STUDENT LOANS AS A PRESSURE ON U.S. HIGHER EDUCATION

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ABSTRACT

The United States has been at the forefront of a global shift away from direct state funding of higher education and toward student loans, and student debt has become an issue of growing social concern. Why did student loans expand so much in the United States in the 1990s and 2000s? And how does organization theory suggest their expansion, and the growth of federal student aid more generally, might affect higher education as a field? In the 1960s and 1970s, policy actors worked to solve what was then a central problem around student loans: banks' disinterest in lending to students. They did this so well that by 1990, a new field of financial aid policy emerged, in which all major actors had an interest in expanding loans. This, along with a favorable environment outside the field, set the stage for two decades of rapid growth. Organization theory suggests two likely consequences of this expansion of federal student loans and financial aid more generally. First, while (public) colleges have become less dependent on state governments and more dependent on tuition, the expansion of aid means colleges are simultaneously becoming more dependent on the federal government, which should make them more susceptible to federal demands for

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accountability. Second, the expansion of federal student aid should encourage the spread of forms and practices grounded in a logic focused on students' financial value to the organization, such as publicly traded for-profit colleges and enrollment management practices.

Keywords: Higher education; student loans; financial aid; resource dependence; field theory; institutional logics

The last decade has seen a global shift in how higher education is financed. The cost of providing it is rising, and government budgets are under pressure from a variety of directions. Increasingly, college is seen as an investment individuals make to increase their future income, which encourages policymakers to ask them to bear a significant portion of the cost. At the same time, policymakers are also interested in encouraging competition for funding among colleges in the hopes of improving their performance, and one way to do that is to make them more dependent on student decisions about where to enroll. These factors have combined to lead, in many nations, to higher tuitions and more reliance on student loans to finance higher education. England and Australia have moved particularly aggressively in this direction (Chapman & Ryan, 2002; McGettigan, 2010), but the trend is global (Chapman, Higgins, & Stiglitz, 2014; Charles, 2012; Johnstone & Marcucci, 2010; Teixeira, Johnstone, Rosa, & Vossensteijn, 2008).

While these same pressures also affect the United States, here student loans have expanded for a distinctive set of reasons. The U.S. history with federal student loans dates back to 1958. But the expansion of federal loans in the United States has been incremental (Lindblom, 1959), not more-or-less rationally planned as in some other countries. The size and global importance of the U.S. system of higher education, as well as the scope of its outstanding student debt (currently $1.3 trillion; see FinAid, 2015), make its unique trajectory worth exploring. Why did U.S. student loan debt grow so much after 1992, more than tripling on a real per-student basis? And what does organization theory suggest this growing reliance on federal student aid might mean for U.S. colleges and universities? This paper provides provisional answers to both questions in the hope that they will interest not only American observers of higher education, but those from other countries as well.

To do so, we take a broadly organizational perspective. A large majority of U.S. student loans are made or guaranteed by the federal government, and without federal backing, the student loan system would collapse. Thus, we begin by considering federal financial aid policy as a strategic action field (Fligstein & McAdam, 2012) that has made this expansion possible. Federal aid policy began to emerge as an organized social space in the 1960s, but was originally small and diffuse. For several decades, its central problem with respect to student loans was how to get banks to make them, since policymakers did not want government itself to provide loans on a large scale. Over time, policymakers solved this problem by creating financial incentives for banks to lend and a government-sponsored enterprise (Sallie Mae) to provide a secondary market for student loans.[1]

By about 1990, this strategy had proven so successful that Sallie Mae had grown large, and banks no longer threatened to walk away from the student loan business. Instead, banks and especially Sallie Mae had become major actors in the field of financial aid policy. They shared an interest in the expansion of federal loans, which higher education organizations did not oppose. With other factors like financialization and rising college costs also favoring more lending, the stage was set for rapid growth of government-backed student loans during the 1990s and 2000s.[2] This growth only leveled off with post-financial-crisis legislation that ended government guaranteed and subsidized lending by banks and shifted to direct government lending. In the classic formulation, policy created politics (Schattschneider, 1963): efforts to solve an initial problem created new actors, and new interests for existing actors, that set student loan policy on a decades-long expansionary path.

Although both scholars and the media have paid considerable attention to the growth of student loans in the United States, they have mostly focused – reasonably enough – on their effects on students themselves (Gicheva, 2011; Houle & Berger, 2013; Rothstein & Rouse, 2011; Shao, 2014), rather than on higher education organizations.[3] Organizational sociology, however, suggests that the rise of student loans and the expansion of federal financial aid are likely to affect colleges and universities as organizations as well.

In the second part of this paper, we discuss two ways organization theory might predict that the rise of student loans would affect higher education organizations. First, resource dependence arguments (Pfeffer & Salancik, 1978) suggest that organizations are responsive to the sources of their main revenue streams. Trends in U.S. higher education finance,

particularly for public institutions, are often described as shifting from reliance on state funding to tuition dollars (e.g., Barr & Turner, 2013), a narrative that aligns well with both the reality of reductions in state appropriations and the (also real, but somewhat misleading due to widespread discounting) increase in the sticker price of college in recent years. From a resource dependence perspective, however, this overlooks the extent to which colleges and universities are simultaneously becoming more dependent on the federal government, as the guarantor and/or provider of student loans and other forms of aid. We would expect, then, that higher education organizations would become increasingly responsive to student preferences (in ways that might have both positive and negative consequences), but also more susceptible to federal demands for accountability in exchange for increased levels of aid.

Second, field theory has suggested that changes in a superordinate field can affect a dependent field by encouraging the spread of organizational forms and practices grounded in a secondary logic. For example, as federal science policy became more focused on trying to use science to drive economic growth, more resources became available for university practices focused on the economic value of science (Berman, 2012a, 2012b). Similarly, as federal aid policy has made more money available to schools that can attract students with financial aid dollars, the environment should favor the growth of forms and practices that can leverage such resource potential. The rapid growth of for-profit colleges, for example, and rationalized practices around enrollment management are both consistent with such a prediction. The paper concludes by suggesting that both the political economy of financial aid and its organizational role in higher education are likely to be high payoff areas for future research.

FEDERAL FINANCIAL AID POLICY AS A STRATEGIC ACTION FIELD AND THE RISE OF STUDENT LOANS

Student loans would, essentially, not exist in the United States had they not been actively developed by the federal government, and changes in federal student aid policy have repeatedly transformed the landscape in which they are made. While we do not mean to suggest that federal policy is the only factor explaining the rapid growth in student loans in recent decades (and we briefly discuss other contributors in this section), it is

a central part of the story. Given the limited extent to which it has been written about elsewhere, we make it our focal point. In this section, we draw on primary and secondary sources to present a stylized history of the development of a strategic action field (Fligstein & McAdam, 2012) around federal student aid policy. Efforts to solve a central problem in that field – banks' reluctance to make student loans – created new actors and interests that aligned major groups in the field around support for student loans, and set them on a growth trajectory that continued from about 1992 to 2010, when post-financial-crisis legislation put at least a temporary cap on that growth.

We divide this story into two main parts: one covering the period from 1958, when the first federal student loan program was created, to 1990, when the Federal Credit Reform Act changed the terms of debate around student loans; and a second part, during which loans rapidly expanded, that began in 1990 and ended in 2010 with the passage of the Health Care and Education Reconciliation Act. The first period saw a strategic action field emerge around federal student aid policy. For most of this period, direct government lending to students on a significant scale was not a politically viable option. Instead, the central problem actors within the field were trying to solve was how to get banks to lend to students.

By 1990, this question had largely been answered, in large part through the creation and expansion of Sallie Mae, but also through generous guarantees and subsidies for private lenders. The Federal Credit Reform Act, however, changed accounting standards in a way that opened a political door to direct government lending. The central question of the 1990–2010 period would be whether the old system, dominated by privately made student loans subsidized and guaranteed by the federal government, would continue, or whether a new system of direct loans from the government to students would replace it.

Had this door to direct lending been opened 20 years earlier, the result might have been a rapid shift in that direction and less expansion of student loans. But by the early 1990s, Sallie Mae had become an influential political actor, and banks had come to value their federally subsidized student loan business. When some politicians tried to shift toward a system of direct government lending, these actors resisted in ways that encouraged the general expansion of student loans. With other actors in the field (like higher education organizations) either neutral or supporting such expansion, and broader developments like financialization and rising college costs also favoring it, federal student loan volume tripled on a per-student basis between 1993 and 2010 (Fig. 1).

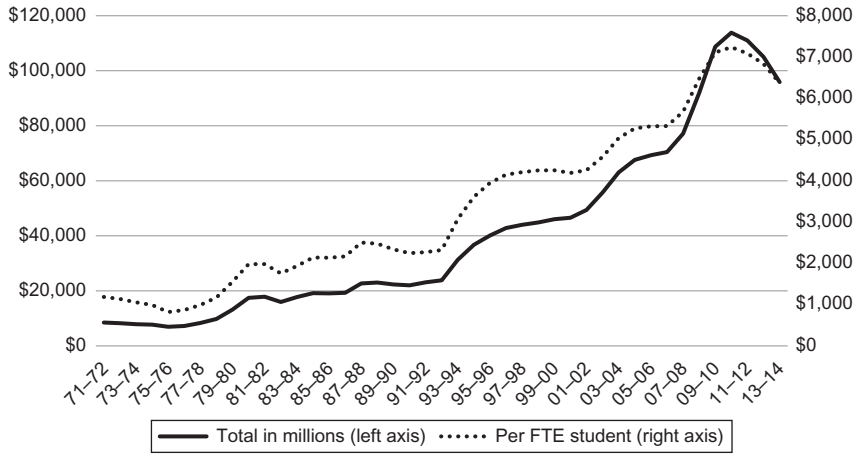

Fig. 1. Annual Volume Federal Student Loans (Guaranteed + Direct), 1971–2014 (in 2013 dollars). *Source*: College Board (2014b, Tables 1, 3).

1958–1990: Convincing Banks to Make Student Loans

Federal student lending began in the United States in 1958, with the National Defense Student Education Act, passed in response to Sputnik. These loans were made directly by the federal government to needy, academically superior students who planned to teach or had promise in science, math, engineering, or foreign languages, and reached only about 25,000 students.[4]

By the mid-1960s, though, interest was growing in expanding access to higher education more generally. As part of this effort, a group of actors who were beginning to form a strategic action field, including various policymakers, the banking industry, colleges and universities, and state and nonprofit groups that were then facilitating student loans, hammered out a larger and broader federal loan program. The Higher Education Act of 1965 established, among other provisions, the Guaranteed Student Loan (GSL) program, targeted at middle-income students (Cervantes et al., 2005).

The federal government could have continued to lend money directly to students in its new program, as it had with National Defense Student Loans. But accounting rules meant that direct government loans showed up as an upfront cost that would gradually be recovered in subsequent years (U.S. Library of Congress, 1991a, pp. 2–3). If the government

instead provided guarantees of repayment to private lenders, the loans would not impact the budget until any guarantees had to be made good (Cuny, 1991, p. 19). Thus, guaranteed loans were politically preferable to direct loans, and larger direct loan programs were not seriously considered until accounting rules were changed in 1990.

It quickly became clear, though, that despite the guarantees and subsidies the GSL program provided, banks were not lending at the rates policymakers hoped for – partly because banks opposed government involvement in lending, and partly because they didn't think student loans would be profitable (Cervantes et al., 2005). Congress repeatedly acted to sweeten the deal, but by the early 1970s lenders were "increasingly reluctant to commit additional funds for GSLs because of their relative lack of liquidity, long repayment schedules and relatively high servicing costs" (U. S. Library of Congress, 1982, p. 1). With direct loans off the table, this problem – how to get banks to lend – would remain central to the field for two decades.

Congress's biggest step in solving this problem was to create the Student Loan Marketing Association, or Sallie Mae. Almost an afterthought to the 1972 reauthorization of the Higher Education Act (Gladieux & Wolanin, 1976, p. 197), Sallie Mae was a government-sponsored enterprise (GSE) – a financial corporation created by, but officially independent of, the U.S. government. Modeled after Fannie Mae, the Federal National Mortgage Association, Sallie Mae would not make student loans itself, but would "provide liquidity to GSL lenders through two secondary market activities: (1) through purchases of GSLs from lenders' portfolios, and (2) through 'warehousing advances' (loans) to lenders, with lenders using GSLs as collateral to obtain funds from Sallie Mae to make additional student loans" (U.S. Library of Congress, 1982, p. 1). By making it easier for banks to lend to students, and providing them a way to sell off loans they did not want to hold, Sallie Mae made student lending more desirable for banks.

Student lending grew after the creation of Sallie Mae, but the rapid expansion of federal grant aid in the 1970s limited demand for loans.[5] This changed after 1978, when Congress removed the income cap from the GSL program. Since the GSL interest rate was set at 7% – with no interest accruing until graduation – and inflation was at double digits, this was better-than-free money. The volume of GSLs issued nearly tripled in the next three years, until an income cap was reinstated in 1981 (Cervantes et al., 2005, pp. 36–38; College Board, 2014b, Table 1).

But despite this growth in the program, as late as 1980, many banks were still reluctant to make student loans despite their high yield rates, due

to their large servicing costs and difficult collections (U.S. Congress, 1980, pp. 1–2). And while Sallie Mae was firmly established, it was still a small organization, holding only about $1.2 billion in student loans it had purchased from banks (U.S. Library of Congress, 1982, p. 19). After 1981, growth in the annual volume of new loans being issued became much more moderate, increasing only another 25% over the rest of the decade – and only about half that after accounting for rising enrollments (College Board, 2014b, Tables 1, 3). But two things were changing over the course of the decade that would set the stage for a larger shift after 1990.

First, Sallie Mae became much larger, financially innovative, politically savvy actor which, by the end of the decade, was beginning to play an outsized role in the field of financial aid policy. In the 1970s, the GSE had supported its activities by borrowing from the Federal Financing Bank. But the rapid expansion of lending between 1978 and 1981, along with the encouragement of the Reagan administration, led it to turn to the financial markets for money after 1981, and it began to wind down its government borrowing (U.S. Library of Congress, 1982, pp. 18–19).

Its intense need for capital to support its growth – the organization was nearly doubling in size each year – led Sallie Mae to become very financially innovative: it was the first U.S. corporation to conduct interest rate swaps, among other instruments it pioneered (Forde, 1982; Office of Sallie Mae Oversight, 2006, p. 69, Appendix 3-A). It also began issuing common stock in 1983, and in the second half of the decade became a hot stock on Wall Street (Lawrence, 1989; McCue, 1983, Appendix 3-A; Office of Sallie Mae Oversight, 2006). By 1990, Sallie Mae had more than $40 billion in assets, up from $5 billion in 1981, and held half of all federally insured student loans (Office of Sallie Mae Oversight, 2006, p. 62; U.S. Congress, 1991, p. 247).[6]

Second, while new loans were increasing at a modest pace, the total volume of loans was accumulating, gradually increasing banks' stake in federal student loan programs. Outstanding guaranteed loans increased from $23 billion to $53 billion in current dollars – some 70% in real terms – between 1982 and 1990 (U.S. Department of Treasury, 1991, A-47).[7] Figures prior to 1982 are difficult to find, but given that the annual volume of new federal loans tripled in real terms between 1978 and 1981 (College Board, 2014b, Table 1), it seems likely that outstanding loan volume was under $10 billion in at the beginning of that period – meaning that it, too, roughly tripled in real terms between 1978 and 1990.

As banks' financial stake in student loans increased, their attitude toward the field of financial aid policy evolved as well. As suggested above,

the central problem of the field was, until late in this period, how to get banks to lend to students. Historically, "the banks had threatened to walk away from the program whenever lawmakers tried to change it" (Congressional Quarterly, 1992). By the mid-1980s however, the banking industry had the most active lobbyists around the GSL program (Wilson, 1987). When the program was challenged in the early 1990s, they would react aggressively, "indicat[ing] just how important student loans had become to them" (Congressional Quarterly, 1992).

If banks' stake in the policy field was increasing, Sallie Mae's was even greater. For banks, student lending was but one modest slice of their business. For Sallie Mae, it was its raison d'être. It, too, was actively invested in lobbying (Office of Sallie Mae Oversight, 2006, Appendix 3-A), and had a large stake in maintenance and expansion of the GSL program. Banks and Sallie Mae's interests in the field were in many ways opposed, with banks "see[ing] Sallie as a competitor" (Zigas, 1986). But they now shared a commitment to guaranteed student loans.

Higher education organizations themselves were, of course, the other major player in the student aid policy field. In general, colleges preferred direct institutional support to student aid, and within the category of student aid, preferred grants to loans. The most active lobbying on loans came from the for-profit trade schools, which were heavily reliant on federal grants and loans for their survival, and, unsurprisingly, favored their expansion. But despite their preference for other forms of aid, colleges rarely objected to the expansion of student loans, nor did they have a large stake in whether government or banks made them, as long as they were made by someone.

1990–2010: Aligning around Growth

By 1990, then, the major actors in the field of student aid policy had either developed an interest in maintaining and expanding the GSL program (after 1988, renamed Stafford Loans) or did not strongly oppose it. But the volume of student loans was increasing at a relatively moderate pace. The passage of the Federal Credit Reform Act that year disrupted the status quo, however, and helped set student loans on a growth trajectory that, facilitated by the favorable alignment of external factors, would last for two decades.

Prior to 1990, federal accounting standards made direct loans look more costly (at least in the short run) than guaranteed loans. The Federal Credit

Reform Act changed those accounting standards, requiring federal lending programs to be accounted for in terms of their net present value. The cost of direct loans, rather than all showing up in year one then gradually being repaid, were presented from the outset in terms of disbursements minus expected repayments, greatly reducing their short-term budget impact. By contrast, the expected cost of guaranteed loans now showed up immediately on the budget, making them much more comparable to direct loans (U.S. Library of Congress, 1991a, pp. 2–3).

While the student loan program did not motivate the credit reform legislation (Cuny, 1991), the new accounting standards immediately changed the politics of the field. By 1991, legislators were introducing bills that would create a direct student loan program to supplement or replace the guaranteed loans program. Because it would eliminate subsidies to lenders, it was estimated that such a change could save about $1 billion a year (U.S. Library of Congress, 1991a, p. 3). These proposals, immediately divisive, set forth a new organizing question for the field: not how to get banks to lend to students, but whether loans should come directly from the federal government, or from private lenders backed by government guarantees. This question would not be fully resolved until 2010.

In response to these new proposals to end the guaranteed loan system – which for Sallie Mae was an existential threat – "financial-service companies mounted a ferocious lobbying campaign to preserve the current system," with Sallie Mae "[l]eading the charge" (Boot, 1993). They ran advertisements in the *Wall Street Journal*, organized letter-writing campaigns, and won the support of some college representatives who were concerned about how changes would be implemented (Boot, 1993). In general, colleges' role in the debate was limited: they were outspent by the banks and not unified in their support of direct loans (DeLoughry, 1992). Though direct lending proposals were popular (Jaschik, 1993), the lending industry was able to partially, though not entirely, beat them back (Parsons, 1997). Congress created a pilot direct loan program in 1992 (McCormick, 1994), and the following year authorized government to provide an increasing percentage of loans directly, with the intent of reaching 60% or more by 1998 (Congressional Quarterly, 1994).

This intense battle, new in the field of financial aid policy, had at least three consequences that contributed to the acceleration of student loan growth. First, and most immediately, it set up a competition between the direct and guaranteed loan programs. This was intentional, and seen by Congress as a test of which system would work better (Congressional Quarterly, 1994). The battle for student lending between banks, Sallie Mae,

and government was expected to be "fierce" (Henry, 1993), as indeed it turned out to be. Over the next five years, lenders moved aggressively to retain the market, channeling their government subsidies into lower costs for students in an effort to undercut the Education Department (Burd, 1999).

As a result, direct lending never reached the expected 60% of loan volume, instead peaking at 34% in 1998 before starting to decline (College Board, 2014b, Table 1). An increase that year in banks' student loan subsidy, the product of "bitter" political fighting (Congressional Quarterly, 1999), put the direct loan program in what one journalist called "a fight for its survival" (Burd, 1999). While many had expected direct loans to displace guaranteed loans entirely by the end of the decade, instead, by 2002, direct loans would account for less than 30% of the total, and by 2004, less than a quarter (College Board, 2014b, Table 1). Thus during the 1990s, the new competition between guaranteed and direct loans forced banks to work to retain and expand their student loan business rather than coasting along, taking it for granted.

Second, it helped achieve the creation of unsubsidized Stafford loans. As of 1992, eligibility for traditional, subsidized Stafford loans was subject to a cap on family income of about $50,000 (in 2015 dollars). While the cap was raised that year, the new unsubsidized Stafford would have no such income limit. Unsubsidized Stafford loans would still be made by private lenders and guaranteed by the federal government, but interest would not be deferred while students were in school (Congressional Quarterly, 1993).[8] These loans to higher-income families would prove to be an area of rapid growth in the student loan system (Fuller, 2014, pp. 56–57). Within five years, unsubsidized Staffords would account for a third of all federal student lending, and for three-quarters of the increase in student loan volume during that time (College Board, 2014b, Table 1).

Third, the fight over direct lending led Sallie Mae to push for its own privatization. Sallie Mae had been interested in privatizing as early as the 1980s, and the idea was floated during the Reagan administration (Hill, 1986; Office of Sallie Mae Oversight, 2006, Appendix 3-A). But direct lending "called into question [Sallie Mae's] existence," and its stock lost more than half its value in from 1993 to 1994 (McLean, 2005). Though banks opposed it, in 1996 Congress began the process of privatizing Sallie Mae, with the GSE's strong support. This move would allow Sallie Mae to originate loans for the first time and give it greater flexibility to aggressively pursue new markets, like private – that is, not government guaranteed or subsidized – student loans (Office of Sallie Mae Oversight, 2006), which would become increasingly important in the following decade.

While the political effects of the new pro-lending alignment in the field of federal aid policy played a considerable role in encouraging the growth of student loans, factors outside the field encouraged the growth of lending as well. The ever-rising cost of college is the most obvious of these, even if some portion of the cost increase was an effect, rather than a cause, of expanding loan availability (see note 2). Nevertheless, college costs increased rapidly in the 1980s, a period that saw only modest growth in student loan volume, so tuition increases cannot be the only factor driving student loan expansion (College Board, 2014a, Table 2). Beyond the pressure of rising tuitions, two other trends also facilitated student loan growth during the 1990s: financialization, and the emergence of a new model of for-profit college.

Many of the developments that encouraged the expansion of mortgage lending during the 1990s and especially 2000s also applied to student loans. The first student loan asset-backed securities (SLABS) were issued in 1993 (New Securities Debut with Student Loans Used for Collateral, 1993), and Sallie Mae, as mentioned earlier a financially sophisticated actor, began securitizing the loans it held in 1995. This move was quite successful, and the GSE largely financed its privatization by securitizing more than $100 billion of student loans over the next decade (Office of Sallie Mae Oversight, 2006, pp. 25, 107).

As a market for SLABS became established, it created a new demand for student debt that increased banks' options for selling off the student loans they made. This helped support the expansion not only of federal student loans, but also, for the first time, a significant number of fully private student loans. As was the case in the mortgage market, the ability to securitize and sell off student loans made banks willing to make riskier loans, even without government guarantees. The private student loan market grew from essentially nothing in 1995 to $21 billion, representing 23% of all student loans, in 2008 (College Board, 2014b, Table 2). SLABS were, in fact, one of the hottest asset categories in the mid-2000s, emerging as a "core asset class" in 2003 (Feldheim, 2004), and growing "five times as fast as the $1.97 trillion asset-backed bond market" in 2005 (Richard, 2006).

Finally, while for-profit colleges had long played a role in the student aid field, and indeed were at the center of a modest student loan default crisis in the late 1980s (Best & Best, 2014), until the 1990s these were typically small trade schools. After a shakeout in the early 1990s, a new model of for-profit college emerged – one that was publicly traded, aimed at working adult students, heavily reliant on online education, and rapidly growing (Mettler, 2014). Enrollment in the sector increased from less than a quarter

million in 1995 to over two million in 2010 – a time when enrollment in other colleges grew only by a third (NCES, 2014, Table 303.10). With a large majority of its revenues coming from federal student aid (U.S. Senate, 2012), the rapid growth of this sector also created a new demand for student loans – as well as an interest on the part of the sector in making sure of their continued availability.

Thus by the year 2000, with the existential threat of direct loans pushed back if not eliminated, major actors in the field of financial aid policy remained aligned around the expansion of student loans, and factors outside the field similarly supported their growth. The 2000s saw a rapid increase in student loan volume, even as the fraction coming directly from the federal government steadily decreased. From the time the era of growth began in 1993, to its end in 2010, the annual volume of federal student loans nearly quintupled in real terms; if private loans are included, the rate of increase is even larger. This period transformed the importance of student loans in the U.S. higher education system.

2010 to Present: Eliminating the Middleman

It took an external shock of the size of the 2007–2008 financial crisis to disrupt this steady growth in the field of federal aid policy and to resolve the question of whether loans should be made by banks (and guaranteed by government), or made directly by government. Most critically, the freezing up of credit markets in 2008 led banks to pull out of student lending for the coming year, leading to the real possibility students might simply lose access to loans. In the short run, Congress acted to backstop loans (Congressional Quarterly, 2009). In the slightly longer run, the realization that a guaranteed loan program could fall apart under such circumstances, along with a general shift in public sentiment toward financial institutions, proved to be just the disruption that could limit opposition to direct loans. In 2010, with the financial sector, including Sallie Mae, still crippled, a new law completely eliminated the guaranteed program and replaced it with direct government loans, mostly ending a two-decade debate (Congressional Quarterly, 2011).

Since then, the dynamics of the field have changed considerably. With the question of whether loans should be direct or guaranteed resolved for now, a new question has taken center stage: how much student debt is too much? Actors and their interests have evolved as well. Banks are no longer invested in the student loan program as lenders. The behemoth Sallie Mae

is now two smaller players. One (Sallie Mae) provides private loans and other education-related banking products and is less dependent on the federal government. The other (Navient) exemplifies an important new type of actor in the field: it services existing loans, especially through profitable contracts with the U.S. Department of Education. The for-profit higher education industry has received bad publicity, resulting in a decline in enrollments of perhaps 20% (Bidwell, 2015a). Finally, a small but vocal social movement has emerged around opposition to student loans, with the result that anti-loan sentiments have had more voice in the last five years than they did in the previous 20.

These factors and others – including a general enrollment decline after a post-recession peak (NCES, 2014, Table 303.10), the failure of securitization markets to reemerge after the financial crisis, and the related failure of a thriving market in private student loans to reappear (College Board, 2014b, Table 1) – have meant that as of 2014, the annual volume of student loans remains, in real terms, 13% below its 2011 peak. It remains to be seen whether the present leveling of loan volume is a long-term change or a temporary blip, as increased spending at private colleges (College Board, 2014a), decreasing state support for public colleges, and strong pro-loan arguments among economists (e.g., Akers & Chingos, 2014; Avery & Turner, 2012) certainly suggest the possibility for renewed growth. Even if student aid levels remain at present levels, though, their large size, which reflects a historically unusual level of federal involvement in higher education, has the potential to impact colleges and universities as organizations. It is to the possible organizational effects that we next turn.

HOW CHANGES IN THE FIELD OF FEDERAL AID POLICY MIGHT AFFECT THE FIELD OF HIGHER EDUCATION

Both academic and public debate over the rise of student loans in the United States have focused primarily on their impact on students (e.g., in sociology, see Dwyer, Hodson, & McCloud, 2013; Dwyer, McCloud, & Hodson, 2012; Houle, 2013, 2014; Jackson & Reynolds, 2013; Quadlin & Rudel, 2015). Conversations about the pressures on higher education, on the other hand, tend to focus on a different set of issues: for example, budget problems, the role and treatment of contingent faculty, and the potential for "disruption" from the educational technology sector.

Considering U.S. higher education as an organizational field, however, as suggested by Scott and Biag (2016), highlights a different set of issues around the effects of federal student loans. In the rest of this paper, we draw on the insights of organization theory to suggest two consequences we should expect to follow this expansion of federal student loans and federal financial aid more generally.

First, while public institutions have become less dependent on state government and more dependent on tuition, the expansion of aid means colleges are simultaneously becoming more dependent on the federal government, which should make them more susceptible to federal demands. At the moment, increased accountability requirements seem to be the most likely demands to intensify. Second, the expansion of federal student aid should encourage the spread of organizational forms and practices that are consistent with a logic focused on students' financial value to colleges. These would include forms like for-profit colleges, but also practices like enrollment management, which have come to play a much greater role in higher education institutions as rapid student loan growth has taken place. In the sections that follow, we discuss each of these predictions in turn.

The Effects of Changing Resource Dependencies

While the sociological literature on student loans does not offer many insights regarding their likely effects on higher education organizations, the resource dependence literature (Pfeffer & Salancik, 1978) does suggest predictions. Resource dependence theory was built partly upon the study of universities (e.g., Pfeffer & Salancik, 1974; Salancik & Pfeffer, 1974), and its central insights – that organizations respond to satisfy external actors that control resources on which they depend, and that they will work to manage those dependencies in order to maximize their autonomy – have been shown to apply to higher education (Kraatz & Zajac, 2001; Tolbert, 1985; Zajac & Kraatz, 1993). While some evidence suggests that the behavior of higher education organizations may be only loosely coupled to their sources of revenue (Barringer, 2016), resource dependence theory is nevertheless a useful starting point for thinking about how higher education organizations might react to environments in which their revenue sources are rapidly changing.

The conventional wisdom about budgetary trends at U.S. colleges focuses on increasing dependence on tuition – to keep up with rising

spending, in the case of private colleges (Desrochers & Hurlburt, 2014); or to counteract state budget cuts, in the case of public ones (Barr & Turner, 2013; Breslauer, 2016). This would suggest colleges might increase their responsiveness to student (and parent) preferences, a reaction with potentially complex organizational consequences. While we will return to this possibility below, the history of student loan policy presented in this paper also suggests a second and less obvious reading of how the resource dependencies of higher education organizations are changing. Even as universities are becoming more dependent on student decisions about where to take their (growing) tuition payments, they are simultaneously increasing their dependence on the federal government, which makes much of that money available in the form of grants and loans.

Both the sticker price (i.e., the published price) and the net price (i.e., what students actually pay) of college tuition have increased dramatically in the United States in recent decades (College Board, 2014a, Table 2). Indeed, net tuition has recently overtaken state appropriations – traditionally the dominant source of funding for public institutions – as a source of revenue for public universities (Desrochers & Hurlburt, 2014, Table 2).[9] But looking at net tuition as a fraction of all revenues, or comparing its volume to that of state appropriations, understates the ongoing government role in providing funds to higher education.

Net tuition figures typically exclude institutional grants to students – that is, discounts provided by the college itself. But they include some forms of federal support. Government grants (like Pell Grants) may or may not be counted as part of net tuition, depending on who is doing the calculating.[10] And student loans, whether direct, guaranteed, or fully private, are generally included in net tuition figures (e.g., College Board, 2014a, p. 8; Delta Cost Project Database, 2015).

The decision to include student loans as part of net tuition makes sense if one is interested in the financial burden of college on students and their families, since it is them who have to repay such loans. Including government grants to students can be justified as well, since students decide where such dollars will go. But such figures hide the extent to which colleges and universities depend on financial aid that, while channeled through students, is ultimately made available by the federal government.

If, instead of comparing state appropriations to net tuition, we compare state appropriations to federal student aid, we see a different picture.[11] The higher education sector cannot solely be characterized by a shift in dependence from public to private funds. It is also characterized by a shift from state to federal – or at least federally enabled – funds (Fig. 2).

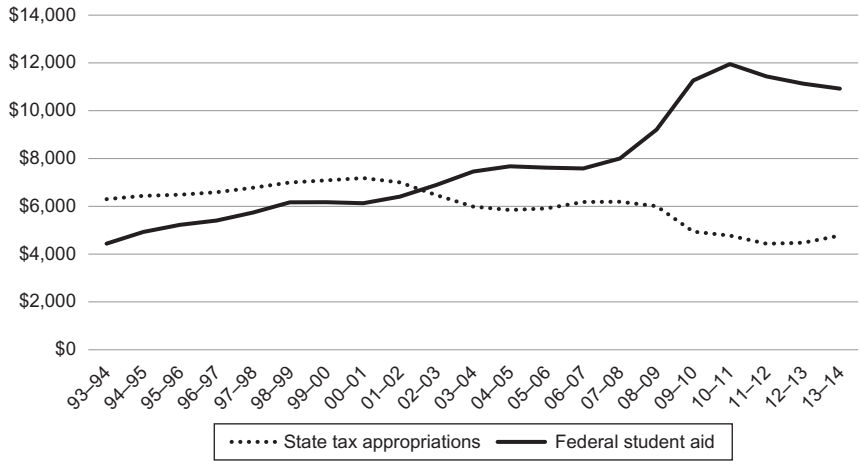

Fig. 2. Annual Federal Student Aid and State Tax Appropriations per FTE Student, 1993–2014 (in 2013 dollars). *Source*: College Board (2014b, Tables 1, 3); Grapevine (various years); U.S. Bureau of Labor Statistics.

We only gesture here toward what a serious analysis of changing dependence on federal student aid would entail. For starters, such an analysis would require breaking down the fractions of aid going to public, private, and for-profit institutions; the latter two types absorb a disproportionately large share of student aid relative to their enrollments (College Board, 2014b, Table 7; Deming, Goldin, & Katz, 2012; NCES, 2014, Table 303.10). Nevertheless, at a minimum these figures suggest that as a whole, the field is becoming more dependent on federal student aid relative to state appropriations, and thus on the field of federal aid policy to ensure its continued availability, even as it also depends more on students' decisions about where to enroll in order to receive those aid dollars. Resource dependence arguments, then, would make two sets of predictions about how colleges should respond to the expansion of federal student aid: one set based on the increasing financial importance of student enrollment decisions, and another based on their growing dependence on federal aid policy.

In the first case, there are clear signs that colleges have already put more focus on attracting students. For example, marketing spending at midsized colleges nearly doubled in real terms between 2001 and 2010 (Lipman Hearne, 2010). Enrollment management, a topic we return to below, came of age as a profession in the 1990s and 2000s and helped

rationalize student recruitment and financial aid decisions (Tutterow & Evans, 2016). And while the climbing walls and lazy rivers that receive so much media attention may not reflect the experience of most students, the fraction of spending going to student services did in fact increase across institution type in the 2000s (Desrochers & Hurlburt, 2014, Figure 6).

If the expansion of federal aid does make colleges more responsive to student preferences, the effects are likely to be complex. On the one hand, the position that support for higher education should be tied to students, not institutions, dates at least back to the 1950s, and has been made by economists from a variety of political positions (Archibald & Feldman, 2004; Friedman, 1955; U.S. DHEW, 1969). Colleges will serve students better, the argument goes, if they compete for their attendance rather than following their own organizational imperatives.

Relying on student preferences to encourage good behavior among colleges has problems of its own, though. Despite the proliferation of rankings (Paradeise & Filliatreau, 2016), students have limited information about what they will actually get from a particular college, and transaction costs associated with changing colleges are high (Monaghan & Attewell, 2014, p. 14). Nor are student decisions about whether or how much to borrow for school particularly rational (Avery & Turner, 2012; FDR Group, 2015).

Moreover, what students want only partially aligns with colleges' educational mission. If colleges are interested in attracting students, but students value lifestyle over education, colleges may, for example, create easy majors to appeal to the wealthy but academically disinclined (Armstrong & Hamilton, 2013). Students have, in fact, been shown to respond to amenity spending on activities, sports, and dormitories. Only high-achieving students, by contrast, demonstrate a taste for academic quality (Jacob, McCall, & Stange, 2013). Thus, while resource dependence theory would suggest the expanding importance of student aid should result in greater attention to student preferences, this is not necessarily the same as attention to educational quality.

If federal financial aid is making up a bigger part of colleges' revenue stream, however, colleges are also becoming more dependent on the federal government as the ultimate source of those dollars. Here, we might expect to see increased investment in lobbying, for example. There is some evidence, at least, that this is the case. Such spending more than doubled in real terms between 1998 and 2010, though it has declined about 30% since then (Center for Responsive Politics, 2015).[12]

We also should expect to see colleges become more susceptible to federal demands as they become more dependent on federal support. While research universities have long relied on federal R&D spending for a substantial part of their budget, they have also (consistent with resource dependence theory) worked to buffer their dependence by ensuring that scientists control how such money is distributed (Guston, 2000).

Dependence on financial aid, though, means dependence on a different set of government organizations and decision-makers. Such new dependencies may not yet have affected higher education organizations substantially. But they certainly have the potential to, and colleges might have trouble buffering themselves against new demands. For example, in 2014 gainful employment regulations were put into place that threaten colleges' federal aid access if graduates' loan payments represent too high a percentage of their income (Bidwell, 2015b).

While gainful employment rules will likely affect for-profit colleges almost exclusively, the last few years have also seen the emergence of broader policy conversations about accountability, often in close conjunction with discussions of federal aid, across the whole spectrum of higher education organizations. These have included serious consideration of federal college rankings based on affordability, job outcomes, and loan repayment rates – a proposal ferociously opposed by colleges (Bidwell, 2014). Proposals to implement a unit-records database, which would track individual students through and potentially beyond college, have also received attention, though they are politically controversial (Nelson, 2013; Stratford, 2014). Should such proposals come to pass, they would open the door to much more aggressive federal management of higher education based on student outcomes. While colleges would no doubt resist such a push, their growing dependence on federal aid makes them increasingly vulnerable should policymakers decide such measures are desirable.

Facilitating the Spread of New Forms and Practices

Beyond the resource dependence literature, recent work on strategic action fields (Fligstein & McAdam, 2011, 2012) suggests further predictions about how the expansion of student loans might affect colleges and universities. Fligstein and McAdam's version of field theory points to the importance not only of dynamics within fields, but also of the relationship between them, in understanding how fields like higher education change (see also Hüther & Krücken, 2016).

More generally, institutionalists have argued that changes in fields' external environments can facilitate the spread of new logics within them by selecting for practices consistent with those logics. For example, when U.S. policymakers started trying to promote science in order to achieve economic goals, preexisting university practices that focused on the economic value of science began to spread, largely because new resources became available to support those practices (Berman, 2012b). This is also broadly consistent with organizational ecology arguments that emphasize environmental resources, particularly more evolutionary versions, which would also expect that new organizational forms might emerge and spread (Aldrich & Ruef, 2006; Hannan & Freeman, 1976).

In the present case, decisions made in the field of federal financial aid policy substantially affect the resource environment of higher education organizations. In particular, we might expect that the post-1990 alignment of the field around support for the expansion of student loans would encourage the spread of forms and practices, and associated logics, that were able to help organizations secure the newly available resources implied by greater loan volume.

Specifically, regardless of whether the expansion of student loans *caused* colleges to charge more, they certainly made it *possible* for colleges to charge more; were loans not available, many students simply would not have been able to pay for an education of equivalent cost. Thus, an expansionary loan policy in the federal aid field makes students, and the tuition they bring (including that part of tuition paid for by federal aid), an increasingly important revenue stream for the university. This should encourage the spread of forms and practices that can take advantage of that new revenue stream. In particular, forms and practices based on logics that focus on the financial value of students to higher education organizations should thrive.

Obviously, other factors besides the expansion of loans might also encourage such financial logics. For example, a reduction in state funds might make tuition more important (and thus a financial view of students more prevalent), even in the absence of more federal student aid. But the expansion of federal aid is at least one potential inducement for such a logic to spread. We would suggest that at least two major developments in the field of higher education since 1990 might have been facilitated through such a process. One is the rapid expansion of a new for-profit organizational model. The other is the spread of enrollment management practices.

There has long been a close relationship between for-profit higher education and federal student aid. Proprietary schools were included in federal

loan programs from the outset, and 40-year-old critiques of their participation ("A new breed of proprietary school has evolved – schools at which nearly every student, and thus the school itself, is dependent upon government aid") sound remarkably prescient (Kronstadt, 1973, p. 9, cited in Best & Best, 2014, p. 56).

But the proprietary schools of the 1970s and 1980s were generally trade schools, and smaller in size (U.S. Library of Congress, 1991b, p. 2). From the mid-1990s, a new kind of actor came to dominate the sector. The University of Phoenix, founded in 1976, had a different business model, focused not on career training but college degrees for working adults. It grew modestly its first decade, began offering online classes as early as 1989, and in 1994 went public. By 1999, it enrolled 100,000 students (Hanford, 2012b). Other schools – institutions like DeVry Inc. and Strayer College – emulated the same model, and soon became "glamour stocks on NASDAQ, rivaling internet companies" (Hanford, 2012a, p. 13; Winston, 1999).

The old-model proprietary schools had been criticized for their heavy use of federal aid. At the end of the 1980s they were consuming 28% of subsidized, guaranteed loans, despite enrolling a much smaller fraction of students, and about half their students were eventually defaulting (College Board, 2014b, Table 7; NCES, 2014, p. 60; U.S. Library of Congress, 1991b, p. 3).[13] This led to a government crackdown – modest restrictions on the fraction of school income that could come from student loans and default thresholds above which schools might lose eligibility for aid (Best & Best, 2014, p. 58). By 1996, the fraction of Stafford Loans going to for-profit schools was down to a mere 7% (College Board, 2014b, Table 7).

The newly expansionary environment for student loans, however, allowed the new-model for-profits to grow massively from the late 1990s. A greater focus on advertising, marketing, and recruiting; the possibilities for scale offered by the internet; and a substantial influx of capital from Wall Street all led to rapid growth. From 1995 to 2001 enrollment in for-profit institutions doubled; by 2007 it had doubled again, and by its 2010 peak, it was more than eight times 1995 levels, representing growth from 1.7% to 9.6% of all postsecondary enrollments (NCES, 2014, p. 303.10). In tandem with this, the sector had come to absorb 25% of Pell Grants and subsidized loans, as well as 28% of unsubsidized loans – percentages comparable to those of 1989, but on a base nearly five times as large in real terms (College Board, 2014b, Tables 1, 7).[14]

This highly successful new organizational form was based explicitly on a market logic; in 2009, 42% of revenues at a group of publicly traded

for-profits went to marketing and advertising or profit, compared to 17% on instruction (U.S. Senate, 2012, p. 6). Yet it was heavily reliant on federal aid for its growth; the same group of organizations received 86% of its revenue from government grants and loans (U.S. Senate, 2012, p. 25). While an expansionary federal aid environment was not the only factor enabling the sector's massive expansion, it was likely a necessary one.

Enrollment management (see also Tutterow & Evans, 2016) provides a second example of how the expansion of federal aid facilitates the growth of practices focused on the financial value of students to the organization. Enrollment management uses data to rationally analyze the behavior of prospective and current students as a means to achieve institutional goals. Like the proprietary school, enrollment management predates the post-1992 expansion in federal student loans. It originated among private universities in the 1970s, at a time when baby boom enrollment growth was ending and admissions officers were looking nervously to the future (Coomes, 2000).

But enrollment management remained small in scale until the 1990s, when "[u]niversities, beset by their own fiscal problems and by intense competition for highly qualified, fee-paying students … ceased to think of their financial aid efforts principally as a noble charitable operation and … instead [came] to focus on the financial aid operation as a key strategic weapon in both recruiting students and in maximizing institutional revenues" (McPherson & Schapiro, 1998, p. 1). By the end of the decade, three-quarters of colleges in one large survey had established an enrollment management unit (Ort, 2000). While in the 1990s enrollment management was seen mostly within private institutions, it has since expanded to public colleges and universities as well (Hossler & Kalsbeek, 2013).

Enrollment management is simply a rationalized set of techniques that can in theory be used to achieve a variety of goals, whether those are financial, educational, equity-focused, or status-improving. They do, however, necessarily see students as collections of certain qualities (SAT scores, demographic traits, likelihood of attendance and completion, etc.) tied to a particular quantity of revenue (full-price or discounted rates, in-state or out-of-state tuition, etc.). While enrollment management is not solely focused on revenue maximization, it nevertheless relies on a financial logic. The calculated expansion of out-of-state and international enrollments at public institutions (see, e.g., Breslauer, 2016), for example, reflects enrollment management practices. By expanding such enrollments, the university seeks to balance political pressures and status maintenance with revenue raising, but is fundamentally (and arguably necessarily) focused on the bottom line.

As is the case for for-profit colleges, multiple factors have encouraged the spread of enrollment management practices. But we would expect that an expansionary federal aid environment would encourage their growth and spread. If revenues are only indirectly tied to what students are willing to pay, as was historically the case for public institutions funded primarily through state appropriations, there is less to be gained from careful calculation of how much financial aid will attract a particular type of student. But as the expansion of federal aid increases the amount of money an additional student can bring, such practices gain remunerative potential. Thus, a policy shift originally intended to improve access (as well as to bring profits to financial institutions) might have the unintended effect of expanding the "culture-bearing," "value-subverting" innovation of enrollment management (Kraatz, Ventresca, & Deng, 2010, pp. 1521, 1527) more broadly throughout higher education.

CONCLUSION

This paper has provided partial and provisional answers to the question of why student loans have expanded so much in the United States over the last 25 years, and what effects we might expect such expansion to have on higher education organizations. Multiple factors have contributed to the rise of student loans, and in particular demand-side factors like the rise of tuition costs and the temporary appeal of student loan asset-backed securities are likely to play an important role. We focus, however, on the development of the field of federal aid policy that has made student loans possible in the first place. A strategic action field emerged around student aid policy in the 1960s and 1970s that focused on the problem of how to get banks to lend to students. It solved this problem so successfully, in part by creating the government-sponsored enterprise of Sallie Mae, that by 1990 all major interest groups in the field favored the expansion of student loans, a situation that persisted until 2010. With political interests so well aligned, a series of policy decisions were made that allowed the annual volume of federal student loans to quintuple over that 20-year period.

While scholars have paid increasing attention to the effects of this expansion on students, less notice has been given to its potential effects on higher education organizations. But organization theory points to several expected results of this growth in federal grants and loans. First, as colleges increase their relative dependence on federal aid, they should become more

responsive to student preferences, which might have both positive and negative effects from an educational perspective. At the same time, colleges will also be more susceptible to federal demands, although they will likely try to insulate themselves from these to the extent possible. Second, as expanded federal aid (whether in the form of grants or loans) means that each student can potentially bring more dollars to a college, organizational forms and practices that follow a financial logic – that see students at least in part as revenue streams – should flourish. The spread of for-profit colleges and enrollment management practices that has taken place over the last two decades are both consistent with such a prediction.

More generally, we suggest that the issues raised here point to a broad research agenda around student loans that might be opened up in organizational and economic sociology. Certainly there is much work to be done on student loan debt from an access and stratification perspective. But other sets of questions about this major development are also begging for answers: from its relationship to a broader culture of finance that was simultaneously emerging in the United States (Fligstein & Goldstein, 2015; Goldstein, 2013), to the role of securitization in driving the growth of student loans, to more explicitly organizational questions about how higher education organizations respond to evolving resource dependencies associated with an increase in federal student aid.

The 2010 reconfiguration of the field of federal aid policy points to yet another set of questions. The Department of Education has replaced banks as a lender to students, and in the process has gained a more direct financial stake in the terms of those loans and whether they are repaid. At the same time, while financial institutions are no longer in the business of making government-guaranteed loans, a number of them have turned to the business of servicing government-made loans through contracts with the Education Department, with relatively unexplored consequences. In the context of global shift toward individually financed higher education, such questions are likely to remain important and interesting for the foreseeable future.

NOTES

1. Sallie Mae both bought student loans from banks and loaned money to them that they in turn would provide to students.

2. The "Bennett hypothesis" suggests that colleges raise costs in response to the availability of federal aid – that is, they are an effect, rather than cause, of student

loan availability. While tests of the Bennett hypothesis have shown mixed results (Cellini & Goldin, 2012; Epple, Romano, Sarpça, & Sieg, 2014; Turner, 2010, 2014), they generally suggest that even if colleges are capturing a portion of increased aid, they are not capturing all of it. It is very unlikely that the availability of financial aid alone explains tuition increases in recent decades.

3. Partial exceptions are the modest literature in economics that looks at how financial aid policy affects college tuitions, some of which is cited above; the relatively atheoretical literature on comparative higher education finance (e.g., Heller & Callender, 2013; Johnstone & Marcucci, 2010); and some work on the politics of higher education policy (e.g., Best & Best, 2014; Mettler, 2011, 2014).

4. Public Law 85-864 §204.

5. The Basic Educational Opportunity Grant, later renamed the Pell Grant, was also created in 1972, and returning Vietnam veterans were eligible for grants through the G.I. Bill. Federal grant aid more than doubled in real terms between 1972 and 1976, at which point federal grant dollars outnumbered federal loan dollars four to one, a historical high point (College Board, 2014b, Table 1).

6. A contemporaneous Treasury report suggests that Sallie Mae held 31% of outstanding guaranteed loans in 1990 (U.S. Department of Treasury, 1991, p. 47), but the reason for the discrepancy is not clear to us.

7. Inflation adjustments throughout the paper are made using U.S. Department of Labor figures at http://data.bls.gov/cgi-bin/cpicalc.pl

8. When the full direct loan program was introduced, it would include both subsidized and unsubsidized Stafford loans (College Board, 2014b, Table 1).

9. As of 2012, net tuition exceeded state and local revenues for research and master's granting public institutions, the two revenue streams were roughly equal for public bachelor's institutions, and state and local revenues still substantially exceeded net tuition at two-year public colleges. See the Delta Cost Project's Trends in College Spending (http://tcs-online.org/Home.aspx) for the latest figures.

10. For example, the College Board excludes Pell Grants from its calculation of net prices; the Delta Cost Project includes Pell Grants, though it makes both sets of numbers available.

11. Though the first half of this paper focuses on the expansion of student loans in particular, the volume of Pell Grants also tripled during the 2000s after remaining flat in the 1990s; about 30% of federal financial aid now comes in the form of grants (College Board, 2014b, Table 1). For purposes of discussing resource dependence, it makes sense to include these along with federal loans.

12. Though the industry category here is simply "education," the top 25 spenders in the category all represent higher education interests.

13. According to the National Center for Education Statistics, only 1.7% of students were enrolled in for-profit institutions in 1990. This figure seems unlikely, however, given the fraction of loans those institutions absorbed. In their study of the San Francisco Bay Area, Scott and Biag (2016) find that the Integrated Postsecondary Educational Data System (IPEDS, the source of these numbers) "omits about 75% of the four-year for-profits, 60% of the two-year programs, and about 90% of the less than two-year programs." The Congressional Research Service suggested in 1991 that 1.5–2 million students were enrolled in

the proprietary sector, which would imply a more believable 10–15% of all postsecondary students (U.S. Library of Congress, 1991b, p. 2).

14. Again, given the limitations of enrollment figures pointed out in the previous footnote, this may reflect enrollment growth in large for-profit colleges, and fail to count enrollments in small proprietary trade schools. This would not change the underlying point, however. Figures on the proportion of federal aid going to for-profits are likely to be more accurate than enrollment figures.

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