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MEMO TO PRESIDENT BIDEN:

The Progressive Way to Ease Student Debt Burdens

BY VERONICA GOODMAN

Note: In this brief, I use the term education debt, rather than student debt, since most affected borrowers are no longer students, and this category of debt affects a wide swath of society, not just students.

After his inauguration on January 20, one of President Joe Biden's first official acts was signing an executive order[1] to extend the pandemic-related pause on student loan payments and interest, as well as to halt collection of student loans in default, through September 30. For millions of young Americans struggling to pay off college loans, the order will be a welcome down payment on Biden's campaign promise to deliver major debt relief.

While campaigning for the presidency last spring, Biden unveiled a plan[2] to forgive a minimum of $10,000 per borrower. The President's advisers say the administration will submit a legislative proposal for debt relief to the new Congress.

The case for relief is strong. Over the past four years, the Trump administration and Republican lawmakers have provided little in the way of help for struggling borrowers beyond the temporary pause on repayments. With young people struggling to keep their heads above water amid the Covid pandemic and recession, it is no surprise that Democratic policymakers are looking for ways to relieve their financial stress.

In May 2020, House Democrats also called for $10,000 worth of education loan relief for "distressed" borrowers as part of their Health and Economic Recovery Omnibus Emergency Solutions (HEROES) bill. This category of borrowers included those with delinquent or defaulted loans, and others considered "financially distressed." According to the U.S. Department of Education, as many as 20 percent of education loans are in default. This provision got caught up in partisan wrangling over the size and cost of the HEROES act, and was dropped from the compromise stimulus bill Congress passed in late December 2020.

Since his victory last November, Biden has faced persistent calls from progressives to forgive education debt for the 45 million Americans who owe close to $1.6 trillion in loans[3]. Sens. Elizabeth Warren and Chuck Schumer dramatically raised the bidding by urging Biden to take executive action to forgive up to $50,000 of federal education debt. Reps. Ayanna Pressley (D-MA), Ilhan Omar (D-MN), Alma Adams (D-NC), and Maxine Waters (D-CA) introduced a companion resolution[4] in the House in December 2020.

Although popular on the left, such calls to "go big" have drawn a skeptical response from many independent analysts. "In sheer magnitude, canceling $50,000 in student debt would rank among the largest transfer programs in U.S. history," notes the Brookings Institution's Adam Looney[5]. "At a cost slightly above $1 trillion, it would equal the total amount spent on cash welfare since 1980. And its largest effect would be to improve the finances of college-educated workers, who have already tended to be winners in an economy marked by ever-rising inequality."

President Biden likewise has expressed skepticism[6] about the distributive impact of these proposals. He's also told Congressional Democrats he would prefer a legislative fix to an easily reversible executive order – something that looks more likely after the January 5 Georgia runoffs flipped control of the Senate to his party.

Digging into the data on the demographics of Americans with education debt, it becomes clear that Biden's approach isn't just more affordable, it's also more progressive and equitable. Approximately 48 percent of outstanding student loans are held by those with graduate degrees[7]; that is double the share of those who owe loans and earned an Associate's degree or less. In fact, slightly over a third of all education debt is concentrated in the highest income quartile[8] – households making over $97,000 per year.

Without better targeting, debt relief would mostly benefit higher-income households, which hold a third of student loans[9] and have greater ability to pay them back. A 2019 analysis by the Urban Institute[10] finds that "forgiving larger amounts of debt would distribute a larger share of benefits to higher-income households, and reducing the amount of debt forgiven should increase the share of benefits going to lower-income households." Based on this analysis, the $50,000 proposed by Sens. Warren and Schumer would have regressive effects and distribute relief to households at the top of the income scale[11].

In contrast, Biden's plan aims at lower-income borrowers who need debt relief the most. Relief in the amount of $10,000 per borrower would eliminate all debt for 37 percent of borrowers (16.3 million people)[12] and cut in half debts[13] owed by another 9.3 million borrowers at an estimated cost between $250-300 billion[14]. These borrowers are disproportionately young and low-income, and include veterans, single parents, and those in a minority group. Two-thirds of borrowers[15] that default on their payments owe a comparatively low average amount of $9,625[16]. These borrowers also are less likely to repay their loans because they never completed their college degrees or earned only a certificate.

However, it's not clear whether President Biden's plan will include an income-based eligibility test to ensure that relief is concentrated on needy rather than affluent families. PPI recommends that the administration target its plan by phasing out relief for borrowers making over $125,000. This would address concerns about the regressive nature of untargeted debt relief and substantially reduce the cost of the proposal.

Perhaps most important, the President's approach recognizes the limits of debt relief and leaves fiscal space for tackling the fundamental problem: America's broken financing model for higher education. Over the past two decades, the cost of higher education has approximately doubled[17] and ballooning tuition prices have forced students to borrow more to finance their education.

Although federal subsidies – chiefly grants and loans – tilt heavily toward college-going young people, college is not the only pathway to good jobs for young adults and U.S. workers. It's true that the average college-educated worker reaps a lifetime premium of higher earnings in the labor market. But most Americans[18] don't go to college. As of 2019, 70.1 percent of Americans 25 and older had not earned a four-year degree[19], while just 29.9 percent earned a four-year degree or higher. Given his well-known empathy for the struggles of America's working-class families, PPI recommends that the President pair debt relief with increased public investment in apprenticeships and work-based "career pathways" training programs that connect workers, including those coming out of high school, to well-paying careers.

PPI has proposed a suite of ideas for how to expand career pathways to employment for millions of Americans including investments for a 10-fold increase in apprenticeships[20], creating incentives for partnering public and private programs[21] that focus on transferable skills and credentials, and incentivizing private intermediaries who create "outsourced" apprenticeships programs[22]. Although they are beyond the scope of this memo, PPI believes these and related ideas are crucial to ending the bias in federal policy toward college-bound youth. We hope the Biden administration will give high priority to investing more in building a robust system of work-based learning, career training, and apprenticeships for the majority of young Americans who don't attend four-year colleges.

RECOMMENDATIONS FOR THE BIDEN ADMINISTRATION

- Draft legislation to provide $10,000 in immediate education debt forgiveness for those with an annual income of less than $125,000 per year. This will deliver relief for those at greatest risk of defaulting on their student loans, especially students from low-income and minority families. The estimated cost of President Biden's plan is $250-300 billion, and it would eliminate all education debt for 37 percent of borrowers (16.3 million people) and cut in half debts owed by another 9.3 million borrowers. Our recommendation of an income-based eligibility test is expected to reduce the overall cost.
- Continue giving borrowers a break on payments and interest by extending the pause on federal student loan payments for the duration of the pandemic and Covid recession. President Biden has extended the pause through September 30.

- Make income-based repayment more accessible and generous for borrowers. Switching to a universal IBR system that is opt-out for new and existing loans, and which automatically re-enrolls borrowers, would make payments more manageable and automatically tied to income, decreasing the likelihood of default and missed payments.
- Modernize the Public Service Loan Forgiveness Program to reward national or community service for our public servants by offering $10,000 of education debt relief for every year of service up to five years—after which the loan would be forgiven. This would include individuals with up to five years of prior service and automatically enroll workers in schools, government, and other nonprofit organizations. This would encourage workers to pursue careers in public service.
- Accelerate attainment of credentials by making the process for earning college credit through Advanced Placement (AP), International Baccalaureate (IB) programs, and college courses taken in high school at community colleges, more transparent and accessible[23], as PPI's Paul Weinstein has argued.

EDUCATION DEBT HAS LED TO A SOCIAL CRISIS, WHICH THE PANDEMIC HAS MADE WORSE

Those who have borrowed for degrees are more likely to be lower-income, Black, and less likely to have generational wealth, making them more likely to default, which can lead to further worsening of poverty and the racial wealth gap. To understand why the proposal of $10,000 relief per borrower could have the most impact on lower-income families and those most struggling during the pandemic, it is worth digging into the demographics of who is behind on payments and what groups are holding the most debt:

- More than one in five U.S. households hold a student loan, up from one in 10 in 1989[24]. The education debt crisis has disproportionately affected Millennials[25], who are already saddled with lower wages and lingering economic pains from the Great Recession. Of young adults aged 25 to 34, or the bulk of Millennials, approximately one-third hold a student loan[26]. Collectively, as of 2019, 15.1 million Millennial borrowers hold $497.6 billion in outstanding loans[27]. Economists have pointed to this massive debt burden as a key reason[28] why Millennials are not buying houses, starting small businesses, or saving for retirement in the same way as past generations, and it is to the overall detriment of the economy. Education debt is a major social issue for this generation, and one that demands more than one-time relief.
- According to the U.S. Department of Education, 20 percent of borrowers are in default, and a million more go into default each year. Two-thirds of borrowers[29] who default never completed their college degrees or earned only a certificate and owe a comparatively low average amount of $9,625[30]. Those who default include veterans, parents, and first-generation college students[31] who are more financially vulnerable to default. Without a credential and with limited access to good jobs, borrowers are forced to default and, in doing so, accrue additional interest and fees on the principal loan. These borrowers are in no position to pay back their defaulted loans.
- The education debt crisis is also widening the racial wealth gap. On average, Black families have less generational wealth. As a result, more Black students finance their

college education with student loans, and they are more likely to turn to riskier types of debt[32] to do so. As compared to their White peers, data shows that "Black or African American students who earned a bachelor's degree had a default rate nearly four times higher[33]" with higher interest rates on their loans. Black students are more likely to be targeted by for-profit schools[34] which have lower degree completion rates. This troubling set of circumstances leaves Black students in poorer financial health with little options for breaking free of a generational cycle of lower wages and wealth. The racial wealth gap particularly affects women, who tend to borrow at higher rates than men. Given the wage gap for Black and Latina women, once they do enter the labor market, they are in a worse off position to eventually pay off their loans[35].

- Women hold nearly two-thirds of outstanding education loans[36] but they are less likely to default than men. Black and White women, on average, owe more than their respective male counterparts[37]. Of note, it takes longer for women to pay off their loans than men[38] because of the persistence of the wage gap across lifetime earnings.
- Lastly, and not surprisingly, Pell Grant recipients, who come from lower-income households that qualify for these federally-funded grants that do not need to be paid back, represent an exceptionally high percentage of defaulted borrowers[39]. For example, close to 90 percent of defaulters received a Pell Grant at one point[40]. Of this group, even those who earned a bachelor's degree are three times more likely to default[41] than those who did not receive a Pell Grant.

Default can have catastrophic implications for future access to credit, and result in garnished wages, seized tax refunds, and harm other measures of financial wealth[42]. Given the age at which most of these borrowers took out loans, many begin their adulthood at an economic disadvantage. At this scale, the education debt crisis is not only hurting those who are struggling the most, but it is holding back an entire generation with negative implications for their children's generation. The financial strain the pandemic has inflicted on workers will make it more difficult for defaulted borrowers to get back on track with payments.

DEBT RELIEF: DOWN PAYMENT ON REFORM

As the pandemic rages, and more Americans lose their jobs and businesses, short-term education debt relief can help our most vulnerable borrowers ride out the storm. But we also need longer-term, structural reforms aimed at driving down the tuition costs for both college and post-secondary skills training.

Short-Term Relief and Considerations

The Trump administration implemented limited short-term relief for education debt by temporarily suspending loan payments through February 2021 on federal educational loans as of March 2020. Further short-term relief is desirable, in line with President Biden's proposal for $10,000 of forgiveness. As one of his first actions in office, President Biden signed an executive order extending the pause on student loan payments and interest through September 30. Biden should continue to extend the pause as long as the Covid recession continues to place financial strain on borrowers.

Reviewing the data, education debt forgiveness targeted at borrowers[43] with low incomes and the unemployed would have the greatest impact. However, some concerns remain over how policymakers can target relief to those who need it the most. Some experts have suggested that policymakers could isolate undergraduate debt from graduate school debt[44] in order to prioritize these more needy borrowers. This would avoid regressive effects that could give a large portion of relief to those with graduate school debt, such as doctors and lawyers, that are in a better financial position to pay back their loans. At the $10,000 level, however, the Biden plan avoids many of the greatest concerns about the potential for regressive outcomes relevant to higher dollar per borrower proposals. Adding an income cap of $125,000 for borrowers will target relief for households who need it the most.

Following dramatic victories in the January 5 Georgia run-off elections, Democrats have taken control of the Senate. This likely clears the way for legislation to provide debt relief, as President Biden prefers. Citing the need for action during the pandemic and recession, some Democrats have been urging him to use a provision in the Higher Education Act[45] to sidestep legislation and cancel the balances of millions of Americans. That would likely trigger legal challenges, and Biden is right to first seek a legislative fix using budget reconciliation.

Advisers of President Biden have suggested that education debt relief could be included in anticipated stimulus legislation aimed at pandemic relief. On the other hand, a legislative path for education debt relief could also take longer if additional relief legislation proves difficult to enact in the near term, a worthy consideration given the present economic crisis.

More difficult to measure are the intangible or second-order benefits that education debt relief would bring to borrowers, especially those who have defaulted. Worries about their debt burdens undoubtedly affect their career choices, such as whether to pursue a public interest job, and their life choices, such as whether and when to buy a house or have a child. Those with significant education debt are more likely to experience depression and anxiety[46] as a direct result of their debt, which can lead to mental health issues down the road. Mental health experts point to Millennials coming of age with slower economic growth than any other generation in history[47] as part of the reason for why their mortality rates, driven by suicides and drug overdoses, have risen sharply since 2008. It is also difficult to capture the effect that education debt relief would have on rates of entrepreneurship in younger generations[48] or how intergenerational wealth might change if millions were no longer in default and saddled with debt.

Long Term Solutions

Targeted education debt relief is only a temporary fix. There are several other policy solutions that would help address the education debt crisis.

Congress should also adopt Biden's proposal to modernize income-based repayment (IBR), loans. Such programs calculate a borrower's monthly payment based on their income and other factors[49], such as family size and location. Currently, borrowers must opt-in to IBR through a lengthy process. Automatically enrolling new borrowers and re-enrolling existing borrowers in IBR and tying their payments to their eligible income would streamline the process, as well as making it easier for existing borrowers to take advantage of the program. By making enrollment automatic for borrowers[50] and the terms much simpler, it is estimated that on-time payments will rise and default rates should decrease on net[51].

The Public Service Loan Forgiveness program was introduced in 2007[52] as a way to reward workers who pursue public service by forgiving their federal student loans after 10 years if they make consistent payments and are an employee of a qualifying public service employer. Like IBR, the unnecessary complexity and difficulty of navigating the program has led to low enrollment and success in rewarding public servants. Automatically enrolling employees of qualifying employers would increase take-up and help reduce debt in a way that rewards work and service. The program should offer $10,000 of education debt relief for every year of service up to five years—with full forgiveness after five years. This would include individuals with up to five years of prior service in schools, government, and other nonprofit organizations.

To get at the root of the education debt problem, as President Biden has acknowledged, we need broad higher education reform and more pathways to good jobs beyond college. Periodic education debt relief should not become a band-aid solution for higher education's broken financing system. Fully addressing these challenges is beyond the scope of this brief, but below are a few points to consider.

Since the 1990s, the cost of higher education has approximately doubled[53] and institutions have responded[54] to declining state investment by passing off the cost to students through rising tuition prices. Told repeatedly that a college degree is the best pathway to the middle class, it's little wonder that young Americans increasingly turned to loans to finance their education. For too many, however, the high price of going to college isn't leading to jobs with earnings sufficient to propel them into the middle class and allow them to pay off their debts.

When considering how to create lasting reforms to higher education, the Biden administration should develop a plan for a systemic restructuring of higher education[55] consisting of two parts: (a) creative ways to reduce college costs rather than expanding subsidies in an endless game of catchup; and (b) a big public investment in building a robust career ladders infrastructure of work-based learning as an alternative route to middle-income jobs.

Many progressives have been thinking creatively about how to tame the rising price of higher education in the longer term. For example, my PPI colleague Paul Weinstein proposes a set of imaginative reforms[56] including leveraging direct federal spending on higher education to force institutions to cut tuition and fees by reducing "administrative bloat," requiring faculty to teach more, thereby opening up additional spots for students, increasing tuition revenue, and, lastly, by moving U.S. colleges toward three-year bachelor's degrees.

CONCLUSION

President Biden and Congressional Democrats have a rare opportunity to move fixing America's broken higher education financing model to the center of the nation's agenda. They should follow targeted education debt relief with bold progressive reforms aimed at two critical national goals: Lowering college costs and thereby reduce the need for borrowing, and boosting public investment in the skills and career prospects of the majority of young Americans who do not get college degrees.

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