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RISING COST OF COLLEGE TUITION AND THE EFFECTIVENESS OF GOVERNMENT FINANCIAL AID

HEARINGS

BEFORE THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

FEBRUARY 9 AND 10, 2000

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RISING COST OF COLLEGE TUITION AND THE EFFECTIVENESS OF GOVERNMENT FINANCIAL AID

WEDNESDAY, FEBRUARY 9, 2000

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:11 a.m., in room SD–628, Dirksen Senate Office Building, Hon. Fred Thompson, Chairman of the Committee, presiding.

Present: Senators Thompson, Collins, Voinovich, Lieberman, Levin, Akaka, and Durbin.

OPENING STATEMENT OF CHAIRMAN THOMPSON

Chairman THOMPSON. Let us come to order, please. Thank you all for being here today. I want to give special thanks to Senator Lieberman, whose idea it originally was to have this hearing, and the more I have gotten into it, the more important I think that it is.

We are meeting to discuss an issue that is important to every family in America, the cost of college tuition. The problem of rising tuition is known to many of us, but it is worth restating for the record. From 1990 through 1996, average tuition for a full-time resident undergraduate student rose 43.8 percent, but during the same time, the Consumer Price Index rose only 15.4 percent and median household income rose a mere 13.8 percent.

In a recent report, the College Board wrote, "Since 1980, college prices have been rising at twice and sometimes three times the CPI. Over the 10-year period ending in the year 2000, average public 4-year tuition and fees rose 51 percent compared to 34 percent for private 4-year colleges. Since 1981, both public and private 4-year college tuitions increased on an average of more than 110 percent over inflation. Private college tuition rose most sharply in the early and mid-1980's, while public tuition increased the most in the late 1980's and early 1990's." That is the end of their statement.

I think we will learn today that certainly it is not uniform across the board, that tuition has actually dropped for many colleges and institutes, but, of course, there are several on the upper end that have risen astronomically, hence the averages that we mention here.

The most puzzling thing about this problem, astronomically rising tuition, is that no one seems to have a handle on why this is occurring. The Congress, in its infinite wisdom, set up a commis-

sion to analyze the problem and made recommendations about how to address it, but even with the able leadership of William Troutt, the commission could not figure out the totality of the problem, either.

In its final report, the commission wrote that, "Academic institutions have made little effort, either on campus or off, to make themselves more transparent to explain their finances. As a result, there is no readily available information about college costs and prices, nor is there a common national reporting standard for either."

The commission recognized the irony and apologized that it "found itself in the discomforting position of acknowledging that the Nation's academic institutions—justly renowned for their ability to analyze practically every other major economic activity in the United States—have not devoted similar analytical attention to their own internal financial structures." Apparently, colleges and universities themselves do not have a good understanding of why tuition rates are rising in many cases so rapidly.

As this Committee has found with government agencies, you have to know the nature of the problem before you can work to solve it. The Federal Government makes available to students over $41 billion every year in the form of grants and guaranteed loans. As the role of this Committee is to study the efficiency, economy, and effectiveness of the government's programs, it is incumbent on us to take a serious look at the effect of this government spending on tuition rates.

But there are innumerable other factors that make up the cost and price of a college education—administrative costs, faculty salaries, technology, Federal regulation, endowment, State appropriations, and many, many more. This is clearly a case where not one single factor works in a vacuum to affect the costs and price of a college education. Just as not one single factor affects the cost and price of a college education, there is not one single answer to the problem, but hopefully by focusing on it here today, we can at least have a much better understanding than we do now.

Colleges and universities must work to control their own costs. Public officials must ensure that public aid programs work to the public good, and we must all work together to ensure that purveyors of fraud do not take advantage of students and their families.

Again, this is an important issue worthy of the Committee's attention and I want to thank Senator Lieberman, as I said, for suggesting this inquiry. We have some distinguished witnesses here to help us explore the myriad issues relating to this topic and I look forward to their testimony.

Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks, Mr. Chairman. Good morning. Thanks so much for your responsiveness to our suggestion that this was a topic that was important for us and this Committee to get into. Our staffs have worked very well and very hard together, as you and I have, and I do believe that we have a couple of days of substantive and important hearings ahead of us.

As you indicated, the high price of a college education is a matter of deep and growing concern for America's families. The numbers I have are 20-year numbers, but they mirror what you indicated. Over the past 20 years, tuition has more than doubled at both public and private colleges, rising, as you said, well above the rate of inflation. Yet subsidies to schools in the form of State appropriations or aid to students and their families have failed to keep pace with those increases.

I have tuition increases at slightly over 110 percent over the last 2 decades. Aid is up 68 percent, and as we will find out here, importantly, more of the aid now than then is in loans as opposed to grants. And the median family income has increased 22 percent over the last 2 decades. Those numbers give a snapshot. I suppose one can overreact to them, but they show what is the bottom line here, which is that tuition has been rising, not only more than the rate of inflation, but more than the increase in median family income, and aid to fill that gap has not been rising proportionately.

Parents are painfully familiar with these developments. I must tell you that everywhere I go in Connecticut, this seems to be just about the number one topic of concern. Families are anxious about how they and their kids are going to afford college. Last October, there was a poll in the *Washington Post* that reflected this nationally, and I must say, based on the anecdotal evidence that I have had in Connecticut, I did not find it surprising. Sixty-three percent of Americans with school-age kids said they worry a great deal about college costs.

Maybe even more striking, a report by the American Council on Education found that 71 percent of the American people believe that a 4-year college education is not affordable for most Americans. The interesting fact is, as we will hear during the hearing, that, in fact, most people are somehow managing to afford it, although taking on great burdens. But the fact that 71 percent think it is not affordable is corrosive.

Sixty-five percent on this American Council on Education poll list the cost of college education as a top concern, ranking it among their concerns ahead of violent crimes against children, children's health care, and even the quality of public schools. So that gives us some measure of public anxiety about this issue.

Now, I think the anxiety is a reflection of the importance that we have always attached to higher education in this country and that parents attach today. They are willing to shoulder just about any burden to give their children the help they need, but they fear that the burden is increasing to back-breaking proportions and that their children will be priced out of higher education and thereby kept from realizing their own personal American dreams.

The stress on individual students is only part of the story. There is also, of course, a powerful connection between our Nation's ability to provide higher education and our ability to maintain healthy economic growth. Growth in our time is dependent on innovation, the kind of innovation that comes from educated people. We also hear constantly from employers about America's shortage of skilled workers to help us compete globally.

So if college becomes a luxury that an increasing percentage of our population cannot afford, it will not only be bad for those who

cannot afford it and expand the economic divide between higher education haves and have-nots, it will come to stunt our economic growth and our national well-being.

Today, we have an extraordinary group of witnesses, and tomorrow, as well, who we are going to ask some important questions, I think, that are important to America's families and to America's future.

The bottom line is, why is college tuition so high? Schools tell us that they are providing an expensive and valuable product, an education that will mean thousands of dollars more in future earning power for graduates. But, of course, many parents are concerned that schools may not be using their tuition dollars as efficiently as they should be, that perhaps they are paying more for a college education than is really necessary. We are going to look at the component parts of tuition here, those costs incurred by institutions in providing an education and ask whether colleges and universities are doing everything they can to hold down their costs.

From the student's perspective, the amount of aid he or she receives is, of course, as important as the sticker price of tuition. So we are going to look at the subsidies for higher education and ask whether aid to students and to schools is adequate.

Before public universities, for instance, set tuition, State appropriations are enormously important offsets against those public school costs. It is important to remember that over three-fourths of undergraduates in our country go to public colleges and universities, so State and public appropriations are critically important to the cost of education.

Many private schools can use their endowments to offset costs and lower tuition. So we are going to ask how many can afford to do that and are they doing it.

And, of course, in addition, there are scores of Federal, State, and private grant and loan programs that assist students in tuition. Are they adequate to the task? Are they adequate to the need and the national interest in allowing every one of our children able to go to college to do so?

We are also going to look into the growing and controversial use of something called merit aid, also referred to as tuition discounting, which can dramatically affect the price tag of a student's education. College applicants and their families should know that when a school gives a sticker price for tuition, apparently that may just be the beginning of a negotiation. Asking for a better price is an increasingly utilized and successful tactic, even for students who do not qualify for need-based programs, and what are the implications of that?

We are going to try to assess the impact of education loan debt on students and this increasing proportion of school aid that is made up in loans as opposed to grants. Students are finding themselves obviously carrying a tremendous debt burden. What effect does that have on their education and on their life choices afterward?

And finally, Mr. Chairman, I know we have worked with our staffs to try here to expose what might be called merchants of scholarship fraud. You can always count on somebody to try to take advantage of people's anxieties and needs. Apparently, scholarship

fraud amounts to over $100 million annually that is taken without cause from vulnerable students and parents. The most common scams include a required up-front fee in exchange for guaranteed success in locating a scholarship. Also, there are sales pitches that are disguised as free financial aid seminars. Of course, families are already stressed out over exorbitant tuition fees and we hope that through these hearings we can make them aware of the illegal schemers who lay in wait for them.

So, Mr. Chairman, again, I thank you. I hope that we can learn from these hearings whether our Nation is on track in providing access to all of our children to higher education and whether government is doing everything it can to ensure college affordability, whether the colleges and universities themselves are doing everything they can, and if not, what can we all do together to guarantee full access to higher education.

I want to extend, finally, a special personal welcome to Dr. Claire Gaudiani, President of Connecticut College in New London, Connecticut. Today, we are going to hear from a great educator, a great success story in her own right as a person who was a student through scholarship aid, and, may I say, a wonderful citizen leader in Eastern Connecticut.

So I thank you again, Mr. Chairman, for convening these hearings and I look forward to 2 very constructive days of testimony.

Chairman THOMPSON. Thank you very much. Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you very much, Mr. Chairman. I want to commend you and Senator Lieberman for your leadership in convening this morning's hearing to examine the effectiveness of Federal financial aid and its relationship to the rising costs of higher education. Having worked at a college in Maine prior to my election to the Senate, I have a special interest in this issue and I remember well the discussions that we would have on where and how we should set the tuition rates for the upcoming year.

It is becoming more evident every day that some form of higher education is needed to participate fully in the economy of the future. More and more jobs require some sort of higher education, and indeed, even in traditional industries and manufacturing where a high school degree used to be adequate, things are changing.

I visited two paper mills in Maine over the recess and talked with the managers, who told me that no longer will they hire someone with only a high school degree. Instead, they are now requiring at the paper mills in Maine a minimum of 2 years of higher education, either at a technical college or at the university. This is a considerable change.

In addition, college graduates make, on average, $17,000 more annually than do high school graduates. Thus, increasing educational opportunities is key to narrowing the widening gap in this country among income groups. It is for these reasons that I have consistently fought for an expansion of Federal financial aid programs, including Pell grants, student loans, and the new LEAP program.

Nevertheless, as we do increase Federal aid, it is extremely important that we continue to assess the effectiveness of these efforts to improve access to higher education, particularly for our low- and middle-income students. Ideally, our goal should be that every qualified student should be able to attend college without facing insurmountable financial barriers.

I have been concerned for some time that Congressional efforts to increase student aid may have been undermined by continuing tuition increases that are far above the level of inflation and far exceed the growth in family income. Senator Lieberman gave some statistics over the last 20 years, but even if you look at more recent years, you find that there still is a disparity between the increases in inflation versus tuition rates. For example, from 1990 through 1996, the average tuition rose by almost 44 percent compared with an increase of just a bit over 15 percent in the Consumer Price Index and about a 14 percent increase in the median household income.

My concern is that we appear to be pouring more money into the system only to have it mopped up by tuition increases, and if, in fact, that is the case, then we are not achieving our goal of expanding access.

I am hopeful that these hearings will shed further light on this concern for, at the very least, the increased availability of Federal financial aid has made it easier for colleges to raise tuition without running into signs of consumer resistance. The suggestion that I have heard that Federal assistance is not a factor in tuition increases is, according to a report by the Council for Aid to Education, "akin to arguing that the ready availability of home mortgages has no impact on the price of housing."

At the heart of these hearings are significant policy questions that I look forward to hearing addressed by our witnesses today. It has always been the objective of aid programs to broaden access and increase opportunity for students, but the question before us is has that objective been stymied by unrestrained tuition increases? How can we appropriately encourage colleges and universities and technical schools to hold down their charges without resorting to inappropriate controls and interference?

These are the difficult questions that I hope our panelists will discuss today. I look forward to hearing their testimony, and again, I want to commend both the Chairman and the Ranking Minority Member for initiating this very important investigation.

Thank you, Mr. Chairman.

Chairman THOMPSON. Thank you very much.

Senator Levin, do you have a comment.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you very much, Mr. Chairman. Let me congratulate and commend both you and Senator Lieberman for your initiative in calling this hearing this morning.

Access to higher education has been the principal reason for America's economic strength and for the persistence of our democratic values. It is essential. Access to higher education is absolutely essential to economic opportunity for more and more Americans.

It seems to me that one of our goals in this Congress and in future Congresses has got to be what other Congresses before us have achieved, which is extending higher education opportunity to more and more Americans. Financial aid is the key that unlocks the doors to our colleges and our universities for millions of Americans, and the fact that tuition costs have gone up increases the importance of financial aid programs and the need to broaden the availability of those programs to more and more people.

As you pointed out, Mr. Chairman, in your opening comments, there is a great variety of experiences between the States and within our States as to tuition cost increases. There is not one uniform tuition cost increase that applies across the board. We have had some real success in my home State of Michigan, both in some of our public universities and in our independent colleges and universities with keeping tuition costs down, and I would like, Mr. Chairman, if I might, to ask that a portion of a letter from the President of our Independent Colleges and Universities of Michigan, Edward Blews, be inserted in the record at this time which describes the success of our independent colleges in keeping tuition rates and increases down.[1]

Chairman THOMPSON. It will be made a part of the record.

Senator LEVIN. Thank you very much. One of the former presidents of one of those independent colleges, David Breneman, is one of the witnesses today. He is now at the University of Virginia, but we miss him very much in Michigan, and Kalamazoo remembers you very fondly, indeed. I cannot stay for your testimony, but I wanted to give you a special welcome here this morning.

Thank you, Mr. Chairman.

Chairman THOMPSON. Thank you. Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Mr. Chairman. I am pleased that you and Senator Lieberman are holding these hearings on a very important issue of the rising cost of college tuition and the effectiveness of government financial aid.

I believe that a quality education is the foundation of success for our Nation's young people. In an increasingly complex and technologically advanced world, higher education is more valuable than ever before. However, that value often comes at a formidable price. As tuition costs for most schools continue to outpace inflation by significant margins, the financial cost to families and the debt burden for students makes affording college a struggle for many.

I recall a civics professor in high school who said that he defined a democracy as an equal opportunity to become unequal, and access to a quality, affordable education is one way that we give people an equal opportunity to become unequal.

In my own case, I cannot but think of my dad, who was a first generation American, but for a Kroger scholarship to Carnegie Tech would not have had a chance for higher education. My own family, I think as many here, benefitted from scholarships. My daughter who went out to Stanford on a 2-year graduate program, benefitted. And my oldest son, it took him 6 years to pay off his

[1] The letter from Mr. Blews appears in the Appendix on page 309.

debts because he decided to go to a private law school. So I think a lot of us sitting here understand having three kids in college at the same time, the burden that is there.

On the other hand, I am glad that Senator Lieberman mentioned that our public colleges are about 75 percent of the action. One of the things that I did as Governor, and I am only mentioning this today because I think it does prove that if you set your mind to trying to work harder and smarter and do more with less, there is a lot that can be achieved. What we did was set up a thing called Managing the Future and got some of the best people in the State together. Tier one was how we do a better job with our education system in the State, better coordination between the universities and leveraging their efficiencies. The second thing we did was to ask each university to do their own operations improvement task force. Were there things that they could do to bring down their costs?

I cannot help but think of Cleveland State University. In 1 year, the private sector people went to work and saved that university $8.5 million a year because they put private sector spectacles on to look at how that place could be better operated.

As a result of going forward with that, we now have a program called Securing the Future of Education, and since 1993, our universities have saved over $212 million, a savings that has been passed on to Ohio students through more reasonable tuition increases. This year, Ohio is going to spend $2.4 billion towards lowering the overall cost of higher education through financial aid, institutional support, and Ohio's Access Challenge Program.

It is interesting to note, Mr. Chairman, that tuition in Ohio has fallen from a 5.1 percent increase in tuition in 1994–95 to 4.8 percent in 1998–99, and this is going to be the first year that for our 2-year colleges, the tuition is going to be less than it was last year because of our Access Challenge Program.

The point I am making is that as we look at these programs to see how we can do a better job of helping the young people in this country achieve this opportunity for their future, I think we also should talk about ways that we can do a better job of keeping the cost down. I think that I can tell you that when we started with this program, I caught a lot of you know what from a lot of the universities. But as time went on, many of the presidents came and said to me, "I am glad, Governor, that you did go forward with this program, that we thought we were doing everything that we could, but you know what, we were not."

Chairman THOMPSON. Thank you very much. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I, too, want to add my appreciation for you and Senator Lieberman's calling of this hearing on the rising costs of college tuition and the effectiveness of government financial aid. Thank you for providing this opportunity to talk about an issue that affects the lives of millions of students and families each year, the affordability of a college education.

As a former teacher, vice principal, and principal, and also as a grandparent of 14 grandchildren, I have been involved in many

sides of this issue. I tell you, even as a grandparent, you become part of the process here and help to pay for the costs.

Right now, many high school students, seniors, are going through the exciting task of finishing up applications to the colleges of their choice. They are also rushing to file a FAFSA, or the Free Application for Federal Student Aid and to meet financial and aid deadlines imposed by colleges and universities, scholarships, loan programs, or the programs aiming to help them finance their way to a college degree.

I have a long statement, Mr. Chairman, but I ask that my full statement be included in the record. I want to make one final point before I conclude.

Many colleges and universities have worked diligently to ensure that the unique needs of minority students have been met. However, additional needs remain in minority communities, particularly in areas of high poverty in inner cities, rural areas, and certain island areas over which the United States maintains jurisdiction. Furthermore, tremendous variation in need exists within minority communities.

In order to assess true need by race, we must strive to look at the data relevant to these communities disagregated in addition to as a whole. For instance, among Asian Americans and Pacific Islanders, the aggregated group may be doing well in terms of financial access to college. However, when separating the East Asian Americans, such as Chinese and Japanese, compared to Southeast Asian Americans, such as Vietnamese and Laotians, and Pacific Islander Americans, such as Chamorros and Samoans, East Asian Americans are doing better than other groups.

I do not believe there is enough being said on the subject and I urge our panelists to take this issue back to their organizations, discuss it, and start coming out with applicable data on this.

Mr. Chairman and Senator Lieberman, I thank you again for creating this opportunity to discuss a most important issue. I look forward to hearing the testimony that will be presented today. Thank you very much.

Chairman THOMPSON. Thank you very much. Your statement will be made part of the record. And thanks for reminding me that I am still just a novice in the grandparenting business.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT OF SENATOR AKAKA

Thank you, Mr. Chairman and Senator Lieberman for providing an opportunity to talk about an issue that affects the lives of millions of students and families each year: The affordability of a college education. As a former teacher, vice principal, and principal, and also as a grandparent of 14 grandchildren, I have been involved in many sides of this issue.

Right now, many high school seniors are going through the exciting task of finishing up applications to the colleges of their choice. They are also rushing to file the FAFSA—Free Application for Federal Student Aid—and to meet financial aid deadlines imposed by colleges and universities, scholarships, loan programs, or other programs aiming to help them finance their way to a college degree.

Should these students receive Federal aid, the door to a college degree is opened. However, things are not completely rosy on the other side. A study released by the American Council on Education in November, 1999, states that regardless of race, economic status, or gender, most college students attend school part time and work long hours while enrolled. This jeopardizes their chances to complete a degree. The trend of rising costs for tuition, books and other associated expenses contributes

negatively to this, because students' anxiety increases with rising costs. Many feel that they must work even more to cover the growing tab for their college degree, which further jeopardizes their attainment of that degree.

Despite rising college costs, there is no question that a college degree makes a difference in an individual's earning potential. According to the U.S. Census Bureau, the average earnings of college graduates have risen over the last two decades, while wages for those with only a high school diploma or less have dropped.

Between 1978 and 1998, average yearly wages for those without a high school diploma dropped from nearly $20,000 to nearly $16,000, and wages for high school graduates went down by roughly $1,000 to about $24,000. In contrast, those with bachelors' degrees were making an average of $44,740 in 1998, compared to about $39,000 in 1978. Clearly, the importance of a postsecondary degree cannot be understated. What we must continue to do is help individuals finance their college education and overcome rising costs.

I am pleased that the Fiscal Year 2000 omnibus spending package included modest increases for Federal student financial aid programs. The increase in maximum Pell Grant award from $3,125 to $3,300 was needed. In addition, increases were approved in Supplemental Educational Opportunity Grants, Federal Work-Study, Leveraging Education Assistance Partnerships, and TRIO programs. I look forward to hearing about further funding needs in these Federal programs and their impact on college affordability.

Many students in Hawaii rely heavily on these Federal programs, and they will probably need them even more in the coming years. The University of Hawaii is currently considering a 5-year tuition increase proposal for many reasons, including: Budget cuts in recent years, low tuition compared with other schools, decreasing enrollments, and Hawaii's poor economy, as reported in the *Honolulu Star-Bulletin,* February 5, 2000. Unfortunately, this could reduce enrollments even further, particularly of those who may be considering moving from community college to the university level.

The University of Hawaii is not alone in considering tuition hikes. Therefore, even with increased funding for Federal financial aid programs in FY 2000, we have a lot to make up for. Education is often put on the back-burner when it comes to funding priorities. Instead, it should be a top priority because it is an investment in the future of this country. At this time, I would like to insert into the record a statement from University of Hawaii President Kenneth Mortimer.[1]

Finally, one aspect of this issue that I would be very interested to hear more about are differences among and within minority groups, particularly Asian Americans and Pacific Islanders. Many colleges and universities have worked diligently to ensure that the unique needs of minority students have been met. However, additional needs remain in minority communities, particularly in areas of high poverty in inner cities, rural areas, and certain island areas over which the U.S. maintains jurisdiction. Furthermore, tremendous variation in need exists within minority communities. In order to assess true need by race, we must strive to look at the data relevant to these communities disaggregated, in addition to as a whole.

For instance, among Asian Americans and Pacific Islanders, the aggregated group may be doing well in terms of financial access to college. However, when separating out East Asian Americans such as Chinese and Japanese, compared to Southeast Asian Americans such as Vietnamese and Laotians, and Pacific Islander Americans, such as Chamorros and Samoans, East Asian Americans are doing better than the other groups. I do not believe there is enough being said on this subject, and I urge our panelists to take this issue back to their organizations, discuss it, and start coming out with applicable data.

Mr. Chairman, and Senator Lieberman, thank you again for creating this opportunity to discuss this most important issue. I look forward to hearing the testimony that will be presented today.

Chairman THOMPSON. I would like to recognize our first witness, Jamie Pueschel, Legislative Director for the United States Student Association. Ms. Pueschel is a recent graduate who will testify about the pressures put on students seeking financial aid.

Thank you for being here with us today, Ms. Pueschel. Do you have a statement for us?

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[1] The statement referred to appears in the Appendix on page 307.

TESTIMONY OF JAMIE PUESCHEL,[1] UNITED STATES STUDENT ASSOCIATION

Ms. PUESCHEL. Good morning, Mr. Chairman, Mr. Lieberman, and distinguished Members of the Committee. On behalf of the nearly 15 million students across the country, I thank the Committee for holding hearings on this most important issue, college costs.

As the country moves into a new millennium and a new economy, it becomes increasingly important for the country to invest in the education of our young people if we want to continue to compete globally. Young people are feeling the pressure to get a degree now more than ever so that they, too, can participate in the booming economy. Every year, though, achieving that college degree becomes more and more difficult and more and more costly for students and their families. Annually, tuitions rise and students take out more and more loans to pay for college. Tuition and fees only comprise part of the cost of going to college. Students have to pay for room and board, not to mention books and supplies.

While graduating with a reasonable amount of debt is better than not having a degree and the opportunities that come with that degree, debt can affect the job a student takes, the place he or she lives, and the assets that student may or may not acquire. I am such a student.

I graduated from Claremont McKenna College in Claremont, California, in May 1998. My parents are both teachers and recently started a 7th through 12th grade Episcopal school in Lawrence, Kansas. I have an older sister who graduated from Tufts University and is a teacher in Boston and a younger brother who just started his freshman year at the University of Kansas.

I graduated with approximately $18,000 in Stafford loans and $1,000 in Perkins debt. While I was in school, I worked 15 to 20 hours per week under the Federal work-study program to pay for living expenses such as groceries and books. My parents made just over $50,000 combined while I was in college. Just to pay for my education, they took out more than $22,000 in PLUS loans. They had taken more out to pay for my sister's education.

I was lucky in that Claremont McKenna gave me between $10,000 and $15,000 in institutional grants every year, without which I would have accumulated even more debt or not been able to attend. Even with the grant aid, however, I could not have attended without these loans. Every month, I write a check for $208.32 to Sallie Mae and a check for $40 to Claremont McKenna. Nearly $250 of my monthly income is paid to student loans. I make $25,000 a year as Legislative Director of the United States Student Association, fighting to increase access to higher education for all students.

In applying for jobs after graduation, the most important factor was salary and/or help with loan repayment. While USSA does not pay the highest salaries in Washington, it is livable because of such loan repayment. Luckily, USSA as part of our philosophy provides $150 a month in that repayment. I would not have been able to take this job without that help.

[1] The prepared statement of Ms. Pueschel appears in the Appendix on page 95.

Beyond just job choice, though, I have little ability to save money and have no idea when I will be able to afford a car, let alone buy a house. This level of debt has limited my ability to fully participate in this economy through saving and investing.

This enormous burden students take on affects decisions this country must make, as well. Currently, this country is discussing the problem of teacher shortages and teacher quality. My family feels this problem acutely because my parents and sister are all teachers. As a Nation, we provide no incentives for our young people to go into teaching. Teacher credentials require a fifth, if not sixth year of school, therefore requiring the student to take on more debt, and then pay them meager wages in increasingly poor schools. My sister has an enormous amount of debt, has chosen to teach in low-income schools, and received little or no support for that decision. Business leaders are also complaining that they have an unqualified workforce and they need assistance in developing a qualified college graduated workforce.

My sister and I are merely representative of the education debt accumulation problem in this country. There are millions of students like me in this country and increasing numbers of such graduates. But let me tell you why, in spite of my debt, I am one of the lucky students. Not only did my parents go to college, they are both educators. They know the importance of a degree, but more important, they know how to get there. They know about applying to schools and how to fill out the FAFSA form. I understood taking on debt and paying it off. I knew that if I needed help from my parents, I could count on it. I went to a great high school that offered me a lot of support and counseling in applying for college. That high school gave me an education that prepared me for college. I am a traditional student. I do not have to worry about children or helping to support my family.

Students have always actively opposed tuition increases. Just this year, students at the University of Wisconsin system organized and passed a tuition freeze when they faced a potential 10 percent tuition increase. Students at North Carolina are fighting a tuition increase, as well. What is most interesting now, though, is that in some States, they are passing tuition freezes or cuts because the States are running such large surpluses. California's Governor Gray Davis is proposing a tuition freeze, and Republicans in the State are proposing a 50 percent cut to tuition. Williams College in Massachusetts recently decided to freeze tuition for the next school year, as well.

The College Cost Commission showed us that in financially difficult times, such as the late 1980's and early 1990's, when tuition increases were highest, States were cutting back on State support, thus increasing a family's percentage of income going to college. Now that the Federal Government and the States are seeing surpluses, tuition increases are low and, hopefully, State aid contributions will increase.

It is crucial for the Federal Government's role to increase and to work with the States to make colleges more affordable for students. Both the States and Federal Government are experiencing unprecedented surpluses. Such surpluses provide an unprecedented opportunity for the Federal Government to make some choices and in-

crease funding for programs that will truly help all students afford college and life after college.

I think everyone would agree that education is the best investment our country can make in its young people and the economic future of our country. It is certainly an important investment for my brother, sister, and I. Unfortunately, we may not be able to make any other investments for our future.

I thank you for allowing me to discuss with you my story of going to college and what steps would be useful in helping college students pay for school.

Chairman THOMPSON. Thank you very much, Ms. Pueschel. That is very helpful testimony and it really gives us an insight that we need in talking to real people and real experiences, and you help us do that.

I think I just have one question for you, but I think it is an important one, and that has to do with the attitude of young people as they are coming out of school, such as yourself. You have experience, not only your own experience, but you talk to other young people, so you would be a good witness on that.

It seems to me that you have followed what is becoming a traditional path, and I guess maybe has been traditional, in that you have pieced together money from loans, your parents have helped some, your college obviously has helped some, and you wound up with a pretty substantial debt as you come out. Everybody wants to get more for less, obviously, but the question we all have to come away with is what is fair, what is right. I think probably a lot of us, I know when I left college, I had some debt, much, much lower than what young people today have, obviously. Some of my kids did, too, and most of us pieced together those various kinds of things. There are more programs out there today than there used to be, but there still were some in the old days.

Just the fact that we are getting more into debt even in and of itself is not an indictment on the system. I just heard yesterday, for example, that I think the consumer debt, the average consumer debt in this country overall went up 7 to 8 percent just last year alone. We are all borrowing more. We are all living more on credit cards. But we see the astronomical rise in some cases of these tuition prices.

So balancing all that out, I am wondering, do American students believe they are getting fair value for the price that they pay for a college education? You are obviously getting something very important. You are paying a big price for it. Do you feel it is fair, and being as objective as you can, where are the shortfalls here in terms of how young people coming out of school today with some debt, but having a valuable commodity, how do you feel about it and how do you think most young people feel?

Ms. PUESCHEL. I think you raise a couple of really good points. What is interesting now about a college education is that we are almost required to have it so that we can compete in this economy and get the jobs that are going to provide us a home and provide for our families. I think that is a difference from years ago, where you could get a job without a 4-year degree, maybe a 2-year degree, and still provide for your family. I think that that is not true anymore.

Chairman THOMPSON. A high school education meant more then than it does now, that is for sure.

Ms. PUESCHEL. Absolutely. I think this chart[1] alone shows how little income has increased versus tuition, and I think we all see a value in what we get. I mean, certainly, I appreciate my education. I would not be here without it.

Is there a way to balance the price of tuition or the price of college with affordability? I think so. I think that we as a country need to look at how much we value college education and decide what steps we are going to take to make it more affordable for students. Students obviously are willing to take on the debt and go to school because we have increasing numbers of kids in college. Is that affecting our decisions afterwards? I believe so. But I think that we can work together with——

Chairman THOMPSON. You mentioned in terms of being a teacher or public service, from that standpoint, too——

Ms. PUESCHEL. Absolutely.

Chairman THOMPSON. In our Committee, we do a lot of work in the area of government performance and efficiency and economy, if that is not an oxymoron when it comes to the government, but we are increasingly concerned, even those of us who consider ourselves quite conservative as far as government is concerned, that we are losing out on bright young people coming into government to serve a little time—they do not have to spend their life there—because we are becoming more and more technologically dependent, for example. We talk about not only the technology we use, but the threats to our Nation from cyber terrorism and things of that nature. You really have to have good bright young, not necessarily young, but most of them in that area seem to be these days people coming in and spending some time and helping us with regard to that, and you see what they can do on the outside. So whether it is teachers, government service, whatever, what you are saying is that there are an awful lot of young people coming out with such a debt burden that it is making it difficult for them to make those choices.

Ms. PUESCHEL. It is scary to come out of college with so much debt, especially for a low-income student. I was a middle-class student. But coming from a low-income student's background, growing up in an area where people do not take out loans, that they do not ever own anything, and then looking at your future, not knowing if you are going to have a job when you graduate and looking at having to take out the maximum allowed loans in subsidized every year, which is what I did. Maxing out results in about $18,000 of Stafford loans.

It is really scary to look at graduating with a lot of debt and not knowing what you are going to gain. Someone might say, "Well, I will take this $6 an hour job or whatever because it is keeping food on my table right now and that is safe," even though the country would be much better off putting more of our kids into college. And like Senator Akaka said, reaching into our minority populations

[1] Chart entitled "Figure 6. Inflation-Adjusted Changes in Tuition, Family Income, and Student Aid, 1988–89 to 1998–99 and 1980–81 to 1998–99," appears in the Appendix on page 310.

that go to college at the lowest rates, helping them get into college and take the steps there.

But I think you are absolutely right. I mean, look at Congressional staff salaries. We are not talking about a ton of money here.

Chairman THOMPSON. Well, it seems pretty high to me. [Laughter.]

Ms. PUESCHEL. I think I just made some friends.

Chairman THOMPSON. Some of them are making more than we are. That is kind of a sensitive subject. [Laughter.]

Ms. PUESCHEL. They are certainly making more than I do. But anyway, I think that you are right. I mean, you talk to some of the business leaders, there are real complaints that they are not having a qualified workforce to hire. If you are a techie now, you are going to do OK, but for how long is that going to last? I just think we need to make some concrete steps to make sure that we maintain our economy.

Chairman THOMPSON. I get your point. I will just finish with you along the lines of the original question I asked. There was a Higher Education Nationwide Survey, out February 8 of this year, that said 73 percent of Americans believe that securing a college education is very important in helping someone to succeed. On the other hand, nearly half, 47 percent, say that those in college are not getting good value for their education. Almost half the people feel that they are not getting good value. That is of concern, because ultimately, that will produce bad things of various sorts if we do not at least get more transparency in the system so that people understand, if costs have to be high, that people understand why they are high. We do not do that very well, and especially to our young people coming out after running up all these bills. Thank you very much.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman. Thanks for your testimony, Ms. Pueschel, which has been very helpful both in terms of your personal story but also insofar as you're representing the United States Student Association. I thank you for that.

I think your personal story reminds us of the pressure, not only on those who are lower-income, in finding a way to afford college, but on those who are not, in conventional terms as we understand it, poor as your folks, but nonetheless take on a tremendous burden and that you take on a tremendous burden financially, as well. I am struck by the fact that your Mom and Dad together make around $50,000 and they took on a loan indebtedness of $22,000 for your education. I may have missed this. Did you at any point get a scholarship grant from your college?

Ms. PUESCHEL. Yes. The money I got was in the form of a grant.

Senator LIEBERMAN. It was? OK, then that was in addition to the loan indebtedness of the $18,000 that you took on and the $1,000 or $2,000 additional that you mentioned.

That just points out, the Pell grant program, which is a wonderful program, obviously does not reach a family like yours, does it?

Ms. PUESCHEL. It helps—and it is supposed to help the lowest-income students who most likely would not have gone to college without it.

Senator LIEBERMAN. I know it is a sliding scale. I notice in some of the material I have that the average family income of Pell grant recipients, that is, students who are dependent on their parents for financial support in 1996–97 was $19,260. So it is a great program, but it does not reach up to where you are.

Just two quick questions, because I think the Chairman asked you the questions that I had in mind, as well. One is, does the Student Association have any particular proposals? I mean, one of the things we are going to try to do here today and tomorrow is to talk about why tuition is as high as it is, how are the aid programs affecting it, etc. But does the Association have any priority proposals as to what, for instance, Congress might most effectively do to deal with this problem?

Ms. PUESCHEL. I do not know if you actually want to ask me that question for proposals. There are lots of things that we would like to do.

Senator LIEBERMAN. Just give me the brief form of the answer.

Ms. PUESCHEL. I do not think anyone has come up with a great answer on college costs. I think States have a great opportunity now with public colleges to keep down their costs or to freeze tuition, and I think the Congress has a great opportunity to catch up as far as on our grant programs like the Pell grant. The College Board also puts together wonderful statistics on what percentage of college Pell grants make up. Twenty years ago, for a public institution, it comprised 60 or 80 percent of tuition at a public 4-year college. Now, it is down to 40 percent. So there are places that we can make leaps and bounds in our funding to really make up for the differences now that we do have a surplus.

Senator LIEBERMAN. Let me just stop you. So, in other words, one thing you are proposing is to expand the income eligibility levels for Pell grants and the amounts of the grants?

Ms. PUESCHEL. Well, whenever you increase the amount of the grant for a Pell grant, because of the way it works on the graph, the highest amount goes to the lowest-income people, and whenever you increase it, it pushes into higher and higher incomes. The minimum grant a family can receive is $400. There are other programs, like SEOG, a matching program with institutions that provides a ton of grant money, I think a maximum of $4,000 now, to really low-income kids. The LEAP program is a State grant matching program, as well as the opportunity to do things like making Pell mandatory. That is a pretty out-there thing to say right now, but we actually have the money. We are spending it on——

Senator LIEBERMAN. What would it mean to make it mandatory?

Ms. PUESCHEL. Take Pell out of discretionary funding and make it an "entitlement." And we could fund it at much higher rates now. The President just proposed spending $30 billion on tax incentives. Making the program mandatory and increasing it, doubling it, would cost less than that.

Senator LIEBERMAN. Would you prefer that as opposed to the proposal that the President made for the money going to the Pell grant program?

Ms. PUESCHEL. I think we always like to see money put into grant programs as opposed to the tax incentives, because we still have a large population that is not going to college that would not

without Pell and other need band grants. I am a student that would have gone to college anyway. It is just unfortunate, the debt I have to face afterwards.

Senator LIEBERMAN. Thanks very much. Just one comment that Senator Akaka's opening statement and your response to it brings to mind, which is in terms of the special needs of lower-income kids and either minority or first-generation Americans, which is that if you look at the demographics, our population of children in the decades ahead is going to become increasingly, what we refer to now as minority populations, and probably increasingly from lower-income families, so that our ability as a Nation to continue to have the bright minds, the innovators, will be increasingly affected by our ability to make it possible for lower-income kids, minority kids, to get a higher education. So the problem as we go along is probably going to get more demanding because of that demographic change that we see coming, that a greater proportion of the kids are going to be from the families that are going to be most in need. Thanks so much for your testimony.

Ms. PUESCHEL. Thank you.

Chairman THOMPSON. Thank you very much. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Ms. Pueschel, I was very interested in your testimony and I want to follow up on the questions that the Chairman and Senator Lieberman asked you. You mentioned that you graduated with some $18,000 in debt, and that was the experience that I saw with students at Husson College, where I worked, as they were graduating with this mountain of debt. And one of the reasons, and I have asked for the chart [1] to be put up, is that the ratio of grants versus loans has changed dramatically in the last 10 years. Where it used to be that Federal assistance covered more of the cost through grants, now much more of it is covered through loans. It is essentially reversed of what it used to be.

I found at Husson, where I worked, that some students got so discouraged by the prospect of facing this mountain of debt that they dropped out of school and went to work. Has that been your experience in talking with students, that the changing ratio and the prospect of being faced with 10's of thousands of dollars of loan payments due after graduation discourages people from remaining in school?

Ms. PUESCHEL. I think that is a huge problem right now. There are a couple of reasons kids drop out, one being the seemingly insurmountable amount of debt that they are going to take on. One is that there is not much consistency in your aid package from year to year. Annually, you take out more and more loans. The way our maximum loan amounts you can take out work is it is capped, I think, around $2,500 in your freshman year and it increases to about $5,000 in your senior year. So every year, you are taking out more and more debt. That is scary, especially if you can go out and get a job and pay for things right now. Meanwhile, you are going to leave school with debt and not have a degree.

[1] Chart entitled "Percent Share of Grants vs. Loans, 1980–81 to 1998–99," appears in the Appendix on page 311.

Some kids come from high schools that do not provide as great an education as mine did and they get into a classroom with 500 other kids in their freshman year math class and they are not doing as well as some other kids and that is awful. They do not see a point if they are taking on all this debt and are not doing very well. Why should I stay in this? I can go get a job, and subsist. But that is a problem, because you are forcing kids to drop out without a degree but with debt.

Senator COLLINS. And as you have pointed out, that debt load also discourages students from pursuing careers where they might make a real contribution, say in teaching or in public service, but because the salaries may be lower, they just feel they cannot take on those careers.

I know my work-study student at Husson College was going back to her hometown in northern Maine where income levels and salaries are very low and she was faced with a debt load of $18,000 that she was going to have to pay back. In fact, she was the inspiration for my introducing a bill to allow the interest on student loans to be deducted was her experience. I think it raises a very important policy question for us as Senators on where should we put the money. Should the money that we appropriate go to tax credits or tax deductions? Should it go into Pell grants? Should it go into student loans? What is the right mix for making sure that we are doing as much as possible to expand access? I think your point about the need to expand Pell grants is very important in that regard.

My final point, I think you have raised a very important issue about whether there is a bit of a bait and switch going on at some colleges, where the colleges will provide more institutional grant aid in the freshman year and then gradually take some of that away and change it to loans for the sophomore, junior, and senior year. I have heard that complaint from many students, and I think that is something we need to bring up with our college representatives, as well.

Ms. PUESCHEL. I agree. It is scary when you are getting your loan package every year and it is different.

I am glad you brought up the student loan interest deduction, because that is another area that we can really help our graduates out. The President has put it in his budget a second time. The Senate passed it last year with Ms. Snowe making an amendment to change it into a tax credit.

I just got my little slips in the mail that told me how much interest I paid last year, and I paid about $1,400 in interest alone last year, and I can tell you, it would be really helpful to have that back in a credit. Right now, I can only deduct it for the first 60 months of payment, and for those students who have the most amount of debt, that pay over 25 years, it would really help them out for the next 20 years for them to be able to take that deduction.

Senator COLLINS. Thank you very much, Mr. Chairman.

Chairman THOMPSON. Thank you. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman.

I want to commend you for your many accomplishments in this early age of your life. I believe that the struggle you and your family endured in financing your college education and that of your

siblings is typical of the struggle of many middle-class Americans, and I am pleased to note that you were successful in your endeavors, but disheartened by the substantial education debt that you occurred. Eighteen-thousand is huge. I applaud your concern and recommendations for increased aid for low-income students, and I agree wholeheartedly with your recommendations to provide economic relief across the economic spectrum.

I would like to thank Senator Lieberman for mentioning the issue in my statement regarding minority students. I would like to at a later time see anything that USSA might have produced in relation to this issue, unless you have any comments at this time on this.

Ms. PUESCHEL. We would be happy to share any of our research with you. We have a largely minority population in our membership and have our Campus Diversity Project, which operates out of our office, which is continually working on the issues of recruitment and retention of students of color, especially from low-income backgrounds, and we would be happy to share with you at any time what we work on. We work on affirmative action and programs that are going to make sure that students stay on campus, such as support services, but we would be happy to share that with you at any time.

Senator AKAKA. In a section of my statement that I submitted for the record, I mention a study released by the American Council on Education in November of last year. This study said that regardless of race, economic status, or gender, most college students attend school part-time and work long hours while enrolled. This jeopardizes their chances to complete, in some cases, a degree. What are your thoughts on this, and maybe even touching on what reasons, other than the need to pay for their education, convinces students that they need to work while in school.

Ms. PUESCHEL. Federal work-study becomes part of your package, as it was part of mine. Often, students, though, who are nontraditional students, students who are first generation, students with children, students going back after a long time, veteran students will work outside of school, not in the Federal work-study program, to make up for either their family costs, helping to help out their families if they come from a low-income background, paying for their own children, just regular costs of school.

The important factor, I think, for all of us to recognize is that the amount of money required to go to school far exceeds tuition and fees. Room and board are issues, even if you do not live on campus. Your books are extraordinarily expensive.

But as a lot of people report, students are working at extraordinarily high levels these days, often well over part-time, and I think cost is part of that, a large part of that, because families see no other way to afford it unless their kids are working. It makes it harder for you to focus on your studies. It makes it harder for you to take a full load and graduate within 4 or 5 years and is extending the amount of time that you—because of work and because of the extra time spent in school—are going to be taking out more debt.

Senator AKAKA. My last question for you, in thinking of all of the experiences that you have had, what recommendation would you

now make to a high school student, a high school senior who is looking at college, regarding their options or opportunities for financial aid?

Ms. PUESCHEL. Well, I would talk to them about the difference between going to a private school and a public school. I am certainly feeling that now. I would talk to them about the different options they have got as far as Pell grants, SEOG, LEAP, any community scholarships they can research, talk to their own financial aid officers, develop a relationship with your financial aid officer and work on ways that the institution can help you out to find some other scholarships that will last you through the 4 years, not just for the first or second year, so that you can maintain the same level of grant aid over the 4 years.

Senator AKAKA. Thank you very much for your response. Thank you, Mr. Chairman.

Chairman THOMPSON. Senator Durbin.

OPENING STATEMENT OF SENATOR DURBIN

Senator DURBIN. Thank you, Mr. Chairman, and thank you for your testimony today, which I did not hear in person but I read, and I thank you for being here.

It is interesting, we focus on the Federal scene, as we must because that is our responsibility, but a little bit of research that our office has done has shown that since 1980, State revenues for higher education have decreased almost $1,200 per student in constant dollars. Tuition revenues have increased by over $900 per student during this period. So at the same time as we are having more loans than grants, the Pell grant is not keeping up with the increasing cost of tuition, States are putting less money in higher education, forcing institutions, public institutions, in particular, to raise their tuition to make up the difference.

Another factor contributing to increased student borrowing is that in the last 20 years, the relative value of the maximum Pell grant has decreased by one half. In 1979–80, the maximum Pell grant of $1,800 represented 47 percent of the total cost to attend the University of Illinois. In 1999, the maximum Pell grant of $3,125 represents only 23 percent of the estimated cost of attending the university.

At the same time, I might add, that we are debating increasing the minimum wage, which I think should be done and should have been done a long time ago, a lot of students trying to supplement their incomes are working in fast-food places and whatever they can find and often making a minimum wage. When we talk about the minimum wage, I think we overlook that, that some students get by on it. I did it when I was in school. I bet you did, too, those types of jobs.

Ms. PUESCHEL. Yes.

Senator DURBIN. So I thank you for being here today and for your testimony, and because I came in a few minutes late, I will not delay the hearing any further. Thank you.

Chairman THOMPSON. Thank you very much.

Thank you very much. You have been very helpful to us.

Ms. PUESCHEL. Thank you.

Chairman THOMPSON. We appreciate your being here.

Our next panel consists of highly distinguished members of the academic community. They will discuss how colleges and universities manage costs and set tuition.

This panel will include Dr. William Troutt, President of Rhodes College, Chairman of the National Commission on the Cost of Higher Education; Dr. David Breneman, Dean of the Curry School of Education at the University of Virginia; Professor Caroline M. Hoxby of Harvard University; Dr. William Massy, President of Jackson Hole Higher Education Group; and Dr. Claire Gaudiani, President of Connecticut College.

Dr. Gaudiani, I understand you have a plane you have to catch and you probably are going to have to leave here in about 15 minutes. If it is all right with everyone else, would you give us the benefit of your statement first?

Senator DURBIN. Mr. Chairman.

Chairman THOMPSON. Yes?

Senator DURBIN. May I, just a moment, ask for consent to enter into the record a statement from the University of Illinois on this issue? [1]

Chairman THOMPSON. It will be made part of the record.

Senator DURBIN. Thank you.

TESTIMONY OF CLAIRE L. GAUDIANI, Ph.D.,[2] PRESIDENT, CONNECTICUT COLLEGE

Ms. GAUDIANI. Thank you. Thank you very much, Mr. Chairman. I appreciate the grace of my colleagues and you and Senator Lieberman and the distinguished panel in permitting me to go first. I am, in fact, going back to New York to be part of a panel honoring and working on the work of Senator Fulbright.

I come to you probably looking—well, let us say, hopefully, after 12 years, looking like a college president, but actually being a scholarship student, the oldest of a family of six, and benefitted from scholarships both as an undergraduate at Connecticut College and then through the National Defense Foreign Language grants support through my Ph.D. My husband and I—also, my husband was a scholarship student at Princeton and also did a Ph.D. under government support, and both of us finished paying back our college and university loans the year our children went into private high school education.

Chairman THOMPSON. I had the very same experience.

Ms. GAUDIANI. So when I look at indebtedness, I want us all to be sure we know this is not a new trick. It is a persistent problem and we need to address it vigorously.

But our Nation has been built on the American dream, which is people who are able and are willing to work hard will have opportunities to contribute their full giftedness to the strength of this democracy and their own personal and their family's advancement. I am going to speak to you today about one major item I hope you will consider in the coming days and in your work enabling more support to come to American citizens who need to continue to benefit from financial aid.

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[1] The prepared statement from the University of Illinois with attachments appears in the Appendix on page 290.

[2] The prepared statement of Ms. Gaudiani appears in the Appendix on page 100.

I do not need to remind this distinguished panel that probably the best money we have spent in this century was on the GI Bill, which enabled a whole generation, including, for many of us, our fathers' generation, to make the kind of contributions that fueled the economic progress we have in place right now.

The change in financial aid in the early 1960's that addressed some of the issues that Senator Akaka brought forward was another major realteration in financial aid which said aid will be need-based. That is, we are going to make sure that any citizen who needs aid will go to the institution that he or she is able to get into and will not be forced to go to another institution, perhaps of lesser rank, because the institution is more expensive or because the student has received less financial aid. I think that is a critical commitment for me as a college president and primarily as a scholarship student to bring before you.

What I am concerned about is that in the financial pressures that colleges and universities have faced, which my colleagues in economics will share with you, in the pressures we faced in the last decade, there has come to be an alteration in the way financial aid, institutional financial aid, is being used in some campuses, and I want to bring this to your attention not because I am unhappy with my colleagues who face, like I do at Connecticut College, the tremendous pressures on our budgets to produce a very stronger faculty.

If faculty salaries drop, of course, we have young people who go into other jobs, and you have all seen what happened to young lawyers' salaries recently. Well, I can tell you that did not happen to America's faculty salaries in the last couple of months. But if we are going to have the best and the brightest in the classroom, we have to have faculty salaries at a significantly strong level.

The same thing with the price of technology. Colleges like mine have to have nuclear magnetic resonating spectrometers. We have to have very expensive infrastructure, that is, technological infrastructure, in order to provide the quality of education that will fuel America's wealth in the next and coming generations, and that has to be available for all students. But I am going to leave to my colleagues more fit than I the job of explaining our cost structure, and also I very much appreciate Senator Voinovich's concerns.

Chairman THOMPSON. You are going to opt out on that question?

Ms. GAUDIANI. No, I just know when I have masters and mistresses of knowledge in the room. But we have, for instance, at Connecticut College gone through a cost restructuring program about every 3 years to keep taking costs out and assuring that we are spending our money in the absolute best places. The board has made a commitment to raising tuition within a point to a point-and-a-half of inflation and try to respect the ratios that you have seen up here.

But the problem that I want a moment to bring before you is that over the last, let us say, 15 years, there has been an alteration in the way institutions' scholarship aid has been offered, and it is increasingly moving toward, at many institutions—not all, of course—merit aid, and that sounds wonderful. Let us reward merit. Unfortunately, it is not really merit aid at a significant and rising number of institutions, and let me just run a little scenario.

Imagine that I am a college president looking at my board of trustees and I need to fill beds and I need to make the bottom line work. A consultant comes to me and says, let me help you out. You know that $30,000 scholarship to cover full tuition and room and board and fees and books that you would be prepared to give to a student who comes from a low, very low-income, first-generation family, let me show you how to use that aid.

Instead of giving that scholarship to one student who will take up that aid, $30,000 a year, 4 years in a row, let me show you some magic. We are going to give that scholarship to six no-need students, students whose families may make $400,000 a year, completely out of the need-based category, and each of those students is going to get $5,000 of merit aid and we are going to do a study using information readily available in the public sector in credit studies and credit card studies and we are going to tell you the price point sensitivity of those families and you are going to leave no money on the table.

So those six students getting those $5,000 merit scholarships are going to pay you the rest of the $25,000 in tuition. So, my dear president, you are going to get a big chunk of cash, $25,000 times six, $150,000 for that $30,000. How does that grab you?

Now multiply that times four and tell your board that one full-time scholarship divided like this not only fills six beds and brings you $600,000 in 4 years, but it also brings you families to whom you can go for annual fund gifts. They are going to be grateful, happy, wealthy families, because you know what? That student has not gotten a merit aid scholarship anywhere else. Connecticut College would not give that student a scholarship because Connecticut College and many of my sister and brother institutions give the men and women who apply to Connecticut College need-based aid.

I believe that this is a problem we have to look at in higher education. It is making the scholarship money of an institution operate as a business resource. We are tax-exempt in higher education because we are supposed to be developing social capital. We are supposed to be returning to this Nation a higher set of opportunities in each citizen that can be played out over a lifetime.

My brother's scholarship at Harvard has given the Nation a cardiac thoracic surgeon of the first order who has done research, who has done transplant surgery, and has spent a career giving back to his country and has sent three daughters to Harvard on his own nickel, one of whom is already in medical school.

My sister who was on a scholarship at Bryn Mawr is a double board certified endocrinologist with four children who are in private school at her and her husband's expense, and she is returning to this country the benefits of her scholarship. And my brother who is a corporate executive, the same, only his kids are 4 and 2 years old, so they have got a ways to go.

My point here is that it is important for us to look at institutional financial aid as a national resource to build social capital, not as a bottom-line business asset to create the kind of resources that the institution can use for other purposes.

So I would draw to your attention what I believe is a hotly contested issue in higher education, and I realize I may not be making some friends among my colleague institutions by bringing this up,

but I think it is important for us to call this by its right name. It is not merit aid, because these students are not more gifted than students who do not get this aid, who do not receive these merit scholarships. They are students whose families show in the credit reports available price point sensitivity. That is, they are the kind of people who are looking for discounts and will come to your institution if you give them that aid, and they are people with money who will be able to provide you with money going forward.

We need to use our institutional financial aid resources to bring the best and the brightest from all across American families to the best quality education that we can give them access to, and for the most part, to be quite frank, they should not be in mathematics courses as freshmen with 500 other students.

High quality education is expensive. It is impossible to get economies of scale when we are raising human beings, and we could look to science and to our own biology. We do not give birth to litters. We give birth to babies, mostly one at a time, and they take about 20 years, if we are lucky, to get them independent. Colleges and universities that are able to afford class sizes that are manageable and educational opportunities that permit teachers to really know students and guide them, that is the quality of education that this Nation deserves in the coming generation.

We need to reduce the debt burden. You have heard some good ideas. You have some good ideas. I firmly support the expansion of Pell and the SEOG grants, but I also want to suggest that we look into debt forgiveness, not only the tax credits for indebtedness, but actually debt forgiveness.

David and I, my husband and I, had debt forgiveness for teaching. That was a big help in managing our loans and young family. We could have debt forgiveness not only if people go into certain professions at certain income levels, but also debt forgiveness for civic engagement. It is very important for the best educated citizens to be willing to participate, as I am seeing in my own city of New London, in running for city council and being members of planning and zoning commissions and participating in the life of our democracy, and it might be that we should look into some method of debt forgiveness for citizens who have loans and who are willing to participate actively in local government and other nonprofit opportunities for civic engagement.

We have a country that was built on a dream, and it is our responsibility to make sure that the dream can continue to be maintained at all income levels and that our country as we move forward will benefit from this great asset, which is America's higher education.

That is the end of my formal testimony and I would be pleased to take questions.

Chairman THOMPSON. Thank you. Thank you very much.

Senator LIEBERMAN. Thanks, Mr. Chairman.

Ds. Gaudiani, if you are going to get that plane, I am afraid you should go. I do not want to risk that. I just wanted to thank you. Your testimony was stirring, as is your story, and I appreciate it.

I guess, just boiling it down to a really quick question targeted, what can we in government, if anything, or you in higher education, do to counteract the problem of merit aid as you have de-

scribed it, which to me in some ways seems as if we are making—we are asking colleges to be more like businesses, but part of what you are describing is a situation where colleges really are acting like businesses and making a business, not an education, judgment about how to use their aid.

Ms. GAUDIANI. Well, I think we have to make a very important distinction here, Senator Lieberman, and I am so grateful for your leadership here and the leadership of Senator Thompson, and Senators Collins, Akaka, and Durbin.

The critical issue you are asking is the critical issue we are facing in higher education. We have got to act like businesses in cost reduction and in cost management, and we have tried to do this at Connecticut College. In fact, our planning and management system is a case study at Harvard School of Education that is taught every year and showing other academic institutions how to do management and planning.

But we are not businesses. We are fundamentally not businesses. If you go in to buy a car, no one asks you whether or not you are willing to fill out an application so that the car dealer can decide whether or not you really ought to be driving a Lexus or a Taurus. We are not businesses. You apply to get into colleges and you have to prove by what you have done ahead of time that you are worthy to be there. And no one comes to you and takes back your Lexus or your Taurus if they decide they do not like your driving style. You get to keep the car if you make your payments. That is not like higher education.

So I believe we have created some of this problem in the last 10 years in the way we have not faced up to the work that the country wants higher education to engage. We need to be told to manage our costs and to use the best wisdom, as Senator Voinovich mentioned, of private enterprise to control costs and to manage well. But we need to be told that our job is to enhance social capital and that in order to do that, we should not use our funds as a business resource but, in fact, as a resource to develop America's human capital and to assure that no student is left at home without that $30,000 scholarship that that expensive student is going to cost the institution because the money has been used more wisely from a financial standpoint by the institution.

So I think we probably need a small study group of our leaders in government and in higher education to look at this in the context of the pressures on higher education to meet the expectations of business and to see that the results of that, in fact, are to leave young people on the sidewalk in some of our lowest-income neighborhoods, and also our middle-income neighborhoods, at our great peril as a Nation.

Senator LIEBERMAN. Thanks so much. I appreciate your twisting your schedule around to come, but it turns out that you are a perfect, I think, complementing witness to Ms. Pueschel in your story and the position you occupy. I just want to say that I feel badly for your brother, the corporate executive, because he is the only one at the table who cannot be called doctor. [Laughter.]

Give him my regards.

Ms. GAUDIANI. Thank you very much.

Senator LIEBERMAN. Thanks. Have a safe trip.

Ms. GAUDIANI. And thank you very much, distinguished panel.

Chairman THOMPSON. Thank you very much.

I will now call on Dr. William Troutt, President of Rhodes College and Chairman of the National Commission on the Cost of Higher Education. Dr. Troutt has a special place in my heart. He was President of Bellmont College when two of my children graduated from there, so we have been very proud of his achievements and leadership. Dr. Troutt.

TESTIMONY OF WILLIAM E. TROUTT, Ph.D.,[1] PRESIDENT, RHODES COLLEGE, AND CHAIRMAN, NATIONAL COMMISSION ON THE COST OF HIGHER EDUCATION

Mr. TROUTT. Thank you, Mr. Chairman, for the opportunity to be here before you and your distinguished colleagues this morning. If I might, let me submit my written testimony for the record——

Chairman THOMPSON. All prepared statements will be made a part of the record, and feel free to summarize.

Mr. TROUTT. I will use this time, then, if I might, to make five points that I hope will provide some context for our conversation today and hopefully connect with some of the concerns you have already raised.

Point No. 1, college cost is one of those topics that grows in complexity the more you talk about it. Chairman, it is not unlike Tennessee goat meat. The more you chew on it, the bigger it gets. [Laughter.]

Well, why is that? First of all, college finance works differently. In the world of commerce, price equals cost plus, hopefully, some profit. In the world of higher education, price equals cost minus subsidy. We also do not have the best vocabulary for talking about college costs. The distinction we make about four different terms is very important: Price, the tuition and fees we ask students to pay; cost, what institutions spend to educate a student; subsidy, the difference between price and cost; and net price, what students pay after financial aid is subtracted.

At Rhodes College, it works something like this. Price is about $18,500. The cost of educating that student is about $32,000. The subsidy for every student is about $13,500. The net price that three out of four students pay at Rhodes College averages $9,000.

We also have a very diverse system of higher education that adds to this complexity. American colleges and universities vary in their missions, in their sources of subsidy, and in the size of their subsidy. As you know, States vary greatly in their ability to support higher education. Private college endowments vary dramatically. We have 27 private institutions in this country with an endowment of $1 billion or more. We have over 1,500 private colleges and universities with an average endowment of about $10 million. Subsidy and cost both have a lot to do with price.

Point No. 2, a number of factors drive college cost. Some are obvious and have been mentioned already today—people cost, technology, facilities, financial aid—and some are not so obvious—regulatory compliance and the expectations that students and families

[1] The prepared statement of Mr. Troutt appears in the Appendix on page 103.

bring to campus about everything from support services to facilities.

Point No. 3, it is difficult to connect the availability of Federal student aid with rising college prices. Our National Commission on College Costs found that Federal grants did not contribute to rising prices. But we could not find convincing evidence that loan availability affected tuition increases. More definitive research is needed. On a personal note, let me say that in 18 years of building budgets for the administrators and trustees, I never heard anyone propose raising tuition to capture more Federal dollars.

Point No. 4, colleges and universities are taking steps to control costs, as you have already heard this morning. Price increases are moderating. This year's tuition increase for 4-year private institutions is the lowest in 27 years. Academic leaders are taking steps to manage costs.

At Bellmont, where I served as President for 17 years, we were able to significantly cut class offerings without sacrificing quality. We were able to reduce energy expenses. We were able to reduce staff through a redesign of work processes.

At Rhodes, where I serve today, we have joined with 14 other leading liberal arts colleges across the South to share resources and contain costs through innovations ranging from a virtual electronic library to a virtual classics department, from joint technology training for faculty and staff to jointly sponsored study abroad programs. More can be done and must be done, but campus leaders are taking public concerns about rising college prices seriously. You have got our attention.

Point No. 5, much work remains to be done, not just in containing costs, but in sharing information and building knowledge. American families need to know more about college prices and about the availability of aid.

Your hearing today is a reminder of how important this issue is to American families and how essential it is for all of us to work together to keep American higher education affordable. Thank you for this opportunity to share today.

Chairman THOMPSON. Thank you very much.

I will now call on Dr. David Breneman, Dean of the Curry School of Education of the University of Virginia. Dr. Breneman.

TESTIMONY OF DAVID W. BRENEMAN, Ph.D.,[1] DEAN, CURRY SCHOOL OF EDUCATION, UNIVERSITY OF VIRGINIA

Mr. BRENEMAN. Thank you, Mr. Chairman, Senator Lieberman, and other Members of the Committee. I am going to enter this through the standpoint of the media, because as I suspect my colleagues have the same experience, I must get two or three calls a week from a reporter who is going to write the definitive story on college costs.

Now, as I reflect over those hundreds of conversations, I have never had a reporter ask me about the soaring cost of community college education, where 43 percent of our undergraduates are enrolled. I rarely, actually, have them ask me about the soaring cost of public universities, where 37 percent of our students are en-

[1] The prepared statement of Mr. Breneman appears in the Appendix on page 110.

rolled. What they wind up doing is obsessing about the rising costs of about 40 or 50 colleges in this country, mostly private, highly selective, and highly prestigious. So they wind up really writing about what, in my own view, is where their news editor's child wants to go, and so the reporter is tilted toward a focus on this particular set of schools.

Chairman THOMPSON. For the record, we do not associate ourselves with any of those. [Laughter.]

Mr. BRENEMAN. I think then they write stories like *Newsweek's* famous $1,000-a-week story or the story in *Time Magazine* about Penn and so on, and I think this creates a sense of panic among parents, many of whose children will never have any interest in going to such schools, but it filters down and I think it helps create a perception that college is vastly more expensive than the reality shows.

On the other hand, people act on their perceptions, and as the polling data show, the most serious concern most people express about higher education is exactly the subject of today's hearing.

Now, in terms of a theory to determine the cost of college, there are lots of them out there, but I have always been struck by Howard Bowen's notion, the distinguished economist who was President of Grinell and the University of Iowa, and after studying this for some time, he came up with the revenue theory of cost, namely that colleges raise all the money they can and they spend it on good and useful things.

The point of this, if there is any truth to it, is that it means there really is not an objective standard by which to say how much a college should spend. It becomes a relative standard, pure comparisons.

As you know, I am sure, Senator Collins, from working at a college, every college has a set of peers and everything we do is indexed relative to our peers. So we do not shoot at an absolute cost figure, we shoot at a relative or a positional cost figure, and things like the *U.S. News and World Report* rankings just reapply this into a more significant competition.

Now, we are an institution or an enterprise marked by multiple sources of revenue. I will not renumerate them for you, but we all know what they are. Tuition is just one of many. When one goes down, administrators seek to raise another one. For example, in the early 1990's when the States were cutting back sharply on their public appropriations, we turned to tuition increases and private fundraising. The University of Virginia in response to this undertook a massive capital campaign that has just gone over $1 billion. We did this in large part to replace the State money that was no longer there.

Now, the diversity of the revenue stream means that the analogy to health care costs, which often gets invoked—Secretary Bill Bennett did this for the first time some years ago—is simply wrong because there is not a single dominant third-party payer in the higher education system. There are a lot of payers, no one of which is dominant.

My own sense, and I agree on this with the Cost Commission, is that objective evidence shows that Federal grants do not have one

smidgen to do with tuition increases. It just does not work that way. If you raise your tuition, the Pell grant does not go up.

The case of loans is much more controversial and hotly contested, and I, to be honest, have not seen a definitive study on this. Federal loan programs are capped, but you have a multitude of private loan programs and you have home equity loans and a variety of other loan sources and it is hard for me to believe, frankly, that somehow this has not played into some aspect of tuition increases.

On the other hand, what do you do about that even if that were true? I hardly believe it would be acknowledged by most parents that taking away access to loan capital would be an improvement. So it is a dilemma. How do you do something about it, even if you could establish that case.

I will say that the much discussed tuition tax credit does carry with it the incentive for tuition increases, potentially in the public sector to make sure that the tuitions are high enough to capture the full credit, if they are below it, and in the private sector, schools have the opportunity to offset some of their own institutional aid funds against the credits. So I think you do run the risk of setting up an incentive program for cost increases or price increases in those programs.

The next point, very briefly, is that I think you have to do separate analyses for tuition setting in the public and the private sectors. In the public, price is a political decision. It is manipulated or influenced or set, even in some cases, by governors and legislatures at the State level. As far as I can see, I see no Federal role at all in getting into that thicket other than to be aware of the incentives that your programs may be putting out there, such as the tuition tax credits, that may influence that State-level decision.

Governors, for example, right now, in response to tuition increases in the early 1990's, a number of the States and a number of the governors are intervening now to buy down those tuition increases. Virginia just took a 20 percent reduction in its in-State undergraduate tuition driven entirely by the governor and legislature.

In the private sector, the market is the arbiter, and again, with my colleague, I agree. The majority of private colleges struggle to make ends meet and they are discounting heavily. It is not unusual to find 40 to 50 percent of your total gross tuition revenues being discounted in order to fill the class. I do not see any role the Federal Government can play in going in and trying to fool around with the pricing in those schools. They are so close to the margin, frankly, a number may indeed not survive the price wars of the next decade or so. They are in real trouble.

That brings us back, alas, to these 50 or so extremely wealthy institutions that have had their endowments expand by incredible amounts in this utterly unpredicted bull market of the last 10 or 15 years. This is the group of institutions that fuels the media interest, rightly or wrongly, and I am not attacking them, I am just saying, the fact of the matter is we have a very strange and widely dispersed market now of higher education, much more divided into wealthy and less-wealthy institutions than we used to.

And you have to modify Bowen's revenue theory with regard to those top groups because they do not raise all they can. Their tuitions, in fact, are considerably lower than they could charge with

the applicant pools they have, so they restrain themselves already on the price side, I think for political reasons, and increasingly, they are saving a great deal of the money they raise through transfers to endowment.

With the Williams College decision, which was mentioned earlier, announced 3 or 4 weeks ago, Williams decided they were going to freeze their tuition, and my view is that that is an attempt by the administrators at Williams to send a signal to their peers that politically—this is not an economic move, this is a political move—signaling their peers that it is time, for political reasons, to either freeze or hold down tuition increases, to take the heat off.

Now, I have written about that and it is part of my testimony. My sense is that their peer institutions will do everything they can to marginalize and box Williams into a corner, make them look stupid. If they do not follow their lead, then the fact of the matter is, Williams will have to raise their tuition again next year and this one-time incident will be forgotten.

I think that would be a pity, because I think Williams is trying to address a real issue here, but it is virtually impossible for a single institution to single-handedly try to alter this market. So in a way, it is a fool's errand, if you will.

The one thought I did have, though, I do believe these extremely wealthy institutions are in what one economist has called a positional arms race, and I think they might like to mitigate that. The antitrust case of 10 years ago has cast such a chill over the environment, that these institutions do not have the opportunity to even talk together about what might be a rational response.

I guess if I have one idea on this subject for the Committee, it might be to revisit the implications of that antitrust act and think through whether there might be some way that these institutions collectively could do something for the public that individually they cannot do.

Finally, it seems to me the danger in the current situation is that with all of the fears about the rising cost of college, that financial aid funds are being, as Claire suggested, diverted away from financially needy students through government responses to the perceived crisis, be it tuition tax credits, prepaid tuition plans, or tax-deferred savings. All of the things that we keep coming up with the last few years have the feature that they only benefit those that are already at a significant wealth level. Low-income families essentially cannot take any benefit from the programs.

But what I worry about in this, in an odd sort of way, is that the failure we may be reckoning with here is that political responses at the Federal and State level to this crisis may actually in some ways make some aspects of the problem worse. If I were testifying tomorrow, I would share the suggestion of the representative, Ms. Pueschel, which was that given the tax credits, which are entitlements, and guaranteed loans are effectively entitlements—once you are eligible, you get it—that I think in a time when we have a surplus, we ought to make the Pell grants an entitlement, because I do worry that the one program that specifically addresses the needs of the very lowest income is put on an annual appropriations cycle whereas the rest are not. Thank you very much.

Chairman THOMPSON. Thank you very much.

Professor Caroline M. Hoxby of Harvard University.

TESTIMONY OF CAROLINE M. HOXBY, Ph.D.,[1] ASSOCIATE PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Ms. HOXBY. Good morning, Senator Thompson. Good morning, Senator Lieberman, Senator Collins, Senator Akaka, and Senator Durbin. I would like to thank the entire Committee for inviting me to speak.

There is widespread acceptance that education is an important part of economic growth for the United States. We know this because, first, the relationship between growth rates and education suggests that for every additional year of education that a population attains, a country grows about 1 percentage point faster per year.

Second, American industries that have fast-growing net exports use a disproportionately high amount of educated labor. Also, high-technology industries demand labor that is very highly educated: Workers who have full mastery of advanced college-level analytic skills. If the growth of high-technology industries is not to be reigned in by rising wages, the United States would need to nearly double its share of new workers who have such an education by 2010. A doubling would mean an increase from approximately 7 percent of workers to approximately 14 percent of workers.

There are three forces that are primarily responsible for the changes in college tuition that we have witnessed in the past 30 years. First, there is skill-intensive technological growth which has increased the demand for high-intensity college education in the American labor market. By high intensity, I refer to a college education in which students are expected to master a large quantity of difficult material in each year of college. In order to engage in getting a high-intensity college education, a high school graduate must have a very full mastery of high school-level material.

In a high-intensity college education, students are typically required to interact with technologies, like computers, in a sophisticated way. They are also required to develop advanced analytic and communications skills. People who have obtained such education are disproportionately in demand in America's highest-growth industry. In fact, students who have obtained such educations are nearly 400 percent overrepresented in the ten highest-growth industries in the United States.

The second force that has been responsible for changes in college tuition is that prospective college students are much more mobile and better informed now than they were 30 years ago. They know much more about their own college preparation relative to the national pool of high school graduates. It is also much easier for them to learn about colleges.

As a result, colleges now face a more competitive market than ever before as students compare colleges with similar offerings and are sensitive to tuition differences among them. More than ever before, students avoid colleges that charge tuition that is higher than

[1] The prepared statement of Ms. Hoxby appears in the Appendix on page 120.

those of other colleges with similar offerings. Also, colleges have had to become more specialized.

Third, international trade and technological innovation have really decreased the demand for unskilled labor in the United States. As a result, even a high school graduate who is poorly prepared for college in the sense that he did not master most high school-level material has an increased incentive to get some amount of post-secondary education, even if that post-secondary education begins with remedial courses.

The three forces I have just described have caused the college sector to become much more diverse in order to accommodate both poorly-prepared high school graduates who might need remedial education and highly-prepared high school graduates who want a high-intensity college education. Because of this increased diversity, tuition is more diverse.

College tuition has risen, but it has not risen across the board. In fact, since 1970, tuition has remained almost flat in real dollars for fully 50 percent of the college places in the United States. The first figure in my written statement shows how college tuition has changed since 1970. Tuition has declined 15 percent for the least-expensive 10 percent of colleges in the United States. Tuition has held steady at the 20th percentile and median tuition has risen only very modestly. Tuition has risen significantly only for the 20 percent of college places that are the most expensive.

Also, list tuition is somewhat misleading because the colleges that have raised their tuition the most are the ones that give the largest grants to students. The second figure in my written statement shows how tuition paid for students has changed since 1970. It shows that list tuition exaggerates the tuition that students actually pay.

I will make a final note on tuition statistics because that have been cited so much this morning. It is very important that when we compute tuition statistics over time that we do not weigh each college equally. Many statistics weigh a Williams College (with a class of 400 students) the same as a University of Illinois. Such statistics do not represent the true choices that are open to students in the United States. They tend to exaggerate the rate of tuition growth because they overweigh the small colleges and the small colleges are the most selective colleges in the United States.

Statistics that do weight by enrollment tend to weight by 4-year enrollment. That is also a mistake. If a college graduates 100 percent of its incoming class, that college gets weighted four times as heavily as a college that graduates 25 percent of its incoming class. Such statistics tend to exaggerate tuition growth.

The least expensive 50 percent of colleges in the United States, in other words, the colleges for which tuition has remained steady or has risen only very modestly, are good points of entry for students who are not very well prepared for college or only moderately well prepared for college. Why is this? Well, it makes sense for poorly prepared students to enroll in less-expensive courses until they have the skill to make use of the sophisticated and costly resources that are available at more high-intensity colleges.

Tuition has risen in real terms for the most expensive 20 percent of college places. These are the colleges, however, that have in-

creasingly specialized in providing high-intensity education. We have had testimony this morning that describes how they have been providing students increasingly with technology and faculty attention. Also, the faculty themselves are increasingly expensive because they are in demand by the same high-growth industries that are propelling students to desire high-intensity educations. Thus, the costs of colleges that specialize in high-intensity education have risen and their tuition has risen accordingly.

This does not necessarily imply that their tuition is not priced competitively. Indeed, this sector of the college market is by far the most competitive, because the students have the most ability to choose among colleges. They are the most mobile, they are the most informed, and they are the most sensitive to tuition differences.

Estimates suggest that the highest return to a dollar of tuition is provided by American colleges that provide high-intensity education, and these are also the colleges that are the biggest draw for foreign students who have a choice of going to college in their home country or going to college in another host country, like England or Australia.

Much of the upset over rising college tuition is caused by the fact that commentators focus almost exclusively on the tuition charged for the most expensive 10 percent of college places in the United States. While these colleges may be of interest to them personally, analysis of college access requires a comprehensive view.

To consider a different market, something like fabrics, say, you can see how misleading it is to focus only on the maximum price that is charged here. The same fabrics that were available to our ancestors are available to us today at a similar price or perhaps a lower price. But specialty fabrics have been introduced that perform much better under extreme conditions. Just think of the fabrics that are used for polar expeditions. These specialty fabrics are more expensive because they cost more to produce.

If one were to study fabric prices by looking at only the most expensive fabrics every year, one would mistakenly conclude that fabric is becoming far too expensive for the manufacturing of fabric goods. Competition in the fabric market keeps prices in line with costs, but it does not prevent high-performance fabrics from being introduced at competitive prices.

In order to see whether tuition has made college less accessible, I analyzed two major data sets that are comparable and nationally representative. They are produced by the United States Department of Education. I compared 1972 and 1992 high school graduates and the analysis is shown in the table in my written statement.

Let us first consider a high school graduate who is highly prepared for college but who comes from a family with very low income, less than $20,000 a year. In 1972, a student like this had a 6 percent probability of not going to college at all and had a 33 percent probability of going to one of the most expensive colleges in the United States. In 1992, the same student had a zero percent probability of not going to college at all and a 43 percent probability of going to one of the most expensive colleges.

Clearly, access to college generally and access to expensive colleges in particular increased for highly-prepared students from

very low-income families. In fact, the analysis shows that access to college generally and access to expensive colleges in particular increased substantially for highly-prepared and medium-highly-prepared students from families of all incomes.

Next, let us consider a high school graduate who has medium-low preparation for college. Among such students, the percentage who did not go to college fell sharply from 1972 to 1992. Most of the increase was at colleges that charged median tuition. Thus, it is difficult to find evidence that appropriate colleges are inaccessible to this key group of students. This is the group of students who are likely to succeed in college, but they are unlikely to want to pursue a very intensive college education.

Finally, let us consider a high school graduate who is very poorly prepared for college. A typical student in this range has SAT scores well below 300 and was at the bottom of his high school class. Even among such students, the percentage who do not go on to college fell between 1972 and 1992. For instance, in 1972, 76 percent of students with very low preparation from families with incomes between $20,000 and $35,000 did not go on to college. In 1992, only 67 percent of such students did not go on to college.

In short, the evidence suggests that college is not less accessible to students now than it was 30 years ago; it is more accessible. Moreover, it is hard to find evidence that students are being forced to enroll in inexpensive colleges that are inappropriate for their level of preparedness. In fact, most of the students who are getting displaced from very expensive colleges are students from high-income families who have low college preparedness and they are being replaced by highly-prepared students from low-income families.

Since most of the increase in tuition affects only the most expensive colleges in the United States, perhaps it would be advisable to intervene just at those colleges. There are some difficulties here, however. First, these colleges are increasingly accessible to highly-prepared students from low-income backgrounds, largely because of the aid that they give these students.

Second, they have been changing their educational services most rapidly to keep up with the needs of high-technology industries. While we cannot be sure that workers with high-intensity education will be crucial to future economic growth in the United States, such workers are certainly disproportionately in demand in high-growth industries today.

Third, it is a basic tenet of economics that we need to identify a market failure before we suggest intervention. Right now, there is no critical mass of economists who have identified market failures related to competition among colleges.

How can we help students have more access to higher education? One of the key developments of the past 7 years in particular has been the replacement of some need-based aid with merit aid. This has been caused, in part, by the antitrust case which chilled the sense of consensus among colleges about the importance of need-based aid. It has made it harder for any one college president to step out and offer a lot of need-based aid.

The educational savings plans that Congress passed, commonly called education IRAs, are an important source of college accessi-

bility for two reasons. The first is that they increase the funds that a family has when the child needs to go to college. The second is that they make a child aware of the fact that there is a fund being built up for his future, thus making him think harder about preparing for college.

There are still too few students going to college in the United States, especially from low-income and minority groups. A lot of the problem is caused by the fact that many students have low preparation for college. They need to recognize early on that they have to invest in themselves in order to go on to college. Better preparation is the single best way of increasing access. If there were an education savings account that could also benefit students whose parents were too poor to save much, even poor students would realize that they needed to invest in themselves in high school. They would know that, if they did not, they would be sacrificing a potential fund for going to college.

I would be glad to answer any questions you might have.

Chairman THOMPSON. Thank you very much.

Dr. William Massy, President of the Jackson Hole Higher Education Group.

TESTIMONY OF WILLIAM F. MASSY, Ph.D.,[1] PRESIDENT, JACKSON HOLE HIGHER EDUCATION GROUP, INC.

Mr. MASSY. Thank you very much. Thank you all. It is a great pleasure to be here. I think it is very healthy that this Committee is looking beyond the symptoms and how to mitigate the symptoms, which certainly needs to be done, to get at the underlying causes of the situation, that is what I want to speak to this morning.

I think the central question, one that the staff posed, is whether the colleges and universities in the United States are doing everything possible to maximize value for money. My research with Andrea Wilger (who is here today) at the federally-funded National Center for Post-Secondary Improvement at Stanford University, indicates that the answer is no.

Cost increases could be held within tighter limits, we believe, and while the quality of education in the United States certainly remains good by traditional standards, it could be significantly better. We believe that things need to change internally, within institutions, before the problems we are discussing this morning can be truly solved. My written statement elaborates on these matters, but let me give a brief summary here.

First of all, institutions and faculty do not know enough about educational cost structures to make the kind of intelligent tradeoffs that are needed to contain costs, and cultural factors make it difficult for them to act on the data that they have.

Second, academic quality assurance and improvement processes appear inadequate when compared to the processes that U.S. business developed during the 1970's and 1980's.

Third, applications of technology are being used widely to enhance quality in teaching and learning, but only a few schools are

[1] The prepared statement of Mr. Massy appears in the Appendix on page 129.

working systematically to reduce costs by using technology other than through the obvious method of distance education.

And finally, in my view, markets can do more to discipline price and quality, but their operation is limited by a lack of data. I think there is a market failure because of data limitations. Today's markets certainly are competitive, but that does not necessarily mean they are competitive on the right kinds of issues.

In short, I think that colleges and universities can learn to contain costs while simultaneously improving the quality of undergraduate education and maintaining research leadership. However, the needed reforms will come a lot easier if markets become more efficient and public accountability is improved, I will offer a few suggestions about that in a minute.

Let me turn to the Committee's questions about tuition growth for a moment. First of all, my personal prediction is that the real sticker price of tuition at the majority of 4-year colleges and universities will continue to grow, probably at rates averaging as much as one or two points over inflation, unless we can deal with the market imperfections I have been talking about.

Now, Professor Hoxby's data included community colleges. There is no reason why one should not look at those, but I am talking about the 4-year sector.

These kinds of rates are consistent with the typical "internal inflation rates" in higher education. These rates reflect the labor-intensive character of the enterprise. There is a never-ending desire to fund new programs. There are escalating regulatory burdens. There are continuing needs for investment in facilities and technology, including information technology, mass spectrometers and things like that. But they also reflect an arms race of expenditures triggered by the pursuit of prestige. A more efficient market would reign in the arms race, discipline prices, and encourage better productivity that could blunt the effects of these cost drivers.

Now, it is very important that we understand that tuition depends as much or maybe even more on markets than it does on cost. Put another way, cost tends to follow price rather than the other way around. My colleague on the panel mentioned Bowen's law, namely that universities will raise all the money they can and spend all the money they raise. As a former chief financial officer of Stanford University, I would only add that it is the job of the CFO, and it is a tough job, to make sure they do not spend more than the money they raise.

There is, in other words, a very powerful desire to spend. That is not necessarily inappropriate. Spending comes naturally from the principles that govern not-for-profit entities. Not-for-profit entities seek to achieve results that are in the public interest, and provided they are efficient (that is a big question). Provided they are efficient, the more money they get, the more money they can spend and the more good stuff they can do.

Chairman THOMPSON. We are not unfamiliar with that concept.

Mr. MASSY. Yes. I know. [Laughter.]

There is a question, by the way, about how much of the money gets spent to benefit undergraduate education as opposed to other institutional agendas, such as faculty research.

I do not think tuition will grow to levels where enrollments drop off significantly. (This is another question posed by the Committee staff.) Institutions will charge as much as the market will bear, but no more. That is the good news. The bad news is that this market limit may leave a lot of students with very painful debt burdens, as we heard this morning.

Institutions are learning to optimize use of financial aid to compete for students. In fact, enrollment management has become a very professionalized field. There are consultants. There are models. I personally think this is both inevitable and desirable. It provides a method of price competition. I cannot imagine the Federal Government intervening to halt price competition in this or any other open market situation.

Less-selective institutions, especially in the private sector, already must discount heavily in order to survive. The selective ones do it partly out of a sense of obligation and partly in order to maintain the kind of student profile they want. The market is very competitive, although as I said a moment ago, it is not necessarily efficient.

The staff asked about the baby boom echo effect. It is hard to predict, but my guess is that, if anything, it will raise the sustainable tuition level. It will stimulate demand for a while, and the more demand for a given supply, the more the upward pressure on price.

One unfortunate result is that all of these effects taken together produce a very chaotic market. The uncertainty causes a lot of anxiety on the part of students and their parents about whether and how much financial aid will be forthcoming. I hope that, by providing better information about policies and about practices, some of the anxiety could be mitigated.

The fundamental problem, though, is to improve what goes on within the institution? I think there are two areas there that require attention. First, we need to improve the state of the art in what I am coming to call "education quality work" and the second is in the area of cost management.

To give you an idea of what I am talking about, just imagine—I do not want to overdo the analogy with industry, but just imagine an automobile industry where people, by and large, do not have a very precise knowledge of the relative advantage of plastic or steel in certain applications and where they do not know much at all about the relative cost. How easy would it be for them to make the tradeoffs needed to make their product efficient and effective? The answer is, "not very easy."

The above is something of an exaggeration as far as colleges and universities are concerned, but it is, in my view, not that much of an exaggeration. It is these two areas, the understanding of quality and the understanding of cost, where we need to put our attention.

Education quality work is the system of activities that improves and assures educational quality. It focuses on performance feedback and the organizational processes needed to act on the feedback. Quality work should not be confused with teaching and learning itself. It is a feedback and control system. I must say that certain European and Pacific Rim countries are ahead of the United

States, significantly ahead, in developing quality work and associated public accountability.

I am glad to say, and I am sorry the Senator from Hawaii had to leave, that the Western Association of Schools and Colleges will soon decide whether to adopt the standards and processes used in the United Kingdom, Hong Kong, and Sweden to regional accreditation. The North Central Association is considering the same sort of thing from the Baldridge National Quality Award and ISO 9000 point of view. On the cost side, the United States and the United Kingdom seem to be ahead of the other countries, but the state of the art is not all that far advanced.

To illustrate the sort of thing I have in mind, there is an institution out in Missouri, Northwest Missouri State University, that is starting to use Activity-Based Costing (ABC) to tease apart the various components of instruction cost so they can make better judgments about what is actually done in and outside the classroom to stimulate learning—that is, about cost in relation to quality. ABC, by the way, was developed by business to get at the actual cost of identifiable tasks. It is being adapted to academic work, just as the quality principles are being adapted.

Among the advantages of ABC is that it allows one to separate out the cost of unbudgeted research. This counts for a significant part of the cost of so-called "instruction" for most universities, and certainly the larger ones. ABC allows one to separate unbudgeted research from instruction. Until we do that, I think we are not going to have a good handle on the cost of education.

I will skip over the details of technology, just to say that there are some cases now—the Renssalaer Polytechnic Institute's "Studio" courses, for example—where institutions have reduced the cost of on-campus instruction while they have demonstrably improved quality. We need a lot more of that. People are getting interested in such technological change, for example, in the professional associations. But technology requires the same sort of attention to cost analysis and to quality processes that every other element of education requires.

In closing, let me offer some suggestions for the government, for the regional accreditation agencies, and for State higher education oversight bodies. These actions are aimed at jump-starting quality work and improving cost management. They also will provide better information for the market in order to make the market more efficient.

First, I think that the regional accreditation agencies should make quality work a key feature of accreditation. I chaired the committee in Hong Kong that developed and installed their system and I can tell you that it has worked very well. It is receiving a good deal of attention around the world, including from the Western Association of Colleges as I noted earlier. While I certainly would not say that we have it exactly right in Hong Kong, I think there are lessons to be learned and I am glad that people here are beginning to pay attention to it.

Second, I think that State higher education coordinating boards could and should hold public institutions accountable for quality work and more effective cost management. Why not? One can rather easily judge whether or not an institution is doing these things

if one takes the trouble to develop standards and go looking. While one cannot guarantee that better quality work and better cost management, will produce better results, it certainly is likely. Experience shows that, in fact, this tends to occur.

Finally, what about the Federal Government? I think the government could do a number of things to improve market information and stimulate change. For example, the Department of Education could produce in-depth studies of quality work, activity-based costing, and associated accountability methods as they are developing around the world and in the United States, and then use the results to develop policy recommendations, model guidelines, and so on. That is what the R&D function in the Department is all about. I think the Department would be a very appropriate vehicle for such work.

The Department also could encourage or seed the development of pilot projects. You know the routine—that could have high leverage. None of these actions would cost very much, certainly not compared to Pell grants.

As a third action, the Department could fund discipline-specific doctoral curriculum development in the areas of quality work and cost management. As things are now, we continue to train faculty in traditional disciplinary research with no consideration at all of what quality and cost in instruction are all about. How you go about getting quality? How you cost it? How you optimize cost in relation to quality? The development of curricula would cause these things to propagate outward into the institutions themselves, simply because more faculty (the teachers as well as the Ph.D. students) would be familiar with them.

In the longer term, the government might ask colleges and universities might be asked to provide the public with annual self-reports on their education quality work, particularly in the area of assessment. (I have material on assessment in my written testimony.) Assessment is an essential element of quality work. You cannot improve quality without getting feedback, and while it is not possible in my view to develop a top-down government-mandated assessment instrument, it is entirely possible for any given department—for every department in every institution—to develop value-added assessment measures. The measures would be tailored to their students, their situation, and their objectives. All institutions ought to do that such assessments. The information should be regularly collected by external agencies and made public.

Finally, private enterprise could be encouraged to summarize and disseminate the information. I think that, as the methodology becomes proven, they would do this without much encouragement.

By way of a footnote, I hope that Congress continues to support the Baldridge Award for nonprofit entities. Thank you.

Chairman THOMPSON. Thank you very much.

Congress is attempting to move these various departments and agencies toward measuring the results that they achieve, instead of just measuring outputs, measuring outcomes——

Mr. MASSY. Right.

Chairman THOMPSON [continuing]. And the Government Performance and Results Act, we call it the Results Act, trying to real-

ly make them determine what they are trying to do and then measuring whether or not they are really actually doing it.

Do I understand from you that we are making some progress in terms of education in that regard, that it is being used more and more, that it is available and not being used enough, because we all—I think a lot of people would think that that is not measurable. You cannot tell the quality of a teacher from a gross objective standpoint, standing back away from it. Then we hear things like that, actually, as tuition goes up, sometimes the class size goes up, too. Good teachers are teaching less, and publish or perish. Class time is actually reduced and nobody pays any attention to that.

I would be interested in knowing that all these ratings you see in these magazines about quality institutions, what goes into that determination. My suspicion is, in large part, they are endowments and how much money they are spending, at the State level and then all of that.

So where are we, in summary form, where are we there? And who needs to push that? That needs to be done at the State level, I suppose, more than anything else. I have several things there.

Mr. MASSY. Well, that covers quite a lot, but let me comment as best I can. First, the ratings that we all pay so much attention to, or at least read so avidly, are heavily weighted on inputs, size of endowment, size of expenditure, size of library, and selectivity, which is a measure of market power.

Chairman THOMPSON. What activity?

Mr. MASSY. Selectivity: That is, admit to matriculate ratios or some such thing. They are a measure of market power which correlate with resource expenditure. This is kind of a self-fulfilling——

Chairman THOMPSON. And they are easy to measure.

Mr. MASSY. Right. They are easy to measure. However, I think it is possible to measure the quality of the outcomes at the grassroots, but this has to be an activity of faculty for the benefit of the program of that faculty in that place. I think our experience with imposing assessment from the outside has not been as successful as we wish it had been. The reason is that it is something imposed from the outside. The processes inside the institution have not been transformed—have not been reformed in ways that make this kind of information important for the institution and for the academic department itself.

Chairman THOMPSON. They get no credit for it if they do it.

Mr. MASSY. Well, that is true. Externally imposed assessments are pretty gross measures and it is easy to discount them. It is easy, frankly, to circumvent them. It is easy to get around them.

Ms. Wilger and I have done 400 faculty interviews in all kinds of 4-year institutions, and including in a number of States where assessment is going on, and I can tell you, the above message comes through loud and clear.

What I would like to see is a transformation of the kind that business had to go through when foreign competition started working us over. Faculty need to fundamentally change how they view the production of quality. The biggest difficulty is that most faculty, most of the time, consider that research and scholarship is "job one." You might be surprised that this happens in many dif-

ferent kinds of 4-year institutions, not just the research institutions.

In order to make progress, I think we have to shift that attitude so that education quality work and cost management become "job one" for many faculty. This means balancing and finding new ways to do things—perhaps at lesser cost, but if more cost, at least with the increases being justified in terms of demonstrably greater quality. I think this has to become job one for many faculty at most institutions most of the time.

I do not believe that to do that means decimating the country's research base. We are not talking about that much of a shift of effort. But unless that kind of shift occurs——

Chairman THOMPSON. But there is not going to be any real motivation to move in the direction that you suggest unless there is some measurement and they know that there is going to be somebody looking at that.

Mr. MASSY. Right. That is where we get to the public accountability part that I mentioned. I think this has to be jump-started. I think if we wait for it to arise spontaneously, we may have a longer wait than we would like. So what I am suggesting is the external agencies that have cognizance, the State oversight boards for the publics institutions, and the regional accreditation agencies for everybody, put this on the agenda. You start by working it from an improvement standpoint. That is, you go in and you work up standards and you talk with institutions and so on. You do not start with accountability on something that nobody knows how to do. You try to teach and work together to develop. However, accountability always is there.

We had an exemplary case in Hong Kong, where we are very improvement oriented. However, one institution declined to work on this, so we took away some of their money. It took about 3 months. Now they are working on it very hard and very effectively, so "yes."

Chairman THOMPSON. It seems to work that way.

Mr. MASSY. Yes.

Chairman THOMPSON. That is very fascinating. I hope we can follow up with some of those ideas.

Let me move on to a couple of things in the time we have left here. I noticed several interesting things here. Tuition costs, affected by lots of different things. Nobody seems to know. It kind of reminds me of what somebody said about a political campaign one time. Ninety percent of it is wasted activity, but nobody knows which 90 percent.

But a lot certainly seems to depend on State aid, and my notes here indicate that from 1987 to 1994, State aid was down. It has been up since 1994, but even when State aid was up and when State aid was down, tuition kept going up under both scenarios.

On the other hand, I am getting here today from at least, I think, from Dr. Breneman and Professor Hoxby, that perhaps we are not looking at this correctly. Professor, you mentioned, for example, since 1970, tuition has remained almost flat in real terms for half the colleges. Tuition has declined 15 percent for the 10 percent of colleges that are least expensive. It has risen significantly only at the 20 percent that are most expensive. So I realize that we are kind of talking about how long is a piece of string here, but

it is our job to generalize as correctly as we can, realizing it is a gross generalization sometimes.

But on the issue of whether or not, all things considered, tuition is, in fact, too high, do you think that our concern about the direction of things is misplaced? Am I reading you correctly in your comments? What can you say about that? What would you say to the American people, the average American family? We all think most things are too high for sure, but we see in the paper, some institutions are going up astronomically. As the stock market goes up and the endowments go up, the tuition goes up, too. Then we see some State institutions—the University of Tennessee over the last 10 years, the tuition has increased in real terms, inflation-adjusted terms, 36 percent, not nearly as high, as much as twice CPI, I guess. Should we feel good about that or not?

Could you elaborate a little further on that, and obviously, Dr. Troutt, your ideas, too, and mindful of the fact, of course, you are educators and I do not know what position that puts you in, to come in here and say that your institutions are charging too much money, but be as objective as you can about it.

Ms. HOXBY. One thing that we always have to keep in mind is that our institutions are not representative of all the institutions in America, so I think when we study this issue, one of the first things we learn is to look outside our own institutions.

I think it would be wrong to say that Congress should not be concerned about college accessibility. The main reason that colleges have become more accessibile to low-income families is that Congress and State legislatures have been interested in accessibility. It is mainly the plans that are now in effect that have made things change over the past 30 years. So taking accessibility off the radar screen would not be a good idea.

On the other hand, I think the extent of the crisis is often overstated. There are a few things that I would focus on if I were to talk to the typical American family about college access. First, they need to go out and inform themselves about the opportunities that they have. They should not focus on whatever newspaper reporters focus on. They need to find out what their local colleges charge, what their State university charges, what need-based aid is available, what sort of scholarships they could get. I think the whole experience would be less frightening if families were more informed.

Chairman THOMPSON. I can see a real problem there. I imagine that this has grown up into an industry, but I can see the average family, in some locations, they see tuition going up astronomically and they are told, do not worry about that. There are 15 different things out here that you can piece together. You can get a little here and a little there and travel across town and call this guy and qualify and fill out 10,000 forms and you can piece it all together and get half of that astronomical figure. So I can sympathize with that, too, can you?

Ms. HOXBY. I think that one of the best things that has happened very recently is that parents can increasingly go to, say, the College Board website. They can plug in their own income and their family characteristics and where their other children are going to school. They get back a number that is a realistic estimate of how much need-based aid they would be offered by various types of in-

stitutions. Parents should not be in the business of understanding financial and formulas. They should be in the business of understanding what college would cost them.

It is hard to know what to think about the most expensive colleges in the United States. We are succeeding wonderfully in this sector, in the sense that these colleges are widely regarded as the best in the world. They are a very enviable part of our education system. Yet, we do not really understand exactly what is happening in them. We know that they are part and parcel of our high-technology economy, but we do not completely understand the relationship between them and technological growth.

Given the fact that we do not understand the relationship, I would not be tempted to intervene. Also, it is important to keep in perspective that they are just not relevant to a lot of families.

Chairman THOMPSON. If you have got to ask about it, you cannot afford it. It comes to my mind that in all other aspects of society, we have Cadillacs and Chevrolets and we recognize some people can afford more than others. I think it is more the average that most people are concerned about.

Dr. Breneman.

Mr. BRENEMAN. In direct answer to your question, back in the 1980's, when I was President of Kalamazoo College, I got very concerned at a trend that was going on in the private institutional world at that time, which was started, I think, by trying to catch up with inflation. As you remember, in the late 1970's, we were looking at double-digit inflation and some colleges missed that and then started catching up, and then they discovered, many of them, that the demand for their services appeared to be virtually price insensitive, price inelastic.

I mean, it did not seem to matter how much you charged, within reason. People would still come. I think that was a new observation. The earlier 1970's had been much devoted to worry about the tuition gap between public and private, and there was a lot of fear that the privates would be in dire straits vis-a-vis the publics. But a subset of the privates discovered this relative inelasticity, and then you introduced—so I was watching my colleagues raising their prices——

Chairman THOMPSON. Excuse me, but it seemed to work inversely—you are talking about competition—it is the more you charge, the more prestigious you are.

Mr. BRENEMAN. Well, in a way, because the more resources you have got. And yes, so for an individual school to try to buck this is really just to kick yourself in the foot, so we are all trapped. I think the term positional arms race is a very good one. If Williams has announced to the world that for next year, they are fully capable of providing the quality of education they perceive to be what they want to provide——

Chairman THOMPSON. You would think a lot more people would want to go to Williams, but you are saying that is not necessarily true.

Mr. BRENEMAN. No. That is not going to have—can I read you a little note that I got from a president of a small private college in response to that? I think this summarizes the problem very nicely. "Three years ago," and the president gave me allowance to men-

tion the name, Sweetbriar College in Virginia, but "3 years ago, we held Sweetbriar's tuition, fees, and room and board steady, no increase. We took this action for two reasons, both market driven. First, we felt that we needed to get Sweetbriar out of the most expensive position it held among the Virginia women's colleges, although the difference between our costs and those of our competitors was only a few hundred dollars. Second, we hoped to get some positive publicity from this action. The following year, we increased less than 2 percent, which was below the general norm. Indeed, for a 3-year period, our increases in tuition, room, and board averaged less than 2 percent."

"The result? We have moved to the middle of the pack in terms of cost. We have had no response at all from anyone about our efforts to keep tuition at a reasonable level. We have not been able to detect any effect one way or the other on our enrollment, and we have attracted no attention at all by our actions. Happily, because we have a small student body and a relatively high discount, our holding of tuition was fairly painless. At this point, I have decided to go back to a reasonable 3 percent or so increase each year. Sincerely, Betsy Mulenfeld."

Chairman THOMPSON. All right, let me read you one. [Laughter.]

Ten years ago, in the middle of this huge growth in college tuition, one of my staff received a letter from a private college, which gave a very interesting, perhaps informative, explanation for a sharp increase in tuition that year. The president of this college wrote to parents that the increase in tuition was necessary to keep up with the tuitions being charged by the most academically competitive colleges. In other words, to be considered in the same class with the most academically competitive colleges, they had to charge as much. So it is all turned on its head. To become more competitive, its the more you charge, instead of the less.

Mr. BRENEMAN. To the extent that there is an element of disinformation in this market, and Caroline argues and I agree with it, we have got a lot less of it than we used to have, but to some degree, it is an odd issue because you buy it once in your life and ultimately you really do not know what you are buying until you experience it. So price can become a signal of quality.

Chairman THOMPSON. Dr. Troutt.

Mr. TROUTT. Mr. Chairman, I did not write that letter, as you know. [Laughter.]

Chairman THOMPSON. It is not from Tennessee.

Mr. TROUTT. If anything, the last 2½ hours, I hope, have reinforced my initial point of the complexity of this question you have before you.

I would like to call to your attention the five-part action agenda that our National Commission offered 2 years ago as a road map for dealing with this complex issue and to say that you have heard today some progress on some of those fronts, and yet we have not heard talk much about some of those agenda items.

The first, of course, is to strengthen institutional cost control, and you have heard anecdotally some wonderful stories of responsible institutions working very hard and you have heard some encouraging data about where price increases have been going in re-

cent years, and most recently, the lowest price increase in private higher education in 27 years.

We have talked a little bit about the second agenda item, which is to improve market information and public accountability. I think we have much work yet to do there. We know that, still, families that need to know the most about college prices know the least. We know that families that need aid the most know the least about how to access it.

A third action agenda item was to deregulate higher education. We have not talked much about that this morning, but that is a pressing item I would invite your further attention to. As a president of a relatively small college, we send here an awful lot of information, an incredible amount of information, often information that is redundant.

Chairman THOMPSON. Can I ask, is it true that a college with a class with experiments going on and so forth have the same regulations pertaining to the chemicals that they use that Dow Chemical Company would have?

Mr. TROUTT. That is a very good illustration. We are very concerned about the health and safety of our students, but our laboratories are regulated—we may buy a gram, one gram of a particular item, but we are regulated just as if we buy a carload of it, and that is worthy of further study and thinking about how we might deregulate higher education.

Chairman THOMPSON. So if government wants to help, they could look at the harm and complexity that they are causing.

Mr. TROUTT. Looking at the cost of regulation would be a worthy topic. Gerhard Casper, the distinguished President of Stanford University, testified before our Commission that out of every additional tuition dollar, 12½ cents goes in some way to regulatory compliance or reporting, which is a stunning figure in terms of direct and indirect cost.

We also talked in our Commission about rethinking accreditation. Some comments have been made about that today. We also talked about enhancing and simplifying Federal student aid just to reinforce one of your last points. We continue to think everybody working together, campuses, the Federal Government, policy makers at all levels, we can continue to make progress on this very important issue to American families.

Chairman THOMPSON. Your Commission set off, or turned the corner, I think, on this debate, and I want to congratulate you for your leadership on that. It is not one of those Commission reports that somebody filed on the shelf somewhere and did not think about anymore and I appreciate that.

Dr. Massy, I know you wanted to get in on this, but I have taken up too much time. I am going to ask Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman. I will certainly give Dr. Massy a chance.

First, let me say, Dr. Troutt, you said the word, and our staff prepared us for it, this is a complicated question. Even as I listened to the four of you and Dr. Gaudiani before, there are mixed feelings, I think, or mixed testimony here on the baseline question that we are asking, whether tuition is higher than it should be. That is one of the first questions we are asking. I think, Dr. Massy, you

would say yes and others would say probably not, although maybe more cost efficiency could be worked in.

But I am left skeptical because of the strange market in which higher education operates and the notion that if there was competition—first, I have come to understand better this is a segmented market. At the top group of private and public institutions, there is demand by the students for a supply of the product. But in a lot of the other schools, which is the majority, it probably goes the other way around, that the higher education institutions are competing for the students, and that has differing effects.

But the effect that Williams' decision to freeze would not lead its competitors, at least in that subcategory—if you talk to kids that are applying at Williams, a lot of them tend also—I am going to reflect my Connecticut parochialism—to be applying to Trinity, for instance, or Wesleyan, the smaller group of fine liberal arts colleges.

The Sweetbriar example is a perfect one, and maybe it is because it is Sweetbriar, it made me think of ice cream, you know, stream of consciousness. But I remember, years ago—that is the only way I can explain why I had this connection. Years ago, I remember reading an article about the man who created the Haagen-Dazs ice cream company. First off, he made up the name Haagen-Dazs to sound Scandinavian. It does not mean anything. Second, he put out ice cream, pretty good, but he charged three times as much as anybody else was charging. I am choosing numbers here. I will probably get sued or at least criticized by Haagen-Dazs now, but I do not remember the exact thing, and everybody went out and bought it. So there is a certain way in which, not that higher education is ice cream, but it makes you wonder about the market.

So here in the role that we have here, asking the questions, let me start simply by asking whether there is anything Congress can do to encourage schools who are not to make cost containment a higher priority.

Mr. BRENEMAN. I have not had time to think about that, but it seems to me that if that became the clear focus, I can imagine some kind of reward system, some kind of program that you could incentivize the doing of that precise act. The Williams case is interesting——

Senator LIEBERMAN. I am sorry. In other words, perhaps some sort of reward system in terms of Federal aid to schools if they are showing——

Mr. BRENEMAN. Yes, something where—see, the problem, what was being expressed in the Sweetbriar case, they were trying to be a "good citizen."

Senator LIEBERMAN. Right.

Mr. BRENEMAN. They were doing their job. All they did is lost ground. I mean, all that Williams is likely to do is lose ground.

Senator LIEBERMAN. Right.

Mr. BRENEMAN. All the smart money in this business who looked at the Williams study thinks they are nuts, I mean, that this was the dumbest thing they have ever done. They are going to lose a step on the rest of the competition. So the schools are locked into a situation where they just cannot win in this situation. They do the right thing, if you will, of holding the line on price and you get

beat up by your colleagues and everybody thinks you are a stupid manager, and the next year, you have got to join the crowd again. So something has got to break that cycle, and right now, there is nothing in the system that directly breaks it.

Senator LIEBERMAN. I invite you to think about that.

Mr. BRENEMAN. Yes. Let me think about that.

Senator LIEBERMAN. I welcome your thoughts. I mean, the Baldridge-type award is one way to recognize and incentivize good management, as we do in the private sector.

Mr. TROUTT. Senator, we in our accreditation visit at Belmont used the Baldridge criteria.

Senator LIEBERMAN. You did? Good.

Mr. TROUTT. It was very, very helpful. You are seeing in the Southern Association of Colleges and Schools more encouragement to use alternative self-studies which does the kind of gap analysis and helpful things that you see in a Baldridge criteria.

Senator LIEBERMAN. Dr. Massy.

Mr. MASSY. Yes. I reinforce that. I would just add that the Baldridge Award is, of course, great. It provides incentives, it provides leadership, and so forth. But what is needed is an on-going program where every institution is doing this stuff all the time. In particular, they should be developing assessment information that measures the quality of the student, if you will, at input (matriculation) and the quality on output (at graduation or exit). That is, value added, if you will.

The big problem is the market: In one sense, it is very simple. The market really has no valid information available to it about the quality of the value added.

Senator LIEBERMAN. And by quality of the value added, you mean——

Mr. MASSY. I mean——

Senator LIEBERMAN. Just as you would have a general idea, I do not know, if you buy a PC, for instance——

Mr. MASSY. You have a pretty good idea. You can look at speeds. You can look at hard disk size. You can look at reliability. The problem we have in higher education (again I must oversimplify) is that you get wonderful institutions, like my own and Caroline's, that take in absolutely terrific students that come out absolutely terrific. We may do more, but at least, we observe the Hippocratic oath. We do no harm while they are there.

Senator LIEBERMAN. Right.

Mr. MASSY. Imagine a market where we had better value added measures on a regular basis. They would be generated by the institutions but audited appropriately for accuracy. Now people would not feel as trapped by prestige. They would not have to use the price or the amount of assets as surrogates for quality. I think this would produce a healthy effect. I think, in the long run, this is the only way we are really going to solve our problems.

I think what we are seeing now in the for-profit sector, the University of Phoenix and similar kinds of entities, is, in fact, they are beginning to generate such measures. They are learning to do it, and that competition is getting people's attention.

Senator LIEBERMAN. And that helps the consumers.

Mr. MASSY. Precisely.

Senator LIEBERMAN. It gives them more information. Therefore, it makes them more intelligent.

Mr. MASSY. They can make better trade-offs, better judgments. That, in turn, puts the competition on the right kind of basis, rather than what I think now is a rather imperfect market.

Senator LIEBERMAN. Dr. Troutt, I know in the National Commission—I was going to ask you this question, but what Dr. Massy said leads to it—I am going to quote from the report, "Institutions of higher education even to most people in the academy are financially opaque. Academic institutions have made little effort, either on campus or off, to make themselves more transparent to explain their finances."

So I wanted to ask you to just talk a little bit about whether greater transparency would have the effect of increasing efficiency and cost containment.

Mr. TROUTT. It certainly has that potential. I do want to commend the National Association of College and University Business Officers. They, in fact, have a very important project underway right now to see if we cannot begin to address this transparency issue in a much more forthright way.

Some of the problems relate to common definitions among institutions. Some of the complexity comes, obviously, with the most complex institutions. At research universities, where do you allocate certain costs? It makes it very difficult. But certainly, I think, as we become more transparent, first of all, it helps policy makers in terms of important questions about where is that money going? Is it truly going to undergraduate education or is it going somewhere else?

I think as we make progress on the transparency issue, it will both help policy makers, but also help people making judgments about what kind of resources are there for my son or daughter's undergraduate education, and I know that is, as we learned in our Commission hearings, a real concern for American people.

Senator LIEBERMAN. It strikes me that what we are saying here is that it is possible, if we had a real assessment of value added and quality institutions, that some of the institutions that now are competing for students might actually turn out to parents and students to be a better buy.

Mr. MASSY. A better deal, yes.

Senator LIEBERMAN. And it might drive the market in that way. Now, it is not easy to come up with a system like that, but it is a very interesting idea.

Professor Hoxby.

Ms. HOXBY. I wanted to point out that if outcomes at the end of college were regularly measured, it would be relatively easy for *U.S. News and World Report,* for *Peterson's and Barron's,* and all of the other college guides to incorporate them.

The nice thing about incorporating outcomes is that even if the best, most transparent accounting data is available to parents, parents will never figure out how the money is allocated at different colleges.

Senator LIEBERMAN. Right.

Ms. HOXBY. But they will be able to say, look, this college took in students who had SAT scores or ACT scores like this and they

turned out students who had scores like that. That is something that is not hard for parents to understand. They already understand this for K–12 education. Outcomes are the single most important piece of information that could be provided to make this market more efficient.

I do not agree that parents are not price sensitive. The National Post-Secondary Student Aid Survey, which the Department of Education sponsors and samples about 60,000 undergraduates each year, shows that parents are quite price sensitive. They will not favor schools that raise their price and offer the same offerings.

Senator LIEBERMAN. That is a good point. Just one or two more questions. One of the questions we are asking ourselves is how does what we do affect the cost of higher education tuition, and you have said that the studies seem to suggest pretty clearly that increasing grants to students does not lead higher education institutions to increase tuition. But it is not that clear in regard to loans, and I am just puzzled as to why. I know you, Dr. Troutt and Dr. Breneman, both said this, and just help me understand why the question is not so clearly answered with regard to loans.

Mr. TROUTT. We simply do not have the data. We have not had the kind of analysis that looks at particular undergraduate populations, what price increase has happened and what loan increase happened. That data is just not available. In the 6 months that we had to do our work on the National Commission on the Cost of Higher Education, we received a number of papers. Most of those papers tended to be more bound by theory or speculation or even anecdote, but we were not able to come up with any hard data to address that question.

I do think, Senator, it would be useful to think about charging and funding a study, perhaps by the national Center for Education Statistics, to take the time to go back and do those kind of calculations. It would be very helpful to you as policy makers. The Commission's point was just, this is such a serious policy matter, to act without good information would not be an appropriate thing to do.

Senator LIEBERMAN. That is a very good idea. We have heard a couple of you refer to the antitrust case and the possibility of granting an antitrust exemption through Congress to higher education institutions. For what purpose would that be? In other words, so much of what we are saying today reminds me of things we are doing in other areas. The idea of more information for consumers is part of what we are trying to do in health care today to drive up quality, to have the various managed care plans produce information about what they are offering so that consumers, if I am going to get my childhood immunization and breast cancer screenings covered for the same price, I am going to go here as opposed to there.

The analogy here with this one is the entertainment industry has said to us when we appealed to them about self-policing content that they are driven by competition, and so if some of their competitors go low in content, they have got to go, and then they say, we cannot get together to set standards because the Justice Department will file an antitrust action against us. That is pretty easy to decide how to focus that.

Now, what would we enable higher education institutions to do if we gave an antitrust exemption?

Mr. BRENEMAN. My take on it, and I do not know if my colleagues share this, is that the antitrust case started out looking at two questions, which were what are driving up prices and are colleges in any way colluding on wage pools, and 2 years later, they wound up with the one definitive action being something that originally they were not interested in very much at all, they just happened to throw it in as a last-minute thought, and that was to do away with a thing called the overlap group, which, in fact, was a very public and open, I mean, it was not a secret that this happened.

A group of the top highly-competitive institutions whose financial aid officers met to go over financial circumstances of individual applicants who had applied to several of their schools to agree upon a common expected family contribution, and then they agreed to that and they did not engage in bidding wars with each other over these students. They said all of us have an adequate pool and we will take the money out of the competition.

Now, the Justice Department apparently felt that parents have a right to shop their kids, if you will, and go after merit aid, and so that, which is, I think, a debatable premise. I think the outcome of eliminating overlap was a mistake, and I guess my answer would be that I would like to see some effort at eliminating this kind of bidding war introduced at that level.

Senator LIEBERMAN. Professor.

Ms. HOXBY. The antitrust case made it very hard for colleges to coordinate the idea of neediness. That is, they could not agree on how needy a student was. The consequence of this was the following. Let us say that Yale thought that a student needed $2,000 and Princeton thought that the student needed $2,500.

Under the old regime, they would just agree on how needy the student was. In the new regime, they cannot agree on how to calculate need so that a student who has a small aid difference between schools, begins a sort of bidding war. He ends up getting an amount of aid that is not based on his need but is based instead on his merit, because the way that a student wins the bidding war is to have high SAT scores and a very good high school record. The antitrust case has broken down the consensus that aid is for need, not for merit. It is easy to twist a need-based formula into a merit-based formula.

The antitrust case did not just affect elite institutions. Their culture need-based aid spread throughout the entire college community and college presidents felt strongly about it.

It is hard to have the same culture when college presidents cannot say to one another, "I care about need." They are afraid that they would be breaking the antitrust rules.

Senator LIEBERMAN. Dr. Massy.

Mr. MASSY. I think if there were to be an exemption, it should be a very narrow one.

Senator LIEBERMAN. How would you narrow it?

Mr. MASSY. I can imagine discussions, for example, on the formulas for need, but I would not extend that to looking at individual cases and I would be very clear that getting together to discuss

merit aid is not appropriate. I think merit aid is a legitimate form of composition. I realize it is controversial, but I think such price competition is an appropriate, and in the long term, a healthy kind of thing. Getting together to settle on a need formula could be helpful to families who are trying to predict their need-based awards, but aid merit would represent another card that an institution could play or not.

I think it also would be helpful for institutions to get together and talk about what kinds of market information about value added would be most appropriate. It may well be that is OK now under the antitrust laws. I do not know, but a clarification certainly would be helpful. Again, they should not discuss what an individual institution should report, but if we got common formats, common approaches, I think it would be helpful.

Senator LIEBERMAN. I thank all of you. It is complicated. I mean, it does seem to me that the data are fascinating, and Professor Hoxby, you referred to some. We will get into this tomorrow with Mr. Gladieux of the College Board who is coming in. But it does show that over the last 15 years or so, that there have been increases in attendance at higher education at each quartile of income, including the lowest, probably for various reasons.

But my impression is that that is being achieved at a very high cost in terms of indebtedness and stress, and that if it keeps going in that direction, at some point, particularly with the boom in the demographics that I talked about before, the future, which certainly says that more and more of the children in our country are going to be lower-income, perhaps first-generation American, and, therefore, they are going to really need help to get to higher education, and, therefore, we ought to do everything we can both to create incentives to cost containment and to increase aid in the most effective way.

We are talking about cost effectiveness here on both sides of this discussion. I mean, nobody here that I have heard of, anyway, or met in Congress wants to, at the extreme, impose price controls on higher education, but the question is, and I think you have given us some interesting testimony and ideas, how can we incentivize? How can we create a system where there is some more competition that does create cost containment, and then what can we best do to provide the most effective forms of subsidy to students to help more and more of them to be able to afford education?

Tomorrow, we are going to focus part of the hearing on the aid question, but I thank you very much. You represent extraordinary experience and you have been very responsive and helpful to our questions. Thank you.

Chairman THOMPSON. Thank you. Thank you very much. Just another couple of minutes, if you do not mind. There is so much that we are not going to have time to go over. I wish we did.

In listening today, I hear a lot about merit regardless of income levels, and need regardless of merit. The person I really feel sorry for is the low-income person who has achieved a lot and who is a good student. It looks to me like we need to double up on those kinds of people.

The real policy question I think that we, in Congress, are going to have to ultimately be faced with is what is the role, in the future

of this country, what is the role of the Federal Government. One can make a case that things are changing because of the global economy, because of the increased competition, because our success in the global economy depends upon our productivity and our productivity depends upon our growing technological capability and growth, and that, in turn, is going to depend on a well-educated workforce.

It has almost become a matter of national security for the future. You see what is going on out there and the new challenges that are facing this country out there. If that is the case, then perhaps a case could be made for some kind of new entitlement somewhere along the line. The suggestion has been made, Pell grants. Maybe the Federal Government should get more involved under that scenario.

However, on the other hand, if you are going to do that, where do you stop? What do you subsidize? How far do you go? Is it just going to be the poorer students? Is it just going to be secondary education? How far can we go? How much progress can we make if we increasingly have the problems we are having in our grade schools and our high schools not producing? We have turned the three R's into the six R's now with the remedial reading, 'riting, and 'rithmetic.

Those are the policy questions I think that we are going to have to decide up here, which kind of pours into my question, I guess, and that is in looking at what we do for kids, which is our main involvement here right now, young people primarily and the aid and so forth, I am interested in whether or not we have got it balanced right. We have got all these different kinds of programs and loans and tax incentives and then the colleges and universities themselves have all of this.

In one sense, it seems to me like we are not doing enough for the lower-income students. Some of these tax credits—first of all, you have to have an income to get the benefit of the tax credit, and some of them only apply to the $100,000 range, the new credit, up to $100,000 or $120,000. Although more money is coming in, it has really stabilized or going down a little maybe per student, I think.

On the other hand, I can see the middle-income parent saying it is just like the tax code. People at the lower end do not pay any taxes, people at the other end get all the tax breaks and the middle class is stuck. So the middle class is where you need it because there is so much help for the lower end.

So I would be very interested in, as concisely as you can, in giving us your own kind of assessment as to whether or not we are getting the mix right or as close as we can in terms of the kinds of aid and help to the kinds of students, and also for me, it looks like we ought to incorporate need and merit when we look at this thing. There is no reason why a middle-class student who has tried hard and excelled ought to be disadvantaged from a lower-income student who is a mediocre student. I would appreciate any comments anybody has.

Mr. BRENEMAN. Well, I will make a quick remark. I really appreciated your introducing K–12 discussion, because once again, we have done here what we do in this country so often, which is to treat this system as if it were a set of non-interacting horizontal

slabs, and, of course, all of this aid for low-income students assumed proper preparation for those students. I think one of the debates about remediation are drawing to the fore are the obvious fact that we have real problems.

Have you ever thought how weird it is that we say in one breath that our higher education system is the envy of the world and our K–12 system is in shambles? Now, that is completely nuts to have those two things in your head at one time. It is one system.

I guess if there is anything I would do in all of this is I would think real hard about the coming teacher shortage and how we are going to get high-quality people into the classroom. One thing I think may make it make sense for people to be supporting more low-income students is if those students are better prepared.

With regard to your specific question, however, let me just say I worry right now that we are tilting too far to the middle and upper income and that we are losing our interest in access, so I guess if you ask me for a balance, I would be tilting back. I think the Federal role is the one place where there is an interest in the low income clearly articulated and I would hate to see that lost.

Chairman THOMPSON. Dr. Hoxby.

Mr. HOXBY. I agree with everything that Professor Breneman has just said about the importance of thinking through K–12 education. I think that the Federal Government can kill two birds with one stone if it uses access to higher education as a way to give good incentives to students in K–12 education, especially students who really think that they have no future in higher education in the United States.

Low-income students, minority students, students who come from first-generation families where no one has gone through the American higher educational system before do not really believe that college is for them. They do not understand that a Pell grant might be available to them when they reach the age of 18 or 19. Therefore, by the time they reach that age, many of them are so poorly prepared that the biggest barrier for them is not money; it is the fact that they have bad study skills. They face a tremendous uphill battle to make it through the first year of college. A student cannot stay on a Pell grant if he needs 2 years of remedial education.

Thus, I was serious about education IRAs. I think that there is something about knowing, when you are an 8th grader, that there is money being put away for your college education. There is something about knowing that you will lose the money for college if you do not do well in school. If students prepare up through the 12th grade, then when the money is given to them, it is most effective.

Students from upper-middle income families know that their parents are saving for their college education. Part of the conversation between parents and students in high school is, "We have been saving for your college. This has been a struggle for us."

That same conversation does not occur in a low-income family that cannot afford to save at all and that cannot afford to take advantage, say, of the education IRAs. One can think about saving on behalf of poor students who are doing well in school, with a phase out for families who can save for themselves.

Chairman THOMPSON. Yes?

Mr. MASSY. I would just add, Chairman, that for me, a combination of need and merit is the way to go. I have not studied the data enough to know whether the present mix is right or not. However, the principle clearly has to include equity and access, and I am sure it always will. But it also needs to include incentives for hard and intelligent work, wherever the student starts in the process. A properly designed merit component, normalized for differences in background that are not the fault of the student, would be a very helpful thing.

Mr. TROUTT. Mr. Chairman, I think we would all like to think more about that thoughtful question, but just to come back and say that we, I think, also should celebrate the success of the programs that you are currently funding. As those are continued and enhanced and more people know about those programs, it will continue, I think, to support higher education and support this country in a very powerful way.

Chairman THOMPSON. Thank you very much. And another thing we need to keep in mind, too, is that it is not absolutely essential that everybody go to college. I grew up in a little town in the middle of Tennessee and some of the most successful classmates I had did not go to college. They started little construction companies after working construction and little businesses that their dad maybe worked at or something and they had their own business and all of that. In the future, along with all the high-tech stuff, not everybody is going to be either making or using computer chips and it is going to be more and more difficult to find mechanics and people who know how to read blueprints and plumbers and construction people.

Obviously, the more education you got, the more it would help you in any of these jobs, clearly. But as we think about what to do in spending money, there are probably a lot of young people in college that should not be there, and there are going to be a lot of good ones out there that just choose not to do that. I do not think we ought to be taxing them too much for kids who go to college, especially the ones who are just kind of there and not really achieving. So that is another thing we have got to enter into the equation as we consider this.

Senator Lieberman, do you have anything further?

Senator LIEBERMAN. I do not. It has been a very full and productive morning. Thank you, Mr. Chairman, and the witnesses.

Chairman THOMPSON. Thank you very much.

I would like to include in the record a statement from the Department of Education.[1]

I would also like to include a statement on this subject from the University of Illinois.[2]

This hearing has been extremely productive. We really appreciate your help. Thank you.

The record will remain open for 1 week after the close of this hearing. We are in recess.

[Whereupon, at 1:14 p.m., the Committee was adjourned.]

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[1] The prepared statement of the Department of Education appears in the Appendix on page 276.

[2] The prepared statement of the University of Illinois with attachments appears in the Appendix on page 290.

RISING COST OF COLLEGE TUITION AND THE EFFECTIVENESS OF GOVERNMENT FINANCIAL AID

THURSDAY, FEBRUARY 10, 2000

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Fred Thompson, Chairman of the Committee, presiding.

Present: Senators Thompson, Collins, Lieberman, and Akaka.

OPENING STATEMENT OF CHAIRMAN THOMPSON

Chairman THOMPSON. Good morning. Let us come to order, please. We are convening the second day of the hearings on the cost of higher education.

Yesterday, we heard from witnesses who testified that the finances of colleges and universities are not as transparent as they should be. We also discussed the many issues that institutions of higher learning have to navigate when coming up with enough funding to educate our Nation's children.

Today, we continue to look at the issues surrounding the high cost of college tuition and the effect of aid programs on the availability of higher education. One might think that it ought to be easy to come up with what goes into the price of a product, but if we are learning anything, it is that it is not that simple. There are so many drivers of cost and price and so little attention is given to how those complexities interact that we cannot really get hold of what makes college tuition rise so rapidly. To add to the confusion, there was some disagreement among the panelists yesterday as to whether rising tuition is even a problem.

As policy makers, it is difficult to craft the right solutions to a problem no one understands. That is the value of these hearings, and I am encouraged by the work of the National Commission on the Cost of Higher Education and the National Association of College and University Business Officers, organizations that are helping us unravel some of the mysteries of college and university financing.

Much like the Federal Government, it seems that colleges and universities rank themselves as much by the level of the outputs, how big their endowments are, how many books are in their libraries, how hard it is to get in. In the Federal Government, we are trying to get agencies to focus not so much on what goes into a pro-

gram but what results come out of those programs. It seems colleges and universities could benefit from the same philosophy. Only then could we determine whether students were getting the value for the price they pay in tuition.

One of the many drivers of the cost of college education is financial aid. We are devoting much of the second day of hearings to the status and effectiveness of grants and loans. We will hear from witnesses who have a perspective on the changing financial aid policies of the Federal Government and look forward to hearing more about just what effect grants and loans have on the availability of higher education.

Another important part of today's discussion will be about fraud. Students in the position of trying to finance a college education are easy prey, and we will hear some about the outfits that take advantage of these students. More importantly, we will learn what parents and students should do when confronted with fraudulent enterprises.

All of the issues surrounding the pricing of college tuition are worthy of this Committee's attention. We have not solved the problem, but perhaps we have shed some light and asked the right questions so we are further along the road to understanding more about this issue. Certainly, education in this country, whether it be at the college or university level or the K–12 level is not primarily a Federal responsibility, and I do not think anyone is suggesting that we take it over.

But clearly, even if we are just looking at the aid and loan policies, there is Federal involvement and we need to understand what we are doing right and what we are doing wrong to contribute to the problems that we have been talking about. So, hopefully, we will make some progress along those lines.

Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks, Mr. Chairman. I, too, thought that yesterday's hearing was an important beginning. We had a range of witnesses from differing perspectives, so I cannot say that we had total unanimity, but my own conclusion listening to the baseline question of is tuition too high, could colleges and universities by and large do more to achieve cost containment is, yes, they could, and that tuition is too high, not at every school, not in every part of the market, but the very fact that the numbers show that the rate of increase in the cost of higher education has gone up so much more rapidly than either the increases in inflation or, in addition, or particularly, in median family income tells us that we have got a problem here.

Some of the anecdotal evidence that was presented yesterday, certainly in some parts of the market, the most competitive parts of the market, where students are actually competing for admission to particular schools, not schools competing for students to come to them, it is clear that the market, as one of our witnesses yesterday said in the magnificent understatement of economists, "The market is imperfect."

When you have the case of Williams College now freezing its tuition based on increases in the value of its endowment, in a com-

petitive market, one would presume that that would benefit, that reduction in cost would benefit Williams, but our witnesses yesterday were all of a mind that it would not of itself help the school attract the students that it particularly wanted.

A letter was read about Sweetbriar, which actually had lowered its price, or froze its price at one point and found that, contrary to what might be expected, it was losing applicant interest because there was a kind of luxury mentality that if it costs less, it must not be as good as the schools that cost more. So all of that combined to give me the impression that there is more that the higher education institutions could do and more we can do to incentivize them to hold down or contain the cost of the very valuable service that they are providing.

At different times yesterday, we inevitably rolled over into the subject of aid, and there was an interesting exchange about, for instance, the question the Chairman raises, whether Federal grants actually have the effect, as many worry, of raising tuition. The witnesses yesterday generally indicated that the studies that have been done show that increases in Federal grants, scholarship grants, do not raise the cost of tuition, but that there is not similar research done on the effect of loans, not that there is evidence that loans do increase, but it remains a question.

And there was a fair amount of testimony about the various kinds of aid that one might prefer and would we be better to increase the funding to the Pell grant program, for instance, to benefit the neediest as opposed to having tax credits or loan programs that benefit those that are in need but not the neediest.

Those are some of the questions that I hope in this second panel, or third, if we count Ms. Pueschel as the first, with the two of you who are experts on questions relating to aid, that we will be able to form some judgments, not only about the impact of aid on the cost of education, both in the general sense that we talked about but in the sense that obviously the sticker price, if you can call it that, of a college education is only the beginning, then the net cost is the key and that is achieved after aid and loan packages and the rest are fed in.

And then we want to take your counsel as to what we could do, accepting the premise that just came out from all the testimony yesterday, not only that the access to higher education is fundamental to the basic American dream of upward mobility, it has worked for generation after generation of new Americans, but that it is increasingly critical to our overall economy, not just to the realization of the American dream, and that in the years ahead, the demographics tell us that the student population that will be growing will be increasingly poor and minority, so that need for aid to make higher education achievable, accessible, will grow more intense.

The question then becomes, what can we do, since as Senator Thompson said absolutely correctly, we are already entangled, if you will, involved. What can we do in the Federal Government to not only sustain the individual American dreams by children growing up, but that we can thereby sustain the extraordinary economic growth that we have had which, in so many fundamental ways, has been conditioned on the education of our people.

So these are detailed questions, but they have big results, and I think, Mr. Chairman, we have got some real experts to hear today and I thank them for being here and I thank you for convening this second day of these hearings.

Chairman THOMPSON. Thank you.

As our panel will look at the effect of various aid programs on the availability of college education, we will hear from Lawrence Gladieux, Executive Director for Policy Analysis at the College Board, and Michael S. McPherson, President of Macalester College and coauthor of the book, "The Student Aid Game."

Mr. Gladieux, do you care to make an opening statement?

TESTIMONY OF LAWRENCE E. GLADIEUX,[1] EXECUTIVE DIRECTOR FOR POLICY ANALYSIS, THE COLLEGE BOARD

Mr. GLADIEUX. Thank you very much, Mr. Chairman and Senator Lieberman. I appreciate the opportunity to testify. I did sit in on yesterday's hearing and I thought it was an excellent discussion. It is a hard act to follow. At the end of that very full discussion, I said, what is left to say, but I am really glad to join the discussion today.

I have submitted my written statement. I will summarize it. It is in three parts.

In the first part I review indicators on the extent of progress made in broadening college opportunities over recent decades, and we have made progress. Access to some form of post-secondary education and training has been growing steadily overall and for just about every economic and racial and social group. But very large gaps persist in who benefits from higher education in America. Opportunity for it is not spread evenly across our society.

There seemed some disagreement in yesterday's discussion, yesterday's panel, on whether we have an access problem any longer. I think it is clear that we do, and I will use just one indicator, but I think it is representative. Figure 3 that is attached to my statement traces a broad index of post-secondary participation based on census data for 18- to 24-year-olds, and what it shows is that all groups have gotten increased access. All groups show gains. But low-income young people attend college at much lower rates than those with high incomes, and participation gaps are about as wide, maybe even wider than they were in 1970.

Also, opportunity is not just a matter of access. It is a matter of equal choice. Here, it appears that there is an increasing stratification of higher education enrollments at different levels of the system by family income. Mike McPherson and his colleague, Morty Schapiro, have done research on that. But the real bottom line is who actually completes a degree. Overall access has soared during this past quarter-century, but the proportion of college students completing degrees has remained essentially flat and gaps remain very wide when you look at completion rates among different groups.

The most recent longitudinal studies from the Department of Education tell us that of high school seniors who enter post-sec-

[1] The prepared statement of Mr. Gladieux with attachments appears in the Appendix on page 138.

ondary education, 40 percent of high-income students receive a bachelor's degree within 5 years, while only 6 percent of low-income students receive a bachelor's degree within 5 years. Clearly, getting students in the door is not good enough. In fact, my real——

Chairman THOMPSON. Are these of students who start college?

Mr. GLADIEUX. Who start college, yes, and this is back in 1989, they did a beginning post-secondary study, and 5 years later, in 1994, that was the result, 40 percent versus 6 percent. And similarly, there are gaps between whites and blacks and Hispanic students, considerable gaps.

Getting students in the door is not good enough, and my greatest concern is that some of the students who do not persist may be left worse off. They have borrowed to finance their studies, which is increasingly the case for low-income students, particularly, and they do not complete. They leave college without a credential and a debt to repay.

The second part of my testimony asks why do these gaps remain so wide, and part of the explanation is affordability, the focus of this hearing. I will not retread the ground that was gone over pretty well yesterday. Figure 6 attached to my testimony summarizes the trends. Adjusted for inflation, tuition has more than doubled at both public and private institutions since 1980, while family income has only risen 22 percent over this 20-year period. And aid has gone up, but it has not kept up with the rise in tuition.

The median family income does not tell the whole story of the 1980's and 1990's. We all know that income disparities have grown during this period. So when you look at another chart (Figure 7) attached to my testimony, it shows the cost of attendance as a share of income for low, middle, and high, and the greatest burden, the increasing burden is on low-income students, and even if you factor in student aid awards, the greatest burden is on the low- and moderate-income students.

Also, it is important, and this was gone over yesterday, that aid that students are receiving is increasingly in the form of borrowing. Student aid has drifted from a grant-based to a loan-based system, and low-income students, students most at risk, actually have the highest rate of borrowing. That is reflected in Figure 10 attached to my testimony. It is the students in the lowest-income group who are borrowing in the greatest numbers, and they are borrowing the largest amounts on average.

So part of the explanation for the gaps is affordability, which is the primary focus here. But it is not the only explanation. There are deeper roots of unequal opportunity and I think we need to keep in mind, and this was brought out, I think, at the very end of your discussion yesterday, the issue of academic preparation and student readiness for higher education. Making college affordable is critical, but we have also got to address these other challenges. There are a lot of other things that need to begin earlier in the lives of young people and in their schooling.

I will not dwell on this complementary set of issues and challenges, but I do think it is important to keep in mind, as I think Dave Breneman said yesterday, that American education is all one system. We clearly need broad K–12 reforms and improvement. In

my view, we also need much greater investment in direct outreach and intervention programs that make a difference in the lives of young, disadvantaged kids, early in their schooling. We need the wholesale school reforms. We also need the retail, one kid at a time, "I Have a Dream" kinds of efforts. These programs are very labor intensive, but we need to invest more. We need to step them up to a much larger scale.

The third and last part of my testimony, and you touched on this, Senator Lieberman, in your opening comments, includes policy recommendations to address the needs of the coming tidal wave of students. The Census Bureau projects that there will be 5 million more 18- to 24-year-olds in the year 2010 than there were in 1995, an increase of more than 20 percent. The country is already experiencing this expansion in the potential pool of high school graduates and college students, but this new cohort will look considerably different from previous generations of college students.

The age cohort that we will see over the next 10 to 15 years will be more ethnically diverse than the general population and the fastest growth will come from groups in our society that at least until now have been poorer than the general population, more likely to drop out of school, less likely to enroll in college prep courses, less likely to graduate from high school, less likely to enroll in college, and least likely to persist to completion of a baccalaureate degree. So we are looking at a huge challenge ahead of us.

To sustain or increase current levels of college or post-secondary participation is going to require aggressive public policy, both to strengthen the readiness of students to undertake college-level work and to assure that low- and moderate-income students have the financial resources to pay for it when they get to that point.

Now to my recommendations. First, keep the Federal focus on helping those with the greatest need. The Federal Government has exerted enormous leadership in helping to level the playing field in higher education, begining with the GI Bill of 1944, the Higher Education Act of 1965, the Pell grants, etc. But recent policy shifts, and I think this was brought out in yesterday's hearing—the Justice Department antitrust action of the early 1990's, the tuition tax breaks enacted 3 years ago—run counter to need-based policy. In fact, I thought the drift of testimony yesterday was that the whole system these days is tilting toward cost relief for the middle and upper-middle class. The Feds, the States, the institutions are all leaning that way. The Federal Government, in my view, should reassert its leadership in fostering need-based aid.

Second, restore the purchasing power of Pell grants. The single most important thing I think the Congress could do is to restore the promise that Pell grants once represented. Back in the 1970's, it was at its peak in real value, in buying power. In fact, the very last chart in my testimony is a simple bar graph titled "Returning Buying Power to the Pell Grant." The first bar, the lowest bar, is where we are right now, with a $3,125 maximum Pell. Where we need to be is $4,300, to make it have the buying power it did back in the late 1970's based on the Consumer Price Index.

Based on costs of attendance as they have changed during this period, where we need to be is $7,000 to match the average cost of a public higher education institution, and $8,000-plus is where

we would need to be for a private 4-year college. I recognize that these numbers are way out of bounds of the incremental framework of current appropriations——

Senator LIEBERMAN. What is the standard there? In other words, to be where we were when the Pell grants started, you mean?

Mr. GLADIEUX. Yes. In the early years, the 1970's, I think it had more drawing power. The Pell Grant was a beacon and it was coming at a time when institutions were aggressively recruiting the most disadvantaged students. State scholarship programs were focusing on these same students.

Now, I realize these numbers are way out of bounds, but this is where I think we need to be if we want to restore the Pell grant to what it once was. And, by the way, the more we invest in the Pell grant program, the more we help not only the neediest students, because they get a larger grant, but we bring in students in the moderate-income range. We bring in more students who are just outside the range of eligibility.

Yesterday's student representative from the United States Student Association said she came from a middle-class family. Her parents were both educators. They had $50,000 in income. She got an institutional grant. She did not get a Pell grant. The fact is that she is just above the eligibility line for a minimum Pell grant, which is $400. If we increase the funding for Pell, we will bring students like Jamie into the range.

Third, make the Pell grant an entitlement program, and I am glad several people broke the ice on this yesterday. I am not the first in this hearing to utter the dread word of entitlement. But we have essentially new upper middle-class entitlements through the tax code and the Pell grant relies on annual appropriations. In fairness, and in anticipation of the coming tidal wave of students, I think we need to have a Pell grant entitlement.

By the way, you could provide a low-income entitlement through the tax law by making the tuition tax credits refundable, but that is not a very effective mechanism for people who are really struggling to meet tuition bills and make ends meet because the relief does not come at the time the tuition bill is due. It comes in a year-end tax refund. So I just do not think the tax code is a very effective vehicle for closing these gaps.

Fourth, establish a college savings or lifetime learning trust for low-income children. Some form of this idea was kicked around in the Taxpayer Relief Act discussions 3 years ago, as I remember, and there were several Senate sponsors, I do not remember who, but the idea was the Federal Government would set up a $500 trust account for each low-income child and it would be pooled in an investment fund. Corporations, private donors, States could chip in, too. It was an attempt to balance the education IRAs and other savings incentives that were being put into the law at that time.

The proposal died, but I say, let us take another look. The college savings industry is booming. You have got substantial Federal and State tax incentives. Savings are so important to people feeling that they have a stake in our society and in our economy and in their own future, but not everybody has money to put aside. Without going into particulars but to put it simply, shouldn't we find

a way to extend the wonders of compound interest to all our citizens?

Fifth, in the same vein of getting to kids and students early, we need to expand pre-collegiate outreach, intervention, counseling, and mentoring programs. The Federal Government needs to step up and invest a lot more in this. I give wholehearted credit to the Clinton Administration for its proposals in the budget for the TRIO programs and the GEAR UP program along this line.

Finally, let us focus on students' success, not just access. Again, public policy has done a pretty good job of boosting access over these several decades, but getting students in the door is not good enough. We need greater attention and incentives focused on student persistence, and again, I support a Clinton administration proposal included in this week's budget for college completion challenge grants to institutions.

So I am not a fan of the administration's tuition tax proposals, but I do support these latter initiatives, I think they are right on target, and I thank you, Mr. Chairman.

Chairman THOMPSON. Thank you very much. Dr. McPherson.

TESTIMONY OF MICHAEL S. McPHERSON, Ph.D.,[1] PROFESSOR OF ECONOMICS AND PRESIDENT, MACALESTER COLLEGE

Mr. MCPHERSON. Thank you, Mr. Chairman and Senator Lieberman, and thank you for operating such a, as I understand it, as I was not able to be here, but such a thoughtful and wide-ranging hearing.

My remarks this morning and my written testimony are on behalf of myself and my longtime co-author, Morty Schapiro. Our remarks are based on our work as economists to study higher education and are not meant to represent the views of the institutions that we work for.

I will say that I know hearings thrive on controversy, but there is nothing in what Larry Gladieux said that I would be inclined to disagree with.

Senator LIEBERMAN. I do want to apologize to you, Dr. McPherson. Yesterday, the circuits in my brain switched and I referred to something I had read and I said that you were from the College Board. I know that was a terrible assault on your reputation and I—— [Laughter.]

Mr. MCPHERSON. Well, I am a trustee of the College Board.

Senator LIEBERMAN. Oh, OK. So I was only half confused.

Mr. MCPHERSON. So I am sure that is what you had in mind.

Senator LIEBERMAN. It must have been. [Laughter.]

Mr. MCPHERSON. In my brief remarks here, I want to really pick up on Larry's emphasis on viewing the system as a whole, a system that involves contributions from certainly the Federal Government and also State Governments, which, in fact, are larger players than the Federal Government in providing finance for higher education, and the colleges and universities themselves. The concern I would like to focus on is the loss of a sense of common purpose, which

[1] The prepared statement of Dr. McPherson and Dr. Morton Schapiro appears in the Appendix on page 159.

I think at one time did much more to shape our efforts in the finance of higher education.

For more than 30 years, the U.S. system for financing undergraduate education has been based on the principle that colleges and universities, together with the Federal and State Governments, should help financially needy students to pay for their education. Increasingly now, though, we see institutions, colleges and universities, using financial aid to recruit the most desirable students and to help their bottom lines, and we see government shifting resources from lower-income students to the children of middle-class taxpayers, who have more political clout even if they have less need.

Those changes, in our view, threaten the educational prospects of our neediest young people, particularly in the face of the kind of demographic developments that Senator Lieberman and Mr. Gladieux talked about, and they threaten the health and the stability of U.S. higher education in general.

To focus on history for a moment, the present system of meeting families' need for financial aid had its origins in an enrollment slump back in the mid-1950's, a slump that followed the influx of Korean war veterans who were supported by the GI Bill. With enrollments declining, a number of prestigious colleges and universities found themselves slipping into bidding wars for attractive students, just as is happening today.

In 1954, driven by the desire to stem the flow of dollars to competitive offers of student aid, as well as by a commitment to increase access to higher education, a group of institutions formed the College Scholarship Service as part of the College Board. The goal of that organization was to develop a uniform and objective way of assessing financial need. The assumption was that, ideally, institutional and governmental programs would combine to meet that need.

Although colleges and government agencies and individual students have had lively disagreements over those many years about how to measure a family's ability to pay for higher education, the underlying consensus among everyone involved has been that trying to meet financial need is the right thing to do, and that essentially creates a partnership between colleges, States, and the Federal Government. That consensus and that sense of partnership is now breaking down.

The Federal tuition tax credits introduced in 1998 were aimed clearly at the middle class and even the upper middle class, and they cost the government more money every year than the entire need-based Pell grant program. Many States seem more interested these days in merit scholarships and in tax-exempt prepaid tuition plans than in grants for citizens with lower incomes. And colleges and universities themselves increasingly are turning their back on the principle of meeting financial need as they adopt programs such as merit aid that are aimed mainly at more affluent students.

In the past few years, indeed, our most prestigious universities have been leapfrogging each other as they modify their aid systems to lure the students that they want. Even Harvard University, which last time I checked had no difficulty recruiting a class, Harvard characterized its need-based aid program as, "competitively

supportive," and invited applicants to seek a response from Harvard to offers of aid from other leading institutions. It is no wonder that families, feeling that the aid system can be and often is manipulated by colleges, are less and less inclined themselves to play by its official rules.

The resulting free-for-all, with institutions competing for students and students trying to play one institution off against another, tends to divert financial support from very needy families toward middle- and upper-income students, and these trends are reinforced by the trends in governmental support that I described earlier. It is increasingly clear in our view that, unchecked, this trend will lead to growing stratification in U.S. higher education and increasing inequality of income and opportunity in society at large.

How can we reverse the trend? We need to undertake, in our view, a national effort to restore the commitment of colleges and of governments to the principle of meeting students' financial need.

We would offer two specific recommendations for Congress to consider. First, we would urge that Congress find a way to affirm that colleges can enter into agreements to apply common standards in assessing need and awarding aid without running afoul of the antitrust laws. The antitrust investigation of the early 1990's, when the Ivy League institutions were investigated, has had a chilling effect on forms of cooperation among colleges that, in our view, are socially desirable.

Second, we would urge the Federal Government to create a supplemental student aid program that would provide extra funds to students whose colleges adhere to need-based principles in awarding student aid. This, we feel, is an intelligent way to incentivize colleges and universities to do the right thing. It would also, in our view, help to move the balance of expenditures on student aid and support for students in the direction of helping the needier.

The real question in our view is whether the United States possesses the will to pursue such a course. The principle of equal access to higher education which Americans continue to espouse and which has served the country well over the past 30 years is increasingly honored only in principle while being abandoned in practice. The fate of future generations of young people depends on our reversing that trend.

That is my basic statement. I would like to add, if I may, one other thought, perhaps particularly appropriate to the Governmental Affairs Committee. There is a lot of uncertainty and a lot of controversy about exactly what impact loans and grants and tax preferences have on student behavior. There is a lot of money at stake and there are a lot of important educational decisions at stake in determining what these effects are, and I would endorse a proposal from Tom Kane, who is a professor at Harvard University, that the Federal Government invest in some experiments analogous to the negative income tax experiments that were conducted 20 years ago or more, experiments that would be aimed at measuring in a scientific way the impact of these kinds of investments. For an investment which would be a small fraction of what we spend every year on these programs, we could learn a great deal about what effect they really have. Thank you very much.

Chairman THOMPSON. Thank you very much.

That is an interesting suggestion and it really plays into something that I have been concerned about for a long time. That is, we get into controversies whether you are talking about how to handle juvenile crime or what to do about education, issues of federalism. You know, 7 percent of education spending is Federal, 7 percent only, so we are the tail that is trying to wag the dog, you might way.

Mr. MCPHERSON. Right.

Chairman THOMPSON. But one thing that we do better than anybody else at the Federal level is research, and again, whether you are talking about juvenile crime, something that I have worked on over the years, or education, there is an awful lot we do not know. It is not like we have the right solutions to all these problems and we just need to tell people to implement them, because we really do not know what works oftentimes and what effect what we are doing has.

So we really need to put more into research, and Mr. Gladieux, you mentioned the same thing. I think at the Federal level, you do not get into a lot of those federalism issues. What should the Federal Government be doing? What should the State be doing? We could be a clearinghouse of research into these things, a clearinghouse for States and local communities as to who is doing what and what results are they having, not to mention the effect it would have on our own programs.

On another point, on the issue of access, it raises a real question for me because I wonder about our underlying assumptions. I'm going to play kind of devil's advocate for a minute, but I am wondering, are we assuming, when we talk about the access problem and we see that the completion rates are flat when the student enrollment is up, that not all people are going to school that we think might ought to be going to school. That there is an underlying question there as to who should be going to college. That is a societal question that we cannot answer, but we cannot totally ignore it, either, I guess, as we look at this.

I am wondering if the philosophy that we are headed toward, toward kind of a total access, is going to wind up stratifying things more and more. We see now that, more and more—some studies were done recently in one large high school, one large community where the high school students, half of them could not pass a standardized merit test if it were given and they were required to pass a certain test to get out of school.

We see the demographics are catching up with us. We know about what it is doing in the elderly segments of our society, with Social Security and Medicare. It is happening, the same thing, again, with juvenile crime. We have a bunch of kids in a problem age group that are coming along. We have a bunch of kids that are coming along now from maybe poorer backgrounds into the college system.

So how do we look at that? If we do not base it, if we continue to stigmatize kids who do not go to college, who choose to become mechanics or carpenters or something like that and we do not place the emphasis on the underlying problems that get these kids in the problems to start with and we do not really reach out and try to

get the poor kids who show some capability and some potential and not try to get all the rest of them into school, we are going to bring down the quality of our college and university education. The real good students are going to even more elite institutions at even higher prices and we are going to have a small, extremely elite college-university system and broad-based education with broad access to everybody, dragging everybody down. The decent students, the good students working hard will be brought down by a situation like that.

So I question whether or not when we look at the access problem that we ought to look at it just strictly from a standpoint of who is going to college who we think maybe ought not to be going. Does any of that resonate with you? It kind of goes against the grain, I guess. It seems to me that not only are we going to need a computer-literate society, more and more, we are going to need people who know how to do things, how to do things with their hands as well as other skills. There is always going to be room for that, too. If we continue to push everybody toward college and universities, it is not going to be good for anybody. And, of course, as I say, the rich and the extremely bright are always going to have someplace to go, but it is going to stratify things worse than they are. Does that make any sense at all?

Mr. MCPHERSON. I have two observations. I think it is a very important issue. The first observation I would make is that, as an educator, I think it is a misfortune that, increasingly, the only path to a good life and a rewarding life in our society is seen to be a path that goes through college. It would be a much healthier society, in my view, if young people really felt they had a choice of ways to build a good life, and not all of those ways ought to require that they get a college diploma. I think it would bring a better attitude toward students when they are in college if they felt like they had chosen that.

The reality is that if you look at income statistics, if you look at occupational results and so on, things look pretty bad for folks who only have a high school degree, and it seems to me that part of the solution to that should be national investments, not necessarily Federal Government investments, but national investment in secondary vocational training and post-secondary vocational training, which would allow people to become equipped to become mechanics and do other kinds of preparation which are not necessarily collegiate preparation.

But at the other end, Senator, in some of the work that Morty Schapiro and I did, we reviewed a governmental study which looked at the probability of people going to college based on both their family income and their academic abilities as measured by tests in high school, and among the top third of students in terms of test-taking performance, the highest income group had 19 chances out of 20 of attending college. The lowest-income group, and this is among high-performing high school students, the lowest-income group had three chances out of four of attending college. Now, three chances out of four is better than it used to be, but it still means that 25 percent of low-income students who clearly have the ability to benefit from college do not get there. So I think

we have problems to work on still at both ends of the problem you described.

Chairman THOMPSON. Yes, and that is really the point. The distinction should be made with regard to the low-income students who show some potential. Of course, some really have a tough time in even showing that potential. I guess you could do a certain kind of a test and so forth. Grades might not even be the total determining factor, based on their family situation and all, but there must be some liberal ways of determining who has that ability. I guess I am beginning to sound like the English system or something. I am not suggesting that. And then concentrating on those low-income kids who show the ability or the potentiality of succeeding and wanting to go.

Mr. GLADIEUX. Mr. Chairman.

Chairman THOMPSON. Yes?

Mr. GLADIEUX. I think in these discussions, there is sometimes an issue of terminology. We talk about college and going to college and we all have different things in mind, but it is just the way we refer to this process that we are talking about here.

But what we are really talking about is a very broad range of post-secondary opportunities for education and training, and I personally do not believe that everybody should go to college. I do not believe that is——

Chairman THOMPSON. Perhaps vocational, as Dr. McPherson said.

Mr. GLADIEUX. Yes. And I think where the market is generating and State systems are setting up an increasingly rich range of sub-baccalaureate degree opportunities that are very important to drive our economy and to sustain the promise of opportunity in our——

Chairman THOMPSON. In other words, there is hardly any role in society that some post-high school training of some kind would not clearly benefit. That is certainly true.

Mr. GLADIEUX. Yes. I am talking about completion rates. Bill Gates is a college dropout. But in the main——

Chairman THOMPSON. And you do not have to expect them to get a 4-year degree from some liberal arts college or something.

Mr. GLADIEUX. In the main, our economy and our labor market is driven by credentials. So I think this is the message, that we want to keep the options open to everybody for some form of post-secondary education or training.

Chairman THOMPSON. If somebody knows how to fix something or do something, I know a lot of employees who do not care if you went to the 3rd grade, and I am not suggesting that this is the wave of the future. This is just reality. In the little community I grew up in, there is a place and will continue to be a place that will grow as everybody else moves into other things, people that know how to fix things and do things and show up for work on time and things like that will have a place.

Mr. GLADIEUX. Some people do very well without formal training, but again, the range of what is being offered out there, is being generated by the market, is just astounding, the certificate training as well as the degree programs.

Chairman THOMPSON. Thank you. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman, an interesting exchange. That brings up the first matter I wanted to bring up, which is getting a handle on the effect of the increasing cost of higher education on different income groups. It takes a little bit of work.

I was surprised, and one of the witnesses yesterday, I think, dwelled on this somewhat, that if you look at the last couple of decades, the participation rates for 18- to 24-year-old high school graduates has increased at every quartile of income, 11 percent for the bottom quartile, 15 percent on up, 10 percent at the highest level, and I found that surprising and, I guess, counter-intuitive, because I figured as the cost went up that it seemed unlikely that there would have been a comparable increase in the number of poorer kids going to school, and maybe I should ask you to comment on that.

I want to come on to other questions, some of which you have already testified to, but is that a reflection? You have said that it is still true that there are a smaller percentage of lower-income kids attending college, and as the most recent exchange indicated, and your research, Dr. McPherson, is very compelling there, that though it is three out of four, still, that is a lot lower than 19 out of 20, so there is still a gap.

But why is it over the last 2 decades that the number of poorer kids in college has gone up about as much as the number of better-off kids?

Mr. GLADIEUX. Again, the gaps remain very wide when you look at all the dimensions of opportunity, access, choice, and completion. But it is true. The demand for higher education in our society is reflected on those charts that show all the lines growing up in every group, racial or by income.

Senator LIEBERMAN. So does that show also that some of the aid programs, like the Pell grants, have worked to enable the lower-income kids to go to college, or does it show that there is just such a demand that they are willing to do anything, as middle-income families are, to make sure their kids go to college?

Mr. GLADIEUX. I think the aid programs have worked, but we have got a long way to go.

Senator LIEBERMAN. Yes. Dr. McPherson.

Mr. MCPHERSON. I think the comparisons here we are talking about are comparisons of 1972 to 1992, and that means it is pre—the major Federal investments in student aid and post—those investments. It would be great to have 1972, 1980, and 1992 so that you could get more of a profile of what has happened during that time.

But I would underscore that while there has clearly been progress, and it is also clear that, as you put it so well, Senator, the economic rewards to attending college are so high that people will work very hard to solve that problem and figure out a way to do it.

But despite those good things, in our work, for example, we looked at the attendance rates immediately out of high school for white kids, African Americans, and Latino/Latina children, and in the middle 1970's, whites attended in greater numbers, but the differences in attendance rates were something like 3 or 4 percentage

points among those three groups. Now, every group has increased its attendance rate, but the differences are quite a bit bigger.

Senator LIEBERMAN. The gaps.

Mr. MCPHERSON. They are more like 5 to 10 percentage points, and I think what that reflects is that——

Chairman THOMPSON. Like national income figures.

Senator LIEBERMAN. There is probably a connection.

Mr. MCPHERSON. There is a persistent problem.

Senator LIEBERMAN. That is important. I mean, I think that makes the point very compellingly.

Mr. Gladieux, those numbers you gave, however, about the completion rate of college in 4 years are stunning. That was only 6 percent of lower-income kids finish college in 4 years, whereas——

Mr. GLADIEUX. In this study, they began in 1989. Five years later, they took another look and they went back to the same students and that was the gap in percentage that completed a bachelor's degree.

Senator LIEBERMAN. I do not want to push you into too much detail, but how are lower-income kids defined in that study? Is it bottom quartile or poverty rates?

Mr. GLADIEUX. Yes, I think that is bottom quartile.

Senator LIEBERMAN. Do you know how many of them, of the students in the lower-income group, actually ultimately finished 4 years?

Mr. GLADIEUX. Well, there is some data, and there are additional follow-ups. The gaps remain pretty wide. Five years after high school graduation, students are 22 and 23 years old. If you go out to age 30, some intermittent students come back and complete their degrees, but the gaps remain very wide.

Senator LIEBERMAN. Yes. I am about to ask a question, what was it, that F. Scott Fitzgerald-Ernest Hemingway dialogue about the rich are just like the rest of us except they have more money. I mean, I am about to ask you, why is it that there is this remarkable discrepancy, 40 percent completion in 4 years, 6 percent, among the poorest? Is it just plain income, or is it something more?

Mr. GLADIEUX. As I said, I think it is this issue of affordability, and there have been a lot of adverse trends, tuition, family income, and the aid policies. I think that has played a part. But it is also the underlying gaps in prior preparation. I mentioned that larger challenge of student readiness for higher education. Obviously, we cannot read that out of our calculus here in anything we are talking about. If we are focused on closing these gaps——

Senator LIEBERMAN. As you said today and was said yesterday, it is more than aid, college aid alone. It is also our ability as a society to prepare kids in poorer families in elementary and secondary school.

Mr. GLADIEUX. Right, though these two things, these two challenges interact.

Senator LIEBERMAN. Sure.

Mr. GLADIEUX. I suggested a savings initiative, and there have been tremendous new incentives, Federal and State tax incentives for college saving. Those do not reach down into the low end of the economic scale, but it does send a message and you can help to motivate young students early in their schooling if we make a prom-

ise, if we say that the financing is going to be there, and the same with Pell grants, and that is why I put that on the table, the Pell grant entitlement.

Senator LIEBERMAN. I assume, again, just briefly, that if the demographics of the future are as we expect, as experts project, which is that a greater and greater proportion of children growing up in the country will come from ethnically diverse lower-income families, then the gaps that we have identified here, both in access and in completion of college in 4 years, are going to get greater and greater.

Mr. GLADIEUX. That is what I see, and the College Board has also commissioned a study that the Rand Corporation did for us, providing very detailed estimates of projections in the year 2015, the students who are going to be coming online then and what their characteristics are. It says the same thing.

Senator LIEBERMAN. Yes.

Mr. GLADIEUX. It is a huge challenge.

Mr. MCPHERSON. If I could add to that point, one of the things we know from research is that two of the main determinants of somebody's likelihood of going to college are their parents' income and their parents' educational attainment. What I wish we could do is create a kind of a movie which would let us see where we are going over the next 20 years. If we allow these gaps in educational attainment to persist for another generation, those will then be perpetuated because those now young people who did not get to college will have children who are less likely to go to college.

And if we picture what that society is going to look like 25 years from now, it is not one any of us will want to live in. But it is so hard to come to grips with it because it is so abstract, but we are building, I think, a divide which is going to wind up being punishing to the entire society and not just to the poor people, but to everybody.

Senator LIEBERMAN. Let me ask a final question. Incidentally, thanks to both of you for your recommendations, which are, I think, very thoughtful and constructive, and perhaps on another occasion we can go over them in a little more detail with you.

But here is my question. I accept, based on the testimony we have heard and the numbers that have been put before us, that both today and in the future, the greatest need for financial aid is, this sounds axiomatic, but is among those who are poorer. But it is also true that people who are making a little more money, the middle class and particularly what might be called the lower-middle class, really are strapped to send their kids to college.

The young lady who was in here yesterday, not needy, not from a needy family, but $50,000, both parents teachers, $50,000 family income, they took on $22,000 of debt to send her to college and they have another student coming along for whom presumably they will also take on debt.

So we cannot, and I know you are not asking this, we certainly cannot turn our backs on them, either. I think what we have got to do is figure out a balanced system, and maybe it does in the best of all worlds include more fully funding the Pell grants but keeping a kind of tuition credit or tax deduction system for people in the middle class who are finding it very hard.

I think I said yesterday in my opening statement, and it really is true, I find that among the middle-class families in Connecticut, the greatest single worry they have is how they are going to afford to send their kids to college without going into hock that will stay with them for the rest of their lives. Maybe they do not worry about health care as much because most of them are working in places where they get their health care. I understand that. But it is a major worry.

So just talk to me a little bit about that and what the ideal—I presume you are not suggesting that we turn our backs on the middle-class families who also need help.

Mr. MCPHERSON. I certainly do not mean to suggest that we turn our backs on those folks, and I think from my point of view, a family earning $50,000 a year with one or more children in private colleges absolutely is a needy family.

I may differ somewhat with Larry in thinking about the politics of these things. I think it would be desirable, actually, for the Pell grant program to reach further into the middle class, perhaps even beyond what happens simply by driving the formula with more dollars. What I really worry about, thinking about the future of Federal funding, and I am an amateur political scientist, so forgive me for this, but what I worry about is we have kind of created a system where there are two buckets that Congress can fill. One bucket is Pell grants, and the label on that is poor folks in the way it is done now. The other bucket is tax credits, and the label on that is middle class and up.

I just have a hunch that you folks will be more attracted to filling bucket No. 2, and if we have some academically perfect system where we say, well, Pell will take care of the poor folks and tax credits will take care of the middle class, I do not think the poor folks are going to win in that competition.

So just as with Social Security, a lot of its strength has clearly been that it reaches a broad range of Americans. I think we need to think realistically about creating a set of programs which you folks can go out and explain to your voters which is responsive to these underlying social needs and which reflects the reality that for a lot of people in the middle range, it is a strain to finance college.

Senator LIEBERMAN. It is a good argument. It is very important that we talk about that. I mean, look at not only Social Security but Medicare. Part of the reason why it enjoys such support, and, of course, is in such financial difficulty right now, is because it is a universal benefit program and it has had results. People are living longer and living healthier.

Mr. GLADIEUX. If I can just address my colleague, I think we are going to still have to work on where we disagree. I think, if I understood you, I agree that we ought to expand the Pell grant program and push it up as far as we can into the moderate and middle-income ranges. So I think we agree on it.

Mr. MCPHERSON. I tried to disagree with him.

Senator LIEBERMAN. All right, nice try. Thank you both. We are not going to get to "Crossfire" here, no matter how hard we try. [Laughter.]

Mr. GLADIEUX. If I can just add, on the tax code, I know time is short, but on the tax code, I do support expansion of the interest

deduction on student loans for student loan repayment. I think that is a judicious use of the tax code, and maybe we disagree on this, Mike. I do support the tax incentives for savings. I think they go mostly to middle and upper-middle class. But they support this whole savings movement, which I think is, in general, very constructive. I just do not support the big tax breaks for current tuition bills because I do not think that is a very effective——

Chairman THOMPSON. The divide you talk about reminds some of us what a lot of people are concerned about in society as a whole, in terms of the gap between rich and poor. In this country, I think it is very valid to point out that we are very mobile. We move from one category to the next. You may be lower 1 day and then middle the next, and that is the beauty, and perhaps that mitigates it somewhat.

On the world stage, though, it is really, a lot of people think, becoming a problem, the haves and have nots, the technological haves and have nots, and those are going to be driven apart further. And while it is unfortunate and unfair, in the United States, when you get to that level, you are talking about ethnic conflict, countries that have nuclear capabilities now, and all of that. So this is a microcosm of what is going on in the world.

Mr. GLADIEUX. We talk about a digital divide in this country. It is a digital chasm when you look across regions of the world, third world and first world.

Chairman THOMPSON. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Mr. McPherson, you mentioned that some 25 percent of low-income students who have the capacity to go to college still do not get there, and Mr. Gladieux, you mentioned in your testimony that only about 6 percent of them finish it, a statistic that I share Senator Lieberman's alarm about.

Prior to coming to the Senate, I worked at a private college in Maine that primarily served low-income first-generation students, and I would suggest to you that one reason that 25 percent does not get there, even though they are qualified, is not only that they come from families with no experience with higher education, their aspirations are low, and that is why, parenthetically, I would say I am such a strong supporter of the TRIO programs. I think those are just critical. But it is also that a lot of them are frightened of the cost. They have sticker shock and they do not realize that help is there.

So one of the things that I wanted to ask you to comment on is, how can we do a better job of reaching those children who come from families without any experience in higher education who may even not want their children to go on to college, may be threatened by that—I have seen that—and who look at the cost of private schools, in particular, and think that is just not for them. There is just no way they can experience that or afford that.

And second, and related to that, I think one of the reasons that only 6 percent finish, based on my direct experience, is they start looking at that mountain of debt and they think, there is no way I am going to be able to find a good enough job to pay that off, or they just get so discouraged by it, and they particularly get discouraged when the college changes the ratio of grant aid to loans,

which happens over and over again, where the amount of grant aid provided by the institution decreases the longer the student is there.

So I think that cost is still very much part of the underlying problem for both of those alarming statistics. Dr. McPherson.

Mr. MCPHERSON. Yes. I think you have identified a really major problem. If I can talk from personal experience, I am the president of a college located in the city of St. Paul and my son recently graduated from St. Paul Central High School, which is a big public high school, and a number of his friends whom I used to drive around were from families of moderate incomes and their families are not willing to think about Macalester College because they hear about the sticker price and say, oh, well, that is hopeless. The fact is that two-thirds of our students get aid from the institution, and probably half of them get aid from governmental sources.

But it is so complicated that it is hard to get that message across. I used to drive these folks around. I would keep copies of our financial aid brochure in the car and I would say, show this to your parents. This is really something you can think about. I would think I would be a reasonably credible source, but I could not get over on that. [Laughter.]

I think we have a lot of work to do on the college side of making this system much more transparent, which was a word that was used earlier. You asked, what can the Federal Government do? I would recur to one of Larry's recommendations. The original idea of the Pell grant was to make it obvious to people that they could get a good chunk of support toward paying for college, and it was unambiguous. If the Pell grant were an entitlement, it would return to that original hope, and it was originally designed to be an entitlement. I think that would be a great statement for the young people of the country, that that support is there.

Chairman THOMPSON. Mr. Gladieux.

Mr. GLADIEUX. I would just add that the data that we have from the Department of Education tells us that young people in the middle schools, 8th grade—at all income levels—tell us that they expect to go to college. Expectations are very high. It is just that the course-taking patterns of students from different backgrounds and different school systems just are so—they are not adequate to let those students meet their expectations.

Senator COLLINS. It is high in the young grades. I always ask that question.

Mr. GLADIEUX. Yes.

Senator COLLINS. It diminishes as the kids get older and older and more attuned to the cost.

Mr. GLADIEUX. Right.

Senator COLLINS. I know we have a vote on, so I will just quickly ask one more question. We had a witness yesterday who said that no college ever says, let us raise tuition to draw in more Federal aid, and I agree with that, but I will tell you what does happen, and this is what happens. When discussing tuition rates, what colleges figure is that truly poor students are going to be taken care of by scholarships, by Federal aid. The rich families can afford the increase in tuition. I would suggest that it is the lower-middle class and the middle class that really get squeezed. I think that those

calculations very much do go into the discussion of tuition rates and that we do play a role, whether we want to or not, in student loans and Pell grants, and I am intrigued by the idea of extending Pell grants further into the middle class. I think there is a lot to be said for that.

But the other issue which I want you to comment on is the prestige of a high sticker price. When you look at your peer colleges, there is a dynamic that goes on that if you are under the average cost of the tuition, are you somehow sending a signal that you are less worthy of their going there, and I think that is a very perverse mechanism that occurs when colleges set tuition rates. Dr. McPherson, could you expand on that?

Mr. MCPHERSON. Yes. I have some sympathy with both of your points, but also some doubts about both of them. I think there is a phenomenon which is by no means confined to higher education of families judging the quality by the price. I think Dave Breneman coined the term, the "Chivas Regal effect" for that phenomenon. He asked, why does that happen? The answer is, it is so darn hard to get meaningful information about how good a college really is.

I think an area where the colleges need to do a lot of work is, again, another form of transparency, as the Chairman began, talking not only about our inputs, the big swimming pool, the great ratio of teachers to students, but also about the results and give families more information that can really help them make judgments that are independent of price.

My point of view, when we think about our tuition decision at Macalester, I am, frankly, not looking to be more expensive than anybody else. I am looking at what I think we need to do in order to deliver a program which will meet the standards that we have set for ourselves, and in all honesty, it is an expensive thing to do.

On the question of feeling like poor folks will be cared for by Federal and State programs, there certainly is some consideration of that kind, but the fact is that at a place like Macalester College, a very low-income family will probably get a grant on the order of $15,000 or more from the college to assist in attending and the cost of education for a student at Macalester is higher, actually, than the sticker price, so there is an additional subsidy involved there.

So we certainly do not feel like these folks are getting a free ride from our point of view. We do feel like it is a fundamental commitment of the college to make it possible for them to attend and we put up the resources that will make it possible.

Senator COLLINS. And just so I am clear, I am very sympathetic to the idea we need to do more to help our low-income students have that opportunity.

Mr. MCPHERSON. Right.

Senator COLLINS. I know we have a vote on, but Mr. Gladieux, if you could just comment quickly, since I read on your face some disagreement with what he said.

Mr. GLADIEUX. I thought Dave Breneman has put this very well. There is price competition, but, as Dave says, higher education finance is kind of cockeyed. I mean, it is price competition in the——

Senator COLLINS. The other way.

Mr. GLADIEUX [continuing]. The other way.

Senator COLLINS. Thank you, Mr. Chairman.

Chairman THOMPSON. We do have a vote on. We will be in recess for a very few minutes.

[Recess.]

Chairman THOMPSON. Let us come to order, please. Naturally, it took a little longer than we anticipated, but thank you for waiting on us. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. Again, I want to tell you how much I appreciate this hearing that you have put together and look forward to witnesses and also questions.

I was particularly interested in the testimony of Mr. Gladieux. You have indicated, Mr. Gladieux, that you are concerned that rising tuition costs still outpace inflation and fear that the income gap is widening. My question is, do you believe that the administrative cost containment measures recommended by the witnesses that we have heard here today will adequately mitigate these increases?

Mr. GLADIEUX. I should turn to my colleague, the college president, who is on the front lines of responsibility for cost containment, but I am going to quote Dave Breneman again, who quoted an economist, Howard Bowen, whose theory of higher education finance was that you raise all the money that you can and you spend all the money you can raise. That is basically what colleges do. I mean, every college, I think, is a bundle of ambitions for doing good things. I think colleges have gone through various kinds of restructuring and I think they have felt pressure from the business community to get with the program and restructure and contain costs.

Have they done enough? I do not think—here I will weigh in on the question of what is driving the tuition spiral—I do not think that all of the pressures are on the cost side, the underlying costs of providing the instruction. I guess this has been said, it is ground that has been gone over, but it is also a matter of the very high demand for the product. Everybody knows that there are good returns for this investment and a lot of demand. This is an imperfect market, post-secondary education, but prices go up in part because they can, because the demand is so high.

Senator AKAKA. Dr. McPherson.

Mr. MCPHERSON. One thing I would underline is from a public policy point of view and from a concern about how these tuitions are impacting on people's ability to go to college, it is very important to remember that 80 percent of the students go to public colleges and universities and that most of the low-income and first-generation students begin in public colleges and universities. It is also true that private colleges, on the whole, put a lot of resources into providing aid from their own resources for low-income students to try to provide access.

If you look at what has gone on in prices in public higher education, they have gone up pretty fast, and I think that has produced access problems. But the main thing that has driven those price increases is reductions in State funding for the institutions, not increases in the cost of education. The cost of education on the public side actually has gone up quite slowly in the last decade. State appropriations have declined in many States, and schools have made up part of the difference with tuition increases.

To me, the big challenge and the big issue is, whatever happens with tuition, are the schools, the States, and the Federal Government focused on making sure that needy low-income students are insulated from the impact, and that is, to my mind, where the public policy focus needs to be.

Senator AKAKA. Mr. Gladieux, I was glad to read about your concern about unequal education by income and race. You discussed here college participation and successes among these type of students. You also mentioned financial aid is critical, but not enough. I am really interested in this area as to why we have this inequality. You pointed out that much of this probably has come because they have not been properly prepared for college and pointed to programs such as Upward Bound, TRIO, and GEAR UP as programs that help that cause. You also mentioned that complementary strategies are needed to equalize college opportunities.

I know you have discussed this in here, but I just wanted to further ask you whether you had anything else to say about that complement of strategy.

Mr. GLADIEUX. Well, on the broad question of what are the roots of unequal opportunity, of course, there are many—tracking policies in schools, social conditions and society's expectations of students. There are many, many things that play into this.

Now, what to do about unequal levels of participation, as I said, I think we need the wholesale effort to reform the schools and lift performance of the schools and students, but we also need, I think, these one-on-one, one kid at a time, very intensive programs. At the Federal level you have the TRIO programs, Upward Bound, Talent Search and support services, and the new GEAR UP program that the administration proposed and Congress enacted.

But there are programs in the private sector that are proliferating across the country. In fact, we held a conference, the College Board sponsored a conference, a national summit on pre-college outreach 3 weeks ago and it brought 500 people together. A lot of funders, a lot of foundations were there and are ready to invest more in these efforts.

We need to save more lives. We need to reach more kids early, to widen their horizons and keep their options open, by taking the right courses and staying on track. That is what the I Have a Dream program is all about. I Have a Dream is just one of the national programs now that does great work and is expanding across the country.

Senator AKAKA. I know you are proposing expanding pre-collegiate outreach.

Mr. GLADIEUX. Right. It is very labor intensive. Mentoring students one-on-one is expensive. We just need more of these efforts.

Senator AKAKA. Would you have a word on that, Dr. McPherson?

Mr. MCPHERSON. Well, I do. One of the barriers, particularly for first-generation college students, is sheer information, is just knowing how this whole process works, and Senator Collins talked some about that before the break. Tom Kane, who is a professor at Harvard University's Kennedy School, is conducting, I think, a really interesting experiment with support from the Mellon Foundation which—they picked some school districts in the Boston area and, in a controlled scientific sense, are providing one-on-one counseling

with trained counselors for a set of first-generation high school students whose parents have not been to college in low-income areas in Boston and they want to look to see if the college-going results differ based simply on the application to one group of students of a serious amount of information and college counseling. I think that is a great example of actually trying to go out and systematically learn what works.

Senator AKAKA. Mr. Gladieux, in your testimony, you spoke of students who leave college with no degree, who have no skills and who may be unable to pay their debts. We heard from a young lady yesterday. She finished college and received her degree, but she is $18,000 in debt. What percentage of students' loans are outstanding from students who do not complete their bachelor's degree?

Mr. GLADIEUX. Frankly, I do not know, and I do not know that we have such data. I know we do not have good research on students who fall off the track, who do not make it. I think we need some—Michael, do you have——

Mr. MCPHERSON. I have nothing.

Mr. GLADIEUX. I do not know that any research is being done. It really is not picked up in the longitudinal—well, it should be picked up in the longitudinal studies of the Department of Education. We should be able to glean something, but I do not have the data for you.

But this is what worries me most, is the number of students, and I guess I am just going on anecdotal evidence, what I hear. This is the downside of this whole effort and enterprise, students who are drawn into higher education and borrow and end up with a debt. Now Bill Gates, he had some skills and he did not need his degree. But for most folks who are in this situation, I think there is a real social fallout—it is a serious problem.

Senator AKAKA. And I do worry, too. I worry about what this might do to the default rate in the future. Thank you very much for your responses, and thank you, Mr. Chairman.

Chairman THOMPSON. Thank you very much.

Gentlemen, thank you very much. That reminded me of another figure that we have got here that I guess is relevant to this discussion, and that is the default rate for loan programs in fiscal year 2000 is estimated to be 15 percent, which is a lot lower than it used to be. I am told by people who have been around here a long time that this Committee had hearings many, many years ago and it was astronomical, and it is slowing and it should be.

But still, just for loans in 1 year, that is over $5 billion that taxpayers are paying. That is kids who pay their loans back and go to work, and that is grandparents who already got their kids through college, and that is the factory worker who does not go to college. All these taxpayers are giving $5 billion a year to the cost, so that needs to be considered, too, in terms of Federal cost, i.e., taxpayers' costs that we are incurring in these loan programs. You can say a lot of things about it. The kids are too poor, loans are too high, society's standards are declining, or whatever, but that does go into the Federal contribution.

If there is nothing else, thank you, gentlemen, very, very much. This has been extremely helpful.

Mr. MCPHERSON. Thank you, Senators.

Chairman THOMPSON. I appreciate it.

Our final panel will examine the growth in the use of debt to finance a college education and the danger posed by perpetrators of fraud who prey on students seeking money to pay for college.

We will hear from Jerry S. Davis, Vice President of Research at the USA Group Foundation; Mark Kantrowitz, Publisher of FinAid.com, and Patricia Somers, Professor of Higher Education at the University of Missouri in St. Louis.

Mr. Davis, would you care to make a statement?

Mr. DAVIS. Do we have to go in the order that you had listed us?

Chairman THOMPSON. Not necessarily.

Mr. DAVIS. Dr. Somers wanted to go first.

Chairman THOMPSON. All right. That would be fine.

Mr. DAVIS. So I yield to Dr. Somers.

Chairman THOMPSON. Dr. Somers.

TESTIMONY OF PATRICIA SOMERS, Ph.D.,[1] ASSOCIATE PROFESSOR OF HIGHER EDUCATION, UNIVERSITY OF MISSOURI

Ms. SOMERS. Thank you, Mr. Davis. Good morning, Mr. Chairman, Senator Lieberman, and Senator Akaka. I am delighted to be here to talk about students and their debt load and how it influences their lives.

As you said, I am Pat Somers, Associate Professor of Higher Education at the University of Missouri at St. Louis, and I am going to be talking about a series of studies on student persistence and debt load which I did collaboratively with Dr. James Cofer, Vice President of the University of Missouri system, who is also here with me today.

Collectively, we call these student debt load studies "Mortgaging Their Future," and mortgaging their future is an analogy that came through time and time again as we talked with students. In my remarks, I will give a brief introduction, then examine the three questions posed by the Committee, and end with some policy suggestions. You have heard some of these things before.

While I am a researcher who looks at the impact of student aid, I have also had involvement in the financial aid system as a recipient. As an undergraduate at Michigan State University, I received Federal grants, loans, work-study money, and also State grants. I received war orphans' benefits under the GI Bill, and I was the first person in my family to graduate from college. Half of my NDEA loans of $8,000 were forgiven because I ended up in an educational institution and I taught.

Then my second experience with the financial aid system as a participant came as a parent. In 1993, I found myself newly widowed with my daughter, who is a poet, at a very expensive private college. I ended up with $28,000 in PLUS loans on a salary of $32,000, and I am probably the only parent in America paying back the PLUS loans instead of foisting them on my daughter. She ended up with $30,000 for undergraduate loans and will amass at

[1] The prepared statement of Ms. Somers and Mr. James Cofer appears in the Appendix on page 215.

least $80,000 in student debt load by the time she receives her Ph.D. in English literature.

Now, I did point out that she could be a poet and do, let us say, massage therapy at the same time, and I offered to fund her completely to go to massage therapy school, but she decided she really wanted a Ph.D. in English instead, and we recognized the impact of that decision. She also, after her father became ill with cancer, had offered to drop out of the expensive private college and go to the public school near home so she could help us save money. We had over $100,000 in medical bills in 3 months. But also, she could help take her father to treatment.

Between my experiences with financial aid in the 1960's and my daughter Susan's in the 1990's, there were some fundamental shifts in student financial aid policy, which I will outline.

From its beginnings in the Higher Education Act of 1965, there have been several key principles of Federal student financial aid policy. These are, first, that the costs of higher education are shared by the student, the parents, and the taxpayer. The second is the Federal Government makes grants available to low-income students so that they can afford moderately-priced public institutions, which we call access to post-secondary education, makes loans available to middle- and upper-income students so they can afford higher-priced private institutions, which we call choice in higher education institutions, and provides aid to students without regard to academic discipline or achievement as long as the student maintains satisfactory academic progress.

A key change between when I was in college in the 1960's and when my daughter was in college in the 1990's is that students have assumed more of the cost of college primarily through loans, while parents have decreasingly supported their students in college. As I said before, I suspect that many of the PLUS or parent loans are actually being paid by the students after graduation.

The Higher Education Act of 1992 increased student borrowing limits, and probably as a result, we are here today talking about student debt load, college costs, and so forth. With this change came renewed concern about the impact of debt load on students, an anxiety that is supported by figures on student borrowing. Fully one-third of all loans in the history of the student loan program were extended in the fiscal years 1994 to 1996. Between 1989 and 1995–96, spending on student loans doubled. In 1997, the Federal Government invested over $40 billion in generally available student aid with fully three-fourths of that devoted to student loans.

Let me now turn to the questions that the Committee has posed me. First, to what extent does actual or potential debt load influence student choices. The studies that Dr. Cofer and I did were based on data from the National Center for Educational Statistics gathered between 1987 and 1996, so we do have an historical base there, and also student interviews that we did with over 900 students around the country in 2-year, 4-year, and graduate programs.

First of all, the decision to attend a post-secondary institution. Studies have repeatedly shown that students and their parents make decisions about college affordability long before they have any information about it. This may happen as early as the 6th grade. This is why programs such as GEAR UP are so important.

Remember, part of GEAR UP is the year 2000 scholars program that gives 8th grade students certificates that tell them the kind of financial aid that they could qualify for once they were ready for college.

While we found that some students were undeterred in their educational plans because of the expected debt load, many students chose institutions and majors based on cost. We call this the 3 Ps of college choice: price, price, price. There are two ways to look at price, total price of attending the institution minus all aid, and the second, for those savvier students, total price minus the gift aid, in other words, how much do you get for free.

Three quotes are illustrative of how financial aid affects these decisions. "This university was the closest school, and since I drive 45 minutes a day to get here, it was feasible. However, this university does not offer a degree in theater. I had to change my goals and major in public relations instead."

Another student said, "Cheap is important. I would have considered getting a medical degree if the debt load was not so tremendous." She chose a bachelor's degree in allied health instead.

And finally, a student in a 2-year institution said she chose that "because of the location and the costs are low. I was able to work and go to school at the same time."

Students also reported a number of loan avoidance behaviors. One student said, "When I first started out, the first 2 years, I tried as hard as I could not to take out a loan. My husband was going to school and we are both trying to make life better for our son, and after 2 years, I could not afford it. It is embarrassing living poorly, and finally, I had to take out loans. If that is what I have got to do to make life easier for my son later, that is what I have got to do."

One interesting side note is that some students charge their educational expenses to credit cards rather than take out student loans. It sounds like a really dumb idea. No, wrong. Educational expenses charged on a credit card are dischargeable in bankruptcy, while student loans generally are not. This puts low-income students who may have bad credit experiences and do not use credit cards at a disadvantage as compared to middle-income students who do.

How does debt load influence which job to take after graduation? One student said, "Having student loans is very stressful." As students approach graduation, the specter of repayment looms large. They really focus in on which job is going to pay them the most so that they can reduce their debt load after graduation. They would in many cases prefer other jobs that paid less that were a better fit.

How does it affect other life decisions? Student debt load obviously influences financial decisions such as buying a house, buying a car, and living expenses after graduation. However, we also found that personal decisions, like marriage, divorce, and having children, are influenced by debt. One student said that he would not have married his wife had he known that she had defaulted on $30,000 worth of student loans.

The second question is, are post-secondary student persistence rates affected by debt load? We found that student persistence in

all types of institutions is influenced by accumulated student debt load. Rather than being incremental, the effect of debt is felt suddenly as debt is occurred. This we call the threshold effect. That is, a student borrows, which varies depending on need and other factors, in a lump sum at the beginning of the semester. When the next semester rolls around, the student has to again make a decision to persist based in part on this new higher level of debt. Students view threshold levels as intimidating, especially when they move from one perceived level to another.

Further, in the short term, students are increasingly willing to borrow for college and at an increasing rate. The short-term borrowing to finance tuition appears to have decreased the influence of rising tuition on the persistence decision. This is an important point. Because there are more grants and more loans available, tuition is not as much of an influence as it was in 1987, for example, as it was in 1996.

However, the long-term effect of this short-term borrowing decreases the likelihood of continued enrollment, and I do have a couple of statistics which I will give you. These are all 1996 numbers from the National Center for Educational Statistics, the National Post-Secondary Student Aid Study.

The 4-year students who have the lowest level of debt, $3,000 or below, are 4.6 percentage points less likely to persist from one semester to the next than students who do not have debt. Between $3,000 and $6,000, it is minus-2.7 percentage points. Above $6,000, it is 5.3 percentage points.

For low-income students, this is particularly pronounced, and that is the next issue that I am going to deal with. For those low-income students who have the lowest level of debt, $3,000 and below, are 13 percent less likely to persist than students without loans. For those with medium-level debt, $3,000 to $6,000, they are 8 percent less likely to persist. And for those in the highest level, $6,000 and above, they are 17.7 percent less likely to persist from one semester to another.

The 1992 reauthorization resulted in a significant shift in Federal policy from a commitment to promote access through need-based grants to a broader strategy of loans regardless of family income or need. The findings from our study suggest that the pendulum has swung too far. Middle-income students appear to be adequately subsidized to enable them to attend the college of their choice. The access and choice question is essentially a public school and private school dichotomy. Public schools offer low tuition and little institutional-based aid. Low tuition implies that most of the aid at public schools will go to low-income students, since middle- and high-income students will have no need. Therefore, Federal student aid acts to implement the low tuition strategy of public institutions and promote access. Remember that 80 percent of the students are in public institutions, 2-year and 4-year.

Private institutions, in general, spend a large portion of their resources on student aid through discounting. Therefore, Federal student aid federalizes some of the cost of student aid that these institutions would incur in the natural course of business.

In addition to the decreasing persistence rate among low-income students, our studies seem to confirm that low-income student par-

ticipation in higher education was decreasing. Further, low-income students and students of color tended to attend 2-year colleges in larger numbers.

So what can be done? We have a number of suggestions for changes in Federal policy. However, these must be implemented with the recognition of the differential impact on low- and middle-income students, the bucket one versus the bucket two that we talked about before.

In general, programs that increase aid to the neediest students during college and ease repayment after graduation will help low-income students while tax breaks and repayment reforms will assist middle-income students. I will just briefly run through the suggestions.

The first is to reform the packaging method that financial aid directors use in putting together student aid packages. The current floor of the package is the Pell grant. If that were changed to State grants, particularly in States like Georgia with their HOPE program, it would make more Pell money available for the neediest students and would reduce inflationary pressures on tuition.

The second is reform of the method for payment for income-contingent student loans. You have to only think of having a 40-year mortgage versus having a 15-year mortgage, and that is the difference in income-contingent loans.

The third thing is cafeteria payment plans. Allow those with student loans to repay these through employer-offered cafeteria payment plans and the employers could contribute matching funds.

Tax-reduction plans, which many people have talked about before me.

Loan forgiveness, which would tie forgiveness of all or part of the student loan to working in a high-demand, low-supply occupation.

Bankruptcy law changes, and here, I have done a lot of work on the impact of student loan discharge in bankruptcy. I know this was a big issue with the Bankruptcy Review Commission, and in my study, between 1980 and 1997, out of the 437 published cases in bankruptcy involving student loans, only 121 were fully or partially discharged. That is 27.7 percent. That is not nearly as much of a problem as we anticipated it was. So there are two things to do with the bankruptcy law. One is standardize the undue hardship definition and the second would be to drop the special treatment of student loans in bankruptcy proceedings.

The next is vocational training, which, Senator Thompson, you have asked about several times. This would be to provide additional training at public technical institutions and 2-year colleges, have widely-available vocational training for students so that they would not have to go to the more expensive proprietary schools.

And the final thing is an educational HMO.

We talked to students all over the country about student loans. We learned that most students, unlike the popular image of a college student, were dedicated not only to achieving a better education, but being better citizens with that education. The majority were, however, concerned that no one really cared about what they had to offer and no one really wanted to assist them. Their frustration and anger was not uni-directional. The institution, the Federal Government, financial aid directors, credit card companies, and

often professors and family were subjects of their diatribes, and I am not going to repeat their rude remarks here about Congress, but they are in the written testimony.

What we did learn was that most thought the program is poorly designed and not particularly student-friendly. They perceived that all the talk about reform was only window dressing. The proposals that they were aware of changed only the delivery mechanism, not the root of the problem. Many students were concerned not only about their particular situation, but also what would be facing their brothers, their sisters, their children.

The mortgage analogy kept repeating itself. The students were terrified of mortgaging their future, of graduating into debt, marrying into debt, raising children into debt, and dying in debt. If these college students must mortgage their future, then so, too, do we as a society mortgage our future. Thank you.

Chairman THOMPSON. Thank you very much.

Your comments about your discussion with your daughter, the poet, reminds me of a discussion I had with an old gentleman down in Lawrenceberg, Tennessee, where I grew up. I told him I was a philosophy major. He said, "What does that pay, son?" [Laughter.]

He had not seen a whole lot of philosophy shops around town and it concerned him.

Senator LIEBERMAN. What does he think about where you ended up?

Chairman THOMPSON. I am afraid to ask. [Laughter.]

Who wants to go next? Mr. Davis.

TESTIMONY OF JERRY S. DAVIS, Ed.D.,[1] VICE PRESIDENT FOR RESEARCH, USA GROUP FOUNDATION

Mr. DAVIS. Maybe now we will have a panel that disagrees. Good morning. My name is Jerry Davis. I am Vice President of Research at USA Group Foundation in Indianapolis, Indiana. My remarks today are based primarily on a monograph that the Foundation will soon publish. It is entitled, "College Charges, Affordability, and Earnings Outcomes: An Analysis of Some Long-Term Trends and Their Policy Implications." I have been looking at affordability issues for almost a decade and have been looking at access to student loan debt burdens for almost 3 decades.

I want to talk today and summarize my presentation, which I have given to the administrative clerk as testimony. I want to do just three things. The first thing is to talk about a new way of looking at rising prices in college, to talk about the debt burden issues and those questions that were posed for me in your letter, and then to direct your attention to some important State-by-State differences in affordability that I think have very strong implications for Federal policy.

College prices, as we have learned in previous days of testimony, have risen faster than family incomes to pay them, but the growth rate has slowed in recent years. In my testimony, I note that I looked at a way of trying to figure out what college prices mean and what college costs mean in terms of the way people actually

[1] The prepared statement of Mr. Davis with attachments appears in the Appendix on page 260.

behave, and I determined that the net cost of colleges in comparison to median family income for people with college-age children absorb about 2 more days of their annual earnings a year in 1997 than they did in 1990. That is at 4-year public colleges. At 4-year private colleges, net costs absorb about 4 more days of work.

So it takes a couple more days a year for parents to pay the costs if they are at the median family income. College prices have not risen much faster than the incomes of people at upper-income levels, at the top quartile.

College prices have not risen faster than the additional earnings students achieve by attending and graduating. I want to emphasize, and graduating, since we can think of college as an investment. If we think of that and we consider the additional or marginal earnings of college graduates over high school graduates as the payoff from the investment, it took about the same number of months to recover college costs in 1997 as it did in 1990—I am sorry, as 1970. Over a 30-year time period, basically, the recovery period or recovery time has stayed about the same.

Even when you consider that many students have to borrow to pay for college expenses, the number of months it takes graduates to recover their expenses with higher earnings from their degrees has not grown substantially in the past 3 decades. For example, if you borrowed at the typical borrowing level in 1997, $12,000 for public graduates, $14,000 for private graduates in 1997, it would have taken males 25 months to recover their total costs for those loans at the public institutions, females 30. In 1985, without loans, it would have taken males 24 months; it would have taken females 33 months. So even with the increased borrowing, the time to recover the costs of education has stayed very stable.

Now, I am going to go on to another point. College prices have risen faster than the additional earnings that students receive if they fail to graduate. The costs of attendance are especially higher for students who borrow and do not finish college. But in spite of the increase in the penalty for failure, more students continue to enroll in college, and this is because the value of a college degree remains very high.

But there is only a slight increase in the proportion that successfully earn undergraduate degrees. We talked earlier about completion rates and the figure that we have from the Department of Education study says that 46 percent of the students have degrees, and that was an earlier study. I would guess that from the statistics I have looked at, it is up a little now because colleges have gotten a little better at retention, but it is not up by much.

Let me give you just the starkness of the recovery times. If a student goes for 2 years at a 4-year institution, a male student in a public 4-year institution and borrows $5,000 and drops out, it is going to take him 44 months of working to recover his costs. A female is going to take 56 months. Now, this is just net costs. If a male student attends a private college and drops out, it is going to take him 92 months to recover his costs and it is going to take females attending private colleges 118 months to recover their costs of education.

Now, there are significant State-by-State differences in affordability of 4-year public colleges and I think these differences are

more the effect of State policy choices than the effect of differences in family ability to pay for college. Federal student financial aid policy does not consider State-by-State differences in college affordability and it does create inequities in the distribution of aid dollars among students throughout the Nation. Costs at public institutions, net costs range anywhere, the top 12 States, $6,100—I am sorry. The lowest costs are $6,100. The highest are around $8,800.

Between two States whose families have similar financial characteristics in the ability to pay for college expenses, the students in the State that has decided to charge higher tuitions will receive more Federal student aid. This is because most Federal student aid is need-based and the students in the States with higher tuitions will have greater financial need.

These differences in affordability on a State-by-State basis are not the function of the differences in family incomes across States. They are more a function of policy decisions to charge higher tuitions. Thus, State policies have major effects on how Federal student aid is distributed and these effects are largely ignored in Federal policy making. Is this what Congress intended? I do not know.

Now, I want to turn to your questions about student loan debt burden. Students and parents, as Dr. Somers has mentioned, are very concerned about debt burden. So are the lenders. So are the guarantors. We are probably second in terms of the people in the United States that are most concerned about debt burdens because the loan money is ours. Contrary to what many people believe, when students default, it is not a game for us. It is a very strong loss for us.

One of the things I wanted to mention is that when we talk about mortgaging the future of our generation, we have to remind ourselves that only about half of the 4-year public college undergraduates actually borrow, and only about 60 percent of the 4-year private undergraduates actually borrow, and about 6 percent of the public 2-year college students actually borrow. So we are not talking about a huge proportion of all students.

As far as the trends in student borrowing are concerned, USA Group borrowers' average cumulative student loan debt continued to rise in 1999. We have been studying debt burden issues since the early 1980's. The growth rates in indebtedness for 4-year college and community college undergraduates rose after 2 years of decline, so that is a little discouraging. But the annual growth rates for graduate students and for proprietary school students have declined in each of the past 3 years.

In spite of the increased borrowing, the percentage of borrowers who are delinquent in making payments has moved downward since 1995. The economy has been good. It has boosted salaries so debt repayment burdens have eased a bit. It appears that repayment burdens continue to be manageable for most borrowers.

Dr. Somers has told you about the difficulties many students have had in repaying their loans, and I sympathize with those difficulties. There are students in difficulty. But one of the indications that we have of difficulty is that 90 percent of the students who are in repayment are still using the standard 10-year repayment cycle and they are not taking advantage of some of the debt relief plans that we have available to them.

The research on borrowers in the early 1990's has shown relatively few negative effects of borrowing on students' decisions about careers, pursuing post-baccalaureate study, or dropping out without a degree. I think that since borrowing has increased, we can reasonably assume that the potential for negative effects has also increased, and I think Dr. Somers has mentioned that this potential has probably been realized.

We funded a study that is going to try to assess the relative effects and to parcel out the effects of borrowing on student behavior because all behavior is complex and the motivations are complex. So we want to parcel out and see exactly what happened in terms of the impact of the loans.

As a director of financial aid, I used to do exit interviews. I had to interview all the youngsters that had loans and were leaving, or trying to leave school, and I discovered that there were lots of reasons that they left besides financial aid. I also discovered that it was way easier to get the student to stay than it was for me to go recruit another one, because I was director of admissions at the same time. The research we funded, I hope, will help us parcel out the effects of debt.

I think for now, the safest thing that I would say about borrowing to pay for college is that the effects of borrowing are much more often positive than negative, and this is especially true when borrowers complete their degree programs.

This summarizes my testimony. Thanks again for asking me to be here.

Chairman THOMPSON. Thank you very much. Mr. Kantrowitz.

TESTIMONY OF MARK KANTROWITZ,[1] PUBLISHER, FINAID PAGE, L.L.C.

Mr. KANTROWITZ. Mr. Chairman, thank you for convening this hearing on the rising cost of college tuition and the effectiveness of government financial aid, and for inviting me to testify before the Senate Governmental Affairs Committee this afternoon. My name is Mark Kantrowitz and I am the publisher of the FinAid and eduPASS websites, free resources that exist to aid students in navigating the sea of financial aid and to combat scholarship scams and financial aid schemes. Both sites are associated with FastWeb, the Nation's leading free scholarship search. Together, our sites had more than 2 million visitors last year. I am pleased to have the opportunity to share my experiences with the Committee today.

Every year, several hundred thousand students and parents are defrauded by scholarship scams. The victims of these scams lose more than $100 million annually.

The most common types of scholarship scams include scholarships for profit and guaranteed scholarship search services. The first type charges an application fee for scholarships that never materialize, or are less than advertised, or disburses less money in scholarships than it has received from application fees.

The second type charges a fee to match student information against a scholarship database and guarantees that the student will actually receive money. Few, in fact, do. Both types of scams

[1] The prepared statement of Mr. Kantrowitz appears in the Appendix on page 274.

were targeted by the Federal Trade Commission's Project Scholar-Scam, which was initiated in 1996.

Recently, a third type of scholarship scam has grown in prominence. I call this the financial aid seminar scam. This scam sends students a misleading letter inviting them and their parents to a financial aid seminar or interview. To illustrate, I would like to read an excerpt from a letter that was received by my cat.

"We are pleased to inform you that Nash has been selected by our College Review Board as one of the Pittsburgh area students eligible to apply for grants, scholarships, negotiated tuition discounts, and interest-free loans through our college assistance program. We are committed to maximizing your eligibility to receive financial assistance and to reducing or even eliminating your family's expenses for Nash's college education."

"Your personal interview has been tentatively scheduled for Saturday or Sunday, at which time you will receive your free financial aid information packet. Our program is dedicated to making higher education an affordable reality to all families regardless of income. There is no cost for your financial aid information packet or interview. Together, we can make your dream of a college education an affordable reality."

I attended this meeting and several other similar seminar scams and discovered them to be nothing more than a high-pressure sales pitch for financial aid services and products of doubtful value. After a 45-minute fast-paced presentation filled with incorrect and misleading information about financial aid, each family was invited to stay for a personal interview. The interview was actually a one-on-one attempt to sign up the family for the company's services at a cost of hundreds or thousands of dollars per year.

This type of scam is especially troubling because they appear to target lower-income families and because they aggressively discourage families from seeking advice from recognized financial aid experts, such as college financial aid personnel.

Scholarship scams are difficult to recognize because they often mimic legitimate organizations. A good rule of thumb, however, is if you have to pay money to get money, it is probably a scam.

Foundations that award scholarships exist to give away money, not get money. Most scholarship scams try to trick students into giving them money with little or no benefit to the student in return.

Other common signs of a scholarship scam include use of the unclaimed aid myth, which falsely states that millions or billions in aid went unclaimed last year and promises to get the student their fair share. In fact, no financial aid goes unclaimed. This is an extremely pernicious myth because it not only defrauds consumers, but also suggests to private sector benefactors that there is no need for them to create new scholarships. After all, if it is going unclaimed, then there is no need.

The second is bogus guarantees, which often include restrictions that render them meaningless, such as requiring the student to submit rejection letters or which include Federal aid as part of the total. If Federal aid is part of the total, of course they are going to get the unsubsidized Stafford loan.

And third, false claims of government or nonprofit affiliation or endorsement. One scam even created its own bogus Better Business Bureau and gave itself a good, glowing recommendation. Others misrepresent the nature of their businesses by using an eagle and a formal seal as their logo and words like "National," "Federal," and "Foundation" in their names.

When a family encounters a fraudulent scholarship scheme, they should report it to the State Attorney General and the Federal Trade Commission. It is also helpful to report the scam to college financial aid administrators and to the U.S. Department of Education's Federal Student Aid Information Center. Private consumer fraud organizations, however, are not able to deal with the volume of inquiries. One such organization reported that they were only able to answer 5 percent of their telephone calls on the subject.

Mr. Chairman, I once again thank you and the Committee for taking an interest in the issue of scholarship scams, financial aid fraud, and for inviting me to share my thoughts on this matter. I would be happy to answer any questions you may have on this or other topics.

Chairman THOMPSON. Thank you very much.

Mr. Kantrowitz, some of our folks received the same letter your cat did, as a matter of fact, and I think we checked on it and found out it was a West Virginia company. The State of West Virginia was able to, in effect, put them out of business, evidently. Are the States dealing with this effectively, do you think? Are there specific criminal statutes pertaining to this, or do they usually operate under the general fraud or consumer protection statutes?

Mr. KANTROWITZ. They usually operate under the false advertising statutes in the State and the FTC Act. One problem that they face is that the amounts per consumer tend to be lower than in other types of fraud. In one case, the New York Attorney General sued an organization and the judge found that the organization had violated the law but questioned whether each individual complaint, and they had close to 1,000 complaints from students, was a triable issue of fact, and the cost of pursuing that would be greater than any potential redress for consumers. So I do not know what the status of that particular case is, but that is a big problem for the states that pursue cases. Most successful cases have been pursued by the Federal Trade Commission.

Chairman THOMPSON. I see. Thank you. On the issue of the disparity between income levels of those who do not go to college versus those who do, I think the most helpful information there probably is the fact that the relationship seems to have remained the same, basically, over a long period of time.

I have always questioned that in a way, though, because it assumes that someone who graduated from a 4-year college or university, had he or she not gone to college, would make the same amount as the average person who did not go to school. It also assumes that the person who did not go to college or dropped out of college, had he stayed in college, would have wound up making the same amount as the average person who stayed in college. I do not think that is necessarily true. I think some people drop out of college because they realize they are not college material. Some people do not go to college because they are just not up to it.

So I think probably my own opinion is that gap realistically probably is narrower than we sometimes think. Do you have any big problem with that?

Mr. DAVIS. No. One of the things that I was using that information to point out is the phrase in my testimony, the penalty for failure. As college costs go up, the penalty for failure to try and fail has gone up because we have shifted more of the burden of paying for college onto the student through loans. I think that we still have an open access society. Our colleges do a great job of trying to do as much as they can to get students into school. But I do not think that they have done as much as they can do to get them through school.

If you look at graduation rates over time, say a 30-year time period, the graduation rates have increased hardly at all, and so it may be a function that they are dipping further down into the applicant pool, because two-thirds of high school graduates go to college now.

But as far as your comparison of the spreads of income, they are averages. I know there are exceptions to averages. Averages are simply central tendencies, and so I do not have any way of refuting or assessing your observation.

Chairman THOMPSON. Professor Hoxby yesterday pointed out that one of the reasons why we have the higher dropout rate is because we have such open access. That is good in many respects. We concentrate sometimes on the students who we openly let in who never should have been let in, perhaps, but there is also a group of students, such as myself, who did not exactly tear it up in high school, but somewhere along the line, they got my attention, and once I got in, I did all right. So we need to take into account those types of people, too. A lot of people go into the army and come back and really turn things around. So I think we have got to keep very open access, but it is not necessarily bad that you have a winnowing out process of those who belong there and those who do not.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman. Thanks to this panel of witnesses. I was tempted, Mr. Kantrowitz, to ask you how your cat did on the College Boards. You do not have to answer. [Laughter.]

I am interested, actually, in your websites. Could you tell us a little more about that? You said you had a couple of million hits last year?

Mr. KANTROWITZ. Right. We have three websites. We have the FinAid website, which is free information about student financial aid. It acts as a comprehensive collection of information and advice for helping students make the critical decisions regarding financial aid.

We have eduPASS, which is a guide for international students who wish to study in the United States. It provides information about admissions and financial aid and cultural differences in the United States.

And FastWeb is a free scholarship search. The students provide information about their class rank, their GPA, their academic in-

terests, and are matched with awards for which they are eligible. They then write to the sponsors and get information and apply.

Senator LIEBERMAN. So you have created these three sites?

Mr. KANTROWITZ. The third site, I did not create. The first two sites, I created.

Senator LIEBERMAN. And this is your business or is this a——

Mr. KANTROWITZ. This is a business.

Senator LIEBERMAN. That is quite remarkable. Do people pay a fee, or——

Mr. KANTROWITZ. It is free to the students.

Senator LIEBERMAN. It is free to the students, and like so many businesses on the Internet, I presume there is advertising.

Mr. KANTROWITZ. There is advertising.

Senator LIEBERMAN. Are you surprised at the number of hits you have had?

Mr. KANTROWITZ. We are always surprised at the number of hits. It has been growing very steadily and we try to provide new services to encourage even further growth. We find that the better we serve the student population, the better we do. That is a wonderful formula.

Senator LIEBERMAN. Is this an active area? In other words, are there other sites like this that are providing information to parents and the college applicants?

Mr. KANTROWITZ. There are many, many sites on the Internet that provide information, some great quality, like the College Board has a site, some of lesser quality. There are sites out there that still mention the SLS and GSLs instead of the Stafford.

Senator LIEBERMAN. That is quite something. I wish you well with that. There was a story in the *Washington Post* the other day about somebody who has created a site on which students can essentially put out a bid for a college, offer a price along with their academic record and then see who matches it. Have you heard of that?

Mr. KANTROWITZ. Ecollegebid, yes.

Senator LIEBERMAN. Yes.

Mr. KANTROWITZ. I do not know how many colleges or students are actually participating in that.

Senator LIEBERMAN. If I remember, the article said that the creator had only had nine or ten colleges that were signed up at this point, so it is not much of an auction, but is that something that is likely to grow, or are there limits to it?

Mr. KANTROWITZ. I do not think that that kind of haggling is necessarily going to grow. It is most beneficial for students who maybe missed deadlines and are looking to go to any college. I do not think you will see Harvard or other Ivy League institutions joining in such an effort.

Senator LIEBERMAN. We heard here yesterday particularly, and a little bit today, about merit aid or discounting, but I am curious as to why, if that is going on among colleges that are not getting either as many applicants as they want or the quality that they want, why that would not eventually be something that would be done on the Internet.

Mr. KANTROWITZ. I think in many cases the negotiation that is going on, the bidding, it has more to do with what their perceptions

are of the costs of college than in any real change in financial aid that they are receiving.

Senator LIEBERMAN. Very interesting. Thanks.

Mr. Davis, I am going to read to you from your 1997 publication, "College Affordability: A Closer Look at the Crisis," where you write, "Access to 4-year colleges for lower and lower-middle income students has diminished since the early 1980's. While the college affordability crisis is neither uniform nor universal, if college costs continue to rise faster than student ability to pay them from family or financial aid resources, the crisis will become pervasive."

But in your testimony today, you compared loan payback periods from 1975 with those in 1997 and found them to be about the same, so I want you to relate that paragraph from your book and particularly whether, I ask the question rhetorically in some way, whether you believe, therefore, that higher education is really as affordable today as it was then and that there is not the crisis that you thought might occur.

Mr. DAVIS. No. Higher education is not as affordable now as it used to be. If you look at affordability in terms of paying the costs from current income, student financial aid, borrowing, and whatever resources are available to you to pay it in present time. What has happened, though, is that the payoff or the value of higher education has remained fairly constant and has increased, I guess you could even say it has increased in terms of finishing a degree.

So the payoff, the results of going to college are holding up, and I think the results are what make it valuable to make the sacrifice to go to college. But it is not as affordable as it used to be, and it is especially not affordable for the lowest-income families.

Senator LIEBERMAN. Right. Dr. Somers, we looked at some recent data that came out from the College Board in something called "Trends in College Pricing" and I was really interested there to see a comparison of the average annual income of high school graduates as set against somebody who had some college and then somebody who finished the 4 years, and this goes back to that group we talked about in the last panel and maybe in some ways goes to some of the questions that the Chairman was asking before.

This is average annual income in 1997 for a high school graduate, this was in inflation-adjusted dollars, was $23,608. The average income of people with some college was only $27,052, so it really was very little difference. And then a college graduate, average income was close to $42,000. So it leads me again to focus in on that group that starts it off, does not finish it, as we have heard earlier, disproportionately represented in, I suppose obviously, but poorer minority communities. They not only end up with that debt, do not go on to college, but are being forced to pay it off with a much lower income.

It is an open-ended question to you, is what we might specifically do, either by way of aid programs or other supportive services, to try to rescue a higher proportion of that group from dropping out early on.

Ms. SOMERS. There should be a place for everyone in post-secondary education. It may not be at a 4-year institution. It may not be at Harvard. It may not be at my 4-year school. It may be at a 2-year school or a technical school.

I think the problem in the relatively small gap between high school graduates and those with some college is those students who went to a 4-year school and took maybe some very general education courses for a year and then left. They may have been better served if they had taken some of those general education courses and then transferred to a 2-year institution or a technical college.

Senator LIEBERMAN. Yes, or they came out with some kind of technical-vocational training.

Ms. SOMERS. Or they may have been students who went to very high-ticket proprietary schools and ended up with lots of debt, and for the little more they make than the high school graduates, they are paying off $20,000 or $30,000 worth of loans.

Senator LIEBERMAN. Thanks. Your comments are well taken. Thanks to the three of you for your very thoughtful testimony and some helpful suggestions. Thanks, Mr. Chairman.

Chairman THOMPSON. Thank you very much.

There is one final thing. This is a little off the beaten path of your subjects, but we have talked to others about this. In terms of the aid, in terms of what the Federal Government is doing, obviously the States, the loans, the schools themselves, and I am particularly thinking about public schools, the tax credits, and all of that, I think a lot of people are trying to figure out just where is the biggest need and what should we be doing.

Senator Collins was talking about a lot of colleges seem to kind of assume the lower students will be taken care of because of all this mix of things that they have available to them, whether they are aware of it or not.

Assuming that everyone was aware of all of their opportunities at every level, to what extent do we have the mix right or wrong in terms of emphasis on lower Pew-type approach, tax credits, ect.? Are we not concentrating enough on the lower end, or is it the lower end or the middle income, as Senator Collins suggested, that we need to emphasize? This is not exactly maybe on point, but——

Ms. SOMERS. Philosophically, I think that the way we set up the Federal financial aid program in the 1960's, the emphasis was on access for low-income students. I think we have let them down. I think that we have loaded them up with loans and the grants are——

Chairman THOMPSON. We put more money into it, but the money per student is actually going down a little, I guess.

Ms. SOMERS. That is right. So philosophically, we need to put more money into those grants for the low-income students and the lower-middle-income students. However, politically, the middle class is really feeling the pinch if they are putting one or two or three kids through college, whether it is a 4-year private or public or a 2-year school, and politically, there needs to be some assistance for the middle class, too.

Chairman THOMPSON. Mr. Davis, do you have any comments?

Mr. DAVIS. Yes. I think I would focus more grant aid on students in the early years of post-secondary education, especially at the 4-year level, at 4-year colleges. The other thing I would try to do is develop policies that create incentives to States to contain costs in their public institutions, or at least to increase their financial aid. In the 1970's when the Pell grant was developed and there was

also the State Student Incentive Grant program developed and those were working quite well. The SSIG provided a very strong incentive to States to increase their financial aid packages and programs.

But the Pell grant program was funded at a very high rate, a very rapid rate, and many of the States that had started financial aid programs, they looked at it and said, well, the Feds are going to do it with the Federal grants and why should we jump in? And so two different programs that the Federal Government was funding had two very different results and actually countervailing results.

What I would love to see is a regeneration of the partnership between the Federal Government, the States, and the institutions in providing financial aid so that they supplement and complement each other rather than operating as if there is no conjunction between what each other does.

Now, I know you have the problem of federalism, and you mentioned that, but there is one thing that you can do and——

Chairman THOMPSON. We can do all kinds of things with money, though. I mean, we can provide inducements and carrots and sticks. You cannot tell them what to do, but——

Mr. DAVIS. But you can strengthen that whole partnership, because it is very interesting to me that if you look at 40 years of participation rates and you look at college-going by States, by State levels, the States that had miserable participation rates in 1960 have relatively miserable participation rates in 1990.

Chairman THOMPSON. So you are suggesting we somehow tie Pell grants to the level of State support?

Mr. DAVIS. You might. That is one way of doing it. I have no idea what is the best way, but that is one—but I do know that something needs to be done, because——

Senator LIEBERMAN. Why do you not think about it and then we invite a response that would encourage States more.

Mr. DAVIS. OK. Thank you.

Chairman THOMPSON. Thank you very much. I think these have been 2 excellent days of hearings. I want to thank Senator Lieberman again for suggesting these hearings. We have perhaps no real definitive answers, but I think we understand the situation much better. I know that I do, and it will help us in our role in trying to contribute something to the solution of a problem that affects so many people. Thank you very much.

Senator LIEBERMAN. Thanks, Mr. Chairman. Let me just ask, I have been putting this aside, I must have a mental block about this for these 2 days. The U.S. Department of Education has submitted written testimony and I would ask that it be printed in the record.[1]

Chairman THOMPSON. It will be made part of the record.

Senator LIEBERMAN. I thank you for your leadership here. It has been a very educational couple of days, no pun intended, and at a quite reasonable cost, I would say, too. [Laughter.]

Chairman THOMPSON. That depends on what we do, does it not?

[1] The prepared statement of the U.S. Department of Education appears in the Appendix on page 276.

Senator LIEBERMAN. Yes. But I look forward to working with you and seeing if we cannot come up with some ideas from this that can make the situation better. Thanks very much.

Chairman THOMPSON. Thank you very much.

The record will remain open for 1 week after the close of this hearing. We are adjourned.

[Whereupon, at 12:49 p.m., the Committee was adjourned.]

APPENDIX

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Committee on Governmental Affairs
United States Senate

"The Rising Cost of College Tuition and the Effectiveness of Government Financial Aid"

Testimony of Jamie Pueschel
On behalf of
The United States Student Association

February 9, 2000

On behalf of the nearly 15 million students across the country, I thank the Committee for hearing this most important issue – college cost. As the country moves into a new millennium and a new economy, it becomes increasingly important for the country to invest in the education of our young people if we want to continue to compete globally. Young people are feeling the pressure to get a degree now more than ever so that they too can participate in this booming economy.

Every year, though, achieving that college degree becomes more and more difficult and more and more costly to a student and their family. Annually, tuitions rise and students take out more and more loans to pay for college. Tuition and fees only comprise part of the cost of going to college. Students have to pay for room and board not to mention books and supplies.

While graduating with a reasonable amount of debt is better than not having a degree and the opportunities that come with that degree, debt can effect the job a student takes, the place he or she lives and the assets the student may or may not acquire. I am such a student.

I graduated from Claremont McKenna College in Claremont, California in May of 1998. My parents are both teachers and recently started a 7th-12th grade Episcopal school in Lawrence, Kansas. I have an older sister who graduated from Tufts University and now is a teacher in Boston and a younger brother who just started his freshman year at the University of Kansas.

I graduated with approximately $18,000 in Stafford loan debt and $1,000 in Perkins loan debt. While I was in school, I worked 15-20 hours per week under the Federal Work-Study program to pay for living expenses such as groceries and books. My parents made just over $50,000 combined while I was in college. Just for my college education, they took out approximately $22,000 in PLUS loans. They had taken more out to pay my sister's education. I was lucky in that Claremont McKenna gave me between $10,000 and $15,000 in institutional grants every school year without which I would have accumulated more debt. Even with the grant aid, however, I could not have attended college without those loans.

Every month I write a check for $208.32 to Sallie Mae and a check for $40.00 to Claremont McKenna. Nearly $250.00 of my monthly income paid to student loans. I make $25,000 a year as the Legislative Director of the United States Student Association fighting to increase access to higher education for all students. In applying for jobs for after graduation, the most important factor was salary and/or help with loan repayment. While USSA does not pay the highest salaries in Washington, it is livable, because of the help with loan repayment. Luckily, USSA as part of our philosophy provides $150 per month in loan repayment. I would not have been able to take this job with out that help.

Beyond just job choice, though, I have little ability to save money and have no idea when I will be able to afford a car let alone buy a house. This level of debt has limited my ability to fully participate in this economy through saving and investing.

Currently, this country is discussing the problem of teacher shortages and teacher quality. My family feels this problem acutely because my parents and sister are teachers. As a nation, we provide no incentives for our young people to go into teaching. Teacher credentials require a 5th if not 6th year of school, therefore taking on more debt and then pay them meager wages in increasingly poor schools. My sister has an enormous amount of debt and has chosen to teach in low-income schools and has received little support or help for that decision.

My sister and I are merely representative of the education debt accumulation problem in this country. There are millions of students like me in this country and increasing numbers of such graduates. But, let me tell you why in spite of my debt I am one of the lucky students. Not only did my parents go to college they both are educators. They know the importance of a degree, but most importantly they know how to get there. They know about applying to schools and how to fill out the FAFSA form. I understood taking on debt and that I would survive paying it off. I knew that if I needed some help from my parents, I could count on it. I went to a great high school that offered a lot of support and counseling in applying college. That high school gave me an education that prepared my for college. I am a traditional student. I did not have to worry about children or helping to support my family.

Not all students have it as easy as I did. There are thousands of students across the country who did not have the support I did, who had to take on more debt than I have or who do not have a job that helps to pay for student loans. Unfortunalty, there are

thousands more who do not even have the opportunity to go to college. Low income and at-risk students should have just as much opportunity to go to college as I did.

One important factor about my story is that I went to private school. Only, about 15% of students go to colleges as costly as I did. 50% of students go to colleges that cost less than $4,000 – a price that is still unaffordable for a lot of students.

Last year, tuition at public 4-year schools increased by 4% and tuition at 4-year public schools increased by 4.3%. This is a recent low for college tuition increases. Part of the problem when looking at college cost, though, is that we do not look at all of the costs of going to school. Room and board, book and living expenses often double the straight cost of tuition and fees. While tuition at a 4-year public school averaged $3,356 in the 1999-00 school year, total expenses to attend that school (as determined by The College Board) equaled $10,909. Tuition at a 4-year private averaged $15,380, but total expenses equaled $23,651.

Looking at 10-year trends gives a more complete picture of college cost and how it effects families. Tuition alone increased by 41% at 4-year privates and 53% at 4-year publics over the past 10 years. Median family income increased by 10% over that same time period. Aid per student increased by 66% and the number of Stafford loans increased by 66%. The number of PLUS loans increased by 148% with the average amount increasing by 55%. While the number of Pell recipients increased by 21% the actual aid Pell provided grant recipients decreased by 2%. A similar pattern exists for the Supplemental Educational Opportunity Grant. The number of SEOG recipients increased by 63%, but the SEOG aid per recipient decreased by 32%. The number of Federal Work-Study recipients increased by 33%, but the FWS aid per recipient decreased by 11%. The number of Perkins loan recipients increased by 1%, but the aid per recipient decreased by 11%. During this 10-year period, institutional aid has more than doubled as had state grant aid. State grant aid though, only comprises 6% of all aid.

Annual tuition increases hurt low-income students the most. Low-income students have to take on more debt every year because their grants do not increase at the same rate as tuition. As college cost increases, so does the fear of paying for, especially for low-income students who fear who fear they will not be able to pay back their loans. Twenty years ago Pell grants paid for about 80% of the cost of attendance at public 4-year schools and 40% of private 4-year schools. Now, Pell grants pay for about 40% of public 4-year school's cost of attendance and 20% of private 4-year school's cost of attendance.

What is most disturbing about the trend of increasing tuition and decreasing impact of grant value is how students, especially low-income students, make up the difference between aid and tuition. Dependence on loans to pay for school has certainly increased. In the early 1980s, loans covered about 40% of total aid and now covers 58% of total aid. During the same time period, grants went from covering 55% of total aid to just 40% of total aid currently. What we must remember too is that tuition increases turn into more debt than just the straight numerical increase because of interest. A tuition increase of $371 becomes about $528 in a 10-year repayment plan.

Students have few options to pay for other college costs that federal aid does not cover. The number of students who took out non-federal loans increased by 25% last year. Students are turning more and more to credit cards to pay the difference on tuition, for books or groceries. Both non-federal loans and credit card have astronomical interest rates and no student protections.

Low-income families pay a large share of income to cost-of-attendance as well and this number has increased between 1971-72 and 1998-99. At public 4-year schools, in 1971 low-income families paid 42% or income to college cost, middle-income families paid 13% of income and high-income families paid 6%. Now, low-income families pay 61% of income to college cost, middle-income families pay 17% and high-income families' share has decreased to 5% of income.

Aid comprises only part of what makes or breaks a student's enrollment and completion of college. Early intervention and mentoring programs such as GEAR UP and TRIO before and during college are crucial to an at-risk student's success in college. Students, especially low-income students, often do not have the information in their high schools or families to learn about how to apply and pay for college. Without the TRIO and GEAR UP programs, many students would not go to college.

Students have always actively opposed tuition increases. Just this year, students at the University of Wisconsin system organized and passed a tuition freeze when they faced a potential 10% increase in tuition. Students in North Carolina are fighting large tuition increases as well. What is most interesting now is that some states are passing freezes or cuts because most states are running large surpluses. California's Governor Davis is proposing a tuition and fees cut while Republicans in the state senate are proposing a 50% cut to tuition and fees in the University of California system. Williams College in Massachusetts recently decided to freeze tuition for the next school year as well.

The College Cost Commission showed us that in financially difficult times, such as the late 1980s and early 1990s when tuition increases were highest, states were cutting back on state support thus increasing a family's percent of income going to pay for college. Now that the federal government and states are seeing surpluses, tuition increases are low and, hopefully, state aid contributions will increase. It is crucial for the federal role to increase and work with the states to make college more affordable to all students.

Both the states and the federal government are experiencing unprecedented surpluses. Such unprecedented surpluses provides for an unprecedented opportunity for the federal government to make some changes, choices and increase funding for programs that will truly help all students afford college and life after college.

For low-income students, a strong commitment to grant programs and the Perkins program is crucial. Grant programs such as Pell, SEOG and LEAP allow low-income students to go to school. Early intervention and mentoring programs such as TRIO and GEAR UP provide at-risk students with the tools they need to get to college and

hopefully graduate. Low-income students simply could not go to school without these programs. With such a large surplus, we have the opportunity to fund Pell grants in a more permanent fashion by making Pell funding mandatory and increasing the maximum grant to cover tuition at a level it once did.

The federal government also now has the opportunity to bolster the loan programs. It is crucial to students that we maintain competition between all the loan programs. Currently, students pay a 4% tax on their student loans called origination fees. Students pay back 100% of their loan amount plus interest, but they only receive 96% of that loan amount for use. The origination fee was put into place as a temporary measure and was supposed to be eliminated. Eliminating or lowering the fee would save students much needed money.

The federal government could also use tax proposals to help students pay back their loans. Currently, borrowers can deduct the interest they pay on student loans for the first 60 months of repayment. It is crucial that this deduction be increased to the life of the loan for those students who have the most debt or have had the most difficulty paying their loans back and are, thus, paying their loans back over a longer than 10-year period (often 25 years). An interest tax credit would help students out even more than the interest deduction. Personally, I paid a total of $1361.03 in interest last year. It would certainly help me out to be able to receive the tax credit to help me pay back my loans.

The cost of college increases far above inflation annually. That is a problem in itself. A related and substantial portion of the problems associated with an expensive education, though, comes when federal and state commitments to low-income students fall short. As a country we have an unprecedented opportunity to give all students the keys to college. The financial stability of both the states and the federal government allows the governments to make concrete and permanent choices towards access to higher education including public college pricing on the state level.

I think that everyone would agree that education is the best investment this country can make in our young people and the economic future of out country. It was certainly an important investment for my brother, sister and I. Unfortunately, we may not be able to make any other investments for out future. I thank you for allowing me to discuss with you my story of going to college and what steps would be useful in helping students pay for college.

Liberal Arts For The 21st Century

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Connecticut College
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Statement of
Dr. Claire L. Gaudiani
President of Connecticut College
To the United States Senate
Committee on Governmental Affairs
To be delivered February 9, 2000

Thank you Mr. Chairman and distinguished Committee Members for this opportunity to speak to you today.

The American dream says that if you are smart and work hard you will have the same opportunities as any other American, regardless of your family's wealth or influence. As president of a highly selective liberal arts college, my role in the American dream is to promote broad and equitable access to, literally, the best education money can buy. But this broad access is now being endangered by a fundamental shift in the way colleges and universities award financial aid.

At Connecticut College, we accept the best students who apply. High-quality education is expensive. If students cannot afford to pay, we figure out a way to meet their full financial need. That practice is called need-based financial aid, and it is the only kind of financial aid we award at Connecticut College.

Over the last three decades, need-based distribution of financial aid has been highly successful from a public policy point of view. It has provided greater access to higher education for disadvantaged individuals and the growing number of middle-income students whose families cannot afford the full price of a top private college or university. The great prosperity this country is now experiencing is directly related to the skills of our workforce. This workforce was educated in an era when we, as a society, tried very hard to give all Americans an equal shot at the best possible education they deserved by virtue of their ability and achievement.

At Connecticut College, our commitment to need-based financial aid puts us in a small and shrinking minority of institutions. The trend, particularly among private colleges and universities, is increasingly toward something called merit aid. Merit. It sounds pretty benign. But, this so-called merit aid is already reducing access to education for poor and middle-income students. And the problem is getting worse.

The term "merit aid" covers a variety of financial aid practices, many of which are predicated on the best of good intentions. First, let us talk about what most parents and students perceive as merit aid. That is, if you are an outstanding student with great potential to achieve, a college will reward you with a merit scholarship regardless of your family's financial resources. Why do colleges give merit aid? It helps them attract students who are deemed highly desirable and will enhance the reputation and quality of the college in academics, or sports, or some other category. What is the harm in merit

aid? Simply put, financial aid resources are finite. If we give aid to students who can afford to pay, we have less to give students with real financial need. In that case, they may not be able to go to college or have to settle for a lower-quality college choice.

At Connecticut College, we believe colleges should attract students by offering them outstanding academic programs, not merit awards. Our applications have risen 40 percent over the past five years, 18 percent this year alone. The profile of student we attract is exceptional in terms of class rank and SATs and other measures of merit. We have built a strong curriculum, hired a diverse faculty, and strengthened academic programs such as international study and internships and opportunities for student research. Strong academic programs attract strong students—without the financial carrot of merit aid.

Even the most straightforward kind of merit aid creates real problems from the point of equity. The problem grows if you begin using your institutional financial aid not just to yield better quality students, but to bolster your bottom line. Many colleges are doing this. Suppose I have one full-need student who will require financial aid of $30,000 a year. Now suppose that instead of accepting that student, I parcel out the same $30,000 to six no-need students. To make sure that they will choose my college over my competitors, I offer each one a "merit grant" of $5,000. Abracadabra! I have spent the same $30,000 in financial aid. But now, instead of using it for one student who brings the college zero revenue during her four years, I have used it to secure six students, each of whom pays the college $100,000 over four years. Not only have I filled six dormitory beds with good credit risks, but I can approach their parents for contributions to my annual fund and maybe even my capital fund. So who loses? Academically capable students with the bad luck to come from poor or middle-income families.

Colleges and universities are even hiring consultants who will come in and design a system to pinpoint exactly how much financial aid you need to offer to which students in order to maximize the number of high-quality, low-need students who accept your offer of admission. This is called financial aid leveraging and it is extremely effective. They build a matrix of students based on all kinds of sophisticated statistical research. They can even cross-reference with credit bureau data about applicants' families. So they can say, for example, this student visited the campus three times. He obviously wants to come here very badly, so if we shortchange him on financial aid, he will stretch and come up with the money somehow. But this other student, she comes from a very fancy prep school that historically has not sent many students here. Her family can pay the bill, but we will give her this "merit scholarship" to make sure she brings her academic potential—and her family's money and connections—to our school.

It is easy to understand why more and more institutions are using merit aid. In a pure business, bottom-line-oriented universe, it makes perfect sense. But I believe that when we start treating higher education like any for-profit business, then we have lost sight of our reason for existence. The purpose of higher education is not to maximize revenue. The purpose is to produce compassionate, productive, effective citizens, who will make society a better place. That full-need student who produces no revenue might,

if she matriculated at the college, become a prize-winning physicist, a successful corporate lawyer or an inspirational fifth-grade teacher. But without need-based financial aid, we will never know what she might have become. Not just the student has lost something, but also society as a whole.

How many offices here in Washington, D.C., or on Wall Street, or throughout the nation would be empty if the recipients of need-based financial aid were not there? I know that I would not be in the position that I am so privileged to hold if I had not received need-based aid to attend Connecticut College more than 30 years ago.

As a college president, I am very aware of the financial pressures my peers are under. It costs a lot of money to provide a top quality education and you are competing with many fine institutions, including private schools with bigger endowments and public schools with state subsidies. You have to pay for all sorts of things like salaries for brilliant professors, nuclear magnetic resonating spectrometers for your science programs, black box theaters for your arts program, and state-of-the-art dining facilities so students will not miss their parents' home cooking too much.

So, yes, I would be very happy if my Vice President for Enrollment told me that the 450 absolute best applicants for next year's class just happened to be no-need. But I would also be very suspicious, because I do not believe that excellence and ambition follow income lines. That is why 50 percent of Connecticut College students receive some form of financial aid. That is also why Connecticut College's institutional financial aid has grown 64 percent over the last ten years—compared to a 30 percent increase in the federal grants we administer. For me, as president of a college with an 80-year-old honor code, one litmus test of my financial aid policy is whether I would feel comfortable explaining to any parent group the criteria on which we make our awards. If our commitment to need-based aid means that we as an institution have to dip more deeply into our endowment or lean more heavily on our alumni and donors, so be it. Access and equity are part of my college's soul. I believe in an elite of ability, not of bank account.

Equality of opportunity is one of the basic principles on which this country was founded and has prospered. It is also a very strong glue that holds together our increasingly diverse society. When we use a spreadsheet mentality to award financial aid, we are turning our back on the American dream. I urge you to support an aid system that helps every child to attend the best college or university for which he is suited by virtue of ability and achievement. Where I come from, that is what we call merit.

STATEMENT OF WILLIAM E. TROUTT
PRESIDENT
RHODES COLLEGE
Before the
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
February 9, 2000

Good morning, Mr. Chairman and members of the Committee. Thank you for the opportunity to appear before you today. I value this invitation to help provide a clearer picture about rising college costs and what needs to be done to keep a college education affordable. This was the charge given to me and other members of the National Commission on the Cost of Higher Education when we convened in August 1997.

Let me quickly review today some of the findings and conclusions of our report,[1] our message of shared responsibility, and what has happened in the last two years since the Commission issued its report.

The Commission Report

Our report is titled "Straight Talk About College Costs and Prices." Right away our Commission found a lack of understanding about basic concepts of college finance. The distinction between cost, price and net price must be recognized and respected to get a clear picture of higher education finance. By "cost" we mean the expense an institution of higher education incurs to deliver education to a student. By "price" we mean the portion of those costs students and families are asked to pay. By "net price" we mean the amount students pay after financial aid is subtracted.

Against that backdrop the conclusions of our report speak for themselves. (1) The United States has a world class system of higher education and a college degree has become a key requirement for economic success in today's world. (2) The Commission is convinced that American higher education remains an extraordinary value.

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[1] My statement borrows heavily from the Report of the National Commission on the Cost of Higher Education, Straight Talk About College Costs & Prices.

(3) Institutions, families, students and other patrons share responsibility for maintaining quality and reducing costs. (4) Tuition price controls will not work and will be destructive of academic quality and higher education. (5) The Commission shared its deep concern that most institutions have permitted a veil of obscurity to settle on their financial operations and that many have yet to take seriously basic strategies for reducing their costs. (6) Unless academic institutions attend to these problems policy makers at both the state and federal levels could impose unilateral solutions that are likely to be heavy handed and regulatory.

To deal with these concerns the Commission's Report presents a five-part action agenda. The Commission's recommendations, several dozen in all, emphasize shared responsibility to (1) strengthen institutional cost control, (2) improve market information and public accountability, (3) deregulate higher education, (4) rethink accreditation and (5) enhance and simplify federal student aid.

Trends in Cost and Price

Our Commission had a deep respect for public concern about rising college prices i.e., what colleges ask students and families to pay. We found that over the decade from 1987 to 1996 public four-year college and university tuition went up 132 percent. During the same period private four-year college and university tuition went up 99 percent. At the same time family income in America during this ten-year period increased 37 percent.

Our Commission also looked at what happened over the decade from 1987 to 1996 in terms of costs, i.e., what expenses colleges incur to deliver education. In public four-year colleges and universities cost per student increased 57 percent. At private four-year colleges and universities cost per student increased 69 percent. Tuition increased faster than costs at all types of colleges and universities. It might be tempting to conclude that institutions acted irresponsibly, charging more but not spending additional revenue to improve or maintain a quality education. It is important to remember, however, that tuition covers only a portion of costs. Other sources of institutional revenue may not keep up with costs.

Basic College Finance

We must remember that college finance works very differently from the world of commerce and we need to communicate effectively the difference. In the world of commerce, price equals cost plus, hopefully, some profit. In the world of colleges and universities price equals cost minus subsidy.

All college students, whether they attend a public or private college or university, receive a general subsidy. This does not include the additional subsidy many students receive in terms of financial aid. At both public and private institutions the cost of instruction is often significantly higher than the price students and families are asked to pay.

For example at Rhodes College where I serve, the price of tuition this year is approximately $18,500, but the actual cost of instruction per student exceeds $32,000. The difference or subsidy comes primarily from endowment income and private annual giving.

Perhaps, more importantly, for the purposes of this hearing it would also be useful to talk about net price and think about net price as what students and families pay after scholarships and grants are subtracted from the price of attendance. It is also worth noting that 64 percent of all full-time undergraduate students pay a net price that is significantly lower than the published price of tuition and fees.

To go back to Rhodes College as an example, about three out of four of our students receive some financial aid. The average net price these students pay is a little more than $9,000, slightly less than half of full price. Rhodes provided this year almost ten million dollars for scholarships to deserving students.

One of the most encouraging trends in college affordability is the growth in student financial aid and the accompanying decline in the increase in net price. From 1987 to 1996, total student aid from all sources increased by 128 percent. The largest increase in aid came from institutional resources, which went up by 178 percent.

The Commission found that net price, the price that the majority of full-time undergraduates actually pay, is increasing at a very modest rate. From 1993 to 1996, students attending public colleges and universities saw net price increase a total of only 10 percent. During the same time period, students at four-year private colleges and universities experienced a cumulative net price increase of only 4 percent.

Even with this encouraging news about net price, the Commission expressed a deep belief that much more must be done to address public concerns about rising college prices. Academic leaders must provide the public and policymakers with information that is comprehensible, accessible, and persuasive. College and universities must continue and redouble their efforts to control costs. And while the higher education community must lead this effort, many different stakeholders have contributed to the challenge of college accessibility and all of them have an obligation to contribute to the solution. Government at all levels, the philanthropic community, and families and students all have essential and complementary roles to play.

Higher Education's Response

Today let me offer a personal perspective on how the higher education community has responded to the Commission's message of shared responsibility. It is a message that continues to be discussed by academic leaders at national and state levels. The Commission's agenda has been an important ongoing topic for annual meetings of the American Council on Education and the National Association of Independent Colleges and Universities. My fellow commission members and I continue to be asked to participate in conference panels on college price and cost at the national and state-levels.

The College Board's annual tuition and student aid report for the 1999-2000 academic year suggests that academic leaders may be doing more than just talking about costs. Tuition and fees at four-year independent colleges and universities increased 4.6 percent – the lowest rate of increase in 27 years. Information is not available on the effective

"net price" increase, but we do have a sense that institutional aid budgets continue to increase faster than the rate of tuition.

My own experience at Rhodes College and at Belmont University, where I served as president until last July, suggests that the Commission's recommendations regarding individual institutions intensifying their efforts to control costs and increase institutional productivity can produce meaningful results.

At Belmont we found we could achieve a higher level of efficiency and effectiveness through a planned set of initiatives to (1) reduce the number of class offerings by more carefully studying student needs, (2) reduce energy consumption by installing more efficient equipment, (3) reduce supply and expense costs by mandating volume procurement over individual purchasing, and (4) reduce staff positions by redesigning jobs and departments.

Rhodes is a good example of the Commission's call for more institutional cooperation and greater use of consortia to both cut costs and maximize access to expensive academic programs. Rhodes is one of fifteen distinguished liberal arts colleges located in the southeastern part of the United States that have banded together to add academic value and reduce costs. This consortium, The Associated Colleges of the South (ACS), allows member institutions to share resources through joint programs for students overseas, and electronic virtual library and programs for faculty and staff development. Recent ACS cost containment initiatives include (1) a virtual ACS department of classics and a related archaeology program that have developed on-line course offerings to use faculty jointly, (2) joint training of faculty in the use of technology to cut costs greatly and (3) a joint purchasing, licensing and membership effort in expensive areas such as the licensing of library materials. Consortia efforts such as ACS have great potential for further adding value to the lives of students and also reducing inefficiency, avoiding duplicating and reducing costs.

I also know from my association with both the American Council on Education (ACE) and the National Association of College and University Business Officers (NACUBO) that both groups have taken very seriously the Commission's recommendation about providing the public with better information about costs and prices. ACE's "College is Possible Campaign" is a national effort underway to make American families more aware of college tuition options and the availability of financial aid. More than 1200 colleges and universities are participating in an outreach effort to give families the information they need to plan, prepare and pay for college. NACUBO's Committee on College Costs involves a pilot project with more than forty colleges and universities. The project hopes to assist institutions in developing a simple and uniform way to help both families and policy makers understand their costs and the subsidy that flows to each student.

It also is encouraging to note that research continues regarding important policy questions that could not be thoroughly answered during the limited amount of time available to the Commission. One of the most vexing of those questions is the relationship between federal loan availability and tuition increases. Just last week, the National Center for Education Statistics released a report indicating that the relationship between tuition levels and student borrowing was not a direct one. In fact, among private four-year colleges and universities, loans increased about one-third the growth of tuition.

Summary

In summary, I believe higher education is making progress at both the national association level and on individual campuses in responding to the challenge of keeping a college education affordable. There is evidence that tuition increases are continuing to moderate and that institutions are working hard individually and collectively to contain costs and pass those savings to students and their families in the form of lower tuition increases.

Much work remains to be done. I continue to believe, though, that the Commission's message of shared responsibility offers much more promise for dealing with this challenge than do price controls or federal regulation.

Your hearing today is a reminder of how important trends in college tuition and financial aid are to American families. Powerful market forces are at work to help keep price increases to a minimum, but your Committee does a great service in reinforcing the national priority of keeping the door of higher education open by maintaining access at prices students and families can afford. Thank you again for the opportunity to be part of this important conversation.

Testimony Prepared on

The Rising Cost of College Tuition and the Effectiveness of Government Financial Aid

by

David W. Breneman
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Curry School of Education
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February 9, 2000

Testimony for the
Committee on Governmental Affairs
United States Senate

Members of the Senate Committee on Governmental Affairs:

I am pleased to have been invited to testify before your committee on the vexing questions of college costs, affordability, and the effectiveness of federal student aid programs. As one of a small number of economists who specialize in this area, I receive phone calls every week from news reporters seeking comments on these topics, so I know they are of interest and concern to millions of Americans with children approaching the age of college. It is also clear, however, that the reporters' concerns are focused on a relatively small number of the highest priced private colleges and universities, enrolling a tiny share of the nation's college students. Never have I been asked about the high price of community colleges, which enroll over 43 percent of all undergraduates. Rarely am I asked about the rising cost of public colleges and universities, which enroll over 37 percent of all undergraduates. And within the remaining 20 percent of undergraduate enrollment, the concern is directed to those highly selective institutions at the top of the pecking order that may enroll only two to three percent of all undergraduates. The news stories written about those top schools filter down and create a sense of panic on the part of many parents who will never consider such schools, which makes one wonder whether this issue is more one of perception than reality. But, as we all know, people often act on their perceptions, and the polling data do show that the high cost of college is the main concern parents have about higher

education. The question for this committee, I assume, is what, if anything, can or should the federal government do to respond to these concerns.

In my judgment, economist Howard Bowen came closest to giving us a good statement of what determines college costs. Bowen argued that revenues determine costs, in that colleges and universities raise as much money as they can, and they spend it as wisely as they can on the multiple activities of teaching, research, and service. Bowen's concept is known as the "revenue theory of costs," and it emphasizes the fact that no absolute, objective standard exists by which we can say how much college should cost. Institutions index every financial variable to the outlays of a peer group, and judge themselves by where they are in that relative ranking. U.S. News and World Report has reified this relative ranking game into its highly influential annual report on the Best Colleges and Universities, which tends to reinforce what economist Gordon Winston has called higher education's "positional arms race."

An additional aspect of higher education finance that complicates the picture is that most institutions have numerous sources of revenue: state (and local) appropriations, state student aid funds, federal student aid funds, research grants and contracts, gift income, endowment income, income from auxiliary enterprises (hospitals, dormitories, bookstores), and, of course, tuition. When one revenue source declines, administrators search for another one to increase. So, for example, when state appropriations drop, as they did significantly in the early 1990s,

institutions responded by raising tuition and increasing private fund raising.

This diversity of revenue streams is where the oft-cited analogy of higher education to health care breaks down, because higher education does not have a single dominant source of revenue that operates as the third-party insurance source does in health care. Hence, it is simply wrong to use the health care analogy to argue that federal grant aid helps to drive up tuition. Federal grant programs are income-tested such that, in virtually all cases, a student's grant does not rise as tuition increases. The case with federal student loans is a less clear, and hotly contested. I have not seen a definitive study on this issue. Most federal loans programs are capped, but with the addition of numerous private loan programs, plus home equity loans, it seems plausible to me that the availability of loan finance has made it easier for some institutions to raise prices. But even if that were the case, the remedy is not clear. It is hard to believe that parents would welcome a decision by the federal government to curtail severely their access to loan capital for investments in higher education.

I should note that many of us believe that the federal tuition tax credits, enacted and proposed, do set up an incentive for state governments to raise public tuition high enough to qualify for the full credit, and for private colleges and universities to offset some of the credit against institutionally funded student aid, effectively raising their net price to students.

Separate analyses of tuition setting are required for the public and private

sectors of higher education. Tuition prices in public colleges and universities are politically determined prices that may bear little, if any, rational connection with underlying costs. Essentially, the share of costs borne by tuition is a political decision about how to allocate the burden between students and the general taxpayer. For the last 20 years, the trend has been for the student to bear a growing share of the cost, as states have reduced the share that they cover. Periodically, a governor or legislature may conclude that tuition has increased too rapidly, and will buy down some of the tuition increase with state funds--this has happened recently in California, Massachusetts, and Virginia. But my essential point is that I see no role for the federal government to play in state decisions about public tuition, other than to be aware of incentives that federal programs, such as tuition tax credits, may create.

Within the private college and university sector, state policies and programs have less influence, and the market becomes the principal arbiter of prices charged. But the private sector is far from monolithic in its financial circumstances. The majority of private colleges and universities struggle each year to make ends meet and, in some cases, to survive. Many of them discount their stated tuition deeply, 40 percent or more, so that the actual net price that a student pays is well below the posted price. A few of these colleges have tried cutting tuition, and others have frozen it, but in most cases, they know that a three or four percent tuition increase will be eaten up to a significant degree by increased student aid discounts. These

colleges are running hard just to stay in place, and I see no public purpose served by having the federal government attempt to interfere with their pricing.

This brings us to that tiny set of private colleges and universities in which the media invest so much attention--the 50 or so institutions that have enormous wealth. Endowments are very unequally distributed among colleges and universities, and those with the most to start with have experienced phenomenal gains in this bull market. Indeed, one has to modify Bowen's revenue theory of costs in two ways for these institutions: They do not raise all that they can, and they increasingly save much of it through transfers to endowment. They do not raise all that they can because, with the huge applicant pools that they have, they could clearly charge even higher prices. They do not spend all that they raise because, with endowments growing at 20 percent or more, and spending rates of 5 percent or so, the remaining gain more than compensates for inflation. Williams College, one of the members of this wealthy group, recently announced it would not raise tuition in the coming year because of sizable endowment gains. I believe this is an attempt of one college to send a signal to its peers that this group would be wise politically to break the pattern of steady tuition increases. (Appended to my testimony is an essay I prepared for the Chronicle of Higher Education on the Williams College decision.) I submit that if the federal government has any useful role to play in the area of college costs and prices, it might come in helping these few wealthy colleges to mitigate the "positional arms race" in which they are

engaged. The 1989 anti-trust case against these colleges has limited their ability to discuss what they, as institutions operating in the public interest, can and should do about the new economic circumstances in which they find themselves. Allowing that discussion to go forth is my best recommendation for action coming from these hearings.

Finally, what about the students? Your hearings tomorrow focus on student aid, but let me note that family income is still the major determinant of who goes to college, and where. In the rush to provide tuition tax credits, prepaid tuition plans, and tax benefits for college savings, we forget that most low income families cannot avail themselves of these programs. Furthermore, once enacted, these plans, like guaranteed student loans, operate as entitlements, whereas the Pell Grant program remains subject to annual appropriations. We are in danger of severely altering the fundamental focus of federal student aid, which should remain concentrated on helping students from low income families pay for college. Were I testifying tomorrow, I would recommend that Pell Grants be turned into an entitlement program, so that low income students have assured support at a time when billions of state and federal dollars are helping middle and upper income families pay for college.

Thank you for giving me an opportunity to present these thoughts to the committee.

The Chronicle: Opinion & Arts: February 11, 2000

THE CHRONICLE of HIGHER EDUCATION

Opinion & Arts

From the issue dated February 11, 2000

POINT OF VIEW

A Tuition Freeze Accents the Cockeyed Economics of Higher Education

By DAVID W. BRENEMAN

The recent decision by Williams College to freeze its tuition and fees for the 2000-1 academic year prompts reflection on the cockeyed economics of higher education -- and just how hard it is to do the right thing in our enterprise.

When a profit-making business cuts its prices, or holds them steady in the face of increases by competitors, the reason is usually to gain market share. When Northwest Airlines, for example, refuses to follow the price increases announced by other airlines, its motivation is to attract customers away from those airlines.

That is clearly not the motivation of Williams College, however. It already has around 5,000 applicants for the 500 positions in the entering class, and it is not seeking to expand.

Perhaps, then, the college's motivation is to attract higher-quality students. That does not seem to be a plausible explanation either. The modest reduction of Williams's price next year relative to its peers -- assuming that they do not match the tuition freeze -- will probably not cause students to opt for Williams over colleges that they might prefer. If Williams wanted to attract particular students, a targeted approach using merit aid would be far more effective, and less costly.

In short, it is difficult to see any institutional self-interest operating in the decision by Williams. Why, then, did such an action take place, particularly at a college where the influence of economists is unusually strong in the management of the institution?

The college's explanation was simply that big increases in charitable gifts, along with the remarkable growth of its endowment, meant that Williams could afford to provide stable tuition for at least one year. Although I accept that explanation at face value, it doesn't tell the whole story. The decision must be seen in the context of three forces that have been operating on higher education in recent years.

First, this decade's buoyant economy, sharply rising stock market, and limited inflation have generated enormous gains in wealth for the colleges and universities with strong traditions of private support and large endowments. Historically, endowment gains have averaged 9 to 11 percent annually, and inflation has run about 4 to 5 percent, with spending rates from endowments holding at around 5 to 6 percent. The result has been to keep endowments roughly constant in real, or inflation-adjusted, dollars. In recent years, however, with endowment gains exceeding 20 percent, inflation at 2 to 3 percent, and spending rates unchanged or even reduced, the increase of wealth at the top private institutions has been enormous. The Williams decision is, in part, a response to that new fact of life.

Secondly, a growing desire by talented students to attend those wealthy institutions has prompted increasing demand for admission, despite high and rising prices. Indeed, given the excess demand for enrollment, the true economic question is, why

haven't prices gone up faster than they have?

Nonetheless, the rising sticker price of college, especially at elite private institutions, has prompted the news media to promulgate endless critical articles decrying tuition increases, and the U.S. Congress to appoint a national commission to explore ways to contain college costs and prices. Thus, the third, and perhaps most influential, force is that the high price of college, real or perceived, has become every parent's nightmare. And it has produced political responses: the Clinton tuition tax credit, and the tuition freezes that several governors have imposed on their public universities, to cite just a few.

Such forces explain the Williams College decision as an effort to exercise by example a type of price leadership, one that responds to the barrage of public criticism about higher education's endless increase in prices despite new economic conditions. I find it hard to fault that motivation. We in higher education urgently need to discuss issues surrounding rising college tuitions among ourselves and with our key constituencies, and to reevaluate our tuition policies.

Yet the dilemma is that a public conversation about those issues is very difficult to have. In fact, I suspect that most of Williams's peer institutions and other private colleges will ignore the decision, and avoid discussing it with parents and other constituents as much as possible. Why? Because, for peer institutions, it is economically unnecessary and, for less-wealthy institutions, economically disadvantageous, to discuss it, much less follow Williams's lead.

Williams is a tiny part of the market, and the effect of its freeze will go largely unnoticed in the competition for students, imposing no real penalty on its competitors -- the other top 30 or 40 private colleges and universities. Furthermore, many presidents will see the action as undercutting the rationale for fund raising, if the institutions implicitly admit that they currently are able to forgo tuition increases. In the segment of the market in which Williams operates, the decision to freeze tuition clearly leaves money on the table, an unusual action for nonprofit as well as business enterprises.

For less-wealthy private colleges, the Williams action poses not just a potential embarrassment but a real threat. Those institutions do not have the same endowment resources as Williams and its peers, and are therefore more dependent on tuition. If other top-tier colleges follow Williams's example, institutions in the second tier will be in a predicament. On the one hand, they will have lost the umbrella of protection from public criticism provided by tuition increases at all private colleges. On the other, many of them must continue to raise prices, since they do not have the depth of nontuition resources on which to draw. They will be in the difficult spot of being damned if they do, and damaged if they don't. In short, the Williams tuition decision -- rather than starting a much-needed conversation about college pricing, wealth differentials in higher education, and if and how public policy should respond to new economic conditions -- will be seen within private colleges as an embarrassment, a momentary slip, and a misbegotten attempt to discipline the market.

If peer institutions do not follow suit, Williams will almost surely be forced to resume tuition increases next year. And, within a couple of years, the entire incident will be forgotten. Williams will have suffered a one-time loss of revenue, a small but enduring penalty for trying to change market behavior. The "positional arms race" that drives our leading institutions will resume, and an opportunity to clarify the public understanding of the economics of private higher education will be lost.

It will have been lost at our own peril. We can't operate solely according to financial concerns; we must also consider our public trust. If resentment and anger about higher-education pricing continue to build, politicians may well find a way to lash out and do real damage to our private institutions -- as they already have done in several cases to our public institutions. Private colleges and universities would be particularly vulnerable to changes in the tax code that would restrict or eliminate significant tax benefits that they receive through their designation as nonprofit organizations.

The leaders of Williams should be given credit for putting those issues on the table, even if most college presidents wish they had not and conclude that they have ultimately been foolish. The Justice Department's antitrust case against colleges in the late 1980's has brought a chill to conversations about how these hybrid institutions --

nonprofit yet highly competitive like profit-making organizations -- conduct their affairs. We need to revisit that antitrust decision, and instead argue the need for open discussion about college tuitions and the use of resources -- rather than relying on indirect signaling methods, such as the Williams tuition freeze.

Whatever our economic and political concerns, we can only bring about reforms in how we finance and price our institutions by publicly considering the issues together. We shouldn't pin our hopes on one college's unusual act of courage and candor.

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TESTIMONY PREPARED FOR:

UNITED STATES SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS

HEARING ON "THE RISING COST OF COLLEGE TUITION AND THE EFFECTIVENESS OF GOVERNMENT FINANCIAL AID

WEDNESDAY, FEBRUARY 9, 2000

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Higher Education is an Important Source of Economic Growth for the United States

There is widespread acceptance among economists that education is an important source of economic growth for the United States. Three types of evidence are particularly relevant. First, the relationship between the growth rates and education levels of countries suggests that, for every additional year of education attained by the average adult in the population, a country grows 1 percentage point faster per year.[1] Second, the United States has an international comparative advantage in producing goods and services that have a high skill content. That is, industries that generate net exports for the United States (and in which our net exports are growing most quickly) are industries that use a disproportionately high amount of educated labor.[2] Third, high technology industries demand labor that is very highly educated–that is, workers who not only have a college degree, but who have full mastery of advanced, college-level analytic skills. It is unlikely that high technology industries will continue to grow at their current pace if the wage they must pay to workers with these skills rises significantly. The United States will need the share of its new workers who have such an education to nearly double (from approximately 7 to approximately 14 percent of new workers) by 2010 if the growth of high technology industries is not to be reined in by rising wages.[3]

Why Have Colleges Changed and Why Has Tuition Risen at Some Colleges?

There are three forces that are primarily responsible for the changes in colleges and in tuition.

First, skill-intensive technological growth has increased the demand for *high intensity* college education in the American labor market. By *high intensity*, I refer to college education in which students are expected to master large quantities of difficult material in each year of college. In order to engage in getting a high intensity college education, a high school graduate must have very full mastery of high school material. In a high intensity college education, students are typically required to interact with technology, such as computers, in a sophisticated way. They are required to develop advanced analytic and communications skills. People who have obtained high intensity education are disproportionately in demand in America's highest growth industries. Students who have obtained a high intensity college education are nearly 400 percent overrepresented among the workers in the 10 highest growth (SIC 3-digit) industries in the United States.[4]

Second, prospective college students are more mobile and informed now than they were 30 years ago. They know much more about their own college preparation relative to the national pool of high school graduates. It is easier for them to learn about colleges and financial aid. As a result, colleges now face a more competitive market than ever before because students compare colleges with similar offerings and are sensitive to tuition differences among them. More than ever before, students avoid colleges that charge tuition that is higher than those of other colleges with similar offerings. Also, colleges have become *vertically specialized* and *horizontally specialized*. An example of vertical specialization is a college that now specializes in producing high intensity college education; 30 years ago, a small share of its students might have obtained a high intensity education but the majority would have pursued less demanding courses. An example of horizontal specialization is a college that now specializes in educating full-time workers using cooperative programs with local employers.[5]

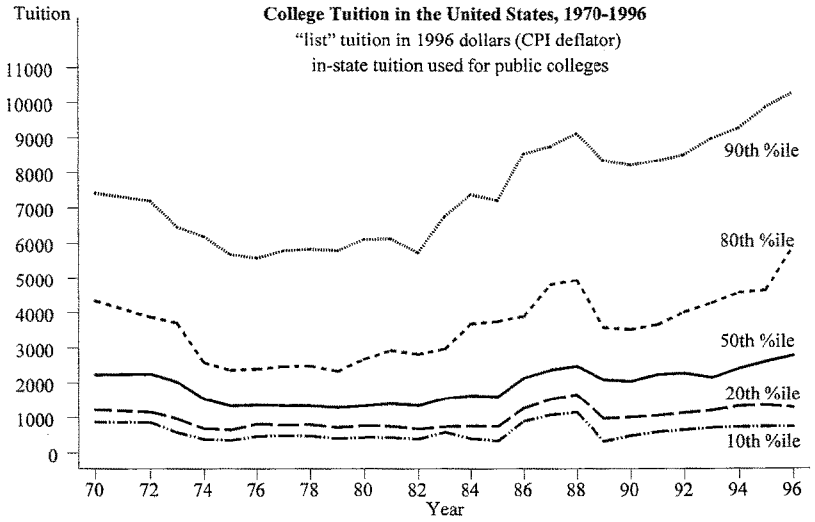
Third, international trade and technological innovation have decreased the demand for

low-skilled labor in the United States.[6] As a result, prospective college students who are poorly prepared for standard college education–in the sense that they did *not* master high school material–have an increased incentive to get some amount of post-secondary education, starting perhaps with remedial courses. That is, in addition to the rising demand for high intensity college education, there is rising demand for years of college education.

The Effects of these Forces on College Tuition

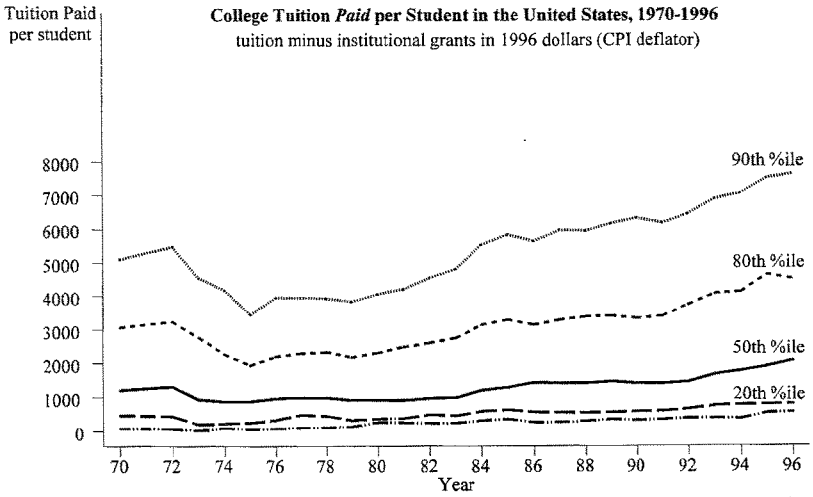
The three forces just described have caused the college sector to grow, have caused colleges to become more specialized, and have caused educational intensity to rise in colleges that have specialized in this high intensity education. The college sector has become much more diverse, in order to accommodate the needs of both poorly prepared high school graduates who want education akin to high school education and highly prepared students who want high intensity college. Because of this increased diversity, tuition is more *diverse*.

College tuition has risen, but it has not risen across the board. In fact, since 1970, tuition has remained almost flat in real terms for fully 50 percent of the college places in the United States. The figure below shows how college tuition in real dollars has changed since 1970.[7] Tuition has declined about 15 percent for the 10 percent of college places that are least expensive. Tuition has held steady at the 20th percentile and increased only modestly at the 50th percentile. Tuition has risen significantly only at and above the 80th percentile–that is, only for the 20 percent of college places that are most expensive.



Furthermore, looking at "list" tuition (as shown in the figure above) is somewhat misleading because the colleges that have raised their tuition the most also give the largest grants

to students. The figure below shows how tuition *paid* per student has changed since 1970.[8] It shows that tuition paid has also remained nearly flat for the least expensive 50 percent of college places in the United States. It also shows that "list" tuition exaggerates the amount of tuition the average student pays.



The least expensive 50 percent of colleges in the United States are appropriate points of entry for students who are poorly prepared for college. They should not make a large initial investment because college education is a risky investment for them, given their poor preparation. It makes sense for them to enroll in less expensive courses until they have the skills to succeed in a tougher college environment.

Tuition *has* risen in real terms for the most expensive 20 percent of college places. These are the colleges, however, that have increasingly specialized in providing high intensity education. They increasingly provide students with technology, highly skilled faculty (who are in demand by high growth industries), and other resources needed for high intensity education. Their costs and tuition have risen accordingly. This does not imply that their tuition is not priced competitively. Indeed, this sector of the college market is the most competitive because the relevant students are the most mobile and the most informed about their college choices. Such students are the *most* sensitive to colleges' tuition and offerings because they have the greatest ability to choose among colleges. Moreover, estimates suggest that the highest return to a dollar of tuition is provided by American colleges that are charge tuition above the 50th percentile.[9] Also, foreign students from all over the world are drawn to these colleges, believing that they provide better return per tuition dollar than colleges in their home countries or in other potential host countries.[10]

Much of the upset over rising college tuition is caused by the fact that commentators

focus almost exclusively on the tuition charged for the 10 percent of college places in the United States that are most expensive. While these colleges may be of interest to them personally, good analysis requires a more comprehensive view. Consider a entirely different market, fabrics say, to see how misleading it can be to focus only on the maximum price. The same fabrics that were available to our ancestors are available today, at a similar or lower price. But research has led to the introduction of specialty fabrics that perform much better under some conditions–think of the fabrics now used for athletic clothing. These specialty fabrics are naturally more expensive because they cost more to produce. If one were to study fabric prices by looking only at the most expensive fabrics every year, one would mistakenly conclude that fabric was becoming too expensive for fabricgoods manufacturing. Competition in the fabric market keeps prices in line with costs; it does not prevent high performance fabrics from being introduced at competitive prices.

Has Tuition Made College Inaccessible?

In order to see whether tuition has made college (or some colleges) less accessible, I analyzed data from two comparable, nationally representative surveys produced by the United States Department of Education. I compared 1972 and 1992 high school graduates, in order to see how their college choices differed. The analysis is shown in the table below.[11]

Let us first consider high school graduates who are very well prepared for college. In 1972, a student in the "high college preparedness" group (typically, SAT scores of 600 or above and class rank in the top quarter of his class) whose family income was very low (less than $20,000 in 1996 dollars) had a 6 percent probability of not going to college at all and a 33 percent probability of going to one of the 10 percent most expensive colleges in the United States. In 1992, the same student had a 0 percent probability of not going to college at all and a 43 percent probability of going to one of the 10 percent most expensive colleges. Clearly, access to college generally and access to expensive colleges in particular increased for highly prepared students from very low income families. In fact, access to college and access to expensive colleges increased substantially for highly prepared and medium-highly prepared students from families of all incomes. For instance, among students whose family income was medium-low (between $20,000 and $35,000), a "medium-highly prepared" student (typically, SAT scores between 500 and 600 and class rank in the upper third of his class) had an 11 percent probability of attending one of the 10 percent most expensive colleges in 1972, but had a 23 percent probability of doing so in 1992.

Second, let us consider high school graduates who are moderately prepared for college. In the table, a typical student with medium-low college preparedness had SAT scores between 400 and 500 and class rank in the upper half of his class. Among such students, the percentage who do not go on to college fell sharply between 1972 and 1992. For instance, in 1972, 38 percent of medium-low prepared students who came from very low income families did not go on to college; in 1992, only 22 percent of such students did not go on to college. Students with medium-low preparedness not only increasingly attend college, but most of the increase in their attendance is at colleges that charge about median tuition. Thus, there is no evidence that appropriate colleges are less accessible to students in this key group, who are likely to succeed in college, but are unlikely to want to pursue an intensive college education.

Finally, let us consider high school graduates who are poorly prepared for college. In the

table, a typical student with very low college preparedness had SAT scores below 300. Even among such such students, the percentage who do not go on to college fell between 1972 and 1992. For instance, in 1972, 76 percent of students with very low preparation from families with income between $20,000 and $35,000 did not go to to college; in 1992, only 67 percent of such students did not go to college. Most of the increase in the attendance of students with very low preparedness is at colleges that charge low to medium-low tuition.

Conclusions

In short, we see that college is not less accessible to students now than it was 30 years; it is significantly more accessible. Moreover, there is no evidence that students are being forced to enroll in inexpensive colleges that are inappropriate for their level of preparedness. In fact, the main group of students who appear to be getting displaced from very expensive colleges is the group of students from medium-high to high income families who have low college preparedness. They are being replaced by highly prepared students from low income families.

Since most of the increase in tuition affects only the most expensive colleges in the United States, would it be advisable to intervene at these colleges? Probably not, for a few reasons. First, they are increasingly accessible to highly prepared students from low income backgrounds. Second, they are changing their educational services most rapidly to keep pace with the demand for workers with high intensity college education. While we cannot be *sure* that such workers will be crucial to the future economic growth of the United States, such workers are certainly disproportionately employed by high growth industries now. Third, it is a basic tenet of economics that an economist should identify a market failure before he suggests intervention. Although economists are in widespread agreement that market failures exist related to borrowing for a college education (aid and loan programs are justified on this basis), there is no critical mass of economists who have identified market failures related to competition among colleges. Indeed, serious economists who study the market for higher education accept the fact that colleges have to compete *more* now than in the past– that is, they have less market power.

		1972 High School Graduates							1992 High School Graduates						
		% who attend the following type of college within 28 months of high school graduation							% who attend the following type of college within 28 months of high school graduation						
family income	college preparedness	**no college**	lowest tuition	low tuition	medium low tuition	medium high tuition	high tuition	**highest tuition**	**no college**	lowest tuition	low tuition	medium low tuition	medium high tuition	high tuition	**highest tuition**
family income ≤ $20,000	very low	**74**	5	5	10	3	3	**1**	**72**	4	7	8	3	3	**1**
	low	**56**	5	7	16	6	6	**3**	**48**	6	12	17	8	7	**3**
	medium-low	**38**	6	9	20	11	7	**9**	**22**	5	12	27	17	10	**7**
	medium-high	**17**	3	9	27	24	7	**14**	**13**	3	7	20	25	13	**20**
	high	**6**	6	0	11	22	22	**33**	**0**	0	0	0	31	26	**43**
family income > $20,000 & ≤35,000	very low	**76**	4	5	7	4	2	**1**	**67**	6	10	10	4	3	**1**
	low	**57**	5	5	15	9	5	**4**	**41**	7	14	20	11	4	**3**
	medium-low	**37**	3	7	21	16	10	**7**	**20**	4	10	32	20	8	**7**
	medium-high	**22**	6	6	25	20	10	**11**	**7**	2	7	27	20	14	**23**
	high	**13**	3	3	17	26	15	**23**	**0**	0	8	20	27	16	**29**
family income > $35,000 & ≤50,000	very low	**71**	5	5	8	5	4	**1**	**59**	4	10	14	7	6	**1**
	low	**50**	5	8	17	10	6	**4**	**33**	5	14	23	14	8	**3**
	medium-low	**29**	6	8	24	18	8	**8**	**18**	4	11	29	22	8	**8**
	medium-high	**16**	3	6	21	26	11	**17**	**8**	1	5	28	26	14	**18**
	high	**4**	1	3	17	27	15	**33**	**0**	0	3	15	29	17	**36**
family income > $50,000 & ≤95,000	very low	**66**	4	9	9	6	5	**1**	**50**	7	12	18	8	4	**1**
	low	**42**	7	9	18	12	7	**5**	**24**	6	16	26	15	9	**4**
	medium-low	**19**	6	5	29	20	8	**14**	**12**	6	11	26	25	9	**12**
	medium-high	**10**	3	6	31	24	9	**17**	**4**	2	5	27	25	11	**25**
	high	**3**	1	1	18	29	13	**34**	**0**	2	3	14	25	16	**41**
family income > $95,000	very low	**53**	5	8	17	7	5	**5**	**37**	0	9	28	21	4	**1**
	low	**30**	6	7	22	15	7	**13**	**13**	3	9	33	28	8	**6**
	medium-low	**15**	4	7	24	22	9	**19**	**4**	3	6	29	31	11	**16**
	medium-high	**5**	2	5	26	22	13	**28**	**3**	1	2	17	14	11	**52**
	high	**4**	2	1	11	21	13	**48**	**0**	0	0	12	19	13	**57**

Source: Calculations based on the National Longitudinal Survey of the Class of 1972 (1972 high school graduates) and the National Education Longitudinal Survey (1992 high school graduates). Both surveys are produced by the National Center for Education Statistics, United States Department of Education. Percentages may not add to exactly 100 percent because of rounding.

See next page for additional notes.

Additional Notes for Table

Colleges are classified according to their tuition *in 1996*, so that if a college has become less accessible since 1972 because of its tuition, a smaller percentage of low income students will attend it in 1992 than in 1972. A college with "very low" tuition has tuition that is less than the 10th percentile of tuition charged in the United States. A college with "low" tuition has tuition that is greater than the 10th percentile but less than the 20th percentile of tuition charged in the United States. A college with "medium-low" tuition has tuition that is greater than the 20th percentile but less than the 50th percentile of tuition charged in the United States. A college with "medium-high" tuition has tuition that is greater than the 50th percentile but less than the 80th percentile of tuition charged in the United States. A college with "high" tuition has tuition that is greater than the 80th percentile but less than the 90th percentile of tuition charged in the United States. A college with "very high" tuition has tuition that is greater than the 90th percentile of tuition charged in the United States. Note that, in order to form tuition percentiles, it is necessary to weight colleges by their enrollment. Otherwise, extremely small colleges would count as much as large state universities, and the calculations would misrepresent opportunities available to high school students.

A student with "high" college preparedness has SATI verbal and math scores that exceed 600 (average of the two tests) and is the top 25 percent of his high school class. A student with "medium high" college preparedness has SATI verbal and math scores between 500 and 600 (average of the two tests) and is in the top 33 percent of his high school class (also, students with scores above 600 and low class rank are in this category). A student with "medium-low" college preparedness has SATI verbal and math scores between 400 and 500 (average of the two tests) and is in the top 50 percent of his high school class (also, students with scores between 500 and 600 and low class rank are in this category). A student with "low" college preparedness has SATI verbal and math scores between 300 and 400 (average of the two tests) and is in the top 67 percent of his high school class (also, students with scores between 400 and 500 and low class rank are in this category). A student with "very low" college preparedness has SATI verbal and math scores of less than 300 (the average of the two tests).

Endnotes for Text

1. Source: Robert J. Barro, "Determinants of Economic Growth: A Cross-Country Empirical Study," Lionel Robbins Lectures. Cambridge and London: MIT Press, 1997.

2. Source: Lars Lundber and Par Wiker, "Skilled Labour and International Specialisation in OECD Countries," *International Review of Applied Economics*, Vol. 11.3 (September, 1997), pp. 369-85.

3. Source: Growth rates come from employment series for 25-34 year-olds for occupations from specialized professions through executives, by 3-digit industry, from the 1982 to 1999 Current Population Surveys. Share of college graduates with a high intensity education estimated based on the college preparedness and achievement in college of students in the Beginning Postsecondary Student survey and its longitudinal follow-ups.

4. That is, they are represented at four times their general availability in the civilian labor force. Source: National Longitudinal Survey of Youth, 1979-1998.

5. Additional evidence on these trends is given by Caroline M. Hoxby, "The Changing Market Structure of United States Higher Education" and "How the Changing Market Structure of College Education Explains Tuition," available from the author (choxby@harvard.edu).

6. Source: David Autor, Lawrence Katz, and Alan Krueger, "Computing Inequality: Have Computers Changed the Labor Market? *The Quarterly Journal of Economics*, Vol. 113 .4 (November, 1998), pp. 1169-1213. George Borjas, Richard Freeman, Lawrence Katz, "How Much Do Immigration and Trade Affect Labor Market Outcomes? *Brookings Papers on Economic Activity*, Vol. 0.1 (1997), pp. 1-67.

7. Sources for the figure: WebCaspar, which compiles statistics on American institutions of higher education from the Higher Education General Information Surveys and the Integrated Postsecondary Education Data System. All three sources are supported by the National Center for Education Statistics, United States Department of Education. In order to calculate the percentiles, a college's undergraduate tuition is weighted by its lower division enrollment so that small colleges are not overrepresented.

8. Sources for the figure: same as the sources for the previous figure. In order to calculate the percentiles, a college's tuition paid per student is weighted by its lower division enrollment so that small colleges are not overrepresented.

9. Source: Caroline M. Hoxby, "The Return to Attending a More Selective College," available from the author (choxby@harvard.edu).

10. Source: Institute for International Education, *Open Doors*, 1997-98 edition. New York: IIE Press, 1999.

11. Sources for the table: National Longitudinal Survey of the Class of 1972 (1972 high school graduates) and National Educational Longitudinal Survey (1992 high school graduates). Both surveys are supported by the National Center for Education Statistics, United States Department of Education. See the notes that follow the table for details on how the calculations are made.

"The Rising Cost of College Tuition and the Effectiveness of Government Financial Aid"

Testimony of William F. Massy before the United States Senate Committee on Governmental Affairs

February 9, 2000*

Thank you for inviting me to testify. I'm pleased the Committee's thinking goes beyond mitigating the problems of rising tuition and to address the root causes. The central question is whether colleges and universities are doing everything possible to maximize value for money in education. My research with Andrea Wilger at the National Center for Postsecondary Improvement (NCPI) indicates that the answer is "no." Cost increases could be held within tighter limits. The quality of education in the United States remains good by traditional standards, but it could be significantly better. Colleges and universities will need to reform themselves internally before the problems we're addressing this morning can be fully solved.

My position can be summarized as follows. (I will elaborate on each point presently.) Institutions and faculty don't know enough about educational cost structures to make the tradeoffs needed to optimize cost effectiveness, and cultural factors make it difficult to act on the data they have. Academic quality assurance and improvement processes appear inadequate when compared to the processes U. S. business developed after learning the hard way during the 1970s and 1980s. Applications of technology to enhance quality in teaching and learning are becoming widespread, but only a few schools are applying technology to reduce costs other than through distance education. Markets could do more to discipline price and quality, but their operation is limited by lack of data. (Today's markets are competitive, but they are not efficient.) Colleges and universities can learn to contain cost while simultaneously improving the quality of undergraduate education and maintaining research leadership. However, the needed reforms will come easier if markets can be made more efficient and public accountability can be improved. I'll offer some suggestions about how to do that in a few minutes.

Turning to the Committee's question about tuition growth, I predict that the real "sticker price" of tuition at the majority of four-year colleges and universities will continue to grow, probably at rates averaging as much as one or two points over inflation, unless imperfections in the educational marketplace can be mitigated. (Tuition at public institutions may deviate from this pattern depending on what happens to state appropriations.) Such increases are consistent with typical "internal inflation" rates in higher education. These rates reflect the labor-intensive character of the enterprise, a

* Revised slightly for readability and to conform to the oral presentation.

never-ending need to fund new programs, escalating regulatory burdens, and continuing requirements for investment in facilities and technology. They also reflect an "arms race" of expenditures triggered by the pursuit of prestige. A more efficient market would rein in the arms race, discipline prices, and encourage better productivity too blunt the effects of the cost drivers.

Tuition depends as much on markets as on costs. In other words, cost tends to follow price rather than the other way around. While institutions may occasionally exercise voluntary restraint, they usually charge as much as the market and the politics of their situations permit and then spend the proceeds. This behavior is not inappropriate. It flows naturally from the principles that govern not-for-profit enterprises. Such enterprises seek to achieve results deemed to be in the public interest. Provided they are efficient, the more money they get the more they can spend and the more they can accomplish. The question isn't whether institutions charge as much as they can, but whether they are efficient and whether the money is spent in ways that benefit undergraduate education.

Tuition probably won't grow to levels where enrollments drop off significantly. Institutions will charge as much as the market will bear, but no more. (That's the good news. The bad news is that the market limit may leave students with painful levels of debt.) Institutions are learning to optimize the use of financial aid to compete for students—indeed, "enrollment management" has become highly professionalized. Less-selective institutions (especially in the private sector) already must discount heavily in order to survive, and the selective ones do so out of a sense of obligation and a desire to maintain student diversity. The market is competitive (though not efficient), and net prices are adjusted as needed to fill the available seats. By stimulating demand, the "Baby Boom Echo" effect will if anything raise the sustainable tuition level.

What can be done to mitigate these problems? I believe the answer is to increase market discipline and public accountability *and* improve the state of the art in "quality work" and cost analysis. To illustrate the problem, imagine an automobile industry where few people know or try to find out about the quality and cost differentials between (say) rivets, bolts, and welds. An industry where people think "fasteners are fasteners" will not produce the best possible value for money. I don't want to suggest that education is like building cars, but the lesson carries over. One should understand the consequences, for both cost and quality, of alternative ways to do the job. Our research shows that while such knowledge is growing in administrative and support service areas, it is fairly primitive on the academic side of the enterprise.

The following proverb provides insight about mitigation. "He (or she) who would move a stone through sand must dig in front as well as push behind." Like most businesses, colleges and universities act in good faith when they press the limits of the market. But unlike businesses, few schools know enough about educational cost

structures, the processes needed to assure and continuously improve quality without adding to cost, and the tradeoffs between costs and outcomes. They can't score breakthroughs without such knowledge, no matter how much pressure the market and public agencies apply. Improving the state of the art in cost analysis and quality work represents the "digging in front" part of the solution. Improving market efficiency through better information and enhancing public accountability represent the needed "push behind."

Certain European and Pacific Rim countries are ahead of the United States in developing quality assurance and improvement methods, quality incentives, and public accountability. Ms. Wilger and I have studied quality processes on site in Australia, Sweden, Denmark, the UK, Ireland, and the Netherlands, and I served as principal architect of Hong Kong's public higher education quality assurance and management review systems. The experience with quality and accountability overseas has great relevance for the United States. The Senior College Commission of the Western Association of Schools and Colleges (WASC) will soon decide whether to adapt elements of the UK, Hong Kong, and Swedish programs to regional accreditation. (I understand that the North Central Association is considering similar issues from the standpoint of the Malcolm Baldrige National Quality Award and ISO 9000.) This is a good start, but more entities need to get involved.

"Education quality work" (EQW) is the system of activities that improves and assures educational quality. It focuses on *performance feedback* and the *organizational processes* needed to act on the feedback. EQW should not be confused with teaching and learning itself. It is the "feedback and control system" that guides teaching and learning. EQW must begin at the departmental level, since working academics are the only ones who can assure and improve quality, but it also includes oversight by schools, institutions, and external agencies. Student assessment is a key element of EQW. The shortfalls observed in externally-mandated assessment programs can be reversed by focusing on assessment as something departments should do in order to enhance their own effectiveness. Institutions and external oversight bodies should ensure that departments use student assessments to spur continuous quality improvement, and that meaningful assessment data are made available to the public. The oversight should be improvement rather than compliance oriented but it should maintain an element of accountability—as the Swedish higher education quality assurance agency puts it, "trust but check."

EQW applies modern quality principles in ways that are consistent with academic values. Unfortunately, tradition and misunderstanding make it difficult for many professors to accept these lessons. They fail to recognize that the approach is not "anti-academic," but rather that it provides tools for enhancing and humanizing the educational experience. Therefore, EQW will have to be jump started—for example, through regional

accreditation reviews and actions by state higher education coordinating boards, perhaps encouraged and facilitated by the federal government.

Space does not permit me to say more about quality work and its relationship to accountability. However, Ms. Wilger and I will be describing EQW, the experience overseas, and the stirrings of interest in the United states at noon on Friday (February 11) in a seminar sponsored by NCPI and the Department of Education's Office of Education Research and Improvement (OERI). Our project's 400 faculty interviews and 16 case studies convince us that U.S. institutions would get poor marks if evaluated using EQW standards, but that the potential for improvement exists. For example, Northwest Missouri State University has applied EQW principles with great success. We hope many other institutions will choose to do likewise.

The U.S. and UK seem to be ahead of other countries in work on cost structures, but the state of the art is not as far advanced as that on quality and accountability. The inability to separate unbudgeted research from instruction represents a formidable obstacle. Because these costs are lumped together in all government and institutional reports, the "cost of education" includes a substantial research component—a component that has been growing over time as teaching loads decline. For example, an economics professor who spends a third of her academic-year time working on NSF basic research grants but who can no longer offset her salary will show up in the cost reports as 100 percent instruction. Higher education justifies this practice partly on grounds of practicality and partly by arguing that research and education are joint products that cannot be costed separately. Our research indicates that these arguments are overstated when applied to undergraduate education. Continued reliance on them impedes serious inquiry into cost structures, and the resulting claims that full-pay undergraduates at most if not all institutions are highly subsidized may well be misleading.

Spurred on by their funding agencies, some UK institutions collect diary data on the amount of time faculty spend on instruction-related tasks as opposed to research and other institutional activities. Such studies can identify work that only remotely benefits undergraduate education. While there surely is a core of truly joint effort, our interviews suggest that it too small to justify including all department expense in the cost of education.

In the U.S., Northwest Missouri State is starting to use "activity based costing" (ABC) to tease apart the costs of instruction and relate the components to quality processes and educational value added. (ABC was developed by business to get at the actual cost of performing identifiable tasks. It should not be confused with the allocation methods used in cost accounting systems like OMB Circular A-21.) The so-called "Flashlight Program" (The TLT Group, an affiliate of The American Association for Higher Education) and the Pew Grant Program in Course Redesign have developed what amount to ABC templates for use in costing new approaches to teaching with technology.

Many colleges and universities in the U.S. and abroad have used ABC and similar costing principles, business process reengineering, and total quality management to improve their administrative functions. Similar thinking is required to stimulate change and evaluate tradeoffs in teaching and learning.

Markets can discipline the price and quality of education, and by so doing force cost containment, but not with the information available today. Lacking good quality measures, the market rewards *prestige* as defined by faculty research and overall resource consumption more than educational value added in relation to net price. Prestige has become a widely accepted surrogate—albeit a poor one—for educational quality. Professors, institutions, and the market have bought into the proposition that extensive faculty research is a necessary *and sufficient* condition for high-quality baccalaureate education. But while research may benefit educational quality, it is not sufficient. In fact, too much emphasis on research can degrade quality by reducing the time available for education quality work. The focus on prestige also has produced a "winner take all" market and an arms race in resource consumption. Fearing they will be left behind, schools spend heavily—e.g., for attracting and keeping research stars and for amenities. While some of this spending is justified, today's markets push it beyond the point of diminishing returns.

Prestige correlates with selectivity. Attending a selective institution confers the advantages of certification and association with exemplary fellow students. However, today's market focuses too much on selectivity and too little on the *value added* of the educational experience. Great students who get a low-value-added education are great when they graduate. Less advantaged students who get a high-value-added education will be much improved at graduation, though probably not brought to the level of great students from low value-added schools. Unfortunately, the market frames competition in terms of the absolute quality of the graduates, not the value added by the education. An efficient market would encourage institutions to compete on value added in relation to cost. Reporting on education quality work and associated assessment data would make the market more efficient.

Technology can become an important implement of cost containment as well as quality enhancement, but this will not happen without changing the academic culture. The conventional wisdom that technology almost always boosts the cost of on-campus education is short sighted, but not enough institutions are trying to challenge it. Rensselaer Polytechnic Institute's "studio" courses provide the quintessential example of how technology can simultaneously improve educational quality and reduce cost. Such changes require the full-scale redesign of teaching and learning processes, not just adding technological enhancements to existing course structures. Process redesign is easier when education quality work and cost analysis are well established.

In closing, I would like to offer some suggestions for action by the U.S. regional accreditation agencies, state higher education oversight bodies, and the federal government. These actions would jump start quality work and cost analysis. They would "dig in front and also push behind" to improve value for money in higher education.

- *The regional accreditation agencies* and their national association could make education quality work a key feature of accreditation.
  - The reviews should incorporate explicit standards for EQW, but they should not specify the methods of implementation. They should cover institutional and decanal activities, and also sample departmental quality work to determine what really happens at the operating level. They might also test for knowledge about cost structures and highlight effective cost-benefit tradeoff decisions.
  - The review reports should be made public. Using them effectively requires wide dissemination to faculty and other stakeholders, which is tantamount to publication. The review methodology does not depend on respondents' self-reporting of weaknesses, so dissemination will not undermine validity. Public disclosure would represent an important improvement on current practice.

2. *State higher education coordinating boards* could hold public institutions accountable for education quality work and effective cost-benefit analysis.
   - Experience abroad shows that effective accountability requires reviews that are linked to funding. Reviews of quality and management systems can provide the needed oversight without heavy bureaucratic burdens, micromanagement, or infringement on institutional autonomy. States with performance funding could make such reviews a key element of the system.
   - State-level reviews might be coordinated with the aforementioned regional accreditation reviews. For example, the state might rely on accreditation for in-depth analysis on a ten-year or similar cycle, with state review teams visiting the institution periodically between accreditation visits to maintain momentum and inform funding. Like accreditation reports, the state reports should be made public.

3. The federal government could help improve market information and stimulate change. The suggested actions would not require large outlays, but I believe they would make a significant difference.
   - The Department of Education could produce in-depth studies of education quality work, activity based costing, and associated accountability methods as they are developing around the world and in the United States, and then use the results to develop policy recommendations and model guidelines.
   - The Department could encourage or seed the development of pilot projects at the state, regional accreditation, disciplinary association, institutional, and departmental levels. The projects might include consumer research to determine the kinds of information and formats that would be most useful to prospective students and their parents—and thus provide the most market discipline.

- The Department could fund doctoral curriculum development. The effectiveness of quality work and cost analysis over the long run will depend on the skills and motivations of new generations of professors—people who now are trained primarily in conventional research and scholarship.
- Government could use its leverage to encourage the accreditation agencies and state higher education oversight boards to focus on education quality work and cost analysis. The National Center for Educational Statistics could work with the states and institutions to improve the reporting of cost data.
- Over the longer term, colleges and universities could be asked to provide the public with annual self-reports on their education quality work and the value added they are providing in relation to cost. Institutional accreditation reviews could verify the broad accuracy of these reports. Such reporting and verification does not seem unreasonable in light of the sector's tax advantages.
- Private enterprise could be encouraged to summarize, disseminate, and perhaps supplement the institutional reports and any available governmental data. More effective consumer guides would make perceived educational quality less dependent on prestige.
- Congress should continue to support the Malcolm Baldrige National Quality Award for non-profit entities, and it should encourage the development of criteria and review methods specific to higher education.

Supplement to the Testimony of William F. Massy

February 10, 2000

Yesterday I testified that better information on educational value added in relation to price is the best way to contain cost and stimulate quality. Such a strategy requires that price competition be encouraged. Merit aid represents an important vehicle for price competition.

An anti-trust exemption or other policies that discourage merit aid would work against the strategy of cost containment through market action. In effect, an exemption to the antitrust laws would justify price-fixing cartels on the hope (though not the certainty) that institutions would funnel the resulting extra net revenue to need-based aid. The controversy over how much incremental revenue is funneled to need aid would rival the one about the effects of loans and Pell grants on tuition rates. In the long run, it might well be more economical for the government to increase Pell grants for needy students (or adopt the matching scheme described below) than hobble price competition and pay more in subsidies for the middle class.

Several panelists argued that merit aid should be discouraged because it shifts institutional funds away from need-based aid. While I agree that need-based aid is highly desirable, I believe these arguments don't reflect the realities of the situation. Consider:

- *Non-selective institutions.* Such schools must compete to fill their classes with qualified students. Tuition discounts to levels that greater than the marginal cost of enrollment, which is low when the alternative is empty seats, increase (not decrease) a school's discretionary revenue. There is no shifting of revenue from need-based to merit-based aid in this case. In fact, more money becomes available for steep need-based discounts should the institution choose to spend the incremental revenue that way. Full-ride merit scholarships could shift money from need-based aid, but they represent only a small portion of non-athletic merit awards.

- *Selective institutions.* Because this relatively small group of schools caps enrollment, merit aid can divert resources from need-based aid. Such institutions use merit aid to shape their enrollment profiles according to non-economic criteria—e.g., to get more great musicians, artists, leaders, and scholars. Such objectives are not wrong, *per se*, and reasonable people can differ about the relative importance of the economic and non-economic criteria in particular situations. I believe institutions should give need-based aid a high priority, but not necessarily a 100 percent priority. The government should neither inhibit merit aid nor allow a cartel to do so.

One panelist suggested a supplementary Pell grant for students whose college or university embraces need-based aid. While the details were not spelled out, the problems of determining student eligibility appear formidable. For example, would eligibility for the supplement be an all or nothing matter? Would an institution have to meet all or a specified percentage of the demonstrated need of all needy students in order for its students to be eligible? Would students lose eligibility if their institution offered more than a threshold amount of merit aid? Would institutions subtract the amount of the supplement from their own calculation of need and then, perhaps, continue to meet only partial need? What would it cost to administer such a program in real time on a student-by-student basis?

Provision of matching funds for institutional need-aid outlays could achieve the same objectives in a simpler way. Institutions would apply for and receive the match a year or two in arrears, based on audited statements showing the need formula, calculated total need for all aid applicants, and the total amount of need aid actually granted. (The aid audit could be included in the institution's annual financial audit. Individual student data would not be needed other than to populate audit samples.) The percentage match might increase the closer an institution comes to meeting total need. Institutions would be free to use the match for any purpose—but that also would be true of funds freed up under the original Pell supplement scheme. The Government would have recourse to the institutions in case problems are unearthed in follow-up audits, and it would not be placed in the politically difficult position of denying students' eligibility because their institutions failed to meet the program's criteria. Finally, the matching scheme would be silent on the subject of merit aid. Institutions would increase the amount of need-based aid because such aid would be less expensive for them, but they would remain free to discount their tuition for anyone at any time.

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Statement

to the

Committee on
Governmental Affairs
U.S. Senate

Hearing
On
The Rising Cost of College Tuition
And the Effectiveness of Government Financial Aid

February 10, 2000

Lawrence E. Gladieux
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My name is Lawrence Gladieux. I am executive director for policy analysis of the College Board, a national association of 3,800 schools and colleges committed to advancing equity and excellence for all students.

Along with promoting high standards for all, the College Board is dedicated to the principle that no student should be denied access to college for lack of money. Our commitment to need-based financial aid dates back to the 1950s and the founding of the College Scholarship Service. CSS was created as an association within the College Board to help colleges award financial aid as fairly as possible on the basis of family and student ability to pay. The College Board remains committed to that mission today.

For its part, the federal government has exerted enormous leadership in efforts to level the playing field for students aspiring to higher education. In this testimony, I will:

- Underscore the critical importance of these efforts to our country, and review indicators on the extent of progress made in broadening college opportunities over recent decades.
- Discuss why rates of college participation and success are still dramatically unequal by income and race.
- Recommend policies to meet the daunting challenge of narrowing these gaps for the tidal wave of young people who will be coming of age over the next 10-15 years – a population that will be more diverse (disproportionately from minority and immigrant groups), and in all likelihood poorer and more educationally at-risk, than previous generations.

Progress, But Persistent Gaps

In recent decades, access to some form of postsecondary education has been growing steadily – overall, and for just about every economic and racial or ethnic group. Sheer economic incentives have primarily driven this growth in postsecondary participation. Forces running deep in our economy have ratcheted up skill and credential requirements in the job market, putting a premium on education beyond high school.

There are no guarantees in life with or without a college diploma, but the odds are increasingly stacked against those with the least education and training. The more years of formal education one has, the more, on average, one earns (see **Figure 1**). More important, the earnings advantage of the most highly educated workers increased during the 1980s and 1990s (**Figure 2**). And these trends have become conventional wisdom. People understand: who goes to college, and often which college and which course of study, determines more than ever who has entrée to the best jobs and life chances.

The good news is that more people are attaining higher levels of education and filling millions of skilled, high-paying jobs generated by a booming economy. The bad news is that opportunities for education remain unequal across society, wage and wealth disparities have reached unprecedented extremes, and the least educated and skilled are getting a smaller and smaller piece of the pie.

Education and training alone will not solve structural problems in the employment system that are tending to widen gaps between rich and poor. Yet it is clear that postsecondary education is more important than ever, to the individual and to our society.

More than 50 years ago, the GI Bill demonstrated to skeptics in both government and academia that higher education could and should serve a much wider segment of society. Thirty-five years ago, Congress passed the Higher Education Act and committed the federal government to the goal of opening college doors to all, regardless of family income or wealth.

Federal student aid has helped millions of people go to college who otherwise might not have had the chance. Federal, state, and private efforts combined have fueled a half century of explosive growth in college attendance and educational attainment. U.S. colleges and universities now enroll 15 million students: 1.5 times the number enrolled in 1965, 6 times the enrollment in 1950, and 10 times pre-World War II levels. The proportion of the population 25 to 29 years of age that has completed four years of college or more has quadrupled since 1940.

Yet large gaps persist in who benefits from higher education.

Who goes to college? Again, public policy has done a good job of boosting entry into the system. **Figure 3** traces a broad index of postsecondary participation based on Census data for 18-to-24 year-old high school graduates. All income groups show gains. But low-income 18-to-24 year olds attend college at much lower rates than those with high incomes, and participation gaps are about as wide if not wider today than they were in 1970.

Who goes where? Institutional choice is also closely linked to a student's family background. The most recent longitudinal data from the U.S. Department of Education shows that only one of five students from the lowest socio-economic quartile enrolled in a four-year institution, compared to two of three from the highest quartile. The data suggest that the most disadvantaged students are increasingly concentrated at two-year institutions.

This is not to say that the B.A. is the only measure of parity – far from it. "Going to college" means many things and produces many outcomes. We need a range of sub-baccalaureate opportunities, providing skills and credentials for survival and success in a complex economy. But the reality, as reflected in Figure 1, is that students attending less than four-year schools reap lower economic rewards on average than those who end up with a bachelor's degree or higher.

Who completes? The most important question is whether students complete their programs – at whatever level – and receive their degree or certificate. Some students fall short of a degree, yet go on to productive careers. But our economy and labor market rely heavily on credentials.

Postsecondary participation has soared during the past quarter century, yet the proportion of college students completing degrees of any kind has remained flat. Given the growing diversity of students and the increasing complexity of their attendance patterns (more part-time, intermittent, and multiple-institution enrollments), stable completion rates may be more than we could have reasonably expected. But we need to do much better.

Roughly three-quarters of high school seniors go on to higher studies. Half receive some type of degree within five years of entering postsecondary education, and about one-quarter receive a bachelor's degree or higher (**Figure 4**). But the most advantaged students graduate at much higher rates than their less-advantaged counterparts: 40 percent compared to only 6 percent. And white students are considerably more likely to receive a bachelor's degree than black and Hispanic students.

Getting students in the door is not good enough. Along with young people who do not finish high school and those who stop their education with a high school diploma, many postsecondary non-completers fall into what has been called "the forgotten half" of America's youth and young adult population.[1] In fact, some of these students may be left worse off if they have borrowed to finance their studies – increasingly the case for low-income students – and do not complete their programs. They leave college with no degree, no skills, and a debt to repay.

Why do gaps in postsecondary opportunity remain so wide?

The media, policymakers, and the general public have focused a great deal of attention on the affordability of higher education. And with good reason. Public alarm is rooted in real economic trends since 1980. Shifts in tuition, income, and aid policy have fallen hardest on those least able to afford postsecondary education.

Trends in affordability. **Figure 5** traces the growth of tuition after adjusting for inflation. While tuition was nearly flat in the 1970s, college prices rose at twice and sometimes three times the Consumer Price Index in the 1980s and 1990s.

Figure 6 compares growth in tuition, family income, and student aid from 1980 to 1998. Average, inflation-adjusted tuition more than doubled at both public and private four-year institutions, while median family income was nearly stagnant, rising 22 percent. Student aid increased in total value, but not enough to keep up with the rise in tuition.

Median family income tells only part of the story, because incomes have grown steadily less equal during the past two decades. As shown in **Figure 7,** costs of attendance as a share of income has increased for many families, but it has gone up the most for those at the low end of the economic scale. Even after factoring in student aid awards, it is clear that the burden is greatest for low- and moderate-income families.[2]

Moreover, the aid that these students are receiving increasingly comes in the form of borrowing. Over the past two decades, student aid has drifted from a grant-based to a loan-based system (**Figure 8**). In 1998-99, federally-sponsored programs generated almost $35 billion in student and parent loans, five times the size of the Pell Grant program that was meant to be the system's foundation, serving students with the greatest need. In fact, for the past 20 years the maximum

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[1] See Samuel Halperin, ed., *The Forgotten Half Revisited—1998*, American Youth Policy Forum, Washington, D.C.

[2] See U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 1998*, Supplemental Table 14-1, based on National Postsecondary Student Aid Study (NPSAS:96).

grant has dwindled relative to the costs of attending higher education, only beginning to recover some of its lost purchasing power with increases Congress and the President have sought in the past couple of years (**Figure 9**).

Even those students who are most at risk increasingly must borrow to gain postsecondary access. More than two-thirds of low-income B.A. recipients use loans to offset college costs, compared to one-fourth of those from high-income backgrounds. And the low-income student's debt burden is about $3000 higher on average than that of the high-income student (**Figure 10**).

Effects of the shift to loan financing are difficult to ascertain, but the prospect of debt probably discourages many less advantaged young people from considering postsecondary education. And there is evidence that financial assistance in the form of loans is less effective than grant aid in helping students to stay in college and get their degrees.[3]

Not only has the aid system gravitated toward loans, but the focus of federal policy has gradually evolved from helping students who "but for such aid" would not be able to attend college, to relieving the burden for those who probably would go without such support. This shift is reflected most dramatically in the tuition tax credits that were enacted as part of the Taxpayer Relief Act of 1997, which President Clinton has now proposed for expansion and I will address further in my recommendations at the end of this testimony.

Likewise, many state governments are enacting tuition tax credits and deductions, and are investing more heavily in non-need merit scholarships as well as college savings and pre-paid plans oriented to middle- and upper-income families. And the colleges themselves have increasingly turned to merit-based aid and preferential packaging not necessarily based on need.

Deeper Roots of Unequal Opportunity. Tuition and aid policies make a huge difference, and the whole financing system seems to be shifting in ways that may reduce opportunities for students with the least ability to pay. But as this committee deliberates on the effectiveness of government efforts in this area, I also want to put a spotlight on complementary strategies that are critically important to making greater progress.

The problem of unequal opportunity has proved more intractable than anyone anticipated in the early years following passage of the Higher Education Act. As originally conceived, federal student aid was meant to send an early signal to young people and their families that college was a realistic goal. Sponsors of the Pell Grant, in particular, hoped that the promise of aid would have a powerful motivational effect.

The reality of today's student aid system falls short of such visions. This is not to say that the aid programs failed, but rather that too much may have been expected of them. Financial aid is a necessary but not sufficient condition for the college attendance and success of disadvantaged students.

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[3] *Higher Education: Restructuring Student Aid Could Reduce Low-Income Student Dropout Rate.* (GAO/HRD-93-47, March 23, 1995).

Of all the factors that influence who enters and who succeeds in higher education, academic preparation is the most powerful. Research has repeatedly shown that students who take rigorous, progressively more challenging coursework through high school are far more likely to plan for, enroll in, and graduate from college.[4] The problem is that the course-taking patterns of low-income and minority students leave them less well prepared, on average, than higher-income, majority students. Tracking policies, school resources and quality, societal conditions and expectations all have a part in creating these disparities.

For the long haul, broad school reforms will hopefully effect change and benefit generations to come. For the short haul, we need direct outreach to more of the current generation: intervention programs that make a difference in the lives of young, disadvantaged kids early in their schooling — widening their horizons and encouraging them to stay in school, study hard, take the right courses, and keep their options open.

Scores of early intervention and mentoring programs have developed across the country, and many of these programs work. But for the millions of young people whose life chances are dim and might be lifted by an "I Have a Dream" or similar program, the movement is almost like a wheel of fortune. A youngster must be lucky enough to be in the right city, the right school, the right classroom.

The challenge for public policy is to leverage such programs that work to a vastly larger scale. Upward Bound, Talent Search, and other so-called TRIO programs have been a companion to federal student aid policy since the Higher Education Act was first enacted in 1965, providing information, outreach, counseling, encouragement, and academic support for students from the lowest socio-economic levels. Annual TRIO appropriations have grown over the years to more than $600 million, yet these programs are estimated to serve less than 10 percent of the eligible student population. And only a small proportion of TRIO services is dedicated to intervening with kids and their families at middle school or earlier. The Clinton administration's GEAR-UP (Gaining Early Awareness and Readiness for Undergraduate Programs) program reflects a growing recognition by public policy makers of the need for this kind of initiative.

Just as we need to reach kids earlier, we need to do a better job helping students once they have enrolled in college to persist and complete their degrees. Again, the TRIO programs provide support here. But public policy, federal in particular, has focused too narrowly on access to the system. More attention and incentives should be directed at persistence among students who are economically and academically at-risk. The Clinton administration has put a useful spotlight on this issue, calling for a program of College Completion Challenge Grants to help colleges retain low-income students

In short, financial aid is critical, but it's not enough. Complementary strategies are needed to equalize college opportunities.

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[4] Clifford Adelman, *Answers in the Tool Box: Academic Intensity, Attendance Patterns, and Bachelor's Degree Attainment,* U.S. Department of Education, Office of Educational Research and Improvement, June 1999.

Policy Recommendations for the Coming Tidal Wave of Students

The Census Bureau projects that there will be five million more 18-24 year-olds in the year 2010 than there were in 1995, an increase of more than 20 percent. The country is already experiencing the front end of this expansion in the potential pool of high school graduates and college students. But this new cohort will look considerably different from previous generations of college-age students.

According to projections by Sam Kipp, this growing age cohort over the next 10-15 years will be more ethnically diverse than the general population, and the fastest growth will come from groups in our society that have traditionally been:

- poorer than the general population;
- more likely to drop out of school;
- less likely to enroll in college-prep courses;
- less likely to graduate from high school;
- less likely to enroll in college; and
- least likely to persist to completion of a baccalaureate degree.[5]

To sustain or increase current levels of college participation is therefore going to require bold public policies – both to strengthen the readiness of students to undertake college-level work, and to assure low- and moderate-income students that the financial resources they will need to pay for higher education will be available. Kipp notes that even if college tuition increases moderate and grow no more rapidly than family incomes over the next 15 years, changes in the country's ethnic composition mean that college-age students will require financial aid in much greater proportions to achieve postsecondary access.

Below I offer recommendations for the committee's consideration. You will note the absence of tuition tax benefits on my list; let me comment on why.

As a result of the Tuition Taxpayer Relief Act of 1997, the federal government now has two ways of delivering college financial assistance – one through the tax code, and one through direct appropriations. These two sets of benefits operate on different principles and serve different, though overlapping populations. In general, under the tax code, the more income one has (up to the income ceilings established in the law), the more one benefits. Under the need-based aid programs authorized by Title IV of the Higher Education Act, the less income one has, the more one benefits. And again in general, the tuition tax benefits go primarily to students and families

[5] Samuel M. Kipp III, "Demographic Trends and Their Impact on the Future of the Pell Grant Program," in Lawrence E. Gladieux, et.al., eds., *Memory, Reason, Imagination: A Quarter Century of Pell Grants*, The College Board, 1998.

with incomes above the median, while most Title IV assistance goes to families below the median.

Now the President proposes to devote $30 billion to an expansion of eligibility for the Lifetime Learning Credit over the next 10 years. We are fortunate to have an education president who has argued consistently and passionately that the country needs to invest more in education and training to boost economic growth, expand opportunity, and reduce income disparities. But tuition tax breaks are not an effective means to achieve these worthy objectives. They are one way to cut taxes, but not a sound strategy for lifting the country's net investment in education or closing gaps in opportunity.

Looking ahead 10-15 years, tuition tax relief is certainly not the best way to assure opportunity for the tidal wave of students described above. Such resources would be better invested in Pell Grants and other need-tested student assistance under the Higher Education Act.

The following are my recommendations:

Restore the purchasing power of Pell Grants. The single most important thing that Congress could do is to restore the promise and purchasing power that Pell Grants once represented for low-income students. The constant-dollar value of the maximum Pell was at its peak in the middle to late 1970s. Based on the Consumer Price Index, returning its buying power would require a $4300 maximum today, up from the $3300 the Congress has approved for academic year 2000-2001. This would require an additional $3.5 billion in appropriations, precisely the average cost in tax expenditures of the President's "College Opportunity Tax Cut" spread over the next 10 years. Based on changes in cost of attendance since the mid-1970s, however, restoring the value of Pell would require a maximum in the $7000-8000 range, which would translate into more like a $12-15 billion boost in appropriations. (See Figures 11 and 11A for funding history of Pell and requirements to restore its buying power).

I realize these numbers are way outside the incremental frame of reference of recent budget discussions. But this is what it would take to make Pell the powerful building block for low-income students it was intended to be. Keep in mind, too, that the more we invest in Pell Grants, the more help the program is able to offer, not only to the neediest students, but also moderate-income students who are now just out of range of Pell eligibility.

Make the Pell Grant an entitlement program. Tuition breaks written into the tax code function, in effect, as an entitlement not tied to annual appropriations. They amount to a new entitlement for middle- and upper-middle-income citizens. Like other discretionary programs, Pell Grants have no guaranteed financing from year to year, and real increases have not come easily under prevailing budget rules. Neither will the idea of creating a new entitlement program. But in fairness and in anticipation of the coming tidal wave of students, a Pell entitlement is what we ought to have.

An alternative, less satisfactory way to balance the scales would be to make the tuition tax credits refundable, thereby extending eligibility for them to more low- and moderate-income students who couldn't otherwise benefit because they have insufficient tax liability. But this is a

less satisfactory alternative because the timing of the tax benefit reduces its practical value to families trying to make ends meet. Any cost relief is likely to come in a year-end tax refund. The tax code is not an effective vehicle for helping people who are struggling to meet current tuition expenses.

Rekindle the federal-state-institutional partnership in need-based student assistance. The original Higher Education Act envisioned a partnership between the federal government and the campuses. In 1972 Congress established federal matching for states that invest in need-based grant programs, thus rounding out the federal-state-institutional partnership. The federal role in higher education should continue to emphasize equal access and choice for the less advantaged, and provide incentives to states and institutions to focus subsidies on those with the greatest need.

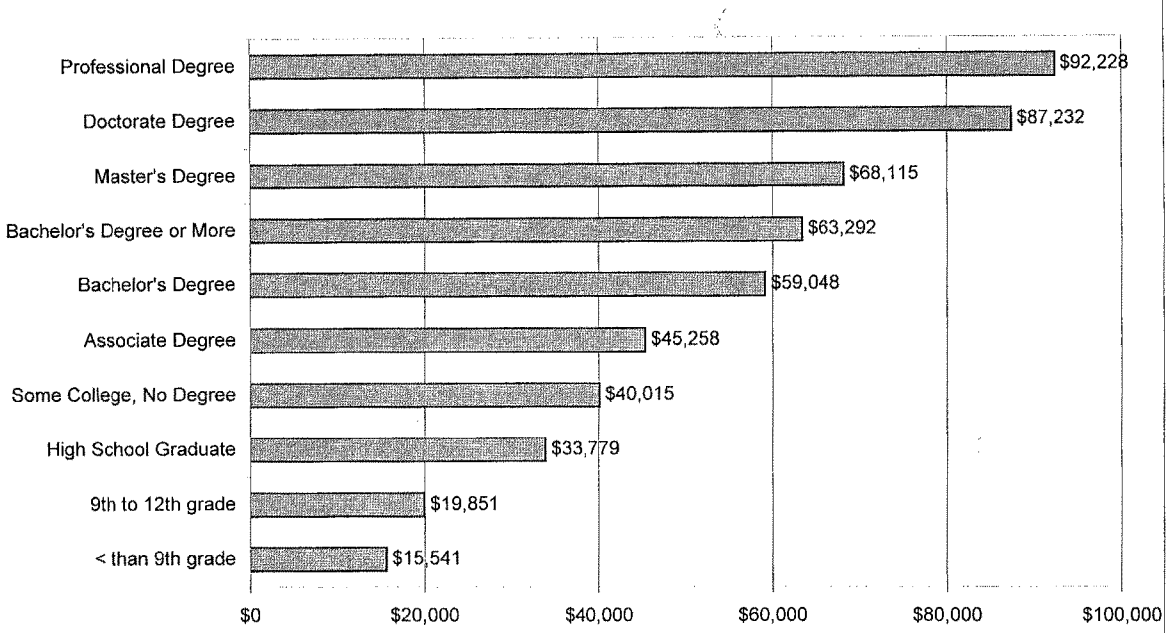
Find alternatives to loans for at-risk students. For those who complete their degrees, returns to college are high, and debt levels are manageable for most. But the shift to loan financing has not been responsible public policy when it come to some groups: low-income students unfamiliar with and liable to be deterred by debt, academically at-risk students who may not finish their programs, and students training in low-paying fields.

Expand pre-collegiate outreach. The federal government should step up its investment in pre-collegiate outreach and intervention programs. I wholeheartedly support the Clinton administration's budget proposals for TRIO and GEAR-UP.

Focus on student success, not just access. Getting students in the door is not enough. Students may be left worse off if they have borrowed to finance their studies but do not finish their programs. We need greater efforts to help at-risk students persist and complete their degrees. I fully support the Clinton administration's proposal for College Completion Challenge Grants.

Thank you, Mr. Chairman, for the invitation to present this testimony. I shall be glad to answer questions.

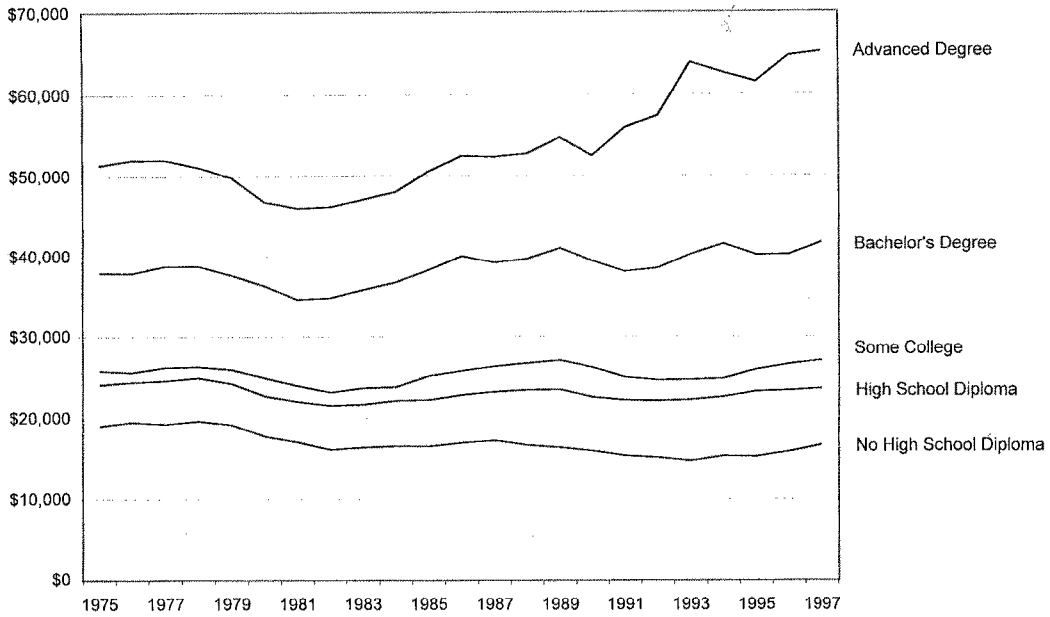
Figure 1. Median Annual Household Income, by Educational Attainment of Householder, 1997



Excerpted from *Trends in College Pricing 1999*, The College Board.

Source: U.S. Census Bureau. March Current Population Survey. Income Statistics Branch/HHES Division. U.S. Department of Commerce: Washington, DC. Table F-18. (www.census.gov/hhes/income/histinc/f018.html).

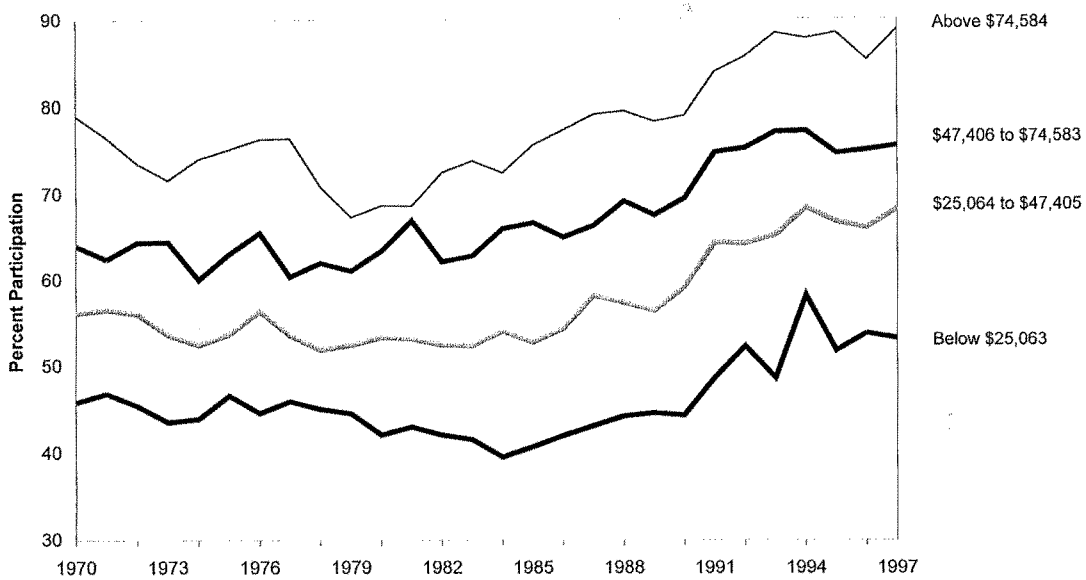
Figure 2. Income by Educational Attainment for Persons 18 years Old and Over, 1975 to 1997 (Inflation Adjusted for 1999)



Excerpted from *Trends in College Pricing 1999*, The College Board.

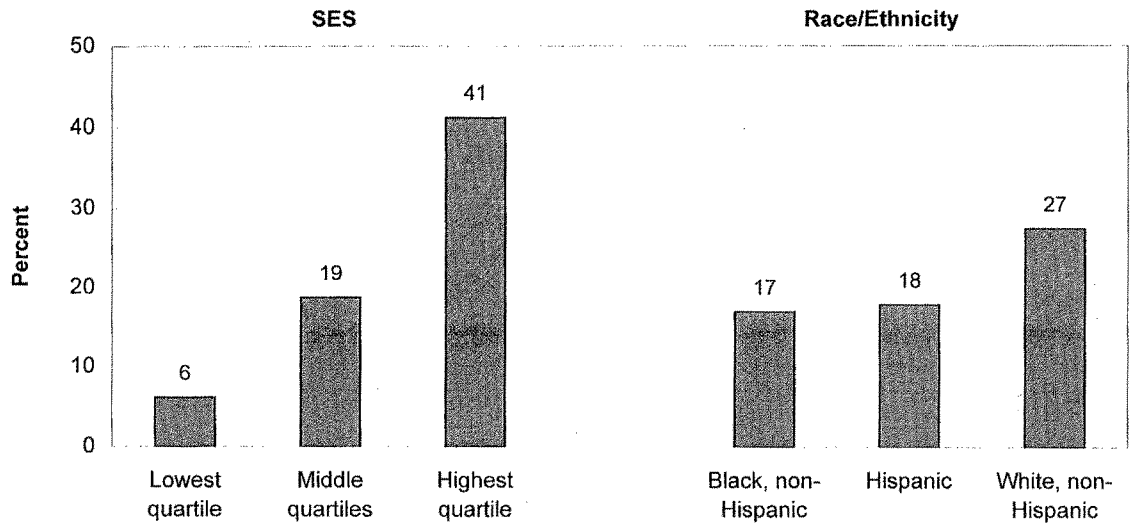
Source: U.S. Census Bureau. March Current Population Survey. Income Statistics Branch/HHES Division. U.S. Department of Commerce: Washington, DC.

Figure 3. College Participation Rates for Unmarried 18- to 24-Year-Old High School Graduates, 1970 to 1997, by Family Income Quartile.



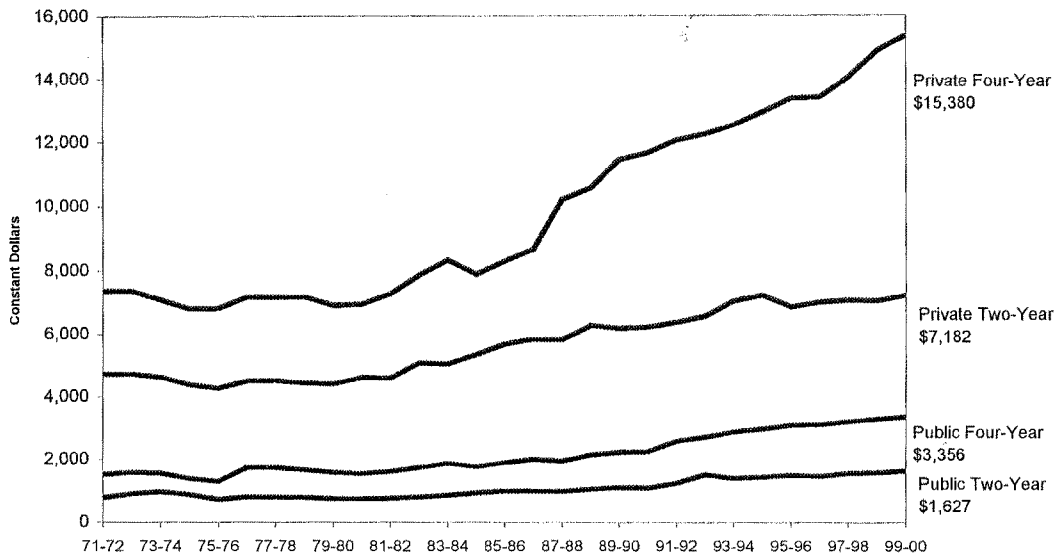
Excerpted from *Trends in College Pricing 1999*, The College Board.
Source: Tom Mortenson, *Postsecondary Education Opportunity*, based on U.S. Census Bureau data.

Figure 4. Percent of 1989 beginning postsecondary students who received a bachelor's degree or higher as of 1994, by socioeconomic status and race/ethnicity.



Source: *Descriptive Summary of 1989-90 Beginning Postsecondary Students: 5 Years Later.* (Washington, DC: U.S. Department of Education, National Center for Education Statistics, 1996), 34, Table 1.3.

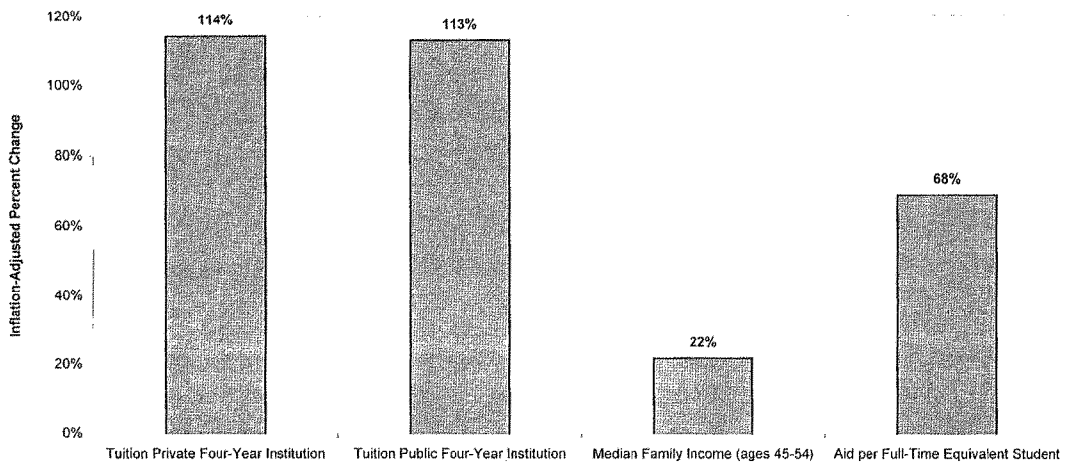
Figure 5. Average Tuition and Fees, 1971-72 to 1999-00, in Constant Dollars



Excerpted from *Trends in College Pricing 1999*, The College Board.

Source: 1984-85 to 1999-00: enrollment-weighted data from the *Annual Survey of Colleges*, The College Board, New York, NY; 1971-72 to 1983-84: non-weighted Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education, National Center for Education Statistics

Figure 6. Inflation-Adjusted Changes in Tuition, Family Income, and Student Aid, 1980-81 to 1998-99.



Excerpted from *Trends in Student Aid 1999*, The College Board.

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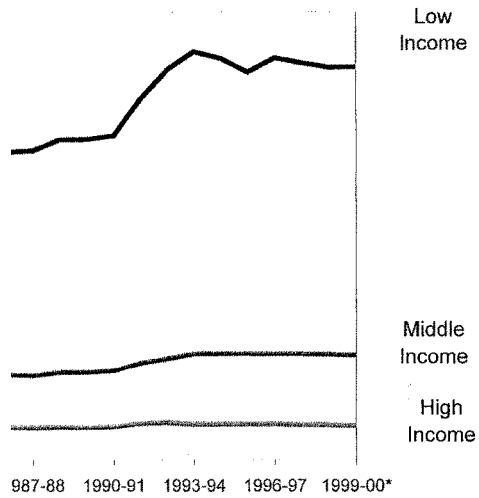
ɔme, 1972-73 to 1999-00.



llege Board.
; data pre-1984-85 from Integrated Postsecondary Education Data System (IPEDS),
income data from the U.S. Department of Commerce, Bureau of Labor Statistics.