# THE COLLEGE COST CRISIS REPORT: ARE INSTITUTIONS ACCOUNTABLE ENOUGH TO STUDENTS AND PARENTS?

## HEARING

BEFORE THE

SUBCOMMITTEE ON 21ST CENTURY COMPETITIVENESS

OF THE

COMMITTEE ON EDUCATION AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES

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# C O N T E N T S

# THE COLLEGE COST CRISIS REPORT: ARE INSTITUTIONS ACCOUNTABLE ENOUGH TO STUDENTS AND PARENTS?

**Tuesday, September 23, 2003**

**U.S. House of Representatives**

**Subcommittee on 21st Century Competitiveness**

**Committee on Education and the Workforce**

**Washington, DC**

The Subcommittee met, pursuant to notice, at 2:05 p.m., in room 2175, Rayburn House Office Building, Hon. Howard P. "Buck" McKeon [Chairman of the Subcommittee] presiding.

Present: Representatives McKeon, Petri, Castle, Tiberi, Keller, Porter, Gingrey, Burns, Kildee, Tierney, Wu, Holt, McCarthy, Van Hollen, Owens, Andrews, and Hinojosa.

Also present: Representative Bishop of New York.

Staff present: Kevin Frank, Professional Staff Member; Alexa Marrero, Press Secretary; Susan Oglinsky, Coalitions Advisor; Alison Ream, Professional Staff Member; Deborah L. Samantar, Committee Clerk/Intern Coordinator; Kathleen Smith, Professional Staff Member; Liz Wheel, Legislative Assistant; Ellynne Bannon, Minority Legislative Associate/Labor; Ricardo Martinez, Minority Legislative Associate/Education; Alex Nock, Minority Legislative Associate/Education; and Joe Novotny, Minority Legislative Assistant/Education.

Chairman McKEON. A quorum being present, the Subcommittee on 21st Century Competitiveness of the Committee on Education and the Workforce will come to order.

We're holding this hearing today to hear testimony on "The College Cost Crisis Report: Are Institutions Accountable Enough to Students and Parents?"

Under Committee Rule 12 (b), opening statements are limited to the Chairman and the Ranking Member of the Committee. Therefore, if other members have statements, they will be included in the hearing record.

With that, I ask unanimous consent for the hearing record to remain open 14 days to allow member statements and other extraneous material referenced during the hearing to be submitted in the official hearing record.

Without objection, so ordered.

## STATEMENT OF HON. HOWARD P. "BUCK" McKEON, CHAIRMAN, SUBCOMMITTEE ON 21st CENTURY COMPETITIVENESS

Chairman MCKEON. Good afternoon. I want to thank you for joining us to discuss this important topic.

We're here today to continue our efforts to explore the issue of affordability in higher education, an issue I've been personally concerned with for quite some time.

A few weeks ago, Chairman Boehner and I released a report called The College Cost Crisis, which declared that the nation's higher education system is in crisis as a result of exploding cost increases that threaten to put college out of reach for low-and-middle-income students and families. The report concluded that decades of cost increases, in both good economic times and bad, have caused America's higher education system to reach a crisis point.

It also concluded that students and parents are losing patience with higher education sticker shock and that institutions of higher learning are not accountable enough to parents, students, and taxpayers—the consumers of higher education.

The report also found that the amount of information available to consumers about tuition increases is inadequate, inhibiting the ability of consumers to comparison shop and hold institutions accountable for tuition hikes, and while significant increases are the norm, they are not unavoidable.

This afternoon, witnesses will testify, perhaps about the findings in the report, but more importantly, I'm hoping to hear a discussion of the broad issue of affordability in higher education, as well as solutions on how to best address the problem.

This is not a new problem. In fact, a decade ago, when Congress was considering reauthorization of the Higher Education Act, much as we are today, Senator Frank Lautenberg of New Jersey expressed concerns about the staggering growth of tuition over the past decade, and noted how the increases were outpacing the Consumer Price Index by two to three times. It sounds familiar, doesn't it?

My concern over this issue is not new, either, nor are my efforts to work toward solutions. That's why, in 1997, we created the National Commission on the Cost of Higher Education to study the problems of increasing tuition and rising administrative costs, and to make policy recommendations on how to hold down these increases.

The following statistic is one I've repeated many times, and I will continue to repeat it until we can find a solution and interested parties start taking this issue seriously: The fact, is, according to the Advisory Committee on Student Financial Assistance, cost factors prevent 48 percent of all college-qualified low-income high-school graduates from attending a 4-year college, and 22 percent from pursuing any college at all. The statistics are similarly bleak for moderate income families.

At the rate we're going, by the end of the decade, more than 2 million college-qualified students will miss out on the opportunity to go to college.

Over the past year, my colleagues and I have been working hard to reauthorize the Higher Education Act. Since 1965, the Higher Education Act has made the dream of college a reality for millions of students, providing billions of dollars in financial assistance for students and families in need.

We should all be proud of this accomplishment. After all, helping students reach their educational goals not only encourages success for the students, but it also provides great benefits to our society.

One of the statistics that I've seen indicates that a college degree, Bachelor's Degree, will result in about $1.9 million of income for that student over his productive life.

That means that he'll also pay about—he or she—$179,000 in additional taxes to benefit all of society. These are important things to remain aware of.

Yet, over the past few decades, the tens of billions of dollars we invest in higher education each year has begun to lose its tremendous power for expanding access to higher education. The cost of college has gone up rapidly, and our investment in Federal student aid simply cannot keep pace.

That is not to say that we aren't doing our share. In fact, we're pumping back billions of dollars into student aid through grants, federally backed loans, work-study opportunities, and numerous other financial aid programs.

Over the 10-year period ending in 1992, inflation was about 30 percent. Yet Federal student aid increased by 161 percent. We're dramatically boosting Federal support for higher education, yet we still cannot keep pace with tuition increases.

The higher cost of education is daunting to many students and their families. Even with grants and scholarships, the average student is graduating with about $16,000 in higher education debt.

There are many causes for increases in the cost of higher education. I hope the witnesses today will help to explain some of those reasons.

However, the fact is, the consumers of higher education, students and parents, are losing patience. Parents are scared that they may not be able to send their children to college. Students dread the day when their student loans will come due.

That frustration extends beyond simply the sticker price of tuition. As the price of college increases, and their pocketbooks squeezed, students are beginning to question how those tuition increases are being spent.

Recently a letter appeared in the student newspaper at the University of South Carolina that explained some of this frustration. There was a statement in that letter that in particular caught my attention, which I would like to share with you.

This student discussed the contrast between numerous new, state-of-the-art facilities on campus available, even though many students cannot even register for classes. She said this: "Attending a university is not about how nice the dining facilities are or having as many different chic eating places as possible; it is about learning and preparing for our careers. It is very disheartening when students' educational needs are sacrificed for capitalistic modernity." That's a nice word.

I agree that there are likely many causes for the rapid increases in the cost of higher education, not the least of which over the past few years are the state budgets which have led, in some cases, to cuts in higher education funding. However, it paints an incomplete picture to blame state budgets alone.

For months, and in fact years, I have been looking for answers to the question of why tuition has perpetually increased faster than students and families can afford to pay. Indeed, I hope witnesses can help us to understand what is causing the college cost crisis, so that we may propose effective solutions.

I believe that when a student believes her educational opportunities are being hindered by investments in the campus facade, and when institutions consider spending money and increasing tuition in order to increase their ranking, rather than increase opportunities for their students, our higher education system is facing a very real problem.

Earlier this year, I put forth a proposal to closely monitor tuition and fee increases by developing a college affordability index that will serve as a standard measure for institutions of higher education to measure increases in tuition and fees.

This will also provide a tool by which students and families can understand those increases in relation to the Consumer Price Index.

The proposal would also create college affordability demonstration programs for those colleges and universities that want to try new, innovative approaches to improving higher education while reining in skyrocketing cost increases.

While the bill will soon be released, I want to be the first to make it clear that this bill is not about price controls. I have never supported such a thing and will never do so.

What I do support is empowering the consumers of higher education by giving them the information they need to exercise freedom in the marketplace.

Over the past few months, I've sat on the sidelines and have let various people degrade this proposal, choosing to wait until the bill is actually introduced before talking about the specifics, but no more.

I will not sit idly by and listen to the detractors who want to continue the status quo, hoping that this issue will go away. We all can do a better job of making college more affordable and more accessible.

We're working hard to revitalize our higher education system through the reauthorization of the Higher Education Act and ensure that every student who strives for post-secondary education has the opportunity to achieve it.

As we work toward that goal, we will continue to seek solutions to the college cost crisis. I hope some of those solutions will come to light today.

The future of our higher education system, and in fact the future of our nation, will depend on our ability to address this crisis and keep college within reach for students and families in America.

[The prepared statement of Mr. McKeon follows:]

**Statement of Hon. Howard P. "Buck" McKeon, a Representative in Congress from the State of California**

Good afternoon and thank you for joining us to discuss this important topic. We're here today to continue our efforts to explore the issue of affordability in higher education, an issue I've been personally concerned about for quite some time.

A few weeks ago Chairman Boehner and I released a report called "The College Cost Crisis," which declared that the nation's higher education system is in crisis as a result of exploding cost increases that threaten to put college out of reach for low and middle income students and families.—The report concluded that decades of cost increases, in both good economic times and bad, have caused America's higher education system to reach a crisis point. It also concluded that students and parents are losing patience with higher education "sticker shock" and that institutions of higher learning are not accountable enough to parents, students and taxpayers—the consumers of higher education.

The report also found that the amount of information available to consumers about tuition increases is inadequate, inhibiting the ability of consumers to "comparison shop" and hold institutions accountable for tuition hikes and, while significant tuition increases are the norm, they are not unavoidable.

This afternoon witnesses will testify perhaps about the findings in the report, but more importantly, I'm hoping to hear a discussion of the broad issue of affordability in higher education, as well as solutions on how best to address the problem. This is not a new problem. In fact, a decade ago when Congress was considering reauthorization of the Higher Education Act much as we are today, Senator Frank Lautenberg of New Jersey expressed concerns about the staggering growth of tuition over the past decade, and noted how the increases were outpacing the Consumer Price Index by two to three times. It sounds familiar, doesn't it?

My concern over this issue is not new either, nor are my efforts to work toward solutions. That's why, in 1997, I created the "National Commission on the Cost of Higher Education" to study the problems of increasing tuition and rising administrative costs and to make policy recommendations on how to hold down these increases.

The following statistic is one I've repeated many times, and I will continue to repeat it until we can find a solution and interested parties start taking this issue seriously. The fact is, according to the Advisory Committee on Student Financial Assistance, cost factors prevent 48 percent of all college-qualified, low-income high-school graduates from attending a four-year college and 22 percent from pursuing any college at all. The statistics are similarly bleak for moderate income families. At the rate we are going, by the end of the decade, more than two million college-qualified students will miss out on the opportunity to go to college.

Over the past year, my colleagues and I have been working hard to reauthorize the Higher Education Act. Since 1965, the Higher Education Act has made the dream of college a reality for millions of students, providing billions of dollars in financial assistance for students and families in need. We should all be proud of this accomplishment—after all, helping students reach their educational goals not only encourages success for the students, but it also provides great benefits to our society.

Yet over the past few decades, the tens of billions of dollars we invest in higher education each year has begun to lose its tremendous power for expanding access to higher education. The cost of college has gone up rapidly, and our investment in federal student aid simply cannot keep pace. That is not to say that we aren't doing our share—in fact, we're pumping billions of dollars into student aid through grants, federally-backed loans, work-study opportunities, and numerous other financial aid programs. Over the ten year period ending in 2002, inflation was about 30 percent, yet federal student aid increased by 161 percent. We're dramatically boosting federal support for higher education, yet we still cannot keep pace with tuition increases.

The cost of higher education is daunting to many students and their families—even with grants and scholarships, the average student is graduating with about $16,000 in higher education debt. There are many causes for increases in the cost of higher education; I hope the witnesses today will help to explain some of those reasons. However, the fact is, the consumers of higher education—students and parents—are losing patience. Parents are scared that they may not be able to send their children to college. Students dread the day when their student loans will come due. And that frustration extends beyond simply the sticker price of tuition.

As the price of college increases and their pocketbooks are squeezed, students are beginning to question how those tuition increases are being spent. Recently, a letter appeared in the student newspaper at the University of South Carolina that explained some of this frustration.

There was a statement in that letter that particularly caught my attention which I would like to share with you. This student discussed the contrast between numerous new, state of the art facilities on campus available even though many students cannot even register for classes. She said this; "Attending a university is not about how nice the dining facilities are or having as many different chic eating places as possible; it is about learning and preparing for our careers. It is very disheartening when students" educational needs are sacrificed for capitalistic modernity.

I agree that there are likely many causes for the rapid increases in the cost of higher education, not the least of which over the past few years are the state budgets which have led in some cases to cuts in higher education funding. However, it paints an incomplete picture to blame state budgets alone. For months, and in fact years, I have been looking for answers to the question of why tuition has perpetually increased faster than students and families can afford to pay. Indeed, I hope witnesses can help us to understand what is causing the college cost crisis so that we may propose effective solutions.

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While the bill will soon be introduced, I want to be the first to make it clear that this bill is not about price controls. I have never supported such a thing and will never do so. What I do support is empowering the consumers of higher education by giving them the information they need to exercise freedom in the marketplace.

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We are working hard to revitalize our higher education system through the reauthorization of the Higher Education Act and ensure that every student who strives for postsecondary education has the opportunity to achieve it. As we work toward that goal, we will continue to seek solutions to the college cost crisis. I hope some of those solutions will come to light today. The future of our higher education system, and in fact the future of our nation, will depend on our ability to address this crisis and keep college within reach for students and families in America.

With that, I would yield to my colleague, Mr. Kildee, for any opening statement that he might have.

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Chairman MCKEON. With that, I now yield to my college, Mr. Kildee, for his opening statement.

## STATEMENT OF HON. DALE E. KILDEE, RANKING MEMBER, SUBCOMMITTEE ON 21st CENTURY COMPETITIVENESS

Mr. KILDEE. Thank you, Mr. Chairman.

I'm pleased to join Chairman McKeon at today's hearing on the recently released college cost report. I know that both of us are looking forward to the testimony of today's witnesses on this very important topic. However, I'm concerned about the direction this Subcommittee may be headed on this issue.

First, let me say that I share Chairman McKeon's concern over the rising sticker price of a college education. The cost of college is certainly a concern for today's students and their families.

This Subcommittee has heard testimony on the increase in college costs over the past decade. The college board has reported that tuition has risen by 38 percent over the past 10 years after accounting for inflation. We certainly do not want the cost of college to deny even one student access to a good post-secondary education.

Contrary to the conclusion of the Chairman's report, the downturn in the economy and dramatic increases in state Medicaid costs have carved out funding for higher education. That is certainly true in my state of Michigan, and I know many other states, if not all of them.

While state appropriations for higher education generally increase during good economic times—and I used to serve on the Appropriations Committee for the Michigan legislature during some of those times—recessions bring about sharp decreases of legislative support.

After these sharp decreases in spending, the level of spending on higher education typically does not return to its previous levels.

I respectfully must disagree with Chairman McKeon as to the proper approach to controlling college costs from the Federal level.

Much attention initially has been given to his proposal to place Federal price controls on tuition at our colleges and universities, but Mr. McKeon has obviously been very flexible, and that seems to be feeding into the sun on that, and I hope that's where it will fade.

This proposal would bar universities who have seen their budgets cut due to the sour economy from receiving Federal funds to improve teacher quality or provide work-study opportunities for needy students.

Worse yet, historically black colleges and Hispanic-serving institutions would be barred from receiving institutional and other aid. This loss of aid would hamper the mission of these institutions to provide post-secondary education opportunities to some of our neediest students.

This proposal would also have serious unintended consequences.

Colleges that are forced to reduce their tuition increases will simply decrease the amount of need-based grant aid. This could result in students experiencing lower tuition levels, but higher out-of-pocket costs.

In addition, as labor and health care costs increase, institutions will be forced to sacrifice quality. This will be done through the hiring of adjunct professors rather than maintaining a seasoned, tenured faculty.

Is this the cost control measures we want our universities to implement?

Rather than creating new problems to solve an existing one, this Subcommittee should be considering what is the appropriate response to rising tuition. We should provide incentives to colleges and universities to hold down costs.

The current Federal system of higher education financing does not incentivize schools to hold down the level of tuition increases.

The Higher Education Act should not punish students or institutions through heavy-handed Federal price controls. Rather, institutions that hold down tuition costs while increasing need-based grant aid should be rewarded.

In addition, states should be encouraged to maintain their level of effort on higher education spending. In years in which Congress increases student aid, those increases should benefit students, not be gobbled up by the need to balance state budgets. We should certainly try to encourage a certain maintenance of effort on the part of the states.

Also, we must remember that increasingly, financial aid comes in the form of a loan rather than a grant.

The answer here is not to simply raise loan limits. Instead, we should reverse this trend, increase the buying power of Pell Grants and other forms of Federal, state, and institutional grant aid.

In closing, I want to stress again that the focus of this Subcommittee on what assistance we can provide to students facing rising college costs is a sound emphasis and focus. However, we should not be instituting proposals that would actually shrink resources and access for our most disadvantaged students.

Mr. McKeon and I have walked through kind of this evolution, and we're still evolving, and hopefully, at the end of this process, with your expertise, we will reach a point where we can find some agreement without having price controls.

I yield back the balance of my time, Mr. Chairman.

Chairman MCKEON. Thank you.

I'd like to now introduce our witnesses that we have before us here today.

First will be Dr. Valerie F. Lewis. Dr. Lewis is currently the president of the State Higher Education Executive Officers. Additionally, she is the Commissioner of the Connecticut State Department of Education. In her role as commissioner, Dr. Lewis is responsible for implementing the policies and directives of the Board of Governors for Higher Education and directing the Department of Higher Education.

Throughout her career, she has served in various public and independent college administrative positions, including those in admissions and financial aid, academic administration, and finance.

Next will be Dr. King Alexander. Dr. Alexander is currently the president of Murray State University in Murray, Kentucky, where he has served since 2001. Previously, Dr. Alexander was a faculty member and director of the higher education program at the University of Illinois at Urbana, Champagne.

He is also the co-editor of two recent books entitled Maximizing Revenues: Universities, Public Policy, and Revenue Production and the University: International Expectations.

Then we'll hear from Mr. Jamie Merisotis. Mr. Merisotis is the founding president of the Institute for Higher Education Policy. Prior to his current position, he served as executive director for the National Commission on Responsibilities for Financing Post-Secondary Education, where he authored the commission's final report, entitled Making College Affordable Again.

Additionally, he is the author or co-editor of various books, as well as a frequent contributor to newspapers, scholarly journals, and other publications.

Mr. Merisotis also serves as a board member and advisor for several organizations, including the Consortium for the Advancement of Private Higher Education, Scholarship America, and the Council for Higher Education Accreditation's International Commission.

Our final witness will be Ms. Jessica Hanson. Ms. Hanson is a senior at Florida State University in Tallahassee, Florida, where she is pursuing a degree in political science. Throughout her college career, she has been involved in student government, and is currently serving as the director of legislative affairs for the Student Government Association.

Additionally, Ms. Hanson is the director of community affairs for the Florida State University Pan-Hellenic Association.

Upon graduation, she plans to attend law school. That's good. We need more attorneys.

[Laughter.]

Chairman MCKEON. Other than here in Congress.

Before the witnesses begin your testimony, I'd like to explain to you how the light system down there works. You have 5 minutes to summarize your testimony. Your full written testimony is included in the record. When you have 1 minute left, the yellow light comes on, and then the red light comes on just before you fall through the trap door in the bottom. Then, as you conclude, the same lights will work for the members as they ask you questions.

We'll hear first now from Dr. Lewis.

**STATEMENT OF VALERIE F. LEWIS, COMMISSIONER OF HIGHER EDUCATION, STATE OF CONNECTICUT AND PRESIDENT, STATE HIGHER EDUCATION EXECUTIVE OFFICERS**

Dr. LEWIS. Thank you and good afternoon, Mr. Chairman and members of the Committee.

I am Valerie Lewis, and I'm from Connecticut, where I shepherd 47 public and private colleges, and all of them are known as high-quality institutions and high-cost. Only our public community colleges are really considered low-cost.

So I am here today to say I am glad that you are addressing this topic seriously. We need voices raised to look at the long issues ahead of us in fashioning policies, state by state and across our nation, that will support the students who are ready to come to us and profit from their stay in higher education.

I am currently also serving as the president of SHEEO, as you know, and the folks who lead the coordinating and governing boards across our country at the moment are focused almost every day on what researcher Jane Wellman has called the "double whammy" of the fiscal and demographic crises that are simultaneously bombarding the academy at this point.

In my applause, I want to say, too, that I share your growing concern over the price of admission to college, because the Nation badly needs to maintain the vision that qualified students of all ages and backgrounds who are prepared to benefit get to us.

That takes sufficient resources. Sufficient resources are always a contested item, and contested in definition.

Generally today, however, my state and practically every state in the Nation is being told to do more with less.

Enroll more students; respond to critical workforce needs with more expanded programs; partner with industry in research and technology transfer; stem the brain drain; build the pipeline of students prepared to succeed; make better teachers; embrace technology across the curriculum; retain students to graduation in greater numbers—all of these are advocated by you, by higher education's various publics, and by academe itself.

But the notion of doing all these while simultaneously reducing budgets is at best a dream, and at worst a nightmare.

As a commissioner, mind you, I believe we can do more with the resources even now in our hands, but I am aware that there are many forces propelling the academy in the direction of increased costs, and I do want to outline those for you today, as you've asked.

A recent SHEEO report said there are four factors that are hitting in higher education that are of great consequence: the relative decline of state support; the growth in competition for best students, leading to tuition discounting at both public and private; higher education demand and some consequence reduction in market restraint on price; and institutional spending to enhance quality, add programs and services, and keep pace with technology as we take in more and more students.

Each of these trends spawns reassessment of what we come in my state, at least, to talk about as the three-legged stool of higher education finance.

Some people only want to talk about two legs: what the state pays, what the student pays. I think it's three legs, because the third part is what the colleges can do to contain costs and to gain in productivity.

What should students have to pay? What should states have to pay? Let's look at state support first.

Dramatic changes in this area have catapulted the discussion of costs to consumer to the crisis stage, as you have said. The current economic climate has left many states with few choices but to reduce higher education, which is always the discretionary object when compared to the entitlements and fast-rising pieces of the budget like health care costs.

In my state, it means that, for instance, the proportion of spending on higher education has dropped from 6.6 percent 3 years ago to 4.3 percent at this juncture.

While I would agree with the point made in the College Cost Crisis paper, that the economy is only one of several factors in cost growth, it is a major factor, and one unlikely to turn around, given these same kinds of pressures I've just talked about.

Actually, in my own state this year, every effort was made to maintain funding in higher education because we had widespread understanding that we were trying to serve more people. Eighty percent of the kids in our high schools want to go to college and do go somewhere for post-secondary education, and we're terribly glad of that.

In doing that, however, we came up against the fact that, after all that work by all parties concerned, we are still looking at a budget that's 2.2 percent down from real expenditure last year in general institutional support, and 8.4 percent down on our financial aid programs, which similarly had a reduction last year of 13.9 percent, exactly the wrong combination, because obviously, in taking away from institutional budgets, there was a recognition that the institutions could go out and raise their tuition funds, but simultaneously, the state was closing its door in respect to financial aid for students.

We were helped, in fact, in the problems of these reductions of budgets, by our own faculties and staff, who have taken a 1-year wage freeze in recognition of the problems of keeping our classrooms full and keeping instruction going.

Other states, as you know, are facing double-digit decreases in state support, and this fact has resulted in sharp tuition increases rather than the rates of the 1990's that generally—generally—paralleled rising costs for labor.

We are extraordinarily intensive labor organizations. Seventy to 80 percent of our budgets are in labor, and it's white-collar, highly educated labor that we have to employ.

In fact, they cost us a lot. In Connecticut, we pay the highest salaries in the Nation for our faculty, for instance. But they are also, that faculty is also the reason for our success, and we compete with industry for these folks.

The residual question, in other words, when one looks at these changes in budgets, is what can we expect colleges to do?

Do we expect them to reflexively increase tuitions in part or full to the consumer? Are there other things they can do? Yes, but time is against us.

Budgets traditionally end up in June. This year, my state ended up in August, and the kids came back to school in September.

So the thoughtful responses of reallocation, the thoughtful responses of program elimination or collaborations with other institutions, the notions of trying to look at the ties that bind us around collective bargaining, faculty role, and definition and tenure issues, time to degree issues for students, which are ever lengthening and growing the cost for both student and state and nation in that regard, all of these take effort.

Chairman MCKEON. Dr. Lewis, are you about wrapping up?

Dr. LEWIS. I'm almost done.

Chairman MCKEON. OK.

Dr. LEWIS. What I'm going to say next is what you can do, and there are several things.

I am pushing you to think about driving accountability back to the states, and I would like you to do it with incentives.

We've never tried that. It would be great to try it, as a matter of fact, and the huge work being done in higher education in my state is on accountability, performance measurement, and empowering students and families with information. We need your help.

We also need you to retain your efforts for multi-faceted work in respect to getting students to college, helping us prepare students for college, leveraging the financial aid dollars.

I love the LEAP program. We are able to match it with state funds in that maintenance effort that you talked about, Mr. Kildee.

Finally, I would say continue to exhort us to stick to the public good, that we must, as higher education leaders, hear your call to remember what we do and for what it is. It is to improve lives.

And if we cannot do that, you have every right to take money away. If we're doing it, then help us do it better.

[The prepared statement of Dr. Lewis follows:]

**Statement of Valerie F. Lewis**

Thank you for the invitation to address the issue of college costs and, specifically, Rep. Boehner's and McKeon's paper on "The College Costs Crisis". My name is Valerie F. Lewis and I am commissioner of higher education in Connecticut, a state that is known for its high quality and high cost postsecondary education. Only our community colleges are considered low cost, so access and affordability are issues at the forefront of my concerns and those of my citizen board. I also am serving this year as president of the State Higher Education Executive Officers (SHEEO) whom I represent here today. The jobs of SHEEOs nationwide, whether with statewide coordinating or governing boards, are focused almost everywhere these days on what researcher Jane Wellman has called the "double whammy" of the fiscal and demographic crises, the latter caused by the waves of new students knocking on our doors. So, first, I applaud your intense interest in the subject of college costs. It is only when our states and nation focus on this subject long enough to recognize its complexity that we stand a chance of developing stable policies that will support the academy and our students into the long future.

I share your concern over the growing price of admission to college and to the level of education that is fast becoming basic to success in the workplace and in life. The nation badly needs to maintain the vision that qualified students of all ages and backgrounds should be encouraged to reach their maximum potential regardless of ability to pay. Students should not, by default, have to attend the cheapest institution or to make the choice not to attend college at all. But such a vision needs to be grounded in a reality of sufficient resources to meet the sharply growing and increasingly diverse set of learners who bring to colleges and universities increasingly different educational needs, interests and goals.

The definition of "sufficient resources" is always difficult and contested. But, generally today, higher education in my state and in most others is being told to do more with less. Enroll more students, respond to critical workforce needs with new or expanded programs, partner with industry in research and technology transfer, stem the brain drain, build the pipeline of students prepared to succeed, make better teachers, embrace technology across the curriculum, retain students to graduation in greater numbers—all of these are advocated by higher education's various publics and by academe itself. But the notion of doing all these while simultaneously reducing budgets is at best a dream and at worst a nightmare. While, as a commissioner, I believe that we can do far more with our state resources, I am aware that many forces have propelled expansion of both higher education services and cost.

In fact, a recent SHEEO report noted four parallel trends impacting higher education simultaneously:

- The relative decline of state support
- The growth in competition for "best students" leading to tuition discounting
- Higher enrollment demand and some consequent reduction in market restraint on price, and
- Institutional spending to enhance quality, add programs and services, and keep pace with technology

Each of these trends spawns reassessments of the proverbial three-legged stool-questions about resources:

- How much should an institution spend to provide its services to students?
- Of that cost, what is a reasonable expectation for state and federal support?

(This question is particularly important when talking about public institutions which are supported primarily through state appropriations and for students whose financial aid comes primarily through federal appropriations.)

- What should we ask students and families to pay?

Let me talk about state support first, because dramatic changes in this area have catapulted the discussion of costs to consumer to the crisis stage. The current economic climate has left many states with few choices but to reduce support for higher education, even in knowledge that state support is proportionately the largest funding source for the public college enterprise . While I would agree with the point made in "The College Cost Crisis" paper that the economy is only one of several factors in cost growth, it is a major factor and one unlikely to turn around, given the competition for state funds by entitlement programs and especially by spiraling health care budgets. Actually, in my own state, every effort was made this session to keep harm to higher education to a minimum because of widespread understanding that our colleges and universities must serve increasing numbers of students. But the budgets of our public institutions still are down 2.2 percent from expenditures last year, with state financial aid programs down more than 8 percent, and we would be deeper in the hole if it were not for the fact that our faculty and staff agreed to a year's salary freeze. Other states, as you know, are facing double digit decreases in state support and it is this fact that has resulted in sharp tuition increases rather than the rates of the 90's that generally paralleled rising costs for labor. With labor costs our biggest budget expense—ranging from 70 to 80 percent—what we pay our highly educated workforce is an integral factor in budgets, but also an integral factor in our success. In this arena, we parallel the needs of business to compete for and to keep talent, so the focus of our greatest efforts must be on how to make the most of our workforce's time and creativity in making productivity gains.

The residual question when state budgets for higher education decline therefore is: can or should we expect colleges to be able to react to these reductions without passing on costs—in part or full—to the consumer, especially when consumer demand is high? Budgets typically are passed as students are packing their bags to go, or go back to college, without enough time devoted to thoughtful reduction scenarios like reallocation, program elimination, or collaborations that limit institutional responsibility. Nor are there quick and simple solutions to untying the binds of collective bargaining, faculty role, responsibility and tenure definitions, and student time-to-degree processes, all of which have great impact on costs to the consumer, to the state and to the nation.

No one, least of all SHEEOs like me, would suggest that higher education does not need to engage in serious work to address cost containment and greater productivity. I would be the first to admit that there are instances of institutions and systems that are spending beyond average, but, in general, boards of trustees are trying hard to find balance in the three-legged stool of finance. There is widespread worry, however, that states and, perhaps the nation, are moving toward a privatization model for higher education without a clear understanding or full discussion of the potential consequences of such change.

It is this array of complex issues that have been a focus of my state and four others that are this year engaged in a Lumina Foundation -supported study of how best to integrate tuition, fee and financial aid policies and how to find the appropriate balance of individual versus societal responsibility for cost. Connecticut actually is one of thirty states that place responsibility for public college tuition and fee policy with its coordinating or governing board. Many, like my state, have decentralized actual tuition setting to campus or system boards, but within a frame of state policy. In Connecticut that means that in any year no public college student may have tuition increased by more than 15 percent and institutions must set aside 15 percent of collected tuitions for need-based financial aid as a means to maintain access. While our maximum change factor is certainly higher than inflation, we have weighed the fact that affordability without availability is an empty promise.

So what can the federal government do, given its reasonable concern for keeping college affordable and simultaneously keeping American higher education the most sought after in the world for its quality and diversity? To my mind, there is no question that the federal government, as a pivotal finance partner, must join with states in seeking return on investment by:

- calling for accountability on the investment and providing incentives to states to strengthen initiatives that focus on improvements in access, quality services, student success, and efficient use of resources Such accountability systems at the state level should ensure minimal standards of quality, provide data to inform all our customers, including you at the federal level, of our progress or lack thereof, and measure and improve performance. I argue, therefore, for driving accountability back to the states, and through them to institutions, using federal incentives.
- assisting all higher education entities in expanding college awareness and readiness, through programs like TRIO and Gear UP, since inadequate preparation is the most difficult to overcome of all barriers to access and success in higher education. Until most students are better prepared, postsecondary education will need to concentrate resources on instruction to help make up for deficiencies, both for the sake of individuals and their goals and in recognition of the national need for a high quality workforce.
- ensuring adequate grant support for the neediest students, because no matter how low our tuition and fee increases, there are students who cannot pay public or private costs. A significant second piece of the provision of such aid is to make the process for obtaining it simpler, and, in fact, concentrating on making all rules, including tax provisions, understandable by those who need to use them. It would be counterproductive to sanction institutions or states with reductions in student financial aid because it will be students who are hurt first and last in such a scenario.
- leveraging state and institutional investment in need-based aid through programs like LEAP and additional institutional incentives to focus their financial aid funds on needy students.
- using its powers of the bully pulpit to encourage and exhort higher education leadership to keep its shoulder to the wheel of the public interest and needs. Colleges are fierce competitors vying for the best students, faculty, facilities and resources—sometimes to the peril of both the government and the private pa-

tron's pocketbook but to the notice of the media and of those families able to pay. Precisely because the breadth and nature of the student population is much different than ever before in the history of higher education, higher education institutions need to design and adopt less costly and more focused delivery approaches and stop trying to be all things to all people. Niche institutions are likely to be more cost effective in the future and collaborative program development will be a necessity as we attempt to maintain diverse program choice for our customers.

As a nation, we need for all of higher education, but particularly for our public colleges and universities, to continually recognize that they are servants of the public good. As many have said, our mission is to improve lives. If we fail at this, there is every reason to reduce public investment. Conversely, if we succeed, both the individual and our society flourish, so let's emphasize again what can be done: use incentives, not regulation, to drive improvement in accountability and moderate cost; use a multi-faceted approach to increasing strong preparation for college; use financial aid as a tool for expanding opportunity; use the bully pulpit to keep all of us in higher education on task.

Thank you very much for the opportunity to speak with you today. I would welcome your questions.

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Chairman MCKEON. Thank you very much.

Dr. King Alexander.

**STATEMENT OF F. KING ALEXANDER, PRESIDENT, MURRAY STATE UNIVERSITY, MURRAY, KENTUCKY**

Dr. ALEXANDER. Thank you, Mr. Chairman and members of the Committee.

I am president of Murray State University, which is a rurally located public university with an enrollment of about 10,000 students. We primarily serve a large geographic region that includes western Kentucky, and a good percentage of southern areas such as Illinois, Tennessee, Indiana, and Missouri.

The majority of families in our service region do, indeed, live below the national average in per capita income and educational attainment, and have lower levels of educational attainment.

This is one reason why we remain committed to low costs. In fact, our average student tuition and fees are about 24 percent below the national average.

Despite these unique characteristics, our university in many ways is much like hundreds of public universities throughout the United States, serving a significant number of students from middle-and-lower-income families.

My testimony today on the issue of rising college costs reflects my concerns from three distinct perspectives:

One, as a public university president that is challenged each year to meet these increasing societal and student demands being placed on higher education during poor economic times;

Two, as a researcher that has spent a significant portion of the last decade analyzing national and international trends in state funding and institutional tuition strategies, while being a part of three public universities;

And third, as an individual who is still paying back his student loan debts—

[Laughter.]

Dr. ALEXANDER [continuing]. Who just so happens to be a college president.

In responding to the issue of rising costs, I must say that, based on my professional experience and at numerous public universities, and research in this field, I'm well aware of the great need for a new policy debate in this area, particularly at the Federal level, in examining and supporting higher education.

This inquiry is long overdue, in view of the fact that the last major policy debate regarding the important role of the Federal Government in supporting higher education access and affordability occurred over 30 years ago. Many other OECD nations have had two and three debates of this nature since then.

From the public perspective on the tuition realities, in addressing the issue of college and university tuition and expenditure growth, it should also be recognized that the problem of higher education costs and tuition does not affect all parents, students, and institutions the same.

This fact is evidenced in numerous congressionally mandated studies on college costs and prices, showing drastic variations in annual tuition fee growth between public and private universities during the last two decades.

Instead, public perceptions of rising tuition costs are shaped by a number of reasons, including geographic location and the media, which is indeed heavily influenced by high- cost institutions in the northeast region of the U.S.

More importantly, however, public perceptions and concerns are also determined by an overall lack of information in the academic marketplace that prevents students and parents from really distinguishing costs, actual costs, from sticker prices.

For example, students and families, as an example of this misinformation, students and families pay college tuition in dollars, not percentages. Yet the vast majority of public discourse from policymakers and media sources on college costs increasingly is simply based on percentage growth.

In fact, if you analyze actual tuition and fee dollar increases instead of simply tuition and fee percentage growth, you'll quickly discover that many of the public universities with the largest percentage increases over the last couple of years are the very institutions that are the most affordable and accessible throughout the nation.

A small dollar increase may well be reflected in a relatively large percentage increase. Herein lies one of the misleading aspects of the key findings listed in the recently released report, The College Cost Crisis.

For example, if one were to use percentages instead of real dollars, as the report says in their findings, you would discover that public universities in such states as Hawaii, Arkansas, Idaho, Texas, Tennessee, Wyoming, North Carolina, Montana, Texas, and Kentucky have all had the most significant percentage increases in tuition. Yet, these are the states where public universities are indeed the lowest- cost in the nation.

These low-cost states remain low-cost in an effort to ensure widespread access and affordability. Also, these same states are among the lowest-cost states and the lowest in the Nation in average student loan debt per graduate.

This emphasis on percentage tuition growth therefore constitutes an inaccurate measure in establishing the proposed remedy which Federal policymakers can use to address this issue.

To place a cap on tuition increases that is based on percentage ignores the fact that vast disparities in tuition rates currently exist among institutions and among states.

For example, if a fixed cap were indexed as tied to the fluctuation in the Consumer Price Index, it would disproportionately harm all the states that have universities and colleges who have worked diligently to keep their costs low, and tuition costs low, and even sticker prices low.

Public colleges and universities that would be negatively impacted disproportionately from such a policy would include the lower-cost institutions in the states that they are located in, such as Hawaii, Kentucky, Florida, North Carolina, Texas, Arkansas, Idaho, Wyoming, and so on.

An indexed cap that is based on percentage growth in tuition also would detrimentally impact private colleges and universities that have also maintained low tuition strategies, such as Rice and Berea College.

In addition to the basic problem associated with using percentages instead of dollars, I can also recognize that the report points out that state governments do not play a significant role in college cost increases.

From my perspective, at ground zero, this is indeed the most important issue impacting tuition growth at my university. We delayed our tuition-setting policies nearly 8 months for the last 2 years.

We normally set them in September. We set them in June, because we didn't know what the state budget was going to be, and the state budget crisis persisted much longer than anybody would ever recognize in the past.

This has also coincided with the fact that we have been taking part in massive cuts throughout our institution. Our university has grown by 25 percent since 1994, nearly 2,500 students. We've also grown by 10 percent in the last 2 years, during budget cuts.

These cuts and these enrollment increases have significantly impacted the quality of what we produce at our institution, and I'd like to move on, because it's listed in the testimony, but our institution today, when you take advantage of the institutional aid, the Federal aid, and the direct student aid programs that are available, a student today at our university actually is still paying below, on average, below what they did in 1996.

As indicated earlier, the marketplace for education cannot function efficiently without adequate information. Unfortunately for public and other lower-cost universities, misleading information can perversely shape public perceptions about college costs. This fact is evidenced when the public discussions focus on percentages instead of tuition.

Sticker prices—there's a danger in using sticker prices.

Sticker prices distort and create a flow of misinformation to consumers and students, and shape Federal policy which we've been using for the last three decades in how we allocate direct student aid resources.

If there's any final statement on this, we need to be concerned about how Federal policy shapes institutional practices.

Institutions that are working hard to keep sticker prices and tuition low are indeed disadvantaged by Federal policies that reward institutions for having higher sticker prices.

We are indeed such an institution, many AASCU institutions are indeed such institutions, and the American Association of Community Colleges would certainly agree with this statement.

I appreciate this opportunity to present these views from a low-cost public institution that continually strives to provide access and affordable educational opportunities despite some of the initiatives that have been adopted at the Federal level to discourage us from having higher sticker prices.

Thank you very much.

[The prepared statement of Dr. Alexander follows:]

**Statement of F. King Alexander, Ph.D, President of Murray State University and Member, American Association for State Colleges and Universities**

Thank you Mr. Chairman and members of the Committee. I am president of Murray State University which is a rural public university with an enrollment of approximately 10,000 students. We primarily serve a large geographic region that includes much of western Kentucky, and a good percentage of students from the neighboring states, including Illinois, Tennessee, Indiana, and Missouri. The majority of families in our service region live below the national average in per capita income and educational attainment. Our university has many attractive attributes such as our consistently high national rankings by Kiplinger, Kaplan, and US News and World Report for providing high quality educational opportunities at affordable costs. In fact, our average annual student tuition and fees are 24% less than the national public university average. Despite these unique characteristics, our university in many ways is very much like hundreds of other public universities in the United States serving a significant number of students from middle and low-income families.

My testimony today, on the issue of rising college costs, reflects my concerns from three distinct perspectives. First, as a president of a public university that is challenged each year to meet the increasing societal and student demands placed on public higher education during poor economic times. Second, as a researcher that has spent a significant portion of the last decade analyzing national and international trends in state funding and institutional tuition strategies while also working to establish tuition policies at two public research universities and one public comprehensive university. Third, as an individual that is still paying back his student loan debts, who just so happens to be a university president.

In responding to the issue of rising college costs, I must say that based on my professional experiences at numerous public universities and by virtue of my own research regarding the trends in university costs since the mid–1960s, I am well aware of the great need for new policy debate and examination regarding the role of the federal government in supporting higher education, particularly its role in supporting lower cost colleges and universities. This inquiry is long overdue in view of the fact that the last major policy debate regarding the important role of the federal government in supporting higher education access and affordability occurred over thirty years ago. For the purposes of this hearing it is important to briefly review the two primary premises of the last great federal government debate on higher education which occurred in the 1960s and early 1970s and resulted in the development of many of our existing federal policies. The first premise was that a significant federal government role was required to assist in ensuring widespread postsecondary education access to lower-income and other disadvantaged student populations. The second premise was that a significant federal government role was necessary to address increasing concerns from the private college and university sector regarding its future financial viability and competitiveness.

After nearly four decades of federal policy development and augmentation, the issue of providing affordable postsecondary education access to all socio-economic student populations still remains an important question as evidenced by this hearing and the concerns that led to the federally commissioned report on the cost of higher education five years ago. [1] However, since the last federal government policies were implemented, private colleges and universities have made significant gains in the higher education marketplace when compared to public universities over the last three decades. This fact is best evidenced in the recent Brookings Institution working paper by Kane and Orszag and other studies in the late 1990s showing that public university per student expenditures have declined from 70% of private per student expenditures in 1977 to 58% in 1996. [2] Their data and conclusions are further confirmed by other studies that have compared faculty salary disparities between public and private institutions during the same period indicating that the annual salary differential of full professors at private research universities over public research universities has increased in adjusted dollars from $1,300 in 1980 to $22,200 in 2002. [3]

*Public Perception and Tuition Realities*

In addressing the issue of college and university tuition and expenditure growth, it should also be recognized that the problem of higher education costs and tuition does not affect all parents, students and institutions the same. This fact is evidenced in numerous congressionally -mandated studies of college costs and prices, showing drastic variations in average tuition and fee growth between private and public universities during the last two decades. [4] Instead, public perception of rising tuition costs are shaped by a number of reasons including geographic location and the media which is heavily influenced by high cost institutions in the northeastern region of the U.S. where even lower cost public institutions are significantly more expensive than their peers in other regions. More importantly, however, public perception and concerns also are determined by an overall lack of information in the academic marketplace that prevents students and parents from distinguishing real net costs from “sticker prices.” According to Stiglitz “asymmetries of information result in imperfections and inefficiencies in the marketplace” (p. XI). [5] Such asymmetries are readily apparent in higher education. For example, students and families pay college tuition in dollars, not percentages, yet the vast majority of public discourse by policy-makers and media sources on college cost increases is simply based on percentage growth. In fact, “if you analyze actual tuition and fee dollar increases, instead of simply tuition and fee percentage growth, you will discover that many of the public universities with the largest percentage increases over the last couple of years are the very institutions that are the most affordable and accessible throughout the nation. A small dollar increase may well be reflected in a relatively large percentage increase at lower tuition institutions. Herein lies one of the misleading aspects of the “Key Findings” listed in the recently released report “The College Cost Crisis.” For example, if one were to use percentages instead of real dollars as does the “The College Cost Crisis” report in their findings, you would discover that public universities in such states as Hawaii, Arkansas, Idaho, Texas, Tennessee, Wyoming, North Carolina, Montana, and Kentucky have had the most significant percentage increases in tuition, yet, these are the states where public universities have the lowest tuition costs in the nation. These low tuition states remain low cost in an effort to ensure widespread access and affordability. Also, these same states are among the lowest in the nation in average student loan debt per graduate. To further illustrate this point, Murray State University increased tuition and fees by 15% last year, which was much higher than previous years, however, this increase amounted to only a $398 increase last year. At Vanderbilt University, a private institution with which we compete for many top students in our region, its tuition and fees increased by 6% last year which amounted to an increase in actual dollars of approximately $1,753. Obviously, therefore, percentages are not only misleading to parents and students, but they are deceptive when vast differences in tuition and fees exist by state and institution.

The emphasis on percentage tuition growth, therefore, constitutes an inadequate measure in establishing a proposed remedy by which federal policy-makers can ad-

[1] The Report of the National Commission on the Cost of Higher Education and the American Council on Education, Straight talk about College costs & prices. Phoenix, Arizona: Oryx Press (1998).

[2] Thomas J. Kane & Peter R. Orszag, Funding Restrictions at Public Universities: Effects and Policy Implication, Brookings Institution Working Paper, Washington D.C. (1998).

[3] F. King Alexander, The Silent Crisis: The Relative Fiscal Capacity of Public Universities to Compete for Faculty, 24 The Journal of the Association for the Study of Higher Education 1, 113–129 (2001). Also see The Economist, The Gap Widens, April 22, 2000.

[4] Trends in College Pricing, National Center for Education Statistics, U.S. Department of Education (2002).

[5] Joseph E. Stiglitz, Globalization and Its Discontents, W.W. Norton & Company: New York (2002).

dress rising tuition. To place a cap on tuition increases that is based on a given percentage ignores the fact that vast disparities in tuition rates currently exist among states and types of institutions. For example, a fixed cap or index that is tied to fluctuations in the Consumer Price Index would be disproportionately harmful to all state colleges and universities that have worked diligently to keep their tuition rates and "sticker prices" low. Public colleges and universities that would be negatively impacted disproportionately from such a policy would include the lowest cost institutions that are located in the most affordable and accessible in states such as Hawaii, Kentucky, Florida, North Carolina, Texas, Arkansas, Mississippi, Idaho, Wyoming, Montana, Georgia, Wisconsin, and Iowa. An indexed cap that is based on percentage growth in tuition also would detrimentally impact many private colleges and universities that have also maintained low tuition policies such as Rice University and Berea College. A policy based on an indexed percentage tuition growth would simply give high tuition, high expenditure, and more inefficient colleges and universities a perpetual economic advantage over the institutions that have done a better job at controlling student tuition costs and per student expenditures.

As is the case in my own institution, many of the nation's lower tuition colleges and universities have had the autonomy to set their own tuition rates and remain more affordable and accessible than other institutions. In these lower expenditure institutions, there has been a conscious effort to keep college costs much lower than many other institutions. These public institutions, like Murray State University, disproportionately suffer in the face of current federal aid policy because lower cost institutions that have kept college tuition and fees low are denied a proportionate benefit of federal subsidies that derive from federal direct student aid programs. For example, data from the National Postsecondary Student Aid Study (NPSAS) in 1996 and 2000 clearly indicate that when holding constant the income of the student aid recipients that students who enroll at higher tuition or higher "sticker priced" colleges and universities receive larger federal student aid grants, work-study, and subsidized loan assistance than do students enrolling in lower cost institutions. Not only will students from similar economic backgrounds receive more funding for enrolling at higher "priced" institutions, but a larger percentage of students enrolling in higher priced institutions receive more federal aid than do students enrolling at comparable low tuition institutions. Ironically, federal programs in totality give incentive for institutions to increase tuition and to set high sticker prices.

In addition to the basic problem associated with using percentages instead of dollars that would generalize for all higher education, the "College Cost Crisis" report significantly underestimates the role of state governments in setting tuition policy at public colleges and universities. Over the last decade a plethora of higher education economic and finance studies have highlighted the instability of state appropriations and the effects of such policy on public institutional tuition changes. According to Hauptman:

> Regardless of the role of state and institutional officials in setting tuition and fees or the retention of these funds by institutions, in virtually all states there is a direct relationship among the level of public sector tuition and fees, the amount of state funding, and the cost of providing education. The more a state provides, the lower is the tuition for any given level of costs per student. Put another way, state and local taxpayer support allows public institutions to charge tuitions and fees far below the actual cost to educate (p. 68).[6]

The conclusion advanced by Hauptman is one of the more commonly accepted findings by higher education economists and finance experts regarding the influential role of state appropriations on public college and university tuition rates. In a recent report by the State Higher Education Executive Officers, it was stated that "[s]tate general fund appropriations was by far the most significant factor" in determining public college and university resident tuition rates (p. 12).[7]

*Murray State University: State Appropriations, Expenditures, Fixed Costs & Net Tuition*

In the case of my own institution, Murray State University, Kentucky's state general fund appropriations have been and will continue to be the most significant factor in influencing resident and non-resident tuition rates. During the last two years Murray State University has postponed setting tuition and fee rates for the fol-

[6] Arthur M. Hauptman, Reforming the Ways in Which States Finance Higher Education, in D. E. Heller (ed.) The States and Public Higher Education Policy, Baltimore: Johns Hopkins University Press (2001).

[7] Christopher J. Rasmussen, State Tuition, Fees, and Financial Assistance Policies, State Higher Education Executive Officers, (2003).

lowing year by nearly 8 months each year in deference to state budgeting schedules in establishing levels of appropriations. During the last academic year the uncertainty of the potential budget cuts that we anticipated, and the extended duration of the legislative process, combined to require our Board of Regents to pass tuition and fee ranges to compensate for the potential budgetary cuts that had been rumored but not acted upon.

In lower tuition states where institutions like ours charge much less than the national average, state appropriations generally account for a much higher percentage of educational costs than do student tuition and fees. Therefore, in order to offset losses in state appropriations, student tuition rates must be raised at much higher rates to replace a portion of lost state allocations. The impact of this shift from state appropriations to student tuition and fees is apparent when reviewing changes in our general fund budgeted revenues over last three years. In 2001/02 state appropriations to Murray State University accounted for 64.5% while student tuition and fees accounted for 29.8% of all general fund budgeted revenues. In 2003–04, state appropriations declined to 58.4% of all general fund budgeted revenues forcing student tuition and fees to increase to 36%, representing a 6% shift from Kentucky's taxpayers to students.

To more effectively manage and address these state budgetary constraints over the past three years, Murray State University, much like the majority of public universities throughout the nation, has taken many steps to reduce its educational expenditures and to implement cost saving measures. We have made these expenditure reductions while expanding our student enrollment by approximately 10% during the same period. Expenditure reductions and cost saving measures that have taken place include:

- Elimination of over 10 budgeted faculty positions.
- Elimination of over 15 administrative, professional, and support staff positions.
- Elimination of 29 graduate assistantships.
- Freezing of 15 faculty positions and three librarian positions that remain unfilled.
- Cutting of operational budget throughout the University.
- Closure of University-operated television station.
- Reductions in class/course offerings.
- Reductions in distance education course offerings.
- Reductions in professional support and development program.
- Halting of heating and cooling equipment upgrades connecting the campus system to the central plant heating and cooling system.
- Dramatic reductions in professional travel expenses.
- Restricting overtime payments to employees to extraordinary events, or priority projects with short timelines.

Despite these ongoing expenditure reductions and cost saving measures that we have undertaken during the last several years, externally driven fixed costs have continued to drastically impact our overall university budget. First, health insurance and other medical related costs continue to consume a much larger share of our institutional budget. During the last two years alone we have been compelled to expend an additional $1 million to simply maintain our institution's commitment to providing our employees with affordable health insurance. Currently, Murray State University allocates nearly 6% or $6 million of its operational budget to subsidize the health insurance costs of our employees whose premiums have also increased by over 60% during the last three years. Second, energy related costs have continually increased negatively impacting the heating and cooling costs of every campus facility. Third, campus and federally mandated security costs have significantly increased due to national and state safety concerns. During the last three years our university has increased its security-related expenditures by nearly $500,000. Fourth, technology and technology-related costs continue to increase at rates that far exceed the consumer price index.

However, not all of the increases in institutional costs have been externally imposed. The primary self-imposed expenditure that has required a significant amount of resources has been internal institutional student aid. Due to our commitment to maintaining affordable and accessible educational opportunities, our institutional expenditures in aid to students through scholarships, graduate assistantships and fellowships has increased from $1,058 per full-time equivalent student in 2001 to $1,391 per full-time equivalent student in 2003. This represents a 31% increase in institutional aid to all students and resulting in a budgetary impact of 2.6 million in additional institutional expenditures since 2001.

Yet, Murray State University has not allowed the poor economic conditions to force it to place enrollment caps on student access. Nor have we opted to dramatically shift the educational costs away from the state and to the federal government indirectly through the student by inflating tuition like many higher cost states and institutions have done over the last two decades. Instead, we have remained committed to providing affordable and accessible high quality educational opportunities as have many other relatively low tuition universities, without indirectly transferring the costs to the federal government or overburdening our students with student loans.

Due to widespread public concern about increases in college and university tuition rates and the lack of information regarding the difference between college "sticker prices" and real tuition costs, we have implemented a strategy to better inform students, parents, and the public at-large about what our students actually pay to attend Murray State University and the multiple ways to acquire increasing amounts of tuition-based government assistance. Table 1 shows how MSU students have been impacted by various federal and state direct student aid programs as well as how recently adopted federal tax credits have impacted each student. The figures in Table 1 are not based on actual awards but instead are averaged throughout the campus by full-time equivalent students.

Each of the categories in Table 1 indicates increases in the amount of total funding per FTE student at Murray State University over the last eight years. The table shows that despite an overall gross student tuition and fee increase per FTE student of $1,861 or 62%, federal grant increases per FTE student of $266 or 47%, Kentucky merit and need-based grant increases per FTE student of $411 or 354%, and federal tax credit increases per FTE student of $926, have all combined to negate most of the gross tuition and fee increases during the eight year period. In fact, when adjusting for the various forms of tuition-based assistance programs that have been increased during the eight-year period, the net tuition and fee increase per FTE student at Murray State University was only $258 or 11%. This equates to approximately 1.6% per year during this period. When increases in room and board costs for students are factored into the increases, MSU's costs only increased by $585 per FTE student or 2.4% per year during this period.

Finally, when factoring in institutional aid and scholarship increases into the benefits that Murray State students have received during the eight-year period, an average MSU student today is still paying less than he or she did for tuition, fees, room and board in 1996. Murray State institutional and scholarship aid increased by $672 or 93% from 1996–2003 and has played a important role in keeping actual "net costs" low for students.

**Table 1: Increases in Gross and Net Student Tuition & Fees per FTE when adjusted for increases in Federal and State Tuition-based Aid per FTE, 1996-2003**

| FY Year | Gross Tuition & Fees | Federal Grants | Kentucky Grants | Federal Tax Credits | *Net Tuition & Fees* | MSU Aid |
|---|---|---|---|---|---|---|
| 1996 | $2,983 | $568 | $116 | 0 | *$2,299* | $719 |
| 1997 | $3,144 | $589 | $126 | 0 | *$2,429* | $887 |
| 1998 | $3,250 | $631 | $124 | 0 | *$2,495* | $819 |
| 1999 | $3,421 | $687 | $161 | $887 | *$1,686* | $921 |
| 2000 | $3,693 | $646 | $204 | $899 | *$1,944* | $1,008 |
| 2001 | $4,119 | $702 | $322 | $908 | *$2,187* | $1,058 |
| 2002 | $4,427 | $792 | $430 | $917 | *$2,288* | $1,326 |
| 2003 | $4,844 | $834 | $527 | $926 | *$2,557* | $1,391 |
| *Net $ change since 1996* | *$1,861* | *$266* | *$411* | *$926* | *$258* | *$672* |

*Gross Tuition & Fees* = Gross avg. tuition & fee revenues collected from each student (per FTE).
*Federal Grants* = Pell, SEOG, and SSIG direct student aid grant revenue increases per FTE.
*Kentucky Grants* = Merit-based and need-based state student aid grant revenue increases.
*Federal Tax Credits & Incentives* = Hope Tax Credit & Lifetime Learning Credits per FTE after adjusting for non-qualifying students and families.
*Net Tuition & Fees* = Net average tuition & fee revenues collected from each student (per FTE) after adjusting for federal student grants, tax credits, and state student grants. The Net Tuition & Fees do not include increases in institutional/MSU aid.

As Table 1 clearly indicates, Murray State University students are receiving a great deal more tuition-based assistance from a variety of sources. The largest contributor to these increases has been the government through tuition-based assistance programs. These federal and state programs have contributed an average of

$1,603 or 230% more in federal and state tuition-based assistance for each Murray State University student than they did eight years ago. However, despite the influx of this important student assistance, more students attending higher cost institutions or institutions with higher "sticker prices" actually receive larger amounts of federal and state direct student aid than do our Murray State students.

By making available this type of actual or net cost information to students, parents, and taxpayers, institutions can play an essential role in ensuring that the higher education marketplace functions more effectively and efficiently. The federal government should seek to clarify tuition-based policies to assist students and families in making the better decisions about their educational investments.

*Concluding Remarks*

As indicated earlier, the marketplace for education cannot function efficiently without adequate information. Unfortunately for public and other lower cost colleges and universities, misleading information can perversely shape public perceptions about college costs. This fact is evidenced when the public discussion focuses on percentage increases in tuition instead of real dollar increases. The dangers associated with the lack of information also are evidenced in the increasing institutional and governmental use of "sticker prices" instead of actual costs to allocate public funds in student aid programs. Sticker prices do not reflect actual cost of higher education. Using "sticker prices" distorts and creates a flow of misinformation to consumers and students further confusing the economic realities of college attendance and investment. If the federal government is to help improve the efficiency of the marketplace of higher education it can contribute materially by collecting, calculating, and distributing actual program cost information by types of institutions, and, then, use such information as a more viable basis for its allocation of federal subsidies. Such an initiative would simplify federal policies while not penalizing states that continue to commonly finance their higher education systems and institutions that have kept actual costs down.

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Chairman MCKEON. Thank you.

Mr. Merisotis.

**STATEMENT OF JAMIE P. MERISOTIS, PRESIDENT, INSTITUTE FOR HIGHER EDUCATION POLICY**

Mr. MERISOTIS. Thank you very much, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to appear before you.

I'm Jamie Merisotis, and as president of the Institute for Higher Education Policy for the last decade, I've had the great opportunity to devote a considerable amount of time and analytic resources to the questions that confront this Subcommittee with regard to the rising price of college.

It's my hope that our independent, nonpartisan perspective will be helpful to you as you sort through the thicket of issues and perspectives regarding college prices.

Let me summarize what my written testimony says in three brief points.

First, rising college prices are a legitimate concern for students and families. The College Cost Crisis Report, and numerous prior studies, point out that rising prices are a major worry for students and families, especially those from low-income family backgrounds.

Average 4-year public college tuition is increasing much more rapidly as a proportion of income for the poorest quintile of families compared to other income groups. This means that the lowest-income students and families are confronted with the greatest sticker shock compared to those from other income levels.

The congressionally mandated 2001 study of college costs and prices, which we authored under subcontract with the National Center for Education Statistics, demonstrates that the factors contributing to tuition increases are complex and vary by type of institution.

The single most important factor associated with changes in tuition at public 4-year institutions is reductions in state spending to support institutional operating costs.

For private institutions at the 4-year level, the equation is more complex and includes both internal institutional budget constraints, such as higher costs for institutional aid and faculty compensation, and external factors, such as the availability of institutional aid, the price of attending a public institution in the state, and per capita income in the state.

Another important contributor to escalating tuitions is that the market allows it. Tuitions have now increased faster than the rate of inflation for more than 20 years, even as enrollments have continued to ratchet upwards. The students keep paying, so tuitions keep rising.

State and institutional planning and budgeting processes don't help. Most institutions build their budgets by using the baseline of the prior year and simply adding to it. Few develop academic plans with any serious consideration of the likely sources and amounts of revenue needed to support those plans.

The second point that I try to make in my written testimony is that while it's important to tackle these root causes head on, it's clear that no one-size-fits-all solution will work across the nation.

This is one reason why I'm concerned about the discussion that preceded the introduction of the Chairman's bill.

If the bill simply requires greater transparency of information about college pricing and decisionmaking, I have no objections, but if the legislation does in fact include penalties for institutions to meet a Federal standard, this is, in fact, price control, which I believe would be unwise and potentially destabilizing.

In my view, Federal price controls represent an unprecedented attempt to control the prices of a competitive market. I'm particularly concerned about the discussion to uniformly limit the price of college based on inflation for reasons similarly outlined by Dr. Alexander.

The fact that the average tuition increases are above the CPI doesn't mean that all institutions are at or above that level. In fact, many are below it. So any attempt to link prices to the CPI strikes me as an anti-competitive move.

Moreover, one potential unintended negative effect of this is that it could result in a substantial increase in tuitions at institutions that are below the average. If the standard is set so that Federal law would limit tuition increases to a level above the rate of inflation, the effect could, in fact, be a significant spike in tuitions at many relatively affordable schools.

It's also clear that the complexity of higher education would require a fairly large bureaucratic machinery to regulate the pricing behaviors of institutions.

I don't like the idea of Federal bureaucrats overriding the decisionmaking of publicly accountable boards and elected officials, and I don't think more Federal bureaucrats are the solution to keeping college affordable. I would also note that the Federal Government's track record at controlling prices in other industries has been poor.

Now, moving beyond the Federal arena, I also don't think that the solution to dramatic tuition increases in public colleges and universities lies in what I've called short-term marketing gimmicks. The decision in Illinois earlier this year that allows public institutions to guarantee a fixed rate of tuition over 4 years of college is one example of this.

While these unique efforts may create a modest market advantage for an institution or a system in a short period of time, they will do little to slow the troubling long-term trend of unpredictable swings in college prices.

The third and final issue covered in my testimony addresses what all of the participants in the financing system—the Federal Government, states, and institutions—can and should do to collectively tackle the college pricing dilemma.

Briefly, I believe that we must invest in need-based financial aid as the best and most important contribution that the Federal Government can make to keeping the dream of a college education a reality for all students.

I believe we need to create incentives for institutional innovation in budgeting, cost containment, and new pricing structures through the development of a modest competitive grant program at the Federal level to support institutional innovation.

I believe that states and institutions need to link institutional strategic planning and academic planning with financial planning, developing different revenue scenarios first and then matching those with the different strategic goals for the institution.

I believe we need to change the way institutional budgets are built so that institutions or states set parameters for tuition increases first and then determine other revenue needs.

And I believe we need to make public institution tuition increases predictable, within an appropriate range, not at the Federal level, for the reasons I've already described, but rather, at the state level, since states are in a much better position to test efforts at controlling prices.

So in summary, I believe that all of these players need to take a different approach to setting tuitions, one that emphasizes predictability for consumers and does not get buffeted by the fierce winds of economic boom and bust.

A more strategic and long-term approach to tuition and budgeting policies would go a long way toward improving student access to higher education and fulfilling the American dream of a college education.

Thank you very much for this opportunity.

[The prepared statement of Mr. Merisotis follows:]

**Statement of Jamie P. Merisotis, President, Institute for Higher Education Policy**

Thank you for this opportunity to testify before the Subcommittee about the increasing price of college and the possible steps that might be taken to make college more affordable for students and families.

At previous hearings before this Subcommittee, several witnesses—most prominent among them being Dr. Sandy Baum—have done an excellent job of outlining the dilemma of rising college prices and the challenge of addressing rising tuitions from a federal perspective. I will not repeat those observations, but instead will focus on three central issues. First, I will briefly discuss why rising college prices are a legitimate concern for students and families, and why college pricing is such a complex area of analysis. Second, I will discuss why, despite these important concerns, federal price controls like those that have been discussed over the last several months are not the solution to the rising price of college. And third, I will discuss what all of the participants in the financing system—especially the federal government, states, and institutions—can and should do to collectively tackle the college pricing dilemma.

I would like to begin with a brief introduction to the Institute for Higher Education Policy and our role in the policy process. Established in 1993, the Institute is a non-profit, non-partisan research and policy organization whose mission is to foster access and success in postsecondary education through public policy research and other activities that inform and influence the policymaking process. The Institute's work addresses an array of issues in higher education, ranging from technology-based learning to quality assurance to minority-serving institutions. However, the Institute is probably best known for its studies and reports concerning higher education financing at all levels. Our studies and reports address topics ranging from federal and state student financial aid to state funding formulas to trends in institutional expenditures and revenues. We even have worked on higher education financing issues in the context of other nations, especially in southern Africa and Eurasia.

The Institute's independent voice on these issues is well-known. Our primary funding is derived from major foundations that are interested in supporting independent higher education research and analysis. We also have conducted a fair amount of analytic work at the behest of state governing and coordinating boards for higher education, and national governments outside the U.S. The Institute is involved in very little federally funded research, with one exception. Since 1998 we have served as a subcontractor under the National Center for Education Statistics' Postsecondary Education Descriptive Analysis Reports series. I mention that in this context because we were the principal author of the 2001 Study of College Costs and Prices: 1988–89 to 1997–98, which was mandated under the 1998 Higher Education Amendments.

The 2001 Study of College Costs and Prices is but one of a series of federally-supported initiatives over the last decade or more designed to gain a better understanding of the college affordability issue and to inform federal policymaking. As "The College Cost Crisis" report issued by Chairman Boehner and Chairman McKeon points out, a prior study was conducted by the Congressionally authorized National Commission on the Cost of Higher Education, which issued a report in 1998 called "Straight Talk About College Costs and Prices." Earlier in the 1990s, a bipartisan federal commission called the National Commission on Responsibilities for Financing Postsecondary Education, for which I served as Executive Director, issued a widely-circulated report called "Making College Affordable Again." Numerous other, privately conducted studies also have taken place just in the last decade.

While each of these studies and reports uses various techniques and approaches, they all agree on many key issues. Perhaps the most important is that the concern about rising prices is a legitimate one for students and families, especially those from low income backgrounds. Average four-year public college tuition is increasing much more rapidly as a proportion of income for the poorest quintile of families compared to other income groups. This means that the lowest income students and families are confronted with the greatest "sticker shock" compared to those from other income levels. So I don't think it is sufficient to explain away these concerns as simple hand-wringing among consumers.

The factors that contribute to tuition increases are complex and vary by type of institution. The single most important factor associated with changes in tuition at public four-year institutions is reductions in state spending to support institutional operating costs. As my colleagues and I at the Institute pointed out in the 2001 Study of College Costs and Prices, this trend actually emerged as a critical issue earlier in the 1990s, before the double hit of an economic bust and reductions in federal support that have had such a draconian impact on state budgets.

For private institutions, the equation is more complex. While there is no single overriding factor as strongly related to tuition as state appropriations revenue is in the public sector, there are both internal institutional budget constraints and external market conditions that contribute. The internal factors include higher costs for institutional aid and faculty compensation. The external factors include things such as the availability of institutional aid, the price of attending a public institution in the same state, and per capita income in the state.

Another important contributor to escalating tuitions is that the market allows it. Public sector tuitions have now increased faster than the rate of inflation for more than 20 years—longer than many traditional-aged college students have been alive—even as enrollments have continued to ratchet upwards. Simply put, the students keep paying, so tuitions keep rising.

State and institutional planning and budgeting processes don't help either. While some institutions have evolved, most still build their budgets by using the baseline of the prior year and simply adding to it, all in the name of increasing academic quality, improving student access, and enhancing overall institutional prestige. Few develop academic plans with any serious consideration of the likely sources and amounts of revenue needed to support those plans. State planning for higher education also tends to be limited in scope, usually linked to a state's annual or biennial budget process.

In short, while it's important to tackle these root causes head-on, no one one-size-fits-all solution will work across the nation. This is one reason why I believe that a federal foray into controlling the prices charged by institutions would be unwise and potentially destabilizing. Higher education functions in a very complex and competitive marketplace, one where the price charged for the good being sold can vary from less than $1,000 to more than $30,000 at the undergraduate level. That is an astonishingly diverse pricing system. One important reason for this diversity is that there are many different actors involved in tuition setting, including state governing and coordinating boards, legislatures, independent boards of trustees, and institutional leaders. Each brings a different set of priorities and perspectives to the tuition setting process.

In my view, federal price controls therefore would represent an enormous federal attempt to control the prices of a competitive market. I am particularly concerned about the proposal to uniformly limited the price of college based on inflation. As you know, inflation as measured by the Consumer Price Index is a reflection of a market basket of goods and services. Some are above the CPI, and some are below. The fact that the average tuition increases are above the CPI doesn't mean that all institutions are at or above that level in fact, many are below it. So any attempt to control the price by linking it to the CPI strikes me as a severely anti-competitive move on the part of the federal government.

Moreover, one potential unintended negative effect of federal price controls linked to inflation is that it could result in a dramatic increase in tuitions at those institutions that are below the average. If the standard is set so that federal law would limit tuition increases to, say, twice the rate of inflation, the effect could be a significant spike in tuitions at many relatively affordable schools.

Further, the complexity of higher education would require a fairly large and complex bureaucratic machinery to regulate the pricing behavior of institutions. I don't like the idea of federal bureaucrats overriding the decisionmaking of publicly accountable boards and elected officials, and I don't think more federal bureaucrats are the solution to keeping college affordable.

I also would urge you to consider the history of the federal government's efforts to control prices in other industries. Previous federal efforts at cost containment in other policy areas where the government has attempted to act on behalf of consumers' interest in the face of rising prices have often created more problems than would have necessarily occurred if the market had been left alone. For example, in 1973 the federal government passed the Emergency Petroleum Allocation Act in response to the OPEC oil embargo, which disrupted petroleum supplies and escalated prices. In passing this legislation, the U.S. sought to shield the economy from the effects of the price hikes. Instead, the regulation had an adverse effect. It discouraged domestic oil exploration because of controls placed on domestic oil. As a result, American crude oil production declined, and instead of remaining one of the leading exporters of oil, the U.S. became a leading importer. Regulation caused the undervaluing of American oil, and made it cheaper and more profitable to import crude oil, rather than produce it. Prices remained higher than they would have under normal market conditions.

Prior to the 1973 regulation of the oil industry, the government was involved in regulating the airline industry. The Civil Aeronautics Board established in 1938 exercised regulatory control over almost every aspect of the airline industry. In regulating the airline industry, the government restricted fares to first class and coach and all but eliminated price competition which subsequently caused higher airfares than those that would have occurred under free market conditions. The regulated ticket prices were 20 to 95 percent higher than the unregulated prices. With fares on short routes unprofitable and simply too high on long routes, the airlines were unable to attract passengers. Deregulation in 1978 provided airlines with greater flexibility in setting prices and fare classes, which in turn induced more travel and revenues than had been or could be produced if all the customers were charged the same.

Moving beyond the federal arena, I also do not believe that the solution to dramatic tuition increases in public colleges and universities lies in the recent trend of promoting short-term marketing gimmicks. The decision in Illinois earlier this year that allows public institutions to guarantee a fixed rate of tuition over four years of college is one example of this drive to stand apart. While these unique efforts may create a modest market advantage for an institution or system in the short-term, they will do little to slow the troubling long-term trend of unpredictable swings in college prices.

So what can be done to address the dilemma of rising prices? Here are some simple yet effective ways for these various system actors to work together to address the rising price of college:

*Invest in need-based financial aid.* While I realize that the current budgetary climate is an unfavorable one for new spending, I nevertheless continue to believe that investment in need-based financial aid is the best and most important contribution that the federal government can make to keeping the dream of a college education a reality for all Americans. The declining purchasing power of federal aid continues to be a critical barrier to access to higher education, and must be part of any holistic attempt to tackle the college pricing problem.

*Create incentives for institutional innovation in budgeting, cost containment, and new pricing structures.* One important new federal contribution to solving the college pricing dilemma would be to create a modest competitive grant program to support institutional innovation. A FIPSE-type program funded at $20 or $30 million could be targeted on developing, refining, and disseminating new ideas for more effective budgeting and cost control, while continuing to support and enhance institutional quality. In fact, this program might also include an effort to attract corporate and foundation support, extending the partnership to other key players in the system.

*Link institutional strategic and academic planning with financial planning.* While many institutions now conduct sophisticated enrollment projections to match overall plans for program development and improvement, few take the next step and link such planning to the likely financial conditions they will face. It may make more sense for a school to develop different revenue scenarios first, and then match those with the different strategic goals for the institution. This would be particularly useful for states to encourage among public institutions.

*Change the way institutional budgets are built.* This step requires that institutions or states set parameters for tuition increases first, and then determine other revenue needs. Clearly some flexibility would need to be built in to take into account the fluctuations in state budgets and revenue scenarios, but it still would be easier to handle if the tuition level was set at an earlier point in the process. It also would be useful for institutions to engage in multi-year budgeting so that year-to-year spikes can be softened.

*Make public institution tuition increases predictable, within an appropriate range.* The solution proposed at the federal level for price controls might actually make more sense at the state level; that is, linking tuition increases to an indicator of overall state economic capacity, such as per capita incomes or the state's consumer price index. This may be worth piloting in a few states to see if it is viable, and to gauge the possible unintended effects of such a strategy. However, freezing tuitions for four years or more probably goes too far: it limits the flexibility of the institution or state to make modest adjustments up or down as economic conditions fluctuate.

*Allow greater price differentiation by level of instruction and program of study.* In particular, allowing higher tuitions at the graduate level, and in some professional programs, would ensure that subsidies for undergraduate education are protected.

These are just some beginning points for discussion about how the various actors in the higher education financing system can act to address the rising price of college. I believe that all of these players need to take a different approach to setting tuitions, one that emphasizes predictability for consumers and does not get buffeted by the fierce winds of economic boom and bust. A more strategic and long-term approach to tuition and budgeting policies would go a long way toward improving student access to higher education and fulfilling the American dream of a college education.

Thank you again for this opportunity to appear before the Subcommittee on this vital issue. I would be pleased to answer any questions you may have.

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Chairman McKEON. Thank you.

Ms. Hanson.

## STATEMENT OF JESSICA HANSON, STUDENT, FLORIDA STATE UNIVERSITY

Ms. HANSON. Chairman McKeon and Committee Members, first and foremost, I would like to again thank you for giving me the opportunity to address this Committee. In such discussions, I think it is so essential for a student's voice to be heard, as we are the population that is directly affected.

My name, again, is Jessica Hanson, and I am a senior political science major at the Florida State University in Tallahassee, Florida.

In my leadership positions on campus, one of my primary roles is to serve as the liaison between the students of FSU and the legislature. It is in this capacity that I see, on a daily basis, the growing problem in our education system, the astronomical tuition increases that college students face every single year.

Therefore, I would like to provide you with a perspective directly from the halls of the university today.

As a high school senior choosing what university to attend, I was very fortunate to have a wide array of choices, but when making my final decision, I chose to attend college in Florida specifically because of the Bright Future Scholarship program.

In Florida, this is a merit-based scholarship that is fueled through lottery dollars, and had it not been for this program, I may very well have been saturated with student loan debt like so many of the students that I work with and live with.

During Florida's most recent legislative session, the Florida legislature called for an 8.5 percent across-the-board tuition increase for in-state undergraduate students. The legislature also allotted for an additional 6.5 percent flexibility for local boards of trustees to set graduate tuition as well as non-resident tuition. Most of the local boards of trustees invoked the additional 6.5 percent increase, thus continuing this tuition increase.

In its nationwide report on public 4-year post-secondary institutions with the largest tuition increases, research noted that the top 10 nationwide increases were all set on the local level.

Further, in a report released by the nonprofit College Board in 2002, it showed that tuition and fees at 4-year public institutions now average over $4,000. This was a rise of approximately 9.6 percent.

Tuition and fees at 4-year private colleges increased an average of 5.8 percent, reaching an average cost of over $18,000.

This information directly correlates with the committee's College Cost Crisis Report.

Many people seem to desire to blame the economy for a rise in college costs. However, if you were to look at college costs, they were increasing even in what would be considered better economic times.

Universities need to be more conservative in how their money is spent. No longer will students and parents accept the fact that universities are paying some professors more than $200,000 per year when professors do not even teach classes at the universities.

I meet with students every day, and many of which have to work two jobs in order to pay for their education. Many of these students work these jobs on top of any financial aid they receive, and when they seek help, the only answer is, "Do more loans."

If we continue this trend, we will be sending our students into the workforce with unmanageable student loan debt.

As a student, I also have been very fortunate to have the experience to work with several clubs and organizations on my campus. Through these opportunities, I have gained some of my greatest and most rewarding educational experiences.

I've learned countless lessons in leadership and management, and these are undoubtedly the most important lessons I will take with me into the workforce.

One of the great things about college is that education also takes place outside the classroom. However, these are the students that I encounter that will not have the opportunity to experience this important part of education, those that are absolutely indebted.

These students want to be involved. However, the rising cost of overall college cost has caused them to work these two, three jobs, and consequently not affording them the time necessary to commit to these extracurricular activities.

As the cost of college steadily increases, we are denying more and more students the educational opportunities outside of the classroom.

If you look at the core of these tuition increases, they're nothing more than huge tax increases in disguise. These are increased taxes on students.

We must hold our university administrations accountable and ensure that they do not engage in wasteful spending. We must ensure that it is no longer an option to balance their budgets on the back of students.

As a student at Florida State University, I've received an outstanding education both inside and outside the classroom, and I sit here today in front of this committee asking you to ensure that the future of our country, the students of tomorrow, have the same opportunities.

Thank you.

[The prepared statement of Ms. Hanson follows:]

**Statement of Jessica Hanson, Student, Florida State University**

Chairman McKeon and Committee members, first and foremost I would like to thank you for giving me the opportunity to address this committee.

My name is Jessica Hanson, and I am a senior Political Science major at the Florida State University in Tallahassee, Florida. I also serve as the Director of Legislative Affairs for the Florida State University Student Government Association. In this position, one of my primary roles is to serve as the liaison between the students of FSU and the legislature. It is in this capacity that I see on a daily basis the growing problem in our education system, the astronomical tuition increases that college students face every single year.

As a high school senior choosing what University to attend, I was very fortunate to have a wide array of choices. When making my final decision, I chose to attend college in Florida specifically because of the Bright Futures Scholarship Program. This is a program in Florida where the state uses lottery dollars to help pay for college for students who achieve high marks in high school. Had it not been for this program, I may very well have been saturated with student loan debt like so many of the students I work with on a daily basis.

During Florida's most recent legislative session, the Florida Legislature called for an 8.5% across the board tuition increase for in state undergraduate students. The Legislature also allotted for an additional 6.5% of flexibility for local boards of trustees to set graduate tuition as well as non-resident tuition. Most of the Local Boards of Trustees invoked the additional 6.5% increase, thus continuing the trend of astronomical tuition increases. In its nationwide report on public 4-year postsecondary institutions with the largest tuition increases, research noted that the top ten nationwide increases were all set on the local level albeit a state or local board.

Further in a report released by the nonprofit College Board, released in 2002, it showed that tuition and fees at four year public institutions now average $4,081. This was a rise of approximately 9.6%. Tuition and fees at four year private colleges increased an average of 5.8% reaching an average cost of $18,273.

This information directly correlates with the committee's College Cost Crisis Report. Many people seem to desire to blame the economy for a rise in college cost, however if you were to look at college costs, they were increasing even in what would be considered "better economic times." Universities need to be more conservative in how their money is spent. No longer will students and parents accept the fact that Universities are paying some professors more than $200,000 per year, when the professor does not teach class at the University.

I meet with students on a daily basis, many of which have to work two jobs in order to pay for their education. Many of these students work these jobs on top of any financial aid they receive, and when they go ask for help, the only answer they get from the Administration is, "well you can take another loan." If we continue this trend we will be sending our students into the workforce with unmanageable student loan debt.

As a student, I have been fortunate to have the experience to work with several clubs and organizations on campus. Through these opportunities, I have gained some of my greatest and most rewarding educational experiences. I have learned countless lessons in leadership and management, and these are undoubtedly lessons I will take with me into the workforce. One of the great things about college is that education also takes place outside the classroom. However, so many students I encounter don't have the opportunity to experience this important part of education. These students want to be involved, however the rising cost of overall college cost has caused them to have to work two and three jobs, and consequently not affording them the time necessary to commit to these extracurricular activities. As the cost of college steadily increases, we are denying more and more students the educational opportunities outside of the classroom.

If you were to poll the citizens of this country, most would tell you that they do not want any new taxes, or even an increase in current taxes, a principal that I would agree with, however, if you look to the core of these astronomical tuition increases, they are nothing more than huge tax increases in disguise. We must hold our university administrations accountable and ensure that they do not engage in wasteful spending; we must ensure that it is no longer an option to balance their budgets on the backs of students. As a student at Florida State University, I have received an outstanding education both inside and outside the classroom. I sit here today in front of this committee asking you to ensure that the future of our country, the students of tomorrow have the same opportunities. Thank You.

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Chairman McKEON. Thank you very much.

Well, I've appreciated your testimony, and again, each time we've talked about this, as I've visited schools around the country, I've seen lots of different ideas.

The thing that has concerned me is, from the time we've been talking about this, many institutions have not wanted to say anything about what we can do to really address this. They just said, "We're doing a good job, leave us alone, just send more money."

If you look at what the Federal Government has put up or guaranteed in the way of student loans, they're right now paying about 33 percent of higher education, and if you add the research money, it gets up to about 50 percent, about $90 billion a year, and I think that's sizable, and we've been increasing it at a rapid rate.

I heard somebody the other day say we had cut Pell Grants.

In the time that I've been Chairman of this Subcommittee in the last 8 years, we have just about doubled the money going into Pell Grants, and we've almost doubled the maximum Pell Grant, and this year we put another almost $1 billion into Pell Grants.

So I think we have, at the Federal level, been doing a lot.

At the state, they've been cutting and the schools have been increasing their tuition, and we are getting young people and not-so-young people that are not able to continue their education; so I really appreciate the opportunity to talk about these things.

Dr. Alexander, you talk about the percentage, and we have a percentage in our bill, and that's been a big concern of mine. I know that's not the answer, but it's a starting point, because we need to talk.

If you have a school that's charging $2,000 and they raise their tuition 10 percent—$200. If you talk about a school that's charging $40,000 and they raise their tuition 10 percent, it's $4,000.

I know we have to work on that, and we have to come up with some kind of a way to address that.

Dr. Lewis, do you think institutions overall are being told to do more with less, or are they really being asked simply to do a better job with what they have?

Dr. LEWIS. Both. I think the response in my state, at least, and from what I hear from other SHEEOs, is that indeed there is an expectation in my state that the resources that will come to higher education from the state are not likely to grow into the future.

And our legislators are well aware that we have a costly enterprise, not only is it complex, in trying to serve many different types of students at different points in their education, but that we have an expensive proposition because it is so labor-intensive, and they are saying, yes, "Do more with less."

They are simultaneously, however, saying, "We want you to do better in a whole lot of areas," and this is a conundrum for institutions, obviously, to try to meet both of these kinds of conditions as we go forward.

The fact is that we have to change the way we do business in order to be able to do both, and that's a hard thing for higher education. Our whole norms for the way in which we provide the delivery of services are very ingrained in our culture and traditions of a long past, and these are not easy things to change.

We need to find new ways of delivering programs. We need far more cooperation across our institutions, because institutions cannot be all things to all people anymore.

We must begin to develop niche strength programs in institutions, we must find a differentiation of mission, because there are not infinite resources.

Chairman MCKEON. Exactly. Thank you.

Dr. Alexander, you made it clear in your testimony that the public needs more accurate and clear information as to the tuition fees charged by an institution.

I have a set of books sitting on my desk that's about this high that schools have to fill out now.

Would you support a simpler reporting method, one that would be—that we could let parents and students go onto a web and be able to compare apples to apples in making their choices?

Dr. ALEXANDER. I would actually more than support it, I would welcome it.

I think right now parents and students know more about the cars they buy than the colleges they invest in, and any attempt that we could—any information that we can help provide the students, we welcome this information, because right now the market is being driven by sticker prices.

Even Federal policy, sticker prices play a major role in who actually gets—which institutions get aid, which students get aid, and how much they get.

We're actually encouraged to use misinformation to maximize Federal programs, but we choose not to, by inflating sticker prices, that we choose not to do.

We welcome any information, because we want our parents to know. We love comparisons, and we welcome this movement to talk more about what is the actual cost, because I think that's what the Federal Government needs to discuss more, what is indeed the actual cost, not rewarding institutions for inflating sticker prices or having higher inefficiencies.

Chairman MCKEON. My time is up, but could you just briefly define sticker price?

Dr. ALEXANDER. Sticker price is the price that institutions say that they charge—their cost of attendance that they submit to the Federal Government, the price that you see on a web site, charge of the institution, the institution uses as a sticker price, and that's very different than the actual cost, or the actual net costs that virtually all students would pay.

Chairman MCKEON. Kind of like if you went on the web to get an airline ticket and they said, "The ticket is $2,000," and yet when you get on the plane, you find that everybody in there is paying a different rate?

Dr. ALEXANDER. Very much so, with the exception that the Federal Government subsidizes the higher rate to institutions that say they have the higher rate.

Chairman MCKEON. We'll try to take care of that.

Mr. Kildee had to leave. He has a bill on the floor, and in his place now is Mr. Tierney. I'll turn the time to him now.

Mr. TIERNEY. Thank you very much.

Just let me follow up on that point for a second to all of the witnesses.

I would ask that if you have concrete suggestions as to how we might provide parents and students with information on the difference between the discounted price and the sticker price, that you would submit those to the Committee in time for our record, and I think that would be extraordinarily helpful—and I am encouraged to hear the Chairman say that that interests him also—and then ways, you know, things that we might do to amend the Act as we move forward that would discourage institutions from maneuvering their sticker price in order to benefit from it. That would be of great help.

Mr. Merisotis, before we had this hearing and before we started to get testimony, several people on this Committee had been talking about a counterpoint to the approach that the Chairman had in good faith put forward in limiting costs, and that had been the concept of having the Department of Education identify good practices, or identify proven-to-be-successful instances of cost containment and cost cutting in institutions and in systems, and then, instead of having some system of reward for those institutions that did that, and maybe, without being overly punitive, not increasing, having future increases for those institutions that didn't show any inclination to even try.

But we were looking at what the rewards might be, and in the terms of your testimony, it seemed to me that, would it be fair to say that a reward might be the increase in student aid for that particular institution, or would there be others that you could recommend?

Mr. MERISOTIS. Congressman Tierney, I don't think that a linkage to student aid would be helpful. I would be concerned about the potential unintended negative effects of linking it to student aid, either in terms of rewards or penalties.

There are cases where rewards at the student level are beneficial. For example, I've been a proponent for a long time of giving students a Pell Grant bonus, for example, for persisting at a normal rate—that is, for not dropping out or stopping out, staying in school—providing some sort of bonus in that sense.

But I'm very concerned about penalties as they relate to student aid, for the simple fact that if we apply penalties, we are therefore hurting the very students we're trying to help, and I don't think that penalties are the solution to this issue.

My proposal actually deals with creating a competitive grant program that institutions could compete for to develop the kind of innovative ideas that I think the Chairman is talking about in terms of cost containment and new pricing structures.

Mr. TIERNEY. The difficulty I have with that is you're giving them money and it may or may not end up that they do something about it.

My thought was more about having an identification of institutions that are already successful in those areas, and then rewarding them for moving down that path, and having the Department of Education disseminate information on existing good practices.

Do you see any fruits in that path?

Mr. MERISOTIS. It depends on what the rewards are and—

Mr. TIERNEY. Well, that was my question to you. What rewards might motivate people?

Mr. MERISOTIS. A reward linked to net price, for example, as Dr. Alexander has discussed, might be an interesting idea.

A reward linked to sticker price would not be a good idea, because the sticker price is not what's charged to the vast majority of students. The vast majority of students pay the discounted price.

And so something that might be linked to the net price and a reward basis I think would be helpful, but I re-emphasize that penalties would have a significant negative effect.

Mr. TIERNEY. I agree with that, and that's why I went to the rewards side.

But now I need to ask you to explain more clearly, when you say a reward linked to the actual price, what would the reward, in fact, be?

Mr. MERISOTIS. For example, a Pell Grant bonus would be an excellent way to do that, something on the grant side of the equation, which would cost more money, but something on the grant side of the equation, I think, would be helpful, and could be done at a fairly modest level.

Mr. TIERNEY. You think a modest amount would encourage institutions to move in that direction?

Mr. MERISOTIS. I think it would encourage students to do the right thing, and I think that's my point.

My point is that I want students to take the right steps to get through college quickly and efficiently, get out and get into the world of work.

I don't know that those kind of incentives linked to institutional performance are going to be the right kinds of rewards that would lead to the kinds of behaviors that you're talking about, no.

Mr. TIERNEY. Well, then, in my remaining time, I don't want to be obtuse, but tell me how linking it to the actual price, then, relates back to the students and how the reward gets to the students on that.

Mr. MERISOTIS. The reward gets to the students because if there's—if the net price charged is at a certain level, then the students at that institution who are eligible for, say, a Pell Grant, who are the needy students, and who therefore behave in the right ways—in other words, persist to the normal degree—they would get that reward.

So it's a two-step process. The institution would have to meet a certain standard, and the students who qualify therefore would get the reward.

Mr. TIERNEY. OK. Thank you.

Dr. LEWIS. Mr. Tierney, is it possible to add to that? Would you be willing?

Mr. TIERNEY. At the expense of Ms. Hanson's time, go ahead.

Dr. LEWIS. Oh, my apologies.

Mr. TIERNEY. No, go ahead.

Dr. LEWIS. Just briefly to say, many states like mine are involved in accountability measures where we are literally setting progress goals for institutions across the state—mine, for instance, in retention and graduation.

If we manage to increase the retention of students and bring them to graduation in a shorter timeframe and with more success, we have saved everybody money in that process, and in that sense, if we can validate the kind of work that's going on on performance measuring, on the accountability for outcomes in institutions at the state level, you hit all of the public institutions and in my case, we invite our private partners to the table to do the same.

You have the possibility there to incite a system to change as well as institutions, and on parameters that they set themselves with us for progress.

Mr. TIERNEY. Thank you.

Chairman MCKEON. Mr. Gingrey.

Mr. GINGREY. Thank you, Mr. Chairman.

I want to make one comment in regard to, I think Dr. Lewis talked about the three-legged stool of cost, and certainly one of those legs is what the states are able to give to the institution of higher education.

In my state of Georgia and probably 49 other states, these are tough economic times, and there's a lot of red ink, and of course there have been mandates, if you will, to the different departments of state government—"You're going to cut your budget. You're going to cut your budget 2.5 percent this year, you're going to cut your budget 5 percent next year, whatever it is to balance that budget."

These departments really have no choice. They don't have any other source of revenue, other than what is allocated to them out of the general fund from the state.

They really have no choice, whereas the colleges and universities have another source of revenue, and that indeed is the tuition that they charge the students, so while they may sustain a fairly significant cut in their revenue that they receive from the state, they can offset that by raising the tuition, and we really have no control over that.

So I want to ask, and I think I'll address this question to Mr. Merisotis, you provide one of the solutions to address the cost problem should be increasing need-based financial aid.

Congress, as the Chairman pointed out, has more than doubled funding for Pell Grants in the last 7 years and increased the maximum award by 73 percent. Other aid programs have seen increases or steady authorization, as well.

How long do we continue to add funding without institutions stepping up to the plate and instead of simply saying, "There isn't enough aid," join the solution on the cost side of the equation?

Mr. MERISOTIS. Thank you for your question.

First of all, I do think institutions do need to step up to the plate, and I think that states and their coordinating and governing boards, the institutions themselves, independent boards of trustees all have a responsibility here.

The question is whether or not the Federal Government should attempt to regulate the price side of the equation, and for the reasons I articulated in my testimony, I think that would be very, very troubling.

The question of whether or not we are investing enough in need-based financial aid maybe requires some perspective.

It is true, and we appreciate the fact that spending on financial aid has increased substantially in the last few years.

However, from a historical perspective, the purchasing power of need-based financial aid from the Federal Government is far from what it was, say, in the early 1980's.

The maximum Pell Grant pays for about half of what it paid for in a public 4-year institution compared to today; so the lost purchasing power of the Pell Grant is something that I think is important.

Spending more money on Pell Grants isn't necessarily the solution. It's getting the maximum Pell Grant up and targeting it at the students that have the greatest need that's important.

One of the reasons we're spending more money on Pell Grants is that more students are eligible for those grants because we have more and more poor students. In addition, one of the reasons that that spending has increased is that more students are going to college overall.

So those factors have combined to, in effect, capture some of the increased spending that's gone into the Pell Grant program, and that's why we need more investment in the Pell Grant.

Mr. GINGREY. Well, with all due respect, my father once told me that when you ask a very wealthy rich man how much more money it would take to make him happy, the answer is, “Well, just a little bit more.”

Let me ask the student, Ms. Hanson, what do you think about that question?

Ms. HANSON. I think my initial response, as with every student, probably, across the nation, is that it’s really scary that the option of raising tuition is such a natural answer when we’re faced with such issues.

I believe, as well as all students believe, that it should be one of the last options considered, because when you start raising tuition and fees, it has a potential to force students to leave school, or it will prolong students’ graduation, and this really presents a multi-faceted problem, then, past just the budget issues, because then you have the amount of debt is increased through, you know, the initial raises of tuition, and then they are so much as doubled, tripled, when students are faced with the prospect of paying for extra terms because they’re having to go ahead and accommodate for that extra debt that they’re putting on their table.

So it’s really—again, coming from the student perspective—it is a very, very scary, scary issue when the thought of raising tuition is just a natural response, and that is given so much precedence over all of the other options that we’re faced with.

I mean, students would rather have tuition dealt with, and they would not like tuition raised, as opposed to building a new facility on campus.

You know, that is going to be their primary focus, is tuition, because that is what affects them directly every single day of their lives, starting from when they start university to when they graduate and for the rest of their lives.

Mr. GINGREY. Thank you. Thank you, Mr. Chairman.

Chairman MCKEON. Thank you. Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

One of the things I hear about most frequently from the people I represent is their worry about it costing so much to get a higher education, and they’re particularly worried about how much money they have to borrow, or their sons or daughters or spouses have to borrow; so I think the Committee’s focus on the rising cost of an education is entirely appropriate.

I support greater transparency in the fiscal affairs of colleges and universities, public and private. I think it will help people vote with their feet, and I think that’s a good thing.

I categorically object, though, to the approach that the Chairman is taking, with all due respect, on this matter, because I think it identifies a very real problem but comes up with an ineffective, and indeed harmful solution to that problem.

Dr. Alexander, I want to ask you a couple of questions that I think relate to that.

In your testimony, you indicate that tuition at your institution went up about 15 percent this year. How much did it go up the year before that, percentagewise?

Dr. ALEXANDER. It went up about 9 percent.

Mr. ANDREWS. So it’s 24 percent in 2 years?

Dr. ALEXANDER. Mm-hmm.

Mr. ANDREWS. What does it cost to educate a student at Murray State, not what the tuition is, but what does it cost to educate a student at Murray State?

Dr. ALEXANDER. Cost, our per-student expenditure is about roughly about $12,000 per student. Our tuition is 3.

Mr. ANDREWS. So tuition has gone up by something on the order of magnitude of $750 in the aggregate, in 2 years.

It's my understanding that state support from the Kentucky State Legislature has dropped by about 6 percent, from 64 percent of your budget to 58.

Dr. ALEXANDER. Mm-hmm.

Mr. ANDREWS. You just told me that the cost of educating a student is $12,000, give or take?

Dr. ALEXANDER. Correct.

Mr. ANDREWS. If my math is correct—and I did not score well on the SAT math portion—6 percent of $12,000 is about $720, so I think what you just told us is that the tuition is $750 higher per student over 2 years, but the state support is about $720 lower over 2 years, which would seem to me that your tuition increase paid by the student is actually lower than the rate of inflation.

Is that a fair conclusion?

Dr. ALEXANDER. It is, and this doesn't certainly take into account that we've had to put $1 million into health insurance over those last, just in the last 2 years alone, and while premiums have also increased for everybody on campus by 60 percent, in addition to technology costs, technology costs pay no attention to Consumer Price Index growth.

Mr. ANDREWS. As I think we all know, I know the rejoinder to that would be, "Well, that's public institutions." What about private institutions that are not at least directly subsidized by state governments?

I think the record would show this, that—well, let me ask you this question.

When the leader of an institution is faced with rising costs and decreasing grant aid from government, and wants to minimize what students have to borrow to go to school, what does he or she do?

Any of you that are—Dr. Lewis, what would the leader of an institution do under those circumstances?

Dr. LEWIS. Do that one more time?

Mr. ANDREWS. If you're faced with rising costs to meet your budget, and diminishing scholarship aid from public sources, and you want to minimize what your students have to borrow to go to school, what's your other option? What do you do?

Dr. LEWIS. You have to consider what you can cut, obviously, at that juncture.

Mr. ANDREWS. And after you've done that, what do you do?

Dr. LEWIS. After you've done that, you begin to think about how many students you can educate—

Mr. ANDREWS. Well, don't you also raise institutional aid? Don't you, in effect—

Dr. LEWIS. Well, of course. In fact—

Mr. ANDREWS. —take from some students and—

Dr. LEWIS. —that's the largest change factor—

Mr. ANDREWS. I think what the record will show at non-public institutions is that the share of institutional aid over a 10-year period went up by 52 percent, that in 1985, compared to 1995, there was a 52 percent increase in money that institutions were taking and shifting over to institutional aid at the same time there was an increase of 38 percent in tuition.

Now, I'm not suggesting that the entire tuition increase is explainable by increases in institutional aid, but I think that a significant portion of it is explainable by that.

If the Federal Pell Grant program were funded at the same level of purchasing power that it was 10 years ago, would that increase in institutional aid be necessary?

Dr. LEWIS. Not to that level at all.

Mr. ANDREWS. I don't think that it would be, either.

So I really believe that the data here show that the driving force in this is a lack of state budget support in the public institutions and a diminution in value of the Pell Grant and other scholarship resources at the Federal level, which is driving up institutional financial aid in that way.

If anybody disagrees with that, I'd welcome their comments.

Dr. LEWIS. I don't disagree.

I would say that one of the things the Federal Government can continue to do incentive-wise, as Jamie Merisotis said earlier, is to emphasize the necessity to meet need-based aid first in respect to the utilization of aid, and that's where the Federal Government can put on pressure to insist that, as aid is matched as institutions move on the aid issues, that they hit the need-based issues first.

Chairman MCKEON. Mr. Castle.

Mr. CASTLE. Thank you, Mr. Chairman.

This is a problem we visited about six or 7 years ago, and frankly, we didn't do a lot about it in Congress, and I think that was wrong then and I think it's wrong now, to be very candid.

My sense is that Jessica Hanson is the one who's got it right in this room, based on what I've heard, and that is tuition increases should be last, not first, not ever if they can be avoided, based on what young people in this country are going through with their loans and other costs of college at this point.

There's been a lot of discussion about college prices. I'd like to focus on the costs of the college. The price will follow thereafter.

As I look at these charts, and I think you all have this in front of you, but you look at the chart that shows the inflation, you will see that inflation is rampant, it's tremendous in our colleges.

If you look at Page 11 of those charts, and I know the audience probably doesn't have it, if you look at Page 11, you'll see some of the increases in costs for 1 year for the colleges, and the per capita income in the states, which is in almost every case less than the costs of the two or 4-year institution, and the change in state appropriation, which I counted, 32 are increased and four are unchanged, which puts the lie a little bit to the whole business of reduction as far as colleges are concerned.

If you turn to the next page, you see some of that over 10 years, and you'll see what's happening to the costs of college, and we can't afford it.

I happen to Chair another Subcommittee that deals with kindergarten through 12th grade, and we are trying our very best, particularly in No Child Left Behind, to make sure that a lot of our lower-income and minority students in this country have an equal opportunity.

That, to me, includes equal opportunity to be able to go to college, and to be able to go to college means being able to afford to go to college, perhaps Murray State, but there's got to be a lot of other colleges which these kids can go to; and frankly, I think the time has come for us to start looking at these colleges.

I don't believe in price controls. I do have a problem with that. I just think it's too complicated and would be very hard to enforce.

On the other hand, I don't think the Federal Government can bail out every college increase that presidents and boards want to put in with Pell Grants. I don't think that's the proper solution, either.

I think the time has absolutely come in America for us to look at the costs of college and what we are doing, and when you ask people that, about 87 percent say they're wasting money.

Well, they don't know really what the answer is. Some of you might know what the answer is. I just jotted down some things.

I just heard this morning a high official in the Department of Education talking about full professors, reminding me of something.

When is the last time you saw a full professor teach a freshman class of 50 kids versus a seminar of four, or take a full caseload in terms of what they are teaching?

How about the athletic programs that we have in the various colleges across this country, particularly the major 4-year colleges in this country? What are they paying for the costs of all of that?

What are we paying in terms of salaries today? I don't see a lot about that.

College presidents, anybody, all you way from the professors down to the administration—what about administration in general? Everyone tells me there's a lot more administration than there used to be.

What about the mission of these colleges? There are incredible numbers of courses that are being taught out there.

Can we really afford to teach all those courses? Should there be a more focused and limited mission as far as maybe even some of our major universities are concerned?

What about overseas?

For example, I heard today that in public institutions, that only 30 percent are graduating in 4 years. Is there an economic reason for that? I assume it's true.

Is there an economic reason for that? Is it that you keep kids in college longer, therefore you can make more money from them over a longer period of time?

The whole business of the sticker prices, which Dr. Alexander talked about, concerns me.

By God, if we're seeing false prices here at the Federal Government in order to get more money somewhere or another, I have a problem with that. That's up there with the mutual fund industry and some of the other problems that I see out there in this country right now.

I'm not at all sure, and I went to college a long time ago—a lot longer ago than Jessica, say—but it seems to me that we went to college for a longer period of time than they do now.

I read recently that students are all upset about having to go to class on Friday. Now, that really bothers me.

I mean, I didn't like going to class on Saturday a whole heck of a lot, and I cut a few of them, as matter of fact, but I didn't even think about Friday off, and now these students are talking about not going to, or not wanting to go to class on Fridays. I'm sure in a lot of cases, they still go to class on Friday.

But my sense is that colleges are, frankly, not in session as long as they were before.

The responsibility we have as a country is to remain, which I think we still are, the best educational entity in the world, and we stay in that capacity, but if we don't let our low-income kids do this, if indeed we start to price out our Ivy League schools and our top private and public schools so the kids, the best students can't afford to go there and they have to make lesser choices because of costs, frankly, that's hurting America. That's hurting our economy, our way of life, just a whole lot of things, and I think we need to address it.

I feel very strongly about that. Obviously, I feel very strongly about it.

So I don't really have a lot of questions, in fact, there's not a lot of time left, except if you have anything to add about addressing costs, I'd like to hear it. I don't want to hear any excuses or whatever. How can we address cost and drive it down?

I'm sorry. The red light is on. I'll let the Chairman rule on this one.

Dr. ALEXANDER. One way, certainly, is to pay closer attention to actual costs, the net costs of institutions.

If you're going to reward institutions, reward institutions that have done a good job at keeping costs low and having high efficiencies. Currently, we do almost the opposite at the Federal level.

The more we encourage institutions to be efficient, the more we encourage institutions to have moderately increased just net costs instead of much higher expenditure rates—all you have to do is follow per-student expenditures over the last 20 years.

That will tell you by sector, that will tell you which institutions have actually increased their per-student expenditures by exorbitant rates.

Follow per-student expenditures. They'll tell you a good story about who is being efficient, who is charging little, who is doing a good job at remaining affordable and accessible based on the type of economies of scale that they are committed to.

Dr. LEWIS. Mr. Castle, I love your passion, and that passion is something we all should feel about finding a future for higher education. in my state, I need help. I need help on the issues of pushing performance measures, or pushing accountability, of pushing the possibilities that individuals and families and policymakers everywhere will have the information they need to make decisions.

The reason why we are working on these issues is the same as yours. We want to make the best use of every dollar we get and we want all the kids in Connecticut, all the adults in Connecticut who need more lifelong learning to be able to come in our doors.

That is going to require tremendous effort. It is going to require our colleges to do business differently. And at the state level, we need help from the Federal Government to keep these issues on the table and to reward us as we make progress in these regards.

The truthful response to your question of what to do is to do a lot.

We have many opportunities to engage the issue of cost and many opportunities to engage the issue of greater participation, particularly in regard to setting state policy and to set state performance measures. We need them, just as you decided you needed them, for K-12, and there is a great deal of work going on in the states in these regards. You could help us.

Chairman MCKEON. Thank you.

Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman, and I thank you all for the testimony.

As I sat here listening to the questions, and certainly the answers, many things started going through my mind, and I was thinking about when I sent my son to college, and I'm going, "My God, it's a lot of money."

But I also said, "How come you're home so much?" You know, "What do you mean you had one class?" And I'm saying, "What do you mean, 17 credits and you only have to go to school 8 hours a week?"

That part I never understood, but being that everybody told me he'd never go to college, I was thrilled he was in, and I'm glad that he graduated.

But on the other side of it, too, when you first mentioned about health care costs, I mean, I'm looking at those costs, too, because it's still a business any way you want to look at it, and I'm also looking at what students want out of their colleges.

The days of just having a dorm, now they want more into the dorms. The days of, OK, let's face it, the food was always terrible in the cafeteria. Now, they have gourmet meals.

So somebody has to make sacrifices, too. You're there for a good education and you should get a good education, but the colleges, because they're competing now for the students, and for the adult students, they are throwing in a lot of— like hospitals, valet parking at a hospital. Hello? You know, we don't need it. So there are other issues in there.

But the bottom line is, I'm working on a program in my district, I have a 23 percent minority district, and we have started a program called Gear Up, which means we're working with children from kindergarten all the way through high school and we're getting the financial private sector to make sure that these kids can go to college when they want.

This will be a $6,000 scholarship. We have 80 kids that are starting this year in that program.

What I'm nervous about is that's the only money they have. These are the poorest of the poor. Their parents work. And are they going to be able to go to college somewhere for $6,000 if the Pell Grants don't go to the right person?

Now, my problem is, I'm from New York, and what it costs to go to school anywhere in New York, whether it's Nassau Community College, which is a great college, they have to pay higher salaries to the professors and to the teachers, hopefully not 200,000.

I would love to know what that college, whoever it's paying 200,000. I tend to think it's probably a research grant of some sort, but I don't know.

But I mean, in all fairness, most of the costs, whether it's heating, electricity, the physical plant, you know, they have to be taken in account, too.

I don't think the board of trustees actually sits down every single year like, "How are we going to raise costs?" They're not in it for the money. They're usually putting it into the plant, you know, the physical plant, of making that a better college.

I don't have the answers, and it's curious, because as we're trying to keep the costs down, we certainly have to be able to see the transparency of where the money is being spent, but I haven't heard any solid answers except the ones I certainly like, on making sure that we have more scholarship money for those students that need it the most.

And again, I'll come back to it, because New York, if the average income is 50,000, a lot of people might not be qualified for that Pell Grant, but if you live on Long Island, 50,000, believe me—most people would say that's a damn good salary—you're not getting by, and you're really not.

So it's going to be curious as we go. I don't like price controls, and I'm curious that we're even bringing them up here, because we were trying to do it with the pharmaceutical industry, and we knocked that one out, so I don't know whether we should be doing it with the colleges, either.

But I would like your response, if you have any other clear points on where we can cut down costs, even with Ms. Hanson. I'd love to know who gets $200,000 for a professorship.

Ms. HANSON. Maybe we can talk about that after this, but it is a real—that is a real issue.

And again, we talk about it, and unfortunately, when we look at universities, a lot of the time we do see the building on campus, and we see the gourmet food services and so on that universities and students are trying to push for when the money is there.

But when it comes down to it, and when the universities are strapped, in situations like this, the No. 1 issue for students is going to be tuition.

I mean, just as you said, no matter what, regardless, if they can't afford to go to university, they're not going to university, and so when it comes down to it, again, the biggest issue for students is affordability.

Mrs. MCCARTHY. Thank you.

Dr. LEWIS. You asked for an example. Let me give you one.

In Connecticut, we are buying on-line library materials together, in volume discounts, for both our public and private institutions.

We're actually doing this with a statewide grant, and that's an unusual way to approach the notion of moving to on-line libraries, but in fact, those separate costs, if borne by institutions and therefore by students, would be $30 million more than what we are paying in concert.

We need to explore all of these kinds of options. We are, for instance, looking at the fact that we run 3,400 programs across our 47 institutions, largely because of demand, because students, employers, customers want very specialized kinds of education, and that's very expensive. Meanwhile, our language programs are dying.

So we are looking again at the potentials of collaboration for providing language programs so that we will not lose the one program, for instance, we have in Portuguese, because of too few students and too little money to support it.

It is this kind of work that is very consequential to the issue of price, and it is not the frivolity that we think of, you know, when we think about that new track out there. It is how can we keep instructional services of a level of quality and simultaneously reduce cost?

Chairman MCKEON. Thank you.

Mrs. MCCARTHY. Thank you.

Chairman MCKEON. Mr. Burns.

Mr. BURNS. Thank you, Mr. Chairman.

I appreciate the panel's input and their candid responses to the questions.

I'd like to first respond to Mr. Castle. I was one of those professors who taught 250 students in a freshman-level course, and no, I did not make 200,000, so we're clear on that.

I think the challenge is cost containment, and cost awareness, and I think the first question I have is, at what level in the administration is this issue addressed, and is it addressed consistently and with vigor?

Dr. ALEXANDER. Back to ground zero.

I can tell you that we meet virtually at least every other day on budget, and since I've been in this presidency, I've had nothing but a budget crisis.

Mr. BURNS. Budget has two sides, revenues and expenditures.

Dr. ALEXANDER. Exactly. But the bulk of my time is spent on the expenditure side, and the real challenge is, this bad economy is different from the last bad economy for this reason alone, that the demands are universal, and that we're the only OECD country in the world looking at expanding high school graduation rates in the next 10 years, and we're feeling these students come into the institution.

How do you provide expanded access, not just stable access, and utilize that through cuts that you're making on faculty positions, cuts in staff positions?

We're doing a lot of shifting, a lot of shifting to provide—for instance, we've cut out a lot of graduate program courses to handle a massive influx of freshmen, the biggest freshman class we've had in our history, this year—shifting, reallocating resources to lower-level courses because the demands are indeed so great right now.

Mr. BURNS. Dr. Lewis? Dr. Lewis, do you have a response as far as Connecticut is concerned, as far as your level of focus on cost management, cost containment?

Is there a disconnect? I think the real issue is, do we have a disconnect between those who provide the service, those who receive the service, and then the collection of bodies that indeed pay for the service.

Dr. LEWIS. I think we have a disconnect in terms of expectations, in all honesty.

I think we have allowed students to expect a great deal from our institutions, and we have responded to a lot of requests for service over time, as I've said. Just look at the fact that we're delivering 3,400 different kinds of programs in Connecticut. Ten years ago, that number—

Mr. BURNS. Is that appropriate?

Dr. LEWIS. —would have been half of that.

Mr. BURNS. Is that appropriate?

Dr. LEWIS. That's a good question. It's a public policy question, and indeed, as we look at college costs, it is all those kinds of embedded questions that together we have to answer, at the Federal level, at the state level, at the institutional level.

What is desirable? What do we need to provide to ensure that we are educating our populace to the level of their success in our society and in the workplace?

That's a deep and difficult question that's not going to be answered overnight, but it needs to stay center stage.

Mr. BURNS. Is there a certain prestige with a high sticker price? Do some institutions have a price point that says, "I'm better, so it's going to cost you more"? Is there a certain level of prestige associated with sticker shock?

Mr. MERISOTIS. There is some evidence that—it's been called in the past the Chivas Regal effect, and that is that—

Mr. BURNS. That will go a long way.

Mr. MERISOTIS [continuing]. People pay more for the higher-priced good because it's perceived as having a higher value.

However, I'm not certain that that is as true today as it's been in the past, in part because one of the things that we've seen is a diminishment in the relative price of 4-year education between public and private institutions.

That is, public institutions are actually increasing faster, prices are increasing faster than the prices of private institutions, and so some of the bloom has come off the rose of the Chivas Regal effect, because in a lot of cases, the price seems high to students and families.

Mr. BURNS. Is it true that, in a 4-year curriculum, if it takes a student 5 years or more to complete their education, the cost goes up, so that as we are unable to meet expected graduation rates, our overall costs to the Federal Government, to the state government, to the institution, and to the student continue to rise, but the student pays only a fraction, I think you said about what, Dr. Alexander, about a fourth, 25 percent?

Dr. ALEXANDER. Exactly.

Mr. BURNS. I want to give you a quick scenario. I inherited a young man not too many years ago who came to me as an advisee, are you ready? Accounting 2. F, F, F, F, B. B? What happened to C or D?

The answer is, that man took that course five times, sat in five seats, got five levels of support from my state and from my Federal Government, and finally got serious.

Now, we can't continue to offer a course to a student five times, because frankly, I can't afford it, and neither can you, and neither can the American taxpayer.

Dr. ALEXANDER. Students are a lot smarter than people think, and in fact, many students are staying in college today because they understand the nature of this bad economy.

Four years ago, they wanted to get out and hit it, and they had a lot of job opportunities. Today, you'll see them going onto graduate school, you'll see them stretching out their senior years.

And one impact of state budget cuts that nobody seems to take into account is that these budget cuts, when they hit institutions such as ours, they cause us to either drastically increase the class sizes at the lower level or cut class sizes, which we've had to do both.

When you cut class sizes, you slow the pipeline down. You cut class options, you indeed slow the pipeline down, so you actually, in many ways, these state budgets have a bad effect on the type of economy of scale that you're trying to reach, but also on graduation rates, because students will stay longer, because they don't happen to have the same courses when they want to take them, offered as frequently as they're used to.

Mr. BURNS. Thank you, Mr. Chairman.

Chairman MCKEON. If you have a class with 35 chairs in it and 30 students in it, and you put five more students in there, how does that increase your costs?

Dr. ALEXANDER. Well, we really don't know the difference, but I will say that I can honestly say that a history class at Harvard doesn't cost any more than a history class with the same amount of students at Murray State.

Harvard just chooses to spend a heck of a lot more on what they do, and the question is, what role does the Federal Government have in subsidizing the institutions that choose to expend more?

Chairman MCKEON. Thank you.

Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman. Excuse me for absenting myself. I had to go over to the House to defend a bill on the floor of the House.

Dr. Lewis, if we were to put Federal price controls on tuition, could institutions reduce the aid they provide their students rather than raise tuition prices, and what would the effect of that be?

Dr. LEWIS. First, let's recognize what happens when Federal price controls go on.

Institutions are going to make some choices about, then, who they will serve. My land grant university, for instance, has a high selectivity rate.

It could choose to take students who can pay, which is what some institutions do.

It can choose to bring the money into its coffers, but it will not fulfill its public mission if it does so.

So you need to understand that this is a very complex array of dominoes. Where one goes down a lot of others go down at the same time, and it's those unintended consequences that Jamie talked about earlier today.

So I think when you think about price controls, you have to understand that the behavior of institutions will not all be the same. It will be quite different across the spectrum and types of institutions, and the results may not be what you're after.

Mr. KILDEE. You might not have the universe of people that you would like to have at a university.

Dr. LEWIS. Absolutely, or that we need to be educated in our society.

Mr. KILDEE. Right now, you try to have kind of a cross-section economically, fiscally in various ways, but you might reduce that universe if you just took those who could afford it.

Dr. LEWIS. We're already at the point in some states where institutions are setting caps on enrollment, and that will allow them to operate with their resources in hand, those sufficient resources, as we said before, but whether it serves the state and the Nation in terms of bringing to the workplace people with the right education and the right possibilities for their future, another question entirely, when indeed, there's more capacity in the institution—again, another balance point in terms of policy.

Mr. KILDEE. That's why I think, you know, Congress cannot be the governing board of these institutions.

We certainly assist students a great deal, but when we enter into the governance of institutions, that something we should be very, very, very careful about.

Dr. Alexander, your testimony points out that the decline in state appropriations in Kentucky has affected Murray State.

To what degree have those decreases in state appropriations led to increases in your tuition? How big of a role does that play?

Dr. ALEXANDER. It plays—it is the major role. It is the No. 1 role.

In fact, that's why we do postpone setting tuition rates to almost the summer, because we didn't know what—we didn't have a state budget for 16 months.

And what concerns me is, we're staring this in the face this coming January, as well, and I've heard many—I've heard a number of state legislatures simply tell me, "Why should we support you, even though you're increasing your enrollments, when you can go to tuition?"

That is what we're looking at right now, because many state legislatures are opting to handle their own political climate by turning the bill on the students through tuition and turning to institutions to actually handle this complicated challenge that we face in our economies.

Tuition is our last resort, is indeed our last resort, after cuts have been made, but the state appropriation cuts that we have been dealing with are indeed the No. 1 issue in how we set our next year's tuition rate.

Mr. KILDEE. So if the appropriations from the state legislature, where I used to serve, for 12 years, is the No. 1 factor, then the economy, in effect, is the No. 1 factor in the tuition rates?

Dr. ALEXANDER. Yes, sir, without a doubt, the economy, and also, a bad economy also drives more students to universities.

Mr. KILDEE. So any report that downplays the role of the economy has a certain deficiency in it?

Dr. ALEXANDER. It's the only report that I've ever seen, in studying higher education research, that actually has stated that the state appropriations have very little impact.

I think that throughout the country, and you'll look at report after report, you'll find that indeed it is perhaps the No. 1, or in some cases the No. 2 issue in setting public university tuition policy.

Mr. KILDEE. Thank you very much. Thank you.

Chairman MCKEON. Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Mr. Chairman.

I'd like to direct my first question to Mr. Merisotis.

Hispanic-serving institutions and historically black colleges, tribally controlled colleges and universities, are typically lower cost institutions. They maintain these lower costs despite the fact that most of their students need significant financial assistance to attend college.

Could you please discuss the effects the Federal efforts to control college costs would have on these institutions, and would you please discuss how your recommendations, particularly with respect to increasing need-based aid, would benefit minority serving institutions?

Mr. MERISOTIS. Thank you very much for your question.

First, by way of background, I've had the honor of facilitating dialog among those three communities that you've just mentioned over the 4 years as part of a collaborative entity called the Alliance for Equity in Higher Education, which brings together the Hispanic Association of Colleges and Universities, the National Association for Equal Opportunity in Higher Education, and the American Indian Higher Education Consortium, so I've spent a lot of time getting to understand the issues in each of those communities individually and collectively.

The kinds of price control discussions that have preceded this hearing I think would be very damaging in all three communities for the simple fact that the only major device this Congress would have for controlling prices would be Federal student aid, and if you were to go in that direction, you would clearly be disproportionately harming students at those institutions, because students at those institutions have a higher average need level, are lower income than students in other institutions.

So that's a significant concern that I would have with the kind of discussion that preceded this hearing.

Now, my proposal to increase need-based student aid as part of a package of ideas at the Federal Government, states, and institutions I think would have a major impact on those institutions, again in a disproportionate sense, because of the communities that are served by those institutions.

But I want to make a point here, and it's a brief historical point, about the decision that the Congress of the United States made in the early 1970's.

In the early 1970's, Congress decided to invest in need-based financial aid as the primary device for ensuring opportunity, making college possible for students in this country, and it's been a success.

It's been an enormous success. More students go to college than ever before at all levels, and that's something that the Congress of the United States should be very proud of.

Unfortunately, since we've made that decision, if we are then going to try to control prices through devices in Federal student aid, we are going to harm those populations.

Now, if the Congress decides to get out of need-based student aid and votes to support institutions, which I would not agree with, then you've got a device for encouraging cost control, but absent that, cost control through the financial aid programs would, unfortunately, negatively impact the communities that you're talking about.

Mr. HINOJOSA. If the GI Bill helped a lot of men— particularly men, very few women—go to college after World War II, what could we do to try to revive that type of program, since we have so many men and women today, young people who are serving our country, and be able to utilize something comparable to the GI Bill?

Mr. MERISOTIS. You know, a GI Bill, a bill of rights for college access and opportunity, I'm sure Ms. Hanson would agree, would be an enormous opportunity for millions of college students in this country.

It would be expensive. The GI Bill was, in effect, an entitlement for those who were served by the program over the years. That's difficult in this budget climate, and I understand that, but that's the kind of goal, that's the kind of bar I think we need to set.

I'm of the belief that a college education is the key not only to individual benefit, to individual success, but also to societal success.

Mr. HINOJOSA. If we don't invest in it, as expensive as you say it is, or will be, how come we don't complain about the cost of building additional prisons?

We in our state probably have more people in prisons than any other state, and we have a hell of a problem, and the demand for space to go to college, a community college or 4-year university, is tremendous, and we see it today.

Mr. MERISOTIS. There's an old line, Congressman, "It's a lot more expensive to go to the state pen than it is to go to Penn State." And that's certainly true.

Mr. HINOJOSA. My time has run out, Mr. Chairman. I yield back.

Chairman MCKEON. I guess we could eliminate prisons if we could get people to obey the law.

Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I want to thank all the witnesses here today, as well.

You know, listening to my colleagues, it's clear that I think everyone in the room probably shares the goal that every student in the United States who works hard, does their best, and wants to go on to get college and university degrees should have that opportunity.

It's both the right thing to do, it's the thing we need to do to make sure our economy continues to prosper, and the one main barrier to that, of course, is the cost of tuition is the barrier, and we need to find a way through that.

I agree entirely with the comments of Ms. Hanson that when state legislatures, and in my view, when state legislatures choose to dramatically cut back on public higher education, the effect is really transferring a tax increase to students, and I've made that point many times.

I'm a new Member of Congress. I came from the Maryland State Legislature, and in the early 1990's, when times got tough, state legislatures, Maryland like others, looked to higher education, and more recently, they've done the same thing.

We have seen, in Maryland, as a result of the economic downturn, cost containment and cutbacks by the public universities. They have cut costs, but they can't accommodate the entire reduction through cost, and they have turned to tuition increases.

We've seen as high as 21 percent tuition increases in some of the University of Maryland entities, and that does mean that many students cannot get the college education, especially when you combine it with the fact that many of you cited, that we've got more students wanting to go on to college and more students from lower income families, which is overall a good thing, that we've got more the more people wanting to go.

It explains why, although the total amount of Pell Grant money is increasing, it's not able to really keep up with the costs, either. I mean, we need more just to stand still in terms of the purchasing power at our universities.

But my question is, when you're a state legislature, you're facing all these demands on your budget, and you've got, for example, the Medicaid program.

Under the Medicaid program, it's an entitlement, it should be an entitlement. It's a cost-sharing program. States have to come up with those funds.

At the end of the day, a lot of the Federal incentives mean that the one area that there is no strong Federal incentive for legislatures not to cut tuition is in the higher education.

Do you have any ideas on how we can provide positive incentives—I don't want to have some penalty that has, you know, unintended consequences—something we can do that has some kind of positive incentives for states not to cut higher education, or not to cut it disproportionately, during bad economic times?

You know, it's a hard question, because as you point out, we have Pell Grants, financially. We don't have direct aid to colleges.

I will say that when Congress provided a $20 billion block grant to the states recently as part of the relief package, it actually had an impact on somewhat reducing, softening the problem, but that's sort of a lump sum way of approaching it.

Do you have any more direct way that we, as the Federal Government, can provide incentives to state legislatures not to cut disproportionately in the area of higher education?

Dr. ALEXANDER. I think you're asking the perfect question, because right now, the incentives do the opposite. They reward states for moving away from their responsibility to fund.

For instance, states that have high tax effort in support of higher education and keep low costs are disproportionately treated less than states that have higher tuition, through Federal aid programs.

The question, the states that are disproportionately treated in the current policies with the current programs are the states that are low-income states, they're primarily in the south and in the west. Those are the states that it primarily impacts.

I think the question is how can the Federal Government help stabilize, stabilize state appropriations so you don't get these drastic fluctuations, and currently, the opposite is at work.

Dr. LEWIS. I might go back to just the issue of student financial aid, because in fact you have one program, the LEAP program, that requires maintenance of effort. Mr. Kildee spoke of this earlier.

The issue of the state having to hold to its investment in order to get the monies from the Federal Government is a very important issue.

When I go to talk to my legislature, I can say, "If you take this money away, you're going to triple that amount of money as it leaves our student financial aid system," and it's a very persuasive way in which to keep my state on course in respect to its commitment to that particular financial aid program, which has not suffered reduction in these years of state reduction.

Mr. VAN HOLLEN. If you have any further ideas, we would welcome them.

Chairman MCKEON. Just to follow up on that, if you said Work-Study, Pope program, TRIO, if you made all of those programs have a maintenance of effort, you would support that?

Dr. LEWIS. All of them at once might be a little difficult for my state to take, but on the other hand, I think that the notion of a matched investment is one that has great appeal in respect to the state leveraging its dollar and simultaneously requiring commitment from the state that receives it.

We have a Gear-Up grant, for instance, and we have battled to get the scholarship that we need to match the state funds in that regard, and it's been a very good education process for our legislature to know what we can do with those financial aid dollars and with outreach efforts to students and families when they're in seventh and eighth grade.

There's a lot of education that goes with this process as we begin to put new rules on the equation, and that's very beneficial.

Chairman MCKEON. Thank you.

Mr. Wu.

Mr. WU. Thank you, Mr. Chairman.

I was going through the briefing materials, and I have to say that you can't believe everything that you read. I hit this one paragraph that said that there was not much cost increase in the 1970's, and that's when I went to college, and I seem to recall that my tuition went up 13.5 percent—not that I was counting—in my freshman year, between freshman and sophomore years.

But anecdotally, also, very briefly, two points.

There's been some discussion about dressing up health care, dressing up college education, and some goldplating. I don't know where that is, because based on my experience, I mean, we used to eat stuff called Imperial Chicken, and it certainly was not imperial, and I'm not sure that it was chicken, and I'm not sure that food has gotten better at the places where I went to school since then.

I realize that the states have been under tremendous pressure, and that it's the public sector which has had more cost increases in recent years than the overall average of public and independent colleges.

But looking at inflation adjustments for costs, and also for the benefit of a college education—and I think we do a better job of sending more students to college than any other country in the world.

When I travel in China, my recollection is that fewer than 1 percent, maybe .5 percent of students who graduate from high school get a chance to go to college, and we do roughly 100 times better than that, but we need to increase access.

I want to follow up on my colleague from Maryland's question. It was such a good question, I'm basically going to re-ask it.

However, anecdotally, I was looking at the charts, I was looking at some charts.

It looks like there has been a 38 percent adjusted increase in the cost of college, but it looks to me like, off of those charts, that the benefits of going to college have increased even more than that 38 percent. That was a visual.

Is that correct?

And after that answer, I'd like to follow up on my colleague's question.

Dr. ALEXANDER. The benefits of not going to college but graduating from college, and this is something we spent as long a time talking about as access.

If you go to a college, not a college graduate, someone who attends college and then drops out in one to 3 years, their earning power for a lifetime is much closer to that of the high school graduate. It's only about a $4,000 difference for a lifetime.

But that of the graduate, there's something magical about a piece of paper, whether you've learned anything or not. There's something magical in the marketplace about a piece of paper.

That piece of paper is going to entitle you to significant differences in earning power for the rest of your life.

So access, we focused on in the 1970's, but completion is indeed the economic issue of today.

Mr. WU. I'd like to just share with you that I was telling my 6-year-old son last night that it's worth $1 million over his lifetime to go to college. I'll change that to "complete college."

And he said, "When do they give you the $1 million?"

[Laughter.]

Mr. WU. I will have to get better at the precise description.

But I think Mr. Van Hollen's question was so good, that I'd basically like to re-ask it and give you all a chance to take another stab at it, which is, with all due respect to the Chairman, I do have concerns about certain aspects of a cost control approach to cost containment. We are always concerned about cost and about access.

But if you could go further, to describe positive incentive-based systems that might work—I mean, it's a bedeviling question, many different tiers, problems with state legislatures and so on—I just wanted to give you a chance, in the time remaining, to readdress that issue.

Mr. MERISOTIS. One of the things that I addressed in my testimony was creating incentives, creating a sort of competitive grant program, not only for cost control, but for some reform in terms of how budgeting works in colleges and universities.

This is a pretty arcane process, but one of the problems with the institutional budgeting process is that they sort of start with what they spent last year, and then they try to figure what they're going to spend next year based on that.

There's something fundamentally wrong with that, in an environment where resources are declining.

It's difficult to get out of that mode, and I think creating some incentives for developing, refining, and disseminating those kinds of ideas might be useful.

That would be something that the Federal Government could contribute positively, as an incentive to institutions, a small amount of money on a competitive basis, and then, to then disseminate those ideas so that institutions start adopting some of those better strategies. There's got to be a way out of this box.

Dr. ALEXANDER. I would say that, and I know it would be somewhat revolutionary, but you need to reward the institutions that are indeed keeping costs low, and not pour money into programs and systems that do the opposite. I think you'll find a lot more institutions interested in keeping costs low.

Dr. LEWIS. I understand what Dr. Alexander is saying, and yet I know my land grant university would say though its cost is high, it is meeting the need of every low-income student who qualifies for admission. That's another paradigm, another way to go at the issue of cost.

But having said all that, and back to your question originally, I believe again that there are a couple of very large issues that we need to address in higher education.

One is how we use time, how we use time for students and how we use time for our faculty, because costs in higher education will go up every time we have to pay someone more money to teach or to work in our institutions, because that's our biggest expenditure everywhere.

So we need productivity gains, and again, to identify best practices, to hold institutions to progress, goals they set for themselves in a very public setting is a way to go at it.

For example, remediation is a major cost for our institutions. It will continue to be, especially as we work with adult students. We hope that it will lessen for the students coming as traditional students.

But there are good ways to do remediation. There are good outcomes. There are ways to evaluate outcomes, and we all need to know the best ways to do it and how to save money in the process.

I believe every one of my presidents would like to do that.

Mr. WU. Thank you for your indulgence, Mr. Chairman. I appreciate the extra time.

Chairman MCKEON. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman.

I should start by the story that Mr. Burns told about the individual who failed accounting four times and then finally passed.

It reminds me of the old joke of a kid who came home, and after his first semester he had four Fs and a D. He was very upset, and his father said: "Don't worry about it, I know exactly what you did wrong. You spent too much time on one subject."

[Laughter.]

Mr. BISHOP. I was a college administrator for 29 years before I came to the Congress, and I spent 17 of those years as the chief executive of the college I was at, and I spent every day just as you did, dealing with the budget.

One of the issues that I'm concerned about is that we're dealing with the issue of pricing and college costs as if colleges were monolithic, as if we were all the same, as if we were all dealing with the same set of circumstances, and we're not.

The college that I was at, 60 percent of its expenses were salary and fringe, 20 percent were in unfunded student aid, 5 percent were in maintenance and operation of plant absent personnel, and 5 percent were in debt service. Those are tough to deal with without affecting either quality or access.

So I'm concerned about dealing with this issue from sort of a macro point of view for all colleges, although I absolutely agree that the issue of confronting rising costs as it relates to access and affordability is precisely what we should be doing.

We didn't have any gourmet meals, we didn't have any $200,000-a-year professors. In fact, our highest-paid professor was, after 37 years on the job, was making about $95,000, so one would be hard-pressed to find areas of waste or fat in our budget.

So I'll just put that out there as a caution, that we can't look at us as all being the same.

A couple of—

Chairman MCKEON. Will the gentleman yield?

Mr. BISHOP. Certainly.

Chairman MCKEON. You're an expert witness on this, so I just have to ask you, what were your tuition increases?

Mr. BISHOP. Our tuition increases were on the order of 4 to 5 percent a year.

Chairman MCKEON. In the bill that I've talked about, the schools that we would be looking at would be raising theirs more than that.

And what was your tuition?

Mr. BISHOP. I'm a little rusty now. I think the tuition right now is about $19,000 a year. That's just tuition. This is a private institution.

Chairman MCKEON. OK.

Mr. BISHOP. Total student cost is around 27 or 28,000 when you add in room and board and books and supplies and so on.

Chairman MCKEON. I apologize for using your time. I'll give you extra time.

Mr. BISHOP. I also will say, but thank you, not once did we view—and I participated in making decisions with respect to raising tuition for about 25 years—not once did we start with the notion that we would raise tuition. We started with the notion of what our fixed costs were, how they were going to increase, and how we needed to maintain quality.

Nor did we once allow availability or lack thereof of Federal or state financial aid to enter into our discussions about how to raise tuition.

A couple of questions. Clearly, what we're interested in here, all of us, is access and affordability. A specific example. U-Mass this year reduced the size of its entering class by 1,000 students in response to a reduction in the state appropriation.

I think it's fair to suggest that that may be happening more frequently if we have a dynamic in which state appropriations are declining and we are capping tuition.

My question is, how likely is it that we're going to see more institutions cap the size of their freshman class and thus reduce access, which would be the opposite effect of what it is we're trying to achieve?

So I'll put that to any member of the panel.

Ms. HANSON. Mr. Chairman, Mr. Bishop, I would like to first clarify my statement in regards to professors making $200,000.

This was an example of a point that I was trying to make about a situation we have in the state of Florida where, in this past legislative session, we just in fact had to pass a bill to cap Presidential salaries that were continuing to rise and rise and rise, and I just wanted to clarify that.

Please go on.

Mr. BISHOP. Thank you.

Dr. ALEXANDER. I'm trying to clarify the question.

I guess the point is, how damaging would it be?

Mr. BISHOP. Yeah, how damaging to access?

Dr. ALEXANDER. Well, if we stay on percentages, it will substantially hurt access and it will penalize all the institutions that have been the most accessible and the most affordable, if you keep this on a percentage, because we're the ones that will have higher percentages but small dollar increases, and that damages everybody in every institution, particularly community colleges, AASCU institutions, and other private institutions that have fought so hard to keep costs low.

We would put not only enrollment caps on, but we would have to do all kinds—it would put us in a perpetual spiral downward, compared with other institutions in other states, for simply the reason that we have done a good job, I think, in keeping our tuition lower than most other peers.

Mr. BISHOP. Let me ask a related question.

For independent or private institutions, most of the costs that they deal with are either fixed or semi-fixed.

To what extent do you think a mandate to cap tuition increases will have the effect of reducing unfunded student aid?

Mr. MERISOTIS. I think it would have a substantial impact.

We know in the last decade or more that it's been one of the fastest-growing areas of investment on the part of independent institutions, so creating a cap, I think, would naturally reduce that investment. That is, a significant portion of the increase in tuitions in fact is going back into institutional aid to support needy students.

So I think that would have a negative effect.

Mr. BISHOP. So again, we would have the counter—I mean, instead of increasing access, we would be in fact perhaps reducing access?

Mr. MERISOTIS. That would be my concern.

Mr. BISHOP. I have one more question, Mr. Chairman.

This is for Ms. Hanson.

You said that you've had a first-rate experience at FSU, and I commend you for saying that and I'm sure the president is delighted to hear that.

You also said that you think that there are examples of wasteful spending at FSU. Leaving aside the lucky professor who makes $200,000, can you cite any examples of what you would consider to be wasteful spending that, if they were reduced or eliminated, that would not impact on the quality of the experience that you've had?

Ms. HANSON. Kind of what I had mentioned earlier, previously, is that when we say that, for students, tuition is our No. 1 concern, we really mean it, and as I said before, a new building, renovating a building on campus, is going to be a lot less important to a student than a 2, 5 percent increase in tuition, to whereas they might not be—they might have to take two, three more semesters to graduate, taking on another course.

So really and truly, I can think of a long list of examples of university spending that is not going to affect a student's productivity as much as issues of tuition.

I also think it's important to mention the Pell Grant issue. We talk about that a lot. We talk about that as a way to maybe try to solve the problems that we've having with students and with rising tuition.

But as Dr. Alexander had said a couple questions ago, you know, he had used the word "stability," and I think that that really is such a strong point, and that we're looking for a stable answer, and unfortunately, when students are faced with such high tuition increases, throwing more Pell Grants out there is kind of like throwing money into the wind, because if we can't control the tuition, the grants are going to prove to be ineffective.

Mr. BISHOP. OK. Thank you, Mr. Chairman, and thank you to the panel.

Chairman MCKEON. Thank you.

Well, this has been an interesting year so far. We talked about, early this year, coming up with a way to control college costs, because this is the second time I've gone through this reauthorization.

I've studied it, and as has Senator Lautenberg, and before him we had Pat Schroeder, who used to be on this Committee, and I think 20 years ago that she was concerned about the same issue.

We can come together and we can talk and we can talk and we can talk, and I have found, the last time we set up a commission to look at college costs, and, you know, they did a lot of good work, came up with a nice book—tuition keeps going up.

I think that the time has not come that we quit talking. I think this hearing has been good, because a lot of good things have come from it, and I know that the bill that we're going to issue will undergo some change, and before anything is finally passed, there will be more change.

I know that out of the 6,000 university schools across this country that are participating in Federal financial aid programs, some of them are doing a fantastic job, and are really carrying out their mission. They're keeping their costs, they're affordable. But I know that some of them can do a better job.

We've talked about incentives. Well, that's more money, and as I said earlier, the Federal contribution is already $90 billion, which is about half of the cost, and I know a lot of institutions are really concerned and they don't want Federal involvement, but they sure want the Federal money, and I think that some way we need to come together and sit down and talk about this.

Just sitting out in some building and lobbing bombs at it is not going to work. We need to come together to address this issue.

Now, we're going to introduce this bill in the next week or two, and we've already made changes from it.

At first, we were talking about including all financial aid. We have excluded now Pell Grants and student loans from many sanctions, and we've changed—you know, we need to change the interest part, because I know that's not adequate and I know there will be other changes.

And just sitting here, talking to Mr. Tierney and earlier with Mr. Kildee, there are lots of good ideas, but we need to come together and we need to work on this.

Early on, I said, this is a national problem. The stage governments, the Federal Government, the students, the parents, the schools, the lenders, we all have to come together, because if we go through all this process and say, well, gee, it's too hard to make change, we're going to just have to tinker around the edges and maybe hope that everybody just does a better job, and we retire, and 5 years later somebody reauthorizes this again, and they'll say, gee, cost is a problem. Yeah. Well, let's talk about it. Let's set up a commission. Five years later, let's reauthorize this. Let's talk about it. It's a real problem.

And instead of 22 percent of our young people not being able to go to any college, and those are high school graduates in college preparatory courses, that number is up to 30 or up to 40 or up to 50, and we have a split society, and what does that do to our country?

We really need to sit down. And I appreciate you witnesses being here today. I appreciate the members of the Committee that came, and their questions, and their adding to the debate. We really need to come together on this.

Thank you for it. I hope you'll stick with us and work with us as we go through this process and we need to come to you for questions and answers. I appreciate it.

If there's no further business for this Committee now, this Committee stands adjourned.

[Whereupon, at 4:31 p.m., the Subcommittee was adjourned.]

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