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THE HIGHER EDUCATION ACT: ANOTHER MIDDLE CLASS ENTITLEMENT?

INTRODUCTION

As Congress faces a huge federal deficit and skyrocketing domestic spending, most lawmakers well understand that entitlements are the primary cause of the spending surge. Spending on current entitlement programs is projected to grow nearly 9 percent per year through 1995. Since the 1966 enactment of Lyndon Johnson's "Great Society" programs, entitlement spending has increased 1,882 percent after adjusting for inflation. During the same period, real gross national product rose by only 81 percent.[1] Lawmakers also know that trimming, let alone ending, an entitlement can be politically very risky. Once granted, such programs as Medicare, Social Security, and Medicaid truly deserve the shorthand budget term they are given by Washington insiders: "uncontrollable spending."

All the more astounding, then, that with little opposition or internal debate, Congress may be poised to create a new multi-billion dollar entitlement. What is worse, it is one aimed in part at the middle class—whose entitlements are hardest of all to justify or control. What lawmakers appear ready to do, in spite of the painful historical lessons of federal budget making, is to transform the federal student aid program into yet another uncontrollable entitlement.

Committees in both houses have reported bills which would reauthorize the programs created by the Higher Education Act of 1965 and its amendments. The Senate bill, S. 1150, also has been debated on the floor and passed on February 21. Floor action is expected in the House of Representatives this month.

Grants and Loans. The Higher Education Act (HEA) is the law authorizing federal aid for millions of young Americans attending colleges and technical schools. These federal student assistance programs include grants-in-aid mainly for lower-income students, called Pell Grants (after their original sponsor, Senate

1 Scott Hodge, ed., *A Prosperity Plan for America—Fiscal 1993* (Washington, D.C.: The Heritage Foundation, 1992), p. 23.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Education Subcommittee Chairman Claiborne Pell, the Rhode Island Democrat), guaranteed low-interest student loans for the middle class, and work-study aid programs. With appropriations totaling approximately $12 billion in fiscal 1991, these programs comprise the bulk of U.S. Department of Education spending. With about six million beneficiaries, these programs directly affect more Americans than any other domestic funding program, with the exceptions only of Social Security, Medicare, Medicaid, and Food Stamps.

While press attention has been minimal, major changes in the design of the programs are being considered. House Education and Labor Committee Chairman William D. Ford, the Michigan Democrat who drafted the House bill, and Pell, who sponsored the Senate bill, have crafted legislation that could mean significant changes in the way the programs are funded.

New Entitlement. Under the Ford bill (H.R. 3553) Pell Grants would become an entitlement, with availability guaranteed to all eligible students regardless of the cost to the taxpayer. Currently, available Pell Grant funds are divided among eligible students, with many students receiving smaller grants than their income levels make them eligible for. H.R. 3553 makes the grants an entitlement in the 1993-1994 academic year. The original draft of S. 1150 also converted Pell Grants into an entitlement beginning in 1997. Only the threat of a Presidential veto pressured bill sponsors to drop the entitlement provision just before the bill went to the Senate floor.

Entitlement programs are financial time bombs in the federal budget. Once a program is so classified, it must be fully funded, regardless of the billions of dollars it might cost.

Entitlement programs also have a tendency to start small, but over time expand to include more and more beneficiaries. Even without entitlement status, the Pell Grant program—which initially was intended to assist only the most needy students—has over time expanded to include many middle income students. If converted to an entitlement, there can be little doubt that the cost of the Pell program would increase dramatically. In fact, according to Congressional Budget Office estimates, the House bill would more than double the cost of the program by 1994 from its current annual cost of $5.4 billion, and would rise to $17.4 billion by fiscal 1996.[2]

Two other major issues will be decided in the coming House debate.

First, should the guaranteed student loan program, now called Stafford Loans (named for former Senator Robert Stafford of Vermont, who was the ranking Republican on the Senate Education Subcommittee at the time of his retirement in 1988), become a direct federal lending program? If that change were made, the loan program would be administered by the federal government, rather than by private banks, and federal funds would be used for the full loan amounts, rather

2 David Baumann, "CBO's Estimate of Direct Costs Open to Interpretation," *Education Daily*, November 20, 1991, p. 4.

than only to cover defaults and to subsidize the interest on private capital lent by banks.

The two bills differ significantly on this issue. The House bill would require a full-scale conversion to a direct federal loan system. The Senate bill makes just small changes to streamline the current system.

Increasing the federal debt by providing capital for direct Stafford loans (which would be funded by issuing new Treasury bonds) is fiscally irresponsible. Private banks can provide student loan capital. The Senate bill is correct in maintaining the current loan program structure.

The second issue involves what future role, if any, private accrediting associations will play in determining an institution's federal aid eligibility. Currently, these associations certify schools and colleges as eligible recipients of federal student aid money. In the wake of press stories in recent years about some for-profit, "proprietary" vocational schools indirectly receiving millions of dollars of federal aid from students, yet failing to give adequate training, lawmakers want to tighten the eligibility process. H.R. 3553 takes a radical approach, eliminating the role of private accreditors in determining student aid eligibility, and instead relies entirely on tighter state oversight of postsecondary schools. The Senate-passed S. 1150 retains the private accreditation process, but tightens up federal and state standards for regulating postsecondary institutions.

Private accreditors should be retained as the determiners of institutional student aid eligibility. The autonomy and academic freedom of postsecondary schools could be negatively affected by powerful state-based oversight. Rather, the Secretary of Education should be given the power to monitor accrediting agencies more thoroughly to make sure that they are doing their job properly.

Both bills carry a steep price tag for taxpayers. H.R. 3553, if fully funded, would trigger annual appropriations in excess of $20 billion each fiscal year beginning in fiscal 1993. The Senate version is slightly less costly—$17.4 billion for that year.

To avoid such an explosion in spending and simultaneously improve the assistance programs overall, Congress should consider key changes in the Higher Education Act:

1) Focus eligibility on low income students.

Rather than making Pell Grants an uncontrollable entitlement, and further extending "eligibility " to the middle class, the program would serve the poor and the taxpayer better if total funding were subject to control and eligibility were restricted to low income students. By ending grants to middle-class recipients, Congress could afford to give more help to needy students and would avoid a new budget-busting entitlement program.

2) Let parents borrow from Individual Retirement Accounts (IRAs) for college tuition.

Middle-income families should be permitted to borrow from their IRA accounts to pay for college costs. Under this arrangement, parents would be allowed to withdraw as much as they needed from their IRA accounts to pay college costs. They would pay tax on that money but would not incur the tax penalty that normally applies to pre-retirement withdrawals. They could then return that amount to the account at a later date and would receive a tax deduction for the IRA contribution. Parents would, in effect, be borrowing from themselves, and would pay no taxes on the borrowed money.

3) Use the tax withholding system to assure repayment of Stafford Loans.

Repayments to the Stafford student loan program and similar student loan programs should be guaranteed through the federal tax withholding system. Under this plan, all defaulters would have their student loan payments deducted from their pay checks along with federal income taxes.

4) Tie eligibility to academic performance.

Congress could further decrease loan defaults by requiring aid recipients to meet certain academic standards in order to continue receiving federal aid.

Student aid programs, while serving a worthy purpose, are extremely costly and threaten to become more so. By targeting direct federal assistance to the truly needy, while making it easier for middle-class parents to pay college costs on their own, Congress would increase access to higher education and save money as well. By making aid eligibility contingent upon academic achievement, Congress would assure a better return on its, and the American taxpayers', investment.

THE PROBLEMS WITH STUDENT AID ELIGIBILITY

The student assistance programs of the federal government, most lawmakers agree, embody praiseworthy public policy objectives. Pell Grants, for example, are meant to make it financially feasible for students from low income families to obtain a college education. The purpose of work study assistance is to help students financially help themselves by working their way through college. Federal loan guarantees are designed to give students a helping hand when they need it, by encouraging banks to lend money to students who—until they graduate and have a job—have insufficient collateral otherwise to obtain an affordable loan.

In practical application, however, these programs are plagued with problems. The Stafford loan program, for example, embodies some of the worst features of government programs. Over time, more and more middle-class families have been granted eligibility for a program originally targeted to the needy. The result: funds are less available for lower-income applicants.

The program allows middle-class families to borrow money below market rates and with very generous repayment terms—courtesy of the American taxpayer. Thus many families who could afford to cover the cost of college rely instead on

the federal government to help them with financial assistance. For college and university administrators, the loan system has created a maze of vague, tangled, and even contradictory regulations. Indeed, much of the political impetus to make Pell Grants a new federal entitlement results from frustrated college administrators entangled in a bureaucratic nightmare.

Academic Record Not Counted. Federal higher education assistance programs also fail to take into account student ability, motivation, or past academic performance when making loans or grants. While a student normally earns the right to attend a college on the basis of academic effort in secondary school, this is not the case when it comes to receiving federal assistance. All that is required at present to receive federal higher education assistance is demonstrated financial need and the possession of a high school diploma or its recognized equivalent (generally a pass grade on the General Educational Development Test, or GED, which is earned by passing a basic skills test).

Thus, a student who rarely studies and barely scrapes by in high school, if he graduates at all, automatically qualifies for taxpayer-financed student aid. Many two-year colleges and technical schools do not even require a high school diploma or GED for admission. However, a recent General Accounting Office (GAO) study reports that 34 percent of student loan defaulters lacked a high school diploma, indicating that this sub-group poses a substantial financial risk.[3]

Advocates of expanding eligibility argue that "at risk" students who barely qualify for college need extra help and deserve a second chance. But a student who barely manages to graduate from high school is unlikely to succeed in a four-year college. And if a student does not even graduate from high school, a taxpayer should not assume the risk that such a student will work diligently within a two-year or vocational postsecondary program. Some 47 percent of students matriculating at four-year colleges never receive their undergraduate degrees. This rate drops to one-third at two-year colleges.[4] These are "dropout" rates far higher than those of the nation's high schools. Also, the GAO reports that over 50 percent of loan defaulters failed to complete their postsecondary programs, attending their chosen school for one year or less.[5] The federal money spent on this group is wasted.

Recommendation: Students surely would take academics more seriously if federal aid were linked to some required level of academic achievement, both in high school and at the chosen higher education institution. This would encourage students to work harder in secondary school as well as in college or technical school.

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3 General Accounting Office, *Student Loans: Characteristics of Defaulted Borrowers in the Stafford Student Loan Program*, GAO/HRD-91-82-BR, April 1991, p. 17.

4 David Baumann, "Colleges Still Graduating Only Half of Incoming Students," *Education Daily*, February 13, 1992, p.3.

5 GAO, *op. cit.*, p. 15.

Right Direction. The Bush Administration's proposed fiscal 1993 education budget takes a step in the right direction by making Pell Grant eligibility contingent on maintaining at least a 2.0 grade point average in college. Said Education Secretary Lamar Alexander at a January budget briefing: "We'll give you the opportunity [for aid] based on the amount of income that you have, but once you're there, if you're not succeeding, we're not going to continue to pay for it."[6] And Representative Dave McCurdy, the Oklahoma Democrat, has drafted an amendment to H.R. 3553 which would require high school students to have either a 2.8 grade point average or score in the top 45 percent on a standardized entrance examination to be eligible for grant aid.[7]

Other reforms Congress should consider include requiring higher performance standards for four-year college assistance, which has a higher price tag, than for two-year or vocational programs. Students who performed up to a certain standard in a two-year program could in addition become eligible for federal aid to finish up at a four-year institution if they so desired. Congress also might encourage subsidized students to complete their postsecondary programs by awarding a "graduation bonus" equal to a certain percentage (with a dollar limit) of a student's loan indebtedness upon graduation.

REFORMING PELL GRANTS

The Pell Grant program, originally called Basic Educational Opportunity Grants, was added to the Higher Education Act in 1972. Backed by the Nixon Administration, the original intent of the program was to provide a limited educational voucher to help financially needy college students bridge the gap between a reasonable degree of family support and tuition costs. This assistance was designed to promote greater access and choice in higher education. Pell Grants are made available to individual students and can be used by them at the institution of their choice.

With the support of the Carter Administration, Congress began to chip away at the principle that the grants should go only to low income students. The Middle Income Student Assistance Act, passed in 1978, extended smaller Pell awards to middle income families by raising the income level at which a student is eligible to receive grant aid. On the face of it, this change helped the middle class without hurting the poor. But inflation and tight budgets have meant that poor students lost financial ground to the middle class. Inflation has caused the purchasing power of Pell Grants in constant dollars to erode since 1978.

Tighter federal budgets, meanwhile, and a competition for the guaranteed student loan program for funds made such grants tougher to obtain. Thus in fiscal 1991, while the maximum Pell award available was $2,400, the actual average award was about $1,484. The average Pell Grant awarded in 1978 was $825,

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6 Thomas DeLoughry, "Colleges Criticize Proposal to Tie Eligibility for Pell Grants to Grades," *The Chronicle of Higher Education*, February 5, 1992, p. A32.

7 *Ibid.*

which in current dollars would be $1,725. However, in real terms, tuition costs rose 27 percent at public colleges and 46 percent at private schools between 1980 and 1989.[8] Today, grants are spread out among more than 3.4 million individuals, many from middle-income households.

Double Squeeze. The net result is that low-income students are squeezed at both ends. They face spiraling college costs that are rising faster than federal aid appropriations, and they face the diversion of grant funds to more affluent middle-income students.

Determining eligibility for a grant also is a problem, as is the management of grant money by institutions. Pell Grants are awarded on the basis of a means test. But this is a different test from that for other kinds of student aid. The test methodology is complicated and requires extensive paperwork. Audit reports released by the Education Department's Office of the Inspector General reveal many errors by colleges receiving grant-funded tuition. While in most cases these are unintentional mistakes, in some highly publicized instances they are not and have allowed certain institutions to defraud the government. Perhaps not surprisingly, federal lawmakers unfamiliar with the program have been quick to blame college administrators for problems endemic to a complicated network of regulations.

Both bills attempt to remedy inequities and improve the administration of the program. Both bills, for example, create a single means test for all student aid programs and simplify the process of reapplying for aid after the first year of college. These reforms are sensible, and will help college administrators to improve management of student aid. But the bills also expand Pell Grant eligibility to families with annual incomes as high as $42,000, in the Senate bill, and $50,000 in the House bill. Worse still, the House bill takes the dramatic step of converting the Pell Grant program into a costly new federal entitlement.

Budget Busting. The 1990 Budget Agreement stipulates that a new federal entitlement may be authorized only if an equivalent dollar amount is saved by eliminating or reducing spending on an existing entitlement program. The House bill not only ignores this rule, but it also boosts the maximum grant from $2,400 to $4,500, as well as expanding grant eligibility to families with annual incomes of up to $50,000. The Congressional Budget Office estimates that this will more than double the cost of the current program, to some $11 billion annually.[9]

The Senate bill originally made the Pell program an entitlement as well, although its authors tried to abide by the 1990 Budget Agreement by creating a seven-year reauthorization period instead of the usual five-year. This apparently innocuous change would have allowed them to make the program a new entitlement in the sixth year—after the current budget agreement expires. However,

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8 U.S. Department of Education, National Center for Education Statistics, *The Condition of Education 1991*, Vol. 2, Table 2:3, p. 22. Also, Pell data from The National Education Goals Panel, *The National Education Goals Report*, August 1991, pp. 204-207.

9 David Baumann, "CBO's Estimate of Direct Costs Open to Interpretation," *Education Daily*, November 20, 1991, p. 4.

pressure from Senate Republicans and the White House forced the Senate to revoke the entitlement provision to avoid a Presidential veto.

Senator Nancy Kassebaum, the Kansas Republican, led the battle to remove the entitlement clause from S. 1150. The bill passed by the Senate also is less expensive than the House version. Maximum Pell awards are raised gradually, to $3,600 for 1993-1994, or a 50 percent increase. Today, a student from a family of four is eligible for a Pell Grant if the family's annual income is less than $30,000. S. 1150 raises this income cap to $42,000, compared with H.R. 3553's $50,000 ceiling.

Recommendation: If lawmakers are genuinely concerned with controlling spending, they will not support making the Pell Grant program an entitlement and increasing the income eligibility threshold. Yet, it is difficult for many lawmakers to resist voting for a new program that benefits the financially embattled middle class. These lawmakers also are under pressure from college and student lobbyists who understandably bemoan the erosion of Pell Grant purchasing power and the problem of accommodating a larger number of eligible applicants. They want entitlement protection to avoid worrying about these problems in the future.

Dealing with the financial worries of middle-income families by creating a new college aid entitlement is self-defeating. Expanding program costs would force a corresponding increase in federal taxes or borrowing. Either way, the result is the same: financial relief given with one hand is taken away with higher taxes or slower economic growth on the other hand. The Senate recognized this, and amended its bill appropriately. It remains to be seen if the House will do the same.

A more prudent approach would be to reduce taxes on middle-class families with children so that they could accumulate savings to pay for college costs. The best way to do this would be to restore the value of the federal income tax exemption for dependent children to its 1948 level. The personal tax exemption in 1948 was $600 per family member, or roughly 20 percent of the median income for two-parent families. For a family of four about 80 percent of family income was shielded from federal taxation. For the exemption to have the same value in 1992 dollars, it would have to be raised to $8,000 per individual, which would put an extra $1,000 per child in the pocket of the American taxpayer. Families with incomes below their combined exemption level would receive a $1,000 per child tax credit. This tax relief could be financed by strategic cuts in or elimination of unnecessary domestic spending programs which would cap domestic spending growth in current dollars to 5 percent per annum. Details of this approach are outlined in *A Prosperity Plan for America*, a recent Heritage Foundation publication.[10]

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10 Hodge, *op. cit.*, pp. 33-44.

Less attractive, but still a much better alternative to imposing another entitlement burden on taxpayers would be to allow parents to borrow from their IRA accounts to pay college costs. Under this plan, parents would draw from their IRA accounts to cover college expenses. They would pay tax on this amount, as they would when they withdrew from their accounts during retirement, but they would not incur the tax penalty that normally applies to withdrawals before retirement. Further, parents would be allowed later to replace the money into their depleted accounts, up to the amount "borrowed" from the IRA, and receive a tax deduction for that amount—even if they were not otherwise eligible to make a tax-deferred IRA contribution.

FEDERALIZING THE PRIVATE SECTOR

Proposed changes in the guaranteed student loan program also would mean a profound change in the way the federal government helps students. The House bill would make the federal government the lender, replacing private banks. Currently, the banks offer loans at subsidized interest rates, subsidized and guaranteed by the government. Student borrowers then repay the loans to the private lending institution.

Banks find the federal student loan program very profitable, because there is no risk in it for them. In most instances they actually re-sell the loans in the secondary market, much as mortgage lenders do. These secondary organizations, called guarantee agencies, actually manage and collect the loans. Private banks also are attracted by the prospect of loan origination fees, which are 5 percent fees used to help defray loan costs. The origination fees in the Stafford loan program usually are deducted from the loan amount received by the student.

The current program has encountered heavy criticism. In spring 1991, for instance, the Senate Governmental Affairs Subcommittee, chaired by Sam Nunn, the Georgia Democrat, declared in a report that the Stafford Student Loan program is riddled with waste, mismanagement, and fraud.[11] The report blamed all program participants, including colleges, the bank lenders, and the federal agencies guaranteeing the bank loans.

Direct Federal Operation. Under H.R. 3553, the entire private loan system would be abolished and replaced with a new system operated directly by the federal government. Under this new direct student loan system, loans would be financed through the sale of government securities by the Treasury Department. The Department of Education would receive the proceeds from these sales and then allocate the funds to eligible colleges and universities. These educational institutions then would determine student eligibility and originate the loan paperwork. Loan servicing and collection would be undertaken by private contractors selected on a competitive basis by the Education Department.

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11 Thomas J. DeLoughry, "Congress Prepares 'Get Tough' Rules on Aid to Students," *Chronicle of Higher Education*, December 18, 1991, p. A29.

This new program would begin on a pilot basis at 500 colleges on July 1, 1994, with 1,000 more colleges added in 1995-1996. The new federal student loan program would replace the current private-lender system completely by 1996-1997. The House bill also would give all students access to direct loans, regardless of family incomes. Interest subsidies, however, would not be available to higher-income families.

Deeper in Dept. The General Accounting Office (GAO) estimates that a direct loan plan could save more than $1 billion a year in subsidies. The Congressional Budget Office (CBO), after considering the revenue lost by eliminating origination and insurance fees on student loans, projected much lower annual subsidy savings of $160 million.[12] Still, to come up with the capital to make these loans, the federal government would be forced further into debt by issuing Treasury bonds. Education Secretary Alexander estimates that the House's direct loan system would increase the federal deficit by more than $10 billion annually.[13] He also argues that poor quality and inexperienced schools should not be allowed to act as lenders. In addition, he admits that his Department's staff currently could not manage such a program effectively.

The Senate, in passing S. 1150, rejected the direct loan option and instead only revised the current program. S. 1150 expands borrowing eligibility and raises dollar limits for all student loans.

An alternative Senate measure (S. 1153) co-sponsored by Paul Simon, the Illinois Democrat, and David Durenberger, the Minnesota Republican, would have authorized a new type of direct loan plan. Under the Simon-Durenberger bill, the federal government itself would originate loans, but arrange repayment through an income-dependent payroll withholding system when students join the work force. The withholding system would be administered by the Internal Revenue Service, just as the IRS now requires employers to deduct federal income tax and Social Security contributions from paychecks. Both Senators argue that no one will dare default on a student loan if the IRS is the collection agency.

Pilot Plan. There is some Senate support for a limited pilot program like that proposed by Simon and Durenberger. The Bush Administration, however, has promised that the President will veto any Higher Education Reauthorization bill that includes a direct loan program. Thus Senate negotiators decided, in a compromise agreement, to consider a pilot direct loan plan in the Senate Finance Committee in connection with tax legislation. The pilot plan, if accepted, would run parallel to existing student loan programs.

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12 Thomas DeLoughry, "Proposed Direct Loans for Students Provoke Heated Debate and Threat of Veto," *The Chronicle of Higher Education*, October 30, 1991, p. A27.

13 "Administration's Proposal for the Reauthorization of Student Financial Aid and Related Programs in the Higher Education Act of 1992," September 27, 1991, p. 3.

Recommendation: IRS payroll withholding for student loans is a good idea. Student loan default costs are extremely high, rising from $1.3 billion in 1986 to $2.5 billion in 1990.[14] An IRS-withholding system likely would collect much of this debt. It is reasonable to use the IRS as the collection agency when it is the taxpayer, rather than the private lender, who is at risk.

This attractive feature of the Simon-Durenberger proposal, however, is in no way dependent on accepting the federal government as primary lender, as S. 1153 and the House bill would do. For the government to increase its annual debt by the amount required to fund direct students loans would be fiscally irresponsible. The private banking system is competent and able to make student loans. Rather than overhauling the entire program, Congress could make small but important reforms in the system. For example, tightening institutional student loan eligibility requirements would deny loan eligibility to high-default schools and thus reduce loan default rates. The Senate bill disqualifies schools with a loan default rate of over 25 percent from receiving federal student aid. Linking loan eligibility to academic achievement would encourage students to work hard academically, thus making them more likely to graduate from college, get a good job, and be able to make loan payments.

DEALING WITH THE ACCREDITATION QUESTION

Another prickly issue in the reauthorization debate is the choice of criteria that should be used in determining an institution's eligibility to participate in federal student aid programs. This affects the thousands of institutions now indirectly receiving federal student aid. Tuition and fees paid by assisted students represent a large percentage of total revenues for many institutions, ranging from small, for-profit trade schools to large, public, non-profit research universities. Unlike elementary and secondary education, where the share of federal funding is tiny, federal student aid is the financial lifeblood of the majority of institutions providing higher academic and technical education.

In broad terms, supporting institutions of higher education by aiding students who choose freely among these institution is by far the best method. The aid is given much like a voucher, and institutions must compete for the customer's dollars. The Culinary Institute of America, a New York career college which trains many fine chefs, competes for a student's Pell Grant or loan dollars on equal footing with high caliber liberal arts institutions such as Yale University or Notre Dame. This competition for funds held by the student is why U.S. institutions of higher education are among the best in the world. The lack of such a system of

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14 Lawrence H. Thompson, Assistant Comptroller General for Human Resources Programs, "Vulnerabilities in the Stafford Student Loan Program," Testimony before the House Subcommittee on Education and Labor, General Accounting Office, May 29, 1991, p. 1.

competitive voucher financing helps explain why U.S. public schools are among the world's worst.

Minimal Restrictions. Historically, restrictions on participation by institutions in the federal student aid system have been minimal. To be eligible, a school must be accredited by a recognized accrediting association or state licenser as an educational institution. To gain accreditation, schools must, among other things, abide by anti-discrimination laws and present reasonable evidence of financial stability. They must also be judged capable of administering the federal student aid programs.

Accrediting associations often are criticized for failing to enforce standards and for failing to curb abuses in the student loan program. This is especially true of certain trade school accreditors. In addition, some accreditors have been criticized for imposing so-called diversity standards as a condition of accreditation. These standards require a college to employ a statistically sufficient number of minorities at all levels of its teaching and administrative staff to be accredited. "Sufficient" is defined by the accrediting agency.

Thus, by being able to demand that a college meets certain criteria, an accrediting agency, in practice, determines the nature of an institution. Education Secretary Alexander charges these associations with instituting "inappropriate" standards. Alexander argues that such standards amount to "someone standing with a gun to your head and asking if you're going to do what he tells you to do."[15]

The accrediting organizations respond that they are responsible for setting educational standards, not standards of regulatory compliance. But by recognizing an accreditor, the federal government in effect sanctions all of its policies. Thus, through its policy on accreditation, the government indirectly influences higher education—some would say in a manner incompatible with the academic independence of institutions of higher learning.

Tougher State Licensing. H.R. 3553, as currently written, would break the link between accrediting agencies and eligibility for aid. But rather than reducing government control, it would impose a tougher state licensing system. States already license institutions based upon criteria such as financial stability, non-discriminatory policies, and to some degree, academic quality. However, the level of rigor of state regulation varies significantly from state to state. States generally examine schools' academic credentials less intensively than private accrediting agencies. The House bill allocates federal appropriations to the state licensing agencies to fund increased state oversight.

Higher education lobbyists object strongly to cutting private accreditors out of the aid eligibility loop. They feel that doing so would make some schools less inclined to seek accreditation and lead to an overall decline in academic quality. They also worry that their academic freedom would be restricted by increased

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15 David Baumann, "ED Accuses Accrediting Agency of Forcing Colleges to Diversify," *Education Daily*, November 19, 1991, p. 2.

state oversight in institutional affairs. The House thus has agreed to consider an amendment to H.R. 3553 that would restore accreditation as a requirement for aid eligibility, but outline specific standards which the Education Department must use when choosing accreditors. S. 1150 as passed by the Senate retains the current system, but increases the number of sanctions available to the Secretary in cases where accreditors have been lax in enforcing Department of Education standards in the awarding and collecting of student aid.

Recommendation: Congress should retain the current aid eligibility determination system, but give the Education Department increased powers of oversight of private accreditors to prevent abuses. Beyond a few oversensationalized cases, private accreditors have performed their job fairly well. It would be a mistake for state and federal governments to spend money on increased state oversight when that function is already adequately performed by private agencies. Also, increasing state involvement with and oversight of postsecondary schools could inhibit academic performance by reducing institutional autonomy. Congress could be opening the door to overregulation.

IMPROVING VOCATIONAL EDUCATION

While four-year universities and colleges tend to receive most attention in discussions of higher education, other types of institutions are just as important in educating the work force. Not all talented students are suited for, or even interested in, purely academic education. Many very intelligent students are more inclined toward applied technology. Many students who attend four-year institutions (and in many cases drop out of them) would be better served by a technical or vocational program, and would graduate with greater earning power as well. According to a William T. Grant Foundation report, vocational programs, and in particular "apprenticeship programs, assist young people...with an almost seamless passage from secondary classrooms...into full membership in trades demanding highly specialized skills."[16]

Vocational education, particularly in the form of apprenticeships, is much more common in Europe than in the United States. American vocational and technical schools, in contrast to those in Europe, generally are poorly supported and not highly regarded by the educational establishment. There are some exceptions to this rule. An innovative education reform package passed in Oregon last year, for instance, authorizes a statewide apprenticeship program. After demonstrating a certain level of competence in such academic subjects as mathematics and science, Oregon high school juniors and seniors are allowed to choose between a college-preparatory curriculum and, "one of several job training curricula in health, computer operations, or other vocational or professional programs."[17]

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16 Senta A. Reizen and Richard L. Colvin, "Apprenticeships: A Cognitive-Science View," *Education Week*, December 11, 1991, p. 26.

The encouragement of such programs nationwide would answer at least some of the concerns of employers increasingly dissatisfied with the skill levels of today's college graduates. High quality vocational programs can serve as a genuine alternative for students who are not interested in pursuing more abstract academic disciplines, yet are very able and interested in more practical areas. If linked to secondary education, as in Oregon, such programs also might become an incentive for potential dropouts to stay in school. In addition, student loan default costs might decrease if fewer students were entering academic programs for which they were not suited and then dropping out. Further, the number of students requiring financial assistance likely would decrease. The reason: many firms are prepared to invest in educational scholarships if that means they can expect a well-trained worker afterwards.

Recommendation: Other than allowing accredited vocational and technical institutions to receive federal student aid, both the House and the Senate bills leave the issue of vocational education largely untouched. *The Job Training 2000* component of George Bush's *America 2000* education reform package and the Administration's fiscal 1993 budget proposal are not so silent. Recognizing the importance of a link between business and job-training programs, the *Job Training 2000* proposal created a network of 641 Private Industry Councils (PICs). The PICs, whose membership is centered around business representatives, currently supervise federally funded job training programs within regional boundaries.

The 1993 budget proposal recommends expanding the role of PICs to certifying and improving all vocational and technical training programs in their local areas. PIC certification could then be used as a criterion for receiving federal student aid under the HEA.[18] This proposal would kill two birds with one stone.

First, it would lower overall default rates and other abuses by ineffective, fly-by-night vocational schools which drain Stafford loan funds. Intensive local oversight would prevent poor quality technical schools from receiving federal aid.

Second, the PICs, composed mostly of representatives from the local business community, would strengthen the link between job training and the business world and promote increased recognition and support of the many excellent vocational and technical institutions in America today.

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17 *Ibid.*, p. 26.

18 Executive Office of the President, *Budget of the United States Government, Fiscal Year 1993: Reforming American Education and Investing in Human Capital* (January 1992), Part One, pp. 61-65.

This proposal is worth congressional consideration. The Administration also recommends that the Education and Labor Departments work together to encourage the establishment of structured apprenticeship training programs.

CONCLUSION

Federal higher education assistance today is badly targeted and managed, resulting in excessively expensive programs that tax middle-income families to give those same families loans and grants while often giving insufficient help to the needy. The aid programs also do not take into account the motivation or ability of the students they serve, resulting in federal money being given or lent to students who are not able or willing to succeed in higher education. Thus, too many students drop out of higher education and default on their student loans. The message to American high school students instead should be: "Work hard, and the government will help you out with college costs, but only if you need it. But American taxpayers will not support you if you don't study, or if you fail to make the grade."

To be sure, middle-income American families find it hard to pay for college fees after the IRS has finished with their paychecks. Thus, pressure on Congress to relieve the burden with a new entitlement program is understandable—but it should be resisted. The American taxpayer does not need another uncontrollable. entitlement program.

Financial Time Bombs. Federal entitlements are the primary cause of soaring domestic spending in the U.S., vastly outpacing the growth rates of gross national product or even tax revenues. Such programs are financial time bombs. Entitlement programs, particularly those targeted to the middle class, have a tendency to start small and then expand each year to cover an ever larger group pf people. And because entitlements must be fully funded, they become a significant drain on the federal Treasury, forcing increased borrowing or tax hikes that hurt the very groups entitlement programs are designed to help.

It is entitlements that are driving up federal spending, and with that the deficit. A Pell Grant entitlement program would give temporary relief, to be followed by more taxes or more pressure on credit markets. It would be nothing more than robbing Peter to pay Peter.

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