Statement before the House Committee on Education and Labor
Subcommittee on Higher Education and Workforce Investment
On The History and Continued Contributions of Tribal Colleges and Universities

Legislative Reform is Necessary for Higher Education to Better Serve Students and Taxpayers

Beth Akers
Senior Fellow

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Good morning, Chairwoman Wilson and Ranking Member Miller-Meeks and members of the subcommittee. My name is Beth Akers and I'm a Senior Fellow at the American Enterprise Institute where I conduct research on higher education in the United States with a focus on finance. I've now worked in this space for over a decade, first in my position as Staff Economist at the Council of Economic Advisors, then at the Brookings Institution as a Fellow in both Governance and Economic Studies and then as a Senior Fellow at the Manhattan Institute.

Thank you for the opportunity to share my testimony here today.

I appreciate that the invitation here today is in regards to the topic of Tribal Colleges and Universities, an important segment of our overall system of higher education. These institutions face a distinct challenge; educating an otherwise unserved population, often in rural communities without thriving local economies.

Unfortunately, these institutions do not have an impressive track record of delivering their students into economic opportunity. Tribal Colleges and Universities have low graduation rates, with just 20 percent of beginning students completing a degree within 6 years.[i]

But students enrolling at Tribal Colleges and Universities are not the only ones being let down by our system of higher education. The approximately 30,000 students being served annually across 32 fully accredited Tribal Colleges and Universities represent just a small share of the millions of students enrolling in accredited institutions of higher education in the United States each year.[ii]

Investing in education beyond high school is one of the surest pathways to economic prosperity in the United States. However, not all students who invest in higher education will earn the typical return. Some students will end up worse off financially than when they began. At one-third of institutions, more than half of students will not be earning more than the typical high-school graduate 10 years after their initial enrollment.[iii] Education beyond high school is a good investment on average, but it can be a financial risk.

I believe that the financial risk associated with post-secondary education is the single greatest impediment to our system of higher education better serving both students and taxpayers. Systemic reform through legislation is necessary to make investing in higher education less risky for students and also to ensure that taxpayer dollars are used efficiently. This can largely be accomplished through a small number of deep reforms to the federal student loan program.

First, we need to prevent colleges with a track record of poor student outcomes from accessing the federal student aid program. Too often students are borrowing sums of money through the federal student aid program that are predictably unaffordable based on the experiences of previous students. Instead of using the arbitrary process of accreditation as the gatekeeper to federal student aid, including student loans, we should judge institutions based on their track record of student success. Schools and programs of study that persistently fail to deliver their students into opportunities that would make loan repayment affordable should not be allowed to continue their participation in these taxpayer-funded programs.

Second, we need to replace the patchwork of loan repayment programs with a single, universal loan repayment program that will ensure that the neediest borrowers have access to the relief they need. Removing institutions with a poor track record of student success will prevent many instances of borrowers finding themselves with unaffordable balances, but it will not eliminate them all. Student borrowers will still occasionally find themselves in the adverse situation of having a student loan balance that is unaffordable based on their earnings. We need to eliminate the patchwork of existing student loan repayment programs and replace it with a single, well-functioning income driven repayment program that will be easier for student borrowers to navigate and also simpler for the Department of Education to effectively administer.

Lastly, we need to stop allowing students in graduate and professional schools from borrowing without limit. This is problematic for three reasons.

First, it enables student borrowers to take on sums of debt that are inappropriately large relative to their expected future income. It is irresponsible, both to students and taxpayers, to allow students to borrow sums of money without regard to whether it will be affordable to repay.

Second, it makes students less sensitive to the prices they face and thus allows institutions to raise prices more aggressively than they would have otherwise.

And lastly, limitless borrowing paired with the ability to make relatively low monthly payments in an income driven repayment program has increased the incidence of borrowers with high incomes having very large debts forgiven.[iv] Student loan relief should be reserved for lower income borrowers who are truly struggling with repayment.

At the same time, **we need to reject calls for quick fixes** like a widespread student loan cancellation event which would exacerbate current systemic challenges while costing taxpayers billions.

Forgiving student debt through a mass cancellation event would send the message to future borrowers that they won't be on the hook to repay every dollar they borrow. The expectation of a future bailout will encourage future students to pay more for college and borrow more than they would have otherwise. The resulting increased willingness to pay will allow institutions to raise their prices further, thus exacerbating already troubling tuition inflation.

The CRFB has estimated that even a means tested loan cancellation event of up to $10,000 per borrower would cost taxpayers $250 billion.[v] While some have argued in the past that deficit spending is without consequence, recent trends in inflation have proven that to be incorrect. This spending will necessarily take resources away from other programs that effectively target aid to more needy Americans.

Others have argued that student loan cancellation would be inflationary. This is a reasonable concern in a moment when inflation is the most pressing economic challenge in our nation, but these concerns are likely overstating the problem. However, the effect on inflation in higher education should be of great concern. Historically, the cost of higher education has been growing more rapidly than prices in almost any other sector of the economy,[vi] driving student borrowing more than any other factor.[vii]

Additionally, widespread student loan cancellation, of the type that has been promised through executive order from the Biden administration, is not a program that helps the poor. Most economists agree that a one-time event would be regressive, delivering the largest benefits to workers with the highest levels of income. This is because borrowers with large balances also tend to have very high earnings and because the neediest workers in our economy, those without any college education, don't carry any student debt and don't stand to benefit from a cancellation event.

Study from economist at the Brookings Institution indicates that the "highest-income 40 percent of households (those with incomes above $74,000) owe almost 60 percent of the outstanding education debt and make almost three-quarters of the payments. The lowest-income 40 percent of households hold just under 20 percent of the outstanding debt and make only 10 percent of the payments."[viii]

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[i] https://www.edweek.org/leadership/graduation-rates-lag-at-tribal-colleges/2014/12
[ii] https://sites.ed.gov/whiaiane/tribes-tcus/tribal-colleges-and-universities/
[iii] https://cew.georgetown.edu/cew-reports/roi2022/
[iv] https://www.urban.org/sites/default/files/2022-04/Income-Driven%20Repayment%20of%20Student%20Loans.pdf
[v] https://www.crfb.org/blogs/means-testing-student-debt-cancellation-still-costly-and-regressive
[vi] https://www.aei.org/carpe-diem/chart-of-the-day-or-century/
[vii] https://www.brookings.edu/wp-content/uploads/2016/06/Is-a-Student-Loan-Crisis-on-the-Horizon.pdf
[viii] https://www.brookings.edu/blog/up-front/2020/10/09/who-owes-the-most-in-student-loans-new-data-from-the-fed/