

## Distorted Incentives The United States Pays the University of California Twice as Much to Educate Foreign Graduate Students as American Ones

Year after year, there are progressively more foreign Ph.D. candidates in science and engineering enrolled in U.S. institutions. This partly is due to several anomalies in federal public policy that tend to create a peculiar incentive structure, one that simultaneously encourages able foreign students to seek U.S. Ph.D.s, while discouraging equally able American students from doing so. One manifestation of this — in California universities at least — is the fact that the U.S. government pays those universities twice as much to educate foreign students as it does to educate American students.

This news can be gleaned from a very close reading of one of those blue-clad, ultra-carefully-written reports of the General Accounting Office (GAO), the cautious Congressional oversight agency. Reacting to Congressional interest based on information provided by a whistle-blower (likely within the University of California system), GAO last year published a study, “Federal Research Grants: Compensation Paid to Graduate Students at the University of California,” which deals with the financial support provided to more than 1,000 foreign graduate students working on federal research grants at the various campuses of the University of California (UC).

Generally, universities charge federal purchasers of scientific research, such as the National Institutes of Health (NIH), what they regard as the universities’ costs to conduct requested research. These costs include both stipends (wages) and waived tuition for graduate students, who do most of the actual research. Although the GAO does not say so, virtually all Ph.D. candidates in science and engineering have assistance packages that include waived tuition, with either research projects (usually federal) or the university picking up the tuition costs. While it is common for state universities to set higher tuition rates for out-of-state students

than for state residents, most allow U.S. citizens and green card holders to move from out-of-state to in-state status after one year. The universities do not, however, make similar provisions for foreign students on temporary visas.

UC decided to extend this practice to federal research projects by charging the federal government a higher rate for aliens’ waived tuition: \$14,500 for foreign students with temporary visas, but only \$4,400 for U.S. citizens and green-card holders.<sup>1</sup> This subject was dealt with somewhat obliquely in the GAO report. UC does not argue that it costs more to educate aliens than citizens, nor does it contend that it is good public policy to spend more on aliens than citizens, it simply has taken advantage of loosely-written federal guidelines to extract a little more money from the U.S. Treasury.

The actual billings for the waived tuition and fees of graduate research assistants to the various federal buyers of scientific research run about twice as high as do those for citizens. Tuition, as such, is not charged to California residents. (See the table.) Does this cause the University of California to tilt toward admitting more foreign students? That’s a question that the GAO was careful not to ask. The table, however, shows that, in the three years covered by the GAO study, the number of alien graduate researchers in the UC system funded by the federal government increased by 23 percent while the number of U.S. graduate researchers dropped by 1 percent.

The GAO was similarly uncurious about the extent to which other universities were charging more to educate foreign students than American ones. It apparently sought no information on this subject, but it did note that its agents found an internal UC document indicating that, in 1996 anyway, UC was the only university in the country using this billing practice.<sup>2</sup> A key passage from the GAO report stated:



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“Neither OMB nor HHS provides educational institutions with clear guidance on whether out-of-state tuition costs should be passed on to the federal government... We also noted that the *state of California does not allow the university to charge state grant awards for nonresident tuition remission.*”<sup>3</sup> (Emphasis added.)

Since tuition is routinely waived for graduate study in the sciences, however, as far as the students are concerned this is a meaningless distinction. While UC gets about twice as much in tuition payments for the alien students from the federal government, this does not mean that alien students draw more money from research grants than do Americans, a fact that federal officials interviewed for this article stressed strongly. While correct, as far as it goes, this statement ignores other federal policies, which guarantee that alien students can keep more of their modest (\$17-18,000 per year) UC stipends than their American peers. Neither alien students on temporary visas nor their employers are charged FICA (Social Security taxes), but Americans and their employers are. Further, the largest single group of alien graduate students in science and engineering is from China, and the China Tax Treaty substantially reduces, and sometimes eliminates, any need for these students to pay federal income taxes on their stipends.

## The Big Picture

Federal research procurement policies (as exploited by UC) and FICA policies both reward universities that hire foreign, rather than American, graduate students; and both FICA and the China Tax Treaty ensure that Chinese graduate students secure more take-home pay than their American peers.

In addition, a recent study funded by the Alfred P. Sloan Foundation<sup>4</sup> found that there is already a remarkably lop-sided incentive system that produces ever-growing numbers of alien Ph.D. candidates in science and engineering and smaller numbers of American candidates, even without the variables just described. For example, spending six or seven years of hard work (but little or no cash) for an American Ph.D. in science or engineering as well as an American green card is a remarkably attractive deal for a bright alien student. The similarly able American citizen willing to undergo some graduate training does not need the green card and can, usually in much less time, become a lawyer or an MBA (or with a little more time, an MD), leading to a much higher income than that earned by someone with a Ph.D. So fewer able Americans take on the grueling years of graduate study in the sciences and engineering, and more aliens do so.

**Table 1. Federal Tuition Payments to the University of California for U.S. and Non-U.S. Graduate Student Researchers and Enrollment of Such Students, 1995-96 and 1997-98**

	Alien Students	U.S. Students
<b>Federal Tuition and Fee Payment per Year (1995-96)</b>	\$4,848	\$2,322
<b>Number of Such Students (1995-96)</b>	887	3,402
<b>Number of Such Students (1997-98)</b>	1,090	3,366
<b>Percentage Change in Number of Supported Students Between 1995-96 and 1997-98</b>	+ 23	- 1

*Source:* Calculated from: United States General Accounting Office “Federal Research Grants: Compensation paid to Graduate Students at the University of California” (GAO/OSI-99-8), GAO, Washington, D.C., June 1999, Table 3. While the GAO provided the statistical base for the numbers shown above, it did not discuss any possible relationship between the funding pattern, on the one hand, and the differential growth rates of the two groups of federally-funded graduate student researchers, on the other.

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This, then, is the big picture. But it appears that the U.S. officials consulted for this *Backgrounder* — including officials at NIH, GAO, a Congressional Committee, and the Inspector General’s Office of the Department of Health and Human Services — are unable to (or choose not to) see it. Each official, dealing with his or her own narrow segment of the picture, said that no laws were being broken and that the GAO report had changed no governmental practices. UC seems to be continuing its odd billing pattern, which is not surprising since one NIH official suggested that different tuition levels for citizens and non-citizens were nuances scarcely worthy of NIH’s attention. None of the officials regarded the whole business described above as addled public policy.

### What To Do?

Rather than using the blunt instrument of immigration law (which the academic establishment routinely outwits anyway) to level the playing field between U.S. and foreign Ph.D. candidates (all largely educated at U.S. expense), the following steps should be considered:

1. Remove subsidies for graduate students in science and engineering from federally-funded research projects and place them — with more generous stipends — in a new, direct, government-to-student program that would require that a majority of the funds be used on citizen and green card students. (This would also reduce U.S. funding of university overhead costs, an expensive part of the current system.)
2. Until such time as the first suggestion can be implemented, require that federal reimbursement of waived tuition for graduate student-researchers be at in-state levels. (This would require no legislation.)
3. Eliminate the FICA tax breaks for foreign students and their employers. (This would also have the secondary benefit of modestly strengthening the much-discussed Social Security Trust Fund.)
4. Eliminate the Tax Treaty income tax breaks for PRC students in the course of the on-going negotiations with China over other issues; very few American students (in China), but many thousands of PRC students (in the United States), benefit from this provision.

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### End Notes

<sup>1</sup> “Federal Research Grants: Compensation Paid to Graduate Students at the University of California” General Accounting Office, Washington, D.C. (GAO/OSI-99-8), Washington, D.C., June 1999, p. 7. Available on the Web at: <http://www.gao.gov/AIndexFY99/abstracts/os99008.htm>

<sup>2</sup> Non-state supported research universities, such as Harvard and Stanford, do not set tuitions on the in-state/out-of-state basis.

<sup>3</sup> GAO report, *op cit*, p. 10.

<sup>4</sup> North, D.S. *Soothing the Establishment: The Impact of Foreign-Born Scientists and Engineers on America* University Press of America, Lanham, MD, 1995.

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In addition, this *Backgrounder* provides a look at the big picture and also offers solutions to this unfortunate funding practice.