

Testimony before the Senate Governmental Affairs Committee
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Thank you very much for giving me the opportunity to speak with you this morning. My testimony is on behalf of myself and my long-time co-author, Morty Schapiro. Our remarks are based on our work as economists studying higher education, and are not meant to represent the views of the institutions for which we work. This testimony is based on a number of our published pieces, including a commentary published in *The Chronicle of Higher Education* ("Gaining Control of the Free-for-All in Financial Aid," July 2, 1999), and *The Student Aid Game: Meeting Need and Rewarding Talent in American Higher Education* (Princeton University Press, 1998). Along with this brief written statement, we are submitting for the record a much more comprehensive paper, "Reinforcing Stratification in American Higher Education: Some Disturbing Trends."

For more than 30 years, the U.S. system for financing undergraduate education has been based on the principle that colleges and universities, together with federal and state governments, should help financially needy students to pay for their education. Now, however, institutions are increasingly inclined to use financial aid to recruit the most-desirable students, and governments are shifting resources from lower-income students to the children of middle-class taxpayers, who have more political clout. Those changes threaten the educational prospects of our neediest young people, and the health and stability of U.S. higher education in general.

The present system of meeting families' need for financial aid had its origins in an enrollment slump in the mid-1950s, which followed the influx of Korean War veterans supported by the GI Bill. With enrollments declining, a number of prestigious colleges and universities found themselves slipping into bidding wars for attractive students -- just as is happening today. In 1954, driven by the desire to stem the flow of dollars to competitive offers of student aid, as well as by a commitment to increase access to higher education, a group of institutions formed the College Scholarship Service as part of the College Board. The goal of the C.S.S. was to develop a uniform and objective way of assessing financial need. The assumption was that, ideally, institutional and governmental programs would meet that need.

Although colleges, government agencies, and individual students have had their disagreements about how to measure a family's ability to pay for higher education, the consensus among everyone involved has been that trying to meet financial need is the right thing to do. That consensus is now breaking down.

The federal tuition tax credits introduced in 1998, aimed squarely at the middle class, cost the government more money than the entire need-based Pell-grant program. Many states seem more interested in merit scholarships and tax-exempt, prepaid-tuition plans than in grants for citizens with lower incomes. And colleges and universities themselves increasingly are turning their backs on the principle of meeting financial need as they adopt programs, such as merit aid, that are aimed mainly at more-affluent students. In the past few years, our most prestigious universities have been leapfrogging each other as they modify their aid systems to lure the students they want. Even Harvard University characterized its need-based-aid program as "competitively supportive," and invited applicants to seek a response from Harvard to offers of aid from other leading institutions. It's no wonder that students' families, feeling that the aid system can be -- and often is -- manipulated, are less and less inclined to play by its official rules.

The resulting free-for-all, with institutions competing for students and students trying to play one institution off against another, tends to divert financial support from very needy families toward middle- and upper-income students. It is increasingly clear that, unchecked, that trend will lead to growing stratification in U.S. higher education, and increasing inequality of income and opportunity in society at large.

How can we reverse the trend? We need to undertake a national effort to restore the commitment of colleges and governments to the principle of meeting students' financial need. Specifically, we should urge Congress to pass a law affirming that colleges can enter into agreements to apply common standards in assessing need and awarding aid without running afoul of antitrust laws. We should also urge the federal government to create a supplemental student-aid program that would provide extra funds to students whose colleges adhere to need-based principles in awarding student aid.

The real question is whether the United States possesses the will to pursue such a course. The principle of equal access to higher education -- which Americans continue to espouse, and which has served the country well over the past 30 years -- is increasingly honored only in principle while being abandoned in practice. The fate of future generations of young people depends on our reversing that trend.

Thank you.