A Higher-Education Agenda for the Poor

By Judah Bellin

One could be forgiven for thinking that American higher-education policy has failed only the middle class. After all, the country’s putative higher-ed reformers invoke the plight of middle-class students almost exclusively. President Obama’s college-affordability plan, which would condition federal aid to colleges on the basis of certain performance metrics, is part of an economic reform proposal called “A Better Bargain for the Middle Class.” Likewise, Senator Elizabeth Warren, one of the loudest voices for higher-education reform in the Senate, has framed her efforts as a crusade for the middle class. She has attempted to reduce student debt, which she once described as an “emerging threat to the middle class,” by introducing legislation that would lower interest rates to near zero and allow student-loan refinancing.

American families—particularly middle-class families—are struggling under the increasing burden of student debt. But catering exclusively to middle-class concerns ignores the ways in which our higher-education policy hurts students from the lowest socioeconomic backgrounds. In the past decade, the federal government has taken steps that have disadvantaged poorer students relative to their middle-class peers. Not only have policymakers slashed the federal programs that directly assist the poorest students while expanding those programs that disproportionately benefit middle- and upper-class students, they have also sought to dismantle for-profit colleges and universities, which, while flawed in certain respects, offer a promising educational alternative for low-income students.

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In their efforts to help the middle class, policymakers seem to have forgotten that the poorest students are the ones most desperately in need of college degrees and the ones least able to afford them. Research consistently shows that obtaining a college degree is a wise investment for almost anyone, but this is particularly true for poor students, who are much more likely to move up the socioeconomic ladder if they finish college. Unfortunately, poor students have historically completed college at lower rates than their wealthier peers, and their completion rates have declined noticeably in recent years. Data from the National Center for Education Statistics show that, among low-income students who began college between 2004 and 2008, 7% fewer completed their degrees in five years compared to those who started between 1996 and 2000.

When it comes to college, low-income students already have the cards stacked against them. Instead of making it even harder for them, policymakers should address the particular problems that poor students face in higher education, namely financing their education and finding post-secondary programs that offer flexible schedules and technical training. Specifically, policymakers should reconsider their cuts to the relatively cheap means-tested student-aid programs, which would allow more students to finish their degrees, and they should think creatively about reforming, rather than wrecking, the burgeoning for-profit higher-ed sector.

CROWDED OUT

The government’s neglect of poorer students is most apparent in its treatment of federal means-tested student-aid programs—particularly the Perkins Loan program and the Federal Supplemental Education Opportunity Grant (FSEOG).

The Perkins Loan program was created as part of the 1958 National Defense Education Act. Then known as the National Defense Student Loan Program (NDSL), it provided funds for universities to distribute to students whose course of study might assist the United States’ military and scientific efforts against the Soviet Union. To that end, the program was limited to a select few. Then, just a few years later, the 1965 Higher Education Act introduced a dramatic change to post-secondary education by making federally backed private loans available to most American college students. Congress kept the selective direct-loan program against the wishes of President Lyndon Johnson,
who wanted to phase out the NDSL entirely, but the federal government had made clear that federal student aid’s primary goal was enabling as many students as possible to attend college. In 1972, Congress broadened the scope of the NDSL program by offering it primarily to students “in need of the amount of the loan to pursue a course of study at such institution,” as well as to students whom universities deemed likely to successfully complete their coursework. In the 1986 authorization of the Higher Education Act, the NDSL program was renamed the Perkins Loan program, after Senator Carl Perkins, and colleges were directed to “give priority to those students with exceptional financial need.”

Today, the Perkins Loan program provides loans at 5% interest to students who, according to their schools’ financial-aid offices, have “exceptional financial need.” A student can borrow up to $5,500 yearly and $27,500 over the course of his undergraduate education, though the monetary award a student receives varies based on his specific need as well as on the funds the federal government provides to his school. The Perkins program is much smaller than the Stafford Loan program, which was created by the 1965 Higher Education Act and is not means-tested: The Federal government spent almost $1 billion on Perkins Loans in the 2011-2012 school year but nearly $90 billion on Stafford Loans.

The Perkins Loan program is not alone in being crowded out by other programs designed to provide for a broader set of beneficiaries. The FSEOG, originally titled the Educational Opportunity Grant, was also created as part of the 1965 Higher Education Act. At first, the EOG provided aid to first-time, full-time students that would allow them to finish their degrees, provided they did so in four years. Students were only eligible for the program if they received other forms of aid, and students whose academic performance put them in “the upper part of their class” received bonuses the following year. As in the Perkins Loan program, institutions would receive direct federal funding and then distribute it according to student need. The grant award students received, then, was tied to the cost of attending their particular college.

The 1972 reauthorization of the Higher Education Act changed the eligibility criteria for the EOG program. Congress authorized universities to offer these grants to talented students as well as those with “exceptional financial need.” However, Congress did not explicitly define what constituted such need. University administrators retained their discretion and were told to identify the neediest students by calculating
their “expected family contribution,” which determines how much a student’s family can reasonably be expected to pay based on income, number of other children, and assets.

The 1972 reauthorization also created what would become known as the Pell Grant program, with which the government bypassed the universities and offered direct grants to needy students. Pell Grants were created so low-income students could receive funding that did not depend upon the cost of attending a particular college. The program was also designed to extend help to students from a wider range of incomes — in 2011-2012, over a quarter of Pell Grant funding went to students from families making over $40,000 — and it was meant to become the country’s primary grant aid program. To drive this point home, the same 1972 reauthorization renamed the Educational Opportunity Grant the “Supplemental Educational Opportunity Grant.”

Since Pell Grants were to become the main grant program for low-income students, Congress sought to define the beneficiaries of the federal SEOG (more commonly known as the FSEOG) more clearly. To that end, the 1986 reauthorization marked an important change in the FSEOG’s eligibility criteria. It no longer required schools to disburse grants based on talent; rather, the program’s purpose became to assist “in making available the benefits of postsecondary education to qualified students who demonstrate financial need.” Financial need, in turn, was defined as the cost of attending a given college minus the student’s expected family contribution.

Nowadays, the FSEOG program still provides grant funds for schools to distribute to needy students. Institutions distribute them in amounts ranging from $100 to $4,000 every year, and, as with the Perkins program, grant awards vary based on student need and the federal allotment to the school. But it remains a small program: In 2011-2012, the federal government spent $746 million on the FSEOG program; it spent $34 billion on Pell Grants.

Since the early 1970s, then, both Perkins and the FSEOG have become secondary to student-aid programs with larger scopes. Nevertheless, Congress both maintained them and targeted them more directly to the students who most needed assistance.

**Skewed Budget Priorities**

Recently, however, the federal government has deliberately backed away from the Perkins program and FSEOG. According to the College
Board’s *Trends in Higher Education* 2012-2013, these two programs, in addition to the Federal Work Study program, were the only federal student-aid programs to have shrunk over the past decade. FSEOG funding for students declined by 20%, and the Perkins Loan program shrank by 54%. These cuts would not be so remarkable if not for the concurrent rapid growth in the federal government’s other student-aid programs. During the same period of time, Pell Grants grew by 118%, subsidized student loans grew by 12%, and unsubsidized loans grew by 156%. All in all, federal student aid grew 105%.

The decline in funding for Perkins Loans — one of the oldest student-aid programs — is especially notable and has an unmistakable cause: The federal government no longer makes new funding available for the program. Congress has not made a new capital contribution to the Perkins Loan program since it acceded to President Bush’s 2005 budget request. Consequently, the loans that colleges currently award to their neediest students must come from “relying funds” — the money that previous students have repaid on their loans. Congress seems uninterested in providing new funding any time soon.

This disparity is made worse by the fact that poor students seem to benefit less than better-off students from the best-funded student-aid programs. Though students from families making less than $40,000 receive the lion’s share of Pell Grant awards — around 75% — their peers in higher income brackets fare much better in other respects. They receive a significantly larger share of both federally backed unsubsidized student loans (the largest federal student-aid expenditure) and PLUS loans (the federal student-loan expenditure that has grown the most in the past decade). This is not unambiguously good news for the middle class, given that the rise in debt loads has been followed by increased default and delinquency rates. The trajectory of federal higher-education spending does indicate, however, that there is greater enthusiasm in Washington for funding subsidies for middle- and upper-middle-class students than for poorer ones.

It is no surprise, then, that students from families making less than $40,000 receive a smaller proportion of all federal higher-education aid than their peers from wealthier backgrounds. Even as federal expenditures for higher education have grown, poorer students seem to have been left behind, with less and less access to educational opportunities.

The current arrangement is problematic not only because it is inequitable but because federal divestment from poorer students has
likely contributed to their declining graduation rates. The data on poor students’ college-completion rates are sobering. In her book *Degrees of Inequality*, Cornell’s Suzanne Mettler shows that today’s “low to moderate income” students are “barely more likely to graduate from college than were those of their parents’ generation.” In fact, the percentage of students in the bottom income quintile completing a college degree has not grown significantly in the past four decades; the share has inched from 6% to 10%. The completion rate doubled for students in the third quintile over the same time period, and it increased from 41% to 71% among students in the top quintile. Even when controlling for standardized-test scores, a much smaller percentage of low-income students complete four-year degrees than do their middle- and upper-income peers.

Numerous studies have attempted to explain these disparities, but when asked, students offer a straightforward answer: They simply do not have the funds to finance their education. In a 2010 study commissioned by the Bill and Melinda Gates Foundation, researchers found that college dropouts’ most common explanations for not finishing were “I needed to go to work and make money” and “I just couldn’t afford the tuition and fees.” An empirical study by Cornell economist Michael Lovenheim came to a similar conclusion. The data suggested that, among lower- and middle-income students, college-completion rate correlates with home value: If a student’s parents’ home increased in value, the student was more likely to graduate, indicating that a family’s financial considerations are a powerful factor in college completion. Though the study does not specify exactly how added resources improve graduation rates, it opens up the possibility that increasing federal funding for poor students could contribute to a solution. The different needs of low-income students should be a policy priority and should not take a backseat to the needs of the middle class.

**For-Profit Colleges and Low-Income Students**

Unfortunately, even as federal aid for higher education has been increasingly directed to better-off students, prominent Congressional Democrats and the Obama administration have chosen to investigate and sanction the one sector of the higher-education industry that caters to poorer students: for-profit colleges and universities. Though the for-profit industry’s record is far from exemplary, it holds great potential for lower-income students.
For-profit schools differ from non-profit schools in that their shares can be traded on the open market, they can be held accountable to shareholders, and their course offerings often emphasize practical skills to the exclusion of the liberal arts. Most importantly, due to the absence of influential faculty and alumni, they can rapidly change their course offerings to adapt to market demand. For example, researchers have found that when for-profit administrators noted that the market was demanding more nurses and lab technicians, they added associate’s degrees and certificates in these fields in greater numbers than their peers in other higher-education sectors.

For-profit education has existed since at least Ancient Greece, but it only took root in America in the 19th century with the emergence of for-profit business schools. While the for-profit industry has always been small relative to public and private non-profit universities, it has grown much faster in recent decades than the traditional, non-profit sector. Enrollment in for-profits grew by 225% from 1998 to 2008, while the figure for the post-secondary industry as a whole was a comparatively low 31%. Moreover, the share of students attending for-profits increased 6% from 2000 to 2009.

For-profit schools have received plenty of bad press in the past few years, much of it justifiable. On average, students who attend for-profits have poor graduation rates, high loan-default rates, and dismal job prospects. Furthermore, numerous news reports have exposed for-profit colleges’ unsavory recruitment practices.

Nevertheless, there is still good reason to believe that for-profits can play a useful role in today’s labor market. Given their adaptability and technical focus, for-profit colleges should be a natural destination for lower-income students looking for a substantive skill set in our constantly changing economy. And indeed, for-profits already do an excellent job attracting students from poorer backgrounds. According to a 2011 Government Accountability Office report, three-quarters of students attending for-profits are financially independent of their parents, the highest share of any sector of the higher-education industry. The students at for-profits, meanwhile, are generally poorer than their peers in other types of institutions. A 2012 study by the Economic Policy Institute showed that families with students at for-profit colleges have a median income of just under $23,000, while their peers at non-profit public and non-profit private colleges have incomes, respectively, nearly double and triple that figure.
For-profits also have a stellar record in recruiting students who have historically been underserved by the non-profit sector of higher-education. African-Americans constitute 22% of all for-profit students but only 13% of all college students. Likewise, Hispanics constitute 15% of for-profit students, though they are just over 11% of all students. Women make up 65% of all students at for-profits, and the majority of students at for-profits are older than 25.

Rather than seeing these figures as evidence that for-profits support groups that are underserved by traditional higher education, some critics see only exploitation. In Degrees of Inequality, Mettler argues that the over-representation of poor students in for-profits is evidence that American higher education limits opportunity for low-income students. Poor students, in her view, are “sequestered” into for-profit colleges. But her approach assumes that these students have no choice among post-secondary programs. On the contrary, these students’ attraction to for-profits is unsurprising: Many students attending for-profit schools express a desire to pursue a quick, practical education, and for-profits seem to provide just that.

Furthermore, the for-profit industry has proven to be successful for many students who enroll in short-term programs. Students at for-profits are more likely to obtain certificates and associate’s degrees, which typically take one or two years to complete, than students who begin these programs at community colleges. And after their first year, they are more likely to stay in such programs and less likely to need to take remedial courses than their community-college peers. Recent data from the National Student Clearinghouse Research Center provides even more promising news. In 2007, among students attending two-year colleges, those who attended private, for-profit schools had a six-year completion rate of 62%, whereas their peers at community colleges and private non-profits had completion rates of 40% and 53%, respectively.

Such findings, in addition to the flexible schedules and practical training that for-profits offer poorer students, indicate that these institutions should not be pushed out of the higher-education market but rather reformed to better serve students, especially those from poorer backgrounds. To that end, reforming for-profits should be part of a larger effort to make American higher-education less wasteful and more rewarding for college students, whose diverse needs will lead them to attend very different institutions.
Instead, the federal government has deemed for-profit colleges to be uniquely deserving of sanction. In the last five years, the Department of Justice has sued for-profit education providers for fraudulent recruitment tactics, and the Consumer Financial Protection Bureau has investigated numerous for-profit colleges’ loan-origination practices. Democratic senator Tom Harkin of Iowa, in his capacity as chair of the Senate Committee on Health, Education, Labor, and Pensions, published a massive report entitled “For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success.” Harkin’s report found that insufficient government oversight and regulation allows for-profits to charge exorbitant rates, devote an inordinate amount of money to unethical and illegal recruiting strategies, and produce graduates with poor training, bleak job prospects, and excessive debt.

The Department of Education has taken the most aggressive action against for-profits. In June 2011 the department announced a set of rules that targeted for-profits and other institutions offering vocational training. The department required them to check potential students’ backgrounds more thoroughly, to create better oversight for student progress, and to adopt a broader definition of “full-time student.” A “reporting and disclosure rule” required for-profits to provide the department with student-debt repayment data and to disclose figures on completion and employment rates to potential students. Finally, a “program approval rule” obligated certain institutions, which the department believed to be providing inferior opportunities to its students, to request permission from the department before creating new “educational programs.”

More controversially, the Department of Education introduced a new requirement for vocational schools, both for-profit and non-profit. If they wished to receive Title IV funding, such institutions were required to provide programs that “prepare students for gainful employment in a recognized occupation.” This requirement sounds easy enough to fulfill, but in the department’s view a program is compliant only if one of the following three post-graduation statistics is satisfied: at least 35% of students are making payments on their loans in a given year; the loan repayments of a typical student do not exceed 30% of his discretionary income; or the
loan repayments of a typical student do not exceed 12% of his total income. Institutions whose students did not meet one of these benchmarks for three years within a four-year window would lose federal funding.

Soon after the release of these regulations, the Association of Private Sector Colleges and Universities filed a lawsuit against the Department of Education. They contended that the “gainful employment” provision was an unreasonable interpretation of the Higher Education Act’s mandate, that the debt-to-income ratio requirements were arbitrary, and that the reporting and disclosure and program-approval rules were unconstitutional. The Federal District Court for the District of Columbia heard the case and ruled that the “gainful employment” measure was acceptable given the vagaries of the legislative language. It also upheld the disclosure component.

But while the court found that the department’s chosen debt-to-income ratios were reasonable because they were based on numerous studies, it argued that the debt-repayment rate of 35% “was not based upon any facts at all.” It was therefore arbitrary and unconstitutional. Moreover, since the debt-to-income ratio was linked to the debt-repayment rate, and because institutions were judged on either figure to determine their federal aid eligibility, the court threw out the whole debt measure of the regulation. Likewise, the court discarded both the “reporting” component of the “reporting and disclosure rule,” as well as the program-approval rule, since institutions were obligated only to report data and request permission for new programs.

This setback did not deter the Department of Education from its efforts against the for-profit industry. Department officials recently revised the measure to ensure it passes constitutional muster. The new proposed measures would make non-complying for-profits ineligible for federal aid for three years if the debt-to-earnings ratio exceeds 12% or if the debt-to-discretionary-income ratio exceeds 30%.

If these measures are implemented, many for-profit colleges will be forced to close, while non-profit schools that produce comparable or worse results remain open. Furthermore, if the department’s new measures still require for-profits to use loan-repay rates as a benchmark of success, these schools might decide to turn away students who show little promise of success. A substantial number of these students, for whom for-profits offer the only opportunity for obtaining relevant skills, will have nowhere to turn for post-secondary education.
As a result of the Department of Education’s investigative efforts, at least one for-profit college has already been forced to close its doors. Corinthian Colleges, which was among the largest providers of for-profit education in the United States, was a frequent target of federal investigations. After Corinthian failed to comply with the Department of Education’s request for data on its students’ job-placement rates and attendance figures, the department withheld federal financial aid for three weeks. This placed an enormous amount of pressure on Corinthian, which was already facing serious financial difficulties. This past summer, Corinthian’s administrators agreed to sell 85 of its institutions and shutter the remaining ones, leaving 70,000 students with unclear prospects.

Of course, the federal government’s efforts to rein in fraud and substandard instruction at for-profit colleges are not themselves problematic. The federal government has a legitimate interest in ensuring that its investment in for-profit schools through loan programs is paying off and that the schools actually help students in the long run. However, given that the government also invests in non-profit schools and that student debt plagues the entire educational system, it is troubling that only for-profits face such harsh scrutiny from governmental institutions.

HELPING THE NEEDIEST

To be sure, current higher-education policy does not only burden the poor; the recent growth of student debt is a harrowing problem for middle-class students. From 2007 to 2012, total outstanding debt grew from $548 billion to $966 billion, while the average individual loan debt increased from $18,957 at the end of 2007 to $24,803 by the end of 2012. Worse, the rates of default and delinquency on student loans have grown significantly in recent years, exposing many students to the possibility of degraded credit scores, wage garnishment, and sizable punitive fees.

But Congress should pay particularly close attention to how its higher-education policies offer poorer students the short end of the stick. At a time when social mobility has stalled and the poorest are still suffering the effects of the last recession, investing in college access for students from the lowest socioeconomic backgrounds should be a priority.

With regard to student aid, Congress’s first priority should be to increase funding for the Federal Supplemental Education Opportunity Grant program. Poor students should be eligible for larger grant awards.
to make it easier for them to complete college. Reinvesting in the long-standing FSEOG program will not require significantly more bureaucracy and would lighten the burden low-income students now face.

It is less clear, however, whether Congress should make new contributions to the Perkins Loan program. Though the program undoubtedly helps numerous poor students afford a college education, it might be more trouble than it’s worth, and the program’s benefits certainly compare poorly to those of grant aid. Over 11% of Perkins loans taken out in 2011 were in default by 2013, while simply providing poor students more funding through FSEOG carries no such risk.

And increasing grant aid for low-income students would not lead to significant tuition growth, an effect some scholars associate with the growth of the student-loan program. As Andrew Gillen has argued in a paper for the Center for College Affordability and Productivity, by severely limiting who receives funding for tuition, aid programs restricted to the poor do not shift the demand curve for higher education. Such programs could raise tuition only slightly, or, if the income thresholds were sufficiently low, would leave tuition completely unchanged.

Increasing federal aid for poor students has greater salience today given the recent decline in institutional funding for the poorest students. Over the past decade, state schools have reduced the percentage of institutional grants offered to poor students while increasing the proportion offered to wealthier students. Additionally, a recent study from the New America Foundation shows that both private and public colleges are emphasizing merit-based aid over need-based aid. They do this in part to recruit wealthier students, who, even after subtracting the merit-based aid, will end up paying more in tuition than lower-income students would pay after need-based aid. Thanks to the combined efforts of private and public colleges as well as the state and federal governments, from 1996 to 2008 poor students saw an overall decrease in all forms of grant funding while wealthier students saw an increase. Given the financial troubles facing every sector of the higher-education industry, it is unlikely that institutional student aid will be tipped in favor of low-income students anytime soon. The federal government, on the other hand, has the wherewithal to redirect funding to the poorest students.

Moreover, the federal government has an active interest in doing so. Brookings Institution scholar Ron Haskins has examined the relationship between college and social mobility and finds that students
coming from every income quintile have a much better chance of reaching the top two quintiles if they obtain a college degree. Offering the poorest students more aid, especially in the form of grants, might give them a better chance to complete their education and move up the socioeconomic ladder.

Furthermore, increasing the grant program likely would not require much more spending. In 2013, the FSEOG program constituted a paltry 1.6% of all spending on federal student-aid grants, while the Perkins Loan program constituted only 0.8% of all federal loan spending. If Congress is actually concerned about overspending on student aid, it should first tackle the unsubsidized Stafford loan program, which has grown by 156% in the past decade, or the PLUS loan program, which has grown by 179%.

Congress must also account for how its higher-ed spending prioritizes wealthier Americans over poorer ones. To that end, Congress should also reconsider the huge investment it makes in tuition tax breaks, a program that benefits upper-middle class families more than any other group. Education Sector’s Stephen Burd has shown that from 2007 to 2009, low- and middle-income families saw their share of benefits from these tax credits drop dramatically. President Obama’s expansion of tuition tax breaks through 2009’s American Opportunity Tax Credit only exacerbated the uneven distribution of their benefits. The wealthiest families eligible for the tax break—one making between $100,000 and $180,000—saw the largest increases in benefits. Furthermore, families making over $75,000 were more than twice as likely as the poorest families to receive any benefit from the new tax break at all. These programs, which economists estimate cost the federal government $55 billion, amount to a subsidy for the upper-middle class. If Congress is interested in directing aid to the families that most need it, it should either end these tax breaks or restrict eligibility to poor and lower-middle-class families.

With regard to for-profit colleges, the federal government should continue punishing the industry’s worst offenders without disadvantaging the entire for-profit sector. To that end, if the Department of Education wishes to punish schools whose students fail to meet some loan-repayment benchmark, it should apply this mandate to every type of higher-education institution. For-profits might be the worst offenders when it comes to providing a subpar education, but they are certainly
not the only ones. An analysis by the New America Foundation shows that while 20% of for-profits would fail the gainful-employment test, 4% of public non-profit institutions and 8% of private non-profit institutions would fail, too.

Moreover, policymakers should think creatively about how to maximize the promise of for-profits. In his most recent State of the Union address, President Obama urged corporate leaders to partner with community colleges to design educational programs that provide students with skills currently demanded by the labor market. To that end, he announced that his administration would offer $550 million in grants for such partnerships: About $450 million would be directed toward Trade Adjustment Assistance Community College and Career Training grants, which retrain workers displaced by foreign trade, while the rest would be directed toward a new American Apprenticeship Grants program, which would fund arrangements between community colleges, businesses, non-profits, and state and local governments. Community colleges need not be the sole beneficiaries of these programs, especially when for-profit colleges exhibit superior completion rates for certain kinds of students. The federal government should be open to grant proposals from every sector of higher-education—including for-profits, which emphasize vocational training.

In addition, since for-profit colleges seem to do a better job with students who enroll on a short-term basis, the Department of Education should incentivize students to obtain their degrees quickly. Perhaps students at for-profits could receive more generous loan awards with lower interest rates for their first two years of education than for subsequent ones. Such a step would encourage students for whom time is at a premium to speed up their studies and get on with their careers and their lives.

Federal support for higher education is an important investment. It is especially vital for those seeking to overcome disadvantages. As the president, Congress, and the Department of Education consider their budget priorities for the next few years, they must make sure to invest in those who need the most help.