

COLLEGE ACCESS: IS GOVERNMENT PART OF THE SOLUTION, OR PART OF THE PROBLEM?

HEARING

BEFORE THE

COMMITTEE ON EDUCATION
AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES
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FIRST SESSION

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C O N T E N T S

	Page
Hearing held on April 19, 2005	1
Statement of Members:	
Boehner, Hon. Jon A., Chairman, Committee on Education and the Workforce	1
Prepared statement of	4
Miller, Hon. George, Ranking Member, Committee on Education and the Workforce, prepared statement of	6
Scott, Hon. Robert C., a Representative in Congress from the State of Virginia	5
Statement of Witnesses:	
Heller, Dr. Donald E., Associate Professor and Senior Research Associate, The Center for the Study of Higher Education, The Pennsylvania State University, University Park, PA	17
Prepared statement of	21
Vedder, Dr. Richard K., Distinguished Professor of Economics, Ohio University, Athens, OH	7
Prepared statement of	10

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Tuesday, April 19, 2005
U.S. House of Representatives
Committee on Education and the Workforce
Washington, DC

The Committee met, pursuant to notice, at 2:05 p.m., in room 2175, Rayburn House Office Building, Hon. John Boehner (Chairman of the Committee) presiding.

Present: Representatives Boehner, McKeon, Castle, Kline, Price, Fortuno, Boustany, Drake, Kildee, Scott, Tierney, Kucinich, Holt, Davis of California, McCollum, and Bishop.

Staff present: Kevin Frank, Professional Staff Member; Alison Griffin, Professional Staff Member; Sally Lovejoy, Director of Education and Human Resources Policy; Alexa Marrero, Press Secretary; Krisann Pearce, Deputy Director of Education and Human Resources Policy; Amy Raaf, Professional Staff Member; Deborah L. Samantar, Committee Clerk/Intern Coordinator; Brad Thomas, Legislative Assistant; Ellynnne Bannon, Minority Legislative Associate/Education; Alex Nock, Minority Legislative Associate/Education; Joe Novotny, Minority Legislative Assistant/Education; and Mark Zuckerman, Minority General Counsel.

Chairman BOEHNER. The Committee on Education and the Workforce will come to order. A quorum being present, the Committee comes together today to hear testimony on "College Access: Is Government Part of the Solution, or Part of the Problem?" And under the Committee rules, opening statements are limited to the Chairman and Ranking Member. So if other members have statements, they'll be included in the hearing record. And with that, I ask unanimous consent for the hearing record to remain open for 14 days to allow member statements and other extraneous material referenced during the hearing to be submitted for the official record.

Without objection, so ordered.

STATEMENT OF HON. JOHN A. BOEHNER, CHAIRMAN, COMMITTEE ON EDUCATION AND THE WORKFORCE

I want to welcome all of you here to today's hearing. First let me say that this is probably going to be one of our more provocative hearings. We're surrounded by evidence that the Higher Education Act is not getting the job done for today's students and parents.

Last year, some of our members of this Committee created quite a stir when we warned of a growing disconnect between the priorities of the college lobbying community and those of parents and students. We warned parents and students, the consumers of higher education, are growing weary over ever-soaring college costs, and we warned about the significant graduation gap that exists between disadvantaged students and their peers at traditional colleges and universities.

We warned that traditional colleges and universities are not meeting the needs of nontraditional students, and we warned that the ongoing unchecked hyperinflation in college costs is the mark of a system headed for a breakdown.

The process that follows this hearing cannot be a routine reauthorization of the Higher Education Act. It won't be an easy process or a comfortable one. Assumptions will be challenged, myths will be confronted, and china will probably have to be broken along the way, but that's the job that we were all sent here to do.

With this in mind, we're starting today with a candid and open discussion about the role that the Federal Government is currently playing in college access.

In the past year, a number of prominent schools have voluntarily taken steps to curb tuition growth. Responding to consumer demand, growing competition from proprietary colleges, and possibly pressure from lawmakers, some schools have ruled out major tuition increases in the coming years. Instead, they're looking for alternatives. Some are studying ways to become more efficient and less dependent upon government, and we applaud these institutions for their leadership.

We remained concerned, however, about the general state of American higher education as we prepare this year to reauthorize the Higher Education Act, we have an obligation to step back and take an honest look at the big picture. We need to examine the role that the Federal Government is playing when it comes to college access in America.

A newly published article in the U.S. News & World Report offers this assessment, and I quote: "These days, it doesn't matter what your assets look like. It's increasingly difficult for almost everyone to afford college, as tuitions climb and Federal aid remains more or less stable." End quote.

And this statement I think accurately describes the challenge that parents and students face today. Unfortunately, the implied assumption is that increased Federal spending on higher education would ease the burden that these families face.

Now I'm not criticizing U.S. News & World report, but to me, it seems like a dangerous assumption to make. College tuition rates have been spiraling upwards for decades at hyperinflationary levels, and the Federal Government has consistently responded by increasing spending. But college access for far too many families remains an elusive goal.

As many of you have heard me say before, it seems that the more we spend in higher education, the further we continue to fall behind. In fact, some believe government spending may be a hidden culprit in the ongoing inflation of college costs. They point to what seems to be a vicious cycle: Colleges increase tuition. Government

responds by increasing spending, and colleges respond by increasing tuition again.

As we get set to reauthorize the Higher Education Act, I think we have to take a hard look at whether such a cycle exists. Now this is going to require some thinking outside the box, if you will, something that I've found doesn't exactly come natural here in Washington.

Going back to the U.S. News article again, I was struck in particular by a comment attributed to a top higher education lobbyist who seems alarmed by the growing climate of fiscal responsibility and belt-tightening in Washington. Quote: "The Federal budget deficit is an 800-pound gorilla," the individual is quoted as saying. "We're not making decisions based on a rational assessment of public policy needs in higher education; we're making decisions based on what we can afford."

Now I happen to know the individual who made this remark. I know him well, and I certainly wouldn't want to single him out, but when did balancing the Federal budget become irrational public policy? We should not automatically assume students or parents are better off with more government spending in higher education. Deficits do matter, and they matter to all Americans, including students, parents and the employees of American colleges and universities.

I'm by no means suggesting Congress should not make targeted increases in certain higher education programs such as the Pell Grant program, which the President clearly strongly supports, and we've even proposed expanding it. But there are some in Washington who have responded to the latest round of tuition hikes by calling literally for tens of billions of dollars in increased higher education spending in one program after another.

And I'm concerned that such huge increases would actually hurt the very students and parents that they are intended to help. At a minimum, they would add to the budget deficit or force deep cuts in other programs such as No Child Left Behind or special ed. And some believe they'd put the double whammy on students and parents by paving the way for another round of tuition hikes.

But before Congress proceeds with this reauthorization, I think we're obligated to take a look at the role the Federal Government may be playing in the hyperinflation of college costs. And I also believe we need to look for ways in which the Federal Government can give college consumers more information and more choices, restore fairness for low- and middle-income students, and encourage greater competition and innovation in the higher education marketplace.

To help shed light on some of these matters, we've invited two prominent witnesses to discuss the role the Federal Government plays in higher education. I want to thank both of them for being here, and we look forward to their testimony.

And with that, I'd like to yield to my colleague from the great state of Virginia, Mr. Scott.

[The prepared statement of Chairman Boehner follows:]

Statement of Hon. John A. Boehner, Chairman, Committee Education and the Workforce

Welcome to all of you.

First let me say this is probably going to be one of our more provocative hearings. We are surrounded by evidence that the Higher Education Act is not getting the job done for today's students and parents.

Last year, some of the members of this Committee created a stir when we warned of a growing disconnect between the priorities of the college lobbying community and those of parents and students. We warned that parents and students, the consumers of higher education, are growing weary with ever-soaring college costs. We warned about the significant graduation gap that exists between disadvantaged students and their peers at traditional colleges and universities. We warned that traditional colleges and universities are not meeting the needs of non-traditional students. We warned that the ongoing, unchecked hyperinflation in college costs is the mark of a system headed for a breakdown.

The process that follows this hearing cannot be a routine reauthorization of the Higher Education Act. It won't be an easy process, or a comfortable one. Assumptions will be challenged. Myths will be confronted. And china may have to be broken along the way. But that's the job we were sent here to do.

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As many of you have heard me say before, it sometimes seems the more we spend in higher education, the further we fall behind. In fact, some believe government spending may be a hidden culprit in the ongoing inflation of college costs. They point to what seems to be a vicious cycle: colleges increase tuition; government responds by increasing spending; and colleges respond by increasing tuition again.

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Going back to the U.S. News article again—I was struck in particular by a comment attributed to a top higher education lobbyist who seems alarmed by the growing climate of fiscal responsibility and belt-tightening in Washington.

"The federal budget deficit is an 800-pound gorilla," the individual is quoted as saying. "We're not making decisions based on rational assessment of public policy needs in higher ed—we're making decisions based on what we can afford."

Now, I know the individual who made this remark; I know him well, and I am by no means singling him out. But when did balancing the budget become irrational public policy? We should not automatically assume students or parents are better off with more government spending in higher education. Deficits do matter, and they matter to all Americans, including students, parents, and the employees of American colleges and universities.

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I'm concerned such huge increases would actually hurt the very students and parents they are intended to help. At a minimum, they would add to the budget deficit or force deep cuts in other programs, such as the No Child Left Behind Act or special education. And some believe they would put the "double whammy" on students and parents by paving the way for another round of tuition hikes.

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To help shed some light on these matters, we've invited two prominent witnesses here today to discuss the role the federal government plays in higher education. We thank them for being here. We look forward to their testimony, and to what we hope will be a spirited discussion.

With that, I would turn to the senior Democratic member of our committee, Mr. Miller, for any opening statement he would like to make.

**STATEMENT OF HON. ROBERT C. SCOTT, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF VIRGINIA**

Mr. SCOTT. Thank you, Mr. Chairman. And, Mr. Chairman, I'm delighted to see that there's all of a sudden some concern about the deficit. Last year's budget was projected when this administration came in to have a \$400 billion surplus, but it ended up with a \$400 billion deficit, a swing of \$800 billion, which since we are right around April 15th, people would be delighted to know was the entire take from the individual income tax, approximately \$800 billion.

And before we start coming up with excuses, the war and the economy can take credit for about \$150 billion of that \$800 billion swing.

But, Mr. Chairman, we're here to talk about higher education, and there's a direct correlation between education and an individual's future. The more education they have, the better future they'll have. And it's important to make sure that in a democratic society we do not deny access to higher education to people just because of the station in which they were born.

The Pell Grants, which traditionally have been the key to low income students getting into college, are covering less and less each year. You used to be able to get a Pell Grant, a 15-hour-a-week job, and a summer job, and maybe a little bit of student loan, and you can go to about any college, certainly any state college, in the country. Now the Pell Grant plus a lot of loans, you're still far away.

We need to make sure the Pell Grant keeps up with not only inflation but the inflation that you mentioned, Mr. Chairman, of college tuition. Student loans have to be available at reasonable interest rates.

Education is also important to the community. Those communities that have that have high incidence of well educated community have lower costs in welfare, lower costs in crime. We also need to make sure that we have the best educated workers so that we can attract jobs. Right now we're falling way behind in a lot of dif-

ferent areas—engineers, nursing, teachers, a number of other areas where we’re not doing the job.

So, Mr. Chairman, I’m delighted to see that we are talking about access to higher education and look forward to the testimony of the witnesses, and I’d ask unanimous consent that the statement from the Ranking Member, Mr. Miller, be entered into the record.

[The prepared statement of Mr. Miller follows:]

**Statement of Hon. George Miller, Ranking Member, Committee on
Education and Workforce**

Thank you Mr. Chairman.

I am pleased to join you at today’s hearing. And I’ve got an answer to the question it poses. The federal investment in higher education is absolutely part of the solution.

Since the passage of the Higher Education Act in 1965, Federal grants, loans and work-study have helped to send millions of students to college, many of whom would not have gone without the help.

This investment has been critical in making the U.S. the world economic leader it is today. Our system of higher education is the envy of the world.

But we all know that the world is quickly becoming a much more cutthroat place when it comes to the economy.

Whether the U.S. retains its preeminence in this fiercely competitive global environment will depend more and more on having a highly skilled workforce.

And higher education is the critical tool for building that workforce.

Thanks in part to the improved federal investment in higher education since 1965, college participation rates have grown dramatically:

- In 1965, 38 percent of African-American high school graduates attended college. Today, more than 60 percent attend;
- In 1965, about half of white high school graduates attended college. Today, more than two-thirds attend;
- Thirty years ago, under half of all Hispanic high school graduates attended college. Today, nearly 60 percent attend; and
- Over the last three decades, the number of women attending college has grown by a quarter.

Continuing this progress—and closing the college participation gap between white and minority students—would add \$250 billion to our nation’s economy and an additional \$80 billion to tax revenues each year.

Yet we cannot take this progress for granted.

Already, we know that there are too many college-qualified students who are getting priced out of a higher education.

We cannot continue to ignore rising tuition prices.

In the last Congress, I cosponsored legislation with Representatives Tierney and McCollum that would make tuition more affordable and stop big tuition hikes.

It’s time for this committee to act on legislation to make college tuition affordable.

Congress must also do a better job of maintaining and improving its commitments to college students, and it should start by increasing the Pell grant scholarship.

This year, the Pell will make it possible for more than five million low- and moderate-income students to attend college. But the buying power of the Pell is worth \$800 less, in real terms, than it was in 1975–76.

President Bush has yet to make good on his promise to raise the maximum Pell grant scholarship to \$5,100, but that shouldn’t stop the Congress from acting to help students.

In addition to Pell scholarships, this year more 14 million student and parent loans will be made to help students pay for college.

Unfortunately, my Republican colleagues on this committee have introduced legislation that would require student borrowers to pay an additional \$5,500, on average, in interest costs over the life of their loan.

This year more than one million low-income, first generation, and minority students will benefit from college outreach programs.

Despite the success of these programs, President Bush eliminated their funding in his education budget this year.

Our nation’s continued economic success demands that we take the federal investment in higher education seriously.

We have a responsibility to help make college more affordable for students, and to do it in a way that uses taxpayers' dollars efficiently—for example, by eliminating wasteful subsidies to banks and student lenders.

It doesn't make sense for the Congress to allocate limited resources to boosting the profit margins of banks.

We have to return to the original premise of the Higher Education Act of 1965: that no college-qualified student should be denied a college education because he or she lacks the financial resources.

I look forward to working with my colleagues on both sides of the aisle to accomplish this goal.

Chairman BOEHNER. Without objection, so ordered. I want to thank you, Mr. Scott.

Mr. SCOTT. Well, Mr. Chairman, I'd yield to either of my colleagues if I've got any time left. If not, Mr. Chairman, I yield back.

Chairman BOEHNER. Well, we've got two excellent witnesses with us today, and we've granted each of the witnesses 10 minutes of testimony since we only have two. I thought we'd give them more time to give us their point of view.

Our first witness today is Dr. Richard Vedder. Dr. Vedder is Distinguished Professor of Economics at Ohio University, with degrees in economics from Northwestern University and the University of Illinois. He's been a visiting professor at numerous colleges and universities, most recently serving as the John M. Olin Professor of Labor Economics and Public Policy at Washington University in St. Louis.

Over the course of his academic career, Dr. Vedder has authored several books and more than 200 published papers and several studies for the Joint Economic Committee here in the Congress. His latest book was titled "Going Broke By Degree: Why College Costs Too Much."

Our second witness is Dr. Donald Heller. Dr. Heller is an Associate Professor and Senior Research Associate with the Center for the Study of Higher Education at the Pennsylvania State University.

He has also taught at the University of Michigan, the University of Massachusetts, and Harvard University. He's authored numerous books and articles on college access issues and served as a consultant for institutions and state agencies in many states.

I think we've explained to you the lighting system, how it works. I don't think we're going to have any problems with that today.

So with that, Dr. Vedder, you may begin. You might want to turn your microphone on, though, first.

STATEMENT OF DR. RICHARD K. VEDDER, DISTINGUISHED PROFESSOR OF ECONOMICS, OHIO UNIVERSITY, ATHENS, OH

Dr. VEDDER. I am Richard Vedder. I teach economics at Ohio University. I'm an Adjunct Scholar at the American Enterprise Institute.

As you mentioned, I recently wrote this book on college costs. How do colleges cut costs? How do you cut the costs? You follow the money. Costs are rising to a considerable extent because you're dropping dollars over campuses and student homes, and they're ending up in the hands of relatively unaccountable administrators and faculty, who are spending the money in part to promote good lives for themselves.

The solution is to stop the growth in this money flow. Now let me document this by summarizing some of the major conclusions in my book before discussing some of the policy implications. Let's begin with some facts. The cost of higher education is rising both to society and to consumers. From 2002 to 2004, 4-year state university tuition fees increased an average of 26 percent. For every year since 1982, college tuition fees have risen faster than the overall rate of inflation.

Let me briefly mention six reasons why this may be in part so. First, when the Federal Government increases subsidized student loans or Pell Grants or tuition tax credits, it increases the number of students wishing to attend college at any given tuition fee. In short, Federal policies increase the demand for education, which pushes up prices and tuition fees.

Financial assistance on higher education not only has been increasing, but it has been rising at an accelerating rate. In the 5 years between 1998 and '99 school year and the 2003-'04 school year, per student assistance rose at an annual rate of 11.66 percent a year compounded.

Second, in the private, for-profit sector, when the prices for products rise with increased demand, profit margins widen, and this unleashes a torrent of entrepreneurial activity as firms scramble to get a share of the highly profitable market. The rise in demand induces an increase in supply, ultimately leading to prices and profits falling to a more normal level.

This has not happened to the same extent in higher education. Universities do not vigorously compete on price as they lack the profit incentives to do so. There's no bottom line in higher education. Did Xavier University, your alma mater, Mr. Chair, have a good year or a bad year in 2004? Who knows? With private, for-profit firms, we have real time changes in stock prices, earnings reports to indicate the financial success of the firm.

In private firms, poor profits lead managers to being fired, employees to being laid off, and bonuses to be reduced. In traditional higher education, who knows whether the university is doing good or bad? And there are few incentives to improve. Poor performance sometimes goes unpunished, good performance sometimes goes unrewarded.

Third, in the public's eye, the primary purpose of higher education is teaching our youth. Yet Federal data reveal a significant shift in resources over time from instructional purposes to other things.

Some of the things of course include grant funded research, which is largely self-supporting and certainly in keeping with the educational mission, but some funding has gone for other things. In 1929, American University spent eight cents of each dollar on administration. Today they spend fourteen cents.

The big personnel explosion has not been in new faculty but in nonteaching professional staff, and I could document this.

Fourth, universities have become more aggressive in discounting fees for some but not all students. Increasingly, universities are doing what airlines have done for years. They're charging those who are relatively insensitive to price more than those for whom

price is a major consideration in selecting schools. There's been a bit of a soak-the-rich attitude more than heretofore.

Fifth, productivity in higher education has probably fallen, difficult to measure, but it's probably falling. Staffing certainly is rising relative to enrollments.

Sixth, much incremental funding has gone to improve lives for staff. Salaries of full professors have risen at least 50 percent in real terms since 1980, and workloads have declined for many as well. Some incremental funds from higher third-party payments have gone to improve the quality of life of personnel.

Now what does this all have to do with the Higher Education Act reauthorization? You should aim to improve competition in higher education, promote alternatives to not-for-profit schools. You should rein in or reduce the artificially induced growth in demand that is pushing up tuition fees. Above all, you should put some brake on the cost to the Federal Government of helping to finance higher education, particularly given the large deficits you mentioned accompanied the congressional spending spree of the last few years.

Now there's many ways we could curb Federal programs somewhat. One approach of course would be to reduce those eligible for loans, restrict tuition tax credits by greater use of income-tested eligibility. A variant of this approach would simply let tuition tax credits expire after this year. Another approach would be similar to what we did with welfare reform in the mid-'90's. Put on time limits. Limit a student's loan or grant eligibility more rigorously than at present. Put a lifetime limit on years of loan or grant eligibility, for example.

Another approach would be to put performance dimensions to loans and Pell Grants, have at least part of the grants vary with the student's performance.

A fourth approach would be to set an aggregate ceiling on Federal financial assistance, and if legal requests for that aid exceed the ceiling, to prorate the grants or loans to fit the ceiling.

Now aside from restricting Federal student assistance, you need to ensure that newly emerging competitors to traditional universities can flourish. I've been worried about two potential problems. The first are the regional accreditation associations might use their power to reduce competition from the for-profit schools, and perhaps even the junior colleges.

Our current accreditation system is inefficient, has often raised costs needlessly, and is in large part based on input-based assessment. I'm concerned that the not-for-profit schools that largely control the accreditation bodies will start putting obstacles in the way of the for-profits.

A second concern is that the for-profit 4-year institutions might increasingly start to deny transfer credits to the for-profits and public community colleges, not on the basis of the nature of the coursework offered, but simply on the grounds that these schools are stealing students from them.

Legislation should minimally include a nondiscrimination clause that states that the profit status of an institution may not be taken into account in evaluating credit transfer requests for any school which has Federal student assistance.

Finally, the Federal Government appears to be either indifferent or hostile to good behavior at either the level of the institution or the individual student. With regards to students, I would at least give slightly smaller Pell Grants to poorly performing students than good ones. I would cut off students with poor grades or bad disciplinary records; for example, arrests for rioting or other bad forms of behavior. I think we can strengthen up—strengthen what we do in this area.

The same can be done with respect to loans and even tuition tax credits to parents of students. A parent who saw that they were going to lose a tuition tax credit because their kid got arrested and put in jail might have something to say to their kid.

How do you improve institutional behavior? One approach would be to bribe them. You can reduce the cost to the Federal Government—say you reduce the cost by \$5 billion a year through restricting loans and grants. Devote a part of that, say \$3 billion, to tax relief to taxpayers or deficit reduction or a non—to other things, but use the remaining \$2 billion to establish a fund to reward schools holding down their costs.

Give them incentive payments to keep the sum of tuition fee and state government subsidy growth per student to the level of inflation or less. Those universities that seriously trim their bureaucracies, make their faculty teach more, use personnel and facilities year round or use technology to lower costs, would be rewarded. Perhaps mandate that a portion of their reward payments be returned to the top administrators and the staffs as efficiency bonus payments. Provide incentives for workers in higher ed to want to cut costs.

Another variant on the proposal would be to provide financial incentives to state governments that increase the proportion of state assistance that goes directly to the students as vouchers or scholarships rather than institutional subsidy payments, or to states that keep the overall growth of total higher education expenditures to the rate of inflation plus growth in the 18 to 24 population.

Concluding, Federal higher education policy exemplifies in my judgment the law of unintended consequences. Legislation that was adopted in good faith to help kids has contributed in a significant way to the cost explosion that needs to be addressed. And perhaps it is time for tough love for American higher education.

I wish you luck in your endeavors.

[The prepared statement of Dr. Vedder follows:]

**Statement of Dr. Richard K. Vedder, Distinguished Professor of Economics,
Ohio University, Athens, OH**

Chairman Boehner and members of the committee, my name is Richard Vedder, and I am Distinguished Professor of Economics at Ohio University, and an adjunct scholar at the American Enterprise Institute. I have recently written a book entitled *Going Broke By Degree: Why College Costs Too Much* (Washington, D.C.: AEI Press, 2004), a copy of which is being provided to each of you. My testimony is largely derived from my research for this book, aided by 47 years of experience in American higher education, including service as a professor at a wide variety of institutions.

Public support of higher education is usually justified on two major grounds: first, universities allegedly have positive spillover effects, so that colleges benefit not just those attending them but society as a whole. Second, in keeping with equalitarian ideals dating back to the founding, we believe that access to higher education furthers the American Dream, specifically that persons can succeed in our society re-

ardless of their family position, race, religion, gender, ethnicity, or other group attribute. My research suggests that while still the best in the world, American universities have lost their way in terms of meeting these fundamental objectives. Of particular relevance to this hearing, access to college is not growing much despite—or maybe even because of—the well intended efforts of the federal and state governments. Also, there is some evidence that universities have significant and important negative spillover effects, that government support for them actually has negative economic effects. All told, federal higher education policy is a perfect example of the Law of Unintended Consequences.

I will first summarize in rather abbreviated form the major conclusions of my book. I will then discuss some policy implications, including some possible directions for federal higher education participation as you ponder the reauthorization of the Higher Education Act.

Let us begin with some facts. First, and most obvious, the cost of higher education is rising to society in general and to consumers in particular. The College Board tells us that in the two years from 2002 to 2004, four year state universities tuition fees increased an average of 26 percent. The Bureau of Labor Statistics tells us that for every year since 1982, college tuition fees have risen faster than the overall rate of inflation. Over the past generation, tuition fees have been rising faster than family incomes, a phenomenon that is not sustainable on a long-term basis. There is some evidence that the rate of tuition increase has exceeded the inflation rate for at least a century, although I would argue that the rate of real increase has accelerated in recent times, in part because of public policy.

In the course of my testimony, I will mention at least six factors related to the tuition fee explosion: the presence of huge third party payments, the lack of strong market discipline, the use of university resources to cross-subsidize non-academic activities, price discrimination against some students, a decline in productivity, and, finally, rent-seeking behavior.

Third Party Payments

There are two sectors of the economy where the federal government involves itself heavily in financing private transactions, namely health care and higher education. It is not a coincidence that these are the two sectors with the greatest amount of price inflation in modern times. When the federal government increases subsidized student loans, gives a Pell Grant, or grants a tuition tax credit, it increases the number of students wishing to attend college at any given tuition fee. Indeed, that is the idea—the federal government wants to provide access to persons who might not otherwise go to college for financial reasons. In short, federal policies increase the demand for education relative to the supply, which pushes prices or tuition fees up. For those who have copies of my book, I refer you to page 16 for a graphical presentation of this phenomenon. When the federal government began tuition tax credits a few years ago, I jokingly called it the Faculty Salary Enhancement Act, reasoning that the tax credits would lead to larger tuition increases, and some of the incremental money that colleges received would go to the faculty in larger raises than would otherwise have been provided. I believe I was right.

It is a fact that federal financial assistance in higher education has not only increased, but it has risen at an accelerating rate. In the 1983–84 school year, American college students received \$28.4 billion in financial assistance from all sources. Twenty years later, that aid had grown more than four-fold to \$122 billion, two-thirds of which was provided by the federal government. In the five years between the 1998–9 and 2003–4 school years, per student assistance rose at an annual rate of 11.66 per cent a year, a truly extraordinary rate of growth. By contrast, 15 years earlier, the annual growth rate over a five year period was less than half of that, 5.08 percent. This rapid and accelerating increase in aid has served to move the demand curve for higher education services to the right, and with that there has been a sharp increase in tuition fees.

Lack of Market Discipline

In the private for-profit sector, when the prices for products rise with increased demand, profit margins widen and this unleashes a torrent of entrepreneurial activity, as firms scramble to get a share of the highly profitable market. The rise in demand induces an increase in supply, which ultimately leads to prices and profits falling to a more normal level. This has not happened in higher education. While it is true that institutions are competitive with one another, they do not vigorously compete on price, as they do not have the profit incentives to induce them to alter their behavior in response to changing market conditions. Do you see colleges advertising that they are 10 percent cheaper than their peer schools? Or that they are leaving their tuition fees constant while their rivals are raising them? It is rare in-

deed. In the private sector, such behavior is commonplace. The for-profit University of Phoenix sometimes tells students “enroll now and your books for the first course will be free.” That never happens with not-for-profit schools. A successful for-profit business is one that cuts costs and/or increases revenues by offering an improved product. Price increases are minimized in order to win business and maximize profits. Profits mean greater income for managers, stockholders, and employees. The profit incentive is lacking in all but a small portion of the higher education market.

The big problem is that there is no bottom line in higher education. Did Xavier University, Chairman Boehner’s alma mater, have a good or bad year in 2004? How would one know? With private for-profit firms, we have real time changes in valuations based on stock prices, and frequent earnings reports to give a sense of the financial success of the firm. There is a very specific and precisely measured bottom line. In private firms, poor profits often lead to managers being fired, employees being laid off, bonuses being reduced. In traditional higher education, it is difficult even to say whether the university is doing good or bad, and there are few incentives to improve. Accountability is limited. Poor performance goes unpunished, and good performance goes unrewarded. State universities have a large degree of independence from the political process, and in both public and private universities the boards of trustees tend to be volunteers who do not take the time to seriously challenge the decisions of the administration. Thus universities are far less accountable to anyone than most institutions in our society.

Cross-Subsidization of Activities

In the public’s eye, the primary purpose of higher education is teaching our youth. Certainly state creation of institutions of higher education was largely predicated on the proposition that the presence of cheap colleges further the American Dream of equal opportunity for all, and education has spillover effects that positively impact the rest of society. Yet data provided by colleges and universities to the federal government reveal that there has been a significant shift in resources over the years from instructional purposes to other things. Some of the other things include grant-funded research, which at least is largely self-supporting and in keeping with a traditional education mission, but some funding has gone for other things. In 1929, American universities spent about 8 cents of each dollar on administration, whereas today they spend 14 cents and it has been rising. The big personnel explosion in universities has not been in new faculty, but in non-teaching professionals, many of whom are bureaucrats who do little to improve learning but who must be paid—by tuition fees if not third party payments. In 1976, American universities had three non-teaching professionals for every 100 students; 25 years later, they had six. In some schools, luxurious new facilities are adding to costs, as are subsidies for intercollegiate athletics. It is also true that as federal and state dollars have rained down on college campuses, universities have been generous in compensating themselves. The true real compensation of full professors at four year schools, for example, has risen over 50 percent over the past two decades.

Price Discrimination

Another reason that the stated tuition fees have grown so much is that universities have been more aggressive in discounting those fees for some but not all students. Increasingly, universities are doing what airlines have done for decades—they are charging those who are relatively insensitive to price more than those for whom price is a major consideration in selecting schools. More bluntly, there has been more of a soak the rich attitude than previously.

An interesting and some would view worrisome trend has been occurring lately with respect to price discrimination. Historically, scholarships have largely been based on need, with tuition discounts going predominantly to students from lower income families. The whole federal financial assistance program depends on prying the most intimate of financial information from students and their parents, and then using that to determine the price of services. Incidentally, I would note that if a car or real estate dealer tried to do that they would be probably put in jail. Recently, however, it appears that colleges are increasingly giving merit based scholarships in an attempt to improve the average quality of the student body in order to improve rankings done by such organizations as US News and World Report. At a recent meeting I had with a group of private college presidents, they complained bitterly to me that the state universities have lost sight of their basic mission, giving scholarship aid not to the poor who need it in order to attend college, but to bright kids they want to attract to improve their national rankings. There is even some evidence that suggests that the median family income of those attending four year state universities is as high as that of those attending private schools,

perhaps suggesting that the state universities on the whole do not take terribly seriously the notion that they have a special obligation serve the disadvantaged.

Productivity Decline

Rising demand for colleges have led to increase tuition fees, which, along with greater government and private gifts and grants, means the universities have been awash with funds. They have used a good deal of the incremental monies to hire additional staff. The evidence is very clear that staffing has risen relative to enrollments. For those with copies of my book, I refer you to page 47. Recent data updates do not change the picture. Whereas in the mid-1970s it took 18 or 19 employees to educate 100 students, now it takes 21. In my book, I have an extended discussion of the implications of this staffing explosion on productivity, concluding that under almost any reasonable assumption, productivity has fallen or, at best, remained constant in an absolute sense. Relative to the rest of the economy, there is absolutely no question that there has been a significant decline in labor productivity in higher education.

Rent-Seeking

The field of public choice economics has the insight that people almost always seek to improve their lot in life, even persons working for non-profit institutions such as governments and universities. We say that individuals are “rent-seekers”, trying to increase the payments made to them beyond those necessary to get them to do any given amount of work. University personnel are no different, and the relative low level of accountability that they face has allowed them to allocate resources in ways that improve their lives, even when that improvement comes at the cost of performing their professed mission at greater than the lowest possible cost adjusting for quality.

Specifically, much of the fund reallocation discussed above was done because administrators and faculty members could get away with it, not because it was necessarily desirable on some educational ground. I have already pointed out that salaries of professors have risen handsomely in the past couple of decades or so, almost precisely the period in which federal loan and grant programs have been quantitatively important. Faculty have also quietly but effectively lowered their teaching loads, ostensibly to increase time for research. It is simply more pleasant to do research, or in some cases, play golf, then to teach more classes and grade more papers. Administrators have hired more assistants to relieve themselves of some of their work load. Much of the personnel explosion has simply served to reduce the work pressures on staff.

There are many other issues that I will only cursorily mention in the interests of time. Intercollegiate athletic programs are filled with scandal and are increasingly expensive. Grade inflation is reducing standards. More and more students spend two, three and even more nights a week partying rather than studying. The high rate of attrition of students means enormous resources are wasted. Some claim that universities are forcing ideological conformity at the same time they widely proclaim racial and other forms of diversity. While these are all interesting topics, they are the subject of another day and another hearing.

Reforming the Academy—Non-Federally Initiated Changes

Before turning to steps that the federal government should take as it ponders the reauthorization of the Higher Education Act, I would note that some changes of importance are already happening. These trends can be expected to continue under almost any policy regime you decide to adopt.

Non-Traditional Competition

When something becomes expensive, people search for cheaper alternatives. This is happening to an increasing extent in higher education. We see several alternatives emerging. One, of course, is on-line education, provided in part by traditional providers such as not-for-profit universities, but also by for-profit firms. More generally, the for profit higher education industry is growing exponentially, is highly profitable, and is viewed by Wall Street as having a very bright future based on the high price-earnings ratios prevailing on common stock of publicly traded companies. The best known, of course is the University of Phoenix owned by Apollo Group, but there are a number of other firms growing just as fast and often nearly equally profitable.

To this point, the for-profits have concentrated on offering limited vocationally oriented training to adults studying on a part-time basis. As that market approaches saturation, the for profits are starting to expand into the 18 to 22 year old market, competing more directly with traditional not-for-profit providers. The for-profits have taken advantage of the soaring tuition fees of the traditional providers to be

able to offer education at a cost that compares favorably with the private not-for-profits. The for-profit universities are for those looking at education as an investment, rather than those undergraduates at a typical residential university who look at higher education both as a service to be consumed and enjoyed, as well as an investment.

In addition to the for-profits and on-line providers, there has been a growth in non-university forms of certification of skills. I believe that university graduates earn a substantial earnings premium over high school graduates not mainly for what they learn in college, although some college programs are vocational training in nature. Rather, a college diploma usually means the individual is reasonably literate, fairly dependable, probably at least fairly intelligent and mature, and is at least minimally conscientious. These are qualities desired in an employee, and are very often missing in high school graduates, so employers will pay a premium for these kinds of workers. A diploma certifies that there is a very high probability of some minimal level of competency. Such certification, however, can come without a formal college education. Firms like Microsoft, Oracle and Novell give certificates to persons who have demonstrated proficiency in their software. We certify people as being qualified as accountants, lawyers, doctors and investment counselors through various forms of certification and licensing exams, and it is possible that we could expand this approach to occupations where a college degree is clearly not in and of itself necessary to demonstrate competency.

America has been a mecca for students around the world seeking a higher education. But that is a two-way street, and as the costs of attending U.S. universities rise, more students may seek degrees elsewhere, particularly in other English speaking countries such as Canada or the United Kingdom.

Finally, I am already seeing a rise in interest in students spending two years in a junior college and then transferring to more expensive four year universities to complete their degree. The issue of articulation between different institutions thus is becoming a more important issue.

State Legislative Efforts

State governments are reducing their direct subsidies to colleges and universities as a share of their budget, and often reducing them in absolute terms as well. As Medicaid eats up a larger share of state budgets, and as K-12 lobbies push for ever more expensive education at that level, legislators have to either reduce higher education subsidies or raise taxes. The reduced state support of higher education is leading some states to be approaching piecemeal privatization of universities. The graduate law and business schools at the University of Virginia, for example, no longer receive any subsidies from the state and are, for all practical purposes, privatized. Several major universities reach only about 10 or 15 percent of their budgets from state appropriations, and the privatization option is becoming increasingly realistic.

Another move at the state level that I think has much to commend for it is the growing emphasis on funding students, not institutions. Colorado is beginning offering vouchers to students this summer, Georgia offers huge grants under its HOPE scholarships to good students, and Missouri may adopt a bill that could direct all future spending increases for higher education to the students in the form of vouchers usable at either public or private institutions. Some of these moves would probably increase price competition and the sensitivity of colleges to the needs of students. A twist on vouchers would be to make them both progressive, as suggested once by Robert Reich, and performance based. More would be given to lower income students than higher income ones, and more would be given to good students than bad, and perhaps all aid would be cut off after the fourth year of study. This would help deal with problems of poor college access and high attrition.

Some states are trying to legislate or regulate university behavior. Examples include tuition price controls, mandated minimum teaching loads, elimination of low enrollment doctoral programs, and prohibitions on some forms of conspicuous spending, such as substantial foreign travel by administrators. Personally, my own observation is that these piecemeal regulatory or legislative attempts seldom work, and sometimes they hinder universities in utilizing policies that would fit their unique situations well.

Internal Reform

Universities are not inclined to cut costs and break from old habits easily, but in some cases budget exigencies are forcing change. Modifying tenure arrangements, increasing teaching loads, eliminating some programs, and reducing administrative staff are four things that one or more universities have done in the past few years in order to remain fiscally sound. As the traditional universities continue to lost

market share in an era when the 18 to 24 year cohort is growing slowly and soon will begin to decline, we can expect to see some acceleration of internal efforts to restrain costs.

Changes in Federal Higher Education Policy

What does all of this have to do with the Higher Education Act reauthorization? You should aim to improve competition in higher education, promoting non-traditional alternatives to not-for-profit schools. You should take steps to rein in the artificially induced growth in demand that has pushed up tuition fees. Above all, you should put a brake on the costs to the federal government of helping finance higher education, given the large deficits that have accompanied the Congressional spending spree of the last few years.

Before I start giving more specific suggestions, allow me to actually commend federal policy in one regard. Putting aside research grants from organizations like the National Institutes of Health and the National Science Foundation, the bulk of federal assistance has gone to students rather than institutions. This is as it should be, and I would prefer to see the states move in that direction as well. Second, you have not discriminated against students who prefer to attend private schools, unlike most state aid that is directed to only certain state institutions. Given the rent-seeking and inefficiencies associated with institutional grants, I believe governments should get out of the business of providing general assistance to education institutions. Competition is improved when money goes to students, as then their enrollment decisions have greater consequence on institutional finances, and that, in turn, makes institutions more responsive to student needs and concerns.

Having said that, I believe a very strong case can be made for all governments to largely withdraw from the funding of higher education given the empirical evidence regarding higher education behavior. There are still enormous income related gaps in terms of higher education participation, and many institutions are more obsessed with their US News and World Report ranking than serving these needs. A smaller proportion of 18 to 24 year old Hispanics are in college today, for example, than in the mid-1970s. The proportion of the American population attending college actually fell slightly from 1990 to 2000, the first decennial decline in modern American history. There is only the weakest of statistical correlations between state government assistance for colleges and universities and the proportion of kids actually attending or graduating from college. Moreover, there is evidence that greater spending at the state and local level on colleges and universities is associated with negative, not positive, economic growth. The alleged positive spillover effects of higher education are more rhetorical and theoretical than real, in my judgment. The more states spend on colleges, the less non-college-attending citizens of states earn. Putting economic issues aside, on equity grounds, why should you be subsidizing upper middle class kids to go a fifth or sixth year to institutions which have country club like facilities?

The cold turkey elimination of federal support to colleges or students is not going to happen, nor probably should it occur. At the same time, however, the double digit increase in student financial assistance has contributed mightily to the tuition price explosion, and the solution is to reduce the money that is flowing to institutions and members of their academic communities.

There are many ways curbs could be put on various federal programs. One approach would be to reduce those eligible for loans, and to restrict tuition tax credits by greater use of income tested eligibility. Why should persons making more than \$100,000 a year be allowed tuition tax credits, for example? A variant on this approach would be to simply let tuition tax credits expire after this year, as I understand will happen under current law. Another approach would be similar to what we did with welfare reform in the mid 1990s—put on time limits. Limit a student's loan or grant eligibility more rigorously than at present. Put a lifetime limit on years of loan or grant eligibility, for example. A third approach is to put a performance dimension to loans and certainly to Pell Grants. Have at least part of the grant vary with student performance. To avoid even more outrageous grade inflation than currently exists, tie performance to class rank as certified by the college. Any college that refuses to certify class rank would find its students ineligible for loans or grants. A fourth approach would be to set an aggregate ceiling on various or all forms of federal financial assistance, and if legitimate requests for the aid exceeds the ceiling, pro rate the grants or loans to fit the ceiling.

There are arguments for or against each approach, but what is critical that some approach be adopted that puts brakes on the growth in student loan expenditures. At the present, universities set their tuition fees each year at ever higher levels and you, the federal government, respond by increasing assistance. You enable the tuition explosion to persist. If you stop providing assistance, in the short run there will

be a rise in financial pain to college students, but in the long run you will help break the vicious circle of rising fees followed by rising loans, grants and now tuition tax credits. Universities raise their tuition a lot because they can get away with it. Make it difficult for them to do that.

A highly controversial idea that in my mind would dramatically reduce tuition increases would be to phase out the FAFSA form and prohibit the solicitation of financial information from prospective students and their parents. Denied that information, universities would find it much hard to soak the rich, and would reduce the sticker price relative to the net tuition revenues received. Given the rather dubious record of colleges of providing access to low income groups in society, even after controlling for academic ability, perhaps the time has come to do this, although it would render it difficult to administrator federal programs designed to promote student access to higher education.

Aside from restricting loan, grant and tax credit aid from growing, you need to assure that the newly emerging competitors to the traditional universities are allowed to flourish. I have been particularly worried about two potentially severe problems. The first is that the regional accreditation associations might use their power to reduce competition from the for-profits. Our current accreditation system is highly inefficient, has raised costs in some cases needlessly, and is largely based on input-based assessment, to name a few problems. I am concerned that the not-for-profit schools that largely control the accreditation bodies will start putting obstacles in the way of the for-profits. One way would be to impose dubious accreditation requirements, such as requiring a certain sized library, or that a certain percent of faculty be full-time professors with doctorate degrees. As the for-profits grow in relative importance, I suspect pressures along these lines will mount. Some review of the role of accrediting bodies in determining institutional eligibility for student loans is desirable. A good case can be made to base institutional loan eligibility on student performance on national examinations both in the area of general education and on specific subject. For example, perhaps deny student loans to any school that does not have 50 percent or more students score a specified score on the National Assessment of Educational Progress examinations administered to high school seniors. While this approach has its deficiencies as well, at least it is outcomes based.

A second concern is that for year institutions might increasingly start to deny transfer credits to the for-profits, or even to public community colleges, not on the basis of the nature of the coursework offered, but simply on the grounds that the schools have for-profit status or are stealing students from them. At the minimum, legislation should include a non-discrimination clause that states that the profit status of an institution may not be taken into account in evaluating credit transfer requests for any school which has federal student assistance.

Finally, I would observe that currently the federal government appears to be either indifferent or hostile to good behavior at either the level of the institution or the individual student. Federal assistance should be directly related to the degree that students and institutions behave in a socially commendable fashion. At the student level, as indicated above, I would give at least slightly smaller Pell grants to poorly performing students than good ones, and I would cut off students with poor grades or whose bad disciplinary records, for example arrests for rioting or other bad forms of behavior. The same can be done with respect to loans and even tuition tax credits to parents of students.

How do you improve institutional behavior? One approach would be to bribe them to be more responsible. Let me give you a specific example for illustration. Say that you reduce the cost to the federal government by, say, \$5 billion a year initially, of governmental higher education programs through tightening eligibility for assistance as discussed above. Perhaps you eliminate or greatly restrict tuition tax credits, for example. Devote a large portion of that, say \$3 billion, to further tax relief to the taxpayers or to deficit reduction. Use the remaining \$2 billion to establish a fund to reward schools that hold down costs. Give them incentive payments for keeping tuition increases to the level of price inflation, or better yet, to keep the sum of tuition fees and state government subsidies per student to the level of inflation or less. Those universities who get serious about trimming their massive bureaucracies, making their faculty teach more, using personnel and facilities year-round, or using technology to lower costs will be rewarded, while those who do business as usual will not be. Perhaps mandate that a portion of the institutional reward payments be returned to the top administrators and the staff in the form of efficiency bonus payments. Provide incentives for workers to want to cut costs.

Another variant on the proposal above would be to provide financial incentives to state governments that increase the portion of total state assistance that goes directly to students in the form of vouchers or scholarships, rather than to institu-

tional subsidy payments, or to states that keep the overall growth of total higher education expenditures to the rate of inflation plus the growth in the 18 to 24 year old population.

Conclusion

How do you cut the costs of college? Follow the money. Costs are rising because you are dropping dollars over college campuses and student homes and they are recycling those dollars to the campus community, where relatively unaccountable administrators and faculty are spending the money largely to promote the good life for themselves. The solution is to rein in the growth in this money flow. I wish you luck in your endeavors.

Chairman BOEHNER. Thank you, Dr. Vedder.

Dr. VEDDER. Other than that, I have no opinion.

Chairman BOEHNER. I could tell.

[Laughter.]

Chairman BOEHNER. I love it when we have a wide array of thought brought to our Committee. Dr. Heller, it's your turn.

STATEMENT OF DR. DONALD E. HELLER, ASSOCIATE PROFESSOR AND SENIOR RESEARCH ASSOCIATE, THE CENTER FOR THE STUDY OF HIGHER EDUCATION, THE PENNSYLVANIA STATE UNIVERSITY, UNIVERSITY PARK, PA

Dr. HELLER. Chairman Boehner, Congressman Scott, and members of the Committee, thank you for the invitation to address you on this important issue being discussed at today's hearing.

This year, as you know, marks the 40th anniversary of the Higher Education Act of 1965, and this law and its subsequent reauthorizations have had an unprecedented impact on postsecondary education in the United States. This year the Federal Government will award \$15 billion in grants to about 5 million students. Twelve million students will receive a total of over \$55 billion in Federal loans. Approximately 1 million high school and college students, most of whom are from low income and first generation college-going families, receive vital assistance in preparing for college and being successful once there through the TRIO programs.

In response to the provocative title, to use the word you used, Chairman Boehner, of today's hearing, I would answer the question by stating emphatically that both the Federal Government and states are vital parts of the solution to ensuring access for today's college students.

While there are some problems with the way our college access programs are structured, and Professor Vedder has ably described some of these problems in his book, I differ with his conclusion that the solution is to eliminate government funding for higher education. I will return to the problem shortly, but I want to start by emphasizing the importance of Federal and state funding for our nation's colleges, universities and students.

A wide body of research over three decades has confirmed two important points about the financial aspects of college access. First, lower income students are the most sensitive to rising tuition prices, and they are the first to be priced out of college as tuition goes up or to drop out if already enrolled. The price sensitivity decreases as you go up the income ladder, so that the highest income students have very little price sensitivity.

Second, financial aid is particularly important in ensuring college access for lower- and middle-income students. Much of the discussion about the rising cost of college ignores the fact that two-thirds of all undergraduates and over three-quarters of full-time undergraduates receive some form of financial aid.

In his book, Professor Vedder calls for the elimination of the subsidies that states provide public colleges and universities, and for Congress to abolish the Title IV grant programs. He justifies this radical proposal by presuming that government support for higher education has little impact other than to enable colleges and universities to increase their prices. Remove the public subsidy, as he just argued, and these institutions would have little capacity to raise prices.

Professor Vedder's assumption, I am afraid, is not supported by the available research. In 1998, Congress required the Department of Education to conduct a study of the reasons behind the rising cost of college. That study, which has been widely recognized as the most complete and authoritative on the topic, was issued by former Secretary of Education Paige in 2001. It examined whether Federal or state financial aid led directly to tuition price increases. This study conducted by the Department concluded that there was no relationship between either Federal or state aid and tuition price increases.

This finding confirmed the bulk of the research on this topic that had previously been conducted, including that of the National Commission on the Cost of Higher Education in its 1998 report to Congress.

The study found that the primary driver of tuition price increases in public colleges and universities was the level of appropriations received from the states. In those states where appropriations grew more slowly, or as happened most recently were actually cut, prices in the public sector grew the fastest.

More evidence to refute Professor Vedder's hypothesis can be found in the last 4 years. Since 2001, the average and maximum Pell Grant has risen just about 8 percent. State grants have stagnated, with many states offering no increases or even cuts in their grants because of the state of their economies.

There has also been no increase in borrowing limits in the Federal loan programs in the last 4 years. During this same period, however, tuition price increases have averaged 16 percent at private colleges and universities, 36 percent at public 4-year colleges, and 29 percent at community colleges.

Clearly, there have to be other factors driving these price increases than the availability of state or Federal aid, as the amount of aid available to individual students has not changed appreciably. What has happened is that the states have decreased the funds appropriated for higher education by 1 percent in current dollars since 2001. The impact is seen quite clearly in the rapid rise in tuition prices.

Now in the face of these cuts, many universities have worked to make themselves more efficient. Let me use my own institution, Penn State, as an example. Starting in fiscal year 2002, Penn State endured cuts in its appropriation from the commonwealth for 3

years in a row. Our current appropriation of \$317 million is almost exactly the same amount we received 5 years ago from the state.

In response, President Graham Spanier formed a university-wide taskforce to identify ways to cut costs and make Penn State more efficient. We implemented \$15 million in budget cuts and income enhancements other than tuition increases throughout the university, representing more than half of the funds that we lost from the commonwealth.

These changes were made without decreasing the quality of the education provided to our over 80,000 students. Similar efforts can be found at many other colleges around the country who have reacted to cuts in their appropriations by looking to find ways to make themselves more efficient.

While these efforts at making universities more efficient are important, they cannot by themselves compensate for the elimination of Federal and state support for higher education. So contrary to Professor Vedder's assumption that cutting Federal and state aid to higher education will lead to more moderated prices, the evidence demonstrates that eliminating governmental support will result in even more rapidly escalating prices, as we have experienced in the last 4 years.

His proposal is akin to suggesting that abolishing Medicaid and Medicare would by itself alleviate the skyrocketing growth of health care costs. More likely, this would leave millions of poor families and senior citizens without access to adequate health care.

Even with the financial aid available from the Federal Government and other sources, many of these students are already being priced out of college. A report from the Federal Advisory Committee on Student Financial Assistance shows that over 400,000 high school graduates who are academically qualified to attend a 4-year college are unable to do so because of cost barriers. Over 160,000 of these students are unable to afford even a community college, our lowest price option.

Eliminating government funding for higher education would result in even more lower- and middle-income students being priced out of college.

Professor Vedder's proposal of moving to a voucher system is also fraught with danger. He points to Colorado's decision to replace its general subsidy with vouchers for students, but this experiment is so new that we do not yet have the evidence to determine its impact on college students and higher education more broadly.

Professor Vedder also recommends adding a merit component to these vouchers, as well as to Pell Grants. This, too, would funnel money away from financially needy students, as the research that I and others have done has demonstrated that merit aid is awarded disproportionately to students from higher income families, many of whom do not need that assistance to be able to go to college.

I believe that Professor Vedder's assertions regarding the productivity of colleges and universities and their faculty members are also mistaken. He claims that the typical professor at a major university works only 1,200 hours per year, with little evidence to back that up. Yet data from the Department of Education show that university professors work an average of 58 hours per week,

or a total of 2,100 hours during a 9-month academic year. That's quite different from the 1,200 hours he calculated.

His claim that the lack of productivity among faculty is a major reason for rising tuition prices is not substantiated by the Department's own figures.

Professor Vedder also provides some basic calculations he claims demonstrate that the public investment in higher education actually works against the interests of states. But his work uses a very narrow measure of the impact this investment has on the economy, and it suffers from measuring the impact over a single time period.

More rigorous studies have found that the public investment in higher education earns a positive social return, as measured by higher rates of national economic growth and productivity, increased tax revenue received by states and the Federal Government, and a decreased reliance on government assistance programs such as food stamps, TANF, Medicaid, and housing assistance.

As I stated earlier, I believe there are some problems with the way public support for higher education is currently structured. When I testified before the Subcommittee on 21st Century Competitiveness in 2003, I encouraged it to examine ways to simplify the process of applying for and receiving Federal student aid. And the advisory committee this January issued a report on this topic and has a number of excellent recommendations for improving the processes of applying for and delivering Title IV funds, and eight of the ten recommendations would require no increase in program costs.

Pell Grants are the foundation of student aid for many lower and middle income students. Pell Grants are also the most well-targeted student aid available to college students in this country. Data from the Department of Education indicate that 94 percent of Pell dollars that go to traditional age college students are awarded to those from families with incomes at or below the national median of about \$45,000 per year. In contrast, only 35 percent of institutional grants are awarded to students from below that median income, 33 percent of private scholarships, and 60 percent of state aid.

Strengthening Pell and making it easier to apply for Title IV funds is an important task for this Congress.

In closing, I will borrow from the words of President Lyndon Johnson when he signed the Higher Education Act into law on November 8th, 1965 in San Marcos, Texas: "The President's signature upon this legislation passed by this Congress will swing open a new door for the young people of America. For them and for this entire land of ours, it is the most important door that will ever open—the door to education.

"So when we leave here this morning, I want you to go back and say to your children and to your grandchildren, and those who come after you and follow you, tell them that we have made a promise to them."

I hope that this Congress in its reauthorization of the Higher Education Act will ensure that this 40-year-old promise is kept.

I want to thank the Committee again for the opportunity to address these important issues, and I will be happy to take any questions you may have.

[The prepared statement of Dr. Heller follows:]

Statement of Dr. Donald E. Heller, Associate Professor and Senior Research Associate, The Center for the Study of Higher Education, The Pennsylvania State University, University Park, PA

Chairman Boehner, Congressman Miller, and members of the Committee:

Thank you for the invitation to address you on this important issue being discussed at today's hearing. As I am sure you are aware, this year marks the 40th anniversary of the Higher Education Act of 1965. This law, and its subsequent reauthorizations, has had an unprecedented impact on postsecondary education in the United States. This year, the student aid programs authorized by this act will award \$15 billion in federal grants to over five million students. Many of these students, and millions more, will receive a total of over \$55 billion in federal loans. Approximately one million high school and college students—most of whom are from low-income, first generation families—receive vital assistance in preparing for college and being successful once there through the TRIO programs.¹ In addition, hundreds of institutions receive direct assistance through Title III and Title V of the Act.

To best understand the role that the Higher Education Act has played in America, I will borrow from the words of President Lyndon Johnson when he signed the legislation into law on November 8, 1965, in San Marcos, Texas:

The President's signature upon this legislation passed by this Congress will swing open a new door for the young people of America. For them, and for this entire land of ours, it is the most important door that will ever open—the door to education. And this legislation is the key which unlocks it.

So, when we leave here this morning, I want you to go back and say to your children and to your grandchildren, and those who come after you and follow you—tell them that we have made a promise to them. Tell them that the truth is here for them to seek. And tell them that we have opened the road and we have pulled the gates down and the way is open, and we expect them to travel it.

As this Committee is painfully aware, the cost of college today is much greater, in relative terms, than it was at the time President Johnson signed the legislation that November afternoon 40 years ago. The grandchildren of many of those first students who benefited from the Higher Education Act are today approaching college age. Today's students both need—and deserve—support from the federal government to be able to attend college.

In response to the provocative title of today's hearing, I would answer the question by stating emphatically that both the federal government and the states are a vital part of the solution to ensuring college access for financially needy students. While there are some problems with the way our college access programs are structured, and Professor Vedder has ably described some of these problems in his book, I differ with his conclusion that the solution is to remove government funding for higher education. I will return to the problems shortly, but I first want to start by emphasizing the importance of federal and state funding for our nation's colleges, universities, and students.

A vast body of research over the last three decades has confirmed two important points about the financial aspects of college access. First, lower-income students are the most sensitive to rising tuition prices, and they are the first to be priced out of college as tuition goes up, or to drop out if already enrolled. The price sensitivity decreases as you go up the income ladder. Second, financial aid—grants, loans, and work study assistance—are particularly important in ensuring the college access needs of lower- and middle-income students. Much of the discussion about the rising cost of college, both in the media as well as among policymakers, is focused on the sticker price of college, and ignores the fact that almost two-thirds of all undergraduate students today, and over three-quarters of full-time students, receive some form of financial aid.

In his book, Professor Vedder calls for the elimination of the subsidies that states provide for public colleges and universities, and for Congress to abolish the Title IV grant programs as well. He justifies this radical proposal by presuming that state and federal support for higher education has little impact other than to enable colleges and universities to increase their prices. Remove the public subsidy, he argues, and these institutions would have little capacity to continue to raise prices.

¹An additional one million students receive similar assistance through Gear-Up, while not part of the Higher Education Act, is another important federal postsecondary initiative.

Professor Vedder's assumption, I am afraid, is not supported by the available evidence. In the last reauthorization of the Higher Education Act, in 1998, Congress required the Department of Education to conduct a study to determine the reasons behind the rising cost of college. That study, which has been widely recognized as the most thorough and complete research on the issue, was issued by former Secretary of Education Rod Paige in December of 2001.² The study specifically looked at the question of whether federal or state financial aid led directly to tuition price increases.

The study concluded that there was no relationship between either federal or state financial aid and tuition price increases. This finding confirmed the bulk of the research on this topic that had previously been conducted, including that of the National Commission on the Cost of Higher Education in its 1998 report to Congress. In fact, the only link between aid and rising prices in the Department of Education study was found among both public and private comprehensive institutions, those universities that award master's but not doctoral degrees. The study found that for these institutions, as they increased the proportion of students receiving institutional grants, prices tended to rise somewhat faster. But let me emphasize again that this study found no relationship between federal and state aid and rising prices.

The study found that the primary driver of tuition price increases in public colleges and universities was the level of appropriations received from the states. In those states where appropriations grew more slowly, or as happened most recently, were actually cut, prices in the public sector grew the fastest. In simpler terms, as state support drops, public institutions have few options other than to increase tuition prices.

More evidence to refute Professor Vedder's hypothesis and resulting policy recommendation can be found in the experience of the last four years. Since 2001, the maximum Pell Grant has risen \$300, or just 8 percent. State grant aid has stagnated during this period, with many states offering no increases, or even cuts, in their grants because of the revenue constraints they faced. There also has been no increase in borrowing limits in the federal loan programs.

During this same period, however, tuition prices have increased 16 percent at private colleges and universities, 36 percent at public 4-year institutions, and 29 percent at community colleges. Clearly there have to be other factors driving these price increases than just the availability of state or federal aid, as the amount of aid available to individual students has not changed appreciably during this period. While overall spending on aid programs has increased, that growth is almost entirely a factor of the increased eligibility of students and the number of students availing themselves of the aid, rather than increases in the maximum amounts that students can receive.

What has happened since 2001 is that the states have decreased the amount of funds appropriated for higher education by 1 percent, including two consecutive years of cuts in fiscal years 2003 and 2004, the first time in recent history that state appropriations were cut two years in a row. The impact is seen quite clearly in the rapid rise in tuition prices I just described. While private institutions generally do not receive state appropriations, they have been hurt by the drop in the stock market and other investments, which has led to a decrease in their endowment earnings and slower growth in private gifts, both of which are used to subsidize tuition prices.

I also want to make clear that public institutions have not simply passed the cuts in appropriations on to students in the form of higher tuition prices. Let me use my own institution, Penn State, as an example. The Commonwealth of Pennsylvania was hit particularly hard by the slowdown in the economy in the beginning of this decade. Starting in fiscal year 2002, Penn State endured cuts in its appropriation—not slower growth, but actual cuts in the appropriation—for three years running. Our current appropriation this year of \$317 million is almost exactly the same amount we received from the Commonwealth five years ago, in fiscal year 2000.

While we have increased our tuition during this period, President Graham Spanier also formed a university-wide task force to identify ways to cut costs and make Penn State more efficient. This task force, which brought together senior administrators, faculty, and staff, identified and implemented \$15 million in budget cuts and income enhancements throughout the university. This amount represented more than half of the funds lost from the state appropriation. And these changes were made without decreasing the quality of the education provided to our 80,000

²Cunningham, A. F., Wellman, J. V., Clinedinst, M. E., & Merisotis, J. P. (2001). Study of college costs and prices, 1988–89 to 1997–98, Volume 1 (NCES 2002–157). Washington, DC: U.S. Department of Education, National Center for Education Statistics.

students. Similar efforts can be found at many other higher education institutions around the country.

While these efforts at making universities more efficient are important and can help, they cannot by themselves compensate for drops in governmental support, or worse yet, a phased-in elimination of federal and state support for higher education. Colleges and universities would have no choice but to increase tuition prices at rates even faster than have occurred in recent years. So contrary to Professor Vedder's assumption that cutting federal and state aid to higher education will lead to more moderated prices, the research evidence demonstrates that eliminating governmental support will result in even more rapidly escalating prices. His proposal is akin to suggesting that eliminating the Medicaid and Medicare programs would by itself alleviate the skyrocketing growth of health care costs. More likely, this would leave millions of poor families and senior citizens without access to adequate health care. Similarly, the impact of eliminating government funding for higher education would be felt most greatly by this nation's lower- and middle-income students, those most dependent on the subsidy provided by state appropriations and federal student aid, which Professor Vedder recommends eliminating.

Even with the financial aid available from the federal government and other sources, these students are already finding themselves priced out of attending college. The Advisory Committee on Student Financial Assistance, in its report titled *Empty Promises*, used data from the Department of Education to examine financial barriers faced by potential college students.³ This report found that over 400,000 high school graduates who were qualified to attend a four-year institution were unable to do so each year because of cost barriers. Over 160,000 students were unable to attend any form of postsecondary education, not even a community college.

Professor Vedder's proposal of moving to a voucher system is also fraught with danger. He points to the state of Colorado's decision to replace its general subsidy with vouchers for students, but this experiment is so new that we do not yet have the evidence to determine its impact on higher education. A major argument against vouchers at the state level is that they are unlikely to keep pace with tuition price increases, so that over time the value of the voucher will be eroded, making it harder and harder for lower- and middle-income students to afford to attend college. This is exactly what has happened with Pell Grants at the federal level. Professor Vedder also recommends adding a merit component to the vouchers. This too would funnel money away from financially needy students, as the research that I and others have done has demonstrated that merit aid is awarded disproportionately to students from higher income families.⁴

I believe that Professor Vedder's assertions regarding the productivity of colleges and universities, and their faculty members, are also mistaken. Based on his own estimates, the source of which he does not provide, he claims that the typical professor at a major university works only 1,200 hours per year over the course of a 9-month work year. Yet data from a national study conducted by the Department of Education show that professors at these universities work an average of 58 hours per week, or a total of 2,100 hours during those nine months. So his claim that the lack of productivity among faculty is a major reason for rising tuition prices simply is not substantiated by the Department's own figures.

Professor Vedder also rightly notes that from 1976 to 1999, the proportion of college and university expenditures going to instruction has declined by approximately five percentage points. He uses this to claim that higher education institutions have a "credibility" (p. 44) problem when they ask for more money. But Professor Vedder's own figures show that this decline was more than offset by spending in two categories: research and institutional financial aid. It is hard to argue against spending in these areas, as research leads to growth in the economy and benefits society in other ways, and institutional financial aid helps to reduce the net cost of college faced by students.

Professor Vedder also provides some basic calculations he claims demonstrate that the public investment in higher education actually works against the interests of the state. But his work uses a very narrow measure of the impact this investment can have on states and the nation as a whole, and it suffers from measuring economic growth rates over a single time period. More rigorous studies have found that the public investment in higher education earns a positive social return, as measured by higher rates of economic growth for the nation, increased tax revenue received by states and the federal government due to the increased earnings of individuals

³Advisory Committee on Student Financial Assistance. (2002). *Empty promises: The myth of college access in America*. Washington, DC: U.S. Department of Education.

⁴Heller, D. E., & Marin, P. (Eds.). (2004). *State merit scholarship programs and racial inequality*. Cambridge, MA: The Civil Rights Project at Harvard University.

who attend college, and a decreased reliance on government assistance programs, such as Food Stamps, TANF, Medicaid, and housing assistance.⁵

The method used by Professor Vedder also ignores the non-monetary benefits society receives from its investment in higher education. Studies have documented that those who attend college are less likely to commit crimes, give more generously to charity and community service, and are more engaged and informed regarding their civic responsibilities.⁶ It is difficult to believe that the states would provide the \$65 billion on higher education that they will spend this year collectively if they did not believe, and have evidence, that this public investment earns a positive return for each state.

As I stated earlier, I believe there are some problems with the way public support for higher education is currently structured. When I testified before the Subcommittee on 21st Century Competitiveness in 2003, I encouraged the Subcommittee to examine ways to simplify the process of applying for and receiving federal student aid. Congress went ahead and mandated that the Advisory Committee on Student Financial Assistance conduct such a study, and the Advisory Committee issued its report earlier this year. This report has a number of excellent recommendations for ways to improve the processes of applying for and delivering Title IV funds, and eight of the ten recommendations would require no increase in the costs of these programs. While I do not have enough time to describe them here, I encourage this Committee to consider their implementation.

Pell Grants are the foundation of student aid for low- and moderate-income students, and I encourage the Committee to strengthen Pell by increasing its purchasing power. Pell Grants are the most well-targeted student aid program for these students. Data from the Department of Education indicate that 94 percent of Pell Grant dollars awarded to traditional-aged college students go to those from families with incomes below the national median of approximately \$45,000 per year. In contrast, only 60 percent of state aid is awarded to students from the bottom half of the income distribution, 35 percent of institutional aid, and 33 percent of private scholarships.⁷ These two actions—strengthening Pell, and making it easier for students to apply for and receive federal grants, will help to promote access to college for academically qualified and financially needy students.

I know that this Committee is concerned with promoting competition among the various types of higher education institutions in the nation. The diversity of choices available to students is one of the strengths of our system, and Congress should not eliminate these options. Student choice is well supported by the federal student aid programs, which allow students to use their grants, loans, and work study assistance at any of the more than 6,000 Title IV eligible institutions in the nation.

There are proposals in front of the Committee to eliminate the 50 percent rules, which restrict access to the Title IV programs for institutions who enroll a majority of their students or offer a majority of their courses via distance education. While the Department of Education has shown some positive results in the Distance Education Demonstration Program, I think it is important to note that this five year program included only two dozen institutions, many of whom were part of or affiliated with traditional, campus-based institutions. The Secretary of Education, in her report on the Demonstration Program issued earlier this year, noted some concern regarding the student loan default rates of institutions participating in the program. I recommend that before Congress eliminates the 50 percent rules in their entirety, that it move cautiously and heed the recommendations in a GAO report on distance education issued last year.⁸ A key recommendation, one with which Secretary Spellings concurred in her report, is that continued oversight of distance education providers is indeed “critical.”⁹

In closing, I want to return to the Higher Education Act to highlight the key objective established by President Johnson and the 89th Congress. Title IV opens with these words:

It is the purpose of this part to provide, through institutions of higher education, educational opportunity grants to assist in making available benefits

⁵L. L., & Brinkman, P. T. (1988). *The economic value of higher education*. New York: American Council on Education/Macmillan Publishing.

⁶Institute for Higher Education Policy. (1998). *Reaping the benefits: Defining the public and private value of going to college*. Washington, DC: Author.

⁷National Center for Education Statistics. (2005). *National Postsecondary Student Aid Study 2003–2004 data analysis system*. Washington, DC: U.S. Department of Education.

⁸U.S. General Accounting Office. (2004). *Distance education: Improved data on program costs and guidelines on quality assessments needed to inform federal policy*. Washington, DC: Author.

⁹U.S. Department of Education, Office of Postsecondary Education, Office of Policy, Planning and Innovation. (2005, April). *Third report to Congress on the Distance Education Demonstration Program*, p. 20.

of higher education to qualified high school graduates of exceptional financial need, who for lack of financial means of their own or of their families would be unable to obtain such benefits without such aid (§ 401).

I hope that this Congress, in its reauthorization of the Act, can stay true to this objective.

I want to thank the Committee again for the opportunity to address these important issues. I would be happy to take any questions you may have.

Chairman BOEHNER. I want to thank both of our witnesses for your testimony, and I think we can all agree that to the extent possible, the Federal Government has tried to keep its promise to America's low- to moderate-income students and last year spent—or this year will spend, you know, in the vicinity of 75 to \$80 billion trying to make sure that low- to moderate-income students have the access that they need.

It seems to me—let me ask both of you, in terms of traditional 4-year schools, 2-year schools, how many new seats are being built to accommodate this increased waive of students that we're seeing in the not-for-profit sector? Are we building new capacity? Dr. Vedder?

Dr. VEDDER. You're asking if are we constructing new buildings and things of that nature?

Chairman BOEHNER. New seats.

Dr. VEDDER. Seats?

Chairman BOEHNER. New seats to accommodate more students.

Dr. VEDDER. Put that—that's an interesting way of putting it. We are, of course, there's a large amount of capital construction going on.

Chairman BOEHNER. Well, I know there's a lot of building going on. But I'm talking about in terms of increasing capacity.

Dr. VEDDER. Well, you're on an important point. Most of the allocation of funds to universities these days, or it seems to me, and I think there's some evidence to support this, and my book is filled with it, evidence that he doesn't talk about, by the way, that the instructional component, which is what you're getting at, kids going to take classes, is being shortchanged relative to the total picture.

Chairman BOEHNER. Dr. Heller, do you see any increase in the capacity of our traditional two- and 4-year schools?

Dr. HELLER. Chairman Boehner, unfortunately, there are too few examples of this. There are some examples, for example, in the last five, 6 years, both California State University and the University of California have built brand new campuses, but those are, unfortunately, some of the few examples.

What we're seeing more is changes at the margin with universities trying to increase the number of seats by relatively small numbers. I think as Professor Vedder mentioned, the capital costs, never mind the operating costs in the face of the cuts in appropriations that public institutions have faced, but the capital costs of putting up new campuses is a real barrier.

I think we have seen some growth in the distance education area, and while that does hold some promise, I think by itself it's not going to be able to accommodate all of the growth.

Chairman BOEHNER. Well, the reason I asked the question is because it's clear that we don't really see any new capacity in our tra-

ditional schools, and we know from the evidence there's this increasingly large wave of students wanting to attend an institution of higher learning.

Dr. Vedder is an economist. I studied economics a bit. You don't have to know much about economics to know that if you've got increased demand, no increase in capacity, that you're going to drive tuition higher. It seems logical to me. But it's not only tuition going higher, because many schools have their own grant and aide programs. And while we talk about the hyperinflation in terms of tuition and fees, the harder thing to get your arms around is what is the real price.

Now I've talked to the Jesuit colleges and universities. I've talked to other groups about what is the real price, because everything is being judged on the sticker prices, the more I learn about this, are becoming irrelevant. Dr. Heller, do you have any evidence of what the real price is?

Dr. HELLER. Well, there's lots of good data from the Department of Education, and unfortunately, to be honest, with about 17 million students in higher education in the United States, you probably have pretty close to 17 million different prices.

The reality is that every university when it packages financial aid and it combines resources from the Federal Government, from state aid, private scholarships and its own institutional funds, it can make decisions on how much aid it's going to award literally on an individual student basis.

So we certainly have data that provides averages that show on average here's what students pay in public 4-year institutions or private 4-year institutions or community colleges.

But, you know, literally you've got very different prices, you're absolutely right, paid by different students. And that's a factor of the way we've constructed the system of having a stated sticker price and then discounting from that by offering financial aid, whether it's need-based financial aid or merit-based aid.

Chairman BOEHNER. Dr. Vedder?

Dr. VEDDER. I've done—it's very, as Dr. Heller indicated, it's very difficult, given the data and so forth and the complexity of higher education and you are—there are various types of schools and so forth, and the picture probably varies somewhat from one type of school to another.

But I have tried to estimate what the, quote, the "net tuition fee" paid by the average student has been or how that has changed over time. And I would agree that it has risen significantly less than the sticker price fee. But it is still rising relative to the rate of inflation, and it is still rising relative to income levels in the last ten or so years. Now that may not be a long-term trend.

So the issue of affordability is still an issue. Another way of looking at cost is what percentage of our national output, put aside the issue of who pays for it—someone is paying for education—we now spend close to 3 percent of our gross domestic product on higher ed. Again, you get in some interesting measurement issues. Do you count the Lincoln laboratories at MIT as part of higher ed or not? You know, they're running them for the government. So you get into some interesting accounting issues.

But we're spending close to 3 percent of our GDP on higher ed. If you went back to when you were a toddler, Mr. Chairman, if I guess your age halfway close to right, it was closer to 1 percent.

Chairman BOEHNER. There's a lot more people attending higher education today than when I—

Dr. VEDDER. Yeah. There are more—

Chairman BOEHNER [continuing]. Was born.

Dr. VEDDER [continuing]. Attending. But even on a student-adjusted basis, it has gone up. I've calculated the amount of GDP it takes to send one kid to college today relative to 20 to 30 years ago. It's in my book. And that has risen. It has risen. Now it doesn't take you more of your GDP to buy a car today, I mean a larger percentage of GDP to buy a car today or to buy bread or buy most anything. But it does take more to buy a college education and health care. Those are the two—

Chairman BOEHNER. But comparing tuition to GDP gets a bit esoteric for this Committee.

[Laughter.]

Chairman BOEHNER. Now, it may not—

Dr. VEDDER. You said that, I didn't.

Dr. HELLER. Mr. Boehner, Mr. Chairman, if I may respond.

Chairman BOEHNER. Dr. Heller.

Dr. HELLER. This issue about financial aid is an important one. And I think one of the key recommendations that the advisory committee made in its report about simplifying the Federal system is to try to make a commitment of financial aid earlier in students' careers.

Right now, most students don't find out how much aid they're going to receive until about April of their senior year when they receive an admittance letter from a university that has a financial aid offer along with it. That's really too late in students' careers, because they're going to get hit by this newspaper headline that says it costs \$40,000 a year to go to an elite private institution.

We want students and families to be able to learn earlier how much aid they're going to qualify for. So if we could find ways to make commitments of aid to students earlier in their high school careers, then students can prepare themselves both academically and financially for college and not wait until the end of their senior year when for many students it's really too late.

Chairman BOEHNER. My time has expired. The Chair recognizes the gentleman from Virginia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. Let me follow up on that point. When you talk about aid coming in early, you really don't need to know that you're going to get—exactly what aid you're going to get, but you need to know that you can actually go.

And if people, if your older brother went and your next door neighbor 3 years ago went, and they were able to make it, just knowing that you can go would offer an incentive to stay up late and do your homework sophomore and junior year so that you will be ready to go.

There's no question that a college education offers—expands an individual's opportunities is there, Dr. Heller?

Dr. HELLER. There's no question. The advantage that you earn in labor markets of going to college compared to going out into

those markets with only a high school diploma has widened in the last two decades. You know, it used to be a generation ago you could be a high school graduate and get a good job that we used to call paying a middle class wage without having any college.

A lot of those jobs have dried up, and more and more jobs today that pay a decent wage and pay decent benefits for workers and families require some form of postsecondary education, not always a bachelor's degree necessarily, but some form of postsecondary education. And that's why it's critical that we provide the opportunity for all students to be able to go.

Mr. SCOTT. And I would think it would be inconsistent with a democratic society to deny those opportunities based on your socio-economic station at birth. Compared to the '60's and '70's, what is the ability of a person, a low-income student to be able to afford to get into college?

Dr. HELLER. Well, there's good news and bad news in that story. The good news is that when you look at students by income, all groups have increased the rate which they go to college. As Chairman Boehner pointed out, we've got a lot more students in college today than we did a generation or two ago. That's the good news is that we have more lower income students going to college.

The bad news is if you look at the gap between the rich and the poor in this country, that gap has stayed just about the same over the last three decades. We haven't made much progress on closing the gap. Because while there are more poor students going on to college, there are also more students from the upper income groups going to college.

So if you're concerned about equity and you measure equity as the relationship of one group to another, we haven't been able to close that gap when you look at students from different income groups.

Mr. SCOTT. What portion of a college education did a Pell Grant pay in the '60's, '70's and '80's?

Dr. HELLER. Well, if you go back to the early 1970's after the BEOGs, now Pell Grants, were first created, you could get a Pell Grant and you would be able to pay for about 80 percent of the total cost of attendance, not just tuition, but tuition, room, board, books, transportation, at a typical public 4-year institution. That was about 80 percent. And for many states, you would be able to get that remaining 20 percent with a state grant or by working a few hours, as Chairman Boehner referred to.

Today we're down to less than 40 percent of that cost of attendance is covered by a Pell Grant.

Mr. SCOTT. And if you wanted to work your way through college when it was at 80 percent, you could do it 15 hours a week and a little summer job. What would it take you to work your way through college today?

Dr. HELLER. We have the data from the Department of Education show that we have students who are literally trying to work full time, work a 35 or 40-hour week, while also trying to go to college full time. And for most students, you just can't juggle those two things.

There's a huge amount of work that students are doing, and we know from the research that the more hours they work, especially

if it's off campus, not working in the library or the dining hall, but if they're working at the local mall in retail, that kind of behavior is very detrimental to their ability to ever get a college degree.

Mr. SCOTT. A suggestion was made that financial aid ought to be based on your grades. If you were relegated to a low income—in many low income areas around the country where the educational opportunities frankly were not as good as others, and therefore had worse preparation to go to college, should you be punished again by getting less financial aid?

Dr. HELLER. No. Absolutely not. And that's why I pointed out in my testimony that I have grave concerns about tying Pell Grant eligibility to measures of merit.

Let me note that Pell Grants already have a measure of merit. You have to maintain satisfactory progress at your institution as determined by that institution. But tying Pell or loan eligibility to grades I think is going to work against the interests, and I know from the data will work against the interests of lower income students who are really dependent upon Pell and other aid to be able to go to college.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. MCKEON [presiding]. Mr. Castle.

Mr. CASTLE. Thank you, Mr. Chairman. First of all, this is a great hearing, Mr. Chairman. I mean, I've been dealing with this problem for a number of years now, and I just don't know what the answer is. I see universities and colleges announcing their tuition increases, you know, the day before a big vacation or something of that nature, perhaps on a Saturday, so nobody knows what the heck's going on.

Mr. MCKEON. That's true.

Mr. CASTLE. The Chairman's question, it's just incredibly confusing to separate cost versus price versus financial aid packages and tuition and fees. You try to talk to a college president about it and they confuse you so quickly it's ridiculous.

And I think we would all agree on that. And I think it's gone up way too high. And you're absolutely right. It's health care costs and higher education have been the two big drivers, or at least the two big leaders in terms of cost of living increases. And yet I just—I'm still amazed. I mean, we have all these young people here and they probably have all kinds of debts, but I'm just—there's no public outcry for this.

And, I mean, I have your book here, Dr. Vedder, "Going Broke by Degree," and I would imagine not a whole lot of people are reading it. I hope you're selling a lot of them, but it isn't John Grisham, if I—

Dr. VEDDER. I'm not going to get rich from it.

Mr. CASTLE. Right. You're not going to get rich on it, and people aren't going to pay a lot of attention to it, and we just keep increasing this. And I just don't understand what the heck it takes. I mean, to me, Congress has not done a good job with this. But why the heck we haven't gotten the attention of the public in terms of reducing some of these costs.

My question is, do either of you have suggestions on what we can do to get a focus on this better than we're doing now? Because whatever we're doing now doesn't seem to be getting the job done.

Because to me it's going to be—it's not going to be something we do in Congress; it's going to be the public will saying enough's enough, and we've got to do something about it.

Dr. VEDDER. Could I take a first crack? And I'm sure my colleague would want to join in. First of all, one reason why people put up with this, you know, you're saying why aren't they rioting in the streets? Well, I don't know if you said rioting in the streets. Why aren't they raising more fuss about this? And I would agree with my colleague here, the immediate return to the student herself or himself of going to college is greater today than ever.

And one reason why colleges have been able, quote, "to get away with it," if you like, raise tuition costs and so forth so much, is that while it is true that the costs of going to college have gone up a lot, it's also true that the return in terms of income differentials have also risen a lot.

Mr. CASTLE. Well, am I wrong to fuss about it then? I mean, the return is good enough that it's worth the investment?

Dr. VEDDER. Well, to the individual, most of the time it's a good investment. Most of the time it's a good investment. Having said that, incidentally, it's not clear that that gap between, say, what high school kids make and college kids make is going to grow forever and continue to grow at the same rate. No one really knows for sure that. And if that stops, I suspect it's going to be more difficult for colleges to raise their tuition. Because in a pure investment sense—

Mr. CASTLE. Get back to my question.

Dr. VEDDER. Yes.

Mr. CASTLE. Which is, what can we do to shed light on this?

Dr. VEDDER. Well, costs are—colleges are—costs are going up like crazy within the colleges. No one has talked about that. I will. It takes—let's just—

Mr. CASTLE. You and I are talking about it at this hearing.

Dr. VEDDER. Yeah. OK.

Mr. CASTLE. But they're not talking about it on ABC News. They're not talking about it—they talk about it occasionally, I mean—

Dr. VEDDER. Well, talk to these people over here. Don't talk to me.

Mr. CASTLE. I mean, there's not enough substantial focus in this country on it. Dr. Heller, what do you think about all this? Because I have a couple of other questions.

Dr. HELLER. Well, I think you're right. And the example I gave of what Penn State did in the face of a large budget cut in our appropriation from the commonwealth I think is an example of what universities have to do more of, to be very honest.

I don't think any of us can sit back on our laurels and say that we're, you know, so great that everybody's just going to keep knocking on our door and pay those prices, and that Congress, frankly, is going to continue to keep writing the check.

But I think, to be fair, that most universities are looking at ways to try to control the growth of costs, and if they hadn't done this, the price increases we've seen in recent years probably would have been even higher. The fact of the matter is that higher education is a very highly labor-intensive business. And if you ask the typical

18-year-old going to college and you say to them, would you like to get your education via the Internet—it might be a little bit cheaper—or would you like to go to a college campus and sit in a classroom with other students and a professor, I think that most students are voting with their feet and still going to traditional campuses for that.

Mr. CASTLE. Well, it's a rite of passage to a degree. It's something more than just education.

Dr. HELLER. Right. There's more of an experience than just education, and that's what students want.

Mr. CASTLE. Right.

Dr. VEDDER. It's partly a consumption good as well as an investment good when you go to college.

Mr. CASTLE. Dr. Vedder, I want to ask you a separate question. In your book, you argue that for-profit institutions offer a less expensive product whose market discipline is stronger, and I would agree with that. You also argue that these institutions offer a tangible measure of success.

In some cases, these institutions support your argument surrounding government subsidies since they do not generally receive as much government assistance; in many cases none, as a matter of fact. Wouldn't you agree that we should not be opening the for-profit sector up to more government aid?

Dr. VEDDER. Well, I would agree if you mean should we be giving aid directly to institutions in the for-profit sector. Of course, I completely agree. We should not do that.

The issue is whether we should—if there are examples where not-for-profits try to thwart the for-profits through their accreditation organizations or other way to prevent—in a way to sort of restrict competition, I think there might be a Federal issue there. I don't know to what extent that's happening, and I'm concerned about it.

But I would agree with you.

Mr. CASTLE. Well, I would agree with your last conclusion, but I also worry about bringing new people into the government largesse in all—

Dr. VEDDER. You know, I completely agree with you, Mr. Castle.

Mr. CASTLE. Thank you. I yield back, Mr. Chairman.

Mr. MCKEON. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman. First I want to thank both of the panelists for their testimony. And I have several questions for Dr. Vedder. I was a college administrator for 29 years, and I need to say at the outset, I hope not impolitely, that the colleges you describe, places lacking in accountability populated by underemployed, overpaid administrators and underemployed, overpaid faculty, those are colleges with which I have no familiarity at all. And I would be interested to find colleges that fit that description.

Although I must say I found myself back in my comfort zone having, you know, sort of disdain heaped on administrators. I was, you know, sort of familiar with that.

[Laughter.]

Mr. BISHOP. One of the central points that you make in your written testimony, if I understand it correctly, is that the avail-

ability of student financial aid has driven up demand and therefore driven—resulting in an increase in costs. And you don't say it directly, but you certainly imply that that's a bad thing, correct?

Dr. VEDDER. I certainly—I would agree that it's driven up costs. It's probably a bad thing as well because I think it has contributed to some inefficiencies in the higher education community.

Mr. BISHOP. And those inefficiencies are manifest in terms of how colleges distribute their expenditure budget?

Dr. VEDDER. I—that's certainly a way you can see it, yes. We, for example, have six nonteaching professional staff for every 100 students today. In 1976, we had three. Now we have six. That's a doubling in nonprofessional, nonteaching staff, generally college graduates who work for universities who don't teach. We've had a doubling per student in that.

To me, that is a sign of some—it may not be inefficiency if those—if you can prove that there is a lot of burst in noninstructional output coming from those employees, but I frankly, I've been in the higher education business too for longer than—well, I don't know about longer than you. I think we probably rival each other in that, for over 40 years, and I don't see it.

Mr. BISHOP. You know, I don't want to be argumentative, but you've cited a statistic that in 1929 we spent 8 cents on administration and now we're spending 14 cents on administration.

Dr. VEDDER. Digest of Education statistics.

Mr. BISHOP. No, I'm not suggesting that the statistic is wrong. I'm suggesting that it's misleading. For example, what do you think we spent on academic computing in 1929? Or what do you think we spent on instructional technology in 1929, or on health insurance, or on Social Security compensation? Probably not a lot.

Dr. VEDDER. But those aren't administration.

Mr. BISHOP. Yes they are. When you look at how budgets are calculated, all of those expenditures would fall under noninstructional costs or administration.

Dr. VEDDER. Well, that's an empirical issue we would have to examine.

Mr. BISHOP. Let me just go to really perhaps the threshold question. Do you believe that access to higher education irrespective of social economic status is a good thing?

Dr. VEDDER. Oh, absolutely.

Mr. BISHOP. OK. Now—

Dr. VEDDER. Completely.

Mr. BISHOP. But it's your thesis that the way to get there is to withdraw student aid so that colleges are forced to drive down costs. Is that correct?

Dr. VEDDER. That is not the primary emphasis. If you were to read my book, this hearing is on this topic of financial aid, and so I have emphasized that in my discussion here.

I am saying that if—that increases in financial aid do not have the results with respect to access that you intend them to have because of the rising costs.

Mr. BISHOP. But—and let me go back to the question. Do you believe that the better way to achieve access is by reducing cost as opposed to increasing aid?

Dr. VEDDER. I think reducing costs is particularly critical, yes.

Mr. BISHOP. OK. And so my question to you is, outside of some of the things that we've talked about, do you really believe that we can reduce cost such that college will be affordable for low- and middle-income families? Do you really believe that there's that much play in expenditure budgets for the average college that they can get that job done?

Dr. VEDDER. First of all, and I think I was misrepresented somewhat even if you listen to my testimony, I did not say I want to eliminate even Federal aid. I just said I want to stop the growth—slow down the growth. There's a big difference between getting rid of it and slowing down the growth.

Mr. BISHOP. I'm not addressing that.

Dr. VEDDER. Well, I am. I have tenure. You have term limit. No, you don't have term limit.

[Laughter.]

Dr. VEDDER. That's my old line when I speak to the Ohio legislature. I say they have term limits. And I say, lookit, I got the upper hand in this debate. I think we should not get rid of student aid, either private, philanthropic, institutional, or other aid. And I would agree with Dr. Heller, who emphasized that a lot of this aid now at the institutional level has become merit-based because everyone is trying to get higher in their U.S. News & World Report rankings. That's another issue that we have not turned on.

Indeed, I think a very compelling case can be made that the 4-year state universities often have lost their way with respect to their original goal, which is to provide access to low-income students.

So not only do I agree with you, I would go one step further. And if you look at the data comparing Hispanics, blacks, whites or you look at low income or high income, and even adjust for educational quality, say as measured on the National Assessment of Educational Progress, there is a very strong smaller percentage of participation among these disadvantaged groups. It is a problem, and I am the first to admit it—and not admit it. I think it's one that is legitimately one that needs to be addressed.

Mr. BISHOP. My time is up. Thank you, Mr. Chairman.

Mr. MCKEON. Thank you. I want to thank both of you for being here. I think this is a much needed discussion, and it's something that's concerned me for years. And I don't know that I have a total answer, but I did introduce a bill last Congress that kind of awakened this discussion. And you're probably familiar with it.

I was attacked by the higher education community as imposing cost controls, and kind of the tenor of what was said was, look, we're doing a great job. We're the best in the world. Leave us alone. Send more money.

But I really am concerned that the cost of living—the cost of tuition fees is going up four times the rate of people's ability to pay, and too many students are being cut out of the opportunity of getting onto that ladder to realize the American dream.

And the study that we have says that by the end of this decade, two million students will be excluded. And I just—I don't think that's acceptable. And I think some way we need to come together and instead of fighting each other, we need to come together with the best minds—students, parents, state legislators, school admin-

istrators, financial leaders, Federal Government—we all need to come together on this problem. Because I think it reaches far beyond how we're kind of discussing it right now.

Some of us just went to China and looked at what's happening over there, and I'm concerned where we're going to be in the next 20 years vis-a-vis China and India and how we're going to be able to compete and have a trained, educated workforce.

How do you think we can get the public concerned over these costs? Or how do you think we can get the people I mentioned, everybody together to get a handle on this problem? Both of you.

Dr. VEDDER. Do you want to start?

Dr. HELLER. I'll take the first try at that, Representative McKeon. It's a difficult process, and I don't have a real quick answer to it, but I think you're right. You named the players who you need to bring together to discuss these issues. And I think that to be honest, to get colleges involved in that dialog, you need to try to bring them along voluntarily and not with the threat of any kind of legislation that's going to put undue burden on them. I mean, I've been in higher education long enough—not as long as Professor Vedder, I don't think—but I've been an administrator, a student and a faculty member in higher education long enough to know something about the way colleges work.

Mr. MCKEON. If I may just interrupt just a second. I went through this same process in '98. We did the reauthorization. I was concerned about it then, and we did that. And we talked about this and how we needed to work together harmoniously and all of those different things, and nothing changed. That's why we came out with a bill that maybe put a stick included with the carrot. So, excuse me.

Dr. HELLER. Well, you know, again, I'll be honest and say that I can't be the apologist for universities. I think that, you know, trying to get them together to talk about it is an issue. I think trying to get them to understand the real needs of parents and students, particularly lower income students, is part of that dialog.

I think that most college presidents are very concerned about that. They're the ones who get the phone calls when their child has to drop out because they can't afford that tuition increase.

But I think that a lot of the recent evidence since the last reauthorization, particularly the last three or 4 years, as I've said, when we've had skyrocketing tuition prices, is a reflection of the state of the economy, particularly with respect to public institutions.

There is no question when you look at the evidence that if states de-fund public institutions, the main other source of revenue for these institutions is to turn to students and their families. And rather than shut the doors or take away some of those seats that Chairman Boehner was talking about earlier, most institutions opt instead to raise prices. And when doing that, they try to protect the interests of the poorest students to make sure they can still afford to come and be successful once there.

But institutions have limited resources. And if the states can't bring the money and the Federal Government can't bring the money, then we are going to see the impact on poor students that

the advisory committee laid out in their report and you just made reference to.

Dr. VEDDER. If I may comment, I would agree that there are problems with congressional mandates on institutions to cut costs in certain specific ways. I think you have to give institutions a good bit of flexibility to meet their needs.

But I think there is some justification for it, nonetheless. Having said that, that's the downside. The upside is, is that the evidence is that there is in parts of the higher education community a certain arrogance, a certain sense that we are our own bosses. There's a certain lack of accountability. He talked about his university. I'll talk about mine.

We've done the same thing. We let 100 administrators go and so forth, but we also spent \$4.9 million on a new airplane for the president last year at the same time we were increasing tuition 14 percent. Now that's an arrogance I think of power and of misuse of funds, and I think those kinds of things have to be stopped.

And to blanketly prohibit universities from buying airplanes would probably be a mistake, some of them for one thing run avionics—aviation programs. But at the same time, there needs to be some limits on this kind of behavior. My suggestion of sort of cutting the dollars coming into universities is another way of dealing with this besides passing specific rules and regulations dealing with specific types of expenditures. I think it's better to cut—if you want to sort of contain that kind of behavior is to cut the dollars coming in rather than to say don't do this or don't do that. But it's an arguable point.

I commend you, by the way, for shaking up the community a little bit with your legislation. I was at a meeting with 13 college presidents last week and your name was mentioned in about every other sentence.

Mr. MCKEON. Everybody loves me. You know, when you propose one way to cut or to eliminate the dollars going in, what I was saying in my bill was they had 8 years just to get the—to cut their increase down to twice the rate of inflation. And if they couldn't do that, then all we were talking about was why should we continue to give you some of the money that we're giving you now?

Dr. VEDDER. I think—well, my testimony was consistent with that in one point today.

Mr. MCKEON. I know.

Dr. VEDDER. It's a—it has promise.

Dr. HELLER. Representative McKeon, just to be fair, I think that a lot of the objection was the concern that it would be students ultimately, particularly lower income, lower or middle-income students who would be punished by their institutions no longer being eligible for grants and/or loans. So I think that's what a lot of the concern was on the part of the institutions.

Mr. MCKEON. But the students could take their Pell Grant, and they could go to the schools because we asked the schools to put on a website where we could make apples-to-apples comparisons where parents and students could make better decisions on going to a school instead of saying, well, it's go to be Harvard or Princeton because they have, you know, 100 years of credibility, we could go to the schools that are doing a good job of providing education

and controlling their costs, and we can still get a good education and we can afford it.

Dr. HELLER. I agree wholeheartedly. More information for parents and students can only help in the process of understanding which college charges how much money. I wouldn't disagree with you at all about more information.

Mr. MCKEON. Thank you, Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. Thank you to both of you for being here, for your challenging comments. If we could go back a second just to a discussion about the value of a university education.

And I believe if I'm not mistaken, Dr. Vedder, you said something to the extent it wasn't so much for what students learn in college but that the diploma certifies a high probability that there is some minimal level of competency. Is that the way you would characterize your university?

Dr. VEDDER. That's a sort of a simplified—yeah, in a simplified form, I have said that. I didn't say that today, but I have said that, yes.

Mrs. DAVIS. I guess I'm wondering how the people at the university reacted to your statement.

Dr. VEDDER. Well, it's—incidentally, there's a long literature for the last—the university, we don't even want to go on that route. In the last 30 years, there's been a literature in economics—this is not new, it goes back to the '70's—that argues that higher education in part is a screening device. It's a way for employers to, in a quick and dirty way, without spending a lot of money, to find out whether a prospective employee has a certain level of competence.

And in effect, those pieces of paper, while they don't prove—absolutely guarantee anything, they do increase the probabilities, the likelihood that a person will be reasonably literate, will be reasonably sober, reasonably energetic, et cetera. And these are skills that are increasingly desired.

Given the, some argue, decline in K through 12 standards—that's debatable, I know, but the gap has widened and so forth. And so the issue is, when kids go to college, are they getting—is the return because of what they learned in college or is the return from these other things? And the answer probably is both. Certainly an accounting major in college is learning practical skills, or an engineering major, that is very directly germane to their employment. I don't deny that.

But there is also this other dimension, and that makes it difficult in assessing the returns to higher education, to society and so forth. It makes it very difficult to measure those in a direct, specific way.

Mrs. DAVIS. But I guess that would certainly drive whether or not people feel that it's an important thing to be in those institutions.

Dr. VEDDER. Sure.

Mrs. DAVIS. Dr. Heller, did you have a—want to respond?

Dr. HELLER. Dr. Vedder is absolutely right that when people go to college and then they go off into labor markets with that bachelor's degree, for example, they're getting the benefits of both, whatever human capital, intelligence, the other characteristics that

Professor Vedder referred to, as well as the knowledge that they gained, the skills they gained in college, as well as that stamp from that college.

And there's a reason why people are willing to spend \$40,000 at a private institution when they could get a bachelor's degree in the same field for less money at another institution.

But I think Professor Vedder said it accurately that it's both of those functions that's happening in universities. If all universities did was to put that stamp of approval on people, then we'd be doing a great job of hoodwinking about 17 million students. And the fact that students still want to pay for a college degree is an indication that they believe that there's added value there. Otherwise, a bright 18-year-old would go off to an employer, let's say go off to Riggs Bank in Washington, and say, hey, I'll agree to work for you for free for 6 months to prove to you I've got all those characteristics you want. You then pay me a salary after 6 months. And they'd save a lot of money from going to college. But that's not the way things work.

Mrs. DAVIS. Yeah. We certainly have plenty of examples of people who dropped out of college and went on to be very successful individuals.

Dr. HELLER. Right.

Mrs. DAVIS. So I think that makes your point. But I am interested in knowing, given that, that that's probably true, that it has a lot to do with our—really our model of college graduates, that we can fully address educationally what in fact students are getting into and how parents can be educated in order to make those choices, whether again it's an expensive school or whether it's a nonexpensive, you know, a school that is less expensive.

Dr. HELLER. Right.

Mrs. DAVIS. And how we get there is an open question. You also referenced the probability or I guess the issue of whether or not transferability between public and for-profit and not-for-profit schools. What role should we be playing in the universities in order to enable students to do that? Should the accreditation institutions be engaged in that discussion, and how should they do that?

Dr. VEDDER. One thing I am seeing, for 20 or 30 years, the junior college, 2-year colleges in the '70's and '80's were actually losing enrollment relative to the 4-year schools. Because as people, as the Nation became more affluent, more and more people wanted to go to, quote, the "better" 4-year colleges. Whether they're better or not, I don't know. The more expensive colleges.

In the last few years, it's kind of trended the other way. More and more people are going to 2-year colleges I think because of affordability issues. And a strategy that I'm hearing increasingly—my wife is a guidance counselor, so I hear this in the guidance counselor community—is let's send the kids, Johnny or Susie to junior college for 2 years and then let them transfer into the 4-year university and thus save some money because the 2-year schools have considerably lower tuition charges. It's a strategy that I think is one way of dealing with the affordability access issue. And I'm just saying let's not put obstacles in that happening as we go along and be sure that Federal policy is consistent with allowing that to happen.

What that means in terms of specific statutory language or even changes in current law, I am not sure. But I'm just saying as a matter of principle, we should allow transferability to occur because it aids in the process of affordability and access and it aids in competition.

Mrs. DAVIS. Dr. Heller, did you want to comment?

Dr. HELLER. I would be very reluctant to encourage this Committee or the Congress to get involved in telling institutions what they should do with respect to transfers and who they should allow to transfer into their institutions.

I think that we've made a lot of progress in recent years on establishing articulation agreements that spell out in good detail for students what they need to do in a 2-year institution, for example, to be then prepared to transfer to a 4-year institution and a bachelor's degree program. And a number of states have made state-wide agreements. Florida is a good example of this, where they've gone to a unified system that says that English 101 in a community college is the same as English 101 at the University of Florida. And I would not encourage this Committee to get any more involved in that, and I think the system is working well as it is.

Mrs. DAVIS. Thank you. I appreciate that. Mr. Chairman, if I may, just for a second, I think at least in the University of California system, a lot of students basically have been forced to go to community college because they just don't have the seats there available to them, so that we're preparing a lot of kids who actually are getting in at university level, you know, with four points—four point averages, and they're still not able to find a seat.

Thank you.

Dr. VEDDER. But that's partly because the colleges have themselves, in the case of California it's partly state law, but it's partly some of the state universities have tried to act more like private schools, and I think they've gotten far away from the notion of access as a major goal helping poor kids.

We want to get higher in our U.S. News rankings and so forth, so we've become more selective and we've rigidly let enrollments, you know, be limited to 18,000 or 19,000, whatever, getting to the question of seats that was raised earlier. We're not increasing seats in some cases as I think we intended when the Morrell Act and other legislation was passed.

Chairman BOEHNER. The Chair recognizes the gentleman from Puerto Rico, Mr. Fortuno.

Mr. FORTUNO. Thank you, Mr. Chairman. Dr. Vedder, you mention briefly the Colorado voucher program. Could you expand a little bit on that?

Dr. VEDDER. Well, I'm not an expert on Colorado, but last year—and it's an interesting scenario of political events how it happened. It related in part to their taxpayer bill of rights Tabor amendment which restricted state expenditures, and one way to get around that was to give vouchers to kids rather than to institutions. Apparently that got around the Tabor limits.

And so even Betsy Hoffman, who was president of the University of Colorado, supported this move. It was a move that was opposed by the higher education community. As I understand it, and I may have these numbers wrong, Congressman, in the fall of 2005, I

think \$1,200 vouchers will be given to all students who attend schools in Colorado, all public institutions and the case of lower income students, three private institutions, including Colorado College, which is probably arguably one of the finest liberal arts colleges in the United States west of the Mississippi. And you can talk to the president of that college, and they're very much excited about this, a former Democratic Governor, by the way.

So this is the plan. The Governor of Colorado wants to expand that to a larger amount in future years. There's several states have said let's keep state appropriations constant in dollars and give incremental or increased money not to institutions but to the students in this forum. I think it's an interesting idea, and it would be interesting to see how it works. I am fairly optimistic that it will have no negative effects. As to the extent of positive effects or not, obviously I would agree that until it's done, we don't know.

Mr. FORTUNO. Do either of you know of any other similar examples in other states?

Dr. HELLER. It's pretty widely recognized that Colorado is the first state to do this with the state funds. I mean, you know, certainly there's an aspect of vouchers to Pell Grants in that they're portable and students can use them at any one of the 6,000 Title IV eligible institutions. Many state grants are similarly portable that way. But this is the first state that has decided to take a portion of the appropriation and turn that around to a voucher for the students.

Mr. FORTUNO. Thank you. Dr. Vedder, you also mentioned the idea for privatization of universities. Could you expand further on that?

Dr. VEDDER. Pardon? I didn't hear.

Mr. FORTUNO. Privatization of universities. And I have some questions about accountability and oversight issues regarding the privatization of universities.

Dr. VEDDER. Organization, accountability issues?

Mr. FORTUNO. Yes.

Dr. VEDDER. Well, that's a broad question, Mr. Fortuno, but universities don't face the bottom line of profits. Most government—but a lot of groups that are at least partially governed by the political process face some accountability from the political process. Government agencies, for example, have political accountability.

Universities are somewhat unique in that even state universities, although they face some rules and regulations and they certainly face the financial constraint imposed by the state, they have a high degree of independence. And I think in some cases for justifiable reasons, for academic freedom reasons, for reasons we want our universities to be -- we want them—we want people to express themselves freely and so on.

But it does sometimes have a cost in terms of leading to behaviors that are not dealt with in any important way through any—there's no huge accountability. We have 35, 40 percent attrition rate. No one has mentioned attrition in this room. And incidentally, they're hard to—how do you measure attrition? It's hard to measure. But 6-year graduation rates at universities. Many universities are, you know, 50, 60 percent of the entering people.

Why don't we hold the universities accountable in that area? Why don't we say if you're—get your attrition rates down, we'll give you more money? Of course, one way you can get the attrition rates down is give everyone A's, you know. So there are issues here. I mean, there are ways you can deal with it that are not acceptable.

So this is an issue. The football coach is held accountable. Did I have a good year last year or not? We have student evaluations for me. Even if they're bad, though, I keep teaching because I have tenure. You know, there's no measure. Whereas in the private sector, by and large, there is a measure, and we use that to govern—to help condition behavior. And we don't have that sort of conditioning of human behavior in a positive way in the higher education community. And the for-profits do to some extent. And that's why I find that an interesting experiment to see how they're going to develop over time, and they're growing 20, 30 percent a year, which says that maybe there's something in that model that is useful.

Mr. FORTUNO. Thank you, Mr. Chairman.

Chairman BOEHNER. The Chair recognizes the gentleman from Massachusetts, Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman. Dr. Vedder, I take it you weren't offering back your tenure?

Dr. VEDDER. Pardon? I—

Mr. TIERNEY. You weren't saying that you wanted to give up your tenure. I didn't think so.

Dr. VEDDER. I'm actually semi-retired, so I even am better than tenured. I have a pension coming in, too.

Dr. HELLER. If they'd pay us like the football coaches, some of us would be willing to give up our tenure very quickly.

Mr. TIERNEY. Exactly. Exactly. Let me focus on just one aspect of this, because I mean there are parts—I think we can reach agreement on all of this. The Chairman mentioned the lack of new seats in education. I think that's a critical problem. If we're talking about a need to have a global competitive strategy, it means giving more people higher education so that they can take the jobs at the higher level. And I think it was Tom Friedman who said something to the effect that China and India aren't racing us to the bottom, they're racing us to the top. So we've got to do that.

But I think when you look at the number of people that need access and affordability, I think that public higher education should play a greater role, and I think in states like mine in Massachusetts and other states that deemphasize that. We have a lot of nice private institutions, and they sort of think that's going to take care of itself.

We have a lot of people that are just falling by the wayside, and if we want to start competing in numbers with China and India and others, we had better find a way to get those people into the education process and through it to the top.

So in Massachusetts, the state senate just came down with a report saying that investment in public higher education in Massachusetts has gone down about 36 percent in the last several years. I think that's indicative of what's happening in many states across the country. Would you agree with me and the state senate in that,

that in fact that's the case, that public investment by states in their public higher education has gone down significantly?

Dr. HELLER. Yeah. As I said in my testimony, since 2001—

Mr. TIERNEY. I'm don't—I'm not going to interrupt you, only because I—I just want—both of you agree to that?

Dr. HELLER. Yes.

Dr. VEDDER. It's happening.

Mr. TIERNEY. Let me ask you the next question on that then. Would it be appropriate in each of your minds to have Federal policy encourage states to better support public higher education in one way or another? Either by conditioning something on that or by somehow encouraging them to do that, that they've got to be a full partner in this just as the Federal Government and families are?

Dr. HELLER. I think anything the Federal Government can do to encourage states to invest their own funds is a step in the right direction for the reasons that you stated, Representative Tierney. The LEAP program, for example, is a good example of a Federal program that can encourage state behavior by providing matching funds when states invest in—

Mr. TIERNEY. It would be if the President wanted to fund it, but unfortunately, that's not the case. Dr. Vedder?

Dr. VEDDER. Well, you know, this is going to sound heretical, but it wouldn't be the first thing I said today that does. Massachusetts is one of the few states in the Union that spends less than 1 percent of its personal income on higher education through state appropriations, one of the few. There are several—a few others.

You go next door or nearly next door to, say, Vermont, they pay—spend two, two-and-a-quarter percent. But which state has the larger percentage of college graduates among its adult population? It's Massachusetts. Now there are reasons—part of it is—

Mr. TIERNEY. Which state has more private institutions.

Dr. VEDDER. Yes. It's a history of private education. But that's—there are schools.

Mr. TIERNEY. Can I just—

Dr. VEDDER. They're educating kids. That's the issue.

Mr. TIERNEY. Can I just focus you on this? Do you—you agreed with me earlier I think that the states have to step up to the plate, you know, that they have to, you know, start supporting public higher education.

Dr. VEDDER. No, I don't agree.

Mr. TIERNEY. You don't agree with that? You think that states should be given a walk on this?

Dr. VEDDER. I'm not saying I necessarily favor the elimination of state support immediately over higher education, but I don't necessarily draw that conclusion, given the empirical evidence that the proportion of kids going to college does not seem to be very closely related to the amount of state support going to education.

My goal is to see kids go to college. And if state support is not having a big impact on their going to college, or at least it's unclear whether it's having a big impact, then I think we need to think about that.

Mr. TIERNEY. Dr. Heller, do you think it's unclear that the state support for public higher education makes an impact?

Dr. HELLER. I think the evidence is very clear. In my written testimony—I didn't speak too much on this in my oral testimony, but in my written testimony, I talk about the fact that there are a number of studies out there that show that there is a positive social return, not to the individuals, not just to the individuals, but states and the Nation benefit from the public investment in higher education, and I think those are very good studies that demonstrate that.

The other point is that we've got states now spending about \$65 billion on public higher education. And I just can't believe that all of our 50 states are so hoodwinked that they'd be spending that money if they didn't think that there was a return other than to the individuals attending those colleges.

Mr. TIERNEY. I suspect the business community would feel hoodwinked also, because they're constantly pounding for this type of investment.

Do you think that the dissemination—the Federal Government's role would be appropriate to identify best practices of colleges and universities that are in fact putting in place good cost containment things and disseminating that amongst the other universities and colleges?

Dr. HELLER. I think that's a wonderful idea. The Department of Education has a program called FIPSE, the Fund for the Improvement of Post-Secondary Education, and that's exactly what a lot of the grants in that program are intended to do, is to identify best practices in areas like efficiency and productivity and then to promulgate those to other universities. So I think that's a great role for the Federal Government, and I would like to see that program continued.

Dr. VEDDER. In principle, I agree, too.

Mr. TIERNEY. I'm happy to go on, but I think I'm out of time.

Chairman BOEHNER. The gentleman's time has expired. The Chair recognizes the gentleman from New Jersey, Mr. Holt.

Mr. HOLT. Thank you, Mr. Chairman, and I thank you, Dr. Vedder and Dr. Heller, for interesting testimony. I'd like to pursue some of the more, well, outrageous statements that you've made, Dr. Vedder, but let me not do that.

I do want to mention that Ms. Jennifer Surovy in my office has launched on a career in public service because she was inspired by you as a student.

Dr. VEDDER. Oh, really?

Mr. HOLT. Even though she says that she's pretty much unconvinced by most of your arguments.

[Laughter.]

Dr. VEDDER. Strange things happen in the world.

Mr. HOLT. I must say that intemperate, provocative statements may be better for inspiring students than making policy.

Dr. VEDDER. It's a great teaching technique, I'll tell you.

Mr. HOLT. It is, indeed. Let me, rather than pursue those, let me get to the basic—and I should thank you for inspiring her, by the way. She is really contributing to help people in many ways. Let me get to the basic question. There's a lot of wailing and gnashing of teeth about increased cost of higher education, and Mr. McKeon has spent a lot of time on that.

But I'm trying to understand, and I'm asking this question without any bias, what is the harm that's being done? Is it, as Mr. McKeon says, that people are being excluded from the American dream? Which seems inconsistent, Dr. Vedder, with your statement that in fact we've pumped up demand so much that there are more people going to college, that there's still upward pressure because there's more demand than colleges can handle. Or, is the problem that it just doesn't seem right that their prices are going up faster than inflation? And just, you know, it's hard to justify that.

Well, then, should Mr. McKeon introduce a bill that puts price controls on pharmaceuticals which are going up faster than inflation, or should he look at computers that are going up in price slower than inflation and mandate price increases? What is—what is the problem that we're trying to address here? And then if there's time, a subsequent question more specific is, what should we be doing with Pell Grants?

And back to the first question about what harm is being done, we all agree, or you all agree anyway, that it is for an individual a good investment and for society a good investment, even at today's prices. You come out ahead, we come out ahead if more students go to college.

So what is the problem we're addressing?

Dr. VEDDER. Well, you've asked a question that—

Mr. HOLT. I'm asking both of you, so please allow time for each other.

Dr. VEDDER. Yeah. You've asked a very long—a very broad question. Let me say right away, I'm not sure I completely agree with what you said that I agreed with; namely, that society is getting a good investment from higher education. I'm not saying higher education is bad or disastrous. I'm saying there are individually high returns to higher education.

I'm not so sure that society or governments or the people are getting higher returns. The states in the Union with higher rates of economic growth in the last quarter of a century are not surprisingly the states that have spent a lot of money on higher education. And I have some discussion of that in my book.

We have had more kids go into higher education than ever before. That's the plus. And I agree with Dr. Heller, it's a plus/minus thing. But if you look at Hispanics, just to pick one group, that I happen to remember a statistic from, the percentage of Hispanics going to college that are between the ages of 18 and 24 are no higher today than they were in the mid-1970's. Indeed, they're slightly lower. Now that's not true of other groups. Most groups have risen somewhat. But we have these huge gaps. So maybe we're dropping a lot of money into student assistance, \$80 billion of Federal money, but are we getting a huge increase, a big increase for the amount of money spent in the number going to college? What is the relationship per student between the amount of money we spend at the margin and the number going to college? I think you'll find it's a pretty—it's not a very strong relationship because of these tuition increases eating up a lot of the gains.

Mr. HOLT. Dr. Heller?

Dr. VEDDER. And to me, that's the issue we're talking about here today.

Dr. HELLER. Congressman Holt, I think the major problem is, as I stated earlier, is that even with all of the money we are spending on financial aid, which totals about \$120 billion a year from all the sources, we still have students who are being left behind.

As I mentioned, 400,000 students who are academically qualified by the Department of Education's own standards to go to a 4-year institution but weren't able to afford to go there, and 170,000 who couldn't even afford a community college, even though they were academically qualified to go. That is what I see as the major problem here.

Chairman BOEHNER. Well, let me, if I could follow up on the gentleman's point, the goal, the No. 1 goal, of the Higher Education Act is to ensure access for low- to moderate-income students who are qualified.

Dr. HELLER. Right.

Chairman BOEHNER. And the fact is, is you give the same numbers that we have, about 400,000 students couldn't attend last year. We also know that over the last 20 years, state spending on higher education has declined. Federal spending on education has increased dramatically, basically taking up the slack. I think the big question for all of us is, what do we do as we move forward in the reauthorization process? I'll ask both of you.

Dr. HELLER. Well, I think that as I said earlier, the Pell Grant program is one of the best financial aid programs of all out there because it's targeted at the students who need the financial assistance. So certainly in terms of structure, Pell Grant is very well structured, and I think the only problem with it is that we need to find a way to get a commitment to students earlier in their educational careers, and also to try to return the purchasing power of Pell to something approaching what it was back in the 1970's. If we can't get it to 80 percent of the average cost of attendance, let's try to get it back there. And I recognize that the President has submitted a budget that does call for a small increase in Pell over 5 years, but I'm afraid that that's going to be a very small part of that road back.

Dr. VEDDER. I think that we need to get more efficient use of the money we give out. Part of it you give out in the form of various forms of aids and grants, tuition tax credits and the like, and I don't think we're getting a high return on that investment. And one way to do it is to target a little more than we have who gets these grants. Is it, for example, possible for a student in their fifth or sixth year in college to get a Pell Grant, or to get a grant? To get a Stafford loan?

Chairman BOEHNER. How about year 17?

Dr. VEDDER. Or year 17. I think these are questions that are legitimate ones to ask. Society may have an obligation to offer access to students who take that seriously and work hard and perform at least adequately well, not necessarily 4 point averages, but do well. Do we have to serve everyone though? Do we have to serve the student who gets into problems with disciplinary problems, that is immature, who is in their fifth or sixth year in college? Some will say, well, we don't have many of those kinds of students. Nonsense. Look at the data. We have lots of those kinds of students.

In other words, we need to get a little more hard nosed about it and target the money to the deserving poor. And I would agree that the deserving poor, maybe we should have bigger Pell Grants for them. I'm not opposed to that. In my testimony, I actually raise that as a point. I agree with Robert Reich, who—the principal who argued for progressive vouchers. Let's give more to the poor than to the rich. I think that's what public policy is about. I'm all for that. But let's get more efficient and smarter about it, and I don't think we are.

Dr. HELLER. When we look at why students drop out of college, Chairman Boehner, and particularly lower income and middle income students, they're dropping out because they're running out of money. They're dropping out because they're working too many hours, and they're not able to afford to go to college without working all of those hours. They're not dropping out because they're out in riots—

Chairman BOEHNER. I'm well aware of that situation. I was there. I went through it. I see the picture. And obviously to the extent that we can guarantee them a sufficient amount to get started, chances are they're going to do better. But given the ever-increasing prices, it's a struggle for all of those involved.

Let me just say thanks to our witnesses today. Oh, let me recognize the gentleman from California.

Mr. MCKEON. Mr. Holt left, but he referred to me several times. I'd like to just say a couple of things.

Chairman BOEHNER. You want to defend yourself?

Mr. MCKEON. Yeah. One thing is our population is growing, OK? And as the population grows, we're not saying that every student that graduates from high school wants to go to college. What we're talking about is those that graduate from high school that do want to go to college, and they are being cut down. Even though more people are getting Pell Grants, more money has gone into Pell Grants, we've doubled Pell Grants in the last 10 years, we can't keep up. That's I think the problem.

And then the question the Chairman asked about additional seats, the capacity has not expanded to keep up with the number of students. And so that drives the cost demand, that drives the cost up. And one of the things that a member of the higher education community told me, he says, well, you know, this is free enterprise. Leave us alone. This is free enterprise. I said it's totally different than free enterprise. I mean, in my business, I had to go out and make a living, and at the end of the year write a check for 5 percent and send it to the government. In turn, we send him a check for 35 percent and it's—and the difference is amazing. Because until we have more seats than students, then they're not competing for students. They might be competing for some students, but while they're turning students away, there is no competition for that student.

And I just think that this is something that we do need to grapple with. I appreciate your—both of your testimony here today, and it stirred the pot, and I think we've had a good hearing. And thank you, Mr. Chairman.

Chairman BOEHNER. And I think that's the whole point of today's hearing was just to help move the blinders back a little bit and

have people consider, you know, where we are, what our goals are, and the challenges that we're going to have in trying to reauthorize the Higher Education Act.

The hearing stands adjourned.

[Whereupon, at 3:43 p.m., the Committee was adjourned.]

