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TESTIMONY of
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Before the
COMMITTEE ON FINANCE
of the
UNITED STATES SENATE
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Chairman Baucus, Ranking Member Hatch, committee members, thank you inviting me back to testify on the issue of runaway tuition and what might be done about it.

When you asked me to come here five years ago to describe how unaffordable college had become, I shared some analyses that many found surprising. I took the prices of milk and of gas in 1980 and told you how much those goods would cost in 2007 if their prices had gone up as rapidly as had in-state tuition at public, four-year universities. I've now updated those prices to the current day.

Whereas, back in 2007, the “tuition-adjusted” price of gasoline was \$9.15 a gallon – today it stands at \$13. The price of milk? Up from \$15 in 2007 to \$22 per gallon today.¹ I do these pocketbook analyses to help put the rapid rate of tuition increase in to graspable terms.

Everyone wants to do something about college costs, but no one, including the President, has a plan. We've satisfied ourselves for decades by accommodating the problem rather than holding schools accountable for what they charge. As Dean Zerbe, a former staffer on the committee, has written: “Colleges and universities have been raising tuition faster than a monkey can

¹ This analysis is based on data contained in the College Board's research series, “Trends in College Pricing.”

shell nuts (and of course Washington’s response has been to throw a lot of peanuts their way).”²

Of course, the most popular accommodation is to increase the number and size of federal student loans and grants. But Bill Bennett’s hypothesis has held true—this only incentivizes colleges to deliver students bigger bills. The same is the case with education tax credits. Do not for a moment entertain the illusion that these credits end up in the bank accounts of families. Tuition cost will keep pace with, if not exceed, any subsidy you create.

We have also accommodated tuition excess by establishing ways for parents to sock away significant portions of their income, tax-free, for their child’s education before they are even born. These are dollars that would undoubtedly be better spent meeting other family needs in these challenging times rather than being set aside, decades early, to pay a future college bill of fear-inspiring proportions.

I don’t need to tell you that these methods have failed. What’s worse: They have created the dangerous impression that we are addressing a problem that worsens rapidly every single day.

² <http://blogs.forbes.com/deanzerbe/>

We need to stop accommodating. We need to stop searching for an endless number of ways to pay the tuition bill and, instead, begin holding colleges and universities accountable for the price tag they put on American education.

Let's remember that higher education's take on the public purse cannot be exaggerated. In addition to the billions in research dollars and the massive subsidies that flow from federal and state loans and grants, there are tax-free bonds, tax-free charitable donations, tax-free endowments, tax-free real estate holdings—worth at least \$10 billion annually.

Let's also remember that our colleges and universities are sitting on more wealth than has been amassed by any other group of non-profit institutions in the history of our nation—including private foundations.³ Now, I shouldn't say they are "sitting" on these billions, because they are actually very busy investing them in some of the most complex and illiquid long-term experimental investments that man has ever created. Their focus is on amassing these funds, not on spending them.

Currently, 143 schools have endowments larger than \$500 million. Seventy-four colleges and universities have endowments over \$1 billion. About 25% of our

³ According to the Foundation Center's "Top 100 U.S. Foundations by Asset Size" rankings, there are 65 private foundations in the United States with wealth exceeding \$1 billion. See <http://foundationcenter.org/findfunders/topfunders/top100assets.html>.

nation's wealthiest universities are public institutions including the University of Michigan, Texas, Oklahoma, Nebraska, Virginia, Minnesota, and Florida. Numerous liberal arts schools, that support no graduate programs or big medical research facilities, and enroll just a few thousand students, are among the wealthiest. They include Grinnell College in Iowa and Swarthmore College in Pennsylvania.⁴

Keeping in mind this abundant wealth, and the litany of accommodations and tax benefits higher education enjoys, I suggest tuition accountability is long overdue. Here are three ideas that will get the ball rolling:

- One is to require colleges and universities to do what private foundations must: Spend a certain percentage of the value of their endowments each year. Foundations are required to spend 5%, which is an old number that likely needs to be revised upwards. Requiring schools to spend more would let loose tens of millions which could be spent on decreasing the cost of college. Let me emphasize that this will not be a burden to schools with smaller endowments — as they

⁴ 2011 NACUBO-Commonfund Study of Endowments, http://www.nacubo.org/Research/NACUBO-Commonfund_Study_of_Endowments/Public_NCSE_Tables.html. See Table: "U.S. and Canadian Institutions Listed by Fiscal Year 2011 Endowment Market Value and Percentage Change in Endowment Market Value from FY 2010 to FY 2011"

already spend their endowments more aggressively than do the wealthier institutions.⁵

- Second, and again this mirrors what already is required of foundations, make colleges and universities publicly disclose the amount and purpose of each and every endowment expenditure. If you require schools to spend more, you do not want it to go for more opulent fundraisers at the university president's house or more climbing walls at the gym. Let's get the sunshine we need to encourage colleges and universities to spend their funds on bringing the cost of education down.
- And, lastly: Let's make the university president, administrators, and professors pay tax on the free college education their children receive.⁶ This is a gratuitously unfair and excessive freebie that reeks of privilege, corrupts admissions processes, and undermines the very notion of fairness. At very least, it should be taxed.

These three moves would not solve the problem of runaway tuition. But they would demonstrate that policymakers are willing to begin setting the kind of tax policy, and demanding the sunshine, required to begin holding schools accountable.

⁵ See NACUBO/Commonfund Study of Endowments.

⁶ <https://www.jct.gov/publications.html?func=startdown&id=1524>

When this committee focused its attention on the issue of college affordability five years ago, there were some good effects. Unfortunately, they were short-lived.

A few of schools instituted “no loan” policies—promising, in most cases, to allow students whose parents earned less than \$75,000 per year to attend college without taking out loans. Most of those programs, including at Williams and Dartmouth colleges, were cancelled two years after they were created.⁷ No one who’d enrolled under the program even had time to graduate.

Some schools also increased scholarship and grant expenditures five years ago. But, according to a study Sallie Mae just released, college and university grants and scholarships fell 15% during the last academic year.⁸ That’s more than \$1000 per student.

Also, in 2008 an IRS questionnaire was sent out to 400 colleges and universities to inform work on a new schedule to the 990 requiring disclosure of information about education endowments. But the schedule never appeared. I suggest, Chairman Baucus

⁷ <http://www.insidehighered.com/news/2010/02/09/dartmouth>

⁸ Wall Street Journal, July 16, 2012.

<http://online.wsj.com/article/SB10001424052702303612804577528770015146982.html>

and Ranking Member Hatch, you write to the IRS and ask what happened.

Affordability is an illusion the higher education establishment adopts when public or government relations demand it. In order to have lasting impact on the problem of runaway tuition, your attention to it must be enduring.

Our colleges and universities have been given every opportunity, for decades, to do the right thing with regard to controlling the cost of college. They've not done it and there is abundant proof that they will never deliver American families a fair and honest tuition bill unless our nation's political leaders join the public and insist on it.