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Fixing the Student Debt Crisis:

Income-Contingent Loans as the Solution

 Since the 1980s, the cost of higher education has experienced a 212% increase, resulting in many students unable to pay the exorbitant tuition and fees. Too many of the young men and women who still want to further their education face predatory college loans, which has caused policymakers and academics to consider ways to subsidize the cost of college. This essay will focus on the failure of the American government to support affordable higher education, and it will explore potential solutions for containing the price of tuition. Although free tuition and tuition based on majors are possible solutions, I argue that an educational finance system based on income-contingent loans is the best way to help fix the student debt crisis.

Before potential solutions to the student debt crisis can be discussed, it is good to know why many public universities were formed and why there is a problem in the first place. Many public universities were founded as a result of the Morrill Act of 1862. This Act, which was set up to establish institutions in each state, was envisioned to make education available to those of all social classes for the betterment of society. Hence, it provided an education at a low cost for the people of the United States. In “Income-Based Repayment and the Public Financing of Higher Education,” John R. Brooks notes how higher education is funded: “The higher education finance system has always been a pastiche of federal, state, individual, and charitable spending, but with the relative importance of each shifting over time….Public universities from the beginning received the bulk of their funding from state governments, though they also received major federal support in the 19th century, especially through the Morrill Land Grant Acts of 1862 and 1890” (18). As Brooks points out, many universities were formed and maintained through **government funding. For example, the handbill on the right-hand side (reproduced from the University of Illinois’s alumni webpage) advertises Illinois’s flagship institution, clearly showing that the mission of the public university is to make education practical and *affordable*: “TUITION FREE—A small fee charged for entrance and incidentals” the ad reads. In fact, according to James Barrett’s *The University of Illinois: Engine of Innovation*, the price for admission to the University of Illinois was “below $25 per year from 1880 through 1916” (88). When adjusted for inflation, the cost of tuition for one of the top universities in the United States in 1916 was approximately $623. This price is unbelievably low by today’s standards, and it shows how far tuition rates have soared. While some causes for the drastic price increase of higher education are due to a wide variety of reasons that are largely out of both university and government control, such as increased staff wages and advances in technology, the biggest reason that tuition has increased so rapidly is because both state and federal governments are simply not supporting higher education like they did in the past. For example, between 2008-2012, the state funding for the nation’s colleges and universities was cut by $33 million, only 2/3 of which they recouped by 2020 (Murakami).

 The government’s current system of education spending does not do enough to help the average American. One example of an ineffective program that is sponsored by both the federal and state governments are 529 college “savings” plans. These plans are a government sponsored investment scheme that allows families to have their college savings be exempt from taxation, but, according to Robert Samuels’s *Why Public Higher Education Should Be Free: How to Decrease Cost and Increase Quality at American Universities*,these plans are often not used for their intended purpose: “Not only do state governments lose billions of dollars in tax revenue each year due to these 529 plans, but the wealthy have figured out how to use these plans as all-purpose tax shelters” (119). Samuels provides the following examples that clearly show how these tax deductions benefit the wealthy, often at the expense of many low-income families: “if a couple…decides later to use the money to buy a yacht instead, only the investment gains will be assessed a 10 percent penalty and taxed as income. Also, contributions made to a 529 are removed from a family’s estate, and 529 plan owners can name a successor to the account when they die, which enables the plans to shelter money for multiple generations” (119). In sum, many find loopholes to abuse these 529 plans. Much of the tax revenue that could directly fund student learning instead helps the rich to legally evade taxes. If the money put into these 529s were taxed and used in subsidizing higher education, the general public would immediately benefit, and state education budgets would not be exploited by the wealthy for personal gain.

Another institution that is directly responsible for the student debt crisis are government sponsored student loans, many of which are defaulted on. According to Samuels, “the government would save billions of dollars by avoiding the current cost of nonpayment of loans, servicing and subsidizing them, and borrowers’ defaults” (117). These student loans are quite a large financial burden on the average American, while also causing the government to lose a lot of money on people who never repay their loans. Not to mention several loan companies profit off of the government by servicing these loans, causing the government to waste even more money. The United States government’s current measures that have reduced the direct funding to public institutions have resulted in much inefficiency in the way that education spending is handled, and as such it is necessary to look for other ways for the government to assist in financing education.

 As many have proposed, one of the most obvious ways for the government to better finance higher education is through providing free tuition for all college students in the United States. The problem with such a plan is that it is not really free; it is very expensive. Many supporters of a free tuition would argue that such a plan could be done with the government’s current spending on education. According to Samuels, the potential cost for such a plan would be $128 billion, which is actually less than the $225 billion they currently allocate through direct support, financial aid, student loans, and Pell grants (116). He arrived at the $128 billion by multiplying the amount of students currently enrolled in public four-year institutions by the average cost of tuition and room and board in America. Samuels then did the same for those in community college, and added this to the number he got with those enrolled in public universities. After calculating this he concludes that having free higher public education is entirely possible with current education funding (116).

However, there are several problems with this estimate. For one thing Samuels does not account for any increased enrollment now that the financial burden of attending a college is removed. Many of those receiving an education though a community college are most likely doing so since these intuitions are typically much cheaper than the average public university. We would most likely see more students attending public universities and many from community college transferring to public institutions. His estimate, at best, represents the base cost for financing the tuition of all American college students, and in all likelihood the number would be much more expensive.

Additionally, this plan would also not allow the government to easily have a say in the cost of tuition and to appropriately adjust their level of funding. Historically, college tuition has been rising quite sharply. An example of this is provided by Barrett*:* “By the 1980s…tuition was increasing sharply—up 31 percent for freshmen and 46 percent for upperclassmen from 1982 to 1983, and more than doubling from $1,104 to $2,070 between the 1983–84 and 1988–89 academic years. By 1988 Illinois was the second-most-expensive university in the Big Ten” (89). University of Illinois is not alone in this; the rate of tuition and fees at a lot of other public universities has far outpaced the rate of inflation. These steep increases are a result of a decrease in government funding but also a rise in operating costs. Under this plan, however, the government would not be able to control operating costs, which could add up quickly. The only way for the government to contain funding would either be through reducing the quality of education at these institutions, or by simply not providing free tuition to everyone. Although free higher education could be a way to provide all Americans with the opportunity to go to school, the problem with such a plan is that it provides too much of a financial burden upon the United States government, and as such would be difficult to implement in the current political climate of the United States. A free tuition, while ideal, is much too unrealistic.

 Another potential solution to the student debt crisis would be to implement tuition based on one’s major. In other words, the tuition a student pays is determined by college expenditures, that is the cost to the college to offer the major (for example, science labs and field experiences) and future earnings, or the rate of return to the student once s/he graduates with the degree and begins working. Under this plan, majors such as engineering and sciences would cost much more than majoring in social sciences and humanities. One large problem with this system is that this would cause those from poorer backgrounds to be unable to pursue some of the more costly majors. In “Student Response to Tuition Increase by Academic Majors: Empirical Grounds for a Cost-Related Tuition Policy,” Jung Cheol Shin and Sande Milton advocate for charging diverse tuition rates for the different majors (732). Their recommendations are based, however, on a flawed study. Their sample size, which included students who were already enrolled at college, did not factor in prospective college students. This means that the study only focused on people who already have some means of paying for college, and are already invested in getting a degree. Shin and Milton have even admitted this themselves in their results when stating “once students decide to enroll in a college, their persistence decisions may not be responsive to tuition increase, perhaps because they accepted the tuition level at their college when they chose this college in the first place. In other words, if students were willing to pay a certain level of tuition when they chose their college, they may not be sensitive to yearly tuition” (728). This indicates that although a tuition based on majors system might work for currently enrolled college students, it may discourage prospective students. Moreover, this model may deter certain students from pursuing a field of their interest because the tuition is too expensive, and, because this policy does not include any direct government subsidy, students are still stuck with the current system of financing higher education. Tuition based on majors simply does not do enough to mitigate the student debt crisis, and, in the case of some majors, can exacerbate the problem by making students pay significantly more.

 The best solution to solving the student debt crisis is implementing income-contingent loans, a direction in which the US government seems to be going. Noting that “what is needed is a tuition-loans regime that works across a range of tuition charges but has minimal deterrent effect at the point of entry, and minimal socioeconomic bias,” Simon Marginson in *The Dream is Over: The Crisis of Clark Kerr’s California Idea of Higher Education* presents income-contingent loans as the answer: “The tuition-loans regime should use public subsidies to support access rather than to compensate loans companies. To meet these objectives, a number of countries have moved or are moving to tuition-loans schemes based on income-contingent repayment arrangements, with repayment through taxation system” (196). Under this plan, students would take out loans through the federal government to finance their education, but the repayment amount would be based on the borrower’s income. For example, as show in the figure below, if the borrower made $40,000 a year, s/he would pay no more than $6,040, or 15% of his/her income per year.



This loan system allows for a student to attend college at a low financial risk while still being responsible for much of the financial burden of tuition. This plan, which is already in place in Australia and the UK, carries no higher risk of loan default than our current system. According to Marginson: “In Australia, nonrepayment has been variously estimated at 25–40 percent of total student debts, no higher than the subsidies for default in the United States. In the United Kingdom, estimates have varied across a similar range, between 30 and 45 percent” (197). Another reason that income-contingent loans are often much better than most other methods of mitigating the student debt crisis is because these loans allow for the US government to be one of the sole providers of funding for all public universities. Because of this, the federal government would be able to contain the cost of tuition. According to Marginson, UK’s government was able to fix the maximum tuition rate at their public universities: “In the United Kingdom in 2012 public university tuition was initially fixed at a maximum of £9000 per annum ($14,500)” (196). This shows that with this system the US government would be able to negotiate a relatively stable tuition rate if income-contingent loans were introduced.

An additional benefit is that these loans allow for a student to pursue a lower paying career without heavy financial consequences. According to Brooks, “certain professions are likely to be particularly risky for borrowers….Nursing, teaching, social work, ministry, journalism, academia, and the arts are particularly subject to this risk, as are some legal and medical practices” (24). This financial risk can easily be offset by income-contingent loans. Although someone from a higher earning career and someone from a lower earning career have to pay a similar tuition, the person with a higher paying career has a larger loan payment per month. This would allow for people to pursue these necessary yet low paying careers with a much lower risk and to pick a career because they want to be in that career rather than being in a field for the money—to pay back their student loans. Through income-contingent loans the average American would be able to pursue higher education at a low financial risk, and this plan would provide the United States government the most cost-effective route to subsidizing higher education because the main financial burden of college costs still reside with the student.

 Higher education has been out of reach for much of the American public for at least the last 40 years, which is far too long. Although the creation and subsidization of public universities served to help the average American obtain a higher standard of living, the goal of these institutions has become less and less achievable because of the spiraling cost of tuition and the waning support of both state and federal government. Although free tuition and tuition based on majors could be potential fixes to this problem, income-contingent loans are the best and most equitable way for the American people to gain knowledge.

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