ Maximum Grants	Total Expenditures (billions)	Number of Recipients (millions)	Average Grant	Percentage of Undergraduates
	(1)	(2)	(3)	(4)	(5)
1976-77	$200/1,400	$1,475	$1,944	$758	23.5
1977-78	$200/1,450	1,524	2,011	758	23.9
1978-79	$ 50/1,600	1,561	1,893	825	23,2
1979-80	$200/1,800	2,515	2,538	987	30.7
1980-81	$150/1,750	2,518	2,855	882	33.0

Source: Cols. 1-4 from U.S. Department of Education Basic Grants, End-of-Year Reports, 1976-77 to 1979-80, and unpublished data for 1980-81.

Col. 5 based on number of recipients in Col. 3 and undergraduate enrollments from U.S. Bureau of Census, Current Population Reports, Series P-20, School Enrollments-Social and Economic Characteristics of Students, various years.

Note: 1980-81 data in columns (2) - (5) are preliminary estimates.

Table 2

Calculating the Basic Educational Opportunity Grant, 1981-82

Total Family Income Prior to Exclusions and Deductions	Family Size Offset (1)	Countable Income (2)	Amount of BEOG (based on no exclusions or deductions) (3)	Assumed Amount of Exclusions & Deductions (4)	Countable Income (5)	Amount of BEOG (based on assumed exclusions and deductions) (6)
Dependent student in a family of four						
$ 0	7,700	0	1,750	0	0	1,750
7,700	7,700	0	1,750	2,000	0	1,750
9,050	7,700	1,350	1,608	4,000	0	1,750
14,050	7,700	6,350	1,083	4,000	2,350	1,503
19,050	7,700	11,350	558	4,000	7,350	978
22,462	7,700	14,762	200	4,000	10,762	620
24,366	7,700	16,666	0	4,000	12,666	420
26,462	7,700	18,762	0	4,000	14,762	200
Independent student: single						
0	3,850	0	1,750			
3,856	3,850	0	1,750			
4,500	3,850	650	1,262			
5,500	3,850	1,650	512			
5,916	3,850	2,066	200			
Independent student: married no children						
0	5,000	0	1,750	0	0	1,750
5,000	5,000	0	1,750	2,000	0	1,750
10,000	5,000	5,000	500	2,000	3,000	1,000
11,200	5,000	6,200	200	2,000	4,200	700
12,000	5,000	7,000	0	2,000	5,000	500
13,000	5,000	8,000	0	2,000	6,200	200

say $6,000; this would reduce countable income (column 5) and raise the break-even point (column 6) by another $2,000.

The sharp increases in the break-even points reflect the continuing pressure to expand the program. Although data are not yet available to compare the most recent changes in family incomes and college costs with changes in the break-even point, it is clear from data over the earlier part of this period that the relative increases in break-even points exceeded those for income and costs. For example, from 1974-75 to 1978-80 the break-even point for dependent students rose by 85 percent, as contrasted with an increase of 52 percent in median family income (for families with dependents of college age) and an increase of 40 percent in student costs. By virtue of program decisions to raise the break-even point at such a rapid rate, eligiblity was extended to even-larger proportions of students from higher income levels.

Congress liberalized the 1981-82 program in other ways that are not reflected in the foregoing table nor described earlier. Among these are the following. (1) A dependent student's earnings are ignored up to $3,000 if he or she is single and up to $4,350 if married. (2) The spouse and children of a dependent student can be counted as dependents of a student's parents in determining the family-size offset. (3) The dependent student who contributes money to low-income parents can integrate his or her earnings and assets with those of the parents to increase the grant. (4) Asset limits of parents and of independent students with dependents have been raised to $25,000, and to higher levels if farm or business assets are involved. (5) New rules have been introduced to protect the dependent student whose parents have lost income or assets or have been separated by death or divorce at some time since the base year. (6) Similar rules now allow the independent student to apply for the substitution of current year (1981) income for base-year (1980) income if there have been changes in financial or family status. These changes reflect the unrelenting pressures to open up the program to a larger proportion of the potential population.

The net effect of these legislative changes over the years was to broaden student eligibility for BEOG grants. As a consequence, the grants are less targeted toward lower-income students than they were in the early years of the program, and they are certainly less targeted than some of the program's original proponents had expected them to be. It is important to note that Congress could have followed a different route from the one it took by passing the MISAA in 1978. Rather than extending the break-even points as much as it did, Congress could have raised the size of the maximum grant in an effort to attract into college more students from low-income families. Had this been done, the average grant could now be twice as high as it is, but the number of recipients would be half as great.

Effects on Low-Income Students and Private Colleges

It is not clear what effect the BEOG program has had on enrollments of low-income students. Data in the annual reports on the BEOG program and the annual October surveys of school enrollments conducted by the Bureau of the Census show that in 1979-80, the median family income of dependent students receiving BEOG grants was about $14,000 per year, or about twice the poverty line for a family of four. This is well below the 1979 median income of $23,653 for families with dependents age 18-24 enrolled in college full-time, and also lower than the median income of

$18,564 for families with college-age children, whether or not the children are enrolled in college. Although the family income brackets used to classify dependent student recipients of BEOG funds do not conform to those of the October reports by the Bureau of the Census on enrollments, it is clear that the proportions of students receiving BEOG funds decline as family income increases. The BEOG participation rates of students at family income levels of less than $5,000 run at about 75-80 percent and then drop off steadily for each successively higher income class. The extent to which the program was broadened by the 1978 legislation becomes apparent from a comparison of the evidence of 1977-78 and 1979-80. In 1977-78 only about 2 percent of students from families with incomes of $15,000 or more received BEOG funds. By 1979-80 this proportion had risen to about 12 percent.

Evidence on the proportions of students by family income level who receive grants is by no means a conclusive measure of the effectiveness of the BEOG program. More pertinent is information on changes in the enrollment of lower-income students as a result of the availability of BEOG funds. In 1979-80 the percentage of family members age 18-24 attending college varied directly with family income. This percentage is about twice as large for families with incomes above the overall median as for those with incomes below the median. Despite the infusion of BEOG funds, the ratio of these two percentages did not change from the early 1970s (1971-72 and 1972-73), before BEOG began, to the late 1970s (1978-79 and 1979-80). This evidence, while perhaps not conclusive, suggests that BEOG had no discernible effect in facilitating the enrollment of additional students from lower-income families. This finding is even more surprising when it is realized that lower-income students have access to other forms of financial aid, including work study funds, Supplementary Educational Opportunity Grants, a variety of student loans, and other funds available through state or institutional programs to aid low-income students.

In recent discussions of the impact of cutbacks in student aid, it has been suggested that the availability of BEOG funds stimulated the enrollment of minority students, women, and older students. The enrollment rate of dependent blacks age 18-20 increased somewhat, from 18 to 20 percent from 1971 to 1978. This contrasts with a slight decline for whites. In the same period, blacks moved from being 7 to 10 percent of all students in higher education. The impact of BEOG grants on these enrollment rates cannot be estimated directly. All we know is that larger proportions of black than of white students were obtaining BEOG funds in 1979. By sex, enrollment rates went up for women but fell for men. How to interpret these changes in light of the BEOG program is not clear.

Whether BEOG grants stimulated the enrollment of people beyond the age of typical undergraduates remains unclear. Among dependent student BEOG recipients in 1979-80, 97 percent were under 25 years of age and 93 percent were under age 23. Independent student BEOG recipients were spread more widely across the age distribution--32 percent were under age 23 and 47 percent were under age 25. Thus, over half of the independent students were older, but we know little more about their characteristics.

We have far less information on the extent to which students may have shifted to independent status as the BEOG program evolved and plans could be made to take advantage of the program. We do know that the median annual income (their own) was about $4,000 for independent student recipients of BEOG funds. No data have been published on the incomes of the families from which independent students come, though we did note earlier that students from relatively affluent families have a substantial incentive to seek independent status. Indeed, the percentage of BEOG recipients classified as "independent" rose from 22 percent in 1974-75 to approximately 35 percent in 1977-78 and to an estimated 38 percent in 1980-81. The recent relative stability of that ratio would appear to be the result of the substantial changes in the break-even point brought about by the Middle Income Student Assistance Act; this has reduced the pressure on dependent students to declare "independence." But, as noted above, independent students tend to be older on average and perhaps would not have attended without the program's assistance. In any case, controversy continues about whether BEOG should be targeted more or less toward independent students.

It is also not clear what effect the BEOG program may have had on the private colleges. The latter group has lobbied for a change in the "half-cost rule," which limits the grant to half of the school cost up to the maximum grant, to ensure diversity among the students enrolled in private colleges. In fact, enrollment in private colleges has held steady in this period, although their share of total enrollments (23.9 percent in 1979-80) declined because of continuing enrollment growth in the public sector. However, the proportion of all BEOG recipients attending private institutions has been rising, from 28 percent in 1976-77 to 34 percent in 1979-80. Moreover, the proportion of private college students receiving BEOG funds greatly exceeds that for the public colleges and has been growing at a faster rate. For example, in 1976-77, 33 percent of students in private institutions received BEOG grants as contrasted to 21 percent of students in public institutions. By 1979-80 these percentages had risen to 40 percent and 26 percent, respectively. Aside from changes in the formulas, more rapid increases over this period in the costs of attending private colleges (26 percent versus 20 percent for public institutions) made it possible for greater proportions of students to qualify for the maximum allowable grant.

It is apparent that the BEOG program has funneled a large and growing share of benefits to students attending higher-cost private colleges and universities. By lowering the "net price" of schooling, the BEOG program may have contributed to the survival of these institutions during a difficult period.

Conclusion

The BEOG originally had two goals. One was to expand opportunities for youth from low-income families to attend college. Another was to widen student choice by making it easier for students to attend private institutions, which were already hard-pressed financially, and thereby maintain diversity in higher education. It appears that BEOG has contributed more to the second goal than to the first. This is suggested by the fact that a higher proportion of students in private schools receive BEOG help than do those in public schools. With respect to the first goal, we conclude that BEOG has spread its benefits rather widely and has helped many whose middle-class parents might have managed to send them to college anyway but has done little to equalize college attendance rates across income levels.