

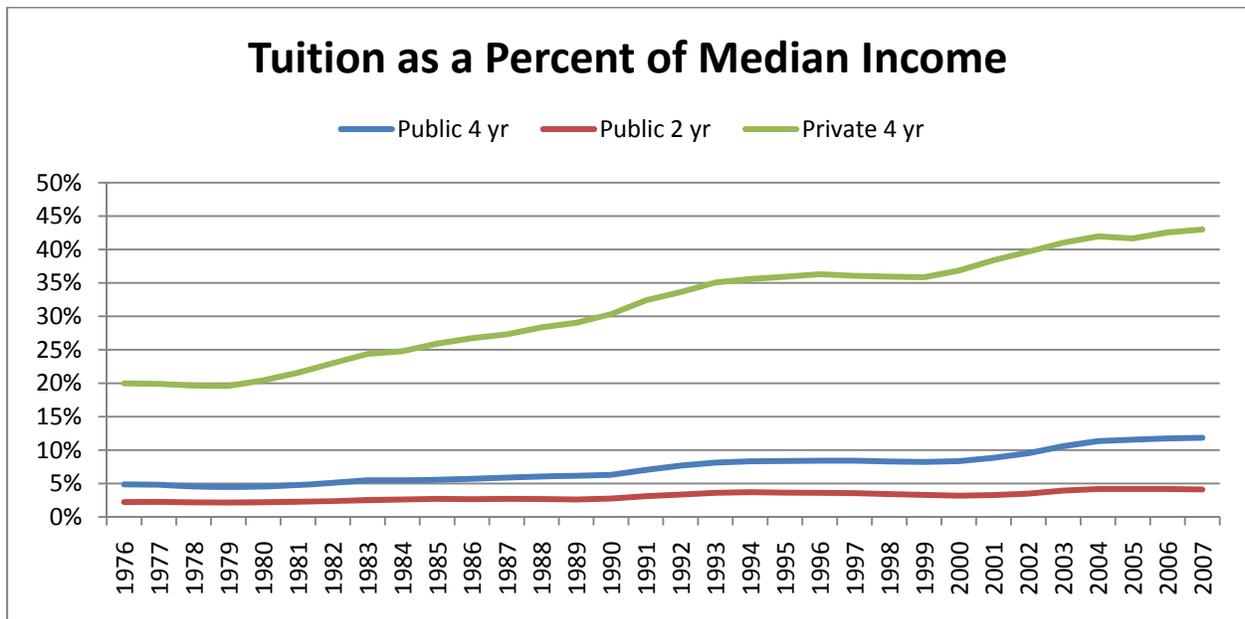
Testimony of Andrew Gillen to the
Senate Committee on Health, Education, Labor, and Pensions

Access and Affordability: How Expanding Pell Grants Will Offer Higher Education to More
Americans

Oct. 5, 2009

I would like to thank Senator Casey for holding this hearing and inviting me to testify.

This hearing is drawing attention to the depressing trends in college affordability, a topic whose importance grows every year. As most of you are aware, we have experienced an alarming increase in tuition rates in recent years. Over the past three decades, tuition has increased at an average rate of about 3% per year, after adjusting for inflation. Over the same period, median household income has increased by an average of just 0.3%. As a result, college affordability has declined in every sector. Tuition as a percentage of median household income more than doubled at all types of 4-year colleges, increasing to 11.8% at public and 43% at private colleges. Community colleges saw slightly less than a doubling, to 4.1%. Even when focusing on net tuition, we still see a massive increase in the financial burden on students and families.



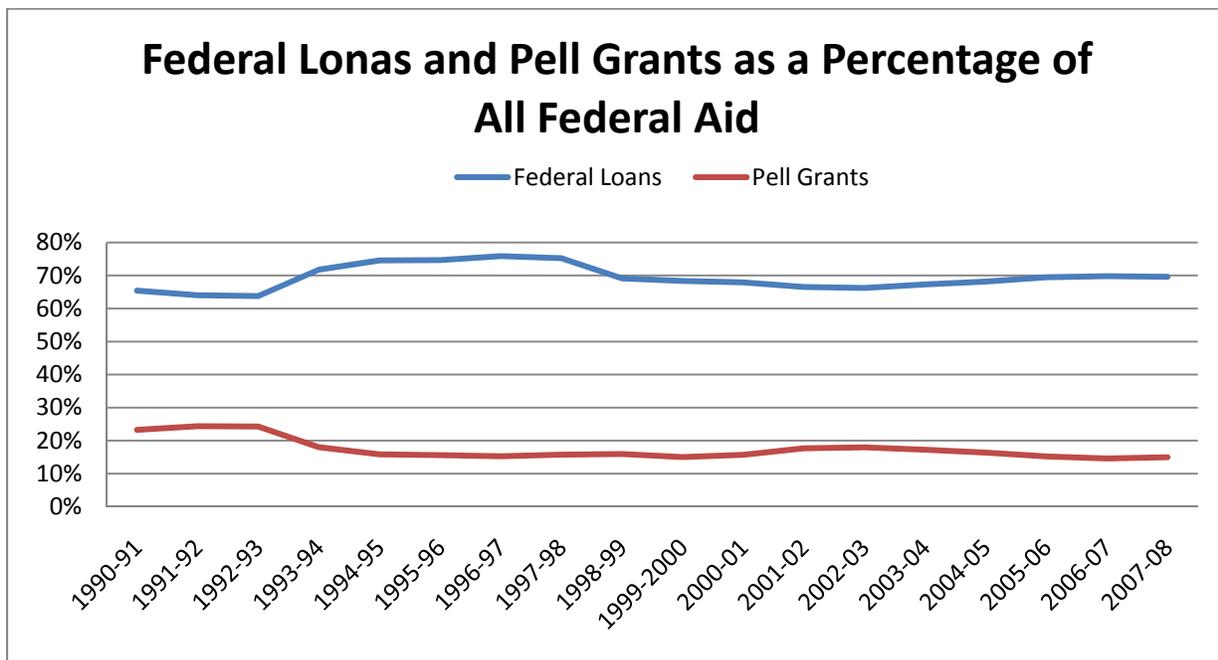
Sources: Department of Education Digest of Education Statistics, Census Bureau, author calculations

Tuition continually rises because college’s expenditures continually rise, and Bowen’s Revenue Theory of Cost gives the best explanation of why expenditures keep going up. It essentially holds that institutions of higher education strive for excellence, have an insatiable appetite for money in their pursuit of excellence, and that therefore, whenever revenues increase, costs will increase as well. It should therefore come as no surprise that former Harvard president Derek Bok compares universities to “compulsive gamblers” and higher education scholar Ronald Ehrenberg describes them as “cookie monsters” devouring any resources they can get their hands on.

The effect of this ravenous spending on the pocketbooks of students, parents, and taxpayers is striking. Unfortunately, we cannot even be sure that all this extra spending is leading to better educational outcomes. As a matter of fact, much of the spending does not even go towards things that could convincingly improve education. For instance, from 1995 to 2006 total operating expenditures per student increased by \$3,600 at public research universities, yet spending per student on instruction increased by just \$750, and tuition increased by \$2,200. In other words, while tuition rose dramatically, close to 80% of the additional spending went to things other than instruction.

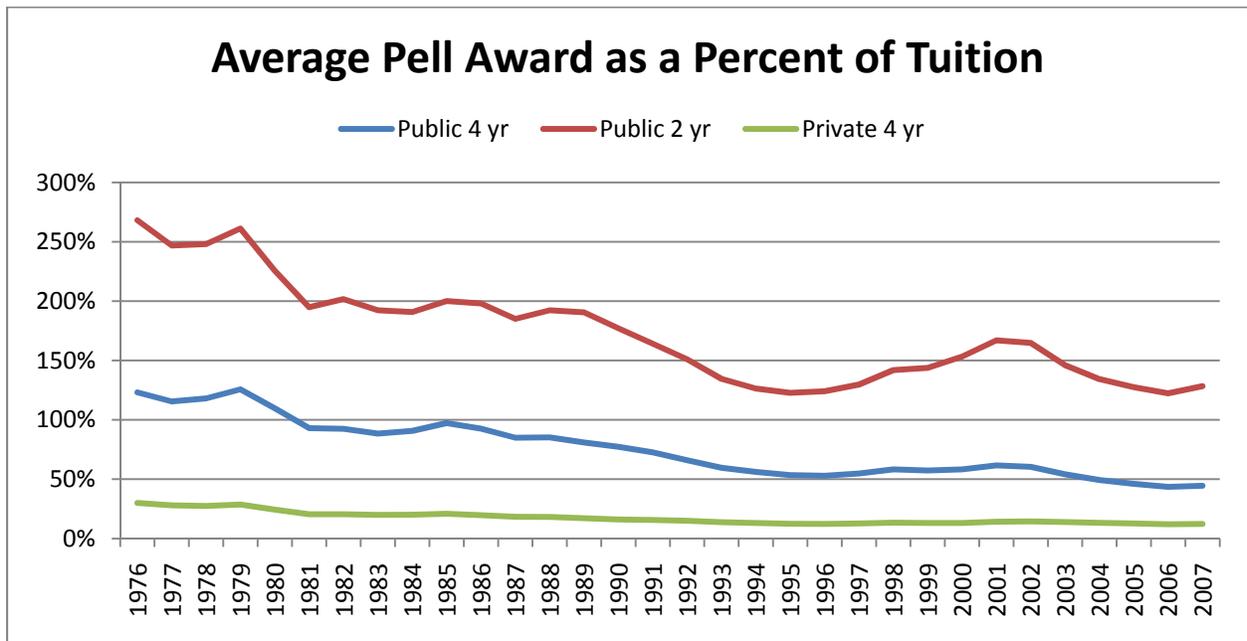
Seeking to combat these trends, the government has devised a number of programs to provide financial aid to students, of which the Pell grant is the crown jewel. There are some problems however.

First, Pell grants account for only 15% of all federal aid, while loans account for 70%. Loans not only must be repaid by students, but they also contribute to the explosion in college expenditures by providing fuel for the academic arms race.



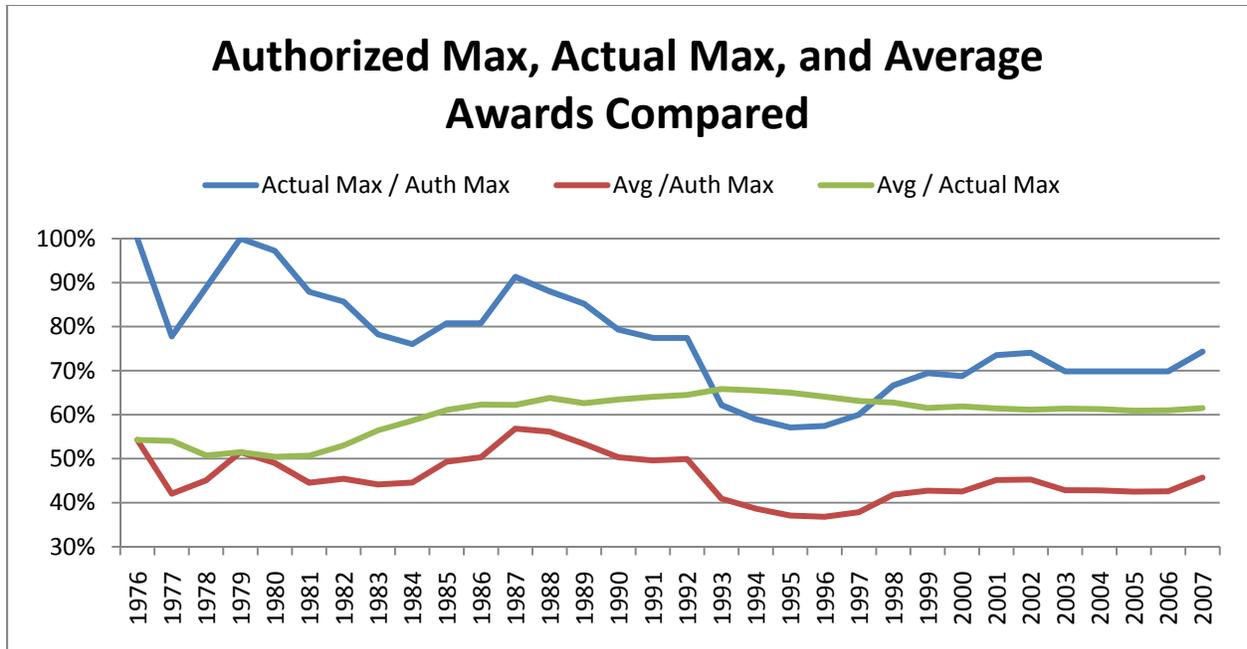
Sources: College Board Trends in Aid, author calculations

Second, the average grant awarded does not go as far as it used to. When the program was first started, the real average award was more than enough to cover tuition, but this is no longer the case, with the average Pell covering just 45% of tuition at public 4-year schools.



Sources: Department of Education Digest of Education Statistics, College Board Trends in Aid, author calculations

Third, the authorized maximum award is largely meaningless. The actual maximum is typically between two thirds and three quarters of the authorized maximum, and the average real award is smaller still, having not exceeded 50% of the authorized maximum since 1990.



Sources: College Board Trends in Aid, author calculations.

Fourth, the awards for the very poorest should be larger. Currently, those at or below the poverty line get an average award that is less than \$600 more than those who are up to twice the poverty line.

Fifth, many eligible students do not even receive a Pell grant.

These five points shed some light on the proposal to make the Pell grant an entitlement and increase it at the rate of inflation plus one. The first two constitute the main argument in support of the proposal. But the last three indicate that this would have little effect, and point to even more urgent problems in need of attention.

Thus, in my opinion, it would be a mistake to make the Pell grant an entitlement that increases at the rate of inflation plus one. The biggest issue with Pell grants right now is not that the maximum award isn't high enough, but that many eligible students do not receive a grant, and even when they do, it is not for the maximum amount. In the 2007-2008 school year, close to 40% of students at or below the poverty line did not receive a Pell grant, and of those that did, the average award was just \$3,000. Addressing these issues should take precedence over tinkering with a "maximum" that has little impact on the overwhelming majority of students.

Having said that, the Pell grant program is currently the best method of providing financial aid to students, and increased funding of the program is certainly to be applauded.