SUGAR

PRIVATE SCHOOLS AND THE PUBLIC GOOD

Policy Alternatives for the Eighties

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11. Federal Scholarships for Private Elementary and Secondary Education

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INTRODUCTION

Through the Basic Educational Opportunity Grant Program (BEOG) the federal government provides means-tested grants that help students pay for the costs of higher education.[1] At present the grants vary in amount from $200 to $1800 per year depending upon the student's need as defined in the statute. New York Senator Daniel Patrick Moynihan has proposed that the benefits of the BEOG plan be extended to elementary and secondary education.[2]

Although Moynihan has for some time advocated that government provide financial support to users of private elementary and secondary schools, previously his efforts have focused on an income tax credit plan.[3] Despite widespread support, the education tax credit idea has so far been unable to win congressional approval. Apart from general objections to providing federal aid to private school users, critics of the tax credit plan have opposed it on distributional equity grounds, claiming that its benefits will go mainly to non-poor families. They have also argued that its application to users of religious schools would be an unconstitutional violation of the First Amendment's Establishment Clause. Further, some have objected to having the Internal Revenue Service administer what in effect could become a very large aid to education program.

Whatever the merits of these three criticisms, Moynihan's new proposal—quickly dubbed "baby-BEOG"—can be seen as a response to all of them. The grant program would be run by the Department of Education. The fact that it would be combined with aid to higher education is thought by some to aid its constitutionality. Most important, it is aimed at the working class and the poor.

We will not consider here the agency competence (or rivalry) issue. There may be good practical or political reasons to prefer one department over the other, but we leave that debate to others.

Our discussion of the effect of including college students is postponed to the end. Stated succinctly, our position is that we do not think that combining federal aid to users of higher and lower education in one program is either helpful to or necessary to the constitutionality of support to families choosing religious primary and secondary schools.

For us the most exciting aspect of the baby-BEOG scheme is its targeting of aid on the non-rich. We too have opposed Moynihan's tax credit plan, as well as Milton Friedman's voucher scheme[4], on

the ground that they don't do enough for those who most need new options in education--lower income families and the very poor. What is so stimulating about the new Moynihan initiative is its responsiveness to the educational aspirations of those typically worst served by today's public schools. By focusing financial assistance on low income families, the baby-BEOG proposal forcefully counters critics of tax credits and some voucher plans who see government aid to private school users as stimulating increased economic class separation in education. Moreover, as only non-rich families would be assisted by baby BEOG, there would be less reason to insist (as we have in the case of voucher or tax credit schemes) that tuition limits and enrollment controls be included to assure the poor equal access rights.[5] At the same time the baby-BEOG idea has the political attraction of not returning tax dollars to reasonably well off and wealthy families already paying for private education.

Although its initial congressional reception was cool,[6] the baby-BEOG plan is by no means a dead letter. Indeed, as conservatives renew their push for tax credits, liberals who have opposed all proposals to aid private school users may turn to the baby-BEOG as a compromise and, indeed, as a substantial boon to their primary constituents. In short, future debate about aid to users of private elementary and secondary education could well center on federal scholarships for private elementary and secondary education.

We will not here dwell on the basic arguments for financially aiding families who enroll their children in private schools. Elsewhere we have argued at length about the merits of increasing family choice in education.[7] We do wish to emphasize that our main concern has been and continues to be the child now badly served by the public schools. We want that child's family to have the financial backing to make a credible threat to those schools: do better by our child or we will take our business elsewhere. Working class and poor families by and large cannot make such demands today; but with the right baby-BEOG plan, they could. Most importantly, giving these families economic power promises to provide the competition that can revitalize public education. Most families, we assume, will remain in public schools—but now as consumers by choice. At the same time non-rich families who prefer private education will be able to make that choice for their children. Reducing the economic burden now shouldered by low income families already enrolled in private schools, although a desirable side effect, is not the fundamental objective.[8]

This essay, in any event, has narrower concerns. Although Senator Moynihan's overall concept is excellent, the implementing features proposed so far are a bit simplistic. The details of the college BEOG plan do not fit well the needs of lower education--whatever their merit in higher education. Our central purpose here is to propose and defend somewhat different parameters for the baby-BEOG scheme.

DETERMINING NEED

The core idea of baby-BEOG is to provide need-based scholarships to children attending private elementary and secondary schools. Assume that this has been decided in principle. Who, then, should get the scholarships, and for how many dollars? One start on the problem might be to decide which children are poor—perhaps all those living at or below the official poverty level—and then simply offer to pay the full costs of their private schooling. There would be a number of serious problems with such a tactic.

First, need for assistance with school costs is neither restricted to children living in poverty, nor does need sharply cut off at any specific income level. Thus to have an all or nothing rule for benefits creates both substantial injustice and work disincentives. In short, for a worker to earn $100 more than the poverty level and as a result have his child lose a scholarship worth far more than that is bad policy. The scholarship amount, like food stamps, should phase out as family income increases. The present college BEOG program adopts this approach; its phase-out rate may not be appropriate for elementary and secondary education, however, as we will see.

Second, a scholarship award for the full cost of schooling gives the eligible family a powerful reason to select the most expensive school. Putting a ceiling on the amount of the scholarship is one possible response to this pressure. But if the limit isn't generous, many desired schools will be out of the reach of the poorest families, thus defeating a central purpose of the plan. Further, a limit simply encourages the family to select a school at that limit rather than to "shop for price." A full scholarship scheme also runs the risk of having the family feel that it has less invested in the choice it has made for its child than it might feel if at least some of its own cash is on the line. The folk wisdom that things that are free aren't worth so much to you, and that you're more likely to demand good performance from something that you've put your money into, has a ring of truth to it. Together this second set of concerns argues for a matching plan that combines a family contribution with the scholarship to pay for the cost of the school. BEOG's matching arrangements, we will argue, are inappropriate for baby-BEOG.

The analysis thus far gives us two general principles to be used in awarding scholarships: (1) Even the poorest family should make some (even token) financial contribution toward even the lowest cost school. (2) As either family income or school cost increases, so should the family's contribution.

Third, suppose now that family has more than one child in private school? How should that affect its total contribution? At least three alternatives are worth considering. (a) A single

contribution on behalf of the first child could suffice for the rest, or (b) each additional child in private school could impose on the family an obligation equal to that expected for the first child, or (c) a reduced contribution could be required for additional children. This is a difficult issue. On the one hand it can be argued that, in a needs-based program, once we have asked the family to contribute all it fairly ought to pay toward the education of its first child in private school, there will be no more money left that we can fairly ask to be contributed toward the education of the others. On the other it may be argued that it is only fair for a family to dip further into its funds (thus lowering its living standard) in order to send additional children to private schools; the additional government aid should be conditioned on additional family contributions. We lean toward the rule that one family payment serves for all its children. However, the BEOG program for higher education has adopted a compromise position calling for extra but reduced contributions for each additional child; to simplify discussion we will here accept that position for baby-BEOG.

Having described the principles, we must turn to the crucial details. At just what rate should the family's contribution increase as its income increases? At just what rate should the family contribution increase as its chosen school's costs increase? Just how much extra should a family contribute if it has more than one child in private school? What counts as income for these purposes? And how should accumulated family assets (wealth) be counted, if at all? We will address these issues from three perspectives: How has BEOG resolved them? In what respects are these solutions inappropriate for elementary and secondary schools? What parameters for baby-BEOG would be desirable?

HOW THE HIGHER EDUCATION BEOG WORKS TODAY

One child in college

Suppose a couple has one child and the child is about to attend college. Suppose further that the family has less than $25,000 in assets and that the child's annual college expenses will exceed $3600, two factors the importance of which will be explained in due course. Simplifying slightly, if the family's annual income, as defined in the statute, is in the range of 0 to $5400, the child will be eligible for the maximum $1800 grant.[9] As the family's income increases, the amount of the grant slowly declines until it reaches the minimum award level of $200. The rate at which the student's grant declines is 10.5 cents for every extra dollar the family has in income above $5400. For our hypothetical family the minimum grant level occurs once its income reaches about $20,000. If family income is greater, the child is ineligible.[10]

The basic theory behind this grant formula is of course simple: the poorer the family, the higher the grant should be—because the family is less able itself to pay for the child's education. But the details require separate explanations.

First, why is the initial $5400 in family income disregarded? BEOG adopts the idea that the amount the family ought to be able to contribute to its child's education depends on its discretionary income—its total income less an amount needed for the essential living expenses of the family members. In other words, until it meets its basic living expenses a family cannot contribute to college costs at all; and $5400 is a subsistence amount assumed by the law to be reasonable for a family of three. Consistently, when there are additional children in the household, the $5400 figure increases under the statute. Table 1 sets out the amounts for families with up to five children.

TABLE 1

BEOG

DISREGARDED INCOME FOR BASIC LIVING EXPENSES

Number of Children (in Two-Parent Family)	Disregarded Income Amounts
1	$ 5,400
2	$ 6,850
3	$ 8,050
4	$ 9,150
5	$10,100

For 1979-80. These numbers are adjusted over time. They are based on national low income family definitions which are somewhat greater than the official government poverty level. The disregarded income amounts are increased as the CPI increases.

Second, why does the student's grant phase out at the rate of 10.5 cents for each dollar of family income above the statutory disregard? This rate is the vector of a variety of competing considerations. Some would ask the family to put all of its income above the subsistence level towards its child's college education. This would call for a far more rapid grant phase-out rate—$1 for each $1 of income above subsistence. Others disagree and think it fair for low income families to have somewhat better net standards of living as their income rises. They would not ask families to contribute all of their discretionary income toward college costs.

In addition to fairness considerations, there are incentive concerns. If the family had to put all its discretionary income toward college costs in order for the child to have a chance to afford to attend, the family might refuse and the child would not

attend (or the child might feel too guilty to ask that much from his parents). But the congressional purpose behind BEOG is to stimulate children of low income families to pursue further schooling by reducing the financial barrier they might otherwise face. There are also the usual work disincentive concerns, suggested earlier, that arise with programs having rapid benefit phase-out rates--also called "high implicit tax rates." Put simply, what is the point of the parent earning a dollar more if it reduces the grant by an offsetting amount? Moreover, it must be remembered that BEOG is laid on top of other means-tested plans for which many BEOG families are eligible, thereby creating the risk of implicit marginal tax rates in excess of 100 percent.

A further consideration in deciding the grant phase-out rate is the distance up the income scale it is thought appropriate to provide financial assistance for school costs. If, for example, Congress decides that families with $18,000 of income ought to get some help, then assuming an income disregard of only a subsistence amount, this necessarily implies a grant phase-out rate of very much less than 100 percent. In fact, the practical reason that the BEOG phase-out rate today is 10.5 percent instead of 20 to 30 percent, as it was originally set, is that Congress in 1978 decided to extend some benefits of the plan to so-called middle income families; and to do so it simply reduced the implicit tax rate.[11] This simultaneously, of course, improved the benefits provided to students in somewhat poorer families. As those who study means-tested programs know, the maximum grant amount, the phase-out rate, the amount of the income disregard and the "break even" level (the income level where benefits cease) are all interrelated so that any three of these parameters pretty much determine the fourth.

A final consideration relevant to setting the BEOG phase-out rate is one's view of the family's proper contribution when more than one of its children is in college. Plainly, if for the first child a 100 percent phase-out rate is applied, this leaves no room to imply a greater family contribution for additional children. By contrast, a modest phase-out rate such as BEOG employs makes it feasible to ask more from the family when an additional child attends college.

Third, why does BEOG provide a maximum grant of no more than $1800? The short answer, of course, is that this limits federal cost. But, as we have seen, an alternate approach to cost reduction is to increase the grant phase-out rate. The $1800 maximum, therefore, can be seen as representing a choice; for the same federal costs Congress provides at least some funds for middle income students rather than providing larger grants to poorer students.

In any event, since the fair family contribution plus the grant cannot under the statute exceed $1800, the rest of the student's costs must be raised elsewhere. If the program intended the family to pay for these extra costs, this could alter dramatically our previous evaluation of BEOG's fair family contribution feature.

However, Congress did not contemplate that the parents would pay the excess; rather it assumed that the money would come from any of a variety of other sources. These include the student's own work, perhaps through the federally subsidized work-study program; student borrowing, perhaps through the federal student loan programs; and scholarships and/or loans from the student's own chosen college. These are traditional and widely available sources of college student income that BEOG drafters presumably did not want to displace. Put differently, it was thought fair for poorer college students to have to win school scholarships, take out loans and/or work in order to complete the payment for higher education. BEOG implies a fair student contribution as well as a fair family contribution. Note also, unless a poor student receives an additional scholarship, the $1800 limit plainly gives that student an incentive to attend an inexpensive college.

Fourth, a student's grant is limited not merely by the difference between the family's fair contribution and $1800; in addition, the grant may be no greater than 50 percent of the student's educational costs. What is the purpose of this limit? Once more, limiting federal costs is not the only objective; rather, the half-cost rule symbolizes a federal role of junior partner with other sources. In practice, it serves primarily to cut the grants of the poorer students attending lower cost schools; this is because of the way the $1800 maximum and the half-cost features (and a third limit) are linked.

Specifically, the BEOG grant is equal to the least amount among these three: (a) $1800 minus the family's fair contribution, or (b) one half of the student's educational costs, or (c) the difference between school costs and the family's fair contribution. As a result, whenever costs exceed $3600 all students must be impacted by the $1800 limit before they run into the one half of educational costs limit. Similarly, the third limit does not operate when costs exceed $3600. Since "costs" for BEOG purposes include both tuition, books and living expenses, it is thus obvious to anyone who has paid any attention to the cost of going to college that only the $1800 maximum will be relevant in most cases; after all, in elite private schools tuition alone exceeds $3600.

Nonetheless in some cases, when students attend public colleges with low or no tuition, they will feel the bite of the other limits. Notice, now, how the crunch is almost entirely reserved for the child from the very low income family. A student otherwise eligible for a $1200 grant is impacted by the half cost rule only by attending a school costing $2400 or less; a student otherwise eligible for a $600 grant is impacted by the third limit only by attending a school costing $1800 or less (the half-cost rule would only apply when costs were $1200 or less and hence is inapplicable). Yet the bite of the half-cost rule applies to a student otherwise eligible for the maximum $1800 grant as soon as his costs fall below $3600.[12]

Putting aside now any objections to the specific BEOG limits, it should be clear that the limits together create the need for what we

have called the student's fair contribution—and do so in a way that causes the student to have a financial interest in the cost of the school attended. To sum up, Table 2 illustrates BEOG's operation for a variety of families with one child who is in college.

TABLE 2

PAYING FOR COLLEGE COSTS IN FAMILIES WITH ONE CHILD

FAMILY INCOME		School Costs $1200	$1800	$2400	$3600	$4800
$ 5,400	BEOG	600	900	1200	1800	1800
	Family Contribution	0	0	0	0	0
	Student Contribution	600	900	1200	1800	3000
$10,000	BEOG	600	900	1200	1300	1300
	Family Contribution	500	500	500	500	500
	Student Contribution	100	400	700	1800	3000
$15,000	BEOG	200	800	800	800	800
	Family Contribution	1000	1000	1000	1000	1000
	Student Contribution	0	0	600	1800	3000
$20,000	BEOG	0	300	300	300	300
	Family Contribution	1200	1500	1500	1500	1500
	Student Contribution	0	0	600	1800	3000

More Than One Child in College

Now suppose the family has two students in college. The BEOG drafters concluded that the fair family contribution is to be increased by 40 percent and that half of the total should be allocated to each of the children. In other words, instead of 10.5 percent, the family is now expected to contribute 14.7 percent of discretionary income, or 7.35 percent per child. Put more precisely, the grant for each is $1800 less 7.35 percent of the family's discretionary income (subject to the two other limits already discussed). As suggested earlier, the idea is that while it is fair to ask the family to contribute something towards the second child's college costs, that contribution should be less than for the first child. This principle is carried out for additional children in college. Table 3 illustrates this feature.

TABLE 3

BEOG FAIR FAMILY CONTRIBUTIONS

# of Children in College	Fair Family Contribution/Child (% of discretionary income)	Total Fair Family Contribution (% of discretionary income)
1	10.5	10.5
2	7.35	14.7
3	5.25	15.75
4 (or more)	4.2	16.8

Some Additional Details

A few final BEOG features need to be explained.

(i) If the family has more than $25,000 in qualifying assets, 5 percent of that extra is counted as available for contribution to the child's education. The student's grant thus is reduced by 5 percent of qualifying family assets over $25,000. This is defended in part on the ground that all the income the family could earn from these assets though a simple savings account ought to be put toward college costs. House equity also counts for BEOG purposes. This may, in economic argot, represent the imputed rental value of home ownership; or maybe, more prosaically, it is assumed that housing costs for homeowners are less. In any event, in inflationary times the rule is important: a family with house equity of $61,000 is disqualified from BEOG on that basis alone—even if its discretionary income is 0 and it has no other assets. Of course, not too long ago anyone with over $60,000 in house equity was probably quite well-to-do. But in many parts of the country houses that were bought for $10,000 now cost $80,000—yet their occupants are far from rich.

(ii) Because of presumed work expenses, the amount that the family can subtract for basic living expenses is greater if both parents work.[13]

(iii) A smaller sum for basic living expenses is allowed when there is one instead of two parents in the household.[14]

(iv) Income for BEOG purposes is determined as follows. Take the family's (last year's) adjusted gross income for federal income tax purposes, and subtract its federal income taxes; then add certain non-taxed items such as social security and public assistance payments and subtract certain allowable "unusual" expenses, if any, that the family had.[15]

(v) Although the BEOG formula rests on the idea of a fair family contribution, in fact this family contribution need not actually be made. Congress did not want to bar a student from the program if his parents did not in fact provide their fair share; the

result in such cases, of course, is that the student must himself raise the parental portion. Likewise, if the hypothetical family contribution is low in terms of what most parents actually pay, then students generally will have to raise less than expected. In the end, for college students, tinkering with the fair parental contribution may not matter much since the student can generally sacrifice to close the gap. But at the elementary and secondary schools things would be quite different.

BABY-BEOG: HOW IT SHOULD WORK

We have described the BEOG rules at length because appreciation of their details suggests how these rules ought to be altered if the basic BEOG idea is to be applied to lower education.

At the elementary and secondary level it would be incongruous for the grant formula to be structured so that there is a gap between the fair parental contribution and total school costs. Non-parental sources available to college students are typically unavailable to younger pupils; the concept of a "fair student contribution" would make little sense even in high school. Likewise substantial family borrowing to finance primary or secondary students is hard to imagine. It is simply not a part of our culture; ask any bank. And private schools simply cannot provide scholarships to all who would need financial assistance. In our view, they should not even be asked to shoulder this burden; the private school scholarship generally comes indirectly from other families in the school community, while the point of a government scholarship plan at the primary and secondary school level should be fully to distribute the cost of empowering the needy family. Unlike BEOG grants, baby-BEOG should largely supplant existing private school scholarship sources.

If the BEOG formula were simply carried over to elementary and secondary schools, parents would be expected to make both the family and student contributions, and the poorest families would have to contribute a grossly disproportionate share of their income towards the cost of schooling. This not only offends our sense of equity but would assure that the neediest children either would be concentrated in the lowest cost schools or, far more likely, would not even consider leaving or threatening to leave public school. Our policy objectives for baby-BEOG, therefore, would be frustrated.

Our objection to the implied demand for further parental contributions could be met if the basic BEOG restrictions—the $1800 maximum and the 50 percent of costs rule—were simply eliminated. But this solution runs into a different and important objection raised at the outset. As we said earlier, the family should have an incentive to shop for price; and limits like the 50 percent rule and the $1800 ceiling do remove the incentive to spend indefinitely. Yet, for lower education there is a better way to assure that the fair family contribution plus the BEOG equal

full school costs while at the same time insuring that the family contribution fairly increases as both income and school costs go up.[16]

To explain how this better formula would work, let us identify first a "standard" (or average) cost school; say it costs $1800 to attend. A family with one child who sends the child to such a school would be required to make an "appropriate" contribution and the grant would be 100 percent of the difference. At this point let us assume that the contribution would be set at the 10.5 percent rate that the BEOG formula now contemplates as the family's fair contribution out of discretionary income.

Suppose now the family chooses a school costing more or less than $1800. In that case an index number would be applied to its appropriate contribution to the standard cost school in order to determine the family's contribution to the school with different costs. This index number would be the ratio of the chosen school's cost to the cost of a standard school; for a school costing half the $1800 standard the index number would be 1/2. Hence, if family A's contribution, given its need, would be $400 in a standard cost school, it would become $200 in a $900 school; ($900/$1800=1/2 and 1/2 of $400=200). On the other hand, if it selected a $2700 school, its contribution would be $600; ($2700/$1800=3/2 and 3/2 of $400=$600). For family A the grant program would match every $2 of family contribution with $7 worth of scholarship.

Suppose a wealthier family B's appropriate contribution to a standard cost school to be $800; it would have to contribute $400 in a $900 school and $1200 in a $2700 school. For this less needy family the program would match every $2 of the family's contribution with a $2.50 scholarship. Stated differently, for every $9 of extra school spending, family A pays $2 and family B pays $4--the program makes up the difference. This means, for example, that to shift its child from a $1200 school to an $2100 school would cost family A $200 more and family B $400 more.

If the family had more than one child in school, then let us assume that its contribution for each additional child would be the same proportionate increase now provided for in the BEOG formula. Table 4 illustrates this hypothetical proposal for three school cost levels, for two-parent families with 1 and 2 children (both in school) and with varying incomes. For simplicity, however, we have used 10 percent rather that 10.5 percent as the contribution rate, and we have used $5000 and $7000 as the family size related income disregards instead of the BEOG figures in Table 1.

TABLE 4

HYPOTHETICAL BABY-BEOG INDEXED PLAN
FOR 3 TUITION LEVELS

		1 Child School Costs			2 Children School Costs Per Child		
Family Income		$900	1800	2700	900	1800	2700
$ 7,000	Family Contribution per child	100	200	300	0	0	0
	Grant per child	800	1600	2400	900	1800	2700
$10,000	Family Contribution per child	250	500	750	105	210	310
	Grant per child	650	1300	1950	795	1590	2380
$15,000	Family Contribution per child	500	1000	1500	280	560	840
	Grant per child	400	800	1200	620	1240	1860
$20,000	Family Contribution per child	750	1500	2250	455	910	1365
	Grant per child	150	300	450	445	890	1335
$30,000	Family Contribution per child	900	1800	2700	805	1610	2415
	Grant per child	0	0	0	95	190	285

A glance at Table 4 illustrates how the proposal serves the various principles we have advocated for a scholarship plan. First, the family contribution increases as its income goes up. Second, the family contribution increases as school costs go up. Third, the family contribution plus the grant equal total school costs. And fourth, as the number of its children in school increases, the family's contribution per child declines.

This hypothetical indexed plan, however, might be thought to be too expensive to the government. It may also be thought to require too little from families in certain cases, regardless of the availability of federal funds. Let us consider then a variety of possible adjustments in its parameters.

At least six types of alterations can be made to the hypothetical indexed grant plan that would shift costs more toward the family and away from government. First, the fair family contribution could be set as a greater proportion of discretionary income. Rather than 10 percent for the standard cost school, the rate could be higher. Put differently, the 10 percent rate could

be established for a school costing less than $1800 (our hypothetical plan imposes only a 5 percent contribution rate for a $900 school). We explained earlier that the phase-out rate selected is ultimately an arbitrary compromise of a variety of values. In that vein we will propose for purposes of serious legislative discussion a fair family contribution rate of 12 percent for a $1000 school. On the proportionality principle explained earlier, this implies a 24 percent rate for a $2000 school and so on.

Second, the fair family contribution could be escalated at more than a proportional rate as school costs increase. In other words, the government matching rate could decline as the family spends more. For example, if the contribution rate is 12 percent for a $1000 school, it could be made more than 24 percent as proposed above for a $2000 school--say, 30 percent. Adjustments of this sort involve changing the amount of the price subsidy. Not only do they save public funds for a given cost school, but also they reduce the family's incentive to select a costlier school. Yet we see no particularly good reason to prefer such a decline in the matching rate, for our legislative proposal will continue to apply the proportionality principle.

Third, the amount of income disregarded can be reduced. That could be justified on the ground that the BEOG disregard is too generous a definition of discretionary income, being set above the poverty level. This is a difficult judgment to make. We like instead the idea that by lowering the disregard we can assure that virtually all families contribute some modest sum toward the cost of private education they use. The income offsets we propose for families of various sizes are set out in Table 5. (Compare Table 1).

TABLE 5

FEDERAL SCHOLARSHIP (BABY-BEOG) PLAN

PROPOSED INCOME DISREGARDS

Number of Children (In two-parent family)	Disregard
1	$4000
2	6000
3	7000
4	8000
5	9000

In addition to imposing some contribution on lower income families, this adjustment has the effect of (a) increasing the amount of the family contribution for all participating families and (b) lowering the family income maximum for participation in the plan. All these effects reduce costs.

Fourth, the extra family contribution for additional children attending private schools can be increased. For reasons described earlier, however, we prefer to stay with the BEOG rates.

Fifth, the definition of school costs can be tightened. We agree that ordinary living expenses (e.g., room and board) that sensibly count as costs for higher education, should not be subsidized by federal elementary and secondary scholarships. In short, boarding school opportunities should not be the object of this program. On the other hand, restricting the program to tuition alone seems too narrow. We would prefer to include as well school books, other school fees, reasonable transportation costs and essential school supplies.

Sixth, a ceiling could be placed on the amount of school costs toward which the government would contribute. If such a ceiling is established, it should take into account both the present cost of public schooling and the cost to start a new private school. Suppose we set the ceiling at $1000. This is more than the tuition cost of many private—especially religious—schools today. This observation, however, neglects the fact that without endowment sources, it is very difficult to start a new school from scratch with tuition levels of $1000. Especially since a central purpose of the plan is to empower poor and working class families credibly to threaten departure from public schools, a $1000 ceiling would be too low. Given typical public school costs across the nation today, we think it should be appropriate at the outset for our indexed plan to have a cost matching ceiling of $2000. We recognize that low income students wanting to attend more costly schools would have to receive additional scholarships from those schools or find the money elsewhere. We have some confidence, however, that the costlier schools would in most cases provide some supplemental financial assistance.

We have not considered here cost-reducing strategies that would involve changing the BEOG definition of income, the BEOG treatment of work expenses and so on, because they are largely satisfactory to us for these purposes. We do, however, favor a change in the assets contribution rule — which, it will be noticed, we have ignored so far for baby-BEOG purposes. Specifically, we think the home equity rule is wrong. Either home equity should be ignored, as it is in many needs-based programs; or else a separate additional home equity exemption (say, $50,000) should be allowed. One thing to remember here is that while BEOG assumes that parents with home equity might borrow against it, this seems far more likely for college than for lower education, if for no other reason than the significant difference in the number of years of education involved.

Putting together the various provisions just discussed, we can now set out in tabular form how a federal scholarship plan to our liking would work for private elementary and secondary school. Table 6 assumes in each case that all the family's children are in private school.

TABLE 6
PROPOSED FEDERAL SCHOLARSHIP (BABY-BEOG) PLAN

Family Income		1 Child				2 Children				3 Children			
		School Costs				School Costs per child				School Costs per child			
		500	1000	2000	2500	500	1000	2000	2500	500	1000	2000	2500
$ 5,000	Family Contribution Per Child	60	120	240	740	0	0	0	500	0	0	0	500
	Grant Contribution Per Child	440	880	1760	1760	500	1000	2000	2000	500	1000	2000	2000
7,500	Family Contribution Per Child	210	420	840	1340	63	126	252	752	15	30	60	560
	Grant Contribution Per Child	290	580	1160	1160	437	874	1748	1748	485	970	1840	1840
10,000	Family Contribution Per Child	360	720	1440	1940	168	336	672	1172	90	180	360	860
	Grant Contribution Per Child	140	280	560	560	332	664	1328	1328	410	820	1640	1640
15,000	Family Contribution Per Child	500	1000	2000	2500	378	756	1512	2012	240	480	960	1460
	Grant Contribution Per Child	0	0	0	0	122	244	488	488	260	520	1040	1040
20,000	Family Contribution Per Child	500	1000	2000	2500	500	1000	2000	2500	390	780	1560	2060
	Grant Contribution Per Child	0	0	0	0	0	0	0	0	110	220	440	440

CONSTITUTIONALITY OF OUR BABY-BEOG PROPOSAL

Our proposal ought to pass First Amendment scrutiny by the Supreme Court in spite of the inclusion of religious schools. It is safer by far than the typical educational tax credit proposal for four reasons. First, its purpose is plainly nonreligious; it is based on a simple traditional philosophy favoring family choice of schools, whether public or private. Second, unlike tax credits, which benefit private schools only, our version of baby-BEOG is designed to improve public education. The greater opportunity for lower families to "exit" would stimulate public schools to stop taking them for granted and to improve the quality of service. Third, while the other schemes favor existing schools (mostly religious) by forgiving tuition already paid, our baby-BEOG proposal would put the subsidy directly in the hands of the consumer. Fourth, the scholarship will be big enough to stimulate the growth of new schools--including many nonreligious schools. These factors together demonstrate that aid to religion will only be a side effect. This will be reassuring to a Court which in the past has been presented with schemes that have had as their primary purpose and intended effect the bailing out of existing religious schools.

TRANSITION: A MORE MODEST PROPOSAL

In 1980, Senator Moynihan's baby-BEOG plan failed to win Senate approval. With Ronald Reagan as the new President and a shift in Senate personnel, congressional friends of private education will surely try once more to adopt some plan that will help families who opt out of the public schools. We fear that a modest non-refundable tax credit plan will be adopted. Apart from being poor public policy, this scheme is likely to be held unconstitutional by the U.S. Supreme Court. Congress can do better. Our version of baby-BEOG might become a compromise vehicle drawing together conservatives and liberals. For the short run, however, there is yet another simpler and more modest proposal which could appeal to both groups and which would represent a significant first step toward empowering ordinary families.

As a transitional measure, we propose that Title I of the Elementary and Secondary Education Act be converted to a "voucher" system. Now costing more than $3 billion annually, Title I has succeeded reasonably well as a non-stigmatizing public employment scheme. As a compensatory education device, however, it has little to show for itself. More promising is an arrangement whereby individual needy families control their child's share of the federal budget in the form of a mini-voucher. This could be easily managed.[17]

Turning Title I funds into mini-vouchers would help poor, low achieving children in private schools finally get their fair share of the pie. Indeed, for many poor families the voucher would be enough to pay for all or most of their basic private school tuition--something which should be permitted under the program. Other poor families will be able to switch from public to private schools of choice by having a Title I voucher. Finally, the bulk of poor families, whose children would remain in public schools, would gain a measure of influence over their children's education. They could, of course, tender their voucher to the local public school for the enrichment program the school offers. Alternatively, however, they could choose from an array of part time, after school, weekend or summer programs that will become available and are specially designed for low achieving students.

Title I vouchers and our baby-BEOG plan share common themes--focusing on lower income families in a way that permits them either to choose private schools for their children or to put pressure on public schools to reform. Seen in this light, a revamped Title I can be an important first step toward our proposal for federal scholarships for private elementary and secondary school users.

NOTES

1. 20 U.S.C. Sec. 1070a (1976), as amended by 20 U.S.C. Sec. 1070(a) (Supp. II 1978).
2. Moynihan's proposal was first contained in S. 1101, 96th Cong., 1st Sess. (May 9, 1979). Moynihan then testified on behalf of the proposal on October 23, 1979 before the Subcommittee on Education, Arts, and Humanities of the Senate Committee on Labor and Human Resources.
3. Although many proposals to provide a federal income tax credit for certain educational expenses have been introduced, the leading contender of late has been styled the Packwood-Moynihan bill (after its sponsors). In the summer of 1978 it failed in the Senate by eight votes. Senators Moynihan and Packwood reintroduced this legislation in the 97th Congress as S. 500.
4. See Milton Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), ch. 6, p. 85. We do favor other voucher plans, however. See generally, John E. Coons and Stephen D. Sugarman, Education by Choice: The Case for Family Control (Berkeley: University of California Press, 1978).
5. We have proposed voucher plans in California that either (1) prohibit schools from charging more than the voucher and generally require schools to serve all applicants with excess demand resolved by lot or (2) guarantee low income children 25 percent of the spaces in voucher schools and require excess tuition charges to be assessed on the basis of ability to pay.
6. On June 23, 1980, Moynihan brought his proposal to the floor of the Senate by way of an amendment to the Higher Education Act that then was before the body. Moynihan engaged in a lengthy debate with Senator Hollings, and on June 24, 1980 the amendment

was defeated 71-24. Senator Metzenbaum, a supporter of the Moynihan proposal, had earlier tried unsuccessfully to add it by amendment in committee.

7. See generally, Coons and Sugarman, Education by Choice (1978).

8. By contrast, Senator Moynihan, in the floor debate on his proposal, emphasized the desirability of helping out low income families currently using private schools. See 126 Congressional Record S7838-55 and 7964-74, (daily ed., June 23-24, 1980).

9. These numbers are taken from the 1979-80 grant period. See generally, BEOG Program Determination of Eligibility Index 1979-1980 (HEW Office of Education, Bureau of Student Financial Assistnace). For 1980-81, because Congress did not fully fund the program, grants did not exceed $1750. For 1981-82 the grant maximum is scheduled to go to $1900, subject to full Congressional appropriation. Further increases in subsequent years, up to $2600 in academic year 1985-86, are also now in the law. Sec. 402(b) (1) of the Education Amendments of 1980, Pub.L. 96-374, 94 Stat. 1402.

10. In certain circumstances, college students can show themselves financially independent from their parents so as to qualify for "independent student" status and thereby have their grant determined apart from parental income and assets. We will ignore this provision since it is irrelevant for lower education purposes.

11. See the discussion of the Middle Income Student Assistance Act at 1978 U.S. Cong. and Ad. News 5314 (House Rep. 95-951).

12. Objections to this impact caused Congress in 1980 to adjust the half-cost limit starting in 1982-83. The limit is scheduled to be 60 percent of costs then and to rise to 70 percent of costs by 1985-86. Sec. 402 (c)(1) of the Education Amendments of 1980, note 9 supra.

13. Fifty percent of the earnings of the parent with the least earnings up to a maximum of $1500.

14. A single parent with two children is treated like a two parent family with one child and so on.

15. Unusual expenses include some catastrophic losses and extra large medical expenses as well as unreimbursed elementary and secondary school costs.

16. Our proposal here is based upon the "family power equilizing" idea we first introduced more than a decade ago. See generally, John E. Coons, William Clune III, and Stephen D. Sugarman, Private Wealth and Public Education (Cambridge, Mass: Harvard University Press, 1970), pp. 256-268. For a more detailed discussion see Coons and Sugarman, "Family Choice in Education: A Model State System for Vouchers," 59 Calif. L. Rev. 321 (1971).

17. See Stephen D. Sugarman, "Education Reform at the Margin: Two Ideas," Phi Delta Kappan (Nov. 1977) at p. 154.