Free College and the Debt-Free Fantasy

By Jason D. Delisle and Preston Cooper

June 2020

Key Points

- Federal proposals to offer free tuition at public universities and community colleges are likely to reduce total student debt by only 15 percent.
- Most student debt finances expenses other than tuition at public institutions, such as living costs, enrollment at private institutions, and graduate degrees.
- At four-year institutions, students eligible for free college who currently borrow are likely to reduce their average annual borrowing from $8,000 to $3,400.

At the end of 2019, 43 million Americans owed over $1.5 trillion in federal student loans.[1] The rapid increase in these balances over the past decade has led many to deem student debt a "crisis." Now, there is growing support among Democratic policymakers, and even some Republicans, to immediately cancel all or most of the federal government's loan portfolio.

Often, these advocates also propose making public colleges and universities tuition free, since student debt cancellation would affect only *existing* borrowers. Otherwise, students would continue to take out new loans to finance their education going forward. Indeed, the Congressional Budget Office projects that the federal government will issue over $1.2 trillion in new student debt over the coming decade. The combination of debt cancellation and free tuition at public colleges is supposed to end the student loan "crisis" once and for all.

Sen. Elizabeth Warren (D-MA), one of the most prominent advocates of this two-pronged approach, writes:

> Once we've cleared out the debt that's holding down an entire generation of Americans, we must ensure that we never have another student debt crisis again. We can do that by recognizing that a public college education is like a public K–12 education—a basic public good that should be available to everyone with free tuition and zero debt at graduation.[2]

Similarly, Sen. Bernie Sanders (D-VT) believes that canceling existing student debt and making public colleges tuition free will "make college debt-free for all."[3] He writes: "It is time to end the absurdity of sentencing an entire generation—the millennial generation—to a lifetime of debt for the 'crime' of doing the right thing: getting a college education."[4]

Although presumptive Democratic presidential nominee Joe Biden was slower to embrace free-tuition policies, he eventually endorsed Sanders' original proposal to make all public universities tuition free for students from families with incomes below $125,000.[5] Biden has also rolled out a student loan forgiveness plan that would forgive a minimum of $10,000 per borrower, with additional relief for students who attended public universities or minority-serving institutions to "align [his] student debt relief proposal with [his] forward-looking college tuition proposal."[6]

Despite these claims, making colleges and universities tuition free would have only a limited effect on student borrowing. Our analysis suggests that the majority of student borrowing today would continue under the free-college proposals. Even after the government forgives nearly all outstanding debt, total balances will quickly reach levels that Sens. Warren, Sanders, and many others have deemed a crisis. In short, the proposals fall far short of guaranteeing that students will graduate debt-free as proponents claim, at least absent other large increases in grant aid.

This is because free-college policies do not target the largest sources of student borrowing. Many students borrow to attend private undergraduate institutions and graduate schools, which are excluded under free-college proposals. Moreover, many students attend out-of-state public universities and are not eligible for free-college policies under the most prominent proposals. All these ineligible students may continue to borrow through the federal loan program.

In short, the proposals fall far short of guaranteeing that students will graduate debt-free as proponents claim, at least absent other large increases in grant aid.

Even among those eligible for free college, many students borrow to cover non-tuition expenses such as housing, food, and textbooks while enrolled (hereafter referred to as "living expenses"). The free-college plans cover tuition only, which means that much of the borrowing for living expenses will continue, even if tuition is free and the federal Pell Grant is repurposed to cover living expenses, as many free-college policies propose.

After taking these factors into account, our analysis suggests that a federal free-college matching grant for states such as that proposed by Sens. Sanders and Warren (and endorsed by Vice President Biden) would reduce new student loan volume over the next decade by just 15 percent. Therefore, we expect that the federal government will issue $1 trillion in new student loans over the coming decade even if every state enacts and fully adopts free-college proposals. This implies that even if the current stock of outstanding student debt is forgiven and public colleges and universities are free for in-state students, the federal student loan portfolio will return to so-called "crisis" levels within a couple decades.

Assumptions and Limitations

The descriptive analysis in this report uses recent enrollment and borrowing data to estimate the possible effect of a first-dollar, free-college policy on student debt. It does not aim to predict the outcome of the policy change using causal inference. And we do not incorporate any behavioral changes among students or institutions of higher education to reach our results. The analysis is based on the current state of higher education enrollment and pricing as reflected in the data.

In reality, students, states, and institutions of higher education will change their behavior in response to free college. Some of these responses will reduce student borrowing further than what we estimate, but others will blunt the effects of free college, resulting in a more limited effect on student debt than the findings presented here.

For example, free college might induce students who would otherwise enroll in more expensive private colleges to switch to free public colleges, reducing student debt further than what we estimate.[7] On the other hand, some states might not opt into the free-college proposal, which would limit the policy's effect and lead us to overestimate its impact on student debt. It is difficult to know where the balance lies in these behavioral responses, and we do not aim to make such a determination or make the case for one set of assumptions over another.

In a few cases in which we had to make assumptions about behavior, we erred on the side of simplicity, and in most instances these assumptions bias our estimate higher than it would otherwise be. That is, we show a larger reduction in student debt than is likely to happen in reality. For example, we assume that all states opt into the program and that students' tuition reduction from free college leads them to reduce their borrowing on a dollar-for-dollar basis. We also assume for simplicity's sake that the policy is available to students regardless of financial need, even though many prominent free-college plans exclude high-income families. However, we also assume that students will not switch from private institutions to in-state public ones, which biases the estimate in the other direction.

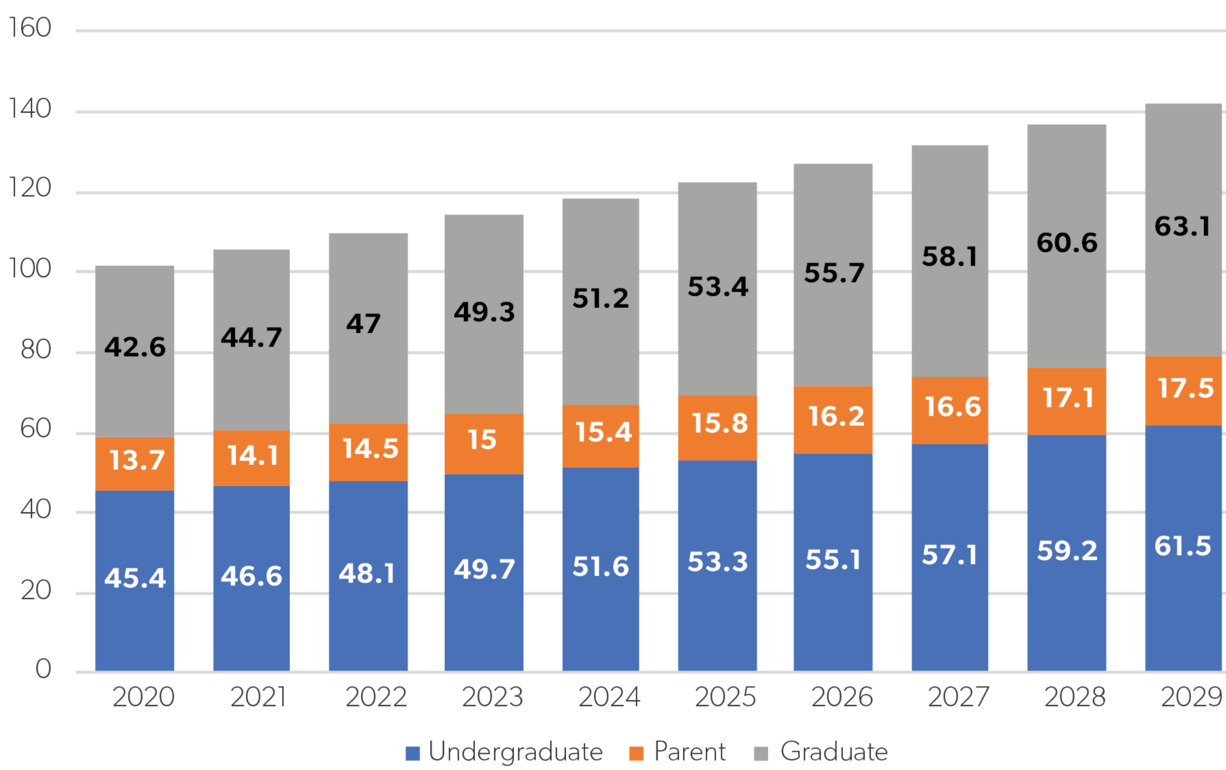
Identifying Ineligible Borrowers

The analysis in this report focuses on the federal government's Direct Loan Program, which originates nearly 90 percent of new student loans every year.[8] The analysis does not include private loan borrowing. According to the Congressional Budget Office, the federal government will issue just over $1.2 trillion in new loans between 2020 and 2029. Three distinct groups are eligible for these loans: undergraduate students who will borrow an estimated $528 billion (44 percent), parents of dependent undergraduates who will borrow an estimated $156 billion (13 percent), and graduate students who will borrow an estimated $526 billion (43 percent).[9] (See Figure 1.)

We assume that all lending to graduate students will continue as estimated under current policies. (The free-college plans described in this report do not cover graduate school.) That leaves two groups whose borrowing could be affected by free-college policies: undergraduates and parents of undergraduates. These groups are expected to borrow $684 billion in new loans over the next 10 years, or 57 percent of all estimated federal lending. Our analysis focuses on what share of this remaining 57 percent of federal loans will not be issued if tuition at public colleges becomes free.

In addition to assuming that all graduate school borrowing continues on its current course, we assume the same for all undergraduate students who attend private nonprofit and for-profit colleges and universities.[10] Students who attend these institutions must still pay tuition under the free-college

Figure 1. New Federal Student Loans Issued Between 2020 and 2029, by Type of Borrower ($ Billions)



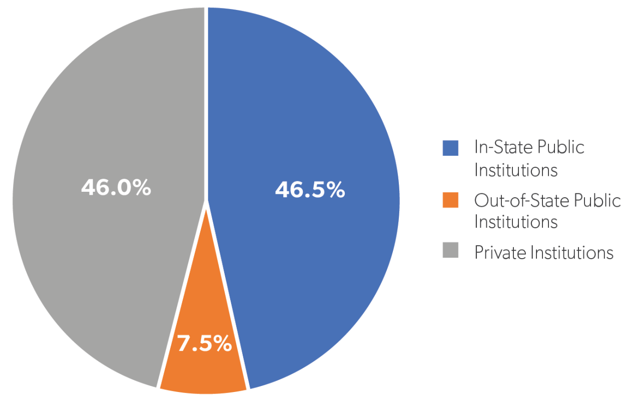
Source: Congressional Budget Office, "Student Loan Programs—CBO's May 2019 Baseline," May 2, 2019, https://www.cbo.gov/system/files/2019-05/51310-2019-05-studentloan.pdf.

proposals; their institutions are not eligible for the program. We estimate that 46.0 percent of new undergraduate and parent loan volume is issued to students attending these institutions every year (or 26.2 percent of all federal lending). (See Figure 2.)

Another group unaffected by the free-college proposals is students who pay the out-of-state tuition rate at public institutions. The free-college proposals explicitly restrict the program to in-state students only, making out-of-state students ineligible. These students account for 7.5 percent of new undergraduate and parent loans (or 4.3 percent of all federal lending).[11]

That means just 46.5 percent of new undergraduate and parent loan volume (or 26.5 percent of all federal lending) is associated with the public-institution students who pay in-state tuition rates, which is the group affected by free college.[12] In short, only about a quarter of all borrowing in the federal loan program is associated with students who could qualify for free-college programs. But as we discuss more below, even this group of students is unlikely to reduce their borrowing to zero if free college is enacted.

Figure 2. Undergraduate and Parent Borrowing by Institution Control and Student Residency, 2015–16



Source: Authors' calculations based on National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)," 2016, https://nces.ed.gov/surveys/npsas/.

Measuring Debt Reduction for Eligible Students

To measure how much in-state students at public universities with loans are likely to reduce their borrowing under the free-college plans, we need to understand the mechanics of free-college proposals. The details vary, but the plans generally involve a federal-state matching grant program that aims to eliminate tuition and fees (hereafter referred to as simply "tuition") for in-state students at public colleges and universities (including community colleges). Under Sen. Sanders' plan (and the one Vice President Biden endorsed), the federal government pays 67 percent of the cost of free college, while states contribute the remaining 33 percent.

These plans are often called "first-dollar" free-college programs because states and institutions must fully cover tuition expenses (using their own funds and the new matching grants) before applying a student's other federal aid, such as Pell Grants. With tuition fully covered by state and federal matching grants, students would use Pell Grants entirely for living expenses if they attend an in-state public college.

Our analysis is based on this first-dollar design. Although some proponents of the free-college plans have also called for an increase in the Pell Grant from its current per-student maximum of $6,345, our analysis is based on the grant size provided under current policy. Excluding proposed Pell Grant increases from this analysis helps isolate how the federal-state matching grants will affect borrowing.[13]

We assume that states and institutions will be able to count their existing financial aid toward satisfying the tuition-free requirement. For instance, California may count its existing $2.4 billion Cal Grant toward reducing students' tuition rather than come up with new money to eliminate tuition at the state's public colleges.[14] It would be politically and fiscally untenable for the federal government to require states to exclude these sources of aid (and require that they be fully repurposed to cover living expenses), as it would penalize states that already provide generous need-based aid programs relative to those that do not.[15] Most prominent free-college proposals that use a federal-state matching grant, such as the College Affordability Act, which won committee approval in the House in 2019, explicitly allow states to count existing aid in meeting the free-tuition requirements.[16] Sen. Brian Schatz's (D-HI) Debt-Free College Act is another example.[17]

Table 1. Hypothetical Free-College Program vs. Current Law for Example Student

Current Law		**Free College**	
"Sticker Price" Tuition and Fees	$8,000	"Sticker Price" Tuition and Fees	$8,000
State Grants and Institutional Aid	$3,000	State Grants and Institutional Aid	$3,000
Net Tuition After Nonfederal Aid	*$5,000*	*Net Tuition After Nonfederal Aid*	*$5,000*
Federal Pell Grant	$3,000	Free-College Grant	$5,000
		Federal Pell Grant	$3,000
Net Tuition and Fees After All Aid	*$2,000*	*Net Tuition and Fees After All Aid*	*$0*
Aid Available for Living Expenses	$0	Aid Available for Living Expenses	$3,000
		Net Benefit from Free College	*$5,000*

Source: Authors' calculations.

Therefore, our analysis counts all existing state and institutional (but not federal) financial aid for in-state students at public institutions toward meeting the free-tuition requirement.[18] The following example illustrates how the free-college plans would work under this design.

Consider a student who attends a public in-state university with annual, full-time "sticker price" tuition of $8,000. A state grant program and institutional scholarships combine to reduce her tuition to $5,000. On top of that, she receives a $3,000 federal Pell Grant, which she applies to her tuition. Her net tuition under the current system is therefore $2,000.[19]

Under this hypothetical free-college program, a combination of state, institutional, and federal funds fully covers the student's tuition expenses. As shown in Table 1, the student receives an additional $5,000 in aid under the free-college plan, which reduces her net tuition to zero. Her $3,000 Pell Grant is not applied toward tuition. She now receives the grant in cash, which she can use to pay for living expenses. The student has gone from a $2,000 net tuition liability to no tuition liability, plus a $3,000 credit toward living expenses.

We use data from the 2015–16 National Postsecondary Student Aid Study (NPSAS) to simulate how borrowing changes under the first-dollar free-college plan described above for students affected by the policy: those attending in-state public universities. First, we calculate the size of the new grant each student would receive under free college. This is equivalent to net tuition after all state and institutional aid (but not federal grants) is applied. Although students never actually see the new "grant," as it goes directly to the institution to bring their net tuition to zero, thinking of the new program as a grant helps analyze the effect on borrowing.

We assume that the relationship between new free-college grants and a reduction in borrowing is one-to-one. In other words, students who receive a new $2,000 grant under free college will reduce their borrowing by $2,000 (if they already borrow $2,000 or more).[20] This is a strong assumption, which leads us to overestimate the reduction in new loans under free college, as existing evidence suggests that the grant-loan relationship is considerably less than one-to-one.[21] (Note that students' borrowing includes both undergraduate loans they took out themselves and any loans their parents took out on their behalf.)

Similarly, we assume that students who currently borrow less than their net tuition before federal grants will reduce their borrowing to zero. If a student receives a $2,000 grant under free college but would have borrowed only $1,500 for tuition otherwise, aggregate borrowing goes down by $1,500.

If a student borrows more than his or her net tuition because he or she is financing living expenses in addition to tuition, we assume he or she will continue to borrow after free college is implemented, albeit a reduced amount. Many students at public universities and community colleges borrow for their living expenses in addition to tuition, and much of this borrowing will continue under the free-college proposals because only tuition is free.

To see how this would be the case, consider a student with no Pell Grant who currently borrows $7,500, of which $3,000 covers tuition expenses and $4,500 covers living expenses. The most his borrowing would decline under the free-college plan is $3,000, the amount of his tuition expenses, which become fully subsidized. We assume he continues to borrow the $4,500 for living expenses.

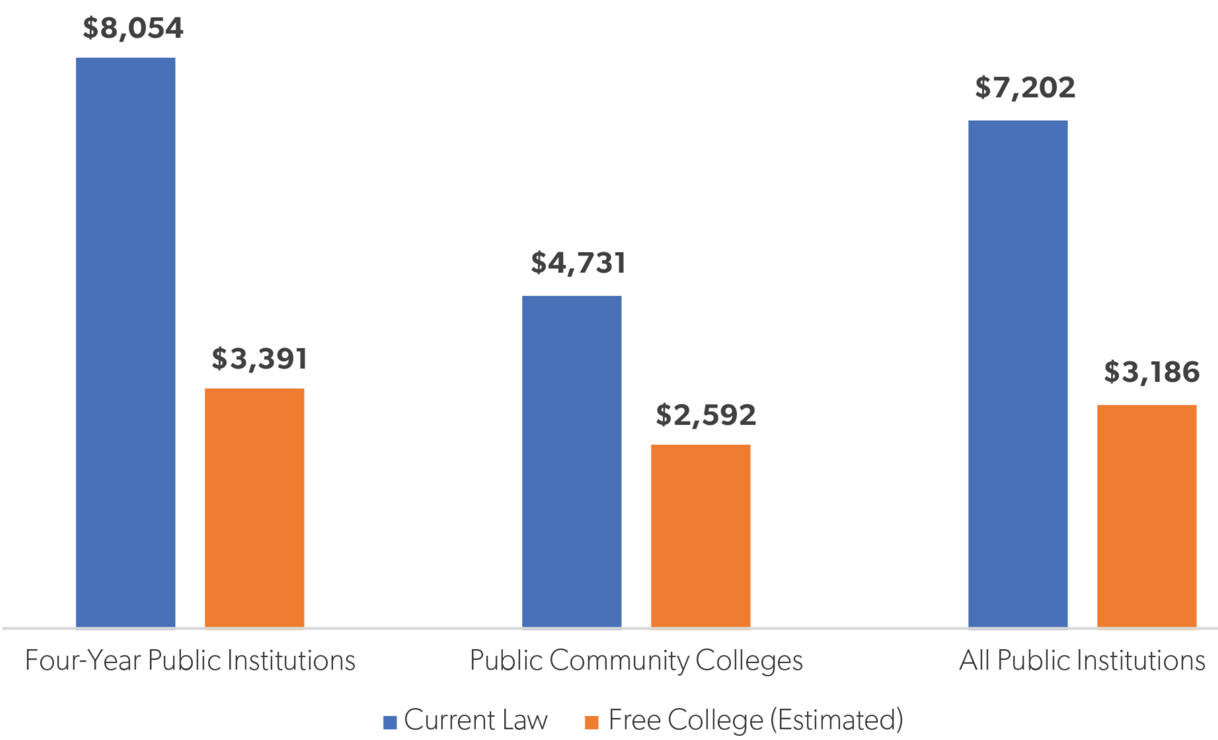
Our analysis does, however, include a reduction in borrowing when students who had been using Pell Grants for tuition would instead be able to use them for living expenses. For example, if a student applies a $3,000 Pell Grant to tuition expenses under current policies and then borrows $4,000 for her living expenses, free college would allow her to apply that Pell Grant to her living costs. Our analysis shows her borrowing would be reduced to $1,000 under free college.[22]

Finally, we assume that students who currently borrow nothing, a group that makes up the majority of in-state students at public institutions (two-year and four-year institutions combined), will not change their behavior. Free college may affect these students' financial position, but we assume it cannot affect student loan borrowing because they currently do not borrow.

Aggregate and Per-Borrower Debt Reduction

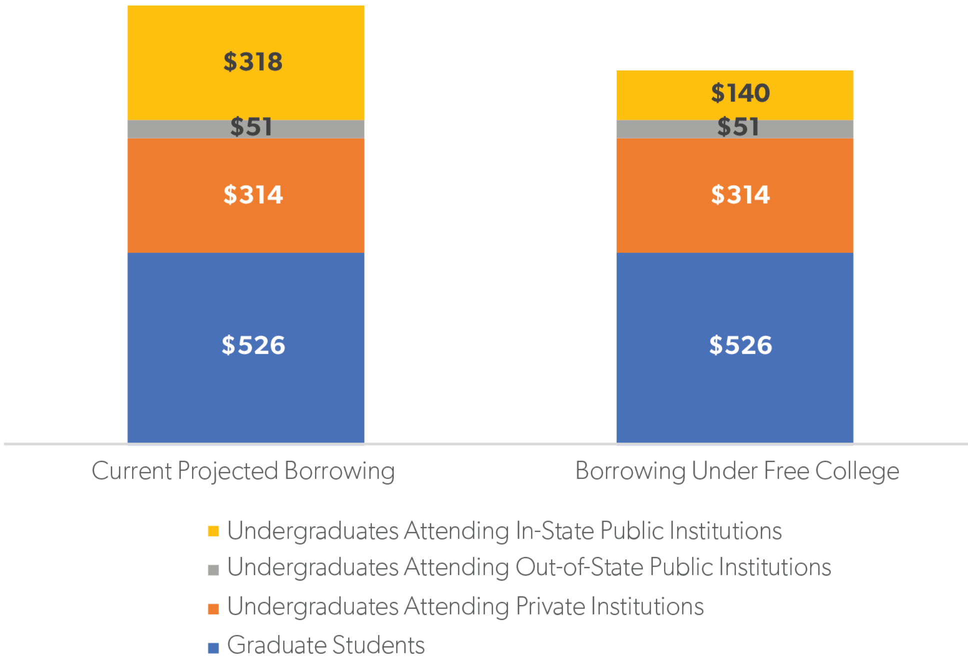
Only a limited group of student loan borrowers, the in-state students at public institutions who currently borrow, will be eligible to benefit from the debt-reduction effects of free college. Individuals in this group account for 46.5 percent of new undergraduate and parent loan balances, and the effect of free college on them will be pronounced. However, even among this group, borrowing will not drop all the way to zero because many students can be expected to continue borrowing for their

Figure 3. Average Annual Borrowing Under Current Law and Free College Among Students Who Currently Borrow (In-State Students at Public Institutions Only)



Note: Figures include only those who borrow under the current system. "Free college" figures include current borrowers whose borrowing is reduced to zero by free college.
Source: Authors' calculations based on National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)," 2016, https://nces.ed.gov/surveys/npsas/.

Figure 4. Federal Student Loans Issued Under Current Policy and Free College, by Category, 2020–29 ($ Billions)



Source: Authors' calculations based on National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)," 2016, https://nces.ed.gov/surveys/npsas/; and Congressional Budget Office, "Student Loan Programs—CBO's May 2019 Baseline," May 2, 2019, https://www.cbo.gov/system/files/2019-05/51310-2019-05-studentloan. pdf.

living expenses, albeit at a reduced amount if they are Pell Grant recipients.

At four-year public colleges and universities, in-state students *who borrow* currently take out just over $8,000 per year in federal loans on average. Under free college at four-year institutions, their average borrowing falls to roughly $3,400. At community colleges, borrowers each currently take out $4,700 on average, and their borrowing under free college falls to about $2,600. Overall, we estimate that borrowing by in-state students who take on debt at all public institutions will fall by 56 percent under free college, as shown in Figure 3.

Even though borrowing drops by a large amount (but not entirely) among in-state students at public institutions, the overall effect on student borrowing is still small because these students account for only a fraction of the $1.2 trillion in new loans that the federal government is projected to issue over the coming decade. Loans to in-state students at public institutions will total approximately $318 billion over the coming decade. The 56 percent reduction in borrowing among this group implies that aggregate student loan borrowing will fall by $177 billion over the next 10 years (Figure 4). This accounts for 26 percent of new federal loans to undergraduates and parents and just 15 percent of new federal loans for all students.[23]

Conclusion

A national, first-dollar free-college program targeting in-state students at public colleges and universities will reduce new student loan borrowing by far less than the conventional wisdom suggests. We estimate that such a plan will reduce new borrowing by $177 billion over the next 10 years, a reduction of 15 percent.

Even under free college, we expect that the federal government will continue to make over $1 trillion in federal loans during the next 10 years. Pairing free college with mass cancellation of existing debt will not solve the perceived student debt "crisis" in the way that many proponents suggest. Moreover, mass debt forgiveness is likely to create a moral hazard, since future borrowers may anticipate another round of loan cancellation once the outstanding debt stock again climbs to high levels. The implicit promise of future loan forgiveness could encourage current students to borrow more, exacerbating the student debt "crisis" that advocates of loan cancellation perceive. Fourteen years after free college is implemented, the federal government will have issued $1.5 trillion in new student loans, a figure roughly equivalent to the outstanding federal loan stock today.

Since free college will not eliminate the need for new federal student loans, policymakers who wish to pursue mass loan cancellation and make college debt-free must find other ways to reduce new annual loan volume. One possible approach, making free college even more generous and applying it to private undergraduate institutions and even graduate schools, is certain to be prohibitively expensive and politically fraught. If policymakers see curtailing new student borrowing as desirable, the best way to achieve that goal is to directly reduce the size and scope of the federal student loan program itself. Most free-college advocates have not proposed any such policies.

Acknowledgments

We would like to thank Clare McCann of New America and other anonymous reviewers for their thoughtful comments on this report. Of course, the views expressed are our own, and we take full responsibility for any errors that remain.

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Jason D. Delisle is a resident fellow at the American Enterprise Institute.

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Notes

1. Federal Student Aid, "Federal Student Loan Portfolio," https://studentaid.gov/data-center/student/portfolio.

2. Elizabeth Warren, "I'm Calling for Something Truly Transformational: Universal Free Public College and Cancellation of Student Loan Debt," Medium, April 22, 2019, https://medium.com/@teamwarren/im-calling-for-something-truly-transformational-universal-free-public-college-and-cancellation-of-a246cd0f910f.

3. Bernie Sanders, "College for All and Cancel All Student Debt," Friends of Bernie Sanders, https://berniesanders.com/issues/free-college-cancel-debt/.

4. Bernie Sanders, "Bernie Sanders: America Is Drowning in Student Debt. Here's My Plan to End It," *Fortune*, July 9, 2019, https://fortune.com/2019/07/09/bernie-sanders-cancel-student-debt/.

5. Joe Biden, "The Biden Plan for Education Beyond High School," Joe Biden for President, https://joebiden.com/beyondhs/.

6. Joe Biden, "Joe Biden Outlines New Steps to Ease Economic Burden on Working People," Medium, April 9, 2020, https://medium.com/@JoeBiden/joe-biden-outlines-new-steps-to-ease-economic-burden-on-working-people-e3e121037322.

7. In reality, the proportion of undergraduates attending public schools will almost certainly change, though the direction is uncertain. Massachusetts' Adams Scholarship, which offered free public-college tuition to high-achieving students, induced many students to switch from private to public institutions. See Sarah R. Cohodes and Joshua S. Goodman, "Merit Aid, College Quality, and College Completion: Massachusetts' Adams Scholarship as an In-Kind Subsidy," *American Economic Journal: Applied Economics* 6, no. 4 (October 2014): 251–85, https://www.aeaweb.org/articles?id=10.1257/app.6.4.251. However, international evidence suggests that free-tuition policies may reduce college enrollment in the long term. When tuition is no longer available as a revenue source, institutions face an incentive to reduce the number of available spots to save on costs. Developed countries with universal free college tend to have lower college-degree attainment rates. See Jason D. Delisle and Preston Cooper, *International Higher Education Rankings: Why No Country's Higher Education System Can Be the Best*, American Enterprise Institute, August 8, 2019, https://www.aei.org/research-products/report/higher-education-rankings-no-countrys-system-best/.

8. College Board, "Total Federal and Nonfederal Loans by Type over Time," 2019, https://research.collegeboard.org/trends/student-aid/figures-tables/total-federal-and-nonfederal-loans-type-over-time.

9. Congressional Budget Office, "Student Loan Programs—CBO's May 2019 Baseline," May 2, 2019, https://www.cbo.gov/system/files/2019-05/51310-2019-05-studentloan.pdf.

10. Some proposals also include free-tuition plans for private minority-serving institutions; we model a plan that applies to only public institutions.

11. Authors' calculations using US Department of Education, Institute of Education Sciences, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)," 2016, https://nces.ed.gov/surveys/npsas/.

12. Authors' calculations using US Department of Education, Institute of Education Sciences, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)."

13. Sen. Bernie Sanders (D-VT) and Vice President Joe Biden have both proposed an additional provision to their first-dollar free-college program whereby states and public universities would be required to pay for a student's full cost of attendance (tuition and living expenses) if he or she receives the maximum federal Pell Grant. We excluded the effect of this provision from our main estimate but modified the analysis to gauge how much more borrowing would decline if this provision were added. Whereas we estimated that undergraduate borrowing would decline by 26 percent for our main analysis, adding in the provision for maximum Pell Grant recipients would bring that figure to about a 33 percent reduction, assuming that borrowing falls dollar-for-dollar with new grant aid. This additional policy does not alter our main findings by a large margin for several reasons. The affected students (maximum Pell Grant recipients at in-state public colleges) represent a small share of all undergraduates. Some of these students do not borrow and therefore cannot benefit from reduced borrowing. Some of these eligible students who do borrow have their borrowing mostly or fully reduced by the free-tuition provision and Pell Grants shifting to living expenses; thus, they cannot further reduce their borrowing from the extra funds they would receive if all their living expenses were covered.

14. California Student Aid Commission, "What Are the Cal Grant Award Amounts," https://www.csac.ca.gov/post/what-are-cal-grant-award-amounts. See also Legislative Analyst's Office, "Cal Grant Cost Estimates," November 21, 2019, https://lao.ca.gov/Publications/Report/4114.

15. Some proponents of first-dollar free-college plans assume a maintenance-of-effort provision in most free-college plans will require states and institutions to commit entirely new funds to fund free college and then convert all existing aid that covers tuition into stipends for living expenses. This is what makes the program "first dollar." Under this view, for example, California would not be able count its existing $2.4 billion need-based Cal Grants program toward reducing students' tuition and instead must commit entirely new funds to that effort. The state must then also maintain the existing $2.4 billion of spending on its Cal Grant program, but fully convert the program from what is now largely a tuition subsidy to stipends for living expenses instead. We believe states would balk at such a requirement. Instead, we interpret the first-dollar design as an effort to ensure states and institutions do not count the federal Pell Grant toward the free-tuition requirement but that it would not preclude them from counting their own

existing financial aid funds toward meeting that requirement. (A so-called "last dollar" program would allow them to count their existing aid *and* the Pell Grant.) Furthermore, we interpret the legislative text of the proposals to mean that states and institutions may count all their existing aid programs toward meeting the free-tuition provision and simultaneously satisfy the maintenance-of-effort provision, like the one proposed by Sen. Sanders and Vice President Biden.

16. College Affordability Act, H.R. 4674, 116th Cong., 1st sess., https://www.congress.gov/116/bills/hr4674/BILLS-116hr4674ih.pdf.

17. Debt-Free College Act of 2019, S. 672, 116th Cong., 1st sess., https://www.congress.gov/116/bills/s672/BILLS-116s672is.pdf.

18. For simplicity, we also count private grants and scholarships toward satisfying the free-college requirement. In reality, first-dollar free-college policies would prohibit this approach, and the aid can only be used toward living expenses. Average private aid for the target population for free college is relatively small (about $400 annually) and does not make a noticeable difference in our key findings. Authors' calculation based on US Department of Education, Institute of Education Sciences, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)," 2016, https://nces.ed.gov/surveys/npsas/.

19. This analysis does not count private, state, or institution student loans as financial aid and does not net them from a student's tuition.

20. We include any borrowing in the federal Parent PLUS loan program in the student's total debt that can be reduced because of free college. In other words, we treat the student's and parent's debt as a combined loan balance in our analysis. However, we exclude any nonfederal loans from the analysis.

21. Sandy Baum and Michael McPherson, "'Free College' Does Not Eliminate Student Debt," Urban Institute, August 22, 2019, https://www.urban.org/urban-wire/free-college-does-not-eliminate-student-debt. See also Rajashri Chakrabarti et al., who estimate a tuition-debt elasticity of 30 percent. Rajashri Chakrabarti et al., "Tuition, Debt, and Human Capital," Federal Reserve Bank of New York, February 2020, https://www.newyorkfed.org/research/staff_reports/sr912.

22. Other scenarios include students who use part of their Pell Grants on tuition and part on living expenses. Consider a student with a $3,000 Pell Grant who uses $1,000 to pay tuition expenses and the remaining $2,000 for living expenses. She also borrows $5,000 for living expenses. The free-college plan can reduce her borrowing by only $1,000 because that is the amount by which her Pell Grant increases. Or consider a student whose financial aid from other sources already allows him to apply all of his Pell Grant to his living expenses, but he still borrows $5,000 for the remainder of his living expenses. This student would thus receive no additional aid or Pell Grant for living expenses under the free-college plans, and his borrowing would remain the same.

23. We also analyze two variations of the free-college plan. One would make only community colleges free, an idea Biden has proposed in the past. Assuming this program does not change the proportion of undergraduate students enrolled in community colleges, we estimate that a community-college-only free-college program would reduce new undergraduate borrowing by 4 percent and new aggregate borrowing for the entire federal student loan program by just 2 percent. The other variation, proposed by Sanders and endorsed by Vice President Biden, would provide additional grants that cover all living expenses for any student receiving the maximum Pell Grant. Incorporating this policy into our analysis reduces new undergraduate borrowing by 33 percent and aggregate federal student loan borrowing by 18 percent.