CONTEXT

A few years ago, *The Chronicle of Higher Education* looked at colleges with more than $500 million in their endowments and found that most served disproportionately few students from families with incomes low enough to qualify for federal Pell Grants. A separate study of flagship state universities conducted by the Education Trust found that those universities' enrollments of Pell Grant recipients had been shrinking, even as the number of students qualifying for such grants had gone up. Just 40 percent of the financial aid money being distributed by public colleges is going to students with documented financial need. Most such money is being used to offer merit-based scholarships or tuition discounts to potential recruits who can enhance a college's reputation, or appear likely to cover the rest of their tuition tab and to donate down the road.

Given such trends, is it any wonder that young people from the wealthiest fourth of society are about 25 times as likely as those from the bottom fourth to enroll in a selective college, or that, over the past two decades, the middle class has been steadily getting squeezed out of such institutions by those with more money?

A degree from a selective college can open many doors for a talented young person from a humble background. But rather than promoting social mobility, our nation's selective colleges appear to be thwarting it, by turning away applicants who have excelled given their circumstances and offering second chances to wealthy and connected young people who have squandered many of the advantages life has offered them.

When social mobility goes away, at least two dangerous things can happen. The privileged class that produces most of our nation's leaders can become complacent enough to foster mediocrity, and less-fortunate segments of our society can become resigned to the notion that hard work will not get them anywhere.

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The Debt-for-Diploma System

José Garcia, James Lardner, and Cindy Zeldin

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WHY WORRY?

Student loans have existed in one form or another for half a century. Until the early 1990s, however, they played a small role in the education of a minority of American college students. States kept tuitions at public universities low, with grant aid typically covering about three-quarters of the expense for a low-income student. The average student could earn enough with a summer job to make up the difference. Not anymore. The states have pulled back, grants have shriveled in value, and loans have become the way most students handle most of the cost of college.

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The Project on Student Debt, an organization committed to "keeping college within reach," has carved out a place on its Web site for people to tell their student loan stories. Most of them make painful reading. Troy, for example, is a first-generation college graduate. He and his wife finished school seven years ago with about $60,000 in student loan debt each. Today they owe a combined $200,000, as a result of a long period of forbearance when they were unable to make payments but the interest kept accumulating. They pay about $1,200 a month, according to Troy, with "every penny" now going to interest. "I'm in a position that I feel I will never get out of," he says.

Rebecca borrowed $100,000 to pay for pharmacy school. Her husband borrowed $200,000 for medical school. They pay $3,000 a month. Student loans have become "the main driver of all of our life and career decisions," she says. "Our children will be in and out of college before we pay off our own college education in another twenty-five years or so."

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Many students try to hold back the tide of debt by working. Three-quarters of all full-time college students have jobs—on campus or off—with nearly half putting in twenty-five hours or more a week, according to U.S. Department of Education figures. . . . But when students work longer hours at multiple jobs—and when they work off campus as well as on—the formula goes sour. Studying time dwindles (along with time for extracurricular and social activities), grades suffer, and the whole college experience takes on a harsher edge.

In this debt-for-diploma and work-till-you-drop environment, many students get discouraged; fully one-third drop out after the first year. First-generation college students are almost twice as likely as students with college-educated parents to be among the early casualties.

The most common of all cost-reduction strategies—the path followed by more than four hundred thousand college-qualified students from households with incomes of less than $50,000 every year—is to opt for a two-year community college program. The tuition in these programs is significantly lower than it is in four-year programs (though still high enough to produce an average student loan debt of $8,700). But while students often start out with the idea of getting an associate's degree and then transferring to a four-year institution and going for a bachelor's degree, the record shows that only a very small number follow through on that plan.

Community college students are often up against the most complicated situations—full-time jobs, raising children, working by day, taking classes by night. Five years after entering, only about one in five has gotten as far as an associate's degree. Many leave and never return, and many join the ranks of the estimated one out of five student borrowers who may have set out to get an education at a minimum of expense for themselves and their families, but ended up with the worst of all possible results—debt and no diploma.

A POLICY THAT WORKED

For the two-thirds of college students who borrow to foot the tuition bill, signing up for a loan before stepping onto campus has become part of the college-going ritual. But as their parents and grandparents can attest, it wasn't always this way. Deep inside today's jerry-built financial aid system, you can see the remains of a different structure—one that was purposefully crafted to make college affordable and accessible to any graduating high school student with the smarts and the desire to go.

CONTEXT

. . . [T]he Servicemen's Readjustment Act of 1944 . . . —subsequently nicknamed the GI bill—helped millions of returning veterans "readjust" to civilian life and provide them with the education, skills, and money to successfully reintegrate into society and the economy. To that end, the GI bill provided grants for tuition, books, and health insurance.

The annual amount available to a veteran in 1948 was $500—enough at the time to pay for all but $25 of a year's tuition at Harvard. On top of that, each veteran got a monthly living-expense stipend of $50—$400 in today's money. As a point of comparison, the average federal grant in 2005 was $2,354—$24,000 short of the tuition and fees at Harvard, and $3,482 short of the public university average.

The GI bill was a spectacular example of what, in a later era, would be called a "big government" program—one enacted, moreover, at a time when the government had already gone deep into debt to pay for the cost of a world war. Yet it produced a reward that few people have ever questioned, paying the country back about $7 for every dollar spent, by some estimates. An estimated 2.3 million veterans took advantage of its higher-education grants; by 1960, the beneficiaries included about half the members of Congress. Through its zero down payment policies and low-interest mortgages, the GI bill helped millions of other veterans and their families buy homes, laying the foundation for the great suburban middle class that symbolized the American dream of widespread prosperity and upward mobility. Not a bad return on a seven-year investment of $91 billion in today's money.

In 1965, the country took another big step forward in its mission of making college affordable for most young people, not just the privileged few. That year, Congress passed the Higher Education Act, extending GI bill-style benefits to nonveterans and creating the grants and loans on which today's system is largely based. The goal, President Lyndon Johnson said when he signed the bill, was to ensure that "a high school senior anywhere in this great land of ours can apply to any college or any university in any of the fifty states and not be turned away because his family is poor."

As a result of this landmark legislation, countless young Americans became the first in their families to attend college; the number of low-income college students nearly doubled between 1965 and 1971. For poor kids, grants were generous enough to cover the cost of going to school. For the middle class, tuition at public universities remained low enough to allow most students to pay the price of admission with a part-time job and some help from Mom and Dad.

In 1972, Congress reaffirmed its commitment to the Higher Education Act—both the goal and the means—by creating what came to be known as Pell grants, in honor of their Senate champion, Claiborne Pell of Rhode Island. Throughout the 1970s, low-income students continued to close in on the enrollment rates of their wealthier contemporaries. . . . Average tuition in the late 1970s for a four-year public college was just over $2,192, in 2006 dollars. Add in room and board, and the total cost was still under $6,900. For those with more substantial means, the tuition at a private college was in the $9,000 neighborhood; the inflation-adjusted total, with room and board included, came to $14,000. To put that into perspective, the cost of attending a private university in 1976 was only slightly higher than the cost of attending a public university today. Borrowing your way through college wasn't the norm, because it wasn't necessary.

TRAGEDY OF NEGLECT

Two-thirds of all financial aid used to come from grants. Now two-thirds comes from loans. What happened? Mainly, it is a story of what did not happen. Over a span of thirty years, elected officials failed to maintain adequate funding for Pell grants, decimating their purchasing power in the wake of rising costs and surging enrollments. . . . In the states, elected officials cut back on funding for public colleges and universities, resulting in steeply rising tuitions. In per-pupil terms, state-level spending on higher education has fallen to a twenty-five-year low, even as government officials and corporate leaders keep pounding out the message of a college degree as the key to a successful future. In one generation, tuition at public universities has risen 122 percent, from $2,628 in 1986–1987 to $5,836 in 2006–2007 (in 2006 dollars). In the last five years alone, tuition and fees at public universities have gone up 40 percent, taking inflation into account.

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Just as grant funding was drying up, states were moving resources from need-based to so-called merit-based aid programs. Between 1994 and 2004, spending by the states on need-based scholarships for undergraduates increased by 95 percent, while spending on merit-based aid increased by 350 percent. The proportion of state grants awarded on the basis of merit rather than need rose from 13 percent to 27 percent during this period. . . . In 1995, for example, the average student from a family with an income below $20,000 received $836 in institutional grant aid, while the average student from a family earning $100,000 or more received $239 in grant aid. In 2003, the average award to low-income students had increased 50 percent, to $1,251, while the average award to students from families earning above $100,000 had grown 227 percent, to $781.

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As a result, the gains made during the 1970s in expanding access to college have begun to erode. In fact, the gap in college enrollment between white students, on the one hand, and black and Hispanic students, on the other, has actually widened over the last thirty years, as has the college enrollment gap by socio-economic status. . . .

TODAY'S STUDENTS, TOMORROW'S DEBTORS

Once you're on the hook, there's no easy escape from student loans. The federal government can be a persistent creditor, and it has collection methods all its own—seizing a tax refund, for example, or tapping into a stream of benefit checks.

Bankruptcy? Think again. Student loans, unlike other forms of credit, cannot be discharged that way. There's no statute of limitations, either. About 9 percent of Americans between the ages of fifty-five and sixty-four have student loan debt (the average balance is $17,498). Sandra, at fifty-nine, is one of them. Another contributor to the Project on Student Debt story bank, she writes: "I am not in a high-paying field. I teach at a university and my students are working professionals who work with young children with disabilities." She expects to be making payments until 2012. "I will not fully pay this loan," she says, "until I am almost old enough to receive Social Security."

The average graduate leaves college today with $19,300 in student loan debt (up from $9,250 a little over a decade ago). Despite the hardships, most young adults believe that the personal growth and career opportunities of a college degree make the debt worthwhile. They wish they could have borrowed less, but, by and large, they wouldn't trade their degree for a debt-free existence. Most are doing their best to cope with the payment burden.

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As the level of debt has increased, so has the cost of debt, because of the growing proportion of student loans being issued by private lenders outside the federal rules. Federal loans carry fixed interest rates, currently capped at 6.8 percent. With private loans, interest is unregulated and "risk-based lending" enters the picture, though Congress passed legislation in September 2007 that will gradually reduce the interest rate on new subsidized loans to 3.4 percent in 2011. Several lenders have already come out with loans supposedly designed for students and families with poor credit histories—loans typically carrying interest rates in the 16 to 18 percent neighborhood, according to Bankrate.com. One company, Loan to Learn, has interest rates reaching as high as 16 percent *on top of* a 10 percent up-front fee!

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WHO'S IN CHARGE HERE? ...

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Most of the loans issued under the federal program are the guaranteed kind that the industry thrives on—most, but not all. There is an alternative. It's called direct lending. The William D. Ford Federal Direct Loan program, launched nationally in 1993, was an attempt to find out whether costs could be reduced with the government issuing the loans itself. They were reduced—dramatically. Unlike federally guaranteed student loans, which cost taxpayers 7 cents on every dollar in subsidies to private student lenders, the Direct Loan program costs less than 4 cents per dollar lent.

Proponents in Congress and the Clinton administration originally hoped to switch all federal loans from the guaranteed program to the direct program. By doing so, the Congressional Budget Office has estimated, the federal government could save $12 billion over ten years as a result of lower subsidies and administrative expenses. Because of opposition from Republicans and the student loan industry, however, a compromise was reached. . . . [T]he Direct Loan program would . . . not be allowed to market its loans the way Sallie Mae and other student lenders do. When the Republicans retook control of Congress in 1994, they passed a law prohibiting the Education Department from encouraging or requiring colleges to participate in the Direct Loan program. Thoroughly hamstrung, the program has been losing ground for the past decade; the number of participating schools, never higher than 30 percent, is now down to 25 percent.

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The industry's number one goal for 2007 and 2008, . . . [is] to protect the gravy train of subsidies that lenders receive on federal student loans. If history is any guide, they will protect it well. While Congress finally acted to increase the maximum Pell grant by a few hundred dollars . . . it still isn't enough to allow low-income students to pay for college without going into massive debt, and it certainly isn't enough to shift the center of gravity of the system. Borrowing will continue to be the lifeblood of that system, with lenders reaping profits and young people living in the red.