

College Board National Dialogue on Student Financial Aid

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Good morning. I want to thank the College Board for inviting me here this morning to participate in the National Dialogue on Student Financial Aid. This is an extremely important project of the Board, and I am honored to be a participant. I also want to thank the co-sponsors, the Hispanic Association of Colleges and Universities, the National Council for Community Education Partnerships, the Texas Guaranteed Student Loan Corporation, and the Pathways to College Network.

I would like to take a few minutes to share with you my observations regarding the current status of student financial aid at the national and state levels. In the course of my own work I have become convinced of the critical role that financial aid plays in promoting access to higher education for underrepresented populations in our country. Since most aid is awarded by public entities, either governmental organizations or public higher education institutions, policymakers have an important say in the amount of financial aid that is available and how that aid is provided.

At the national level, we are facing a critical time for higher education in the nation. As you are well aware, Congress is beginning the debate over the reauthorization of the Higher Education Act of 1965. This Act, which through the Title IV student aid programs, provides the cornerstone of financial assistance for needy college students. The debate over the reauthorization will provide an opportunity for the federal government to reassert its role as the promoter of equal opportunity in postsecondary education.

The federal Pell Grant program today provides over \$8 billion in grants to undergraduate students – over 95% of whom come from families or are independent students with incomes below the national average. The research on the enrollment and persistence effects of student financial assistance tells us that lower income students are most responsive to financial aid awards, and that grants are the most effective mechanism for encouraging these students to enroll in college and persisting through to attainment of a degree.

Even though the Pell Grant program is the single largest grant program in the nation, the value of Pell Grants has eroded since they were first introduced in the 1972 amendments. At its peak in the mid 1970s, a Pell grant covered over 80% of the cost of attendance at a typical public 4-year institution. Note that I said, “cost of attendance,” not just tuition. In the ensuing quarter century, we have let the value of the Pell Grant fall to the point that today it covers less than 40% of the cost of attendance at this same institution.

Over this same period, the federal government has shifted the focus of its student aid programs from grants to loans. Twenty-five years ago, when I headed off to college, 43% of all generally-available federal aid was provided in the form of grants, and 46% in the form of loans (the remaining approximately 10% was in the federal work study program). Today, only 18% of federal aid is grants, and 80% is loans.

This change has helped precipitate a shift of the burden for paying from college from public to private resources. I believe this has occurred largely because of the breakdown of the social contract that recognized that postsecondary education provided large public returns to society, and not just returns to the individual who benefit from attending college. Today, the mindset on the part of policymakers at both the federal and state levels is that college is largely a vehicle for improving individual value in labor markets, with little recognition and acknowledgement of the broader role of higher education to serve the nation. The figures on the increasing value of the college wage premium are quite clear; more and more jobs require some form of postsecondary education, so that workers who enter the labor markets without this training and these skills are at a large disadvantage.

I do not mean to lay the blame for this change only on the shoulders of the federal and state governments. I do not believe we in higher education have done a sufficient job at

articulating how we do contribute to society, both in pecuniary and non-pecuniary ways. If we are to restore the social contract between higher education and the public, we need to do more to demonstrate the value we as an industry bring to the nation.

While one may think that a shift in emphasis from grants to loans for financing higher education should not be problematic – because both serve to lower the immediate net cost paid by students – the fact is that the effects of each are quite different. As I mentioned earlier, grants have been shown in the research to be the most effective mechanism for encouraging students – particularly low income students to attend college. There is evidence that lower income and minority students tend to be less willing to borrow to finance the cost of college, and thus, loans are not as effective at promoting access for these populations as are grants.

I am sure that there will be a good deal of debate over the reauthorization of the Higher Education Act regarding changes to the Title IV programs. I am of the belief that we have in place a solid structure on which to base the federal government's future efforts at promoting educational opportunity. What is *not* needed from the federal government is a whole new set of programs to help us reach this goal. What *is* needed is a recommitment to the Pell Grant program as the best mechanism to get us there.

Let me turn for a few moments to state financial aid policy. The states have become important players in the financial aid business. Over the last decade, federal grants to undergraduates have increased 57% in current dollars, while state grants have increased 149%, or almost three times as fast. The states should be recognized and applauded for stepping forward to help shoulder the responsibility for promoting college access.

The troubling trend in the states, however, is the movement toward the awarding of grants without consideration of financial need. Ten years ago, less than 10% of state grants were awarded without using need as a criterion; today one-quarter of all grants, or over \$1 billion are awarded based on some form of “merit,” rather than financial need. And we know that the use of financial need versus merit criteria results in a very different distribution of awards. Most states use a methodology for awarding need grants that is very similar to the federal methodology used in the awarding of Pell Grants, with the result that most state need grants are well targeted at students from families with incomes below the national median. I should note here that our host,

the state of Texas, resisted this trend when it implemented the TEXAS grant program by including a need component.

The result for merit grants is quite different. I recently co-edited a report for The Civil Rights Project at Harvard University that examined the impact on college access of four of the nation's largest state-run merit scholarship programs. Included in the analysis were three of the country's largest programs, in Georgia, Florida, and Michigan. The results of this research are very consistent: unlike need-based programs, the state merit programs have very little impact on college access. The most consistent effect of the merit programs was to award grants to students who were likely to attend college even without the financial assistance. A telling statistic came from research on the Georgia HOPE Scholarships – the nation's largest and oldest broad-based state merit program – conducted by Chris Cornwell and David Mustard of the University of Georgia. They concluded that only 4 percent of expenditures on the HOPE program went to increase college access in the state, even though Georgia had relatively low college participation rates before implementation of this program. This means that 96 percent of the HOPE expenditures simply went to subsidize the existing college-going behavior of Georgia students. Two of the merit grant programs examined in this report – those in Michigan and Florida – are currently facing federal legal challenges to their constitutionality.

There is somewhat of a debate in the policy community over whether these state merit programs represent additional dollars that have been added to the pot, or whether they represent a reallocation of resources that would otherwise have been put into need-based aid. This question cannot be answered for certain, because we do not know how state policymakers would have acted if these merit programs had never been invented. But I think it is safe to say that the existence of the merit programs has caused many states to deemphasize the need-based programs, or to even question whether they are needed. Let me provide a couple of examples of why I believe this is true.

Georgia, which had a small need-based program before HOPE, eliminated it entirely and resurrected it only in the last two years. Its funding, however, is less than one-half of 1% of the Georgia HOPE program. This year West Virginia, which recently created the Promise Scholarship program which awards grants without consideration of financial need, the legislature

mandated a \$7 million increase in the Promise program while it cut the state's need-based program by \$2 million.

It is important to note here two structural distinctions between most of the state merit and need-based programs. The merit programs have been created as entitlements, which means that all students who meet the merit criteria are guaranteed to receive the full grant amount. And most of the programs provide scholarships that cover full tuition and fees at any public institution in the state. The need-based grants, however, generally provide well less than full tuition and their funding is at the whim of state legislatures.

What is of particular concern with respect to the funding of state need-based grant programs is the fact that it suffers most exactly in the times when we increase tuition prices the greatest. This fall, double-digit tuition increases in public 4-year institutions is likely to be the norm (we will know for sure when the College Board issues its *Trends in College Pricing* report later this month). Yet many of the nation's largest need-based grant programs have not been able to increase the size of their awards because of fiscal constraints. In both Illinois and Pennsylvania, tuition prices at most 4-year institutions increased over 10% this year. Yet those state's need-based grant programs, which are the third and fourth largest in the country, had to reduce or hold constant the grant awards this fall because of funding constraints. And it is unlikely that the institutions will be able to make up the difference, even for the most needy students, from their own limited scholarship funds.

In closing, I would like to read for you the following quotation:

It is the responsibility of the community, at the local, State, and National levels, to guarantee that financial barriers do not prevent any able and otherwise qualified young person from receiving the opportunity for higher education.

There must be developed in this country the widespread realization that money expended for education is the wisest and soundest of investments in the national interest. The democratic community cannot tolerate a society based upon education for the well-to-do alone. If college opportunities are restricted to those

in the higher income brackets, the way is open to the creation and perpetuation of a class society which has no place in the American way of life.

This is not a quote from the original legislation that created the Higher Education Act of 1965, nor are they the words of one of the legislative champions of financial aid for needy students such as Senators Claiborne Pell or Ted Kennedy, or Representative Bill Ford. These are words written over 50 years ago by President Truman's Commission on Higher Education, in 1947.

The commitment to use limited public resources for the goal of promoting equality of educational opportunity is one that, as the Truman Commission recognized, will require a partnership among the federal government, state governments, and higher education institutions. No one of these parties can achieve this goal alone; only in working together can we achieve the objectives laid out by the Truman Commission over 50 years ago, and reaffirmed in the Higher Education Act 18 years after that. Thank you once again for your time and attention.