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Why I Changed My Mind on Student Debt Forgiveness

Aug. 30, 2022 By Susan Dynarski

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As an economist who studies education, I long thought that forgiving student loans was a crude and inequitable tool for fixing student aid. College graduates, after all, are the winners in our society. College certainly changed my life: My father was a high school dropout, but his daughter is a Harvard professor. My student loans (which I paid off just a few years ago) were absolutely worth it. A bachelor's degree, on average, puts graduates on a path to economic security.

But today many of those who borrow for college do not graduate. Without a degree, they get little to no payoff from college attendance. Delinquencies and defaults on small student loans have undermined their financial security. This is the opposite of what we hope to achieve by encouraging people to go to college.

I now firmly believe that targeted debt cancellation is the best way to undo the damage done to millions of borrowers by a persistently dysfunctional system of college funding and student loan repayment.

What changed my thinking? Decades of political paralysis around fixing that funding system. An unending increase in tuition prices and student borrowing. And a growing body of evidence showing harm to students who have borrowed to cover mounting college costs.

College used to be nearly free. My older sisters went to the University of Massachusetts Boston in the mid-1970s, when tuition and fees for in-state residents were about $600 a year. To be clear, that $600 paid for an entire year of coursework, not just for a single class. In today's dollars (after accounting for inflation) that is equivalent to $3,605. Yet by 2022, in-state residents paid nearly $16,000 in tuition and fees to go to UMass Boston.

In 1970, it would have taken 375 hours at the Massachusetts hourly minimum wage of $1.60 to earn the $600 required to attend UMass. Those hours easily fit into a summer of work or a part-time job during the school year.

By contrast, today it would take three times as long (over 1,100 hours!) at the state minimum wage of $14.25 to earn the $16,000 required to attend UMass. In some other states, where the minimum wage is $7.25 but the tuition rate is similar, this calculation looks much worse.

It is simply impossible for students to work their way through college in the way previous generations could. And at the same time, states have reduced funding to their public colleges that historically allowed schools to charge low tuition prices. In essence, it was once taxpayers who bore the burden of college costs, rather than individual families. The idea was that when those students graduated, they would become taxpayers themselves, who would pay for the next generation to be educated.

Instead, students take out loans to pay their increasing college costs. The typical college **graduate who borrows (about a third do not)** leaves college with **$31,000 in loans**. In 1970, that figure was $1,100 (around $7,500, adjusted for inflation). Today, total student debt is $1.7 trillion, up from $1 trillion in 2012 and $0.5 trillion in 2006.

A decade ago, we had only a sketchy portrait of how this debt affected borrowers' lives. The Department of Education released sparse data that provided a mile-high view of borrowing, but no detailed information on who those debtors were. This lack of information was itself a policy failure, hampering the ability of Congress and the public to keep tabs on the fast-growing loan program.

The little data we had indicated that typical debt levels were reasonable compared with the average payoff from a college degree, which on average amounts to hundreds of thousands of dollars over a lifetime. As a researcher reducing inequality, I was far more concerned about getting more low-income people to attend and graduate from college in the future than I was about forgiving the debts of those who had already earned a degree. They had successfully gotten to the finish line, and the payoff to a college degree in the labor market would more than offset a debt of $30,000.

It was the Obama administration that released more detailed data than previous administrations, revealing that where **debt had once been concentrated among university graduates, we now saw a huge swath of students borrowing for community college and vocational training. Dropout rates were high**: During the Great Recession, community colleges were bursting at the seams while their government funding was sinking. Students who couldn't get into oversubscribed classes at community colleges turned to expensive for-profit colleges, where they earned credentials that had little value in the labor market. Many exited into a historically bad labor market during the Great Recession.

Millions of borrowers quickly fell behind on their payments. **About a third of those who had borrowed to attend community colleges and for-profit colleges defaulted on their loans within a few years of leaving school. Delinquency and default were concentrated among low-income, college dropouts who had debts of only a few thousand dollars.**

Contrary to the popular narrative, the huge run-up in defaults has not been driven by $100,000 debts incurred by students at expensive private colleges. Rather, they are driven by $8,000

loans at for-profit colleges and, to a lesser extent, community colleges. These are the borrowers who will benefit from the Biden loan forgiveness policy.

The smallest loans, which have the highest default rates, are ripe for forgiveness. Collecting them is expensive for the government and harmful for the borrowers. Forgiving them will change a lot of lives without foregoing much revenue.

Yet the statistics on who holds loan debt can be confusing and mind-numbing. Two key facts illustrate why President Biden's forgiveness can overwhelmingly benefit those with low-to-moderate incomes, even though most of the debt is held by those with high incomes.

A majority of the dollars of student loan debt are owed by a small fraction of borrowers who, on average, have high incomes. They often borrowed to go to professional schools for degrees in law, medicine and business. They don't have much trouble handling their payments, and their default rates are low.

By contrast, a majority of people holding student debt have moderate incomes and low balances. Many have no degree, having dropped out of a public college or for-profit vocational school after a few semesters. They carry little debt, but they also do not get the benefit of a college degree to help them pay off that debt.

Defaults and financial distress are concentrated among the millions of students who drop out without a degree. The financial prospects for college dropouts are poor; they earn little more than do workers with no college education. Dropouts account for much of the increase in financial distress among student borrowers since the Great Recession.

And dropout is not at all rare. A bit less than half of college students don't earn a bachelor's degree. Some people earn a shorter, two-year associate degree. But more than a quarter of those who start college hoping to earn a degree drop out with no credential. **A full 30 percent of first-generation freshmen drop out of four-year colleges within three years. That's three times the dropout rate of students whose parents graduated from college.**

With a well-functioning system of loan repayment, these small debts would not cause distress. In theory, income-based repayment programs, such as Pay as You Earn, allow borrowers to pay only what they can afford by setting payments as a percentage of income. But these programs require that borrowers annually document their incomes, using information from the Internal Revenue Service. This part of the application process frequently tripped up borrowers, keeping them from enrolling and staying in income-based plans.

How has this happened? The Department of Education outsources the servicing of student loans to private companies. These companies are the face of student loans for tens of millions of borrowers — and often the source of enormous frustration. The loan companies have misdirected payments, lost paperwork and charged the wrong interest rate, the Consumer Financial Protection Bureau and the Government Accountability Office have shown.

This bureaucratic, government-created mess of a system has actively harmed student borrowers, driving many into default. Delinquency and default leave a longstanding blot on credit records, keeping borrowers from buying homes and cars, renting apartments and getting jobs. By allowing borrowers to once again get access to credit, housing and job markets, forgiving loans can therefore have a real effect on lives and the economy.

Some worry that debt forgiveness will drive up inflation. This strikes me as implausible, since borrowers have not had to make payments for more than two years. The planned resumption of loan payments will tend to reduce disposable income, which will cool inflation. All that said, **I am not in favor of framing student-loan policy as a lever for managing inflation**. Eliminating food subsidies for poor families — SNAP, as the food stamp program is known today — would definitely slow the economy, but that doesn't mean we should do it. Loan forgiveness does nothing to repair fundamental weaknesses in postsecondary education: underfunded public schools, rising tuition and for-profit colleges that deny students a quality education.

A third of borrowers hold less than $10,000 in debt. Another 20 percent have debts below $20,000. Mr. Biden's plan could clear the debts of about half of borrowers. This will not only improve lives but also reduce stress on the loan system when the remaining borrowers restart paying in a few months.

I once thought forgiveness to be an expensive Band-Aid, a distraction from fundamental reform. But I have seen so little progress on these issues that I now think we must make amends to those we have harmed. It's time to erase the debts of those millions who borrowed modestly for their education but wound up in financial distress because of our disjointed loan system.

Loan forgiveness is not just warranted, it's fair: Government policy did harm, and it is government policy that should work to reverse it.