Debate Brief · Federally Subsidized Student Loans
March 2021

Resolved: The government should end its program of federally subsidized student loans.

"Under a republic the institutions of learning, while bound the constitution and laws, are in no way subservient to government."
–President Calvin Coolidge,
Address at the American Society of Newspaper Editors, January 1925.

"The strength of the United States is not the gold at Fort Knox or the weapons of mass destruction that we have, but the sum total of the education and the character of our people."
—U.S. Senator Claiborne Pell

"Pell Grants open a lot of doors, but they rely on a solvent government."
—U.S. Representative Denny Rehberg (Montana)

"We are seeking to let those who earn money keep more of it for themselves and give less of it to the Government. This means better business, more of the comforts of life, general economic improvement, larger opportunity for education, and a greater freedom for all the people. It is in essence restoring our country to the people of our country."
—President Calvin Coolidge, June 22, 1925,
Address at a Meeting of the Business Organization of the Government

ABOUT THE COOLIDGE FOUNDATION

The Calvin Coolidge Presidential Foundation is the official foundation dedicated to preserving and promoting the legacy of America's 30th president, Calvin Coolidge, who served in office from August 1923 to March 1929. These values include civility, bipartisanship, and restraint in government, including wise budgeting. The Foundation was formed in 1960 by a group of Coolidge enthusiasts, including John Coolidge, the president's son. It maintains offices at the president's birthplace in Plymouth Notch, Vermont, and in Washington, D.C. The Foundation seeks to increase Americans' understanding of President Coolidge and the values he promoted.

BACKGROUND

The average cost of a four-year college education is high, and it keeps rising. Average tuitions, which means schooling price not including room and board, range from $9,410 per year for in-state students attending state schools, to $23,890 per year for out-of-state students attending state schools, to $32,410 per year for private schools. Some of the most expensive universities cost well over **$50,000 per year** to attend. Harvey Mudd College in California, Kenyon College in Ohio, and Amherst College in Massachusetts (Calvin Coolidge's alma mater) are three of the most expensive colleges in the country, all costing over $58,000 per year.[1] These amounts are merely the cost of tuition and fees—they do not include room and board (i.e., housing and food) or other things students might need, such as books, transportation, and clothing. Many colleges practically require on campus living for at least one year, increasing the cost of that year to $75,000 or more. Those expenses can add thousands of dollars more to the cost of the college experience.

Most students who attend college must take out student loans in order to pay their way at school. Although some private lending options do exist through banks and credit unions, over **92 percent of student loans** are arranged by and ultimately owned by the U.S. Department of Education.[2] With roughly 42.3 million borrowers and a total outstanding federal student loan debt of $1.54 trillion, this is one of the largest parts of the federal government.[3] To qualify for aide and loans, students must fill out the Free Application for Federal Student Aid (FAFSA), an extensive form that is more rigorous, in some places, than even the traditional annual tax form, the Internal Revenue Service 1040.

There are many loan options that the government offers to prospective students. One of the major programs is the **federally subsidized student loan** program, also known as a Direct Subsidized Loan. This type of loan has a special benefit: the government pays the interest on the loan while the student is in school, so that the student does not have to start paying back the loan until after he or she graduates. This is a sizable benefit that can be worth several thousand dollars per year, depending on the amount that is borrowed. To receive this type of loan, a student must be enrolled at least half-time at a school that participates in the program, and must demonstrate financial need.

Looked at narrowly, subsidized loans provide an obvious benefit to recipients. They help students attend college, and lower the total amount that they eventually have to repay. But what about the costs? There are many factors and angles to consider. For instance, do federally subsidized student loans achieve what they intend? Are they a good value? Are they fair to taxpayers who do not attend college? Do they cause any unforeseen problems or unintended consequences?

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[1] Kerr, Emma. "10 Most, Least Expensive Private Colleges" U.S. News and World Report. September 9, 2019.
[2] MeasureOne Private Student Loan Report. MeasureOne. June 1, 2020.
[3] Federal Student Loan Portfolio. U.S. Department of Education.

A healthy debate can be had about federally subsidized student loans. One concern brought to light way back in 1987 by then-Secretary of Education William J. Bennett is that universities can simply respond to greater student access to loans by raising tuition. In the pages of the *New York Times*, he wrote:

> *"If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase."*[4]

This view holds that an increase in the ability of students to obtain funds to spend on education will be met with an increase in tuition. This is concerning because if true, it means that *schools* are reaping the benefit of the federal loan program, not students. Researchers have since studied this phenomenon, which became known as the **Bennett Hypothesis**.[5,6] In 2017, a systematic review of 25 different studies found that in most of the studies, the introduction of federal subsidies was associated with an increase in the price of higher education.[7]

How should college be financed? The question is made challenging by a number of factors, including the size of the amounts involved (i.e., tens or hundreds of thousands of dollars), the length of time it takes to (i.e., four years or more), and the fact that unlike a car loan or a loan for some other consumer item, nothing can be repossessed by the creditor if things do not go according to plan. Creative alternatives have been proposed and are being built, including income-driven repayment plans at some schools and low-cost colleges such as Thales College in North Carolina. President Mitch Daniels of Purdue University pioneered a program called income sharing, which allows businesses or firms to contract with students to pay a student loan in exchange for a pre-set share of the student's future earnings. Bob Luddy of the Thales Academy network of high schools has plans to start a university that cuts out inessential expenditures such as sports and large staffs and is able to offer high quality education at a cost of $4,000 per term (i.e., a total of $32,000 for 8 terms leading to a degree in Entrepreneurial Business, or $40,000 for 10 terms leading to a degree in Mechanical Engineering).

It is possible that in the absence of federal student loan programs, we could see more of these solutions, as well as a private lending market that would offer attractive lending terms to students, with costs driven ever lower through competition.[8] For now, however, the issue of federally subsidized student loans helps to bring these themes into focus.

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[4] Bennett, William J. "Our Greedy Colleges," *The New York Times*, February 18, 1987.
[5] Mark J. Warshawsky and Ross Marchand, "Dysfunctions in the Federal Financing of Higher Education," Working Paper, Mercatus Center at George Mason University, January 2017.
[6] Gillen, Andrew. "Introducing Bennett Hypothesis 2.0" Center for College Affordability and Productivity. (2012)
[7] Robinson, Jenna. "The Bennett Hypothesis Turns 30" The James G. Martin Center for Academic Renewal. December 2017.
[8] Vedder, Richard K. "New Research Shows Federal Student Aid Is Worse than We Thought" James G. Martin Center for Academic Renewal. December 11, 2019

COOLIDGE CONNECTION

Calvin Coolidge attended Amherst College in Massachusetts starting in the fall of 1891. He took courses in Greek, Latin, philosophy, mathematics, rhetoric, and other subjects, and he completed exercises in declamation (speech giving). He graduated with honors in 1895, having performed particularly well in his final two years, including winning an oratory prize as a junior and winning an essay prize as a senior. Later in life, he acknowledged that the education he received in college was invaluable to his intellectual, personal, and career development.[9]

When Coolidge was a student at Amherst, the annual cost for tuition and fees was $110, and the addition of room, board, and other living expenses brought the total for attending college to around $300 per year—the equivalent of about $8,000 today.[10] Each student was required to provide "[a] bond, with satisfactory surety for the payment of all College bills" twice per year. As the college catalog read, "One-half the annual charges is due and payable October 1st, and the balance March 1st." The bond made it hard to repudiate the loan. Coolidge's father was a small-town Vermont farmer and storekeeper, so this amount was a lot of money for the family.

After graduating from Amherst, Coolidge and his father discussed the possibility of Calvin attending law school. Although the opportunity was tempting, the family ultimately decided Calvin would save money. At the time some students had another route to law school: they "read law" by working as a clerk while they studied for the bar. Today that is still possible in California. The young Coolidge read law in the office of Hammond & Field in Northampton, MA.

Coolidge was careful about how he spent his money. Later in his life, he wrote:

> *"It is difficult to conceive a person finding himself in a situation which calls on him to maintain a position he cannot pay for. Any other course for me would have been cut short by the barnyard philosophy of my father, who would have contemptuously referred to such action as the senseless imitation of a fowl which was attempting to light higher than it could roost. There is no dignity quite so impressive, and an independence quite so important, as living within your means."*[11]

In Coolidge's time, students did not take out exceedingly large loans for their education. Students often could earn enough to pay for their tuition and living costs by working during or in between semesters. Clearly President Coolidge was in favor of people seeking out a good education for themselves, yet he was also a strong proponent of careful budgeting. The issue you are debating today—whether the federal government should have a program of subsidized student loans—touches on these themes and others. How do you think Coolidge would approach this question today?

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[9] Wallace, Jerry. "Recalling Calvin Coolidge: A Man of Noble Character" Calvin Coolidge Presidential Foundation.
[10] Amherst College Catalog 1894/1895. Amherst College. p60.
[11] Coolidge, Calvin. The Autobiography of Calvin Coolidge. Cosmopolitan book corp., 1929. p159.

KEY TERMS

Student Loan Debt – Money that is owed on a loan that was taken out to pay for educational expenses (typically for college).

Repudiation – When a borrower stops making payments and refuses to honor the agreement.

Financial Aid – Financial Aid is a broad term used to refer to any grant, scholarship, or loan that is intended to help a student meet his or her college expenses. Grants and scholarships are gifts that do not need to be paid back. Loans, on the other hand, do need to be paid back.

Student-to-Staff Ratio –The student-to-staff ratio is the number of students per faculty, administrators, counselors, and office workers. In other words, it includes teaching and non-teaching personnel. The U.S. average is about 4-to-1. Lower is not better, as non-teaching personnel tend to add less to the educational experience. Staffs have grown over the years.

Subsidy – A sum of money, usually in the form of a cash payment, granted by the government to lessen the cost of some good or service for the subsidy recipient.

Deferment – A postponement of the date when you must start paying back your loan.

The Rule of 72 and **Compound Interest** – Compound interest is interest calculated on the principal amount *and* the accumulated interest of previous periods. It is "interest on interest." The "Rule of 72" is a useful tool. This "rule" is a rough way of estimating how long it takes for invested money to double in value. The formula is NUMBER OF YEARS x RATE = 72 (about). Example: at a 9% interest rate, it takes about eight years for an investment to double in value.

Bennett Hypothesis – Named for Secretary of Education William J. Bennett, it is the theory that the more easily students are able to borrow for college, the more universities will tend to raise the price of tuition, causing no overall improvement in college affordability.

Amortization and **Negative Amortization** – Paying off a loan gradually with equal monthly payments. Some of your payment goes toward paying down the loan's principal, and some pays for interest. The total amount you owe should go down with each payment. You are said to be in Negative Amortization if, as you make payments, the amount you still owe continues to go up, not down. This can happen if your monthly payment is too small.

Income-Driven Repayment – An approach to repaying federal loans that sets the payment based on how much each person earns in income. The idea is to help borrowers keep their loan payments affordable relative to their incomes.

Income-Share Agreement – A private approach to repaying school loans in which students receive funding while in school, and then upon graduation pay a fixed percentage of their income for a fixed number of years. An example is Purdue University's "Back a Boiler" program.

AFFIRMATIVE ARGUMENTS

1. Federally subsidized loans worsen the problem of college affordability by creating an incentive for universities to increase their tuition.

Having a federally subsidized student loan program may be a well-intended policy, but it actually contributes to the very condition it is trying to alleviate. It is tempting to believe that giving financial assistance to families helps them to afford a better college. But colleges *know* that families are receiving assistance, which enables them to game this system (i.e., take advantage of it and counteract it).

> "The availability of cheap federal student loans has enabled universities to increase tuition fees aggressively, helping fund an unproductive academic arms race that, among other things, has led to sizable administrative bloat on most campuses."
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> Source: Vedder, Richard K. "New Research Shows Federal Student Aid Is Worse than We Thought" James G. Martin Center for Academic Renewal. December 11, 2019

Imagine a middle-class family that has saved up money for college over the course of many years and figures that it can reasonably afford to pay a tuition of $15,000 per year. In a world without federally subsidized loans, colleges that charge $15,000 or less will receive interest from this student, while colleges that charge more than $15,000 will not receive any interest from this student. All else equal, colleges that would like to be considered by this student have an incentive to keep their tuition at or below $15,000.

Now consider the same exact family and student, but in a world with a federally subsidized loan program that provides $4,200 in assistance per student per year. The same college that would have needed to keep its tuition at $15,000 per year in order to attract the student in our example can now charge up to $19,200 for tuition and not be any less attractive. After all, the student and his or her family can still pay the $15,000 that they have already determined that they can afford, while the other $4,200 is paid for by "someone else" through the program. In this situation, colleges lose their incentive to compete on price, and all schools allow their tuition to drift higher. In this sense, one can say that subsidized loans are at least somewhat responsible for rising college tuition.[12]

You might reason for a moment that perhaps the $4,200 benefit still does help the family because now they only need to pay $10,800 in order to afford a $15,000 school ($10,800 + $4,200 = $15,000), but remember that in our example, the schools that cost $15,000 under a system of subsidized loans are the same schools that would have cost $10,800 without the program.[13] The family *could* choose to use the subsidy to pay less, but the hidden cost is that they will get a less expensive (and probably lower quality) school for their money.

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[12] Cooper, Preston. "Trump Is Right: Let's End Subsidized Student Loans" *Forbes*. June 1, 2017.

[13] To be clear, price and quality do not necessarily go together in lockstep. There are some relatively inexpensive schools that manage to provide an education as good or better as some extremely expensive schools. However, as a very rough guide, it tends to be the case that cost and quality are at least somewhat related.

2. Ending federal student loan subsidies will force universities to be more responsible about how they set their tuition.

Today it costs around $21,370 to attend the average public college, and around $48,510 to attend the average private college. A mere ten years ago, those figures were 25 percent lower (about $16,460) for public colleges, and 29 percent lower (about $38,720) for private colleges.[14] Few people would argue that college has become *that* much better in such a short time frame, so why the increase?

> "Since 1980, inflation- adjusted tuition at public universities has tripled; at private universities it has more than doubled."
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> Source: Ginsburg, Benjamin. "Administrators Ate My Tuition" Washington Monthly. Sep/Oct 2011.

Among the reasons is that schools feel insulated from the effects of real price-based competition. The easier the government makes it for students and their families to borrow money, the less pressure colleges feel to be responsible about their operating budgets. Two major areas in which colleges have been spendthrift are construction and administration. In recent decades, colleges have gone on a building spree. According to data compiled by the *New York Times*, overall university debt levels more than doubled from 2000 to 2011 among a sample of more than 500 of the largest institutions.[15] Schools have spent money lavishly on their campuses, outfitting them with state-of-the-art workout facilities and climbing walls, and upgrading dormitories with the addition of single rooms with private baths.[16] Similar extravagance has been made in non-essential personnel. According to data from the Department of Education data and reported by the *New York Times*, "administrative positions at colleges and universities grew by 60 percent between 1993 and 2009." This was "10 times the rate of growth of tenured faculty positions." Where there used to be a relatively small number of deans, councilors, residential life administrators, there are now many. Benjamin Ginsburg in the *Washington Monthly* writes:

> *In 1975, colleges employed one administrator for every eighty-four students and one professional staffer—admissions officers, information technology specialists, and the like—for every fifty students. By 2005, the administrator-to-student ratio had dropped to one administrator for every sixty-eight students while the ratio of professional staffers had dropped to one for every twenty-one students.*[17]

Neither buildings nor administrators come cheaply. Their addition to campus increases costs, leading schools to continually raise tuition. The availability of subsidized loans enables them to continue this practice with relative impunity.

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[14] Hess, Abigail Johnson. "The cost of college increased by more than 25% in the last 10 years—here's why" *Forbes*. December 13, 2019.
[15] Martin, Andrew. "Building a Showcase Campus, Using an I.O.U." *New York Times*. December 13, 2012.
[16] Ibid.
[17] Ginsburg, Benjamin. "Administrators Ate My Tuition" Washington Monthly. Sep/Oct 2011.

There are some schools that neither accept grants from the federal government nor participate in any federal financial aid or student loan program. These schools accept the full responsibility of keeping their tuition low, and whatever financial aid they offer to students they raise voluntarily through private donations such as from charitable foundations and alumni. A list of those schools, current as of 2017 follows:[18]

- Aletheia Christian College (Idaho)
- Bethlehem College & Seminary (Minnesota)
- Boyce College (Kentucky)
- Christendom College (Virginia)
- Faith Bible College (Maine)
- Grove City College (Pennsylvania)
- Gutenberg College (Oregon)
- Hillsdale College (Michigan)
- Mid-America Baptist Theological Seminary (Tennessee)
- New College Franklin (Tennessee)
- New Saint Andrews College (Idaho)
- Patrick Henry College (Virginia)
- Pensacola Christian College (Florida)
- Principia College (Illinois)
- Sattler College (Massachusetts)
- Southern Baptist Theological Seminary (Kentucky)
- Southwestern Baptist Theological Seminary (Texas)
- Wyoming Catholic College (Wyoming)

The fact that 18 colleges can manage to exist without any reliance upon federal programs is an indication that a voluntary tuition system can be a feasible approach. In other words, if these schools can practice the discipline needed to thrive without subsidized loans, it should be possible for more schools to do so.

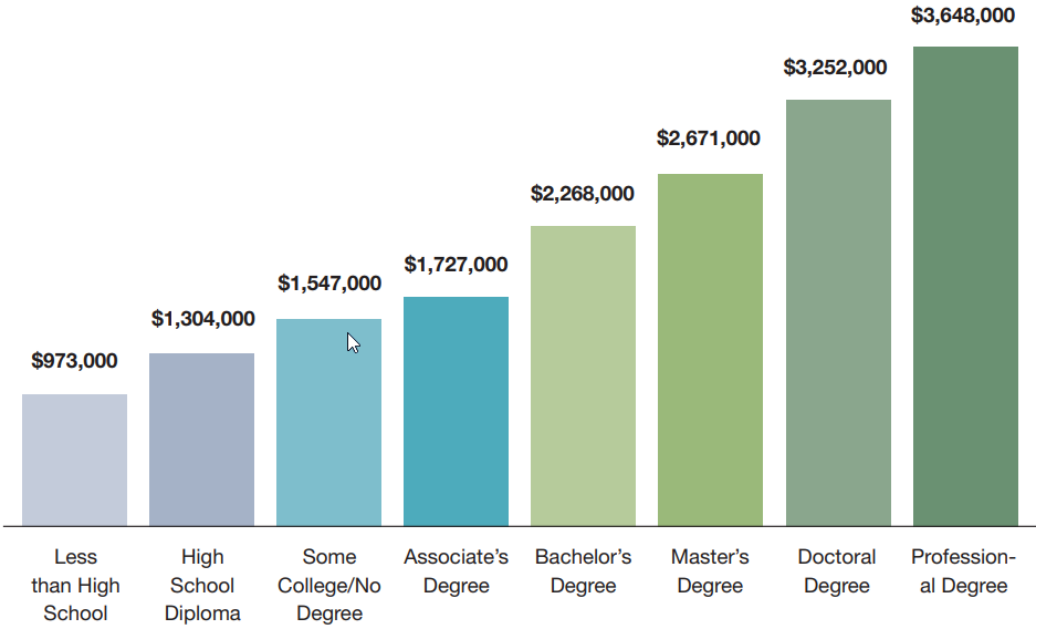
3. Individuals who go to college do not need subsidies from the government because they will be rewarded with higher earnings once they enter the workforce.

Data show that individuals with more education tend to have higher earnings compared to those with less education. Viewed on an hourly basis, people with a traditional four-year-degree make almost twice as much as people with only a high school degree. In 2017, workers with high school diplomas made on average $17.85 an hour, while those with a bachelor's degree earned an average of $32.49 an hour and those with advanced degrees earned an

[18] Clancy, Dean. "A List of Colleges That Don't Take Federal Money" DeanClancy.com. December 2, 2017.

average of $41.36 an hour.[19] This difference is sometimes called the "College Wage Gap." An even better way to think of this is perhaps in terms of median lifetime earnings. According to researchers at Georgetown University, people with a Bachelor's degree (i.e., who have completed four years of college) earn 31 percent more over their lifetime than those with an Associate's degree (i.e., two years of college), and 84 percent more people with just a high school diploma (see Figure 1).[20]

Figure 1. Median Lifetime Earnings by Educational Attainment



Source: Georgetown University Center on Education and the Workforce

Full-time, year-round male workers who possessed only a high school degree had median earnings of $40,289 according to a 2013 estimate (see Table 1). Meanwhile, male workers with a bachelor's degree enjoyed substantially higher median earnings: $67,236 per year. Put differently, men with bachelor's degrees earn almost $27,000 more each year than those who only finished high school. The earnings gap becomes even greater as people gain higher and higher levels of education beyond a bachelor's degree. For instance, workers with doctoral or professional degrees often earn more than $100,000 per year.

[19] State of Working America Data Library. Economic Policy Institute. (2017)
[20] "The College Payoff: Education, Occupations, Lifetime Earnings" Georgetown University Center on Education and the Workforce. Accessed February 2021.

Table 1. Median Annual Earnings for Year-Round, Full-Time, Male Workers in the United States, 2013

All Workers	HS Graduate	Associate Degree	Bachelor's Degree	Master's Degree	Doctoral Degree	Professional Degree
$51,116	$40,289	$50,998	$67,236	$86,308	$105,281	$126,725

Source: U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement.

One of the main reasons that people are willing to take on large amounts of debt for a college education is because they expect that by doing so they will be able to enter the workforce with better prospects for higher compensation over the course of their career. The median college graduate earns $1.2 million over their lifetime, which is $600,000 more than someone with only a high school degree.[21] The lifetime earnings differential between high school graduates and college graduates is large, and for many people it is more than enough to make up for the debt they incur early on. College graduates are rewarded with higher earnings once they enter the workforce. It is not necessary to have a subsidized federal loan program that gives these people special assistance when they are likely going to earn more in their lifetime anyway.

4. Attending college is not the right choice for all individuals. Current federal loan programs make it harder for some people to see the better paths that might exist for them, and is in fact unfair to those who do not wish to attend college.

College is very expensive and long today, and most students must borrow large amounts of money in order to attend. Among college students in 2019, 69 percent of students borrowed money to pay for college. Students getting degrees in 2019 graduated with an average debt of $29,900 in debt.[22] (In addition to this, about 14 percent of their parents took out an average of $37,200 in federal loans designed specifically to be used by parents.)[23] Some students—particularly those enrolled in graduate programs in social work, fine arts, and veterinary science—finish with debt in excess of $100,000 and no clear career path afterward.[24]

For some students, going to college makes sense. But for other students, going to college is not the optimal move, at least not for the four years usually required. Depending on their interests, aptitude, financial situation, and other factors including whether are ready to choose a career yet, it might be better for them to forge a different path. This could be by going into the

[21] The Hamilton Project, "Lifetime Earnings by Degree Type" April 26, 2017.
[22] "A Look at the Shocking Student Loan Debt Statistics for 2020" Student Loan Hero. January 15, 2020.
[23] Federal Reserve Bank of St. Louis. "Student loans Owned and Securitized, Outstanding." Accessed April 14, 2019.
[24] Carey, Kevin. "Biggest Offender in Outsize Debt: Graduate Schools" *New York Times*. June 3, 2019.

workforce, learning a trade, or taking a series of internships. When the true cost of attending college is transparent and clearly communicated, the decision to take an alternate path can be easier to make. However, when the true cost of attending college is inflated and then partially hidden—as it is under a system of federally subsidized student loans—some students will become enticed into attending college when they might otherwise have made a different decision that is in fact better for them.

A related point is that, under a system with federally subsidized student loans, there is an additional injustice against individuals for whom college is not the right path: as taxpayers, they are asked to help finance the education of those who are in many cases more affluent than themselves. As professor and noted education researcher Richard K. Vedder writes:

> *People living in high-income ZIP codes have accumulated far more debt than those living in lower-income areas, suggesting relatively affluent borrowers are disproportionate participants in the student loan program.*[25]

Why should it be the case that one young person should receive several thousand dollars per year of "starting out" assistance because he or she has chosen to go to college, but another young person who decides to start his or her life in a different way (for instance, by starting a business or going directly into the workforce) should not receive any assistance? Both are making an investment in their own future, but for some reason only one is deemed worthy of a help from the government. That is not equitable.

Finally, the current approach of making it easy to borrow enormous amounts of money for college teaches young people that they are not responsible for the cost of college. This has two bad results. First, students lured into borrowing often have no idea of what confronts them following graduation. Second, if the full cost of attending college can be borrowed, they have little awareness of what they are costing taxpayers, including themselves as future earners. Calvin Coolidge and his father knew what school cost and he made tough choices to pay for it. That personal discipline made it possible for Coolidge to achieve financial literacy early in life, which helped him later in life, too.

[25] Vedder, Richard K. "New Research Shows Federal Student Aid Is Worse than We Thought" James G. Martin Center for Academic Renewal. December 11, 2019

NEGATIVE ARGUMENTS

1. Subsidized loans are needed because college is too expensive for most families to afford. This enables people to attend college who otherwise couldn't afford to go.

The cost of college is high, and unfortunately for prospective students and their families, it keeps rising. For the 2018-19 school year, tuition, fee, room and board charges averaged $21,370 at public four-year institutions. At private colleges, the cost is even higher: an average of $48,510 per year, when you include room and board.[26] Some colleges are even more expensive. The average reported tuition in 2019 to attend a private, non-profit four-year college is $35,830.[27] For the 2019-2020 academic year, the cost of tuition, room and board at Amherst College, Coolidge's alma mater, is now $72,950 per year.[28]

Believe it or not, *these are just the costs for a single year*. It typically takes a student at least four years to obtain a bachelor's degree—and sometimes longer. Assuming tuition does not rise during this time, the average cost for a four-year degree is around $75,000 at a public university and around $170,000 at a private college. At the top 40 private schools, a bachelor's degree can cost over $230,000. This is more than the median price of a new home sold in the U.S.[29]

Over the past four decades, college costs have grown faster than virtually every other area of the economy. In 1975, annual tuition, fees, room, and board averaged, in inflation-adjusted terms, just under $8,000 at public universities and approximately $16,500 at private colleges. This means that between 1975 and 2015, college costs increased a total of 139% at public universities and 157% at private colleges beyond the rate of inflation. See Table 2.

Table 2. Tuition and Fees and Room and Board in 2018 Dollars

Academic Year	Public 4-Year Colleges	Private Nonprofit 4-Year Colleges
1988-1989	$9,480	$24,800
1998-1999	$12,000	$31,590
2008-2009	$16,460	$38,720
2018-2019	$21,370	$48,510

Source: The College Board, Annual Survey of Colleges, 2018

[26] *Trends in Higher Education: Average Published Undergraduate Charges by Sector, 2014-15*. Rep. The College Board, 2014. Web. <http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2014-15>.
[27] Hess, A. "Average tuition at private colleges is $35,830 a year—but here's how much students actually pay" CNBC, March 18, 2019. https://www.cnbc.com/2019/03/18/private-colleges-costs-35830-on-averagebut-students-may-pay-less.html
[28] Tuition, Fees, and Other costs. Amherst.edu. Accessed April 14, 2019. https://www.amherst.edu/tuition
[29] U.S. Census Bureau. Median and Average Sales Prices of New Homes Sold in United States. Web. <http://www.census.gov/const/uspriceann.pdf>.

Very few families can pay these tuitions without taking out loans, in part because the cost of college has increased faster than the pace at which household incomes have grown. In 1974, annual college costs (including room and board) at public universities were the equivalent of around 17% of median household income, but by 2014, paying college costs at a public university consumed approximately 36% of annual household income. Private university costs were the equivalent of around 35% of median household income in 1974, but more than 80% of median household income in 2014.[30]

Federally subsidized student loans are one of the few tools that students and families to help them afford college. With a subsidized loan, the government pays the interest while the student is in school, which allows students to focus on their academics without the anxiety of knowing that their loan is accruing interest for four years before they can even join the workforce. Without this assistance, far fewer young people would choose to go to college.

2. Subsidized loans reduce borrowing costs and therefore reduce the amount of debt that students must repay after they graduate. This eases the problem of student loan debt.

Student loan debt is a major problem in the United States. Over 45 million Americans, or about one in seven people, are burdened by student loan debt. Currently, student loan debt now totals more than $1.5 trillion, which is greater than the total amount in auto loan debt ($1.13 trillion) and credit card debt ($1.04 trillion) held by Americans. Without federally subsidized loans, these numbers would be higher.

> Among college students in 2019, 69 percent of students borrowed money to pay for college. Students getting degrees in 2019 graduated with an average debt of $29,900 in debt.
>
> Source: "A Look at the Shocking Student Loan Debt Statistics for 2020" Student Loan Hero. January 15, 2020.

Student loan debt is placing enormous strain on the personal finances of Americans, which is bad for everyone. According to the Brookings Institute, up to 40 percent of student loan borrowers could default on their loans by 2023, which would be disruptive to creditors.[31] Delinquency on paying back loans also hurts individuals' credit scores, which makes it more expensive for those people to borrow money in the future.

If the government were to eliminate subsidized loans and instead only offer unsubsidized loans, the cost of borrowing money would go up dramatically for students. Figure 2 shows the initial repayment amount and the total amount repaid after ten years for a hypothetical student who borrows the maximum subsidized student loan amount ($23,000) and graduates in five years. The total cost of debt increases by 17 percent in the scenario without subsidized loans.

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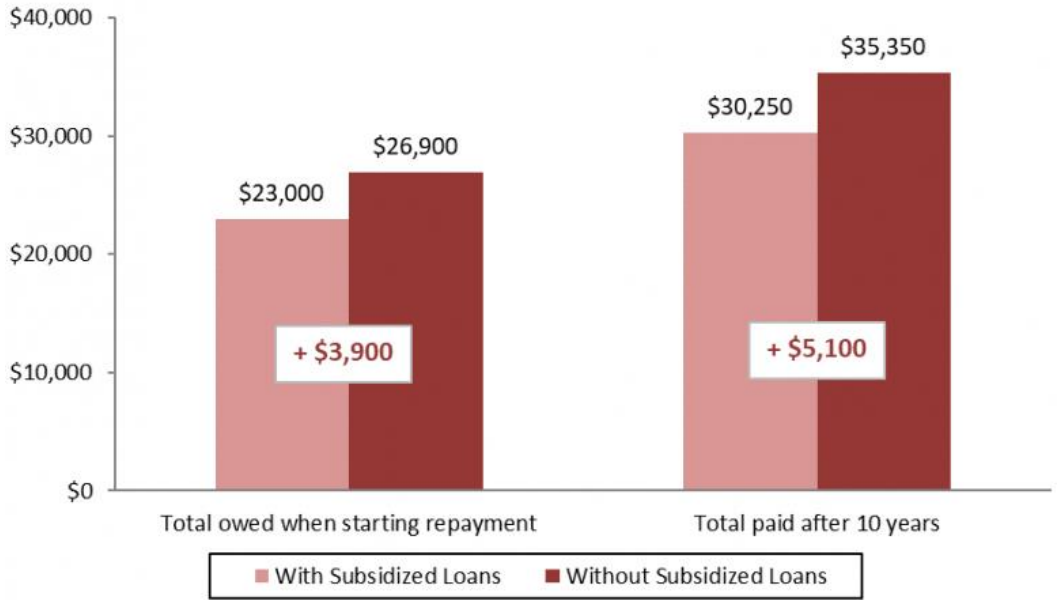
[30] Author's Calculations. College cost data from Trends in Higher Education (Median household income data from U.S. Census Bureau).

[31] Scott-Clayton, Judith. "The looming student loan default crisis is worse than we thought" The Brookings Institute. January 11, 2018.

Figure 2. Eliminating Federally Subsidized Loans Would Increase Borrowing Costs



Source: The Institute for College Access and Success. April 25, 2019.
Projections assume current interest rates.

Student loan debt is not treated the same way as other types of debt. If you lose a lot of money in business, it is possible to declare bankruptcy and "start over." Student loan debt, however, typically cannot be wiped away by declaring bankruptcy. Only in rare cases do courts allow the discharge of student loan debt using the bankruptcy process. It is thus in our interest to have programs such as subsidized student loans that reduce the overall level of student loan debt.

3. Helping students pay for college sets them on a path to adulthood sooner and is good for the overall American economy.

Many young people who find themselves having to make large payments on their student loan debt find that they do not have the money to things that previous generations have been able to do. These people are delaying life milestones such as buying a house, saving for retirement, and having children.

According to the Center for Responsible Lending (CRL), "Student debt is a significant drag on the entire economy as it depresses the purchasing power of millions, preventing people from starting families, investing in their own businesses, going back to school, and buying homes."[32] In one survey, 38 percent of millennials who have significant student loan debt said they have put off saving for emergencies, 31 percent have delayed buying a home, and 17 percent have delayed getting married.[33]

> Just 43% of public two-year college students, and 34% of for-profit college students who entered repayment on their loans in 2011 had managed to pay at least one dollar toward the principle on their loan after five years.
>
> Source: "Federal student loan repayment rates over time and by completion status" College Board (2019)

This trend has negative consequences for the economy. Countless businesses that have been built up around making and selling things related to these core life activities (e.g., weddings, home building, money management, vacations, and "durable goods" such as appliances and automobiles) will all suffer if a generation of adults substantially cuts back its participation in the economy. Offering federally subsidized student loans is one way to dampen this negative trend and help the American economy remain strong.

4. Subsidizing student loans helps to address socioeconomic inequities.

Higher education is not something that is uniformly accessible to all students. Subsidizing student loans is one good way to address social inequities. Some students have large advantages that translate to varying levels of success in getting into and completing college. For instance, where a person went to high school can predict how likely he or she is to finish college. Roughly half of students from relatively affluent high schools finish college in six years, compared to less than a third of students who went to relatively poor high schools.[34] Broken down by urban, suburban, and rural high school, there are discrepancies, too. About 36 percent of students who went to an urban high school finish college within six years of graduating, compared to 47 percent and 41 percent for suburban and rural, respectively.[35]

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[32] "Quicksand: Borrowers of Color & the Student Debt Crisis." Center for Responsible Lending. September 2019.
[33] Smith, Kelly Anne. "Survey: Student loan debt delays major financial milestones for millions" Bankrate. February 27, 2019.
[34] "High School Benchmarks 2019" National Student Clearinghouse Research Center. (2019).
[35] Ibid.

Black students are more likely than white students to have to borrow money in order to go to college. They are 20 percent more likely to need to take out student loans.[36] They also borrow more and default at a higher rate (twice) than white students.[37] See Table 3.

Table 3. Percentage of students who took out federal loans for their undergraduate education at a public-four-year institution

Student Race	Percentage
White	60%
Black or African American	87%
Hispanic or Latino	65%
All Students	*62%*

Source: Miller, Ben. "New Federal Data Show a Student Loan Crisis for African American Borrowers" Center for American Progress (2017).

Data show that 20 years after starting college, the average white student owes only approximately $1,000 in student loan debt, while the average black student still owes approximately $18,500 in student loan debt.[38] By race and gender, 12 years after entering college, white men have paid off an average of 44 percent of their student loan balance, while black men on average see their balances *increase* 11 percent. Likewise, white women have paid off an average of 28 percent of their student loan balance, while black women on average see their balances increase 13 percent.[39]

Federally subsidized student loans help to make these differences smaller because they are based on financial need. If we do away with federally subsidized student loans, these differences would likely get larger over time, not smaller.

[36] Miller, Ben. "New Federal Data Show a Student Loan Crisis for African American Borrowers" Center for American Progress (2017).
[37] Ibid.
[38] Sullivan, et al. "Stalling Dreams" The Institute on Assets and Social Policy (Brandeis). September 2019.
[39] Berman, Jillian. "One argument for canceling student debt: Student-loan borrowers may be far poorer than most economists believe" MarketWatch. July 27, 2019.

APPENDIX A. Differences Between Subsidized and Unsubsidized Loans

The U.S. Department of Education offers both subsidized and unsubsidized loans. It is important to understand the differences between these two types of loans. The figure below is a side-by-side comparison provided by the Department of Education.

As a prospective student, it is better to accept the subsidized loan first, if you qualify based on your financial need. If you do not qualify for the subsidized loan based on financial need, but you still need a loan, then you can turn to unsubsidized loans.

Subsidized Loans	Unsubsidized Loans
Based on your **financial need**.	**You can qualify**, regardless of income or your financial need.
Available only if you're an **undergraduate** student.	Available if you're an **undergraduate or graduate** student.
Government **does not usually charge you interest** while you're in school at least half-time, for the first six months after you leave school, during a period of deferment (a postponement of payments), and, sometimes, during repayment under an income-driven repayment plan.	Government **charges interest** from the time your loan is disbursed through the life of the loan, except for some periods of repayment under an income-driven repayment plan.
Your school determines the amount you can borrow, and the amount **may not exceed** your financial need or the limit set on how much you can borrow per year and total.	Your school determines the amount you can borrow based on your cost of attendance and other financial aid you receive and **may not exceed** the limit set on how much you can borrow per year and total.

Source: "Top 5 Questions about Subsidized and Unsubsidized Loans"
U.S. Department of Education. May 10, 2016.

APPENDIX B. Number of Students Enrolled in College

In the United States today, there are approximately 20 million students enrolled in college. About three-quarters of those attend public colleges and universities, and one quarter attend private colleges and universities. Since 1965, the number of students going to public colleges has increased by more than three and a half times. Over the same period, the number of students going to private colleges has increased by about two and a half times.

There are about 4,000 colleges in the United States, with a relatively small number of schools coming into existence or shutting down each year. Public colleges (a.k.a. "state colleges") are funded mainly by state governments. Students pay to go to public colleges, but tuition tends to be much cheaper than tuition for private colleges. Also, students who go to a state school in their home state (e.g., North Carolina State University for a student whose family lives in North Carolina) pay lower "in-state tuition" than students going to the same school who is from another state (e.g., North Carolina State University for a student from Virginia). The later student pays "out-of-state tuition," which can be twice as much or more.

Private colleges almost always charge the same tuition for every student, regardless of where the student lives, although they might give out differing amounts of scholarship money based on merit or financial aid based on need.

U.S. College Enrollment from 1965 to 2020 (in millions)

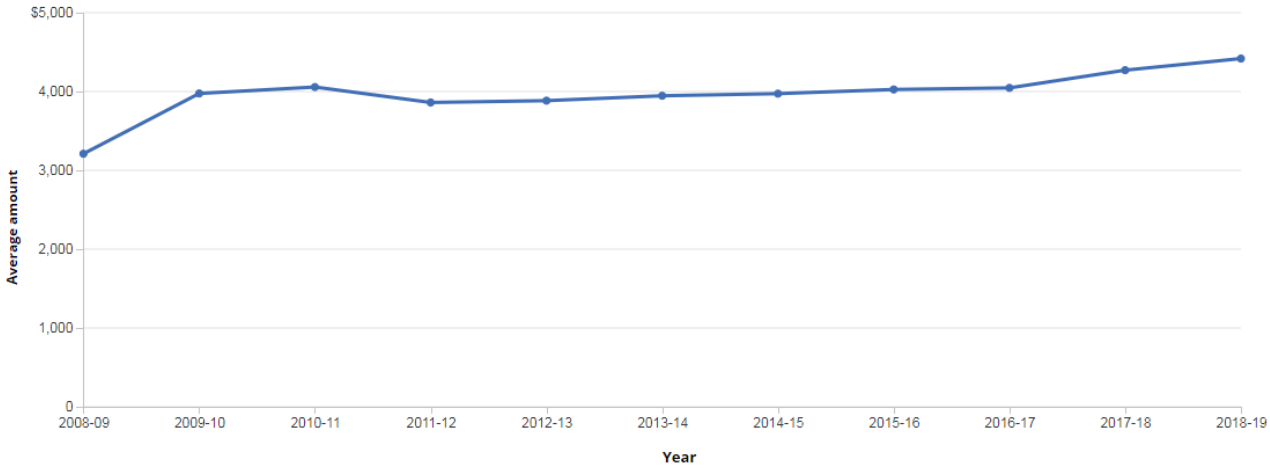
	Students at Public Colleges	Students at Private Colleges
2020*	14.61	5.14
2015	14.57	5.42
2010	15.14	5.88
2005	13.02	4.47
2000	11.75	3.56
1995	11.09	3.17
1990	10.84	2.97
1985	9.48	2.77
1980	9.46	2.64
1975	8.83	2.35
1970	6.43	2.15
1965	3.97	1.95

Source: National Center for Education Statistics. Digest of Education Statistics 2019, table 303.10. Published December 2019. Data for 2020 are projected.

APPENDIX C. Average Pell Grant Award

The Pell Grant program is the largest federal grant program for college students. It is a need-based subsidy provided by the U.S. federal government to students enrolled at participating institutions. Approximately 6,500 institutions currently participate in the Pell Grant program.

Average Pell Grant Amount by Year (Undergraduate Students)



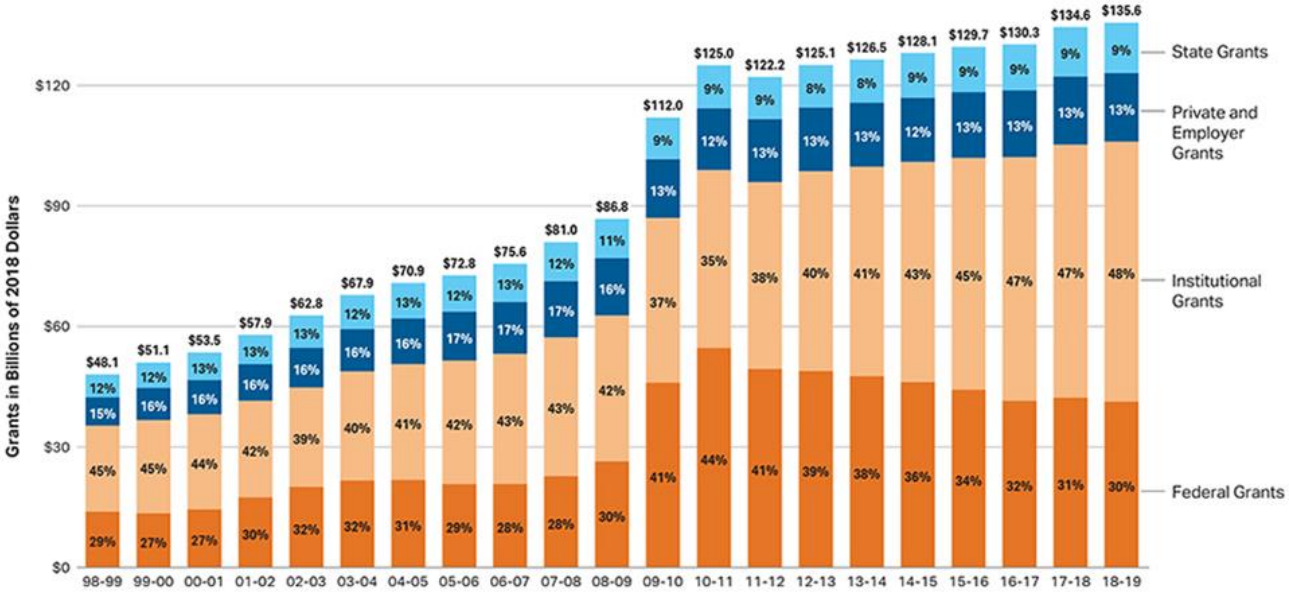
Source: National Center for Education Statistics. Accessed February 1, 2021. Based on data from U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Student Financial Aid component final data (2008-09 - 2017-18) and provisional data (2018-19).

Amounts displayed are adjusted to be in current dollars.

APPENDIX D. Increasing Grant-Based Financial Aid for College

Grants are money that do not need to be paid back. Thus they are different than loans. Grants are rising over time since the late 1990s, although in recent years they have been relatively flat. The amounts below are converted to 2018 dollars for more accurate comparison.

Total Grant Aid by Source of Grant

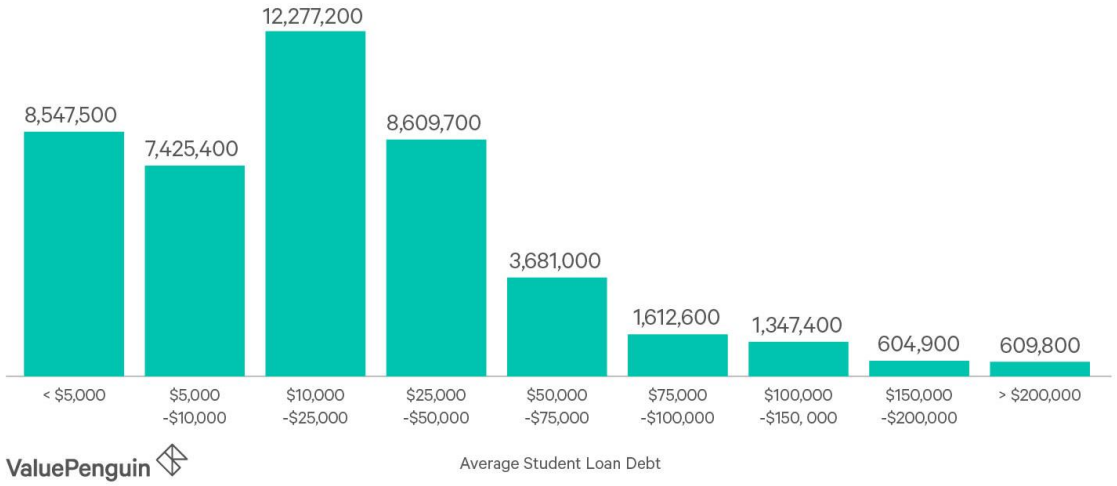


Source: "Total grant aid by source over time" College Board, 2019.

APPENDIX E. Distribution of Student Loan Balances

Some people owe relatively little in student loans (e.g., less than $10,000), while others owe much larger amounts (e.g., more than $100,000). If you add up the outstanding balances across different thresholds, you can see that student loan debt balances are concentrated in the range of $10,000 to $25,000. In the figure below, the Y axis is dollars. Beware that the categories along the X-axis are not of even size.

Aggregate Student Loan Debt By Balance

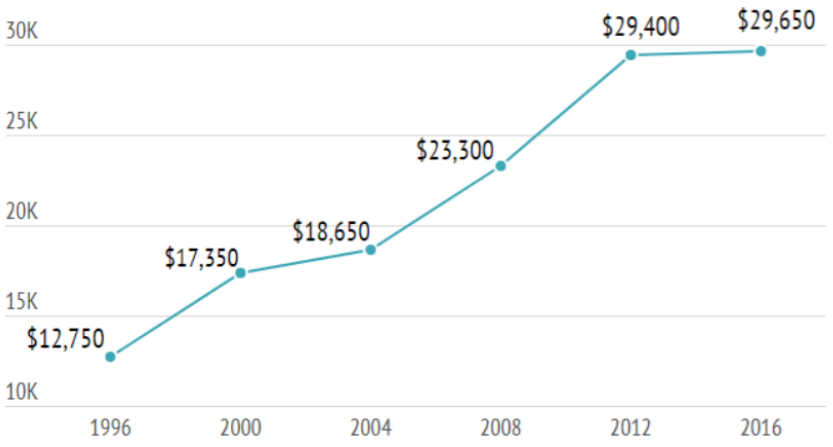


Source: Song, Justin. "Average Student Loan Debt in America: 2019 Facts & Figures" ValuePenguin. 2019.

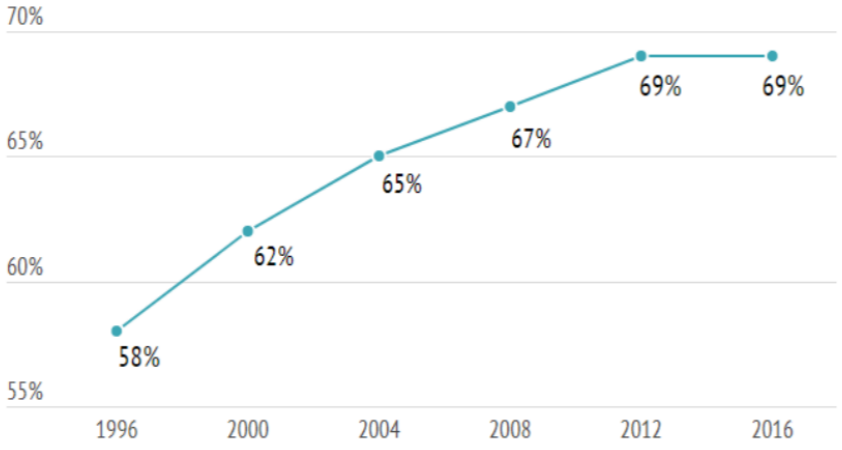
APPENDIX F. Student Loan Debt

The average student with student loan debt graduates with over $29,000 owed, which is a figure that has more than doubled in the past two decades. In 2016, almost 7 out of 10 students incurred student loan debt.

Average Student Loan Debt



Share of Students With Debt



Source for both graphs: "Quick Facts About Student Debt" The Institute for College and Success. April 2019.