JOINT ECONOMIC COMMITTEE
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UNITED STATES CONGRESS
JUNE 2013

THE CAUSES AND CONSEQUENCES OF INCREASING STUDENT DEBT

Executive Summary

For generations, education has served as a gateway to economic opportunity and middle-class stability. Workers who have pursued postsecondary degrees earn higher wages, face lower unemployment rates and enjoy better job prospects than those with just a high school diploma. At the same time that enrollment in postsecondary institutions has increased, college tuition has also increased, forcing more students to rely on student loans to pay for their educations.

Student loan debt has almost doubled in the past five years, increasing from $550 billion in the fourth quarter of 2007 to just under $1 trillion in the first quarter of 2013. Two-thirds of recent graduates have student loans, with an average balance of more than $27,000.

New borrowers may soon face additional costs: unless Congress acts, interest rates for federally subsidized Stafford loans will double from 3.4% to 6.8% for new loans issued on or after July 1st. For a student borrowing the maximum amount of these loans, this would increase the cost of his or her college education by $4,500. Allowing the interest rate on subsidized Stafford loans to double at a time when the government's cost of borrowing is so low undermines the public policy objective of providing affordable loans to students.

The increasing debt burden presents challenges for recent graduates just beginning their careers and poses a potential risk to the economy, since individuals who shoulder heavier debt balances may delay purchasing a home, buying a car, starting a family and saving for retirement. On average, recent graduates left college with student loan debt of 60% of their annual income.

This report includes state-by-state information on the share of recent graduates with student loan debt and the average size of that debt. In addition, it analyzes the impact of interest rate changes on Stafford loan borrowers, examines the causes and consequences of increased student debt levels and explores actions policymakers can take to help ensure students are not overwhelmed by the debt they take on to finance their education.

To mitigate the impact of increased student loan balances on graduates and the economy, there are several options for policymakers, including:

- Keeping the interest rate on subsidized Stafford loans at the current level;
- Forgiving loan payments for certain graduates taking public interest jobs with lower pay;
- Restructuring loans based on financial hardship; and
- Converting private loans to federal loans to take advantage of programs already in place.