NEED TO KNOW

AMERICANS FOR PROSPERITY FOUNDATION

FEDERAL AID FOR HIGHER EDUCATION

Since the Morrill Act of 1862, federal support for higher education has gradually expanded across a wide array of programs designed to ease the cost of school. These efforts have ranged from the funding of teacher salaries to providing direct aid to students, such as returning WWII veterans, free of charge. Currently, the federal government doles out $30 billion in aid in an effort to expand access for college.

Contemporary aid programs are delivered through many different ways. Federal Pell Grants provide direct tuition assistance for students, the Federal Family Education Loans are government guaranteed loans administered by private lenders, and Federal Supplemental Educational Opportunity Grants provides the funds directly to schools who then administer aid to students. Federal agencies in the 2014-2015 school year spent 30.2 billion on grants, had 36.5 billion in tax benefits, and gave out 99.7 billion in new loans for students. 1 Tax breaks are also given to students in post-secondary programs. In 1995 there were 7 special income tax benefits for K-12 and higher education, today that number has bulged to 16. State governments also provide help through property tax breaks and scholarship programs however; with increased federal support for higher education state governments have decreased direct appropriations to institutions.

QUICK FACTS

- In Fall 2015, there were 20.2 million undergrads enrolled, which is an increase 4.9 million since 2000 (5).
- Total state appropriations declined by 19%, from $88.7 billion in 2007-08 (in 2012 dollars) to $72.0 billion in 2012-13, while FTE enrollment in public institutions increased by 11% over these five years.

NOTABLE & QUOTABLE

"In 1973, a bachelor's degree was more of a rarity, since just 47% of high school graduates went on to college. By October 2008, that number had risen to nearly 70%. For many Americans today, a trip through college is considered as much of a birthright as a driver's license."

\- **Kristi Oloffson**, Time (Dec 2009)

CONSEQUENCES OF GOVERNMENT-DRIVEN DEMAND

Federal subsidies for higher education distort the market by making college more expensive for students and taxpayers. The supply and demand of post-secondary education functions best when colleges and universities are free to produce a quality education appropriately tailored to suit the market demand. Well-intentioned government programs subsidize education in an attempt to make post-secondary schools more affordable for a larger portion of the population. Federal subsidies however, shift the demand curve as more adolescents feel it necessary to pursue higher education naturally causing an increase in prices.

Rhetorically, politicians clamor for the federal government to provide a low-cost college education to an ever expanding amount of the population. With a greater proportion of the population attending these institutions, costs increase. Taxpayers continue to pay more to fund federal aid and average students pay more just to attend school. Therefore, the government's attempt to provide education for lower income students actually marginalizes the students resorting to non-governmental loans to pay for school. Those students having to rely on loans are gradually taking on a very large amount of debt at an early age. Currently almost 20% of American households have outstanding student loan debts, yet the federal government continues to inflate costs subsidizing higher education.

The inflated costs are evidenced by congressional action that has suppressed student loan interest rates since 2007 from 6.8% to 3.4%. The action shows that costs for schools are increasing at a rate too burdensome for the amount of debt being acquired by students. However, the federal government continues to increase direct aid. In 2015 Pell Grants cost tax payers $35 billion, up from $15 billion in 20082, and student loan interest rate rose from 3.4% to 4.29% (3).

GOVERNMENT SUBSIDIES INFLATE COSTS

For over the past decade rising college expenses have increased in step with the expansion of federal higher education programs. From 2000 to 2008 federal aid soared from $10 billion to $30 billion. Simultaneously, the average real costs per student for higher education rose from $18,122 in 1986 to $30,497 in 2006, a 68% increase. As the cost for higher education rapidly outpaces the growth of inflation, the widening gap makes it increasingly difficult for government to cushion student wallets.

While government battles the rising costs associates with the growing demand for higher education, the burden to pay for spending continues to shift to taxpayers and student loans. To compensate for larger incoming classes federal aid has correspondingly expanded. From 2002 to 2012, the number of full time undergraduates increased by 37%. In 2012, Americans saw a 4.8% increase in net tuition and fees, which is actually a decline in net cost from previous years. Though some take this narrow statistical interpretation as an uplifting sign for the future, it is in fact an illusion masking the broader consequences of the policy.

The federal government funded 71% of all student aid and 41% of all grant aid to postsecondary students in 2012-13 , with federal spending growing 167% from $26 billion to $44 billion (3). This has temporarily caused the average per year growth in net prices for students to fall. However, the ability for the federal government to combat the quickly rising prices will increasingly become more difficult. Currently the national debt for student loans exceeds $1 trillion this year, making it the single largest form of debt that Americans carry. Continuing down this path is simply unsustainable.

CONCLUSION

The federal government is the single greatest contributor to the major financial problems facing higher education. Federal aid drives more people to higher education and increases the costs for students to attend the for expenses. Government aid is generating a dangerous cycle of increased spending to combat the rising prices for education. Only through the free-market can our higher educational system function in an efficient and effective fashion.

Endnotes:
1. Gary Wofram “Making College More Expensive: The unintended consequence of federal tuition aid.” The Cato Institute, Policy Analysis, No. 531 (Jan. 25th 2005).
2. Josh Sanburn, “Student Debt Epidemic: 1 in 5 Households Now Owe Student Loans,” Time (Sept. 27th, 2012). http://business.time.com/2012/09/27/the-student-debt-epidemic-1-in-5-households-now-owe-student-loans/.
3. CollegeBoard. “Total Enrollment and Percentage Receiving Pell Grants over Time.” https://trends.collegeboard.ord/student-aid/figures-tables/fed-aid-total-enrollment-and-percentage-receiving-pell-grants-over-time.
4. Report, “Trends in College Pricing 2012,” College Board Advocacy & Policy Center, (2012).
5. Neal McCluskey and Chris Edwards, “Higher Education Subsidies,” Downsizing the Federal Government, The CatoInstitute, (May 2009) http://www.downsizinggovernment.org/education/higher-ed-subsidies.