WebMemo
Published by The Heritage Foundation

No. 1547
July 10, 2007

Higher Education for Taxpayers

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Good news from Congress on spending is rarely unaccompanied by bad news. The good news is that Congress and the Administration have identified wasteful spending that can be cut as part of the reauthorization of the federal government's main higher education spending programs. Decades ago, the government put in place large subsidies to entice lenders to participate in federal student loan programs. Today these programs are popular, the lenders plentiful and highly profitable, and the subsidies unneeded. Following the Administration's lead, the House Education and Workforce Committee reported a bill that would largely eliminate these subsidies, saving almost $38 billion over the next 10 years.

The bad news is that Congress may use most of the savings to increase other spending, including the creation of nine new entitlements in the House bill. While a tiny amount of the mandatory savings—$914 million—would be used for deficit reduction between 2008 and 2017, the bulk of the savings—some $37 billion—would be plowed right back into new spending.

Reflecting the Washington mindset, neither the House bill nor its companion legislation in the Senate includes a dime of tax relief. This is the wrong tack to take. A significant portion, if not all, of the savings should be returned to taxpayers in the form of education-oriented tax relief, such as an expansion of the higher education deduction.

New Entitlements. Almost half of the savings in the House bill will be used to reduce the interest rates on student loans. Under current law, the interest rate for both subsidized and non-subsidized student loans is 6.8 percent. Under the House bill, the rate for subsidized loans would gradually fall, reaching 3.4 percent in 2012. The problem is that after 2012, the interest rate returns to 6.8 percent. Obviously, this would create enormous pressure in 2013 to maintain the subsidized lower rates, but the House bill irresponsibly leaves this problem to future Congresses.

The other core federal support program for students in college is the Pell grant program. The House bill authorizes a significant increase in the maximum Pell grant award. The maximum award level for the Pell program for the 2007–2008 academic year is $4,300. The House bill authorizes a maximum award for the following year of $7,600, rising each year to reach $11,600 for 2012–2013.

Pell grants are given each year to millions of students to help defray the cost of higher education. The program and the provisional maximum grant award levels are authorized in legislation, such as H.R. 2669. Actual spending, however, is subject to annual appropriation, which means the amount spent must be appropriated by Congress each year in legislation signed by the President. Typically, the

This paper, in its entirety, can be found at:
www.heritage.org/Research/Budget/wm1547.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

appropriations process lowers the maximum grant award level from that specified in the authorizing legislation, so the maximum awards specified in the authorization have little meaning.

The House legislation would also create nine new mandatory programs—or entitlements. These programs are called "mandatory" because they operate on autopilot, without annual appropriations; Congress does not even have to pass a budget for them. One of these programs is a new mandatory Pell grant add-on. That means Pell grants could be larger and the increases would come year after year without additional action by Congress.

If this new Pell grant add-on becomes law, the Pell program is likely, over time, to transform into a mandatory—or entitlement—program. History has shown that when Congress creates a new mandatory spending program, spending quickly grows out of control. One recent example is the State Children's Health Insurance Program (SCHIP), the reauthorization of which Congress is now debating. SCHIP has already expanded well beyond the target population it was initially intended to cover (children ineligible for Medicare but without private coverage) and may, depending on the legislation passed this year, grow to cover a sizeable proportion of middle-class adults while doubling SCHIP costs. Growing on autopilot, federal entitlement spending—such as on Social Security, Medicare, Medicaid, and veterans health—is already soaring. Congress should not make matters worse by creating yet another exploding entitlement program.

New Unnecessary Subsidies. The House bill also goes off track by creating a new student loan forgiveness program for public-sector borrowers. Under the program, graduates with loans who go to work for the government in an approved job for a sufficient period would have a portion of their loans forgiven. When a portion of a loan is forgiven in this manner, that part of the loan becomes, in effect, a grant.

There is no reason to give public-sector workers a financial benefit unavailable to those who work in the private sector. Congress is already intent on increasing the size of grants to students. It should not explicitly discriminate against students who choose to work in the private sector.

Conclusion. The reauthorization of the federal higher education programs should be used as an opportunity to reprioritize and, where possible, reduce federal spending—not as an excuse to create still more programs. Having found a good place to cut spending, Congress should return most of the savings to taxpayers through education-oriented tax relief and direct the balance to the core federal higher education mission of helping students pay for college. Above all, Congress should not use the occasion of the higher education reauthorization to create new and ultimately unaffordable entitlement programs.

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