



Some tax reform provisions might hurt universities, our country's overall competitiveness



© Getty Images

By C. L. Max Nikias

Aristotle famously described education as the ultimate predictor of a thriving society: “All who have reflected on the art of governing mankind have been convinced that the fate of nations depends on education.”

Aristotle has been proven right over the centuries. Yet today, higher education in America seems to be the subject of much criticism.

Surveys from Pew and Gallup have shown a growing skepticism among some Americans toward our nation's institutions of higher learning. And congressional proposals to overhaul our tax code have targeted both degree-seeking students and our nation's universities.

We continue to be deeply concerned about the effect some of these measures will have on American universities and as a result, on our country's overall competitiveness.

By every relevant metric, America's leading research universities remain the envy of the world, and are a significant part of what makes America great.

In most global rankings, U.S. research universities account for the vast majority of the top 50 institutions in the world. Since World War II, researchers at American universities have received the lion's share of the four research Nobels, with American institutions receiving roughly 60 percent of the total prizes.

Research at America's leading universities has given society so much of what we take for granted, from seatbelts and GPS to open heart surgery and advanced cancer treatment drugs, as well as a host of vaccines that have saved so many lives.

America won the “space race” because of university research. We have satellite communications as a result of university research. The internet, as well as many of the applications we rely on today, came to us a result of research conducted on campuses across this country.

At USC, our researchers are working on a vaccine that could potentially prevent Alzheimer's. Just a few years ago, a major breakthrough at USC produced the Argus

II, an artificial retina that restores sight for the blind.

No surprise then, that in a report about technology transfer and innovation, the Milken Institute concluded that, “while industry energizes innovation through research and development (R&D) initiatives, the main catalyst that fuels knowledge-based growth once again lies where it started: the American research university.”

As the conference process to reconcile the two tax bills seems to be nearing its conclusion, we are cautiously optimistic that a proposal from the House version, which had threatened the very backbone of the American higher education research enterprise, has been removed from the bill. Many graduate students at USC and its peer institutions receive tax-free tuition benefits in addition to a small stipend that supports them through the duration of their studies.

If the House were to get its way in taxing this benefit, students across the nation would have seen their tax liability spike by as much as 400 percent.

The effect of this would have been to effectively close off access to a tertiary education for lower and middle-income earners – an impact felt by as many as 150,000 graduate students nationwide. More significantly, 57 percent of these students are enrolled in graduate STEM programs, meaning that this would strike at the very heart of American innovation.

That artificial retina that restores sight? It was created in large part through the research of USC’s Mark Humayun, a biomedical engineer and ophthalmologist. But the retinal prosthesis concept he developed began more than 25 years ago, when he was a graduate student. This is the kind of fundamental work that taxing graduate tuition benefits would undercut, and I remain hopeful that legislators will keep this damaging proposal out of the final bill.

Another oft-repeated complaint about American higher education is the cost. It’s true: factoring in inflation, tuition at private universities has doubled since 1984, to around \$48,000 today. But take USC as an example: while our own tuition doubled over three decades, our student aid budget has more than quadrupled to \$320 million per year—the largest in the nation. Across America’s top private universities, around two-thirds of students get a tuition discount through financial aid. In other words, the sticker price does not tell the whole story. In fact, it is a highly misleading metric.

Consider this: if USC eliminated all financial aid tomorrow, we could reduce the sticker price of tuition by a third. But this would squeeze out every single student who comes from a lower and middle-income background. Instead, we work to enroll a balanced student body that better reflects the real world. As a result, nearly a quarter of our undergraduates come from families earning less than \$50,000 per year.

Yet a feature of both the House and Senate tax bills we expect to remain in the final version would create major roadblocks towards maintaining this balance. The Excise Tax on Endowment Earnings would fundamentally change the way nonprofits are treated by creating a new and unprecedented tax that targets some private colleges and universities. This means that large amounts of endowment dollars could be redirected to the federal government, instead of to scholarships for our students, and to support research and education.

This would not only set a dangerous precedent for the entire nonprofit sector, but would cripple a college’s ability to fund important initiatives. Endowments may appear large in the absolute, but their purpose is to support a university’s

mission in perpetuity. This means that endowments are invested, with annual earnings going toward financial aid and other core activities.

Whether conducting societally important research or working to bring down cost and expand access, it ultimately comes down to resources. We ask members of Congress, as they prepare to vote on this bill next week, to consider the fact that any regulation that redirects mission-critical endowment earnings will not bring about a desirable outcome.

Maintaining access and opportunity for students to do great research is critical to maintaining America’s success.

If Aristotle looked out at America today, he might be asking us to spend a little more time reflecting, for nothing has fueled America’s ascent more than higher education. The fate of our nation depends on it.



University of Southern California president C. L. Max Nikias holds eight patents in digital signal processing and is a member of the National Academy of Engineering, a fellow of the American Academy of Arts and Sciences and a charter fellow of the National Academy of Inventors (NAI).