

# Follow the Money: The Evolution and Inefficiency of Federal Funding for Higher Education

Discussion  
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The analysis and conclusions set forth are those of the discussant and do not indicate concurrence by other members of the research staff or the Board of Governors.

# Paper Overview

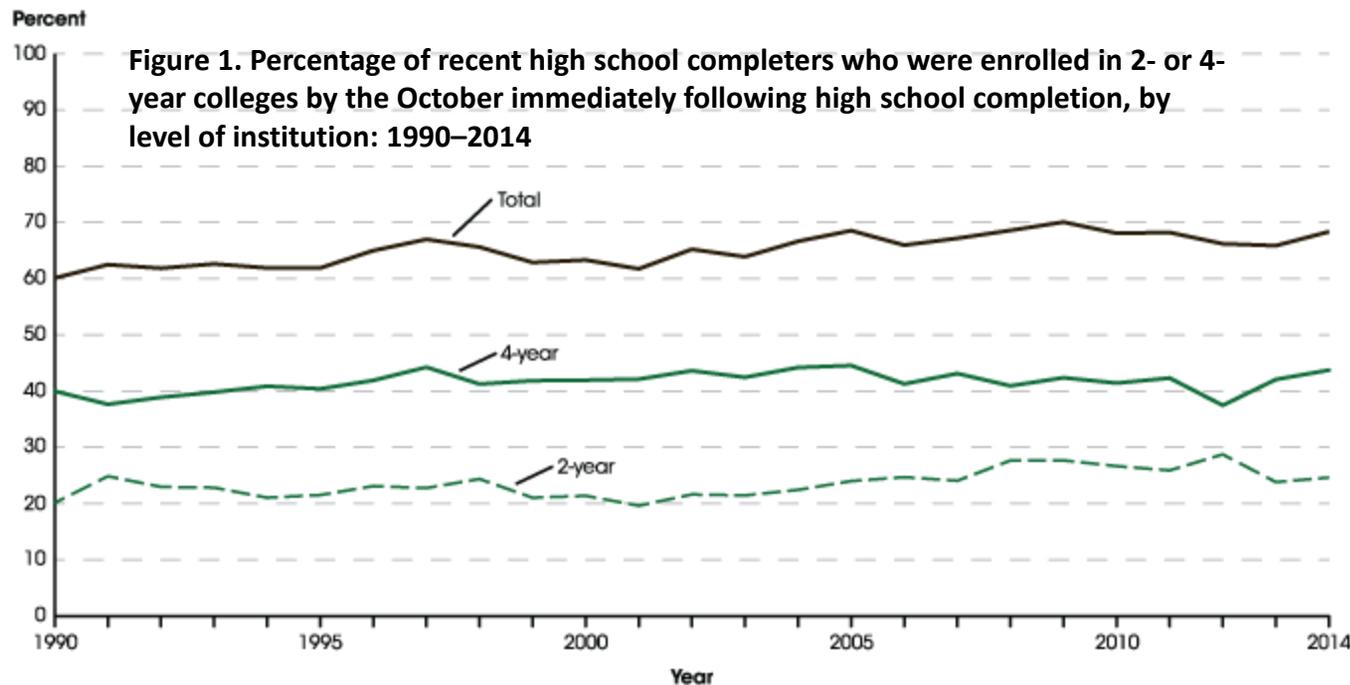
- Offer a retrospective on the role the Federal Government has played in funding higher education and how we got here
- Evaluate current policy proposals
  - House Budget Committee
  - President Obama
- Offer own proposals
  - Redirect Pell money towards free community college
  - Reform incentives for ed that operate through the tax code
  - Modify IDR to have tax-exempt forgiveness (w/ savings from Pell)

# General Comments (1 of 3)

- Very helpful to understand the institutional history here
  - Arguably more useful than trying to research effectiveness of some marginal and often-ad hoc policy built out of so many others
- That said, any overhaul of a long-standing system needs to be VERY CAREFUL about the interrelatedness of policies
  - Proposals in paper are more careful about where funding is going to come from but less careful about equilibrium effects of proposed changes
  - Even if political propose ad hoc reform it's up to us as researchers to be thoughtful about incentives and consequences
- Who is the audience of this paper?
  - It's very long!!
  - Arguments often longwinded and nonlinearly structured

# General Comments (2 of 3)

- Language should be softened, esp. about complex ideas
  - “Recently college enrollment has been declining”



- “Recent increase in Pell Grants has not had a noticeable effect on enrollment by lower income individuals”

# General Comments (3 of 3)

- Be explicit about ideas backed (or refuted) by evidence and those that are more speculative
  - House Budget Plan
    - Financial aid simplification (e.g., Bettinger et al., 2012)
    - MOOCs (e.g., Goodman, Melkers, and Pallais, 2016)
  - Obama Plan
    - Performance standards for financial aid (Scott-Clayton and Schudde, 2016)
    - Free community college (Deming and Dynarski 2010, Castleman and Long 2013, Fack and Grenet 2015)
      - Pay for itself by “reducing the rate of student loan defaults” on p 81?

	Attendance		Originations	
	AY 2001	AY 2011	AY 2001	AY 2011
public two year	37%	34%	4%	8%
public four-year	39%	37%	44%	37%
private nonprofit	20%	18%	41%	33%
for-profit	4%	11%	12%	23%
<b>Total</b>	<b>15,538,515</b>	<b>21,458,054</b>	<b>\$46.07B</b>	<b>\$111.8B</b>

Note: Fall Enrollment head counts include students who are full-time or part-time and undergraduate, graduate, or non-degree granting programs. Spending adjusted for inflation to 2014 dollars. Originations include Perkins, subsidized and unsubsidized Stafford, Grad PLUS, and Parent PLUS loans.

Source: The College Board, *Trends in College Pricing* and *Trends in Student Aid*

# Incentives through Tax Code

- Keep employer-provided assistance credits because “encourages employers to invest in their employees which benefits the economy”
  - How do we know these are more efficient than other ed tax credits, which is asserted in text? Where is the market failure?
  - Specifically that this isn’t causing overinvestment in (potentially unhelpful) training programs by employers or partnerships between employers and for-profits where they split rents?
  - These are empirical questions!
- Exclusion for veterans training
  - Claim it is “inequitable” to repeal this – on what grounds?
  - Why should this run through the tax code rather than DoD?
    - May understate total benefits available to veterans
    - Adds layers of complexity to full bundle of military incentives if not all administered within same agency, especially since DoEd has own programs as well!

# IDR Reform

- There is still much to know about how these programs work and interact
  - BUT it seems unlikely that moral hazard is a huge concern given that the repayment life of loans under these programs is 20-25 years
- Some of your suggestions already exist in some form
  - Reverting to traditional plan if income is higher (payments aren't supposed to exceed maximum payment under standard plan and students are expected to re-enroll each year)
  - Punitive measures for schools with high default also exist (in theory!)
- Eliminating Pell to pay for loan reform is usually the opposite of what we tend to think of as efficient – subsidies generally a better way to incentivize investment unless there are known credit constraints; loans come with backend trickiness – need sound evidence here

**Thank you!**