

## **29. Higher Education**

### ***Congress should***

- phase out federal student aid *except* aid directly related to national security (such as ROTC scholarships),
- phase out federal aid to institutions,
- eliminate all grant programs and research not related to national security, and
- end pork by requiring all federal grants to universities to be competitively bid.

In his book *Universities in the Marketplace*, former Harvard University president Derek Bok writes something federal policymakers should never forget: “Universities share one characteristic with compulsive gamblers and exiled royalty: there is never enough money to satisfy their desires.” When combined with another central guide for policymakers, the Constitution’s Tenth Amendment, which states that “the powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people,” the message is clear: the federal government must get out of higher education.

The 109th Congress has an excellent opportunity to begin doing just that. The Higher Education Act, the primary federal law governing colleges and universities, is due to be reauthorized this year, a carryover from the 108th Congress. Legislators can make changes to the act that will initiate the federal withdrawal, ultimately deflating higher education’s perpetually ballooning price and freeing taxpayers—almost half of whom have never taken a single college class, and nearly three-quarters of whom do not have a bachelor’s degree—from subsidizing higher education.

### ***Where Are We Now?***

Over the last nearly 40 years, the federal government has provided an increasingly massive amount of higher education funding. According to

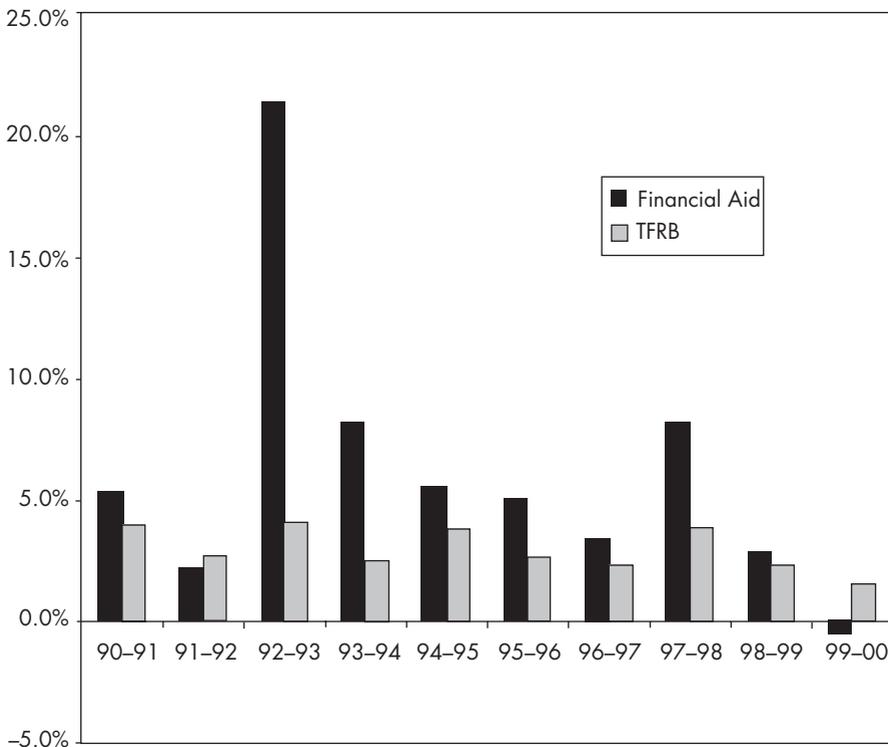
the National Center for Education Statistics (NCES), between 1965 and 2002 federal spending on postsecondary education rose from \$5.6 billion, adjusted for inflation, to an estimated \$22.8 billion. In addition, federal expenditures on university-based research exploded, from \$8.4 billion to an estimated \$25.7 billion. And the federal presence is likely to keep growing: the Department of Education's *Fiscal Year 2005 Budget Summary* shows that the president has requested more than \$22.2 billion for student aid in 2005, as well as more than \$2.3 billion for efforts like aid to minority-serving institutions, programs to encourage disadvantaged students to pursue higher education, and efforts to improve teacher preparation. If enacted, that would bring the department's 2005 higher education spending to more than \$24.5 billion.

### ***The Adverse Effects of Federal Student Aid***

According to *The College Cost Crisis*, a report from the U.S. House Subcommittee on 21st-Century Competitiveness, "America's higher education system is in crisis. Decades of uncontrolled cost increases are pushing the dream of a college degree further out of reach for needy students." Surprisingly, the evidence suggests that student aid itself is actually a major force behind the explosion.

In part, it is simple supply and demand. Over the years, increasing numbers of people have desired to go to college, pushing its price higher. Ordinarily, the upward pressure on price would have been restrained by consumers' willingness and ability to pay; people have limited funds and will pay only so much before deeming a good either unaffordable or unworthy of its price. But in *Going Broke by Degree: Why College Costs Too Much*, Ohio University economist Richard Vedder explains that because third parties like the federal government absorb tuition increases, the budget constraints that come when individuals pay their own way have been eliminated: "The shift to the right of the demand curve for students—and the resulting higher tuition—has been aided and abetted by a large and proliferating number of government assistance programs—some grants, some guaranteed student loans, some work-study programs." Figure 29.1 bears this trend out, showing that between 1990 and 2000 (the most recent year for which data are available) as college prices rose, federal aid did too. Indeed, except between 1991 and 1992 and 1999 and 2000, federal student aid actually grew faster than tuition, fees, and room and board (TFRB). To put this in perspective, in 1990

**Figure 29.1**  
**Growth in Average Inflation-Adjusted Federal Aid per Full-Time-Equivalent Student and Growth in Inflation-Adjusted Average Tuition, Fees, Room and Board per Full-Time-Equivalent Student, 1990–2000**



SOURCES: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2002*, Tables 200 and 312; and College Board, *Trends in Student Aid 2003*, Table 2 and Appendix B. “Financial Aid” is the average amount of federal aid per full-time-equivalent student, determined by dividing *Trends in Student Aid* “total federal aid” data by *Digest*, Table 200, enrollment figures. TFRB is from *Digest*, Table 312. Note that average aid per student includes graduate students, while average TFRB is only for undergraduates. Separate per student federal aid totals for undergraduates were not available.

federal student aid covered about 34 percent of the average student’s TFRB, but it covered 46 percent in 2000.

Explaining the supply side is the so-called Bennett Hypothesis, put forth in 1987 by then–secretary of education William Bennett, who argued that “increases in financial aid in recent years have enabled colleges and universities blithely to raise tuitions, confident that Federal loan subsidies would help cushion the increase.” In other words, colleges will charge

every penny they think the market will bear, and, as Figure 29.1 shows, student aid has ensured that it will bear a lot.

Of course, no schools have actually confessed to setting tuition at levels designed to capture student aid, so the Bennett Hypothesis is controversial. But several college presidents and administrators *have* admitted that universities grab every dime they can get their hands on, student aid included. As noted earlier, Bok likened universities' greed to that of deposed dictators and compulsive gamblers. Similarly, in *Honoring the Trust: Quality and Cost Containment in Higher Education*, former Stanford University vice president for business and finance William Massy writes that "universities press their pricing to the limits that markets, regulators, and public opinion will allow" and cites former Princeton University president Howard Bowen's declaration that "universities will raise all the money they can and spend all the money they raise." Finally, in testimony before the House Subcommittee on 21st-Century Competitiveness, Murray State University president F. King Alexander acknowledged that colleges and universities do indeed raise tuition to absorb student aid: "Murray State University has not . . . opted to dramatically shift the educational costs away from the state and to the federal government indirectly through the student by inflating tuition *like many higher cost states and institutions have done*" (italics added).

### ***The Trouble with Institutional Aid and Research Grants***

While the federal government provides nearly 70 percent of all student aid, states provide most aid to institutions. But that doesn't make federal institutional aid irrelevant.

Generally, federal aid is sent to special classes of schools. For example, Education's *2005 Budget Summary* reports that in 2004 the department sent nearly \$223 million to Historically Black Colleges and Universities (HBCUs), almost \$11 million to Alaska Native and Native-Hawaiian-serving Institutions, and \$94 million to Hispanic-serving Institutions. In addition, two schools received separate federal support: Howard University, a historically black school in Washington, D.C., got nearly \$239 million in 2004, and Gallaudet University, a school for deaf students, also in Washington, received more than \$100 million. All told, the federal government doled out more than \$833 million in institutional aid in 2004.

That aid is limited but still presents problems, the most fundamental being that it takes money from taxpayers and gives it to schools favored by politicians. Moreover, it gives receiving schools unfair advantages over

competing institutions. For instance, in 2004 Howard University received almost \$239 million in federal support, while 104 other HBCUs had to share \$223 million and most other schools got nothing.

A much larger problem is federal research funding, which NCES estimates totaled nearly \$25.7 billion in 2002, and which the Association of American Universities said accounted for nearly 60 percent of all university research.

Why the big federal investment in research? The argument is that few private organizations will undertake basic research that promises little or no immediate profit, leaving the federal government to finance it. As Bok says, “The most important inquiries in science often involve questions no company will support because the answers take the form of general laws of nature that hold no special rewards for the enterprise that funds the research.”

Vedder finds, however, that much university research is neither necessary nor likely to be undertaken only by the federal government. He points out that researchers often seek grants after their research is nearly complete, frequently use grants to refine already completed research, and undertake projects that industry is willing to do.

In addition, universities’ growing emphasis on research has come at the expense of their central mission: teaching. “For many institutions, the balance between research and education has tilted too far toward research,” declares Massy. “Faculty time represents the university’s most important asset . . . [but] there are only so many hours in a day, and even the most highly motivated professors have finite amounts of energy. Therefore, increases in research activity will, sooner or later, come at the expense of time devoted to educational tasks.”

Vedder seconds Massy, identifying a decades-long trend away from teaching and toward research. “Faculty members,” he writes, “do what they like best and/or what is most likely to advance their careers . . . faculty have demanded and received lighter teaching loads to allow them to do more research.”

## **Pork**

One final source of federal money is described by the *Chronicle of Higher Education* as “directed, noncompetitive appropriations,” that is, pork. As the *Chronicle* reported in its September 26, 2003, article, “Academic Pork Barrel Tops \$2-Billion for the First Time,” pork projects, typically pushed by members of Congress after they’ve been lobbied for

by receiving institutions, are costing taxpayers more money every year: from \$296 million in 1996, to more than \$2 billion by 2003. And what has the barrel produced? According to *Lobbying for Higher Education* by Vanderbilt University professor Constance Ewing Cook, such gems as \$8 million to build a planetarium for Delta College in Michigan, a two-year community college that offers no major in the sciences, and a \$21 million grant to Wheeling Jesuit College, a bounty almost twice the size of the college's annual budget, earmarked by Sen. Robert Byrd (D-WV).

### ***Remove the Federal Government from Higher Education***

James Madison wrote in *Federalist* no. 45 that “the powers delegated by the proposed Constitution to the federal government are few and defined . . . [they] will be exercised principally on external objects, as war, peace, negotiation, and foreign commerce.” Since the Constitution grants the federal government no role in higher education, it may be involved only in ways that support legitimate federal concerns such as national defense, allowing continued involvement in such things as the Senior Reserve Officer Training Corps (ROTC), the service academies, and national defense-related research. It must withdraw from all other higher education activities.

It cannot, however, withdraw immediately. Given how deeply entangled the federal government is in higher education, to do so would send disastrous shocks to students and schools. Abruptly ending student aid in just a year or two, for instance, would leave millions of students scrambling for funds to make up for lost Pell grants and loans and would overwhelm private lenders, schools, and charitable organizations that have conducted planning based on expected levels of federal involvement. A gradual withdrawal must occur to allow students, schools, and private lenders to adjust to a changing higher education landscape. What follows is an overview of a six-year withdrawal plan that does that and at the same time sets a clear path for dissociating the federal government from higher education.

**Immediately:** Pork-barrel spending must be prohibited; only federal grants that are competitively bid can be sent to colleges. No new research projects unrelated to national security may be awarded to universities, but projects currently under way may continue to completion. Finally, the consolidated loan program, which allows individuals who have already completed college to consolidate multiple loans into a single loan, often at a rate lower than they otherwise would have paid, must be eliminated.

**Four Years:** Federal aid to institutions ends. Institutions currently receiving aid will need to either economize or find new sources of revenue. The four-year timeframe offers an adequate transition period, because federal aid accounts for only a tiny part of most institutions' overall budgets.

**Six Years:** All federal student aid programs—grants, loans, and tax benefits—should be eliminated. Each year between enactment of the revised HEA and the end of the six-year period, the maximum Pell grant value, incorporating cost-of-living adjustments pegged to inflation, should be reduced in equal increments. Similarly, maximum loan sizes and government subsidy rates must be reduced for all federal loan programs in equal six-year increments. Information about all new rates and ceilings must be made readily available to the public.

### **Top Five Signs There's Too Much Money in Higher Education**

1. According to the *New York Times*, Washington State University boasts that its Jacuzzi, which can seat 53 people at one time, is the largest on the west coast.
2. Also according to the *Times*, the University of Southern Mississippi is planning a water park with water slides, a meandering river, and something called a "wet deck" that helps keep sunbathers cool.
3. The ACT reports that at four-year public colleges only 41.2 percent of students graduate within *five* years of entering school.
4. According to the National Association of Student Financial Aid Administrators, married taxpayers making up to \$130,000 per year—ten times the poverty level for a family of two—are eligible to take tax deductions for enrolling in one or more college courses.
5. A recent Harris Poll found that 90 percent of college students own a computer, 62 percent a stereo, 84 percent a television, 74 percent a DVD player, and 55 percent a video game system. Meanwhile, the College Board reports that nearly 60 percent receive some form of financial aid, and NCES reports that almost 80 percent go to heavily subsidized public colleges and universities.

### **Conclusion**

The federal presence in higher education is both unconstitutional and harmful. Federal student aid drives up the cost of tuition, ultimately destroy-

ing most of the aid's real value while costing taxpayers ever more. Federal institutional aid, university-based federal research projects, and higher education pork also cost taxpayers billions of dollars every year. There is only one acceptable solution to these problems: the federal government must remove itself from higher education.

***Suggested Readings***

- College Board. *Trends in Student Aid 2003* and *Trends in College Pricing 2003*. www.collegeboard.com.
- Congressional Budget Office. "Private and Public Contributions to Financing College Education." January 2004.
- Massy, William F. *Honoring the Trust: Quality and Cost Containment in Higher Education*. Bolton, MA: Anker, 2003.
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- Winter, Greg. "Jacuzzi U: A Battle of Perks to Lure Students." *New York Times*, October 5, 2003.
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