Achieving Debt-Free College through a Federal-State Partnership

BY JEN MISHORY

College costs have skyrocketed, and most people agree that we can and must do more to reduce student debt. And while states have traditionally sat in the driver's seat of higher education finance, the evolving challenges and growing national imperative to provide an affordable pathway to a college degree mean that Congress can and should partner with states to do more.

The growing share of high school graduates who have enrolled in college over the past three decades, combined with increased numbers of people going to college later in life, means that more people today enroll in college and those new enrollees are more likely to come from low- and moderate-income families.[1] Both total college enrollment and the percentage of the population enrolled in college each year has increased significantly since 1990,[2] a year when just 46 percent of high school graduates from the bottom income quintile enrolled in college; by 2015, nearly 60 percent of those students enrolled.[3]

But states have been unable to maintain their traditional role in controlling higher education affordability, failing to keep up with the combination of increased enrollment rates, costs in the education sector that have risen faster than inflation,[4] and the increased financial need of students. Instead, between 1990 and 2015, state spending per full-time-equivalent (FTE) student at public institutions declined by 15 percent on average, nationwide,[5] and the percentage of instructional costs paid by students and federal aid, rather than by state and local governments, increased from 25 percent to 47 percent.[6] State financing levels and distribution vary significantly across states, meaning that the average student in some states may expect to leave campus with as much as twice as much debt as those with more affordable options.

These trends create a perfect storm for today's college enrollees, particularly over a time period when wages for low-income earners (with a mean income of $13,000) declined by almost 6 percent and wages for middle-income families have stagnated or declined.[7] (By comparison, over the same time period, mean wages for the top income quintile increased by 26 percent, to about $215,000.)[8]

The federal government has taken on an increasing role in the financing of higher education through the Pell grant and veterans education benefits—but has not done enough to stem the tide of rising costs borne now by students and families: the net burden faced by students to cover tuition as well as other expenses, after grant aid, has increased by 18 percent at public two-year colleges and 87 percent at public four-year colleges since 1990.[9] Students (and their families) who cannot pay this ballooning net price directly typically rely on student loans.

What is needed is a larger and more intentional federal-state partnership in financing public higher education. As Congress considers expanding its role in financing higher education, it should build a partnership that:

+ invests new federal dollars as a match to state spending on higher education, designing the match percentage covered by the federal government to account for wealth inequities across states, respond to economic downturns, and adequately incentivize state participation;

+ gives states a choice of discrete free and debt-free affordability targets, taking into account tuition and other college costs like rent and books, so that states can decide on the right financing structure; and

+ addresses existing and projected gaps in the operating capacity at public colleges and requires equity-focused nonmonetary requirements.

Lessons from federal-state partnerships in other sectors can point the way for developing a program through which federal spending can put states back on the right track and build a path toward debt-free college.[10] Congress should pursue a new federal–state partnership in funding higher education that accounts for the economic circumstances in the state; sets funding at levels that make it likely states will participate; gives state choices about how to buy in; and ensures states serve low-income students well.

Notes

1 Jennifer Ma, Matea Pender, and Meredith Welch, "Education Pays 2016: The Benefits of Higher Education for Individuals and Society," College Board, Trends in Higher Education Series, 2016, https://trends.collegeboard.org/education-pays.

2 Author's calculation of full-time-equivalent student enrollment over time using National Center for Education Statistics data and U.S. census data on population growth.

3 Jennifer Ma, Matea Pender, and Meredith Welch, "Education Pays 2016: The Benefits of Higher Education for Individuals and Society," College Board, Trends in Higher Education Series, 2016, https://trends.collegeboard.org/education-pays.

4 "The Higher Education Cost Adjustment: A Proposed Tool for Assessing Inflation in Higher Education Costs," State Higher Education Executives Officers Assocation, Technical Paper A, Fiscal Year 2014, http://www.sheeo.org/sites/default/files/SHEEO002_2014AdtlDocs_TechA_Rd1.pdf.

5 Author's calculation using "SHEF Interactive Data 2017," State Higher Education Executive Officers Association, available at *Tableau Public*, https://public.tableau.com/profile/sheeo1303#!/vizhome/SHEFInteractiveData2017/About?publish=yes.

6 "SHEF Interactive Data 2017," State Higher Education Executive Officers Association, available at *Tableau Public*, https://public.tableau.com/profile/sheeo1303#!/vizhome/SHEFInteractiveData2017/About?publish=yes. Actual tuition doubled at two-year institutions and almost tripled at four-year schools. See also "Tuition and Fees and Room and Board over Time, 2017–2018" College Board, 2018, https://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-board-over-time. While state grant aid increased somewhat, the percentage of state-based financial aid going to non-need-based programs has doubled. The share going in 1990 was 12 percent; in 2015 it was 24 percent. Author's calculations based on NASGAPP survey data. Recent research shows that the the pass-through rate of state budget cuts to increased tuition has increased in the past two decades to about 32 percent. See Douglas A. Webber, "State divestment and tuition at public institutions," *w*, Volume 60, October, 2017, 1–4, https://www.sciencedirect.com/science/article/abs/pii/S0272775717303618.

7 Author's calculations based on "Household Income Quintiles, 1967–2015," Urban Institute and Brookings Institution, Tax Policy Center, May 3, 2017, https://www.taxpolicycenter.org/statistics/household-income-quintiles.

8 Author's calculations based on "Household Income Quintiles, 1967–2015," Urban Institute and Brookings Institution, Tax Policy Center, May 3, 2017, https://www.taxpolicycenter.org/statistics/household-income-quintiles.

9 "Average Net Price over Time for Full-Time Students, by Sector, 1990–91 to 2017–18," College Board, 2018, https://trends.collegeboard.org/college-pricing/figures-tables/average-net-price-over-time-full-time-students-sector.

10 Jen Mishory, "Path to Debt-Free College A Blueprint for Building a Successful Federal-State Partnership," The Century Foundation, September 25, 2018, https://tcf.org/content/report/path-debt-free-college/.