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Subcommittee on Economic Policy

The Student Debt Burden and Its Impact on Racial Justice, Borrowers, & the Economy

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Chair Warren, Ranking Member Kennedy, and members of the Subcommittee, thank you for inviting me to testify before you today. As a scholar of education policy, I am honored to provide an overview of the evidence on student debt burden and its role in the larger economy, especially its impact on racial justice.

I speak to you in the midst of the COVID-19 pandemic and in the throes of political unrest and uprisings for racial justice. During this time, the United States faces tremendous challenges and opportunities. As we work to forge a path forward as a nation, millions of current and former college students also wonder about their own financial futures and their prospects for repaying their student loans.

Federal financial aid plays a critical role in helping students afford a college education. Yet the system is beset by long-standing inequities that disproportionately affect students of color, low-income students, and students from other groups historically underrepresented in higher education. In a moment of crisis like the current pandemic, it is all the more imperative to acknowledge and address these inequities in student loan borrowing and repayment, as well as the factors that contribute to them. The economic disruption due to COVID-19 has already exacerbated the challenges facing students and borrowers, and will continue to do so over both the short and long term.

Wealth and Student Loan Reliance

In the United States, an individual's economic circumstances, particularly their family wealth, dictate that individual's higher education options. Decades of research have shown time and again that poorer young people have fewer opportunities to attend college.[1] Scholars have found that the socioeconomic status of parents is strongly correlated with children's postsecondary education decisions and outcomes, including whether to enroll, where to enroll, and whether to persist and complete college.[2] Additionally, research has shown that when parents lose their jobs, their children are less likely to enroll in postsecondary education.[3]

Historically, some families have been afforded greater opportunities to build wealth, often with the support of past governmental policies and programs.[4] Such families—including a disproportionate share of White families—are better able to navigate short-term income losses

[1] Feiveson, L., & Sabelhaus, J. (2018). How does intergenerational wealth transmission affect wealth concentration? *Board of Governors of the Federal Reserve System*. Retrieved from https://www.federalreserve.gov/econres/notes/feds-notes/how-does-intergenerational-wealth-transmission-affect-wealth-concentration-20180601.htm
[2] Bailey, M. J., & Dynarski, S. M. (2011). Inequality in postsecondary education. In G. J. Duncan & R. J. Murnane (Eds.), *Wither opportunity?: Rising inequality, schools, and children's life chances (pp. 117-132)*. New York: Russell Sage Foundation.
Perna, L. W. (2006). Studying college access and choice: A proposed conceptual model. In *Higher Education: Handbook of Theory and Research* (pp. 99-157). Springer.
Wapole, M. (2003). Socioeconomic status and college: How SES affects college experiences and outcomes. *The Review of Higher Education, 27*(1), 45-73.
[3] Ananat, E. O., Gassman-Pines, A., Francis, D. V., & Gibson-Davis, C. M. (2017). Linking job loss, inequality, mental health, and education. *Science, 356*(6343), 1127-1128.
[4] Katznelson, I. (2005). *When affirmative action was white: An untold history of racial inequality in twentieth-century America*. WW Norton & Company.

and are more likely to be able to afford a college education, whether by paying outright or, critical to today's hearing, by repaying loans. Wealth—incorporating such measures as savings, investments, retirement funds, and real estate—plays a substantial role in whether or not someone goes to college. Recent research analyzed a nationally representative sample of youth born from 1980 to 1984 and found that wealth plays a larger role than income in students' decisions about whether to enroll in higher education and in which college or university to enroll (e.g., two-year vs. four-year).[5] Consequently, the difference between wealth and income is vitally important when thinking about college attendance. For example, when confronted with the loss of a job (income), a family with a significant amount of money saved (wealth) faces very different circumstances than a family without such resources.

Given that wealth plays an important role in college access, it is important to recognize the extreme variation in wealth due to structural racism. A Federal Reserve System report notes that the typical Black and Hispanic family hold just 10% and 12%, respectively, of the net wealth that White families hold ($17,600 and $20,700, respectively, compared to $171,000).[6] These types of disparities between racial/ethnic groups remain even when examining families with similar educational backgrounds. In addition, scholars have found evidence that, while increases in wealth are associated with a decrease in student debt accumulation for White young adults, the same is not true for their peers. Black families with significant wealth still borrow substantial amounts of student loans and the largest disparities in student debt accumulation are at the highest levels of Black parental net worth.[7] Taken together, these research findings suggest that wealth has a substantial relationship with college-going experiences, but racial disparities also factor into this process.

Who Borrows?

Many students and families rely on borrowing to pay for college. Total U.S. student loan debt reached almost $1.6 trillion at the end of 2020.[8] In light of the aforementioned wealth disparities, reliance on student loans is far from equally distributed among students and families. Overall, 55% of student borrowers hold less than $20,000 in student loan debt and it is rare for students to have six-figure loan balances.[9] However, students who attend for-profit institutions borrow significantly larger amounts to attend these institutions.[10] Further, there are significant differences in who borrows based on structural racism.[11] In fact, when we look at students who

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[5] Jez, S. J. (2014). The differential impact of wealth versus income in the college-going process. *Research in Higher Education*, *55*(7), 710-734.

[6] Dettling, L. J., Hsu, J. W., Jacobs, L., Moore, K. B., & Thompson, J. P. (2017). *Recent trends in wealth-holding by race and ethnicity: Evidence from the Survey of Consumer Finances.* Washington, DC: Board of Governors of the Federal Reserve System.

[7] Addo, F. R., Houle, J. N., & Simon, D. (2016). Young, Black, and (still) in the red: Parental wealth, race, and student loan debt. *Race and Social Problems 8*(1), 64–76.

[8] Federal Reserve Bank of New York. (2021) *Quarterly report on household debt and credit*. Washington, DC: Federal Reserve Bank of New York.

[9] Ma, J., Pender, M., & Libassi, C. J. (2020). *Trends in College Pricing and Student Aid 2020*, New York: College Board.

[10] Cottom, T. M. (2017). *Lower ed: The troubling rise of for-profit colleges in the new economy*. New York: The New Press.

[11] Addo, F. R., Houle, J. N., & Simon, D. (2016). Young, Black, and (still) in the red: Parental wealth, race, and student loan debt. *Race and Social Problems 8*(1), 64–76.

earned a bachelor's degree in 2015-2016 (the most recent data available), we find that 64% of Black students held at least $20,000 in student debt.[12] And, while often overlooked due to smaller population shares, American Indian, Alaska Native, Native Hawaiian, and other Pacific Islander students also borrow at above-average rates (76% and 90% for bachelor's degree earners, respectively, compared to an overall average of 69%).[13] Further, while women are more likely to borrow more than men,[14] one study I conducted at the state level found that women of color—and Black women in particular—drive these findings.[15] Finally, a group of borrowers the public often fails to consider are older adults. Older adults can have excessive loan borrowing due to the loans they took out for themselves as well as their children through the Direct PLUS Loan program. In fact, a Consumer Financial Protection Bureau report showed that older adults are the fastest-growing age group of borrowers.[16] Even among this age group, a nationally representative survey from AARP demonstrates that there is still significant racial variation in who holds student loans as an older adult.[17]

Student Loan Repayment Issues

Compounding the inequities in students' and families' ability to afford college are structural and systemic barriers related to student loan repayment. When it comes to paying down student loans, there is evidence at both the federal and state levels that specific subgroups of students are more likely to struggle: students who do not complete their degree, students who attend for-profit institutions, and students who are Black.[18] As a result, these students face a greater risk of defaulting on their student loans, having their credit adversely affected, having their wages

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Houle, J. N., Addo, F. R. (2019). Racial disparities in student debt and the reproduction of the fragile Black middle class. *Sociology of Race and Ethnicity, 5*(4), 562–577.
Seamster, L., & Charron-Chénier, R. (2017). Predatory inclusion and education debt: Rethinking the racial wealth gap. *Social Currents, 4*(3), 199-207.
Taliaferro, W., Taylor, T., & Wheatle, K. (2021). *Changing the narrative on student borrowers of color*. Washington, DC: Lumina Foundation. Retrieved from https://www.luminafoundation.org/wp-content/uploads/2021/02/borrowers-of-color-2.pdf
[12] Baum, S., Ma, J., Pender, M. & Libassi, C. J. (2019). *Trends in Student Aid 2019.* New York: College Board.
[13] Taylor, M., Turk, J. M., Chessman, H. M., & Espinosa, L. L. (2020). *Race and ethnicity in higher education: 2020 supplement.* Washington, DC: American Council on Education.
[14] AAUW. (2017). *Deeper in debt: Women and student loans*. Washington, DC: Author. Retrieved from https://www.aauw.org/app/uploads/2020/03/DeeperinDebt-nsa.pdf
AAUW. (2020). *Deeper in debt: Women and student loans in the time of COVID.* Washington, DC: Author. Retrieved from https://www.aauw.org/app/uploads/2020/05/Deeper_In_Debt_FINAL.pdf
[15] Baker, D. J. (2019). When Average Is Not Enough: A Case Study Examining the Variation in the Influences on Undergraduate Debt Burden. *AERA Open*, *5*(2), 2332858419860153.
[16] Consumer Financial Protection Bureau (2017). *Snapshot of older consumers and student loan debt*. Washington, DC: Author. Retrieved from https://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf.
[17] Trawinski, L., Montezemolo,S., & Williams, A. (2019). The student loan debt threat: An intergenerational problem. Washington, DC: AARP. Retrieved from https://www.aarp.org/content/dam/aarp/ppi/2019/05/the-student-loan-debt-threat.doi.10.26419-2Fppi.00064.001.pdf
[18] Baker, D. J. (2019). When average is not enough: A case study examining the variation in the influences on undergraduate debt burden. *AERA Open*, *5*(2).
Houle, J. N., & Addo, F. R. (2018). Racial disparities in student debt and the reproduction of the fragile Black middle class. *Sociology of Race and Ethnicity*, 1-16.
Scott-Clayton, J. (2018). What accounts for gaps in student loan default, and what happens after. *The Brookings Institution: Evidence Speaks Reports, 2*(57).

garnished, and even losing Social Security benefits. According to a nationally representative sample of first-time enrolled college students, the data tell us:

- Students who borrow for college but do not complete their degree are faced with paying back their student loan debt without the increase in income that could have occurred if the student graduated—making them more likely to struggle with repayment.[19]
- Students who attend for-profit institutions are both more likely to borrow (89%, the highest of all sectors) and default on their student loans at the highest rates (47%, the highest of all sectors).[20]
- On average, Black students and their families have limited economic resources as a result of systemic racism. For instance, they can face significant labor market discrimination, which reduces their earnings in comparison with their peers who have similar occupations. This is one of the reasons why Black bachelor's degree recipients are more likely to default on their student loans compared to White students who earn a bachelor's degree (21% versus 4%, respectively). Even more startling, Black bachelor's degree recipients default at a higher rate (21%) than White students who drop out of college (18%).[21] A recent report from the Center for American Progress shows that even with ready access to income-driven repayment plans, which close to one-third of Black bachelor's degree earners use, Black individuals still default on their student loans at exceedingly high rates.[22]

I want to dig into that last point a bit more. If there were equitable returns to a college degree, all college graduates should be able to access a more economically prosperous life. But, as I just noted, Black college graduates actually struggle to repay their student loan debt *more* than White students who leave higher education with no degree. This is not due to some innate issue within Black people. Student loan burden disproportionately falls on these students due to centuries of structural forces pushing for this outcome.[23] For example, structural racism has denied Black families the ability to build wealth to pay for college,[24] while also shaping residential and K-12 school experiences[25] such that Black students are more likely to enroll in either systematically

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[19] Scott-Clayton, J. (2018). The looming student loan default crisis is worse than we thought. *The Brookings Institution: Evidence Speaks Reports, 2*(34).
[20] Ibid.
[21] Ibid.
[22] Miller, B. (2019, Dec 2). The continued student loan crisis for Black borrowers. *Center for American Progress*. Retrieved from https://www.americanprogress.org/issues/education-postsecondary/reports/2019/12/02/477929/continued-student-loan-crisis-black-borrowers/
[23] Hamilton, D., & Darity Jr, W. A. (2017). The political economy of education, financial literacy, and the racial wealth gap. *Federal Reserve Bank of St. Louis Review*, *99*(1), 59.
[24] Huelsman, M. (2015). The debt divide: The racial and class bias behind the 'new normal' of student borrowing. New York, NY: Demos.
[25] Heissel, J., Persico, C., & Simon, D. (2019). *Does pollution drive achievement? The effect of traffic pollution on academic performance* (No. w25489). National Bureau of Economic Research.
Nowicki, J. M. (2018). *K-12 education: Discipline disparities for Black students, boys, and students with disabilities. Report to Congressional Requesters* (GAO-18-258). US Government Accountability Office.
Persico, C., Figlio, D., & Roth, J. (2020). The developmental consequences of Superfund sites. *Journal of Labor Economics*, *38*(4), 1055-1097.
Pirtle, W. (2019, Ap 23). The other segregation. *The Atlantic*. Retrieved from https://www.theatlantic.com/education/archive/2019/04/gifted-and-talented-programs-separate-students-race/587614/

underfunded[26] or outright predatory colleges[27] that will saddle them with high debt, little chance of earning a degree, or both. Then, those same students face a discriminatory labor market that pays them less than their peers for the same amount of education while also navigating other structures that impede their own ability to accrue wealth.[28] These realities combine to explain why it is necessary to think about the ways that race, racism, and student loans work together to create an untenable situation in the United States.

Loan Cancellation as a Facet of Recovery

Students deserve relief from a system that told them that borrowing to attend college was the only way for them to achieve economic stability, yet failed to deliver. This is particularly true because that same system also created systemic barriers to enrolling in higher education institutions that were well-funded, non-predatory, and equipped with the resources to help students graduate.

Studies suggest that student loan debt cancellation could offer benefits at both the individual and national level. For instance, individuals with less debt have fewer constraints on their occupation choices.[29] In addition, a recent study showed that when private student loans were cancelled, it increased individuals' income while decreasing the amount of debt they held and their share of delinquent credit accounts.[30] This is some of the clearest research we have that, if a substantial amount of student loan debt were cancelled, individuals would experience tangible economic relief. And that would be in addition to the likely benefits for individuals' mental health as we know that student loan debt can create excessive anxiety and stress.[31] This evidence, combined with recent research showing that overall debt relief can improve the macroeconomic outlook of

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Rothstein, R. (2017). *The color of law: A forgotten history of how our government segregated America*. Liveright Publishing.

Shores, K., Kim, H. E., & Still, M. (2020). Categorical inequality in black and white: Linking disproportionality across multiple educational outcomes. *American Educational Research Journal*, *57*(5), 2089-2131.

[26] Douglas-Gabriel, D., & Wiggins, O. (2021, Mar 24). Hogan signs off on $577 million for Maryland's historically Black colleges and universities. *Washington Post*. Retrieved from https://www.washingtonpost.com/education/2021/03/24/maryland-hbcus-lawsuit-settlement/

Saunders, K. M., Williams, K. L., & Smith, C. L. (2016). Fewer resources, more debt: Loan debt burdens students at historically Black colleges and universities. *Frederick D. Patterson Research Institute, UNCF*.

Schwartz, N. (2021, Apr 7). Tennessee may owe its public HBCU up to $544M. *Higher Ed Dive*. Retrieved from https://www.highereddive.com/news/tennessee-may-owe-its-public-hbcu-up-to-544m-1/598009/

[27] Cottom, T. M. (2017). *Lower ed: The troubling rise of for-profit colleges in the new economy*. New York: The New Press.

[28] Ards, S. D., & Myers Jr, S. L. (2001). The color of money: Bad credit, wealth, and race. *American Behavioral Scientist*, *45*(2), 223-239.

Baradaran, M. (2017). *The color of money: Black banks and the racial wealth gap*. Harvard University Press.

Long, H., & Van Dam, A. (2020, Jun 4). The Black-white economic divide is as wide as it was in 1968. *The Washington Post*. Retrieved from https://www.washingtonpost.com/business/2020/06/04/economic-divide-black-households/

[29] Rothstein, J., & Rouse, C. E. (2011). Constrained after college: Student loans and early-career occupational choices. *Journal of Public Economics*, *95*(1-2), 149-163.

[30] Maggio, M. D., Kalda, A., & Yao, V. (2019). *Second chance: Life without student debt* (No. w25810). National Bureau of Economic Research.

[31] Baker, D. J. (2019). A case study of undergraduate debt, repayment plans, and postbaccalaureate decision-making among Black students at HBCUs. *Journal of Student Financial Aid*, *48*(2).

the United States,[32] signals that student loan debt cancellation could be a boon to the overall economy.

The COVID-19 pandemic has exposed and exacerbated labor market inequities along racial, income, and education lines. These fissures will inequitably affect the ability of the hardest-hit individuals to repay their student loans when the pause in loan payments is lifted.[33] During this time, job layoffs and reduced hours have lowered the income and savings for millions of families, though this has disproportionately affected individuals of color and workers with fewer years of schooling beyond high school. Such challenges intensify long-standing structural barriers to repayment for borrowers, particularly those who did not complete a degree, who attended a for-profit institution, or who are Black.

The student debt crisis was urgent pre-pandemic and is much more so now. Large-scale debt forgiveness could not only avert a potential wave of student loan defaults and allow for greater participation in the consumer market, but also could encourage students who have left college to re-enroll, a current goal sought by many education experts.[34] The early data on the current academic year shows a spike in for-profit enrollment (echoing patterns from the Great Recession)[35] and substantial disruptions in college enrollment, particularly for Black, Latinx, and Native students.[36] These worrisome trends suggest an acceleration of the same forces that have created the present challenges in student loan borrowing.

When the federal government contemplates the potential for student loan debt cancellation, it is important to consider who actually relies on student loans. Some argue that cancelling student debt will only or primarily reward high-income individuals who attended graduate school or "highly rejective" undergraduate institutions.[37] There are, however, clear disparities in the amount of debt individuals are forced to borrow by our system of higher education and larger structural forces. For example, U.S. Department of Education data shows that students attending

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[32] Auclert, A., Dobbie, W. S., & Goldsmith-Pinkham, P. (2019). *Macroeconomic effects of debt relief: Consumer bankruptcy protections in the great recession* (No. w25685). National Bureau of Economic Research.
[33] Kearney, M. S. & Pardu, L. (2020, May 7). Exposure on the job. *Brookings Institution.* Retrieved from https://www.brookings.edu/research/exposure-on-the-job/
Montenovo, L., Jiang, X., Rojas, F. L., Schmutte, I. M., Simon, K. I., Weinberg, B. A., & Wing, C. (2020). *Determinants of disparities in COVID-19 job losses* (No. w27132). National Bureau of Economic Research.
[34] Eggert, D. (2021, Feb 2). Michigan launches tuition-free program for adults who are 25 and older. *Detroit Free Press*. Retrieved from https://www.freep.com/story/news/education/2021/02/02/michigan-reconnect-tuition-free-program/4365092001/
[35] Cellini, S. R. (2020, Nov 2). The alarming rise in for-profit college enrollment. *Brookings Institution.* Retrieved from https://www.brookings.edu/blog/brown-center-chalkboard/2020/11/02/the-alarming-rise-in-for-profit-college-enrollment/
[36] Whitford, E. (2021, Mar 11). Spring enrollment keeps slipping. *Inside Higher Ed.* Retrieved from https://www.insidehighered.com/news/2021/03/11/colleges-continue-losing-undergraduate-enrollment-spring-even-graduate-enrollment
[37] Institutions with high rejection rates in undergraduate admission, which typically have more financial resources and a low number of undergraduate students.
Boeckenstedt, J. (2021, Apr 7). The highly rejective colleges. *Higher Ed Data Stories*. Retrieved from https://www.highereddatastories.com/2021/04/the-highly-rejective-colleges.html
Bello, Akil [@akilbello]. (2021, March 12). Is it me or does it seem that highly rejective colleges only want to enroll students they'll have to teach and support the least in order to get them to graduate "prepared" for career? [Tweet] Twitter. https://twitter.com/akilbello/status/1370365341314977798

"highly rejective" institutions borrow at some of the lowest rates in the country and would therefore be a small share of those receiving student loan relief.[38]

While it is true that debt cancellation would help some individuals with larger incomes or with graduate degrees, the key benefits of this approach are its simplicity and transparency. One reason for having an inclusive policy is that broad relief would reduce administrative burdens, that is, the costs associated with individuals proving they deserve help (e.g., by providing extensive documentation), which disproportionately deter individuals of color from accessing benefits for which they qualify.[39] Further, simulations of the policy often either fail to include racial breakdowns for the benefits of loan cancellation or make strong modeling assumptions. For example, some simulations assume that the risk for nonpayment on student loans is completely random or that earnings for people of color grow at the same rate as White individuals—both of which evidence shows to be unlikely in practice.

Cancelling a portion of student loans is not a panacea for the issues facing college affordability or the larger repayment process. Additional federal policy solutions must target creating a high-quality, affordable higher education system; holding institutions and states accountable for contributing their share; and overhauling the current repayment system. Yet student loan cancellation can be a powerful supplement to these other reforms. As a parallel, successfully addressing the recent Texas power failure requires not just reforming the system, but also providing direct relief to residents who were charged excessive amounts for electricity due to the state's public policy failure.[40] True reform necessitates that government works to both overhaul the system *and* provide relief for past shortcomings. For the student debt crisis, student loan cancellation is part of that relief.

For decades, the federal government has made students an implicit promise: if you borrow this money and work hard in college, you'll find a good job and be able to pay it back. Far too often, that promise is broken. We can and should acknowledge this reality by taking concrete steps to reduce the burden for those who simply did as they were encouraged on the quest for economic prosperity.

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[38] Crimson Editorial Board. (2021, Feb 24). Biden, it's not our student debt. *The Harvard Crimson*. Retrieved from https://www.thecrimson.com/article/2021/2/24/biden-student-debt/

[39] Herd, P., & Moynihan, D. P. (2019). *Administrative burden: Policymaking by other means*. Russell Sage Foundation.

[40] McNamara, A. (2021, Mar 17). Texas attorney general says $29 million in electric bills will be forgiven. *CBS News.* Retrieved from https://www.cbsnews.com/news/texas-electric-bills-29-million-forgiven/