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A Matter of Trust: Applying Insights From Social Psychology to Make College Affordable

Sara Goldrick-Rab[1] and Tammy Kolbe[2]

Abstract

The rising price of higher education threatens educational opportunity and social mobility for the most vulnerable Americans. Increasing college attendance benefits individuals and society, but efforts to reduce the price via financial aid rely primarily on economic theory: emphasizing short-term investments for long-term gains, and aiming for efficiency by targeting a narrow band of the population. Yet financial aid as currently implemented fails to effectively counter price barriers to college attainment. We argue that these failures are due, in part, to policies that were built on a narrow set of behavioral assumptions about the role of pricing in individuals' decisions to attend college. Insights from social psychology highlight decisions' relational processes and contexts. Existing policy failures have eroded public trust in financial aid as a legitimate, viable mechanism for college affordability. Cost-effective reforms that rebuild trust are a promising direction for future policy making.

Keywords

higher education policy, college affordability, trust, education finance, inequality

Tweet

Financial aid policies aimed at making college affordable need to build trust with transparent, simple, relational decision aids.

Key Points

- Many Americans are priced out of attending or completing college today, as the current financial aid system fails to meet their needs.
- Existing financial aid policies rely heavily on behavioral assumptions grounded in economic human capital theory, which has significant limitations.
- Major problems undermine how financial aid operates, decreasing trust in the system: low transparency, much complexity, and insufficient attention to relational contexts of decision making.
- Lessons from social psychology point to remedies.
- To effectively make college affordable, a new trustworthy financing system for higher education must be one that its participants can believe in.

Introduction

Nationwide, concerns about college affordability are mounting. Financial aid, via means-tested grants, is meant to discount colleges' posted sticker prices, rendering them manageable for students and families. However, three factors—steady increases in those prices, insufficient investments in federal and state financial aid to keep pace with college costs, and declines in real household income—mean that existing financial aid policies are less effective than ever at ensuring a reasonable price (Goldrick-Rab, 2016). In the last decade, the net price of attending a public university—after accounting for all grants—grew by 23% for low-income families and up to 38% for high-income families. Community college now averages between US$8,000 and US$14,000 a year, depending on family income, while a year at a public university ranges from US$11,000 to more than US$22,000 (Goldrick-Rab & Kendall, 2016; Monaghan & Goldrick-Rab, 2016).

As a result, many Americans are either priced out of college or are undertaking extraordinary measures, including amassing large amounts of debt, to obtain a college degree. Low- and moderate-income students have been hit hardest by increasing prices, strengthening ties between household income and college attendance or completion (Bailey & Dynarski, 2011; Goldrick-Rab, 2016). At the same time, the costs of funding subsidies to higher education have gone up substantially. The response has been widespread bipartisan criticism of existing federal financial aid policies (Kelly &

[1]Temple University, Philadelphia, PA, USA
[2]University of Vermont, Burlington, USA

Corresponding Author:
Sara Goldrick-Rab, Professor of Higher Education Policy and Sociology, College of Education, Temple University, Philadelphia, PA 19122-6008, USA.
Email: SGR@temple.edu

Goldrick-Rab, 2014). Numerous proposed reforms range from incremental improvements in how students and families apply for aid, to calls for sweeping systemic changes, such as initiatives that would make college free for all or some students (Andrews, 2014; Flores, 2015; Goldrick-Rab & Kendall, 2014; Miller-Adams, 2015).

Evaluating current financial aid policies and their potential reforms requires careful consideration of the behavioral assumptions underlying these policies. These assumptions inform the choice of policy instruments, or motivational devices, intended to influence decisions and behaviors in ways that are consistent with policy objectives (Schneider & Ingram, 1990). Current policies rely heavily on assumptions taken from economics, emphasizing hypothetical cost-benefit calculations made by individuals deciding whether to pursue a college degree, and potential efficiencies gained by targeting financial aid dollars at certain student groups (Goldrick-Rab, Harris, & Trostel, 2009). However, policies grounded in behavioral assumptions tied to economic theory may not go far enough to encourage college attainment, especially among vulnerable populations (Baum & Schwartz, 2015; Castleman, 2015; Stephens & Townsend, 2015).

This article argues that insights from social psychology should be considered in policy-making efforts to make college affordable. This body of work contributes to a more expansive understanding of students' and families' responses to existing financial aid policies, as well as to the price of college. Specifically, this article reviews evidence on the psychological costs of low transparency and high ambiguity in decision making, the complexity that characterizes existing financial aid policies and practices, the challenges of misperceptions and motivation, and the contexts of decision making about price and college attendance. These challenges highlight a key lesson: *trust* as a critical, but overlooked, issue in existing financial aid policies. Trust lies at the foundation of all relationships, including those among policy stakeholders, and between people and their schools and governments (Fiske, 2004; Simpson, 2007). A key consideration for future policy making will be to reform the American college financial aid system in ways that (re)build and facilitate public trust.

Financial Aid and College Affordability

Financial aid seeks to influence students' decisions about whether to attend college by adjusting the price of college to reflect their ability to pay. According to economic theory, college is a human capital investment (Becker, 1994). Prospective students are expected to consider the costs and benefits of all available options before making a decision about whether the short-term costs of attending college are worth reaping the long-term benefits of degree completion. That is, the decision to attend college depends largely on the expected returns to attending college, relative to the opportunity costs of attendance. Dozens of studies demonstrate the substantial economic returns to a college degree; individuals and society reap considerable non-financial benefits as well (for an extensive recent review, see Oreopoulos & Petronijevic, 2013).

This model assumes that students behave rationally and independently—selecting options whose benefits outweigh costs. In this view, the comparison between costs and future benefits leaves some students with a clear choice to attend or not to attend college. Others are on the margin, and their choices should be sensitive to the relative costs and benefits of different options. Even though individuals may be unable to perfectly predict the costs and benefits associated with attending college, human capital theory assumes that they have the information needed to assess what might happen under different scenarios, and make choices that maximize their expected happiness, or utility, over time.

However, at least in the short run, for some, the costs of college may be insurmountable and qualified people may be priced out of attending college. From a societal perspective, this may lead to an underproduction of college-educated labor. Society is undergoing a massive shift, from the consumption of goods that can be produced by a less educated workforce, to one that requires an increasing number of college-educated workers. Failure to meet this demand for workers with broader and deeper knowledge, skills, and abilities poses a risk to future economic growth (Carnevale & Rose, 2015). Moreover, excluding individuals from college participation on the basis of wealth also calls into question commonly held goals for equal educational opportunity. For many, without a college degree, opportunities for long-term economic stability and mobility are limited (Haveman & Smeeding, 2006).

Financial aid is supposed to result in more individuals choosing to attend and complete college, and moderate the long-standing relationship between wealth and opportunities to attain a college degree. Thus, for nearly 50 years, federal, state, and, local governments have invested in aid policies that reduce the short-term price of college for individuals who otherwise could not afford a college degree (Long, 2014). These policies use mechanisms that effectively discount the sticker price of college through grants, resulting in a lower net price. As originally conceived, financial aid targeted students from low-income families. However, over time, demand has broadened, and financial aid has become increasingly important for encouraging students from moderate- and middle-income families to attend college as well (Kelly & Goldrick-Rab, 2014).

Existing research lends some support to the behavioral assumptions embodied in financial aid policies. Generally, reducing the sticker price of college, according to students' financial need, helps students attend college (Bettinger et al., 2012; Broton, Goldrick-Rab, & Benson, in press; Goldrick-Rab et al., 2016). Moreover, students from lower socioeconomic backgrounds appear more responsive to price reductions than do those from wealthier families, all else being equal; students from more affluent backgrounds continue to be more likely to attend college without government financial support (Bettinger & Williams, 2015; Dynarski & Scott-Clayton, 2013).

At the same time, students clearly have financial constraints inhibiting their attendance and success in college, and existing financial aid policies have only been partially effective at overcoming those constraints (Bettinger & Williams, 2015; Dynarski & Scott-Clayton, 2013; Goldrick-Rab, 2016). Family financial resources are a stronger predictor of college attainment than ever before. Students from high-income families who enter college are now 6 times more likely than those from low-income families to complete bachelor's degrees by age 25 (Bailey & Dynarski, 2011). Income disparities in college access and success persist even after taking academic ability into account—just 41% of low-income students with high scores on a 10th-grade math exam complete college, compared with 74% of high-income students with comparable scores (Dynarski, 2015). Large numbers of students forgo college entirely, never completing an application for financial aid, even though they would be eligible for the Pell Grant (Simons & Helhoski, 2016). Moreover, for all but the wealthiest, the fraction of college students who complete degrees has declined over time. Between the 1995-1996 and 2003-2004 academic years, among students who began college at a 4-year institution, rates of success for middle-, moderate-, and low-income students dropped by 6, 1, and 4%, respectively (Goldrick-Rab & Kendall, 2014).

One proposed policy response is to expand public investment in need-based financial aid to effectively reduce the net price individuals might pay for college (Pell Institute, 2016). But financial aid policies based strictly on behavioral assumptions tied to economic theory may not go far enough to encourage the types of college-going behavior desired by policy makers. For instance, research suggests that *how* individuals reach decisions is consequential (Castleman, 2015). Accordingly, moving beyond rational choice models can take into account what individuals believe about college affordability, as well as the complexity of the decision-making process (Dowd, 2008; Goldrick-Rab, Harris, & Trostel, 2009; Perna, 2006). The following sections describe four problems with the current financial aid system, for which social psychology research provides insights for future policy making.

Transparency and Ambiguity

People seek unambiguous signals when trying to make decisions about where and how to invest their time and resources. Current financial aid policies assume that individuals understand college pricing, as well as believe that aid can, in fact, make college affordable, regardless of family circumstances. However, these assumptions fail to hold if ambiguity about or a lack of confidence in the process constrains the capacity to engage in so-called rational decision making (Dowd, 2008).

Individualized pricing obscures an unambiguous message about the price of college. Means-testing guides financial aid allocation, with students paying more or less to attend college according to their resources. Individualizing the net price paid for college is consistent with the economic idea that each student is willing to bear a particular cost in exchange for a college education, while acknowledging that without short-term financial assistance, some students would be unable to make such an initial investment. However, this approach creates inherent ambiguity in pricing. There is a wide variation in what students pay to attend college, not only *across* colleges and universities but also *within* institutions. Hardly anyone pays the "sticker price"—instead, people receive different prices after netting out grants, loans, and work-study funds. Individualized pricing complicates students' and families' abilities to accurately assess the costs of college.

Furthermore, the approach that determines the amount students are asked to pay lacks transparency and is unpredictable. The existing financial aid system calculates an expected family contribution (EFC) based on financial need. This calculation determines eligibility for and the amount of subsidies that make up the difference between what a student is expected to pay and the sticker price to attend a particular institution. In practice, the EFC calculation process is notoriously complex and problematic (Goldrick-Rab, 2016). In addition, the EFC omits key information about both assets and debt, poses challenges for students who live independently from their families, and disregards situations where students contribute to their household income. Students must reapply for aid each year, resulting in an EFC that may differ each time. EFC calculations frequently place students and their families in difficult situations. They oftentimes do not know their eligibility for financial aid, nor the amount of aid they might receive until late in the decision-making process; students and families are surprised by gaps in funding when their EFC changes for the next school year (Goldrick-Rab, 2016).

The EFC also can leave prospective students pessimistic about their prospects for college. Although financial aid is meant to attract people to college by introducing a lower price, oftentimes the EFC is higher than what students and families actually (or believe they) can afford. As a result, while the system is set up to induce positive thinking because of a gain (net price less than sticker price), higher-than-expected EFCs can feel disappointing, much like a loss (Goldrick-Rab, 2016; Goldrick-Rab & Kelchen, 2015).

The Cost of Complexity

The difficult process of accessing financial aid discourages students from applying to college (Bettinger et al., 2012; Dynarski & Scott-Clayton, 2006). The complexity goes beyond the application for aid, as students also must satisfy an array of "satisfactory academic performance" standards

(Castleman & Page, 2014; Goldrick-Rab, 2016; Schudde & Scott-Clayton, 2014).

This complex system exacts psychological consequences with subtle, but important, influences on the decision-making process. Mental transaction costs, which occur when a decision must be pondered, make college attendance even more costly than the net price paid by a student (Szabo, 1999). Scarcity also has psychological consequences (Mullainathan & Shafir, 2013). Students who are chronically uncertain about their ability to pay for college spend more effort pondering whether to attend and remain in school (Goldrick-Rab, 2016; McDonough & Calderone, 2006). The decision becomes "it is worth it?" rather than "can I pay for it?" In this context, the existing financial aid system attempts to address the latter question, while complicating the former.

Perception and Motivation

Research in social psychology suggests it is important to provide not only information but also strong *contextual cues* to students signaling that their pathway to college is affordable and therefore open. In turn, perceiving that a pathway to college is open, or available, increases the odds that students will attend college. It also motivates students to commit to the work involved in preparing for college. In contrast, students who view pathways to college as closed may have little motivation to work on achieving their desired possible selves (Destin & Oyserman, 2009). In the current system, many children and their families perceive college as expensive, and even though sometimes inaccurate, their perceptions appear to affect their behavior, reducing effort invested during high school (Grodsky & Jones, 2007; Horn, Chen, & Chapman, 2003; Luna de la Rosa, 2006; McWhirter, Valdez, & Caban, 2013; Rowan-Kenyon, Bell, & Perna, 2008).

Financial resources differentiate the perception of future opportunities:

> Adolescents who grow up surrounded by plentiful financial assets encounter abundant contextual cues that continually bring to mind a high status and high achieving future identity, which is tied to school motivation. Adolescents in contexts with fewer financial assets, on the other hand, are less likely to encounter everyday signals of financial and academic success around them, decreasing the salience, accessibility, and motivational potential of their own successful future identities . . .
>
> Adolescents in low-income contexts can more effectively reach toward higher goals when they perceive an open path connecting their efforts to their desired college-bound future selves. (Destin, 2016, p. 418)

In other words, optimism for the future makes less sense when economic disadvantage and untrustworthy systems block students' pathways to success (Rothstein & Uslaner, 2005). Lack of optimism affects how they approach pre-college schooling, including their decisions to persist, course selection, and participation in other activities that better prepare them for a college education. Feeling that the price of college is out of reach undercuts expectations that effort matters. But informational interventions that portray college as affordable have positively affected school motivation among students from families with few financial assets, narrowing social class disparities (Destin, 2016).

Community Context

As noted, the cost-benefit framework undergirding present day financial aid policy assumes that students undertake their own cost-benefit calculations when making decisions. Indeed, much of the information provided about college affordability reflects this individualistic ideal (Castleman, 2015). However, for many students, decisions about college affordability are interdependent, or relational, and occur in a community context (Fryberg et al., 2013). The cultural models of individual decision making (student as independent consumer) represented in the current aid system reflect mainstream middle-class values and can alienate students who value interdependent decision making. For instance, researchers find that first-generation undergraduate students—whose parents did not attend college—are affected by cultural mismatches between their pre-college focus on interdependence with family and the typical college forms that require students' social and financial independence in their decision making (Fiske & Markus, 2012; Stephens, Fryberg, Markus, Johnson, & Covarrubias, 2012).

> Students from American working-class contexts . . . are typically exposed to and required to enact norms of interdependence prior to college, such as adjusting to and responding to others' needs and connecting to others. The material and social conditions common in working-class contexts . . . are characterized by limited economic capital, environmental constraints and uncertainty, and few opportunities for choice, control, and influence . . . in working class contexts, parents often emphasize to their children the message that "it's not just about you" and "you can't always get what you want." (Stephens et al., 2012, pp. 1180-1181)

When decision-making processes emphasize independence and expressive individualism, first-generation students performed poorly on key tasks, but when culture was reframed to include interdependent norms, they no longer did so. Consider another intervention focused on subtle cues to increase students' trust. Teachers gave students feedback on class assignments designed to assuage minority adolescents' mistrust of teachers, by emphasizing the teacher's high standards and belief in the student's ability to meet them. Three double-blind randomized experiments revealed that this approach improved student performance, especially among African Americans, who were more mistrusting of schools, raising their grades and reducing achievement gaps (Yeager et al., 2014).

It's a Matter of Trust

All of these flaws in the current system (ambiguity, complexity, misperceptions, and mismatched contexts) could, on their own, lead policy makers toward targeted policies that reform aspects of the current financial aid system. In fact, the policy landscape is littered with proposals to simplify the application process, tinker with how EFCs are calculated, and create programs that provide stronger and earlier messaging to low-income youth about college affordability (e.g., see Bill and Melinda Gates Foundation, 2015). Although such incremental changes to the existing financial aid structure may move in the right direction, they do not address the core problem—the erosion of trust in the financial aid system over time.

The American financial aid system asks students to trust that they will receive the right discount that renders college affordable. Ambiguity in the net price calculation contributes to a lack of trust that the price will, in fact, be right. The complexity involved in rationing and targeting aid does this too.

> Ironically, when you need to prove you are poor to get government benefits, you create resentment and distrust rather than empowerment and trust—and these very "means-tested' policies fail to alleviate inequality and to increase further trust in fellow citizens. *Policies designed to reduce poverty instead create a trap of high inequality, less optimism for the future, less trust in others, greater in-group identification, and persistent inequities in the distribution of wealth*. (Rothstein & Uslaner, 2005, no page, emphasis in original)

Too many people are left to fund college on their own, despite an inability to afford it, reducing trust in government and schools, diminishing social solidarity (Gilens, 1999). This in turn contributes to the misperceptions of how the system works and a corresponding lack of motivation to participate in it.

This presents a serious problem because the American higher education financing system, like all government policies and programs, is premised on social trust. The federal government must trust states to appropriate funds to colleges and universities and finance need-based grants and scholarships, even though the authorizing legislation, the federal Higher Education Act, does not mandate that they do so. States have to trust the federal government to support the Pell Grant and student loans, along with the Federal Work Study program. Institutions need to trust in both state and federal governments that these resources will be available for their students. Most critically, students and their families must trust both government and colleges to provide an accurate and reasonable price. At all of these levels, trust has eroded over the last 50 years, as states have disinvested from higher education, some institutions have radically escalated pricing, and administrative processes have lessened the transparency of the pricing process (Goldrick-Rab, 2016; Greer, 2013; Kelly & Goldrick-Rab, 2014; Lewis, 2014). Existing reforms focused on holding higher education institutions more accountable place colleges and universities in the crossfire for existing system failures. The result has been a movement to exact greater accountability from higher education institutions for their spending and student outcomes, including performance-based funding models (Burke, 2004; Dougherty & Natow, 2015). Such policies reflect the inherent distrust in public higher education—among government, higher education institutions, and students.

The erosion of trust in higher education also occurred at a time in which the college population has diversified to include many students and families who historically have placed less trust in social institutions. People living on the margins of society have less faith in bureaucracies, and for good reason—they often experience many people in their lives, including bureaucrats, as erratic, irresponsible, or untrustworthy (Levine, 2013). Rising inequality in the United States has been accompanied by growing social mistrust—a negative view that others are not to be counted on (Rothstein & Uslaner, 2005; Twenge, Campbell, & Carter, 2014). Economic equality and equality of opportunity are key contributors to social trust and how people evaluate the moral fabric in their society (Rothstein & Uslaner, 2005).

Moving Toward a New System

The high price of college hinders the educational attainment of millions of Americans. The 50-year-old financial aid system has many flaws that undermine its effectiveness, including poor messaging, significant complexity, and an individualistic approach. Most proposals to reform the system mainly aim to simplify the process of means testing and provide more information to student-consumers. The role played by students' perceptions of college costs also has not gone entirely unnoticed by policy makers. Online tools such as the College Navigator and so-called "net price calculators" have gained popularity. However, these tools have limited impact on student perceptions (Castleman, 2015). Although they price information for attending certain institutions, they do not—and are not intended to—promulgate a clear, early message to students about college affordability. Taken together, existing reform proposals give the sense that if only the system were easier to understand and navigate, it would be effective. But these approaches overlook a critical lesson about effective social policy—it must be trustworthy.

Although perhaps rational, assessing the costs and benefits of attending college is difficult, if the information exchange is ambiguous, lacking in transparency, unpredictable, and rife with inconsistencies. These conditions undermine the trust needed for effective social exchange and decision making. These social-psychological dimensions of effective policy making are too often neglected (Stone, 2011). As discussed, many flaws in the current system ultimately stem from the current approach being difficult for many (if not most) of its constituents to believe in. This lack of trustworthiness creates barriers that are both perceptual and actual—it creates the impression of high prices and drives up prices (e.g., when states betray the trust of the federal government and disinvest in appropriations, raising tuition). It is difficult to trust information about the price of college that is so difficult to obtain and does not permeate the entire context of decision making (Levine, 2013).

Effective financing policies need to (re)build trust in the government's approach to financing college, and even in the institutions themselves. A thoughtful, clear, and unambiguous approach is necessary to engage—and re-engage—more students in higher education. These criteria are found in universal models of financing. Shared pricing models, common to an entire community, require all parties to work together, and are simple to communicate. They are financed collectively, via progressive taxation, a relational approach that better aligns with the values of marginalized people. Social programs that benefit everyone, regardless of income, reduce the sense of unfairness among parties and improve social cohesion (Korpi & Palme, 1998). They also reduce the use of means testing via bureaucracy, which can stigmatize some parties, setting them apart from others. Universal social policies have the potential to build social trust because they minimize bureaucratic discretion, reduce divisions between those that benefit from the program, and thus enhance equality (Rothstein & Uslaner, 2005).

Future policy making will benefit from adopting a broader perspective—that builds upon existing rational choice models for decision making—when considering reforms to the nation's financial aid policies. The role of messaging about the price of college, the psychological costs of complexity that characterize existing financial aid policies and practices, the contexts in which decisions about price and college attendance are made, and public trust in the system are critical, but overlooked, in existing financial aid policies. Reforming the American college financial aid system in a way that reflects these insights and facilitates trust is a promising direction for future policy making.

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