

Federal student aid policies: A windfall for the for-profit education industry

A Policy Analysis

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Abstract

The 1972 reauthorization of the Higher Education Act (HEA) has formed the basic charter of today's federal student aid system. The aim of this paper is to analyze the effects of the 1972 amendments of the HEA, which broadened student access to higher education in two major ways. The first was by providing grants to students directly as it was considered the most efficient and effective way to remove financial barriers for financially needy students and thus equalize opportunities for higher education. The second was by giving for-profit schools full eligibility to participate in the programs under Title IV of the HEA. The two aforementioned components of 1972 amendments of the HEA are explained from the functionalist perspective and then critiqued using the Marxist perspective. The provisions of the 1972 amendments of HEA epitomized the inclusive spirit of progressive policymaking for higher education for its time; however, the long-term effects of extending Title IV (federal) aid to the for-profits diverged sharply from the intentions of the policymakers. The student aid policies from the 1972 amendments of the HEA that were supposed to establish widespread wealth have provided unintended circumstances.

Background

After World War II, the U.S. Congress enacted a series of landmark laws that expanded access to colleges and universities through the direct financial support of individual students. This transformation began when policymakers created the Servicemen's Readjustment Act of 1944, commonly known as the GI Bill of Rights, which enabled veterans to seek additional education at the government's expense (Russo, 2010; Gladieux, 1995). The educational provisions of the GI Bill, however, did not reflect national priorities that intended to broaden higher education access. The GI Bill's practical purposes, which expressed national gratitude to returning veterans, were to facilitate conversion to a peacetime economy and to avert massive postwar unemployment by keeping a substantial number of veterans out of the labor market (Zumeta, Breneman, Callan, & Finney, 2012). Nevertheless, the educational provisions of the GI Bill enabled numerous returning veterans to attend college, which significantly shot up graduation rates among males for two decades following World War II (Mettler, 2014, p. 6).

Soon after, the U.S. Congress, moved perhaps more by concern for the country's military defense than interest in providing higher educational opportunity, enacted the National Defense Education Act (NDEA) in 1958 (Russo, 2010; Gladieux, 1995). The NDEA extended the National Direct Student Loan (NDSL) program, which provided financial aid assistance to low income students. The NDSL program inaugurated the modern era of federal support for student financial aid. Although the NDEA of 1958 broadened access to higher education, this was not the impetus for the bill's support by the U.S. Congress. Rather the NDEA was intended primarily as a short-term program to boost the nation's scientific manpower in the wake of the USSR's successful launching of Sputnik in 1957 (Zumeta et al., 2012, p.62). Nonetheless, the NDSL program would become an important benchmark for future federal student aid development. The

two federal developments of the post-World War II years (1945-1960), the GI Bill and the NDEA, resulted in the United States having a much larger share of its young population attaining higher levels of education, compared with other developed nations (Zumeta et al., 2012).

Then in 1965, as part of the constellation of programs that made up President Johnson's Great Society initiative, the U.S. Congress enacted the Higher Education Act (Mettler, 2014; Zumeta et al., 2012). The Title IV (Student Assistance) Part A section of the HEA of 1965 states that "[its] purpose is to provide, through institutions of higher education, educational grants [Educational Opportunity Grants], to assist in making available the benefits of higher education to qualified high school graduates of exceptional financial need, who for lack of financial means of their own or of their families would be unable to obtain such benefits without such aid" (Public Law 89-329, 1965, p. 1232). In addition, the Title IV Part B section of the HEA of 1965 provides rules for a federal program of student loan insurance for students who do not have reasonable access to state or private nonprofit student loan programs (Public Law 90-329, 1965, p. 1236). Finally, Title IV Part C section of the HEA of 1965 provides institutions with grants to assist in the operation of work-study programs that would promote the part-time employment of students from low-income families (Public Law 89-329, 1965, p. 1249).

In the early 1970s, equality of opportunity, a major impetus for the HEA of 1965, became the dominant purpose of federal student aid. The Basic Educational Opportunity Grant (BEOG), later renamed Federal Pell Grant, created in 1972 through the reauthorization of the HEA of 1965, marked the crowning touch of federal policy with funds channeled explicitly to low income students (U.S. Department of Education, 2011). The Federal Pell Grant was established as a portable, voucher-type award that students would apply for directly to the federal government and could take it wherever they choose to enroll (Russo, 2010; Gladieux, 1995).

This major benchmark, the enactment of the Higher Education Act of 1965, and its amendments in 1972, however, exhibited signs of growing complexity.

Other student aid provisions of the 1972 amendments included the creation of a government-sponsored enterprise, the Student Loan Marketing Corporation, Sallie Mae, to purchase student loans from banks, freeing capital for additional loans. Another new program, the State Student Incentive Grant (SSIG), currently the LEAP program, offered incentives for states to establish or expand need-based grant programs (Mettler, 2014; Zumeta et al., 2012; Gladieux, L., 1995). In addition, the legislation broadened the scope beyond traditional colleges and universities by opening participation in Title VI (federal) student aid programs to students attending vocational-technical and proprietary institutions, just as had already been done for veterans since the enactment of the GI Bill of Rights in 1944 (Mettler, 2014).

Functionalist Perspective

The 1972 amendments of the HEA broadened student access to higher education in two major ways. The first was by providing financial aid to students directly, namely through the Federal Pell Grant program and the Federal Student Loan programs. The second was by giving for-profit schools (proprietary) full eligibility to participate in the programs under Title IV of the HEA. Both of these are consistent with the functionalist perspective. The intention of the functionalist perspective is to look at the function or role of a policy in keeping the social body working properly. Accordingly, in the passing of the 1972 amendments of the HEA, Congress viewed the role of federal student aid policy as a human endeavor characterized by aspirations for progress and betterment for the individual and society through access and achievement. This explains the manifest functions, the intentional and obvious, aspects of the financial aid policies. Policies also have latent functions, which are unintentional and not obvious.

In Dreeben's (1968) book, *On What Is Learned in School*, he describes four latent concepts of functionalism in public schooling: independence, achievement, specificity, and universalism. From the latent functionalist perspective, I shall discuss how independence, achievement, and universalism, in the context of federal student aid policy, help build productive citizens and organizations in society.

Although the debate by the higher education community urged Congress to enact formula-based, enrollment-driven federal aid to institutions instead to students directly, legislators decided that funding aid to students directly was the most efficient and effective way to remove financial barriers for needy students and thus equalize opportunities for higher education (Gladieux, 1995). The "funding students directly" provision of the 1972 amendments of the HEA reinforces Dreeben's (2002) independence concept. The student, as the direct recipient of student aid, has the independent ability to choose which institution of higher education he will attend (as long as he meets the admission requirements).

The achievement concept is another prevalent function or role of "the funding students directly" federal student aid policy. According to Gladieux (1995), "Congress viewed student aid as a way to harness market forces for enhancing the quality of higher education and students. Students, voting with their feet, would take their federal aid to institutions that met their needs; less satisfactory institutions would wither." Achievement in the context of these provisions is the notion that postsecondary institutions of higher education shall be recognized for their hard work through competition.

The momentum for federal student aid laws to allow trade schools to participate in Title IV programs began when President Richard M. Nixon, in 1970, sent a message to Congress. As cited by Mettler (2014), Nixon stated: "No qualified student who wants to go to college should

be barred by lack of money” (p. 92). Under Title IV of the HEA amendments of 1972, student aid was expanded to allow students to receive Title IV (federal) student aid by enrolling in accredited proprietary schools (U.S. Department of Education, 2011). In line with Dreeben’s (1968) concept of universalism, the HEA amendments of 1972 not only expanded student aid programs to provide opportunity and access to qualified students, but they also supported student choice among institutions. The expansion of civilian federal student aid laws to proprietary schools emerged at the high water mark of the American liberalism, as policymakers sought to foster opportunity for those who had previously been left behind (Mettler, 2014).

In line with the functionalist perspective, higher education is expected to provide society with persons who are equipped with the right education and capabilities necessary to perform the jobs that society needs. The 1972 HEA amendments not only expanded the types of financial assistance available to students, but also broadened the range of postsecondary education options to students. This provided students universal access to all types of postsecondary institutions of higher education meeting their individual and societal needs. Through access and choice, the 1972 HEA amendments work toward the proper functioning of the U.S. higher education system and society as a whole. The U.S. government provides financial aid funding that is available to students to attend any type of postsecondary institution of higher education, which in turn will provide students employment options that will provide tax revenues on which the government depends to keep itself running. Financially needy students are dependent upon financial aid funding to allow them to obtain a higher education, which in turn will help them obtain good jobs so they can raise and support their families. In the process, students become law-abiding, taxpaying citizens, who in turn support the government. If all goes well, this aspect or part of society produces order, stability, and productivity.

Marxist Perspective

Unfortunately, not all has gone well. Using the Marxist perspective, I shall focus on analyzing the two student aid policies: 1) funding students directly and 2) allowing all types of postsecondary institutions, including proprietary, to participate in Title IV programs by describing ways it misleads students and taxpayers in believing that it serves the best interests of individuals (i.e., students), taxpayers, and society as a whole.

It's been a four-decade run of the Title IV (federal) student aid policies that sustained higher education; generations of low-income students went to college with the help of Federal Pell Grants, and millions more used federal loans to finance their education while colleges, particularly the for-profits, continued to flourish and consume a major segment of the college-going population, low-income students. The policies created beginning with the 1972 amendments of the HEA, however, have numerous drawbacks to individuals, taxpayers, and society as a whole.

Carey (2013) states that “the system created in the early 1970s spurred the great motive force of education: institutional ambition.” As soon as legislators expanded federal student aid in 1972, the for-profit schools seized on the chance to attain a sizable portion of the new funds for themselves, just as they had done since the end of World War II by pursuing veterans with GI Bill educational benefits (Mettler, 2014). Advocates say that the for-profit sector growth has been driven by its ability to address the unmet educational needs of a population that may not possess the aptitude to succeed at a traditional college, but they still require skills training to make the transition from high school to employment (Mettler, 2014).

Unfortunately for many students, the reality of the for-profits has not matched the rhetoric. While the for-profits appear to give struggling Americans a shot at improving their life

circumstances, these schools leave many worse off, to the point of financial ruin. Scholars find some evidence that universities and colleges, for-profit colleges in particular, may respond to the availability of federal aid by simply increasing the tuition they charge (Cellini, S. & Goldin, C., 2012). The for-profits charge substantial tuition, \$15,130 per year on average for full-time undergraduates in 2013-14, compared to \$8,893 at four-year public universities and \$3,264 at community colleges (College Board, 2013). This may explain why nearly all of the students from the four-year for-profit sector, 94 percent, among those who gain bachelor's degrees took out federal student loans (Steele, P. & Baum, S., 2009). What's worse, the average three-year FY 2010 Official Cohort Default Rate (CDR) for students attending four-year proprietary postsecondary institutions is 22.1 percent, compared to the four-year public average CDR of 9.3 percent and the four-year nonprofit private CDR of 8.0 percent (Federal Student Aid, 2013). The for-profits yield a poor outcome for many of their students and for the American public. "The for-profits ability to capitalize on federal student aid and veteran benefits is nothing new, but now the benefits to the sector – and the costs to students and taxpayers – are even greater" (Mettler, 2014, p. 165).

From the Marxist perspective, the federal student aid policies have impeded the possibility of human freedom. The long-term effects of extending Title IV to the for-profits diverged sharply from the intentions of the policymakers to broaden access to higher education. There is no evidence to suggest that they would have condoned the accumulation of immense debt loads for low income students who attended proprietary schools without favorable prospect for gainful employment. The federal student aid policies that were developed as a result of the 1972 amendments of the HEA only give the illusion of objectivity, neutrality and opportunity, which has prevented many members of society from understanding the true nature of the

situation. This can be explained by the Marxist theory of “false consciousness.” False consciousness is a theory whereby people are unable to see things as they really are in terms of exploitation, oppression, and social relations. For example, there is belief that those who work hard to earn a college degree will achieve the American dream that includes the opportunity for prosperity and success. Thus, anyone, even low-income students can improve their circumstances. Again, the reality of the situation does not match the rhetoric. Low-income students are sequestered into separate and inferior institutions, primarily the for-profits, from which they are likely to emerge without degrees, accrue crushing levels of debt, and have little prospect of job placement and future pay (Mettler, 2012).

Furthermore, in accordance with Marxist perspective, these federal student aid policies reproduce attitudes and dispositions for the continuation of the present system of domination by the privileged class. Mettler’s (2014) words eloquently explain this perspective:

“Over the past several decades, our system of higher education has gone from facilitating upward mobility to exacerbating social inequality. College-going, once associated with opportunity, now engenders the creation of something that increasingly resembles a caste system: it takes Americans who grew up in different social strata and it widens the divisions between them and makes them more rigid. The consequences are vast, ranging from differences in employment rates and lifetime earnings to health and civic engagement. All told, the tragedy is that while the public policies in the past helped mitigate inequality and open the doors to college (sic) more Americans, today themselves [public policies] play a crucial role in segmenting our society” (p. 4).

Hence, the for-profit education system perpetuates the social divide. The federal student aid policies that were established in 1972 do not function as they effectively once did. In some

measure, that's because circumstances in the environment have changed, and policymakers have failed to update the policies accordingly. Unintended consequences also occur when policies yield side effects that their creators did not anticipate by influencing the activity of individuals or organizations beyond those they aimed to affect. For example, "federal lawmakers assumed that the combination of accreditation, state regulation, and consumer choice would be sufficient to safeguard public funds. They were wrong. All of the abuses in the for-profit industry have occurred at accredited, state-licensed colleges that students have voluntarily chosen to attend" (Carey, 2013). For-profits pay more attention to their profit margin than the students' education. According to Mettler (2014), for-profits invest only \$2,659 per student in instruction, compared to \$9,418 by public colleges and \$15,289 by private nonprofits (p. 35). Thus, I argue from the Marxist and critical theory perspectives that the 1972 amendment to the HEA allowing for-profits to participate in Title IV (federal) student aid programs, has established a norm that serves the interests of the privileged class.

Significant taxpayer funds are being invested into companies that operate for-profit colleges, "including 25 percent of Title IV student aid funds, 37 percent of Post-9/11 GI Bill benefits, and 50 percent of Department of Defense Tuition Assistance funds" (U.S. Senate Committee on Health, Education, Labor and Pensions, 2012). Federal student aid policies have created a windfall for the for-profit education industry and they in turn have invested some of their earnings in enhancing their political capacity – through campaign contributions and lobbying – as a means of maintaining and extending the policies that benefit them so lucratively (Mettler, 2014).

Although there have been numerous attempts to reform federal student aid policy for the for-profits, policymakers have not yet addressed the matter satisfactorily. The for-profit

education industry's hegemonic control over major facets of society have sowed false consciousness. As such, Congress has responded most reliably to the interests of those with the deepest pockets. That's because, according to Mettler (2014), in the case of higher education, the wealthy class ensures that shareholders and top management of businesses that benefit from student aid are represented, while the needs of the ordinary Americans continue to fail to gain attention (p. 18). The student aid policies from the 1972 amendments of the HEA that were supposed to establish widespread wealth have provided unintended circumstances. From a Marxist perspective, this clearly illuminates the effect these student aid policies have had on broadening the gap between haves and have-nots.

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