THIRD WAY

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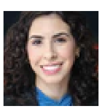
Five Critical Higher Ed Investments That Aren't Debt Cancellation



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In direct contrast to the past four years, the Biden Administration has pledged renewed investment in higher education, with a distinct focus on improving affordability and equity. The biggest debate playing out publicly on this topic surrounds student loan debt, specifically whether some portion of it should be cancelled (and if so, how). But a cancellation-centric conversation risks losing sight of the reality that debt forgiveness isn't the only way to help students and borrowers in need of relief —and overlooks the many targeted investments that Congress and the new administration must make to ensure that college is accessible and pays off for all students going forward.

Any of the existing debt forgiveness proposals would cost a massive amount of money. Put in the context of other higher education spending priorities, cancelling $10,000 of debt for each of the nation's 44 million student loan borrowers would in one fell swoop cost upward of $350 billion. That's more than it would cost to implement the entire *College Affordability Act of 2019* (CAA)—the Democrats' comprehensive proposal to reauthorize the *Higher Education Act*, a longstanding legislative goal—over the course of a decade. Cancelling up to $50,000 of debt per borrower would cost over $650 billion, an amount that is more than 20 times the current annual spending on the Pell Grant program and could fund over 100 million maximum Pell awards.

With outstanding student loan debt now surpassing $1.56 trillion, conversations about the issue are undeniably urgent and important. But unless we are prepared to cancel debt not once, but again and again, the conversation cannot stop there. Debt cancellation alone does nothing to fix the system for current and future students—raising serious questions about how Congress and the Biden Administration can best prioritize limited financial resources to address the needs of both struggling borrowers *and* today's students. Below are five critical areas for investment that deserve sustained, high-priority attention from policymakers and will better target systemic issues impacting college access, affordability, and return on investment at their source.

1. Doubling the Pell Grant

Doubling the maximum Pell Grant, which President Biden calls for in his higher education plan, should be atop the policy priority list. Each year, Pell funding helps over seven million students pay for college, most from families with incomes below $30,000. But increases in the maximum Pell Grant (currently set at $6,345) have not kept up with the rising tuition and non-tuition costs of college or with inflation over the past several decades. While the maximum grant used to cover 80% of the cost of college, today it covers less than one-third, leaving a significant funding gap for students with the greatest amount of financial need. Doubling Pell would cost an estimated $66 billion, with the largest increase in average Pell dollars per student going to Black and Hispanic students. It's an investment that is essential for increasing college access for millions of students—and it's broadly popular, having garnered the support of more than 80 organizations. As a forthcoming Third Way analysis will show, it would also effectively provide tuition-free community college for max-Pell students, without requiring further investment from strained state budgets.

2. Making Defrauded Borrowers Whole

Reversing harm done to defrauded borrowers should be another early focus of the Biden Administration. In addition to creating an onerous process for borrowers fleeced by predatory schools to receive discharges of their loans through a rewrite of the borrower defense to repayment rule, the Department of Education under Betsy DeVos also moved at a snail's pace to adjudicate the hundreds of thousands of borrower defense claims received during her tenure. Applicants whose claims were approved held a median outstanding debt of $10,230 prior to discharge—and as of last November, over 75,000 applications were still awaiting adjudication. Making these defrauded borrowers whole represents a highly targeted approach to debt cancellation for a struggling subgroup of student loan holders. And to ensure the system helps rather than hurts applicants going forward, provisions in the CAA called for an investment of $13.5 billion over 10 years to establish clear standards for claims and a fair, timely review process.

3. Investing in our Nation's MSIs and HBCUs

When it comes to institutional support, the Biden Administration has consistently signaled that its emphasis will be on community colleges, minority-serving institutions (MSIs), and historically Black colleges and universities (HBCUs). On the campaign trail, Biden pledged to invest billions more in community colleges, including support for workforce training partnerships, technology upgrades, and new grant programs focused on student success and emergency aid. Biden's plan also calls for an additional $70 billion investment in HBCUs, Tribal colleges and universities (TCUs), and other MSIs to bolster funding for student aid and student success initiatives, labs and facilities, and research and graduate education. Following the enactment of the *FUTURE Act*, which late last year permanently restored $255 million in annual federal funding for MSIs, advocates have voiced support for doubling that funding to $510 million annually. Doubling—or even tripling—MSI funding would provide an injection of long-overdue support for institutions that disproportionately serve students of color, students from low-income backgrounds, and students who are the first in their families to go to college.

4. Revamping the Broken Student Loan System

Broad debt cancellation as a single policy action would be an insufficient approach to fixing the deep-rooted problems in the federal student loan system—including servicing issues, barriers to repayment, burdensome interest rates, and flaws in existing cancellation programs like Public Service Loan Forgiveness—for future students. Income-driven repayment (IDR) plans are designed to help borrowers avoid default by allowing for smaller required payments for those with lower incomes, but not all borrowers who could benefit are enrolled in IDR (only 49% of borrowers say they are even aware of it), and wonky complexities can make it hard to find the right plan and make qualifying payments. Reducing the number of plans and auto-enrolling borrowers in IDR are two options that would streamline the system and help it work better for borrowers. The Congressional Budget Office has modeled the costs of several potential policy remedies, including making the Revised Pay as You Earn (REPAYE) plan the only IDR plan (which would actually *decrease* the lifetime cost to the government by $22.7 billion for loans issued between 2020 and 2029) or making REPAYE the only repayment plan available to borrowers (which would increase the lifetime cost of loans issued over the same time period by $33.5 billion).

5. Establishing a Federal-State Partnership to Promote College Affordability

It's clear that a renewed commitment to college affordability is needed to ensure that a postsecondary credential remains within reach for all students—*without* needing to rely on hefty student loans in the first place. This will require the creation of a robust federal-state partnership that provides new federal funding for higher education and encourages stable state investment in public institutions. Such a partnership would help ensure that colleges have the necessary financial resources to serve all students well, allow states to proactively mitigate budgetary shocks (like those experienced during recessions), and tie federal funding to requirements for states to address funding inequities for underserved students. President Biden's higher education plan proposes leveraging a federal-state partnership model to make community college free for all students, which is estimated to cost $60 billion over 10 years.

While debt cancellation may fit nicely on a bumper sticker, there are too many areas of need in our higher education system to focus myopically on one investment. With limited funding and political will, nuanced debate on these issues is the coin of the realm, and lawmakers must work toward comprehensive, forward-looking policy remedies like those outlined here. Altogether, these five spending priorities would cost less than cancelling $10,000 in student debt—and on their own merits, each offers the 117th Congress and the Biden Administration a clear path for targeting new investments to meet the moment and help borrowers and future students.

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