THE DEBT-FREE COLLEGE ACT OF 2018

Higher education is one of the surest paths to economic security and opportunity for Americans. College-degree holders earn over 65 percent more than workers with only high school degrees,[1] and the unemployment rate for workers with a college degree is less than half that of high school graduates.[2]

The cost of college, however, is astronomically high and has increased 300 percent in inflation-adjusted dollars over the past 30 years. Beyond tuition and fees, the total cost of attendance—room and board, books and supplies, and other expenses—puts higher education out of reach for many Americans. For others, soaring college costs force them to take on debt to cover their financial need. Currently, 44 million Americans have student loans. College debt has increased 170 percent since 2006 and now exceeds $1.4 trillion dollars, which is second only to mortgage debt and surpasses even credit card debt.[3]

Rising student debt is taking a toll on the economy. According to the Federal Reserve Bank of New York, student loan debt is responsible for 35 percent of the decline in homeownership since 2007.[4] The percentage of younger people who reported owning a business was cut in half between 2010 and 2013.[5] And Pew Research Center found that about 50 percent of student borrowers say their loans increase their risk of defaulting on other bills.[6] Without a solution, the economic impact of this crisis will continue to drag down new business starts, homeownership rates, and household wealth creation.

Congress must address the student debt crisis by creating a path for students to graduate without the burden of student debt. Through the Debt-Free College Act, the federal government would work in partnership with states to make debt-free college a reality for students within five years.

A state-federal partnership for debt-free college

State disinvestment in public higher education has driven up tuition prices, which has undermined public colleges' role as an affordable option for students. State appropriations are now 15 percent lower than before the recession in 2008. Public colleges have made up for those cuts by cutting costs and increasing tuition. As a result, public colleges now rely on tuition for almost 50 percent of their revenue, up from 36 percent in 2008, and that revenue increasingly comes from student loans.

We propose a **state-federal partnership** that brings states back to the table and leverages the nation's unparalleled public higher education system to make debt-free college a reality. Under the partnership, states would receive a **one-to-one federal match to state higher education appropriations** in exchange for a commitment to help students pay for the full cost of attendance without having to take on debt. The partnership provides incentives to states to increase higher education appropriations and drive down the rising costs leading to student debt.

Bill provisions

- **State-federal partnership**—the bill creates a voluntary state-federal partnership to increase investment in public higher education and enable students to attend public college debt-free.
- **One-to-one match**—under the partnership, states would receive an award from the federal government that matches states' higher education appropriations.
- **Debt-free promise to students**—states that participate would commit to providing need-based grants to cover students' cost of attendance, with a goal of achieving debt-free college for all in-state students within five years of joining the partnership.
- **Funds for capacity building and improving institutions**—states are allowed to spend up to 10% of their partnership award to grow the capacity of their public institutions, support degree completion programs, and make other investments in higher education.

Cost and outcomes

- **Year one of the partnership:** The federal investment for the first year of the partnership would be **$80.1 billion**, or **$71.9 billion** after surplus funds of $8.2 billion to ten states are rolled over to the next year;
- If all states joined the partnership and simply maintained current appropriation levels:
  - **10** states will meet the goal of debt-free for all students,
  - **22** states will provide debt-free college for all Pell recipients and debt-free for a portion of their non-Pell students, and
  - **18** states will provide debt-free college for many of their Pell recipients.
- **Debt-free for all:** The federal investment needed to meet the goal of debt-free for all students would be **$95.4 billion**, or **$87.2 billion** after surplus funds of $8.2 billion to ten states are rolled over to the next year.
  - State appropriations would increase from their current level of $80.1 billion to **$95.4 billion**, on average 37% compared to FY 2016 levels or 27% compared to pre-recession levels. There is considerable variation by state, depending on the state's appropriations, the size of the student population, and the cost of education per student.
  - The initial investment would be fully recovered and the federal government would receive an annual **return on investment of 10.3%** from increased tax revenues and decreased spending on social safety net programs.[7] States would see a **3% return on investment**. The return of investment for debt-free for all would be **$96.2 billion** for the federal government and **$98.4 billion** for states.

Senate original cosponsors: Senators Schatz, Gillibrand, Booker, Harris, Merkley, Warren, Brown, Blumenthal, and Baldwin

House original cosponsors: Representatives Chu, Clarke, Crowley, DeLauro, DeSaulnier, Ellison, Gomez, Grijalva, Holmes Norton, Huffman, Jackson Lee, Khanna, Lee, Maloney, Moore, Napolitano, Nolan, Pallone, Pocan, Raskin, Takano, Watson-Coleman, Welch

Endorsing organizations: National Education Association (NEA), American Federation of Teachers (AFT), Demos, Young Invincibles, Center for Law and Social Policy (CLASP), Credo Action, Institute for Higher Education Policy (IHEP), Council for Opportunity in Education (COE), National Association for the Advancement of People of Color (NAACP), League of United Latin American Citizens (LULAC), UnidosUS, California State Treasurer John Chiang, and Jumpstart

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[1] Bureau of Labor Statistics. *Employment Projections: Unemployment rates and earnings by educational attainment, 2016.* Online at: https://www.bls.gov/emp/ep_chart_001.htm

[2] Bureau of Labor Statistics. *Unemployment rates by educational attainment in April 2015.* Online at: https://www.bls.gov/opub/ted/2015/unemployment-rates-by-educational-attainment-in-april-2015.htm

[3] Cooper, D., & Wang, J. (2014, October). "Student loan debt and economic outcomes." Federal Reserve Bank of Boston. Online at: http://www.bostonfed.org/economic/current-policy-perspectives/2014/cpp1407.htm.

[4] Lobosco, K. (2017, August 22). "Yes, student debt is delaying homeownership." *CNN*. Online at: http://money.cnn.com/2017/07/13/pf/college/student-debt-home-ownership/index.html; *see also* Bleemer, Z. et al. (2017, July). "Echoes of rising tuition in students' borrowing, educational attainment, and homeownership in post-recession America." Federal Reserve Bank of New York. Online at: *https://www.newyorkfed.org/research/staff_reports/sr820.html.*

[5] Daniels, M. (2015, January). "How student debt harms the economy." *The Wall Street Journal.* Online at: http://www.wsj.com/articles/mitchell-e-daniels-how-student-debt-harms-the-economy-1422401693

[6] Cilluffo, A. (2017, August 24). "5 facts about student loans." Pew Research Center. Online at: http://www.pewresearch.org/fact-tank/2017/08/24/5-facts-about-student-loans/

[7] Trostel, P. (2009, November 18). "The Fiscal Impacts of College Attainment." *Research in Higher Education*, 51, No.3 (May 2010). Online at: https://www.jstor.org/stable/40606359?seq=1#page_scan_tab_contents. The return on investment takes into account current graduation rates and represents the present value of the lifetime return on investment of higher education.