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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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Oral Testimony

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

If there were equitable returns to a college degree, all college graduates should be able to access a more economically prosperous life. But racial wealth gaps complicate this narrative. For instance, according to national data on bachelor's recipients, 4% of White graduates defaulted on their loans, compared to 21% of Black graduates. Even more startling, Black graduates defaulted at a higher rate than White students who left higher education without a degree. This means that Black college graduates actually struggle to repay their student loan debt *more* than White students without degrees.

This example of racial disparities in student loan repayment is not due to some innate issue within Black people. Instead, the burden of student loan debt disproportionately falls on these students due to centuries of structural forces shaped by the deliberate decisions of those in power. Structural racism has denied Black families the ability to build wealth to pay for college, while also shaping their residential and K-12 school experiences. Together, this means that Black students are more likely to enroll in either systematically underfunded or outright predatory colleges that 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, equivalent in 2016 to an 8% pay cut for the median Black graduate. At the same time, they must also navigate other structures that impede their ability to accrue wealth. This example underscores 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, particularly for borrowers of color.

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 work to create a high-quality, affordable higher education system; hold colleges, universities, and states accountable for contributing their share; and overhaul the current repayment system. Yet student loan cancellation can be a powerful supplement to these other reforms. True reform necessitates that

government works to both overhaul the system *and* provide relief for past policy failures. For the student debt crisis, loan cancellation is part of that relief.

Research shows that a reduction in an individual's student loan balance can increase their income. It can also decrease constraints on occupation choices, the amount of debt held, and the share of delinquent credit accounts. This evidence, combined with recent research showing that other forms of consumer debt relief can strengthen employment levels in the United States, signals that student loan debt cancellation could be a boon to the overall economy.

The key benefits of debt cancellation are its simplicity and transparency. One reason for having an inclusive policy is that broad relief would reduce administrative burdens. These burdens include the costs for individuals to prove they deserve help and disproportionately deter individuals of color from accessing benefits for which they qualify. Further, simulations of loan cancellation often fail to include racial breakdowns for the benefits of the policy. For example, some simulations assume that the risk of missing payments on student loans is completely random or that earnings for people of color grow at the same rate as White individuals—both of which are unlikely in practice. As a result, such simulations likely underestimate the benefits of loan cancellation on closing racial wealth gaps.

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 their quest for economic prosperity.

It is an honor to be here today and I am happy to answer any questions you might have. Thank you.