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Financial Aid: Buying Student Talent

By John V. Lombardi April 29, 2008
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One of the more interesting features of the current enthusiasm for discussing college costs and the elaborate mechanisms to discount tuition and fees

for various classes of students at elite institutions is confusion about the process. Some approach this conversation as if it were about dramatic changes in the opportunities for poor but smart high school graduates to attend elite institutions, previously out of reach. Although this may end up as a result for some, the manipulations of the financial aid process are actually about how to buy student talent more competitively.

The process of discounting tuition for desirable students is a well-understood and longstanding practice of most institutions, elite and non-elite. Sometimes the process involves what we call merit aid, used to buy desirable students without regard to their personal or family financial circumstances. In other circumstances we use need-based aid to buy desirable students at prices scaled to match their financial capacity. While the mechanisms differ in terms of how we calculate the price we will pay for a desirable student, the purpose of the exercise is much the same in both circumstances.

To entice the student to enroll, we offer to pay a stipend based on need or merit which the student can apply to the cost of attendance. If we are indifferent about getting a student to enroll, we do not provide any kind of stipend. We also calculate the amount of merit or need-based aid that will prove sufficient to entice desirable students to enroll in our institution rather than in another. We need to engage in this competitive practice because the number of truly desirable students is limited and the demand for their participation in our institutions is strong.

The virtue of need-based financial aid as a mechanism for buying students is that we can calibrate the amount we have to pay to get the student based on a standard methodology for determining need. Then we offer the exact amount of need-based aid that will permit and encourage the student to attend. However, need-based aid only serves to buy talent from a pool of students who have financial need. Another pool of desirable students may not have any financial need, but nonetheless we want to buy their talent for our university. So we use merit aid. We will often find that success in purchasing the attendance of first rank students requires a combination of need-based and merit aid. By manipulating the amount we pay, we can buy just the right combination of student talent for our ideal student body profile.

If we need women, we can use our aid funds to buy more talented women; if we need football players, we can buy those; if we need minority students, we can buy the mix we want; if we need a number of less wealthy students, we can buy just the number desired; or if we need engineering students, we can pay just enough to attract them. For small private elite

institutions, this process is a highly specific activity because the number of students each college enrolls each year is quite small. For an elite college of 2000 students, perhaps 600 new students are needed each year. If we want to have 30% of them defined as “needy” and the definitions used can be quite generous, then we need to find 180 students from families with incomes under the definition (maybe 120K annual income) who also have exceptional qualifications and talent, and then using various forms of financial aid buy them for our student body.

Although there are surely noble motives involved in opening access to elite expensive institutions to individuals of great talent who might otherwise not have been able to afford the price of attendance, there is also a clear competitive advantage to doing so. If we have a large endowment made possible by our not-for-profit status and the quality of our institutional offerings and the generosity of our alumni and friends, we may find it effective to spend some portion of the endowment earnings to subsidize the acquisition of highly talented individuals who come from an economic status that is less than substantially well off, if not actually dramatically poor.

The competition among elite institutions for individuals of talent and for the public prestige associated with doing good while doing well requires institutions to emulate and publicize their programs for subsidizing on a need basis the purchase of students. This publicity generates a great deal of discussion, but actually changes the competitive landscape little. A few students who might otherwise not have been able to afford an expensive elite education can now do so without incurring debt. But these students are almost always talented students, and since the definition of “needy” for many elite institutions includes much of the middle class, they are not necessarily from financially challenged circumstances.

In all of these discussions, whether conducted in the rarefied atmosphere of billion-dollar endowed private colleges and universities or among selective public institutions, we must continually remind ourselves that none of this is about the cost of higher education, only about the price to the student. Indeed, as we expand the support for need-based or merit financial aid we do not reduce the cost of higher education, we increase it because the funds used to discount the price paid by desirable students must be added to the basic cost of running the college or university. As a result, the competition to provide more and better aid to some students is yet another example of the increasing cost of competition among selective institutions of higher education in America. It may be good thing, but it isn't free.