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**Overview Hearing: America's Workers and Education for the 21st Century
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Chairman Obey, Congressman Walsh, and Members of the Subcommittee, including Congressman Peterson, who represents my district in Pennsylvania:

Thank you for the invitation to address the subcommittee on this vital issue being discussed at today's hearing. I can think of few issues that are of greater importance to the future of this nation's economic wellbeing than the topic of how our postsecondary educational system can best prepare workers and citizens for the 21st century. I have been asked today to focus my remarks on the topic of higher education access and opportunity.

The federal government plays a critical role in ensuring that all Americans have access to a high-quality college education. Federal support helps the nation's 6,000 higher education institutions and their 15 million students in a number of ways, including sponsoring research, supporting a variety of programs and initiatives, and in helping build institutional capacity. This is not a new initiative; you can go back almost 150 years to the passage of the Morrill Land Grant Act in 1862 to understand how the Congress has recognized the importance of higher education to our society. Subsequent legislation – including the second Morrill Act in 1890, the G.I. Bill in 1944, the National Defense Education Act in 1958, and the Civil Rights Act of 1964 – have all demonstrated Congress's support of higher education.

In my view the most important role the federal government plays in supporting higher education is through the programs authorized by the Higher Education Act of 1965. This law for the first time authorized broad-based programs to not only help promote the expansion of postsecondary education in the nation, but specifically to help increase the level of educational opportunity enjoyed by *all* Americans.

To best understand the role that the Higher Education Act has played in America, I will borrow from the words of President Lyndon Johnson when he signed the legislation into law on November 8, 1965, in San Marcos, Texas:

The President's signature upon this legislation passed by this Congress will swing open a new door for the young people of America. For them, and for this entire land of ours, it is the most important door that will ever open – the door to education. And this legislation is the key which unlocks it.

So, when we leave here this morning, I want you to go back and say to your children and to your grandchildren, and those who come after you and follow you – tell them that we have made a promise to them. Tell them that the truth is here for them to seek. And tell them that we have opened the road and we have pulled the gates down and the way is open, and we expect them to travel it.

Title IV of the Act, which authorizes the federal governments grant and student loan programs, opens with these words:

It is the purpose of this part to provide, through institutions of higher education, educational opportunity grants to assist in making available the benefits of higher education to qualified high school graduates of *exceptional financial need, who for lack of financial means of their own or of their families would be unable to obtain such benefits without such aid.* (emphasis added)

This commitment to need-based financial aid for the purpose of equalizing educational opportunity is the cornerstone of the federal student assistance programs. Over the last 15 years, numerous states and higher education institutions have abandoned their commitment to need-based grants. Fifteen years ago, fewer than 10 percent of state grants were awarded without considering the financial need of the student or her family; today, this figure is over 25 percent. On the institutional side, the use of merit aid has grown to the point where today it represents 54 percent of all grants awarded by institutions themselves to undergraduate students. Fifteen years ago, it was only one-third of the total. While some merit aid goes to students with financial need, much of it goes to students with very little or no need. In 2003 colleges and universities awarded over \$2.5 billion in grants to students from families with incomes above \$100,000, or about twice the median income in the nation.

Thus, the commitment on the part of the Title IV programs to need-based grants, most prominently through the Pell Grant program, but also through the Supplemental Educational Opportunity Grant program, is crucial. Research has consistently demonstrated that these federal grants are the most well-targeted and funded programs for meeting the college financing needs of students from low- and moderate-income families, and last year the federal government spent almost \$14 billion on these two programs that supported over five million students nationwide.

Title IV also authorizes the federal loan programs, which last year provided – either directly through federal capital or from private capital – almost \$70 billion in student loans to college students across the country. While loans do not have the same level of impact on college access for poor and moderate-income students as do grants, they are an important part of the college financing system.

Besides providing direct funding to students, the Higher Education Act also helps students in other ways. Approximately one million high school and college students – most of whom are from low-income, first generation families – receive vital assistance in preparing for college and being successful once there through the TRIO programs.¹ In addition, hundreds of institutions – most of which are historically black colleges and universities or Hispanic-serving institutions – receive direct assistance through Title III and Title V of the Act.

Even with all this assistance provided by the federal government, along with that from states, institutions, and private sources, we still have major inequities in college access in our nation today. The gaps between the college attendance and graduation rates of rich and poor students, and white and racial minority students, are for the most part as large today as they were three decades ago.

We know that there are a number of factors that create barriers to college attendance for poor and minority students. Some of these are financial barriers, the kind that the Title IV programs are designed to address. Many of these students also face academic barriers; the education they receive in elementary and secondary school is simply not up to the same standards of excellence as that received by wealthier and white students. This is a topic that has been well addressed by Kati Haycock and her colleagues at The Education Trust, so I will not dwell on it.

There is a policy debate that has enveloped Washington and elsewhere over the relative size of these two types of barriers, and there are some out there who believe that in fact the entire problem of college access for underrepresented populations is due to inadequate academic preparation. They say that if we could just improve the quality of K-12 schooling these students receive, they would all be able to enroll in college and persist through to attain a postsecondary credential.

But I want to say to you emphatically that there is solid evidence that it is both academic *and* financial barriers that are keeping poor and minority students from passing through those “gates” to higher education as described by President Johnson. Perhaps the most compelling work on this topic has been done by the federal Advisory Committee on Student Financial Assistance. Through a series of reports released in the last five years, the Advisory Committee has documented the impact of financial barriers on college access and degree attainment. Through a series of analyses using data from the Department of Education’s National Center for Education Statistics, they estimated that among those students who were qualified to attend a four-year institution based on criteria established by the Department of

¹ An additional one million students receive similar assistance through Gear-Up; while not part of the Higher Education Act, it is another important federal postsecondary education initiative.

Education, 400,000 low- and middle-income students per year are priced out of attending a 4-year institution, and 170,000 are priced out of attending even a community college.²

The Advisory Committee also estimated that over the course of a decade, price barriers will cause the loss of between 1.4 and 2.4 million bachelor's degrees in the nation.³ In its words, "America's global competitiveness depends on the ability of low-and moderate-income high school graduates who are college-qualified to earn at least a bachelor's degree." We cannot increase the educational attainment of the labor force by focusing on students from upper-income families; these students are already going to college at high rates and are successful once there. We need to focus our energies instead on those students who are academically qualified but because of financial barriers are on the margins of college attendance and degree attainment.

I want to note that the federal government and other providers of student financial assistance do not bear the sole responsibility for solving the college affordability and access crisis. Over the last 25 years, tuition prices have increased over 150 percent, *after* taking inflation into account. During the same period, the median family income in the country has grown only 20 percent in real terms, and for the poorest families, it has barely grown at all.

This nation's 6,000 postsecondary institutions – public and private, large and small, non-profit and for-profit, all share the burden of ensuring that they are operating as efficiently as possible, and that they are responsible stewards of the public and private funds with which they are entrusted. Many institutions are aware of their role and are doing all they can to keep costs under control while maintaining the quality educational standards which the nation expects. This is a topic that Secretary Spellings' Commission on the Future of Higher Education addressed in its hearings and its report, and I know that higher education institutions around the country have heard this message loud and clear. They need to do more to help control the growth in tuition prices and the cost of educating an undergraduate student.

I would like to counter the argument some have made that federal financial aid enables colleges and universities to increase their prices, and that the sole result of increasing spending on the Title IV programs will be to simply push tuition prices even higher. This is a topic on which I testified to the House Education and Workforce Committee two years ago, and I will briefly summarize today what I told that committee.

In the last reauthorization of the Higher Education Act, in 1998, Congress required the Department of Education to conduct a study to determine the reasons behind the rising cost of college. That study, which has been widely recognized as the most thorough and complete research on the issue, was issued

² Advisory Committee on Student Financial Assistance. (2002). *Empty promises: The myth of college access in America*. Washington, DC: U.S. Department of Education.

³ Advisory Committee on Student Financial Assistance. (2006). *Mortgaging our future: How financial barriers to college undercut America's global competitiveness*. Washington, DC: U.S. Department of Education.

by former Secretary of Education Rod Paige in 2001.⁴ The study examined whether federal or state financial aid led directly to tuition price increases.

The study concluded that there was *no* relationship between either federal or state financial aid and tuition price increases. This finding confirmed the bulk of the research on this topic that had previously been conducted, including that of the National Commission on the Cost of Higher Education in its 1998 report to Congress. The study found that the primary driver of tuition price increases in public colleges and universities was the level of appropriations received from the states. In those states where appropriations grew more slowly, or as happened at the beginning of this decade, were actually cut, prices in the public sector grew the fastest. In simpler terms, as state support drops, public institutions have few options other than to increase tuition prices.

The last element of student financing I will discuss is the postsecondary education tax credits and deductions. I will be brief but will state that the research evidence is clear that these programs have very little impact on college access, and they mostly help to subsidize students who would attend college without that assistance. Because of a number of factors, including the lack of refundability and the timing of the tax incentives, they do very little to help financially needy students gain access to college. I recognize that they are very politically popular and are on the tax expenditure side of the federal budget, but the fact is they do little for helping to equalize educational opportunity.

I will conclude my remarks by focusing on some of the recent proposals on student aid that have been discussed in Congress and in the president's budget. I am pleased to see that both the president's budget for 2008 and this Committee's Joint Funding Resolution for 2007 have called for an increase in the maximum Pell Grant, which has risen only \$50 since 2002. As I described earlier, the Pell Grant is the foundation of the federal student assistance programs and is highly targeted at those who are most in need of support in order to attend college and stay enrolled once there. I would caution the Committee, however, against using funds that had been budgeted for the SEOG and Perkins Loan programs to pay for the Pell Grant increase. Ninety percent of the students who receive SEOG also receive Pell Grants, so using the former to fund the Pell increase would leave most students no better off and in fact many would be worse off.

Last month, the House passed legislation to phase in a cut to the interest rate on Subsidized Stafford loans, and the Senate Finance Committee has taken up the Senate's version of the bill (S.359), sponsored by Senator Kennedy. I would caution members of Congress about relying on this legislation to improve college access for low- and moderate-income Americans. When the interest rate cut is fully phased in by the year 2011, a borrower with loan debt of \$20,000 would see her payments cut by only about \$35 a month.⁵

Over fifteen years ago, economist Charles Manski coined the phrase "adolescent econometrician" to describe the expectation that 18 year-olds would be able to do the sophisticated financial calculations

⁴ Cunningham, A. F., Wellman, J. V., Clinedinst, M. E., & Merisotis, J. P. (2001). *Study of college costs and prices, 1988-89 to 1997-98, Volume 1* (NCES 2002-157). Washington, DC: U.S. Department of Education, National Center for Education Statistics.

⁵ The Project on Student Debt, 1/29/07, <http://www.projectonstudentdebt.org>

necessary to calculate a net cost of college (after financial aid) and estimate the returns to the investment in their postsecondary education.⁶ There is very little evidence that this magnitude of change in the repayment rate will have an impact on the college-going decisions of those youth who are on the margin of college attendance. Better to focus the resources on programs, such as the federal grants, TRIO, and Gear-Up, which target their funds on these students.

The other area which deserves attention from Congress is simplification of the financial aid process and earlier notification and commitment of aid. Both the Spellings Commission and the Advisory Committee have recognized the problem with the complexity of the student aid system that has developed over the last 40 years. If we are going to expect students and their families to be able to accurately estimate the net price of college after aid, and to have enough time to prepare themselves for college both academically and financially, then we need to reform a system that provides this information to students at the end of their senior year in high school. Why can we not tell poor students – those who are eligible for other federal means-tested programs, such as WIC, food stamps, or free or reduced price school lunch – about their eligibility for federal grants and loans when they are still in middle school? Better yet, rather than just telling them about their eligibility, why not make a commitment of that financial aid to them when they are in middle school? In an op-ed piece which I have submitted with my testimony, I describe how two states have done exactly this with their state grant programs and how that could work with federal financial aid.⁷

I have taken more than enough of your time, so I will close by thanking you for the opportunity to address you on these critical issues. I would be happy to take your questions after the remaining witnesses have testified.

⁶ Manski, C. F. (1990). Adolescent econometricians: How do you infer the returns to schooling? in C. Clotfelter & M. Rothschild (Eds.), *Studies of Supply and Demand in Higher Education*. Chicago: University of Chicago Press.

⁷ Heller, D. E. (2006, October 13). To make college more affordable, award Pell Grants earlier. *The Chronicle of Higher Education*, p. B16.