House Budget Committee Passes Spending Controls

On March 17, the House Budget Committee reported out its FY 2005 budget resolution. It also reported out the “Spending Control Act of 2004,” H. R. 3973, a budget reform bill to extend some of the budget rules from the 1990 Budget Enforcement Act. (See WIR 3/16/04 for details on the budget resolution.)

The Spending Control Act would extend tight caps on discretionary spending through 2009, requiring an across-the-board cut if the cap is breached. Pay-as-you-go (PAYGO) rules would be required for increases in entitlement spending (like student loans or Medicare), but not for extending tax cuts. Generally, PAYGO means that to increase entitlement spending, you must cut other entitlement spending or raise taxes; to cut taxes, you must cut entitlement spending or raise other taxes.

Controversial caps

The budget enforcement bill is quite controversial. Republican deficit hawks want a budget reform bill to accompany this year’s budget resolution; it would reinforce their position on cutting spending, which they believe is the cause of increased deficits. But the House leadership has not guaranteed that the budget enforcement bill will reach the floor the week of March 22 along with the budget resolution. House Budget Committee Vice Chair Chris Shays (R-Conn.) has repeatedly said that he will vote “no” on the budget enforcement bill if the budget enforcement bill is not considered by the full House at the same time.

Moderate Republicans are concerned that the spending control bill does not require PAYGO for extending tax cuts, and are unsure how they would vote on this bill. Republican appropriators are opposed to the statutory spending caps, because the caps increase pressure on their ability to provide for competing needs in the appropriations bills. They would most likely vote against H. R. 3973. While the final spending caps would be tied to the outcome of the budget resolution conference, it is obvious from the House and Senate versions that non-defense, non-homeland security discretionary spending could be cut as much as $120 billion over the next five years if these caps are enacted.

While the Bush administration has indicated its support for the bill, wide-ranging concerns about what provisions are included, and how the budget enforcement bill would be considered with the budget resolution, means the leadership will be working hard to keep the Republican caucus together over the next week.

Next steps

The House floor schedule for the week of March 22 lists the budget resolution as the top piece of legislation for consideration. Substitutes will be offered from the Democrats, the Blue Dog Coalition (a group of fiscally conservative Democrats), and possibly the Congressional Black Caucus and the Progressive Caucus. The House will have a final vote on the resolution on March 25. This gives the leadership three days to get the 218 votes needed to pass the bill.

The House and Senate Budget Committees expect to work on a conference agreement the week of March 29. With the complications of the budget enforce-
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ment provisions, however, a final resolution may not be completed until after the spring recess. The Senate resolution has more spending than the House version, and includes PAYGO for tax cuts. At this point it’s hard to tell how it will all shake out. Veteran budget-watchers say there’s an even chance that House and Senate Republicans will agree to a budget resolution this year.

Without a budget resolution, it would be exceptionally difficult to get appropriations bills done. Congress would have to pass a separate debt increase bill, and there would be no reconciliation instructions for tax cuts, which would take away the special procedures for the Senate. These results would be especially harsh in an election year. ■

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Education Panel Debates Use of Federal Subsidies for Loan Consolidation

The House Education and the Work Force Committee held a March 17 hearing on “Fiscal Responsibility and Federal Consolidation Loans: Examining Cost Implications for Taxpayers, Students, and Borrowers.” Chairman John Boehner (R-Ohio) defined the hearing as an inquiry into the question of the cost of loan consolidation versus access for low- and middle-income students.

Boehner said the consolidation program, originally intended to help students manage repayment of multiple loans, had been redirected towards locking in historically low interest rates for 30 years. The unprecedented growth in consolidation loans spurred by the current low interest rates has spurred a similar growth in federal loan subsidies. He suggested this could threaten the government’s future ability to provide federally subsidized loans to needy students.

Interest rates on student loans, which are usually repaid in 10 years, are adjusted annually to reflect market conditions. However, interest rates for consolidation loans are locked in for as long as 30 years. Borrowers can also lose some benefits, such as loan forgiveness, when they consolidate.

Cornelia Ashby, director of education, workforce, and income security issues for the General Accounting Office (GAO), put numbers to the growth. She noted that in FY 2003, the Federal Family Education Loan Program (FFELP) and Direct Loan Program (DLP) consolidation loans accounted for about 48 percent of the $87.4 billion in new loans. The federal cost of the FFELP increases when the interest borrowers pay, plus the fee lenders pay, is less than the rate lenders are guaranteed by the federal government. FFELP’s new loan subsidy costs grew from $0.651 billion in FY 2002 to $2.135 billion in FY 2003.

Costs increase in the DLP when the interest borrowers pay is less than the interest the Department of Education must pay the Treasury, and when increased loan volume drives up administrative costs. If administrative costs are not taken into account, the DLP’s return on consolidation was positive but declining in recent years, Ashby said. She believes that if low interest rates continue, the federal government will incur added costs. In its October 2003 report, the GAO “recommended that the Secretary of Education assess the advantages of consolidation loans for borrowers and the government in light of program costs and identify options for reducing federal costs,” she said.

Robert Shapiro, chairman of Sonecon and senior fellow at the Brookings Institution, testified on a study he conducted with Kevin Hassett. It showed that the federal costs of continuing the consolidation program as currently configured would be significant over the long term, and could jeopardize the federal government’s ability to provide funds for future students. Not only will the current consolidation system be costly over the next several decades, but it is inequitable, he said. Students who consolidate at higher interest rates can pay several times the interest that is paid by borrowers who consolidate at lower interest rates.

Shapiro also challenged the results of an Ernst and Young study about which Thomas Neubig testified. Neubig asserted that the costs for the loan consolidation program would decrease for loans made after FY 2006. The student witness, Titus Hamlet, attends the University of Maryland. He said he would consolidate his loans as soon as he graduates this spring. ■

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Greenspan Says U.S. Economy Needs Skilled Workers

Federal Reserve Chairman Alan Greenspan testified before the House Committee on Education and the Workforce on March 11. He was the key witness at a hearing on “The Changing Nature of the Economy: The Critical Roles of Education and Innovation in Creating Jobs and Opportunity in a Knowledge Economy.”

“There is a palpable unease that businesses and jobs are being drained from the United States, with potentially adverse long-run implications for employment and the standard of living,” Greenspan said. To put the current economic and employment situation in a historical context, he offered examples of how Americans had increased their education and skills in the 1920s, ‘30s, ‘60s and ‘70s to provide the work force demanded by a changing economy.

Greenspan argued that our economy is best served by engagement in the global economy, although it may cause individual dislocations. These can be compensated for by providing education and ongoing training for workers.

He expressed concern that American students are lagging behind those in other countries, and suggested that our educational system must adapt to the “needs of the economy and the realities of our changing society.” He praised community colleges for preparing students for work life. He also pointed to the return of older students to four-year undergraduate institutions, and the numbers of students taking work-related instruction. He emphasized the responsibility of higher education to ensure that the work force is prepared for changing times, and that the creative thinking needed for economic development is unleashed.

The Federal Reserve chairman concluded his testimony by noting the importance of equal opportunity in acquiring the skills need for the economy and individual well-being. “We need to pursue equal access to knowledge to ensure that our economic system works at maximum efficiency and is perceived as just in its distribution of rewards,” Greenspan said.

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Congress Reviews Recruitment of Student Athletes

The House Commerce, Trade, and Consumer Protection subcommittee held a hearing March 11 to examine student athlete recruitment, focusing on whether prospective athletes are being protected in the process.

Subcommittee Chair Cliff Stearns (R-Fla.) explained that this topic falls under his committee’s jurisdiction because the recruitment of college athletes involves interstate commerce. College athletics is big business, he said, and Congress is concerned about what happens to student athletes.

Stearns said there have been 60 recruitment infractions in the past year, such as institutions paying finder fees for star athletes, guaranteeing starting positions to entice recruits, and hiring call girls.

Rep. Tom Osborne (R-Ne.,) although not a member of the committee, was asked to address his colleagues because of his unique perspective as former head football coach at the University of Nebraska. Osborne told the committee that he recruited athletes for over 36 years, in over 47 states, and the process has improved dramatically since the 1960s. The number of high school visits has been reduced, as have the number of times a coach may contact the athlete; the number of phone calls is limited, and academic standards are much stricter.

Osborne said the best way to measure the effectiveness of a recruitment program is to evaluate it two years later. Are the students still in school? Have there been any complaints? He credited the NCAA for strict enforcement of the rules, adding that an NCAA investigation has the feel of an IRS audit. Nearly every school has a compliance officer, and there is no competitive advantage in violating the rules, he said.

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Osborne suggested that those who are concerned about an athletic program should interview the students who choose not to attend that institution. He closed by saying that ultimately, the president of each school should be held accountable for informing its athletic department of the rules.

Also testifying were Elizabeth Hoffman, president of the University of Colorado; David Williams, general counsel, Vanderbilt University; Don McPherson, director, Sports Leadership Institute, Adelphi University; and David Berst, vice president for Division 1, National Collegiate Athletic Association (NCAA).

- Hoffman emphasized that she was in control of her institution, and that new rules governing recruitment are now in place.
- David Williams of Vanderbilt expressed concern that the process was hurting students who are already at risk. Infractions result when programs try to gain a competitive advantage. Institutional control and responsibility must apply to all departments, including athletics, he said.
- McPherson said sports has become a cancer in society. Society as a whole must be proactive in teaching students, particularly young men, responsible behavior. He and Rep. Janice Schakowsky (D-III) expressed concern about increased violence towards women. He said both the NBA and NFL have rookie training programs, and perhaps colleges should follow suit.
- David Berst told the panel that the NCAA has formed a task force to address the issues and concerns surrounding the recruitment of athletes. The task force is due to make recommendations by the end of April.

Most of the subcommittee members laid blame on the NCAA for not enforcing the rules on the books. However, a couple sympathized with the NCAA, stating if someone’s going to cheat, it is hard to stop them. In the end, all said they look forward to reviewing the recommendations that come out of the task force report. At that time, another hearing will likely be scheduled.

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