



February 5, 2018

The Honorable Lamar Alexander
Chairman
Senate Committee on Health, Education, Labor and Pensions
United States Senate
Washington, DC 20510

The Honorable Patty Murray
Ranking Member
Senate Committee on Health, Education, Labor and Pensions
United States Senate
Washington, DC 20510

Dear Chairman Alexander, Ranking Member Murray, and Members of the Committee:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA), I respectfully submit the following letter for the record on the Senate Health, Education, Labor and Pensions (HELP) Committee hearing entitled *Reauthorizing the Higher Education Act: Improving College Affordability*.

For decades, the theory that increases in federal student aid lead colleges to increase their prices has permeated conversations about higher education cost and affordability. Unfortunately, that theory, often referred to as the “Bennett Hypothesis” is not supported by conclusive evidence, and yet frustratingly, still tends to drive higher education policy discussions. NASFAA is concerned that we have reached a point where the perpetuation of this hypothesis has become harmful, irresponsible, and will lead to misguided policy decisions if not refuted.

On its surface, the idea that federal, state, or other public subsidies would lead to higher, inflated prices resonates. But the higher education funding landscape is far too complex to attribute price increases to any single factor or source of funding. The diverse structure of the higher education system in the United States, combined with the fact that institutions of higher education are complex, unique organizations, makes it very difficult to isolate cost increases.

In a 2013 issue brief, “Does Federal Financial Aid Drive Up College Prices?”¹ Dr. Donald E. Heller stated that “While the Bennett Hypothesis may be intriguing, there is little compelling evidence that it holds true with respect to the price-setting behavior of colleges and universities in the United States. This complex process involves far too many variables for it to be essentially explained by the simplistic notion that tuition-setting boards sit around and say, ‘Well, Pell grants are going up \$200 next year, so we can raise tuition \$100.’ While any change in federal aid may be a very small piece of the puzzle that leads to year-to-year tuition increases, there is scant evidence that it is a major contributing factor.”²

Professors of economics at the College of William and Mary, David Feldman and Bob Archibald, have also researched this topic extensively, finding that there are a variety of reasons that lead to increases in college prices. In their book, “Why Does College Cost So Much?”³ Feldman and Archibald discuss the myriad reasons institutions must charge what they do.

For example, they argue that while technology has played a role in decreasing output costs in other industries, the same has not held true in higher education.⁴ Colleges and universities are expected to keep up with the latest technological infrastructure — a costly endeavor — but purposefully try to keep student-to-instructor ratios reasonable in order to provide quality learning environments. Feldman and Archibald, as well as several other renowned researchers, have also pointed to how the interplay of different subsidies, and in particular subsidies at the state level, can positively or negatively impact costs and prices. As public state appropriations decrease, more of the costs of providing higher education are passed along to students and families.

In the 2015-16 year, public appropriations per full-time equivalent (FTE) students were 11 percent lower in inflation-adjusted dollars than they were a decade earlier, and 13 percent lower than they were 30 years earlier, according to the College Board.⁵ Put another way, shouldering the cost of providing higher education has shifted away from the public — mostly at the state and community levels — to individual students and families. In 1975, for example, the states covered 60 percent of the tab for a year in college while families shouldered 33 percent, according to Feldman. “Today,” Feldman states, “the states pay only 34 percent while families bear 50 percent of the cost,” and the federal government’s share — through grants and

¹ “Does Federal Financial Aid Drive Up College Prices?” Heller, 2013: <http://www.acenet.edu/news-room/Documents/Heller-Monograph.pdf>

² Ibid

³ “Why Does College Cost So Much?” Robert B. Archibald and David H. Feldman, 2010.

⁴ Ibid

⁵ “Trends in College Pricing 2017.” The College Board, 2017: https://trends.collegeboard.org/sites/default/files/2017-trends-in-college-pricing_1.pdf

tax credits — has risen to around 16 percent.⁶

The theory that financial aid inflates college prices is also weakened by the fact that the net price, the amount students actually pay, has been decreasing over many years. At the same period of time, federal investment in the student aid programs has only grown modestly, on a student-by-student basis. There has not been an increase in loan limits in nearly 10 years, and in recent years the Pell Grant received only nominal annual increases. Yet over the last decade the average net tuition and fee price paid by full-time students at public two-year schools and private, not-for-profit four-year schools has actually decreased.⁷

It is tempting to try to reduce the complexities of college pricing to some of the simplest, corollary variables available, such as federal student aid. Yet to do so would require us to ignore the complicated intricacies of cross-subsidization, the myriad variables of college costs, and net prices associated with college funding. As we look forward to reauthorizing the Higher Education Act, we must rely on data and evidence to guide our student aid policy, which also requires an acknowledgement that any link between federal student aid and college price increases is unsubstantiated.

NASFAA members support conversations to modify the student aid programs to work for today's students. Modifying existing programs and funding — using evidenced-based research — is vital. But NASFAA opposes any proposal that seeks to decrease student aid under the faulty notion that those decreases will in some vague, unsupported, and counterintuitive way result in lower college prices.

Regards,



Justin Draeger, President & CEO

⁶ "Myths and Realities about Rising College Tuition." David H. Feldman, 2012: https://www.nasfaa.org/news-item/4565/Myths_and_Realities_about_%20Rising_College_Tuition

⁷ "Trends in College Pricing 2017." The College Board, 2017: https://trends.collegeboard.org/sites/default/files/2017-trends-in-college-pricing_1.pdf