

ECONOMIC SCENE

The Farm-Subsidy Model of Financing Academia

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The University of Michigan received \$4 million for curriculum development and training at its Gerald R. Ford School of Public Policy. Marshall University in West Virginia received \$11 million for a new heart institute. The University of Iowa is hoping to get \$16.5 million from a pending highway bill to study taxation of drivers based on miles driven on certain types of highways.

These are just three of thousands of examples of recent "academic earmarks," provisions inserted into federal spending bills to finance specific university projects, like research, or the construction of classrooms and laboratories.

Increasingly, universities are being financed like farmers and military contractors, with legislative earmarks. According to The Chronicle of Higher Education, there were 1,964 earmarks to 716 academic institutions costing a total of \$2 billion in the 2003 fiscal year, or just over 10 percent of the federal money spent on academic research. From 1996 to 2003, the amount spent on academic earmarks grew at an astounding rate of 31 percent a year, after adjusting for inflation.

Earmarks contrast with the way the government finances most university projects, which is through open competitions for grants. In these competitions, agencies like the National Science Foundation and the National Institutes of Health review grant applications, often consulting with outside experts, and base awards on the applications' perceived merit. Earmarks are decided by a political process, without external peer review.

As academic earmarks have grown, so have universities' lobbying expenditures. Spending on lobbying jumped to \$62 million in 2003 from \$23 million in 1998, according to The Chronicle of Higher Education.

A study by John M. de Figueiredo of the University of California, Los Angeles and Brian S. Silverman of the University of Toronto, which will soon be published in The Journal of Law and Economics, finds that universities receive a high return on their lobbying dollars. The researchers related the amount each university received in earmarks to its lobbying expenditures from 1997 to 1999, and other factors.

Studying earmarks in the academic sector has important advantages. First, unlike for-profit corporations, universities that get tax-exempt donations are prohibited from forming political action committees, which give money to candidates and political parties. Consequently, the pure effect of lobbying can be isolated.

Second, most universities' lobbying efforts are directed at attracting earmarks as opposed to seeking legislative changes.

Third, for largely idiosyncratic reasons, some universities have stronger incentives to lobby for earmarks than others because they receive more generous supplementary funds from the federal government on top of their grants. Those extra funds, known as overhead, can be used by universities to subsidize activities not directly supported by grants, like hiring administrators.

Analyzing differences in lobbying expenditures stemming from differences in overhead rates with a statistical technique called "instrumental variables," Professors de Figueiredo and Silverman found that a \$1 increase in lobbying expenditures is associated with a \$1.56 increase in earmarks for universities in districts that do not have a senator or congressman on the crucial Appropriations Committees, and more than a \$4.50 gain in earmarks for universities with a representative on one of the Appropriations Committees.

Even among universities that do not lobby, those that have a congressman or senator on the Appropriations Committees tend to be awarded more earmarked funds.

A university's fortunes also tend to rise or fall when senators from its state join or exit the Appropriations Committee. For example, the year after Senator Lauch Faircloth of North Carolina, a member of the committee, was defeated by John Edwards, who did not become a member, earmarks to universities in North Carolina fell by half.

Unlike lobbying efforts and political factors, a university's academic standing, as measured by the National Academy of Science's ranking of departments, is not related to the amount of earmarked funds it receives.

A. Abigail Payne, an economist at McMaster University in Canada, has studied how earmarks affect the quantity and quality of academic research, inferring quality from the number of times research studies are cited by subsequent studies. She concludes that "earmarked funding may increase the quantity of publications but decrease the quality of the publications and the performance of earmarked funding is lower than that from using peer-reviewed funding."

Indications are that academic earmarks crowd out spending on competitive peer-reviewed grants, at least in the short run.

The competitive merit-based system that has financed most academic research since World War II is probably one reason the United States has been pre-eminent in science and higher education. If academic earmarks continue to grow at an exponential rate, this system could be in jeopardy.

Slowing the growth of academic earmarks would require a concerted effort by American universities to shun the practice, or a new consensus in Congress to finance academic research only through the competitive merit-based process. The Association of American Universities, a group of 62 elite research universities, is currently re-examining its position on earmarks, and could send a strong signal by unequivocally rejecting the practice.