# U.S. DEPARTMENT OF EDUCATION

The U.S. Department of Education was created in 1980 by combining offices from several federal agencies. Its mission was then, as it is now, to promote student achievement through a variety of means, including assistance directly to both students and schools. Since its establishment, the Department's budget has grown seven-fold – from a discretionary budget of $11.7 billion in 1980[1] to a discretionary request of $77.4 billion[2] in FY 2012. Even more, in FY 2012, the Department will spend $9.3 billion in mandatory funds[3] and will also use $113 billion in public debt to fund federal direct student loans.[4] To administer its more than 230 programs,[5] the Department employed 4,390 full time employees in FY 2011[6] in addition to several thousand contractors. In total, nearly $200 billion in taxpayer resources will be directed federal education efforts in the coming year alone.

***Higher Education Reform***

As the country confronts record levels of national debt, difficult decisions must be made about programs the federal government can afford to operate and which are better suited for state and local governments, or even the private sector. One such program, the Federal Direct Loan Program, has grown increasingly unaffordable, in part because of recent changes. Last year, Congress mandated all federal student loans be financed with public debt and issued through the Direct Loan program, rather than issued privately with a federal backstop.[7] Under the previous arrangement, the government leveraged private sector capital to provide federal student loans with a capped borrower interest rate, taxpayer-funded subsidies to offset the cap, and a federal guarantee against default.

Direct loans are not entirely new to the Department, but previously comprised a decidedly smaller portion than under current rules. The move to eliminate a role for private sector capital from the program has added significant pressure to the federal balance sheets. As a result of this change, the country will issue nearly $1.4 trillion in new public debt over the FY 2011 to FY 2021 timeframe,[8] putting taxpayers on the hook if these debts are not repaid. Put in context, *over the seventeen year period of FY 1994 to 2010* the Direct Loan program originated $268 billion in student loans,

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[1] Office of Management and Budget, Historical Tables 5.4, "Discretionary Budget Authority by Agency: 1976-2017," http://www.whitehouse.gov/omb/budget/Historicals, accessed June 30, 2011.

[2] U.S. Department of Education, "Summary of ED Discretionary Funding FY 2008-2012 President's Budget," http://www2.ed.gov/about/overview/budget/budget12/summary/appendix1.pdf, accessed June 30, 2011.

[3] U.S. Department of Education, "Summary of ED Mandatory Funding FY 2010-2012 President's Budget," http://www2.ed.gov/about/overview/budget/budget12/summary/appendix3.pdf, accessed June 30, 2011.

[4] Office of Management and Budget, FY 2012 Budget Request, U.S. Department of Education Appendix, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/edu.pdf, accessed June 30, 2011.

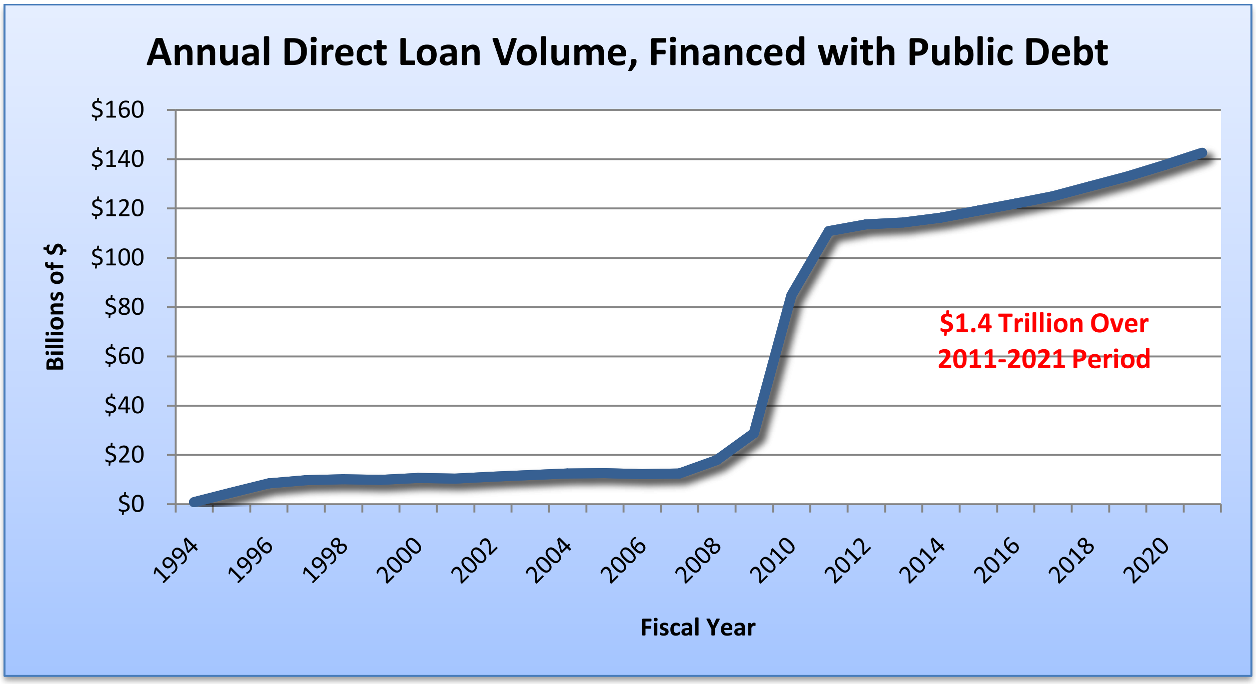
[5] U.S. Department of Education, "Guide to U.S. Department of Education Programs: Fiscal Year 2010," http://www2.ed.gov/programs/gtep/gtep.pdf, accessed June 30, 2011.

[6] U.S. Department of Education FY 2012 budget request, "Salaries and Expenses Overview," http://www2.ed.gov/about/overview/budget/budget12/justifications/y-seoverview.pdf, accessed July 4, 2011.

[7] The Health Care and Education Reconciliation Act, P.L. 111-152.

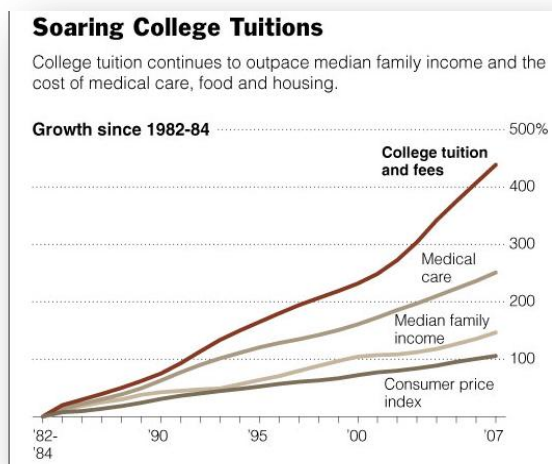
[8] Congressional Budget Office, March 2011 baseline, http://www.cbo.gov/budget/factsheets/2011b/studentloan.pdf, accessed July 4, 2011.

whereas the Department will originate $113 billion in loans with public debt *in FY 2012 alone*.[9]




In another recent change, Congress altered the manner in which these loans are recorded in the federal ledger. Because the loans are supposed to be paid back with interest, they are considered "assets" the government assumes it will one day collect. While technically this is the case, the ever-increasing costs of college means federal borrowing to fund student loans climbs higher each year, thereby outstripping repayments to the government on an annual basis. College tuition and fees increased 439% from 1982 through 2007 – almost triple the rise in median family income.[10] The result is an endless cycle in which the money that goes out the door is always more than is coming back in.

In fact, for *all* credit programs run by the government, including direct student loans, CBO notes, "Each year from 2010 to 2020, the amount of loans disbursed will generally be larger than the amount of repayments and interest collected."[11]




This is also true of the Direct Loan program in which annual loan volume did not exceed the $20 billion mark until fiscal year 2009, and due to changes in the law, will originate in excess of $110 billion in loans annually for the foreseeable future, and as much as $141 billion in FY 2021.

9 Congressional Budget Office, March 2011 baseline, http://www.cbo.gov/budget/factsheets/2011b/studentloan.pdf, accessed July 4, 2011.
10 Tamar Lewin, "College May Become Unaffordable for Most in U.S.," *The New York Times*, December 3, 2008, http://www.nytimes.com/2008/12/03/education/03college.html.
11 Congressional Budget Office, "The Budget and Economic Outlook: 2010-2020," pg. 38, http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf, accessed July 4, 2011.

The cost to taxpayers, however, extends further than the cost of originating the loans. It also includes defaults and the related costs of collections,[12] loan discharges for death and permanent disability, loan principal and loan interest forgiven or repaid by taxpayers under various federal programs. In each of these instances, taxpayers will not see the loan amount returned to the Treasury.

Nor is the Direct Loan program the only postsecondary student loan program the government operates. The government also administers the Federal Perkins Loan program,[13] another program providing low-interest loans to low-income students. Loan volume and associated costs of this program are also likewise rising. The volume of Perkins Loans was more than $970 billion in FY 2011, and the Administration requested $4.2 billion for FY 2012.[14]

In addition to federal student loans, the government operates dozens of programs to assist postsecondary institutions and their students. The largest source of this federal grant aid to students in support of postsecondary education is the Pell Grant program, which comes in two forms: discretionary and mandatory. In recent years, as the amount of Pell Grant funding increased the cost of tuition in all secondary education institutions has risen in near equal measure.[15] In fact, academic research by economists at the University of Oregon suggests colleges respond to increases in Pell Grants by raising their tuition. After looking at more than 1,550 four-year colleges, they found that "private colleges' tuition, and public colleges' out-of-state tuition, increased by roughly $800 for every $1,000 increase in Pell recipients' average grants."[16]

The *discretionary* Pell Grant has been demonstrated to be effective *while not leading to increased tuition at institutions of higher education.* As explained by Andrew Gillen of The Center for College Affordability and Productivity, the discretionary Pell Grant has proven to be good program "…largely because the awards are modest in size and the income restrictions ensure that the money goes to the truly disadvantaged."[17]

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[12] The *lifetime* default rate for Direct Loans is estimated to be 16 percent in FY 2011. Office of Management and Budget, FY 2012 Budget, Appendix for the U.S. Department of Education, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/edu.pdf, accessed July 4, 2011. The *national* default rate for FY 2008, the most recent available, is 7.0 percent. However, unofficial default rates that use a three-year window to calculate defaults and that will become the official method of determining such rates starting in FY 2012 show default rates to be closer to 12 percent. U.S. Department of Education website, "National Student Loan Default Rates," http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html, accessed July 5, 2011. FinAid website, "Cohort Default Rates," http://www.finaid.org/loans/cohortdefaultrates.phtml, accessed July 5, 2011. Loan defaults can be collected through a number of means, including wage garnishment, tax offsets and partial withholding of Social Security benefits.

[13] U.S. Department of Education, Perkins Loan webpage, http://www2.ed.gov/programs/fpl/index.html, accessed July 6, 2011.

[14] Office of Management and Budget, FY 2012 Budget, Appendix for the U.S. Department of Education, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/edu.pdf, accessed July 4, 2011.

[15] Banchero, Stephanie, "Tuition, Pell Grants Rise in Tandem," *Wall Street Journal*, October 28, 2010, http://online.wsj.com/article/SB10001424052702303443904575578651983962836.html.

[16] "Study Backs View That Colleges Absorb Pell Grant Increases With Higher Tuition," *The Chronicle of Higher Education*, March 7, 2007, http://chronicle.com/article/Study-Backs-View-That-Colleges/38316.

[17] Andrew Gillen, "Don't Make the Pell Grant an Entitlement," The Center for College Affordability and Productivity, http://centerforcollegeaffordability.org/archives/1435, accessed July 7, 2011. See also Andrew Gillen,"Financial Aid in Theory and Practice," Center for College Affordability and Practice, April 2009, http://www.centerforcollegeaffordability.org/uploads/Financial_Aid_in_Theory_and_Practice%281%29.pdf, accessed July 4, 2011.

However, the introduction of *mandatory* spending to the program in 2010 (a mandatory "bump up" to the discretionary award base) undermines the elements that make this program successful,[18] while increasing program costs significantly. The higher costs resulting from mandatory "bump up" have also come at a time when program costs were already significantly increasing due to higher utilization rates during the downturn of the economy, and expansions of eligibility. In order to maintain a maximum grant of $5,550 in FY 2012, the administration states the total cost of the program is expected to be $41 billion.[19] As a result, the program needs to be reformed to contain costs and retain the elements of the program that ensure effective targeting of federal dollars.

Federal student aid continues to skyrocket despite clear evidence that the availability of federal student aid has contributed to the increasing costs of college. Lawmakers need to focus legislative efforts on addressing the *cause* of college costs and largely exit the financial aid business.

***Higher Education Recommendations:***

Federal student aid costs continue to skyrocket despite evidence that the provision of federal student aid has contributed to the increasing costs of college. In general, when financial aid programs make more money available to schools, this money is spent, resulting in higher costs per student. This results in more costly higher education, which has negative implications for access and affordability.[20]

In fact, a recent study found undergraduate education to be a *highly profitable business* for nonprofit colleges and that "profits" are being spent – not on holding down costs for students, but on some combination of "research, graduate education, low-demand majors, low faculty teaching loads, and excess compensation."[21]

A tangible example of this was demonstrated in another recent study showing tuition and fees at the flagship campus of the University of Texas "*could be cut by as much as half* simply by asking the 80%of faculty with the lowest teaching loads to teach about half as much as the 20% of faculty with the highest loads."[22]

To truly improve postsecondary education, curb college costs and relieve pressure on the federal budget, the government can reduce federal student aid resources without harming those aspiring to, or already attending, a four-year college.

***Congress should:***

- End the Direct and Perkins loan programs so student loans are made by *exclusively* by private lending institutions without federal debt issuance or federal subsidy. This proposal calls for a

[18] Andrew Gillen, "Don't Make the Pell Grant an Entitlement," The Center for College Affordability and Productivity, http://centerforcollegeaffordability.org/archives/1435, accessed July 7, 2011. See also Andrew Gillen,"Financial Aid in Theory and Practice," Center for College Affordability and Practice, April 2009, http://www.centerforcollegeaffordability.org/uploads/Financial_Aid_in_Theory_and_Practice%281%29.pdf, accessed July 4, 2011.
[19] President's FY 2012 budget, "Terminations, Reductions and Savings," pg. 175. See also, Office of Management and Budget, FY 2012 Budget Request, Appendix for the U.S. Department of Education, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/edu.pdf, accessed June 29, 2011.
[20] Andrew Gillen,"Financial Aid in Theory and Practice," Center for College Affordability and Practice, April 2009, http://www.centerforcollegeaffordability.org/uploads/Financial_Aid_in_Theory_and_Practice%281%29.pdf, accessed July 4, 2011.
[21] Vance Fried, "Federal Higher Education Policy and Profitable Nonprofits," Cato Institute, http://www.cato.org/pub_display.php?pub_id=13172, accessed July 4, 2011.
[22] Richard Vedder, "Time to Make Professors Teach," *Wall Street Journal,* June 8, 2011, http://online.wsj.com/article/SB10001424052702304432304576369840105112326.html, accessed July 4, 2011.

transition period to ensure student loan funding is not abruptly disrupted. With projections that the Direct Loan program will issue nearly $1.4 trillion in public debt over the next decade to fund student loans, this change would achieve significant savings for the taxpayer. Congress should also implement recommendation of the Peterson-Pew Commission on Budget Reform to use fair-value accounting when estimating costs and obligations under the Direct Loan program.[23]

- Eliminate all remaining federal postsecondary programs except for the discretionary Pell Grant program and the Iraq and Afghanistan Service Grants which provide grant funding to children who had a parent died in Iraq or Afghanistan, and who *do not* receive the traditional Pell grant. This change would deliver portable postsecondary grant money directly into the hands of students most in need. Eliminating the *mandatory portion* of the Pell Grant is projected to save $78.3 billion over the 2012-2021 period.[24] Eliminating the remaining postsecondary programs at the Department would save $4.5 billion annually, and $50.6 billion over ten years.

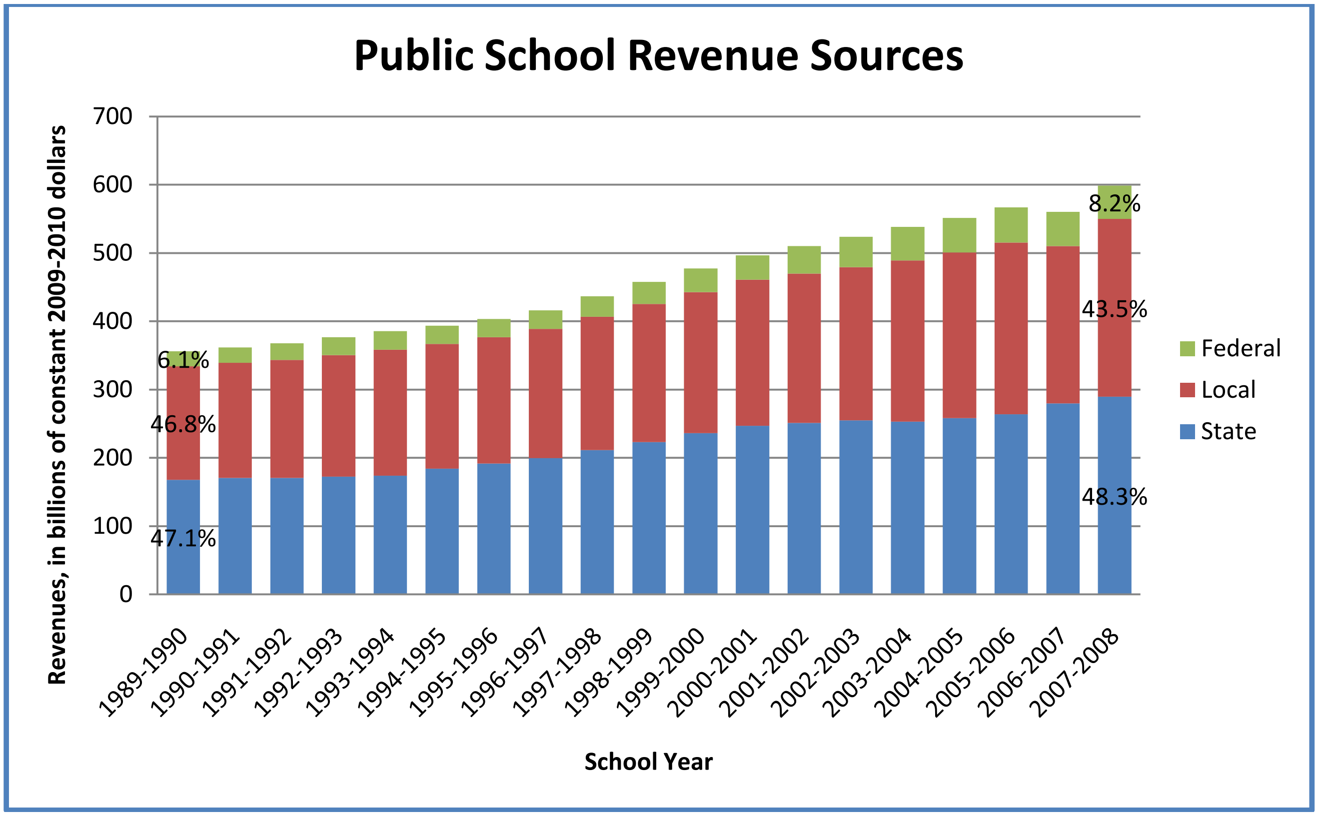
***Elementary and Secondary Education Reform***

Having an educated population is one of the most important aspects of the future productivity and success of the United States. Because every individual is unique and educational approaches do not come in one-size-fits-all, energizing local communities is the best approach to achieve this goal. Limiting the federal role in this arena, and emphasizing local involvement, will help ensure our diverse populations receive an education tailored to their needs, interests and abilities.

Too many local school boards have been negatively impacted by the unintended consequences of well meaning federal programs, but do more harm than good. State school administrators often have to navigate numerous mandates from the federal level, creating inefficiencies and tying up funds in areas one community may need but another may not. Instead of states education systems working with local districts to determine what is best for their teachers and students, they have to orient their goals to a program created far from where they live, often by people who may not have considered their particular needs. Because the federal government provides such a small percentage of our nation's total education spending, it does not need to be this way.

[23] Peterson-Pew Commission on Budget Reform, "Getting Back in the Black," November 2010, http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/Peterson-Pew_report_federal_budget_process_reform.pdf.

[24] Congressional Budget Office, cost estimate requested by office, dated July 5, 2011.

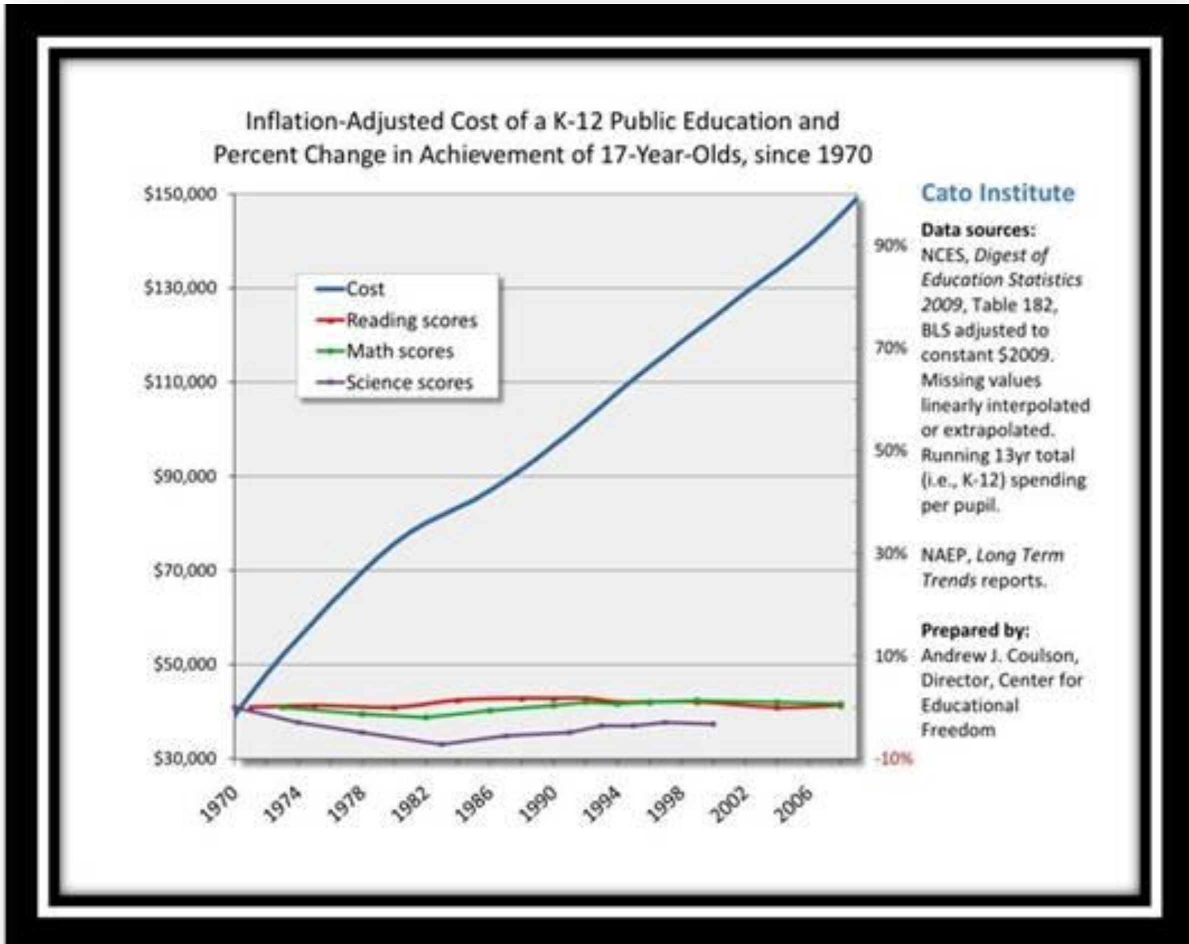



One of the unintended consequences of poorly designed federal rules, state and local school districts spend an inordinate amount of time complying with rules under the No Child Left Behind Act (NCLB). Estimates from 2006 found NCLB guidelines increased state and local education agencies' annual paperwork burden by 6.7 million hours, at a cost of $147 million.[25] Estimates from the office of Representative John Kline, chairman of the House Committee on Education and Workforce, show federal reporting burdens have increased since that time. "States and school districts work 7.8 million hours each year collecting and disseminating information required under Title I of federal education law. Those hours cost more than $235 million."[26]

And while federal education funding has continued to increase in recent decades, results have lagged behind. Per-pupil federal spending at the K-12 level, after accounting for inflation, has more than doubled since 1970. Despite these enormous investments, outcomes have not improved, and the educational system has found itself under greater strain. For example, long-term scores on the National Assessment of Educational Progress (NAEP) in reading, math and science have seen minimal improvement and in most areas remain relatively stagnant.[27] Worse still, even our most basic measurement of success, graduation, shows the problem is getting worse, not better. In the last 100 years, the year with the highest graduation rate was 1969, *eleven years before the creation*

[25] Lindsey Burke, "Reducing the Federal Footprint on Education and Empowering State and Local Leaders," Heritage Foundation, June 2, 2011.
[26] As recounted in "Reducing the Federal Footprint on Education and Empowering State and Local Leaders," by Lindsey Burke, Heritage Foundation, June 2, 2011.
[27] National Assessment of Educational Progress, "Long Term Trends," reports, accessible at http://nationsreportcard.gov/ltt_2008/.

*of the Department of Education*.[28] Whereas in that year graduation peaked at 77 percent, rates slowly dropped to 68.8 percent in 2007.[29]




In one of the most disheartening findings related to NCLB, a team of researchers at Rice University found stringent federal testing requirements may even be *responsible* for worsening dropout rates in Texas. Their research uncovered that “the state’s high-stakes accountability system has a direct impact on the severity of the dropout problem,” and African American and Latino children were at risk of “being pushed out of their schools so the school ratings can show ‘measurable improvement’.”[30]

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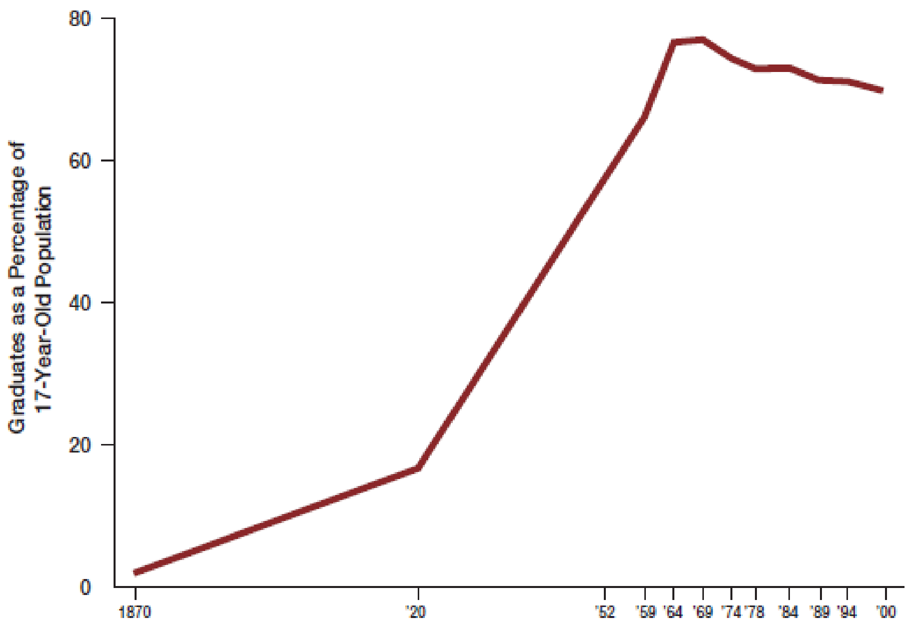
[28] Mathews, Jay, “Must-read new report on high school dropouts,” *Washington Post Class Struggle* (blog), June 10, 2010, http://voices.washingtonpost.com/class-struggle/2010/06/must-read_new_report_on_high_s.html.
[29] Mathews, Jay, “Must-read new report on high school dropouts,” *Washington Post Class Struggle* (blog), June 10, 2010, http://voices.washingtonpost.com/class-struggle/2010/06/must-read_new_report_on_high_s.html.
[30] McNeil, L., Coppola, E., Radigan, J., Vasquez Heilig, J., “Avoidable losses: High-stakes accountability and the dropout crisis. education policy analysis archives,” North America, 16, Jan. 2008. Available at: http://epaa.asu.edu/ojs/article/view/28, Accessed July 15, 2011.

**High School Graduates as a Percentage of the 17-Year-Old Population, 1869-70 to 1999-2000**




Note: Graduates are of regular day school programs.
Source: U.S. Department of Education, National Center for Education Statistics.

The truth is turning up the water pressure on a broken hose will not change the fact the hose is broken. While some policymakers have been successful in creating the message that increased funding and additional programs can serve as an elixir to the significant shortcomings in our education system, our nation's students have been cheated by both an ineffective federal bureaucracy and an uncertain future of burdensome debt. If the answer were simply to provide more funding, the results from the enormous financial contributions we have made to date would be evident. As it stands, concentrating funding in a single city, Washington, D.C., has done little to improve test scores, increase graduation or achieve our nation's educational goals.

***Recommendations: Reduce, Empower, and Innovate***

In order to return more control to the local level, funding for all elementary and secondary programs should be combined into a single funding stream and reduced by 50 percent. The remaining federal assistance should be given to states, which would retain complete authority this funding. The assistance should be divided among states based on a percentage of school-aged children, where state and local education departments can direct funding toward their own priorities and goals. This system will allow states to design individualized education plans to fit their unique education needs and goals. In the place of a single, disconnected federal agency, there will be 50 states incubating educational innovations, with an exponentially greater chance of discovering the best practices that can be used as design models by other states.

These changes would save $25 billion in the first year and $280.2 billion over ten years by consolidating the following programs.

- Title I, A - Grants to LEAs
- School Improvement Grants
- Early Reading First
- Striving Readers
- Reading First
- Even Start

- School Libraries
- Migrant Education
- Neglected and Delinquent
- Comprehensive School Reform
- Title I Evaluation (1501/1503)
- High School Graduation
- Impact Aid
- Improving Teacher Quality State Grants
- Math and Science Partnerships
- Educational Technology
- 21st Century After School
- Gifted and Talented
- Foreign Language Assistance
- State Assessments
- Homeless Education
- Native Hawaiian Education
- Alaska Native Education
- Rural Education
- Indian Education
- Teacher Incentive Fund
- Troops to Teachers
- Transition to Teaching
- National Writing Project
- Teaching American History
- Academies for American History and Civics
- School Leadership
- Advanced Credentialing
- Charter Schools
- Voluntary Public School Choice
- Magnet Schools
- Advanced Placement
- Close Up Fellowships
- Ready-to-Learn TV
- FIE Programs of National Significance
- Reading Is Fundamental
- Ready to Teach
- Historic Whaling and Trading Partners
- Excellence in Economic Education
- Mental Health Integration in Schools
- Foundations for Learning
- Arts in Education
- Parental Information and Resource Centers
- Women's Educational Equity
- Promise Neighborhoods
- Safe and Drug Free Schools State Grants
- Safe and Drug-Free Schools National Activities
- Alcohol Abuse Reduction
- Mentoring Program
- Character Education
- Elementary and Secondary School Counseling
- Physical Education
- Civic Ed - We the People
- Civic Ed-Cooperative Education Exchange
- Title III - English Language Proficiency
- Smaller Learning Communities
- Race to the Top
- Investing for Innovation
- Office of Special Education and Rehab Services State Grants
- Office of Special Education and Rehab Services State Grants National Activities
- Special Olympics education programs
- Vocational Rehab State Grants
- Vocational Rehab Grants to Indians
- Client assistance State grants
- Rehab Services and Disability Research Training
- Demonstration and training programs
- Migrant and seasonal farm workers
- Recreational programs
- Protection and advocacy of individual rights
- Projects with industry
- Supported employment State grants
- Independent Living State grants
- Independent Living Centers
- Independent Living Services for older blind individuals
- Helen Keller National Center for Deaf-Blind Youths and Adults
- National Institute on Disability and Rehabilitation Research
- Assistive technology programs
- Career and technical education (Carl D. Perkins CTEA)
- Adult Education
- Transition for incarcerated individuals
- Head Start/Early Head Start (Transfer from HHS and Consolidate)
- Bureau of Indian Education (Transferred from Interior)

**DEPARTMENT OF EDUCATION TEN YEAR SAVINGS**
Discretionary: $330.8 billion
Mandatory Savings: $78.3 billion