Backgrounder

Published by The Heritage Foundation

No. 2164
July 22, 2008

The Higher-Education Bill: The Unnoticed Budget Buster

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Congress's current reauthorization of federal higher-education programs provides a case study in persistently expanding government. Over the past few years, lawmakers fought a furious battle to shave $8 billion a year off the growth of entitlements, President George W. Bush and Congress spent all of 2007 arguing over a $22 billion difference in discretionary spending targets, and lawmakers (armed with mountains of studies) formed numerous working groups trying to eliminate even five to 10 outdated federal programs.

Then, virtually unnoticed, the House of Representatives voted 354 to 58 on February 7 to add $169 billion in new higher-education spending and create at least 50 new federal programs. In other words, one step forward, 10 steps back.

The College Opportunity and Affordability Act of 2008 (COAA, H.R. 4137) is the latest budget-busting bill from a Democratic Congress that has found few parts of government undeserving of massive new deficit spending. What makes this bill unique is the overwhelming House Republican complicity in making this bill—among the largest authorized discretionary spending hikes in American history—bipartisan, noncontroversial, and generally unnoticed. Nor has the Senate, which takes up the bill next, expressed much concern over COAA's price tag and new programs.

Although federal outlays for higher education have nearly tripled since 2001, COAA would authorize extensive new spending, dozens of new programs, and more Washington control of the daily operation of America's colleges and universities. It would

Talking Points

- The College Opportunity and Affordability Act of 2008 would authorize a $169 billion increase in discretionary education spending over the next five years. This would make it one of the largest authorized discretionary spending increases in U.S. history.
- The bill would also create at least 50 new federal programs and would lead to increasing micromanagement of colleges, universities, and higher-education budgets of the states.
- Increases in student financial aid have not made college significantly more affordable, because they make it easier for colleges and universities to raise tuition prices.
- Replacing more federal grants with loans would allow Washington to distribute aid more widely while also concentrating the costs on the students—who will benefit from higher lifetime incomes—rather than on the taxpayers at large.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Education/bg2164.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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expand grants even though student loans can increase college access with less taxpayer burden. And it would boost federal student aid without addressing the link between increased student aid and tuition hikes.

Lawmakers should take this massive government expansion off the fast track and address the bill's costs and underlying policies.

A Pattern of Runaway Spending

> *If you want to have a new program, figure out a way to pay for it without raising taxes.*
>
> —Senate Majority Leader Harry Reid (D–NV), November 12, 2006[1]

This budget-busting bill is just one more example of the Democratic Congress brazenly breaking its pledge to keep spending and the budget deficit in check.

- Congress passed two budget resolutions, each one hiking discretionary spending by 9 percent annually.
- It added $20 billion in domestic spending—without any offsets—to 2007 legislation intended to fund American troops serving in Iraq and Afghanistan.
- Most irresponsible of all, it enacted pay-as-you-go (PAYGO) rules mandating that all entitlement spending and tax changes be fully offset—and then approved $250 billion in non-offset spending for farm subsidies, tax rebates, veterans' benefits, the State Children's Health Insurance Program (SCHIP), unemployment benefits, and student loans.[2]

Such votes have reduced the leadership's PAYGO and fiscal responsibility pledges to nothing more than empty rhetoric, guidelines to be casually discarded whenever they are inconvenient to their spending agenda.

More Programs and Pork

COAA would authorize a $169 billion increase in higher-education spending over the next five years—an average of nearly $34 billion a year.[3] As much as $115 billion of this new spending would be used to raise the maximum Pell Grant from $4,241 to $9,000 and to allow students to receive multiple Pell Grants per year.

The bill extends the Federal Family Education Loan (FFEL) program's loan forgiveness policies to professions such as nurses, foreign-language specialists, librarians, school counselors, nutritional professionals, and government workers at a cost of $11 billion over five years. It also increases direct aid to universities that serve low-income and minority students by $5 billion. Additionally, COAA raises the annual borrowing cap for Perkins Loans and expands its loan-forgiveness program to professions such as librarians, school pathologists, and firefighters.

The bill expands the list of activities that can be supported by the Fund for the Improvement of Postsecondary Education (FIPSE). FIPSE is a notorious piggy bank for congressional pork. In fiscal Year (FY) 2008, nearly all of the 335 higher-education earmarks—costing taxpayers $103 million—came out of FIPSE. Rather than eliminate this pork or even shift it to competitive, merit-based funding, Congress is expanding the list of purposes for which the program may be earmarked.[4]

COAA would condition some federal funding for states on the requirement that the states not reduce higher-education spending below the rolling five-year average level. This heavy-handed Washington

1. Senator Harry Reid (D–NV) on *Face the Nation*, CBS News transcript, November 12, 2006, at *http://www.cbsnews.com/htdocs/pdf/face_111206.pdf* (July 18, 2008).
2. Many of these spending hikes are listed in Brian M. Riedl, "The Democratic Congress's 2008 Budget: A Tax and Spending Spree," Heritage Foundation *Backgrounder* No. 2081, October 30, 2007, at *http://www.heritage.org/Research/Budget/bg2081.cfm*.
3. Congressional Budget Office, "H.R. 4137: College Opportunity and Affordability Act of 2008," *Cost Estimate*, May 12, 2008, at *http://www.cbo.gov/ftpdocs/92xx/doc9223/hr4137passed.pdf* (July 18, 2008).
4. Office of Management and Budget, "List of Accounts for the Department of Education, Office of Postsecondary Education," FY 2008, at *http://earmarks.omb.gov/2008-appropriations-by-agency/agency_title/bureau_title/[018].[40]_summary.html* (July 19, 2008).

meddling in state budgeting policy is not only a blow to local control, but also could actually *prevent* the state higher-education spending hikes that it is encouraging. States might well be reluctant to grant large temporary spending increases that would become part of the rolling average and therefore tie their hands for the following five years.

Finally, H.R. 4137 would create at least 50 new education programs, according to the House Republican Study Committee.[5] Apparently, Congress is not satisfied with providing students with Pell Grants, SMART Grants, TEACH Grants, Academic Competitiveness Grants, multiple student loan programs, university-based grants, additional minority outreach grants, college preparatory assistance for at-risk youth, and hundreds of earmarks. Now Congress would create separate federal programs for rural universities, student writers, campus environmental practices, business–university partnerships, science learning assessment, online universities, digital theft prevention, and dozens of other narrow subject areas that universities should control. These programs would ensure that Washington bureaucrats—rather than university leaders—seize increasing control of the daily operation of America's colleges and universities.

Problems With the Bill

Another Expensive Expansion. Federal spending on higher education has already risen automatically due to the high number of college graduates consolidating their student loans.[6] Yet rather than make trade-offs to absorb those costs, Congress expanded college student financial aid in each of the past two years. The 2006 Deficit Reduction Act and the 2007 College Cost Reduction and Access Act:[7]

- Created SMART Grants of $4,000 annually for certain math, science, and foreign language majors;
- Created TEACH Grants of $4,000 annually for students who agree to teach certain subjects after graduation;
- Created a mandatory add-on to Pell Grants, which, combined with TEACH grants, will cost $31 billion over 10 years;
- Created Academic Competitiveness Grants of up to $1,300 annually for high-achieving students;
- Increased the maximum amount students may borrow annually; and
- Fixed most federal student loan interest rates at 6.8 percent, with a scheduled reduction to 3.4 percent by 2012.

These expansions were partially offset by reducing federal payments and raising fees for the banks that provide the loans and by raising some interest rates for parent loans.

Overall, since 2001, inflation-adjusted higher-education spending has nearly tripled from $9.4 billion to $27.6 billion.[8] Adding $34 billion a year would represent an immediate 123 percent increase and a staggering 555 percent increase over the 2001 level.

Some supporters of the bill point out that it merely authorizes Congress to add $34 billion annually and that lawmakers are not required to appropriate these higher spending levels. The massive hike in authorizing levels, however, signals that

5. Republican Study Committee, "H.R. 4137—College Opportunity and Affordability Act of 2007," *Policy Brief*, February 7, 2008, at *http://www.house.gov/hensarling/rsc/doc/lb_020708_highered.doc*.(July 21, 2008).
6. Consolidation loans allow students who borrowed at variable interest rates as low as 3.5 percent to lock in those low rates permanently by converting to long-term fixed loans. This could become enormously expensive for the federal government. Washington promises a certain rate of return to banks that make guaranteed student loans, and if market interest rates rise above these very low fixed rates, the federal government pays banks the difference to protect their profits. See Kevin Hassett, "Tales Out of School: The Financial Disaster Everyone Missed," Tech Central Station, March 10, 2004, at *http://www.tcsdaily.com/article.aspx?id=031004J* (July 18, 2008).
7. P.L. 109–171 and P.L. 110–84.
8. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2009: Analytical Perspectives*, Supplemental Materials, Table 28–1, pp. 44–45, at *http://www.whitehouse.gov/omb/budget/fy2009/pdf/ap_cd_rom/28_1.pdf* (July 21, 2008), and prior years. Figures were adjusted for inflation.

Congress is laying the groundwork for large appropriations increases in much the same way that the higher spending levels in No Child Left Behind laid the groundwork for a heavy increase in federal K–12 education appropriations.

These higher authorization levels would create a political expectation of higher appropriations. Although No Child Left Behind was followed by a historic increase in discretionary appropriations, proponents of higher spending have repeatedly called for Congress to "fully fund" the entire authorized amount. Congress may or may not fund the entire $34 billion annual hike in this authorization bill, but calls for full funding would likely move Congress closer to that level each year. It is also unlikely that Congress would authorize the creation of at least 50 new programs and then leave them dormant and unfunded.

Given America's other budget priorities—the 77 million baby boomers scheduled to begin collecting Social Security, Medicare, and Medicaid over the next two decades (which by itself would require a near-doubling of income taxes); America's defense requirements in the Middle East; homeland security obligations; and other large budget increases for health research, farm subsidies, K–12 education, veterans, and highways—increasing federal spending on student financial aid by 555 percent over the 2001 level is excessive, unaffordable, and a sign that Congress refuses to make any realistic trade-offs among priorities.[9]

Does Student Aid Raise Tuition? Washington has poured nearly $1 trillion into student financial aid over the past 40 years, yet college has not become significantly more affordable. Applying basic economic theory, providing students with more purchasing power would allow universities to raise tuition and capture that additional aid, leaving the students no better off. If this is the case, then federal student aid not only fails to alleviate tuition hikes, but actually *accelerates* them.

Over the past 30 years, the average cost of tuition, fees, room, and board has grown 124 percent faster than inflation at private four-year colleges and 96 percent faster than inflation at public four-year colleges.[10] There is no way colleges could have raised prices this fast had federal financial aid not expanded at a similar rate.[11] They would have priced too many of their customers out of their product.

On a yearly basis, evidence suggests that universities base tuition levels more on state aid (for public schools), endowment trends, and operating costs than on federal student aid policies. But over the long term, the assumption of increasing aid has allowed universities to pass new costs onto students without fear of pricing too many students out of school. Just as in health care, these third-party payments, by isolating universities from market pressures that would mandate efficiency, instead allow steep price increases.

Section 801 of COAA offers universities grants for holding the line on tuition hikes, although the grants will likely be too small to factor significantly into university tuition policies. Furthermore, whatever profit incentive this proposal would otherwise provide to universities is negated by the requirement that universities pass the additional federal aid on to students rather than retain it within their own budgets. This proposal is not likely to alter tuition trends.

Subsidizing the Next Upper Class. Higher education subsidies expose a contradiction in American political values. Americans strongly support helping students attend college as a means to achieving upward mobility and economic growth. At the same time, Americans are generally uncomfortable with redistributing wealth upwards, and higher-edu-

9. For more on the coming entitlement spending tsunami, see Brian M. Riedl, "A Guide to Fixing Social Security, Medicare, and Medicaid," Heritage Foundation *Backgrounder* No. 2114, March 11, 2008, at *http://www.heritage.org/Research/Budget/bg2114.cfm*.

10. College Board, "Trends in College Pricing: 2007," Table 4a, p. 11, at *http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf* (July 18, 2008).

11. College Board, "Trends in Student Aid: Data on Financial Assistance for Postsecondary Education for 2007," at *http://professionals.collegeboard.com/data-reports-research/trends/student-aid-2006* (July 18, 2008).

cation subsidies effectively tax the public at large—70 percent of whom do not have college degrees—in order to subsidize the 30 percent who will graduate from college and top the income ladder.

While society as a whole benefits from the additional economic growth provided by an educated workforce, the vast majority of benefits are enjoyed by the college graduates themselves, who each can expect to earn lifetime incomes an average of $1 million higher than those of non-graduates. Thus, a proper goal should be encouraging Americans to attend college while at the same time concentrating those costs on the college graduates themselves, who both receive the bulk of the benefits and have the most ability to pay these costs.

A Fairer Way to Ensure College Access

How can society reconcile the two goals of ensuring college access without overly subsidizing the future rich? It can do so by shifting from grants to more universal student loans.

Because student loans cost taxpayers much less than grants do, lawmakers could distribute larger amounts to more students with loans than they can with grants alone. Thus, student loans can ensure nearly universal college access while focusing the cost burden on those who will benefit the most from a college education. Because society at large receives some of the benefits, some continued taxpayer subsidization of the loan interest costs while the students are in college may be justifiable, although post-graduation interest rates should be set at levels that minimize taxpayer expense.[12]

Shifting the emphasis from grants to loans would be a much fairer and more fiscally responsible way to help Americans attend college. Additionally, switching from grants to loans (at market-level interest rates) might make students more price-sensitive when selecting a college, thereby putting some downward pressure on tuition increases. This would provide a first step toward addressing the link between student aid and tuition hikes.

Conclusion

COAA represents one of the largest authorized discretionary spending hikes in American history. While lawmakers would not be required to fully fund this $34 billion annual hike, this bill is clearly intended to lay the groundwork for—and create the political expectation that there will be—a staggering increase in federal higher-education spending. By shifting more money and power to Washington, the bill would leave taxpayers on the hook for higher taxes, and colleges and universities would find themselves increasingly micromanaged by Washington.

Rather than rubber-stamping this legislation, the Senate should strongly question its cost, its creation of 50 new programs, and its attempt to tell states how much to spend on higher education. Above all, lawmakers must accept the budgetary reality that taxpayers cannot afford these persistent, large budget increases across the federal government.

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12. Typically, lower student interest rates leave the taxpayers to fund more of the government-guaranteed rate of return for the participating banks issuing the loans.