

# The Daily Pennsylvanian

## Financial “aid”?

*Why federal student aid might actually hurt students*

By: Jeffery Nadel – January 11<sup>th</sup>, 2013

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The United States federal government makes college tuition more expensive.

As heretical as that sounds, you read it correctly — more expensive. With Pell Grants, tax credits, federal direct loans and other aids, the federal government has accomplished the exact opposite of its stated goal — it has made a college education dramatically more costly.

When we control for inflation so as to evaluate only the real price of tuition and the real magnitude of federal aid, we find that aid per full-time student increased by 215 percent between 1981 and 2011. In the same time period, tuition at four-year public universities rose 268 percent, with that of private institutions following closely behind at 181 percent.

Government subsidies of higher education have a very predictable effect — they lead to a growth in demand for college education. In response, universities can either increase enrollment to satisfy the upsurge in demand or raise tuition.

Because of the nature of colleges and their capacity — as well as the educational and institutional benefits of a smaller student body and small class sizes — they consistently opt for the latter option.

Former Secretary of Education William J. Bennett proffered what is now called the “Bennett hypothesis,” which states, “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.” Indeed, government aid goes up and so too does tuition.

As the federal government attempts to promote college affordability, it causes students to be less price-sensitive. If students are given \$5,000 more in financial aid, they will likely be willing to pay at least \$5,000 more for their education.

Simultaneously, the price sensitivity of the universities falls off a government-created cliff. In the words of The Washington Post’s Charles Lane, “By making it possible for students to pay higher tuition, federal and state aid reduces institutions’ incentive to make the hard budgetary choices that might hold tuition down in the first place.”

There are those who blame ballooning tuition on state and local governments’ decreasing aid to these institutions. Neal McCluskey, of the Cato Institute’s Center for Educational Freedom, debunks the so-called “cheap states” theory, showing that states’ higher-education expenditures increased 15 percent between 1990 and 2004, while tuitions rocketed 85 percent in the same time. Further, although any state-expenditure cutbacks

have a very small effect on private universities, these institutions have still raised tuitions dramatically.

We might think that although skyrocketing tuition should be lamented, at least we are receiving better education from better professors. The data tell a much different story.

In its Dec. 17, 2012 issue, *The Economist* investigated the topic, concluding from Department of Education data that the number of non-faculty professional employees — i.e. administrative, non-teaching staff — per 100 faculty members increased from under 60 to nearly 100 between 1976 and 2009.

Federal aid is given to students on a largely unqualified basis. The government refuses to take into account the risk of a loan or the prospects of a student's success. A student pursuing a major that will furnish her with very few real-life skills is entitled to the same level of aid as a student pursuing a course of study that is in high demand in the workforce.

Such perverse incentives encourage students who may receive a more-than-adequate education at a local, less expensive college to attend elite, costly universities that do not offer much more benefit for the students' desired lines of work.

As such, many new college attendees — 42 percent — fail to even graduate within six years. These incentives might also explain rising levels of post-graduation unemployment.

Of course it is noble to ensure that higher-education policies do not prevent lower-income students from attending college. We are right to be concerned about that.

The unpleasant truth, however, is that “a larger portion of college students were from low-income backgrounds in 1970, before Pell Grants, than today,” according to Richard Vedder, the director of the Center for College Affordability and Productivity.

We must demand that the government decrease student aid and truly do its part to bring down sky-high tuitions, allowing for many more innovative, market-driven options that will make college more affordable.