

Trump Administration's FY 2018 Budget: Higher Education Outlays

By Don Sutherland

Back in March, I posted [information](#) from the Trump Administration's preliminary budget outline. That document suggested a 13.5% reduction in education spending from the estimated FY 2017 figure. Last week, the Trump Administration provided greater detail in its budget plans.

An examination of this new budget document by agency and account ([Table 26](#) in the Analytical Perspectives) reveals that FY 2018 outlays would come to \$74.213 billion (approximately 0.4% of GDP). At the end of the budget's 10-year timeframe, Department of Education outlays would be little changed at \$74.732 billion (0.3% of GDP). In comparison, the actual FY 2016 outlays were \$87.728 billion (0.5% of GDP). In relative terms, the proposed budget would result in a nearly 45% reducing in federal education outlays as a share of GDP.

Education outlays as a share of GDP are based on the Congressional Budget Office's (CBO) [forecasts](#) for GDP. The Trump Administration budget forecasts a substantial acceleration in GDP growth, with real GDP growing at an annual rate of **3.0%** every year in the 2020-2027 period, which appears excessive when factors such as growth in the working age population and labor force productivity are considered. In comparison, the CBO estimates a gradual tapering of real GDP growth to approximately 1.8% per year by 2027 and the Federal Reserve expects longer-run real economic growth to have a central tendency range (omits the three highest and three lowest projections) of [1.8%-2.0% range](#).

In addition, it is likely that reductions in investment in education relative to GDP could constitute an additional headwind to long-run growth. A recent [paper](#) presented by Dale W. Jorgenson of Harvard University, Mun S. Ho of Resources for the Future and Jon D. Samuels of the Bureau of Economic Analysis observed that the increase in college-educated workers and capital investments explained "by far the largest proportion of U.S. economic growth" in the post-World War II period. That paper noted that growth in educational attainment as a contributor to U.S. economic growth is forecast to "gradually disappear" and that this development "implies a [real] GDP growth rate of 1.8%." Overall, a decrease or stagnation in human capital development is expected to constrain long-run economic growth. Therefore, taking into consideration the above factors, this blog article uses the CBO's more conservative growth projections in measuring education spending as a share of GDP.

Select budget data (outlays):

Account/Subaccount	2016	2018	2027	2018-27 Change	2018-27 Real Change
Howard University	\$ 0.221B	\$ 0.221B	\$ 0.221B	0.0%	-16.3%
Total Student Financial Assistance	\$29.882B	\$27.342B	\$30.563B	+11.8%	- 6.5%
Institute of Education Sciences	\$ 0.585B	\$ 0.552B	\$ 0.617B	+11.8%	- 6.5%
Total Education Appropriations	\$87.728B	\$74.213B	\$74.732B	+ 0.7%	-15.7%

Note: The real (inflation-adjusted) is based on the Federal Reserve's longer-run PCE inflation forecast of 2.0% per year.

The budget document also proposes eliminating the Federal Direct Student Loan Program Account and the Federal Family Education Loan Program Account, which accounted for a combined figure of \$11.325 billion in outlays in FY 2016.