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Rising to the Challenge: The Future of Higher Education Post COVID-19

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Thank you Chairman Scott and Ranking Member Foxx, and thank you subcommittee Chairwoman Wilson and subcommittee ranking member Murphy for the opportunity to testify today.

COVID-19 has posed challenges to every aspect of education in America, from preschool through college. But it has also presented opportunities to rethink whether the current higher education system is serving students in the best way possible, and whether there are opportunities for reform. Every sector of society has been impacted by the COVID-19 pandemic, but colleges and universities across the country have received an enormous federal bailout that is likely to insulate universities from needed reform.

The Congressional response to COVID-19 has now included three major aid packages. As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March 2020, higher education received $14 billion in additional federal funding, on top of the sector's standard annual appropriations. That was followed by another $22.7 billion in new funding as part of the December 2020 Coronavirus Response and Relief Supplemental Appropriations (CRRSAA) Act, and then by the most recent American Rescue Plan (ARPA) Act, which will provide yet another $40 billion to the higher education sector. In all, colleges will have received an additional $76 billion in federal spending over the past 12 months – a monumental sum nearly equivalent to the Department of Education's entire annual discretionary budget.

Although the pandemic has presented challenges, that does not change the fact that it is not the job of federal taxpayers to pay for tens of billions in new higher education spending. Rather, states need to reopen their economies, and indeed, many are starting to do so. Although the impacts vary by state, state budget deficits are not materializing as some had feared. State and local tax revenues increased in 2020 and are predicted to increase further in 2021.[1] Reopening and enabling businesses to serve their customers and thrive is the key to generating revenue. With vaccines becoming more widely available and states lifting lockdown restrictions, additional federal spending is unnecessary.

Indeed, over the course of the last year, a majority of states (23 out of the 45 for which data are available) saw either no change in higher education funding or, in the case of three of those states (Alabama, Massachusetts, and Florida), actually saw increases in state higher education funding. Among states that reduced funding, California made up one-third of the total funds cut, and those reductions are already slated to be restored next fiscal year.[2]

Sometimes colleges are going to face budget constraints, but that is true for all sectors. Ask any business owner. Government shutdowns will likely put pressure on university revenue streams, from charitable contributions to state appropriations in some cases. But the pandemic did not cause financial stress in higher education; rather, it exacerbated problems long-plaguing the sector. Instead of continuing to spend more taxpayer money, colleges need to do some belt-tightening. Mounting national debt is unsustainable and the cost of all of this elevated spending will be passed down to our children.

However, now that the additional federal spending is out the door, colleges should take the opportunity to make sure it is used responsibly. College boards of trustees and regents need to direct their universities to tackle program prioritization and reinvest funds in programs that advance their core mission, rather than continuing to engage in a facilities and amenities arms race.[3]

From 2001 to 2011, the number of non-teaching employees and administrators increased 50 percent faster than teaching faculty.[4] Indeed, non-instructional staff at universities across the country now accounts for more than half of university payroll costs.[5] Just 40 percent of full-time employees at non-doctoral colleges are instructional staff, a figure that drops to just 28 percent at doctoral-

[1] Scott Lincicome, We're Paying $1.9 Trillion for What? *Cato Institute,* February 17, 2021, at https://www.cato.org/commentary/were-paying-19-trillion-what

[2] Victoria Yuen, American Rescue Plan Could Help Prevent State Public Higher Education Cuts, Center for American Progress, March 10, 2021, at https://www.americanprogress.org/issues/education-postsecondary/reports/2021/03/10/496936/american-rescue-plan-help-prevent-state-public-higher-education-cuts/

[3] Heidi Ganahl and Lindsey Burke, Leading through the Crisis: How College Regents and Trustees Can Steady the Fiscal Ship, *The Daily Signal,* June 9, 2020, at https://www.dailysignal.com/2020/06/09/leading-through-the-crisis-how-college-regents-and-trustees-can-steady-the-fiscal-ship/

[4] Douglas Belkin and Scott Thrum, Deans List: Hiring Spree Fattens College Bureaucracy – And Tuition, *The Wall Street Journal,* December 28, 2012, at https://www.wsj.com/articles/SB10001424127887323316804578161490716042814

[5] Critical Care: Policy Recommendations to Restore American Higher Education after the 2020 Coronavirus Shutdown, *National Association of Scholars,* April 18, 2020, at https://www.nas.org/reports/critical-care/full-report

granting universities.[6] As higher education scholar Preston Cooper recently found, "since 2003, only one-third of the increase in colleges' and universities' core expenditures has gone to spending on instruction. Almost all the rest has fed the growth of the vast administrative apparatus of these institutions."[7]

Colleges have needed a course correction for decades, and are now looking at these various stimulus bills as a way to pay for general fiscal maladministration. There are real problems, but those will take structural reforms and changes at the university level. Although colleges face new hurdles in the COVID-19 era, they will continue to face perennial challenges moving forward, absent a willingness to correct course.

Changes at the university-level. In order to right the fiscal ship, college leadership should analyze their school's data on revenue and spending, including a formal review of non-teaching and administrative positions. Schools should focus resources on teaching and learning, and should evaluate productivity by assessing and prioritizing academic programs that reinforce their core mission and prepare students for the workforce or further academic study. In addition to assessing spending and administrative bloat, colleges and universities should also review facilities and amenities expenditures and auxiliary service costs such as dining services, student housing, and janitorial services, and consider outsourcing delivery and management of these functions, which are unrelated to their core mission as academic institutions.[8]

Changes in federal policy. For its part, Congress should not lose sight of the tens of billions in new relief funding now that it has been appropriated, and should make sure the Department of Education is providing timely and useful oversight of how colleges are spending that money. The Department of Education should enable maximum transparency to taxpayers around how those dollars are being spent by colleges through public reporting that is easily accessible on the Department of Education's website. The Department should also maintain the rule issued last year that only students who are eligible to participate in federal loan programs are eligible for emergency federal aid. This helps make sure finite funds are targeted appropriately.

Ubiquity of federal subsidies has insulated colleges from making tough choices over the years, from engaging in program prioritization or keeping staffing levels in check. And ever-increasing college costs have muddied colleges' value proposition. Across the country, tuition and fees for in-state students attending four-year universities have nearly tripled in real terms since 1990.[9] Since 1970, inflation-adjusted tuition rates have quintupled at both public and private colleges.[10] At the same time, federal subsidies have increased dramatically, with spending on student loans rising 328

[6] Preston Cooper, Why College is Too Expensive – And How Competition Can Fix It, *Foundation for Research on Equal Opportunity,* March 5, 2021, at https://freopp.org/why-college-is-too-expensive-and-how-competition-can-fix-it-cb2eb901521b

[7] *Ibid.*

[8] Lindsey M. Burke and Adam Kissel, Leading the Way on Higher Education Reform through Smart Giving: A Roadmap for Private Philanthropy, *Philanthropy Roundtable,* 2020, at https://www.philanthropyroundtable.org/home/programs/civic-education/leading-the-way-on-higher-education-reform-through-smart-giving-a-roadmap-for-private-philanthropy

[9] Trends in College Pricing 2020, The College Board, Published Charges Over Time, at https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf

[10] Preston Cooper, Why College is Too Expensive – And How Competition Can Fix It, *Foundation for Research on Equal Opportunity,* March 5, 2021, at https://freopp.org/why-college-is-too-expensive-and-how-competition-can-fix-it-cb2eb901521b

percent over the last 30 years, from $20.4 billion during the 1989-90 school year to $87.5 billion during the 2019-20 school year.[11] Moreover, there has not been state disinvestment in higher education. Inflation-adjusted state appropriations for public colleges and universities have increased $1,700 per pupil since 1980.[12] As University of Ohio economist Richard Vedder explains:

> "[I]t takes more resources today to educate a postsecondary student than a generation ago…. Relative to other sectors of the economy, universities are becoming less efficient, less productive, and, consequently, more costly."[13]

This inefficiency is also seen in standard outcome measures such as graduation rates. The *six-year* completion rate for students pursuing a bachelor's degree stood at just 60 percent in 2020 – meaning just six in 10 students complete a four-year bachelor's degree in six years.[14] This can be explained in part by the fact that the typical *full-time* college student spends only 2.76 hours per day on all education-related activities, including attending class and completing homework and assignments. As my Heritage Foundation colleagues Jamie Hall and Mary Clare Amselem and I wrote in a 2016 report, "On average, Americans will not work as little as they did at age 19 until they reach age 59, when significant numbers cut back on their work hours or enter retirement."[15]

Students who do complete college are nonetheless ill-prepared for the workforce. One-third of college graduates are underemployed, working in jobs that do not require a bachelor's degree.[16] For example, while 75 percent of engineering majors are in jobs that require a bachelor's degree, that figure drops to just 40 percent for communications majors.[17] At the same time, business leaders report college courses do not prepare graduates for the workforce or provide them with the practical or technical skills needed to be successful in their careers.[18] For example, a 2018 survey conducted by the National Association of Colleges and Employers found that although almost 80 percent of students believed they were proficient in oral and written communication, just 42 percent of employers agreed. Those findings reinforced earlier survey data from the Association of American Colleges and Universities, which found that while 62 percent of students felt they were competent in

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[11] *Ibid.*
[12] *Ibid.*
[13] Richard K. Vedder, "Restoring the Promise: Higher Education in America," 2019, Independent Institute, Oakland, CA, p. 29.
[14] Madeline St. Amour, Completion Rates Flat Over All, *Inside Higher Ed,* December 8, 2020, at https://www.insidehighered.com/quicktakes/2020/12/08/completion-rates-flat-over-all
[15] Lindsey M. Burke, Mary Clare Amselem, and Jamie Hall, Big Debt, Little Study: What Taxpayers Should Know about College Students' Time Use, *The Heritage Foundation,* July 19, 2016, at https://www.heritage.org/node/10537/print-display
[16] Jaison R. Abel, Richard Deitz, and Yaquin Su, Are Recent College Graduates Finding Good Jobs? *Current Issues in Economics and Finance,* Federal Reserve Bank of New York, Vol. 20, No. 1 (2014), at https://www.newyorkfed.org/medialibrary/media/research/%20current_issues/ci20-1.pdf
[17] Jaison R. Abel, Richard Deitz, and Yaqin Su.
[18] Dana Wilkie, Employers Say College Grads Lack Hard Skills, Too, SHRM, October 21, 2019, at https://www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/employers-say-college-grads-lack-hard-skills-too.aspx

oral and written communication, just 28 percent of employers agreed.[19] This gap in skills has negative economic impacts, as it has left more than six million jobs empty across the country.[20]

This all calls into question the value-add of many institutions for their students. Employers need a qualified workforce, and too often, universities are not delivering.

HEA reforms to enable longer-term solutions. Congress should pursue several policy reforms in any future reauthorization of the Higher Education Act to increase transparency to taxpayers and reduce costs for students, including 1) transparency around programmatic outcomes, 2) rescission of the "elastic clause," 3) eliminating the PLUS Loan program, and 4) allowing colleges to limit student borrowing.

Transparency around programmatic outcomes. Accountability in higher education should focus on outcomes, not delivery models, with particular attention paid to programmatic outcomes. For example, Title IV eligibility could be tied to passage rates for courses of study and professions that use third-party certification exams, such as the bar exam in the legal field. College scorecard data should also transparently report on programs and colleges in which students leave with high levels of debt relative to their earnings after graduating.

Rescission of the "elastic clause." Congress can provide flexibility to colleges and universities that will help them meet the challenges emanating from the COVID-19 pandemic by prohibiting accreditors from using their Title IV gatekeeping authority to impose onerous regulations on institutions. Federal law (20 U.S.C. § 1099b(g)) endows accreditors with the authority to require colleges to adopt standards outside of the scope of the HEA.[21] This "elastic clause" enables accreditors to impose additional standards unrelated to basic oversight of taxpayer funding, extending to issues such as institutional governance, that inhibit innovation. Congress should amend this "elastic clause" so that a university cannot lose eligibility to Title IV funding based on metrics not included in the Higher Education Act. For example, if an accreditor wanted to pass a dress code and base Title IV eligibility on universities adopting it, they could do so under the current system. Closing this loophole would secure institutions' self-governance and refocus accreditors on academic quality. This is a common sense adjustment that has the potential for major impact.

Elimination of the PLUS Loan Program. Reforms to the existing student loan and grant programs are also needed to curb college costs and mitigate the inflationary effects now referred to as the Bennett Hypothesis. In 1987 former Secretary of Education William Bennett wrote a *New York Times* oped entitled "Our Greedy Colleges," first arguing that federal subsidies fuel increases in college costs. Since that time, a growing body of research has supported Secretary Bennett's hypothesis. David O. Lucca, Taylor Nadauld, and Karen Shen of the Federal Reserve Bank of New York identified indicators of the Bennett Hypothesis at play. They found that credit expansion (increasing subsidized federal student loans) leads to a tuition increase of 60 cents for every

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[19] Jeremy Bauer-Wolf, Overconfident Students, Dubious Employers, *Inside Higher Ed,* February 23, 2018, at https://www.insidehighered.com/news/2018/02/23/study-students-believe-they-are-prepared-workplace-employers-disagree

[20] Douglas Belkin, Josh Mitchell, and Melissa Korn, House GOP to Propose Sweeting Changes to Higher Education, *The Wall Street Journal,* November 29, 2017, at https://www.wsj.com/articles/house-gop-to-propose-sweeping-changes-to-higher-education-1511956800

[21] 20 U.S. Code § 1099b - Recognition of accrediting agency or association, Legal Information Institute, Cornell Law School, at https://www.law.cornell.edu/uscode/text/20/1099b

additional dollar of subsidized federal loans.[22] A major driver of college cost increases is the federal PLUS loan program, which includes both Parent PLUS (by which parents can secure federal loans for their undergraduate student) and Grad PLUS (through which graduate students can obtain federal student loans). PLUS loans enable students to borrow up to the cost of attendance, enabling colleges to raise tuition prices profligately.

Prior to the COVID-19 pandemic, more than 40 percent of federal student loan borrowers (borrowing via the Direct Loan program) were either in default or deferment or delinquent, behind on more than $200 billion owed to taxpayers.[23] To correct course, Congress should make space for private lending to reemerge, and for innovative higher education financing options such as income share agreements to flourish. They can do so by reducing federal subsidies, including eliminating the federal PLUS loan program (both the Parent PLUS and Grad PLUS components), and through accreditation reform that would enable students to pay for individual courses and courses of study that are more applicable to the job market.[24]

Allow colleges to limit borrowing. Currently, colleges are legally barred from assessing a student's likelihood of repaying a loan based on that student's course of study or borrowing history, for example. Although these factors can predict a student's ability to repay their loans in the future, colleges are not allowed to limit the amount of student loans a student borrows. Congress should amend the HEA to allow colleges to limit borrowing, helping students to exit school with lower levels of debt. As the National Association of Student Financial Aid Administrators has suggested, schools should be able to help students borrow responsibly, helping them to avoid delinquency and default, by being allowed to set lower loan limits below the federal cap and by restricting lending through school-determined criteria, such as enrollment status and chosen course of study.[25] As the James G. Martin Center's Shannon Watkins writes, "Penalizing schools for high student loan default rates is sensible, but only if they are given flexibility to try to stop the problem before it arises."[26]

Conclusion

Colleges and universities across the country do face challenges associated with the COVID-19 pandemic, but so does nearly every sector of society. Ever-increasing federal spending and subsidies will not correct problems that have plagued the higher education sector for decades, and which predated the coronavirus. Spending continues to saddle taxpayers – two-thirds of whom do not hold bachelor's degrees – with a financial burden that is growing unsustainable and that will saddle future generations with debt. Congress should take this opportunity to pursue reforms that will help colleges navigate the pandemic while also increasing their value proposition moving forward.

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[22] David O. Lucca, Taylor Nadauld, and Karen Shen, "Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs," Federal Reserve Bank of New York Staff Report No. 733, July 2015, Revised February 2017, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr733.pdf?la=en

[23] Josh Mitchell, More than 40 percent of Student Borrowers Aren't Making Payments, *The Wall Street Journal,* April 7, 2016, at https://www.wsj.com/articles/more-than-40-of-student-borrowers-arent-making-payments-1459971348

[24] For more on this, see: Lindsey Burke and Stuart Butler, Accreditation: Removing the Barrier to Higher Education Reform, Heritage Foundation, September 21, 2021, at https://www.heritage.org/education/report/accreditation-removing-the-barrier-higher-education-reform

[25] Discussion Draft: Dynamic Loan Limits Working Group Proposal, National Association of Student Financial Aid Administrators, July 2016, at https://www.nasfaa.org/uploads/documents/Dynamic_Loan_Limits_Discussion_Draft.pdf

[26] Shannon Watkins, Why Colleges Should Be Allowed to Limit Students' Federal Loans, The James G. Martin Center for Academic Renewal, June 26, 2017, at https://www.jamesgmartin.center/2017/06/colleges-allowed-limit-students-federal-loans/

Increasing transparency around programmatic outcomes, limiting the power of accreditors as gatekeepers to Title IV funding, eliminating the PLUS Loan program, and allowing colleges to limit student borrowing are important steps in achieving that goal.

Thank you again to the Education and Labor Committee's Subcommittee on Higher Education and Workforce Investment for the opportunity to speak today.

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