Hearing on The Rising Costs of Higher Education and Tax Policy

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

October 7, 2015

SERIAL 114-OS08

Printed for the use of the Committee on Ways and Means

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Hearing on The Rising Costs of Higher Education and Tax Policy

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:00 a.m., in Room 1100, Longworth House Office Building, Hon. Peter J. Roskam, [chairman of the subcommittee] presiding.

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*Chairman Roskam. The subcommittee will come to order.

Welcome to the Ways and Means Oversight Subcommittee hearing on "The Rising Cost of Higher Education and Tax Policy."

Right now college students are preparing for a great tradition in this country, homecoming. However, as they head to the tailgates and the football teams are taking the field, parents and some students themselves are facing a harsh reality.

The first tuition checks of the year are clearing the bank, and families are figuring out how to make ends meet, during one of the biggest financial challenges in modern life, that is, figuring out how to pay for the cost of college.

Let us talk about some numbers. The current median income in the United States is about $55,000 a year. If you look at private, nonprofit, four-year schools, the average sticker price, meaning the advertised price before financial assistance, is more than $31,000. For a public four-year college, it is just under $10,000, and on top of that, students obviously need to buy food and books and pay rent. The College Board estimates that students spend between 15,000 and $23,000 each year to cover those costs.

So without financial aid, college would cost somewhere between 24,000 and $54,000 a year, and students are graduating with, on average, $33,000 a year in student loan debt.

I have got a chart I would like to put up.

We talk a lot about the increasing cost of health care in this Committee. Tuition makes those numbers look tame. Medical costs have increased over 600 percent over the last 40 years, but tuition and fees have doubled that, increasing over 1,200 percent and show no signs of slowing down.

So just marinade in that for a second. We have had a huge national debate about health care costs, very different opinions, and so forth, but what brought all of Americans together was the notion of the acceleration of health care costs that was outpacing inflation to a breathtaking point, and yet tuition and fees has doubled the pace of health care.

Today we are here to look at what is behind the rising cost of college tuition and to consider whether this Nation's tax policies are partly to blame.

We will come at the problem from a number of different angles. First, we are going to look at federal student aid. In 1987, Secretary of Education Bill Bennett argued in a "New York Times" editorial that increases in financial aid allow colleges to raise their tuition rates because schools think the students can afford it.

The New York Federal Reserve recently published a study that bears this out. The Fed. study finds that at private schools a one dollar increase in the subsidized loan cap could increase tuition by as much as 65 cents. To be clear about what this means, the data shows that when the Federal Government makes more loan money available, schools generally respond by raising tuition, and one of the studies' authors, economist David Lucca is here today to discuss those findings.

Next, we're going to consider how schools are spending their money. Over the last 30 years schools have significantly increased their administrative staff and engaged in an “arms race” with each other to build things like movie theaters and luxury gyms. Are these expenses necessary? Are they really helping students secure a better education?

We will also look at how private schools are setting their executive compensation rates. For nonprofit institutions, it seems like a lot of university presidents are making very good money. For example, in 2013, 42 private college presidents made more than a million dollars.

One way schools can justify their compensation as reasonable to the IRS for the purpose of favorable tax consideration is to show that similarly situated institutions pay comparable salaries to their executives. Well, that method points in one direction: up. It allows executives to increase their compensation year after year simply because others are doing it, too.

I am not against people succeeding, but this is another area that is important for our subcommittee to consider. Are the highest paid college and university presidents the ones providing the best education for students? If not, why not? Further, how does tax policy fit into that math?

Finally, we will look at endowments. Currently, endowments and their investment earnings are tax exempt. Congress provides that exemption to further a charitable purpose: better educating our Nation's students, preparing them for successful careers, and increasing the store of human knowledge through research.

We understand that endowments can help assure financial stability to schools, but about 90 schools have endowments of more than a billion dollars, and some of those schools have made great strides in providing exceptional financial aid to their students, but others have not. So we will look at those issues as well.

We look forward to hearing from our witnesses who can shed light on these important challenges as we examine whether Federal tax policies for colleges and universities are best serving students and families.

At this time, I recognize Mr. Lewis for the purpose of his opening statement.

*Mr. Lewis. Good morning. Mr. Chairman, I want to thank you for holding today's hearing on "The Rising Cost of Higher Education and Tax Policy."

I am proud to have many outstanding colleges and universities in my congressional district. Spellman, Morehouse, Georgia State, Clark Atlanta University, Georgia Tech, Agnes Scott, and Emory, all just a few of more than 80 institutions of higher learning in Metro Atlanta.

These and other colleges and universities across the country play a critical role in our society. They educate our young people and create the skilled workforce that we need to compete with other countries around the world.

These institutions train future doctors, nurses, teachers, engineers, and scientists. They build the technology and develop the business leaders that will create a better tomorrow for generations yet unborn. At academic research centers, students and professors seek solutions to the most difficult issues facing the global family. They lead the way in searching for cures to cancer, Alzheimer's, HIV-AIDS and other diseases.

Perhaps most important, institutions of higher learning play a key role in expanding opportunity and reducing income inequality for those who have been left out and left behind for too long. A college degree creates a significant advantage for an individual's lifetime earnings.

For example, in 2014, the average weekly earnings of a college graduate was over 60 percent higher than a worker with only a high school diploma. Every year higher education becomes more important to our Nation's economic needs. Federal student aid programs like Pell Grants and student loads are critical tools to ensure that a college education is affordable and accessible to all who aspire.

In light of a decrease in State support for higher education, it is more important than ever for the Federal Government to do our part and play our role. As Members of Congress, we have a mission, an obligation, and a mandate to keep the dream of higher education within the reach of every student.

I look forward to hearing from today's witnesses and thank you all for being here today.

Thank you, again, Mr. Chairman, for holding this hearing.

*Chairman Roskam. Thank you, Mr. Lewis.

Today we have a panel comprised of academics, industry experts, college and university representations, and our panel is as follows:

Dr. David Lucca, Research Officer at the Federal Reserve Bank of New York;

Dr. Richard Vedder, Distinguished Professor of Economics at Ohio University and Director of the Center for College Affordability;

Dr. Brian Galle, Professor of Law at Georgetown University Law Center;

MaryFrances McCourt, Senior Vice President and Chief Financial Officer at Indiana University, on behalf of the National Association of College and University Business Officers; and

Terry Hartle, Senior Vice President of Government and Public Affairs at the American Council on Education.

Thank you all for your time today.

Mr. Lucca, you are recognized for five minutes.

STATEMENT OF DR. DAVID LUCCA, RESEARCH OFFICER, FEDERAL RESERVE BANK OF NEW YORK

*Dr. Lucca. Chairman Roskam, Ranking Member Lewis, and members of the subcommittee, thank you for inviting me to testify today.

My name is David Lucca. I am a Research Officer at the Federal Reserve Bank of New York. I was born in Switzerland and am happy to share with you that I am a naturalized U.S. citizen as of today.

In July I coauthored, along with Taylor Nadauld of Brigham Young University and Karen Shen of Harvard University, a report entitled "Credit Supply and the Rising College Tuition Evidenced from the Expansion in Federal Student Aid Programs."

My testimony today, which does not represent the official view of the Federal Reserve Bank of New York or any other parts of the Federal Reserve System, will focus on the research and conclusions in that report.

First I would like to discuss the motivation for our research. The rapid growth in student debt in recent years is reminiscent of the expansion in mortgage credit in the first half of the 2000s, and understanding its consequences is a key economic research question.

Federal aid programs are a key source of student credit with about 90 percent of all student loans in the U.S. originating under such programs. There are clear economic rationales for government support of student loan programs, but the implications of large credit expansions can be more subtle.

Access to more borrowing increases the spending capacity of each borrower, which general will boost demand. Our study aims to determine to what degree this increase in demand for higher education may in the short run be reflected in higher tuition prices at postsecondary education institutions.

To that end we studied tuition setting following changes to the annual student aid limits that took place in recent years. Here is a summary of our conclusions.

Our main finding is that changes in subsidized loan amounts have been associated with sizable increased in posted tuition. Our estimate suggests that an additional dollar of per student credit led to about 70 cent increases in posted tuition. We find smaller effects on tuition for additional Pell Grants and unsubsidized loans of about 55 cent and 30 cents on the dollar, respectively.

Because of the many factors that went into account for our study, I am much more confident that the subsidized student loan availability has had an impact on tuition as opposed to other forms of aid like Pell Grants and unsubsidized loans.

Our study sample includes a large number of public, for profit, private and not-for-profit institutions. We find it likely that tuition will rise in response to the greater availability of student loans, to be more pronounced among the more expensive private institution offering four-year degrees that are also among the more but not the most selective in terms of admission rates.

We are currently revising the study to expand the sample of institutions and to address helpful comments and suggestions we have received, including some from a trade group represented on today's panel.

Even with these revisions, we believe our findings on the effects of the availability of federal student aid on tuition will not materially change. Nonetheless, it is important that our findings not be misinterpreted or blown out of proportion.

I will now discuss some of the limits to our study findings, as well as other factors that you should bear in mind when considering the results of our research.

Our results are not a comprehensive explanation of tuition over longer periods of time and are not informative about other possibly important factors in the rise of college tuition. These other factors could include the decline in State contribution to public universities and an increasing demand for higher education because, for example, of the rising wage gap between college educated workers and others.

Next, the study speaks to posted tuition rather than tuition that the institution discounts and grants because comprehensive measures of these are generally unavailable to researchers. I do not believe that studying the actual tuition paid by students rather than posted tuition will have materially changed our findings, but it would have certainly been preferable.

Finally, while our study suggests that tuition price increases may be lowering the impact of some Federal student aid, these are not the only factors that should be considered when evaluating the effectiveness of student aid. For one, these programs could be essential for students of lower income families to access higher education.

Also, long-term price effects may be smaller than what we estimate in the short run as the institution boost student enrollment capacity over time. This expansion in enrollment may constitute a public benefit as more students could access higher education in the long run.

Thank you for your attention. I am happy to answer any questions you may have.

*Chairman Roskam. Thank you, Dr. Lucca.

Dr. Vedder.

STATEMENT OF DR. RICHARD VEDDER, DISTINGUISHED PROFESSOR OF ECONOMICS, OHIO UNIVERSITY, AND DIRECTOR, CENTER FOR COLLEGE AFFORDABILITY

*Dr. Vedder. It is widely agreed that the American tax system violates most of the basic principles of taxation relating to simplicity, efficiency and fairness, and that tax reform should lead to lower marginal rates, an expanded tax base with fewer exemptions, credits, and special loopholes.

Higher education tax policies contribute somewhat to this problem. People can lower their tax liability by making gifts to non-academic aspects of university life, such as building fancy stadium skyboxes or luxurious resort-like housing facilities. Tax treatments of some collegiate compensation arrangements deserve scrutiny.

But today I want to talk mainly about university endowments. Almost a half a trillion dollars is invested in university endowment funds. The distribution is extremely unequal. The top one percent of measured endowments has nearly 30 percent of all the funds.

There are several schools with over one million dollars in funds for every student, enough to provide $50,000 per student in annual investment income, using a five percent payout rate. The average institution, however, has about $25,000 of endowment per student, while endowments are particularly critical for private institutions. Four of the 15 largest ones are held by State universities.

My student associate Justin Strehle and I have used econometric techniques to examine the relationship between endowment spending and several key variables, looking at a sample of nearly 500 schools, including most of the largest and most prestigious American colleges and universities.

The basic question asked is: are endowments used for useful public purposes? Let me share four conclusions.

First, endowments are not generally used to lower the stated tuition fees of colleges. There is no statistically significant relationship between endowment size and tuition fees.

There are exceptions. Berea College in Kentucky, the College of the Ozarks in Missouri, and historically Cooper Union in New York City has used endowments to essentially eliminate student fees, but that is rare.

Second, endowments are used some to provide scholarships, effectively lowering the actual or net tuition fee paid by students. However, assuming a four or five percent payout rate, the evidence suggests that typically less than 20 cents out of every dollar of endowment income goes for this purpose. Making college more affordable is not the dominant use of endowed resources.

Third, because of inherent measurement issues, it is difficult to assess the relationship between endowments and institutional quality.

Fourth, magazines rank schools mainly on how they satisfy student needs. Do students like the professors, excel after graduation, avoid much debt, graduate in a timely manner, and so on?

Controlling for other factors, there is no statistically significant relationship between the quality of an institution and an endowment size.

Fourth, there is some indication that some endowment funds go to increase faculty compensation at institutions. In some case, this might lead to higher quality teachers and researchers, but it might also lead to excessive bureaucracies or unjustified pay increases rather than meeting student needs. The evidence is somewhat murky but raises real questions about whether endowment funds mainly serve social objectives justifying special tax treatment.

The quality gap between the public and private school has widened over time partly because of Federal student loan policies and increasingly parents believe success depends on their children getting into highly endowed academic, gated communities, such as Ivy League schools. This trend is arguably inconsistent with basic American egalitarian ideals, and special tax preferences of endowments, especially for extremely wealthy schools may be of questionable social value.

Thank you.

*Chairman Roskam. Thank you, Dr. Vedder.

Mr. Galle.

STATEMENT OF PROFESSOR BRIAN GALLE, PROFESSOR OF LAW, GEORGETOWN UNIVERSITY

*Mr. Galle. Thank you, Mr. Chairman, Ranking Member Lewis, members of the subcommittee.

My name is Brian Galle. I am a professor at Georgetown University Law Center.

American colleges and universities are the best in the world, but for reasons that are in part out of their control, and probably Congress', costs in the education sector have risen faster than inflation, a lot faster, and likely will in the future. Costs are rising because of structural factors in the economy and the nature of nonprofit organization. These are things that are hard to change in the short term.

But our tax policy has also, in my view, contributed in a couple of ways to cost growth. Tax policy has encouraged universities to save money instead of spending it on students, and has helped to drive up administrators' salaries.

Let me talk first about endowment funds and then executive compensation.

To be clear, universities should have endowments. They should have a pool of money that is set aside for future needs in case times get tight. But modern universities are taking their rainy day savings to possibly absurd extremes. You could read Harvard's 2013 tax return. Harvard could put all of its investments in a money market fund tomorrow, make its tuition free for all, and then keep spending at 2013 levels for another 12 years. That is quite a rainy day.

Most colleges and universities have spending policies that are designed to keep the school's endowment growing in real terms after inflation terms forever. According to the National Association of College and University Business Officers, the average private school spends less than five percent of its net investment assets every year.

So if you make a gift to your alma mater and you restrict that gift to a particular purpose, most schools have a rule that will prohibit them from spending more than five percent of the gift in any year. That way the school is only spending investment earnings and is never spending that gift principal.

This growth plan is working. Education costs have gone up, but college investment assets have grown a little faster, and the bigger each school's investment account grows, the more money they have to pay their fund managers in order to invest.

Now, that is all money that could be going to need-based financial aid. It could be going to outreach to underserved communities, to new teaching technologies, cutting edge research. It is a lost opportunity, in other words. You can understand why colleges' alumni would like the idea that their alma mater is going to keep getting richer forever, but it is not necessarily a good idea for America. We should be investing in kids' futures, not bond futures.

I do not necessarily get behind the idea of government telling market actors how to run their businesses, but it turns out in this case we already are. Federal tax policy is contributing to the culture of big college wealth accumulation. We give a bigger tax break to donors who restrict their gifts so that the gifts cannot be spent right now, and the longer it takes to spend the money, the bigger the tax break.

Keep in mind that if the five percent spending plan works as colleges intend, the school will never spend the donated principal that the donor took a deduction when given.

There are a few ways to fix the problem. I am not a fan of taxing endowments or endowment returns because I think taxing investments has unwanted distortive effects on investments and other choices. Also, as I am sure you know, this body in the past has considered extending the minimum payout rule that applies to private foundations, to educational organizations.

I support minimum payouts for private foundations and donor advice funds, and actually think the current level of minimum spending should be higher, but a floor might not be flexible enough admittedly for a charity that, unlike a foundation, has a huge workforce and consumer base. So my recommendation would be to consider reducing or eliminating the tax advantage that comes with giving to organizations that restrict their endowment spending.

We could calculate how long it will take to spend out a gift at current spending levels, compute the extra tax benefit the donor is getting as a result, and reduce the current contributions by some fraction of that amount. Then at least we would just be neutral towards instead of encouraging saving over spending on students.

Let me also now talk about administrator compensation. Without oversight, administrators can make decisions for their school that make it easier for them to be more highly compensated. For instance, my research suggests that schools with more tuition and more endowment savings tend to pay their administrators more.

The existing oversight comes mostly from Section 4942 of the tax code, the so-called intermediate sanctions regime. These are the rules that say a school has to pay a penalty for overpaying its top administrators. Under the regulations, schools get the benefit of the doubt if they can show that their compensation is comparable to others, and of course, no one wants to say that their president is below average, so you get a ratcheting up effect.

My research shows that pay started going up much faster in 2002 after the IRS issued the comparable salary rule. This is an area where my research suggests that it is possible that market forces could work if we gave them a little bit of help.

I find that when you make it easier for donors to know what executives at their alma maters or the other institutions they are supporting are getting paid, they will respond fairly quickly if they think those administrators are getting too much. So instead of asking the IRS to guess what a comparable salary is, we might instead just require a more complete and honest disclosure of presidents' pay packages, including items that right now are usually pretty opaque, like housing, travel in summertime, and benefits.

Thank you again for inviting me to testify today. I am happy to answer any questions you may have.

*Chairman Roskam. Thank you, Mr. Galle.

Ms. McCourt.

STATEMENT OF MARYFRANCES McCOURT, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, INDIANA UNIVERSITY, ON BEHALF OF THE NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

*Ms. McCourt. Thank you for this opportunity.

I am speaking on behalf of the National Association of College and University Business Officers, representing financial officers at 2,100 colleges and universities.

I came to higher education ten years ago after 20 years as a corporate finance executive. At Indiana University, I managed one of the largest and most complex institutions of higher education in the country, with an annual operating budget of over $3.3 billion, over 105,000 students across seven campuses.

I take very seriously the responsibility to deliver on the purpose of higher education, to enhance intergenerational mobility, and drive the knowledge creation and innovation that supports economic growth.

As demographic, geographic, financial and cultural forces reshape our economy, we are using sophisticated business analytics tools to implement our mission and optimize our operations to meet the expectations of all of our stakeholders, from parents and students to our donors, to the U.S. economy at large.

I am held accountable by IU's governing board of trustees who hold the university's financial, physical and human assets in trust for today's students and future generations.

The dramatic erosion of State support has been our most challenging financial pressure. In the mid-1980s, State operating appropriation made up 58 percent of the general education fund budget, and tuition and fees just 26 percent. That ratio has now completely flipped. Just since 1990, had State appropriations kept up with CPI, we would have received $125 million more in our fiscal year 2014 budget, and had it kept up with the higher ed. price index, we would have received $225 million more just that year.

However, we have managed to thrive through our focused attention on running efficient operations, to reallocate resources for strategic investment. Historically low tuition increases are our new normal.

Just as an aside, at Indiana University, tuition increased this past fiscal year from zero dollars a week to $4.46 a week. Despite this, we have invested heavily in student success in affordability with significant attention to the reduction of student debt. Our institutional aid budget of $287 million has increased $139 million, or 106 percent, over the past eight years.

The national focus on sticker price rather than net price is missing this important fact. The majority of students are not paying sticker price, and student debt at Indiana University had decreased over $82 million, or 16 percent, in the past three years.

We also balance short-term needs with long-term financial viability. We have comprehensive long-term financial models to proactively manage our several billion dollar operation commensurate with corporate business practice.

Our strategic financial planning also includes prudent management of our endowment. Endowed funds established contractually with donors represent IU's promise to use income and investment gains generated by their gifts to support a donor directed initiative tied to our mission into perpetuity.

Legally our endowment cannot be used as a rainy day fund. Donors must consent to a change in use. Endowment distributions, be they for financial aid or other operational areas, relieve tuition pressure and have served as a critical contributor to student access.

Private donors are transferring wealth for the public good, and access to higher education has never been greater.

In a recent report Child Care Aware of America found that in 2013 the average annual cost for an infant in center-based care was higher than a year's tuition and fees at a four-year public college in 31 States and the District of Columbia. Our faculty and staff are highly educated and are often experts or leaders in their field. Our academic programs and operations require state of the art information technology. A standard of care demanded by the employers of our students. The cost of providing infant and childcare simply does not compare to the cost of running our center for applied cyber research, cyber security research, or our national center for genome analysis support.

I raise the comparison to day care because while there is a public outcry that the cost of college is too high, we have not had a fundamental conversation about what a college education should cost to ensure America's educational institutions remain the finest in the world.

Are higher education institutions concerned about student affordability? All day long, yes.

As I examined the issue, I asked myself what has happened since the financial crisis that moved this conversation front and center. The crisis impacted families' ability to pay for college. Median household income has remained flat. Housing wealth and volatile stock markets limited parents' ability to draw on their savings and other forms of borrowing. Families turned to student loans.

We will continue to maintain our keep focus on these issues and we will continually direct attention to the role we all play in the multitude of factors that are contributing to this national issue as we work to fulfill the dreams we would have for our own children: a bright future built on a strong educational foundation.

Thank you for having me here today.

*Chairman Roskam. Thank you, Ms. McCourt.

Mr. Hartle.

STATEMENT OF TERRY HARTLE, SENIOR VICE PRESIDENT AMERICAN COUNCIL ON EDUCATION

*Mr. Hartle. Thank you very much, Mr. Chairman. I appreciate the opportunity to be here with you today.

The price of higher education is a huge issue, and there is no shortage of evidence that the public and policy makers are deeply worried. I talk to college and university presidents every day, and over the last five years this issue, the price of higher education and what can be done to minimize it, is by far the issue that has most frequently been on their mind.

Every president I know wants to find ways to minimize tuition increases while offering the highest possible quality education to their students. American higher education is a very complex and diverse industry. There are roughly 4,700 two-year and four-year degree granting institutions in America, most of which are public and private, not-for-profit. There are about 17 million undergraduate students, more students than America currently has in high school.

Colleges and universities differ considerably from community colleges to entirely online institutions, to liberal arts colleges, to great research universities.

While it is risky to generalize about the rise in college prices given this institutional diversity, I think there are two central factors that are involved. The first is structural. Higher education is a labor intensive industry with high fixed costs, and it relies on a large number of well-educated staff. Productivity increases that might allow the same amount of product to be delivered at the same or lower cost have come slowly. There are some promising developments, but so far no panaceas.

The second major factor behind research tuition increases is a rapid decline in State support to cover operating costs at public institutions. Since the widespread creation of public college following the 1862 Morrill Act, these schools have historically charged low tuition to ensure that all citizens of the State would be able to enroll.

But for a variety of reasons over the last 30 years, State support has withered. According to one analysis, since 1988, State funding on a per student basis has fallen by $2,500, almost one-third. Even the National Association of State Legislatures notes that higher education has become, quote, the fiscal balance wheel of State budgets, end quote.

So tuition in public colleges and universities, which is where 80 per of American students are enrolled, has gone up. The posted price of tuition last year at community colleges was $3,400, and at four-year colleges it was $9,100. For millions of students, financial aid reduced those numbers considerably. Still, this represents an increase in posted price of 150 percent and 225 percent, respectively, over the last three decades.

Other factors that help explain tuition increases include the exponential growth of scientific knowledge, the need to continually update and enhance campus technology, and the increasingly complex and expensive legal and regulatory environment institutions face.

Despite the desire for a simple explanation and/or an easy solution to this problem, there really are not any. Some suggest the Federal student aid drives up tuition because institutions raise their prices to capture the money. The extensive research on the issue does not suggest this claim is valid.

Another suggestion is that universities could reduce tuition if they just spent more from their endowments, but only a few schools have large endowments. Those that do spend a great deal of that money on financial aid, and even if they wanted to spend more money on financial aid, their ability to do so is significant restricted by State law and legally binding donor restrictions.

Many institutions are taking aggressive steps to lower their cost. Purdue University, for example, President Mitch Daniels has committed the institution to maintain tuition by finding internal efficiencies, and they have not increased tuition for the last four years.

The "Washington Post" recently reported that Catholic George Washington and Howard Universities had all reduced the number of staff in an effort to lower their cost structure.

In another important development, tuition at public colleges in Washington State will fall 15 to 20 percent in the next two years, thanks to increases in State support.

I will conclude by underscoring the point that I began with. College presidents understand the importance of this issue and the extraordinarily high levels of public concern. Most presidents firmly believe that higher tuition depresses enrollment, and the vast majority of colleges and universities in the country are always anxious to increase enrollment.

But addressing the challenge posed by the high price of higher education is a complicated matter. We appreciate the willingness of this Committee to examine this issue in hopes of shedding light on the challenges facing families, institutions, States and the Federal Government.

Thank you.

*Mr. Roskam. Thank you, Mr. Hartle. And thank you all.

You know, you have framed out some of these issues in ways that I think are very, very helpful. I think on this panel what we are interested in doing is trying to essentially pursue the Wisdom of Solomon on this. So, in other words, how do we create an environment where resources are made available to students who without those resources would not be able to have access to higher education? How do we do that in a way that does not just chase a price, basically Mr. Lucca's argument, forcing something to become more and more expensive?

Because here is what I am sensing at home, I think we are in the midst of a bubble. My wife and I have four children, and if you see Peter and Elizabeth Roskam out with a metal detector picking up loose change to pay the tuition for our children, the explanation is these incredible expenses in doing so, and writing these checks just takes your breath away.

I know I am not unique in this. I know that there are other folks on this panel and so forth, and I think that we are in the midst of something that is really, really significant.

In short, institutions by definition do not reform themselves, by and large. Congress does not reform itself. Congress reforms itself based on pressure from other institutions, and so forth.

I would submit that higher education is not likely to reform itself without pressure from other points, and this Committee has an interest particularly from a tax policy point of view. So, in other words, the question is: does the tax code help create more access to higher education, or does the tax code hinder that? Does the tax code create absurdities and distortions and so forth?

So there is a lot to talk about. Before we began, I told the panel we want to flip the game board a little bit today, just to ask some of these provocative questions not for the sake of being provocative, but for provoking some reflection all the way around.

So with that I recognize the gentleman from Pennsylvania, Mr. Kelly.

*Mr. Kelly. I thank the chairman, and I thank the panel for being here.

I come from the private sector, and our whole model is based on some assumptions. Specifically, it is based upon predictions and projections of historical data. However, when it comes to personnel, one of the things that we have always tried to do is to hire the best people we could and then make sure that we put programs in place that set benchmarks for them to achieve because I do not know of any other way to determine if this is working or not working, and whether these are the best people to have in these jobs.

So having said that, I often wonder because I look at what is going on, and I think the chairman was very articulate about this. This is not so much about who is making what and trying to make them look bad. This is about are we getting the best return on the investment for hard working American taxpayers.

So it should not be an "us versus you" or a "you worried about us coming knocking at your door and trying to upend your economic model," but in my life everything has been about sustainability. Can you continue on the path that you are on and think that somehow it bodes well going into the future?

So, Ms. McCourt, having a little bit of an idea of what I do for a living, whenever we are hiring these folks, the boards are bringing people in, what are the measures? I mean, how do we look at these folks that are in these upper positions and say these are the metrics we expect you to perform to?

There is a great incentive for doing that, and it is called compensation, but how do we measure it and what do we look at?

Do we look at student graduation rates? What do we look at?

*Ms. McCourt. Well, it is interesting you would ask that question today because our board of trustee meetings is tomorrow and the next day, and I happen to have in front of me the financial models and benchmarks that happen to be on our agenda, eight o'clock Friday morning.

We are very benchmark driven. Our trustees are very high achieving businessmen. We have the CFO of Eli Lilly, for instance, who is on our board right now.

And when we benchmark, you know, one of the things we are very conscious about is we are not benchmarking against higher education on the business side of the institution. They want to see benchmarks against corporate gold standards. So we will go out and have benchmarking analyses done on our business operations and compare them to that, but we also set very stringent benchmarks. In fact, none of these are industry averages. They are all at a higher level than an industry average.

We also have just approved a bicentennial strategic plan, and every item in that strategic plan will have associated benchmarks, and I think you are going to see that across the industry.

The industry has shifted, and people that are being hired in on the business side are corporate.

*Mr. Kelly. Is the benchmark based on the success, the graduation rate?

*Ms. McCourt. Oh, we have many, but we do have completion, graduation, all kinds of benchmarks, but there are many based on student success, and we have fared extremely well on those.

*Mr. Kelly. Mr. Galle, what Ms. McCourt has just said, is that something that makes sense to you and you agree?

*Mr. Galle. That is consistent with some of what I have seen, yes, sir.

*Mr. Kelly. Okay. I think the big question is, and Mr. Vedder, I am going to come to you also, and I think this is where we are really trying to come to, the best return on investment, because we all know the way out of poverty is education, but education for something that actually gets you to where you need to go and not just a degree that is accompanied with a lot of debt, but actually a destination that you can reach that is going to lift you out of it.

So your take on all of this? Because I know it is a highly competitive field. When you are looking at the people to come in and run this business now, forget about being a university, but as a business, because you are competing for the same talent that everybody else is competing for to come to something that is a real sound economic model.

So how does that figure in and how do you think that weighs when it comes out?

How do we recruit the best of the best?

Well, certainly compensation has to have something to do with it. Mr. Vedder, that is for you. Is there a different way to go about it?

*Dr. Vedder. To get better people in higher ed.? Is that what you are asking?

*Mr. Kelly. Yes, my question is: what is the incentive to get them in?

*Dr. Vedder. Well, you mentioned two good words, Congressman. One is incentives, and another was by inference information. How do measure what is good in higher ed.? How do you know what is good?

Did Harvard have a good year last year? Who the heck would know? How would you know?

Do the seniors know more than the freshmen? We do not know that.

What happens to kids five years after graduation? We are starting to get that information. Finally the Department of Education is finally grudgingly publishing data on that.

What is the rate of return on faculty research? If you write an article for the "Journal of Last Resort" that three people read and get a lower teaching load to do that, is that serving the broader issue, interest of society?

And, by the way, I have been ripping off taxpayers for 51 years. I am in my 51st year of teaching.

*Chairman Roskam. You have the right to remain silent.

[Laughter.]

*Dr. Vedder. Yes. I will drink to that.

But I think, and I am being a little facetious here. I think it is a noble profession, and I think what we are doing is important, before Mr. Hartle has a heart attack, but we do not really know a lot.

We are in the information business, and we do not even know basic things. Students study 30 hours a week or less. That is what the Department of Labor tells us. Thirty hours a week, that is 900 hours a year. The parents work twice as many hours.

Eighth graders study 40 percent more than 13th graders. Now, does that make any sense at all? Why are we not doing anything about it?

We are not measuring all of this. I do not know if I answered your question.

*Mr. Kelly. Well, the thing is the benchmarks that we use to hire the really good people because you are in a very competitive environment, and if you are going to get the best of the best, it is not just what is in their heart and their passion for what they are doing. It is also dollars have a little bit of influence, too. So I want to make sure we keep it in perspective because the return on taxpayer investment is what we are concerned about, and that it is fair.

Thank you.

*Chairman Roskam. Mr. Lewis.

*Mr. Lewis. Thank you very much, Mr. Chairman.

I thank each and every one of you for being here today.

Now, Mr. Chairman, I am concerned that we are here today focusing on side issues rather than the main driver of tuition increases for most college students.

Dr. Hartle, what is the biggest factor driving the rise in tuition for most students?

*Mr. Hartle. Thank you for the question, Mr. Lewis.

As I mentioned, I think there are two fundamental issues here. One is the structural nature of higher education as a labor intensive industry.

The second and more pronounced -- higher education has always been a labor intensive industry -- the second and more pronounced is that States recently have begun to reduce spending substantially for public colleges and universities. Forty percent of American college students are in community colleges, public institutions. About the same percentage are in public four-years institutions, and we have seen States cut spending now for over a generation.

We have to have some sympathy with the States. They have to balance their budgets. When State legislators look at budgets, they see four big buckets: elementary-secondary education, prisons, Medicaid, and higher education. When they have to balance the budget, higher education looks like something that has paying customers.

And the trend over the last 30 years has been down. It is a wavy line, but the line is going down.

I happened to just discover the other day that a significant number of States now spend more money on prisons than they spend on public colleges and universities. Last year for the first time in the Nation's history, public colleges and universities got more money from tuition than they received in State support.

Just the other day my colleagues and I were looking at a list prepared by the Department of Education of the 50 most expensive public universities in the country, and we happened to notice that four of them were in the chairman's home State, Illinois. This struck us as a surprise because Illinois historically has had pretty moderately priced public colleges and universities.

So we did a little investigation, and discovered that between 2001-2002 and the present, Illinois, which has obviously had some well publicized State budget problems, has cut more than $100 million from the budget of the University of Illinois, Urbana; more than $100 million from the budget of the University of Illinois at Chicago and let tuition go up to make up the difference.

I can assure you that was not what presidents and managers at either of those institutions wanted, but it was a decision made by the States as part of the necessity to balance their budget.

We are seeing that to a similar degree in State after State across the country.

*Mr. Lewis. Well, thank you very much.

Ms. McCourt, do you agree with Dr. Hartle?

As a matter of fact, I visited your university a few weeks ago, had a great visit there, wonderful faculty and staff and students. Do you agree with Dr. Hartle?

*Ms. McCourt. Yes, I do.

*Mr. Lewis. Do you have anything to add?

*Ms. McCourt. No, I think he has articulated it very well. We are grateful for what we get from the State. There are very many competing priorities. I actually was not aware of the statistic on spending on prisons, but the decrease in State operating appropriations has had probably the single biggest factor, and I want to say on the price of higher education, not the cost.

The cost has actually not increased that much.

*Mr. Lewis. Well, thank you very much.

Now, I believe that access to affordable higher education is a right that all Americans should have regardless of their income level. The Federal Government must play a role in making college affordable and must expand, not decrease Federal student programs. Pell Grants and student loans are vital to low and middle income Americans.

Dr. Hartle, do Federal financial aid programs drive up the cost of tuition?

*Mr. Hartle. No, sir, I do not believe the Federal student aid programs drive up the cost of higher education. This is not a new debate. This issue has been around for more than 30 years. It has been exhaustively researched.

As I noted in my written testimony, independent studies like the congressional mandated study of this issue by the Department of Education were unambiguous in their conclusion that there was not a relationship between Federal student aid and tuition.

They were equally unambiguous that the single biggest driver were State budget cuts. Harvard Professor Bridget Terry Long in testimony before the Senate Finance Committee on the impact of tax credits on college tuition said, quote, concerns about a relationship between Federal student aid and tuition were largely unwarranted.

I would like to submit a paper for the record written by Don Heller, the Dean of the School of Education at the Michigan State University, an education economist, which addresses this issue.

And I would also like to suggest that the members of the committee do two things in this regard. Do not take my word for it. Look at the report on this issue prepared by the Congressional Research Service. The Congressional Research Service evaluated the nine most methodologically sophisticated studies on this issue that they could find, and they concluded that there was not a clear or even a consistent set of findings about the relationship between Federal student aid and college and university tuition. CRS works for you.

The second thing I would ask you to do is ask the presidents and ask the trustees and ask the people like MaryFrances McCourt at the universities in your district. Ask them if Federal student aid ever comes up in discussions about tuition setting.

What you will find is that they are surprised you would even ask the question because it never comes up in the discussions.

*Mr. Lewis. Thank you very much.

I yield back, Mr. Chairman.

*Chairman Roskam. In terms of the paper that you have requested, without objection, we will enter it into the record.

*Chairman Roskam. Let me just plant a seed and maybe some of the discussion as I turn to my colleagues, but, Mr. Hartle, you made a point that higher ed. costs are going up because of the intensity of the labor. So I am planting seeds about things maybe to talk about further, but think about this.

So it does not seem to me that is new. So it has been intense for a long, long time.

The other thing, the lack of public support from State legislative point of view does not explain the increase in tuition at private institutions, and it does not explain the longer term trend, in my opening when I showed a 40-year trend and 2X over health care costs.

So maybe during my time I will come back, but just that is an area that I would like to inquire about.

Mr. Holding.

*Mr. Holding. Thank you, Mr. Chairman.

Dr. Lucca, let me ask you a hypothetical. If the government handed out $50 credit cards that could only be used to buy milk, what do you think would happen to the price of milk?

*Dr. Lucca. It depends on the elasticity of supply, but generally you would imagine that the price of milk, unless supply can immediately adjust, would rise.

*Mr. Holding. Right. Do you think that this $50 credit card, this subsidy, would improve the quality of the milk?

*Dr. Lucca. Obviously not in the short run. The long run is a different question.

*Mr. Holding. So I think what you are saying is that when the grocery store knows that buyers have the means to buy a product at an inflated cost, the seller will raise the price. Is that a correct assumption?

*Dr. Lucca. Yes, that is what basic economic theory would suggest.

*Mr. Holding. So this makes sense when the seller is a for-profit entity and charges prices based on what the market will bear, but from listening to you and some of the other witnesses, I think this is exactly what nonprofit colleges and universities are doing.

So as soon as the Federal Government increases grants or student loan caps, colleges and universities react by raising tuition and absorbing that taxpayer money.

Now, I know you are familiar with Ronald Reagan's former Education Secretary William Bennett, who back in 1987 hypothesized that increases in financial aid have enabled colleges and universities blithely to raise their tuitions, confident that the Federal loan subsidies would help cushion the increase, and this has been come to known as the Bennett hypothesis, and you have done some work in this area.

So could you expand a little bit on the work that you have done in this area and talk a little bit more about the Bennett hypothesis?

*Dr. Lucca. Yes. So the Bennett hypothesis that many have discussed in the past is essentially the idea that financial aid, the availability of financial aid allow colleges to raise their tuition.

From the perspective of an economist, going back to your points, it is fairly standard to imagine that any sort of subsidy that will boost demand will have a price effect. It is fairly natural. It is not that, you know, colleges are evil in any way. You know, it is just essentially supply needs to meet demand.

What is really important, I think, is to some extent distinguish short-run versus long-run effects. What our study is doing is to try to focus on the changes in Federal aid policy of the past few years. These changes have been very significant, and from the point of view of researchers, they are, you know, very useful to try to assess these potential price impacts.

And we do seem to find significant responses when we compare institutions where students are heavily dependent on Federal aid versus those that are not.

Now, Mr. Hartle has cited a number of other studies that have found results against our own findings. I think the way to reconcile these studies is to some extent the availability of data in the past versus today.

Today over the past few years, we have seen, you know, significant and discrete changes in Federal aid, and I think this is what has allowed me as a researcher to find, you know, price effects or, you know, responses of tuition as opposed to other studies that have looked at this issue in the past.

*Mr. Holding. My undergraduate degree is in classical studies, and I think they teach classical studies today exactly the same way that they taught it 30 years ago when I was in college, and they probably teach it exactly the way that they taught it 150 years ago when a great-great-great-grandfather of mine was a classics professor.

So with the rise in increased tuition cost, do you think that students are getting a higher quality education?

*Dr. Lucca. This is an excellent and important question. Where does the money go?

In theory our study is unfortunately silent on that. You would hope that, you know, in the long run, you know, many of this additional revenues coming into colleges will be re-spent into investment for students, but there is nothing in my study that really can tell one story versus another.

*Mr. Holding. Thank you, Dr. Lucca.

Thank you, Mr. Chairman.

*Chairman Roskam. Mr. Rangel.

*Mr. Rangel. Mr. Chairman, I have been here in the Congress since 1971, and I cannot think of any issue more important to my country than the issue that you have raised. This is especially in view of the fact that questions of war and peace, Presidents, Republican, Democrats have not seen fit to bring those questions to the Congress.

I do not understand the language that they are talking about. It is my understanding that most people believe that since the Constitution did not raise the question of education, that it is a State issue. I am fortunate that I can look at this from an entirely different perspective.

I was raised in a community where I did not know anybody of my color that went to college, and the only people I knew were the recipients of the GI Bill. So I come at this with a strong, emotional bias that out of the pits of a high school dropout with absolutely no incentive to go to school, that I can sit in this body and the question of education now becomes whether the States are not going to fulfill their responsibility and what can we do as a tax committee to provide incentives.

Health is not a national responsibility. The pursuit of happiness is not. Homelessness is not. How can we sit here and say that the cost of labor and the disparity that we have in income is going to make it possible for a guy with our salary, that you are concerned about your kids getting an education?

The numbers are actually going to show that tuition is going up, and there will not be enough savings for people that have incomes to even consider their kids going to school. Well, forget the poor and forget all of that. As a patriot, are any of you going to tell me that education is a local issue and that the States are not being responsible when we are talking about technology, science, cyber space?

Are we checking what they are doing in China and India to find out whether the local communities are supporting this?

The cost of labor, do you know how much it costs for a dumb GI to get an education to kill people? Over a million dollars. So let us not talk about the cost of labor.

And how can we even discuss this when nobody can justify why college presidents can make two and $3 million? I am not knocking if they are raising money, or coaches make a million dollars or two or three, $8 million. If it is raising money, that is the private sector. Whatever they do is okay.

But who is going to tell me sitting here, just put up your hand to say that the education of Americans' ability to make a contribution to our national defense is a State issue?

*Mr. Lewis.   Who believes that? Put up your hands. And if you don't believe it, why we talking about tuition? Could you tell me whether or not you take an individual, an average American, and to see what happens to him without an education, the costs of it? Forgetting all the emotional prison costs, I am just talking about a guy that tries to make it and he can't make it in a competitive society. Do you need a social scientist to say how much you have given to America by educating this bum and making him productive?

So I don't -- I am not talking about endowments. Those that have money, you put it in the money market. It makes money, but what the heck has that got to do with education?

So I want to thank you for raising this issue. It shouldn't be before our committee. It's a national security issue. If any of the panelists want to bring this into reality rather than talking about decreases in state contributions to education, like I'm supposed to depend on Mississippi's contribution -- strike that out.

I am supposed to depend on a state governor's contribution to make my country strong against international people that we're involved in trade with? I don't think so.

And who is talking about the costs? I am not even going to ask you what the cost of labor is in our universities. I know the cost of police, of doctors, of developers, and we have a Congressman/chairman of the committee, he is talking about he's concerned about his kids going to college.

So I'm going to act like you didn't testify to what we are asking you about and ask what do anybody think about the future of education under the system that we have and where does America stand up to our competitors?

*Chairman Roskam. Why doesn't one person take a stab at responding to that?

Mr. Vedder?

*Mr. Vedder. Congressman Rangel, I was struck by your very first sentence. Your very first sentence you said, "I didn't know any of my friends or anyone around me who went to college unless they went on the GI Bill." I think the most interesting tragedy in higher ed that might be interesting to you given your remarks was that in the year you started in Congress, which was 1971, right?

*Mr. Rangel. Yes, sir.

*Mr. Vedder. In 1971, when you started in Congress, 12 percent of poor people in America, which I will define as the bottom quarter of the income distribution, 12 percent of recent college graduates were poor, came from poor backgrounds, 12 percent. Today, it is 10 percent. It is lower.

We have all of these programs of financial aid programs, all of this stuff going on, everything supposedly to help increase access and we do have more people going to college and we do have more college graduates, but in terms of bringing about equal opportunity among people, education is serving as a way to get up the ladder, to move up the ladder. I think we failed and I think part of the reason relates to the kinds of things that my colleague here was talking about. The financial aid programs haven't worked the way they were intended to work. There were unintended consequences, but that may be going too far afield.

*Chairman Roskam. Mr. Renacci?

*Mr. Renacci. Thank you, Mr. Chairman.

I kind of want to pull this boat back to where I thought the hearing was going, which is examining whether the favorable tax treatment given the college and university is fully justified and I know we have kind of talked about a lot of good points, but that is where we're really at, the favorable tax treatment, and in the real world, where I spent 30 years before I came here, I actually operated health care facilities, where I had to compete against facilities that were non-for profit. They had favorable tax consequences I didn’t have access to.

There was a big advantage there that I always remember. Number one, they didn't pay taxes, and number two, they received donations/endowments. So if you think about it, they were able to receive additional revenues, which helped their cause, and they were able not to pay taxes, which also helped their revenue side. On the other side, as a for-profit business owner, I had to make sure that I could compete against that person who had favorable tax treatment and I think that is where we want to talk. We want to get back to that.

So now we talked about universities, the private schools, and I want to talk a little bit about executive compensation because I think that is important. We are talking about costs and the costs of these universities and what is reasonable and how do we determine what is reasonable.

In my world, I had to make sure there were metrics that said this is what is reasonable and here is how we are going to get there. If you met this, you made this amount of money, and ultimately, you can make a lot of money, but you had to meet certain metrics.

In colleges, how do we determine what is reasonable? I mean we saw a slide or there was something here about executive compensation, how quickly it has grown. I think it was you, Mr. Galle, in your testimony. It has grown rapidly over the years.

So how do we justify, especially in a situation where some of these private universities are getting favorable tax treatment, how do we justify compensation? We heard that labor is a big number, but how do we justify compensation?

I will start with you, Mr. Galle. What does it take for compensation to be determined reasonable or unreasonable?

*Mr. Galle. Well, I think it is a difficult question to answer because being a university president is a difficult job that takes a talented person and I don't think that anyone in this room wants to say what someone else's labor is worth, but we do have a group of people who are pretty attached to their university and are relatively well-informed about it and that group of people are the university's alumni and its supporters.

And so the focus of my work has been in making sure that that community of people, the community of people who have reasons to care, have the information that they need to make a decision about whether the president is getting paid the right amount, and by and large, today it is pretty difficult for people to get that information. For example, it is true that presidents are often judged on a set of performance metrics, but it is very hard for someone other than on the board of trustees to know what those performance metrics are or whether the president hit them or not. And so, for me, the issue is more about transparency and less about second-guessing by folks who aren't part of the university community.

*Mr. Renacci. What is interesting is you talked about the president of a university is a very tough job. A president of an automobile company, like Mr. Kelly talked about, or a president -- all positions are tough, but you still have to have metrics to determine what they are worth and how these costs are being passed on to the students. It is part of the cost of higher education.

We keep talking about labor. You know, how many kids are graduating? Where are they going after they graduate? These should be some of the metrics. What are the universities doing? These are expenses that should be part of it, and the problem I have, and I think this is part of this hearing, is that many of these universities are getting favorable tax treatment. They are getting all these extra dollars in. So we have to consider that.

Ms. McCourt, do you --

*Ms. McCourt. Yeah, a couple of points.

Number one, there are many, many, many metrics that senior leadership and down are judged on in public institutions of higher education. You can peruse certain websites out there. They are very public and they are growing and business analytic tools are growing and compensation is being linked --

*Mr. Renacci. I need to -- I apologize. I do have to interrupt you. I am running out of time, but isn't one of the most important is comparables? So if one university raises theirs up, I got to make sure --

*Ms. McCourt. Let me use one statistic. We are talking about -- I want to make sure we are not talking about the .001 percent of a couple of very large private institutions that I don't think the compensation is even that high, but when you look at several billion dollar organizations and when you look at the highest paid CEOs on the corporate side earning compensation packages north of $12 million, for instance, the Indiana University president makes $600,000 to manage a several billion dollar organization of multiple businesses with performance metrics.

So I think we need to be careful to stay -- stick to the data. That information -- most institutions of higher education are public and that information is public.

*Mr. Renacci. One thing I would add, and I know I have run out of time, Mitch Daniels demanded that a portion of his salary be contingent on meeting certain goals. I think that is important.

*Ms. McCourt. Absolutely. We do the same.

*Mr. Renacci. Thank you. I yield back.

*Chairman Roskam. Mr. Doggett?

*Mr. Doggett. Thank you, Mr. Chairman.

Excessive, exorbitant corporate CEO salaries and soaring prices for consumers are certainly problems and they rarely get any attention in this Committee. I have offered legislation to eliminate or reduce the tax subsidy for excessive corporate salaries. The committee's not interested. We see price increases in the pharmaceutical industry of 5,000 percent overnight, bankrupting families. The committee has been uninterested in dealing with this problem of soaring prices, but we have today's hearing and it does address an important problem.

There are families across America that are encountering major economic obstacles to helping their child get all of the education that that child is willing to work for. Many colleges and universities with spiked -- increases in tuition are part of the problem and I think we need to look at our federal aid policies and consider that aspect of the problem, but I think much of the focus of today's hearing is misdirected.

The basis reason that tuition is going up is not because the Federal Government is doing too much to help students, but because the states have been doing too little. We have seen a steady decline in state support for the 80 percent of college students that attend a public or state university. Some states, like Texas, have cut their support for public education, for higher education, even again this past year, and a report out in the last week identifies 11 states -- that is the American Academy of Arts and Sciences -- 11 states that are spending more on their prisons than they are spending on their higher education institutions.

Within the last week, the University of Texas System Board of Regents gave approval for another increase in tuition for the next school year and the chancellor, William McRaven, said that the school needed the increase because of the decline in per student state appropriations by the legislature over the last decade.

So that has got us to where we are today and because they misdiagnosed what ails higher education and the families that want to get it, they are also applying the wrong remedies and the Republican remedy is reflected in the Republican budget agreement this year. They proposed to solve this problem by cutting about $200 billion from higher education support and while the final agreement is silent on how they would do that, many of their members have been very vocal about how they would implement that $200 billion cut. Reduce or eliminate Public Service Loan Forgiveness that allows students to have the choice of serving their communities in underserved areas in health care and a variety of other areas; shrink income focused repayment plans; freeze Pell Grants for 10 years while cutting $90 billion in funds for those grants alone.

Those are the kind of remedies that the Republicans have been offering, the kind of remedy they have offered in the senate is to block our efforts to reduce the cost -- to let people who are overwhelmed with student debt do something about it by reducing interest rates. The change that was proposed there would save $2,000 per loan for an estimated 25 billion borrowers nationwide. That is the kind of solution that we need.

My efforts to make the American Opportunity Tax Credit permanent so our families could get at least $2,500 off their taxes, blocked in this Committee.

If we want to focus on where federal dollars are being misdirected, we might focus more specifically on what are little more, in some cases, in mail-order diploma mills and the attempts of the Department of Education to do something about it. The President's general employment rule requires that these schools demonstrate that they are getting their students into some gainful employment, and yet, some of the same people who want to cut student financial assistance are the folks that support siphoning off as much money as possible to these for-profit schools without looking to see whether they are actually producing results for the families and especially for many of our veterans who sign up in these programs.

So I believe we need to do more to afford opportunity, the very kind of opportunity President Johnson had in mind when 50 years ago in San Marcos, Texas, he signed the Higher Education Authorization Act that is about to expire, but we need to do it in a more constructive way than is being done in today's hearing.

And I yield back.

*Chairman Roskam. Thank you.

Ms. Noem?

*Mrs. Noem. Thank you, Mr. Chairman.

You know, a lot of colleges' and universities' endowments, we have made very clear at today's hearing, receive specific tax advantages and when a donor gives money that money is not subject to taxes. The institution doesn't have to pay taxes on the gift and if it is invested, the returns from that investment do not have to pay taxes.

Currently, I was surprised to learn, that over 90 different institutions have more than a billion dollars in endowment funds and we are talking about very substantial tax benefits then to those institutions and so I wanted to visit this topic a little bit more.

With tuition costs going up and such high endowments, Dr. Vedder, you have talked a lot about research that you have done, but I want to find out if you specifically think that institutions are using these endowment funds to benefit students specifically?

*Mr. Vedder. I suspect most institutions feel that they are using the endowments to serve students and it is a little -- I am still in the middle of research in this and I don't feel I have all the answers.

*Mrs. Noem. Well, do you have some statistics on how they are spending endowment funds?

*Mr. Vedder. Well, we know, for example, that some endowment monies do go to support student financial aid, which is directly, you might say, student friendly, aimed to lower costs, and so forth.

*Mrs. Noem. Is some 10 percent or --

*Mr. Vedder. No, I --

*Mrs. Noem. -- 15 percent?

*Mr. Vedder. -- in my estimations that I have done, we estimate between 15 and 20 cents out of each endowment generated dollar of income goes for that purpose. Now, that is not trivial, but it is not the major "aww" factor. We are finding a lot of money going to support things like student services. I mean at least we see an association between endowment size and spending on student services.

Now, that is a -- that may be student oriented, but it may not be too academically oriented. For example, some of that money might be going to help support sort of luxury living on the parts of the students in some fashion.

*Mrs. Noem. Why do you think school rankings give so much weight to the size of endowment funds?

*Mr. Vedder. Rankings do not. By the way, I do the rankings for Forbes magazine, so I --

*Mrs. Noem. Okay.

*Mr. Vedder. -- should be -- full disclosure here.

*Mrs. Noem. Okay.

*Mr. Vedder. I actually do -- I am a ranker --

[Laughter]

*Mrs. Noem. Okay. Thank you.

*Mr. Vedder. -- which is better than being a rapist or something, but not much in the eyes of the higher education community.

I don't know of a single ranking that uses endowment size as a direct variable in the analysis, but it is true that spending on whatever can influence rankings. The U.S. News rankings, for example, give -- you get a higher ranking if you pay your professors more, if you have more faculty in relation to student size, and so forth, all of which, you know, improve your rankings. So --

*Mrs. Noem. Have you seen a correlation between student outcomes and the size of endowment funds a university raises?

*Mr. Vedder. I have not. That is the point I was making. I have done -- using the imperfect rankings that I do, and they are imperfect in large part because of data limitations, as I say, we don't know whether seniors know more than freshman.

*Mrs. Noem. Uh-huh.

*Mr. Vedder. I mean until you know basic things, like are kids learning in college, it is very hard to come up with a full assessment of the quality of an institution, but given what we know and looking at what students think are important, I can say that there seems to be very little relationship between what students think are important in their learning and endowments.

*Mrs. Noem. Okay. Thank you.

Ms. McCourt, can you tell me why universities and schools don't spend down their endowment funds?

*Ms. McCourt. There are contractual obligations with donors putting money into these long-term investments, you know, and I would say that the picture we are missing is sustainability. Donors want to make sure that there is sustainability and there is a term called intergenerational equity. They want tomorrow's students to have the same benefits as today's students and most donors are very, very interested in that. They don't want to see us -- you know, they wouldn't be giving the dollars today to just have it spent.

*Mrs. Noem. Is there a standard? Is there a specific level of endowment funds that should be in place to guarantee that its intergenerational benefits will be there?

*Ms. McCourt. Well, that -- and that is how that -- distribution rate it is called -- when we are referencing this 5 percent number, that is how that is determined. They will look at long-term investment returns with a lot of sophisticated modeling and then they will say, all right, what is that return to keep a level of funding that will go into perpetuity and they back into what that spending rate is.

*Mrs. Noem. And some endowment funds are restricted on what they can be spent on, correct?

*Ms. McCourt. Most are. Most are restricted. At Indiana University, I think 98 percent are restricted.

*Mrs. Noem. Do you feel that is appropriate? I mean --

*Ms. McCourt. I --

*Mrs. Noem. -- a lot of times, I will argue for more local control because they best know what their needs are to meet the students where they are at and help them be successful. So to have restricted funds, I think ties the hands of some of these --

*Ms. McCourt. Well, but these are -- we are carrying out the will of donors and donors feel very passionate about what they are giving money toward and so -- and I will say most of it goes to scholar -- you know, when I -- I am looking at ours right now. I mean data is behind every single thing I am saying today.

*Mrs. Noem. So you believe restricted funds may be just as beneficial as unrestricted funds?

*Ms. McCourt. Absolutely. Absolutely. Yes.

*Mrs. Noem. All right.

Mr. Chairman, I will yield back.

*Chairman Roskam. Thank you.

Mr. Crowley?

*Mr. Crowley. Thank you, Mr. Chairman, and thank you, all the witnesses. Thank you, Mr. Chairman, for holding this hearing today and thank you to all the witnesses for providing your testimony before us.

I am glad that my colleagues on the other side of the aisle are finally taking note of how important it is to address the issue of higher education affordability, although I do take some interest in noting the suggestion that maybe eliminating Pell Grants will somehow force private higher education in the country to actually reduce amount of tuition is very interesting.

It is an issue that my Democratic colleagues feel has not received the due attention it really has deserved, but I must say there is so much more this Committee, the most powerful committee in Congress, could focus on with -- as crucial an issue as this. Instead of getting bogged down in picking at taxes and status or the use of endowments, we could discuss how to strengthen the Pell Grant program as opposed to weaken it or eliminating it or to build up the progress that Democrats have made years ago in making student loans work better for students and families alike.

Surely this hearing can't be my colleagues' only response to calls from millions of struggling, middle-class, hard-working Americans who are concerned about how they will put their children through college. If anyone turned on C-SPAN today hoping to find out more about the other side's plan to actually make higher education more affordable, I think they are all going to be, if not already, very, very disappointed. There is no plan.

Mr. Hartle, in your testimony, you discussed the various restrictions on endowments and you clarify that the vast majority of institutions of higher education do not have large endowments to rely upon. Would you agree that even if we could require schools to use more of their endowments for tuition reduction than they already do, it would become nowhere -- it would come nowhere close to eliminating the need for important federal student aid, aid programs like the Pell Grants, like Supplemental Education Opportunity Grants, and subsidized student loans?

*Mr. Hartle. Thank you for the question, sir.

The -- you are absolutely right. The vast majority -- as Mary Francis McCourt has indicated, the vast majority of college and university funds are restricted. They are given to institutions by donors for purposes that the donors specify. Many times, the donors will want to give the money to something -- to the institution and the institution will say, "We might rather have it for this," and the donor will say, "I will give it to you for what I want" --

*Mr. Crowley. Only for this.

*Mr. Hartle. -- "or nothing."

*Mr. Crowley. Right.

*Mr. Hartle. Institutions cannot simply decide to take money that is given to them for one purpose and to spend it for another purpose without violating the law. We have counted in the last 10 years -- excuse me -- 6 legal cases where donors later sued institutions because the donors felt the institutions had not been honoring donor intent.

*Mr. Crowley. Very interesting.

*Mr. Hartle. Most universities do not have large endowments. The average endowment -- sorry -- the median endowment for a public university is $26 million. For a private university, it is about the same level. Obviously there are a small number of universities that have very large endowments.

And I would actually respectfully disagree with my friend Dr. Vedder about the value of endowments and institutional quality. The Times of London, an independent news organization, ranks the world's best universities. Seventeen of the world's top 25 universities are American. All of them have significant endowments. These endowments enable them to hire the faculty and staff they need. It allows them to conduct the research that they believe is in the nation's interest. They can get the equipment and facilities they want and they can allow any student to enroll without having to worry about the financial consequences.

Money helps build great universities and delivers opportunities and I think that the ranking of The Times of London and the fact that the American universities that are on that list overwhelmingly have large endowments tells us something, which is that if you have a large endowment, you can build a great university. It is not automatic, but it certainly helps.

*Mr. Crowley. Thank you.

I was intrigued by Mr. Rangel's questioning. Really, it was right to the point. If we think that this is not a national issue, this is a state's rights issue; we really have to reexamine what we are doing here. The reality is we can't expect that states like -- and he mentioned Mississippi, there are others, can invest in the state system in the way in which New York and California maybe can or without the assistance from the Federal Government is really not going in the right direction.

And, again, I hope my colleagues on the other side will take a look at proposals that can truly make college more affordable rather than seeking to cut back on federal student aid, as we have seen in numerous other Republican proposals.

And, Mr. Chairman, I look forward to working with you on finding ways not only to make college more affordable to you and your family, but to all Americans who want to see their children succeed. I think that is important. It is not just about us. It is about what we can do for the American people and I think it is critical.

Right now is -- I mentioned -- one last point I'll mention to you if, Mr. Chairman, you will forgive.

When -- before the Pope came, I had the opportunity to sit down with some of my colleagues with the Conference of Catholic Bishops. I noticed that some of the sharpest tuition increases we have been seeing are at what are known as traditional Catholic colleges. I think there is more responsibility, not only to the Catholic Church but on all of us, to have opportunity for our children to attend private or public schools and have the assistance in help they need to make it affordable to everyone and not everyone because of the economic situation is cast aside or put out of the system because of what their parents did or didn't do for a living.

And with that, Mr. Chairman, I will yield back.

*Chairman Roskam. Thank you.

I think, just for the record, it is important to note nobody is talking about eliminating Pell Grants. The notion that this is just a state's rights issue is something that is just not persuasive. We have got a national tax code, national tax implications. So the reason that we are talking about this --

*Mr. Crowley. Mr. Chairman, would you yield briefly just for a moment --

*Chairman Roskam. Yeah.

*Mr. Crowley. -- on that?

On that point, there was a question to Mr. Lucca about the impact of federal subsidies and what impact that has on the increase of tuition at private institutions --

*Chairman Roskam. Fair enough.

*Mr. Crowley. -- and that is the point I was making, but I --

*Chairman Roskam. Yeah.

*Mr. Crowley. -- think the opposite -- you have to suggest the opposite. What impact would cutting it have and that was the point I was suggesting.

*Chairman Roskam. Fair enough.

So nobody is talking about eliminating Pell Grants. That was your word earlier, but I take your point. If by hosting this hearing somebody is going to pull out the “Peter Roskam three-point plan to save higher education,” it is that it is going to be a slow train coming. We have got a lot of work to do.

So towards getting toward that work, I recognize the gentleman from Missouri, Mr. Smith.

*Mr. Smith. Thank you, Mr. Chairman. Thank you for holding this hearing on a quite important issue.

Being the youngest member of the House Ways and Means Committee and one of the youngest Members of Congress, the rising cost of tuition isn't foreign to me. I get it. In fact, I am still paying my student loans as a Member of Congress. The cost of tuition is rising faster than the cost of inflation. We all know that. It is increasing beyond the reach of lower income Americans and middle-class Americans. We know that. This is a huge problem.

The real question is, how can we help stop the rising costs and make college affordable again? That is a true problem.

When I started at the University of Missouri in Columbia not too many years ago, the required cost of tuition and fees was $4,280. Currently it is $9,433. After adjusting for inflation, that still represents more than a 66 percent increase, 66 percent increase. I wish mutual funds did that well. Universities argue that fluctuating state funding is the biggest factor in tuition increases. But has state funding decreased by 66 percent in the state of Missouri? Being a former state legislator, I know it hasn't.

That being said, the University of Missouri is an example of a good school that has decreased real cost per student. They have lowered actual operating expenses per degrees awarded and beating the national trend, while increasing degrees awarded. Their tuition is less than the national average, but students still have an average debt of over $35,000 a year.

We are here in the Ways and Means Committee because of our jurisdiction over tax policy. So I have to highlight the work colleges across the nation in a bill that I have introduced in July, the Tax Relief for Working Students Act. Currently students earning at work colleges, like College of the Ozarks in Branson, Missouri, are taxed as income, not as tax-free scholarships by the IRS. That is unacceptable.

My bill would reward hard-working students by reducing taxes on those students in order to make it easier for them to earn the scholarships they need to pay for their college. It is just one small piece to encourage the hard work of students at these unique institutions, but other issues must be addressed. After all, taxpayers and students pay a lot of money to colleges and universities, but are we getting proportionate results? Colleges and universities have a tax exemption because we all agree that education is valuable and important, but, as the Federal Government, we need to be sure that this foregone tax revenue is delivering results.

Ms. McCourt, what are some areas that you see where public institutions can be better stewards of taxpayer dollars while still fulfilling their mission of educating future generations?

*Ms. McCourt. Well, actually, the average debt at University of Missouri actually surprises me. It is quite high. So I am not sure what is going on at the university that is driving it that high, its undergraduate, graduate. At Indiana University, it is about 23,000.

*Mr. Smith. I said the average debt --

*Ms. McCourt. Yeah.

*Mr. Smith. -- of all students is 35,000.

*Ms. McCourt. Yeah. Okay. So graduate student debt --

*Mr. Smith. And the University of Missouri is lower than that. So --

*Ms. McCourt. Oh, okay.

*Mr. Smith. -- I want to make sure you are --

*Ms. McCourt. Oh, okay.

*Mr. Smith. -- correct on that.

*Ms. McCourt. I was going to say and all students -- so graduate student, that is a different issue and that is where a lot of debt is.

Indiana University is doing a lot -- I want to make sure I have heard your question appropriately. We have done a heck of a lot with operational efficiencies driving costs down, everything we can do almost on the cost side of the equation. When you look below salaries and wages and benefits, financial aid is the next line down. So I am always being careful what you ask for because cutting budgets further, we have reduced administrative headcount over the last decade. We have kept salary increases at about 2 percent a year, some years none.

So when we think about the compounding issue on the American economy, one thing we haven't talked about today that I think is a very important issue is the issue -- and this goes back to the metrics and benchmarks that we should all be held accountable to is completion. You know, we have seen completion moving from a four-year completion rate -- we talk about five and six-year completion. The fastest way to reduce debt is to graduate, and, you know, so I think there is accountability on all sides. There is accountability on the institutions of higher ed and on the recipients of these grants and aid.

I think there is something there to --

*Mr. Smith. In regards to costs, to --

*Ms. McCourt. Yes?

*Mr. Smith. -- help lower the cost, what has your university seen in regards to health care?

*Ms. McCourt. Our university -- when I came -- so I have been there 10 years. When I started modeling health care costs, we were going to see health care costs double in the next, like, five or six years in that first model. We have now taken that down. We have a massive wellness initiative, but health care is a big cost underneath -- after compensation, that is the next one down.

As I have the opportunity, I also want to draw attention to the first slide that was up. When we talk about the rising cost of health care, we need to be careful because most of the -- you know, when the Bureau of Labor Statistics looks at health care costs, they don't look at sticker price. They are looking at net price, but when we look at higher education price, we are looking at sticker. We have got to focus on net price because net price tells you a very different story.

*Chairman Roskam. It tells you a different story, but it doesn't tell you a different trend and we can talk more about that.

*Ms. McCourt. Yeah. Yeah, I would love to circle back with you on that.

*Chairman Roskam. Okay. Thank you.

Mr. Meehan?

*Mr. Meehan. Thank you, Mr. Chairman.

Mr. Vedder, I hesitate to do this, but -- and I know it was even a moment of rancor, but in the context of doing that, you made a comparison between rankers and rapists. As a former prosecutor, there is nothing in any context which is jovial about that issue and I hope that you will retract your statement.

Notwithstanding that, and I am sorry that I raised the issue, but I thought I had to, Ms. McCourt, you just raised a very, very important issue which relates to the ability for students to graduate on time. What is the impact of students not graduating on time and despite all of the infusion of dollars, are we actually doing better at graduation rates?

*Ms. McCourt. The impact is more debt, if they are financing their education with debt, and lost earnings.

*Mr. Meehan. This is particularly troubling to me because when you really go through the statistics, when you start to see who is impacted the most, and oftentimes we hear about this, poor students are taking on more and greater burdens with loans, and as a result, they are paying -- they are increasing debt for poor students and the families. The average working family in the blue collar districts that I represent, $55,000 salary, if they have two children in school, their after-tax income, virtually 100 percent of it would be paid towards college education.

*Ms. McCourt. If they are making $55,000, most institutions of higher education would be offering them significant aid.

*Mr. Meehan. You expect that they would be --

*Ms. McCourt. Absolutely.

*Mr. Meehan. -- offering them significant aid.

*Ms. McCourt. Absolutely.

*Mr. Meehan. If I might, and this is a question just of accountability, is public education a public service? Those who -- is it a public service? If you are at a public college, is that a public service?

*Ms. McCourt. I think we owe it to our younger population to educate them. When we talk about the issue of the U.S. economy and our ability to compete, you know, on into the future, yes, I think we owe it to our --

*Mr. Meehan. Well, are we talking -- let me ask it another way.

We talk about accountability for institutions and I realize that these are difficult -- and in some ways, it may even be symbolic, but should a president of a college, notwithstanding the complexities, be making more than the president of the United States?

*Ms. McCourt. I am going to go back to the issue of running a very large --

*Mr. Meehan. Yes or no?

*Ms. McCourt. -- complex -- I am going to -- the market of supply and demand and labor and getting good talent to run these institutions of higher education, I think the pres --

*Mr. Meehan. But you don't think we get very good people to be superintendents of high schools and very good people to be school teachers in public school systems and you don't think with the prestige associated with being at a public institution of major -- that we wouldn't be able still to attract the highest quality person as the president of a major university if they were being paid --

*Ms. McCourt. I think if --

*Mr. Meehan. -- the same salary as the governor?

*Ms. McCourt. -- I think if we don't pay people appropriately, you will not be able to attract the talent you need these very large, complex institutions.

*Mr. Meehan. Let me ask a question about accountability for anybody here.

I hear two things when I go and talk to my students. One is their aspirations, and I ask this question very specifically, and the second is what concerns you the most and invariably they say, "How are my parents going to pay for college education?" So it is affecting every family across America, but one of the bigger concerns I get is when I go to employers and they say to me that they can't find people who are adequately trained to fill the jobs that they have.

Where is there a measure of accountability and this is for anyone that looks at it and says if we cannot fill the available jobs here in the United States with college graduates -- and I say this as a liberal arts grad, a classics major like my colleague here, who finds great value in that kind of an education, but notwithstanding, we are not educating for the jobs of today and they are going unfilled at great cost to us?

Where is the accountability there? Why should we not hold institutions responsible for their failure to meet that?

And I open it to anybody who may have --

*Mr. Vedder. Mr. Meehan, I apologize for my earlier remark.

With respect to that question, we don't have a good match between what people do in college and what the labor market wants and some people have suggested that one way to sort of incentivize colleges to get a little better on this is to have colleges have skin in the game. Now, that can be -- take different forms. One way is with respect to defaults on student loans and all, that maybe the colleges ought to pay back some of that rather than the students themselves. I think that is something that Congress maybe should start looking into.

And it is interesting on that, by the way, that I have heard people on both sides of the aisle, I won't name names, but from highly progressive liberal Democrats to fairly conservative

Republicans saying the same thing. So this might be an area where there might be some bipartisan possibilities.

*Mr. Meehan. Thank you, Mr. Vedder.

Mr. Chairman, I yield back.

*Chairman Roskam. Ms. Black.

*Ms. Black. Thank you, Mr. Chairman. I appreciate being a part of this Committee. I thank you for allowing me to be here and ask a question.

This is an area that I have great concern about having served on the Ways and Means Subcommittee on Education and coming out with some ideas of our own, but I want to follow the vein of my colleague, my colleague that was just questioning, Mr. Meehan, about outcomes and about how we get to know about those outcomes so that as we look at these costs, which has been established are really high costs, rising costs, that students and their families would be able to make those decisions that are necessary in order to be able to decide what can I afford and what can I expect as an outcome if I choose this particular university or this setting.

Last month, the Department of Education and the IRS published a new college scorecard database to help students and their families make more informed decisions about higher education. The scorecard provides information about the student outcomes from individual schools, including information about post-college earnings and debt levels.

Mr. Vedder, what are your thoughts about this scorecard? Is this a scorecard that is something that the students and their families can really count on in helping them to make that best decision?

*Mr. Vedder. Well, I think the scorecard is a step forward. There is a huge information problem in higher ed. I have been saying this all throughout this hearing. And the scorecard does provide some information that was previously not available, for example, earnings data on post-graduates.

There some deficiencies in that scorecard. We don't -- first of all, there are a few schools that are not even included in the scorecard. I can name -- you know, Hillsdale College would be one. Grove City College would be two. Christian College would be three. I could name several universities.

*Ms. Black. Well, why are they not included in it?

*Mr. Vedder. Well, you will have to ask them, but I think it relates to the fact that they do not participate in the -- they don't participate in federal student aid programs.

*Mr. Black. Oh, okay, the federal student aid. Okay. That is --

*Mr. Vedder. And although Hillsdale also claims that they refuse to provide race information. They don't as a matter of principle. I read this in The Wall Street Journal. So there are deficiencies there.

*Ms. Black. Okay.

*Mr. Vedder. It would be nice if we had more information on earnings by major, earnings by -- in a variety of other contexts other than just one earnings measure. It is -- as I say, it is a start, but we are way, way, way behind where we should be in this area.

*Ms. Black. So, in your opinion, and the opinion of others on the panel, what do we need to do to force this to occur because I believe there isn't enough information out there to be able to use good data to drive those decisions to that when you are spending $23,000 a year, which is a huge amount of money for education, that you could say at the end of the day, that money was well spent because I am going to get this job or I am going to be able to move up in whatever my job is?

What else do we have to do? What else should we be looking to do? Mr. Vedder?

*Mr. Vedder. Well, let me respond. I think --

*Ms. Black. -- you want to start and then --

*Mr. Vedder. -- I see Mr. Hartle wants --

*Ms. Black. -- Mr. Hartle, yes.

*Mr. Vedder. -- to respond as well. I think we could -- one thing that has been suggested is that we actually have some sort of -- something like the collegiate learning assessment tests that could be administered at the freshman and senior years nationwide or something so we can measure value-added during college of what students learn. We do it certainly at the K through 12 level. We could do it on a -- and I am not proposing a huge, highly intrusive amount of testing, but we could do a little bit at that national level.

The Spellings Commission a decade ago, which I was a member of, made recommendations along -- or in that direction. Nothing was done. Colleges don't want to be compared with one another. They don't like -- it is sometimes embarrassing. Two comparable schools are different in some ways. They don't want the information out. I think we could force more information to be provided along those lines.

We need better information on what happens to students after they graduate than we are getting now.

*Ms. Black. Mr. Hartle, I have exactly 27 seconds, so if you could just quickly tell us your thoughts.

*Mr. Hartle. I would be happy to chat with you following the hearing if that would be helpful, but I think to answer your point about Hillsdale, one of the limitations of the Department of Education's scorecard data is it is only for students who received financial aid. So schools like Hillsdale who do not participate in the Federal Student Aid Program don't have anybody in the database. Only a fair number of students are excluded, so some schools, the numbers are based on 10, 15, 20 percent of the students rather than the entirety of the student body.

The fundamental challenge you face at the federal level is the Federal Government does not have good data to do what they want to do. The Department of Education can only rate schools on four pieces of information: retention, graduation, student loan defaults, and now student loan repayments. Not all of those are accurate.

Fundamentally, the question for the Federal Government is whether they want to create a database that would enable them to very accurately compare information by tracking individual students.

*Ms. Black. Thank you. And I know my time is expired. I do think this is an area that we really do need to take a look at. Thank you very much.

*Chairman Roskam. Thank you.

Mr. Reed?

*Mr. Reed. Thank you, Mr. Chairman, and as a former member of this Subcommittee, I so appreciate the Chairman holding this panel and having this testimony here today and I wanted to come here today because this is a priority issue to me.

As the youngest of 12 siblings, who was raised by a single mother who firmly believed that education was the key to getting out of poverty, this is something I am very personally interested in taking care of because when I got out of school, my student loan debt was $110,000. So like my colleague from Missouri, Mr. Smith, it was a major load to carry, and when I go around my district and I talk to these students and I talk to these kids and they tell me they are coming out of undergrad with $100-200,000 worth of debt, we are doing a disservice to the next generation.

So I come here today having taken a hard look, and many of you on the panel know that I am drafting legislation as we speak, to deal with what I believe is a crisis when it comes to higher educational costs in America and what we are doing to the next generation.

One of our proposed reforms that I am very interested in and the testimony here got into today is when I looked at the endowments of our largest universities and colleges, the top 90-91 universities and colleges, each having a billion dollars or more of funds in endowments, then I realize that those endowments are being held in a tax-free status. Then I realized that donors get a tax deduction for giving these gifts to these institutions. Then I realized when you do the simple math, for example, and to all the reporters out there, if we just change the rules and force this endowment to be a pot of money to be utilized to reduce tuition for our students, we could have a headline that says we propose in the crisis, for the immediate short-term future, that students at these institutions will pay zero dollars for tuition, zero dollars.

Also, Mr. Galle, your testimony touches upon that a little bit in the Harvard Study and let me just do some math. Harvard, $5.5 billion in returns tax free last year, total tuition charged to its undergrad population, $360 million, $100 million is given to Harvard from federal and state local sources. So when my colleague from New York talks about why is this an issue or why are we even discussing this, I would propose something to you.

In order to keep that tax-free qualification that we are referring here today, maybe we mandate that the endowments take their earnings, just their earnings, not their principal so we don't get into the sustainability issue that some of you expressed here today, and mandate it goes to tuition relief to the students that are going there, plus the $100 million that your institutions get in these high endowment level institutions, that goes to other institutions across America to the other schools that don't have this size of endowment. That is $100 million that would be going from Harvard to a different institution and allow those costs to be lowered at those institutions.

Take Yale, $3 billion return on their endowment, $291 million of tuition charged to its undergrad population. If you just took 10 percent of that money and gave it to the kids that are going to school there, you wouldn't have to charge one kid a dime to go to that institution. That is addressing this crisis, in my opinion.

Texas, which has the second largest endowment I believe, $339 million worth of tuition. It is getting a $3 billion return on its endowment each year tax free. And I am not even talking about what your endowment managers are making off of that return and some of these endowment managers are making $2-300 million just off of that return on an annual basis. Talk about going after the top 1 percent. This is an opportunity to address this crisis that our kids in America are facing and I would hope my colleagues on the other side would join me in these types of reforms and looking at this resource and saying maybe we can utilize this to address this crisis and go forward.

Mr. Hartle and Ms. McCourt, you actually gave me some information today because the restriction on the gifts to these -- from these donors and to your institutions, I think the benefit of being on this Committee -- you say the law restricts you? We can change the law. We write the law. That is what we are here for because the donors, if they were then told that, hey, if I have to give money to an institution and I am going to lose my tax deductibility, maybe the conversation you could have with that donor is going to be a little bit different and say, "Do you really want to give us that taxable gift as opposed to a non-taxable or a tax deduction gift that we could do," if we change the rules so these restrictions are out the door?

So this is an opportunity. I want to work on reforms that are going to say a headline we propose zero tuition to the kids of the next generation as we go through this crisis of getting college costs under control. To me, this is a great opportunity. This legislation is being finalized and I hope my colleagues on the other side of the aisle would join us in this reform and alleviate this debt burden that we are putting on this next generation of kids like myself when I came out of college with $110,000 worth of debt.

It is not right. It is wrong. I care about these kids and we are going to make sure these kids get the education that gets them out of poverty to enjoy the opportunity of America.

With that, I yield back.

*Chairman Roskam. Thank you, Mr. Reed.

You know, I think it is interesting -- I have got a few questions, but it is interesting if you listen to the nature of the discussion today, there is really nobody that is defending the status quo. There is no voice up here on either side of the aisle that said it is great, just leave it alone. There is no panelist who said, oh, it is great, just leave it alone, which means I think that there is an opportunity for us to be rethinking these things.

So I had some questions that popped up. Ms. McCourt, let us just follow-up because we had a little bit of a dialogue that was just intermittent.

Let me recharacterize your testimony as I heard it, particularly as it relates to sticker price. So the sticker price, you said, look, that is one figure that tells part of the story. Let me stipulate a couple of things.

Let us say for the sake of argument that the sticker price tells one story and that the actual price is a different story. The trend, though, is significant. So in my opening statement, I referenced this relationship between health care costs -- the rise of health care costs and the rise of higher education and I said that higher ed was increasing twice as fast as health care. So for the sake of argument, let us say that it is just increasing at the rate of health care. Okay.

The rise in health care, I would argue the public is getting a benefit at least. We are living longer. We are living healthier lives. You know, we have got devices, we have got this, we have got that. We have got all kinds of things that have changed the quality of life.

And my question is: can we really say that about higher education?

Going back to Mr. Holding's admonition, is his classics education fundamentally different from his father's or grandfather's or grandmothers or great-grandparents' into perpetuity?

You see the point that there is some value proposition that the health care enterprise at least can turn to, and really are students better, faster and smarter with the amount of money that is going into the front end of this?

*Ms. McCourt. There are several points I want to make. So let me just try to touch on them quickly. But the wage gap has never been wider for those with a college education and those who do not have it. There are many benefits.

There are direct benefits, and then when you think about societal, health, there are all kinds of benefits when you study those with college educations and those without. So I would venture to say, yes, there are extreme benefits.

I would also say that the classics education, maybe the book you are reading is the same, but there are many things that are happening in institutions of higher education that are wrapped around the classics education. There is technology in the classroom. There is technology in the books. There is technology across the campuses. There are career and advising services that have not been there before.

So there are many additive costs, and I am in a classics; I am an economics degree as well so not classics, but liberal arts, and when you think about society and we have talked about, you know, other countries and advances they are making. If we do not think the advances in research and technology, innovation is the way of the future. A lot of that innovation is happening on college campuses.

So, yes, there is a --

*Chairman Roskam. Okay. So you would make an argument there.

Mr. Hartle?

*Mr. Hartle. Just an observation. Your charge is actually net cost of attendance over time. So it would be tuition and fees, room and board, books and supplies for students who live in university housing, which is only about 15 percent of all students.

Net tuition is $3,000 for students in public four-year colleges, $12,000 for students in private colleges. Obviously, students who do not live in campus housing may well have limited expenses, but yours is showing a total cost of attendance for a specific type.

*Chairman Roskam. And so your argument is that universities can control part of that, that is, on-campus living, and they cannot control part of it; is that right?

*Mr. Hartle. No, the argument is that for the 85 percent of students who do not live in university house, they are not facing that as a net price. They are facing something different in many cases.

*Chairman Roskam. I understand your point.

Let me switch gears a little bit. Ms. McCourt, getting back to you, first of all, I stipulate that Indiana University and Purdue University are doing remarkable things, and this is not false praise. It is really remarkable, and particularly leading the Nation in a lot of these things, and I know that you are inextricably linked to the success there.

You are today here, however, on behalf of a larger organization.

*Ms. McCourt. Right.

*Chairman Roskam. And so, you know, they are all with you. So let me ask you this. You were implicitly defending high salaries for --

*Ms. McCourt. I --

*Chairman Roskam. You were explicitly defending high salaries -- let me make a point -- for university presidents, and your thesis was, look, these are big systems, and if you need big systems to be run, you need bright people to run them, and bright people are expensive. And that is not an irrational argument.

Here is the plot trap though with that argument, I think. The comparison was made to the private sector, that is, the for-profit sector. The for-profit sector is only able to deduct a million dollars in salary, you know, publicly traded C corps. That is it.

Now, what do you think about an excise tax, for example? If the university says this person is so special that we have looked across all the fruited plain, and we think that this is the absolute person that we need to bring in for this.

Is it reasonable then to create a comparison with the private sector because you used the private sector as an analogy?

*Ms. McCourt. I think you would find so very few people who would meet that criteria it would almost --

*Chairman Roskam. Really?

*Ms. McCourt. Yes.

*Chairman Roskam. Wow, that is amazing to me.

*Ms. McCourt. Yes.

*Chairman Roskam. That people would say, "I am unwilling to do it," and that the universities would be unwilling to pay an excise tax. That is interesting.

*Ms. McCourt. No, I did not say they would or they would not, but I am thinking right now of the institutions of higher ed. across the country, and anyone paid over a million dollars. There are not that many.

*Chairman Roskam. Well, there are 42.

*Ms. McCourt. Okay. Forty-two out of all of the employees in institutions of higher --

*Chairman Roskam. So you would not object to them? You would not object to that?

I mean, I am not trying to trap you. I am trying to understand.

*Ms. McCourt. Yes, I may not.

*Chairman Roskam. Okay. Mr. Vedder, what do you think of that, the idea and the comparison to C corps. and so forth?

*Dr. Vedder. Well, I think there ought to be a level playing field. I think the tax treatment of employees working for the private sector and public sector should be the same. Whether the current million dollar rule is appropriate the appropriate rule, I have not really studied that or thought much about it.

*Chairman Roskam. In fairness, neither have I. I am just thinking through the comparison.

*Dr. Vedder. But I cannot see why university presidents would be treated differently, and I have even read many cases where the IRS has gone and said, "Oh, you have not paid taxes on your presidential mansion you are staying in and we are going to make you do that."

And then the boards of trustees say, "Oh, we will pay that for you." You know, it is almost like only little people pay taxes.

And I think economists generally favor level playing fields.

*Chairman Roskam. Let me ask you, Mr. Vedder. There has been some discussion around restricted contributions, you know, restricted gifts and so forth, and the inherent limitations. Listen. That makes sense. You can understand if you accept a gift that is a donor-directed gift you are bound to use it in the way that the donor would contemplate and direct.

Is there any wisdom to giving it different tax treatment though? In other words, a donation that goes from a donor to a university that is unrestricted, should that be given more favorable tax treatment than a donation that says, "I am restricting you to use it for this particular purpose"?

Could you not make the argument that part of the benefit that the donor receives at the front end is the capacity for direction as opposed to an unrestricted gift which the law would view as a higher good, going back to Ms. Noem's point, and that is, you know, creating more flexibility and so forth?

Does that make any sense?

*Dr. Vedder. It makes sense. It is an intriguing idea. I think there are some administrative issues. I am trying to think of the practicalities of how you define, how you differentiate, but I think it is an interesting idea.

Similarly, as I mentioned in my testimony, there are certain kinds of university donations that are clearly too nonacademic purposes. I mean stadium skyboxes, why should some who they love their alma mater and they want to sit in a fancy skybox and get credit for it, why should they get a tax break for that?

I am going to get in trouble. Princeton University built a dorm, particularly with your own staff that went to Princeton. Princeton University built a dorm that cost $120 million. Three hundred and fifty kids live in that dorm. That is $340,000 a bed.

Meg Whitman made a big part of the gift, a major corporate donor. She probably got at least a $10 million deduction for that, to provide a facility that cost more than a typical resort built by a man who is running for President now, who will remain nameless.

So it seems to me that there is a lot of reason to look into the nature of the gifts, and that may mean to do what you are suggesting. I have not really thought it out fully.

*Chairman Roskam. Okay. Ms. McCourt, I just want to get your insight, your insights in Indiana versus the experience of my home State in Illinois. So I am a graduate of the University of Illinois down in Champaign. This statistic I find just jarring.

This is Illinois. At public universities in Illinois the number of full-time administrative staff increased 31 percent from 2004 to 2010, with only 1.8 percent increase in full-time faculty and a 2.3 percent increase in students.

The University of Illinois has one administrative staff member for every 30 students. Does that seem absurd to you like it does to me? And I mean gratuitously absurd.

*Ms. McCourt. Well, I do not want to comment on that. I can tell you at the university --

*Chairman Roskam. I would not either.

*Ms. McCourt. -- the trend is exactly the opposite. Over the past decade we have seen a 14 percent increase in academic staff and a three percent increase in administrative staff.

When I take that back to fiscal year 2004 to 2011, and then the years 2011 to 2014, administrative staff has actually gone down two percent while academic staff has gone up three, for a net change of zero.

*Chairman Roskam. Is that in Indiana?

*Ms. McCourt. That is Indiana.

*Chairman Roskam. Okay.

*Ms. McCourt. I mean head count, but to your earlier point --

*Chairman Roskam. You have got a good point because you can argue in the alternative. When you want to put on your Indiana cloak you do, and then when you have got the whole crowd in the room --

*Ms. McCourt. But to your earlier point, this is why we need --

*Chairman Roskam. Hang on.

*Ms. McCourt. -- this is why we need to bring business people to higher education, to focus on these metrics.

*Chairman Roskam. Is that true though. Are those statistics nationwide statistics or are those Indiana?

*Ms. McCourt. I think you are seeing a very large trend, and we are now approaching this bubble of people retiring out of higher education. There is just a lot of retirements.

*Chairman Roskam. Okay.

*Ms. McCourt. And so as they retire, they are not getting hired back on the administrative side.

*Chairman Roskam. Okay. Put on your cloak of the organization now.

*Ms. McCourt. Yes.

*Chairman Roskam. You are out of the safe zone of Indiana.

*Ms. McCourt. Yes.

*Chairman Roskam. Now you have got the whole team.

*Ms. McCourt. Yeah.

*Chairman Roskam. In 2012, Sterling Partners and Bain & Company wrote a report, which I would like to enter into the record with no objection.

[The information follows: The Honorable Peter Roskam]

*Chairman Roskam. Administrative costs, quote, have grown faster than the cost of instruction across most campuses. In no other industry would overhead costs be allowed to grow at this rate. Executives would lose their jobs," end of quote.

The Department of Education data shows that administrative positions, that is, non-teaching, at colleges and universities grew by 60 percent between 1993 and 2009. That is indefensible, is it not?

*Ms. McCourt. Well, I think you need to get below how they are defining administration because outside of my cloak of --

*Chairman Roskam. Non-teaching.

*Ms. McCourt. -- Indiana University, non-teaching there is much support staff being hired everywhere. There is also staff when we think about the Clery Act and student welfare and emergency preparedness. That is where the hires are going.

I do not see a lot of hires in kind of business type administration.

*Chairman Roskam. Okay. However, if that is true, how are you enjoying such success at Indiana University and the rest of the country is failing?

*Ms. McCourt. So back to the Indiana University side. We are putting a lot of emphasis on operational efficiency and where can we cut costs.

And the other benefit --

*Chairman Roskam. So my point is it is possible, and you are showing and you are leading --

*Ms. McCourt. Yes, we are.

*Chairman Roskam. -- and the rest of the group is like pressing up their nose again the glass looking in, and they are not delivering.

*Ms. McCourt. In everybody else's defense, another benefit we have at Indiana University is because it is a seven campus, we are not a system, but there are seven campuses we operate. We can leverage that size, and we can create efficiencies.

*Chairman Roskam. Come on. That is not a distinction.

*Ms. McCourt. It is. I mean, I would love to say it is all great and, you know, we have these novel ideas, but that does give us a benefit. You can leverage, you know, seven accounts payable organizations or seven student services.

*Chairman Roskam. There are many systems across the country. Nice try.

*Ms. McCourt. Everyone is focused on it.

*Chairman Roskam. I get it, but your presence here today and your ability to describe what is happening at Indiana University, to which I give you credit and I admire and what we know

Governor Daniels is doing at Purdue in something, is the exact reason that there is an incongruity.

What is happening in my home state is lagging compared to what you are doing. I appreciate your willingness to try and advocate on behalf of a larger entity that you are bound to try and do, and you are doing a good job. The challenge is it is a really hard case to make, and your presence here is the irony that it is possible.

We have been joined by Mr. Dold, whom we will go to quickly, and then we will wind it up.

*Mr. Dold. Thank you, Mr. Chairman.

Again, I want to thank you for holding this hearing on what is an incredibly important topic.

So the chairman and I actually come from the same State, and I am alarmed at the rate at which the number of administrators is increasing, 31 percent over six years for administration to me as a small business owner seems outrageous.

I have to tell you when I am out talking to people each and every day that are having the kitchen table conversations with their family, the thing that they are concerned about most besides the rising cost of fuel, is the cost of higher education.

We know it is the great equalizer. We know it is the building blocks for everything that we want to do. We want to make sure that people are able to reach their full potential, and frankly, we are going to rely upon you.

Yet, when you look at the cost of higher education over the course of the last several decades, it so far outpaces inflation that one has to take a look and say, "Are we getting better educated today than the folks that graduated before?"

Really what I want to try to focus on because this is such an important topic is: how do we enable or how do we start getting dual credit? How do we start enabling people to have that leg up when they are coming in so that they are not putting five years in instead of four?

Some of the community colleges, they are spending a lot of their Pell Grant money on remedial education, and we know if they are doing that on remedial education, the chance that they are going to actually graduate and get a certificate out of some of these community colleges diminishes greatly.

I guess one of the questions that I am asking most from you here on the panel is: what would you think about having some of the universities that you represent actually be engaged in the student loan process so that we are better aligning the students' outcome and their ability to pay back the universities?

What would you think, Dr. Lucca, about something along those lines? Would that be a change that we might be able to do to try to better align so that these universities want to ensure that their college students are coming out and getting good, high paying jobs?

*Dr. Lucca. My research does not directly speak to that issue, I mean, generally aligning the interests of colleges and students would probably not be a terrible idea, but I have not really researched this.

*Mr. Dold. I would hope it would not be a terrible idea, but I mean, again, we want people aligned. We want people in the rowboat rowing in the same direction.

Dr. Vedder?

*Dr. Vedder. I think, picking up on Dr. Lucca's answer, I do think universities ought to be more aligned with the interests of their students. Their own interests and the students' should be more aligned.

I have been intrigued in my own thinking about doing exactly that. Why are the universities themselves not in the loan business? Why do they not use some of their endowments to invest in their own students?

If we are going to move to a new form of financing of higher ed. as some have suggested, income share agreements where people sell a share in themselves as it were, equity in themselves rather than debt in themselves so that the risk goes to the investor; why can at least some of the richer schools not be involved in that process?

Why can colleges not have more skin in the game?

*Mr. Dold. Well, I think they need to, to your point.

*Dr. Vedder. So I am sympathetic to your idea.

*Mr. Dold. Mr. Galle, you are over at Georgetown at the Law Center.

*Mr. Galle. Yes.

*Mr. Dold. Do you have great faith that these lawyers or soon to be lawyers coming out under you tutelage are going to do well?

*Mr. Galle. I do. I think one reason to be cautious is essentially in that situation your educator is acting as an insurer, and we know from studying health care usually you want a pretty big pool if you are acting as an insurer. It is not clear that one university level is a big enough pool in order to make up a system like that fiscally viable.

I would be interested in Dr. Vedder's research on that front.

You know, another thing to think about when you are thinking about having skin in the game is that as we heard, a lot of States are having less and less skin in the game of the future of people who are being educated in their State, and I think it would be interesting to think about creative ways to get the Federal Government to encourage States to spend more on their students.

If you think about it, for the most part the Federal Government is in the position just of writing checks, and it is hard to get a lot of accountability when you are just the check writer. But if you are actually operating the institution, you can control a lot of these levers.

So I think maybe State universities are a good answer for a lot of the affordability problems that people are facing. Maybe there are creative ways to encourage a better balance.

*Mr. Dold. I can tell you it is at a fever pitch, and that most people are terrified about how they are going to be able to afford to be able to send their children to college.

*Ms. McCourt. I would say colleges and universities have put hundreds of millions of dollars in skin in the game when we look at institutions like Harvard and Yale we have talked about several times today. Families that are making under $65,000 virtually paying nothing; families up to $150,000 paying zero to ten percent of their income.

*Mr. Dold. Okay. When I go back to Grayslake and talk to a mother of three children, am I going to tell her she is going to pay nothing to send her kids to Harvard?

*Ms. McCourt. If her kids are going to get into Harvard?

*Mr. Dold. Well, I am asking. That is my point.

*Ms. McCourt. Her kids are going to get into Harvard and they make --

*Mr. Dold. I cannot go to my mother in Grayslake and say, "Do not worry about college. Harvard is going to pay for it."

*Ms. McCourt. If the kid gets into Harvard and she makes less than $65,000, you probably can tell her she is not going to pay anything to attend Harvard.

*Mr. Dold. Okay. So if she's making less than $65,000 she is going to pay nothing or her children will pay nothing to go to Harvard. How about if we are going to the University of Illinois?

*Ms. McCourt. The University of Illinois, like all State flagship institutions -- I am saying all; most -- are putting big dollars on the table, much skin in the game to attract the best and brightest. So if she did not get into Harvard, but anyway -- or if you are making less than I think at Indiana it is about 65 as well, there are hundreds of millions of dollars on the table that institutions are putting up.

*Mr. Dold. I recognize that my time has expired, but let me just say place in some of our low income areas, they might not have those things, and if we are looking to try to level the playing field, give them the opportunity, I cannot go to them and say, "By the way, if you just apply, college is going to be free."

They are looking at the sticker price, and frankly, the sticker price is becoming more and more out of reach where people are throwing up their hands saying, "I do not know how I can."

*Ms. McCourt. And that is some of the investments, and when we look at the investments, financial aid, there are a lot of investments in financial aid counselors so that families can come, get on Web sites and find that they will not be paying those sticker prices.

*Mr. Dold. Thank you, Mr. Chairman.

*Chairman Roskam. Thank you to all of our witnesses. We are deeply appreciative of the time and energy that you gave us today, and it is not lost on us, your willingness to share your perspectives, and all five of you really added a great deal of insight and value, and I know I speak on behalf of all of my colleagues here, that we are deeply appreciative of your time

The meeting is adjourned.

[Whereupon, at 12:12 p.m., the subcommittee was adjourned.]

Extended Testimony

Mr. Hartle
Mr. Vedder

Public Submission for the Record