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HIGHER-EDUCATION FOR EVERYONE: HOW CORPORATE INCOME TAX CAN MITIGATE THE STUDENT LOAN CRISIS

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Abstract

The United States remains the OECD country with the third highest spending on higher education per student as a share of per Capita GDP (Delisle & Cooper, 2019). However, its related problems are numerous, and many of its residents—especially African Americans and other communities of color—lack access to this increasingly necessary level of education. Even when granted access, many are left with unmanageable debt. This debt often reduces generational wealth and spending power, and importantly also restricts their socio-economic mobility. In this paper, I examine whether an improved Pell Grant—funded through an increase in corporate income tax—may be an effective avenue for addressing the student loan crisis. This could be accomplished by making college debt free for all low- and middle-income recipients attending public colleges. Also examined is the student loan debt crisis and a complimentary cancellation of all outstanding student loan debt. Finally, I address potential criticisms of these policy options and discuss alternatives that may mitigate them while also producing maximal positive impact.

Introduction

Government action—such as the cancellation of student debt and increasing education opportunities for low and middle-income students—is needed to address the worsening student loan crisis. Increasing the corporate income tax rate, closing existing loopholes that allow the ultra-wealthy to avoid taxes, and increasing the oversight capacity of the Internal Revenue Service (IRS) may represent efficacious methods of raising the funding required for these policy options.

Canceling student debt and increasing the rate and effectiveness of the corporate income tax are necessary because student loans place a heavy burden on many young borrowers. These borrowers include those who took out loans but failed to graduate, borrowers who graduated and were unable to secure a livable wage, and borrowers who graduated, found employment, but have yet to earn enough to cover interest costs. Undergraduate student loan interest is currently 3.73%. Even the most highly paid professionals can struggle to pay off both their principal and interest. Additionally, many Americans miss out on the opportunities that accompany the attainment of a college degree due to their fears of debt (Looney et al., 2021). This issue requires a two-part solution: the government must address previously overlooked failures of this system (high student loans) and dismantle the economic barriers to higher education so as to avoid recurrence of this issue.

The expenditures required for this policy change would require financial assistance from increasing taxation of the ultra-wealthy. This would be done through increasing the corporate tax rate to 35% and closing loopholes like accelerated depreciation, offshoring profits, awarding stock options, and maximization of tax credits. This would increase the federal government's ability to address economic and wealth inequality; and address racial disparities in higher education, intergenerational social mobility, and wealth. In the following subsections, these topics are addressed in greater detail, providing discourse on effective alternatives and possible criticisms.

Externalities of Higher Education

Addressing the student debt crisis is important because, in our current economic system, employers are increasingly favoring those with a four-year college degree. In fact, 41% of employers are hiring college educated workers for positions previously held by those with high school degrees (CareerBuilder, 2016). Additionally, higher education greatly benefits the educated and society at large. For the educated, it can lead to a better quality of life, since educational attainment is associated with employability, higher earnings, lower unemployment, greater labor market flexibility, and greater economic and social mobility (Psacharopoulos, 2012). These personal benefits can lead to social benefits such as: higher productivity, higher net tax revenues, lower crime rates, better social cohesion, and less overall reliance on government financial support, amongst other benefits. And with their

educational attainment and the corresponding stability it can provide, graduates are less likely to commit crimes (Psacharopoulos, 2012). In sum, the higher education system treats education like a private good with enormous social costs. To improve this system, the costs of higher education ought to be reflective of the positive social impact that increased education attainment provides.

Racial Disparities in Higher Education & Intergenerational Social Mobility

Reducing student debt also acts as a means to increase the social mobility of Black Americans, addressing racial disparities in college attainment, and decreasing the racial wealth gap. The change will reflect a greater increase in participation as compared to 2011, when 34% of whites completed a four-year college degree, compared to just 20% of Blacks and 13% of Latinos (Sullivan et al., 2016). Essentially, many barriers to college attainment remain for people of color, and it is important that policies intended to address this are implemented. Cost remains a key reason that this disparity persists. In addition to attainment gaps, the returns of a college degree vastly differ across racial and ethnic groups: on average, a white family typically sees a return of $55,869 in wealth from completing a four-year college degree, while Black and Latino families typically see a return of just $4,846 and $4,191 respectively. This racial disparity in wealth is partly explained by their greater need to take on debt to pay for college, as loan payments decrease their ability to save and access key wealth-building resources like houses (Sullivan et al., 2016).

Improved recruitment policies for Black and Indigenous People of Color (BIPOC) may decrease the racial disparities in social mobility in the future, as after controlling for college attainment, this racial disparity is decreased (Chetty et al., 2018).

The Pell Grant & Debt-Free Higher Education

The Pell Grant was originally created in 1972 as the Basic Educational Opportunity Grant. It was modeled after the GI Bill, which successfully demonstrated the lasting economic barriers to participation in higher education, as its implementation indirectly increased college attendance and attainment rates (Mullin, 2013). The policy was progressive for its time because it shifted the financial burden from institutions to the government, so students would receive funds directly (Lumina Foundation, 2020). The objective of the Pell Grant was to ensure that low-income students had equal access to higher education. By 1978, Senate leadership pushed for increased access to this grant funding. Because the Pell Grant total amount remained the same, the increase in access led to a decrease in average grant award. From the 1980s onward, there were attempts to increase the overall appropriation, so students had higher grant maximums (Lumina Foundation, 2020). Unfortunately, due to the political landscape in the Reagan era, there was not an increase, and maximum Pell Grant awards paled in comparison to the adjusted aid given in the 70s.

Although individual Pell Grant continues to decrease, it is responsible for narrowing the college-attainment gap between low- and middle-income students and students of greater income. The Pell Grant boosts college enrollment numbers, reduces college drop-out rates, and improves student graduation outcomes, meaning students are more likely to graduate within 4 years (Protopsaltis & Parrott, 2017). Despite their proven success, Pell Grants now cover an increasingly minimal share of college costs for low- and middle-income award recipients. As of 2017, Pell Grants cover just 29% of the average costs of tuition, fees, room, and board at public four-year colleges (Protopsaltis & Parrott, 2017). This demonstrates the central issue with the current Pell Grant: what initially provided greater access to higher education for all low- and middle-income students, is now a large expenditure that hardly moves the needle for individual students.

The Pell Grant ought to be restored to its original objective: removing the economic barriers to higher education for all low- and middle-income students across the country. The proposed change to the Pell Grant program would fully fund the undergraduate education for all students who are currently eligible for the Grant and attending public schools through an increase to the total Pell Grant purse. This would be paid for through the tax revenues collected from increasing the corporate income tax to 35%. The new Pell Grant would alleviate the lasting racial disparities in higher education and intergenerational social mobility and would likely reduce the racial wealth gap.

Cancellation of Student Debt

As of 2020, national student debt totaled $1.70 trillion (Hanson, 2021). According to the Brookings Institution, several factors are involved in explaining this failed system: increase in attendance, tuition, and cost of living, as well as an increased presence of low- and middle-income students (Roll et al., 2021). Costs of college attendance have also increased, but have not negatively impacted attendance, which implies that students are forced to borrow more funds to attend university, which requires more time to pay off (Monks, 2014) Government action – such as eliminating income limits on who can borrow for college, increasing the ceiling on how much undergraduates can borrow, and eliminating the limits on how much parents and students can borrow – have exacerbated the issue (Looney et al., 2021). Other factors such as state and university admissions and financial aid policies, and academic outcomes play a role in determining student debt levels as well (Monks, 2014). More specifically, the states have varying amounts of aid given to students and their universities, and universities all have different policies regarding admissions such as high school grades, major selections, tuition assistance needs, etc. All of these factors cause varying levels of borrowing amongst students.

Student loan debts impede the agency of students to make other financial decisions and commitments; start families; save for retirement; and save for larger purchases in the future (Roll et al., 2021). This can lead to less small business creation and investment, and more reliance on government social programs. As a result of the challenges that Americans currently face with paying off their student loans, and the reliance upon government action, the cancellation of all federal student loan debt is necessary. Doing so would increase the quality of life and agency of college graduates and provide numerous social benefits for communities.

Corporate Income Tax: **Current Landscape of Corporate Taxation in the U.S.**

The current landscape of corporate taxation is bleak, and income and wealth growth have favored those at the top. In recent decades, the top 1% have amassed greater shares of the total US wealth at the expense of low- and middle-income Americans. In fact, the share of aggregate wealth held by the top 1% rose from 22.9% in 1979 to 34.9% in 2019. Conversely the share held by the middle 40% has decreased from 33.3% to just 27.8% (Hanlon & Hendricks, 2021). This worsening inequality negatively impacts economic growth in the United States. More specifically, as inequality worsens, it undermines the education opportunities for children from low-socioeconomic backgrounds, lowering social mobility and hampering skills development (Cingano, 2014). This rate and its implications necessitate a timely implementation process of the proposed policy options. Beyond policy change at the state and university level, federal action may be necessary to improve the situation. One significant factor allowing the rich to avoid taxation is the lack of capacity at the Internal Revenue Service (IRS) to fulfill their mandate. The IRS has lost thousands of experienced and skilled enforcement personnel due to severe budget cuts and a nearly decade-long hiring freeze. This has left the IRS with a dearth of agents able to thoroughly examine the tax returns of millionaires and large corporations (Hanlon & Hendricks, 2021). This benefits millionaires and large corporations who do have the funds and incentive to decrease their tax burden, and the audit rates of millionaires and the largest corporations have plummeted by more than 60% and 50% respectively. The Center for American Progress indicates that the United States loses at least $175 billion each year to tax avoidance by the richest 1% (Hanlon & Hendricks, 2021). This amount includes tax avoidance schemes such as: offshore tax shelter usage by the largest corporations and millionaires, underreporting income using pass-through entities. Addressing these tax avoidance schemes would likely increase federal government revenue and increase the affordability and feasibility of expensive social programs.

Despite the currently low corporate income tax rate of just 21%, corporations actually only pay 11.3%. In fact, 55 of the largest corporations pay no tax at all. This is due to the various loopholes like accelerated depreciation, offshoring profits, and stock options. Accelerated depreciation allows companies to deduct the costs of a large asset over a period at a rate that exceeds the actual depreciation of the asset. The Tax Cuts and Jobs Act (TCJA) signed by former president Donald Trump in 2017 "improved" this tax break, as it made "full expensing" legal. Full expensing allows corporations to write off the entire cost of an investment in the year it was made. Offshoring profits entails incorporating outside the U.S. to countries—or tax havens—with minimal tax rates, even though a significant portion of their operations remain in the U.S. The big tech companies alone disclosed total revenues made abroad and held offshore of more than $100 billion (Fuhrmann, 2021). Stock options involve awarding executives the option to buy shares at a specific price in the future; should the stock price rise, the

executive would make a lot of money. This gives companies the ability to report higher profits to shareholders than they report to the IRS, essentially saving billions on taxes.

The TCJA eased tax avoidance for millionaires and large corporations when it cut the maximum corporate income tax rate from 35% to 21% (Gale et al., 2018). The tax cuts provided by TCJA were supposed to lower the tax burden on the rich, who would then be incentivized to invest more and spur economic growth. They have not had the intended effect. Wealth from the top income and wealth bracket has not trickled down to low- and middle-income communities. Rather than addressing economic inequities, the TCJA worsened them by increasing the tax burden on low- and middle-income Americans while decreasing tax burden on the top income bracket. This trend has been recognized by the U.S. Treasury that has seen decreases in tax revenues; and individual income taxes have seen increases to offset this tax cut (Gale et al., 2018). The flaws of the U.S. corporate tax system, and the burdens set by the TCJA have increased inequality, leading to a less dynamic and just economy (Hanlon & Hendricks, 2021). The corporate tax rate should be restored to its previous level of 35%. By increasing the corporate tax rate, and addressing the many loopholes discussed here, the U.S. would greatly increase the affordability of providing free college education for low- and middle-income students.

Potential Criticisms

Criticisms of Pell Grant Increases & Debt Free College:

An initial criticism of increasing the Pell Grant would address the costs needed, and that the federal government cannot afford a yearly expenditure of this magnitude. While this argument may have some merit, as the U.S. has public debt north of $30 trillion, this country continues to pay for what it prioritizes. Should enough citizens and leaders prioritize these policies, the costs are not an issue. Still, 6.8 million college students received Pell Grants in 2019, with an average award of $3900, with a total expenditure of $26 billion (Hanson, 2021). This paper calls for increases of more than double the current yearly expenditure. However, that figure is much less than the increases to federal revenues expected when corporate income tax loopholes are addressed. A debt-free program covering tuition, books, fees, and room and board, would cost just over $100 billion each year for *every* American student, regardless of parent income (Hanson, 2021; Carnevale et al., 2020). The proposed plan would be restricted to only those currently eligible for the Pell Grant program—a little more than 30% of undergraduate students in 2019 – which would greatly decrease the cost of the policy option (Hanson, 2021). The yearly cost would be approximately $60 billion per year, certainly less than the estimated $175 billion lost to tax avoidance by the top 1% alone.

Should this free college plan not be passed, Biden's free-college plan is a suitable alternative – particularly for students in the bottom quintile—as 29% of funds associated with this program would contribute toward their education. The Biden free-college plan would make community college *tuition* free for all students as well as students at four-year public colleges with an income cap of $125,000. This income cap would leave a large base of eligible students, as approximately 80% of students attending four-year public colleges and universities are from families with incomes under this cap (Carnevale et al., 2020). Further, Biden's plan would provide increasing benefit for underserved communities at the bottom quintile. This may represent an effective means of addressing racial disparities in social mobility and closing racial wealth gaps—although its effects would still not address an issue necessitating policy change: low-income students may still be forced to take on debt to afford the other associated costs of college. The estimated costs for the Biden plan are $49.6 billion in its first year; but should Biden's plan be seen as a still too expensive an expenditure, the plan could be revised to cover only tuition for all students at community colleges, which would cost $14.3 billion. This plan would deviate from racial-justice and inequality focused elements of previously proposed plans. In order to have the most far-reaching impact, it seems beneficial to pass and implement the initial policy option:

Addressing Criticisms of Student Loan Cancellation:

Many challenges arise for some when addressing the student debt crisis—every borrower requires an individualized solution, some of which are difficult for some stakeholders to support. Data shows that the average defaulter is more likely to have less student loan debt than average, more likely to be older, a college dropout, a Pell Grant recipient, and come from underrepresented backgrounds in comparison to those who never default (Miller, 2017). This leads many to suggest that student debt cancellation is capped below $10,000. Additionally,

the holders of the largest debt are more likely to work in careers with higher-than-average earning potentials that better allow them to afford their payments. Specifically, many proponents of student debt cancellation reject proposals that would see debt canceled for high-income earners with expensive graduate and professional school degrees. Still, those at the top income and wealth brackets do not need to take on debt to get an education. Student debt cancellation would ensure that borrowers who are upwardly mobile (rising to a higher social or economic position) are not penalized for being successful in their chosen field. Policy alternatives may be needed to address the severe challenges faced by the first group of borrowers, without subsidizing the lives of the upwardly mobile. To address cost and equity criticisms simultaneously, an effective policy alternative could either limit eligible recipients of loan cancellation to those of a certain income level or utilize a formula that estimates need using factors like income, debt totals, and family size. Another policy alternative could be a widespread forgiveness of a relatively low amount of student debt, like $10,000—similarly to Biden's proposal during the previous election. This type of student loan cancellation would disproportionately benefit low-income borrowers who are more likely to have dropped out or attended a predatory for-profit university and lack the income to pay off loans that some may see as comparatively low (Miller, 2017).

Addressing Criticisms of Increased Corporate Tax:

Critics of no-cost college may expect an increase in the real corporate income tax rate would only increase the incidence of current tax avoidance schemes and provide improved rewards for discovering new avoidance schemes. Previously, rather than implementing policy alternatives to address the problems of corporate tax avoidance and evasion, the U.S. government has decreased real corporate income tax rates instead, thus continuing the cycle. Instead, the U.S. government could fund a division of the IRS, or a new agency with the explicit responsibility of seeking out tax policy loopholes and advising the government on the most effective way of closing them. Additionally, a high corporate income tax rate could put the U.S. at a competitive disadvantage compared to other countries with less corporate income tax rates. This challenge can be addressed through the implementation of a global minimum tax rate. Efforts on this front are already underway, as a global deal to ensure that big companies pay a 15% minimum tax rate has been agreed upon by 136 countries—over 90% of the global economy (Thomas, 2021). A global minimum tax rate may not completely erase the issue of tax sheltering, but its implementation would significantly reduce the impetus for doing so, as corporations would lose the ability to shelter their earnings in zero percent corporate income tax countries.

Political Feasibility

Although the Democratic Party currently maintains control of the House of Representatives and Presidency, the many competing priorities on the policy agenda, such as Biden's Infrastructure Law and the Build Back Better plan, make all proposed policy options mentioned here likely unfeasible. Importantly, this infeasibility is not due to a lack of citizen support of the broad objectives discussed here. As of 2019, a 62% majority of Americans viewed the federal tax system as unfair and 71% of Democrats across income levels favor tax raises on households earning over $250,000 (Pew Research Center, 2019). Additionally, "over 66% of Americans favored some form of loan forgiveness, either by forgiving loans for everyone with student debt (27%) or for those in need (39%)" (Hanson & Rawhouser-Mylet, 2021). Also, due to the current gridlock in the legislative branch, and the equal split in the Senate, the likelihood of changing the corporate income tax rate, or removing economic barriers to higher-education—especially to address racial disparities—are likely quite low. Regardless of this, the policy agenda is currently quite dynamic, and this may change at any moment.

Conclusion

The student loan crisis greatly lowers the quality of life of many non-wealthy Americans. The higher-education and current tax systems continue to exacerbate racial wealth gaps and racial disparities in intergenerational social mobility. To address these issues, corporate income taxes must be restored to the previous figure of 35% and the many loopholes must be addressed in this system to increase the tax burden on corporations and by extension, the ultra-rich. This increase in government revenues should offset much of the associated costs of a Pell Grant Program intended to fully fund higher education for low- and middle-income students attending

public universities. Should this policy be implemented, the racial disparities in education attainment, and wealth may finally be lessened.

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