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IMPROVING FEDERAL FINANCIAL AID FOR STUDENTS

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P R O C E E D I N G S

MR. WHITEHURST: Good morning, thanks for joining us. I'm Russ Whitehurst. I'm director of the Brown Center on Education Policy here at Brookings. And we're here this morning to talk about federal student aid, which, for some of us, is an interesting topic. And I think there's no doubt that it is a very important topic in the sense that the higher education system in the U.S. is propped up by, affected by, and influenced in a large number of ways by accessibility. And our system of accessibility in the U.S. is different from most countries in that we have a high cost system in which the consumers are expected to make a significant contribution.

The Higher Education Act is up for reauthorization, so Congress is about the job of thinking about what it's done in the past, what it should do in the future, and what impact it will have on students, on the economy, and the whole system. In the context of moving forward, a number of organizations, including the Gates Foundation, have commissioned various groups to think about what a new student aid system should look like. And Gates was particularly ambitious in doing that, in that they commissioned at least 15 groups to take a look at the student aid system and propose how it ought to be redesigned. And so, the question at the end of that process is -- well, you've got 15 different reports, 15 different sets of ideas, what sense can be made of it?

Showing a great deal of wisdom, they turned to my colleague at Brookings, Beth Akers, to do that job, to look at the reports, to extract from the reports the points of view and the recommendations for policy that she thought and that, in general, people would think were the areas in which there could be common agreement. This was not a kind of statistical exercise where you create a matrix and you only talk about the points where everybody agrees. It was an interpretive exercise and she'll be telling us about that in just a moment.

Let me introduce Beth directly now. She came to Brookings a little over a year ago. She's a Columbia-trained economist and her work has been on the economics of higher education, particularly the effects of student aid on student choices and student outcomes. What's not well known about Beth, and not well known in terms of the context that I'm going to introduce, is that in 2008, the federal aid system was about ready to collapse. And what happened is that probably too generous federal subsidy to private lenders ceased and what went from a market in which everybody wanted to be a player -- what happened is that a market in which everybody wanted to be a player because the subsidy was a generous one, turned overnight into a market in which all the lenders wanted to retreat, and what to do about it.

The U.S. Department of Education really didn't have a lot of talent to turn to on this issue; it's a very technical one. So the Council of Economic Advisors sent over a team. Beth was part of that team. And people who were part of the process say that the fact that we had a functioning student loan market in 2009 was as much Beth's responsibility as the responsibility of anybody in government.

Now, most of us would think that was a good thing. Some people here might think it was not such a good a thing, but Beth is deeply knowledgeable about federal student aid, what the levers are to its success or failure, and is beautifully positioned to make sense of everybody else's views on this topic.

So, without further introduction, I'll turn it over to Beth Akers. Beth?

MS. AKERS: First of all, Russ, thank you for the very generous introduction. I appreciate that. Thank you all for coming out today to be part of the conversation. I think it's an incredibly important one for the reasons that Russ identified.

I'll start off by saying that the institutions of higher education that we have in this country are among the absolute best in the world. But I think the reason that we're all here to chat today is because we recognize that there are some serious problems plaguing our system at the moment.

We're seeing worrisome trends in student loan debt and also in tuition, and yet we don't exactly know what is driving these trends. Students are borrowing more than ever and debt levels are increasing. Maybe it's a good thing, maybe it's a bad thing. Debt is increasing not only among the students who graduate from college, but among those students who attempt college and never finish their degrees. This is particularly worrisome.

Perhaps driving this trend is the rapid inflation in tuition, the general cost of attendance. Again, not something we completely understand, although we have a set of theories as to what might be driving this.

It's bothersome to me that the media has answered the question over and over and over in the past few years, is college still worth the investment? And it seems that we still generally say yes, but I think that there is a problem in that people are continuing to ask this question. We have serious concerns about the quality of our higher education system and this piles on top of the persistent problems of barriers to access for low-income students and low graduation rates among the students who actually do attempt to enroll in a higher education.

So, as Russ pointed out in his opening remarks, the government plays a huge role in this market. A lot of the dollars that are spent on education are taxpayer dollars that are collected and then spent through the financial aid system, so it seems natural to me that the first place to begin addressing a lot of these issues, these challenges that we're facing, is through the reform of the financial aid system.

Reauthorization of the Higher Education Act is on the horizon, so the Senate has begun the process of holding hearings to learn about the ways in which we can reform the system to better serve students. And recent action by the Obama administration and Congress make me optimistic that both camps are really prepared to engage in a discussion about financial aid reform and potentially create some big changes in the next year.

So moving on from this sort of gloomy picture that I've painted, let's talk about some bright things, namely the paper that I have released to you all this morning. Hopefully, you'll agree with that sentiment.

So, what I've done, and as you can see, is provide a set of implementable policy recommendations that seem to address some of the issues that I've just outlined. So, as Russ indicated, the policy recommendations are based upon the recommendations that are found in the set of 15 reports that were completed under the heading of the Bill and

Melinda Gates Project of Reimagining Aid Design and Delivery.

So, the group of authors that created these reports is very diverse. So you have a number of think tanks as well as advocacy organizations representing all the important stakeholders in this discussion. So the report seeks to identify the areas in which we have relatively broad agreement, identify places of disagreement, and also talk about the next steps in this discussion, this general discussion of reforming financial aid, and also making the system work for students.

What I find is that there is a surprising level of agreement among the reports. Based on the heterogeneity of the group, I was expecting to see little agreement, but what I found was that there are agreements on large themes and yet disagreement remains in maybe some of the implementation. But I'm optimistic that we can come together with this set of report authors to actually agree on a set of implementable solutions that satisfy the objectives of the organizations.

What I've done in the report is try to use my own views, my own analysis, as well as the recommendations in the report, to set out a path for moving forward in addressing these problems.

The first broad area of agreements identified in the reports is that there is a desperate need for simplification in the process of financial aid. So this is across all three steps of the process, which is the application for the financial aid, the engagement with the financial aid system while the student are enrolled, and also interaction with the financial aid system after a student graduates in terms of repaying their loans.

The recommendation for the application process is to eliminate the FAFSA, which is the existing application used by students to determine their eligibility for federal student aid. Instead we should have the IRS determine aid eligibility. This is a proposal that was provided in a number of the reports and is also something that I support independently. In order to implement this we would have to do some simple modifications to the aid eligibility formula, particularly because the IRS will not have access to the assets information that is currently used to determine a household's ability to pay.

While students are enrolled, it was proposed that we simplify their access to aid and the subsidies available to them by limiting the number of channels through which subsidies are delivered. So, right now, the basic channels for delivering aid are Pell Grants or grants in general, subsidies on interest rates for loans, and tax credits. Research suggests that the grant is potentially the most powerful in creating changes in behavior in terms of enrollment and completion.

While interest rate subsidies and tax subsidies in theory should be able to achieve the same effects, what we tend to believe is that they're delivered at the wrong time. So students may not anticipate the value that they're going to get from them, which limits the extent to which they change their enrollment behavior because of their existence. And they're also unnecessarily complex.

So for a student to take a look at the interest rate that they're receiving on their federal student loan, for instance, and determine what value they're actually getting from that relative to what a market interest rate would be is sort of a complex way of thinking about what the subsidy is and what value is. And, you know, it's ultimately hard to imagine. The students are changing their behavior because of those subsidies. So a number of the reports suggested eliminating a number of these channels and refocusing much of the student aid to be delivered through the Pell Grant program.

After graduation there also remains some complexity issues in loan repayment. We right now we have a sort of complex landscape of loan repayment programs. There's some evidence to suggest that students are underutilizing these programs, perhaps because of their complexity. So what I propose in the report, based on some recommendations in the papers, is to create a single income-based loan repayment system. Not necessarily the IBR program that we have today, but something that will be better able to accommodate the universe of students in repayment, and then to enroll all students in that, on default, after graduation.

So the second area in which there was a pretty broad agreement is that we have a pretty desperate need for more information in the market for higher education. So this breaks down to two separate areas.

First, students don't seem to have enough information about the financial aid they're eligible for before they apply to college. In a recent report that Mark Kantrowitz from FinAid.org released, he estimated that in the class enrolled in 2007/2008, that 8 million students failed to collect Pell Grants they were eligible for simply because they didn't complete the FAFSA. So we see that students are underutilizing, again, the aid that is available to them. And what's more worrisome are the students that were unaware of the grants that they may have been eligible for and didn't enroll because of a misunderstanding about the cost of attendance.

A commonly proposed solution to this problem is to deliver information to students far before they begin the process of even thinking about going to college. So, practically, this means delivering a letter to students or the households of students that determines their eligibility for aid. This works well with the IRS determining aid eligibility because it can be a very streamlined process and doesn't require households or students to sort of trigger that information to be sent to them. The benefit of doing this is that we can, hopefully, convince more students that it's affordable for them to go to college and affordable for them to stay in college.

The second area in which we're lacking information is on institution level outcomes. So students really need help shopping for college. This is a complex decision. It's almost on the level of buying a home. It's something you do a relatively few number of times throughout your lifetime. So we don't have the opportunity as students to learn from making mistakes, so the government really needs to step in with some interventions to make it easier for students to shop.

And the first step in doing that is making information available to students that they can use to make efficient decisions. Particularly, students need to know what are the labor market outcomes that previous students from that institution have faced. This is the employment rates, earnings of graduates. If we make this information available, students will be able to make better decisions for themselves, the markets will work better, and bad schools can potentially go out of business without the government having to intervene. The market can work to solve the problem.

The third area in which we find general agreement is that there is a need for a system of institutional accountability that's perhaps more strict than what we have in place today. The recommendation is to tie financial aid eligibility to institution level outcomes, to, potentially, graduation rates or employment rates. This is, in fact, very similar to the proposal of the Obama administration that was released recently.

The real challenge to implementing a system like this, as many of you are well aware, is that we can potentially create bad incentives if we set up the system in such a way that it isn't particularly elegant. The concern is that by tying aid to outcomes, we may discourage institutions from accepting disadvantaged students who are likely to face bad outcomes themselves following graduation. The benefit of implementing this change is that it will be providing incentives or more of an incentive for institutions to produce good outcomes for the students.

And the last area for which there was a relatively broad consensus is that our system needs to change in order to accommodate the needs of nontraditional students who now make up the majority of our enrolled undergraduate students. Among the 18 million that were enrolled in the 2011/2012 academic year, only 5.2 million were actually traditional students. So the traditional student is potentially a misnomer at this point. They now make up the minority.

The most common recommendation for how we can make this system work better for those students is to get away from delivering aid on the traditional academic schedule, so particularly reinstating the summer Pell Grant programs, that students can continue their schooling at their own schedule, year around.

The other problem with our current system is that we don't collect sufficient data on the outcomes of these students' fate. A lot of the institution level metrics are based on first-time, full-time freshmen. We need to think very carefully -- it's a difficult question, but we need to make sure that our data takes into account what is happening with these students, who are really the majority of our students in this country.

So perhaps you're thinking, we can't all agree on everything, right? So where are the areas of disagreement? And I will reiterate that among the areas that I identified as agreement, there are certainly disagreements among the report authors about how to implement them. But more broadly, I see that there are disagreements in three areas.

The first is student accountability. So students are already accountable for their outcomes in higher education in that the financial returns of the degree accrue to them after graduation. And for most students, they're paying some fraction of the tuition up front, so this is already sort of a natural system of student accountability. Yet the reports seem to call for a greater system or a system that reinforces or increases the incentives that are already available to students. However, there's not a clear consensus on how to do this without creating harsh punishments for students who are already in a position of having disadvantaged outcomes in the future. For instance, if we were to financially punish students who don't graduate from college after using federal resources, we'd basically be taking money away from the students who are the most disadvantaged to begin with.

The second area where there is not a clear consensus about how to move forward is how much to emphasize career readiness into a secondary education. There's a number of ways that you can emphasize career readiness. That's to evaluate schools based on the financial returns that they provide, to line coursework with job opportunities, and then to provide financial incentives for institutions when they do these things. However, many find this to be sort of an offensive policy because it doesn't necessarily recognize some of the benefits of education that are not measurable, particularly in financial terms. We'll need to think more and deliberate more on this question before we want to make policy in this area.

And lastly, and I think the biggest area of disagreement and the most important one to resolve going forward, is what should be the role of loans in our system of financial aid? Many see loans as a tool for providing access for low-income students to a secondary education, while others recognize that the number of students who do face bad outcomes as a result of poor borrowing decisions, those costs outweigh the benefits that are provided by access.

So, as we look forward, I recommend that we do begin to think about making policies in the areas where we have a relatively broad consensus. But this session needs to continue outside of the policy world as well, or the policy-making world, and to continue to find consensus on some of these broader issues so we can continue the discussion.

And the most important question that I see in this area is defining what do we mean by affordability in higher education. Each of the reports, I notice, sort of implicitly define this for themselves and the differences seem to be in the term of the view. So some take a short-term view in arguing that students should be able to afford to go to college out of their present earnings or savings or, you know, through help from their parents. The alternative view seems to suggest that a degree is affordable as long as in the long run it pays off financially, so this is probably more of an economist's view.

So we need more deliberation on this issue, and potentially some research that talks about how loans affect the lives of students after graduation, to continue a meaningful conversation in this area.

So thank you again for coming today to join the conversations. I'm looking forward to a discussion with our expert panelists, who will join us in just a moment, and for questions from you all at the end of our session. (Applause)

MR. WHITEHURST: Well, again, thank you. And we're now going to hear from three people who I think should have, if not different views, a very different perspective on the issue that we're talking about today.

We have Rory O'Sullivan, who is representing student interests, the interest of young adults who are very much the consumers and the utilizers of student loans and federal financial aid. We have Michael Tanner with us, who represents land grant and public universities and they are very strongly affected by -- their whole business model is predicated on the nature of student aid. And Richard Vedder, who is an economist who leads a national center on college affordability and who has been thinking and writing about this subject for most of his career.

And so what I'll do, since I don't think an order was dictated, is I'll start on my far right here and ask Rory O'Sullivan, who is the policy and research director -- and I love to say this -- of the Young Invincibles, to present first and then we'll go down the line. So, Rory, if you don't mind.

MR. O'SULLIVAN: Yeah, great. And definitely thank you, guys, for the opportunity to be here and I appreciate the addition to the debate over college affordability, Beth. And I just wanted to talk for a little bit to sort of give what I thought were some of my favorite points in Beth's paper, which I think really contribute constructive ideas to the conversation that we're having, and then go into some of the points where Young Invincible having been involved in the RADD process, some of the areas of disagreement we see in the debate, and, in many cases, really hard issues that we ourselves haven't figured out and would love to have a conversation with all of you.

I think largely the paper gets it right that the themes of simplification and information are where probably most folks agree the most on, at least in general. And that's good. I think that there's a lot of opportunity there in federal policy to really move the ball on some of these big issues.

Another thing that I wanted to point out that I actually thought was really helpful, if obvious to a lot of the economists, was somewhere buried down there 12 or 15 pages into the paper that looks at the market for higher education and very briefly explains why it's very different than other markets and why we'd expect it often to fail. And the reason is that students don't have -- it's not an iterative process where you buy one product and see if it works and buy another one. At most you have two or three opportunities to purchase your education in your lifetime, and I think from a consumer perspective, as a student group, that's very helpful to look at.

And that, in many cases, the problem of information can be solved by consumers by going back to the market over and over again. In this case, young people are out there without a lot of information and making a huge purchase with potentially huge consequences for their financial future, so that's something that's important to keep in mind and I'm going to keep thinking about that in the months ahead.

The other thing that I thought she mentioned was much more of a smaller, wonky point, and we actually had this in our paper and I wanted to elevate it. She pointed out that if we're able to simplify the repayment end of student loans, that it actually could have a beneficial effect on access because there are a lot of young people out there who are understandably afraid to take out significant levels of debt and may avoid it completely, when taking out a reasonable amount could allow them to afford an education that could really move them up. And so we've actually cited some research to support that. There's been a paper or two out there on this topic, suggesting that simplifying repayment plans can do a lot of good. I think there's still more that needs to be done, but an important point.

Some things I did want to touch on going into -- one's of the overall problem statement and the others are going into areas where we disagreed. And I think that at the beginning of the paper Beth pointed out that, look, there's a ton of concern about college affordability, which is right. That's how the American public sees this issue and does not get into things like completion rates or repayment plans. They're concerned about being able to afford college and concern about debt.

It doesn't, I don't think, follow for me that we just focus on federal financial aid. There are a lot of different access points and that we probably have to go after all of them to really address the issue of college affordability. And we know that a big driver of tuition at the state level is, at least, that we just spend a lot less per student than we used to. And institutions haven't really raised their costs that much. They've just put the cost of education more and more on families.

There may be some things that we can do to adjust that at the federal level, but it is -- there are a lot of different ways that we can address the issue and, in particular, some of our limitations at the federal level and particularly where we all agree on things like information. Information simplicity may or may not be able to help that affordability challenge.

Other things, I think, that I wanted to dig into, where there was actually, I think, a lot of disagreement, I know Beth noted that there were a lot of folks that mentioned adjusting accountability metrics for the population of a particular school. And this is actually something that Young Invincibles put in our whitepaper, and, to be honest, I've myself been rethinking this over the last several months. And there's been a vigorous debate among the RADD of whether this is appropriate. And you can understand why, right?

Because in any accountability metric that you implement, there's a serious and understandable concern that it will negatively affect the low-income, disadvantaged populations that already have lower outcome metrics, and so there's a lot of concern to want to account for that. But on the other end, doing so, there's a fear of just lowering expectations for young people from low-income or disadvantaged backgrounds, which is, I think, also distasteful to a lot of people. So we're really stuck between these really two difficult principles and there's a lot of, I think -- and we can maybe go into this discussion in a little bit more detail and some of my more specific thoughts about that, but I think it important to point that out.

And the other thing that I just briefly mention before we move on to the next speaker is that on information for students, information is where we agree a lot, but it's not more information from a student perspective. Our generation is already overwhelmed with all kinds of information from a lot of different places and already faces a challenge of sifting through that.

One good example we often throw out is the college navigator, which is. in theory, I guess, supposed to be used to help students figure out sort of which college is right for them, but there's so much on there, many of it is not relevant to students, so they just don't understand it. So what we really need to be thinking about is what's the right sort of, like, four or five or however many bits of most important pieces of information that students understand and that can actually help them address this market failure of a lack of information and get to the institution that works best for them?

So I think I've hit my time there, but I'm excited to go into more discussion with all of you after this.

MR. WHITEHURST: Again, let me introduce Michael Tanner. Michael is vice president for academic affairs and chief academic officer, the Association of Public and Land-Grant Universities. He came to that position from the University of Illinois at Chicago circle and was at the University of California at Santa Cruz for many years. So in some sense

Michael might not like this characterization, but he represents the industry. (Laughter) And we'd like his perspectives.

MR. TANNER: Well, we are industrious, I'll go with that. I guess a reaction to a few of the comments. One, the paper analyzed I thought well the positions taken by the RADD grantees. They are heterogeneous, but I'm not sure that they could claim to be representative of the policymakers and those who are interested in policy. So I think every policy that's being proposed actually has to stand on its own merits very carefully and the consensus among the RADD grantees is not quite going to make it. You know, we need to be able to take it to the public really well.

One of the first debates around the whole program is, is it reasonable to introduce completion as one of the goals and linking that to the financial aid? And I think, Beth, you cited that there's lots of disagreement there. The way I put it is that it is very often going to be an incentive for selectivity. If you use standard measures of success -- graduation rates, employment rates, earnings after -- many standard measures will simply say to an institution, if you're talking about institutional accountability, go for the students, select the students who, in fact, will help you meet that measure. So the first thing that you have to do if you want to improve the ability of the overall system, to educate the students that the United States, that our nation needs educated is to, in effect, neutralize that selectivity factor in some way. So we talked about, you know, the student risk. I talk about a student risk index that was on a point that you were making, Rory, of you need to analyze the student population being served by an institution before you figure out what it is that you should expect from that institution.

Now, you're right, holding high standards is an important factor in terms of the perception. If you don't want to get into one of those selective universities, are you adequately motivated? On the other hand, you have to be realistic that an institution that is, in fact, serving a large fraction of Pell students is going to have more work to do than one that has a very small population. Students who are already well-prepared, come from perhaps well-educated backgrounds, are more likely to succeed, so you've got to have some way of doing that. Various things have talked about using regression analyses. I think there's a lot more work that could be done there using so-called big data techniques to try to get at that and provide appropriate incentives.

Simplification, yeah, I'll reinforce that. We're overloaded with information. The question is can you get information that's meaningful to you? How many here have actually read through those license agreements before you clicked "Agreed" and downloaded? I did it once.

Once was enough. (Laughter) You signed in. And so you've got to realize the audience we're after in a number of these things, including like I'd say the tax credits and deductions, if you need several advance college degrees to understand the program, it's probably not helping the students that we're hoping to reach. So the burden is, in some sense, on the designers of the system to make it so that you can understand what's going on. And I think there's lots of ways in which the loan system could be simplified and made as effective for the taxpayers and the students, a lot easier, too, for people to understand.

You made the point, Beth, and I'll reinforce it, we really need better advice at the moment of decision. Sometimes access is turning out to be access to debt. The really outrageous cases of the students who were invited in to an institution, they take on a lot of loan, they go out and their career prospects are not improved, and now they're saddled with debt that cannot be relieved even through bankruptcy. And that's really something that we have to work hard to see if we can't eliminate.

So ideally, you'd be having better pre-education in some sense about the choice of what options have you got available in terms of careers. What do you want to do with your life, right? And that related to and now what institution are you choosing that might better help you get to those aims? And I think there's a lot that can be done in that. Too often I think there's a linking and there's a -- the parties who are advising are not disinterested.

The quality of information. You mentioned the graduation rate. You all know how bad the graduation rates are. Well, if you think about the graduation rates, the federally defined graduation rates are first-time, full-time. And increasingly, students are not staying just at one institution through their career. Mobility has gone up a great deal. I bet I'm probably safe in saying mobility is pretty high even among this audience, right? And you think about the educational path, students are -- because whatever the circumstances, they're changing institutions. The second they change institutions, they drop out of those statistics.

So we are working, my colleague Christine Keller here, we've been working with the other higher education presidential associations to put something out call The Student Achievement Measure that tracks using the national clearinghouse where the student goes and says this institution has done well if that student is over at another institution and still studying toward a degree. This should not penalize you because a student transferred and went on to ultimate success. So we think that there's a lot that could be done to improve the characterization.

I think it's done a disservice to higher education the way graduation rates are being presently cited because it's only for those who stick all the way through. And it's only those institutions going for students that are likely to stick all the way through and the elite privates are the ones where that's going to be greatest, most likely.

Anyway, there's lots to be done. I think there's lots to debate. You raised the issue about FAFSA. I'm not an expert in FAFSA, but, wow, isn't there something that you can do to characterize whether or not this is an appropriate loan for this person without requiring the kind of paperwork that's presently involved? Simplification at the front end I think is very important.

And with that, I've probably used up my time.

MR. WHITEHURST: Thanks. Our next speaker is Richard Vedder. Again, he's a distinguished professor of economics at Ohio University and I've been listening to Richard for many years. He served on the Spellings Commission on the Future of Higher Education and was very influential there. And Richard can usually be counted on to have a point of view that's a little different from the run of the mill and I'm looking forward to what he has to say.

MR. VEDDER: Yeah, I'll liven things up a bit and put things in a somewhat broader context perhaps. Since 1971, federal student financial aid programs have grown almost 10 percent a year, a little over 5 percent a year correcting for inflation. But in the last decade, these numbers have actually grown. The real growth has been even greater: 6, 7 percent inflation adjusted. This is simply unsustainable. Moreover, the proportion of individuals from lower income backgrounds among recent college graduates is lower today than when these programs were in their infancy. Egalitarian goals have simply not been met.

And the undesired financial consequences, the unintended consequences of student financial aid programs are numerous. When the Feds expand aid programs, for example, two things happen: state governments reduce college appropriations and universities raise tuition fees. Both work to reduce intended benefits to students. I think a decent case can be made that these programs have contributed to high dropout rates, mediocre levels of student work effort and academic performance, the substantial but under-discussed problem of underemployment among college graduates, the emergence of more retail sales clerks with college degrees than soldiers in the U.S. Army, for example, or more janitors with college degrees than architects or chemists. I think we are probably overinvested, not underinvested, in higher education in the United States, creating a credential inflation arising from using degrees as an obscenely expensive screening device, one involving massive wastes of potentially highly productive human resources.

So what should we do? I think most reform proposals are tinkering with a broken system and we'd be better off phasing out federal aid over the next decade or so, enforce colleges and families to adapt to a new reality, an adaptation which would involve massive innovation following Plato's maxim that necessity is the mother of invention. But if we're going to keep federal aid programs politically certain in the short run, we must, above all, create a correct for two perverse incentives.

First, there needs to be rewards for good academic performance and negative financial consequences for poor performance. Good students should get more money than poor students, other things equal, not the reverse.

Second, colleges should have skin in the game. Their inappropriate admissions decisions or inattention to floundering students massively contributes to loan defaults, yet they face no adverse consequences. This needs to change.

Beyond that, simplify the system, restrict aid to more affluent families, doing away with Plus loans and tuition tax credits, which I think is in line more or less with RADD recommendations. We should convert Pell Grants into progressive performance vouchers. By "vouchers" I mean money should go to students, not to university financial aid offices, empowering them more and making colleges and more attentive to their needs. By "progressive" I mean vouches should vary inversely with income, being generous for truly low-income recipients, but nonexistent for those whose income reaches the median. By “performance” I think that good academic performance should have some reward. No full-time students should get money for more than five years. A students graduating in less than four years should get a little bonus for saving the government money and as a reward for high academic achievement.

Also, I think we should have a federal policy environment encouraging new private approaches to financing, especially equity financing, where students can track to forfeit part of their postgraduate earnings in return for financial support of college, the human capital contract approach. Harvard, Yale, Princeton ought to be doing this now with their own endowment money. This would provide market assessments of future market outcomes that potentially could immensely help allocate scarce educational resources more efficiently.

All that said, I'm delighted with the RADD findings as summarized by Beth Akers. My wife, a high school guidance counselor serving low-income students, and she's told me for years that the FAFSA is a major impediment to low-incomes' college access. And it adds little information to what the IRS data already provides.

Increasing consumer information on employment outcomes is vital and long overdue. Summer Pell Grants are, in principle, a good idea. While I think age should be partly tied to student performance, I also favor discriminating in favor of institutions with good outcomes, although the devil is in the details.

The same applies with income contingent debt repayment. This is a good idea in principle, but schemes involving de facto partial loan forgiveness for most borrowers would have huge undesired, unintended consequences.

The debate about the optimal amount of student borrowing has arisen because of the rising ratio of college costs to postgraduate income. A modest tinkering with the system is not going to decisively deal with that issue.

Still, all said, this is a constructive report and the Gates Foundation should be commended for its support. Thanks.

MR. WHITEHURST: Thank you. Well, there’s a lot to talk about and, as I expected, Rich took a view that’s provocative, and that’s good.

One of the issues I’d like for us to discuss as a panel is the notion that the federal government should be involved in the business of grading colleges. And so the Obama administration has proposed that colleges will get a grade or a color or they’ll be the bluebirds or the robins, I’m not sure how it will be done, but there will be a categorization of colleges based on their outcomes. And I'd just like to -- and we've heard people talk about it, but I'm not quite clear exactly what the views are up here. So I'd like for us to go down the line and have people commit to whether they think that's a -- understanding that there's a lot of devil in the details, whether that's something that ought to be pursued at the federal level or not.

MR. O'SULLIVAN: With me?

MR. WHITEHURST: Sure, please.

MR. O'SULLIVAN: I mean, we were really excited that the administration brought the issue of college affordability up and has continued to keep it up with this latest proposal on the national radar. I mean, at least for us, as I mentioned, a lot of the devil's in the details and how you do this. I mean, one thing about rating systems that can be helpful, that goes to a point I made earlier about more or less information, one of the reasons why so many students will look to something like the *U.S. News and World Report* is that it's digestible, puts everything in a particular ranking, and they can look at it. So being able to do some kind of college rating on value for something that students would actually care about could be very valuable. But again, how you do that is really important and challenging.

And I think actually the administration understands that from the conversations that we've had with them, that there are a lot of things that we want to get out of higher education. Certainly many of the people in our generation, probably most of them at this point, do want to get some kind of advancement in their career and to earn more money. I mean, certainly just to pay back their loans, but also it's to move forward financially. But there are other things that people look for that would be hard to capture in a rating system and difficult to capture for particular students in particular programs.

You know, I think Michael will probably talk about some of the ups and downs of accountability as well, so, I mean, we look forward to sort of giving our feedback about how you might do that.

MR. WHITEHURST: One of the things I'd like for you to address, Michael, if you're willing to, is the question of the unit that should be held accountable. So it's the case that in many universities the range of outcomes within programs is much greater than is the range outcomes across institutions.

MR. TANNER: Yeah.

MR. WHITEHURST: And so a rating system that is somehow to hold the institution accountable and send a signal to prospective students on institutional performance has built into it the problem that the information, at least for some students and some institutions, may distort the reality of what the student's actually purchasing and what the institution's actually doing, so.

MR. TANNER: Right. No, in the statement that I read about the rating system it said the institutions should be rated against peer institutions. And the devil was peering out of that word "peer" inasmuch as what exactly do you mean by a peer institution? The national reputation or what? It gets to the same point that I was making about you've got to characterize the student audience. I guess if you could do that well and you said what value system you were putting into the rating system so people could have it, I'd say fine, you know, if you can do a really good rating system that takes care of those different elements.

The danger is that you'll start creating these incentives again for shining in certain ways. As the *U.S. News and World Report,* it embeds a certain set of values. How much are you paying actually per student? How much are you putting in, not what kind of performance are you getting out. So you have to be really clear about what you're putting into the rating system before you decide that you're going to rate.

So I think functionally there'll be a great deal of argument around how did I get put in this classification, if you were to do it? And is it the federal government's role to do that? Isn't that something that could be done by the private sector?

You're absolutely right that across institutions there are programs that for their students turn out to be just tremendous programs and the same institution could have a program that's nowhere near as good. And in a certain sense, without taking lots of time, it could put pressure if it's under the institutional level to say you better close down programs where you're not good because they're going to drag down your overall rating. And you'll say, well, is that good or bad? I don't know.

You could do the rating at a program basis. And there are many instances where I think the ratings should be done at the program level because it's a more accurate characterization of what's going on. This major at this institution doesn't lead to really good employment prospects where this other one does. Right? And the prospective student will not necessarily know that and know there's a difference.

MR. WHITEHURST: Rich?

MR. VEDDER: I know a little bit about ratings myself. I do the rankings for *Forbes* magazine, which is a -- well, we get zillions -- we get more hits on our website than the Department of Education does, Russ. (Laughter) Well, I mean, because people are fascinating in this stuff.

And Michael made a very good point. When you rank or rate someone, it's someone's preconceived or predetermined set of values and preferences that are used in determining the rankings. And *U.S. News,* for example, is a very input-oriented and reputationally oriented ranking system. The *Forbes* rankings are a little more -- are much more student outcomes-oriented. We're more interested in what do the students feel and we include things like debt load and all in our measures. It's much more student-friendly, I would argue. But, again, it's a value judgment. And what's the best college for student A may be the worst college for student B. And as Russ pointed out, what may be -- college could be good for student A, but bad for student B.

How the federal government can deal with that in an informational sense in providing consumer information, I'm not sure what they can add. They do have access to a lot of data, but most of that data is open anyway to the rest of us. So I'm not sure what they're going to add.

What they're going to do with these rankings in terms of financial punishments and incentives I think is a bigger issue. And I would be interested in -- I think we've all said the devil's in the details. I think we're at sort of a wait-and-see attitude right now.

MR. WHITEHURST: Does anybody know what that is? (Laughter)

MR. VEDDER: Someone does not like what I was saying.

This is discrimination. (Laughter)

MR. WHITEHURST: If it's your instrument that's buzzing, please --

MR. TANNER: I think it's the conference.

MR. WHITEHURST: We're attending it. Beth, would you like to jump in to the devil is in the details part of the conversation?

MS. AKERS: Sure.

MR. WHITEHURST: Do you think that we have the details to be devilish about?

MS. AKERS: Well, that's my concern, so I'll take a step back and answer your last question because I was afraid you weren't going to give me a chance to answer.

You know, when the administration came out with the proposal to create this institutional accountability system, I was really excited.

Wow, that's so distracting.

MR. WHITEHURST: It is.

MS. AKERS: This is a challenge. But what I was going to say about it was actually not necessarily the accountability system that they plan to put in place in the future, but that the side effect was that I knew they were going to have to populate that box on the scorecard that had something about earnings, whatever it looks like. And so, to me, I thought, well, this is great. This is going to get them to get that piece done. And then, okay, tomorrow we can think about, you know, what is the devil in the details here?

And I think, you know, I've advocated for regression-adjusted metrics. I think in theory it's a great way to solve the problem, although there are, I understand, reasons that it creates bad perceptions of creating different expectations for different students. But I think practically we may have challenges in doing it properly. And I'm not entirely convinced at the moment that the information is available for us to do a complex regression adjustment of these metrics, like I would like to do in theory.

In practice, I like the suggestion -- in the meantime. You know, we don't have the data today, I should say. In the meantime, what we can do is rather than providing a single rating system -- you know, like you go to New York City and you go to a restaurant, it has A, B, C, or D hygiene record, and I only go to C or above or something like that -- rather than giving a single metric, you give a variety of metrics that maybe we've determined are helpful for students in sorting through this complex information. I think the scorecard is really a good attempt at doing just that, so basically sifting through this vast set of information and providing the things that we believe are really important and really helpful to students and, in the long run, developing the data that we do need to create a more robust, more elegant system of adjusting institution-level outcomes to account for different student populations.

MR. WHITEHURST: So I think one thing I hear from the panel is that there is a real distinction between making information available and how it's made available, and attaching consequences to it. Clearly, you need good information for both of those goals. I don't think I hear any disagreement that better information should be available for consumers and institutions. And probably either opposition to or differences in view about the desirability of the federal government attaching consequences to institutions based on that sort of information. Have I correctly characterized that?

MR. VEDDER: I do have one thing I should add.

MR. WHITEHURST: Yes.

MR. VEDDER: I've been somewhat concerned with the federal government to this point has shown some aggressiveness in putting consequences to certain types of institutions and not to others, specifically the proprietary industry relative to the rest of the industry. I do think the for-profits should be held to account. I think they should have consequences when they make mistakes. But I do think that if you're going to play that game, you should do it for everyone.

MR. WHITEHURST: Yeah. So what Rich is referring to is that a gainful employment rule that the administration's been trying to attach to the for-profit institutions, you know, their eligibility to have students who are supported with federal aid, would depend in some way on the ability of those students to obtain gainful employment that will allow them to repay loans, and similar standards of accountability not being applied suggest it be applied to public institutions.

I want to talk a little bit about --

MR. VEDDER: Michael wanted --

MR. TANNER: I would just comment about the -- what should I say -- the popular support for rating systems and why I can believe someone would say that. It's that tension between over-information and simplicity. Tell me what is the best men's cologne or something. (Laughter) Well, you know --

MR. WHITEHURST: None.

MR. TANNER: -- I'm wearing number 1, you know. Our football culture, I think, and the people around it and we've got a ranking system and so forth. And they really digest huge, complex things down to something, okay, you gave me simplicity. I'm going to go for the number 1 product, the number 2 product, or the number 3 product. Well, in this area, then you have this tradeoff. I mean, that oversimplifies.

Now I know that you're behind Forbes, I'll know who to write, but you end up saying, well, what was all put into that, that led to that particular ranking? And sometimes you get -- in fact, there's not much difference between number 1 and number 3 really. And relative to this student, actually number 10's going to be better. So you've got that complexity when you -- I think you'll see people wanting to have kind of ratings for the simplicity, but, at the same time, it's going to be a distortion of the actual decision that should be made.

MR. WHITEHURST: I want to talk a little bit about data since that underlies a lot of what we're talking about and get the opinion of the panelists on what we should have that we don't have and who ought to be collecting it. We have talked about labor market returns, that is who gets a job and how much they get paid. It turns out we don't have that information. That is the federal government doesn't have it and some states have it. All states probably have it, some states know they have it, and a few states make it available.

Should we have information that's available to consumers and policymakers and others on the labor market returns of every student in the postsecondary system? Should we be able to say something about what happened to the graduates in the nursing program at Seattle

Community College? And should we be able to compare that with other nursing programs around the country? Or is the very creation of such a database fraught with opportunities for misuse and unintended negative consequences?

And I'm asking this question because I bear the scars of having tried to create a national database seven or eight years ago that would do that, so I know there's a lot of controversy about it. But I do think it's important to any system at least to have a position on what role information will have in any system that relates to financial aid and the consequences for financial aid.

MR. VEDDER: How can you be against it? Well, can it be misused? People use data wrongly, people use data correctly, but more is better than less. And this information is -- technologically, it's possibly to gather the information. As I point to everyone, the IRS has a little bit of information on our incomes. And you give the IRS a bunch of Social Security numbers, they can give you pretty quickly a summary of -- without violating privacy, a lot of information by colleges, by major, by -- however you want it organized, 5 years out, 10 years, post-graduation. PayScale.com does this. And I'm not saying it's good data and all, but they do it. And they even do rate of return estimates by college. And I think the people are hungry for that kind of thing, so I think we can do it.

More broadly, Russ, I think there's some data, can you tell me, can anyone in this room tell me what the six-year graduation rate of Pell Grant recipients in the United States is? It's a deep, dark secret. We don't publish the data. Why? You know, we only spend, what, $35 billion a year on the program. We don't know the basic outcomes of it. And Arnie Duncan was asked about it. He said he didn't know. Now, it seems to me if the Secretary of Education doesn't know how $35 billion of federal money is being spent, doesn't know the full outcome or consequences of this, there's something wrong with that. And so I have some data problems with the federal government. (Laughter)

MR. O'SULLIVAN: Yeah.

MR. WHITEHURST: Anybody else?

MR. O'SULLIVAN: We agree. It was one of the things, I think, that pretty much everyone as part of the RADD process in general agrees on. As a student group we would I think share basic concerns about privacy, but think that we can essentially figure out a system that will protect individuals' privacy and get the data that we want.

The one thing I think would be really important for students and it would be very helpful about having more data is that it would allow us to personalize a lot of the information that young people receive. So in an ideal world you could break it down by program, what someone graduates with, what wages they have, what their average debt load is. And then being able to put that sort of like monthly payment and monthly income in front of a student so they could compare. It doesn't mean that they're going to pick the one that's going to, you know, have the maximized return on investment. There are other things that people pursue careers for and should do so. But that would be, we think, the kind of information that would be most helpful for people to make their decisions.

MR. TANNER: I don't think that there's any reason that you shouldn't get out labor market data, and so I think we can agree on that.

MR. O'SULLIVAN: Good, good.

MR. TANNER: But you do have to be cautious about aggregation. I think, let me just state one of the arguments against it, that there are students who want to go into a ministry, they want to go into social work, they want to go into things that are adding value to our society, but not necessarily paying well. And if you start putting up just the economic return in the market in terms of salaries, you're missing other dimensions of what we're looking to see delivered. I think if you can avoid the excessive aggregation and differentiate, it's important knowledge. I mean, it's certainly very important knowledge if you're about to take on a loan. If you want to take on a loan to become, you know, a petroleum engineer at a certain level, that's one thing. But if you're planning on doing the same thing to go into social work, it's another thing. And so I think it does need to be out there. But aggregation can cause problems.

MR. O'SULLIVAN: Well, one thing I would say, just to touch on that, from the student perspective and the concern about overly -- too much focus on the financial outcomes is that most students actually make decisions now and, even if they had information, I think would not be overly concerned with financial outcomes. If you ask them, like what are the most important considerations when they go to school, their major and basically what they want to study, what they're interested in is at the top of the list as well as location. Many people just go close to home.

And so down the list, maybe a couple down, would be, you know, job placement rates and employment rates and wages to the extent that we could get that information. But I think we're pretty confident that actually a lot of young people are pretty good at making that tradeoff between, okay, what's going to be fulfilling to me pursuing goals for society that I really care about and also going to be financially stable.

MR. WHITEHURST: Beth, anything to add?

MS. AKERS: Sure. So I'll make an argument I think hasn't been voiced yet. And it's that by putting all these numbers on the table, we may be changing the discussion around college education to be focused strictly on the financial (inaudible), which I guess is sort of what you were saying as well. I think that's a valid point and I think that's true. You know, the more we emphasize the financial return just by reporting employment outcomes or by calculating the financial return, we are changing the discussion for students.

And I would love to live in a place where everyone had the luxury of going into the ministry or going into social work or doing whatever it is that, you know, was their passion, but I don't think that's the reality of our economy. And so I think, you know, the government has a responsibility to provide the information, so that students who are not in the position of having the luxury of choosing solely on the basis of their passion, you know, have this information and can make wise decisions and not up in financial hardship after graduation.

MR. WHITEHURST: You know, federal student aid is insensitive to the likelihood of the student being able to repay the loan. So if it is a loan, you can borrow up to the federal limit to get the degree in social work and borrow to that same limit to get the undergraduate degree in engineer with a high likelihood of payoff. Should the lender, which is the taxpayer in this case, should the lender be insensitive to the probability of a student actually being able to pay off the loan based on their program of preparation?

This is not rhetorical. I'm actually asking. (Laughter)

MR. TANNER: My personal position, I can't speak for all my -- my personal position is that it should be sensitive to that. I mean, in fact, in the worst case, again, you're given someone taking on a loan and not understanding that they've just saddled themselves with a lifetime of debt or, ultimately, the federal government, if it has forgiveness, it's a debt back on to the taxpayers. So I think there should be some sensitivity.

Of course, that will raise the issue of who's making the distinctions and why those distinctions are being made. But I think that to ignore that -- I mean, in the private sector, of course, you'd think through. If you've ever gone to get a loan, they look you up and down and they size all sorts of things about whether or not that loan is going to be repaid before they grant it to you.

MR. VEDDER: I completely agree, again. I would even go a little farther. It seems to me -- and that gets back to my point about the Pell Grant. If we don't -- let's say 30 percent of Americans graduate in 6 years with Pell Grants. I don't know what the figure is; I've thrown out as a guesstimate, 30, it's certainly not higher than 40. Should Americans be insensitive to the fact that every Pell Grant recipient who graduates there are two that do not? I mean, we do have limited resources available. We can use them in different ways. Maybe there are other ways.

There is ultimately a tradeoff, though, between egalitarian goals, access goals, providing opportunities for everyone on the one hand, and, on the other hand, there is a goal of using money wisely, efficiently, and allocating resources efficiently. There is tension between those goals and we have to recognize that. Anytime we want to make the financial aid system more efficient, more productive, we are probably going to put in provisions which some would regard as being anti-access. I think that's inevitable.

MR. O'SULLIVAN: I think a couple thoughts. One that there is good reason for why the taxpayer and all of us together collectively would want to invest and have loan terms that would favor the student in some way, in that we do get a huge economic benefit from investing in higher education. I would agree that there should be some sensitivity, in particular, even from a student perspective, there are some students that go through and don't realize -- and this is part of the information argument -- that they're taking out more loans than they can possibly afford. I think how to do that and to do it in a way that meets these values of fairness and accountability would be, I think, where we just have to dig into the details.

MS. AKERS: I think what you're talking about is basically underwriting, except rather than using the interest rate mechanism you're using the total loan volume. I would prefer a system that used the interest rate, but I'm not opposed to restricting the total loan volume. I think the advantage is that it conveys information to the student borrowers about the risks that they're taking themselves. You know, right now the government gives them the same amount of money regardless of what they're investing in, and maybe that's sending the wrong message.

Secondly, it may end up that this translates into negative pressure on tuition inflation. So if it's the case that you're no longer to borrow at this universal level for different programs, institutions may have incentive to price programs based on the financial returns that students will see. And I think both of those are good things.

MR. WHITEHURST: I'd like to give those of you in the audience an opportunity to contribute to our discussion. I would ask you to raise your hand. I will call on you. Tell us who you are and make it a question and a short one rather than a statement, if you would.

Over here. We'll bring you a microphone.

MR. SANCHEZ: Claudio Sanchez with National Public Radio. Could you please address the issue of pricing? The discussion here has implications for pricing and many people consider pricing of higher education as really the crux of the crisis. Anybody who could comment on that.

MR. WHITEHURST: By “pricing” you’re asking about tuition?

MR. SANCHEZ: Right, the price of going to school.

MR. WHITEHURST: Yeah, right, right.

MR. VEDDER: Well, I wrote a book on this; many others have written books. This is a complex question that’s not amenable to a sound bite answer.

MR. WHITEHURST: Go ahead. (Laughter)

MR. VEDDER: You know, I’m a college professor. I teach in 50-minute sound bites. This is terribly constraining as it is. (Laughter)

The rise in the price of college cost is partly we are a highly labor-intensive industry, and part of the cost rise would probably occur under any system of finance, any way that we financed higher ed or anything. William Baumol argued this 50 years ago; I won’t go into the details.

But it is probably true that all of these variety of programs that we have put in have had unintended consequences. There is a debate amongst economists to what extent has the student financial aid program and all this increased the demand for higher education and pushed up prices? I happen to be of the school of thought that it has contributed to the inflation. How much is a debatable proposition, but it has at least contributed somewhat to it. There are other factors along the same lines that have contributed to the rise.

Colleges have also been very restrictive in the growth of enrollment; some of them, not all of them. But certainly, how do you become a successful college and university in America? You turn students away. It's the opposite model that McDonald's has. McDonald's doesn't have an admissions committee. Anyone can buy a Big Mac. But Harvard does have an admissions committee and turns far more away than it accepts and, therefore, ranks very high in everyone's rankings. And this is another fact that we have not expanded supply as aggressively as would occur in a normal for-profit environment. There are some legitimate reasons for it, you know, but it has contributed to the problem.

MR. O'SULLIVAN: Yeah, I mean, I'm glad you brought that up because, as I mentioned in my initial comments, affordability is the key issue for students out there. That's how they -- the lens through which they perceive all of these problems.

I would come down on the other side from Richard in terms of how much financial aid is actually incentivizing and driving tuition prices to increase. In part, there's actually very few studies in the literature that show any kind of movement on that end. And if you look at the Pell Grant, I mean, it used to cover like three-quarters of college tuition. It now covers a third. It's difficult, I think, to argue that that is like driving, you know, a line that is moving two or three times faster up the chart.

We do know some -- and there actually has been a pretty significant in enrollments and even in supply in the for-profit sector as well. And we haven't met that increase in enrollments with concurrent increases, particularly at the state public level, and that's pretty much what's driving the increase in prices. Institutions, on average, don't spend that much more, particularly community colleges and four-year public institutions. They spend about the same as they did 10 years ago actually educating their students. It's just that who pays for that has changed substantially so that students and families now pay a lot more and they have to make it up through loans much more than state and local governments.

MR. TANNER: I'd like to comment, the distinction about price, meaning what you advertise the tuition is to the student, versus the cost internally. Right? And I think Rory's saying that the cost per student has not gone up that much.

I have one really good data point, a former provost of the University of Illinois at Chicago. The tuition was going up by sometimes as much as 9 percent. The actual funds that we had available to provide the education were not going up. And the reason being that the state government was cutting out the support underneath it and tuition was being substituted in for that state dollar. It was becoming much more a private purchase on the part of the student.

So I think in terms of the federal program, you have an interesting question: What is the role of the state? And I'd say the states have been retreating from what has been their historical role. If you go back to the 1960s, there was no tuition in California, where I was living. It was education for anybody who was qualified to get in. That keeps changing. So the states have retreated, but that's put a greater burden on the federal government.

And this business about the inflation rates, yes, Baumol disease and everything, it's a long, complicated topic. You've seen a few institutions in the private sector where their pricing strategy suddenly has shifted because they've realized that they've signaled such a high price that they're not getting students to even apply. Those students don't know that, in fact, the real price to them might be much lower. And they're saying we're actually dissuading students who might otherwise come to us through a pricing structure that's too aggressive, so they've just dropped their prices down.

But the real struggle is how do you give high-quality education at a low cost? And those in my institutions are, you know, struggling mightily with that to try to do better.

MR. VEDDER: I've got to say that one reason why state appropriations have declined, there are many, many -- there's crowding-out effects because of the aging of the population, Medicaid, Medicare -- all these things are important, but I think that there is some evidence, there's a good new National Bureau of Economic Research study out that shows that one reason why state appropriations are falling is precisely because federal programs are expanding. The state politicians say we don't have to worry about this anymore. The Feds will take care of this. And I think there's a little of that going on and that has contributed to the problem. So I think the relationship between the federal programs and cost, prices or even costs, are more complex than we point out.

And the incentive system in higher ed to cut cost is still pretty, pretty limited, in my opinion, and I've been a college -- as I tell state legislatures, I've been ripping off taxpayers for 49 years. (Laughter)

MR. WHITEHURST: Another question on the aisle here. And I'll turn to those on the right wing of the audience in a little bit. We'll deal with the left wing.

MR. MILEY: Hi. My name is John Miley. I'm a reporter at Kiplinger. I'm interested in which recommendations might be most likely to happen, particularly the IRS FAFSA one. I'm interested in how likely that is.

MR. WHITEHURST: Anybody want to predict?

MR. O'SULLIVAN: I would say I've seen the most conversation about the simplicity piece and it seems like, from my perspective, that that's where the most movement could possibly occur. But a lot of people are distracted right now, and understandably with what's going on. (Laughter) And so I can't say that we've had a lot of conversations this week or recently about higher ed.

MR. WHITEHURST: I mean, I think though this is probably not the best week for me to make this point, but the introduction of the health exchanges and the fact that the registration process involves a query of the IRS database to determine eligibility means that there is now a precedent for the federal government having such a mechanism in place. And it seems to me that there would be more political will to see that that extends to the ability to simplify the application process and provide information to families much earlier, I think that has some wings associated with it.

Okay. On this side, first gentleman here as you're walking up, Sarah. Thank you. Yes.

MR. FARMER: Jim Farmer from e-Literate. Thank you, Mr. Vedder, for commenting about PayScale.

MR. VEDDER: Yeah.

MR. FARMER: I think their methodology section is probably much more insightful than any discussions we've had. But the question I have for all of you is what's the role of accrediting in the future?

MR. VEDDER: In 25 words or less. (Laughter) Huge silence.

MR. TANNER: Well, I guess I'll make some statements. The triad -- the state, the federal government, and the accreditors -- there are some real problems there. As some of the abuses surfaced, people turned to the accreditors and said, well, why were you accrediting? And the accreditors could turn around and say, well, we went according to the rules and we had to accredited them according to the rules.

I think there's a problem. First is the accreditors don't have subpoena power. They don't have the ability to actually ferret out fraud. That's not the way they're set up. We want accreditors to serve as sort of a value judgment. The federal government says we don't want to be wasting your money. We turn to accreditors to accredit, but then we don't want the federal government dictating as to what accreditation should be. So we end up with this kind tension around it.

There are places where I know accreditors, they would say we would have loved to have closed that place down, but we faced huge political backlash and we would have had lots of things coming down, and we weren't in the position to be able to do that. We advocate in our document as part of the RADD that, in fact, there should be a partial loss of eligibility.

Right at this moment, accreditation is -- it's a death sentence, in some sense. If an accreditor strips an accreditation from an institution, that takes away eligibility unless they're nothing but privately funded students. It is a huge blow. So much that it may lead to the closing of the institution. Consequently, it's sort of like the police only having, you know, lethal force to stop jaywalkers: it doesn't get used. And you got to have something else, which is the slap of the hand in a certain sense.

What we advocate is if a place is not doing well, they ought to have their eligibility for numbers at that institution. Not the students, the students are still eligible, they can go elsewhere. But that institution should not be able to admit as many Pell students because they're not doing well. Right? And that could come out of both the accreditors and the federal government, but we have to clarify which of the roles -- the federal government can go after fraud. It can use subpoena power. It can get information that accreditors can't. I think the accreditors have been put in a box that, you know, they can't carry out the function that they're assumed to have.

MR. VEDDER: Well, this is a subject for at least a two-hour or three-hour conference in itself. I think the accreditation system is broken. You mentioned one of the problems right now, it's the binary nature of the system. It's like pregnancy: you are or you're not. And, you know, it's true, no one is 72 percent pregnant, but you can be 72 percent good or 72 percent bad, and the system doesn't really very well provide that information. There's too much secrecy in the system. Accreditation reports are generally not made public to the broader audience. There's huge conflict of interests. Look at the board of directors of any of the regional accreditors. They're made up by the people that they're being accredited. If this were in the financial sector they'd be closed down in a minute by the SEC or someone. The whole system stinks the way it is now. It's a good idea to have accreditation. I'm not against the idea of having it, but the system needs serious review. We don't have time to go into the reasons for all that.

MR. WHITEHURST: I would add to the problems that it is a very conservative system. And so, for example, if you want to be in the business of delivering à la carte education -- buy a course here, buy a course there -- you can't get accredited to do that and it's very difficult to get a student loan to purchase that educational service. So we have a system that's set up to maintain the status quo, and I think a lot of us think that the status quo is not as functional as it should be.

In the middle here. Yes.

MR. CRAWFORD: Steve Crawford, George Washington University. On accreditation I'd just point out that I think it was Monday or Tuesday there was an interesting session at AEI with a paper by Hank Brown that was quite an interesting, thorough discussion, the accreditation issues. My question is to Beth and to everyone.

I was intrigued by what I thought I heard you recommending or suggesting, consideration of variable loan terms for student loans? It's a subject that I and a colleague have written about and I'm intrigued by your interest in it. Variable loan caps, variable loan rates, interest rates -- to incent students to go to colleges that would serve them better. It does simplify a lot of complex information the way a credit rating does. I'm sure there are all sorts of unforeseen consequences and we'd want to have some pilot studies, but I'd be very interested in what the panel thinks about what may politically be a non-starter, but I am starting to hear more mention of it.

MS. AKERS: Yeah. So I think it's a good idea. I've spent enough time on it probably to write a blog post, but not a paper about it, so I can't speak for too long about it before I, you know, put my foot in my mouth. But I think it's a good idea. And the primary reason I support it is, like I said and you said, that it conveys information to students in sort of an elegant way. You know, they're forced to comprehend the information because it affects where they can go and, you know, their financial outcomes.

So, in general, I think it's an excellent idea. I'll be curious to engage in the discussion about it as the policy moves forward. I don't think it's on the table today. I don't think there's much appetite for it, but I do think that it's a solution that we should think about in the future.

MR. O'SULLIVAN: What would the interest rates be pegged to?

MS. AKERS: It doesn't matter. I mean, they'd be variable, in a sense, right? The baseline is sort of arbitrary just like the current baseline in the existing --

MR. O'SULLIVAN: So it'd be like a rating system and the interest rates would?

MS. AKERS: They could be -- if you are taking on greater risk by going to a program of study that has, you know, a low labor market return, maybe you'd face the higher interest rate to reflect that.

MR. O'SULLIVAN: Gotcha, gotcha. I would have a few words of caution on this one. (Laughter)

MS. AKERS: You can write the counter-blog post to mine.

MR. O'SULLIVAN: I want to start with how much Beth and I agree on simplification and that this would -- and this comes up all the time, for us included, where we -- all of us agree generally that we want a simplified system and then realize but there's also these other really good goals that we want to pursue. And it's difficult to strike that balance, so that would be one of the concerns that we might have.

The other on interest rates can be somewhat challenging. We did some research on this as part of our grad paper because we were curious about, you know, what would be the consequences of going to a system where fewer loans with maybe even no subsidized interest rates? How would that affect students? And we got sort of a mixed feedback from borrowers about what they thought the interest rates conceive.

I mean, it is something that people understand. It's like they may not understand exactly how the loan product works, an 18-year-old loan, about high interest rates are probably worse than low ones, but there wasn't much evidence we could find at all that, like, lower interest rates has an effect on college access. Because you would assume that if students paid a lot of attention to the loan product and interest rates that they would know that a lower interest rate meant that they were paying less for college in the long run. And that for a low-income student might mean the same as a Pell Grant that, okay, my costs are going to be reduced. And we couldn't find much evidence of that. So, again, we sort of have mixed feelings about what we can or can't do through interest rates.

MR. WHITEHURST: Anybody else with a question for us? Oh, you want to --

MR. VEDDER: Well, I just want to say my distinguished colleague from George Washington has a great idea. It should be promoted and, you know, banks do it all the time. Why can't the federal government at least introduce some element of incentives and disincentives into the system? I'll just leave it at that.

MR. WHITEHURST: Here.

MS. HENRICH: Hi. I'm Carolyn Henrich with the University of California. I'd like to just ask Richard a couple follow-up questions on two things he said.

One, that you mentioned the department doesn't have any graduation data for Pell Grant recipients, but you claim that it's only 30 percent. For UC we do have those data and it's basically the same as our non-Pell. We have, on average, 40 percent of our undergrads get Pell.

And then the second point is on the gainful employment because those very minimal standards do apply to nonprofit institutions, including UC. So I'd like to -- you made the claim that they only applied to for-profit programs.

MR. VEDDER: Well, I don't know about the Pell Grant record at the University of California, which is a selective admissions university, the top public university in the state of California. It may have a different record in terms of Pell Grants in other schools.

I didn't say the rate was 30 percent. I didn't say the rate was 40. I said I didn't know what the rate is. I would guess it's in the 30 to 40 percent range. I've run regressions and other ways of kind of getting some inferences what it might be, and that's what the numbers show, I think, at the University of California.

And this proves a point. The University of California is a selective university. It is a selective admissions university. Selective admissions universities have altogether different characteristics than other schools. And I think that the point needs to be made.

So -- and I forgot what the other question was, but I think we're out of time anyway. (Laughter)

MR. WHITEHURST: We are out of time. Very good. So, again, I want to thank you very much for being here today. It was an interesting discussion for me and I hope it was for you. Thank you. (Applause)

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