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The 2008 Amendments to the Federal Higher Education Act

Are We on the Right Track?

By Jacob O. Stampen and Bradford J. Zulick[1]

Key Recommendations

1. Lower the net cost of college attendance while lessening dependence on student loans.
2. Simplify and strengthen HEA 2008 by prioritizing implementation.
3. Increase the use of research on issues central to higher education access and academic success in policymaking.
4. Provide crucial information that is currently unavailable to analysts, policymakers, and interested citizens.

About the Authors

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Introduction

Federal spending on higher education has changed the education landscape of the United States. Education is not mentioned in the U.S. Constitution; thus, responsibility falls upon the individual states (via the 10th Amendment). Despite the states' prerogative, the federal government has steadily expanded its involvement in education at all levels (e.g., the land-grant acts, the G.I. Bill, the Elementary and Secondary Education Act [No Child Left Behind], and the Higher Education Act). This is largely because education is increasingly viewed as vital to the nation's well-being and survival. In keeping with this view, the Higher Education Act (HEA) enables and directs the flow of billions of dollars in federal aid to millions of students who qualify for assistance on the basis of demonstrated financial need and other factors through a variety of grants, loans, and student support programs.

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In the 1960s, President Lyndon Johnson gained bipartisan support in the Congress for boosting educational attainment by making college more affordable for high school graduates from low-income and minority backgrounds. He intended to accomplish this through federal legislation providing student financial aid and student support programs aimed at increasing academic success. President Johnson thought that the federal government should bear most of the cost for these programs, but he also called for additional support "from state and local governments, and the local employers and the local loan funds." Before signing the first HEA in 1965, President Johnson concluded that "...until we banish ignorance, until we drive disease from our midst, until we win the war on poverty, we cannot expect to continue to be leaders not only of a great people but leaders of all civilization."[2]

During the Johnson administration, the United States was widely regarded as the world's leading producer of human capital. A recent analysis by Harvard economists Claudia Goldin and Lawrence Katz[3] argues that, during the twentieth century, the United States became the world's richest nation because of "the co-evolution of educational attainment and the wage structure." The percentage of college age youth enrolled in America was twice as high as in any European country, which boosted national productivity beyond levels found in other countries. Nine sets of amendments to the original Higher Education Act (called reauthorizations) have passed since the HEA was established in 1965. President George W. Bush signed the

most recent amendments in August 2008—the first reauthorization since 1998. This prompts us to question whether the United States is still leading the world in the production of human capital.

This policy brief summarizes the Higher Education Amendments of 2008 (HEA 2008) and the evolution of the Higher Education Act since 1965, particularly the evolution of federal and non-federal forms of financial assistance aimed at increasing educational opportunity and attainment in the United States.[4] Because the act's extensive academic support programs, such as TRIO and GEAR UP, require separate attention, this analysis of HEA 2008 is limited to a general overview of the student financial aid aspects of what appears to be its overarching theme: *to promote more effective and efficient collaboration among the federal government, state governments, colleges and universities, lending agencies, and the private sector in order to improve college education and make it more affordable*. We then address questions about the evolution of the Higher Education Act and whether HEA 2008 is likely to increase the ability of the American higher education system to achieve its historic goals. The brief concludes with findings and suggestions for future improvement.

The Higher Education Amendments of 2008

HEA 2008 was signed into law on August 14, 2008. The outcome was a rare example of bipartisan effort in a period of the nation's history characterized by political gridlock. According to U.S. Rep. George Miller (D-CA), chairman of the Committee on Education and Labor:

> For the first time in years, students and parents will encounter a higher education system that is more consumer-friendly and that operates in the best interests of helping them pay for college. This law will help every student in this country get their fair shot at a college degree, and reclaim their piece of the American Dream…We've made college more affordable and accessible for all qualified students (through mandates aimed at controlling tuition rates). We've enacted the single largest increase in federal student aid since the G.I. Bill (by increasing the size of Pell grants, cutting interest rates on student loans, forgiving certain loans, etc.), and protected federal college aid from turbulence in the nation's credit markets, and all without costing taxpayers a dime. We've proven we can work in a bipartisan way to enact good public policies that make sense for students, for our economy, and for taxpayers.[5]

Reactions to HEA 2008 from the higher education community have ranged from cautious acceptance to scathing rejection. Concerned about the critical tone toward higher education and the vast scope and complexity of the bill, Constantine D. Curris, president of the American Association of State Colleges and Universities (AASCU), was encouraged that the legislation could have "set specific requirements on colleges' spending but opted instead for significantly more reporting and lists designed to embarrass institutions that raise their tuition the most." A representative of private higher education called the bill a "visionless, unwieldy, sprawling mishmash of new programs and intrusive regulation into areas that are inappropriate terrain for a bill supposedly about student aid…This bill is not fundamentally about access. It is about Congress's idea about how colleges could be better run."

Reactions to HEA 2008 from the higher education community have ranged from cautious acceptance to scathing rejection.

U.S. Secretary of Education under the Bush administration, Margaret Spellings, criticized the new amendments for not being tough enough: "While the legislation takes some positive steps forward, it fails to create the necessary reforms in accessibility and affordability, and it falls short on strengthening accountability." Charles Miller, who headed the Department of Education (ED)-supported National Commission on the Future of Higher Education, argued that "What is needed is a full-scale reform and redesign of financial aid: simplification, elimination of inefficient programs, and a coherent integration of aid with the broader financing system for higher education."[6]

What is New in HEA 2008?

HEA 2008 cannot be easily summarized or explained in a few paragraphs. The bill (H.R. 4137) is 1,150 pages long, 20 times longer than the original Higher Education Act of 1965.[7] Moreover, the implementing process has only begun.

Higher education amendments are crafted in a three-phase process. In the first phase—already completed in this case—authors draft the amendments, the Congress votes on them, and the President signs the authorizing legislation. The second phase, which includes writing and implementing regulations, is equally important (though far less visible to the public) because it defines the terms under which policies and programs will legally operate. In the final phase, the Congress votes on funding for the authorized programs.[8]

Below is a brief summary of what has been authorized in the first phase of HEA 2008.

Easier to Obtain Aid

HEA 2008 seeks, among other things, to improve student financial aid programs by raising the ceiling on Pell Grants (a primary source of financial aid for low-income and first-generation students) to $9,000 and allowing students to receive Pell Grants year round instead of only during the traditional academic year. This increase in grants-based aid is assisted by the passage of the closely related College Cost Reduction Act of 2007, which authorized the transfer of $20 billion from subsidies to private lending agencies to federal student aid programs (mainly for Pell Grants), cut interest rates on subsidized student loans, and increased loan forgiveness for students in certain public service fields.[9]

HEA 2008 includes several other improvements for financial aid:

- Authorizes 64 new student aid and support programs, most of which add to or modify existing priorities
- Charges ED with creating a searchable website to inform military veterans about available student aid and institutional readmission rights
- Allows graduate students to receive in-school deferment of PLUS-Loans
- Makes the financial aid application process more user-friendly for students and parents
- Takes steps to assure student access to loans despite previous tightening of lending requirements caused by the current credit crisis

More Collective Effort

An important new focus of the HEA 2008 is a federally led effort to improve collaboration among federal, state, institutional, and private sector participants in the higher education financing process through the sharing of information.

With data provided by institutions eligible to participate in federal student aid programs, ED will:

- Expand access to information on how to qualify for aid
- Simplify aid application procedures
- Issue reports showing *net prices* (average annual price charged to first-time, full-time undergraduate students receiving aid, minus received aid) and percentage increases[10]
- Identify institutions with the highest tuitions, net prices, and percentage increases in each of nine institutional categories
- Maintain a website containing 27 categories of consumer-oriented information, including: missions; policies (admissions, alternative tuition plans, campus safety); outcomes (degrees awarded, time-to-completion); and various student characteristics (enrollment, test scores, student gender, ethnicity, disabilities, transfer status, residency, faculty characteristics, cost of attendance, financial aid)
- Require individual institutions to justify tuition increases and provide students with net price calculators and multi-year tuition calculators

ED will use data provided by states to:

- Publish annual, state-by-state *affordability watch lists*, along with trends in tuition and fees, student aid, and overall support for public colleges and universities
- Report *state maintenance of effort* in spending for higher education. (HEA 2008 requires states to maintain a level of expenditure equal to the average amount provided for non-capital and non-research and development expenses in the five most recent academic years for public colleges and, for private colleges, the five-year average amount provided for student aid)

Low-effort states will risk losing a share of $66 million in authorized aid through the new federal College Access Challenge Grant Program. Wisconsin's share, if all states maintain satisfactory effort, would be around $900,000 (more if some states fail to do so). Nevertheless, the fiscal incentive to support higher education is small compared to the state's projected $5.7 billion biennial budget deficit (as of February 2009).

However, in a separate development, the recent passage by the Congress of the American Recovery and Reinvestment Act of 2009 vastly increases incentives for states to maintain support for education at all levels. Under this legislation, states will share $53.6 billion for K-12 and higher education, only if they maintain pre-crisis levels of funding.[11]

ED will also use data provided by private lending agencies to closely monitor those agencies and prevent them from colluding with college officials to steer student borrowing to favorite lenders or engage in other unethical practices.

Accreditation

HEA 2008 makes the following provisions for accreditation:

- Bars the federal government from regulating higher education accreditation aimed at measuring student learning outcomes in higher education institutions
- Expects institutions to set and account for their own academic standards and outcome measures (i.e., demonstrate performance with data in their own way) and demonstrate that students registering for distance courses are the same individuals receiving academic credit for them
- Demands that accreditors respect the stated missions of institutions and make summaries of their actions publically available. The amendments also prescribe "due process" for adverse actions by accreditors (e.g., in certain circumstances, institutions may submit new evidence during an appeal process)
- Allows proprietary colleges more ways to demonstrate that they derive at least 10% of their revenues from sources other than federal funding
- Defines for-profit colleges with misleading accreditation credentials as "diploma mills" and stipulates that ED will publish public lists of these institutions

Low-effort states risk losing a share of $66 million in authorized aid...

Future Research

HEA 2008 mandates six major studies on:

- Higher education endowments
- The impact of federal regulations on postsecondary education costs
- Diversity
- Private education loan criteria
- Regulation of higher education
- Student aid recipients

In addition, it expands the role of the National Committee on Institutional Quality and Integrity (NACIQI), an independent committee created to advise the Congress on student aid policy, in education policymaking.

Other Topics

The legislation includes a wide variety of other features not covered in this analysis, including compliance provisions covering campus safety, fire safety, missing persons, student speech and association rights, lobbying, transfer of credit, tougher standards for teacher education programs, and better programs for aiding students with disabilities. It addresses international education, including national need for expertise in foreign languages and world regions, government service in areas of national need, student satisfaction with international programs, and amounts and purposes of foreign gifts. In addition, a new loan fund is established to help institutions damaged by Hurricane Katrina in 2005. Colleges and universities are even urged to help students find legal ways to download movies and music, stop illegal file sharing, and pressure textbook companies to charge reasonable prices for books.

Political History

In order to gain a sense of the potential impact of HEA 2008 compared to that of earlier reauthorizations, it is necessary to briefly review the political history of the Higher Education Act and the resulting changes in the pattern of federal investment. (For a more detailed overview of HEA and its subsequent reauthorizations, see sidebar, "The Evolution of HEA," pages 5-9).

HEA1965 added large-scale federal tax support for students attending both public and private colleges.

In 1965, Congress passed the Higher Education Act (HEA), which provided for the first time— except for several small-scale, Depression-era efforts—federal aid to college students who might not otherwise be able to afford college.[12] Although involving private lenders was a high priority for the Johnson administration, student aid was provided mainly in the form of Educational Opportunity Grants, which later became the Basic Education Opportunity Grants and, in 1980, the Pell Grants.

Before 1965, most public colleges and universities depended on state appropriations aimed at keeping tuitions low. Private, non-profit colleges depended on tuition revenue and private gifts. Both sectors were exempt from paying taxes. HEA 1965 added large-scale federal tax support for students attending both public and private colleges.

The Evolution of HEA

President Johnson was able to generate bipartisan support in the Congress for the original HEA because the act focused on reducing college attendance barriers for youth from low-income and minority backgrounds. Subsequently, nine sets of amendments adjusted the act to the changing political environment. During its first 13 years, the act focused on equalizing access through grant aid to students from low-income backgrounds in order to support upward mobility.

HEA 1968

The first reauthorization solidified and expanded student aid programs. It increased the participation of lenders and guarantee agencies in the Guaranteed Student Loan (GSL) program and the National Defense Student Loan (NDSL), later renamed the National Direct Student Loan. The Johnson administration also sought to increase private sector investment in student loans, but banks were unwilling to lend to students who lacked traditional kinds of collateral (e.g., money, stocks, real estate, and credit ratings). The act also established the TRIO program to provide students with academically oriented support after enrollment in college.

HEA 1972

Bipartisan support for student aid continued during the Nixon administration. The Basic Education Opportunity Grant program (known as the Pell Grant program after 1980) was the most important new development. Grants remained the predominant form of federal aid, but President Nixon changed the overall system by distributing grants directly to students rather than through institutions, thereby altering dramatically the overall strategy for expanding access to higher education. The Johnson administration distributed student aid largely through institutions in ways compatible with a low-tuition strategy; the Nixon administration gave aid directly to students which were more compatible with a market-oriented, high-tuition strategy favored by some prominent economists and advocates of private higher education.

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The Evolution of HEA

HEA 1976

The 1976 amendments, passed during the Ford administration, fine-tuned student aid eligibility requirements, increased maximum grants, and increased limits on borrowing from the GSL program.

Grant aid exceeded aid in the form of loans throughout the act's first years of existence.

HEA 1978

Beginning with HEA 1978, and continuing through HEA 1992, loans became an increasingly critical part of the student financial aid package. This reauthorization shifted from targeting federal aid to low-income students to expanding aid for students from middle-income backgrounds. Ultimately, this vastly expanded the federal role in financing higher education by, in effect, providing need-based aid to most college students.

Also known as the Middle Income Student Assistance Act (MISAA), HEA 1978 was criticized for diverting grant aid away from low-income students and shifting the burden of paying for college from parents to students. During this period, income-based requirements for borrowing from the GSL program were relaxed, which caused an explosion of borrowing by middle- and upper-income students at below-market interest rates.

HEA 1980

The Carter administration attempted to retarget federal student aid to low-income students and reduce student borrowing by providing unsubsidized loans to parents, raising interest rates, and reinstating income ceilings on student loans.

None of these efforts succeeded in slowing student borrowing.

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The original Higher Education Act of 1965 was born out of President Lyndon Johnson's Great Society movement, which involved the federal government in the day-to-day delivery of education, a responsibility previously assigned solely to the states by the 10th Amendment. This represented a massive policy change. The following quotation illustrates the political logic that earned bipartisan support for the act:

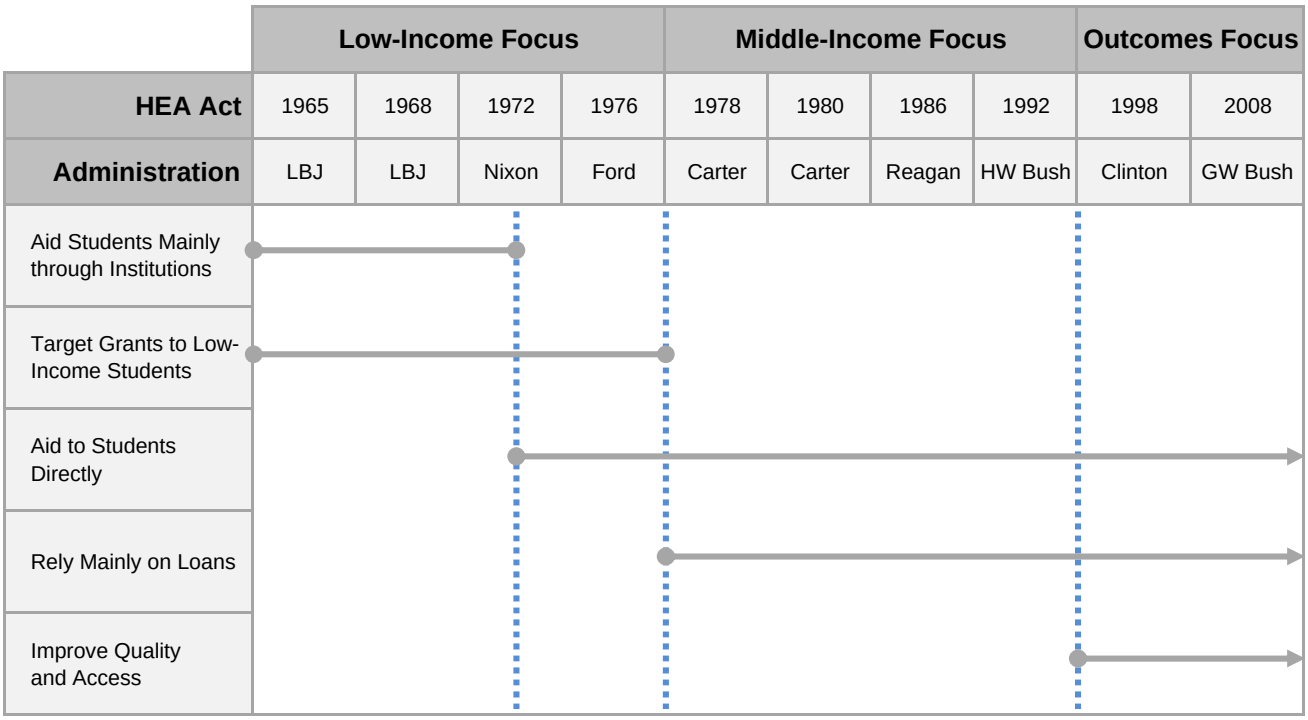
> The Act … tied aid to national concerns about poverty and economic development; avoided religious conflict by targeting aid on students (including private school students) rather than institutions; and avoided conflict with the states by assigning them responsibility for administering the funds.[13]

Between 1965 and 1972, the federal government primarily distributed funding for low-income students directly to institutions which then awarded grants according to widely varying methods for determining eligibility. This process continued through the Nixon and Ford administrations; but, by 1972, improvements in needs analysis methods made distributing federal dollars directly to students feasible at a time when higher education institutions were increasingly unpopular because of violent opposition to the Vietnam War on many college campuses. For these reasons, the amendments enacted during the Nixon administration established a federal formula to determine eligibility and redirect the flow of aid directly to students rather than institutions.

> The amendments enacted during the Nixon administration… redirect[ed] the flow of aid directly to students rather than institutions.

The practice of targeting aid primarily to low-income students diminished after the Ford administration's reauthorization. During the Carter, Reagan, and H.W. Bush reauthorizations, income restrictions on eligibility to receive aid eased and loans replaced grants as more and more students became eligible to receive aid. This spurred controversy over whether the original intent to promote upward social mobility was being eroded by aid to middle-income students. Some people assumed, while others argued the opposite, that middle-income students would have found ways of financing college without federal aid. Efforts to resolve this controversy may explain why, during the Clinton and G.W. Bush reauthorizations, emphasis

Figure 1
Summary of the Political History of the Higher Education Act



Note: Across the top, three major eras—*low-income focus*, *middle-income focus*, and *outcomes focus*—are identified and, within each of these eras, the legislative action years and their associated presidential administrations. Vertical lines identify when important policy changes occurred. The left-hand column identifies important themes governing the distribution of federal student aid, and associated horizontal lines indicate periods in which they prevailed.

shifted from evaluating individuals who receive aid to evaluating the inputs, processes, and outcomes of the total higher education finance system.

Until August 2008, the Higher Education Act operated in accordance with HEA 1998. Efforts to pass new amendments intensified after the 2006 elections, following the ousting of Republican majorities in both the U.S. Senate and House of Representatives. But the change in party control did not lessen bipartisan concerns during the last two federal administrations about the efficiency and effectiveness of the postsecondary financing system. HEA 2008 continues a bipartisan consensus since 1998 that federal and state governments, colleges and universities, and lending institutions should do what each is best equipped to do to increase higher education access and student success.

Figure 1 summarizes the evolution of the original Higher Education Act and its subsequent amendments.

The Evolution of HEA

HEA 1986

With HEA 1986, the Reagan administration intended to reverse MISAA by retargeting aid to low-income students and toughening loan eligibility requirements. However, this effort stalled after the Congressional Budget Office released new data showing that the administration's recommendations were seriously flawed and that enacting their proposals would have the opposite of its intended effects.[14] The administration ended up adding unsubsidized loan programs for parents and students and renamed the NDSL program the Perkins Loan program after Congressman Carl. D. Perkins.

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The Evolution of HEA

HEA 1992

The George H.W. Bush administration re-emphasized grant aid by raising Pell Grant maximums for low-income students. However, increases failed to keep up with college costs, thereby further increasing reliance on loans.

In response to rising loan default rates, the administration attempted to channel middle- and upper-income students to unsubsidized Stafford Loans (an offshoot of the original GSL program) because loan subsidies were often perceived to benefit banks as much as students. This led to an experimental direct lending program whereby the federal government bypassed lenders and provided loans directly to students.

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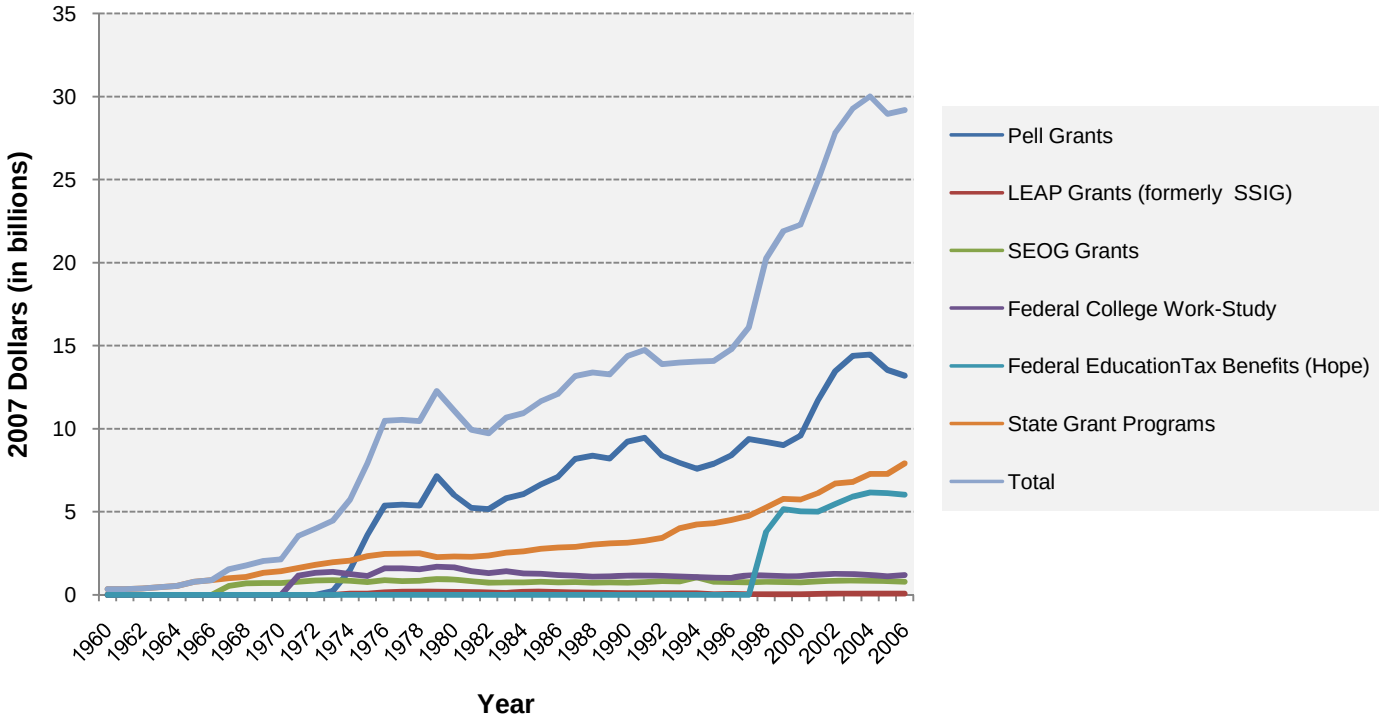
Investment Patterns

HEA 1965 fundamentally changed investment in postsecondary education. Figures 2 through 5 display the total growth of investment in student aid since 1960.

Gift Aid

Figure 2 shows investment in aid available to all undergraduate students who, except for tax benefits, qualify on the basis of demonstrated financial need and who are not required to repay what they receive (hereafter called *gift aid*). These include need-based grants, work study jobs, and non-need-based tuition tax credits.[15] Between 1972 and 1980, there were sharp increases in federal Pell Grants. After that, Pell Grants continued to grow, but less rapidly, from $5 billion in 1980 to about $14 billion in 2006. State student aid programs varied and continue to vary in amounts and purposes. A major purpose in many states is to help state resident students attend private as well as public colleges. State student aid is somewhat categorical, but most of it is awarded on the basis of demonstrated financial need.

Figure 2
Gift Aid, 1960-2006



Source: Data taken from *Trends in Student Aid* reports, part of the *Higher Education Trends Series* published annually by the the College Board, available at http://www.collegeboard.com/html/costs/aid/.

Funding for College Work Study has remained low and flat since the early 1970s despite research showing it is more effective than other forms of aid in helping students succeed in college.[16] Other federal non-categorical aid awarded on the basis of financial need (Supplemental Education Opportunity Grants and LEAP, formerly State Student Incentive Grants) has also remained essentially level. Another form of non-repayable federal aid, Federal Education Tax Benefits (i.e., tuition tax credits otherwise known as Hope Scholarships), was added in 1997. Tuition tax credits, which first appeared in 1998, have since grown from $4 billion to $6 billion. Overall, federal and state gift aid totaled roughly $30 billion in 2006, most of it in the form of Pell Grants, state student aid, and tuition tax credits.

Loans

Figure 3 shows that non-categorical aid in the form of *loans* (federal, state, and private) has grown much more than gift aid. Federally guaranteed student loans (originally GSL, but lately known as Federal Family Education Loans—some with in-school tuition subsidies and some without) grew from $5 billion in 1970 to $48 billion in 2006. Investment in National Defense Student Loan (NDSL) and State Sponsored Loans has remained flat at about $2 billion for each program.

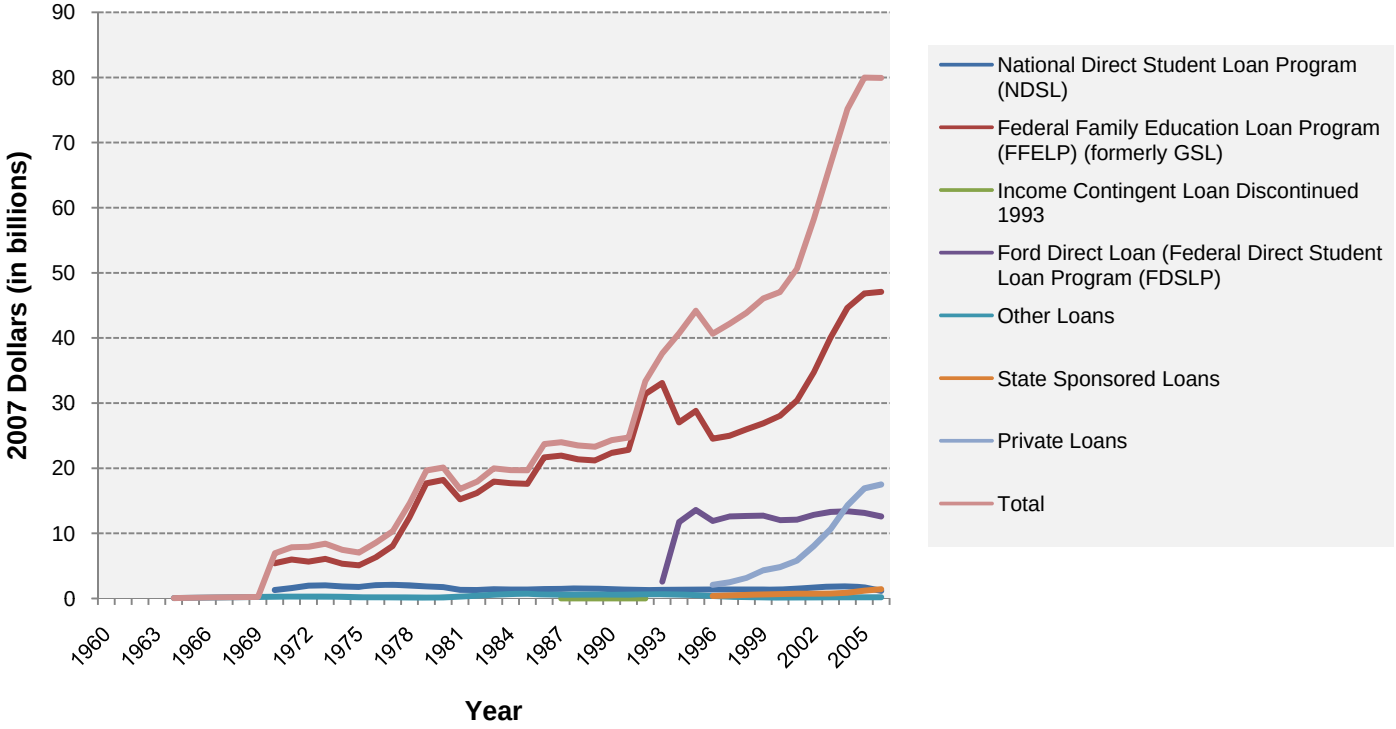
The Evolution of HEA

HEA 1998 and Beyond

The Clinton administration's Omnibus Reconciliation Act of 1993 called for the expansion and formalization of direct lending to students with federal funds over lending through subsidized private banks. The administration also made federal tuition tax credits (Hope Scholarships) to the families of all students regardless of demonstrated financial need. The administration also called for more accountability for student outcomes through provisions in the Taxpayer Relief Act of 1997 and HEA 1998.

Amendments scheduled to pass in 2003 during the George W. Bush administration were delayed due to the crisis of Sept. 11, 2001; the Iraq war; and Hurricane Katrina. The administration did, however, emphasize institutional accountability for student learning and the use of monetary and regulatory incentives to improve learning outcomes.

Figure 3
Loans, 1960-2006



Source: Data taken from *Trends in Student Aid* reports, part of the *Higher Education Trends Series* published annually by the the College Board, available at http://www.collegeboard.com/html/costs/aid/.

A brief experiment with income contingent loans began in the late 1980s but ended in 1993. After 1996, unsubsidized bank loans grew rapidly. Loans given directly to students from the U.S. Treasury, rather than private banks, rose sharply between 1990 and 1995 but leveled off at roughly $15 billion per year after that. As a whole, non-categorical loans from federal, state, and private sources totaled $80 billion in 2006, nearly three times more than all federal need-based, non-repayable aid.

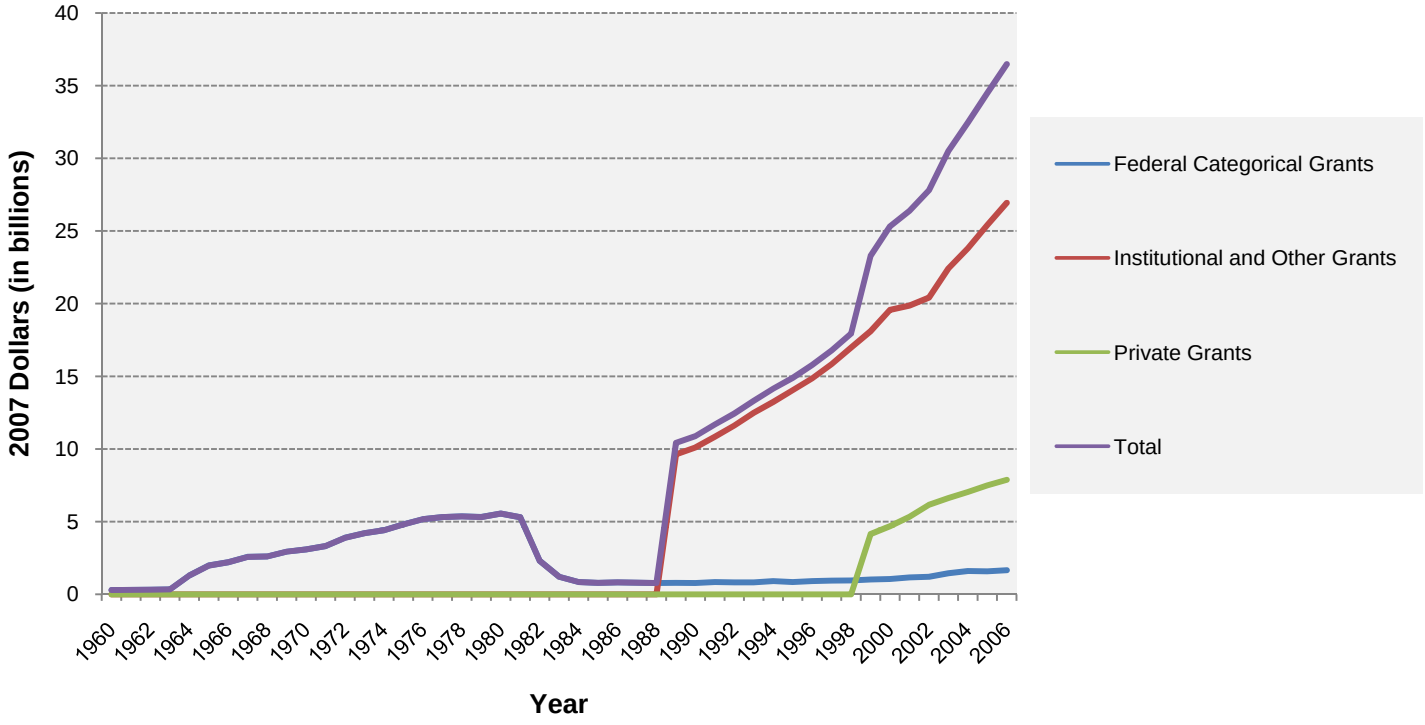
Categorical Grants

Figure 4 shows trends in federal, institutional, and private *categorical grant* programs totaling $36 billion, $6 billion more than the gift aid shown in Figure 2. Federal grants target specific types of students, such as those in the health professions, recipients of academic scholarships, employees of companies, Reserve Officers' Training Corps (ROTC), and military veterans.

Since 1988, there has been a sharp increase in grants awarded by colleges and universities. Institutional aid existed long before then, but this information was not reported by the College Board, the most authoritative source of timely public information about student aid expenditures. Institutional grants are difficult to categorize. Many institutions award them on the basis of demonstrated financial need, much like need-based federal grants. However, there has been a growing tendency in recent years to use institutional aid to attract certain types of students, such as high-ability students, athletes, or students representing different cultures or geographic regions. For this reason we classify institutional grants as categorical grants.[17]

Since 1988, there has been a sharp increase in grants awarded by colleges and universities.

Figure 4
Categorical Grants, 1960-2006



Source: Data taken from *Trends in Student Aid* reports, part of the *Higher Education Trends Series* published annually by the the College Board, available at http://www.collegeboard.com/html/costs/aid/.

Another pre-existing but only recently reported form of aid is grants made by private companies to cover tuition and fees paid by employees. These private grants totaled $8 billion in 2006, which is roughly as much as state student aid (as shown in Figure 2). Funding for federal categorical aid grew slowly in recent decades, but this may change as veterans of the conflicts in Iraq and Afghanistan take advantage of recently expanded veterans' education benefits.

Growth in Tuition Revenue in Relation to Aid

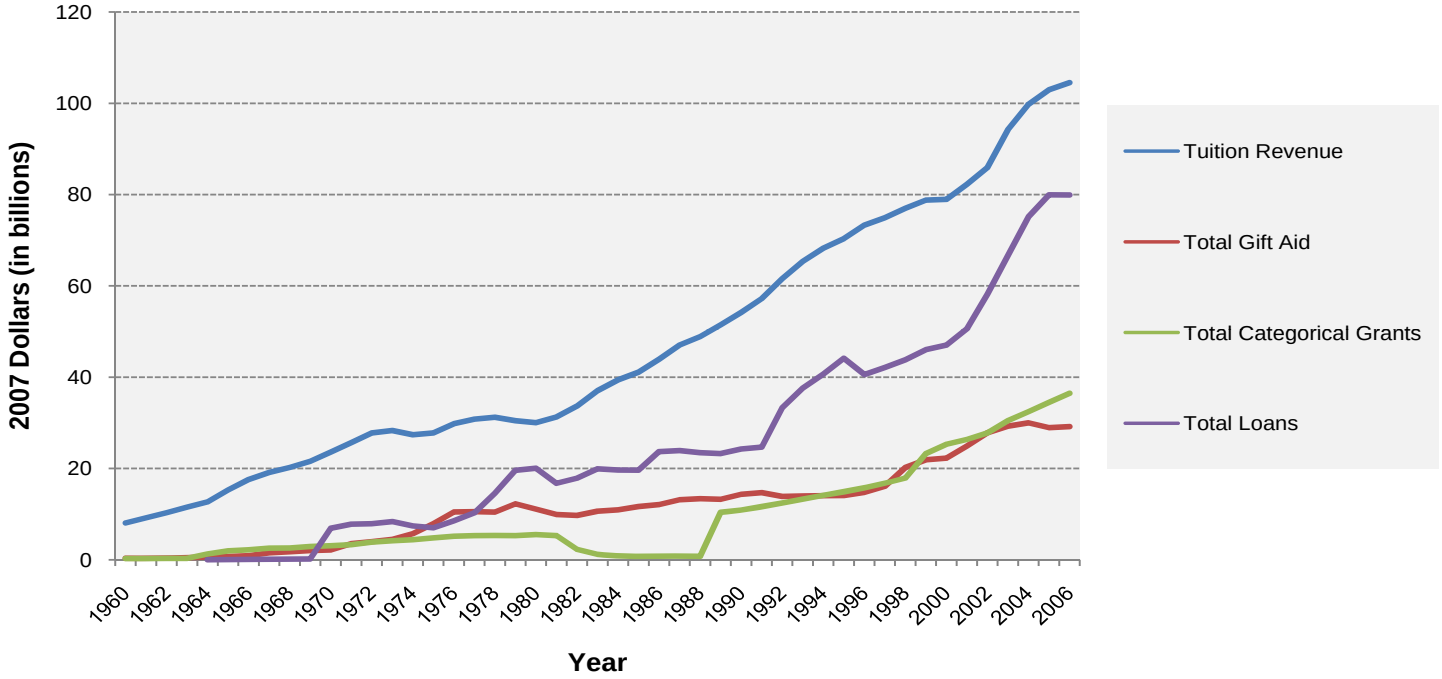
Figure 5 compares growth in tuition revenue with growth in gift aid and student loans (totals shown in Figure 2), as well as categorical grants (total shown in Figure 4). Note that tuition revenue increased from $8 billion in 1960 (in 2007 dollars) to $108 billion in 2006. According to the College Board, on a per-student basis, tuition in 2007 cost $23,712 at private four-year institutions, $16,640 for non-state resident students at public institutions, $6,185 for state resident students at public four-year institutions, $2,361 at public two-year institutions, and $12,089 for students attending for-profit institutions.[18]

The continuing shift from gift aid to loans has stimulated the debate over whether loans encourage college degree attainment by providing access to capital needed to realize higher future earnings or dissuade potential students from attending because of the fear of academic failure and excessive future debt. (See sidebar "Debate: Loans and Student Motivation," page 12).

Countries producing high levels of human capital vary in their approaches to financing higher education, but all their institutions charge substantially lower tuition than in the U.S. ($5,000 or more in 2004-05). Canada, Australia, and Israel have tuition and student aid profiles somewhat similar to the United States, while Japan and Korea rely more heavily on family and the private sector for student support. However, in all five of these countries, tuitions in constant U.S. dollars average between 20% and 40% less than in the

Figure 5

Total Tuition Revenue, Gift Aid, Categorical Grants, and Loans, 1960-2006



Source: Data taken from *Trends in Student Aid* reports, part of the *Higher Education Trends* series published annually by the College Board, available at http://www.collegeboard.com/html/costs/aid/. Tuition revenue data from higher education revenue and expenditure data as reported in *The Condition of Education*, published by U.S. Department of Education, available at http://nces.ed.gov/programs/coe/. Data since 1995 were estimated by using annual percentage increases in tuition as reported by the College Board. The U.S. Department of Education discontinued revenue and expenditure reports for all higher education in 1995.

Debate: Loans and Student Motivation

There is an ongoing controversy related to student motivation to enter and complete a college education. The opposing viewpoints are explained below.

Loan Proponents' Argument

Student loans have special benefits that qualify students to receive credit, which they can use to pay for college even though they often lack the assets traditionally used as collateral for loans. Borrowing for college is considered a worthwhile investment because higher education often leads to higher lifetime incomes. Borrowing can motivate students to do well academically in order to gain the greatest benefits from their investment in college. It can also enable young people to establish good credit ratings that can be used after college to purchase homes or start businesses. In addition, federal student loans offer low interest rates, interest-only or deferred payments while students are in school, six-month grace periods before repayment begins, and lenient repayment terms thereafter. Although credit checks are required for private student loans, parents or guardians can co-sign with students, allowing students to benefit from their co-signers' good credit.

Loan Opponents' Argument

Student loans can dissuade students, especially those from low-income families, from enrolling because, even if they accept that they will forego income while in college, they will have to pay back what they borrowed after they graduate. The prospect of significant debt can increase chances of academic failure if it makes students work more than they should while in college in order to slow debt accumulation, or drop out because of rapidly escalating debt over four to six years of college. In situations where tuitions vary by program, borrowing can impact selections of major or type of profession according to program length and earning potential and steer students away from fields where there are numerous employment opportunities but low pay (i.e., education, social work, and various health care fields).

Borrowing can also discourage enrollment by women, who often do not have the same earning potential as men after college. Women may also be burdened by other major expenses, such as unsubsidized child care.

Borrowing can also pose special problems for graduate students: scholarships or other gift aid is often less available to them and many students complete their baccalaureate with substantial loans to repay. The prospect of facing two to five more years of study while accumulating more debt can be discouraging.[19]

United States. In the United Kingdom, New Zealand, and the Netherlands, tuitions averaged between 60% and 70% less than in the U.S. In Belgium, France, and Spain, tuition is between 80% and 95% less. Finally, in Denmark, Finland, Iceland, Ireland,[20] Norway, and Sweden, tuition is free and student aid is also available.[21]

Some economists in the U.S. have often argued against keeping tuition low due to questions of efficiency. Low tuition benefits students from high-income families more than students from low income families because the former can afford to pay more for college than the latter. It would be better, they argue, to provide aid to students rather than institutions according to the individual student's or family's ability to pay.

American higher education has been heavily influenced by high tuition/high aid arguments since 1972 when the Nixon administration began channeling federal student aid directly to students rather than through institutions. However, federal funds have consistently fallen short of what it would take to fully implement a high tuition/high aid system. The approach has, nevertheless, often seemed large enough to justify reductions in state support for public higher education. This has also provided higher education institutions with a plausible argument for raising tuition because it is assumed that student aid will compensate for tuition increases.

All forms of student aid are meant to help students pay for tuition and other education-related costs of attendance, such as books and living expenses. When these costs (roughly $8,000 for students attending public and private four-year institutions in 2007) are added to tuition, the need for aid becomes greater. Between 1964 and 2006, investment in loans rose from $46 million to nearly $80 billion.

All forms of gift aid (grants, work-study, federal tuition tax credits) rose from $359 million in 1960 to $30 billion in 2006. During this same period, categorical grants grew to $36 billion. If we add gift aid and categorical grants, the total comes to $66 billion, only $14 billion less than the total for loans. However, less than half of the total non-repayable aid goes to students who qualify on the basis of demonstrated financial need. The rapid rise in tuition revenue helps to explain the steep growth in student aid, except that the spread between tuition and gift aid has been widening since 1978 and students who qualify on the basis of need have become increasingly dependent on loans.

American Workforce Falling Behind

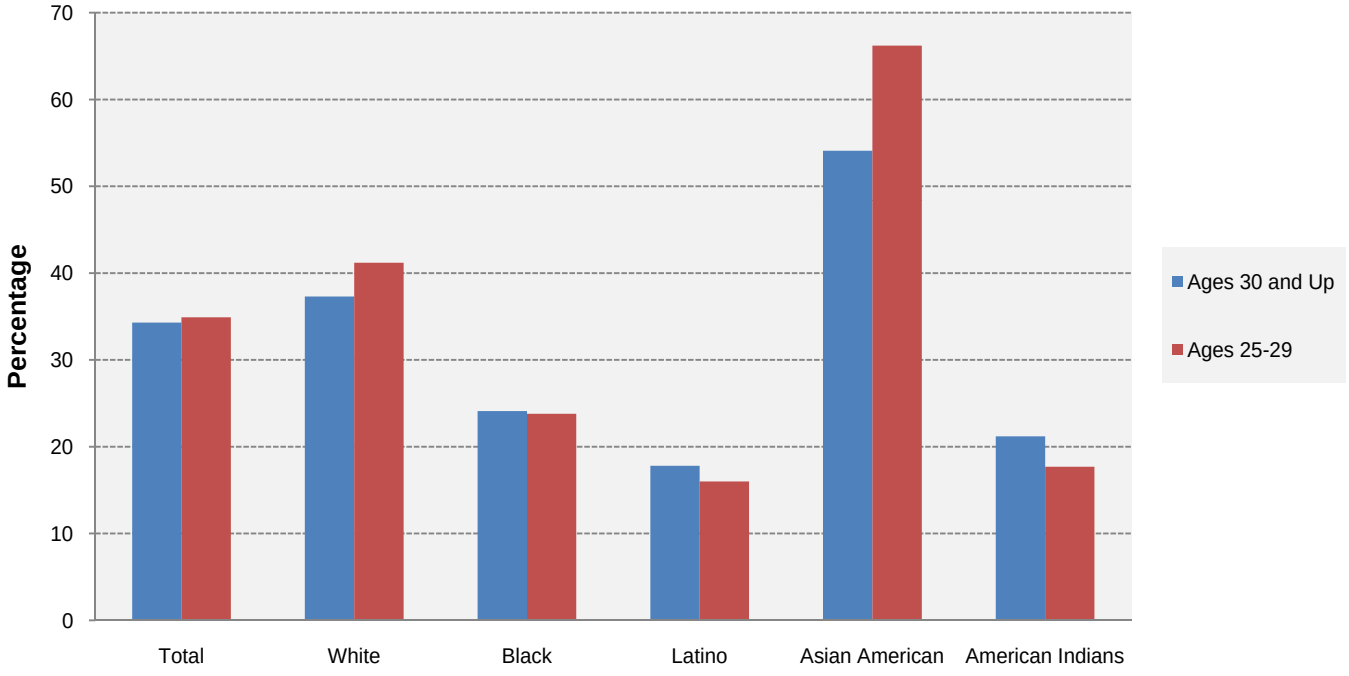
In order to produce educated citizens and skilled workers, the world's leading nations seek to motivate the children of virtually every family to devote the better part of their lives to learning. Economic and other barriers can undermine this education prerogative, especially for youth from families with lower than average incomes and educational attainments. Current concerns about the capabilities of the future workforce make it appropriate to compare minority and non-minority enrollment rates, since ethnic minority students, who account for a rising share of the workforce, tend to have lower average incomes than whites and lower educational attainment levels than the current workforce.[22]

Between 1972 and 2006, college enrollment among whites rose from 50% to 70%. Black and Hispanic student enrollment also increased, but only about half as fast as whites, from 45% to around 55%.[23] The extent to which student aid is responsible for the growth in college attendance is difficult to measure since rapidly rising rates of return on individual investment in higher education over the past several decades also plausibly explains the changes.

Comparing the percentages of minority and non-minority students earning associate and higher degrees in two age groups (25-29 and 30 and higher) increases our concern. Figure 6 shows higher percentages of 25-29 year old Asian American and white students earning degrees than those in the 30 and older group.

Figure 6

Educational Attainment: Percentage of Adults with Associates Degree or Higher, 2006



Source: American Council on Education, *Minorities in Higher Education 2008: Twenty-Third Status Report*, available at http://www.acenet.edu/.

Blacks, Latinos, and American Indians show an opposite pattern. In other words, students in these groups appear to be losing ground compared to their older peers. The U.S. is also falling behind in comparison to other countries in terms of increasing the percentage of college graduates over time. Compared to 21 other nations, Americans are fifth from the bottom in the percentage growth of 25-34 year olds completing degrees.[24]

In *The Race between Education and Technology*, Claudia Goldin and Lawrence Katz argue that during the twentieth century, the United States became the world's richest nation because "the co-evolution of educational attainment and the wage structure" had the effect of boosting income for most people and lowering inequality. But this no longer seems to be true. The educational slowdown has been accompanied by rising inequality. Columnist David Brooks, citing Goldin and Katz, observes:

> …in 1950 no European country enrolled 30 percent of its older teens in full-time secondary school. In the U.S., 70 percent of older teens were in school. America's edge boosted productivity and growth. But the happy era ended around 1970 when America's educational progress slowed to a crawl. Between 1975 and 1990, educational attainment stagnated completely. Since then, progress has been modest. America's lead over its economic rivals has been entirely forfeited, with many nations surging ahead in school attainment.[25]

Summary and Conclusions

HEA 2008 and the Goals of the Original Higher Education Act

Certainly, progress has been made in HEA 2008, but by itself, it is not enough to resoundingly endorse the existing system. President Johnson's goal was to expand the benefits of higher education to previously underserved populations and thereby further increase the country's leadership in developing human capital. But progress in this realm has been slower than intended.

Progress has been made in HEA 2008, but by itself, it is not enough to resoundingly endorse the existing system.

Perhaps slow growth in educational attainment is partly attributable to the unaffordability of college under the present system. But higher education attainment rates also depend on students' academic preparation at the K-12 education levels. Funding for schools and colleges must be adequate in order to recruit competent instructors and offer sufficient learning support systems. Additionally, colleges and universities need to be run effectively and efficiently. There is much room for improvement in both the K-12 and postsecondary systems. All the same, despite these concerns with preparation, financing postsecondary access remains highly relevant.

A great deal of federal, state, private, and institutional money has been invested in higher education for the purpose of expanding higher education opportunity. But need-based student aid has largely shifted from grants to loans, which have long been known to dissuade college attendance by debt-averse students from low-income backgrounds. At the same time, student aid has greatly increased, tuition has risen higher in the United States than in any other developed country, and need-based gift aid has not kept pace. Concern remains that the cost of attendance is dissuading some students from attending college.

Higher education access and degree completion have, nevertheless, increased substantially since 1965. Enrollment of white high school completers in college increased by 20% compared to 10% for African American and Latino completers.[26] The extent to which improvement resulted from increased student aid is difficult to determine since there were also high rates of return on individual investments in higher education during most of the period since 1965 (e.g., incentives to enroll because of high paying jobs for college graduates). Still more puzzling, Goldin and Katz observe that, since around 1970, the rate of increase in educational attainment in the United States has diminished sharply compared to other nations.

HEA 2008's Likelihood of Improving the System

HEA 2008 attempts to make college affordable through increases in federal student aid and enhancements in the coordination of accrediting agencies, colleges and universities, federal and state governments, private lenders, and others. But it will only be successful if it helps restore the nation's world leadership in the production of human capital.

> HEA 2008...will only be successful if it helps restore the nation's world leadership in the production of human capital.

A 2004 WISCAPE study surveyed leading higher education researchers and analysts in anticipation of the new HEA amendments and concluded with three recommendations: 1) base policy on the best available research on factors affecting access, retention, and graduation; 2) work closely with K-12 institutions to better prepare youth to succeed in college; and 3) avoid wasteful and costly polices that do little to eliminate barriers to student access and success.[27] When viewed through these lenses, HEA 2008 has both strengths and weaknesses.

On the positive side, HEA 2008 views higher education as a system that relies on effective collaboration among important, interdependent internal and external parts whose overall aim is to help students gain access to and succeed in college. Students will obviously be better served if all the parts work in unison towards increasing student access to and success in college. This adds a new dimension to the overall improvement effort. The systems view is also supported by what is known from research on determinants of access, retention, and graduation.

However, one great weakness of HEA 2008 is wasteful complexity. This threatens to undermine the entire effort. The many iterations of the reauthorization process have resulted in programs without leverage for attaining goals. There are poorly thought out reporting requirements that add unproductive overhead, which contributes little toward eliminating barriers to student access and success. The amendments also fail to make a concerted effort to tap the available research (including research in other countries) and use the findings to shape the reauthorization.[28]

Another weakness is unwillingness among key participants to contribute. Higher education advocates often object to what they view as excessive reporting requirements and a perceived loss of institutional autonomy. The National Governors Association opposes the state maintenance of effort requirements and requested release during the regulation writing phase of the reauthorization process (a request the Secretary of Education rejected on January 9, 2009). In addition, private lenders complain about changes affecting them. It therefore remains to be seen whether HEA 2008 succeeds as a collective effort.

Compounding the act's inherent weaknesses, the recent market failure, has brought about the worst economic downturn since the Great Depression and may greatly diminish the nation's ability to adequately finance higher education. Lawrence White observes that

> all of the investment and savings vehicles that parents and independent students traditionally use to pay college expenses—appreciated home values, prudently invested savings, private and government loans, lines of credit—have evaporated, making it considerably more difficult for millions of Americans to finance the cost of higher education.[29]

Recommendations

Lower the net cost of college attendance while lessening dependence on student loans

The United States is not likely to catch up with other developed nations if it charges students substantially more to attend college. HEA 2008 cannot do more than it authorizes, but the current economic crisis may offer additional leverage for change.

The federal government is developing multi-billion dollar rescue packages aimed at rebuilding the nation's economic infrastructure. In this context, high priority should be given to rewarding states for adequately funding instruction through HEA 2008's College Access Challenge Grant Program and the American Recovery and Reinvestment Act of 2009. This would help colleges and universities lessen dependence on tuition revenue. Funding for Pell Grants should also be increased in order to decrease dependence on loans.

Simplify and strengthen HEA 2008 by prioritizing implementation

Focused collaboration among state and federal governments, colleges and universities, lending agencies and other private sector enterprises, all aimed at improving chances of attending and succeeding in higher education, is a central to success. To that end, regulations should be developed as quickly as possible on portions of the legislation that facilitate close teamwork among participants in the total higher education financing system (e.g., improvements to federal funding, state maintenance-of-effort provisions, institutional accountability for tuition increases, and participation terms for lending agencies).

The next implementation priority should include efforts to improve instruction, followed by the elimination of all extraneous programs and institutional reporting requirements that lack leverage to substantially improve higher education opportunity

Political advocacy too often trumps research in educational decision-making.

Increase the use of research on issues central to higher education access and academic success in policymaking

Political advocacy too often trumps research in educational decision-making. Between now and the next reauthorization, we need to rethink the assumptions about how to grow human capital and to forge a new direction based on the best possible information.

The Organization for Economic Co-operation and Development (OECD), in its 2008 report, *Tertiary Education for the Knowledge Society*,[30] contains a comprehensive review of what has been learned from research in many developed nations, including the U.S., and lessons from putting research into practice on higher education topics including governance, funding, quality, equity, innovation, and student learning. American researchers are well represented, along with excellent researchers from other countries that we hear little of in the United States. Useful examples of how to go about fulfilling this recommendation can be found in this report.

Provide crucial information that is currently unavailable to analysts, policymakers, and interested citizens

The Department of Education creates and maintains databases that researchers can use to illuminate factors affecting student access and success, but it has failed to report basic information, such as higher education revenue and expenditure data since 1995. This makes it difficult to compare revenues to institutional outcomes and thereby answer simple questions (e.g., what kinds of institutions are producing how many students at what cost?).

In this paper, it was necessary to estimate increases in total tuition revenue since 1995 in order to establish as basis for a meaningful comparison between the growth of tuition revenue and the various forms of student aid. State-generated data is also seriously lacking. As Dennis P. Jones, president of the National Center for Higher Education Management Systems, recently said:

> In just a few weeks, state legislatures will convene to face the biggest budget crisis in a generation. Unfortunately, they will have to make difficult decisions about priorities without the benefit of better information about the most urgent needs for getting more students to and through college at a price they can afford. This makes it more likely that we will see the usual responses—raising tuition, capping enrollment, cutting across-the-board—that will put states further behind in the race to grow a competitive work force.[31]

Our nation appears to have wandered off course in fulfilling the Higher Education Act's original goals to broaden college access and increase student success. The basic premise of HEA 2008 holds that getting back on course requires federal and state governments, K-12 schools, technical colleges, colleges and universities, accrediting agencies, private lenders, parents, and students to each contribute what they are best equipped to contribute. This makes good sense, but achieving the goals requires more. The workings of the total system need to be more transparent, focused, and aligned so that systemic failings can be more easily identified and corrected. Our recommendations point to areas where important improvements can be made.

Notes

[1] The authors wish to acknowledge Jennifer A. Delaney, Robert H. Fenske, and W. Lee Hansen for reading and criticism of earlier drafts and Nik Hawkins for criticism and editorial input. Responsibility for errors and omissions remain with the authors.

[2] Lyndon B. Johnson, "Remarks on Signing the Higher Education Act of 1965," (speech, Southwest Texas State College, San Marcos, TX, November 8, 1965, http://www.txstate.edu/commonexperience/lbjresources/higheredact.html.

[3] Claudia Goldin and Lawrence F. Katz, *The Race between Education and Technology* (Cambridge, MA: Harvard University Press, 2008), 488.

[4] In the 110th Congress, this legislation was titled H.R. 4137, The Higher Education Opportunity Act.

[5] Doug Lederman, "HEA: A Huge, Exacting Accountability Bill," *Inside Higher Ed*, August 1, 2008, http://www.insidehighered.com/news/2008/08/01/hea.

[6] Ibid.

[7] For more detailed summaries of the HEA 2008 see the following reports: American Council on Education, *ACE Analysis of Higher Education Act Reauthorization*, August 2008, http://www.acenet.edu/e-newsletters/p2p/ACE_HEA_analysis_818.pdf, and Midwest Higher Education Compact, *2008 Higher Education Act Reauthorization*, http://www.mhec.org/pdfs/mhec08heareauthorization.pdf.

[8] At the time of this writing, the Secretary of Education for the outgoing G.W. Bush administration initiated the second phase when on January 2, 2009 it released draft implementing regulations for public comment. The Obama administration will complete the regulation writing process. Important changes may yet take place during the remaining regulation writing and funding phases of the reauthorization process.

[9] Student aid increases resulted primarily from decreasing $18.75 billion in subsidies and other benefits formerly available to private lenders and guarantee agencies.

[10] Easier said than done.

[11] See Sarah Hebel, "Colleges and Students Cheer Congress's Economic-Stimulus Deal," *The Chronicle of Higher Education*, February 13, 2009, http://chronicle.com/daily/2009/02/11611n.htm. "To be eligible to receive money for colleges under the stabilization fund, states would have to meet a minimum bar for spending on higher education, giving their public colleges at least as much in the 2009 and 2010 fiscal years as they spent on them in the 2006 fiscal year. States facing serious financial difficulties could seek a waiver from the secretary of education."

[12] Large scale federal involvement in funding higher education did not begin with the passage of HEA 1965. George Washington wanted to found a national university that could enhance the nation's culture and reputation. Thomas Jefferson foresaw a three-level educational system—education for everyone, education for leaders, and education for technical experts—that evolved into the present-day system of K-12, undergraduate, and graduate education and student financial aid. Political differences among the states blocked creation of a national education system. Nevertheless, the federal government early on awarded land grants for public colleges and universities and tax exemptions for public and private institutions. Programs aimed at lessening the grip of the Depression and World War II added Social Security education benefits and G.I. Bill grants to cover the tuition and living expenses of military veterans. Annual appropriations for expanding access to higher education began with the enactment of HEA 1965.

[13] Angelica Cervantes, Marlena Creusere, Robin McMillion, Carla McQueen, Matt Short, Matt Steiner, and Jeff Webster, *The Higher Education Act: Forty Years of Opportunity: Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later* (Round Rock, TX: Texas Guarantee Student Loan Corporation, 2005), 20, http://www.tgslc.org/pdf/HEA_History.pdf.

[14] See Julianne Still Thrift and Christopher M. Toppe, *Paying for College: Trends in Student Financial Aid at Independent Colleges and Universities* (Washington, D.C.: National Institute of Independent Colleges and Universities, 1985), and Jacob O. Stampen, *Student Aid and Public Higher Education: Recent Changes* (Washington, DC: American Association of State Colleges and Universities, 1985). The databases supporting these reports were combined and submitted to the Congressional Budget Office. The data for the first time displayed unduplicated counts of aid recipients, which made it possible to identify and assess aid packages for students at private and public colleges, along with major changes in student financial aid between 1979 and 1984.

[15] Student aid is composed of an exceedingly complex array of programs, policies, and procedures, which makes it difficult to categorize them in ways that are meaningful and easy to explain. For example, we place the small federal college work-study program in our gift aid category in order to simplify discussion even though work study-jobs are obviously not gifts.

[16] After college work study, grants and tuition were next most effective, followed by loans. See Stampen, J. O., and Cabrera, A. F., "The Targeting and Packaging of Student Aid and its Effect on Attrition," *Economics of Education Review* 7, no. 1 (1988): 29-46.

[17] A more accurate representation of amounts invested in gift and categorical grants requires better information than is presently available about the proportions of state and institutional aid that are awarded on the basis of demonstrated financial need. Because we were unable to find such information, we labeled state grants as gift aid and institutional grants as categorical aid. In any case, we estimate that precise divisions between gift and categorical grants for each type of aid would roughly approximate the amounts shown in the gift and categorical grant totals.

[18] The College Board, *Trends in College Pricing 2007*, http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf.

[19] A summary of arguments by Robert H. Fenske in "A Brief Primer on Student Financial Aid," in *Report of the Commission on Student Costs and Financial Assistance* (Tempe, AZ: Arizona Board of Regents, December 1994).

[20] See http://www.educationireland.ie/ for a description of higher education institutions in Ireland. See http://www.studentfinance.ie/ for tuition and student aid programs in Ireland.

[21] Paulo Santiago, Karine Tremblay, Ester Basri, and Elena Arnal. *Tertiary Education for the Knowledge Society*, vol. 1, *Special Features: Governance, Funding, Quality* (Organization for Economic Co-operation and Development, 2008), 196.

[22] Patrick J. Kelly, *As America Becomes More Diverse: The Impact of State Higher Education Inequality*, (National Center for Higher Education Management Systems, 2005).

[23] U.S. Department of Education, Institute of Education Sciences, National Center for Education Statisitcs, *Digest of Educational Statistics 2007*, (Washington, DC: 2007), http://nces.ed.gov/programs/digest/d07/. See Table 192, "College Enrollment and Enrollment Rates of Recent High School Completers, by Race/Ethnicity: 1960 through 2006."

[24] *OECD Factbook 2008: Economic, Environmental and Social Statistics*, (Paris: Organization for Economic Co-operation and Development, 2008). Clifford Adelman, senior associate at the Institute for Higher Education Policy, recently criticized population ratio-based international comparisons, such as reported in the *OECD Factbook*. Adelman argues that the greater size and social complexity of the United States make higher learning in America look like it is doing worse than it actually is in national comparisons. While this may be true, it is also true that many other nations with increasingly diverse populations are making unprecedented efforts to increase the human capital yields of their higher education systems, and that higher percentages of their college age populations are earning associate or higher degrees than is presently the case in this country.

[25] David Brooks, "The Big Issue: Human Capital," *The Seattle Times*, July 30, 2008.

[26] U.S. Department of Education, Institute of Education Sciences, National Center for Education Statisitcs, *Digest of Educational Statistics 2007*, (Washington, DC: 2007), http://nces.ed.gov/programs/digest/d07/. See Table 192, "College Enrollment and Enrollment Rates of Recent High School Completers, by Race/Ethnicity: 1960 through 2006."

[27] Jacob O. Stampen and W. Lee Hansen, *Making the Nation's Investment in Student Access and Success*, parts 1 and 2 (Madison, WI: Wisconsin Center for the Advancement of Postsecondary Education, 2004), http://www.wiscape.wisc.edu/publications/researchreports/.

[28] W. Lee Hansen and Jacob O. Stampen, "Activating a Research-Based Approach to Reauthorizing the Higher Education Act" (Paper presented at the 22nd Annual Student Financial Aid Research Network Conference, Chicago, IL, June 9-11, 2005).

[29] Lawrence White, "How the Economic Hard Times Will Affect Colleges," Point of View, *The Chronicle of Higher Education*, November 12, 2008.

[30] *Tertiary Education for the Knowledge Society*. 3 vols. (Paris: Organization for Economic Co-operation and Development, April 2008).

[31] Denis P. Jones, "The Information Gap: Much Talk, Little Progress," *Inside Higher Ed*, November 21, 2008, http://www.collegeboard.com/html/costs/aid/.

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