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AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

Addressing the Top Misconceptions About Debt-Free College

BY MARK HUELSMAN

It is undisputed that the way we pay for higher education has shifted drastically over the past few decades—from summer jobs and moderate savings, to increasingly greater amounts of debt. For all the talk of rising prices and the ubiquity of loans, it is easy to forget that we have arrived at this period not due to any big national debate over how to pay for college or whether a debt-based model is a good thing, but instead due to a long and silent shift toward austerity. This shift has its roots in relatively small decisions by state legislatures and governors to cut per-student funding for public colleges and universities a few percent per-year, as well as neglect from the federal government, which could have provided greater grant aid and asked states and institutions to meet the rising demand for higher education with greater investment. As a result, we are hurtling toward a system in which the affordable public college options of yesteryear no longer exist, with student debt simply replacing what was once paid for mainly by society.

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That this happened without a great deal of public debate—at least at the national level—is instructive, and even as recently as 2008 and 2012, college affordability and student debt were not issues that loomed large in the national policy conversation. To the extent that rising college prices and debt were discussed, it was often as anecdotes in stump speeches about the larger economic distress facing American families. To the extent that policy reforms were offered, Democrats primarily wanted to provide more consumer information, make financial aid and student loan repayment easier and less painful, and expand tax benefits for students[1], while Republicans attempted to bring back private banks and lenders as middlemen in the federal student loan program.[2]

Now, however, student loan debt and the cost of higher education have become top-tier policy issues in the 2016 campaign. Starting with President Obama's embrace of state-based free community college programs, to Senator Bernie Sanders' embrace of tuition-free public college, to Democratic nominee Hillary Clinton's support of debt-free public college, the national conversation has shifted from debates over interest rates and repayment plans to a push for fundamental reform of how we finance higher education, and whether we should make a new investment on par with the GI Bill and the Great Society.

Secretary Clinton in particular has made this issue a centerpiece of her economic and social policy platform. Her plan, which would create a new federal-state partnership to reignite state investment, in return for a pathway that does not include debt, and eliminates tuition for all but the wealthiest families, is a response to forces at work over a three-decade period. Its guiding principle—returning to debt-free public college—is built on a recognition that low-income students and students of color take on greater debt for the same degree as their whiter, wealthier counterparts, face greater risk than ever before when making college decisions, and are far more likely to struggle to repay student loans.[3] While wealthy families still have a debt-free pathway, the complicated high-price system facing the working class is enough to prevent some from going to college altogether or dropping out, further putting distance between the haves and have-nots.

As with any big reform, the push for debt-free college and the new investments proposed have been met with pushback among a skeptical elite. Some are cynical that big reform is needed, and that a few small tweaks to the student loan program would solve the crisis among borrowers who are defaulting on student loans in record numbers.[4] Others find the focus on affordability misguided, or that dire warnings about record prices being paid by families and record debt loads taken on by students will be counterproductive and suppress college attendance. And some question whether such a policy could really work in practice.

These concerns deserve a full hearing, but many are flawed in some way, while others misunderstand the structure of or intent behind debt-free college. This policy window to make big public investments in higher education represents an important moment and deserves a full-throated debate, one in which the public and elite thought leaders that drive public opinion are on the same page about what is being proposed, and the impact that it could have. **With that in mind, these are the six most common concerns about or arguments against debt-free college, and why they should not get in the way of a once-in-a-generation investment.**

Misconception #1: Debt-Free College is a Giveaway to the Wealthy

In progressive circles, one pushback against debt-free college is that it would effectively subsidize wealthy families, since college-goers tend to come from the ranks of the middle-class and above, while those that do not go tend to have lower-incomes.[5] This line of thinking animated much of the 2016 Democratic primary campaign, with some suggesting a flat, universal benefit of free public tuition would be a giveaway to rich families who do not need it.

It is important to make sure we do not create policy that subsidizes those that have reaped the limited gains of economic growth at the expense of those who have seen flat-lining wages and increased economic insecurity. Fortunately, this is precisely the point behind debt-free college. Unlike a flat benefit, it provides a simple guarantee to all families that students can attend public college through a part-time job and a modest family contribution from those with the ability to save. Wealthy families already have access to debt-free higher education—nearly half of those graduating from public college with no debt are from families making $100,000 or above.[6] Our system of financial aid and public benefits have withered away and become insufficient to level the playing field between working class and wealthy students, resulting in greater unmet financial need, more debt, and greater risk.

In short, the intent of the policy is to *eliminate* unmet financial need, which takes up far more of a low-income family's budget than a high-income family's budget.[7] A rich family faces zero unmet need and thus may not receive much of a subsidy—but will still be guaranteed debt-free college. Meanwhile, this frame allows for the federal government, states, and institutions, to spend money on students who must borrow the most and face the largest gaps in their financial aid packages.

And since students take on debt for more than just tuition, it ensures that the full cost of attendance is taken into account when assessing a student's financial burden and ability to pay. Whether this means eliminating tuition for low- and middle-income families and allowing grant aid to cover living expenses, or another mechanism, it can certainly be designed (and, importantly, funded) in a progressive manner.

Further, the intent of debt-free college is to ensure that the college-going population no longer skews wealthy. There is nationally representative data indicating qualified and talented students who are concerned about rising college prices are 12 to 16 times more likely to forgo college altogether.[8] For the majority (66%) of high school graduates and the half of low-income graduates that go onto some form of college,[9] this new guarantee could mean the difference between attempting college and finishing college.

Misconception #2: It's a Completion Crisis, Not a Debt Crisis

Perhaps the most common concern about debt-free college comes from higher education policy experts and institutional leaders, who bemoan the focus on student debt or high net prices at the expense of focusing on increasing college attainment. Some also worry that rhetoric about a crisis in student debt may convince students that college is not worth it or not valuable and that current debt levels are reasonable and sustainable for most students.[10]

It is absolutely true that degree-holders have better employment prospects and higher average wages, while many of those most likely to struggle with debt are those who have borrowed but dropped out of school.[11] The average balance for loans that default is far lower than the average for college graduates, meaning that (somewhat paradoxically) those with higher debts are often in better shape than those with low balances.[12] In other words, a college degree still holds substantial value for those who can get to the finish line. Thus, some argue, we should increase college completion rates and much of the problem of high net prices, as well as student loan delinquency and default, will likely disappear.[13]

The problem is that increasing completion almost certainly requires dealing with high prices and the prospect of debt. First, debt aversion or the shock of high prices prevents many students from attending college in the manner that would maximize completion. There is evidence that students who grew up poor are more averse to taking on loans, [14] while many students delay enrollment, enroll part-time, work too many hours, decreasing their likelihood of receiving a degree. Second, financial troubles are the top reason cited by students for dropping out of college, meaning that many would stay in school if we ensured that their financial needs were addressed for the entirety of their time in school. Third, loan debt may be impacting the ability of black students to complete in particular. According to one survey, 69% of African Americans who enrolled in college but did not finish said that they left college because of high student loan debt, while 43% of white students cited the same reason.[15] White students who do not attend or complete are more likely to cite "lack of interest" rather than expenses, family responsibilities, or work as reasons.[16] And Black students are far more likely than white students to drop out with debt, leaving us with a system that calcifies inequality rather than alleviating it.[17]

The idea of debt-free college is not a distraction from our need to increase college attainment rates. Rather, it is a *strategy* for increasing college attainment rates. To the extent that high unmet need, and the prospect or reality of debt, are stifling many students' ability to go to college and graduate, debt-free college offers a pathway to go to college full-time without worry of financial barriers or unmet need getting in the way.

Well over 90 percent of families think college is important or necessary, and the belief in education as a valuable pathway is true across race and generation.[18] Many worry that negative rhetoric around student debt will scare students away from going to college. But the fact is that most families know it is important, many are willing to take on massive risk to achieve it, and others are simply unable to attend or complete due to rising prices and the debt that comes with it. A system predicated on taking out loans may be both inefficient and inequitable, regardless of whether most borrowers can make their monthly payment.

Further, the argument about the need to increase completion is myopic. For all the rhetoric about a "completion crisis," our institutions of higher learning are graduating students at virtually the same rate they always have, and in fact completion rates have improved slightly over the past several years.[19] The difference between a generation ago and today is that dropping out is fundamentally riskier, precisely due to the financial burden placed on students. Previously, a student dropping out may not have received the income boost of a degree, but her risk amounted to the opportunity cost of not working full-time while in college. Now, she faces a loan burden that for too many leads to delinquency, default, and ruined credit.

And to be sure, more borrowers are defaulting on their student loans. Student loan defaults have hit a record high, and serious delinquencies have risen and remained stubbornly high—and in fact, they remain higher than any other type of household debt—even as the economy has recovered.[20] Enrollment in programs to help borrowers meet their payments, like the myriad income-driven repayment plans offered by the Department of Education, has risen slightly but done little to stem the rising tide of defaults.[21]

In short, as a college degree has become extremely valuable and a mostly necessary insurance policy, we have increased the risk of not attaining one. The reason for its value, though, is not because earnings prospects for college graduates have skyrocketed; in fact, they have remained relatively stagnant.[22] Like most American families, wage stagnation is the reality for bachelor's degree holders. The only saving grace is that the earnings for those with high school degrees or less have fallen precipitously. In other words, there is a high cost for not going to college, but the cost of college is going up far faster than graduate earnings. This has led to student borrowers extending repayment terms well beyond 10 years, with average repayment stretching 12-14 years.[23] Graduates may be defaulting at lower rates relative to non-graduates, but they are contending with debt far longer than before.

Misconception #3: We Can't Afford It

Still more of the discourse around debt-free college, and new federal investments in higher education, is stifled by the age-old maxim that there is no such thing as a free lunch. To be clear, much of our spending on social mobility is subjected to this phrase, while tax cuts, expenditures through the tax code targeted at wealthy households, or subsidies toward national defense are not. In fact, the cost estimates of a new federal-state partnership for debt-free college equal less than one percent of the Obama Administration's 2016 budget request, and less than percent of the national defense budget.[24]

And even the view that looks at higher education funding as expenditure alone is flawed. So too is the view that looks only at higher education's benefits for individuals and assumes that they should pay high prices to achieve those benefits. Simply, students are the not the only ones to see gains from college. Education is a public good, an investment that reaps long-term gains in productivity, civic participation, health, tax revenue, and more. State investment in higher education reaps returns that more than make up for the initial expenditure.[25] The OECD estimates that the total net public gain of supporting public higher education ranges between $75,000 and $200,000 per student in the United States.[26] And previous largescale federal investments to make college free, or debt-free, like the GI Bill, provided major gains and helped build a middle class that subsequently contributed to the economy and the tax system.[27]

To illustrate this, a counterfactual may be useful: Every level of education confers private benefits on its recipients. Those who graduate high school, for example, see better average earnings and employment prospects than those who do not. But unlike the rhetoric around college, we do not examine the individual benefits to a high school degree and ask families to go into debt to pay for it on the assumption that it is "worth it" for them to graduate. We understand the national interest in everybody chipping in to allow every student to graduate high school, free of charge. The massive rise in high school graduation rates over the second half of the 20th century would have certainly been stymied had we subjected all American high school students to student debt in kindergarten or 9th grade.

We have long had similar bipartisan rhetoric around higher education, from Richard Nixon declaring that "No qualified student who wants to go to college should be barred by lack of money. That has long been a great American goal; I propose that we achieve it now"[28] to his predecessor, Lyndon Johnson, laying down a marker that any student can "apply to any college or any university in any of the 50 States and not be turned away because his family is poor."[29] But rhetoric has not been matched by the public investment that it would require to achieve that goal—and in its stead has been a system of rising prices, rising unmet need for low-income families, and higher risk taken on by those who borrow but do not graduate. Those who question whether we can afford new investments should be asked to explain why these principles are incorrect.

Misconception #4: More Investment in Public Higher Education Will Increase Prices

Three out of every four American college students attends a public college or university. At these colleges, tuition has increased at a higher rate than private non-profit institutions,[30] driven namely by a pullback of state government support. The relationship between state disinvestment and the rise in tuition is highly correlated, and any new programs to achieve college affordability will require new federal investments—ideally via a renewed federal-state compact and an increase in student grant aid. As such, a three-decade-old argument known as the Bennett Hypothesis has been a sticking point for many opponents of debt-free college, who contend that federal spending on higher education only allows colleges to increase prices and extract the federal aid money for themselves.[31]

The Bennett Hypothesis has always been convenient for those who oppose greater public funding of higher education—after all, it sounds almost too good to be true that decreasing public funding would result in lower tuition. Unfortunately, it *is* too good to be true. As many have argued exhaustively, tuition has risen at public colleges steadily even when federal aid has remained stagnant.[32] Federal loan limits for undergraduates have rarely changed, and the maximum Pell Grant has only inched up slightly, for decades while tuition has far outpaced any increase in available federal aid.

Proponents of the Bennett Hypothesis focus on federal funding, while conveniently forgetting that state support for higher education is itself a form of public funding. On a per-student basis, state funding for higher education is on a 30-year backslide, and the Great Recession crippled state higher education budgets in particular.[33]

Again, to the extent that financial aid may contribute to college price increases, evidence primarily exists at private and for-profit colleges. Meanwhile, the "culprit" is often increase in the ability to borrow for college, while grant aid targeted at low-income students is far less likely to result in tuition increases.[34] In other words, lowering the price of college for students is not the problem anywhere, and certainly not at public institutions. So it follows that providing more grant aid, targeted at low-income students, not only makes college more affordable for those who need it the most, but is very unlikely to harm high-income students who do not get it.

This argument is also odd in the case of debt-free college, because any proposal—including that set forth by Secretary Clinton—*requires* colleges to lower the price for students, particularly those from low- and middle-income families, in order to receive any federal subsidy. In other words, the money from the federal government must go toward lowering tuition and removing the need to borrow. So it's virtually impossible for this new subsidy to increase the price that students pay.

Misconception #5: States Won't Participate

Higher education in America is a decentralized system, with states and institutions holding substantial control over pricing, admissions, and structure of the education itself. Most federal financial aid acts as a voucher program to students, and is reactive to state and institutional decisions on cost. States can, and have, divested from higher education with impunity, while the federal role is essentially to provide students with a subsidy (a Pell Grant) or a line of credit (a student loan) to meet the resulting cost of college. But the proposals for debt-free college, including plans put forward by Demos and Secretary Clinton, often build on the concept of a federal-state partnership, in which states would receive funding from the federal government in return for meeting one or two conditions—namely, lowering the price for students so they can work their way through school with a modest part-time job.

One worry that some have about a new federal-state partnership for debt-free college is that states will simply not take new federal funding, regardless of how generous it is. While logic would dictate that cash-strapped states will accept “free money” from the federal government, some cite the recent Medicaid expansion in the Affordable Care Act, in which governors often took a political stand and refused money to boost healthcare access for low-income households.[35]

There is real concern that intransigent states will cut off their nose to spite their face, but this seems less likely when it comes to higher education than in the more politically-fraught realm of Medicaid, which targets subsidies exclusively at the poor. First, access to education, and specifically higher education, is a bipartisan value. The best recent example is Tennessee, where a Republican Governor helped launch a program to pay any remaining community college tuition not covered by grant aid for the state’s high school graduates.[36] Local initiatives to provide free community college have sprung up in 37 states as well.[37] And when the Obama Administration announced its Race to the Top initiative to provide competitive grants for reforms in K-12 education, 40 states applied for the first round of funding, with even more applying in the second and third phases of the program.[38] The American Recovery and Reinvestment Act also contained miniature provisions of a federal-state partnership to ensure that states did not decimate higher education funding too much in the aftermath of the financial crisis, and states responded by cutting at or near the level required to receive additional federal funds.[39]

For states that simply act irrationally, any policy could provide stopgaps so that students in those states are not left out. For example, public institutions in states that do not participate could apply for funds themselves in return for making an affordability, or debt-free, commitment. Or the federal government could match state need-based grant aid funds for students in states who do not participate, or boost Pell Grant awards for students at institutions that educate high numbers of low-income students.

And unlike healthcare, families are much more likely to ask questions of governors and legislatures who choose to continue down the path of higher and higher tuition, especially when students in neighboring states enjoy the ability to work their way through college. The universality of debt-free college, which starts at the premise that no one should have to borrow for college, and subsidizes accordingly, creates the opportunity for a much broader political coalition that holds state policymakers to account.

Misconception #6: Debt-Free College Limits Choice

There are currently over 4,000 institutions of higher education in the U.S. where students can use federal financial aid dollars.[40] The concept of choice is baked into our system of colleges and universities, and underpins the federal financial aid system. Pell Grants, federal student loans, GI Bill benefits and other aid acts like a voucher, in which students can shop for colleges and take their federal aid package to any accredited college participating in those programs.

In theory, this creates a market for education where institutions can compete on price, value, and other measures. Some private college presidents have argued that providing a debt-free public option would reduce choice and force some private colleges out of business, since they would not be able to compete with the more affordable options.[41]

But this simply does not jive with the history of higher education, and also relies on a notion of choice that simply does not exist. First, the U.S. has a long, rich tradition of private colleges and universities—particularly in the Northeast and Mid-Atlantic. These colleges had little problem attracting students when there were public, debt-free, options up until the mid-1990s. The simple fact is that affordable, public higher education once existed side-by-side with private offerings, but the decline in state funding has meant that public colleges now resemble high-priced private colleges themselves. The fact also remains that the Pell Grant, GI Bill funding, Federal Work Study and other aid is available to students at these colleges, in addition to favorable tax status. In short, a great deal of federal funds flows to private colleges and universities—an extension of our belief in student choice.

In practice though, choice is limited to a subset of elite students choosing to attend selective institutions (be they public or private). Over three-in-four students attend a public college or university, and the vast majority of those attend college in their home state.[42] Students attend a median distance of 51 miles for college, and first-generation students travel even shorter distances from home.[43] In short, we cannot assume that students will travel if the most affordable option is far away from home. Students need an affordable, quality option nearby.

It is true that there are many private non-profit institutions, particularly Minority Serving Institutions, which enroll and graduate high numbers of low-income students and students of color. Many of these colleges cannot rely on high endowment funds—much of which is the result of systemic racial biases and the racial wealth gap.[44] These institutions should absolutely be given the opportunity to remain affordable for the students they serve, and the federal government should provide additional incentive funds for the private institutions that excel at enrolling and graduating students of color and those from low-wealth households. Secretary Clinton's New College Compact, for example, would provide a new fund for these institutions, ensuring that there is attention paid to those colleges that do heroic work in churning out graduates of color in particular.[45]

Meanwhile, many wealthy private institutions simply do a poor job of enrolling high numbers of needy students. According to a recent *Education Trust* report, nearly half of the 138 highest-endowment colleges rank in the bottom five percent of enrolling Pell Grant recipients, and most charge very high net prices to low-income students.[46] It is unclear why we should extend new federal dollars to institutions that could enroll and provide a debt-free guarantee to more students with their own tax-advantaged endowment money or through other private fundraising.

Conclusion

We are in a moment of big, generation-defining debate on how we provide access to affordable education, and what the role of states, the federal government, and institutions should be in ensuring we increase college attainment. The current system is clearly unsustainable, and we must encourage healthy debate over big solutions to address it. But while the debate around debt-free college has been robust, clearly many on all sides are talking past each other, based on faulty or incomplete information on the intentions or actual structures of the policy solutions being proposed.

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