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AMERICAN UNIVERSITIES IN TRUMLAND - Financial Ruin Averted?

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ABSTRACT

The Trump administration has no significant plan or strategy related to higher education. The only major policy declarations -- to eliminate federal regulations on for-profit colleges and revisit federal guidelines on sexual assault on college campuses -- both unravel policies developed under the Obama administration. Where the fate of higher education lies is in the innumerable initiatives bent on pleasing Trump's base and in the search for some sort of major legislative victory. As of this writing, this now includes a Republican coalition that wants to cut the funding for most federal agencies to ease the way for massive tax cuts. In the Trump administration's initial federal budget proposal presented last May, Trump planned huge reductions in federal programs, with two glaring exceptions: boosting military spending -- including for veterans but also for hardware and more troops -- and funding for a continent stretching border wall with Mexico. What about the funding future, and health and well-being, of America's great universities? To make financial room, and to placate some on the right, it is hard to imagine increased or even stable federal spending for research and financial aid. To partially offset tax cuts, spending must come down, at least in a rationale policy world. If this scenario plays out, higher education will be one of many casualties. Then again, confusion regarding the Trump agenda, discord among Republicans, lobbying by the many stakeholders of the current tax system, and even independent analysis of whatever convoluted plan emerges, could derail or significantly alter the tax-cut momentum. Or the thirst for a legislative tax-cut victory might simply temporarily blind Republican deficit hawks. In these scenarios, or a combination, federal funding for academic research and financial aid might only suffer minor cuts, or remain relatively stable -- in the short run. For now, muddling through might not be good policymaking, but could be the best one can hope for. For American higher education in the volatile Trump era, disaster averted?

Keywords: Trump Higher Education Policies, Federal Science Policy, University Funding Models, Tax Cut

Within the madcap frenzy of contemporary Washington, the Trump administration has no significant plan or strategy related to higher education. The only major policy declarations -- to eliminate federal regulations on for-profit colleges and revisit federal guidelines on sexual assault on college campuses -- both unravel policies developed under the Obama administration.

What about the role of higher education in meeting national and regional labor needs, in furthering the science and technological needs of Americans, and in helping to promote a more equitable society? Trump and his administration see no need even for rhetorical statements.

There have been occasional pot-shots: a twitter threat by a newly inaugurated Trump to end federal funding to the Berkeley campus after a free speech mini-riot that ended in a canceled talking date for an alt-right speaker. Secretary Jeff Sessions also announced an intention to investigate the admissions practices at Harvard justified seemingly by "reverse discrimination" against Asians, and a possible wider exploration of other major American universities -- although Department of Justice officials later backed off from the nationwide hunt.

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The Bad News

First, the bad news. Last May, Trump's Office of Budget and Management outlined a federal budget that promised a nightmare scenario for higher education. What it lacked in details it made up in sweeping cuts. The Department of Education's total operating budget would be slashed by \$9 billion, eliminating many federal student loan programs and reducing aid for low-income students.

Again, to lay the groundwork for tax cuts, OMB Director Mick Mulvaney planned to substantially reduce federal funding for science. Agencies like the National Science Foundation and the National Institutes for Health would face cuts of 11 to 18 percent respectively. The Centers for Disease Control and Prevention, which is at the forefront of battling the Ebola epidemic, the Zika virus, and opioid use, would need to plan for a 17 percent cut.

The Trump budget also sought to eliminate the National Endowment for the Arts and the National Endowment for the Humanities – both small blips in the federal budget, but a symbolic gesture for ultra-conservatives. The Environmental Protection Agency was also to lose much of its budget. Each of these agencies designates a portion of their budget to university programs.

Federal funding for blue-sky research is the lifeline for supporting America's science and technological innovation. It also forms a vital part of the funding model for the nation's network of research universities. At the University of California (UC), with ten research-intensive campuses, federal funding for research is the single largest source of income. In 2016, UC alone received over \$1.8 billion in NIH funding. At Stanford, just across the bay, of the \$1 billion spent on research in 2015, 67 percent came from the federal government. But perhaps more importantly, at public as well as private universities, federal research funds help defray the cost of their operating expenses, and provide a way to support graduate students and post-docs.

Funding cuts on the scale desired by Trump and his associates would create a gaping hole in the funding model of America's universities. While corporate and philanthropic funding for academic research primarily in the sciences has grown over the decades, the federal government remains by far the most significant investor.

The shock and awe initial Trump budget sent the leaders of America's research universities into a new moment of dread. Many in Washington were baffled. As an afterthought, Secretary of Health and Human Services Tom Price, suggested that all the cuts could simply come by eliminating "indirect costs" that the federal government pays to universities – the essential funding for the infrastructure like buildings, staff support, and utilities, that make research possible and that, again, are part of the larger funding model for modern American universities. It seemed a passing moment of ignorance on the actual cost of pursuing research that in the sciences includes teams of research and large laboratories.

Congress dismissed the suggestion, but the worry over the competency of Price, and the Trump administration in general, to sustain a major component in the nation's knowledge production food chain, went up a few more notches. Price recently resigned following a scandal on using private jets for his travel, business and otherwise, is no longer in Trump's cabinet. Small relief as it appears a Tom Price clone will eventually be appointed by Trump.

Immigration and Obamacare

More bad news. Beyond targeted funding cuts for higher education, Trump and congressional Republicans ran campaigns to limit immigration in ways that could deeply affect America's universities. Trump recently set a time-line for rescinded Deferred Action for Childhood Arrivals, or DACA - a program that insures illegal immigrants who came to the US at a young age and who are enrolled in higher education not to be deported.

There is also a plan to severely reduce the number of H1-B visas for foreign nationals entering the US job market, including at universities. This could have a major impact on talent mobility. American universities employ and enroll a large number of foreign nationals that could be told to go home or simply not to come *a la* Brexit.

University of California and Federal Research Funding

In 2016, UC received approximately \$9 billion in federal funding, including:

- \$3 billion in research grants. Nearly four-fifths of the funds are awarded by the National Institutes of Health and the National Science Foundation. UC is the nation's largest recipient of federal funding for research and related projects, with UC San Francisco, UC San Diego and UCLA receiving the largest grants.
- \$3.5 billion to UC medical centers for Medicare and [Medicaid](#) patients.
- \$1.6 billion in financial aid to UC students for federal Pell Grants, work-study awards, graduate fellowships and other grants and scholarships.
- \$800 million to operate the federal Lawrence Berkeley National Laboratory.

Multiple attempts at repealing and replacing Obamacare posed a major threat to state funding for higher education. Here is why. While the federal government provides money for financial aid and academic research, states remain significant investors in their public higher education systems. Part of the motivation for ending Obamacare was, and is, ideological – Republicans have successfully run for office on the claim that Obamacare is government overreach and places too much power in Washington. But another major motivation: pushing more of the health care costs to the states creates more room for federal tax cuts.

At the same time, Republicans, like the Trump administration, are looking to de-fund specific programs and areas of research, like climate change, the Environmental Protection agencies, and federal support for state run welfare programs.

Pushing costs to the states in the name of tax cuts would have a major impact on higher education. In most states, funding for colleges and universities is part of their “discretionary” budget, representing some 10% percent of their expenditures. Most state funding is locked up as entitlement like pensions, health care, and funding for local schools. Pressure to maintain health insurance, and other costs such as prisons, would squeeze and probably reduce funding for public colleges and universities. The first iterations of the repeal and replace effort planned large scale defunding of Medicare and Medicaid – federal funding to states for the elderly and for low income Americans. California estimated that it would blow a \$6 billion dollar hole in the state budget; New York said it would need to deal with a loss of \$7 billion.

The most recent attempt at repeal and replace, the Graham-Cassidy bill, had a twist to this scheme. It would have shifted Obamacare money away from “Blue” (majority Democrat states) to “Red” states – a redistribution in part meant to encourage passage among Republicans. It would have created a massive budget hole for Blue states like California – the largest state in the Union in population with an economy that ranks among the top seven in the world.

The Good News?

The Graham-Cassidy Bill failed to even go to the floor of the Senate for a vote – although like a zombie, Trump continues to chant “repeal and replace” and his recent Executive Order bypasses congress to cut Obamacare subsidies for health insurance to low income families and allow for substandard insurance plans with limit coverage. It is complicated, but the net result may be the squeeze on state budgets, if in a lower order of intensity.

On a more positive note, many Republicans in congress initially said no to many of Trump administration’s proposed and massive budget cuts. Over the last summer, lawmakers vowed a resurrection of funding for academic research. Republicans, more than Democrats, have long supported R&D performed by universities, in part because it is a form of corporate welfare, and justified because it promises to foster innovation and economic growth. The modern exceptions are the political wedge issues that cater to Republican electoral politics: restrictive funding for stem cell research and attempts to end research and data gathering related to climate change.

Last May, the Senate’s Appropriations Committee, chaired by a Republican, rejected much of the Trump proposed budget for higher education. Instead, the committee recommended a \$2 billion increase to the NIH, and an increase in Pell Grants – federal grants to low income students. In the House of Representatives, a similar consensus had already emerged. Over the summer, John Culberson (R–TX), chair of the House committee that reviews funding for some federal science research, stated that he planned to reverse the Trump proposal to cut \$820 million in NSF funding, including the possibility of an increase in its \$7.5 billion funding over last fiscal year. Current Senate and House versions of the federal budget preserve academic research and financial aid funding.

Many in America’s higher education community have faith that reason will prevail and that Republicans, who have majorities in the House and the Senate, will reject the Trump administration’s massive cuts to higher education. Hope springs eternal. But the

Trump’s Proposed Cuts to the US Department of Education

There are nearly 6 million borrowers who are enrolled in one of the government’s five separate [income-driven repayment plans](#), where the monthly payment is set based on how much they earn. Trump’s budget would streamline those five plans into one and change the payment details. Trump’s budget would end public-service loan forgiveness for federal loans issued July 1, 2018, or later, except those provided to borrowers to finish their current course of study.

The government currently pays about \$1.1 billion a year to [employ more than 670,000 college students](#). Trump’s budget proposal would cut that nearly in half, with a \$490 million reduction to the Federal Work Study program.

The budget proposal calls for slashing \$8 billion from the subsidized loan budget and [\\$700 million](#) for the Perkins loan program. While money for subsidized and Perkins loans will be reduced, the proposal calls for additional money for unsubsidized loans.

Other proposed cuts in the budget include eliminating money for a program that helps low-income parents enrolled in college pay for child care, and cuts to two programs (TRIO and Gear Up) that focus on college access.

fact is the US is in a volatile political environment, with an unorthodox President who thirsts for a win without a concern for actual policy outcomes. What might lead to a return to Trump-like budget cuts to universities and colleges? Massive tax cuts.

Tax Cuts

Republicans control the White House, and both the House and Congress. Having failed on health care, and produced no major piece of legislation, Trump and congressional Republicans have turned their attention to tax cuts as their political salvation.



Treasury Secretary Steve Mnuchin presents tax cut proposal

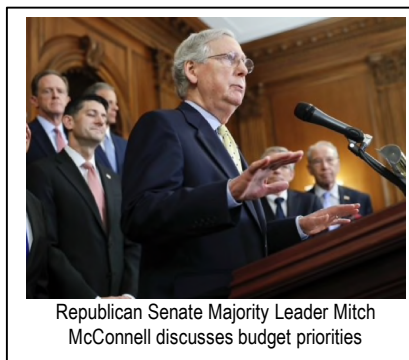
Harking back to the mantra of supply side economics, and the Laffer Curve, Treasury Secretary Steve Mnuchin, claims that massive tax cuts will pay for themselves in economic activity and future tax revenue. One of many Wall Street bankers within Trump's cabinet of billionaires, Mnuchin says that the US can reach a 3 percent GDP growth rate. The plan unveiled recently would reduce the tax rate on corporations and high-income Americans, freeing capital for domestic investment - so the argument goes.

But the Committee for a Responsible Federal Budget, a budget watchdog group, said the plan could add \$2.2 trillion to the deficit through 2027. Trump, and Mnuchin and Mulvaney, are engaged in a campaign to persuade the nation that middle-income families will see large tax cuts. But initial analysis indicates that this is a mirage: combined with the elimination of a web of tax credits, middle-

class American families might actually have an increase in their tax burden. Many deficit hawks are curiously mute, hoping for a tax cut victory and some semblance of a more simplified tax code.

The way the process works in Washington is that both the House and Senate pass their own versions of the budget. Then there is a process of "reconciliation" of the two versions. Once Congress approves the reconciled budget and the president signs it, then Congress can move forward with tax reform. It seems possible that Republicans will be forced to seek across the board or at least large scale selected cuts in federal spending – with the exception of defense – to prepare the way for tax cuts. Indeed, the current House version of the 2018 federal budget calls for "deficit-neutral tax reform bill" and at least \$203 billion in mandatory spending reductions during the next decade. At the moment, and it is all changing rapidly, the House version wants to pursue \$1.5 trillion in tax cuts over ten years. To make financial room, and to placate some on the right, it is hard to imagine increased or even stable federal spending for research and financial aid. To partially offset tax cuts, spending must come down, at least in a rationale policy world.

If this scenario plays out, higher education will be one of many casualties. Then again, confusion regarding Trump's tweeting based policy agenda, discord among Republicans, lobbying by the many stakeholders of the current tax system, and perhaps even independent analysis of whatever convoluted plan emerges, could derail or significantly alter the tax-cut momentum.



Republican Senate Majority Leader Mitch McConnell discusses budget priorities

Or the thirst for some sort of legislative tax-cut victory might simply temporarily and conveniently blind Republican deficit hawks. In these scenarios, or some combination, federal funding for academic research and financial aid might only suffer minor cuts, or remain relatively stable – in the short run but with multi-year cuts in future fiscal years as part of a Republican strategy to cut non-military spending. For the coming fiscal year, muddling through might not be good policymaking, but could be the best one can hope for. For American higher education in the volatile Trump era, disaster averted for now.

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