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THE ROLE OF EDUCATION IN PROMOTING OPPORTUNITY AND ECONOMIC GROWTH

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PANEL ONE:

Moderator:

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PANEL TWO:

Moderator:

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PROCEEDINGS

MR. FURMAN: So I want to welcome everyone to the Hamilton's Project fifth event. Today we'll be discussing the role of education in promoting opportunity and economic growth. My name is Jason Furman and I've had the privilege of being the director of The Hamilton Project since January.

The Hamilton Project launched nearly a year ago, and it's dedicated to promoting America's promise of opportunity, prosperity, and growth. Perhaps nothing is more important to advancing these goals than education, and that's why at the very first event The Hamilton Project held at its launch, we released two papers on education; one, a proposal on teacher quality and enhancing teacher quality, and a second, a proposal on summer opportunity scholarships.

Today we'll be discussing three new proposals, two of them recently released by The Hamilton Project, and one of them forthcoming in the near future, which cover early education and higher education. So with that, we will have launched discussion papers, which represent the views of their authors and are their opportunity to put forward policy proposals that they believe would advance the goals that the Project has of shared growth, to stimulate discussion and debate about these ideas, and hopefully, on this first panel, we'll have a lot of discussion and a lot of debate about some of the specific ideas from the authors.

The Hamilton Project also recently released a strategy paper on education synthesizing a lot of the evidence and suggesting a new direction forward, and it was co-written by our policy director, Jason Bordoff, who's over there, Joshua Bendor, and myself.

I want to take a few moments to briefly outline, you know, what we see as a promising strategy to move forward on education, a strategy that's grounded in evidence, that's grounded in what works, and understanding of what doesn't work, and a strategy that also recognizes the limitations we have in a world of limited resources. It's really important to put your dollars where you get the most out of them, and where they have the biggest returns, and also to ensure that any money you are spending already, you're spending as wisely as possible and getting as much out of it as possible. Education offers both an opportunity and a challenge for the shared growth of The Hamilton Project, and so many others are dedicated to promoting.

The opportunity is the tremendous contribution it can make to economic growth. If you look back at the 20th century, about one quarter of the economic growth that we had in this country was the result of education. The challenge we face is twofold. Number one, in the 20th century we actually had it pretty easy.

The way we expanded educational opportunity was mostly by adding more years of school. In 1940, barely any Americans were college graduates, and about a quarter of Americans graduated from high school. By the end of the century, the majority of people were high school graduates, and a quarter of people were college graduates. So we added more and more years of schooling.

If we look forward to the 21st century, that option isn't going to be the main margin on which we make progress in the area of education and the area of human capital. We're going to have to get much more out of the years of schooling that we do, much higher quality, much more relevant education.

The second challenge is one that's been a really important part of the economic debate in this country recently, and that's the challenge of inequality. The gap between the pay of people who have skills and people who don't is one, but only one, of the important sources of the rise in inequality we've seen over the last 30 years. There's been an enormous increase in the reward and what you get if you have a college education, if you have a high level of skills.

Now, some have looked to this fact, and appeared to promote an economic strategy that says the only thing you need to do about inequality is invest in education, and if you do that, the rest of the problem will take care of itself. That approach is completely insufficient, it doesn't recognize there's a lot of other important causes of inequality, for example, CEO's and teachers have seen their pay diverge enormously; they both have similar levels of education. It's not education that's the difference there. But you don't want to overreact to those, and some have gone to the other extreme, and basically dismissed education as a way of changing the subject from inequality, and something, you know, that we need to do things that go much more directly at the problem and not this.

I think that loses the fact that education -- it may take ten years, 15 years, from Head Start, the benefits, you're not really going to see for 15, 20 years. But those benefits are going to be very large, they can make a very tangible contribution to addressing inequality, and they can make it in the best possible way by lifting everyone up.

So what do we want to do, what do we mean by education? Everyone's in favor of it, it's hardly something you can object to, and the key to developing a specific strategy, to figure out what works and what doesn't work, and to recognize, in particular, that we're living in a world of limited resources where we have to make tough choices.

What we are suggesting is that you think about the three levels of education in somewhat different ways. So to start with early education, preschool has enormously high rewards, both for people and just measured, you know, with green eye shades in dollars and cents. If you look at one experiment, Abecedarian, the graduates were less than half as likely to become teen parents, and more than twice as likely to go to college.

Moreover, a lot of the skill differences and ability differences we see in our society really open up by age seven or eight, and preventing those from emerging in the first place, is not only much better, but frankly, it's much more cost effective than trying to address those educational disparities later on in elementary school, in high school, or in college.

Today only 50 percent of eligible three and four year olds are enrolled in Head Start. The government spends only 16 billion dollars a year on early education. Clearly, this is an area where a much more intensive, a much more comprehensive, and a much more widely available approach would have enormous dividends, and there's no way to do that without making potentially substantial new investments in early education. One way in which we could consider doing that we'll hear about from Belle Sawhill, in a moment.

Second, K-12; K-12 is also very important, but we have to recognize that we're spending 483 billion dollars at the state, local, and federal level on it right now. The biggest gains we're going to get from K-12 aren't going to come from putting, you know, adding 10 or 20 billion dollars to that total, they're going to come from the types of reforms that make sure that we're using that existing money better.

That's not to say more money wouldn't be welcome. It would be especially welcome if it's used in order to pave the way for those reforms and make those reforms work. But the biggest gains you're going to get are from using that money better, and to that end, we propose a threefold approach. Number one, more measurements and accountability and doing it in an appropriate way; number two, the appropriate use of market forces, for example, attracting more teachers to teaching, and adjusting salary scales so, for example, you get paid more to work in underserved areas and poor communities, and finally, we still have substantial limitations in our knowledge, some more experimentation, and in terms of figuring out what works and what doesn't work would have really high rewards.

Finally, higher education; we hear a lot about the cost of college, and at 65 to $130,000 for a college degree they're quite high. But a college degree also pays $440,000 on average, so it's a tremendous investment that somebody can make.

The key is to ensure that more people who can benefit from this investment are in a position to make it, and right now, we have a lot of different programs, we have Pell Grants, we have several different things on the tax side, and they're somewhat confusing, they're somewhat duplicative, and what's important is both to ensure that people have money to smooth them over between the time when they pay that money for college and the time when they get the reward, and that they know that money's really there for them so that they can go to college.

There's a tremendous amount you can do just taking those existing programs and consolidating them or improving them, and we're going to hear, in just a moment, two different approaches to doing that; one on the grant side and one in terms of approving college loans.

So, in summary, I think there's a tremendous amount we can do in this country, in the area of education. There's a tremendous amount that we can all agree to do in the area of education, and hopefully today, we'll learn a little bit more about what works and what doesn't work in that area.

So, and I'd like to do the first panel so we'll hear first from Belle Sawhill, who's a senior fellow in the Economics Studies Program at Brookings, and the co-director of the Center on Children and Families, and it's a paper she co-wrote with Jens Ludwig on early education. Second, we'll hear from Sue Dynarski, who's an Associate Professor of Public Policy at Harvard University, where she studies and teaches the economics of education and tax policy, and this is a paper that was co-written by Judith Scott-Clayton, who is somewhere -- who is right there.

The third paper is forthcoming from The Hamilton Project, and Tom Kane will be presenting it. He is a Professor of education and economics at the Harvard Graduate School of Education and faculty director of the new research center, partnering with school districts and states to analyze innovative policies, and then finally commenting on these three proposals and helping to get us started with the discussion and the debate is Michael Danenberg, who is the director of the Education Policy Program at the New America Foundation. He's a recognized national expert on "No Child Left Behind," the federal education budget, college admissions, and student loan policy; so, Belle?

MS. SAWHILL: Can I use this one too?

THE SPEAKER: Sure.

MS. SAWHILL: Thank you, Jason, and good morning everybody. As Jason just noted, this paper is a joint paper between myself and Jens Ludwig, and Jens was scheduled to present it this morning, but he couldn't be here, so I'm filling in at the last minute, and happy to do so, because I -- even though I consider Jens did the bulk of the work on this paper, I happen to like this paper.

I think that Alexander Hamilton would have liked little children, as well, so I like to think if he were here, he would be interested in this discussion, as well. Let's start with the problem that we want to address, and that is that because children don't pick their parents, or for that matter, their genetic endowments, the kind of early environment that they're exposed to is much like a lottery. Some of us are lucky and some of us are not, in terms of the kind of family into which we're born.

But society obviously has a chance to level the playing field, at least somewhat. These disparities and what children know, and how they behave, appear at a very early age, in fact, well before they enter school. We have very good data, that's relatively recent, that shows this in quite a dramatic fashion.

These disparities show up as early as age three or four, sometimes even earlier, although they are difficult to measure before then, and they persist through the school years. So some of these gaps are almost as large at the end of high school as they were when children entered school.

So what's the solution? The obvious solution is to provide some form of early childhood education, especially, I think to children from more disadvantaged backgrounds. The Head Start and the Early Head Start Programs do this. The major problem with Head Start is it doesn't start early enough and it's of uneven quality, and the major problem with Early Head Start is that it covers only a very small fraction of the children who presumably need it.

In the mean time, there is a large and rather rigorous literature showing that high quality early education makes a big difference not just in getting children ready for school, but in producing all kinds of other good outcomes. Jason mentioned some of them. The children are more likely to graduate from high school, they are less likely to be held back in grade or need special education, they earn more, they have lower rates of crime, lower rates of teenage pregnancy, and so forth. So the gains are just not cognitive gains, they are also in many other domains that we care about that help people to be successful in later life.

Much has been made about the fact that some of the IQ gains fade after a few years, but these other benefits of early childhood education do not fade. So what is our proposal? First of all, we do target the disadvantaged, we do start very early, basically at birth, not at age three or four, we propose a very high quality program, which makes it quite expensive, and our proposal is patterned after a very successful model program called Abecedarian.

But because a major criticism of these, and other model programs, has been that when you take them to scale, the results are somewhat disappointing, and also because we're not entirely certain that we need all of the expensive components of a model program to be successful.

We propose to phase the program in gradually and to evaluate it as it is being implemented so that if the results are not as good as expected, we have immediate feedback about that and we can either change the program or curb the expansion of it.

As I mentioned, one of the criticisms of early childhood education has been that the results fade in a few years, and many people think that's because we don't do enough to follow up in the early elementary school years. So another component of Success by Ten, is to do much more in grades one through four, as well, and here again, our suggestion is based on a model program, in this case, one called Success for All, which has been rigorously evaluated and found to have some major effects on achievement.

So we take title one dollars, the existing federal program that puts dollars out to school districts to be used for compensatory education, and we suggest that they be redirected towards these more successful efforts. Success for All is a reading oriented program, and it has had very big effects, compared to many other educational interventions.

Now, the bad news is that the costs of a program like this are not inconsequential. In the early years of the phase up, this would cost about six billion dollars per year. If we went to a full fledged program that looks something like Abecedarian, with very highly trained teachers, small ratios of students to teachers, and the like, it could be as much as 40 billion dollars per year at the end of the process. But the benefits are great, almost surely, this proposal passes a benefit cost test, and furthermore, we've done some research at Brookings more recently to look at the effects on long term economic growth, and shown that because you're increasing the educational achievement of this cohort of children, the economic growth effects are also significant, and you get a revenue reflow from that economic growth, that more than pays for the program just in terms of enhanced revenue over the long term.

You don't get those effects right away, so you would have to be a very patient policy maker to go with this idea. But the bottom line here is that this is both intended to improve economic growth and improve the way it is shared. So it very much achieves, it seems to me, the objectives of The Hamilton Project for shared growth, and we end with a quote from someone who's work I greatly respect, Jim Heckman, I'm glad he's here today, and we look forward, Jim, to hearing more from you later in the program. So thank you very much.

MR. FURMAN: Susan Dynarski.

MS. DYNARSKI: Thank you. As Jason mentioned, this is joint work with Judy Scott-Clayton, who's a doctoral candidate at the Kennedy School with me, at Harvard. So let's see if I can -- okay. I'm at the other end of the educational pipeline here. I'm focusing on college. Obviously, preparation in preschool and in grammar school makes a real difference as to who's going to make it this far.

What I'm going to be focusing on is the cost of college. I want to start with some motivating statistics, and I think these statistics are quite motivating. There are large gaps in who goes to college in the U.S. If you look at recent data and you focus on people in their mid 20's, about two thirds of white non-Hispanics are going to college at some point in their lives, 50 percent of black non-Hispanics, 30 percent of Hispanics. So right there is a substantial gap. If you look at B.A. completion, the numbers get really dispiriting.

Okay, so about a third of white non-Hispanics, but just eight percent of young Hispanics with a B.A. If you consider what the demographic trends in our country are, what the largest growing groups are, this doesn't look good for the future education of our work force. All right. We are going to have fewer skills going forward in our work force if we don't change things, rather than more. I can't seem to get the order -- okay. Can I get a hand on the sequencing? This is not like my laptop, sorry.

THE SPEAKER: Okay; what are you looking for?

MS. DYNARSKI: I want to go forward.

THE SPEAKER: That's not your second slide?

MS. DYNARSKI: No, it's not.

THE SPEAKER: Okay.

MS. DYNARSKI: Okay. There's a gremlin in my presentation. Okay, I'll just go with the flow. All right. I'm being told how to order this. So we put a lot of money into financial aid for college, our premiere, our flagship programs, or the Pell Grant, and the Stafford Loan Programs.

The idea of these programs is to get more people into college. All right. So I want you to think about our target populations, think about people whose parents have not gone to college, whose parents don't speak English, whose parents maybe didn't graduate high school. This is how we deliver aid to those folks, so this is the hurdle people have to make it through if they want to get need based aid in the United States. So, the Pell Grant, for example, is money that goes to people at the bottom of the income distribution, almost all of it flows to people with incomes below $40,000 a year.

This is the free application for federal student aid, and it's required for applying for any federal student aid in the country. So here is what the first two pages look like, and there is the next two pages, and there's some more, and some of you may have seen this recently if you have children who are starting in college right now, and there's some more.

So this is -- the complexity in the financial aid form, the federal form actually rivals that of the tax code. So if you think about people who have incomes of $40,000 or below, about 80, 90 percent of them are filling out 1040EZ or 1040A, right, the simplified tax code tax forms. So those -- here we've shown you what the complexity in the FAFSA looks like compared to those, so consider somebody who is filling out the 1040EZ for their federal taxes, that's one page long and 37 questions. The FAFSA, by contrast, is five pages long with 127 questions. So the Department of Education requires about four times as many questions and five times as many pages to elicit information about this family's finances that the IRS does. Okay, so this is a case in which the IRS is being comparatively efficient in gathering this critical information.

The official estimative time to prepare for the full length 1040, which is what the FAFSA looks like at this point, is 16 hours. Somehow, the Department of Education has found some folks who can fill out the FAFSA in an hour. I'm not sure where they found those speed demons, but I certainly don't know how to do that.

Consider the people who are not going to college right now, okay, so 50 percent of young people, low income young people, do not have a parent who went to college, so there's no learning by doing. Their parents did not fill out the FAFSA. People in their family did not fill out the FAFSA, so the whole family is learning it by themselves, so that's a challenge for that population. Two thirds of them don't have the Internet at home. The Department of Education has really been pushing towards having people applying for the Internet, that's been the focus of their efforts to make the process more user-friendly. Most people who are on the margin of going to college don't have the option of filling out this form at home.

Think about taking all of you tax forms and all of your pay slips and your parents, for that matter, and dragging them to school or the library to get them to fill out the FAFSA. That's what people would have to go through if they don't have the Internet at home, and 13 percent don't speak English at home at all. All right.

So while the FAFSA itself does get translated into English, all of the supporting websites, the supporting books, all of the pundits out there talking about the process, they're not translating their information to other languages.

So we would argue that this process is daunting for anybody, you know, we were constantly being approached by college professors complaining about how long it takes to fill out the financial aid forms, but consider how much more daunting it would be for someone who has this profile. Okay; the main cost, however, is not filling out 127 questions and five pages, the main cost of complexity in the financial aid process is that information arrives too late about financial aid.

So the process, as it now stands, is that January 1st is your first chance to fill out a FAFSA if you're going to college the following September, and then the Department of Education processes the FAFSA, sends their relevant information onto the colleges, the government does not, at any point, tell students and their families how much aid they're going to get. That's left to the colleges themselves. So in March or April, around now, starting around now, colleges send out aid award letters, and that's the first information that families and kids get about what their Pell Grant and their Stafford Loan is going to look like. That information does not arrive before that point.

We would argue that this is far too late, if people are really sensitive to price, if people are really worried about paying for college, you can't wait until they've already applied to college and gotten in, and they're getting a letter from their colleges to tell them about how much college is going to cost. We compare this to an auto dealer who has a very generous rebate program, trying to encourage sales. But the way he runs it is that once you've signed on the dotted line and agreed to buy the car, then he gives you the rebate form, the forms -- you've got $2,000 off this car you just bought.

Think about the people who look at the sticker price and walked away from the dealership because they just thought it was too unaffordable. That's the situation we have right now, in financial aid, people look at the sticker price for college and they figure they can't handle it. They won't prepare for college, they won't take a college prep course, they won't go out for the SAT, the PSAT, all of those steps along the way that are necessary. We can't wait until March and April to tell somebody college is within your reach. That's way too late.

So what we wanted to see was whether we could simplify the process of applying for aid substantially maintaining and targeting of the Pell Grant, but get the information out earlier and make the process less daunting to the people that we're trying to get into college. So what we did was, we threw out 90 percent of the questions on the FAFSA. We just said pretend those questions didn't exist, zero them out, and see what the Pell Grant eligibility would look like if we then distributed aid just based on the income of the parents or in the case of independent students, the students themselves, and family structure, married parent family, number of kids in the family, and this graph, which surprised even us, we thought there was a lot of low hanging fruit, but not this much, in formula.

The light bars represent the current distribution of the Pell Grant by income, and as you can see, it is highly progressive; it's concentrated at the bottom of the income distribution. The dark bars are how much the Pell Grant would change if we threw out 90 percent of the questions on the FAFSA and only ask people what is your income, what is your household structure, and assigned aid that way.

The main thing to see on this picture is that the dark bars are really, really tiny compared to the light bars. There's not much going on here. You can throw away almost all of the questions on the FAFSA without changing the distribution of the Pell Grant, and the reason is that you don't need to know -- if somebody's got a family of four and earns $20,000 a year, they're getting the maximum Pell Grant. You don't need to know that they also get the EITC and food stamps to determine that fact, and similarly, if somebody's making $80,000 a year, they're not going to get a Pell Grant, and you don't need to know about their 401k distributions in order to make that formulation. All right.

So basically, income and family structure are sufficient statistics for figuring out somebody's grant eligibility. So our proposal then, based on that research, is to combine the Pell and the other main federal source of funding for higher education, the education tax credits, the hope and lifetime learning credits, into a single program, and there would be no separate aid application. Instead, people would just check off on their tax form that they were planning to go to college.

IRS would then forward income data to the Department of Education, and the Department of Education would use that to determine grant eligibility and deliver grants to the schools. This could all happen using data from -- so, for example, if a child was going or an adult was going to college this September, you could use income tax data from 2004, and you could tell somebody their exact eligibility a good year in advance.

In our synthesized set ups, so remember those multiple pages of the FAFSA that I showed you, this is what the aid grid would look like. So this look up table would tell you how much you could get for college. You could put this on a post card; you could put this on a poster that you could hang in high school hallways. All right. This is easily communicated, and you could tell a high school freshman's family, take a look at this, and based on this grid, you have a good sense of how much you can get for college.

These numbers roughly represent the sum of the Pell and the tax credits for these various income categories. We would suggest a modest increase in spending so that no one is harmed in the transition. Anytime you simplify something and hold it revenue neutral, some people gain, some people lose. It's not very popular, politically, to have people who are losing, in terms of the grant, so instead, we would increase spending by about two or three billion so that nobody would be harmed by it.

The light bars, again, are the current distribution of the spending and the darker bars would be the proposed distribution of spending, highly concentrated at the bottom of the income distribution, big boosts for people up to about $35,000, and what you see at the upper end is, essentially, what we're currently spending on the education tax credits.

The benefits of our proposal, first, it eliminates mountains of paperwork, which are daunting for the people we care about most, people that we want to get into college, who wouldn't go otherwise if they were frightened off by the price.

We calculate that that represents about 100 million hours a year of filling out the FAFSA for families. About ten million people a year fill out the FAFSA, at ten hours, 100 million; that's about 55,000 full-time jobs spent on filling out that form, and we think that time possibly could be spent more profitably, perhaps on reading to children, or getting them ready for college, coaching them on their studies. Then there are the millions of dollars that the colleges and the government spend on processing those forms, so that would be eliminated, as well.

The key, however, is that it delivers information early, right, it allows us to notify people very early about their aid eligibility. Think about the notifications you get annually from the Social Security Administration that estimate your retirement benefits. Based on somebody's tax information, we could be proactively notifying them, here is how much aid you will be eligible for college, here's how much money your kids could get for college years in advance.

It delivers aid when tuition is due. Right now the tax credits are delivered to families up to 16 months after you actually incur the tuition expense. That's not a good time to give somebody the money if they can't – don't have enough money to get into college. And if you want to help out a scraped family who can't afford college, it doesn't make sense to tell them, we'll pay for it now and we'll give you a refund another 16 months, so we had the money delivered when you were paying tuition. And it lends a hand to those families that are really struggling, trying their best to help pay for college.

Right now, the current aid formula penalizes student work considerably. Each additional dollar earned by a student can reduce aid by 35 cents, and it doesn't penalize savings by families.

We would hope that the simplified program, if we look to research on previous programs that are simple, easy to understand, we would project that this program could increase the college enrollment rate by about five to seven percentage points. Thank you.

MR. FURMAN: We'll hear from Tom Kane.

MR. KANE: In the 1970's, when the financial aid system, the basic architecture for the financial aid system was set out, the relative roles of the federal and the state governments were pretty well specified. So state governments would heavily subsidize the public institutions that they owned and operated and keep tuition low for all students. The federal government would provide means tested grant programs to essentially keep out-of-pocket costs for low income students close to zero, at least if they attended one of those public institutions where 75 or 80 percent of college enrollment attended anyway.

And then third, the federal government provided loan programs for middle income families to attend public institutions or even private institutions. But just as the relationships, family relationships between men and women, husbands and wives changed a lot since the 1970's, so has the relationship between the federal and state governments in financing higher education been under strain because of changes in the economy.

So there are a number of things going on that have made this old arrangement hard to sustain. First, college enrollments have increased, particularly for middle and higher income families. Second, state budgets have been under a lot of pressure because of growing Medicaid obligations. So this old deal was hard to sustain, so states have had to raise tuition as the public institutions that they continue to own and operate, and the federal government has a hard time keeping pace by raising the Pell Grant to keep out-of-pocket costs close to zero for low income families.

Now, as you expect when relationships start to break down, there’s a lot of recriminations going around. And we’ve seen that in terms of increased anxiety among parents about their ability to pay for college, we see it here in D.C., where policy advocates for the Pell Grant program complain that the federal government is no longer fulfilling its role, it’s betrayed its role in ensuring access to higher education.

It’s true, it has, but the question is, was that relationship sustainable to begin with, and my guess is going forward, it’s going to be increasingly difficult, because all those pressures that were pushing tuition up are not going to be going away.

So on the one hand, we have a fairly, you know, cheap source of dollars to help families pay for college that’s in the federal loan programs. OMB estimates a cost about 15 cents on the dollar for each dollar of aid provided. And on the other hand, we have the Pell Grant program which costs more than a dollar for each dollar of aid provided, because we also have administrative costs. And the challenge is finding something in between these two extremes to help fill the gaps that have been opened up as tuitions have increased and the Pell Grant program has failed to keep up.

And the trick is to provide enough subsidy, to ensure that low income families make worthwhile investments, even if they may be risk averse, but not to provide so much subsidy that you end up wasting tax payer's dollars or have students waste their time by languishing in college, so it's a difficult balance to reach.

Now, there are three problems I think with the way that our loan programs, you might imagine, if we could figure out a way to create a different version of a loan program that would be somewhere in between these two, so include a little bit more subsidy than the current program, but less subsidy than the Pell Grant program to fill these gaps.

There are three problems with the student loan programs as they stand. First, under the standard repayment plan, payments stay the same in nominal value under our current loan programs, and you pay them off typically over ten years. Now, that doesn't match very well at all the earnings profiles of recent college graduates.

So in the first -- between the age of 25 and 40, the typical college graduates mean earnings double over that period. It's a very -- probably the steepest point in peoples age profile of earnings growth. And yet, the real payments under the loan programs currently decline, because even though they're fixed in nominal terms, they're declining in real terms as inflation.

So even though your income is twice as high when you're 40 as when you're 25, you're paying less in your student loan payment. So we need to make sure that the profile of student loan payments just more closely match this predictable growth in earnings.

But second, all of us know about the rise in the pay-off to school, and Jason alluded to it earlier. But what has been less clear, or is less often talked about, is that the riskiness of that investment has also increased, because the dispersion of earnings among college graduates and among high school graduates has also increased as a result of the, you know, fluidity and uncertainty of the U.S. labor market.

And so -- but unfortunately, under our current loan programs, there's very little insurance built into the programs to ensure people against unexpected or unpredicted declines in their incomes, and so we need to be able to figure out a way to set up the loan programs to sort of cap the percentage of peoples incomes that they're paying under the loan programs.

The third problem with the loan programs is that the rate that is paid to private banks to originate and service these loans is not set by markets, it's set by Congress and simply written into the law. And so it's easy to know that that rate is not too low, because 3,500 banks are eager to participate in the program.

It’s harder to know if that rate is too high without a market test. And so one proposal that will be in my policy proposal for solving these problems would be to auction off access to the student loan programs and to use the savings that you generate by having banks bid to participate in the programs to help pay for the subsidies under income contingency. So the goal is in the end to try to be able to offer a simple deal to parents and students who may be anxious about their ability to pay for college, where one could say, look, we’ll provide you with loans to pay for the cost of college, and the nice thing about loans is, we’re preserving the family and the student’s incentive to look for bargains, to only pay for the level of schooling that they deem to be worthwhile for them, but in return, to try to encourage people who might be risk averse, who might be nervous about their ability to pay off those loans later, we could offer the simple promise that you won’t pay more than 15 percent of your income and you won’t be paying off these loans for more than 15 years in return.

And maybe we'll need to experiment with that to try to figure out what's the right term of the loan to relieve parents anxiety, but that would be the idea, to look for something in between the current loan programs and the Pell Grant program to provide liquidity to families who need to pay their college bills, but not to have too little or too much subsidy per dollar.

MR. FURMAN: Thank you, Tom. We'll begin with some commentary discussion on this and probing questions from Michael Danenberg.

MR. DANENBERG: Thank you very much, Jason. I read these three papers, you only have two, because Professor Kane did not turn in his assignment on time and got an extension. But I was able to get an early draft which I peer reviewed some time ago and it's still in development.

And I was having difficulty trying to pull these three areas together all the way from early education to higher education. And what I came back to is sort of what they have in common is what they're missing. And don't get me wrong, these are very, very good papers and I'll speak to the strengths of each of them. But what they're missing is, I think, the examination of culture and culture's influence on education, educational achievement, both young children, as well as older students, including college students.

Maybe it's my New America Foundation hat, but the democrats tend to look at programs and financing when it comes to education, and I used to work for Senator Kennedy, and republicans tend to, and conservatives tend to look at these cultural issues, and that's all we need, and really what we need is kind of a blend of both.

And so I'm going to ask the panel about these cultural issues. But let me start with Belle, because I love "Success by Ten" and I applaud the paper, and I think there are two key strengths I want to point out in particular; one is identifying Abecedarian as the sort of Cadillac program, it's 16,000 a pop for each kid, we're talking about five kids, that's $80,000, that's per kid, so it's a big price tag.

But what you rightly do, and I think a lot in the early education community don't do, is pay attention to the question of fade out. I think that a lot in the early education community have been reluctant to address that issue of fade out in the elementary school years and beyond, because they're worried that it's going to be used to attack early education. So I think you're doing the right thing in looking at both ends of the spectrum and in phasing out to test out the plan. But what I'm struck by is this cultural issue, because one of Abecedarian's strengths in preschool and the other programs is that it includes home visits and other outreach to families to encourage families to engage in sort of practices that get kids to value learning.

But as kids get older, families start to matter less and peers start to matter more and other cultural influences start to matter more. And so my question to you is, how can we I guess get kids to care more about education and about learning outside the strictures of formal education?

And for that matter, even within the school, how do we at school cultures -- how do we create school culture? Because what your paper does is, sort of takes this pre-fab model, Success for All, which does get good evaluations, although most of the evaluations for Success for All have had conflicts.

There's been concerns about Success for All participants either being contracted out by Success for All or Success for All people involved. I like Success for All, I think it's a good program, but there have been these conflicts which her paper rightly acknowledges.

But we don't need to necessarily have a pre-fab program popped onto an elementary school. In fact, Success for All requires I think 80 percent of all teachers approve of Success for All before it's implemented. So there's this buy-in process. You can't just pop on a pre-fab program into a school, you have to have a school culture, people committed. And in order to get people committed, the kind of people who put in long hours, give principals all kinds of autonomy and so forth, you have to pay them well.

And you have this massive program of $40 billion for zero to five, and then you say, well, we can just continue doing this with our existing K-12 spending, which as we know, is in many cases inadequate and horribly unequal.

So my question is to you, how do we improve these cultural influences on kids as they get older, both inside the school, as well as regular elementary school, as well as outside the school when it comes to home life and peer influences?

MS. SAWHILL: It's an interesting question. I agree with you that you have to worry about both, you know, not just about reading skills and other educational outcomes that we all focus on, but also on motivation, and love of learning, and discipline, self-control.

I think one of the things that the research is showing now is how different the home environment of children from different socio-economic levels are. I mean the data on the extent to which parents read to their children, the data on vocabularies of these children when they get to school, the data on how often they've ever been taken to a museum, or the number of hours they spend watching television, whatever it is, there are huge differences between children in middle and more advantaged families versus those in poorer families.

So the whole idea here is to expose children, not just to traditional learning materials, but to the kind of environment and teachers who will instill in them those habits that help middle class children do well in school.

So I do think that this very early intervention is very important on exactly the dimension that you're talking about. There's been so much talk and so much focus on IQ games, but as I try to suggest, and as the paper says in more detail, the benefits that you get from these very early interventions had as much to do with behavior and socio emotional kinds of outcomes as they do with cognitive and achievement games.

On the early elementary school issue and what you call a pre-fab approach, you know, when you call it a pre-fab approach, everybody says yuck, you know, that sounds terrible, but I would argue, even though I realize this is controversial in education circles, that these more directed pre-fab programs, if you want to call them that, have had a lot more success and can be taken to scale a lot more easily than a program that says to the teacher, you know, do what you'd like, we need open classrooms, we need education that's tailored to the individual child. All of that is wonderful in an environment where parents and children are already advantaged. I'm not sure you can go to scale with them in elementary schools more generally. One more point which I didn't make in my presentation, I'm getting a little more time in here now, I think that the, although the price tag seems large, and we hope to, through experimentation, figure out whether some of the expensive components are really necessary, do you really need that to start that early, do you really need to have teachers who are making the same salaries as elementary school teachers, which our teachers do, maybe you do, maybe you don't.

But the large price tag, when you think about has there been any other educational intervention that you can tell me about that's been carefully and rigorously evaluated, that has produced such large gains in terms of just graduation from high school, let me know.

MR. DANENBERG: Well, let me respond and then turn to Susan. First of all, I'm a big fan of heavy investment in early education, I want to spend the money. And to be fair to Belle and her co-author, they suggest an early education program, zero to five, that's targeted on poor kids, and then states would come in if they want and add additional resources to move up the income scale.

MS. SAWHILL: Right.

MR. DANENBERG: And there's a sort of throw away line in there which I thought deserves more discussion, which is, as you move up the income scale and have more kids come in, you're going to increase the socio economic diversity, of course, of the program, and also improve on peer influence. And, frankly, we have Judy here from Georgetown University; Bill Gormally at Georgetown has done a study of the Oklahoma preschool program, which is one of two universal preschool programs in the country state-wide, Oklahoma and Georgia, which is much less expensive than the Abecedarian program is, had produced good gains.

I do have to respond for the Success for All business and the pre-fab program, because they come back to 80 percent -- 85 percent of teachers have to vote to (inaudible) Success for All.

MS. SAWHILL: That's actually not true any longer. That used to be the case, but it's changed now, according to the, what's his name, the leader of the program.

MR. DANENBERG: Bob Slavin.

MS. SAWHILL: Bob Slavin, yeah.

MR. DANENBERG: I would submit, nevertheless, it's personnel that's vastly more important than any individual program when it comes to the K-12 education. How do you get the best teachers, the best personnel, the best prepared people into the neediest schools is a challenge for us. But let me --

MS. SAWHILL: I wouldn't, nor would Jens ever argue that this is the only thing we should be doing, so you know, we should obviously state that.

MR. DANENBERG: I agree, fair enough, don't get me wrong, I'm supportive. I'm also supportive of Susan Dynarski's paper, which I think is very good. And she does an important thing, which is discuss the difference between access and affordability, which is a distinction I think lost in financial aid circles, excuse me, lay financial circles as opposed to the financial aid experts.

And she's right that much of our current financial aid system is directed toward affordability. There's this tremendous timing problem. She's proposed putting these two systems together of tax and grant aid. And at one time she was talking about -- earlier I think there was an aversion where you talked about creating kind of a super tax benefit, now you're sort of talking about a super grant which I think is better because it's a tighter fit with that grant money actually going to education. Tax relief may not go to education; it could go to a flat screen TV.

But, again, I'm coming back to the culture issue, because it's -- and I worked for Kennedy, I was hard core on student financial aid, I still am, we run a blog called Higher Ed Watch we beat up on the banks, Tom, almost every day when it comes to student ways.

But it's not just financial aid when it comes to college access; there are other issues in terms of outreach to kids, academic preparation in high school. And you, yourself, mentioned in your speech up here, sticker shock. It's not enough that we have kids know that this is how much grant pay they're going to have. If they think higher education costs $40,000 a year, as it does at Harvard, when most kids pay vastly less. So how do you propose that we get at this cultural issue of kids thinking that college isn't for them or that they just can't afford it even with 4,000?

MS. DYNARSKI: I agree that funding is not the only part of the story. So K-12 preparation and high school preparation are critical. Low income kids in particular, non-white kids, Hispanic kids are less likely to take a college prep course. They have lower grades, they have lower test scores.

One point that makes us think that funding does make a difference, however, is that even if you look among those kids who perform well on tests, there are large income gaps in which of those go to college. So if you look at the top third of test takers, you'll find that 95 percent of the rich kids are going on to college, but as many as a quarter of the poor kids are not going to college, even conditioning on well they've done in high school.

So even kids who are working hard and preparing, we're failing them at the transition to college. Part of that I think could be money. And part what's going on is that high income high schools are organized around getting kids into college, and lower income inner city schools are not. So you were talking about peer effects, you know, basically I think what goes on in the higher income schools is that kids don't have to think about going to college, they would have to actively rebel to not go to college, their parents would kill them if they did not go to college.

So the schools are scheduling SAT pre for them, they're automatically putting them into a college prep curriculum, they're scheduling them for the SAT, they're organizing the recommendations.

All of these things would have to be done proactively by a young person in a low income inner city school, and that's asking a lot of an 18 year old. So I think it's not just culture, it's the organization of schools themselves. We'd like to take a piece of that out by making at least the funding part of it automatic.

I agree that we need to deliver information about not only grants, but the cost of college. People, both low income and high income children are misinformed about the cost of college. Tom has shown this in some of this work with Chris Avery. They surveyed kids in low income schools and high income schools and they were all wrong about the cost of college.

But the key difference was that the high income kids didn't care, they were just optimistic that it was going to get figured out, it was going to get taken care of, they would be able to go to college. The low income kids were pessimistic. So the information seems to make a difference for the lower income kids. They actually need to know that college is affordable. So what we would propose is that when we push this information out about grants, we also push out information about costs. So just as we send out something saying, you know, here's what you're eligible for based on your income in terms of a grant, it also say, and here's what community college tuition and fees are in your state, so people will not be thinking $40,000 a year, but they'd be thinking $1,000 a year, which is what community college costs in many states.

MR. DANENBERG: That works particularly well particularly for low income kids and particularly for kids who are going to public college and universities which are 75 percent of all post-secondary students, community colleges or state universities. Do you have an issue with private institutions, like Harvard, which I love to beat up on, because it only has six percent of its student body are Pell Grant recipients, and the median family income is $150,000 a year at Harvard University.

Because it's very possible to put -- tell (inaudible) kids what their grant aid will be based on your proposal and what public college costs are going to be, because there isn't much discounting at public institutions, there isn't much institutional aid. But at private institutions, there's enormous institutional aid, and the private institutions have been kind of reluctant to let the government get into their business of, I guess their packaging of financial aid. So what do we do with respect to signaling to kids that Harvard University doesn't really cost $40,000 a year if you're low income, and so maybe more than six percent of kids, Pell Grant recipients will go there?

MS. DYNARSKI: We are focused in our proposal on getting more kids into college, all right, and that's not a kid who's going to Harvard. So there is no child out there, I would venture -- I shouldn't say child, there is no young person out there who is trying to decide between going to Harvard and pumping gas. They are not deciding between going to Harvard and being a used car salesman. They're deciding between the local community college and not going to college.

If they're thinking about Harvard, they're thinking about Harvard and maybe their local flagship, right. So that's about college choice. And I think that the federal government needs to focus its resources and its thinking on the person who might not go to college and think in terms of making access possible for them.

The colleges and universities, we are not proposing that they use our look up table in giving out their grant aid. So the Harvard's, the Yale's, the Stanford's, the elite institutions that charge high prices and give out lots of grant aid will continue to use something like the CSS profile.

This is a form as complicated as the FAFSA they can use to give out their aid. So they'll continue to have complicated aid application programs. What I'd like to see is that the community colleges, the state universities go with a simplified approach that fits their needs as opposed to using an approach that essentially is built around the needs of the Harvard's.

MR. DANENBERG: Let me turn to Tom, and I'll be one question probably because you didn't have a paper, Tom. I don't know how long your extension goes. I want to become a PhD student for Tom Kane, it's a long time. He is right on the student loan program, and I love the idea of auctions; it's like the commercial says for Lendingtree.com, you know, when banks compete, you win. It's a way to keep our -- for tax payers to save a lot of money and generate -- turn that into financial aid.

And I like very much that you talk about the student mobility function of financial aid and the social risk insurance function of income contingent repayment.

My question goes to culture again with you, which is, 50 percent of kids who start a four year institution are not getting a four year degree within six years of their initial enrollment. Two-thirds of students who graduate from post-secondary institutions, according to the National Assessment of Adult Literacy, cannot read and compare and contrast two newspapers editorials.

So kids are not graduating from school, or they're graduating from school without the skills they need to get good paying jobs. It seems that this is a problem for income contingent repayment, because they're going to either have high debt and bad jobs to pay off that debt, meaning that the tax payer is going to have to pay more, or they're going to graduate with poor skills, with low jobs, and again, you're going to have the tax payer footing the bill. And last, but not least, in terms of the tax payer not having to assume too much of the burden in terms of income contingent repayment, there's what my fiancé calls the slacker issue.

I love income contingent repayment, but she says to me, what about the kid who graduates from college, who decides they want to sit home and work part-time and realize that the feds are going to be picking up their student loan payments, so what do you do about these three quality and culture elements are concerns.

MR. KANE: Why don't I just start with the last one? I mean that is clearly the issue with -- income contingent repayment is like adding a few percentage points to your tax rate, so it's just like tax in the sense that it discourages work. The question is, how much work are you going to discourage with a few more percentage points on the tax rate?

You know, I'm not sure. I mean, clearly, you wouldn't want it based on the individual's salary; you'd want it based on the household's income. So, you know, if you have a spouse who's at home, they're both paying back their loans based on the household income. You wouldn't want to necessarily give lots of loan forgiveness to people who are working at home essentially and have a spouse who's in the labor market. The second issue about the completion rates, it's true that about 50 percent of people that start college finish with a bachelor's degree. But what's remarkable has been that that rate has been fairly constant over time despite a large increase in college entry rates. You know, so since 1980, there's been an increase in the proportion of people starting college.

And if you looked at say age 27, my proportion finished a bachelor's degree, it looks like it has been declining over time, but that's only because you didn't wait long enough. If you wait until age 29, about 50 percent of the people now are finishing a bachelor's degree, and that's about the same as it was 20 years ago, before our big surge in college enrollment, finishing college.

So, yes, there is this high proportion of college entrants who aren't finishing, but that's not a new problem. In some sense, you might want some of that, because one of the things the people are gaining -- so 100 percent retention is not necessarily a goal.

One of the things that people are gaining during the first few months in school is information on whether or not they're college material. You know, so if I'm an 18 year old kid, you know, especially if my parents haven't gone to college, I may not know whether college is for me, you know, whether I'm going to enjoy sitting in a chemistry class as 8:30 in the morning, even if you get an extension on your deadline. But -- and so we want to be able to encourage some experiments, you just want to make those experiments cheap. And a large proportion of the people who drop out drop out fast, and that's what you'd want, a large proportion dropped out in the first year, even the first semester.

But the third point, though, is that there is a pay off to college even for people who don't complete, you know. It's not as big as finishing a bachelor's degree, but even people with some college, on degree, earn about ten percent more than high school graduates. And so presumably they've got smaller loans, too.

I mean the whole idea of the loan programs are to try to deal with this problem that you're describing. So in the U.S., we've sort of left it up to 18 year olds and their families to decide whether or not to go to college. We're not using the test score to decide whether or not you get to go to college, as some, you know, European countries do. We're leaving it up to families to make these decisions.

But in return, what we're doing is, we're saying, okay, yeah, but we're going to make sure that you are facing -- there's a co-payment, so you're not wasting the resources, and a loan program is just a way to do that co-payment that says, look, we'll advance you the funds to help you pay for college, but you're going to be -- this is a financial obligation you're undertaking, and so you have an incentive to look for bargains and to only go to college when you, you know, feel like you're ready to do it.

MR. FURMAN: Great; well, I have a lot of questions myself. But in the interest of time, I'm going to restrain myself and open it up. I did want to comment a little bit. We've heard this debate about culture versus programs and financing. I think culture is really important. I think you don't want to lose sight of personal responsibility. It's the reason why my mind usually runs to programs and financing, I feel like we know what to do about those, and we know how public policy can change those and do those better.

A lot of the culture does matter, but a lot of it, to me, at least, seems like it's on the individual level and there's less of a role for public policy and less the public policy can do about it.

We'd like to open up to questions. Keep your questions very brief and make them actually questions. There are also several people with microphones. So say your name, your institution, this is being recorded, and why don't we start with you over there.

MS. MASIO: Good morning. I'm Janet Masio with GAO, and I have a question for Belle Sawhill about the Success by Ten proposal. Was there any consideration given to building on existing programs with this, particularly Head Start? I know you mentioned a number of the research, and there are obviously problems with those early Head Start, but given financing, was there consideration in terms of improving or building or supplementing or augmenting existing programs with a structure and an infrastructure already as opposed to starting at a new program? Part of my question stems from, we talked about an early care and education system, but we have several preschool, we have Head Start, we have independent child care organizations and programs out there, and often times, at least at the state and local level, those are not connected. So just your thoughts on that?

MS. SAWHILL: Excellent question. Absolutely, we've thought about that, and I think our thinking evolved on that as we did different versions of the paper. The way the proposal works is, as written up now, is that a school would get together with a local childhood program, it could be a Head Start program, in many cases I assume it would be, and they would jointly apply to the federal government for these funds.

And the way we would do the collection of more evidence on various ways of looking at this question of whether you need a long duration program, whether you need the small student/teacher ratios and those kinds of things is by allowing the local entities or teams to come in with proposals to both vary the program, but they would have to propose a very high quality program, nevertheless, and then the federal government would choose the best. So, yes, a Head Start program could very much be the recipient of the funds, but it would be upgraded in the process. We call it Head Start on Steroids or Early Head Start on Steroids, either one.

MR. FURMAN: Next, Sarah, you'll be the next one.

MS. WATSON: Thank you, Sarah Watson with (inaudible) Charitable Trust. I just also would like to ask Belle to expand on the case for providing early education, especially for three and four year olds, to more than the most disadvantaged, I think it's great they intend such services to the babies.

But we do have new studies that show impacts of preschool on middle class kids. And I would point to Head Start as the example of a program that was targeted at the most disadvantaged and still only serves half the children up to the poverty line.

And the only other bit of data I would just enter is that we actually do have more states than Georgia and Oklahoma that were our vanguard states. Florida offers pre-K, not great quality, but offers it to all four years olds. Last year, Illinois became the first state to offer it to all three and four year olds, a very top quality program.

And this year, the governors of Iowa, New York, and Tennessee have all pledged to accomplish pre-K for all four year olds within four years, and the governor of Virginia, obviously, is also very much on that track, so a few more data points for you there. And I'll just say, Tom, you and I were classmates at the Kennedy School 20 plus years ago and you look just the same as when you were a boy wonder back then.

MS. SAWHILL: Wish you had said that about me, Sarah. I think that on the universal versus targeted issue, there are two possibilities, one is that the states can put their own money into these early childhood education programs and that's the way we can go universal. The other is to have a sliding scale in which parents contribute according to their means, and only the poor children get completely subsidized. Jens has done another paper that talks about that way of doing it. I think that all of those are potentially good ideas.

MR. FURMAN: Your turn now.

MR. FINNER: Kevin Finner with Issues in Science and Technology at the National Academy of Sciences. For the finance people, Cliff Adelman when he was at the Department of Education, conducted a lot of surveys asking people who did not complete their degrees why they didn't complete their degrees.

And in their self-reporting, the financial problems were fourth or fifth on the list. They often gave many other reasons for why they didn't complete. I wonder if you agree with this, if you think their self-reporting really reflects reality, and how important you think the financing barriers are to people completing their degrees, either associate degrees or bachelor's degrees?

MR. KANE: I'm not sure. I've never liked the self-reported data on reasons. I mean if you ask high school students or people who did not go to college why they never started, they'll often self-report the reason as being financial. And that may be right, but it may just be, you know, rationalizing, and it's not clear even what they're saying. Are they saying that it wasn't worth going because -- the pay offs for me weren't going to be enough to exceed the cost, or what are they saying?

So I've just had a hard -- I've never been able to interpret the self-reports. And I think a much more interesting approach is to say, okay, well, what happens when you change the price, what happens to college enrollment rates, what happens to college completion rates.

And Sue and I and Jim Heckman and other people have done work on what happens, and when you change prices, you have big effects on proportion of people starting. Sue has done some work on even also in the states that have tried these -- started grant programs in the '90's, they had impacts on completion rates.

So I think it's -- I'm hesitant to use self-reports, but instead, just look for natural experiments and policy changes, and I think there's evidence that people are responsive, surprisingly responsive to dollars.

MS. DYNARSKI: In the case of Georgia and Arkansas, which introduced some pretty generous programs that waived tuition and fees if you got a B in high school, there were large impacts on the BA and AA completion rates, especially for women, and especially for non-white women. So money does appear to matter. No matter what people report, their actions show that when you make college cheaper, they're more likely to finish college.

MR. FURMAN: Your question; we have time for two more questions, so yours and one more.

MR. GOODMAN: Thanks; Josh Goodman, I'm an economics graduate school at Columbia University. Given some of the research that suggests that what looks like income gaps in college attendance rates and other things might actually be due to ability gaps, have either of you two put any thought into attaching some kind of ability components to eligibility for grants or loans, meaning it seems like the real cost of students not going to society comes from those kids who are high ability, but may be constrained by income not to go to school; is there any thought about sort of, you know, offering higher rewards to kids who are high ability just to encourage them to attend college more?

MS. DYNARSKI: And what we see right now is, if you look, again, if you look at kids at the top third of the test score distribution, a good quarter of them, if they're poor, are not going to college. So the crude way to put it is that the smart poor kids are going to school at the same rate as the dumb rich kids, all right. And the idea of financial aid is to try to even that playing field a little bit, right, so that we get some smart poor kids into Harvard, for example, crowd out those dumb rich kids so we have better class quality. The federal government has entered into this a little bit with this new smart grant which encourages people to go into science and engineering.

Basically, at the federal level, I don't think we want to see the IRS collecting high school transcripts. I just think this is a nightmare in the making. If we had some sort of unified exit exam or if we were a smaller country, it might make sense to make federal grants contingent on some level of performance in high school, but I don't think we want to get into that kind of business.

I do think that the federal government could potentially encourage states in doing it themselves. So to the extent that a state has a simplified program, a straight forward program, like Arkansas or Georgia, you get a B in high school, tuition fees are waived, do a match, you know, use the leap (?) funds, for example, to match spending by such states.

At the state level, there's more coordination between, you know, sending transcripts off to the state is not as big a deal because school and K-12 has become a state function at this point. So I think the federal government can leverage funds to make that more likely to happen, I don't think they should do it themselves.

MR. KANE: So, for instance, the Cal Grant program in California works that way. But I want to make sure I understand what you were saying. So, clearly, there are big differences in college going by income. Once you control for test scores and high school grades, that difference shrinks a lot. Now, that's just like, you know, that's equivalent to saying, okay, income, test scores, grades are correlated, well, gosh, I feel like I already knew that.

The question is, once you control for that, are there still gaps? And at least when income as opposed to race is the question, are there still income gaps once you control for those things, there are.

MR. FURMAN: Great; and one person over here for the last question.

SPEAKER: Hi, my -- under -- George Washington -- tuition was -- tuition -- adjusted or raised and -- to 50,000 a year -- and I -- funding -- is there anything else -- federal government can or should be doing to influence -- high priced schools to keep their costs fairly low so they don't go way -- arrange low income kids?

MR. FURMAN: That's a very good question. Tom and Sue.

MS. DYNARSKI: So at this point, several universities, Harvard, Princeton, have introduced a very simple price schedule for low income kids, basically they'll give them full grants if they're below a certain income level. I think Harvard is up to $45 or $50,000 a year. There are no loans in the package. Again, I would like to -- I think that's essentially a question of choice in the sense that you've got some kids who are definitely going to college, and some of them are going to go to Harvard, and some of them are going to go to George Washington University, and some are going to go to Yale, and at one point the federal government took it as its role to make sure that students could freely choose among those options.

And I think we actually need to scale back our ambitions on the federal policy level to, let's make sure that kids have enough money to go to college, some college, the local community college, the local state university, and that should be the priority. Doing that well should be the first priority for the federal government.

If at some point we've got the luxury, we've eliminated college entry gaps by income, by race, then potentially the federal government, if it wants to, could step forward and start to play a role in equalizing access to different universities and making it possible for every kid to pay for Harvard.

But I think, in part, we've lost our way in financial aid because we have considered our goals to be so dispersed, thinking about getting more kids in college, but also making Harvard more affordable for everybody, and we just can't do all of that. So I think we should be modest in our ambitions, but also be ambitious for the low income kids. We want all the low income kids to go to college, to be able to go to college if they have the ability to succeed in college. If some day we can afford to get everyone into Harvard, great, but the local state university is better than nothing at all, so that's what I want, to keep the doors open.

MR. KANE: Okay. There has been rapid tuition increases at public, as well as private institutions, particularly at private institutions. And every now and then, policy makers in Washington wonder to what extent that has been caused by the federal aid system. I think that sort of misunderstands how the aid system works. And the reason is that until just this past year, the most you could borrow under the Federal Stafford Loan Program as a dependent undergraduate, your first year was $2,625, your second year $3,500, and you know, your third and fourth year, you know, $5,000.

So the prices, the George Washington tuition, the Harvard tuition are way above the federal loan limits. And so something else is going on there. That's being financed usually by private loans that the institutions themselves offer to students. It's not, you know, federal policy that's driving those tuition increases, it's, you know, something else going on, whether it's quality of education, I don't know, it's hard to point to what --

MS. DYNARSKI: Salaries of Harvard professors.

MR. KANE: No.

MS. DYNARSKI: We are the problem.

MR. FURMAN: I want to thank our authors of our papers. And we're going to take a very short break, just a few minutes, and then we're going to restart in here and we're going to hear from another Harvard professor, Larry Summers, Kati Haycock, Jim Heckman, and Joel Klein, so thank you.

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