National Taxpayers Union Foundation

Campus Cash-In: How American Universities Overcharge Federal Taxpayers for Student Labor

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With billions of taxpayer dollars squandered annually, many Americans have become grudgingly resigned to the notion that a certain level of waste, fraud, and abuse in programs run by the federal government is inevitable. Yet, even in a fiscal climate where they have come to expect the worst, taxpayers are still likely to be outraged to find that the federal government is paying the equivalent of $180,000 annually for student assistants at some state universities in California.

American universities perform the lion's share of basic research funded by the U.S. government, and they often employ graduate students as research assistants. According to the regulations in Office of Management and Budget (OMB) Circular A-21, universities can recover the cost of paying students who work on federal contracts and grants, provided the total amount is "reasonable compensation for work performed." Compensation may take the form of salaries and/or tuition remission "paid as, or in lieu of, wages to students performing necessary work."[1]

When the government reimburses universities for the reasonable value of the students' work, this regulation serves the interests of all parties concerned. Unfortunately, inadequate and irresponsible oversight by the federal government has tempted some universities into charging wildly unreasonable amounts for student labor, by claiming both inflated salaries (to attract the students) and full university tuition (to maximize their own income). The situation is only getting worse. In recent years, the salary portion charged by universities has incessantly risen as each university tries to win the favor of the same pool of prospective students by offering the most grant money. Of course the tuition portion, like all university tuition, continues to skyrocket as well.

The federal government has time and time again warned against charging unreasonable amounts for student labor, but finger-wagging alone has produced little in the way of an effort by the universities to stop this abuse. In fact, in 1994 the Department of Health and Human Services (HHS) conducted an audit of graduate student compensation at four top universities, using the salary of an entry-level postdoctoral scientist as a benchmark. Postdoctoral scholars are often better qualified to do research than graduate students, having higher levels of both education and expertise. The HHS Inspector General found the graduate students' basic salary to be reasonable in comparison with the starting salary of a postdoctoral scholar. However, additional charges for tuition remission pushed the total student compensation package to a level deemed unreasonable at three out of four universities audited (Yale, Rutgers, and Michigan; Duke was the exception).[2] The total unreasonable compensation billed to the taxpayer at the three universities was estimated at $5.7 million. As a result of the audit the National Institutes of Health (NIH) published an explicit statement that it is unreasonable to charge more for a graduate student (salary plus tuition remission) than the equivalent compensation of a postdoctoral scientist working at the same level of effort.[3]

In 1999, at the direction of the House Committee on Commerce, the Government Accountability Office (GAO) published an audit report of graduate student tuition remission at the University of California.[4] Using the published NIH standards for reasonableness, the GAO concluded that "[t]he university charged federally sponsored research $19.3 million for these students' compensation in excess of what it paid first-level postdoctoral researchers at a comparable level of work and effort."

Incredibly, no refund of money to the government was requested, and the response of the University of California was not to phase out its overcharging practices, but rather to significantly expand them. Case in point: the nonresident Graduate Student Researcher compensation program UC Davis implemented in 2004. According to information found on the UC Davis web site, Graduate Student Researchers appointed at 25 percent time during the academic year would receive between $5,486 and $10,751 of compensation in the form of salary, depending on their step of the pay scale.[5] On top of this, nonresident students receive another $23,345 in the form of full tuition remission.[6] The university thus charges taxpayers between $28,831 and $34,096 for a student appointment at 25 percent time for nine months. That works out to a whopping hourly rate of $75 to $89, or an annualized rate of $153,765 to $181,845 – well beyond the salary of most full Professors!

To put this in perspective using the NIH standard, the starting salary for the position of a Postdoctoral Scholar at UC Davis is $31,044 for a 12-month appointment. Apparently, UC Davis finds it "reasonable" to bill the taxpayer for research trainees at rates approaching *six times* the salary of fully qualified scientists.

As the GAO noted in its 1999 report, the University of California compensates foreign student assistants more highly than U.S. nationals and green-card holders. In fact, appointing a foreign national to a federal grant in preference to an American student nets the university up to $14,694 more per year in "non-resident tuition remission," which the university can spend any way it likes. What kind of federal funding system would actively promote the treatment of American students as second-class citizens in their own country?

Another great benefit for the foreign students is that the entire $75 to $89 an hour they receive courtesy of the American taxpayer may be completely tax-free to them, since treaties between the United States and other nations partially or wholly exempt the salary paid.[7] As for tuition remission portions of student compensation, at the University of California every penny is tax-exempt.[8]

Doubtless the University of California has its reasons – prestige-building being one – for recruiting large cadres of international students. Certainly, there are also ancillary benefits from having a diverse student population. However, it is simply outrageous to require taxpayers – most of whom earn far less than $75 an hour and cannot boast of an advanced degree from an elite university – to give the University of California a premium of nearly $15,000 for training America's competitors in the latest cutting-edge science.

Federal research grants should pay fair compensation to anyone performing necessary work, regardless of their national origin, but they should not be used to recruit the most expensive students from around the globe. Putting a stop to these practices does not require making new laws or regulations; rather, it requires federal officials with oversight responsibility to simply start doing their jobs. Existing rules prohibit compensating students at a higher rate than postdoctoral scientists. It is also illegal to use federal funds to operate a compensation program that discriminates against American citizens.

Ultimately, the entire role that taxpayers play in higher education needs to be thoroughly re-examined. As Ohio University Professor (and NTU board member) Richard Vedder noted in his book *Going Broke by Degree: Why College Costs Too Much* (Washington, DC: AEI Press, 2004), the share of basic research performed by universities versus the private sector has been declining. Vedder suggests that this trend should be welcomed and encouraged, through expansion of competitive bidding processes for grants, greater reliance on alternatives to government sponsorship, and perhaps establishment of a "uniform national overhead rate" to encourage efficiency for the remainder of federal grants.

These long-term challenges notwithstanding, federal officials, particularly at OMB, have either been asleep at the switch or have been heavily pressured by the higher-education lobby against rectifying more immediate problems. Whatever the case may be, it is time they woke up. A $500 toilet seat is wasteful enough, but forcing taxpayers to foot the bill for $180,000 foreign graduate students who are competing unfairly against U.S. students will do irreparable harm to our economy, at a time when Americans are already struggling to compete against foreign nations academically.[9]

About the Author

Gessing is Director of Government Affairs for the National Taxpayers Union Foundation, the research arm of the 350,000-member National Taxpayers Union (www.ntu.org), a non-partisan citizen group founded in 1969 that works for lower taxes, smaller government, and more accountability from elected officials at all levels.

Endnotes

[1] The full text of OMB Circular A-21 is at http://www.whitehouse.gov/omb/circulars/a021/a021.html. The provision dealing with student compensation is paragraph J.41. General criteria for determining whether costs are reasonable can be found in paragraphs C.2 and C.3.

[2] The HHS report is published on the web at http://oig.hhs.gov/oas/reports/region1/19404002.pdf.

[3] See the successive NIH guide notices at http://grants2.nih.gov/grants/guide/notice-files/not95-141.html, http://grants2.nih.gov/grants/guide/notice-files/not96-062.html, http://grants.nih.gov/grants/guide/notice-files/not98-168.html, and http://grants.nih.gov/grants/guide/notice-files/NOT-OD-02-017.html.

[4] The GAO report is available on the web at: http://www.gao.gov/archive/1999/os99008.pdf.

[5] This document: http://gradstudies.ucdavis.edu/panman/xlsalaries.pdf contains information on the full-time pay rates for Graduate Student Researchers, Steps I - X, are shown on page 1. Postdoctoral Scholar salaries are shown at top center on page 2.

[6] The UC Davis tuition/fee schedule for 2004-05 can be found at http://www.ormp.ucdavis.edu/studentfees/documents/gradnonres_fees.pdf.

[7] UC San Diego provides a handy summary at http://ogsr.ucsd.edu/financialinfo/gradstudent/tax_treaties.pdf.

[8] As noted in the GAO audit, all tuition remission provided as reasonable compensation is taxable under section 117(c) of the Internal Revenue Code. How tuition remission at the University of California can be reasonable compensation (to qualify as an allowable cost) and at the same time not be reasonable compensation (to qualify for a tax exemption), is a question raised by the GAO report but never resolved.