Student Debt WSJ 052720

https://www.wsj.com/articles/should-we-forgive-all-federal-student-loan-debt-11590525387?mod=searchresults&page=1&pos=2

Should We Forgive All Federal Student-Loan Debt?

A debate between a proponent who says the government should fix the debt crisis it created, and an opponent who says high repayments rates suggest the program is working for most

It isn't surprising that college debt is a hot-button issue in the U.S.: Americans collectively hold more than $1.5 trillion in federal student loans, making it the second-largest category of consumer debt, behind only mortgage debt.

Among the approximately 43 million student-loan borrowers in the U.S., almost 60% owe $20,000 or less, while about 25% owe $40,000 or more, according to Education Department data. Borrowers who graduated with bachelor's degrees in 2018 left school owing an average of about $29,000, according to the College Board.

So is this a crisis that calls for a cancellation of all federal student debt, as championed by former Democratic presidential hopefuls Bernie Sanders and Elizabeth Warren? Or are there less-drastic ways to help those struggling to pay off their loans?

Proponents of mass debt cancellation say it is the appropriate response because failed government policies, not recklessness on the part of students, led to an explosion in borrowing. Opponents point to high repayment rates as evidence that the student-loan program is working, and question the wisdom of forgiving the debt of wealthier students and those with advanced degrees.

Suzanne Kahn, deputy director of the Great Democracy Initiative and Education Program at the Roosevelt Institute, makes the case for debt cancellation. Jason Delisle, a resident fellow at the American Enterprise Institute, argues against **it.**

YES: The government made this crisis. The government should solve it.

By Suzanne Kahn

Today's student-loan crisis is weighing down the entire U.S. economy.

Americans hold a collective $1.6 trillion in federal and private student loans, and the effects of that debt on recent college graduates has been well documented: delayed homebuying, marriage and wealth formation. But college loans also are eating into the retirement savings of older Americans, who hold increasing amounts of such debt, taken on for their own education and that of their children. Overall, student loans now account for 35% of the most severely delinquent household debt.

In the face of these stark numbers, it is time to cancel all federal student loans.

Cancellation is the appropriate response because this is a crisis of the government's making. In the wake of the 2008 financial crisis, states cut public funding to higher education, leaving individuals to pick up the slack. Tuition at public four-year colleges increased 36% between

2008 and 2018. And as many young people turned to higher education to wait out a weak job market, increased demand pushed up tuition costs at private schools, as well.

Readily available federal loans, rather than expanded grants, helped students meet rising costs. This might have worked out if the returns on a college education had climbed at a similar rate. Instead, since the recession ended, wages for college graduates have stayed flat. One 2018 analysis from Brookings predicts that nearly 40% of borrowers who entered college in 2004—and thus graduated into a depressed job market during the recession—may default on their loans by 2023.

Among those most hurt by rising costs and stagnating wages have been Black students, who are more likely to have to borrow to go to college and face a discriminatory job market when they graduate. Research shows that 12 years after entering college, the average black borrower still owes more than he or she borrowed.

To address mounting concerns about borrowers' distress, the federal government created repayment programs that tie monthly payments to borrowers' incomes. The complexity of these programs have led many to experience the sudden addition of unpaid interest to loan balances or be outright denied forgiveness. Nevertheless, almost 45% of federal loans are now being paid through such programs. That isn't evidence of success but rather a clear sign that borrowing hasn't paid off for many. These programs are the main reason the average monthly student-loan payment has remained stable relative to income over the years.

Canceling student debt would be an important acknowledgment of the consequences of a failed policy. Moreover, it would boost the economy.

Before the current Covid-19 crisis, research from the Levy Economics Institute found that canceling all student debt could boost real GDP between $86 billion and $108 billion a year for 10 years and lower the unemployment rate between 0.22 to 0.36 percentage point over the decade.

Some ask why Americans who didn't go to college should help pay the debts of those who did. As long as student debt is serving as a drag on our economy, everyone is paying for it, and the country can no longer afford not to act.

Debt cancellation alone isn't enough to ensure this crisis won't repeat itself. To bring down student-debt levels permanently, we need to pair a one-time cancellation with free, public higher education. (Federal student loans might continue to exist as an option to protect students who need to borrow for living expenses or who choose private education from predatory, private lenders). Done together, free college and student-debt cancellation policies would signal that the decision to place the onus for financing higher education on individuals was a mistake.

Canceling student debt will benefit the economy as a whole, narrow racial inequalities and begin to correct the policy mistakes that have limited an entire generation's ability *to* build wealth.

Ms. Kahn is deputy director of the Great Democracy Initiative and Education Program at the Roosevelt Institute. She can be reached at reports@wsj.com

NO: The student-loan program isn't perfect, but it works

By Jason Delisle

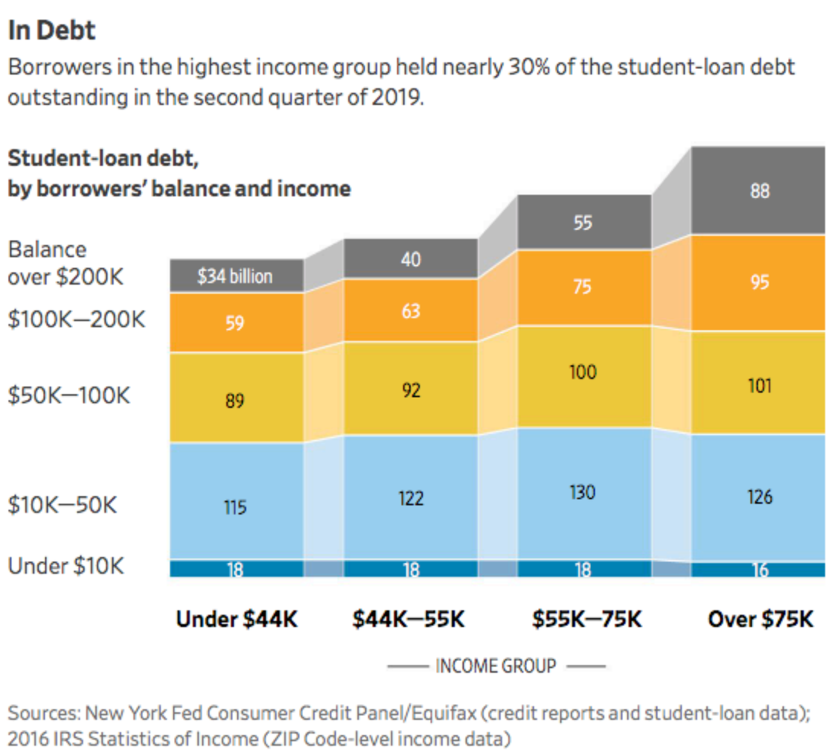
Calls for the federal government to forgive outstanding student debt are grounded in the belief that most borrowers face long-term hardship from these debts. But if that truly were the case, one would expect advocates for mass loan forgiveness to also call for an end to the student-loan program. Yet most would have the government make new loans even after the current stock of debt is forgiven.

This is a major inconsistency in the argument for large-scale loan forgiveness, and it illustrates why the case for forgiving all debt is quite weak.

The government's student-loan program isn't perfect but on the whole it works. It ensures widespread access to higher education at affordable repayment terms and the vast majority of loans are fully repaid.

The Consumer Financial Protection Bureau reports that about 80% of borrowers pay off their student loans within 12 years of entering repayment. Others take longer, especially when economic crises like the coronavirus outbreak occur, but flexible repayment terms help them stay afloat and repay when the economy recovers. And while it's true that a subset of borrowers—mainly those who attend community colleges and for-profit institutions—have high default rates, their balances tend to be relatively small (about $7,000) and are often fully repaid despite the default.

Budget statistics also reflect that overall payments remain high. Unpaid debts cost taxpayers $4 billion per $100 billion in loans made annually. That loss pales in comparison to the cost of forgiving all debt.



Of course, loan payments can still be overly burdensome for some borrowers. Here again, however, the evidence isn't consistent with a permanent and widespread affordability crisis.

A recent study by the JP Morgan Chase Foundation of four million families' financial records finds that the typical monthly student-loan payment ranges from $144 to $203. Data collected by the Federal Reserve show a similar figure. And student-loan payments tend to take up less than 6% of a borrower's earnings, an amount that has been remarkably stable since the mid-1990s, as documented in a 2014 Brookings Institution study. As such, it is hard to imagine that student loans are preventing family formation or home buying on a large scale.

The idea that loan forgiveness is needed to boost the economy is similarly questionable. Yes, putting cash in families' pockets might goose short-term economic growth, but why target student debt? Many households carry mortgages, auto loans and credit-card debt.

Student debt might be better suited for mass forgiveness if only low- and middle-income families held it. But among first-year undergraduates, students from families earning over $114,000 are just as likely to borrow as the lowest-income students—and they take out loans twice as large. That isn't surprising since financial-aid policies have spared many low- and middle-income students from college-tuition price hikes. The result is that high-income students would be major beneficiaries of loan forgiveness, as would the countless lawyers, doctors and others with advanced degrees who account for 42% of all student debt.

None of this is to say that all borrowers can afford to repay all of the time, especially in times of crisis. But temporary economic shocks can be addressed with temporary solutions, such as the recent coronavirus-relief package that waives student-loan payments and interest for six months.

And for borrowers who need longer-term relief, there are programs such as Income-Based Repayment, which allows those with federal loans to pay a small share of their income no matter how much they owe, and then qualify to have remaining balances forgiven after 20 years.

This program should be improved to help borrowers who are struggling the most, rather than forgive everyone's debt regardless of w*hether they really need the help.*

Mr. Delisle is a resident fellow at the American Enterprise Institute. He can be reached at reports@wsj.com.