The State of Higher Education: How Students Access and Finance a College Education

Testimony of David W. Breneman, March 8, 2007

Mr. Chairman, members of the committee, I am pleased to have the opportunity to present my views on the topic of this hearing. Let me clarify that I am testifying on my own behalf as an economist who has written about higher education for over 35 years, and who has served as an administrator in both private and public institutions. My remarks, as requested, will focus on my work over the past decade as chair of an advisory committee to the National Center on Public Policy and Higher Education, a non-partisan, foundation-sponsored independent entity. The National Center has produced four national report cards on higher education performance, the most recent being Measuring Up 2006, copies of which I believe you have. I will note the highlights of this most recent report, and add some comments of my own.

The series of Measuring Up reports are best understood as a benchmarking exercise evaluating empirically the performance of our 50 state systems of higher education. Please note that the unit of evaluation is the state, not the institutions individually, and that all components of the postsecondary sector in each state are included. The report evaluates each state in six categories: preparation, participation, affordability, completion, benefits, and learning. A number of data indicators, 35 in total, undergird these categories, and the grades assigned in each category are determined through a weighted average of the individual indicators. The states are ranked from best to worst performance, and grades are assigned accordingly. Policy recommendations are not included.

The purpose of these reports is to provide each state with an empirical measure of how it stacks up against the other states, designed to encourage further investigation in the states about aspects of performance that need improvement. In the 2006 report, a new, international dimension was added, as we were able to add similar data from 26 OECD member countries. It was our view that the global economy requires each state to consider not just how its performance compares with the other states but with other developed nations as well. The results from that additional information were stunning.

The first finding was that for older citizens (ages 35 to 64), the U.S. lags only Canada in the percentage of adults with college degrees, Canada having 41% compared to the U.S. 39%. When one looks at younger adults, however, (ages 25 to 34), the U.S. drops to 8th place, behind Canada, Japan, Korea, Finland, Norway, Sweden, and Belgium. Clearly, the early advantage this country had historically in assuring mass higher education for the "baby boom" generation has eroded, as other countries have overtaken us in the production of educated talent.

When one turns to college participation rates of students aged 18 to 24, Korea leads the list at 48%, with the U.S. fifth at 35%. Finally, the U.S. ranks in the bottom half – 16th among the 27 countries compared – in the proportion of students who complete college degree or certificate programs. These data alone should shock us out of the complacent view, long held, that U.S. higher education is the envy of the world.

The other key findings in the 2006 report are that while middle and secondary school preparation for college has shown some improvement from the early 1990s, participation and completion rates have been flat. Nor have the large gaps in college attendance that correlate with either income or race and ethnicity been narrowed. Finally, the report's measure of college affordability gives precision to the widely-recognized fact that the cost of college is rapidly outstripping the ability of many families to pay. Indeed, by our measures, virtually every state received either a D or an F grade on affordability.

Members of this committee are well aware of the serious efforts being made at the federal, state, and local levels to improve student performance in K-12 education. No Child Left Behind is the signature program for this effort. Yet it must seem obvious that the country is sending decidedly mixed messages to young people, encouraging them on the one hand to prepare for college, and then pricing many of the less wealthy either out of the market, or forcing them to alter their choice of college, to work long hours while enrolled, or to incur substantial debt. Let me conclude my remarks with a few thoughts on this conundrum.

The reasons for rising tuitions are complicated and would require a separate hearing to explore. Competing priorities in state government budgets have meant that the days of low or no tuition are behind us, never to return. One result has been rising public tuitions, putting an end to one of the oldest state policies to assure affordability. The Pell Grant program was enacted in 1972, when public tuition levels were still very low, and a few among us may be old enough to remember that the original Basic Educational Opportunity Grant (as Pell was initially called), was designed to cover non-tuition costs. In short, that program was built on the assumption that states would maintain low tuition policies, and the federal government could help to cover other costs of attendance. That implicit understanding has long since broken down, with the result that the maximum Pell Grant has not kept up with the rising cost of college, as these costs have been shifted from the general taxpaying public to the student. Further muddying the water were the tuition tax credits passed in the late 1990s that broke with the long-standing pattern of concentrating federal funds on those of lowest income. Various forms of tax-favored savings and tuition futures plans from the 1990s further extended aid up the income scale.

The states have responded in part with their own student aid programs, but in several states these have taken the form of merit-based programs, modeled on the Georgia HOPE program, that are not targeted at the low income student. Institutions have vastly expanded their own aid programs, but again with much of the money allocated competitively to attract students to a particular campus through merit aid. Loan programs have proliferated, often part of an aid offer by the institution that is "preferentially packaged" to deliver more loan than grant aid to the less-competitive applicants, regardless of family income.

The resulting "system" of financial aid lacks coherence, and presents a barrier to students who lack the sophistication and guidance about how to navigate the multiple and overlapping federal, state, and institutional programs. I commend Secretary Spellings and Deputy Secretary Tucker in working toward simplification of the federal programs, and I hope this committee encourages and supports such efforts. (I also hope that the core federal commitment to need-based aid is sustained.) No panacea is obvious, however, because the system has evolved as it has in response to various political pressures that are unlikely to go away. The fact that no obvious forum exists where federal, state, and institutional policies can be worked on simultaneously renders the problem of coherence elusive. But understanding how the "system" works (or fails to work) is the first step toward meaningful reform.

Let me close by noting one further anomaly in the market for higher education. In normal markets, competition among suppliers tends to keep prices down. Higher education operates in an intensely competitive market, but the effect of competition in this case leads to higher, rather than lower, prices. Why is that so? No traditional college or university seeks to increase its market-share of total enrollments—there are no potential Wal-Marts in the non-profit sector of higher education. Indeed, few traditional institutions today seek to expand. Rather, the competition is for quality, prestige, and selectivity, and the resulting status competition conveys a clear advantage to those institutions at the top of the pecking order. Wealthy parents then seek to enroll their offspring in the most prestigious institutions, and those colleges and universities further down in the pack strive to enhance their own standing in this ranking, so dutifully reported each year by U.S. News & World Report. Increased competition, therefore, is not the solution to rising prices in this market, and workable regulatory mechanisms have eluded state and federal officials as well. Ensuring affordability is far from a simple problem, and yet the country must find ways to maintain educational opportunity, or we will all be the losers.