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Testimony of Marc Goldwein Committee for a Responsible Federal Budget

Hearing before the Higher Education and Workforce Development Subcommittee of the House Committee on Education & the Workforce

“Breaking the System: Examining the Implications of Biden's Student Loan Policies for Students and Taxpayers”

March 23, 2023

Chairman Owens, Ranking Member Wilson, and Members of the Committee, thank you for inviting me here today to discuss the implications of President Biden's student loan policies for students and taxpayers.

I am Marc Goldwein, Senior Vice President and Senior Policy Director of the Committee for a Responsible Federal Budget. The Committee for a Responsible Federal Budget is a non-partisan organization dedicated to educating the public and working with policymakers on fiscal policy issues. Our co-chairs include former governor and OMB Director Mitch Daniels, former Secretary of Defense and OMB Director Leon Panetta, and former Congressman Tim Penny. Our board is made up of some of the top budget experts in the country.

American higher education policy is in serious need of reform. College costs are too high and not always well aligned with value. Student debt balances continue to grow, imposing a substantial financial burden on many borrowers – especially those who don't ultimately complete their degree. Furthermore, a lack of serious accountability, in combination with current lending rules, has allowed an expansion of low-quality programs that deliver poor outcomes to their students.

The President was right to prioritize these challenges. Yet, the Administration's approach – especially the ongoing student debt pause, retroactive debt cancellation, and Income-Driven Repayment (IDR) reforms – is of serious concern. At best, these changes serve as a band-aid and ignore very real structural challenges. Likely, they will make the underlying situation worse. They are especially problematic with inflation surging and federal debt approaching record levels.

In my testimony, I will touch on five main points:

1. Recent student debt actions and proposals are costly, adding nearly \$1 trillion to the deficit over a decade.
2. These student debt actions are, for the most part, economically unjustified.
3. The student debt pause and cancellation worsen inflation and recession risk.
4. The policies are poorly targeted, paying windfalls to high earners.
5. The policies would lead to more borrowing, higher tuition, more low-quality programs, and a more arbitrary higher education financing system.



Recent Student Debt Policies Will Cost Almost \$1 Trillion

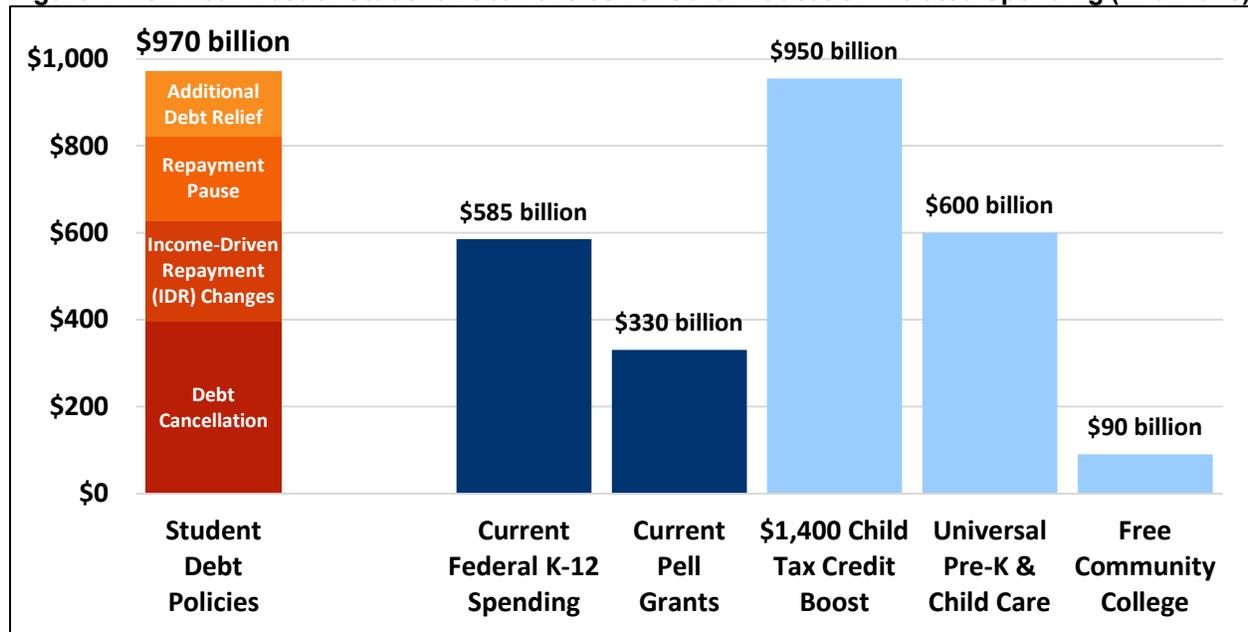
By our tally, student debt policies implemented or proposed since the pandemic will add **\$970 billion** to the deficit over a decade, assuming the courts allow them to move forward.¹

These figures are primarily based on Congressional Budget Office (CBO) estimates, including \$400 billion from debt cancellation, \$230 billion from the Administration’s new IDR program, nearly \$200 billion from the student debt pause (a quarter of which is from the Trump Administration), and almost \$150 billion from a variety of other actions.²

The trillion-dollar cost of these measures is massive, particularly with the national debt headed to a record 118 percent of the economy in just ten years. For some context, the cost is:

- More than the federal government has spent on higher education over its *entire* pre-pandemic history (*\$744 billion from 1962 to 2019*)
- Triple what we are projected to spend on Pell Grants this decade (*about \$330 billion*)
- Almost 11 times the cost of the President’s free community college plan (*\$90 billion*)
- Enough to permanently increase the child tax credit by \$1,400 per child (*\$950 billion*)

Figure 1: Ten-Year Cost of Student Debt Policies vs. Other Education-Related Spending (in billions)



Sources: Committee for a Responsible Federal Budget, Office of Management and Budget, Congressional Budget Office.

Importantly, the order of magnitude of this cost does not change under different sets of assumptions. Relying mostly on figures from the Office of Management & Budget and the Department of Education – which ignore most behavioral effects – the total cost would be about \$800 billion. Using Penn Wharton Budget Model estimates where available, the cost would be \$1.1 to \$1.2 trillion. Although these estimates are (appropriately) made on a present value basis, we expect similar overall costs over a decade if estimates were generated on a cash basis.³



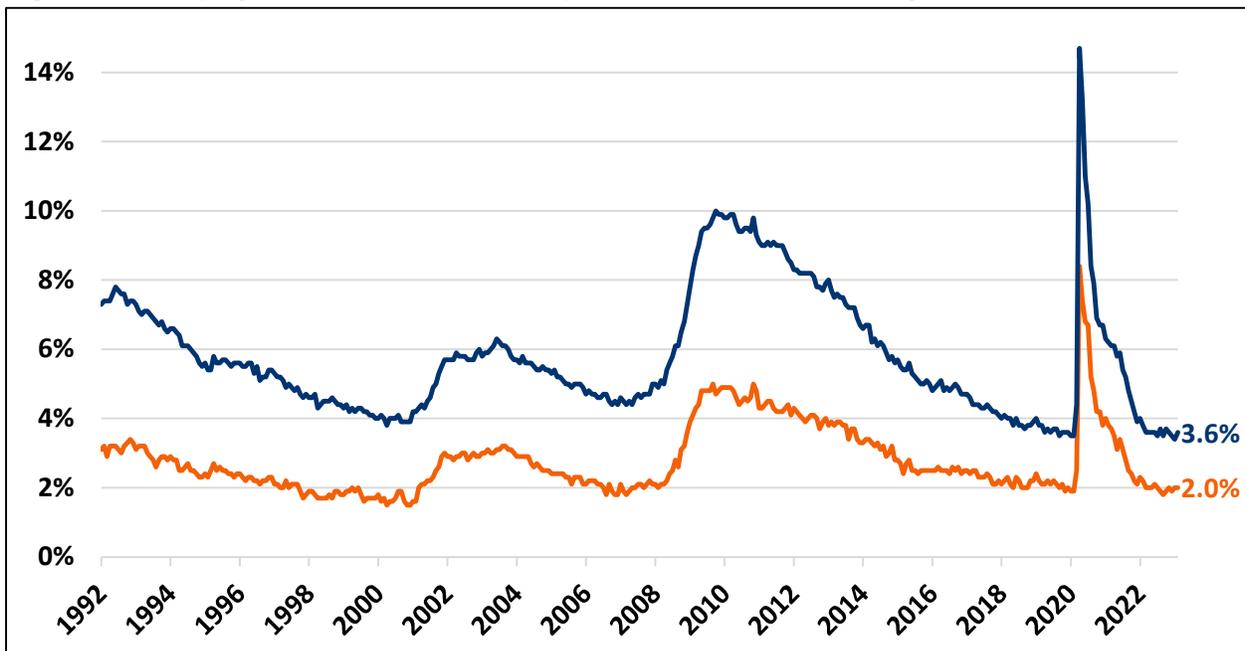
The Student Debt Policies Are Economically Unjustified

The government originally paused the collection of student debt payments in March of 2020, when economic activity was collapsing, the unemployment rate was headed toward a post-WWII record 15 percent, and there was a real fear the economy might be headed into a depression.

That temporary pause was justified financially to support households facing huge losses of income and massive uncertainty, macroeconomically to support spending and limit damage from the recession, and administratively as it could go into effect much more quickly than other COVID relief measures such as unemployment benefits, rebates, and small business support.

Eight pause extensions later, those justifications have long since disappeared. The unemployment rate sits at 3.6 percent – near a 50-year low – and it is only 2.0 percent among college graduates.⁴ Meanwhile, households are spending 22 percent more than before the pandemic, balance sheets remain strong, and the economy is suffering far more from overheating than underperforming.

Figure 2: Unemployment Rate for Overall Population and Bachelor's Degree Holders



Source: Bureau of Labor Statistics.

Nor can broad debt cancellation be justified on these grounds, though the Education Secretary has argued in court it is needed to prevent borrowers from being “placed in a worse position financially” as a result of a national emergency.⁵ In reality, most borrowers are financially better off as a result of the pandemic response, there is little evidence that delinquencies will spike *due to the pandemic*, high inflation has actually eroded the burden of student debt, and only a small share of debt cancellation helps those hurt by the pandemic.⁶ Indeed, the Administration itself has argued “household finances are stronger than pre-pandemic, putting families in a better position to navigate the economic challenges flowing from disruptions to the global economy.”⁷



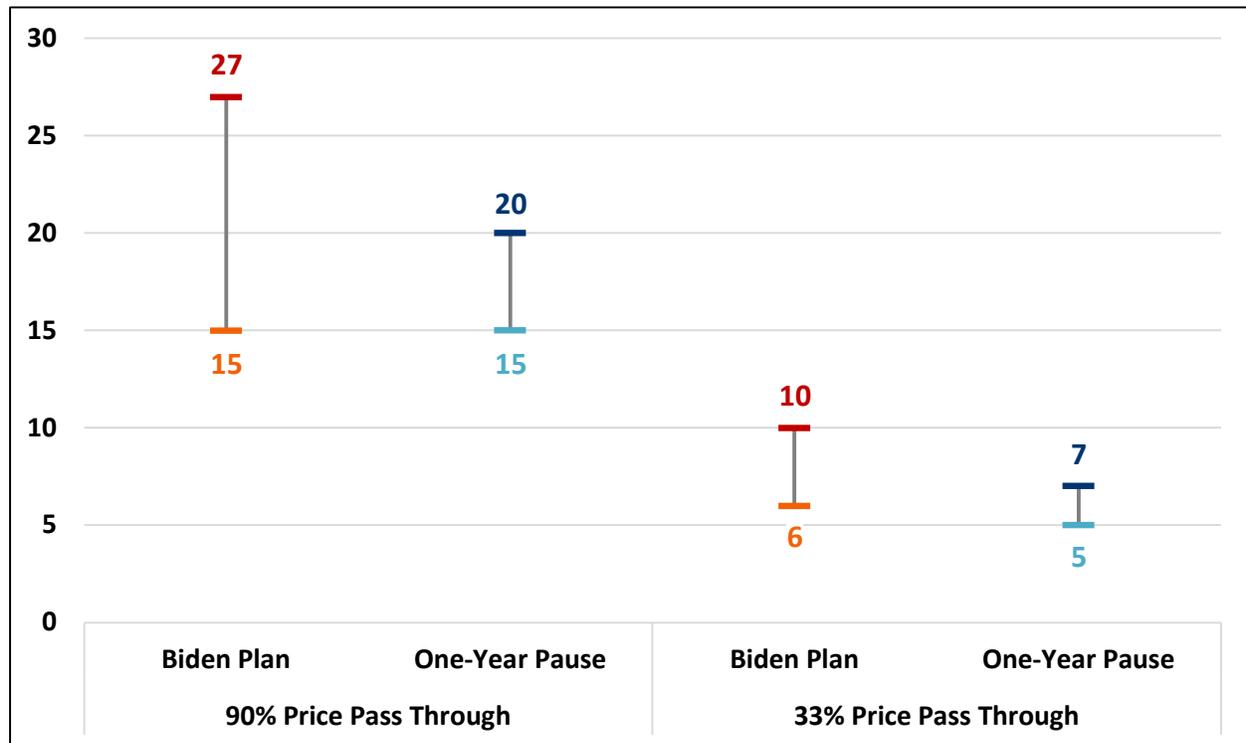
The Student Debt Policies Would Worsen Inflation and Increase Recession Risk

Inflation has been surging recently at the fastest pace in over four decades. CPI inflation totaled 6.8 percent in 2021 and 7.1 percent in 2022, while PCE inflation totaled 5.7 percent in both years.⁸ This is well above the Federal Reserve’s inflation target of 2 percent.

Unfortunately, the Administration’s policies have contributed to this inflation and cancellation could further exacerbate inflationary pressures if allowed by the Supreme Court to go forward. This in turn puts more pressure on the Federal Reserve to raise interest rates, which disrupts the financial, housing, and labor markets and risks pushing the economy into a recession.⁹

By allowing borrowers to spend more money in the economy rather than paying down their debt, the student debt pause has boosted overall consumption. In an economy already operating above potential, this higher spending will mostly translate into higher prices. In the current economy, we’ve estimated that extending the pause boosted inflationary pressures by 15 to 20 basis points relative to ending it, which could translate into one or two additional Fed rate hikes.¹⁰

Figure 3: Projected Increase in PCE Inflation Rates, Before Fed Response (in basis points)



Source: Committee for a Responsible Federal Budget.

The President’s student debt cancellation plan would likely boost inflation even more than extending the pause – by 15 to 27 basis points under our estimates. In addition to increasing spending in the economy by reducing repayments, debt cancellation would also significantly increase borrowers’ net wealth – which a substantial body of economic literature has found adds meaningfully to consumption.¹¹ The plan would also put some upward pressure on tuition.

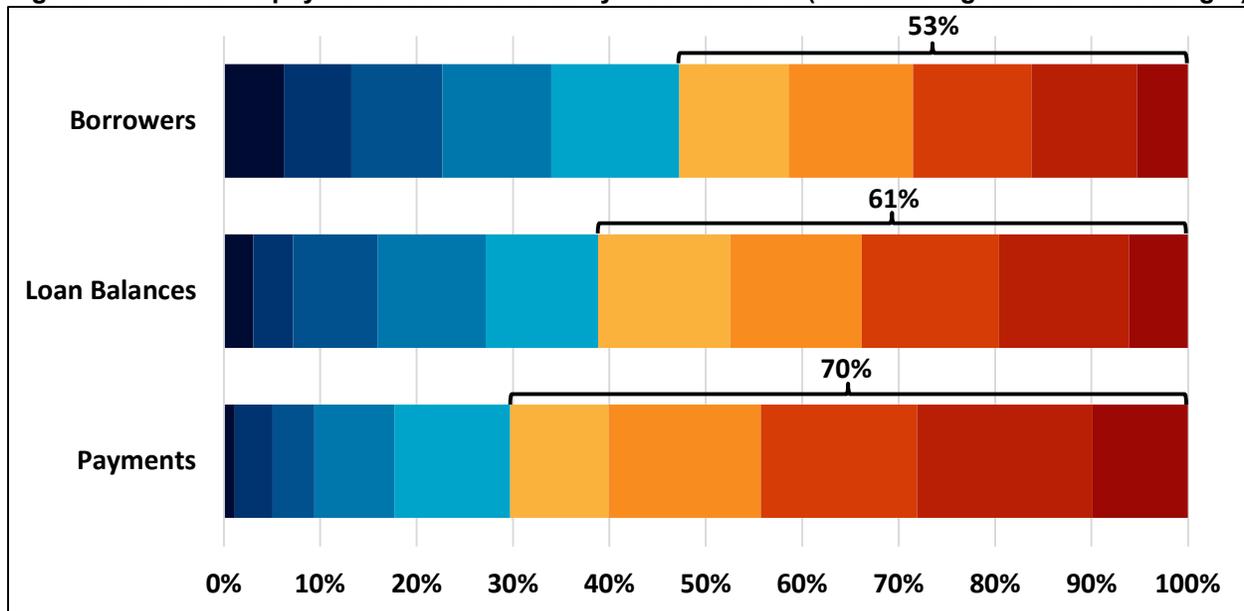


The Student Debt Policies Are Poorly Targeted and Benefit High Earners

Supporters of student debt relief are appropriately and admirably concerned about low-income borrowers burdened with large amounts of debt. Unfortunately, recent measures and proposals are poorly targeted toward these borrowers and offer large windfalls to higher earners.

The student debt pause is especially regressive, since it provides the largest benefits to those with the highest balances who face the highest interest rates. A new physician in 2019 will receive \$60,000 of interest forgiveness from the pause and a new lawyer \$37,000, compared to \$5,000 for a four-year college graduate.¹² Diego Briones, Sarah Turner, and Eileen Powell of the University of Virginia found that those in the top half of the income spectrum have enjoyed 70 percent of the payment relief from the pause, while those in the bottom income quintile enjoy only 5 percent.¹³

Figure 4: Share of Repayment Pause Benefits by Income Decile (lowest to highest from left to right)



Source: Committee for a Responsible Federal Budget based on data from Briones, Turner, and Powell (University of Virginia).

Many elements of the IDR plan are also regressive, or at least far less progressive than intended, as higher education expert Adam Looney has explained.¹⁴ The uncapped forgiveness offered in IDR rewards those with the most debt, who mostly enjoy the highest lifetime income. This issue is exacerbated by the proposed monthly forgiveness of unpaid interest, which provides an especially large windfall to physicians and other high-income professionals who appear to have low income early in their careers due to time in graduate school, residency, or similar positions.

Even the one-time debt cancellation – which was specifically *designed* to be progressive through a combination of means-testing, capped relief, and a double-benefit for those who used Pell Grants – disproportionately benefits high earners. Roughly half of the debt cancelled under that plan would go to those in the top half of the income spectrum, which we estimate would provide the top half with 57 to 65 percent of the total financial benefits.¹⁵



Recent Student Debt Policies Are Largely Counterproductive

Federal higher education policy should focus on lowering the cost of higher education, preventing student debt from placing an unaffordable burden on its students, improving the overall quality of and outcomes associated with higher education, and increasing transparency so that prospective students can make informed choices regarding their education. With a few small exceptions, the student debt actions taken to date either fail to achieve these goals, achieve them only on a very temporary basis, or – in most cases – make them worse.

Should the Supreme Court allow the President to unilaterally cancel student debt, and should the Administration's IDR plan move forward, the student debt system will be transformed into tuition roulette. Many will end up keeping their loan payments as effective grants, some will have to pay their entire loan back, and which group you fall into is determined in arbitrary and unpredictable ways. Future borrowers will take out debt not knowing if and how much might be cancelled under IDR or a future presidential cancellation edict.¹⁶

Although the proposals will temporarily reduce the amount of outstanding student debt, they will not stem further borrowing and in fact will encourage substantially *more* borrowing than under prior policy. Ignoring behavioral effects, loan balances would return to \$1.6 trillion just five and a half years after cancellation.¹⁷ The combination of the new IDR plan and the possibility of future presidentially initiated debt cancellation is all but certain to boost borrowing further.

CBO estimates the IDR plan alone will boost borrowing 12 percent.¹⁸ This figure may prove conservative, given the \$185 billion of eligible loans that go unborrowed *per year*.¹⁹ If student debt cancellation is ruled legal by the Supreme Court, borrowing increases could be supercharged. These same factors will put upward pressure on tuition, encourage creation of and enrollment in lower-quality degrees, and further weaken an already frail accountability system.

On costs, CBO notes that any change in subsidization will lead some schools to increase tuition since borrowers will be less price sensitive, which is unsurprising given that schools already use existing forgiveness programs to advertise the potential "net costs" of their degree programs.²⁰ A similar dynamic will likely boost the price of university housing, food, textbooks, and other costs.

The new IDR program will also perversely encourage the proliferation of high-cost, low-quality programs. These programs, ironically, will receive some of the highest indirect subsidies from IDR since they do so little to boost the future income of their enrollees. The forgiveness will blunt the direct cost of these institutions to borrowers but cannot repay students for the use of limited Pell Grant money, lost time, or opportunity costs from attending a low-quality institution.

Automatic enrollment of delinquent borrowers in IDR will also make it more difficult to track delinquencies through the Cohort Default Rate, thus further limiting accountability for these schools.²¹ Encouragingly, the Administration is taking some small steps to improve accountability – but these are far too small to address the damage that other student debt actions will cause.²²



Conclusion

The current higher education financing and accountability system is in serious need of reform. Policymakers should work together to develop responsible solutions to improve the student loan system (especially the IDR program), strengthen institutional accountability, and create pressures and incentives for institutions to deliver quality education at an affordable price. They should also reauthorize the Higher Education Act, which was last reauthorized in 2008.

Except when the authority clearly lies with the Department of Education, these reforms should come from Congress and should originate within this Subcommittee. They should be designed responsibly so that new policies do not add to the deficit, distribute hundreds of billions of dollars in windfalls to those who do not need it, or inadvertently encourage more of the borrowing, tuition hikes, and low-value programs they are trying to address.

No president should distribute upwards of \$1 trillion without explicit congressional authorization and input, particularly in a time of surging inflation and near-record levels of debt.

And while many supporters of these recent higher education policies surely have good intentions, too little thought has been put into *unintended* consequences.

The President should withdraw his plans to cancel \$400 billion of student debt and to establish a new Income-Driven Repayment plan. Instead, he should work with Congress on a broader and smarter set of reforms.

¹ See the following Congressional Budget Office reports, which include most of these costs: “Costs of Suspending Student Loan Payments and Canceling Debt”, September 26, 2022, <https://www.cbo.gov/system/files/2022-09/58494-Student-Loans.pdf> “Costs of the Proposed Income-Driven Repayment Plan for Student Loans”, March 13, 2023, <https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf> “The Budget and Economic Outlook: 2023 to 2033”, February 2023, <https://www.cbo.gov/publication/58946>, “Federal Student Loan Programs – Baseline Projections”, May 2023, <https://www.cbo.gov/system/files/2022-05/51310-2022-05-studentloan.pdf> and see Committee for a Responsible Federal Budget, “Student Loan Pause Could Cost \$275 Billion”, November 22, 2022, <https://www.crfb.org/blogs/student-loan-pause-could-cost-275-billion>

² This includes the final rule of [ED-2021-OPE-0077](https://www.federalregister.gov/documents/2021/07/26/2021-14407) on changes to Public Service Loan Forgiveness eligibility, closed school discharge, borrower defense to repayment, and changes to total and permanent disability discharges. It also includes closed school discharges initiated by the Biden administration as well as the temporary eligibility waivers for the Income-Driven Repayment and Public Service Loan Forgiveness programs.

³ CBO estimates the direct debt cancellation would cost about \$400 billion on a present value basis, which translates to roughly \$300 billion through 2033 on a cash basis, or \$350 billion with interest. Some other policies, such as the student debt pause, will cost *more* on a cash basis than present value basis since they delay payments. See the Congressional Budget Office, “Costs of Suspending Student Loan Payments and Canceling Debt”, September 26 2022, <https://www.cbo.gov/system/files/2022-09/58494-Student-Loans.pdf>

⁴ See Bureau of Labor Statistics, “Table A-1. Employment status of the civilian population by sex and age”, March 10, 2023, <https://www.bls.gov/news.release/empsit.t01.htm> and Bureau of Labor Statistics, “Table A-4. Employment status of the civilian population 25 years and over by educational attainment”, March 10, 2023, <https://www.bls.gov/news.release/empsit.t04.htm>



- ⁵ See Department of Education, “The Secretary’s Legal Authority for Debt Cancellation”, August 23, 2022, <https://www2.ed.gov/policy/gen/leg/foia/secretarys-legal-authority-for-debt-cancellation.pdf> and Department of Justice, “Use of the HEROES Act of 2003 to Cancel the Principal Amounts of Student Loans” August 23, 2022, <https://www.justice.gov/olc/file/1528451/download>
- ⁶ See Committee for a Responsible Federal Budget, “Student Debt Cancellation is Not Financially Justified”, October 11, 2022, <https://www.crfb.org/blogs/student-debt-cancellation-not-financially-justified>
- ⁷ See The White House, “The Biden-Harris Economic Blueprint”, September 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/09/Biden-Economic-Blueprint-Report-720PM-MASTER-DOC.pdf>
- ⁸ See Committee for a Responsible Federal Budget, “2022 Inflation Hit a 41 Year Record”, March 6, 2023, <https://www.crfb.org/blogs/2022-inflation-hit-41-year-record>
- ⁹ See Committee for a Responsible Federal Budget, “Fiscal Policy in a Time of High Inflation”, October 13, 2022, <https://www.crfb.org/papers/fiscal-policy-time-high-inflation>
- ¹⁰ See Committee for a Responsible Federal Budget, “Student Debt Changes Would Boost Inflation”, August 22, 2022, <https://www.crfb.org/blogs/student-debt-changes-would-boost-inflation>
- ¹¹ See Gabriel Chodorow-Reich, Plamen T. Nenov, Alp Simsek, “Stock Market Wealth and the Real Economy: A Local Labor Market Approach”, National Bureau of Economic Research, June 2019, https://www.nber.org/system/files/working_papers/w25959/revisions/w25959.rev0.pdf and Karl E. Case, John M. Quigley, Robert J. Shiller, “Comparing Wealth Effects: The Stock Market Versus the Housing Market”, National Bureau of Economic Research, November 2001, https://www.nber.org/system/files/working_papers/w8606/w8606.pdf
- ¹² For a discussion of these calculations, with estimates based on prior pause periods, see Committee for a Responsible Federal Budget, “How Much Student Debt Has Already Been Cancelled?”, March 17, 2022, <https://www.crfb.org/blogs/how-much-student-debt-has-already-been-cancelled>
- ¹³ See Diego Briones, Eileen Powell, Sarah Turner, “Student Loan Payment Pause Benefits High-Income Households the Most”, Education Next, January 17, 2023, <https://www.educationnext.org/student-loan-payment-pause-benefits-high-income-households-most-borrowers-unprotected-from-risk/>
- ¹⁴ See Adam Looney, “Biden’s Income-Driven Repayment Plan Would Turn Student Loans into Untargeted Grants,” Brookings Institution, September 15 2022, <https://www.brookings.edu/opinions/bidens-income-driven-repayment-plan-would-turn-student-loans-into-untargeted-grants/>
- ¹⁵ See Committee for a Responsible Federal Budget, “Is Biden’s Student Debt Cancellation Plan Still Regressive?”, October 3, 2022, <https://www.crfb.org/blogs/bidens-student-debt-cancellation-plan-still-regressive>
- ¹⁶ Under the IDR program, for example, Adam Looney estimates that 75 percent of undergraduates could expect some forgiveness and the average borrower will only pay 50 cents per dollar taken out. Because the forgiveness is so sensitive to the level of debt and timing of future earnings, it is unlikely to be either well targeted or easy to predict. See, Adam Looney, “Biden’s Income-Driven Repayment Plan Would Turn Student Loans into Untargeted Grants,” Brookings Institution, September 15 2022, <https://www.brookings.edu/opinions/bidens-income-driven-repayment-plan-would-turn-student-loans-into-untargeted-grants/>
- ¹⁷ See Committee for a Responsible Federal Budget, “How Long Before Cancelled Student Debt Would Return?”, September 1, 2022, <https://www.crfb.org/blogs/how-long-cancelled-student-debt-would-return>
- ¹⁸ Congressional Budget Office, “Costs of the Proposed Income-Driven Repayment Plan for Student Loans”, March 13, 2023, <https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf>
- ¹⁹ See Adam Looney, “Biden’s Income-Driven Repayment Plan Would Turn Student Loans into Untargeted Grants”, Brookings Institution, September 15 2022, <https://www.brookings.edu/opinions/bidens-income-driven-repayment-plan-would-turn-student-loans-into-untargeted-grants/>
- ²⁰ See Congressional Budget Office, “Costs of the Proposed Income-Driven Repayment Plan for Student Loans”, March 13, 2023, <https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf>, and Dylan Matthews, “How Georgetown Law gets Uncle Sam to pay its students’ bills”, The Washington Post, August 9, 2013, <https://www.washingtonpost.com/news/wonk/wp/2013/08/09/how-georgetown-law-gets-uncle-sam-to-pay-its-students-bills/>
- ²¹ See Congressional Budget Office, “Costs of the Proposed Income-Driven Repayment Plan for Student Loans”, March 13, 2023, <https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf>
- ²² The administration is taking some important steps in the right direction to strengthen gainful employment regulations, increase warnings and disclosures for low-value programs, expand instances of financial protection from low-performing schools, and attach conditions for low-performing schools to continue to receive federal financial aid.