

January 23, 2009

TO: Interested Parties

FROM: Anne Kim, Director, Economic Program, and Jim Kessler, VP for Policy

RE: A College Tuition Tax Cut and the Recovery Package

For about 30 million parents,¹ there is one provision in the economic recovery package that could well have the most direct and immediate impact on their well-being, confidence and livelihood: the proposed college tuition tax cut.

The college tuition tax cut will help millions of middle class families do what they feel is their first order of duty during these harsh economic times, and that is sending their kids to college. It is a critical piece of the stimulus package that urges Americans not to postpone their dreams of seeing their children succeed.

Immediate pocketbook impact on many middle class families.

Parents with college age kids are facing three simultaneous economic shocks—a decline in the value of their college savings investments (in some cases a devastating decline), a decline in their home equity, which many parents use to finance tuition bills, and a steady increase in college tuition prices. And some parents have suffered a fourth shock—the loss of a job.

- 18.4 million students are currently enrolled in the nation’s colleges and universities.²
- The average *in-state* tuition at a public four-year college is now \$6,585 a year—up 6.4% from 2007-08. At private schools, tuition has risen 5.9% since last year, to an average of \$25,143.³
- College tuition costs have increased faster than inflation every year for 27 consecutive years.⁴
- College tuition prices have increased faster than any other consumer item, including health care, since 1980.⁵

Institution	Average 2008-09 tuition	Increase from 2007-08
In-state, four-year	\$6,585	6.4%
In-state, two-year	\$2,402	4.7%
Out-of-state, four-year	\$17,452	5.2%
Private, four-year	\$25,143	5.9%

Source: College Board

A generous college tuition tax cut, however, will help make a dream deferred attainable once more. It could also help to lessen the increasing debt burden that today's graduates face – particularly in an economy where it is extremely difficult to find a job out of college.

- Nationwide, 59% of students graduate with student loans.
- In 2007, the average student debt was \$20,098—a 6% increase from 2006.⁶

Direct connection to middle-class concerns.

While a college tuition tax cut would directly benefit many families, it resonates even with those families without college- age children.

A poll commissioned by Third Way July 2008 found that 68% of Americans thought the idea of a college tuition tax cut to be “very important,” with even stronger support among parents (76%), younger adults ages 18-44 (75%), African-Americans (88%) and Hispanics (90%).

Middle-class families understand that in today's economy, college⁷ is a must. And in an uncertain economy, parents are increasingly anxious to ensure that their children get the education they'll need to maximize their odds of success.

- Over the course of a career, the typical college graduate will earn \$1 million more than someone with just a high school diploma. ⁸
- In fact, male high school graduates earn no more today than they did 30 years ago, while salaries for male college graduates have risen 30% in real dollars over the same time period.⁹ (Women have seen increases in real wages for both high school graduates and college graduates, though college women have done far better.)

A generous college tuition tax cut can be an important signal that progressives understand middle-class priorities and the value Americans place on getting their kids through college. Our poll took place at the peak of the spike in gas prices. While Americans rated energy prices to be their top concern at the time, the second biggest worry for Americans in our poll was “the rising cost of college tuition.”¹⁰

Results of Third Way Poll (July 2008, 1000 respondents)

	Percentage who are “very worried”
“Rising costs of college tuition”	31%
“Not have enough money saved for retirement”	29%
“Lose your health care coverage”	17%
“Might fall into poverty”	13%
“Fall into bankruptcy”	3%

New territory for progressives.

As progressives, we consider ourselves the champions of the middle class. But if the results of past Congressional elections are any indication, the middle class has not returned that embrace.

The 2008 elections marked the first time in 14 years that Democrats swept the middle class. In the six congressional election cycles between 1994 and 2004, the middle class supported Republicans over Democrats every time. In the 2004 congressional races, for example, the low end of the middle class (\$30,000 to \$50,000 in household income) supported Democrats by a slim 4-points, but Republicans won the heart of the middle class (\$50,000 to \$100,000 in household income) by a staggering 10-points.

The progressive hold on the middle class is tenuous, and securing their long-term loyalty and attention requires that progressives understand and respond to middle-class concerns and needs. While it is absolutely essential that the stimulus package offer aid to those in the direst straits, the battered middle-class is also in sore need of help.

A generous college tuition tax cut—by speaking effectively to both middle-class aspirations and anxieties—can help cement the bond between progressives and the middle class. It can also serve as the down payment on a new, bold and transformational agenda aimed at helping middle-class families achieve success in a changing and sometimes tumultuous new economy.

¹ This figure is based on the number of students enrolled in colleges and universities nationwide, which is 18.4 million.

² *Back to School: 2008-2009*, Census Bureau, News Release, June 16, 2008, available at http://www.census.gov/Press-Release/www/releases/archives/facts_for_features_special_editions/012084.html

³ *Trends in College Pricing 2008*, College Board, October 2008, available at <http://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf>

⁴ *Statistical Abstract of the United States*, Census Bureau, 1980 to 2007.

⁵ *Ibid.*

⁶ *Student Debt and the Class of 2007*, Project on Student Debt, October 2008, available at <http://projectonstudentdebt.org/files/pub/classof2007.pdf>

⁷ By college, we intend to include any post-secondary education, not just a four-year degree.

⁸ Baum, S. and Payea, K., "Education Pays: Update 2005," The College Board., available at http://www.collegeboard.com/prod_downloads/press/cost05/education_pays_05.pdf

⁹ Anne Kim, Adam Solomon, Bernard L. Schwartz, Jim Kessler and Steve Rose, *The New Rules Economy: A Policy Framework for the 21st Century*, Third Way, February 2007

¹⁰ http://www.thirdway.org/data/product/file/173/Third_Way_-_Middle_Class_Economic_Survey.pdf