

EDUCATION MARKETS: FORWARD LOOKING POLICY OPTIONS

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Assignment

What are high return investments and priorities for federal education policy?

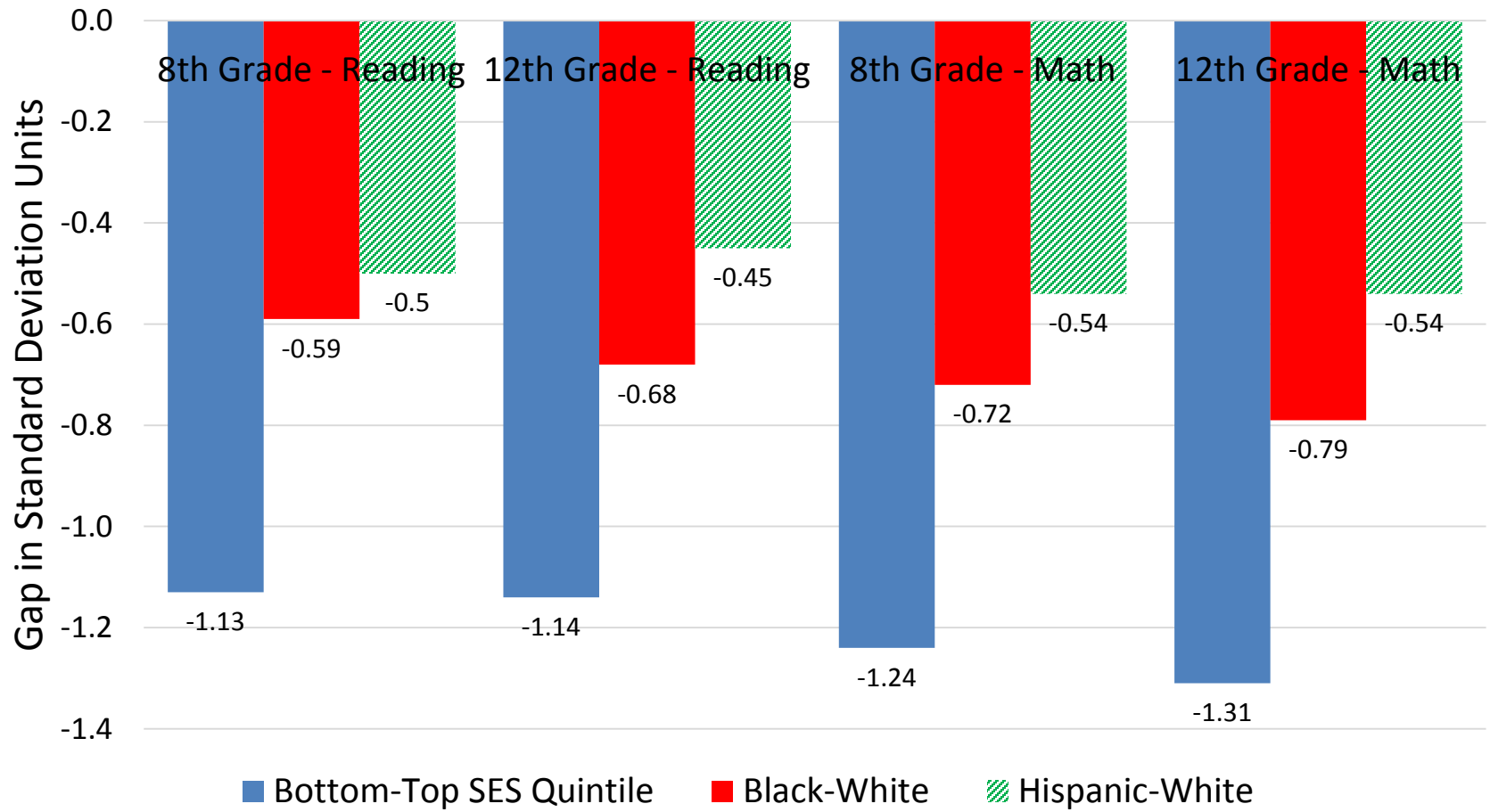
Scope of talk: K-12 and **post-secondary**

Setting some boundaries: Other enormously important “skill” relevant policies in pre-K, graduate education and funding science

Federal Education Policy Role

1. Address credit constraints
 - increasing opportunity motivated by efficiency as well as equity
2. Limited (but not zero) role for federal government regulation in education markets
3. Federal government has a comparative advantage in investing in R&D
 - Recognize real progress in last three decades, particularly since IES

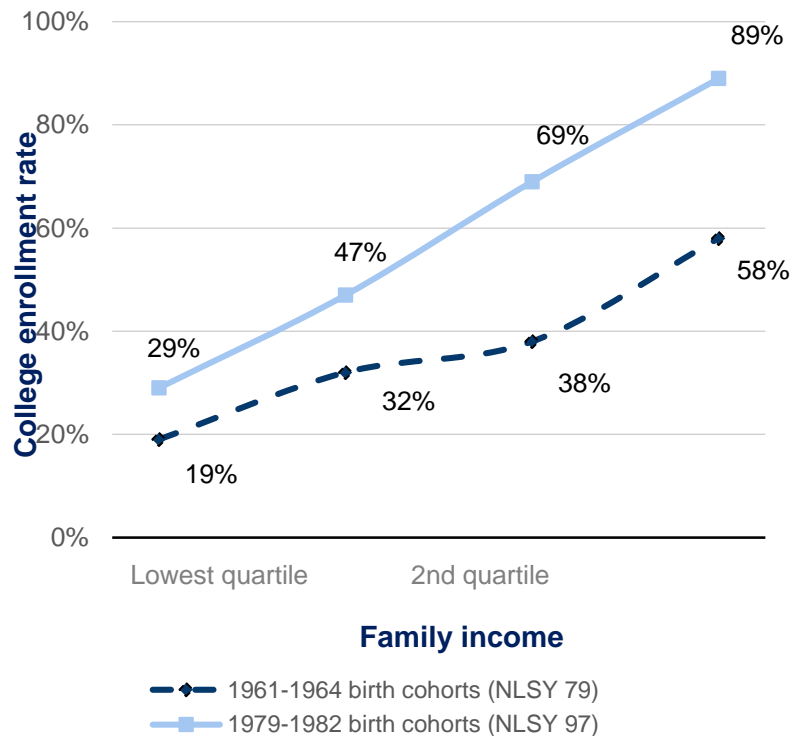
Entrenched Achievement Gaps



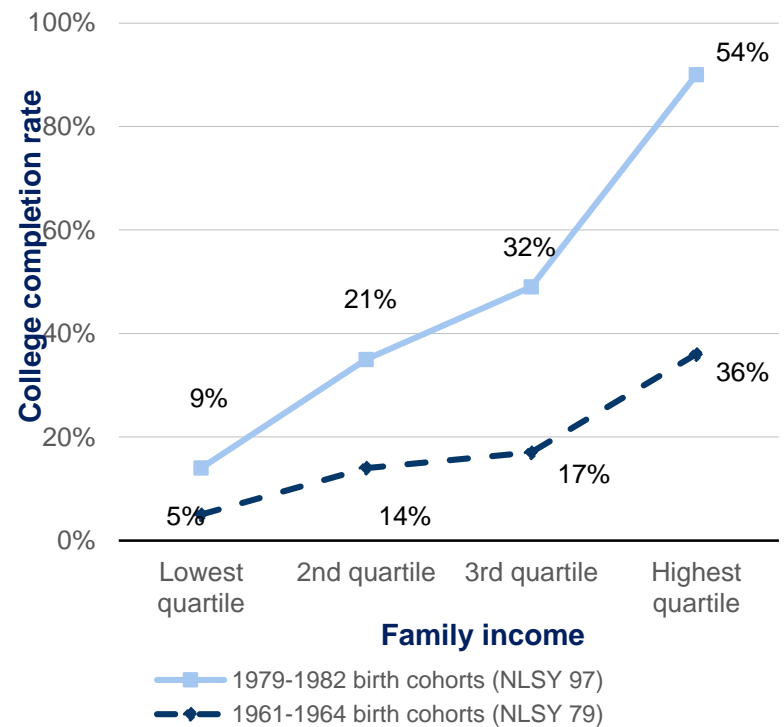
Source: Farkas (2011) from *Wither Opportunity* (Duncan and Murnane)

College: Widening Attainment Gaps

College enrollment by family income



College completion by family income



Source: Bailey & Dynarski (2011), tabulations from NLSY.



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Federal Policy in Higher Education

Higher Education Act (1965) has been due for reauthorization since 2013. This year?

- Student Aid
- College Choice
- Supply side

Student Aid (1): Grant Aid

Evidence: Transparent grant aid affects collegiate attainment.

Takeaways: \$30.6 billion on Pell; \$18.2 billion on tax credits; could get higher return.

- Eliminate tuition tax credits
- Restructure Pell Grant
 - Distinguish recent HS graduate and adults
 - Streamline needs analysis

Federal Pell Grant Awards in 2014 Dollars, 1979-80 to 2014-15, Selected Years

	Total Expenditures (in Billions of 2014 Dollars)	Maximum Pell Grant (in 2014 Dollars)	Average Pell Grant (in 2014 Dollars)	Number of Recipients (in Millions)	Percentage of Recipients Who Were Independent
1979-80	\$7.7	\$5,867	\$3,027	2.5	34%
1984-85	\$7.0	\$4,348	\$2,544	2.7	49%
1989-90	\$9.2	\$4,405	\$2,754	3.3	59%
1994-95	\$8.9	\$3,693	\$2,411	3.7	59%
1999-00	\$10.3	\$4,466	\$2,737	3.8	56%
2004-05	\$16.5	\$5,095	\$3,116	5.3	58%
2009-10	\$33.2	\$5,919	\$4,100	8.1	61%
2010-11	\$39.0	\$6,065	\$4,189	9.3	60%
2011-12	\$35.4	\$5,853	\$3,749	9.4	59%
2012-13	\$33.3	\$5,772	\$3,722	9.0	58%
2013-14	\$32.1	\$5,757	\$3,706	8.7	56%
2014-15	\$30.3	\$5,730	\$3,673	8.2	—

SOURCE: The College Board, *Trends in Student Aid 2015*, page 33

Student Aid (2): Loans

Evidence: Challenges in loans. Are the biggest problems **repayment** or initial **college choice**?

Takeaways:

- Initial college choice explains some (not all) burden
- The push toward income-based repayment is a potentially massive unfunded liability
- “Degree-scoring:” Experiment with pro-rating loan limits to correspond to expected enrollment terms.

College Choice

Evidence: Students **market options** and **market information** may limit matching.

Takeaways:

- Encourage development of tools that facilitate college preparation and planning that are empirically based and customized to student circumstances.
- Investigate and innovate to provide academic and career guidance to enable adult students to choose programs of value in labor markets.

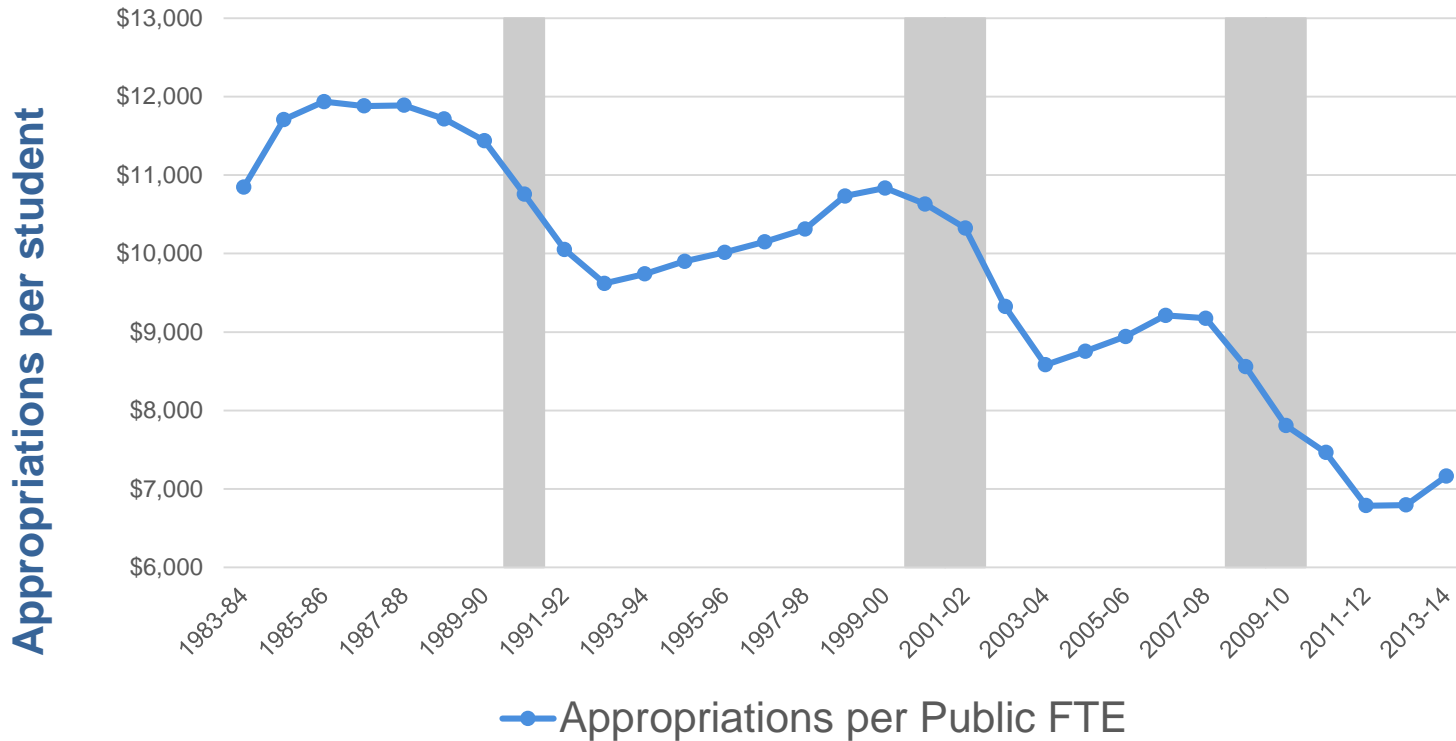
Supply-Side Policies and Accountability

Research: Resources matter, increased stratification, limited productivity gains, a few “bad apples”

Takeaways:

- Encourage state funding of higher education
- Accountability to limit “bad outcomes”
- Support productivity-enhancing innovations
 - Foster mergers and consolidations
 - Technological innovation (“bending the cost curve”)

Appropriations per FTE, Public Colleges and Universities



Main Takeaways

Federal role in education at all levels:

- Basic accountability and regulation
- Address market failures (e.g., credit constraints)
- Foster innovation and encourage development of collective goods
- Correct underinvestment in education R&D

Federal Education Research Funding

- Institute for Education Sciences (through the Education Science Reform Act of 2002) has increased evidentiary base
- Federal R&D spending on education research in the 2016 budget was \$279 million which represented a decline of 54 million from the previous year
- To put this number in perspective, federal R&D spending through the Smithsonian for 2016 was budgeted at \$261 million while funding for NASA was 43 times greater at \$12.238 billion and funding for NIH was 102 times greater at \$29.645 billion