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Republicans turn a skeptical eye on effects of federal college aid

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Congressional Republicans are turning a critical eye on the federal government's role in driving up the cost of higher education.

A House Ways and Means subcommittee headed by Rep. Peter Roskam of Illinois has scheduled a hearing Wednesday on the rising cost of college and the role that federal tax policy may play in driving it.

The hearing follows one by the Joint Economic Committee, at which Republican lawmakers and conservative witnesses blamed federal student loans and aid for allowing colleges to boost tuitions.

"From a taxpayer's perspective, the free flow of federal student loan dollars to higher education institutions, without proper incentives to control costs, will continue to lead to higher tuition prices charged to students," Sen. Dan Coats of Indiana, the committee's chairman, said at the hearing.

The connection between federal student aid and rising college tuitions has drawn increased attention in recent weeks following the publication of a bombshell analysis by researchers at the Federal Reserve Bank of New York. The study found that the majority of increases in federal student loans and aid lead to higher tuition, without necessarily increasing enrollment.

Specifically, the researchers found that a dollar of added federal Pell Grants or subsidized direct loans translate to 55 cents and 65 cents in higher tuition, respectively.

That analysis provided some empirical basis for the "Bennett Hypothesis," which is the theory proposed by Reagan Department of Education Secretary William Bennett that federal aid allows colleges to increase tuitions without losing students.

The Bennett Hypothesis has long been debated among researchers, and the Federal Reserve Bank of New York analysis is far from the only study on the topic.

But in the wake of its publication, conservatives have voiced renewed concern about the possibility that some kinds of federal student aid may be counterproductive.

The price of college has been a politically hot topic in recent years. After inflation, college tuitions have soared 39 percent at public universities and 27 percent at private universities in the most recent 10 years for which data is available, according to the National Center for Education Statistics, which is part of the Department of Education. Meanwhile, aggregate student debt has spiked to $1.2 trillion, and delinquencies and defaults on loans have skyrocketed.

Among the many causes of the problem, such as states cutting back on subsidies for public schools and shifting costs to students, the role of federal policy has been highlighted by conservatives.

"Colleges raised prices year on year on year because they could, and they were certainly wind-assisted by the gusher of federal money," Purdue University President Mitch Daniels told the Joint Economic Committee hearing. "It's perfectly well-documented now that this has been a driver of higher costs, made it easy, far too easy for those increases to happen."

Daniels, the former Republican governor of Indiana, has implemented a four-year tuition freeze at his own school and has experimented with new forms of higher education financing.

In response to the New York Fed study, Department of Education Secretary Arne Duncan said in July that the department had historical data suggesting that aid and federal loans do not increase tuition.

Asked on multiple occasions for the data, however, the department declined to provide the studies that Duncan was referring to.

Conservative analysts have suggested that, based on the best evidence including the New York Fed study, there is at least a concern that there is a link between federal aid and rising tuitions.

"Existing research on this question is mixed, but most studies find that at least some types of colleges raise prices in response to federal aid. A recent study found that for every dollar in subsidized student loans, colleges raised tuition prices by about 65 cents," testified American Enterprise Institute scholar Andrew Kelly at last week's hearing. "It is difficult to identify whether aid causes tuition increases, but it certainly seems to relax the incentive to keep tuition low."

Neal McCluskey, a higher-education analyst at the libertarian Cato Institute, maintains a list of research on the nexus between aid and tuition, including some of the studies most often cited by analysts skeptical that there is a causal relationship.

One is a 2001 report from the National Center for Education Statistics that "found no associations between most of the aid variables (federal grants, state grants, and student loans) and changes in tuition in either the public or private not-for-profit sectors."

Another is a 2011 Government Accountability Office study, which said in its summary that "these analyses are descriptive and do not necessarily indicate a linkage between increases in the loan limits and changes in tuition or borrowing."

McCluskey, who has criticized those two analyses, told the Washington Examiner that his "position has been solidified with more studies supporting the Bennett Hypothesis having come out since I wrote it."

In particular, a 2012 study by a Columbia University economist using student-level data from the National Postsecondary Student Aid Study found that selective nonprofit institutions capture close to 80 percent of their students' Pell Grants.

A 2012 working paper by economists at Harvard and George Washington University using state administrative data to examine for-profit schools found that tuition is 78 percent higher at schools that can get federal aid than at schools that can't.