

POLICY FOCUS

JULY 2023

Taxing Universities

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HIGHLIGHT

The student debt crisis is a burden on millions of Americans. But a bailout on the backs of taxpayers who didn't go to college is regressive and unfair. Instead, we should send the bill for exploding loan debt where it belongs: with universities that have gotten rich and powerful by overcharging both their students and taxpayers.

INTRODUCTION

In [*Biden v. Nebraska*](#), the Supreme Court struck down the Biden administration's unfair plan to cancel billions of dollars of student debt because it exceeded the Constitutional powers of the executive branch. But President Biden has already promised to renew a similar plan on different legal grounds, and on July 14th, his administration announced a new plan for fast-tracking an initial **\$39 billion** in forgiveness. The forgiveness issue will continue to be a powerful one for the Democratic Party as long as conservatives do not advance a realistic

plan for the millions of Americans dealing with burdensome student loan debt and skyrocketing college costs. The Right should take this opportunity to propose laying the responsibility—and the bill—for the student debt problem where it belongs, with the universities that have created and benefited from it. If student debt needs to be forgiven, we should tax the higher education sector to pay for it.

- **The student debt problem is real.**

Millions of Americans are up to their ears in **\$1.8 trillion** of outstanding student loan debt, and 40 percent of the loans currently taken out were predicted to go into default by 2023 before the pandemic, with no reason to think that the financial picture will be better when payments resume in October. Because the Department of Education owns **92 percent** of the student loan market directly, this means taxpayers are already on the hook, even if we do not pass a forgiveness plan.

- **Universities have benefited the most from student loan programs, subsidies, and other taxpayer-funded programs, all while raising tuition for students well above inflation. The just solution is to tax universities to foot the bill for the debt problem they've created.** The student debt crisis is really a college cost crisis, helped along by ever-increasing loan backing from the federal government. Universities have benefited enormously from the status quo; they should help pay for the solution and have skin in the game going forward.

UNIVERSITIES BENEFITED FROM STUDENT LOANS, NOW THEY SHOULD PAY FOR THEM

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- **It is unfair and regressive to force Americans without four-year degrees to pay for loan forgiveness for the upper middle class.** Other than universities themselves, the biggest beneficiaries of student loan forgiveness are in the professional class, while people from lower-income backgrounds are simply being priced out of attending college at all. Asking the majority of Americans without four-year degrees to pay off the loans of doctors and lawyers isn't a just way to solve the problem.

voters dealing with crushing student loan payments that have left them unable to buy homes and reach financial independence. But leftist proposals to forgive debt are regressive. Asking the mechanic in Ohio without a degree to pay the bills of people with professional degrees from Harvard isn't just unfair, it makes the college cost problem even worse for future generations.

Universities have been the beneficiaries of decades of subsidies and student loan programs from the federal government,

but have failed to uphold their side of the bargain. Instead, they've chosen to teach divisive and pernicious creeds to students and raise tuition costs well above inflation in a way that has made attending college a huge burden on the middle class. Under the current system, taxpayers shell out, and students walk away with increasing student loan debt, but universities get their money up front without having to defend the value of their degrees—money they **funnel** into fancy facilities, ballooning administrative payrolls, and ideological departments.

It's time to ask universities to put some skin in the game for their own graduates and pay their fair share in solving the student debt problem they've helped to create.

For every additional loan dollar the government approves, universities are free to raise their tuition. Then the government approves higher loans, and the cycle bounces back and forth, creating an escalating effect over time that puts enormous financial pressure on middle- and working-class families hoping to send their children to college.

WHY THE STUDENT DEBT PROBLEM EXISTS: SKYROCKETING COLLEGE COSTS AND DIFFICULT CHOICES FOR HIGH SCHOOL GRADUATES

The student loan crisis is real and accelerating, with \$1.8 trillion in outstanding student loans surpassing the total Americans owe on car loans in recent years. Total outstanding student loan debt has **doubled as a share of GDP** from the mid-2000s to today, with **one in six adults** holding a loan (and **one in three** under 30).

And what's more, nearly *half* of those loans are predicted to go into default once payments eventually resume, based on pre-pandemic numbers. But why has student loan debt gone from a responsible investment in one's future to an unsustainable disaster in just a couple decades?

In short, the answer is that the student debt crisis is really a college cost crisis. The cost of sending a child through college has soared radically above the rate of inflation—by **40 percentage points**—for decades. At already high-tuition private institutions, costs have **doubled** between 1990 and 2020 in inflation-adjusted dollars, while at lower-tuition public schools, they've tripled. Add in the cost of living, expensive textbooks, and other expenses, and it's easy to see how the typical 18-year-old cannot cover much of the bill even if he works part- or full-time while in school. But how did college costs end up inflating this high?

Broad-based student loans were first introduced by the federal government as part

of the Great Society in the 1960s, as a solution for lower-income students who had the academic credentials to go to college, but no way to fund themselves through it. In a famous commencement speech in 1964, President Lyndon Johnson **announced**, "Our society will not be great until every young mind is set free to scan the farthest reaches of thought and imagination." Sounds nice, until you look at the program's success on its own stated terms: on campuses today, students from the bottom half of the income spectrum actually make up a *smaller percentage* than they did before the government started backing student loans.

Instead of helping students from low-income families, federal student loan programs helped price them out of universities. For every additional loan dollar the government approves, universities are free to raise their

tuition. Then the government approves higher loans, and the cycle bounces back and forth, creating an escalating effect over time that puts enormous financial pressure on middle- and working-class families hoping to send their children to college. The Federal Reserve Bank of New York [estimates](#) that for every new loan dollar from Uncle Sam, universities raise tuition by 60 cents. Without independent financial evaluation of the value of the degree offered, and the easy six-figure loans provided to every high school graduate by the government, there's no incentive to align the debt burden on students to the benefits of many four-year programs.

But for those who want to avoid the debt trap, no easy solution exists. Because the government so heavily subsidizes and encourages the four-year degree, the job market for the majority of Americans who do not have a college degree has gotten much harder to navigate. According to job market websites, more and more jobs identical to those that did not insist on a degree 20 or 30 years ago [are now doing so](#).

While it's true that everyone makes the individual choice to sign on the dotted line for his or her loan, it doesn't make sense to ask 17- and 18-year-olds to make more responsible decisions than the federal government, especially when their inboxes are overflowing with glossy ads advertising the college experience and alternative routes to success after high school are so culturally denigrated.

Additionally, a Supreme Court decision in 1971, *Griggs v. Duke Power Co.*, made it very difficult for employers to administer tests of aptitude or skill because of the potential for tests producing a "disparate impact" by race. Many employers consequently turned to college degrees as little more than expensive signaling devices for basic good worker attributes like punctuality, persistence, and the ability to learn on the job, even though doing so also creates disparate racial impacts on applicants, and further, forces students to

go substantially in debt for a four-year degree just to show employers they have basic skills. As Neal McClusky wrote in "[The Not-So-Great Society](#)," "federal 'help' has instead powered a credential treadmill that has forced everyone to run faster [and take out more debt] just to stay in place." This, more than anything else, explains why the student loan crisis has ballooned to the proportions it has, and become a perennial salient issue for politicians.

Considering both these policy decisions and the job market, framing student loan debt as a question of personal responsibility does not fully reflect the reality faced by the last two decades of high school graduates. While it's true that everyone makes the individual choice to sign on the dotted line for his or her loan, it doesn't make sense to ask 17- and 18-year-olds to make more responsible decisions than the federal government, especially when their inboxes are overflowing with glossy ads advertising the college experience and alternative routes to success after high school are so culturally denigrated. If it were private banks advertising these

loans to high school students for any other purpose, we would immediately identify it as a predatory lending practice. But because universities and the Department of Education are behind this effort, we look the other way.

THE WRONG SOLUTION

While the problem is very real, the student loan forgiveness proposed by the Biden administration, as well as more ambitious plans from politicians like Bernie Sanders

and Elizabeth Warren, are incredibly unfair to taxpayers without degrees and to the working class. According to a [study](#) from the University of Chicago, full loan forgiveness would pay out only one dollar to the bottom quintile of the income spectrum, compared with seven dollars to the top quintile. The beneficiaries of forgiveness would overwhelmingly be members of the professional classes, such as accountants, lawyers, and doctors, while the chumps footing the bill would be those without degrees, and a new class of suckers, those who struggled and pinched pennies to pay off too-high student loan debt in the past couple decades. And the biggest beneficiary of forgiveness? The universities who got their checks up front and now get to enjoy an even more expanded gravy train from taxpayers.

If the Biden administration's forgiveness plan had been upheld and executed, we would find ourselves with the same level of student loan debt as the country has today in just four years. A four-year reprieve bought by a regressive program is not a solution, it's adding insult to injury.

Worse, far from solving the student debt issue, these kinds of loan forgiveness proposals actually escalate the underlying problem by providing universities further reason to raise their tuition costs, on the justification that the debt they're piling on their students will just be forgiven anyway. They worsen the cycle of ever-higher loans to pay for ever-increasing tuition. If the Biden administration's forgiveness plan had been upheld and executed, we would find ourselves with the same level of student loan debt as the country has today in just [four years](#). A four-year reprieve bought by a regressive program is not a solution, it's adding insult to injury.

UNIVERSITIES SHOULD STEP UP AND PAY THEIR FAIR SHARE

While universities are reaping the benefits of all the advantages afforded to them under

the status quo, the corresponding payback they're delivering to their students, American taxpayers, and the country at large is declining or non-existent. Because every matriculating high school student represents a big government check, many colleges have been dropping academic standards and admitting students who are not prepared for university work. Four in ten students fail to graduate from the institutions that accept them, even after [six years](#). These students often end up with the worst of all worlds: a student loan payment every month, but no degree to show for it. For those who do graduate, there's little indication that higher tuition is resulting in academic gains for students. In fact, the evidence shows the opposite. The rate of "proficient prose readers" among college

grads—measured as students who can read and answer basic questions about a newspaper article—has [dropped](#) from an already depressing 40 percent to 31. Almost half of college graduates [do not know](#) basic facts about our system of government, and more than half cannot identify what the Bill of Rights is. Way too many college students imagine that the United States was the first to [invent slavery](#) in world history.

What universities have produced instead of literate graduates is administrator salaries, lots and lots of them. There has been a 60 percent [increase](#) in administrative positions in the higher education sector just since the 1990s, which is ten times the rate of growth of tenured faculty positions. Additionally, universities have gone on a building spree, with ever-fancier facilities, such as rock climbing walls and lazy rivers, to put in the

advertising they send to high school students to tempt them into signing the dotted line. Universities have built **21 million** new square feet of construction in recent years, most of which does not meet state standards for minimum hours of “classroom use.”

by demanding that the institutions which benefited from creating it foot the bill for the solution.

We should tax universities to pay for student loan forgiveness.

Instead of eating the cost of band-aid plans to prop up a system that already benefits elites at the expense of average Americans, we should solve the student debt crisis by demanding that the institutions which benefited from creating it foot the bill for the solution. We should tax universities to pay for student loan forgiveness.

The current system is one that costs vastly more, delivers less, and shunts off the financial fallout onto both students and taxpayers. Combined with the academy’s role in spreading the woke cultural contagion into businesses, media, government, and other powerful institutions, perhaps these results have something to do with why a strong majority of Americans—62 percent—**report** that they do not have much confidence in higher education. Voters understand that universities have failed to deliver on their most fundamental promises of creating successful graduates and wiser citizens.

Universities have not achieved their current position as gatekeepers of the route to both the American Dream and the elite pipelines of power and wealth as the result of natural free market forces. Instead, they’ve benefited enormously from taxpayer largess and bad policies that have allowed them to become rich and exercise disproportionate influence over our culture while offering more expensive degrees that do less for both graduates and the country. And now, they want responsible taxpayers to take care of the bill.

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TAXING UNIVERSITIES

If we accept that universities should play a role in paying for the debt burden on a generation of their students, here’s a list of potential ways we could fund student loan forgiveness.

- **Increase the tiny tax on endowments in the Tax Cuts and Jobs Act.** The Tax Cuts and Jobs Act of 2017 levied a 1.4 percent tax on endowment income on universities that have more than 500 students and assets of more than \$500,000 per attending student. As of 2022, Harvard’s endowment was more than \$50 billion, with Yale coming in second at \$42 billion and Stanford and Princeton tying for third at \$37 billion, all comparable to some of the country’s largest hedge funds. Collectively, the top 400 university endowments **total** nearly \$675 billion.
- **Close the tax loophole on non-tuition revenue.** Universities have streams of income beyond tuition, donations, and endowments. But currently, non-tuition sources of revenue—such as the money universities make from residence rent payments, food halls, student health services, sports teams, campus stores, and entertainment facilities, and more—are still considered off-limits to taxation, effectively allowing universities

to operate non-educational businesses without paying taxes.

- **States should not treat university-owned properties differently than other businesses for the purpose of property taxes.** Universities hold an enormous amount of property tax-free. The University of California system is the **largest landlord** in the state, while Yale is New Haven's **largest**. Cornell University **owns** 486 separate properties in 24 states and four foreign countries. University-owned land displaces tax-paying businesses and causes revenue shortfalls in municipal budgets.

- **Tie future taxation to the increase in overall student loan debt and default rates.** Among the most important features of any plan to tax universities would be tying future inflation of costs and debt burden to continued increases in tax rates. Universities have not had skin in the student loan debt game under our current system, which has allowed them to increase tuition with few consequences to themselves. Tying any future bailouts of student loan debt to the higher education sector itself would provide a powerful counter-incentive against admitting unprepared students for the paycheck,

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- **Prohibit universities from price-gouging the government more than the private rate for research services, and encourage research facilities to separate from university control by limiting NIH grants to those staying under the university umbrella.** Among the many ways universities can soak the taxpayers for additional funds is by charging the government much higher rates for scientific research projects than they do private companies asking for the same research. The National Institutes of Health could refuse to fund research at artificially inflated rates, and Congress could additionally encourage useful research facilities to separate themselves from university governance by favorably treating those that go out on their own in the tax code.

and against inflating tuition costs well beyond the value of the degree offered.

CONCLUSION

Universities earned their special status compared with businesses selling other goods and services by promising wide benefits to the whole society, promises they have not kept. Instead, they've become conduits to wealth and power on the backs of benefits granted by taxpayers and repaid them by making college unaffordable for the working and middle class and orchestrating a woke cultural revolution through their graduates. Universities helped create the student loan problem and have made life more difficult for 30 years of their graduates. Taxing them, rather than taxpayers, for student debt forgiveness is both the prudent and just solution to the student debt crisis.

WHAT YOU CAN DO

Get Informed

Learn more about taxing universities. Visit:

- “[Academy Delenda Est](#),” The American Mind.
- “[The Student Loan Forgiveness Scam](#),” PragerU.
- “[The Not-So-Great-Society](#)” (Chapter 13),” The Heritage Foundation.

Talk to Your Friends

Help your friends and family understand these important issues. Share this information, tell them about what’s going on and encourage them to join you in getting involved.

Become a Leader in the Community

Start an Independent Women’s Network chapter group so you can get together with friends each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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Independent Women’s Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility. IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.