



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Opening Statement of Chairman Grassley
Hearing, "Report Card on Tax Exemptions and Incentives for Higher Education:
Pass, Fail, or Need Improvement?"
Tuesday, Dec. 5, 2006

Today we are holding an oversight hearing to look at tax benefits for higher education. We will be looking at both the incentives we provide to families and students to help pay for higher education and also the significant amount of tax breaks we provide colleges and universities as tax-exempt organizations. The Joint Committee on Taxation has estimated that the tax benefits to individuals to assist with higher education for 2006-2010 is \$49 billion. The tax breaks provided to colleges and universities are also significant. These institutions are allowed to issue tax-exempt bonds; they are exempt from income tax; and they benefit from the deductions allowed for charitable giving.

Unfortunately, it appears that for too many colleges and universities, particularly our nation's elite institutions, the response to efforts to make college affordable has been a bad triple play: big tuition increases; expanding endowments; and now million-dollar salaries for college Presidents. The Finance Committee considered some of these issues in April 1997 when we considered the Clinton Administration's proposals for the HOPE scholarship as well as other tax breaks to help pay or save for college. Many members at that hearing expressed concerns about rising tuition costs. There was discussion about how incentives for education savings and other tax changes could possibly reduce the rampant increases in tuition costs.

We will hear testimony today about research that considers whether additional tax breaks have been a factor in increasing tuition and reduced institutional financial support. However, one thing is clear – the tax incentives we've passed have certainly done nothing to limit the rampant growth in tuition. Since 1976 college tuition and fees have risen by more than twice the economy's overall price level. Imagine that! The burden on families and students has risen by twice the inflation rate.

In our 1997 hearing we had discussion of what Senator Moynihan termed "Baumol's disease." The Committee looked at this theory as a justification for ever-increasing tuition, basically, the point being that because colleges are so labor intensive, they can't benefit from improvements in productivity that occur in the rest of the economy. However, it does not have to be that way. Many colleges and universities are working hard to keep costs under control and to make sure that working families are not overwhelmed with the costs of college. Two examples from my own state are Drake University and Northwestern College that have taken real steps to get a handle on tuition increases. It can be done. I will include in the record a letter from the president of Drake as well as an extensive discussion of the work Drake has done in this area.

I would suggest to my colleagues that efforts to stop the galloping inflation of college costs failed when we tried to address it from the demand side. I think it is now time for us to consider what incentives or requirements might make sense for colleges and universities that receive billions in tax breaks, particularly our elite institutions with massive endowments, for best practices to keep tuition costs in hand and to assist working families to attend and pay for college.

Should we expect better information and transparency of what colleges are doing to control costs, who they are admitting and other important information? Should colleges with big endowments be required to pay out funds and dedicate some of those funds to keep tuition costs in check for working families? Should some tax breaks for colleges be dependent on their keeping tuition inflation under control? Are tax breaks such as tax-exempt bonds actually encouraging behavior such as increasing tuition and reducing the number of students accepted from working families? These are some of the questions and ideas – and there are many more – that we need to be thinking about.

The information prepared for today's hearing by CRS and Joint Tax is very informative and I commend it the attention of members and staff. I particularly note the issues CRS and Joint Tax raise regarding these massive endowments at some universities that have no requirement to provide a penny to help students pay for college. I know that looking at colleges and universities is a tougher task than the easy journey of just voting for more tax breaks for tuition. I've supported and have in fact championed those tax breaks in the past. I have no desire to see those incentives eliminated and look forward to working with Senator Baucus on extending those proposals in this Congress as well as early next Congress.

That is why it is all the more unfortunate that some on the other side have decided to make political points off of what has been a bipartisan matter for years. If you looked at the rhetoric and ads coming out of the campaign committee on the other side, you'd believe that none of these recent education tax relief provisions come out of bipartisan Finance Committee bills. In fact, the truth is all of these measures were bipartisan and enacted during Republican congressional control.

However, I am very fearful that with additional tax breaks for education without encouraging best actions by colleges and universities we won't even be helping working families keep current with rising costs. The need for this committee to train its eyes on the tax breaks for education has received important support from Mr. Charles Miller who was chairman of the Secretary of Education's Commission on The Future of Higher Education, which recently released its report. I enter into the record his letter from December 1. He makes several points about the importance of holding colleges more accountable and also emphasizes the need to clean up the confusion and complication of the tax breaks that assist families to pay and save for college.

Reform of the tax code in this area is also an important part of this hearing. We have proposals from Joint Tax and the President's tax reform panel to reform the maze of tax law when it comes to paying and saving for education. We will hear more about what can be done in this area to make these incentives more effective. It is very discouraging that many students and their families are not taking full advantage of the tax incentives we have provided because of confusion and uncertainty. We need to make simplification in this area a priority and my hope is that the administration will put forward creditable proposals in this area in its budget next January.

Last, we will be hearing about a new issue for this committee, which is the significant number of enrollment spaces at our nation's elite colleges that are reserved for the children of alumni, the children of teachers and the children of multimillionaires whom the university hopes might give money down the road. All this means fewer spaces for the children of working families. The reality is that for a smart high school student from Waterloo, Iowa, the number of spaces available at a top college are a lot fewer than meets the eye. We need to think whether these reserved spaces at our top colleges is a public policy that should be subsidized by the tax code -- as is currently the case – and also whether it is in keeping with the requirement that as charities, colleges and universities operate in the public interest.

I look forward to this testimony and encourage other interested parties to submit their views and comments on how to deal effectively with the issues presented today.