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Senator Lamar Alexander, Chairman
Senator Patty Murray, Ranking Member
Committee on Health, Education,
Labor and Pensions
United States Senate
428 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Alexander and Murray,

I am writing to offer my views on the contentious “Bennett Hypothesis” that will no doubt make an appearance at Tuesday’s hearing. The Bennett Hypothesis is the supposed link between increases in federal higher education support and subsequent college tuition increases.

The literature on the Bennett Hypothesis offers no firm conclusions or consensus. One can find support for any position, so appeals to the Bennett Hypothesis often derail efforts to find a sensible middle ground where facts are agreed. This alone should lead you to steer clear of altering federal student support policies on the basis of any particular study that purports to show a link between federal student aid and list price tuition.

Finding a correlation between federal student aid and list price tuition is easy. Over time the consumer price index, the level of federal aid spending, college operating costs, and list price tuition all have moved in the same direction. The many strands of causality that tie all of these things together are tangled and not well understood. As a result, statistical correlations often are spurious accidents even when researchers have tried to identify and control for various confounding factors.

The current literature on links between federal student aid and list price also suffers from many methodological flaws. The schools that make up the American higher education system are very diverse. Elite private colleges, non-selective public branch campuses, and for-profit institutions face different constraints and have differing decision-making processes. Yet much of the work on the Bennett Hypothesis ignores these differences in how institutions behave, and many studies do not seriously explore college price-setting behavior at all.

We should get away from the Bennett Hypothesis and its narrow focus on list price tuition. Most undergraduates in the United States don't pay the list price. Public and private non-profits offer need-based and merit-based discounts. According to the College Board's "Trends in Student Pricing, 2017" over half the students at the nation's major public research universities pay less than the listed in-state tuition, and the average discount is 34%. At smaller private colleges fewer than 20% of students pay the list price, and the average discount is over 50%. List price tuition is a very poor measure of the cost of attendance for most students.

The most important questions we face are about how federal aid policy affects access to the higher education system. There is a serious social science research literature on the interaction between federal higher education support and college access and affordability, and a number of conclusions from that literature are increasingly supported by strong evidence.

- Public universities and private colleges that serve large numbers of the nation's lower-income and 1st generation students pass most or all of any increase in federal aid back to students as a lower net tuition. Net tuition is the list price minus any government aid the student receives and any institutional discount the school offers. In other words, extra federal support creates more access.
- Highly selective private colleges do not pass all of an extra dollar of federal aid to students. They "tax" an extra dollar of aid by reducing their own need-based discount. But some of the aid does pass through as a lower net price.
- The best evidence of a causal link between federal aid and ***list price tuition*** comes from the nation's for-profit higher education institutions.

These conclusions from the literature make sense if you think about how non-profit and for-profit colleges actually behave.

Non-profits use tuition discounting, and part of the motive is a mission-driven commitment to access. If Congress raises the maximum size of a Pell grant, lower-income students bring that larger aid package with them to any school that accepts them.

At a non-profit college or university, the school can claim some of the extra federal aid by cutting its own discount. The less it cuts its own discount, the more the student's net price falls. But "taxing" the aid isn't all bad. By decreasing the discount, schools have extra operating funds that they can use to build student support programs that improve retention and graduation or build better programming that benefits all students. They could also use the extra revenues to ***cut*** the list price for higher-income students. They have no incentive to raise it.

The evidence suggests that state universities and less-selective private colleges choose to pass most or all of any increase in federal aid to students as a lower net price. These are schools that often do not fully meet need because they are resource poor. The extra federal aid helps them to meet a greater percentage of student need. Doing this would enlarge the pool of students who could afford to go. It would also improve retention and graduation rates by reducing students' financial stress. And public university tuition often is set by state legislatures, so schools do not respond with tuition hikes when the Pell maximum, for instance, is raised.

Highly selective schools already meet much or all of their students' demonstrated need, so they have an incentive to allow a portion of extra federal aid to displace some of their own institutional grant aid. Taxing the extra federal aid in this way frees up resources to improve programming.

The nation's for-profit colleges are different. There is more than a touch of irony in the evidence that higher federal tuition support is linked to rising list price tuition in this sector of the higher education market. But the causal pathway is clear. These schools often receive eighty to one hundred percent of their revenues from federal student loans, Pell grants, and GI benefits. Almost all of their students receive large amounts of federal support. And these colleges do not use need-based discounts to build and diversify an incoming class of students. Like highly selective private universities, for-profits can tax any increase in the package of federal aid their students bring to the table. But since they have little institutional aid to reduce, they claim much of the federal aid as revenue by raising the list price that virtually all of their students face. Yet even at for-profit colleges, a dollar of extra federal support does not lead to a dollar of tuition increase. Extra federal aid creates access here too.

I urge you to keep your eye on the real prize. The substantive issues before you are about creating **access** to higher education for more families, and enabling **success** by helping a greater fraction of students move expeditiously through the higher education system. Of the two, your greatest leverage is over access.

Improved access and greater success are needed if we are to help more young Americans earn the skills and credentials that will add value over their entire working lifetimes. This is how we fulfill the promise of our higher education system as an engine of social mobility.

Sincerely,



David H. Feldman
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