

THE CONVERSATION

Federal funding for higher ed comes with strings attached, but is still worth it

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When nonprofit colleges and universities get federal funding for research and to support students, do government regulations make it difficult to fulfill their missions?

As a professor who studies the organizational performance of nonprofits and government agencies, I've tried to understand if accepting that money has any downsides in terms of the main mission of many of these schools: teaching.

Federal funding

Public funding cuts in recent years have eroded state support for higher education, triggering tuition increases. As a result, the cost of going to college is rising much faster than income at a time when a college education is becoming increasingly essential for American workers seeking jobs that pay well.

The federal government, however, funds meaningful research that yields scientific and economic benefits. Thousands of companies have origins in federal research funding, and useful innovations like composite lumber and kidney dialysis machines come directly from federally funded research.

But government support for higher education takes many other forms. It includes federal loans and Pell Grants, as well as funding for research and student-focused programs like TRIO, an outreach program for students from disadvantaged backgrounds.

In exchange for the funding obtained through federal contracts and grants, schools must do specified work and follow detailed rules that govern how to spend these funds and administer the programs that get this funding. For example, funding for McNair Scholars, an initiative to increase student access to graduate-level research, is tied to regulations that govern what kinds of student support are permissible.

Urban myths

Some nonprofit leaders say that rules and requirements that come with federal funding can slow organizations down. Since the rules can make it harder for schools and other institutions to remain flexible, and the reporting requirements can use up valuable staff time, this extra onus may result in inefficiency.

The Trump administration has tried to justify its recent attempts to further cut federal funding with similar logic, arguing that the burdens that accompany federal funding can hurt colleges and universities.

The roots of these ideas can be found in mainstream economics. Many influential think tanks like the libertarian Cato Institute assert that governments can't know what is best for people – including students – and therefore should have a minimal role in funding or regulating their activities.

According to this theory, heavy-handed attempts to govern the organizations governments fund can unduly slow down progress and waste resources.

But the notion that federal spending is inherently wasteful has been debunked by many studies. Researchers have found that jumping through the hoops government funding demands does not make things worse than not getting that money in the first place.

The rules that accompany government funding can, for instance, lead to a decrease in health insurance coverage disparities for people of color and widen access to special education in rural communities. Federal rules can help organizations meet important social goals and make sure funds are used for their intended purpose.

Leisha DeHart-Davis, a University of North Carolina School of Government professor, calls this effect “green tape.”

In short, federal higher education funding leads to inefficiency only if the costs exceed the benefits. But when I sought to find out whether increases in federal funding bog down nonprofit higher education institutions, I found that federal funding is unrelated to how efficiently colleges and universities operate.

No holding back

I reached this conclusion after examining financial and organizational data between 2008 and 2014. I focused on relatively small nonprofit colleges and universities like Shaw University and Loyola University, Maryland because they have limited ties to state governments and limited research expenditures.

I then reviewed their federal contracts and grants, as those are the kinds of federal support the Trump administration is most likely to cut.

First, I measured how efficient each college or university was by comparing its spending to its student outcomes. Then, I measured if increasing federal revenue would change how efficient each college was. The technique I used allowed me to take other relevant factors into account.

As I explained in the the journal *Nonprofit Management & Leadership*, I found that increasing federal funding had no significant effect on how well nonprofit colleges used their budgets.

Federal support increases spending on programs that support students, but this funding typically targets important outcomes – particularly for colleges with lots of first-generation students.

It also does not appear that federal grants and contracts infringe upon the schools' student-focused missions because the spending that the federal government encourages and regulates often helps students as intended.

Moving beyond the myths

Based on my findings, I believe that instead of assuming government funding higher-education funding is wasteful, policymakers and federal agencies like the Department of Education should rely on rigorous program evaluations to guide funding decisions.

Many of the initiatives that the federal government funds directly benefit campuses. Federally funded research initiatives are not only the backbone of innovation, but can help students as well because much of the funding is for initiatives that improve student outcomes.

Even when the funded initiatives come with rules and regulations, many commonly aired assertions to justify major cuts are not backed up by data that I can find.