Background
Since 1999, higher education costs have increased by 70% at public four-year institutions. This has created significant financial challenges and has raised concerns about social mobility. Low-income students have been most affected, with only 29% of those in the lowest quartile going to college for two or more years. Without policy change, the status quo will prevail, and barriers will intensify. Therefore, it is paramount that essential aspects of higher education are reformed to ensure a path is available to people from all walks of life.

Policy Recommendations

Rethinking the Pell Grant and broaden equity. The decreasing value of the Pell Grant has impeded access to higher education. In the 2019-20 academic year, the Pell Grant covered only 28% of college costs. About $90 billion in mandatory funding should be provided over a 10-year period to address this ineffectiveness. Funding should be given to Hispanic-serving institutions (HSIs) to further diminish access disparities. Investing $1 billion in HSIs would boost enrollment by 2.5 million Latino students, many of whom are low-income. Equity metrics must also be implemented to curb disparities in access to higher education for minority and low-income students.

Hold institutions accountable. Currently, no consequences exist for institutions that prioritize revenue over student success. Weak regulation has led to equity gaps that disproportionately affect low-income families. With only 40% of first-time, full-time students completing a bachelor’s degree in four years, a federal data system for tracking key metrics can be an effective tool to hold universities accountable. We need a data collection system that tracks degree completion, student loan default rates, and return on investment disaggregated by race, ethnicity, and socioeconomic status. Data systems can help the government monitor institutions to ensure they are not fraudulent, while families can enroll in institutions they prefer.

Build assets before and after college. College costs leave many families in debt or unable to afford higher education. This is especially prevalent for African American and Latino populations. Baby bonds are a simple and equitable solution to this problem. An equitable baby bonds program would ensure that Americans, regardless of family income, have a path to higher education. Social scientists that have studied the racial wealth gap envision the average newborn with $20,000 in available income at age 18 if a baby bonds system is established. The Federal government would make contributions on behalf of low-income children up to $60,000. This would give American children the economic mobility they need for a successful future.

Income-based repayment is another element to consider. Monthly burdens would be reduced, as lifetime payment per dollar borrowed would be minimized by 40%. Low- and middle-income borrowers would benefit substantially. Lifetime payments would fall 83% on average to the bottom 30% of earnings compared to 5% for those in the top 30%. A shift to income-based repayment will reduce economic hardship and build assets.

Incentivize state investment in higher education. Declining state funding in higher education has put upward pressure on tuition prices and created higher levels of unmet needs for students. Implementing a $5 billion federal annual matching grant would counter this decline by incentivizing states to increase funding. If states participate, every dollar they invest would be matched by a $4-to-$1 federal grant. This matching grant would give states a reason to invest in students’ futures while significantly reducing affordability barriers.

Estimates from the Committee For a Responsible Federal Budget suggest that implementing income-based repayment and repealing student loan subsidies from the tax code would save around $130 billion in the next decade.