

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

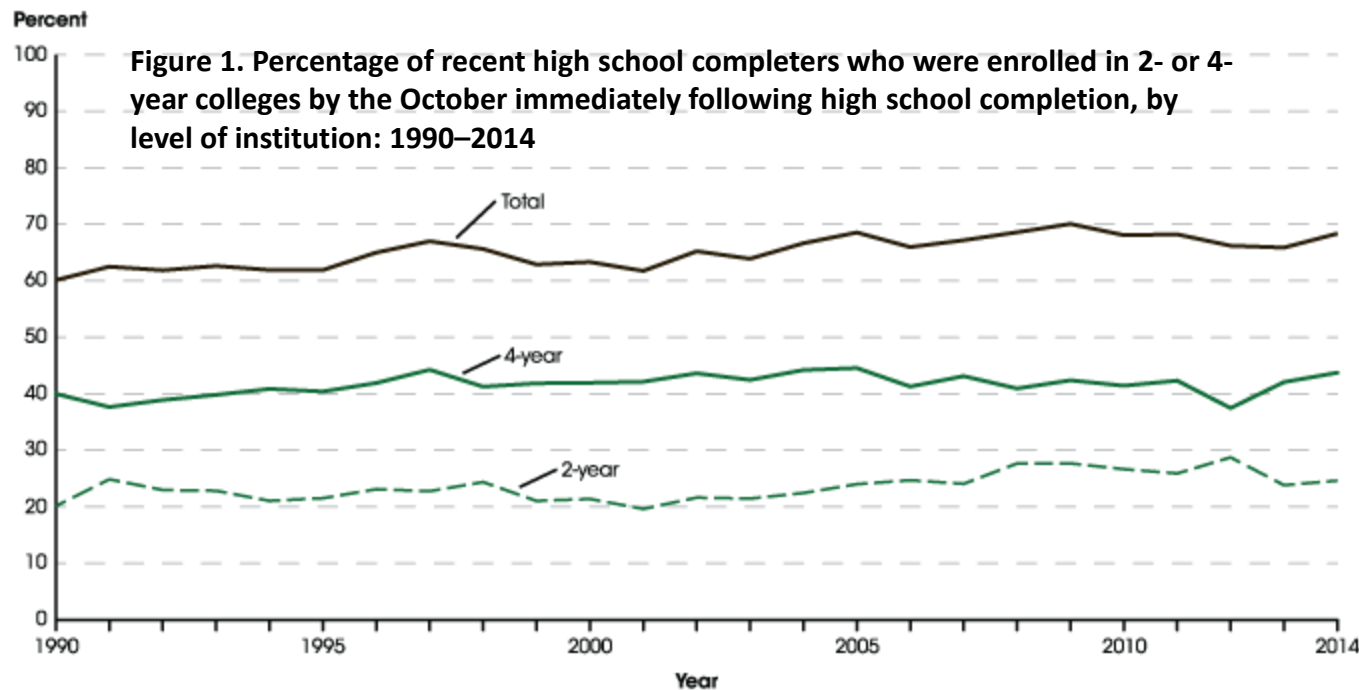
- Offer a retrospective on the role the Federal Government has played in funding higher education and how we got here
- Evaluate current policy proposals
 - House Budget Committee
 - President Obama
- Offer own proposals
 - Redirect Pell money towards free community college
 - Reform incentives for ed 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%
Total	15,538,515	21,458,054	\$46.07B	\$111.8B

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!