FIVE REFORMS TO IMPROVE HIGHER ED

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With the Higher Education Act (HEA) overdue for reauthorization, reforming U.S. higher education will be on the agenda in 2017. The Trump administration should use this opportunity to zero in on some of the most urgent challenges, including the student loan repayment crisis; the lack of information on college quality; the financial aid system's burdensome complexity; and misguided efforts to reintroduce private lenders into federal lending and incentivize public service. Here are five steps that Congress and the new administration can take:

1. **Adopt a single, income-driven repayment plan for federal student loans**
2. **Repeal the ban on a unit-record data system**
3. **Simplify federal financial aid**
4. **Bring market discipline into student lending in innovative ways**
5. **Eliminate loan forgiveness for public service**

1.

Adopt a Single, Income-Driven Repayment Plan for Federal Student Loans

The current system of student loan repayment plans needs to be replaced with a single, universal plan that collects payment through income withholding. This new plan should be income-driven, such that payments automatically fluctuate with income and borrowers never face unaffordable payments.

In the current system, student borrowers are automatically enrolled in a standard repayment plan with fixed monthly payments; borrowers can also opt in to income-driven plans to avoid becoming delinquent on their loans during periods of low earnings. But the fact that 3.6 million borrowers are currently in default on federal student loans indicates that this opt-in-style safety net is not working.

Why? Borrowers who struggle to repay their debts are probably also the least able to navigate the burdensome enrollment process for income-driv-

*For further discussion, see Beth Akers and Matthew M. Chingos, *Game of Loans: The Rhetoric and Reality of Student Debt* (Princeton University Press, 2016).

en repayment. Adopting a single, income-driven plan with payments automatically collected through income withholding would reduce financial hardship caused by student loan repayment.

Some object to this proposal. Income withholding might cause some borrowers to pay off their debt more slowly than otherwise, which would increase the cost of borrowing because of the accumulation of interest. Even if this were true, it seems a small price to pay to get struggling borrowers automatically enrolled in a program that will prevent them from facing unaffordable payments. Borrowers with the means to pay off their debt faster will tend to be savvy enough to do so by making additional payments.

2.

Repeal the Ban on a Unit-Record Data System

During the Obama administration, more information on student outcomes became publicly available through the College Scorecard. This web tool reports the cost, graduation rate, and graduate earnings for institutions participating in the federal student aid program. But this information is incomplete because it is based on inadequate data—the result of a legislative ban on the creation of a federal unit-record data system that would track students over time.

As a first step to ensuring that the federal government can generate and publish comprehensive data on student outcomes, Congress and the new administration should lift the ban. The Department of Education (ED) should then populate the College Scorecard with information based on data from the new unit-record data system, including outcomes by institution, by major, and for low-income students. Finally, the ED should actively market this information to students. If we want to better harness market forces in higher education, we need to empower student consumers with more information.

3.

Simplify Federal Financial Aid

The current system of federal financial aid is too complex. This complexity makes it difficult for students, particularly those from low-income households, to know if college is affordable for them. Simplifying the system will make it easier for students to understand the financial trade-offs that they make when enrolling in college. This will allow them to be savvier consumers, which can put pressure on institutions to keep prices in line with value.

Start by abolishing the Free Application for Federal Student Aid, the current application process. Instead, use information from students' and parents' tax returns to automatically determine aid eligibility. Next, replace the current, complex system of lending with a single, straightforward loan program. In the current system, students often do not know how much they are borrowing (perhaps because they do not always understand the difference between grants and loans). Last, move federal subsidies out of the tax code and into Pell grants. Subsidies delivered transparently and immediately at the time of enrollment, such as Pell grants, are likely to be the most effective at encouraging enrollment.

4.

Bring Market Discipline into Student Lending in Innovative Ways

Under the Federal Family Education Loan program (eliminated in 2007), federal student loans were originated by private lenders operating as contractors for the federal government. Some have argued that we should reinstitute FFEL to restore market discipline to student lending and reduce the administrative costs of federal student lending.

The problem: there was no market discipline under FFEL. Legislation set the interest rates, and lenders had no discretion over who could borrow or how much to lend. Further, government contracts with lenders were poorly designed: lenders were overcompensated, which incentivized them to participate in perverse business practices, such as kickbacks to financial aid officers.

There are better ways to increase market participation in student lending than bringing back FFEL. One option: eliminate federal student lending to parents. Government intervention in student lending is justifiable on the grounds of a market failure, which, if left uncorrected, would lead to suboptimal investment in higher education. However, the Parent Plus program, which provides an essentially limitless line of credit to parents of college students, cannot be justified on these grounds. In the absence of subsidized loans, parents who wish to borrow would have to turn to the private market.

5.

Eliminate Loan Forgiveness for Public Service

Students working for nonprofit organizations and the government are currently eligible for a generous loan-forgiveness program. This program should be eliminated, with the savings spent on direct wage subsidies for individuals working in professions that are considered to be undersubscribed and serving the public good.

Subsidizing nonprofit and government workers through loan forgiveness is unfair to workers who finance their education through alternative means, such as savings. Loan-forgiveness subsidies also fuel tuition inflation. If taxpayer dollars are to be used to encourage entry into certain professions, the subsidy should be explicit, not hidden in the student loan program.