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ORIGINAL PAPER

Bureaucratic rent creation: the case of price discrimination in the market for postsecondary education

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Abstract

Under political competition, bureaucrats who wish to maintain their jobs and salaries must continue to stimulate demand for their agency's services in order to secure funding. This paper suggests that one way a bureau can do so is by creating avenues for private entities to collect rents through entrepreneurial action. The Federal Student Aid office in the U.S. Department of Education and their Free Application for Federal Student Aid (FAFSA) can serve as an example. By getting students to fill out a FAFSA application, colleges obtain the detailed financial information of students and families. Colleges can then use this information to price discriminate. The bureau's derived benefits from this behavior are two-fold: (1) Private interests groups can lobby political sponsors to continue funding the agency. Using data obtained from lobbying reports filed with the federal government, we find that there is a positive relationship between lobbying expenditures and the implementation of regulations that enhance the value of the rents associated with the FAFSA. (2) The source of the rents can be used as a performance indicator to meet the demands of political sponsors. Drawing from the 5-year strategic plans from the Department of Education and the Federal Student Aid office, we find that these bureaus can benefit from engaging in such behavior.

Keywords Bureaucratic competition · Political entrepreneurship · Rent creation · Postsecondary education

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1 Introduction

Public choice scholars have long discussed the ways in which bureaucratic agencies compete amongst each other (Benson, 1995; Breton & Wintrobe, 1982; Coyne, 2008; Downs, 1967; Margolis, 1975; Niskanen, 1968; Peters, 2010; Tullock, 1993; Wagner, 2016; Woll, 1963). In a market context, competition is mediated through the price mechanism which relays information about consumer valuations, guiding economic decision making. However, in the context of the political process the price mechanism is absent; therefore, resources are necessarily allocated by other means. Bureaucrats must find ways to demonstrate their value to their primary 'customer', political sponsors, if they are to maintain or increase their command over politically appropriated resources (Ting, 2001). The ways in which bureaucrats compete include advertising efforts, lobbying politicians, and partnering with private enterprises, among other tactics. These strategies typically involve some form of attempting to stimulate demand for the agency's services in order to capture more resources. What we argue in this paper is there is a competitive strategy among bureaus which has yet to be thoroughly addressed in the literature, namely creating rents for private enterprises.

Political rent creation is related to the literature on rent seeking and has been discussed in the context of politicians creating rents that can also confer benefits to themselves.[1] Holcombe (2017) argues political actors have incentives to create rents when they can also appropriate a share of those rents; absent the ability to gain from rent creation, political actors will refrain from doing so. After an avenue of rents is established, politicians can engage in the "political strategy of cost forbearance" (McChesney, 1987, p. 105) to extract up to the equivalent value of these rents from private firms. This strategy entails threatening to impose costs on firms to reduce the value of non-salvageable capital used for capturing rents through the political process. Our analysis differs from McChesney (1987) in two significant ways. First, our primary concern is the bureaucrat rather than the politician as the political actor of interest, which we argue are theoretically distinct. For instance, the turnover rate of political offices seems to play a crucial role in the durability of a rent, "[b]oth politicians and rent recipients gain when the durability of regulation is increased by holding legislators to longer contracts... A legislator not party to the original bargain has less incentive to abide by the political rent-creation deal struck by his predecessors unless he too is compensated" (p. 105). We would expect the rents in exchange with bureaucrats to be more durable given the less frequent turnover of bureaucratic positions and the harder-to-replace benefits from the recipient of rents. Additionally, bureaucrats are not elected and cannot directly tap into private contributions to their agency. To maximize benefits, the strategy of rent creation is more likely to be effective for the bureaucrat relative to the politician. When McChesney (1987, pp. 111–112) mentions bureaucratic agencies, he assigns them the function of imposing the costs which legislators threaten on private actors for the purpose of extracting

[1] See, for example, (Aidt, 2016) on rent creation and corruption, (Congleton, 2019; McChesney, 1987) on rent creation and rent extraction, and Holcombe (2017, 2018) on the incentives for rent creation.

rents. This brings us to our second divergence: we argue that bureaus can themselves create rents for private actors, not only impose costs that lower the value of pre-existing rents.[2] That is, we develop a theory of rent *creation*, not rent *extraction* through cost forbearance. We argue that rent creation from bureaus can be a rational, strategic response to the incentives they face.

One of McChesney's (1987) critiques of the literature on political exchange is how politicians remain as a "passive broker among competing private rent seekers" (p. 102). The literature has treated bureaucrats similarly. Bureaucrats are not simply agents of politicians working to implement legislation, but independent actors that can influence the costs and benefits that private actors face. Consistent with the framework of political competition advanced by Wagner (2011) and Wagner and Yazigi (2014), we treat bureaucrats as active participants within a competitive environment engaging in political exchanges. Bureau-created rents, as we conceive it, is not a regurgitation of the classic public choice story in which private enterprises lobby the government, or a bureau (McKay, 2011), to create rents. Rather, we consider a situation in which the bureaucratic agency is the 'first-mover' in the sense that without any direct lobbying by private actors, bureaucrats use their rule making power to create or enhance the value of rents for private actors. In doing so, bureaucrats are able to stimulate demand for their services in the private sphere. A consequence of this might be that private actors who are the recipients of these rents will lobby for the continuation of agency services, justifying the existence of the agency and increasing the probability of the bureau securing additional appropriated resources.

To illustrate this theory, we rely on a case study involving the creation and implementation of the Free Application for Federal Student Aid (FAFSA). We argue that although federal student aid undoubtedly achieves its goal of increasing access to higher education (Dynarski, 2003), the FAFSA creates rents by allowing colleges and universities to more effectively price discriminate. The value of these rents is directly influenced by the actions of bureaucrats. Bureaucrats within the Department of Education are shown to have produced regulatory rules that increase the value of the rents derived from FAFSA. Relevant interest groups, such as the National Association of Student Financial Aid Administrators (NASFAA), participate in the political process as a way to protect these rents. Furthermore, these rents create measurable outputs for the bureau to signal success along their goals, making it easier to maintain demand for their services. This is evident through the numerous uses of FAFSA as a performance indicator and emphasis on innovations which would increase the number of FAFSA's filled out throughout the Department of Education (ED) and Federal Student Aid (FSA) office's strategic plans. Ultimately, this can increase the opportunities for FSA office—and indirectly the ED itself—to increase their command over appropriated resources.

[2] This is not contradictory to McChesney's (1987) theory. At times, it may be optimal for the bureau to impose costs on private firms if that guarantees funding. In other situations, it may be more beneficial for the bureau to create rents.

The rest of the paper proceeds as follows. In Sect. 2 we discuss the various strategies bureaus use in their competition for funding that have been identified by economists. Then, in Sect. 3 we build on previous theories of bureaucratic competition and explain how rents are created as a consequence of bureaucratic entrepreneurship. Section 4 will review a brief history of the FAFSA, establish the existence of price discrimination by colleges, and then apply the theory developed in Sect. 3 to our case of interest. Sect. 5 will conclude.

2 Strategies of competing bureaus

As a consequence of operating in a competitive environment, bureaus will pursue strategies which yield ample funding for continuing its operations. Many of these strategies have been discussed throughout the literature. One of the most commonly cited ones is advertising. If it is the case that bureaus can increase the resources allocated to them by increasing the demand for their output, that is the goods and services the bureau produces, then bureaus will try and increase the demand for their output through promotional activities, such as advertising or propaganda (Coyne & Hall, 2021; Niskanen, 1968, pp. 300, 303).[3] For example, many military bureaus throughout the world create advertisement campaigns to recruit soldiers (Peters, 2010, p. 169; Woll, 1963, p. 195).[4] These political campaigns will not only be geared towards the public, but also to "specific groups which they consider important in the battle for political survival" (Woll, 1963, p. 195).[5]

Another common behavior of competing bureaus is the creation of new regulations which expand the scope of the bureau, or what is commonly known as 'mission creep'. By creating new regulations, the bureau can increase their responsibilities which can be used as leverage when the bureau lobbies Congress for additional funding. If the regulations are in new industries or sectors of industries that the bureau has not previously been involved in, then these regulations will open up scope for future expansion. However, these regulations might actually be attributed to the competition between workers within bureaus. Breton and Wintrobe (1982, pp. 95–97) recognized competition among bureaucrats and bureaucratic mangers for job positions. Margolis (1975) even argued that it was easier to move between bureaus than between private firms, further elucidating the competitive nature of bureaucratic jobs.

[3] For examples see Clotfelter (1978, p. 11) and DiLorenzo (1988a, p. 67). A more modern example is the National Aeronautics and Space Administration (NASA) Jet Propulsion Laboratory's poster series, "Visions of the Future," produced by a creative team of visual strategists depicting the potential future missions of the bureau Jet Propulsion Laboratory Visions of the Future Posters (2020).

[4] In some instances, private companies will create advertisements on behalf of the bureaus. For example, the Rockwell International Corporation, producer of the B1 bomber, participated in extensive public-relations activities in support of the B1 program (Woll 1963, p. 195).

[5] This includes private enterprises. For instance, if a bureau relies on the lobbying efforts of a private company to allocate more funding to that bureau, then they will direct their advertising efforts towards these companies to continue that support.

One of the most straightforward strategies in bureaucratic competition is to lobby the politicians who allocate budgetary funds. Feld and Schaltegger (2005) have shown how state bureaus can effectively lobby the federal government for grants, and (Anderson et al., 1991, p. 32) theorized how local bureaus can lobby state governments for funding. In fact, bureaus spend an enormous amount of time, money, and effort engaging in this behavior (Peters, 2010, p. 168; Woll, 1963, p. 194). The benefits the bureaucrats receive from politicians are not necessarily budgetary funds, but can include benefits that "take the form of tenured employment, privileged health-care packages, contribution-free inflation-proof pension arrangements and the like" (Tullock, 1993, pp. 52–53). Furthermore, (Benson, 1995, pp. 14–15) explains why bureaus have a comparative advantage in lobbying over private interest groups by delineating their following attributes: (1) Bureaus face no cost in coordinating since they are already organized. (2) Given the nature of their mission, bureaus will already be well-informed in the area they are lobbying. (3) Bureaucrats can cover some of their lobbying costs by appropriating a portion of their budget. (4) Bureaucrats are already well connected with politicians who pass laws and set budgets because they are usually called upon to provide "expert opinions" on the issues of their agency's focus. For these reasons, bureaucratic agencies are naturally equipped with all the characteristics that constitute an effective rent-seeker. In a competitive environment, we would expect bureaucrats to leverage these qualities to their advantage.

A substitute for lobbying politicians that bureaus have is exchanging information for budgetary support. Peters (2010, p. 211) explains how bureaus tend to have a relative monopoly over information that only they have the technical expertise to interpret. The bureau can use this position to accomplish their ends in at least two ways. First, they could claim since they know the most on the subject, they should be the ones in control of making policy in this relevant area. Second, if the politicians instead decide to make policy themselves, they most likely will consult the bureau since they are the most knowledgeable ones on the subject. The bureau can then leverage their information by trading it in exchange for resources and budgetary funds. Perhaps the closest recognition of rent creation by bureaus as a strategy for survival comes from Downs (1967), "No bureau can survive unless it is continually able to demonstrate that its services are worthwhile to some group with influence over sufficient resources to keep it alive" (p. 7). But Downs does not explicitly hash out the ways in which the bureau will make itself valuable to these groups.

3 Creating rents

One strategy of bureaus who find themselves in competitive climates is rent creation. We support the claim that since bureaus will look to maintain the resources allocated to them and there are scarce resources to be captured, bureaus will be in competition. This competition will lead to entrepreneurial action. One possible product of this action is rent creation for private entities.

3.1 Competition in bureaucracy

Bureaucrats, like most workers, are interested in supporting themselves and their families, job security, and what their job consists of (Benson, 1995, p. 1). Then, at the very least, they are concerned with maintaining their jobs and salaries. This implies that bureaus have an interest in surviving, making one of the agency's most vital goals to pursue its continued and desired funding (Peters, 2010, p. 168).[6] If the agency is to grow at all, or at a minimum survive, it must obtain money through the budgetary process, coined by Peters (2010) as "the politics of survival" (p. 213). Since all bureaus share the same fundamental problem of survival, bureaus will be acting in the same sphere as other public organizations with similar concerns (Wagner, 2016, p. 151). Surviving for an organization requires money (Peters, 2010, p. 213), and since there is a scarcity of money to be allocated across the bureaucracy, it follows that there necessarily exists competition among agencies (Wagner, 2016, p. 149). Peters explicitly makes this point, claiming that "competition among agencies does have a place as a means of allocating resources among competing policies and thus allowing some organizations to flourish and some to languish or, less frequently, to die" (Peters & Hogwood, 1988 as cited in Peters, 2010, p. 203). In order to avoid the undesirable outcome of losing funding or being shutdown, bureaucrats will have to actively pursue the security of their funding.[7]

Downs (1965) was one of the first to recognize the territorial environment of bureaucracy:

> Each bureau attempts to stake out, defend, and expand a certain "territory" of policy related to its social functions. Because of numerous technical interdependencies with other bureaus, the boundaries of each bureau's territory are both unstable and ambiguous. Hence it is continually struggling with other bureaus and nonbureau social agents to establish its sovereignty in certain overlapping policy areas. (p. 444)

The bounds that define the scope of a bureau's actions are subject to movement; whether it be expansion or contraction is dependent on the actions of politicians, the agency, and its rivals. Depending on how certain policies are classified will affect the territories of agencies. For example, whether or not drug policy is prescribed as a health, education, or law enforcement issue will affect the boundaries and scope of the related agencies (Peters, 2010, p. 202). For these reasons and more, (Breton & Wintrobe, 1982) conclude that "competition characterizes the whole of bureaucratic behavior and activity at all times" (p. 26).

[6] Niskanen (1968, p. 303) points out that the interest of the persistent existence of a bureau is likely to originate from the bureau itself, and thus the bureau will expend all of its allocated funds to ensure that their budgets will not reduce in the future.

[7] For a more in-depth analysis of the institutional setup of bureaucracy, see Peters (2010) chapters 5 "The Politics of Bureaucracy" and 6 "The Bureaucracy and Political Institutions." To better understand the budgetary process and the importance of this for the bureau's survival, see chapter 7 "The Politics of the Budgetary Process."

Is this too strong of a claim? (Goodin, 1975) models bureaucratic agencies cooperating at times instead of competing. Kunioka and Rothenberg (1993) find an example where bureaus, who should appear to be allocational rivals, were more focused on autonomy and organizational maintenance than competing over budgetary funds or territory. They conclude that although the two bureaus exist in a rivalrous structure, they fail to act competitively because of the incentives they face. However, this does not imply that the bureaus are not operating in a competitive environment. Cooperative strategies among a few related bureaus can at times prove to be an effective strategy in the broader arena of bureaucratic competition. There certainly exists competitive environments where the rivalry between bureaus does not manifest itself in the cooperation described in Kunioka and Rothenberg (1993), but instead as creative entrepreneurial policy changes that help secure the bureau's desired resources.

3.2 Entrepreneurial action

Under the competitive institutional structure in which bureaus seek to increase the resources allocated to them, we would expect to observe instances of entrepreneurial action.[8] In order to understand how bureaus can capture resources through entrepreneurial action, we must first understand where those resources originate from. In the market, entrepreneurs wish to capture the money of consumers who demand their goods and services. Therefore, entrepreneurs respond to the demands of consumers. In bureaucracy, bureaus wish to capture the resources allocated by those who distribute budgetary funds. Therefore, bureaucrats respond to the demands of the politicians who allocate these resources (Breton & Wintrobe, 1982, p. 91). Following Niskanen (1971), we will refer to the politicians who directly support the bureau as political sponsors. Resources will be allocated to bureaus until the benefit to the sponsor of allocating an additional dollar to a bureau is equal across all bureaus (Breton & Wintrobe, 1982, p. 113). Therefore, resources will be allocated in proportion to how much the services of the bureau are demanded by the political sponsor.

Bureaus will then want to stimulate demand for their services.[9] The only way a bureau can survive is by "continually [demonstrating] that its services are worthwhile to some group with influence over sufficient resources to keep it alive" (Downs, 1967, p. 7). Notice that this is not exclusive to political sponsors. If bureaus can stimulate demand for its services in a way that mobilizes the public who vote politicians into office, then they can indirectly stimulate the demand for their services by political sponsors. Furthermore, if bureaus can stimulate demand for their services by private enterprises, then private enterprises can lobby, publicly endorse, donate to campaigns, etc., to incentivize political sponsors to allocate resources to those bureaus.

[8] The expectation of entrepreneurial action in the sphere of bureaus follows directly from the ubiquity of entrepreneurship, as conceived by Mises (1949, pp. 252–253).

[9] Breton and Wintrobe (1982, p. 36) show that the only way a bureau can expand is by increasing the demand for their services.

These dynamics of bureaucratic action is simplified to a five stage process in Fig. 1.[10] Stage 1 resembles the creation of a bureau where it is politically advantageous for political sponsors to take such action.[11] Once legislation is passed establishing the bureau, the bureaucrats then decide how they will go about implementing their proposed mission. When making this decision, bureaus will take into account who their political sponsors in Congress are and pursue their mission consistently with their sponsors' interests (Weingast, 1984). Citizens and interest groups will judge the bureau's outputs and pressure or lobby politicians to either increase, maintain, decrease, or remove the bureau's funding. The political sponsors allocate resources depending on these demands, and stages 3-5 continue on in this cycle. However, this cycle need not to continue endlessly.

Agencies that do not garner enough support in Stage 4 from political sponsors will disappear. In order to survive, bureaus must establish a "host of well-organized domestic beneficiaries, or a powerful set of suppliers with no alternative markets" (Downs, 1967, p. 10). A bureau who fails to provide benefits for their sponsors, or large enough benefits such that they outweigh the costs of supporting the agency, will cease to exist (Downs, 1967, p. 22). Furthermore, as the demand for a bureau's policies diminish by their supporters, the chances of them disappearing become greater (Breton & Wintrobe, 1982, p. 36). Bureaus might diminish because they struggle to compete for political attention and resources with other more prominent bureaus, face opposition from other competing bureaus, or struggle to continue producing impressive results for their sponsors (Downs, 1967, p. 12). To avoid contraction and continue to survive, bureaus will constantly seek to stimulate demand for their services by their sponsors.

Following from Sect. 3.1 and Breton and Wintrobe (1982), the competing bureaucrats seeking to stimulate demand for their services can be modeled as entrepreneurs.[12] Kirzner (1973, p. 94) expounds how competition and entrepreneurship are "two sides of the same coin," where this theory of entrepreneurship encompasses all competitive behavior (Breton & Wintrobe, 1982, p. 111).[13] Political entrepreneurs within bureaucracies will therefore be those who stimulate demand for the bureaus' services (DiLorenzo, 1988a, p. 66). The entrepreneurship of the bureaucrat will "proceed along many different dimensions and take subtle forms" (Breton & Wintrobe, 1982, p. 117) because the benefits to the political sponsors of their services are arbitrarily determined.

[10] This is loosely derived from Adams (1981) iron triangle.

[11] See Fedeli et al. (2018) for an analysis of what incentives political sponsors face when designing the institutional structure in their creation of bureaus.

[12] Natchez and Bupp (1973, p. 963) summarize the competitive environment of federal bureaucracy driven by entrepreneurs. See also (DiLorenzo, 2002, pp. 65–67; Eusepi & Wilson, 2008) for more on modeling entrepreneurs and markets in the realm of government.

[13] This is precisely why (Breton & Wintrobe, 1982, pp. 108–109) use the Austrian notion of competition in their model of bureaucratic competition. The Neoclassical model of competition focuses solely on price competition, and since there are no prices in the public sphere the theory is rendered useless in its application for this scenario. See Boettke et al. (2007), DiLorenzo (1988a) and Wohlgemuth (1995) for more on the usefulness of Austrian economics and entrepreneurship over the neoclassical competition framework in the analysis of political behavior.

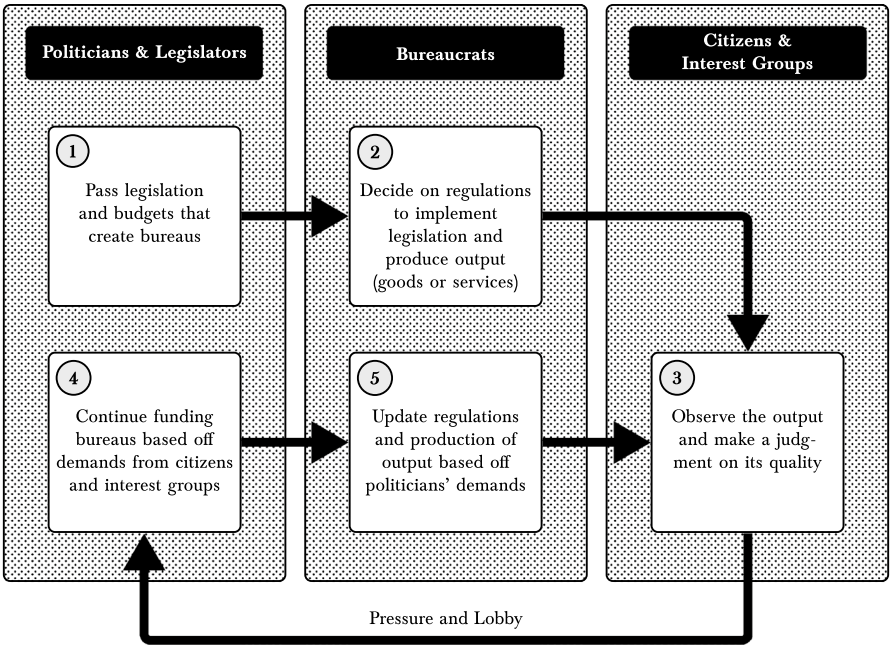

Fig. 1 The creation and survival of bureaus

Just how entrepreneurial action emerges from changes in demand in the private sector, entrepreneurial action in the public sector will emerge out of changes in the demand for bureaucratic services. As the entrepreneur is alert to new opportunities (Kirzner, 1973), we expect to see a surge in this kind of action when these opportunities arise as bureaucrats seek to exploit rather than create them. Bureaucratic entrepreneurs can exploit the change in demands from the public:

> [C]itizens' demands that something be done about the environment, the high cost of government, inflation, or unemployment, to use the most obvious contemporary examples, imply that opportunities for entrepreneurship in the public sector are there to be grasped, but they do not reveal what kinds of new policies will be successful. (Breton & Wintrobe, 1982, p. 112)

Downs (1967) recognized this behavior of bureaucrats as they "propose new functions, new methods, or new research that will shift resources to them" (p. 198). The incentive structure facing bureaucrats "provides much greater rewards for increasing expenditures than for reducing them" (p. 18). Expanding the agency may also increase the quality of performance, thereby incentivizing individuals whose interests are loyalty, pride in work, public interest, and commitment to the bureau's mission to pursue further expansion (Downs 1967, p. 17). Even those who seek convenience might want to increase resources of the bureau by hiring more workers to delegate undesirable tasks to other bureaucrats. Or they may strategically hire workers as a means of enticing political sponsors "to provide complementary inputs in the future" when faced with a competitive budgetary environment (Konrad &

Kessing, 2008). The very aggrandizing nature of bureaucrats will lead them to seek expansion of their agencies through entrepreneurial action.

As a consequence of this action, we would expect to see the implementation of policy changes, such as "new programs, policies, regulations, or techniques of administration" (Breton & Wintrobe, 1982, p. 112). The decisions made in the legislative process might define the mission of policy, but it is the bureaus who "are involved in interpreting the law, deciding on the extent of its application, how to handle special cases not dealt with in the law, defining exceptions and so on" on a day-to-day basis (Breton & Wintrobe, 1982, p. 23). The bureau increases the chances of expanding the social function it was originally assigned through creating new policies that may even encroach on other bureaus' territories (Downs, 1967, p. 12). A bureaucrat's entrepreneurial action may result in changing the formal mandate of the bureau, and consequently the constitutional order it operates within which can enhance its position in future political exchanges (Salter & Wagner, 2018, pp. 294–295). Significant changes could also lead to the creation of new departments within the bureau, or even spur entirely new bureaus (Breton & Wintrobe, 1982, p. 112). They can also lead to an increase in public or private demand for the bureau's outputs, or expansion of the scope of the bureau's mission. Regardless of the change, successful policies will maintain or increase the amount of resources allocated to the bureau. The idea is that bureaucrats will shape the way desired goals of aggrandization are achieved through policy implementation. This plays a crucial role in our empirical case in Sect. 4, as bureaucratic entrepreneurs from the FSA office within the Department of Education created polices to better achieve their mission. At the same time, these new policies created rents for interested private and public enterprises.

3.3 Rent creation

Bureaucratic agencies can create rents for private enterprises to stimulate demand for their services as a strategy to increase their allocated resources. This behavior can benefit the bureau in at least two ways. First, is that if agencies serve the interest of private enterprises by creating rents for them, then those private enterprises have an incentive to lobby political sponsors to continue, or even increase, the funding for those agencies and in turn the rents they receive. Peters (2010, pp. 168, 170, 212) frequently talks about how the budgeting process for bureaus involves mobilizing private interest groups to lobby on their behalf, but does not explicitly state why these private enterprises would do so, or what they gain from the bureau. Downs (1967, p. 22) came closer to the idea of bureaucratically created rents stating that "[t]he nature of bureaus leads their clients to create pressure to maintain them after their usefulness no longer justifies their costs" (p. 22). As long as the benefits the private enterprises receive from the rents created exceed their costs of lobbying political sponsors, then we expect the private entities to engage in this behavior regardless of the costs to run the bureau. Notice how this lowers the costs of advocacy on the part of the bureau. The more private interest groups lobby on the bureau's behalf, the fewer resources the bureau will need to devote to advocacy. This implies that even

when bureaus have already created rents and mobilized private enterprises to advocate for them, they still have incentives to enhance the value of those rents. By doing so they increase the private enterprise's willingness to pay through lobbying efforts to maintain the bureau.

However, this provokes the question: Why do the bureaus not just lobby politicians themselves instead of indirectly depending on private enterprises to do so? In these instances, indirect lobbying through private enterprises can be a lower cost alternative to direct lobbying. When an output of a bureau is hard to measure, it is more difficult for them to advocate for support from political sponsors in absence of direct measures to point to.[14] For instance, it might be easier for the U.S. Postal Service to campaign for budgets when they can use figures such as how much mail they handle, how fast they deliver, the costs associated with deliveries, etc. Or, the Department of Defense can campaign for more funds by pointing out the spending or military inventories of rival countries. However, a bureau like the National Park Service might have a harder time measuring their output of park management, making it more difficult to advocate for additional funding for maintaining more parks or improving the current management of parks. Therefore, pursuing methods of indirect support might be a lower cost alternative for these agencies than lobbying political sponsors directly. In the theory presented here, that method is creating rents for private enterprises. Indirect support can also be accomplished in other ways, such as through advertisement campaigns that garner support of the bureau's mission from the public. Agencies like The National Park Service or N.A.S.A. have many products and merchandise available that advertise their agency. Even campaigns such as Smokey Bear from the U.S. Forest Service, can be seen as an effective advertising campaign that garnered much support by the public for the agency's mission of sustaining forests.

Another way bureaus might benefit from creating rents is by aligning the metrics they use to evaluate how successful they were in achieving their mission with the incentives of private enterprises. Bureaucrats will choose the metrics that best signal the success of the bureau's mission so they have a greater chance of capturing resources from political sponsors (Peters, 2010, p. 217). If they can align these self-created metrics with the interest of private enterprises, then creating rents might be a way to secure funding. For instance, assume colleges can collect rents by getting their students to fill out FAFSA forms. If the Federal Student Aid (FSA) office uses the number of FAFSA applications they receive as a way of measuring how successful they are in achieving their mission, then the bureau will benefit by providing those rents from the FAFSA application to colleges. By doing so, the colleges have an interest in getting more of their students to fill out the FAFSA, thus increasing the number of FAFSAs filled out. The FSA office now has a metric to show the success

[14] Lindsay (1976) makes the differentiation between *measurable* and *unmeasurable* outputs, claiming that bureaucrats will produce the measurable outputs that align with the mission of the bureau, and then exploit the uncertainty in measuring unmeasurable outputs.

of the bureau, and this can be beneficial for their internal efforts to demonstrate success along the bureau's mandate as determined by the political sponsors.[15]

Referring back to Fig. 1, in the first stage of the cycle, political sponsors create legislation that outlines the function of a bureau. At stage two when the bureau is implementing regulations to carry out these functions, bureaucrats will try to both carry out its legislated function and do so in a way that is clear to political sponsors. A bureau that is tasked with the indirect provision of services, such as the Department of Education, will be forced to rely on the few measurable outputs at its disposal for its lobbying efforts once regulations are created. There is a strong incentive for the creation of regulations that will increase the value of rents stemming from existing legislation while simultaneously increasing the use of outputs that are easily measured.

When an existing output of a bureau is both measurable and valued by private entities, bureaucratic entrepreneurial action will be directed toward increasing the value of or access to that output. The benefits of doing so are twofold. First, the bureau will be stimulating demand for its services. When demand for bureau services is increased, the likelihood of private interest groups lobbying for the bureau increases. More political support for the bureau's activities, when strong enough, can then translate into an increased command over politically allocated resources. Second, because the output is measurable, the bureau has the ability to summarize progress toward relevant agency goals in a quantifiable manner. Both of these factors serve as mechanisms to lower the cost of lobbying effort for the bureau. Furthermore, these factors increase the probability of continued funding at stage four in the cycle described in Fig. 1.[16] The critical stages for our purposes are stages two and five, where bureaucrats must strategically create regulation in order to increase the command over politically allocated resources in stage four.

Bureaus have the ability to use the increased demand for their services, arising from the rents they create, as an arguing point for why the bureau should continue to exist (Peters, 2010, p. 212). How successful bureaus will be on this front is dependent on how political sponsors, and the constituencies of those politicians, view the rents, or services, that are being provided by the bureaus. If bureaus create rents for private enterprises, they can argue there are disruptive consequences for removing or cutting their programs that will negatively impact private individuals and themselves. Once these connections are established from the creation of rents, they "have enormous implications for the maintenance of established bureaucracy" (Warwick, 1975, p. 168). In other words, this will increase the costs for cutting the bureau's program, or the bureau itself, because private entities receiving the rents from the bureau will suffer losses. If these private entities make up a politician's constituency, or have significant public support such that a politician's constituency would

[15] As shown in column 1 of Tables 1 and 2, The Department of Education and the FSA office consistently reference the FAFSA as a performance indicator for department-wide goals.

[16] We can think of the alignment of measures of success and rents for private actors as a way that bureaus reduce the "noise" associated with signal of meeting the demands of political sponsors (Ting, 2001).

penalize their politicians for removing the bureau, then this can be an effective way of sustaining the resources allocated to the agency.

This does not completely exhaust all the ways public enterprises might benefit from this behavior, but provides a starting point for analysis. We find rent creation through entrepreneurial action, as discussed in Sect. 3.3, to be apparent in the case of the FSA office and the rents created by their policy changes surrounding the FAFSA application.

4 FAFSA, an example

Our example will show how the strategy of rent creation is used by bureaucrats to the benefit of the colleges that participate in the federal student aid programs, the bureaucrats themselves, and the politicians that support those programs. The theory applied to this case is supported by three key pieces of evidence. First is the fact that the FAFSA allows colleges to price discriminate at a lower cost (thus raising the net benefit) relative to not having access to the FAFSA. Second, the Department of Education, since the inception of the FAFSA, uses it as a tool to justify budget increases for its postsecondary office. The FAFSA used as a tool for budget justification is evident throughout 5 year strategic plans from both the Department of Education (ED) and the Federal Student Aid (FSA) office.[17] And third, private interest groups associated with colleges act to protect the existence of FAFSA policy and continued funding for the Department of Education.

4.1 Background

Throughout the history of the United States, financial aid for students pursuing postsecondary education has come from a variety of both private and public sources (Fuller, 2014). For the purposes of this paper, our focus will be on student financial aid from the federal government in the form of Title IV programs and the application used to administer those funds beginning in the early 1990s. In 1965, the Higher Education Act (HEA) was passed in the United States and established the contemporary federal student aid programs that fall under Title IV of the legislation.

Since being enacted, the HEA has been up for reauthorization ten times (Fuller, 2014, p. 54), each time being amended to include adjustments to funding and agreed upon changes to the programs within the legislation. Although the Department of Education (ED) has little control over the legislation itself, we can view the HEA as setting the constraints within which bureaucratic action takes place. Without reauthorization of the HEA, the offices in the ED that implement Title IV programs would no longer have the legal authority to carry out their functions. Demand for the services that the ED provides must be sustained at a level to make reauthorization possible. That is, there must be sufficient demand from political sponsors in the

[17] The FSA is a suboffice of the Office of the Under Secretary which reports to the Secretary of Education. For a more detailed look at the organizational features of the FSA see FSA Org Chart (2021).

form of votes for the HEA to be implemented each time it is up for reauthorization. Two reauthorization years in particular enhanced the ability of the offices that carry out federal student aid policy to justify their continued existence.

First, the reauthorization and amendments to the HEA in 1992. Among the various changes to the legislation, the ones of interest center around the implementation of a universal formula used to determine the student eligibility for federal student aid, as well as the creation of the Free Application for Federal Student Aid (FAFSA). Sections 475–477 of the HEA were amended such that eligibility for federal student aid would be determined using a formula for expected family contribution. The formula uses information on family income, wealth, and demographic characteristics (e.g. number of dependents, marriage status) to determine the expected amount of money that a family will be able to contribute to postsecondary education for a student (Higher Education Amendments of 1992, 1992). Section 483 of the HEA was amended such that the information necessary to determine Title IV program eligibility was collected using the FAFSA. Students would now be required to fill out the FAFSA in order to be considered for federal student aid. Prior to the creation of the FAFSA, participating colleges and universities were required to maintain their own means of collecting the necessary information to determine financial aid eligibility (Higher Education Act of 1965 1965, pp. 1234–1235). The creation of the FAFSA and the use of the expected family contribution formula, both created and funded by the federal government, eliminated that responsibility for colleges and universities. More importantly, colleges can access the data collected through the FAFSA without making any direct monetary payment. While the FAFSA arrangement does not imply there is no cost to colleges for obtaining and using the financial information captured by the FAFSA, it does imply that the cost of obtaining this information was lower relative to the previous arrangement.

The second reauthorization and amendments we will consider occurred in 1998. Section 484 of the legislation was amended to allow the ED to verify financial information, reported by families and students on the FAFSA, with the Internal Revenue Service (IRS). The IRS verification on the FAFSA was implemented as a means of enforcing the accurate reporting of information by students and families (Higher Education Amendments of 1998, 1998). In combination with the changes from the 1992 reauthorization, the changes in 1998 created a centralized system for the collection and monitoring of the financial information of students and families seeking federal aid for postsecondary education. These reauthorizations and the HEA legislation itself provide the framework within which the ED implements federal student aid policy. The bureau has rule making power that allows for bureaucrats to exercise discretion over the details that affect how student aid is used by colleges in practice. That discretion leaves room for entrepreneurial action as discussed in more detail below.

The FAFSA is intended to be a tool for the government and colleges to use family and student financial information to determine eligibility for aid. Information collected on the form is similar to what would be reported in a tax return. This includes the financial situation of the student and their parents (if applicable) including: adjusted gross income, income tax paid, education credits, household members, student dependency status, number of dependents in college, and high school

completion status, among other factors (Federal Register, 2019, pp. 24118–24121). The information is not only used to determine the expected family contribution based on the ED formula, but participating colleges also have access to this information for students who apply. With access to this information, colleges are then able to use it for purposes other than the disbursement of aid funds (Fillmore, 2015, p. 3). Information from the FAFSA becomes a tool that colleges can utilize to engage in price discrimination.

4.2 FAFSA as a tool for price discrimination

The practice of price discrimination among colleges is supported in the literature on a theoretical and empirical basis (Bishop & Colwell, 1991; Dynarski, 2002; Fillmore, 2015, 2016; Lawson & Zerkle, 2006; Tiffany & Ankrom, 1998; Waldfogel, 2015). This behavior has even been used as a textbook example of price discrimination in McKenzie and Tullock (2012) when they say "[i]ndeed, the spreading acceptance of price discrimination among colleges and universities helps explain... the dramatic increase in the average tuition at 4-year private colleges and universities during the last half century" (p. 204) and in Cowen and Tabarrok (2021, pp. 284–286) when they use colleges as an example of a perfect price-discriminating monopolist.

Before the FAFSA was created, (Bishop & Colwell, 1991) observe tuition costs rising in tandem with student financial aid. To explain this pattern, they argue that if colleges are characterized as profit maximizers who can price discriminate, then the motivating observation makes sense. The information provided on financial aid applications gives college administrators a better idea about the demand for educational services and, through price discrimination, an ability to transfer surplus from students to the college (Bishop and Colwell, 1991, pp. 6–8). Tiffany and Ankrom (1998) develop a model of colleges as price discriminating firms. The authors test this model using data from small private colleges in the United States over a 5-year period and present results consistent with the model's predictions. Fillmore (2015) finds evidence of colleges engaging in price discrimination and identifies the FAFSA as the key source of the information to make this possible. One characteristic of college admissions that allows colleges to price discriminate is the fact that there is no arbitrage opportunity for students: an admitted student has no ability to sell their spot at a college to another prospective student.

The information reported by students and families on the FAFSA provide the information necessary to price discriminate. But if colleges could price discriminate without the FAFSA, as (Bishop & Colwell, 1991) argue, why use the FAFSA instead of other methods of obtaining financial information? Because of the legislation behind the FAFSA, the information that can be accessed from it will be of both higher quality and lower cost than other sources (Fillmore, 2015, p. 4). The quality of the information is higher because reporting fraudulent information is monitored and enforced against by the ED with the help of the IRS (Fillmore, 2015, p. 4). The FAFSA is a lower cost source of financial information for two reasons in particular. First, as shown above, the amendments to the HEA make it the responsibility of

the ED to collect and distribute the FAFSA information. Colleges do not have to internalize the costs of setting up their own collection systems or pay directly for the services that are provided by the ED. Second, other sources of financial information, such as the College Scholarship Service (CSS) profile which is administered by College Board, have different eligibility requirements for participation and do not come with access to federal student aid funds. College Board will only accept non-profit colleges as members of the organization, thus constraining for-profit colleges. Eligibility for Title IV funds, on the other hand, is not contingent on non-profit status and grants access to federal student aid funds to for-profit colleges. As a result of being less costly to use and a higher quality product, the FAFSA as a source of information to engage in price discrimination is more widely used than options like the CSS profile.[18]

Using the higher quality product that is the FAFSA, the colleges will benefit through increases in revenue. Revenue increases are derived from the ability to tailor the net tuition price charged to a student to their particular financial situation, transferring surplus from the student to the college. Fillmore (2016) finds that, relative to a world where colleges do not have access to the information in the FAFSA, colleges are able to increase their revenue substantially through price discrimination. According to his estimates, 65% of the extra revenue raised through price discrimination accrues to colleges and universities while the remaining 35% is distributed to lower income students from higher income students. Those estimates suggest that there are substantial benefits from price discrimination made possible by the FAFSA. Furthermore, given the relatively low number of colleges that opt to use other means of collecting financial information, such as the CSS profile, supports the contention that the FAFSA allows for more effective price discrimination. In a world without the FAFSA, it is therefore likely that colleges and universities would not be able to facilitate the same increase in revenue through price discrimination. The increase in revenue is only made possible by granting a majority of students a discount on the tuition sticker-price, which seems to be the case as 86.5% of full-time undergraduate students receive some sort of financial aid (2015-16 National Postsecondary Student Aid Study, 2018, p. 6). Colleges are then able to capture revenue from students that they would not be able to if they were to charge a uniform price instead (Fillmore, 2016). Insofar as colleges value increases in revenue, the FAFSA is a source of rents for colleges.[19] It is in this sense that the Department of Education, in carrying out the legislation of the amended HEA, created rents for private and public enterprises.

[18] There are over 6,000 colleges that are eligible for Title IV funds Federal School Code List (2020) from the federal government (meaning they have access to FAFSA information), while just over 400 colleges participate in the use of the CSS profile CSS Profile Participating Institutions and Programs (2020).

[19] Note that colleges do not necessarily only value increases in revenue when considering which students to admit. Fillmore (2015) and Waldfogel (2015) both discuss how colleges will also seek to admit students based on other desirable characteristics, such as test scores or high school GPA, both of which can have reputational effects on colleges.

4.3 Policy changes to enhance rents

The HEA legislation and subsequent amendments laid the groundwork for the ED to implement the FAFSA as a tool for price discrimination. But, the legislation only provides a general directive for the ED, and it is up to the individuals within the department to make the FAFSA valuable. One of the recurring goals of the ED is to improve access to postsecondary education through federal student aid. Therefore, it is in the interest of the individuals who run the offices in charge of Title IV programs to make their services valuable in order to demonstrate progress towards the outlined goals to secure funding.

Demonstrating this progress is costly, requiring resources to engage with political sponsors, conduct the necessary research to validate claims of progress, and other strategies intended to satisfy political sponsors. But, political sponsors are not the only 'customers' that the bureaucrats have. The FSA office provides a valuable product, the FAFSA,[20] to participating colleges. Satisfying those customers by delivering a quality product will result in college interest groups demonstrating value for the office (through activities such as lobbying), thus stimulating demand for ED services. When this is the case, there is an incentive for bureaucrats to engage in entrepreneurial action.

Bureaucrats have the power to engage in negotiated rulemaking processes that involve specifying the rules surrounding the implementation of broad legislative directives (Kerwin & Furlong, 2011, pp. 2–5). If bureaucrats can adjust the rules that govern the federal student aid programs to make participation in these programs more valuable overall, then this can influence the demand for the department's services. When colleges derive value from participation in the federal student aid programs by using FAFSA as a price discrimination tool, they will have an incentive to protect these rents by engaging in political advocacy for the programs. The less costly it is for colleges to access FAFSA information, the more value is derived from the FAFSA in general, as well as the subsequent demand for federal student aid programs.

We have already noted that eligibility for federal student aid is not contingent on the non-profit status of a college. Public non-profit, private non-profit, and proprietary (i.e. for-profit) colleges can all be eligible for federal student aid; however, there are other ways in which the FSA office has adjusted regulations to increase the value derived from access to FAFSA information. Examples of these kinds of changes include making the application process easier for colleges Institutional Eligibility; Student Assistance General Provisions. Federal Work-Study Programs; and the (Federal Pell Grant Program, 2000), increasing the discretion that colleges have with respect to disbursement of aid funds (Federal Student Aid Programs, 2006), and allowing online college education programs to be eligible for Title IV funds (Federal Student Aid Programs, 2006).

[20] The FAFSA is not the only 'product' of value that the FSA office provides to colleges. There are, of course, benefits associated with receiving the federal student aid funding itself, but we are only concerned with the benefits derived from FAFSA for the purposes of this paper.

Each regulatory change can be expected to have increased the value of rents collected from the FAFSA by colleges and is the direct result of entrepreneurial bureaucratic action outside the context of the legislative process. First, making the application process easier for colleges lowers barriers to entry for access to FAFSA information. With more colleges, able to access this information, more benefits are derived from the use of FAFSA in the aggregate. Additionally, the department strives to improve and ensure the accuracy of this financial information.[21] Second, increasing the discretion of loan disbursements allows colleges to have more flexibility in how they carry out price discrimination. We can view this as relaxing the constraints on the behavior of colleges, thus increasing the possible actions they can pursue. For instance, increased discretion in loan disbursements can allow colleges to make financial aid packages more student-specific. Lastly, allowing online programs to be eligible for Title IV funds created more opportunities for more traditional colleges to venture into the online education space. Large colleges, such as Arizona State University, University of Florida, and University of Pennsylvania, offer full online degree programs now. This is not to say that this regulation was *the* cause of traditional schools creating online programs, only that the regulation played a role in the process, as it allows colleges to reach more students if they could offer federal financial aid in their tuition packages.

These three regulatory changes are not meant to be an exhaustive list of entrepreneurial action within the ED. Rather, they serve as an illustration of the kind of behavior that the FSA office can engage in to increase the value of their services as a means of further increasing their chances of successfully competing for budgetary resources. Furthermore, it should be noted that the entrepreneurial action described here does not constitute innovation. Prior to the existence of the FAFSA, colleges were able to price discriminate using other financial aid forms. What makes the regulatory changes entrepreneurial is the fact that they lowered the cost of engaging in price discrimination while also benefiting the ED. The dynamics of this process are not limited to the regulatory changes themselves. We also need to understand how colleges or organizations that represent colleges actively participate in the process. Participation from the relevant interests can then increase the benefits for bureaucrats within the ED.

4.4 Benefits from rent creation

The FSA office has little to do with the actual disbursement and administration of aid funds. Making FAFSA more attractive for schools can be an effective strategy in increasing the resources allocated to those offices. This means more staff, higher salaries, and other perks that come with being a more important department office. It is in this sense that the incentives of both the ED and colleges are aligned such that they can engage in exchange indirectly. The ED provides rents associated with the FAFSA and the colleges and other interest groups provide advocacy for the ED to

[21] For instances of the Department of Education mentioning this in their strategic plans, see Table 1 column 3.

their political sponsors who can then increase or maintain funding. Two of the more indirect benefits of supplying rents to private organizations, such as universities, for the ED are that the FAFSA becomes an observable measure that can be used as a performance indicator on department goals and the price effects of price discrimination can serve as a justification for the continued funding of aid programs. The FSA office often states that they will measure progress using "the largest and most visible outcome... the percent of high school seniors who successfully file a FAFSA as a first step in furthering their education beyond the secondary level" and will also "measure the persistence rate among first-time filing aid recipients" (Federal Student Aid Strategic Plan FY 2015–2019 2015, p. 32). Because the output of the financial aid agency within the ED is rather amorphous, bureaucrats have the incentive to optimize over observable outputs that can be used to show success along predetermined goals such as increasing access to postsecondary education. This can be observed in the many instances of the FAFSA or FAFSA-related outcomes being used in both ED and FSA strategic plans to justify future budgets. For instance, take the following quote from the Federal Student Aid Strategic Plan FY 2011–2015 (2010):

> The number of FAFSAS applications is expected to grow by almost 80 percent due to increased enrollment. At the same time, the FSA's budget and staffing levels are projected to undergo more modest increases, of 75 percent and 35 percent, respectively. These numbers illustrate the magnitude of the challenges faced by the FSA in the coming years. (p. 10)

From 1998 until the present day, the ED and the FSA office have put out several 5-year strategic plans which lay out the goals and recent performance over those goals and are used to justify budget increases. The relevant instances can be found in Tables 1 and 2. One of the recurring goals in these plans is the increased access to postsecondary education, which includes sub-goals regarding financial aid and its targeting. Over the past two decades, the number of FAFSA applications submitted is used as a performance measure along these goals, as evident throughout the strategic plans for both the ED and FSA (see column 1 in Tables 1 and 2). It is clear that the number of FAFSA applications is a focal statistic for the Department of Education, as they often highlight external factors which are beyond the departments control and could work against this performance measure. For example, take the following passage from the U.S. Department of Education Strategic Plan for Fiscal Years 2014–2018 (2014):

> Historically, as unemployment rates decline, the number of young adults immediately pursuing a postsecondary education decreases. This, in turn, potentially decreases FAFSA completion rates. In addition, other economic factors contributed to the large and likely unsustainable increases in FAFSA submissions for several cycles through 2012. With a still-improving economy, completion rates have yet to stabilize and may affect overall FAFSA completion rates. To address these external factors, the Department and FSA will continue to focus efforts on increasing FAFSA accessibility and ease of use. (p. 12)

Although the ED does not have direct control over the number of FAFSA applications, there are tools at the bureaucrat's disposal that can enhance the incentives of relevant actors that would lead to an increase in those measures. The bureau pursues two types of strategies to increase the number of FAFSAs filled out. First, the FSA emphasizes throughout its strategic plans the use of the online application for the FAFSA that enhances ease of use in order to increase FAFSA numbers. Beyond making it easier for applicants to submit the FAFSA (see column 2 in Tables 1 and 2), the FSA also engages in efforts to actively reach out to the public and encourage applying for federal student aid (see column 4 in Tables 1 and 2). For instance, the "But First, FAFSA" campaign which contributed to "2.9 million additional site visits and more than 380,000 completed FAFSA" was marked as a major milestone and accomplishment in the FSA office's most recent report (Federal Student Aid Strategic Plan FY 2020–2024 2020, p. 35). We also see this in the use of regulation that increases the scope of the Title IV programs by relaxing the requirements for approval among universities and in the relaxation of compliance restrictions for the administration of federal student aid. Both factors can lead to an increase in FAFSA applications, which bureaucrats can then point to as a successful outcome of the program. These measures have proven to be successful as Fig. 2 shows the number of FAFSA applications doubling from from 1996 until 2014.

Second, the bureau provides the necessary information needed to allow colleges and universities to price discriminate. Choosing the number of FAFSA applications filled out as a performance indicator does not induce a strategic response from interests groups to advocate on the bureaus behalf. However, because the FAFSA allows colleges and universities to price discriminate, those schools have an incentive to get more of their students, continuing and potential, to fill out the FAFSA.

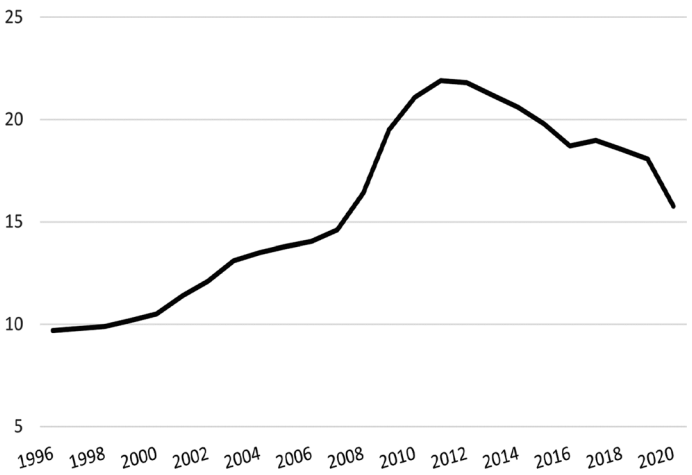

Fig. 2 Number of FAFSA applications (in millions) processed from 1996-2020. Sources used to compile this data are as follows: 1996-2004 data is taken from Annual Performance Report Fiscal Year 2004 (2004); 2005 data from *Federal Student Aid Strategic Plan FY 2011–2015* (2010, p. 10); 2006-2020 from FAFSA Volume Reports (n.d.)

Table 1 U.S. department of education 5 year strategic plans from 1997 to 2018

Strategic plan	(1) FAFSA as a performance indicator	(2) Making FAFSA easier to fill out	(3) Improving and assuring of accurate information	(4) Increase public awareness	(5) Rising tuition as external factor	(6) Outside groups as advisory sources
U.S. Department of Education Strategic Plan, 1998–2002 (1997)	✓ (39)	✓ (39)	✓ (39)			
U.S. Department of Education Strategic Plan 2002–2007 (2002)			✓ (78)		✓ (65)	✓ (64)
U.S. Department of Education Strategic Plan For Fiscal Years 2007–2012 (2007)		✓ (30)	✓ (30)		✓ (29)	✓ (40)
U.S. Department of Education Strategic Plan for Fiscal Years 2011–2014 (2012)	✓ (12)				✓ (13-14)	
U.S. Department of Education Strategic Plan for Fiscal Years 2014–2018 (2014)	✓ (11)	✓ (11, 12)		✓ (13)	✓ (13)	
U.S. Department of Education Strategic Plan for Fiscal Years 2018–2022 (2018)				✓ (15, 19)		✓ (19, 20)

This table reflects instances in which the six column headers are mentioned in the reports with the parenthetical numbers representing the corresponding page numbers to each reference. The strategic plans are cited in the References under the same titles as shown in the "Strategic Plan" column

Table 2 The federal student aid office 5 year strategic plans from 2004 to 2020

Strategic plan	(1) FAFSA as a performance indicator	(2) Making FAFSA easier to fill out	(3) Improving and assuring of accurate information	(4) Increase public awareness	(5) Rising tuition as external factor	(6) Outside groups as advisory sources
Federal Student Aid Strategic Plan FY 2004–2008 (2004)	✓ (20)	✓ (16)				
Federal Student Aid Strategic Plan FY 2006–2010 (2005)	✓ (15)	✓ (14)				
Federal Student Aid Strategic Plan FY 2011–2015 (2010)	✓ (10, 24)	✓ (15, 16)			✓ (5)	
Federal Student Aid Strategic Plan FY 2012–2016 (2011)	✓ (13, 24, 26)	✓ (17)		✓ (17)	✓ (6)	
Federal Student Aid Strategic Plan FY 2015–2019 (2015)	✓ (32, 34)			✓ (21)	✓ (8-10)	✓ (21)
Federal Student Aid Strategic Plan FY 2020–2024 (2020)	✓ (35, 48-49, 65)	✓ (35, 44)		✓ (35, 44-45)		

This table reflects instances in which the six column headers are mentioned in the reports with the parenthetical numbers representing the corresponding page numbers. The strategic plans are cited in the references under the same titles as shown in the "Strategic Plan" column

This benefits the bureau by boosting their chosen performance indicator. The university induces more of their students to fill out the FAFSA by raising the sticker price of tuition as a ceiling on admission. This price is then lowered on a individual basis using the information in the FAFSA. By requiring the necessary information for price discrimination on the FAFSA, the bureau elicits a strategic response by the schools who increase their sticker prices. This encourages more students to fill out the FAFSA and benefits the bureau when they choose to use the number of completed FAFSA applications as a performance indicator.

Bureaucrats also need to show that their current budget is not enough or risk losing future budget increases. This is where the connection between the universities as well as other interest groups and the bureau is stronger. The ED benefits from rising tuition costs because the department can point to this issue as an "external circumstance" which can only be helped through more appropriations of student aid. This is repeatedly done in the ED's strategic plans, which can be seen in column 5 in Tables 1 and 2. And while bureaucrats do not necessarily directly benefit from increases in federal student aid disbursements, the larger the budget the more staff and other discretionary resources will be necessary to administer the funds and process the applications. That is, the increased prevalence of federal student aid as made possible through the FAFSA make it possible for the ED to stimulate demand for its own services. To the extent that politicians respond to the demands of their constituents, higher sticker tuition prices will lead to increased demand for federal student aid by the public, leading to increased budgets for the ED.

What we see is an indirect, mutually-beneficial exchange with three different parties. Bureaucrats benefit by increasing the scale of their operations, and thus increasing their position and salaries. Universities benefit through the ability to more effectively price discriminate and receive guaranteed tuition payments through the federal government. Politicians benefit through the increased chance of receiving votes for increasing federal financial aid for college and being viewed as a pro-education candidate by the public. Bureaucratic lobbying will also be reinforced by lobbying from interest groups that benefit from financial aid policy.

If the rents from FAFSA are sufficiently valuable, as we argue they are, then we should expect to observe the relevant interests mobilizing resources to protect these rents. This need not take the form of direct contributions to politicians. Advocacy can be in a research capacity or in participating in the political process through testimony and collaboration with governmental agencies like the ED. For instance, in creating their strategic plans, the Department of Education received comments from "education advocacy groups" centered around the subject of "the student financial aid application process" (U.S. Department of Education Strategic Plan For Fiscal Years 2007–2012 2007, p. 40). Groups such as these are often used as an advisory source for the Department of Education and Federal Student Aid office as evidenced by column 6 of Tables 1 and 2.

One organization that advocates for the colleges (or more precisely, a interest group within colleges) in this respect is the National Association of Student Financial Aid Administrators (NASFAA). The members of NASFAA have a stake in the continuation of federal student aid policy including the use of the FAFSA given their status as a bureau within colleges with an interest in growing (Paldam, 2015, pp.

150–151). The organization's mission is centered on access to student financial aid, and members are active participants in federal student aid policy. Writing in a journal concerned with student financial aid research that is sponsored by NASFAA, Coval (2015, pp. 88–90) details the ways in which the organization influences policy. Through direct interaction with politicians, issuing recommendations to Congress, and working with other interest group organizations, NASFAA is able to influence the political support for the continuation of federal student aid programs.

NASFAA and other organizations such as the National Association of Independent Colleges and Universities[22] (NAICU) also spend money to directly lobby the ED and Congress on issues related to student financial aid. Over the last 20 years these two organizations have spent hundreds of thousands of dollars to this end, as shown in Fig. 3. The average level of lobbying expenditures during this period was around $430 thousand per year. For most of the years from 2002 to 2009—the time period when we would expect private interests to increase their lobbying activity in response to the regulations discussed in Sect. 4.3—lobbying expenditures were well above this average. This evidence suggests that there is a positive relationship between the changes in regulation and the political activities of private interests in this case. While it is difficult to disentangle how much of this activity is due to the FAFSA itself, it is likely that it plays a role given the timing and issues being lobbied for. The reports where the expenditure figures are taken from show that during the years that lobbying activity is at its height, many of the issues listed are directly related to federal student aid policy.

In more recent years, NASFAA and NAICU have lobbied Congress and the ED on FAFSA simplification and related issues according to lobbying reports from 2017 to 2020. These activities are in line with efforts within the ED as shown in column 2 of Tables 1 and 2. The economic interests of the NASFAA and the NAICU are of financial aid officers and private colleges, not students. Absent the value these interests derive from the FAFSA there is little reason to believe that they would spend the resources necessary to politically advocate for it. The advocacy from organizations like NASFAA and NAICU ultimately makes it less costly for the ED to justify the continuation of federal student aid. Politicians that interest groups work with will be more aware of the apparent demand for federal student aid, as well as more receptive to budget requests that push for increases in the funding for these programs. This is a part of the payoff that comes from entrepreneurial policy changes for the FSA office.

The use of regulatory changes by bureaucrats that directly affect private use of their output, advocacy from NASFAA, and the use of the FAFSA as a measurement of success in the ED are all consistent with the theory proposed in Sect. 3. What we are explaining is the use of those regulatory changes by bureaucrats as one of the many tools at their disposal to compete for resources. Other public enterprises that share similar characteristics with the ED might be expected to also engage in this strategy. It is possible that other agencies who have little direct responsibility in terms of services rendered, similar to the FSA office, will also find it useful to

[22] From the organization's website it is the "only national organization solely focused on representing private, nonprofit higher education on public policy issues in Washington D.C." National Association of Independent Colleges and Universities (2016).

innovate using policy to make their services more useful for private or other public enterprises. Whenever this strategy is expected to be the most beneficial, as evaluated by bureaucrats, we can expect it will be the chosen course of action among the set of possible strategies.

5 Conclusion

Simply acknowledging the existence of competition in the public sphere does little to reveal the process of political competition and how it may differ from market competition. Many of the discussions of bureaucratic competition are taxonomies of hypothetical ways in which competition manifests in public enterprises. Consistent with the framework of political competition advanced by Wagner (2011) and Wagner and Yazigi (2014), we set forth an attempt to enrich the explanatory power of one particular competitive strategy that bureaucrats engage in. Our explanation sheds light on the process by which resources are allocated through political mechanisms. Rather than assuming complete power of the legislature over bureaucratic budgets, we instead characterize bureaucrats as active rational agents that can influence the outcomes they are interested in.

Once bureaucrats are considered rational actors operating within a competitive environment, entrepreneurial action is a possibility. One of the ways in which entrepreneurial action will manifest in the public sphere is through policy changes that create or enhance rents. These policy changes will be pursued in order to gain in one way or another, whether that be pecuniary in the form of increased salary or in kind. How common the creation of rents by bureaus is a topic that warrants further exploration. The potential consequence of rent creation by bureaus in competitive environments poses an important implication to an often advocated approach to bureaucracy, competition among bureaus. Given some of the desirable outcomes emerging from competitive markets, some scholars advocate for similar competition in bureaucracy, hoping that competition will lead to greater levels of efficiency (Bendor, 1985; Conybeare, 1984, p. 495, McKenzie & Tullock, 2012, p. 378, Niskanen, 1968, p. 304, Niskanen, 1979). However, competition in the public sphere does not necessarily lead to allocative efficiency (Vining & Boardman, 1992). As (Holcombe & Price, 1978) argue, having bureaucracy more rather than less monopolistic could yield benefits. We would expect such a change to decrease the amount of rent creation on the part of the bureau.

The qualities that competition selects for is dependent upon the institutional structure in which competition is taking place (Wagner, 2016, p. 113). In market competition, successful companies are the ones who can most satisfy their customers, which entails producing the most demanded good or service at the lowest price. In bureaucratic competition, successful bureaus will be those bureaus who can garner the most budgetary support from their political sponsors. One way of gaining support, as presented in this analysis, is by creating rents for private entities. These rents usually benefit private entities at the expense of consumers by either limiting market competition, or, such as in the case of FAFSA, allowing for price discrimination

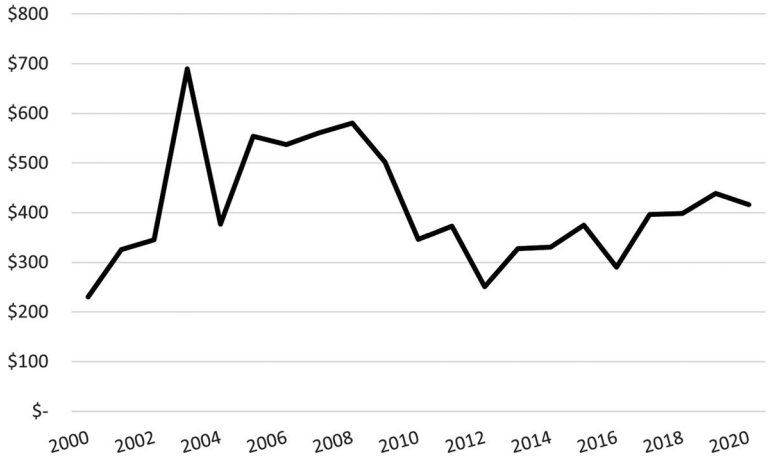

Fig. 3 NASFAA and NAICU lobbying expenditures (thousands of constant 2012 dollars), 2000–2020. Source: Calculations made using lobbying reports accessed from OpenSecrets.org Lobbying reports filed By National Assn of Independent Colleges/Universities (n.d.); Lobbying reports filed By Natl Assn Of Student Financial Aid Admin (n.d.). Lobbying expenditures are only counted in the total if the associated report shows that one or more of the issues lobbied for include postsecondary education spending and/or federal student aid policy. This strategy is used to identify lobbying expenditures most likely to have an impact on the offices within the ED involved in postsecondary education

which transfers consumer surplus to producers. This paper shows that competition among bureaucracies can incentivize rent creation and the associated waste of rent seeking.

Another possible example of the theoretical phenomenon discussed in our paper is the creation of rents by the Department of Defense (DOD) for universities. During the late 1970s into the 1980s, DOD funding of university research was increasing while universities were struggling to find other sources of research funding. University interest groups such as the Association of American Universities as well as representatives from universities lobbied Congress to continue this funding (Kistiakowsky, 1989). Fitting into the broader technological goals of the DOD at the time, the universities did receive funding for research despite initial hesitance from Congress. A full exploration of this case is beyond the scope of this paper, but the basic facts tell a similar story to the case of the FAFSA and suggest a further implication. The political response to lobbying by universities and organizations representing universities appears to have had an effect on research funding to the benefit of both the universities and the DOD. Therefore, the creation of rents (in this case funding to conduct research) induced lobbying in support of the bureau and contributed to increases in its budget.

While the focus of our analysis is on the creation of rents and subsequent behavior by the recipients of those rents, the theory does not imply that federal student aid policy necessarily results in net costs to society. Rather, the costs associated with rent creation would merely need to be accounted for if one was to perform a full cost-benefit analysis of these policies. Despite those costs, price discrimination may also be associated with an increase in benefits as it allows for output to increase

(Fillmore, 2016). For instance, in the case of perfect price discrimination, there exists no dead-weight loss from the absence of mutually beneficial trades as all consumers whose willingness to pay is greater than the cost of supply are able to consume the good or service (Cowen & Tabarrok, 2021, pp. 284–286). Although there may not be any consumer surplus accruing to the consumer in this case, total surplus has increased, eliminating all dead-weight-loss associated with monopoly pricing without price discrimination. Additionally, if the social benefit is greater than the private benefit of that individual attending college, then society benefits in this way as well from price discrimination.

One could also argue that despite the creation of rents and subsequent transfer of wealth from university customers to the universities themselves, government subsidization solves a market failure. If it is the case that there are positive externalities to higher education, then in the absence of government subsidies the market will produce higher education at a level less than the social optimum. Federal student aid administered with the help of the FAFSA, in theory, moves society closer to the social optimum. But the increase in wealth resulting from the subsidy also incentivizes interested parties to compete over their respective slice of the bigger pie. It is through this competition that dead weight losses are generated by actors, such as bureaucrats, interest groups, and politicians. Estimating the magnitudes of both the increase in wealth from the subsidy and the dead weight loss from rent seeking in this case is beyond the scope of our paper and perhaps not possible to measure (DiLorenzo, 1988b).[23] We hold though that any analysis of federal student aid policy that does not try to account for the dead weight loss from rent seeking, as stimulated by bureaucratic rent creation, necessarily overestimates the potential benefits of higher education subsidies.

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[23] See Hillman and Ursprung (2016) for further discussion on the efficiency of rent-seeking and rent creation.

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