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Trachtenberg School of Public Policy & Public Administration

February 21, 2017

The Honorable Bobby Scott
Ranking Member
House Committee on Education and the Workforce
U.S. House of Representatives

Dear Ranking Member Scott:

There has long been a belief that higher education institutions capture federal aid by increasing tuition. Known as the "Bennett Hypothesis," many policymakers have used this theory as rationale for maintaining or reducing funding in the Pell Grant, instead of investing in the program. In fact, during the Committee on Education and the Workforce hearing held on February 7, 2016, Chairwoman Foxx asserted that studies "show the more money the federal government puts in to higher education, the higher the costs go." Having studied higher education policy for more than a decade as an Associate Professor of Public Policy, Public Administration, and Economics at George Washington University, I would like to clarify the record. My reading of the literature is that there is no compelling evidence of a causal relationship between federal student aid and tuition among public and non-profit colleges.

However, my own research on the for-profit sector suggests that for-profit institutions increase their costs to take in federal aid. For-profit colleges have very different incentives and structures than public and non-profit colleges, making them more likely to engage in strategic behavior to capture federal aid dollars.

In a 2014 paper published in the *American Economic Journal: Economic Policy*, Claudia Goldin (Harvard University) and I compare the tuition of for-profit colleges that receive Title IV federal aid to the many for-profit colleges that do not participate in Title IV programs.

We find that for-profit colleges that receive federal student aid charge tuition that is 78 percent higher than for-profit institutions with similar programs that do not participate in Title IV programs. We further demonstrate that these differences are unlikely to be driven by differences in institutional quality between Title IV and non-Title IV for-profit institutions: our results hold even when we compare eligible and ineligible programs within the same Title IV institutions, and in our most restrictive sample when we control for the pass rate on cosmetology exams as an indicator of institutional quality.

Our findings suggest that Title IV-eligible for-profit institutions raise gross tuition above the cost of education, as reflected in the tuition of the non-Title IV institutions. Further, the magnitude of the tuition premium (about $3,900) is roughly equal to average student grant awards and our estimate of student loan subsidies under Title IV.

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In light of this research and my more recent work on for-profit institutions, it is critical for the federal government to create nuanced policy that addresses differences in behavior by institutional sector and protects students and taxpayers.

I would be happy to answer any question you may have on this paper or my other work on the economics for-profit higher education. Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

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