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ONE-TIME STUDENT DEBT CANCELLATION COULD HAVE SIGNIFICANT BENEFITS FOR U.S. ECONOMY, NEW LEVY REPORT SUGGESTS

ANNANDALE-ON-HUDSON, N.Y.—According to the Federal Reserve, outstanding student loan debt totaled $1.35 trillion as of the first quarter of 2016—an amount 28 percent greater than all motor vehicle loans and 40 percent greater than the value of outstanding student loan debt just five years ago. Mounting evidence that the explosive rise in student debt burden is having spillover effects on the U.S. economy—from small business formation to new home buying, and even marriage and reproduction—has prompted policymakers, educators, and students to call for a range of solutions to rising student debt and its impact on borrowers and the greater economy. A new report from the Levy Economics Institute of Bard College explores the macroeconomic impacts of one of the boldest of these proposals—a program of outright student debt cancellation financed by the federal government—and finds that such a proposal could have significant benefits for the U.S. economy.

In their new Research Project Report, *The Macroeconomic Effects of Student Debt Cancellation*, Levy Research Associate Stephanie Kelton and economists Scott Fullwiler, Catherine Ruetschlin, and Marshall Steinbaum examine the context, implementation, and outcomes of a one-time program of complete student debt cancellation. “There is mounting evidence that the escalation of student debt in the United States is an impediment to both household financial stability and aggregate consumption and investment,” the authors write, stressing that increasing demand for college credentials coupled with rising costs of attendance have led more students than ever before to take on student loans, with higher average balances. “This debt burden reduces household disposable income and consumption and investment opportunities, with spillover effects across the economy. At the same time, the social benefits of investment in higher education—including human capital accumulation, social mobility, and the greater tax revenues and social contributions that flow from a highly productive population—remain central to the economic advantages enjoyed by the United States.”

Using two macroeconomic models, the Fair model and Moody’s model, to forecast the effects of
debt cancellation over a 10-year horizon, Kelton, Fullwiler, Ruetschlin, and Steinbaum find that student debt cancellation results in an increase in GDP, ranging from $861 billion to $1,083 billion over the entire period, or on average between $86 billion and $108 billion per year. This increase is accompanied by new job creation that peaks at 1.18 to 1.55 million additional new jobs per year, or 50 to 70 percent of the entire job creation for a typical year in the 2010–15 economic expansion. Average unemployment rates over the period are reduced by between 0.22 and 0.36 percentage points. The predicted effects of the cancellation on inflation, meanwhile, are negligible, the authors write, with a peak of 0.3 percentage points of additional inflation in the Fair model and negative pressure on inflation in later years, and no more than 0.09 percentage points of additional inflation in the Moody’s model over the entire period. Their simulations suggest only a modest impact on the federal deficit, ranging from 0.29 to 0.37 percent of GDP, while state budget positions improve.

“We find that student debt cancellation produces positive feedback effects that improve several macroeconomic variables, including GDP and job growth, while imposing only moderate increases on the federal deficit and interest rates and no significant inflationary pressure,” write the authors. “These results support the continued inclusion of bold proposals such as student debt cancellation in public policy deliberations surrounding the future of higher education in the United States.”

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Research Project Report 2018: The Macroeconomic Effects of Student Debt Cancellation

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit www.levy.org

(2.6.18)