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**Testimony before the
Commonwealth of Pennsylvania
State Board of Education
Council of Higher Education**

**Public Hearing on Affordability of Post-secondary Education
October 23, 2008
Luzerne County Community College
Nanticoke, PA**

Chairman Michelini and Members of the Council on Higher Education:

Thank you for the invitation to address the Council on this vital issue being discussed at today's hearing. I am a professor of higher education and Director of the Center for the Study of Higher Education at Penn State in University Park. Most of my research focuses on government and institutional policies that help promote – or hinder – accessibility to and the affordability of higher education. I would like to emphasize that I am here speaking to you today as a researcher, not as an institutional representative of Penn State.

The Board of Education's 2005 *Master Plan for Higher Education* noted that, "The most fundamental issue policymakers must always address with regards to postsecondary education is that of access. . . Does cost make higher education inaccessible to groups of our citizens?" (p. 10). I agree that access to postsecondary education is a fundamental issue, and it is one that is at the forefront of the thoughts of many students and their families today. We are clearly in an era of extreme economic turmoil, and anxiety over paying for college only exacerbates the nervousness our citizens are feeling.

There have been hundreds of studies that have been conducted over the last few decades that have looked at the relationship between tuition prices, financial aid, and access to postsecondary education.¹ Let me describe for you the key findings from these studies.

First, there is no question that there is an inverse relationship between college prices and college enrollment. In other words, all other things being equal, as prices go up, students are less likely to enroll in college.

Second, it is low- and moderate-income students who are most affected by rising tuition prices. Students from families with more financial resources see little impact on their college enrollment as prices rise. There may be some shifts of higher-income students between public and private 4-year institutions, for example, but there is very little evidence that rising prices are forcing higher-income students out of college.

Third, financial aid plays an important role in promoting access, particularly for poor and middle-income students. And need-based grants – as opposed to loans or tax credits, – are the most effective form of aid for these students.

So, to return to our current economic situation, I am afraid that we are facing a “perfect storm” of events that threaten to wash away access to postsecondary education throughout the Commonwealth.

First, on the student and family side of the equation, there are obviously great constraints on the resources available to pay for college. These constraints are not a new phenomenon, due only to the current economic downturn. From 2000 to 2007, the median household income in Pennsylvania grew only 2 percent per year.² Inflation during that same period, as measured by consumer prices in the Philadelphia region, was 3 percent per year.³ This means that the average income in the state has actually *declined* this decade, once inflation is taken into account.

Job prospects are also declining in the state. In the last year, unemployment in the Commonwealth increased from 4.4 to 5.7 percent.⁴ This occurred after four straight years of decreasing unemployment. If you take rising unemployment as a leading economic indicator, it is clear that incomes for many residents of the Commonwealth will continue to stagnate, if not actually decline.

While these measures focus on income, the current economic turmoil has also affected assets. Many students, particularly those from middle- and upper-income families, pay for college not just from

¹ For reviews of this research over the years, see Jackson, G. A., & Weathersby, G. B. (1975). Individual demand for higher education. *Journal of Higher Education*, 46(6), 623-652; Leslie, L. L., & Brinkman, P. T. (1988). *The economic value of higher education*. New York: American Council on Education/Macmillan Publishing; Heller, D. E. (1997). Student price response in higher education: An update to Leslie and Brinkman. *Journal of Higher Education*, 68(6), 624-659.

² U.S. Census Bureau. (2008). Table H-8. Median household income by state: 1984 to 2007. Washington, DC: Author, <http://www.census.gov/hhes/www/income/histinc/h08.html>

³ U.S. Department of Labor, Bureau of Labor Statistics. (2008). Consumer price index – All urban consumers, Philadelphia-Wilmington-Atlantic City. Washington, DC: Author, <http://146.142.4.24/cgi-bin/surveymost?cu>

⁴ U.S. Department of Labor, Bureau of Labor Statistics. (2008). Local area unemployment statistics. Washington, DC: Author, <http://data.bls.gov/cgi-bin/dsrv?la>

current income but also from savings and other forms of assets. The decline in financial markets in recent months has greatly reduced the value of investments many families were planning to use to pay for college. Those families that invested in 529 College Savings plans have also likely seen a large erosion in the value of those accounts. Other assets used to pay for college, such as the value of home equity, have also been affected by the downturn.

A second major change in how people finance their college educations is in the student loan markets. This started approximately eighteen months ago, when New York Attorney General Andrew Cuomo began an investigation of the student loan industry that identified relationships between some loan companies and higher education institutions that were suspect. Whatever one may think of Cuomo's investigation – and there have been a number of criticisms of it – it is indisputable that the impact of it has been at least in part to change the student loan industry as we know it today. Because of these changes, some stopped making student loans, particularly private loans. As college prices have risen faster than the limits on borrowing in the federal loan programs, more and more students have become dependent on private loans for paying for college. The College Board, in its annual *Trends in Student Aid* report, noted that over the last decade the volume of federal loans increased 107 percent, while private loan borrowing increased almost ten-fold.⁵

The student loan markets have also been rocked by the credit crunch. Earlier this year, many were shocked when PHEAA announced that it was pulling out of the federally-guaranteed student loan program, loans that had been made to half a million students throughout the Commonwealth. The agency blamed the credit crunch, increased costs of borrowing, and an inability to make a profit on federally-guaranteed loans in announcing the pullout.⁶ The colleges and universities throughout the state had to scramble to find alternative sources of loans for their students. Many, including my institution, chose to turn to the federal Direct Student Loan Program. While this transition appears not to have done major damage to the ability of students and parents to obtain federally-backed loans to pay for college, PHEAA's abandoning of the federal loan program is symptomatic of the turmoil that has occurred in the student loan industry.

I have outlined for you some of the challenges students and families are facing in paying for college. Let me now turn for a few moments to the provider side of the equation. Colleges and universities throughout the Commonwealth are also being impacted by the economic conditions in the nation and around the world. Plummeting financial markets decrease the value of endowments, which in turn affects how much money is available to fund operations. Even though most universities try to smooth out the ups and downs of endowment values by averaging returns over a number of years, a drop in value of the magnitude we are seeing today has to have an effect on the fiscal health of institutions.

In addition, the same credit crunch that is affecting student loan borrowers is also impacting institutions that have to borrow. Whether it is short-term borrowing to meet payroll and other operating expenses, or longer-term borrowing for capital projects, access to loan and bond markets is critical for colleges and universities. The *Chronicle of Higher Education* recently reported on a number of

⁵ College Board. (2007). *Trends in student aid, 2007*. Washington, DC: Author.

⁶ Huckabee, C. (2008, February 26). "Pheaa temporarily suspends federal student loans." *The Chronicle of Higher Education News Blog*.

institutions that have instituted freezes on hiring, travel, and capital projects because of the economic circumstances in which they find themselves today.⁷

The third factor affecting the Commonwealth's higher education institutions, particularly its public institutions, is the state budget situation. The Rendell administration has notified the State System of Higher Education and the state-related universities that it will be asking them to return 4.5 percent of their appropriation for this fiscal year back to the Commonwealth. This will put additional pressure on the revenue side of each institution, potentially forcing cuts that will be difficult to accommodate as energy, health care benefits, and other costs continue to rise. While it is too early to predict what the higher education appropriation will be in next year's budget, it is difficult to be optimistic about any sizeable increase.

What all of this means is that tuition is likely to rise again next year at high rates, returning perhaps to the double digit increases seen during the last recession in the early part of this decade. And as during other recessions, these large tuition increases will hit students and families the hardest at a time when they have little capacity to absorb the growth in prices.

Financial aid, of course, can help moderate the effect of these tuition increases. I do not hold out much hope for help from the federal government, as the federal Pell Grant program is already projected to face a \$5 billion shortfall this year, thus making it unlikely there will be a large, if any, increase next year. Institutions are unlikely to be able to increase their own grant and scholarship funds because of the budgetary pressures I described earlier. And as I already mentioned, the availability of student loans – which do little to promote access for low- and moderate-income students anyway – is unstable.

My advice to this Board, if you want to ensure that higher education remains affordable for students throughout the Commonwealth, is that you be fierce advocates for continued financial support for public institutions through the appropriation process. There is a clear and direct connection between the level of appropriations provided to public colleges and universities, and the increase in tuition prices. Maintaining the commitment to increases in appropriation levels – even in the face of what we know will be tough budgetary times – is the most effective step the Commonwealth can take to keep college affordable. Additional support for the PHEAA grant program will also help, as these grants help target the Commonwealth's assistance on those students who need it most, those from low- and moderate income families. In the absence of this support, Pennsylvania is likely to slip from its position as a "high tuition- high aid" state to the unenviable condition, of a "high tuition-*low aid*" state.

I want to emphasize that addressing the revenue side of our higher education institutions is not the only solution. Public universities have an obligation to operate as efficiently as possible, while still ensuring the delivery of high quality education, research, and service to the Commonwealth and its citizens. During the early part of this decade, when Penn State received a number of cuts in its state appropriation, President Graham Spanier formed a university-wide task force to identify ways to cut costs and make Penn State more efficient. This task force, which brought together senior administrators, faculty, and staff, identified and implemented \$15 million in budget cuts and income enhancements

⁷ Blumenstyk, G., & Field, K. (2008, October 17). "Credit squeeze exposes weaknesses in investments." *The Chronicle of Higher Education*, p. A1; "As credit crisis chills campuses, worries mount." (2008, October 10). *The Chronicle of Higher Education*, p. A1.

throughout the university. This amount represented more than half of the funds lost from the state appropriation. And these changes were made without decreasing the quality of the education provided to our more than 80,000 students. It is imperative that we, and the other public universities in the state, undertake similar efforts in these turbulent economic times.

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.