

Student Loan Debt Forgiveness & Elimination – Top 4 Pros and Cons

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Student loan debt is frequently in the news as politicians debate solutions to the rising costs of college that lead to sometimes crippling amounts of debt. For those with outstanding student loans, such debt can be discharged in two ways: forgiveness and bankruptcy.

Americans owed a collective \$1.71 trillion in student loan debt as of Dec. 2020, according to the Federal Reserve. By comparison, in Dec. 2010, Americans owed about \$845 billion in student loan debt, which means student loan debt has increased by about 102% over the last ten years. [1](#) [2](#)

According to the U.S. Department of Education, 42.9 million Americans held outstanding student loan debt at the end of 2020, or about 17% of the U.S. adult population. 75% of students with school-loan debt went to 2- or 4-year colleges, and the remaining 25% also borrowed for graduate school. About 6% of people with school loan debt owe more than \$100,000—this group accounts for about a third of all outstanding student loan debt and usually encompasses both college as well as graduate school expenses. Approximately 40% leave college with between \$20,000 and \$100,000 in outstanding student loans. About 25% leave college with less than \$20,000 in debt, and 30% leave with no student loan debt. [3](#) [4](#)

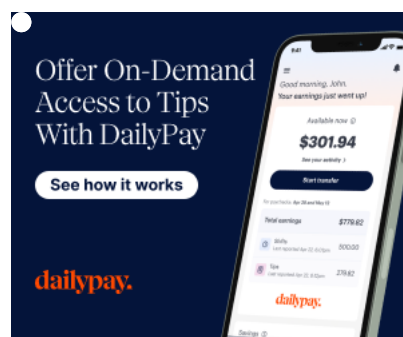


The New York Federal Reserve reported that about 11% of student loan debt payments were either late or in default (270 or more days late) at the beginning of 2020. By all indications, this debt, and the late payments and defaults as well, will continue to rise as college costs outpace average incomes. [5](#) [6](#) [7](#)

By Nov. 2021, the Education Data Initiative estimated 43.2 million student borrowers owed an average of \$39,351 each. [8](#)

Some have proposed that the U.S. federal government *forgive* some or all existing student loan debt in order to relieve the financial pressure on individuals and the country. Student debt forgiveness proposals range from a discharge of \$10,000 per borrower (which would forgive the entire debt bills held by about 15 million borrowers) to \$50,000 per borrower (which would forgive the entire debt bills held by about 36 million borrowers) to plans that would forgive *all* outstanding student loan debt. Each plan would include forgiveness for those with late or in-default accounts, as well as partial debt forgiveness for many more borrowers. [9](#)

The Wharton School of the University of Pennsylvania estimated that, depending on details, over ten years college debt cancellation will cost between \$300 billion for a one-time cancellation of \$10,000 for borrowers earning under \$125,000 per year and \$980 billion for a one-time cancellation of \$50,000 per borrower. [10](#)



Others have proposed making student loan debt easier to discharge through *bankruptcy*. Credit card debt, medical bills, auto loans, and even gambling debt can be canceled by declaring bankruptcy, but due to a 1976 federal law, discharging student loan debt is much more difficult. Private student loans have also been protected from discharge in the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. According to the U.S. Department of Education, people who declare Chapter 7 or Chapter 13 bankruptcy *can* have student

In Mar. 2020, at the beginning of the COVID-19 pandemic, President Trump paused federal student loan payments, interest accrual, and debt collection. Congress voted to keep the pause through Sep. 30, 2021, and Trump extended it again through January 2021. President Biden maintained the pause with several renewals after taking office. His latest freeze, announced on Apr. 6, 2022, will expire on Aug. 31, 2022. While some disagree with the continuation of payment, interest and collection pauses, others question why federal student loan debt can't be canceled if the federal government can do without payments for almost three years. [\[41\]](#)

On Aug. 24, 2022, President Biden announced a short loan freeze through Dec. 31, 2022 as well as a cancellation of "up to \$20,000 of federal student loan debt for Pell Grant recipients, and up to \$10,000 for other qualifying borrowers." The White House stated about 43 million borrowers would qualify the cancellation, with 20 million borrowers qualifying to have their debt completely canceled. The debt cancellation program has been mired in lawsuits since its announcement, resulting in a court stay of the program. On Dec. 1, 2022, the U.S. Supreme Court indicated it would hear the case in Feb. 2023, leaving the stay in place. On June 30, 2023, the U.S. Supreme Court struck down the student loan program in a 6-3 vote under the premise that federal law does not permit the U.S. Department of Education to cancel such student loans. [\[42\]](#) [\[48\]](#) [\[49\]](#) [\[50\]](#)

The Wharton School of the University of Pennsylvania estimated that the debt cancellation portion of Biden's Aug. 2022 plan will cost up to \$519 billion, with other components, such as income-based repayment plans adding additional costs. The Congressional Budget Office (CBO) estimated the plan will cost \$400 billion over 30 years. [\[44\]](#) [\[47\]](#)

Should Student Loan Debt Be Eliminated via Forgiveness or Bankruptcy?

Pro 1

Student loan debt is slowing the national economy. Forgiveness would boost the economy, benefiting everyone.

Student loan debt slows new business growth and quashes consumer spending. A Federal Reserve Bank of Philadelphia study found "a significant and economically meaningful negative correlation" between student loan debt and the falling rate of new small businesses. Such debt can make getting a business (or any other) loan difficult, so people with student loan debt are less likely to be able to open businesses. And the effects snowball from there: fewer small businesses means fewer jobs and less economic output and consumer spending, which in turn means lower national income and slow economic growth for the country. [\[14\]](#) [\[15\]](#) [\[15\]](#)

As William Foster, Vice President Senior Credit Officer, explained, "U.S. real GDP could be boosted on average by \$86 billion to \$108 billion per year, [which is] quite a bit... That's if you had total loan forgiveness." Though Foster stated total forgiveness isn't necessary to see a positive impact. [\[16\]](#)

President Joe Biden, when announcing his loan cancellation program, stated, "I ran for office to grow the economy from the bottom up and the middle out because when we do that, everyone does better, everybody does well. The wealthy do very well, the poor have a way up, and the middle class can have breathing room. And that's going to help America win the economic competition of the 21st century.... That's what today's announcement is about. It's about opportunity. It's about giving people a fair shot. It's about the one word America can be defined by: possibilities. It's all about providing possibilities." [\[46\]](#)

When everyone can't participate in the economy, the whole economy suffers.

Con 1

Student loan forgiveness is an abuse of the loan system. People must be held responsible for their personal economic choices.

A 2020 survey found 46% of Americans believe student loan forgiveness is unfair to those who have paid off their loans, and 39% believe it unfair to those without loans. [\[26\]](#)

Matthew Noyes, columnist at *Lone Conservative*, who noted the sacrifices he had to make to pay off his \$27,000 in student loans, explained, "Taking out a loan is a choice, and personal responsibility shouldn't be supplanted by taxpayer bailouts. 'Canceling' student loans means penalizing people like me for honoring my word and repaying the debt I chose to accept." [\[27\]](#)

Noyes states that the forgiveness debate is steeped in the idea that "people are entitled to a college education and other peoples' hard work. It codifies in policy the idea that adults are not responsible for their own actions (i.e. taking on debt). In a free society, I am not entitled to a college education and neither is anyone else." [\[27\]](#)

Further, less than 20% of American adults have student loan debt. Is it fair to offer relief to people who over-stretched their financial capabilities to go to college and not those without student loans debt but who may still struggle financially? [\[28\]](#)

Pro 2

Student loan debt has disproportionately hurt black students. Forgiveness could help rectify racial inequity.

Black college students borrow more than their white counterparts due to family income, generational wealth, parental education, and the types of colleges attended. [\[17\]](#)

According to Judith Scott-Clayton, Senior Research Scholar with the Community College Research Center at Columbia University, interest rates and graduate school loans leave black graduates with twice as much debt as white graduates, almost \$53,000 four years after graduation. Scott-Clayton also noted black graduates default on student loans at a rate of 21% while white graduates default at 4%. The disparity, she explains, is the result of most black students who default having attended predatory for-profit colleges that have overall higher default rates for all students. [\[17\]](#)

Ashley Harrington, Federal Advocacy Director and Senior Counsel at the Center for Responsible Lending, explained the catch-22 in which students of color often find themselves: “The student debt crisis is absolutely a racial justice issue. For brown and Black folks, they often need to get more education to get the same salaries and positions that white folks can get with less education and that means how do they do that? They have to take on more debt... [The debt is then] preventing wealth building, This is something that is impacting not just individuals, it’s impacting their families, their communities.” [\[18\]](#)

An Aug. 2020 Roosevelt Institute study concluded, “[W]hile individual white borrowers at the median stand to gain the most in absolute dollars from student debt cancellation, the relative gains for Black borrowers are much larger and the greater proportion of Black borrowers means that Black wealth overall would experience more growth as a result. Given the many advantages wealth confers in the contemporary U.S. context, the substantial increase in Black net worth is a very significant positive contribution of student debt cancellation, one with potentially transformative positive impacts for Black families overall.” The help provided by student loan debt forgiveness exceeds simple dollar amounts. [\[19\]](#)

Pro 3

Student loan debt has infantilized a generation or more of Americans, preventing them from achieving milestones such as getting married, buying a house, or saving for retirement. Discharging such debt would help foster a healthier, most productive, more socially constructive citizenry.

For women with bachelor’s degrees, each increase in \$1,000 of student loan debt decreased the odds of marriage by 2% per month in the four years after graduation. [\[14\]](#)

Student loan debt prevented about 400,000 people from buying homes between 2005 and 2014, which accounted for 25% of the decrease in home-ownership. Every \$1,000 increase in student loan debt lowered the home ownership rate by 1.5% for those who attended four-year colleges. Further, student loan debtors save half as much for retirement by age 30 as those without debt. [\[14\]](#) [\[20\]](#) [\[14\]](#)

An Aug. 2020 Roosevelt Institute study explained, “The positive effects of an evidence-based student debt cancellation policy for individuals and households extend far beyond the immediate need of removing burdensome debt. The ramifications for financial and personal well-being, credit, job stability and satisfaction, homeownership earlier in the life course, capacity to build wealth for emergencies, human capital investments, family stability, and accumulating wealth can multiply throughout a person’s life.” Choosing to go to college to compete in the job market shouldn’t prevent people from living the American dream. [\[19\]](#)

Con 2

Student loan debt forgiveness would disproportionately help rich or more financially secure college graduates.

Constantine Yannelis, Professor of Finance at the University of Chicago, found, “Any policy that is a universal loan forgiveness policy or a capped forgiveness policy — say forgiving debt up to \$50,000 — is going to give most of the dollars in forgiveness to upper-income individuals... Basically, most of the benefits will end up accruing to upper-income individuals.” [\[29\]](#)

As journalist Emma Ayers added, “Students from families earning more than \$114,000 a year borrow at the same rate as the lowest-income students — and they take out loans nearly twice as large. Students with advanced degrees — lawyers, doctors and others — account for 40% of all student debt [according to estimates by American Progress]. And the top 25% of income-earning households hold almost half of student loan debt... Student forgiveness would largely be a hand up to the better off.” [\[30\]](#)

Moreover, as Adam Looney, Nonresident Senior Fellow at the Brookings Institute, pointed out, student loan forgiveness only benefits people who went to college: “More than 90 percent of children from the highest-income families have attended college by age 22 versus 35 percent from the lowest-income families. Workers with bachelor’s degrees earn about \$500,000 more over the course of their careers than individuals with high school diplomas That’s why about 34 percent of all student debt is owed by borrowers in the top quartile of the income distribution and only 12 percent owed by the bottom 25 percent. Indeed, the majority of all student debt is owed by borrowers with graduate degrees.” [\[31\]](#)

People who borrowed for masters degrees and PhDs hold 56% of student loan debt, according to Brookings Institute estimates. Holding a masters or doctorate degree is also correlated to higher incomes. People with master’s degrees earn about \$2.7 million over a lifetime, more than twice what those with high school diplomas earn (\$1.3 million). PhD holders earn \$3.3 million more over a lifetime. [\[32\]](#) [\[33\]](#)

Inez Stepman, Senior Policy Analyst at Independent Women’s Forum for Prager University, argued, “the people who staff government bureaucracies, corporate HR departments, and school administrations—the people chiefly responsible for the woke mini-revolutions upending institution after institution [will benefit]. For this managerial class, student loan forgiveness would be great,” but the \$300 billion to \$1.9 trillion tax burden would be shouldered largely by the working class that didn’t attend college. [\[45\]](#)

Con 3

Discharging student loan debt would only be a temporary bandage for the much larger problem of inflated college costs.

The U.S. already has several student loan forgiveness programs and yet we’re still in a student loan debt crisis.

People who work in public service jobs can have their loans forgiven after 120 loan payments. Some teachers can have up to \$17,500 forgiven after five years of teaching. Nurses can have up to 60% of nursing education loans forgiven, followed by another 25%. [\[8\]](#)

Income-driven repayment (IDR) plans are available that allow loans to be forgiven after 20-25 years of income-based payments. Military members can have up to 100% of their loans forgiven. Medical doctors and lawyers have multiple options for forgiveness. AmeriCorps service members can have 100% of their loans forgiven. [\[8\]](#)

Betsy Mayotte, President and Founder of the Institute of Student Loan Advisors, noted, “To me the free or debt-free college proposals hold more weight [than loan forgiveness], as they address the illness itself rather than just the symptoms. Don’t get me wrong — if we could find a way to do both, we should — but reducing the debt consumers have to take out in the first place would be the thing that would have the longer-lasting benefit to the economy.” [\[15\]](#)

The U.S. needs a solution to outsized college costs that cause students to take out loans in the first place, rather than a temporary solution that does nothing to prevent the next generation from acquiring similar debt.

Pro 4

Denying student loan debtors the benefits of bankruptcy—benefits that all other debtors have access to—is unfair.

The U.S. Supreme Court said in 1915 that the benefits of bankruptcy allow debtors to “start afresh free from the obligations and responsibilities.” Famous business leaders from Henry Ford to President Donald Trump have used bankruptcy for a fresh start. [\[21\]](#)

[\[22\]](#)

Car loans, credit card charges, medical bills, and even gambling debts can be discharged in bankruptcy; not allowing educational debt to be discharged is unfair. Mark Huelsman, Senior Policy Analyst at Demos, wrote, “[I]n a world where most students must borrow for a credential, borrowers should receive the same failsafe protections on these loans as they do on any other consumer loan.” [\[13\]](#) [\[23\]](#)

Students who didn’t understand the consequences of taking out big loans at age 18 or who were misled about future job prospects can be saddled with six-figure debt for decades. [\[24\]](#)

[\[25\]](#)

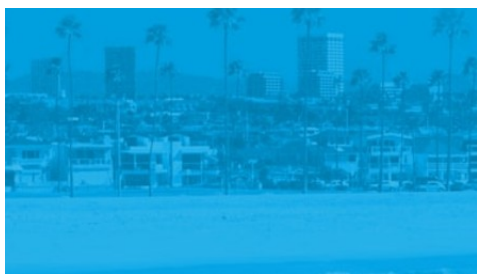
Con 4

Student loan discharge via bankruptcy would allow borrowers to abuse the loan system and encourage colleges to increase tuition.

Making it easier to discharge loans would give people an incentive to take out loans with no intention of paying them back, or to borrow more than they need. Which, in turn, could cause them to seek bankruptcy without fully realizing the negative long-term consequences on their credit scores and other aspects of their lives. [\[34\]](#) [\[35\]](#) [\[36\]](#)

New college graduates rarely have significant assets to surrender in bankruptcy, so they have less incentive to avoid bankruptcy. [\[37\]](#)

Student debt elimination through bankruptcy would encourage increased borrowing, and more borrowing leads to higher tuition. Abigail Hall Blanco, Assistant Professor of Economics at the University of Tampa, said, “loan forgiveness would be one giant subsidy, creating perverse incentives for both schools and students. If schools knew the government would forgive the cost of their students’ education, they’d face no incentive to cut costs to keep tuition down.” [\[38\]](#) [\[39\]](#)



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Discussion Questions

1. Should the U.S. federal government forgive student loan debt? How much? For whom? Explain your answers.
2. Should student loan debt be easier to discharge in bankruptcy? Explain your answer.
3. Explore the pros and cons of other programs to resolve the student loan debt issue, such as targeted relief programs, employment assistance, or aid to colleges in order to lower tuition. Explain why your chosen programs are better or worse than debt forgiveness.

Take Action

1. Analyze Senator Elizabeth Warren’s [student loan forgiveness policy proposal](#).
2. Consider current student loan debt forgiveness programs at the [U.S. Department of Education](#).
3. Explore Adam Looney’s position that [targeted student loan relief](#) is a better policy than forgiveness.
4. Consider how you felt about the issue before reading this article. After reading the pros and cons on this topic, has your thinking changed? If so, how? List two to three ways. If your thoughts have not changed, list two to three ways your better understanding of the “other side of the issue” now helps you better argue your position.
5. Push for the position and policies you support by writing U.S. national [senators](#) and [representatives](#).

Sources

1. Board of Governors of the Federal Reserve System, “Consumer Credit - G.19,” [federalreserve.gov](#), Apr. 7, 2021
2. Abigail Johnson Hess, “U.S. student debt has increased by more than 100% over the past 10 years,” [cnbc.com](#), Dec. 22, 2020
3. US Department of Education Federal Student Aid, “Federal Student Loan Portfolio,” [studentaid.gov](#), 2020