

# Pensions Are Killing Higher Education



States are opting to fund pensions and other obligations over education.

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Higher education funding cuts have received a great deal of attention in recent years – and for good reason. Last year, 46 states spent **less money** per student than they did in 2008. Widespread cuts have raised concerns over rising tuition, faculty job security, and the quality of the student experience.

The common assumption is that higher education cuts are just another consequence of states tightening belts in the wake of the Great Recession. But a closer look at the health of state finances tells a different story. State government tax revenues **now exceed** pre-recession levels and spending in almost every budget category has grown since 2008. Unfortunately, higher education is not following the same pattern. America's public colleges and universities enjoy the dubious distinction of being the only major budget category in which states are cutting back.

In a new report, we show just how far higher education has dropped down states' priority lists. Spending on hospitals, policing and public welfare are all up by at least 10 percent. The most notable increases are on public employee pensions, which grew the fastest in terms of total liabilities and expenditures. In short, pensions are crowding out higher education.

To pay for rising pension costs and obligations in other areas, states deem higher education to be expendable. How did we get to this point? Because it is easier – and more politically expedient – to cut higher education than it is to cut other areas.

First, states have strong incentives to increase expenditures on certain programs. Take Medicaid, which consumes one of the largest slices of states budgets. Medicaid operates on a federal-state matching formula, which means that any state funding cuts result in less federal money.

The same can't be said of higher education. Unlike Medicaid, states do not incur a direct cost when cutting higher education funding. Instead, they can shift costs to the federal government, incentivizing states to reduce higher education spending. Since the 1990s, federal aid per student has risen from roughly \$2,000 to \$6,000 in loans; \$1,000 to \$3,000 in grants; and \$0 to \$1,000 in tax credits. Rather than bearing the financial burden, state governments transfer the costs to the federal government and to students and their families.

Second, several areas of states spending – notably public pensions – enjoy strong legal protections. Public sector unions, which have a vested interest in expanded benefits, can fight pension plan retrenchment as a violation of personal property rights codified in the 5th and 14th Amendments. This deters state governments from targeting areas of the budget insulated by legal barriers.

Unfortunately, higher education doesn't enjoy the same level of legal insulation. While public sector workers' salaries and pensions are protected by labor contracts, this is only a portion of overall spending on higher education institutions. Total education appropriations are not

protected by a legal contract between the state and its colleges and universities. Therefore, funding cuts do not expose state governments to the risk of costly, time-consuming litigation.

Third, many state programs are protected by powerful interest groups. Almost all public unions advocate for generous pensions and other employee benefits. For instance, unions representing state police and corrections officers are often powerful voices in support of both higher salaries and better deferred compensation – i.e., retiree healthcare benefits. Importantly, relatively few groups mobilize against these unions and politicians have strong incentives to reward them.

The difficult truth is that, in spite of their efforts, unions who advocate for higher education are comparatively weaker. Most faculty unionization occurs in large public university systems in 15 states, with New York and California alone accounting for nearly half of the total U.S. faculty covered by collective bargaining contracts. And even in these states, faculty unions aren't much of a force. The reason is that over half of faculty are part-time employees and another fifth are full-time but non-tenure track.

These unions have some impact on the distribution of faculty salaries and on university governance, but their effects on overall spending are less obvious. Consider the City University of New York system, where faculty unions successfully bargained for long-awaited salary increases and yet Albany did not set aside funds to cover the increased labor costs.

For all of these reasons, higher education is in a uniquely vulnerable position, especially compared to other areas of state budgets. It's the largest line item that states can cut without facing significant legal and political barriers. After all, the true costs of higher education funding cuts will not be seen until future generations. The result is that state governments – controlled by either party – are increasingly willing to mortgage the future.

Former US President Jimmy Carter shared some words of advice for Donald Trump in a recent interview with CNN. The 92-year-old urged the current president to put "peace and human rights" at the "forefront of all his discussions with foreign leaders" as he sets off for his first overseas tour. In the next few days, Trump will visit Saudi Arabia, Israel and the Vatican, as a symbol of commitment to the country's allies. In the past, Trump has said he wants to strike the "ultimate deal" for peace between Israel and Palestine and has said he believes it will be "not as difficult as people have thought over the years."

[Daniel DiSalvo](#) CONTRIBUTOR

Daniel DiSalvo is a senior fellow at the Manhattan Institute and a professor of political science at the City College of New York-CUNY. He is the co-author of the Manhattan Institute report "[On the Chopping Block: Rising State Pension Costs Lead to Cuts in Higher Education](#)."