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# FROM LOW INCOME AND MINORITY ACCESS TO MIDDLE INCOME AFFORDABILITY: A CASE STUDY OF THE US FEDERAL ROLE IN PROVIDING ACCESS TO HIGHER EDUCATION

## 1. INTRODUCTION

In this chapter, we focus on a major turning point in US policy, the decision to shift most federal dollars for higher education from direct subsidies to institutions to need-based assistance to students. The shift was part of a strategy for transforming a meritocratic higher education system still trying to adjust to the imperatives of the civil rights era into one where the opportunity to attend higher education was the right of every individual without regard to race, gender or economic circumstances. Student decisions about where to attend college have subsequently come to determine in large measure the amount of federal aid to institutions and through this transition have helped to bring about the shift to quasi markets as a major influence on institutional decisions.

The story began with a near-national consensus (except among representatives of the higher education community) on the need to address past inequities in schooling opportunities and their impact on life chances by providing need-based financial assistance to students, remedial education in postsecondary institutions, and affirmative action to ensure faculty and student diversity. While this consensus gradually disintegrated over the ensuing years, the commitment to expanding educational opportunity through some form of individual need-based assistance has remained strong for more than two decades despite some twists and turns that surely were not anticipated by those who formulated the original policy reforms.

In this chapter, we draw on recent work by the Alliance for International Higher Education Policy Studies (AIHEPS) to describe the federal context for higher education in the US and to provide a brief overview of the foundations of the student funding reforms (Prisco, Hurley, Carton and Richardson 2002). We then provide a more detailed narrative of the development of the reform and the turns it has taken in the thirty years following the enabling legislation. We then show how federal policies interact with state policies to produce differential impacts on key outcomes in four US states. Finally, we report some of the changes in US higher education, both intended and unintended, that have accompanied the access reform.



*Å. Gornitzka et al. (eds.), Reform and Change in Higher Education,* 305-324.

## 2. THE FEDERAL CONTEXT

Because the Tenth Amendment to the US Constitution effectively delegates all authority for education to the 50 states, each defines and develops its own arrangements for higher education. With the exception of land grants and sporadic appropriations, a substantive federal role in higher education emerged only in the closing days of World War II with the passage of the Serviceman's Readjustment Act of 1944 (GI Bill). Along with the post-World War II baby boom, the GI Bill set in motion forces that culminated in a national transformation from elite to meritocratic, and then to mass or universal higher education. This transformation placed substantial pressure on states to create new and expand existing public institutions to absorb the enormous growth of new enrolments.

Until the mid-1960s, federal support for higher education consisted primarily of research, development and student or institutional subsidies in areas defined as national priorities. This changed with the Higher Education Act of 1965, an omnibus bill covering such items as community service and continuing education; library assistance, training and research; strengthening developing institutions; student assistance; teacher programmes; and facilities construction. To support these activities, Congress appropriated $804 million. Even with such unprecedented investment, the clear intent of federal policy makers was that higher education remain a federal concern but a state responsibility. To this end, the enabling legislation specifically stated that federal authority did not extend to the curriculum, administration, personnel or library resources of any institution.

While the most significant governance structures – for both public and private institutions – exist at the state and local levels, there are exceptions to the general rule of state dominance. Formal federal influence over institutions of higher education occurs in such areas as: (a) congressional legislative enforcement under the Fourteenth Amendment (equal protection); (b) research and development appropriations; and (c) matching funds generated by federal legislation in the area of loans for postsecondary students. Title VII of the Civil Rights Act of 1964, for example, makes no mention of higher education institutions, yet applies to all public institutions and private institutions receiving federal funds. Likewise, Title IX of the Education Amendments of 1972 (opportunities for women) and the Americans with Disabilities Act of 1991 further extend requirements for equal protection to groups of citizens for whom different treatment had been the norm.

The legacies of the GI Bill, the National Defense Education Act, and the Higher Education Act endure, serving as the foundation for current relationships between the federal government and higher education in the United States.

The federal government influences higher education behaviours and outcomes primarily through altering the terms under which financial resources are made available. To achieve national objectives, the federal government funds: (1) individual students directly via student financial aid; and (2) individual institutions (primarily for research) through incentive grants based upon a competitive proposal process. Attached to funding streams are regulatory requirements.

Both private (commonly referred to as 'independent') and public institutions receive federal funding and are therefore bound by the rules and regulations that accompany these funds. The federal government's policies are uniform for every state and for any institution that participates in the federal funding programmes. The states have general oversight over institutions within their borders, and exercise governing control over public colleges and universities. The degree to which private institutions follow state guidelines depends on state policies. Some states provide financial assistance to eligible residents regardless of whether they attend public or private institutions. A few provide direct subsidies to private institutions, either in the form of per capita grants based on the number of residents who attend or graduate, or through contracts for student spaces in such specialised programmes as engineering, medicine or dentistry. The more support a state provides to private institutions, the more likely it will exercise regulatory authority. Federal and state policies do not necessarily align and, in the words of a senior policy analyst interviewed for the AIHEPS study, "If they do, it is probably accidental".

US trends in funding for postsecondary education have shifted over the past 20 years. From 1975 to 1985, federal funding for higher education decreased by 27 per cent. From 1985 to 2000, it increased by 21 per cent (National Center for Education Statistics 2000). Both public and private institutions experienced a decrease in the percentage of their current fund revenues that came from government sources. The sources that have compensated for the shortfall are striking. The public sector has come to rely more on tuition revenue, while the private sector has become more reliant upon endowment income.

## 3. THE ACCESS REFORM IN CONTEXT

The National Defense Education Act of 1958 (NDEA) set in motion political forces that were to alter profoundly the relationship of the federal government to the nation's schools, colleges and universities (Brademas 1987: 8). Providing direct grants, loans and fellowships to college students for the first time, "the Act came closer to being an out-and-out education measure than any previous legislation" (Rivlin 1961: 119). The provisions for the student loan programme indicated congressional concurrence that helping undergraduates finance their education on a continuing basis was in the national interest. The NDEA also reinforced the federal government's use of higher education as a means to an end: national defence, while representing as well a quantum leap in the acceptable size and scope of the federal role in higher education (Gladieux and Wolanin 1976; Parsons 1997).

The following decade featured the Higher Education Act of 1965, which represented one facet of a much broader war on poverty and civil rights (McGuiness 1981). The package included a college grant programme, a subsidised loan programme, and a work-study programme. All were designed to extend educational opportunity more broadly to low and middle income families. "With the passage of the measure, Congress took on important new responsibilities in the sphere of higher education" (*Congressional Quarterly Almanac* 1965: 284). The rationale of equal educational opportunity proved to be a powerful vehicle for propelling increased federal activity, defining "a new and legitimate federal role in higher education, one which had attained widespread support in other functional areas at the time"

(Advisory Commission on Intergovernmental Relations 1981: 23). The late Senator Robert Taft expressed the consensus view: “Education is primarily a state function but in the field of education, as in the fields of health, relief and medical care, the federal government has a secondary obligation to see that there is a basic floor under those essential services for all adults and children in the US” (*Congressional Quarterly Almanac* 1965: 1374). Congress had in fact established a floor that would last for many years to come.

The Higher Education Act of 1965 was first amended in 1968, but the passage of the comprehensive Higher Education Amendments of 1972 broadened and elaborated the federal role in higher education to include new Basic Educational Opportunity Grants (BEOG) and direct institutional allowances to complement BEOG awards. In principle, every student who was financially needy would receive the federal grants due to the ‘entitlement’ nature of the new grant programme. The 1972 amendments were described as “truly a landmark in the history of higher education” and were particularly important to the US access agenda (*Congressional Quarterly Almanac* 1972: 198).

An important policy change to the need-based focus of the 1972 amendments came with the passage of the Middle Income Student Assistance Act (MISAA) in 1978 which changed the scope and direction of student aid programmes by opening up loan and grant programmes to middle income families. While education lobbyists criticised MISAA as “an undistinguished attempt to create loans of convenience for middle-class families” (Doyle and Hartle 1986), the then president, President Carter, called it “an historic expansion of federal assistance to education … similar to the GI Bill as a landmark in the federal commitment” to aid college students (*Congressional Quarterly Almanac* 1978).

The 1980s brought a new administration determined to shrink domestic spending; not surprisingly, it was a period of increased scrutiny and accountability in federal spending for higher education and produced a shift in the primary source of federal support from grants to loans. Significantly, the policy focus moved from concerns about equity to such issues as academic performance and institutional improvement, a shift that public consensus seemed to support (Hansen and Stampen 1994).

At the beginning of the 1990s, 13.7 million students were seeking a postsecondary degree. By the end, that number had grown to 16 million (Gerald and Hussar 2000; US Census Bureau 2002). The American public also appeared more willing to take on debt for higher education. There was much concern about the imbalance between grant funding and loan funding and the amount of debt that students were accruing. In 1980, grants amounted to 55 per cent of the total federal student aid portfolio, while loans accounted for 42 per cent. By the end of the 1990s, this had shifted and grants accounted for 40 per cent, while loans had increased to 58 per cent (Ikenberry and Hartle 2000). But, with the perceived importance of higher education, Americans continued to borrow with the expectation that there would ultimately be a payoff.

Overtime, federal student assistance programmes have included federal Pell grants, Federal Family Education Loans (FFEL), the William D. Ford Federal Direct Loan Program, Income Contingent Loans (ICL), State Student Incentive Grants

(SSIG), Leveraging Educational Assistance Partnerships (LEAP),[1] Perkins Loans, Federal Work Study Grants and Federal Supplemental Educational Opportunity Grants (FSEOG). The last three programmes are distinguished as 'campus based'.

Now in existence for over three decades, the federal Pell grant programme serves as the foundation for need-based student aid. Pell grants are made directly to students based upon financial status as well as the cost of attendance. Increases in funding need-based aid suggest that the federal government has maintained its commitment to access and choice. However, funding levels have not kept up with increases in the costs of going to college. As a result, the buying power of the Pell grant has eroded both at public and private four-year institutions (see table 1). The Pell grant maximum would need to increase from \$3750 to over \$7000 to reach its 1975–76 buying power at a four-year public institution (Advisory Committee on Student Financial Assistance 2001). Although the Pell grant does not carry the purchasing power that it did upon its inception, it continues to serve as an important source of need-based assistance, and as a mechanism to correct the growing imbalance between grants and loans.

*Table 1. Pell grant maximum award as a percentage of institutional cost of attendance*

| *Year* | *Institution type* | |
|---|---|---|
| | *Public four-year* | *Private four-year* |
| | *%* | *%* |
| 1975–76 | 84 | 38 |
| 1985–86 | 57 | 26 |
| 1995–96 | 34 | 13 |
| 1999–00 | 39 | 15 |

Source: College Board 2000a; National Center for Education Statistics 2001b quoted in Advisory Committee on Student Financial Assistance 2001

The Federal Family Education Loan (FFEL) programme subsidises and guarantees low-interest loans to students and parents. It remains the largest federal student assistance programme. The programme includes federal Stafford Loans (subsidised and unsubsidised), federal Parent Loans (PLUS) and federal Consolidation Loans. Private or commercial lending agencies make and manage the loans while the government backs or guarantees the loan. The only need-based element is the subsidised Stafford Loan, for which the student pays no interest while in school. The federal government pays interest subsidies to approximately 4100 lenders and guarantees loans against default through reinsurance programmes for 36 state and private, non-profit guarantee agencies that serve as intermediaries between the government and FFEL. Consolidation loans help student and parent borrowers consolidate several types of federal student loans with various repayment schedules into a single loan.

The State Student Incentive Grants (SSIG) programme, authorised in the 1972 Higher Education Amendments, provided federal grants to states to promote state-level, need-based grants and community service work-study assistance. Under the 1998 reauthorisation, SSIG became the Leveraging Educational Assistance

Partnership (LEAP) programme. Through the 1990s, federal funding for SSIG and LEAP consistently declined, although state governments continue to support the programme ardently. In 1997, states overmatched their federal SSIG (LEAP) funds by 20 to 1 (National Center for Education Statistics 2001a).

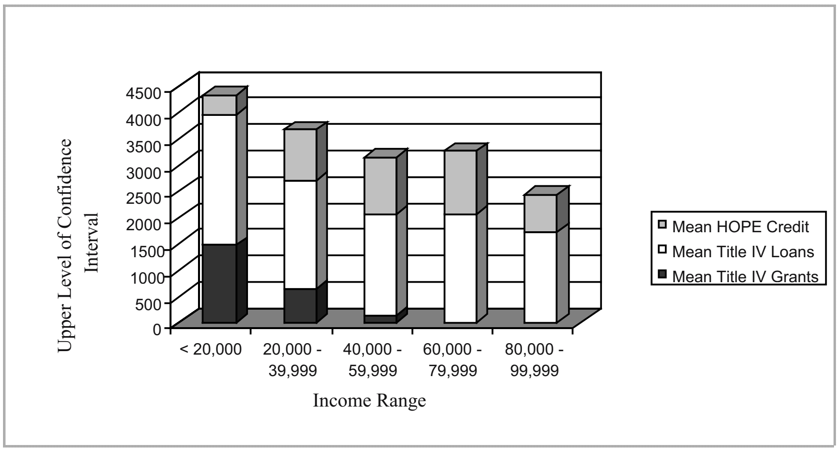
Three programmes, administered primarily by participating institutions, complete the picture of federal student assistance. The federal Perkins Loan is the largest and oldest. Enacted as National Direct/Defense Loans under the National Defense Education Act of 1958, the Perkins programme provides long-term, low-interest loans to graduate and undergraduate students. Undergraduate students are eligible to borrow up to $4000 and graduate students $6000 (National Center for Education Statistics 2001b).

Under the Work Study (College Work Study, Federal Work Study) Program, federal grants to institutions subsidise the salaries of on-campus student workers. Not all institutions participate in the programme. Eligible students begin the academic year with a specified work-study funding level. The funds are non-transferable and apply only to student salaries for part-time employment. Institutions provide matching funds equal to 25% of the total (prior to 1993 it was 30%) (National Center for Education Statistics 2001b). The Federal Supplemental Educational Opportunity Grant (FSEOG) programme is need based and provides assistance to both part- and full-time graduate and undergraduate students. Because the Student Loan Reform Act of 1993 stipulated that the federal portion of the grants could not exceed 75 per cent of the total, institutions must provide 25 per cent of the total amount awarded. Students receiving Pell grants are given FSEOG priority, although in contrast to Pell grants, not every eligible student receives the FSEOG. Those receiving an award are eligible for up to $4000 a year in funding.

Those responsible for providing need-based assistance in the form of grants and loans to low income students probably never envisioned rewarding families who could afford to pay for college with their own resources by providing deductions and credits on their annual income taxes. Even so, the rhetoric surrounding the passage of the Taxpayer Relief Act of 1997 emphasised the lack of direct funding to help needy families put their children through college. The legislation authorised HOPE Scholarships – $1500 tax credits for up to two years – to be offered to families with adjusted annual gross incomes no greater than $80,000 to $100,000. The Lifetime Learning proposal applied to families with the same income and allowed them to offset the cost of education by taking up to $10,000 a year in tax deductions. An IRA (Individual Retirement Account) provision eliminated penalties for account withdrawals if the money was used for postsecondary education. An extension of the legislation allowed workers to exclude from their income the cost of any graduate or undergraduate course work paid by their employer. Evidence available from a relatively brief experience with this act (figures 1 and 2) suggests that families in the income range of $60,000 to $79,999 reaped the largest benefits (US General Accounting Office 2002).[2] The focus on middle income families has been largely confirmed by subsequent data on use of the tax credits and deductions (US General Accounting Office 2002).

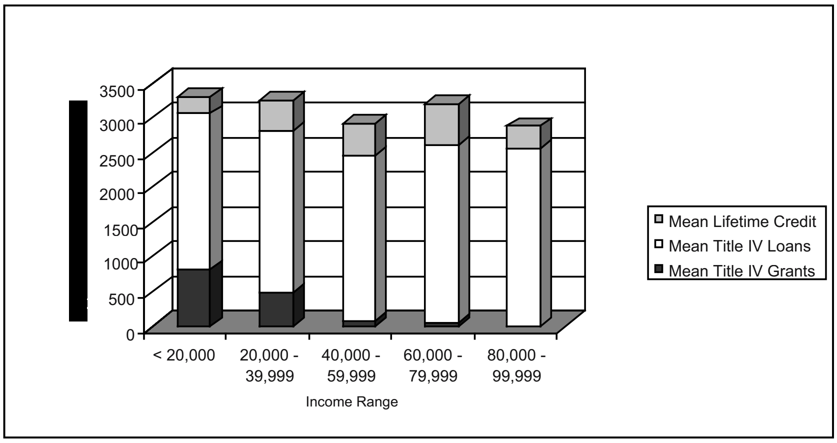
Many in the higher education community opposed these programmes, arguing that they were too expensive and will ultimately leave less funding available for need-based aid directed to low income students. In 1998, only about a third of the families who were estimated to be eligible actually claimed a federal education tax credit (including the HOPE Scholarship) and they claimed only $3.4 billion of an estimated $7 billion liability (Riley 2001).

*Figure 1. HOPE credit and Title IV loans and/or grants for dependent students receiving both*




Source: US General Accounting Office 2002

*Figure 2. Lifetime credit and Title IV loans and/or grants for dependent students receiving both*



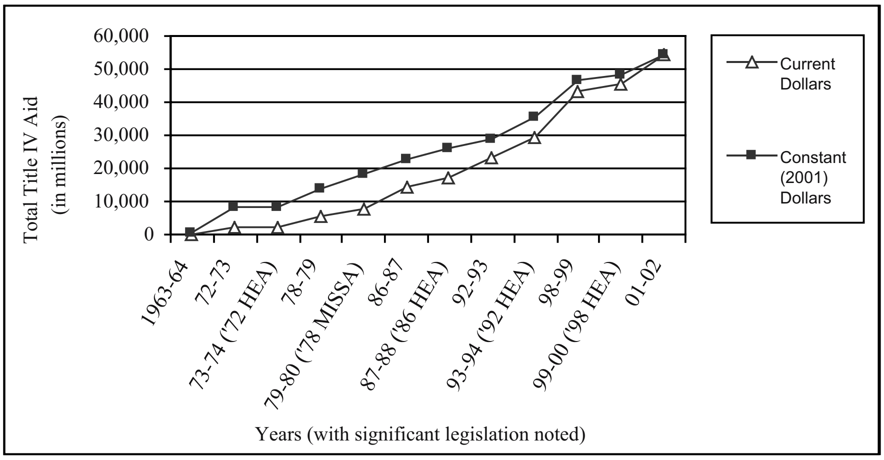

Source: US General Accounting Office 2002

## 4. RESULTS OF THE REFORM: THE NATIONAL PICTURE

In 1995–96, 50 per cent of all undergraduates received financial aid through programmes funded by the federal government, the states, the postsecondary institutions themselves, or other organisations. *Two-thirds* of all full-time students received financial aid (National Center for Education Statistics 1998). Federal student aid increased by 16 per cent during the 1990s (National Center for Education Statistics 2000). The $60 billion commitment during 2000–01 exceeds all other federal appropriations for higher education combined. During the 1990s, total aid nearly doubled (in constant dollars), while loan aid increased by 136 per cent (College Board 2000b).

Figure 3 summarises total Title IV federal student aid in current and constant dollars from before the inception of the policy reform to the current era with sufficient legislation noted.

*Figure 3. Total Title IV federal student aid in current and constant dollars (1965–2000)*

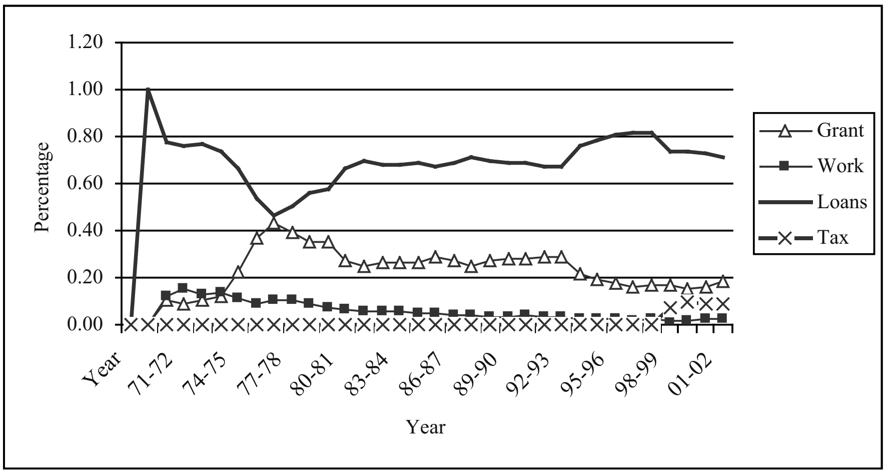



Source: College Board 2002

By 2001–02, the federal government was spending more than $60 billion on student aid. By any measure, this represented a considerable commitment (College Board 2002). Figure 4 summarises how the nature of federal aid has changed from 1965 to the present.

Clearly, grants have become less important as a strategy for achieving the access reform, while loans, which declined to almost parity with grants in 1978–79, have very nearly become as important in 2000–01 as they were prior to the 1972 amendments. Figure 4 significantly understates the role of tax credits because the data reflect the very early stages of this programme. Early projections suggest that tax credits may ultimately create a liability for the federal government equal to all other forms of aid combined.

*Figure 4. Proportion of federal aid by type of aid (1965–2000)*




Source: College Board 2002

Table 2 illustrates changes (in millions of *current dollars*) in aid awarded to students during the past decade. Student loan volume soared following the 1992 amendments, which extended borrowing eligibility to middle and upper income groups. Federal student loans currently cover more than 68% of all student aid, compared to 40% in 1980, and 30% in 1970 (College Board 2000b). Since the inception of the federal education loan programme in the mid-1960s, students and their parents have borrowed more than $300 billion to finance the cost of college.

Table 3 summarises the substantial increases in average loan indebtedness occurring from 1992–93 to 1995–96.

Funding for merit-based programmes (grants and scholarships awarded based on academic criteria regardless of the student/family's ability to pay) also increased by 336% in real dollars from 1993 to 2000 (Advisory Committee on Student Financial Assistance 2001). By fall 1998, 13 states offered scholarships based on merit patterned after Georgia's HOPE Scholarship Program, which awards in-state students, who have at least a B average, their full tuition and fees at a public campus, or $3000 at a private campus in state regardless of family income. On average nationwide, 15 per cent of state aid awards currently are *not* based on need (National Center for Education Statistics 2001b). Such programmes are as much concerned with keeping higher performing students within their home state as with making higher education affordable (Schmidt 1999).

Concomitantly, the emphasis on merit-based aid also has increased at the institutional level, where the average grant for middle income students now exceeds that for low income students at private institutions (Advisory Committee on Student Financial Assistance 2001). The shift in federal student aid policy toward expanding eligibility to the middle class has been gradual but relentless over the last two decades (Spencer 1999). Nothing has exemplified that trend better than the federal HOPE Scholarship Program.

*Table 2. Federal aid (in millions) used to finance postsecondary education expenses in current dollars 1992–93 to 2002–03*

| *Programmes* | *1992/93* | *1993/94* | *1995/96* | *1997/98* | *1999/00* | *2000/01* | *2001/02* | *2002/03* |
|---|---|---|---|---|---|---|---|---|
| Grants | | | | | | | | |
| Pell Grants | 6,176 | 5,654 | 5,472 | 6,331 | 7,208 | 7,956 | 9,975 | 11,716 |
| SEOG | 580 | 583 | 583 | 583 | 619 | 631 | 691 | 725 |
| LEAP | 71 | 72 | 64 | 50 | 25 | 37 | 46 | 66 |
| Veterans | 1,037 | 1,192 | 1,303 | 1,347 | 1,491 | 1,644 | 2,026 | 2,200 |
| Military | 393 | 405 | 438 | 463 | 534 | 559 | 638 | 811 |
| Other Grants | 162 | 167 | 230 | 233 | 248 | 279 | 290 | 309 |
| Subtotal | 8,419 | 8,074 | 8,089 | 9,006 | 10,125 | 11,106 | 13,665 | 15,826 |
| Federal Work Study | 780 | 771 | 764 | 906 | 917 | 939 | 1,032 | 1,218 |
| Loans | | | | | | | | |
| Perkins Loans | 892 | 919 | 1,029 | 1,062 | 1,101 | 1,144 | 1,239 | 1,265 |
| Subsidised Stafford | 10,937 | 14,155 | 16,476 | 18,112 | 18,109 | 18,532 | 19,894 | 22,384 |
| Unsubsidised Stafford | 323 | 2,024 | 8,743 | 11,699 | 14,008 | 15,280 | 17,270 | 19,936 |
| Plus | 1,279 | 1,529 | 2,408 | 3,182 | 3,816 | 4,200 | 4,669 | 5,393 |
| SLS | 2,375 | 3,469 | | | | | | |
| Income Contingent Loans | 5 | | | | | | | |
| Other Loans | 411 | 456 | 325 | 210 | 106 | 108 | 110 | 110 |
| Subtotal | 16,222 | 22,551 | 28,981 | 34,264 | 37,140 | 39,265 | 43,183 | 49,088 |
| Education Tax Credits | | | | | 4,772 | 4,851 | 5,205 | 5,437 |
| Total Federal Aid | 25,421 | 31,397 | 37,833 | 44,176 | 52,955 | 56,161 | 63,086 | 71,569 |

Source: College Board 2003

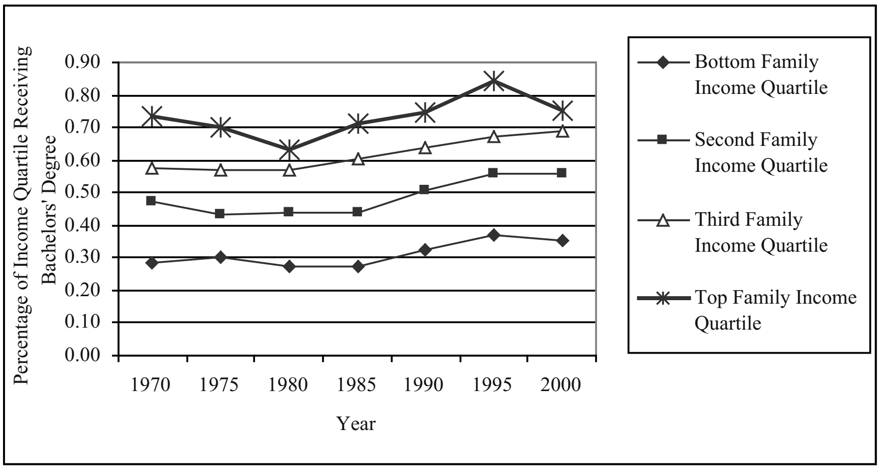
*Table 3. Average loan indebtedness per student*

| *Stafford Student Loans* | *1992–93* | *1995–96* |
|---|---|---|
| Public 4-year Institutions | $7,400 | $11,950 |
| Private 4-year Institutions | $10,190 | $14,290 |

Source: National Center for Education Statistics 1995, 1997

The purpose of the 1972 reform was to reduce the importance of family income as a determinant of who attended college and to increase the number of college-educated citizens. Figure 5 reports moderate success in attaining these objectives when looking at degree attainment.

*Figure 5. Bachelors degree attainment by age 24 by family income quartiles (1970–2000)*




Source: Mortenson 2001

Again the evidence is mixed. The percentage of individuals from all family income levels receiving a bachelors degree increased, but the differences remained relatively constant. While the differences in proportions earning a degree had narrowed slightly by 2000, the results are less than those who sponsored the reform hoped. These results reflect in part the high numbers of poor and minority students who have chosen or been required to matriculate in community colleges. Transfer rates and degree achievement remain low for those starting in community colleges when compared to those who begin college in a baccalaureate degree-granting institution.

## 5. STATE VARIATIONS

We began this chapter by noting that higher education is a state responsibility in the US. While we report averages for the nation, these results conceal important variations produced by the unique circumstances of individual states. Delving very deeply into these differences is beyond the scope of this chapter, but selected examples help to underscore the complex environment within which judgments must be made about the answers to the three basic questions raised by Cerych and Sabatier (Cerych and Sabatier 1986).

State approaches in the US add to or subtract from the impact of federal higher education policy. Each state approach has weaknesses as well as strengths. The National Center for Public Policy in Higher Education developed a report card for comparing performance across state systems along five dimensions (National Center for Public Policy and Higher Education 2001). Three are arguably related to the access and opportunity reform:

- *Affordability* refers to the ability of families to pay for higher education (the family share, after financial aid, of higher education cost), state strategies to promote affordability, and the degree to which students rely on loans to finance their education.
- *Participation* is the extent to which young adults and working-age adults enrol in postsecondary programmes in their state.
- *Completion* involves the proportion of first-year college and university students who return for their second year and who complete their certificate or degree programme in a timely manner.

In the following discussion, we use the National Center's sub-categories for three of these report card measures to provide examples of how state policy interacts with federal policy to produce differing outcomes among these four states.

### 5.1. *Affordability*

Table 4 compares California, New Jersey, New Mexico and New York on the six variables used in awarding the affordability grade. Raw scores on each variable have been converted to a relative score that in theory can range from 0 to 100. Higher scores indicate better performance.

*Table 4. Affordability*

| *State* | *Family ability to pay costs of attending* | | | *Need-based financial aid* | *Low priced colleges* | *Low student debt* |
|---|---|---|---|---|---|---|
| | *Comm Coll* | *Public 4-Yr* | *Private 4-Yr* | | | |
| California | 66 | 62 | 42 | 35 | 215 | 71 |
| New Jersey | 75 | 67 | 54 | 100 | 50 | 86 |
| New Mexico | 91 | 72 | 46 | 26 | 100 | 91 |
| New York | 48 | 54 | 36 | 87 | 26 | 71 |

The impact of federal programmes shows most clearly in low student debt, the variable that is most influenced by need-based student assistance across all states. The state systems in California and New Mexico have historically followed a low-tuition access strategy. In contrast, New Jersey and New York have emphasised need-based student aid. New York alone awards nearly 1 billion dollars every year and guarantees that every low income student will receive an award equal to the tuition of the public university attended. These grants do not affect student eligibility for Pell grants, which are in addition to the state aid. New Mexico uses a combination of low tuition and scholarships (funded by lottery proceeds) available to every student who attends a public institution and achieves and maintains very modest academic performance to achieve the lowest level of student debt. New Jersey is close behind because of an extensive need-based student assistance programme.

### *5.2. Participation*

Table 5 compares participation for the four states. Participation in some form of higher education does not vary that much across the states suggesting that the federal reform has had a significant levelling effect. At the same time, the impact of state policies can be seen as well. The three states that do best on the high school to college going rate all have strong programmes of need-based student assistance. By contrast, New Mexico relies on assistance awarded primarily on the basis of academic performance. In fairness, New Mexico is also a very large, sparsely populated state with the nation's highest concentration of American Indians living on reservations. Distances and demographics affect the enrolment of young adults in that state. Persistence as well as initial enrolments affect participation rates. New Jersey and New York, which rely heavily on need-based student aid, perform least well on the enrolment of working-age adults because tuitions in public institutions are higher than in California and New Mexico and because their need-based assistance programmes focus primarily on full-time students.

*Table 5. Participation*

| *State* | *HS graduates going directly to college (%)* | *HS freshmen enrolling in college within 4 years in any state (%): 1998* | *18–24 year olds enrolling in college (%): 1998–2000* | *25–49 year olds enrolled part-time in some type of post-secondary education (%): 1999–2000* | *Average of all scores* |
|---|---|---|---|---|---|
| New Jersey | 63.60 | 53.8 | 41.5 | 3.2 | 40.5 |
| New York | 63.90 | 43.5 | 37.4 | 3.4 | 37.0 |
| New Mexico | 58.90 | 37.3 | 29.8 | 6.0 | 33.0 |
| California | 47.70 | 34.5 | 35.9 | 4.9 | 30.7 |

### *5.3. Completion*

Table 6 reports completion rates across the four states. New York outperforms the other states in the proportion of students earning bachelors degrees in 2002 as a proportion of the number of first-time freshman enrolled in four- and two-year degree granting higher education institutions in 1996. The lagged graduation rate measures system productivity in the award of bachelors degrees regardless of the type of institution where students begin. New Jersey also does well on this measure in part because of the emphasis placed by the two states on need-based aid for full-time students and to the high proportion of undergraduate students who attend independent institutions from which they are more likely to graduate. California forces nearly 67 per cent of its first-time college students to attend community colleges and as a result does not do nearly as well in the lagged degree completion category because of low graduation and transfer rates from community colleges. Lower performing New Mexico funds its institutions through a formula that encourages competition for enrolments, but does not address the issue of graduation.

The other three states have either divorced funding from enrolments entirely for baccalaureate institutions or administer state funding in a way that takes into account the readiness of students who are admitted to attempt college work as well as the number who complete. The California Master Plan for Higher Education requires students who are not initially eligible to attend a university to graduate from a community college to attain eligibility, an arrangement that helps bolster that state's associate degree graduation rate.

*Table 6. Completion*

| *State* | *Lagged grad rate %* | *Assoc 3yr grad rate %* | *Bach 6yr grad rate %* | *Average score %* |
|---|---|---|---|---|
| California | 47.3 | 44.00 | 59.20 | 0.502 |
| New York | 64.9 | 27.20 | 54.50 | 0.489 |
| New Jersey | 61.8 | 13.10 | 60.30 | 0.451 |
| New Mexico | 51.6 | 12.90 | 40.90 | 0.351 |

## 6. UNANTICIPATED DEVELOPMENTS

In the previous sections of this chapter we summarised evidence about the impact of policy reforms following passage of the Higher Education Amendments of 1972. In this section, we focus on some of the developments that have accompanied the implementation process that probably were not anticipated by those who supported the original legislation.

### *6.1. Financial Aid Abuses, Quality Concerns and Accountability Initiatives*

The end of the 1980s and the early 1990s brought reports of scandals, fraud and abuse in student aid programmes. Thousands of proprietary (for profit) institutions, whose students had been eligible for federal student aid since 1972, emerged or expanded over the following years. Many of these institutions were criticised as being more interested in making money than in educating students, and many of the abuses to the aid programmes were attributed to this sector. High student loan default rates signalled that graduates were not getting jobs that provided sufficient compensation to repay their student loans, calling into question the quality of the education they had received. Institutions were also charged with illegally siphoning off dollars from the Pell grant programme, suggesting a weakness in the ability of the student aid systems to police against fraud.

The 1989 Budget Reconciliation Act set a 'default trigger' that restricted institutions with default rates over 30 per cent from participating in the federal student aid programmes. This meant that students who chose to attend those institutions would not be eligible for the federal student aid on which most proprietary institutions relied heavily (Harrison 1995). The 'Student Right to Know Act of 1990' set the government on a path to hold institutions accountable by means of information disclosure requirements. If federal lawmakers could not legislate the abuses out of existence, forcing disclosure of data to the public would at least in theory allow for informed decision making when prospective students were choosing which institutions to attend. Congress also placed the default issue on the agenda for the upcoming reauthorisation of the higher education bill so that the loan default discussion could take place within the broader context of all higher education funding programmes.

The Higher Education Amendments of 1992 included a series of modifications aimed at increasing oversight of the student aid programmes and higher education institutions. First, the legislation built on the idea behind the 'Student Right to Know Act of 1990' which had required institutions to disclose information to students in regard to both campus safety and the athletic programmes on campus. The 1992 legislation required institutions to report information such as college costs, additional campus safety information and student aid availability. The law also included provisions that set lower default rate triggers and called for more vigilant enforcement to rid the student aid system of schools that were not offering a quality education. Finally, the bill greatly enhanced the accrediting and auditing infrastructure in place to oversee higher education, and attempted to involve the states in the auditing process, an initiative that met with great resistance from the higher education community and was subsequently dropped when Republicans gained control of Congress (Congressional Record 1992a).

The federal changes had significant impact on accrediting agencies, which were required to devise outcome standards that would allow them to assess institutional quality and performance. Such standards, according to the law, should measure graduation and completion rates, performance on state licensure exams, job placement and other comparable indicators. Institutions underwent a 'programme review' to show they were in compliance in administering federal student aid programmes. Additionally, institutions were required to go through an annual (as opposed to biannual) audit that measured fiscal soundness.

The goals of the 1992 changes were realised at least in regard to ridding the higher education system of schools that had high numbers of student loan defaulters. By the end of the decade, there were 1500 fewer institutions in the higher education system. These 1500 institutions were primarily proprietary, for-profit institutions that provided training programmes that lasted one to two years. The default rate triggers rendered them and their students ineligible for federal aid, and they were forced to shut their doors.

In 1996, the Office of Inspector General testified before Congress that there were improvements in the areas in which Congress had legislated and that with the new standards of 1992, they were better able to measure success with respect to student achievement (US Department of Education Inspector General 1996). Also in 1996, the General Accounting Office (GAO) reported to Congress that abuses by proprietary schools had lessened; however, there were still ongoing concerns about the ability of proprietary school students to get jobs (US General Accounting Office 1996).

### *6.2. Cost Increases*

From 1980 onward, college costs outpaced growth in median household income and increases in the cost of consumer goods. Even though studies were inconclusive, many policy makers came to believe that what they saw as disproportional increases in college costs were fuelled by increases in student financial assistance entitlements. The federal government with no constitutional control over postsecondary education has few viable options for controlling costs beyond the threat of shutting aid off for students at institutions where costs rise too precipitously. The government has yet to tie any sort of cost controls to an institution's eligibility to receive aid.

In 1992, Congress created a National Commission on the Cost of Higher Education that was responsible for conducting a two-year study and making recommendations for long-term restructuring of higher education (Congressional Record 1992b) an action that sent ripples through the higher education establishment. The National Commission's study would eventually reveal that attendance at the majority of colleges in the United States was in fact affordable (National Commission on the Cost of Higher Education 1998). In 1996, Congress authorised a Commission on College Costs to conduct a full analysis of college pricing structures, aid available and the notion of college costs (Congressional Record 1996).

The Commission's report was released in 1997, but the first version did not give the legislators (who were seeking ammunition to confront the higher education system) the data they sought. The legislators, in confidence, asked the Commission to do some rewriting and come up with different answers. The higher education community heard about this and the report's credibility suffered. The Commission's final report showed no dramatic crisis and noted that, except for certain institutions, the cost of college across the system was reasonable.

Members of Congress who called for the commission did not agree with recommendations that focused primarily on information disclosure and better understanding of what comprises the costs of a college education (National Commission on the Cost of Higher Education 1998). The final Higher Education Amendments of 1998 included legislation to hold colleges and universities accountable for tuition increases by requiring them to develop clear standards for reporting college costs and prices to students (Congressional Record 1998).

The 1998 amendments greatly expanded the data that institutions were required to report. Nevertheless, the higher education community saw the new requirements in a positive light, especially when contrasted with the alternative of price controls. Unfortunately, the amendments did little to contain costs, which continued to rise about five per cent annually (College Board 2000a). At the beginning of 2000, Congress held another series of hearings, but no new rules or legislation were forthcoming. The government continues to rely on access to information as a tool that students and families will hopefully use to make sound decisions about their investment in higher education. As this chapter is written, there is once again a movement in Congress to penalise institutions that raise tuition costs faster than increases in price indices. The discussion occurs in a context of draconian cuts to institutional budgets by beleaguered state legislatures and projected tuition increases of 30 per cent or higher.

### *6.3. Guaranteed Loans and National Service*

Prior to 1992, federally guaranteed student loans were disbursed by private banks and guarantors, who relied on the government to 'back' the loans. A pilot programme was initiated in the 1992 Higher Education Amendments that put the government in the programme as a direct lender, thus eliminating the need for private lenders as well as the money the government paid to them. Bankers, understandably, mobilised to defeat or limit this option. The government programme also provided borrower repayment flexibility, a concept crucial to Clinton's national service plan.

Direct lending was designed to help moderate income families who had to rely extensively on loans by giving them borrower advantages. But, direct lending also required large system design changes – a new office, a new delivery system and a management structure. Direct lending also brought the Federal Department of Education into direct contact with student borrowers, not a typical relationship.

Political manoeuvring to win approval for Clinton's national service programme forced a direct lending programme still in its pilot stage with little chance of being fully implemented, into a full-fledged but inadequately conceived lending programme with significant implementation problems. Ironically, the unintended consequences of the direct lending programme were more significant than those intended. Loan repayment flexibility helped a number of students who would otherwise have defaulted on their loans. The new programme also provided a host of borrower benefits in terms of reduced interest rates due to competition between the federal government and traditional lenders who had to make their rates competitive to keep the business of the students. Of course, the government in turn had to offer the same benefits as private lenders.

## 7. CONCLUSION

We have traced the origins and evolution of the 1972 access and opportunity reform in the US outlining the official goals of the original legislation and providing data to show the outcomes of this reform over time. The intent of Congress in adopting the 1972 amendments was to guarantee low income, disadvantaged students the financial assistance they needed to attend any higher education institution that would admit them. This focus on promoting opportunity, achieving equity and providing affordable access through directing resources to low income families was evident in funding trends until the 1990s. During that decade, funding decisions significantly altered the balance toward affordability and choice for middle income students. As one example, both Republican and Democratic contenders in the presidential campaign of 2000 adopted a higher education agenda that focused on expanding tax benefits rather than need-based assistance. While programmes to help needy students also grew during the past decade, the expansion of eligibility parameters for

Pell grants and loan programmes, as well as a new tax package, signalled a clear shift of priorities toward helping middle income families.

At the turn of the century, there were a number of debates about the federal investment in higher education and whether it was enough to make a difference in the lives of low income families. As resources shifted away from the need-based programmes, the American higher education system showed signs of evolving into a two-tier system. Moderate income families were significantly more likely to attend elite institutions, while poorer students were increasingly concentrated in community colleges and public four-year institutions with low selectivity. Increasing college costs, declining state resources and enrolment management policies requiring most lower income and minority students to begin in community colleges all contributed to the trend. Low graduation and transfer rates from open-access or less selective institutions added to the degree of stratification.

The two-system phenomenon is also due to the lack of federal investment and intervention in K-12 education. Entire sectors – typically poor urban and rural areas – receive poor education and have few opportunities from the outset, and students from these areas stand little chance of being prepared financially or academically for postsecondary education. While families from the suburbs appear advantaged on both fronts, they are now the focus of much of the federal investment in resources. Given there are more people in the middle class in the US and, even more important, more who vote, it is not surprising that the 1972 access and opportunity reforms over time have been transformed into initiatives that offer more for the middle class than for the original targets.

It would, however, be misleading to conclude without noting that the US federal government, despite changes in party control of Congress and the White House, has for more than thirty years maintained a fundamental commitment to helping the most needy attend college. Clearly, there is within the US a widely shared consensus that the future of American society is inextricably linked to keeping the doors of higher education open to everyone who can benefit from the opportunity. Indeed, the argument is now shifting in the country as a whole and especially in California from a focus on access to a concern about access to the entire range of institutions that make up the US higher education scene (Gumport and Zemsky 2003).

## NOTES

1. LEAP was enacted in 1998 and replaced the SSIG programme.
2. Figures are created based on GAO data taken from 1999–2000 NPSAS Data.

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