

**Dr. Donald E. Heller  
Dean, College of Education  
Michigan State University  
East Lansing, Michigan**

**Testimony before the  
Committee on Health, Education, Labor, and Pensions  
United States Senate**

**Making College Affordability a Priority: Promising Practices and Strategies  
July 19, 2012**

Chairman Harkin, Senator Enzi, and Members of the Committee:

Thank you for the opportunity to address you on this critical issue affecting our nation. I come to you today as someone who has been conducting research on financial aid and tuition pricing policies, and their impact on college access, for over fifteen years, and not as a representative of Michigan State University.

As you are aware, tuition prices in colleges and universities have skyrocketed. Over the last three decades, tuition prices in both public and private institutions have grown more than three times faster than inflation, or more importantly, more than three times faster than median family income in the nation<sup>1</sup>. This phenomenon has been well documented and analyzed by the Department of Education, Congressional committees, the media, and researchers. The purpose of my testimony today is not to examine the reason behind these rising prices, but rather, to discuss what governments and colleges and universities can do to ensure that college remains accessible for all students who are able to benefit from a postsecondary education.

I am going to focus my remarks on what we can do to promote college access and success for students from low- and moderate income families, because it is these students who are on the margins of attending college. If we are to achieve President Obama's goal of returning the United States to world leadership in educational attainment, it is these students on whom we need to concentrate our efforts.

In discussing college prices, we need to distinguish between two important concepts: 1) the sticker price, or the posted price on college websites or admissions materials; and 2) the net price, or what students are actually charged after financial aid is taken into account. For poorer students, the sticker price of

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<sup>1</sup> College Board. (2011). *Trends in college pricing*. Washington, DC: Author; and U.S. Census Bureau. (2012). *Race and Hispanic origin of householder--Families by median and mean income: 1947 to 2010*. <http://www.census.gov/hhes/www/income/data/historical/families/f05.xls>

college is what drives their perception of what it costs to attend college. In a world of perfect information about prices and financial aid, we would not have to concern ourselves with sticker prices, as students would be able to quickly and accurately calculate the true net price they would face.

But this fantasy world does not exist. Instead, the world of higher education finance is a complex and mysterious place, particularly for these low- and moderate-income students, and for those who are the first in their family to attend college. While the Department of Education and some higher education institutions have taken important steps to disseminate better information about financial aid, there is still much that needs to be done.

The hundreds, if not thousands, of studies that have been conducted on financial aid<sup>2</sup> provide us with a very clear picture of what we need in our college financing policies to ensure successful college participation for these students:

- They base their college-going decisions primarily on the posted sticker price on college, so we need to ensure that our financial aid programs are simple to understand, are easily accessible, and provide information early enough in students' lives so that they and their families can make good decisions about preparing for college both financially as well as academically.
- Grants have been shown to be much more effective in promoting college participation than are student loans. While loans have become an important tool for those from middle- and upper-income families, poorer students have been shown to be more averse to borrowing to finance their college education. They instead will often choose to enroll only part-time and work more hours, behaviors that we know are detrimental to completing a bachelor's degree program. Thus, grant aid is particularly critical for ensuring their access to and progress through postsecondary education.
- Almost thirty percent of the grants awarded by states to undergraduate students, and 55 percent of those awarded by institutions, were awarded without means testing. Research has consistently shown that these merit grants are awarded disproportionately to students from wealthier families.<sup>3</sup> The most effective grants are those that are targeted on the poorest students, as federal Pell Grants are, so we need to encourage states and institutions to refocus their efforts on supporting students with financial need.

We should not let our higher education institutions off the hook with respect to their obligations to ensure that they are doing all they can to keep tuition price increases in check. Some observers have

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<sup>2</sup> For an overview of this literature through the years, see: Baum, S., McPherson, M., & Steele, P. (Eds.). (2008). *The effectiveness of student aid policies: What the research tells us*. New York: The College Board; Heller, D. E. (1997). Student price response in higher education: An update to Leslie and Brinkman. *Journal of Higher Education*, 68(6), 624-659; Kim, J. (2010). The effect of prices on postsecondary access: An update to Heller. *Higher Education in Review*, 7, 23-46; and Leslie, L. L., & Brinkman, P. T. (1988). *The economic value of higher education*. New York: American Council on Education/Macmillan Publishing.

<sup>3</sup> See for example Heller, D. E., & Marin, P. (Eds.). (2002). *Who should we help? The negative social consequences of merit scholarships*. Cambridge, MA: The Civil Rights Project at Harvard University; Heller, D. E., & Marin, P. (Eds.). (2004). *State merit scholarship programs and racial inequality*. Cambridge, MA: The Civil Rights Project at Harvard University.; and Heller, D. E. (2006). *Merit aid and college access*. Madison: Wisconsin Center for the Advancement of Postsecondary Education, U. of Wisconsin.

argued that federal financial aid serves little purpose other than to provide incentives for colleges and universities to raise their prices. But there is no credible evidence to support this proposition.

The most thorough and authoritative analysis that has examined the reasons behind tuition price increases was mandated by Congress in the 1998 reauthorization of the Higher Education Act, and was published by the Department of Education in 2001 during the administration of former president George W. Bush.<sup>4</sup> The key finding of this report was that the primary driver of tuition price increases in public institutions – where over three-quarters of our undergraduates attend college – is the change in state appropriations. As states invest less money in their colleges and universities, the institutions respond by raising prices faster. This study found *no relationship* between the availability of federal and state grants, or student loans, and tuition price increases in either public or private not-for-profit institutions.

When colleges and universities do raise prices, they have an obligation to ensure that they also increase their own institutional aid programs in order to hold harmless low- and moderate-income students. Let me give you one example of how my institution, Michigan State University, has done this. Last year, when the State of Michigan cut our appropriation by 15 percent, our Board of Trustees voted to make up for some of this cut by raising tuition 6.9 percent. But it also increased our grant budget by 10 percent, with 83 percent of grant dollars awarded to undergraduate students going to those with demonstrated financial need. For next year, when the Board voted to increase tuition by 3.5 percent, it increased the grant budget by 6.5 percent. It is this kind of commitment to increasing need-based grants at a higher rate than tuition increases that should be encouraged in other institutions, public and private alike.

This year we are celebrating the 40<sup>th</sup> anniversary of the creation of the Higher Education Act's Basic Educational Opportunity Grant program, later renamed Pell Grants after one of the program's chief supporters, the late Senator Claiborne Pell of Rhode Island. This program has long received bipartisan support from Congress, and the members of this Committee and its counterpart in the House should be applauded for that support. One major problem with the Pell Grant program is that its maximum awards have not kept pace with the increase in tuition prices, so I would encourage you to restore the purchasing power of Pell Grants.

A second problem with Pell Grants is that most of the students who are eligible for them are not aware of that eligibility until late in their senior year of high school, after they have already applied to a college, been accepted, and are presented with a financial aid offer. This process does not help those students who are wrestling earlier in their high school careers with the question of whether they can afford to attend college.

To address this problem, I would encourage you to fund a small provision in the last reauthorization of the Higher Education Act in 2008. Section 894 of the Higher Education Opportunity Act authorized the "Early Federal Pell Grant Commitment Demonstration Program," an innovative program that would test the efficacy of awarding Pell Grants to eligible students while they are in the eighth grade. The idea is that by awarding the grants to students when they are in middle school, they would have four years of

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<sup>4</sup> Cunningham, A. F., Wellman, J. V., Clinedinst, M. E., & Merisotis, J. P. (2001). *Study of college costs and prices, 1988-89 to 1997-98, Volumes 1 and 2*. Washington, DC: U.S. Department of Education, National Center for Education Statistics.

high school to prepare themselves academically, socially, and financially to attend college. The demonstration program was modeled on the success that has been shown by similar state efforts, such as Indiana's 21<sup>st</sup> Century Scholars Program. That initiative, in place for over 20 years, provides a guarantee to middle school students who are eligible for free or reduced lunch that the state will pay all of their tuition at a public college or university in the state after they graduate from high school.

The demonstration program authorized by section 894 of the Higher Education Opportunity Act would be a very modest effort that has yet to be funded. I would encourage you to work with the Department of Education to fund and implement this program so that we may learn how we can make the Pell Grant program even more effective than it already is.

I have taken more than enough of your time, so I will close by once again thanking you for the opportunity to address you today. I would be happy to take your questions after the remaining witnesses have testified.