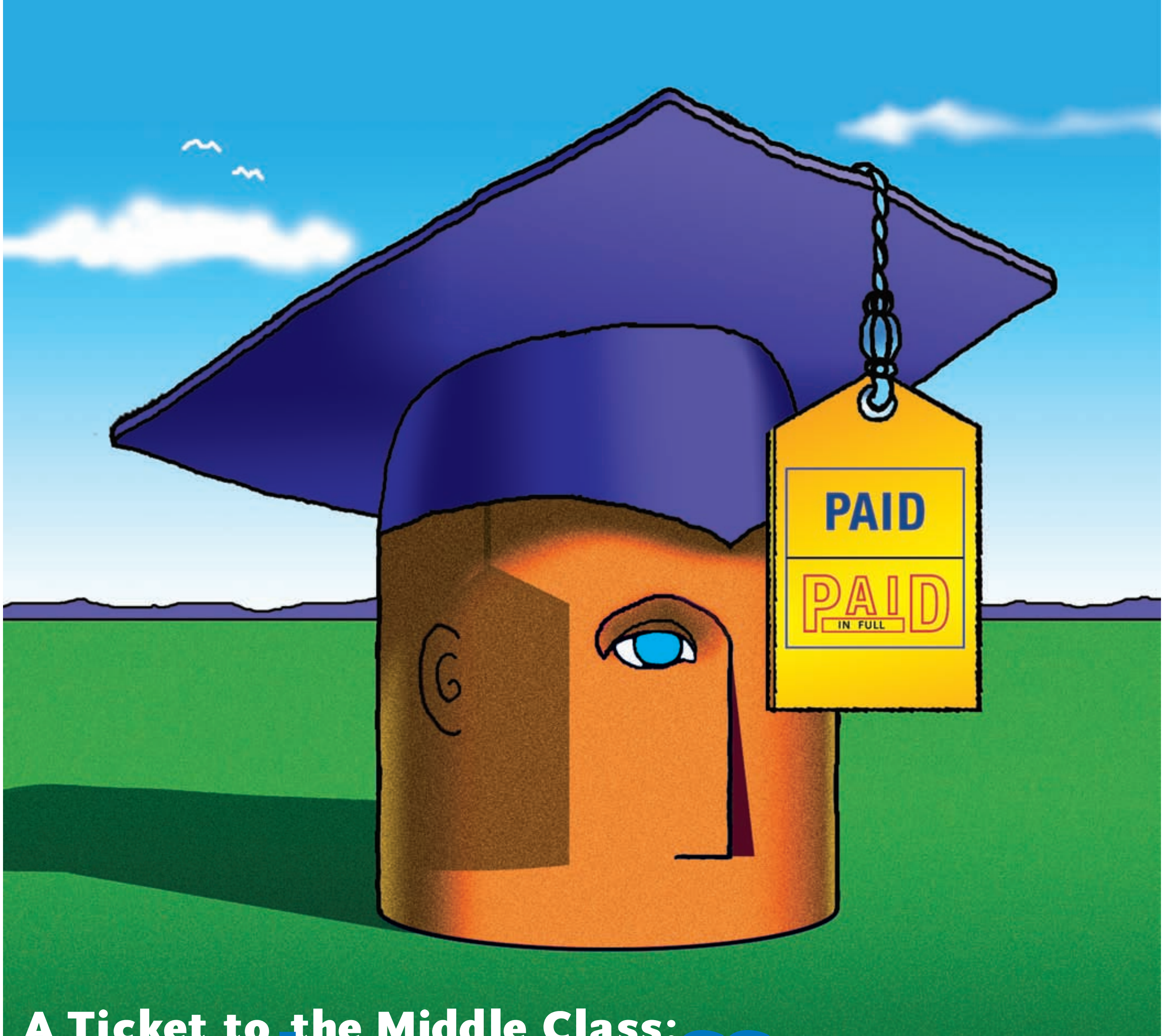

A Ticket to the Middle Class: Working Off College Debt

by Elizabeth Warren, Sandy Baum, and Ganesh Sitaraman

Americans are a contentious lot. They express an astonishing variety of opinions about politics and religion, sports teams and movies, vitamin supplements and workplace dress codes. Differences on questions of social class, the acceptable level of economic inequality, and the importance of economic mobility are particularly sharp. But on one idea we are united: **97 percent of Americans agree that a college degree is "absolutely necessary" or "helpful" to secure a place in the middle class.**[1] In fact, Americans see a college degree as the single most important determinant of a young person's chances of success, the ticket for admission to the middle class.

But it is becoming harder than ever for families to pay for that ticket. And as students increasingly try to shoulder the burden, many are graduating deep in debt—tempering the good news of higher earning potential with the higher risks associated with debt. Many others, including almost 20 percent of low-income high school graduates with high math test scores, do not manage to enroll in college at all within two years of graduation.[2]

If college is the ticket to the middle class, then a new financing mechanism is essential, one that lets students take responsibility for the cost of their own educations without burdening their families unduly, forcing them to make career choices that push them out of public service, or mortgaging their futures. Our *Service Pays* proposal is designed to give every student who wants to work hard an option to pay for college.

Aid Rises a Little; Costs Rise a Lot

Tuition and room and board now cost more than $12,000 a year at the average public university.[3] Throw in books and a few other basics, and the bill pushes $16,000. To pay that, the average U.S. family of four not receiving grant aid would have to commit 25 percent of its total pretax income.[4]

A private education is even more expensive, averaging almost $30,000 a year for tuition, fees, and room and board. Even though grant aid is available to the majority of students, many pay a high price for the opportunity to study in these institutions, often more than $100,000 by graduation. Despite the cost, some students need the choices private colleges often offer in terms of size, admissions standards, fields of study, religious affiliations, or geography. Less expensive state schools may therefore not be an option.

The numbers keep getting worse. After adjusting for inflation, in-state tuition and fees at the average state university have doubled in 15 years.[5] In fact, the price of college has grown twice as fast as the price of health care.

Grants and scholarships once were reserved for the poorest students, but today almost two-thirds of all full-time undergraduates receive them. Even so, this aid is insufficient to close the growing gap between price and family ability to pay. As charges at the average public four-year college grew by almost $5,000 over the decade from 1994 to 2004, grant aid per student grew by only half that.[6] So students and families have increasingly turned to loans. More than 60 percent of public college graduates and nearly 75 percent of private college graduates have taken on debt to pay for college. The median debt load for public college graduates who borrow is $15,500; for students from private colleges, $19,400. Although federal education loans top $60 billion, they cannot meet demand, and students are taking private loans with less favorable terms—now about 18 percent of total education debt.

The *Service Pays* proposal is designed to give every student who wants to work hard an option to pay for college.

An estimated 20 percent to 30 percent of college students have debt burdens so large that they are difficult to manage.[7] Students who choose public service or other low-paying careers, who come from low- and moderate-income families, or whose education does not open the anticipated opportunities often begin their adult lives with debts that completely outstrip their earning potential, creating a financial hole from which they may never escape.

For years, policymakers have worried about how to make college accessible to the poor. Today the middle class is worried, too. Denise Robinson, a Texas schoolteacher, describes putting her daughter through college: "You don't make enough that you're [rich], but you don't qualify for financial aid. We were probably out at least $100,000."[8]

Making College Affordable for All

College students can shoulder educational costs if they are assured of opportunities to repay loans. A program that features four years of loans, followed by four years of public service to forgive those loans, would be such an opportunity. It would significantly diminish the burden of education debt and keep open the option of public service and other lower-paying but interesting jobs for grads.

- The federal government would increase the amount students can borrow in the unsubsidized Stafford loan program, offering money for four years of college tuition, fees, and room and board to any student who wants it, on the same terms as current student loans.[9] Under Service Pays, students who work in community service after college would be forgiven one year of college expenses for each year of public service work.

- College loan forgiveness would be available to anyone graduating from any two-year or four-year accredited school, public or private.

- The dollar amounts of the available loans would be pegged to average prices at public four-year colleges and universities. Students would have four years to work off those loans.

- Any student, regardless of family income, could borrow the money, but the debts would have to be repaid by ordinary loan repayment or through community service.

With Service Pays, typical students would begin adult life debt-free at 26 with a college diploma and four years of work experience. Students could buy their own tickets to the middle class.

Serving the Country

The community service aspect of Service Pays is as important as access to a diploma. America has critical needs in national preparedness, community infrastructure, and education. Many

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young people would like to do public service, but the low pay combined with college debts often makes it impossible. Service Pays would open new avenues.

Service at Home. Community service workers could be assigned to the states to work in public schools, run after-school tutoring programs, clean up public buildings and parks, rebuild roads and bridges, improve the environment, computerize state administrative systems, assist municipal police and firefighters in administrative functions, and organize communities to reduce crime and develop the local economy. Students who work for nonprofits such as Habitat for Humanity or Teach for America would also be eligible.[10] For each year of community service after college, one year of loans would be forgiven.

Military Service. Active-duty service would qualify for loan forgiveness. Each year of active-duty service would offset one year of loans. Eight years of reserve service plus six months of active service would translate to four years of loan forgiveness.

International Service. The U.S. Foreign Service, an expanded Peace Corps, and an international aid corps (to address emergencies such as tsunamis) would also qualify for loan forgiveness. Each year of service would result in one year of loan forgiveness.

Service Pays would reduce the impact of Baby Boomer retirements from government and could help strengthen community spirit, promote patriotism and service, and improve perceptions of America abroad.

Service-based debt-forgiveness programs that already exist are limited. At AmeriCorps, for example, loans may be forgiven only up to $4,720 per year. Service Pays can build on past successes by expanding educational benefits and directing more energy toward national challenges.[11]

Costs

What are the costs? We begin with one central idea: educating our young people will pay off. The GI Bill helped 2.2 million returning World War II soldiers become engineers, scientists, entrepreneurs, and business leaders, fueling the economy and raising the standard of living.12 It cost $7 billion (about $240 billion in today's dollars).13 For every dollar invested, however, about $5 were returned over 35 years in higher productivity and tax revenues.14

The country would derive similar returns from Service Pays—the services themselves plus increased tax revenue. The average college graduate pays over $5,000 more each year in total taxes than a high school graduate.[15] It is short-sighted to lose long-term benefits by failing to make higher education financially accessible.

In the current school year, students will receive 1.5 million bachelor's degrees and 680,000 associate degrees. Roughly two-thirds of the bachelor's students and half of the master's students will graduate with debt. If 10 percent participated in the Service Pays program and paid off their entire student debt, the cost of forgiving their loans would be about $3 billion. This cost would be borne by taxpayers as an investment in our future.[16]

Some jobs created for the students would be compensated by the federal government; others would be paid with state or local government funds or by the nonprofit organizations that employ the students. Jobs would be entry level, with corresponding wages and benefits. Some of the federal positions would be in the military, but those costs would not be attributable to the Service Pays program. Funding for the Foreign Service and the Peace Corps would be driven by policy decisions. The possible combinations of opportunities make cost estimates difficult, but a federal investment of $500 million could support 25,000 graduates at $20,000 each.

For state and local governments there would be the cost of moving an influx of college graduates into public service jobs. Although some federal support might help create the new jobs, the principal burden should be borne by the organizations—whether states or nonprofits—that benefit from the workers. The states could consider in-kind payment as well, such as housing in unused college dormitory space, surplus housing at closed military bases—or for environmental projects, some on-site housing.

At a time when some state budgets are under sharp fiscal constraints, absorbing new, short-term workers could be difficult. But states recognize the long-term benefits to the local economy of a talented workforce. In effect, Service Pays would ask the states to decide if they wanted to recruit college graduates to put down roots in state; if some states did not participate, others might expand their job offerings. A well-educated workforce is our best hope to grow the economy, remain competitive internationally, and fund government needs for health care and retirement. We are living through a time of big challenges. And big challenges call for big solutions.

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Endnotes

[1] John Immerwahr and Tony Foleno, Center for Public Policy and Higher Education, *Great Expectations: How the Public and Parents—White, African American, and Hispanic—View Higher Education* (Washington, DC: Public Agenda, May 2000), table 1.

[2] David Ellwood and Thomas Kane, "Who Is Getting a College Education? Family Background and the Growing Gaps in Enrollment," in *Securing the Future*, eds. S. Danziger and J. Waldfogel (New York: Russell Sage, 2000). See also Sandy Baum and Kathleen Payea, *Education Pays: The Benefits of Higher Education for Individuals and Society, 2004* (New York: The College Board, 2004).

[3] *Trends in College Pricing* (New York: The College Board, 2005).

[4] Bureau of the Census, "Median Income for Four-Person Families by State," http://www.census.gov/hhes/income/4person.html.

[5] U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics, 1999*, table 312, http://nces.ed.gov/programs/digest/d05/tables/dt05_312.asp.

[6] *Trends in College Pricing, 2004* and *Trends in Student Aid, 2005* (New York: The College Board).

[7] Sandy Baum and Marie O'Malley, *College on Credit* (Washington, D.C.: Nellie Mae, 2003).

[8] Elizabeth Warren and Amelia Tyagi, *The Two-Income Trap: Why Middle Class Mothers and Fathers Are Going Broke* (New York: Basic Books, 2003), 42.

[9] Qualifying students would remain eligible for subsidized loans, which could also be paid off through the program. Loans that parents take under the PLUS program to pay for students could be paid off this way.

[10] Nonprofits adopt the same standards as AmeriCorps: "direct service activities must address local environmental, educational, public safety (including disaster preparedness and response), or other human needs."

[11] The National Security Education Program, for example, provides scholarships for a summer ($8,000), semester ($10,000), or year ($20,000) for students to study abroad in regions critical to U.S.national security. Award recipients must spend one year serving in a federal department or agency related to national security (State, Defense, Homeland Security, Intelligence). In 2005 to 2006, about 130 students received the scholarships.

A well-educated workforce is our best hope to grow the economy.

[12] Suzanne Mettler, "The Creation of the GI Bill of Rights of 1944: Melding Social and Participatory Citizenship Ideals," *The Journal of Policy History* (October 2005): 345.

[13] Samuel H. Williamson, "What Is Its Relative Value? Five Ways to Compare the Worth of a United States Dollar, 1790-2005," Economic History Services, http://eh.net/hmit/compare. The value is calculated as a relative share of GDP.

[14] Subcommittee on Education and Health of the Joint Economic Committee, "A Cost-Benefit Analysis of Government Investment in Post-Secondary Education under the World War II GI Bill," December 14, 1988, in *The Future of Head Start* (Washington, D.C.: Government Printing Office, 1990).

[15] *Education Pays Update, 2005* (New York: The College Board, 2005).

[16] Service Pays would change the incentive structure in the student loan program in a variety of ways that would require careful analysis. Some observers suggest that the increased availability of student loans fuels increases in college prices. However, most empirical analyses fail to find such an effect. See, for example, Cunningham et al, *Study of College Costs and Prices 1988-89 to 1997-98* (Washington, D.C.: National Center for Education Statistics, 2002): 157.