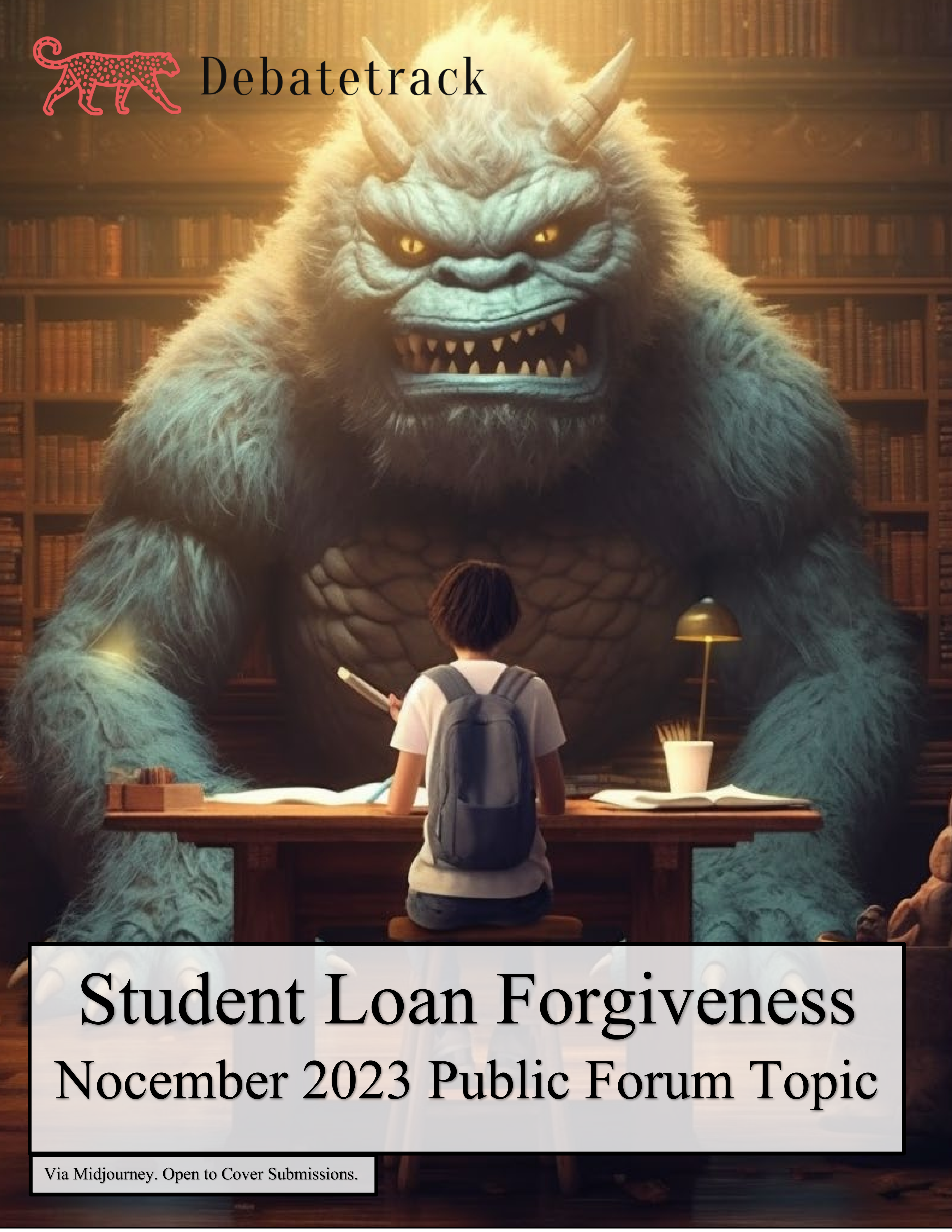
Debatetrack



Student Loan Forgiveness

Nocember 2023 Public Forum Topic

Via Midjourney. Open to Cover Submissions.

November 23: The United States federal government should forgive all federal student loan debt.

Notes on Evidence

- **Purpose:** This brief is intended to be:

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- **Quality**: Evidence quality will vary. While we prefer to use high-quality sources from thinktanks, journals and seasoned experts, this won't cover all major topic angles. To provide more helpful evidence, we also mix in legitimate but less-vetted sources, like news articles. Please be cognizant of this variation in quality.

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- For questions, comments or suggestions on evidence, please reach out to **Joel**: joel@debatetrack.com

Research Assistant

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V2 changes

- Added: **Cohen 22** (Neg: Unfair)
- Added Table of Contents
- Tag & formatting changes, including better organization & recategorization

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Table of Contents

Background

2023 Debt Statistics

Americans hold $1.75 trillion in student loan debt, with 92% ($1.61 trillion) being Federal loans

Forbes 23— [Hahn, A. (2023, July 16). 2023 Student Loan Debt Statistics: Average Student Loan Debt. Forbes. https://www.forbes.com/advisor/student-loans/average-student-loan-debt-statistics/] Joel.

[Alicia Hahn and Jordan Tarver are editors at Forbes Magazine]

The cost of college has steadily increased over the last 30 years. In that timeframe, tuition costs at public four-year colleges grew from $4,160 to $10,740 and from $19,360 to $38,070 at private nonprofit institutions (adjusted for inflation). As costs have risen, so has the need for student loans and other forms of financial aid.

Today, more than half of students leave school with debt. Here's a snapshot of how much the average student borrows, what types of loans are most common and how those loans are repaid.

- **$1.75 trillion in total student loan debt** (including federal and private loans)
- **$28,950 owed per borrower on average**
- **About 92% of all student debt are federal student loans;** the remaining amount is private student loans
- **55% of students from public four-year institutions had student loans**
- **57% of students from private nonprofit four-year institutions took on education debt**

2023 Forgiveness

The Biden Administration is currently canceling $39 billion in student debt for 800k+ borrowers

Mentz 8/23– [Mentz Z. Biden administration begins forgiving $39 billion in student loans for 804,000 borrowers. cleveland. Published August 15, 2023. Accessed October 1, 2023. https://www.cleveland.com/news/2023/08/biden-administration-begins-forgiving-39-billion-in-student-loans-for-804000-borrowers.html] Joel.

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"Your student loans have been forgiven."

Hundreds of thousands of federal student loan borrowers have begun to receive that emailed message as the Biden administration moves forward on its promise to cancel $39 billion in federal student loan debt for 804,000 borrowers.

The emails were sent beginning Monday, with the Department of Education estimating it had canceled student loan debt for more than 200,000 borrowers by the end of the day, ABC News reports. The remainder of the 804,000 borrowers will be notified in the coming weeks.

Of those 804,000 borrowers, about 37,000 are Ohioans who will receive a combined $1.7 billion in loan forgiveness.

The student loan forgiveness is the result of the Biden administration's "fix" to income-driven repayment (IDR) plan payments that were previously unaccounted for, ensuring all borrowers have an accurate count of their monthly payments required to qualify for forgiveness. **Borrowers eligible for forgiveness include those who have accumulated either 20 or 25 years' worth of qualifying monthly payments, according to the Department of Education.**

Borrowers who will receive emails notifications of their canceled student loans include those with Direct Loans or Federal Family Loans held by the Department, including Parent Plus Loans of either type. **The Department's action to cancel $39 billion in student loans for 804,000 borrowers is in response to the Supreme Court's decision to reject the Biden administration's plan to erase $400 billion in student loan debt for millions of Americans.**

Ohio college graduates, specifically, have the 19th highest student loan debt in the country, averaging $30,047 in 2019, a 3.8% increase from 2018.

For borrowers who won't have their student loans forgiven under this plan, they can apply for the Saving on A Valuable Education (SAVE) program introduced by the Biden administration in July. The SAVE program reduces many borrowers' monthly payments by half and some to even make $0 monthly payments, according to a news release from the Department.

Graduate School

Graduate-student debt makes up ½ of all federal student-loan debt, it large part because graduate school is far more expensive than undergraduate

Malkus 23— [The Looming Student-Loan Entitlement. (2023, June 21). Retrieved October 5, 2023, from American Enterprise Institute - AEI website: https://www.aei.org/articles/the-looming-student-loan-entitlement/] Joel.

[Nat Malkus is a senior fellow and the deputy director of education policy at the American Enterprise Institute (AEI), where he specializes in empirical research on K–12 schooling. Dr. Malkus has a PhD in education policy and leadership from the University of Maryland, College Park, and a BA in historical studies from Covenant College.]

Graduate-student debt has grown far more, and at a more consistent pace, than undergraduate debt; it now constitutes about half of all federal student-loan debt. This is in part because graduate-degree recipients' loans are far larger than those of undergraduates. According to a Congressional Research Service report, after the 2017-2018 academic year, **borrowers earning a bachelor's degree owed an average of $27,500 upon graduation — much less than the average debt loads of $71,800 for those earning a master's degree, $112,400 for those earning a Ph.D., and $185,100 for those earning a J.D. or an M.D.** Despite these figures, graduate borrowing's share of total student debt remains far larger than its share of the student-debt narrative in our politics.

Thanks in large part to graduate borrowing, aggregate student-loan debt has skyrocketed, from **$187 billion in 1995 to over $1.6 trillion today — a 4.4-fold increase in real terms**. During that period, growth was fueled by rising costs; rising enrollments; increased borrowing, particularly among graduate students; increased generosity of repayment terms; and increased borrowing limits. Today, student-loan debt represents a larger share of household debt than either auto-loan or credit-card debt; its share is second only to that of mortgage debt.

Aff

College Good

Investment: College remains a good investment for future financial returns, with college-educated workers out-earning those without college degrees by $1 million throughout their lifetime

Orrell 23– [Yes, College Is Still a Good Investment. (2023, June 28). Retrieved October 5, 2023, from American Enterprise Institute - AEI website: https://www.aei.org/op-eds/yes-college-is-still-a-good-investment/] Joel.

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Another graduation season is in the books. Some students have finished high school and are thinking about their next steps while others have just finished college and are wondering if it was worth it. They should rest easy: **A new study by Harvard economist David Deming shows that college education remains a worthwhile investment for long-term economic returns.**

Using data from the National Longitudinal Survey of Youth from the Bureau of Labor Statistics, Deming found that college graduates generally earn significantly higher wages throughout their careers compared to those without a degree. The "college wage premium" grows substantially with age and work experience, even when adjusted for cognitive skill levels. Those who have diverse work experiences *and* higher levels of education see compounding skill and wage growth across their working lifetimes.

The novel aspect of Demin's study is the way it connects wage growth to both education and the number and diversity of job experiences, which Deming calls "mobility." Both before and after they graduate from college, higher-earning workers tend to try out different jobs, especially in the first two years post-grad, before settling into long-term occupations. This **"job-hopping" helps younger workers gain experiences and skills that, over time, lead to higher-paying opportunities, especially once they decide on a career track. Those with less education are less mobile in terms of varieties of jobs and therefore have fewer chances to expand their skill sets.**

The research also sheds light on "occupational sorting"—the process by which workers with different levels of education sort themselves into career fields. Not surprisingly**, college graduates lean toward professional occupations that require higher levels of ongoing adaptation within the work environment as job demands increase**. In other words, **those starting with higher levels of experience and education tend to gain new skills faster, and the market rewards that learning through higher wages.** One step-up begets the next, and nothing succeeds like success. **Conversely, workers without college education often end up in roles with fewer on-the-job learning opportunities and lower growth prospects**. This occupational sorting, according to the study, accounts for at least 50 percent of the college/non-college wage growth differential over a career.

There are a couple lessons to draw here. First**, at least in the "rearview mirror" of this study, four-year bachelor's degrees still return much more than high school diplomas on average. If you're wondering whether you can benefit economically from college, the answer is very likely yes,** especially **looking back from retirement, at which point a college degree will have out-earned a high school diploma by more than a million dollars.**

Defaults

Defaults: Minorities and people with low income backgrounds are disproportionately affected by student loan default.

Streeter 22– [Michele Streeter (2022). OPINION: If we don't act quickly, the student loan default system could plunge more families into poverty. Retrieved October 5, 2023, from https://hechingerreport.org/opinion-if-we-dont-act-quickly-the-student-loan-default-system-could-plunge-more-families-into-poverty/] Sophia G.

[Michele Streeter is a senior policy analyst at the Institute for College Access and Success]

For too long, the dream of pursuing a college degree has turned into a nightmare of loan default for millions of students. Like the well-documented effects of traffic fines and court fees, **the penalties resulting from federal student loan default plunge too many Americans deeper into financial instability, perpetuating rather than helping to resolve the vicious cycle of poverty.** It is especially abhorrent that a government program intended to create equitable opportunities for all students instead perpetuates racial and economic gaps in financial stability and mobility.

In response to the Covid-19 crisis, the federal government paused student loan payments, interest and collections in March 2020 and recently extended that pause until May 2022. The Education Department also recently announced that default-related seizures of tax refunds and other federal benefit payments will be halted an additional six months after repayment resumes. While this reprieve is critical, if the Education Department fails to provide more permanent protections, millions of borrowers are at risk of economic upheaval when it ends in November.

Even before the pandemic, far too many Americans were struggling to manage their student loan debt: **At the start of 2020, one-quarter of Direct Loan borrowers were either behind on payments or in default, and over a million borrowers entered default in 2019 alone. Default disproportionately affects Black and first-generation students, and most of those who experience default entered college from a low-income background.**

Federal student loan default, defined as a borrower missing payments for at least 270 days, comes with severe consequences. The entire loan balance becomes immediately due, and borrowers face ongoing damage to their credit scores, along with a range of significant fees. **The federal government also wields vast extra-judicial powers to collect student debt, including garnishing wages and seizing Social Security payments and tax refunds based on the child tax credit and the earned income tax credit.**

By seizing these benefits, the federal government takes away critical financial lifelines that reduce poverty for millions of families. Ironically, borrowers in default are not even allowed to enroll in income-driven repayment (IDR) plans, which seek to make monthly payments more affordable (as low as $0) and get borrowers back on track.

In addition, **the federal government, states and colleges too often impose a series of harsh penalties that are unrelated to collecting payments, including restricting access to further federal aid, withholding a student's academic transcripts and suspending professional and even driver's licenses.** These measures are not only punitive, they're also self-defeating: By undermining someone's ability to cover basic expenses, return to school, keep their job or even drive a car, the student loan default system makes it harder for someone who is already struggling to secure their financial footing.

The vast majority of those who default on student loans have faced persistent economic and social vulnerability. **As of 2017, 87 percent of those who defaulted within 12 years of enrolling in college had received a Pell Grant at some point, meaning that they had a household income of less than $40,000.** Those who were the first in their family to attend college are also more likely to default: **Nearly a quarter (23 percent) of first-generation students defaulted on their loans within 12 years, compared to 14 percent of non-first-generation students.**

The effects of systemic racism and the resulting racial wealth gap, along with employment and wage discrimination, mean that Black students are more likely to borrow for college and more likely to struggle with repayment.

Students who started school but never completed a degree or credential are at particular risk of default, as they've taken on debt but received none of the associated economic benefits. These borrowers — who represent about half of all those who default — typically owe relatively small balances, with nearly two-thirds owing less than $10,000; more than one-third owe less than $5,000.

Black students in particular face persistent repayment distress. The effects of systemic racism and the resulting racial wealth gap, along with employment and wage discrimination, mean that Black students are more likely to borrow for college and more likely to struggle with repayment.

Demographics: These delinquencies disproportionately affect Black borrowers, and are increasingly affecting older borrowers

Wettstein & Liu 23– [Gal Wettstein and Siyan Liu. (2022, August 25). How Do Unpaid Student Loans Impact Social Security Benefits? Retrieved October 5, 2023, from https://crr.bc.edu/how-do-unpaid-student-loans-impact-social-security-benefits/] Sophia G.

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Three trends in student debt have become apparent in recent years. First, a growing number of older Americans have outstanding student loans, with the rates of increase outpacing their younger counterparts.2 Second, delinquency rates are steadily increasing among student loan borrowers, surpassing all other types of consumer debt between 2012 and early 2020.3 Lastly, racial disparities in student loans are large and growing, with debt holding and delinquency concentrated among Black borrowers.4

Prolonged delinquency can lead to partial withholding of Social Security benefits as payments towards federal student loans.5 The withholding amount is the lesser of 15 percent of the total monthly benefit or the amount by which the benefit exceeds $750 per month. Despite the rising trend and widening racial gaps in student loan delinquency, limited evidence exists on the potential financial impact of these withheld benefits on borrowers.6

The growth in student loan debt and delinquency for all age groups has sparked policy interest in loan relief. Most recently, the Biden administration announced a plan – currently on hold due to legal challenges – that features direct debt forgiveness along with other reforms.7 Under this plan, up to $10,000 of student loan debt would be forgiven for loan holders with annual income below $125,000.8 Pell Grant recipients, who received a government scholarship while in school due to significant financial need, can obtain an additional $10,000 of student debt forgiveness. Since Black and Hispanic students are more likely to receive Pell Grants, the direct debt forgiveness is expected to reduce the racial disparities in student loans. Yet much still remains unknown about the potential policy effects of this proposal.

Impact – Social Security: Delinquent borrowers face a $2500 average reduction in annual Social Security benefits

Wettstein & Liu 23– [Gal Wettstein and Siyan Liu. (2022, August 25). How Do Unpaid Student Loans Impact Social Security Benefits? Retrieved October 5, 2023, from https://crr.bc.edu/how-do-unpaid-student-loans-impact-social-security-benefits/] Sophia G.

[Gal Wettstein is a senior research economist at the Center for Retirement Research at Boston College. He conducts research on labor market outcomes for older workers, health insurance markets and coverage, retirement decisions, and savings. Wettstein is a member of the National Academy of Social Insurance. Before joining the Center, he earned a doctorate in economics from Harvard University in the fields of health economics, labor economics, and public finance.

Siyan Liu is a research economist at the Center for Retirement Research at Boston College. Before joining the center, Liu earned a Ph.D. from North Carolina State University in the field of labor economics. She holds a M.A. in economics from Vanderbilt University and a B.B.A. from the University of Hong Kong.]

Only a small proportion of current beneficiaries – less than 5 percent in every race – have student loan debt, but this share is expected to be substantially higher for future beneficiaries (see Figure 1).

And both **current and future Black beneficiaries are more likely to hold student debt than White ones**16 In addition, debt-holding has been rising rapidly over time for most groups.17

Furthermore, the size of the debt among those with loans is substantial. On average, student loans put borrowers more than $30,000 in debt, even for today's older borrowers (see Table 1).

The story is similar for student loan delinquency. On the one hand, only a small share of current Social Security beneficiaries are not making loan payments and thus face the possibility of benefit withholding (see Figure 2). On the other hand, delinquency rates – which are expressed here as a share of the total beneficiary population – are estimated to be higher among future beneficiaries and concentrated among Black borrowers in both samples.

Financial Consequences of Loan Delinquency.

On average, delinquent borrowers are estimated to face about a $2,500 reduction in annual Social Security benefits, representing 4-6 percent of household income (see Table 2). While these amounts are relatively small, **for households that are just making ends meet, even a small decline in income can have significant consequences. Putting these numbers into context, the amount of withheld benefits could roughly pay off the average per capita credit card balance** 18 Since delinquency rates are higher among younger borrowers, student loans may pose a bigger risk for this group's future retirement security.

Impact of Biden Debt Relief Plan

For future beneficiaries, the Biden administration's debt relief plan would forgive an average of about $12,000 per borrower, with White borrowers a bit lower and Black borrowers somewhat higher. **In terms of wiping out student debt completely, the plan would have the greatest impact on Black borrowers, reducing the share with debt by 10 percentage points – from 22 percent to 12 percent (see Figure 3 on the next page). In relative terms, both Black and Hispanic households would see their share of debt holders cut roughly in half.**

The policy effect on delinquency would also be substantial because many previously delinquent borrowers would receive complete debt forgiveness.[19] **Black borrowers are expected to see the largest decrease – 1.8 percentage points – in delinquency rates (see Figure 4). And Hispanic borrowers would experience the largest relative decrease, with the share of delinquent debt holders halved.**

Very few current Social Security beneficiaries hold federal student loans, but future beneficiaries are much more likely to have such debt as they approach retirement, and their delinquency rates are higher. **Borrowers in old age who are delinquent potentially face a 4-6 percent decline in household income due to benefit withholding.** Overall, the growth in student loan delinquency suggests that, as today's workers continue to move into retirement, student debt and the associated toll on retirement security may become more common among beneficiaries. **Moreover, the concentration of delinquency among borrowers in racial minority groups suggests that student loan debt may become a source of racial inequality among beneficiaries.**

The escalating prevalence of student debt has spurred calls for reform, such as the recent Biden administration proposal. Among future beneficiaries, our preliminary analysis suggests that Black and Hispanic borrowers would likely benefit most from the debt relief plan, receiving the highest amount of debt forgiveness and experiencing the largest drop in loan holding.

Disadvantaged Groups

Disabled: Student loan forgiveness can help disabled borrowers, who are often unemployed or underemployed compared to able-bodied borrowers

Gawuga 23– [New student loan forgiveness measures must include the disabled - The Boston Globe. (2023). Retrieved October 3, 2023, from BostonGlobe.com website: https://www.bostonglobe.com/2023/08/21/opinion/new-student-loan-forgiveness-measures-must-include-disabled/] Joel.

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This July, the Biden administration announced it would forgive $39 billion in student loan debt for 800,000 borrowers who dealt with payment errors.

That such an egregious error occurred illustrates the abusiveness of a system that forces millions of borrowers to decide between repayment or rent. **Student debt relief is especially critical for disabled people, one of the most marginalized groups in our society. Although they have comparable student debt levels, they have lower rates of continuous full-time employment, which reduces their ability to repay their loans. Disabled people comprise over 25% of the U.S. population, yet they are rarely an explicit part of loan forgiveness discussions.** As a disabled health equity researcher who has struggled to manage my own student loans, I know the current student loan system is discriminatory and further perpetuates ableism. Disabled borrowers can benefit greatly from student debt relief.

Disabled borrowers face overwhelming challenges when attempting to repay student loans. They spend more of their income on medical care, mobility equipment and caregiving. A 2020 report estimated that a household with a disabled adult requires 28% more income to maintain a comparable standard of living as a fully-abled household. Systemic barriers and beliefs, or ableism, impedes the participation of disabled people in the workforce. Implicit bias and overt discrimination lead to fewer interviews and more resistance to meeting accessibility and accommodation standards. Unsurprisingly, they are less likely to be employed than able-bodied people. In fact, the unemployment rate is two and a half times as high for disabled people with a bachelor's degree or higher. **Despite the endless calls for more STEM-educated professionals, even STEM Ph.D.s with disabilities are employed at half the rate of their able-bodied peers**. And **when disabled people manage to secure employment, they are twice as likely to land in part-time positions that do not meet their qualifications or financial needs.**

The U.S. Department of Education has only one debt forgiveness program for disabled borrowers: Total and Permanent Disability Discharge (TPD). Although the Biden administration reduced bureaucratic hurdles for disability-based discharge in 2019, the TPD is far from a saving grace. To qualify, a borrower must be deemed severely and permanently disabled by the Veterans Administration, Social Security Administration or a qualified medical professional. Basically, the disabled borrower must be determined unable to engage in remunerative cognitive or physical activities and unlikely to be employable in the future. The limited funds provided by Social Security Disability Insurance, Supplemental Security Insurance or VA disability benefits are often the only sources of income for those who are approved for disability discharge.

November 23: The United States federal government should forgive all federal student loan debt.

Non-Graduates: Student loan forgiveness can help those without a degree, who never get the wage boost of a college diploma despite having student loans

Nadworny & Lombardo 23– ["I'm Drowning": Those Hit Hardest By Student Loan Debt Never Finished College. (2019, July 18). Retrieved October 3, 2023, from NPR website: https://www.npr.org/2019/07/18/739451168/i-m-drowning-those-hit-hardest-by-student-loan-debt-never-finished-college] Joel.

[Clare Lombardo is a masters student in Media and Communications at the London School of Economics.

Elissa Nadworny is an NPR Correspondent, covering higher education.]

From mid-2014 to mid-2016, 3.9 million undergraduates with federal student loan debt dropped out, according to an analysis of federal data by The Hechinger Report, a nonprofit news organization.

The default rate among borrowers who didn't complete their degree is three times as high as the rate for borrowers who did earn a diploma. When these students stop taking classes, they don't get the wage bump that graduates get that could help them pay back their loans.

The perception is, work hard and pay what you owe, says Tiffany Jones, who leads higher education policy at the Education Trust, **"but it's not manageable even if you're working."**

"If I made sure that my credit score was my No. 1 priority and that I got these student loans taken care of," Chavonne says, "I would not have a roof over my head."

Economy

Student debt is negatively correlated to consumption growth

Bahadir & Gicheva 19– [Berrak Bahadir and Dora Gicheva. (2019, October). The Effect of Student Debt on Consumption: A State-Level Analysis. Retrieved October 4, 2023, from https://www.fdic.gov/analysis/cfr/consumer/2019/documents/papers/bahadir-paper.pdf] Sophia G.

[Dora Gicheva is an associate professor of economics at the University of North Carolina at Greensboro. She is an applied microeconomist whose work is the areas of labor, education and personnel economics.

Berrak Bahadir is Professor in the Economics department at Florida International University]

We document the relationship between student loans and consumption in Table 1. Columns 2 through 4 present baseline results from OLS specifications with an increasing set of controls. In the most parsimonious specification, **1 percentage point** (slightly more than a standard deviation) **increase in the change in student debt to income ratio is associated with 0.9 percentage point** (less than a third of a standard deviation) **decrease in the growth rate of consumption over the next three years. When we control for educational attainment, which is reasonable to assume to be positively correlated with both student debt and consumption growth, the coefficient estimate decreases to -1.3.** Including lagged consumption growth allows us to control for state-level variations in macroeconomic conditions simultaneous with the changes in student debt; inclusion of these variables strengthens the negative relationship between student debt and consumption.

The final two columns of Table 1 report results from the IV specifications, with first-stage results presented in the bottom panel. We find that both instruments are significant determinants of student loans with the expected signs. The results show that **1 percentage point increase in the change in student debt to income ratio is associated with 2.5 percentage point lower consumption growth rate during the subsequent three years in the specification without controls for lagged consumption changes, and 3.7 percentage point lower consumption growth with these controls.** These effects are larger in magnitude than the OLS estimates, which is consistent with the expected bias driven by changes in educational attainment. Further, the magnitude of these results cannot be accounted for by a direct increase in education spending since data from the Consumer Expenditure Survey suggest that spending on education accounted for only 2.3% of aggregate expenditures in 2018.

4. Conclusion

Using state-level data for the 2003–2018 period, we show that **an increase in the student debt-to-income ratio contributes to lower consumption growth in the medium run. A possible mechanism for the results is that credit constrained young borrowers, who start paying off student loans soon after they graduate when earnings are relatively low, are forced to lower their consumption, generating significant effects at the aggregate level.** This mechanism is consistent with the findings of prior studies suggestive of student borrowers being credit constrained after graduation (e.g. Rothstein and Rouse, 2011) and underlines the importance of binding credit constraints for aggregate macroeconomic outcomes.

Our study is the first to combine the literature on the unintended consequences of student debt and the existing research on the macroeconomic effects of household debt. To our 7 knowledge, we are also the first to directly examine the link between student debt and consumption using an exogenous variation in student borrowing. Last but not least, our results are informative of the degree to which student loan debt can affect non-borrowers through its impact on macroeconomic conditions.

Impact – Debts & Savings: After blanket loan forgiveness, Americans would pay down other debts, save more for emergencies, invest, and more.

Grinstein-Weiss et al. 21– [Stephen Roll, Jason Jabbari, and Michal Grinstein-Weiss. (2021). Student Debt Forgiveness Would Impact Nearly Every Aspect of Peoples Lives. Retrieved from https://www.brookings.edu/articles/student-debt-forgiveness-would-impact-nearly-every-aspect-of-peoples-lives/] Sophia G.

[Michal Grinstein-Weiss is a nonresident senior fellow in Economic Studies at Brookings. She is also the Shanti K. Khinduka Distinguished Professor and Associate Dean for Policy Initiatives at the Brown School at Washington University in St. Louis. She serves as director of the university-wide Social Policy Institute.

Jason Jabarri is a Research Assistant Professor in the Social Policy Institute at Washington University in St. Louis.

Stephen Roll is a Research Assistant Professor, Social Policy Institute, Brown School – Washington University in St. Louis]

To examine the relationship between student debt forgiveness and household behaviors, **researchers at the Social Policy Institute conducted a survey experiment that asked participants with student debt to imagine a scenario in which the federal government forgave some amount of their student debt, and then had these participants report on how this would affect their decisions and behaviors.** Participants were randomly assigned to one of four conditions that featured different levels of student debt forgiveness:

- Condition 1: $5,000 of student debt forgiveness

- Condition 2: $10,000 of student debt forgiveness

- Condition 3: $20,000 of student debt forgiveness

- Condition 4: All student debt forgiven

Participants could then select different behaviors they would engage in if their student debt were forgiven. The response options were intended to capture a wide range of experiences like working less, changing purchasing behaviors, having children or getting married, saving for different purposes, or returning to school. In total, **1,009 respondents who reported having student debt participated in the experiment.**

The amount of debt forgiven matters

We present the results from this experiment in Figure 1. Generally speaking, **the most common ways people reported that they would change their behaviors after student debt forgiveness**—regardless of the amount forgiven—**concerned their balance sheets**. Large proportions of student debt holders reported that they would pay down other debts, save more for emergencies, save for a down payment on a home, or save more for retirement.

Turning to the differences between experimental conditions, we see interesting patterns in the relationship between the amount of debt forgiven and household behaviors. In particular:

- The amount of student debt forgiven was not strongly associated with either working less or paying down other debts.

- Higher levels of student debt forgiveness were associated with higher reported rates of purchasing more/better food, making large purchases like a car or appliance, returning to school, and saving more for emergencies.

- Student debt holders only say they would save more for retirement if all their student debt were forgiven, which implies that many student debt holders would prioritize other behaviors over the long-term goal of saving for retirement.

- Student debt holders were also twice as likely to report that they would have a child if they received $10,000 of debt forgiveness or complete debt forgiveness as they would if they only received $5,000 of debt forgiveness ($20,000 of debt forgiveness did not produce a statistically significant difference from $5,000).

- Higher amounts of student debt forgiveness were associated with other investment behaviors like starting a business or savings for a down payment on a home, as well as a willingness to spend more on entertainment.

Impact – PCE: Cancelling student loans would result in an increase in the Personal Consumption Expenditures (PCE) price level

George & Lubick 22– [Aubrey George and Thomas A. Lubik. (2022, October 11). Student Debt Cancellation and its Inflation Impact. Retrieved from https://www.richmondfed.org/research/national_economy/macro_minute/2022/mm_10_11_22] Sophia G.

[Thomas Lubik is a senior advisor in the Research Department. Lubik provides counsel to senior management and directors on topics such as monetary policy, bank and financial regulation, and the domestic and international economy. He has been group vice president for microeconomics and research communications and group vice president for macro and financial economics in the department.]

Cancellation would not erase the amount of student debt owed but would rather shift the liability from an individual's balance sheet to the federal government's (that is, taxpayers') balance sheets. There are several estimates of the expected burden on the federal government, ranging from $330 billion (lower estimate from the Committee for a Responsible Federal Budget) to $519 billion (from the Penn Wharton Budget Model).

A key concern about the debt forgiveness program is its inflationary impact in an environment where inflation has been persistently elevated for over a year. In this post, we provide a back-of-the-envelope calculation of the program's inflationary impact. It is based on a specific view (known as the fiscal theory of the price level) of the federal budget and how it interacts with monetary and fiscal policies.

The basic idea is that **investors in U.S. Treasury securities — such as bills, notes and bonds — willingly buy and hold them only if they expect repayment in the future.** This thinking implies what economists call an intertemporal government budget constraint. It stipulates that the real value of outstanding government debt must be matched by future surpluses of revenues over spending, properly discounted. In this case, the government eventually generates enough net resources to pay off its debt holders in terms of principal and interest.

The central insight is that it is the real value of debt that is backed by real future resources. Since almost all federal debt is nominal, this theory posits that the current price level is the variable that equalizes discrepancies between these metrics, given their current expected future levels.

This insight allows us to put some numbers on the debt cancellation impact. **The immediate effect is that it reduces future interest and principal payments, which is revenue for the federal budget. Debt cancellation therefore leads to a sudden decline in expected net revenues, all else equal, which becomes insufficient to back the outstanding level of debt. Consequently, the price level needs to rise to reduce the real value of debt as future real revenues decline.** The fiscal theory thus predicts a jump in the price level as an equilibrating mechanism.

The main caveat of this line of reasoning is that, at some point in the future, there may be some combination of new tax revenue and reduced spending that counteracts the effect of debt forgiveness. Since none of this is in the discussion now, the debt forgiveness proposal presents a clean thought experiment.

At the end of June, total outstanding federal debt stood at $30.6 trillion. The various estimates suggest that **debt forgiveness adds roughly 1 percent to the outstanding nominal debt**, **which is about the size of a full year's primary deficit.** As the fiscal theory suggests, **this must be covered by future revenues. Since the student loan cancellation program is unfunded, all else equal there won't be any additional future revenues to offset this increase. Thus, the real burden has to decline. This is achieved by an increase in the price level.** Using the relationship in Figure 1, **we calculate this as an increase of the PCE price level from 295.7 to a midpoint of estimates of 300.2**, plus or minus 0.9. As shown in Table 1, the increase in price level represents a monthly inflation rate of up to 1.7 percent.

This number is certainly an upper bound as there are various mitigating factors:

- The price level may not rise instantaneously, as some contractual prices in the economy are fixed.

- Some aspects of loan forgiveness may be modified or phased in later so that the expected present discounted value is smaller.

- There may be compensating factors, as Congress may pivot to tax hikes to combat the unfunded debt forgiveness.

In addition, at the time of this writing, there are legal challenges proceeding that may prevent debt forgiveness from being implemented at all. There could also be some stimulating impact, as the debt cancellation could free up borrowers' cash flow, and the additional spending may create more tax revenue.

However, at the same time, this is also likely to be inflationary. **Expectation of additional debt forgiveness programs evokes a moral hazard incentive for college students to take out more loans and for universities to increase tuition rates.**1 To the extent that inflation is inherently persistent, any initial price level increase would also lead to sustained inflation over the near future. The Committee for a Responsible Federal Budget estimates that the Fed will need to raise rates by an additional 50 to 75 basis points to counteract the Biden debt cancellation proposal.

November 23: The United States federal government should forgive all federal student loan debt.

Impact—Economy & Jobs: Cancelling federal student loans will boost the economy by as much as $1 trillion over 10 years, creating up to 1.5 million new jobs per year, while improving States' budgets and having minimal inflationary effects

Fullwiler et al. 18– [Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum . The Macroeconomic Effects of Student Debt Cancellation. (2021). Levy Economics institute. Retrieved October 3, 2023 from https://www.levyinstitute.org/pubs/rpr_2_6.pdf] Joel.

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More than 44 million Americans are caught in a student debt trap. Collectively, they owe nearly $1.4 trillion on outstanding student loan debt. Research shows that this level of debt hurts the US economy in a variety of ways, holding back everything from small business formation to new home buying, and even marriage and reproduction. It is a problem that policymakers have attempted to mitigate with programs that offer refinancing or partial debt cancellation. But what if something far more ambitious were tried? What if the population were freed from making any future payments on the current stock of outstanding student loan debt? Could it be done, and if so, how? What would it mean for the US economy?

This report seeks to answer those very questions. The analysis proceeds in three sections: the first explores the current US context of increasing college costs and reliance on debt to finance higher education; the second section works through the balance sheet mechanics required to liberate Americans from student loan debt; and the final section simulates the economic effects of this debt cancellation using two models, Ray Fair's US Macroeconomic Model ("the Fair model") and Moody's US Macroeconomic Model.

Several important implications emerge from this analysis. **Student debt cancellation results in positive macroeconomic feedback effects as average households' net worth and disposable income increase, driving new consumption and investment spending**. In short, we find that debt cancellation lifts GDP, decreases the average unemployment rate, and results in little inflationary pressure (all over the 10-year horizon of our simulations), while interest rates increase only modestly. Though the federal budget deficit does increase, state-level budget positions improve as a result of the stronger economy. The use of two models with contrasting long-run theoretical foundations offers a plausible range for each of these effects and demonstrates the robustness of our results.

A one-time policy of student debt cancellation, in which the federal government cancels the loans it holds directly and takes over the financing of privately owned loans on behalf of borrowers, **results in the following macroeconomic effects** (all dollar values are in real, inflation-adjusted terms, using 2016 as the base year):

• **The policy of debt cancellation could boost real GDP by an average of $86 billion to $108 billion per year. Over the 10-year forecast, the policy generates between $861 billion and $1,083 billion in real GDP** (2016 dollars).

• **Eliminating student debt reduces the average unemployment rate** by 0.22 to 0.36 percentage points over the 10-year forecast.

• **Peak job creation in the first few years following the elimination of student loan debt adds roughly 1.2 million to 1.5 million new jobs per year.**

• **The inflationary effects of cancelling the debt are macroeconomically insignificant.** In the Fair model simulations, additional inflation peaks at about 0.3 percentage points and turns negative in later years. In the Moody's model, the effect is even smaller, with the pickup in inflation peaking at a trivial 0.09 percentage points.

• **Nominal interest rates rise modestly.** In the early years, the Federal Reserve raises target rates 0.3 to 0.5 percentage points; in later years, the increase falls to just 0.2 percentage points. The effect on nominal longer-term interest rates peaks at 0.25 to 0.5 percentage points and declines thereafter, settling at 0.21 to 0.35 percentage points.

• The net budgetary effect for the federal government is modest, with a likely increase in the deficit-to-GDP ratio of 0.65 to 0.75 percentage points per year. Depending on the federal government's budget position overall, the deficit ratio could rise more modestly, ranging between 0.59 and 0.61 percentage points. However, given that the costs of funding the Department of Education's student loans have already been incurred (discussed in detail in Section 2), the more relevant estimates for the impacts on the government's budget position relative to current levels are an annual increase in the deficit ratio of between 0.29 and 0.37 percentage points. (This is explained in further detail in Appendix B.)

• **State budget deficits as a percentage of GDP improve by about 0.11 percentage points during the entire simulation period.**

• Research suggests many other positive spillover effects that are not accounted for in these simulations, including increases in small business formation, degree attainment, and household formation, as well as improved access to credit and reduced household vulnerability to business cycle downturns. Thus, our results provide a conservative estimate of the macro effects of student debt liberation.

Families

About 15% of those with student loans have put off getting married or having a baby because of their debt

Gawuga 23– [New student loan forgiveness measures must include the disabled - The Boston Globe. (2023). Retrieved October 3, 2023, from BostonGlobe.com website: https://www.bostonglobe.com/2023/08/21/opinion/new-student-loan-forgiveness-measures-must-include-disabled/] Joel.

[Cyrena Gawuga, Ph.D., M.S.W., is a public health social worker and director of research at the Preparedness and Treatment Equity Coalition. She is also a Public Voices Fellow of The OpEd Project in partnership with AcademyHealth.]

More than 45 million Americans collectively owe over $1.7 trillion in student debt.

Economists say this mounting total worsens generational inequality, slows economic growth and exacerbates racial disparities. On a micro-economic level, borrowers also face serious consequences in their day-to-day lives.

According to CNBC + Acorn's recently released Invest in You Student Loan Survey conducted by Momentive, **81% of people with student loans say they've had to delay one or more key life milestones because of their debt**. Momentive surveyed 5,162 American adults between Jan 10 and Jan 13 online to better understand the impact of student debt.

The survey found that **among student loan borrowers, 42% delay paying off other loans, 40% delay investing money, 38% delay saving for retirement, 35% delay travel, 33% delay buying a home, 16% delay having a baby, 14% delay getting married and 12% delay finding a new job.**

"Student loan debt prevents family formation, **it prevents people from making decisions about** their life, about purchasing a home, about buying their first car, about **getting married, about having children,**" lists Nicole Smith, chief economist at the Georgetown University Center on Education and the Workforce. "**And that wasn't the purpose of student loan debt. Student loan debt was supposed to be good debt — the type that you take out so that you can invest in your human capital formation so that you can live your life afterward** — and it's morphed into something much more insidious."

Momentive researchers found that the most common sacrifices made by borrowers varied slightly by age. For instance, those aged 35-64 were most likely to delay paying off other loans, while borrowers under 35 were most likely to delay buying a home or investing.

Financial Security

More than half of Americans would pay off other debts if forgiven of their student loan debt; 45% would save for retirement – both would help ensure a more stable future for average Americans

Khattar & Rasheed 22– [Khattar, Rose and Rasheed, Zahir (2022, August 23). Canceling at Least $10,000 of Student Loan Debt Will Help Lower the Cost of Living. Retrieved October 6, 2023, from Center for American Progress website: https://www.americanprogress.org/article/canceling-student-debt-of-at-least-10000-will-help-lower-the-cost-of-living/] Joel.

[Rose Khattar is the director of economic analysis for Inclusive Economy at American Progress. She holds a Bachelor of Economics and a Bachelor of Laws from the University of New South Wales in Australia, where she received the University Medal in Economics.]

Student debt affects millions of Americans and acts as a weight that limits financial security. Oftentimes it is low- and middle-income earners who are the bearers of this weight. **Student debt cancellation of $10,000 is important for the one-third of Americans with debt—particularly the 15 million borrowers who would see their entire debt eliminated.** Furthermore, due to well-documented racial disparities in income, home ownership, and wealth accumulation, more Black people must rely on debt to finance their college education than their white peers; have larger amounts of loans; and are more likely to take longer to pay off their loans. This means that **Black borrowers will disproportionately benefit from student debt cancellation of $10,000, which would help close the racial wealth gap.**

Student debt cancellation would help alleviate this burden and help families pay down other debt as well. A recent CNBC survey found that more than half of respondents would pay off other loans if student loans were canceled, and 45 percent would save for retirement. In the end, student loan cancellation will make it easier for households to manage their budgets and save for their future. Simply, their immediate and future financial security will improve.

Student loans started as a way to help lower- and middle-income American families finance part of the cost of college. But today, a tool meant to help individuals secure a brighter future has instead, too often, morphed into years of default and financial struggle for many borrowers and their households—and student loan debt is rising at an insurmountable rate. The Center for American Progress has previously called on the Biden administration to cancel at least $10,000 in student debt. As the administration has made lowering costs for families their number one priority, targeted student loan cancellation is a critical next step.

November 23: The United States federal government should forgive all federal student loan debt.

Impact – Investment: After blanket loan forgiveness, Americans would pay down other debts, save more for emergencies, invest, and more.

Grinstein-Weiss et al. 21– [Stephen Roll, Jason Jabbari, and Michal Grinstein-Weiss. (2021). Student Debt Forgiveness Would Impact Nearly Every Aspect of Peoples Lives. Retrieved from https://www.brookings.edu/articles/student-debt-forgiveness-would-impact-nearly-every-aspect-of-peoples-lives/] Sophia G.

[Michal Grinstein-Weiss is a nonresident senior fellow in Economic Studies at Brookings. She is also the Shanti K. Khinduka Distinguished Professor and Associate Dean for Policy Initiatives at the Brown School at Washington University in St. Louis. She serves as director of the university-wide Social Policy Institute.

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Stephen Roll is a Research Assistant Professor, Social Policy Institute, Brown School – Washington University in St. Louis]

To examine the relationship between student debt forgiveness and household behaviors, **researchers at the Social Policy Institute conducted a survey experiment that asked participants with student debt to imagine a scenario in which the federal government forgave some amount of their student debt, and then had these participants report on how this would affect their decisions and behaviors.** Participants were randomly assigned to one of four conditions that featured different levels of student debt forgiveness:

- Condition 1: $5,000 of student debt forgiveness

- Condition 2: $10,000 of student debt forgiveness

- Condition 3: $20,000 of student debt forgiveness

- Condition 4: All student debt forgiven

Participants could then select different behaviors they would engage in if their student debt were forgiven. The response options were intended to capture a wide range of experiences like working less, changing purchasing behaviors, having children or getting married, saving for different purposes, or returning to school. In total, **1,009 respondents who reported having student debt participated in the experiment.**

The amount of debt forgiven matters

We present the results from this experiment in Figure 1. Generally speaking, **the most common ways people reported that they would change their behaviors after student debt forgiveness**—regardless of the amount forgiven—**concerned their balance sheets**. Large proportions of student debt holders reported that they would pay down other debts, save more for emergencies, save for a down payment on a home, or save more for retirement.

Turning to the differences between experimental conditions, we see interesting patterns in the relationship between the amount of debt forgiven and household behaviors. In particular:

- The amount of student debt forgiven was not strongly associated with either working less or paying down other debts.

- Higher levels of student debt forgiveness were associated with higher reported rates of purchasing more/better food, making large purchases like a car or appliance, returning to school, and saving more for emergencies.

- Student debt holders only say they would save more for retirement if all their student debt were forgiven, which implies that many student debt holders would prioritize other behaviors over the long-term goal of saving for retirement.

- Student debt holders were also twice as likely to report that they would have a child if they received $10,000 of debt forgiveness or complete debt forgiveness as they would if they only received $5,000 of debt forgiveness ($20,000 of debt forgiveness did not produce a statistically significant difference from $5,000).

- Higher amounts of student debt forgiveness were associated with other investment behaviors like starting a business or savings for a down payment on a home, as well as a willingness to spend more on entertainment.

Gender Gap

Due to the gender wage gap, women hold the majority of student loans.

AAUW 21– [American Association of University Women. (2021). Deeper in Debt. Retrieved October 4, 2023, from https://www.aauw.org/resources/research/deeper-in-debt/] Sophia G.

[The American Association of University Women (AAUW), is a non-profit organization that advances equity for women and girls through advocacy, education, and research.]

Over the past 40 years, the cost of college has increased dramatically. A generation ago, one year of four-year college cost 22% of the median household income. That number has soared to 43%. This increase has forced more students to take on more debt: 68% of students borrow money to pay for their undergraduate education. Among those who take out loans, **women—who borrow an average of $31,276—take on more debt than men, who borrow an average of $29,270.3 And many women of color borrow significantly more, with Black women taking on the most substantial debt burden. While the amount of debt women initially take on compared to men is not huge, when women graduate, their debt repayment collides with the gender wage gap and racial wealth gap to make it harder for them to repay their loans.** Interest then accrues, further widening the debt burden. As a result, **women hold nearly two-thirds of all outstanding loans**. Even before the pandemic, women who graduated with a bachelor's degree expected to earn an average of $35,338 their first year out of college—only 81% of what men expected to earn. And while we won't know the full effects of the pandemic on the student-debt crisis until the Department of Education releases updated data, we anticipate that women's disproportionate share of job losses will further undercut their ability to pay back their loans.

Even before the pandemic, women who graduated with a bachelor's degree expected to earn an average of $35,338 their first year out of college—only 81% of what men expected to earn. And while we won't know the full effects of the pandemic on the student-debt crisis until the Department of Education releases updated data, we anticipate that women's disproportionate share of job losses will further undercut their ability to pay back their loans.

Laundry List

Student loan debt is a national crisis, and cancelling it would advance gender and racial equality while benefiting the economy and leading to lasting, inter-generational anti-poverty effects

Banerjee 21– [Banerjee, Asha. Ten Reasons to Cancel Student Loan Debt (2021). The Center for Law and Social Policy. Retrieved October 3, 2023, from BostonGlobe.com website: https://files.eric.ed.gov/fulltext/ED610484.pdf] Joel.

[Asha Banerjee enters the Population Studies and Social Policy program from the Chief Economist's Office at the U.S. Department of Labor where she was an economic analyst. Previously she was an analyst on the research team at the Economic Policy Institute.]

Student debt cancellation must be a federal priority for the new administration. As the devastating health and economic toll of the COVID-19 pandemic deepens, **millions of student borrowers are held back by high levels of debt on top of job losses and the struggle to cover their basic needs**. The pause on payments is only a temporary fix. **Since student loan debt disproportionately impacts Black and Latinx borrowers, especially women, cancelling student debt is a racial and economic justice issue.**

1. Student loan debt is a national crisis

In recent decades, especially after the 2008 Great Recession, **outstanding student loan debt has skyrocketed, reaching $1.7 trillion. It affects over 45 million borrowers, households, and families nationwide. The price of a higher education has risen while wages and incomes have remained stagnant.** Cancellation would bring much-needed relief to millions, especially because many people may also be struggling with lost income, food and housing insecurity, and a disrupted education due to the COVID-19 pandemic and economic recession.

2. Cancelling student debt would advance gender and racial equity

The burden of student loan debt is not borne equally. Women hold over two-thirds of all outstanding debt. Black borrowers also have higher average levels of debt and default. Systemic barriers, such as persistent discrimination in housing, employment, and access to educational opportunities, have kept many Black households from accumulating and inheriting wealth. As a result, Black students are overrepresented at for-profit institutions, many of which strand borrowers with astronomical levels of debt. Cancelling student debt can help close the racial wealth gap, and studies show that **cancelling** $50,000 **in student debt would alleviate the debt burden for nearly three in four Black households and increase Black wealth by a third.**

3. Cancelling student debt is good for the economy

Cancelling student loan debt could also have a powerful stimulus effect on the economy, which will be crucial as we look to build a sustainable economic recovery. Research has shown that **cancellation would boost GDP by billions of dollars and add up to 1.5 million new jobs, reducing the unemployment rate.** Workers who are Black, Latinx, immigrants, women, and those in industries paying low wages are still facing a terrible economic situation with high levels of unemployment. Cancellation will help borrowers and the lagging economy, as well.

4. Cancellation *is* targeted and would benefit those who need it most

Student debt cancellation is a targeted, progressive policy that would benefit those struggling the most. While wealthier borrowers make larger monthly payments outright, student debt as a share of income is higher for lower income borrowers. Additionally, partially due to sky-high interest rates and misleading forbearance policies, **most borrowers still owed more than half of what they borrowed for college even 12 years after enrolling**, with Black students being the sole group that owed more than what they borrowed after 12 years. Therefore, lower income borrowers, especially Black borrowers, would benefit immensely from debt cancellation.

5. The public broadly supports—on a bipartisan basis—student debt cancellation

Polls show that cancelling student debt is broadly popular. A bipartisan May 2020 poll from the Center for Responsible Lending and Americans for Financial Reform found that "a majority of Americans across all regions of the U.S. support permanently reducing student loan debt by $20,000 for all borrowers." Similarly, another poll found that **56 percent of registered voters—even those who had never had loans—supported Senator Elizabeth Warren's proposal to cancel student debt.**

6. Student debt holders are not only young college graduates

Student loan debt does not just harm young millennials or college graduates. It is a multi-generational problem, and one that hurts people who faced insurmountable barriers to completing their degree. Over 8 million borrowers are aged 50 or older and, the fastest-growing age group of borrowers are people over 60 in some states. Furthermore, a staggering 40 percent of all people who hold student debt did not finish college or attain a degree. These borrowers often face the most hardship repaying their loans. Students of color, first generation students, and students with low incomes are also likelier to drop out due to the high costs of college and the lack of financial and institutional support. Cancellation would promote college affordability, access, and completion.

7. The benefits of student debt cancellation are life-changing

Cancelling student debt will significantly improve borrowers' lives. Without the burden of student loan payments, borrowers will have more money to cover their basic needs and build wealth for their families. Many borrowers have had to delay significant life events, such as starting a family or buying a house, due to the burden of student loans**. Studies show that when student debt is cancelled, people are more able and likely to create or invest in small businesses, attain more advanced degrees, and move to where they want to live or work.**

8. Cancellation would have significant intergenerational, anti-poverty effects

Student debt is not an individual burden but one that strains entire families. Many borrowers take on student loans while also caring for their parents. At the same time, millions of parents are still repaying Parent PLUS loans they borrowed to pay for their children's education. Struggling to pay off debt can cause serious generational consequences, as going into default can be financially devastating. Penalties can include wage garnishment or having critical benefits and tax credits withheld, such as the Earned Income Tax Credit. Loan cancellation would allow for more financial security for future generations.

November 23: The United States federal government should forgive all federal student loan debt.

Poverty

Student loan debt perpetuates poverty and its effects across the nation.

CSS 22– [Community Service Society. (2022, August 18). New CSS Report Documents Impacts of Student Loan Debt Across Age, Income, and Race/Ethnicity . Retrieved from https://www.cssny.org/news/entry/new-css-report-documents-impacts-of-student-loan-debt-across-age-income-and] Sophia G.

[The CSS is an independent, nonprofit organization. It provides research and advocacy as well as legal and informational support services for other organizations that work with low-income individuals.]

More than a quarter of New Yorkers living in poverty last year reported that they, or a member of their household, had student debt. An even greater share of moderate- and high-income households reported having student debt. When factoring in age, the percentage of New Yorkers with student debt, aged 45 to 54, was similar to those between the ages of 25 to 34. This means that **an increasing number of older adults with student debt will potentially carry that debt well into retirement, putting them at greater risk of financial hardship.**

Those are among the findings of a new Community Service Society (CSS) report, Mitigating the Growing Impact of Student Loan Debt. Drawing on data from the 2021 Unheard Third survey, titled "Whose Recovery? Addressing the Needs of Low-Income New Yorkers," the report illustrates how student debt is impacting households across age, incomes, and racial/ethnic groups.

Yet, according to the report specific categories of borrowers, including Blacks and Latina/o/x, **low-income individuals and those who did not complete their college degrees, are most harmed by student debt. The hardships these borrowers face because of their debt make it difficult to build wealth, save for retirement, purchase a home, and improve their financial security.** To help mitigate the impacts of student debt, assist borrowers with getting on track to greater financial health, and address some of the root causes of student debt, the report makes several recommendations:

- Expand eligibility for New York State's Tuition Assistance Program (TAP) to make public college more affordable to low and moderate-income students;

- Pass state legislation (S.4461A/A.5843A "The New Deal for CUNY") restoring free tuition for in-state students at the City University of New York);

- Pass federal legislation (H.R. 8643 The Student Loan Literacy Act of 2022) establishing and funding nonprofit student loan debt consumer assistance programs;

- Amend the U.S. Bankruptcy code to allow student loan debt to be more easily discharged in bankruptcy court;

- Reform federal loan repayment programs including making re-enrollment into Income Driven Repayment plans automatic and exempting Social Security benefits from offsets to pay off defaulted student loans.

"Student loan debt is a crisis in New York and across our nation, creating financial hardships for borrowers, perpetuating generational poverty, and choking the economic potential of millions of people in our country burdened by these loans," said David R. Jones, CSS President and CEO. **"This crisis is most harmful to low-income, Black and Latina/o/x, older adult and first generation college students.** But we can do something about it, starting with passing legislation at the state and federal level to reduce the costs of attending public universities, and funding education debt consumer assistance programs to give borrowers the resources and guidance they need to make smart decisions about their student debt."

Impact: Forgiving student loan debts will help to lessen the effects of poverty.

McCarthy & Rodriguez 22– [Joe McCarthy and Leah Rodriguez (2022). 5 Ways Student Loan Debt Relief Could Help Combat Poverty. Retrieved October 6, 2023, from https://www.globalcitizen.org/en/content/student-loan-forgiveness-poverty] Sophia G.

[McCarthy is a Staff Writer at Global Citizen. He studied creative writing at Southern Connecticut State University and now writes about environmental issues and global events.

Rodriguez covers Women and Girls, and Water and Sanitation at Global Citizen. Before Global Citizen, Leah worked as New York Magazine's, The Cut's web producer and homepage editor.]

Advocates like Brewer say the quest to use higher education as a bridge to gainful employment, once powerful in its possibilities, has faltered in its legitimacy, especially for people living in poverty.

"Student debt is stripping people's chances of achieving the American Dream, which has become more so about [not] having zero dollars," Brewer said. "People now say: 'If I can not have negative net wealth, that would be great.'"

Higher education is less accessible to people living in poverty, and the opportunities afforded to them once they leave school are often less abundant. As a result, the student loan crisis exacerbates poverty for millions of Americans.

Here are five ways the student loan debt relief measure could help combat poverty.

1. People of color will benefit the most from student loan forgiveness.

The debt relief plan targets low- and middle-income families and, according to the White House, will benefit 43 million people and 95% of borrowers.

People of color carry most of the student loan debt burden yet lack the intergenerational wealth to pay it back, and the pandemic has only made it even more difficult. The average Black borrower will have half of their student loan balance reduced and more than 1 in 4 Black borrowers will have their balance forgiven. Meanwhile, about half of Latinx borrowers will have their entire federal loan debt forgiven.

"The cost of tuition has skyrocketed, in the past decade especially," Brewer said. "And it's being most felt by women, and Black and Hispanic borrowers. They're often going to higher education to make up for racism and sexism in the labor market and end up being made worse off by the debt."

The majority of the relief money, 87%, will go to those earning less than $75,000 annually. **Borrowers with the smallest debts tend to be low- and middle-income and are the most likely to default on their student loans. Defaulting on loans can perpetuate poverty by negatively impacting**

credit scores, which can make someone less qualified for owning a home, put them at an employment disadvantage, and raise costs for other forms of credit.

Women hold two-thirds of student loan debt in the US and take longer to pay back their debts than men due to the gender pay gap and higher child care costs. And despite being the most educated demographic, Black women hold the most debt in the US.

2. Relief could help offset rising costs of living.

The cost of living has risen worldwide over the past year because of increased prices of everyday items and supply chain disruptions driven by the COVID-19 pandemic, climate change, and conflicts, especially the Russian invasion of Ukraine.

For two-thirds of Americans, the rising cost of housing, groceries, utilities, and health care has strained their bank accounts, making check-to-check living the norm across the country.

Adding student loan repayments to this monthly equation is untenable for millions of Americans — 58% of student loan borrowers reported that they won't be able to resume payments because they don't have enough money.

3. Less debt means more funds for basic needs like food.

In 2019, 30% of college students said they often go hungry because the costs of education leave little money left for food, according to a survey. When the COVID-19 pandemic hit, this problem worsened, not just across college campuses but throughout the US. In June 2022, 10.5% of households reported that they didn't have enough food to eat.

Student loan relief means people can allocate more money to getting enough and better quality food to avoid going hungry.

4. Low-income borrowers will receive the most relief.

The Federal Pell Grant Program was launched as part of the Higher Education Act of Related Stories1965 (HEA) to support low-income families through federal funds. The form of need-based financial aid can be applied at any school, doesn't need to be repaid or have interest rates, and can cover tuition, fees, room and board, and other expenses. Awards maxed out at $6,495 during the 2021-2022 school year. At some institutions, students must maintain academic requirements to remain eligible for the grant.

The majority of Black student loan borrowers, between 83% and 88%, receive a Pell grant at least once while attending college. It is estimated that 8 in 10 Black student loan borrowers may qualify for up to $20,000 in forgiveness.

5. **Student loan forgiveness has the potential to reduce the racial wealth gap.**

Federal student loans were one of several policies President Lyndon B. Johnson introduced in the 1960s to address the high poverty rate. According to the book The Debt Trap by Josh Mitchell, Johnson sought to make higher education more accessible and help tackle racial inequality, but when banks started raising interest rates on student loans, more borrowers — many of them people of color — fell further into debt.

When Black students go to college, they're already at a financial disadvantage due to racial discrimination and systemic barriers. Black families start off with less wealth to support higher education and then are more likely to borrow, borrow more, and struggle with repayment.

Historically Black colleges and universities also receive less federal funding and students of color are more likely to attend predatory institutions. Higher education is often touted as a way for people to lift themselves out of poverty, but when Black and Latinx students do graduate, they are then faced with employment discrimination and go on to make less than their white peers. **Two decades after taking out their student loans, the median Black borrower still owes 95% of their debt compared to the median white borrower, who has paid off 94% of their debt.** What's more, white college graduates have over seven times more wealth than Black college graduates.

Advocates argue that **student loan debt forgiveness has the potential to even the playing field and lessen the racial wealth gap to help people of color escape poverty, achieve financial stability, and better plan for their futures.**

"You can make a case that any country hampering who has access to education just creates very bad consequences that ripple across the globe," Brewer said. "When you limit education to people who can afford it, it prevents us from making all sorts of advances, particularly in science and humanities. There's a very strong pedagogical case for opening up education.

"**We continue the current system at the cost of widespread indebtedness, which is a threat to democracy, economic productivity, and generational wealth,**" he said.

Progressive

Class: Student loan forgiveness is progressive, helping poor students more than rich students—the reason being that rich students rarely need loans to pay for college

Eaton et al. 21– [Eaton, Charlie; Goldstein, Adam; Hamilton, Laura, & Wherry, Frederick. (2021). Student Debt Forgiveness Options: Implications for Policy and Racial Equity. Retrieved from https://rooseveltinstitute.org/wp-content/uploads/2021/06/RI_StudentDebtCancellation_IssueBrief_202106.pdf] Joel.

[Charlie Eaton is Assistant Professor of Sociology at the University of California, Merced, where he researches how the financialization of higher education has elevated US elites to new pinnacles of power in recent decades. His new book, Bankers in the Ivory Tower: The Rise of Financiers in US Higher Education and Society, is currently in production with the University of Chicago Press. Professor Eaton received a PhD in sociology from the University of California, Berkeley.

Adam Goldstein is Assistant Professor of Sociology and Public Affairs and Ralph O. Glendinning University Preceptor at Princeton University, where he studies the social consequences of financial capitalism in the United States. He holds a PhD in sociology from the University of California, Berkeley.]

In recent years, student debt cancellation has come to the fore of the national policy agenda, with several proposals currently on the table—including Senator Elizabeth Warren (D-MA) and Senate Majority Leader Chuck Schumer's (D-NY) plan to cancel up to $50,000 of federal student loans per borrower.1 Opponents of these proposals have created what we refer to as the "myth of student loan cancellation regressivity": the idea that student debt cancellation is regressive because it involves a public transfer to a relatively well-off group—those with some college education. In this issue brief, we offer three key takeaways for policymakers.

1. Contrary to common misperceptions**, careful analysis of household wealth data shows that student debt cancellation—at all proposed levels—is progressive; it would provide more benefits to those with fewer economic resources and could play a critical role in addressing the racial wealth gap and building the Black middle class**. **The reason for this progressivity is simple: People from wealthy backgrounds (and their parents) rarely use student loans to pay for college.**

2. **More substantial student debt cancellation plans**, like the Warren-Schumer plan, **are in fact more progressive.**

3. **Income eligibility cutoffs and income-driven repayment are inefficient and counterproductive ways to achieve progressivity.**

The regressive cancellation myth rests on a series of misleading methodological foundations: including private student loans in calculations of cancellation, conditioning analyses on borrowers only, focusing primarily on debtors' income rather than wealth, basing calculations on the value of debt to the government rather than the value to borrowers, and ignoring the racial distribution of debt.

In this brief, **we correct these errors by**:

- **Distinguishing federal loans from private debt to reflect existing proposals for debt cancellation** by executive action;
- **Including the full population in our analyses, not just borrowers;**
- Modeling redistribution by wealth, not income;
- **Valuing student debt by what it costs borrowers, not lenders;** and
- Disaggregating the distribution of debt by race.

After making these corrections, the progressivity of debt cancellation becomes apparent. **For example, in the case of the Warren-Schumer proposal for cancelling $50,000 in debt**:

• **The largest share of debt cancellation dollars goes to people with the least wealth, which addresses** (but does not close) **the racial wealth gap**. The average person in the 20th to 40th percentiles for household assets would receive more than four times as much debt cancellation as the average person in the top 10 percent, and twice as much debt cancellation as people in the 80th to 90th percentiles (see Figure 3).

• **Debt cancellation addresses racial disparities in debt burdens by benefiting those who carry the biggest loan balances. At every point on the income and asset distributions, Black households would gain equally or more from cancellation relative to white households.** Upwardly mobile Black and Latinx people in the 50th to 90th income percentiles would receive the largest average cancellation. This reflects the fact that Black and Latinx students typically have to borrow more for college expenses than white students of comparable income due to the racial wealth gap in family resources (see Figures 1 and 5).

• **A key metric for financial well-being is the debt-to-income ratio. Debt cancellation leads to the highest reductions in the debt-to-income ratio for people with the lowest incomes**. **As household income increases, the reduction in the debt-to-income ratio decreases** (see Figure 4).

• Estimated debt cancellation from the Warren-Schumer plan is only $562 per person (including non-borrowers) in the top 10 percent of households for net worth. Estimated cancellation is $17,366 for Black persons and $12,617 for white persons in the bottom 10 percent for net worth (see Figure 7).

Racial Equity

Wealth: Student loan forgiveness would increase wealth for Black Americans and lead to a number of financial knock-on impacts, including better credit, job stability and life satisfaction, home ownership, and family stability

Charron-Chenier et al. 20– [Charron-Chenier, R., Seamster, L., Shapiro, T., & Sullivan, L. (2020). Student Debt Forgiveness Options: Implications for Policy and Racial Equity. Retrieved from https://rooseveltinstitute.org/wp-content/uploads/2020/08/RI_StudentDebtForgiveness_WorkingPaper_202008.pdf] Joel.

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Dr. Thomas Shapiro is Director, Institute on Assets and Social Policy and the David R. Pokross Professor of Law and Social Policy at The Heller School for Social Policy, Brandeis University.]

Our analysis finds student debt forgiveness would impact economic wellbeing substantially, completely eliminating educational debt for three quarters of student debtors at levels of $40,000 and above. Relief to reduce the burden of debt payments is particularly important in these challenging times in which economic vulnerability has spread along with the pandemic. While we do not model them here, others have shown student debt forgiveness also has a net positive economic impact (Fullwiler, Kelton, Reuchlin, and Sheinbaum 2018), which could serve as a stimulus to bolster the economy in light of the economic fallout from the pandemic. A natural experiment in cancellation of debt from a for-profit shows immediate personal improvements ranging from increased income to geographic mobility (DiMaggio, Kilda and Yao 2019). 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.**

Overall, **these results indicate that while 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.** As a tool to reduce wealth inequality specifically, however, estimates show that student debt cancellation alone is not a sufficient approach. The magnitude of the racial wealth gap and patterns of student debt holding among Black and white households are such that even relatively generous cancellation policies fail to make a significant dent in the massive existing racial wealth disparity.

However, **we still believe there is ample reason to pursue student debt forgiveness for reasons of racial equity. The student loan program itself has disproportionate racial impacts, and pursuing harm reduction by eliminating present and future debt is a worthy goal**. In addition, future research should more fully model the impact of debt forgiveness by factoring in the total saved through interest and fees not paid, which is likely to also disproportionately benefit Black families.

Teachers: Student Loan Forgiveness removes one major barrier to Black Americans going into the teaching profession instead of higher-paying jobs that would help them pay off their loans

Fiddiman 19– [Student Debt: An Overlooked Barrier to Increasing Teacher Diversity. (2019, July 9). Retrieved October 6, 2023, from Center for American Progress website: https://www.americanprogress.org/article/student-debt-overlooked-barrier-increasing-teacher-diversity/] Joel.

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There is clear evidence that a diverse teaching workforce is beneficial for all students—and particularly for students of color. Studies show that Black students perform better on standardized tests, have improved attendance, and are suspended less frequently when they have at least one same-race teacher. Black teachers are more likely to recommend high-achieving Black students for talented and gifted programs, virtually eliminating the gap in access to these programs. And there is evidence that same-race role models—in this instance, teachers of color—inspire minority students. While much of the research on teacher diversity has looked at the importance of Black teachers for Black students, partly due to low sample sizes of Latinx teachers and other teachers of color, **there may be similar effects for other students of color**. **The research on teacher diversity is critically important considering that** in the 2015-2016 school year, **51 percent of U.S. students identified as nonwhite, and those percentages will grow in the coming years.**

While research demonstrates the importance of increasing teacher diversity, the teacher workforce in public schools is still overwhelmingly white, with 82 percent of teachers identifying as white. Since 2011, the Center for American Progress has analyzed data on the persistent lack of diversity in the teaching profession. In an attempt to find solutions, previous research has detailed a number of barriers that can contribute to difficulty recruiting teachers of color. **There are also barriers to retaining teachers of color in the classroom once they enter the workforce. Studies have shown that teachers of color, and especially Black teachers, leave the profession at a higher rate than their white peers.**

This report highlights how one barrier in particular—the unequal student loan debt that educators of color face—may contribute to the lack of diversity in the teaching profession. **Studies have shown that Black students are more likely to borrow federal student loan money to finance their undergraduate education.** According to a Brookings Institution analysis, before they have even earned their first dollar, **Black college graduates already have $7,400 more student loan debt than white graduates. For teachers, that means entering a profession that requires significant education but does not compensate well compared with other professions**. This is called a pay penalty, meaning teachers do not receive a salary comparable to those of workers in other professions that require the same level of education. **The pay penalty presents a particular barrier for teacher candidates of color because they are more likely to have student loan debt upon graduating.** One study found that acquiring student debt reduced the probability that students would pursue lower-salary public interest jobs; this correlation was particularly acute in the education industry.

Aff Blocks

AT College Bad

A college degree leads to higher wages, lower unemployment, greater lifetime earnings, and more.

Nadworny 22– [Elissa Nadworny (2022). More Than 1 Million Fewer Students Are in College. Here's How That Imacts The Eonomy. Retrieved October 5, 2023, from NPR website: https://www.npr.org/2022/01/13/1072529477/more-than-1-million-fewer-students-are-in-college-the-lowest-enrollment-numbers-] Sophia G.

[Elissa Nadworny is an NPR Correspondent, covering higher education.]

The short-term benefits of a high hourly wage vs. the long-term benefits of a degree

A dramatic drop in college enrollment could spell trouble for those Americans who are opting out, as well as for their families. **Research has long shown that getting even some post-secondary education leads to higher wages, lower unemployment and greater lifetime earnings.** In one study from Georgetown University, bachelor's degree holders were found to "earn a median of $2.8 million during their career, 75% more than if they had only a high school diploma."

"It may be great that people are finding jobs in the short term," says researcher Tolani Britton, "but an 18-year-old who is living at home and helping his family with the minimum wage that he's earning — if he's still earning that wage 15 years from now and has a family of his own to support, what are the implications in terms of socioeconomic mobility for that individual, for their children?"

Britton, who studies the economics of higher education at the University of California, Berkeley, says **a host of other benefits have been linked with higher education, including an increased likelihood of civic participation, lower infant mortality rates, better maternal health and a decreased likelihood of being unhoused or experiencing food insecurity, among other things.**

Many of those social benefits stem from a lifetime of higher wages and increased financial stability — long-term payoffs that can be hard to prioritize over short-term wins, like having a little more money right now.

"At the end of the day, the wages that you're getting today are one thing, but in 10 years from now they might be really similar," Britton explains. "There may not be the growth that you would expect when people get post-secondary education."

But Britton also understands that it can be hard to make decisions about your future needs when you're also trying to meet the needs of today.

"People are in hard economic situations," she says. "The [pandemic] recovery has been extremely uneven."

On top of that, the challenges that existed before the pandemic for low-income students, students of color and students who are the first in their families to go to college — those challenges haven't gone anywhere.

"Community colleges are the schools that traditionally enroll lower-income students," Shapiro says, "so we can assume that that's primarily who is affected and still staying away the most."

When the National Student Clearinghouse looked at 2020 high school graduates, it found students from lower-income schools had lower college-going numbers, as did students at high-minority high schools.

"The gap in college access between higher-income and lower-income students grew wider," Shapiro says.

The U.S. economy feels the long-term effects of fewer college graduates

When fewer people go to college, fewer people graduate with the skills, credentials and degrees necessary for a higher-paying job. And that reverberates throughout the entire U.S. economy.

"The direct loss to the economy is the workers themselves," explains Tony Carnevale, the director of Georgetown University's Center on Education and the Workforce. "If they were trained and ready, they would get higher-wage jobs and they would add more to GDP, making us all richer and increasing taxes, reducing welfare costs, crime costs, on and on."e

When workers make higher wages, their local economies also benefit. Carnevale explains it this way: "When you hire the crane operator, the crane operator goes and buys groceries. So the grocery clerk has a job."

More and more jobs in the U.S. require some post-secondary training, Carnevale says, which makes college graduates far more valuable to the economy.

Before the pandemic, the country already had a skills gap, with jobs sitting empty because businesses couldn't find workers with the proper credentials. In the past decade, community colleges have worked to close that gap, partnering with local businesses to pair training with employer needs.

But according to Carnevale, declining enrollment rates at community colleges mean that gap is going to grow — which, in turn, hurts business.

"You can't run your business if you literally cannot find people to work in that business," says Britton, of the University of California, Berkeley.

And **when businesses struggle, she says, "that has implications for things like decreases in tax revenues, higher prices for goods and services, delays in the production of services and goods like we've seen during the pandemic. And many of those things will only get worse if there are fewer people to fill the jobs."**

Declines in college enrollment have a compounded impact on the economy because there are economic consequences on so many levels: the individual, the community, businesses and society as a whole.

AT Cost

Student loan forgiveness plans have large numbers attached to them, but put into context, would be a negligible amount of US government spending

Baker 22– [Baker, D. (2022, September 27). Student Loan Forgiveness and Really Big Number Syndrome. Retrieved October 5, 2023, from Center for Economic and Policy Research website: https://cepr.net/student-loan-forgiveness-and-really-big-number-syndrome/] Joel.

[Dean Baker co-founded CEPR in 1999. His areas of research include housing and macroeconomics, intellectual property, Social Security, Medicare and European labor markets. He is the author of several books, including *Rigged: How Globalization and the Rules of the Modern Economy Were Structured to Make the Rich Richer.* His blog, "Beat the Press," provides commentary on economic reporting. He received his B.A. from Swarthmore College and his Ph.D. in Economics from the University of Michigan.]

There were headlines all over the place yesterday telling us how the Congressional Budget Office (CBO) **estimated that Biden's student debt forgiveness plan would cost $400 billion. I suspect that sounded very scary to lots of people who heard it.** After all, those not named Elon Musk will never see anything like $400 billion over our lifetimes.

But suppose reporters had to work for a living. They might have taken two minutes to read the three-page CBO report (actually a letter to two members of Congress).

If they had done that, they might have noticed that **this is the discounted cost projected over a 40-year time horizon. Much of the reporting might have led people to believe it was over a year, and more informed types might have assumed it is over CBO's usual 10-year budget time horizon. The period over which the cost is incurred does matter.**

The reports also could have included some context since most people would not have a clear idea in their heads of how large $400 billion is over a forty-year time horizon. Here also reading the three-page report would have been of great help. Page 2 of the report has a very nice graph showing the reduction in student loan payments from the forgiveness package measured as a share of GDP.

It peaks at a bit more than 0.09 percent of GDP in 2023-25. That is less than one-thirtieth of the military budget. It falls to around 0.07 percent of GDP by 2032 and then drops further to 0.02 percent of GDP by 2042.

It would help if reporters covering budget issues saw it as their responsibility to convey information to their audiences rather than just engaging in fraternity rituals of writing down big numbers that are meaningless to almost everyone.

AT Economy

The benefits to the economy outweigh the harms

Bailie & Smith 22– [Kelly Anne Smith and Korrena Bailie. (2022, September 27). Canceling Student Debt Isn't Free. Here's Who Pays For It. Retrieved October 5, 2023, from: https://www.forbes.com/advisor/personal-finance/who-pays-for-student-loan-forgiveness/] Sophia G.

[Smith is a senior consumer finance reporter for Forbes Advisor.
Bailie is a personal finance reporter and editor.]

Advocates Say Immediate Benefits of Canceling Student Loan Debt are More Important

Not everyone agrees that the long-term implications of increasing the deficit by forgiving federal student loans are worth worrying over. Student loan cancelation **advocates argue that canceling debt now would immediately impact borrowers by putting more money in their pockets, and they say that's more important than the federal deficit.**

"It's not that we don't worry about the macroeconomic implications [of student loan debt forgiveness], " says Cody Hounanian, executive director of the Student Debt Crisis Center, a nonprofit advocating for student loan debt cancellation. "I just prioritize what everyday Americans are needing at this moment."

Canceling student loan debt could remove significant barriers keeping everyday Americans from achieving upward mobility. Research suggests that it could help consumers from less privileged backgrounds build wealth and address racial disparities by benefiting those with the biggest loan balances, typically Black and Latinx consumers. Those benefits, for some, are worth any potential ramifications in the future.

"Canceling those debts is a way to right a set of wrongs that are highly unequal by race, by gender and by socioeconomic background," says Eaton. "It's well worth it."

AT Inflation

Student loan forgiveness would have a very minimal impact on inflation – depending on the model and year, anywhere from a negative impact (actually reducing inflation) to a 0.3% impact

Fullwiler et al. 18– [Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum . The Macroeconomic Effects of Student Debt Cancellation. (2021). Levy Economics institute. Retrieved October 3, 2023 from https://www.levyinstitute.org/pubs/rpr_2_6.pdf] Joel.

[Dr. Scott Fullwiler is an Associate Professor in Economics. He is program director in UMKC's interdisciplinary Ph.D. in economics. He teaches courses in macroeconomics, monetary theory and policy, and financial macroeconomics. He is also a research scholar at the Global Institute for Sustainable Prosperity]

Stephanie A Kelton is an American heterodox economist and academic, and a leading proponent of Modern Monetary Theory. She served as an advisor to Bernie Sanders's 2016 presidential campaign and worked for the Senate Budget Committee under his chairmanship.

Catherine Ruetschlin is the Associate Director of the Economic Evaluation Unit at the University of Utah. She produces economic research for state and federal agencies to inform evidence-based policy.]

Figure 3.6 presents results for inflation. In the Moody's model, the inflation measure is the Consumer Price Index (hereafter, CPI); for the Fair model, the measure is the model's own index for firm-sector pricing, which has historically been highly correlated with standard measures of consumer price inflation like the CPI and the Personal Consumption Expenditures Price Index (PCEPI). **In the Fair model, the inflationary effect of student debt cancellation is modest, peaking at just below 0.3 percentage points of additional inflation** (that is, compared to the baseline) with the Fed's interest rate rule in place, and a bit above this level with the Fed's rule turned off. **After 2020, consistent with the tailing off of real GDP contributions noted above, the inflationary impact is actually negative—that is, the cancellation reduces inflation in these years.** For the Moody's model, the inflationary effects are even smaller—essentially at zero, given that they never rise above 0.09 percentage points.

Overall, because even the largest effect on inflation in a single year in either model (0.32 percentage points in 2018 in the Fair model simulation with no reaction from the Fed's interest rate rule**) is of little macroeconomic significance, it is at least arguable that the Fed would not respond to the student debt cancellation by raising its interest rate target**. Recall that this is the rationale for including simulations for both models in which the Fed's interest rate rule is turned off.22 Stated differently, a case can be made that the Fed would not, or at least should not, react to the cancellation by raising interest rates given its stated goal of keeping inflation from rising above its target. If so, the Moody's simulation with the Fed's target rate reaction function included—the clear outlier in these simulations—is not as useful a guide to the cancellation's impacts as the other three simulations. Even the Fair model simulation with the Fed's target rate rule turned on might be of less interest, although (1) the simulations with and without the Fed's rule are not very dissimilar (that is, the Fair model is less sensitive to interest rate target changes than the Moody's model), and (2) the inflationary impacts of the cancellation, though small in terms of macroeconomic significance, were significantly greater in the early years of the Fair model simulation than in the Moody's model.

The net effect of cancelation on inflation would be negative, not positive.

Stiglitz 22– [Joseph E. Stiglitz (2022, August 25). Actually, Canceling Student Debt Will Cut Inflation. Retrieved October 6, 2023, from https://www.theatlantic.com/ideas/archive/2022/08/biden-student-debt-cancelation-stiglitz/671228/] Sophia G.

[Stiglitz is a professor at Columbia University and the chief economist at the Roosevelt Institute]

The contention that debt cancellation will be inflationary contains a series of flaws. To start with, the value of the reduced debt repayments is so small that the cancellation's impact will be negligible.

Although the broad estimates of the total amount of canceled debt can be big—some reach hundreds of billions of dollars—these figures derive only from budgeting practices for how credit programs like student loans are recorded. The government and budget analysts calculate a number that is known as "the present discounted value of foregone payments." This corresponds to a current estimated value not of the lost payments this year, but of those in all future years. In other words, **this calculation treats all of the losses from debt cancellation as though they occurred right now in a single year (adjusted for inflation)—a far cry from the reality.** Such an accounting procedure can be an appropriate practice for thinking about the government's long-run balance sheet, but it is a very poor guide for understanding what actually happens to people's spending.

The inflation hawks compound this error by assuming that the indebted students will take their forgiven debt and go on a spending spree, a splurge of such magnitude that they would have to somehow find someone in the private sector willing to lend them the same amount at low interest rates to finance their extravagance. Economic theory says that these individuals will, at most, consider this an increase in their net wealth—I say "at most" because in many cases, these loans would never have been repaid at all. And economic theory also says that **an increase in wealth is spent gradually over the course of a person's life, not all in one year.**

The actual amount of annual debt payments that would be reduced now, during this present inflationary episode, will probably run to tens of billions of dollars, not hundreds of billions. The lower number is likely because, again, many of those whose debt is being forgiven would not be making the payments anyway; many people with these debts simply don't have the economic means to repay them.

The costs of cancellation are also far less than the value to be realized when student-debt payments resume after having been halted during the pandemic. Right now, because of the forbearance put into place in 2020, no payments are being made on government-owned student loans. This policy was essential to stabilize the economy during the pandemic. As part of a larger program of cancellation, the Biden administration would end forbearance; **the resumption of payments in January is estimated to be worth more than $30 billion annually.**

These numbers are modest relative to the size of our economy. Still, their net effect will be to reduce inflation.

AT Supreme Court Ruling

The 2023 Supreme Court Ruling on Biden v. Nebraska rests on 'false and flimsy claims', reflect a 'flawed judicial process in which political y motivated charges get rushed to top courts', and will ultimately harm tens of millions of Americans with student debt

Gokey et al. 23– [Gokey, T., Schirmer, E., Brewington, B., & Seamster, L. (2023). The Suit against Student Debt Relief Doesn't Add Up: Flawed Claims of Legal Standing in Biden v. Nebraska. Retrieved from https://rooseveltinstitute.org/wp-content/uploads/2023/05/RI_Flawed-Claims-of-Legal-Standing-in-Biden-v-Nebraska_brief_202305.pdf] Joel.

[Thomas Gokey is a co-founder of the Debt Collective and co-author of Can't Pay Won't Pay: The Case for Economic Disobedience and Debt Abolition. Louise Seamster is an assistant professor of sociology and African American studies at the University of Iowa.
Eleni Schirmer is a postdoctoral researcher at Concordia University's Social Justice Centre in Montréal, Québec. She organizes with the Debt Collective.]

The Supreme Court's ruling on whether the federal government can eliminate the debts that it owns in order to better the lives of its populace is not merely a theoretical one. **Tens of millions of Americans struggle financially with student debt, something COVID-19 has only exacerbated. President Biden's student debt relief plan is one of the largest, bottom-up economic stimulants in recent history; it could zero out 20 million accounts. Student debt relief is the difference between families having the financial freedom to make significant life decisions like starting a family or small business, purchasing a home, saving for retirement, or even having enough money for groceries.**

The lawsuit that threatens this policy rests on a chain of false and flimsy claims. The entire premise of the lawsuit against student debt relief rests on the idea that 43 million student debtors shouldn't get relief for which they were already approved because one of the corporations contracted by the government to collect student debt, and thus the state of Missouri, will be financially harmed in the process. Our analysis reveals this assertion to be false. In contrast, MOHELA will earn higher revenue than ever before, even after cancellation is administered—contradicting the plaintiffs' argument and calling into question their claims to standing.

These claims evince a flawed judicial process, in which politically motivated charges get rushed to top courts, sidestepping important judicial procedures such as the rigorous scrutiny of underlying assumptions and basic fact-checking. What's more, should the justices affirm the plaintiffs' charge, the decision would signal a major shift in the court's approach to standing doctrine. Narrowing standing doctrine has been a project of conservative courts for the last three decades; this case would blow that strategy out of the water. **Rather than restricting who can secure standing, this widening of standing would effectively alter the concept of standing to an unrecognizable form, enabling justices to interpret standing as they want. The long-term political implications of making standing arbitrary will not only affect 43 million borrowers: They will affect us all.**

AT Racial Bias

White borrowers would gain more in absolute dollars, but Black wealth would grow more with student loan forgiveness—thus, student loan forgiveness will contribute to racial equity

Charron-Chenier et al. 20– Charron-Chenier, R., Seamster, L., Shapiro, T., & Sullivan, L. (2020). Student Debt Forgiveness Options: Implications for Policy and Racial Equity. Retrieved from https://rooseveltinstitute.org/wp-content/uploads/2020/08/RI_StudentDebtForgiveness_WorkingPaper_202008.pdf] Joel.

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Dr. Thomas Shapiro is Director, Institute on Assets and Social Policy and the David R. Pokross Professor of Law and Social Policy at The Heller School for Social Policy, Brandeis University.]

Overall, **these results indicate that while 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.** As a tool to reduce wealth inequality specifically, however, estimates show that student debt cancellation alone is not a sufficient approach. The magnitude of the racial wealth gap and patterns of student debt holding among Black and white households are such that even relatively generous cancellation policies fail to make a significant dent in the massive existing racial wealth disparity.

However, **we still believe there is ample reason to pursue student debt forgiveness for reasons of racial equity. The student loan program itself has disproportionate racial impacts, and pursuing harm reduction by eliminating present and future debt is a worthy goal**. In addition, future research should more fully model the impact of debt forgiveness by factoring in the total saved through interest and fees not paid, which is likely to also disproportionately benefit Black families.

AT Regression

Typical measures of student debt don't account for children with debt living with their parents—thus, vastly underestimating the amount of debt held by low-income people – by as much as 35%

Buenig 19– [Low Income People Have More Student Debt Than Realized. People's Policy Project. Published June 27, 2019. Accessed October 1, 2023. https://www.peoplespolicyproject.org/2019/06/27/low-income-people-have-more-student-debt-than-realized/] Joel.

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Elizabeth Warren and Bernie Sanders both unveiled student debt forgiveness plans recently. This has prompted a good deal of think tank and media coverage trying to estimate the precise distributional impact of those plans. Being a think tank man myself, I set out to produce my own distributional analysis over the past few days but learned something very unpleasant in the process: the data source everyone uses for these estimates, **the Survey of Consumer Finances (SCF), is not well-suited for the purpose and almost certainly systematically understates how much student debt is carried by low-income individuals.**

Everyone uses the SCF for these purposes because it is the only high-quality wealth survey in the US that appears to allow for distributional analysis on student debt. The think tanks that have put out student debt figures based on it include behemoths like Brookings and the Urban Institute. Those figures have then been cited in articles at the New York Times, the Washington Post, the Wall Street Journal, Vox, Slate, and virtually every other media outlet.

But a deep dive into the methods of the SCF, along with comparisons of the SCF to other student debt data sources, clearly show that these figures are off the mark, and probably dramatically so.

The way the SCF constructs family units differs from other surveys like the Census Bureau's Current Population Survey. Rather than grouping all related people who live in the same household, they instead construct a Primary Economic Unit (PEU) **for each household**, **which "consists of an economically dominant single individual** or couple (married or living as partners) in a household and all other individuals **in the household** who are financially interdependent with that individual or couple."

Importantly for our purposes here, **the financially independent relatives of the economically dominant individual or couple, such as many young adults living with their parents, are not included in the PEU.** In fact, they are excluded from the survey altogether.

This is a problem because it means that student debtors who live with their parents, which many do in part because of their student debt, are either absent from the survey sample or being counted as part of their parent's PEU. Specifically, **if the parents tell the survey taker that their co-resident student debtor kid is financially independent, then they are just dropped out of the survey universe. If they tell the survey taker that their kid is financially interdependent, then the kid** (**and their student debt**, if their parents properly estimate it) **are included in the parent's PEU, meaning that it is the parent's characteristics (age, income, education) that gets assigned to the kid's student debt.**

Once you understand how the PEU works, it does not take a genius to realize that the SCF must be missing a lot of student debt and especially student debt carried by low and moderate income young adults who are living with their parents. And even when it does pick up that kind of debt, it is assigning it to the older, generally more affluent parents of the student debtors, which should also skew the distribution of student debt up the age and income ladders.

Digging into the SCF appears to confirm that this is exactly what is going on.

For starters, the total amount of student debt picked up in the SCF is well below the aggregate reported by the Federal Reserve's G.19 publication and well below the aggregate reported by the NY Fed's Consumer Credit Panel. How much lower? **About 25 to 35 percent lower**.

The total amount of SCF student debt is not just lower than the other sources. It is also skewed further up the age range. This is exactly what you would expect if student debtors living with parents are mostly being dropped from the survey while the ones that are being included are having their debt counted under their parent's demographics.

Although I'd like to think I am the first one to realize this systematic bias, it turns out that **the Federal Reserve itself acknowledged this problem in a 2015 piece in FEDS Notes**:

> A "family" in the SCF is defined as the economic core of the sampled household, roughly speaking the person whose name is on the deed or lease at the surveyed address, and all people at that address whose finances are intertwined with those of that person. The published SCF statistics refer only to the debts and assets of this economic core. Thus, student loan information is not collected for members of the household that are outside of the household economic core. It is likely that most of the student loans of these non-core household members are included in G.19 and CCP statistics.
>
> […]
>
> Due to these considerations, the aggregate amount of student loan debt captured in the SCF will be lower than that captured in either the G.19 or the CCP. **Thus, the differences between the SCF and CCP and G.19 aggregate levels suggests that a considerable portion of aggregate student loan debt is held by individuals outside of the economic core of a household.**

Neg

Alternatives

Bankruptcy: Borrowers in the worst financial positions may have an out to student debt – bankruptcy

Murakami 20– [Murakami, K. (2020). Recent court decisions could expand bankruptcy for student debt. Retrieved October 5, 2023, from Inside Higher Ed | Higher Education News, Events and Jobs website: https://www.insidehighered.com/news/2020/01/10/recent-court-decisions-could-expand-bankruptcy-student-debt] Joel.

The decision this week by a federal judge in New York illustrates how some courts have in the past few years made it easier for people with crippling student loan debt to file for bankruptcy, say consumer advocates and legal experts.

But **while advocates** like John Rao, a National Consumer Law Center bankruptcy expert, **see the trend as positive, they still believe federal laws need to be changed to make it easier to discharge student loans through bankruptcy.**

The issue has risen in prominence as the number of Americans with student debt has grown to an estimated 45 million, with many unable to repay their loans. Advocates as well as some lawmakers, including Senator Elizabeth Warren, the Massachusetts Democrat who is seeking her party's presidential nomination, have said changes in federal law and legal interpretations by the courts have made it notoriously difficult to get student loans discharged through bankruptcy.

Before changes to federal law in 1998, those unable to repay student loans had been able to file for bankruptcy after five years without proving the debt posed an "undue hardship." But after changes by Congress, those seeking relief through bankruptcy for student loans, unlike other forms of debt, have to show they meet the hardship standard regardless of how old the loan is.

Congress, however, has never defined what undue hardship means and didn't delegate to the U.S. Department of Education the ability to do so. The courts have been left to establish a three-pronged test of whether hardship exists: that borrowers could not maintain a minimal standard of living if they had to repay the loans, that the situation would continue to exist and that the borrower had made a good-faith effort to pay the money back.

But **as Cecelia Morris, chief judge for the U.S. Bankruptcy Court of the Southern District of New York, noted in a decision Tuesday, the courts have set a high bar for meeting those tests. So much so, she wrote, "that most people (bankruptcy professionals as well as lay individuals) believe it is impossible to discharge student loans."**

For example, some courts have required people to prove that they will face hardship in perpetuity, an obviously high bar. "That there's no chance they'll ever win the lottery," for example, said Matthew Bruckner, an associate law professor at Howard University.

But some judges in the past five years have been taking a more expansive view of the hardship standard to allow bankruptcy, as they find more people coming to court who are unable to pay student loans, Rao said.

College Bad

Student Glut: University is good for some, but not for all—student loan forgiveness rests on the idea that college should be available for everyone, despite the fact that it actually benefits only a fraction of students – student loan forgiveness will only accelerate the push for more students to attend college despite no benefits to students or society

Riley 22– [Riley, J. L. (2022, September 6). Student-Loan Forgiveness Raises a Question About College. Retrieved October 5, 2023, from WSJ website: https://www.wsj.com/articles/student-debt-forgiveness-raises-a-basic-question-about-college-loans-forgiveness-biden-high-school-employment-rate-pay-back-graduation-11662496166] Joel.

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Some 20 million students will head off to college and university this fall, and we wish all of them well. But are we allowed to ask whether that number is too high?

Economists call it the "fallacy of composition," which is the assumption that what's true for members of a group must also be true for the group as a whole. To use a popular example: It's true that if someone stands up in a football stadium, that person will be able to see better. But it's not true that if everyone stands up, everyone will have a better view.

Much public support for President Biden's student-loan forgiveness plan rests on the same faulty logic. Just because some will benefit from a four-year degree in pay and choice of jobs, it doesn't follow that everyone will. Yes, the student-debt problem stems from the dramatic rise in college costs in recent decades. But it's also a function of too many young people who have little to gain from four more years of classroom instruction being tempted to take out loans and attend college anyway.

Tuition is about 20% of the total cost of attending college, **and increases in tuition subsidies track closely with colleges raising their prices. In addition to being legally dubious and economically reckless, Mr. Biden's debt-cancellation plan will create incentives for schools and potential borrowers alike to act in ways that exacerbate the problem.** But the worst part might be that **it will also encourage more young people to make poor decisions about their future.**

The college-for-all advocates note that degree-holders tend to earn more, but as the economist Richard Vedder explains in his 2019 book on higher education, "Restoring the Promise**," first you must graduate, and 40% of the people who attend college don't finish. Moreover, "college graduates with poor academic performance, graduating in the bottom quartile of their class, earn roughly the same after graduation as high school graduates."** These former college students must then pay back student debt with earnings equivalent to those of someone with only a high-school diploma.

Financial-assistance programs are primarily intended to help the poor, but the percentage of poor people graduating from college has dipped even as tuition assistance has increased. According to Mr. Vedder, about 12% of recent college graduates came from the bottom 25% of the income distribution in 1970. Today, it's about 10%. **Financial aid too often enables people with little chance of graduating to attend college anyway—only later to regret it.**

As a policy matter, the objective shouldn't be to funnel as many high-school grads as possible into college. Rather, it should be to make college available to anyone who has something meaningful to gain from the experience. The underemployment of college graduates is a problem that has been steadily worsening as the number of graduates has increased faster than the number of jobs requiring a bachelor's degree. In 2020, 4 out of 10 recent college graduates were working in jobs that didn't require a college degree.

All this suggests that colleges and financial-aid programs ought to be more discriminating, yet progressives are calling for less-rigorous student vetting. **Loan forgiveness and attacks on admissions tests move us in the opposite direction. There's nothing wrong in principle with colleges wanting to broaden the racial and economic backgrounds from which students are drawn, but it's a goal that should be pursued without lowering standards or saddling dropouts with oppressive debt.**

If Mr. Biden were serious about addressing the student-loan problem, he wouldn't push to forgive debts at taxpayer expense. He would instead call for the privatization of student lending. And he would support legislation to require that colleges have skin in the game by paying some portion of the loans for borrowers who default. Auto manufacturers set up their own finance companies to help consumers pay for cars. Why can't colleges and universities do the same thing for potential students?

None of this is on the table because t**he president isn't really interested in reforms that would address the underlying causes of high tuition bills. He's far more interested in finding an issue for his fellow Democrats to campaign on in November. Student-loan forgiveness is an obvious election-year gambit aimed at turning out younger voters who might otherwise stay home,** and the Journal reported Tuesday that it could cost as much as $1 trillion.

We'll find out in due course if it pays off politically for Democrats, but we already know it's a raw deal in economic terms for millions of Americans who never went to college or who chose a less-prestigious school to avoid accruing lots of debt. And it makes suckers out of those people who took out loans and made sacrifices to pay them off.

Investment: University Majors cost similar amounts, despite having wildly disparate ROIs

Barnard 19– [Barnard, C. (2019, December 26). Rethinking Student Loans and Financial Aid Could Reduce the Cost of College and Student Debt - Reason Foundation. Retrieved October 5, 2023, from Reason Foundation website: https://reason.org/commentary/student-loans-financial-aid-cost-college-student-debt/] Joel.

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For a substantial change, legislators need to tackle the problems of cost at the source. That means implementing market-based reforms crafted to improve the ways students finance college in the first place. **Financial aid terms should more accurately reflect the risks and rewards of different educational tracks—such as whether a history degree from a four-year private college or a law degree from a lower-tier school is a worthy investment for the student**. **Market-oriented financial aid rules could help control the skyrocketing costs of post-secondary institutions as well as incentivize loan financers to steer students along trajectories that are better-aligned with labor market needs.**

To get a clear sense of how the cost of financing different education pathways often doesn't reflect the difference in the quality of those individual investments, take a look at an interactive tool published by *The Wall Street Journal* using new Scorecard data.

It illustrates how, **at any one university, the median debt held by new graduates is relatively similar across each featured major—despite the fact that the median first-year earnings for each major varies significantly. And this disparity gets even more pronounced in the long-run earnings.**

It's hard to find another sector in which the market for loans is so unresponsive to return on investment than it is in higher education. **Most student loans (92 percent) come from the federal government with fixed interest rates** (sometimes with overly-generous terms for how much money is doled out) **and are unresponsive to a degree's value. If lenders in both government and the private sector were able to instead provide financial aid options according to a prospective student's educational pathway, they'd use these market signals to push students in better directions and potentially help prevent them from being trapped deeply in debt with a weak salary.**

For example, financial aid could be granted in return for a fixed percentage of a student's future income, also known as Income-Share Agreements (ISAs). This would change incentives so that investors prefer degrees and certifications that are more promising and are more cautious about assisting students pursuing less valuable degrees.

While this is an alternative financing option that has yet to catch on at most universities, that's likely because the federal government currently holds most of the power over how financial aid is disbursed. Converting federal loans into a simplified federal ISA program would be the quickest way to harness the benefits of a more market-based college financing system. Institutions would have to adapt to this new system by making their less-lucrative programs more affordable and prove that the product they're delivering is actually preparing students to be successful once they graduate.

Low/Middle-class: College is no longer a good investment, especially for low to middle income families.

Shell 18– [Ellen Ruppel Shell. (2018, May 16). College May Not Be Worth It Anymore. From https://www.nytimes.com/2018/05/16/opinion/college-useful-cost-jobs.html] Sophia G.

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And not all have even that advantage: African-American college dropouts on average earn less than do white Americans with only a high school degree. Meanwhile, **low-income students of all races are far more likely to drop out of college than are wealthier students.** Even with scholarships or free tuition, these students struggle with hefty fees and living costs, and they pay the opportunity cost of taking courses rather than getting a job.

The value of a college degree also varies depending on the institution bestowing it. The tiny minority of students who attend elite colleges do far better on average than those who attend nonselective ones. **Disturbingly, black and Hispanic students are significantly less likely than are white and Asian students to attend elite colleges, even when family income is controlled for.** That is, students from wealthy black and Hispanic families have a lower chance of attending an elite college than do students from middle-class white families.

It's a cruel irony that a college degree is worth less to people who most need a boost: those born poor. This revelation was made by the economists Tim Bartik and Brad Hershbein. Using a body of data, the Panel Study of Income Dynamics, which includes 50 years of interviews with 18,000 Americans, they were able to follow the lives of children born into poor, middle-class and wealthy families.

They found that **for Americans born into middle-class families, a college degree does appear to be a wise investment.** Those in this group who received one earned 162 percent more over their careers than those who didn't.

But **for those born into poverty, the results were far less impressive. College graduates born poor earned on average only slightly more than did high school graduates born middle class.** And over time, even this small "degree bonus" ebbed away, at least for men: **By middle age, male college graduates raised in poverty were earning less than nondegree holders born into the middle class.** The scholars conclude, "Individuals from poorer backgrounds may be encountering a glass ceiling that even a bachelor's degree does not break."

The authors don't speculate as to why this is the case, but it seems that students from poor backgrounds have less access to very high-income jobs in technology, finance and other fields. Class and race surely play a role.

We appear to be approaching a time when, **even for middle-class students, the economic benefit of a college degree will begin to dim. Since 2000, the growth in the wage gap between high school and college graduates has slowed to a halt; 25 percent of college graduates now earn no more than does the average high school graduate.**

Classical Liberal Values: Liberal Values like free speech, intellectual diversity, and rationality are under attack at American universities, as Orwellian DEI activism takes the place of academic standards and intellectual rigor

Beienburg 23– [Gold Water Institute. (2022, July 5). Retrieved October 4, 2023, from Goldwater Institute website: https://www.goldwaterinstitute.org/our-team/matt-beienburg/] Joel.

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American college campuses hold themselves up as paragons of intellectual diversity, but in reality, they've long been an oasis for left-wing activism. But only recently has their incubation of controversial ideologies such as critical race theory burst into the public consciousness and created a conflict with many institutions' core tenets. Indeed, **in sharp contrast to even the heyday of 1960s campus radicalism, colleges have embraced activist principles that directly undermine their core commitments to free expression, academic inquiry and fearless pursuit of truth.**

Nowhere is this clearer than in the behemoth of "diversity, equity and inclusion" (DEI) initiatives, which have established a new campus orthodoxy. Under the banners of DEI, "anti-racism" and similar mantras of social justice, colleges are increasingly making clear that dissent from progressive tenets on race and gender is simply unwelcome. For instance, the American Enterprise Institute has documented that nearly one out of every five college faculty job postings now includes a mandatory "diversity statement," in which candidates are expected to expound upon their support for diversity, equity and inclusion. (AEI's estimate, from 2021, likely dramatically *undercounts* the true current total. For example, **the Goldwater Institute,** where I work**, has documented that up to 80% of job postings for new faculty hires at Arizona's public universities now require a "diversity statement.")**

But lest the high rates of mandatory diversity statements be confused with suggesting broad institutional support for *intellectual* diversity, colleges have used specific rubrics that penalize applicants for answers that endorse concepts like colorblind equality. As National Association of Scholars senior fellow John Sailer has revealed, for instance, **schools like the University of South Carolina award the minimum score to any job applicant who "explicitly states the intention to ignore the varying backgrounds of their students and 'treat everyone the same**.'" Even though such screening practices have been widely condemned by scholars such as New York University professor Jonathan Haidt, institutions like the University of California, Berkeley have rejected as many as three-quarters of applicants for unsatisfactory diversity statement responses, regardless of the candidates' credentials.

While diversity statements have undermined the intellectual freedom and integrity of American colleges at this first stage of faculty hiring, related efforts are also now chilling the speech of those already admitted to or employed by the universities. As the First Amendment advocacy organization Speech First has chronicled, for example, over *half* of public and private universities now operate "bias reporting systems," which encourage college students to monitor and report on speech they find politically incorrect, offensive or otherwise undesirable. Ostensibly established to create more welcoming and inclusive campus environments, **such reporting systems more closely resemble an Orwellian surveillance state in which dorm room conversations, classroom discussions or any other campus exchanges are subject to politically motivated reprisal.**

Indeed, **these systems are so antithetical to free speech and debate that at Oklahoma State University, students may file complaints against peers for "bias," defined as "a disproportionate weight in favor of or against an idea or thing, usually in a way that is close-minded, prejudicial or unfair**." As Speech First has reported, at the University of Tennessee at Knoxville, **"any student found to be responsible for an act of bias" can face "disciplinary actions up to and including permanent dismissal from the university."** **Such censorship not only does a disservice to the climate of campus debate, but also ultimately destroys a core pillar of the college value proposition: the opportunity to challenge assumptions and debate ideas freely.**

Alongside these bias reporting systems, **American universities now employ armies of administrators via new DEI offices, which are charged with saturating campus life and curricular programming with "diversity."** As the Heritage Foundation has documented, for instance, these non-faculty roles have ballooned so extensively that **"the average institution … lists 1.4 times as many DEI personnel as tenured or tenure-track history professors."** The fruits of such DEI thought leaders have ranged from the merely symbolically absurd—such as declaring the word "field" too problematic (for its connection with slavery)—to the wholesale dismantling of standards via the elimination of testing requirements like the SAT.

Such anti-intellectualism threatens to erode not only colleges' commitment to free inquiry, but also universities' basic academic rigor and the institutions' value in preparing students for life after graduation. As sociologists Richard Arum of the University of California, Irvine and Josipa Roksa of the University of Virginia found over a decade ago, **nearly half of college students "did not demonstrate any significant improvement in learning" during the first two years of their college experience—with over a third failing to do so even after four years.**

Likewise, **Gallup has more recently observed a cratering level of confidence in colleges' ability to actually prepare students for the workforce**. According to the polling firm's findings in 2023**, "only 13% of Americans strongly agree college graduates in this country are well-prepared for success in the workplace.** That's down from 14% two years ago and 19% three years ago. This is effectively a 'no confidence' vote in college graduates' work readiness."

While it remains too early to quantify the extent or acceleration of these trends going forward**, it is clear that the abandonment of objective scholastic standards in favor of new campus doctrines like DEI threatens to exacerbate these already precarious conditions.**

Cost

Forgiving all federal student loans would cost about $1.6 trillion, exceeding the *cumulative* spending on many major antipoverty programs over past decades, including food stamps and unemployment insurance

Looney 23– [Adam Looney | Brookings. Brookings. Published September 27, 2023. Accessed October 1, 2023. https://www.brookings.edu/people/adam-looney/] Joel.

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Even modest student loan forgiveness proposals are staggeringly expensive and use federal spending that could advance other goals. The sums involved in loan-forgiveness proposals under discussion would exceed *cumulative* spending on many of the nation's major antipoverty programs over the last several decades.

There are better ways to spend that money that would better achieve progressive goals. Increasing spending on more targeted policies would benefit families that are poorer, more disadvantaged, and more likely to be Black and Hispanic, compared to those who stand to benefit from broad student loan forgiveness. Indeed, **shoring up spending on other safety net programs would be a far more effective way to help low-income people and people of color.**

Student loan relief *could* be designed to aid those in greater need, advance economic opportunity, and reduce social inequities, but only if it is targeted to borrowers based on family income and post-college earnings. Those who borrowed to get college degrees that are paying off in good jobs with high incomes do not need and should not benefit from loan-forgiveness initiatives that are sold as a way to help truly struggling borrowers.

In terms of its scale in budget and cost to taxpayers, **widespread student loan forgiveness would rank among the largest transfer programs in American history.** Based on data from the Department of Education, forgiving all federal loans (as Senator Bernie Sanders proposed) **would cost on the order of $1.6 trillion.**[1] Forgiving student debt up to $50,000 per borrower (as Senators Elizabeth Warren and Chuck Schumer have proposed) would cost about $1 trillion. **Limiting loan forgiveness to $10,000, as President Biden has proposed, would cost about $373 billion. Under each of these proposals, all 43 million borrowers would stand to benefit to differing degrees.**

To put those numbers in perspective, the chart below compares the cost of these three one-time student loan forgiveness proposals against *cumulative* spending on several of the country's largest transfer programs over the last twenty years (from 2000 to 2019, adjusted for inflation).

Forgiving all student debt would be a transfer larger than the amounts the nation has spent over the past 20 years on unemployment insurance, larger than the amount it has spent on the Earned Income Tax Credit, and larger than the amount it has spent on food stamps. In 2020, about 43 million Americans relied on food stamps to feed their families. To be eligible, a household of three typically must earn less than $28,200 a year. The EITC, the nation's largest antipoverty program, benefitted about 26 million working families in 2018. That year, the credit lifted almost 11 million Americans out of poverty, including about 6 million children, and reduced poverty for another 18 million individuals.

Educational Quality

Student loan forgiveness will incentivize students to choose cheaper, 'discount' universities as their cost relative to 'high quality' universities decreases

Jacobsen 8/22– [Jacobsen, P. (2022, August 31). Biden's Forgiveness Proposal Means Lower Quality Education | Peter Jacobsen. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/bidens-forgiveness-proposal-means-lower-quality-education/] Joel.

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As I predicted, Biden's latest policy announcement spelled the end of the student loan payment pause which began during Covid-19 lockdowns. However, ending the pause alone would be too unpopular so, along with that news, Biden announced student loan forgiveness.

Individuals making less than $125,000 a year will have $10,000 of their federal student loan balance removed if the order proves successful.

Many side-effects of the policy have been targeted for criticism. Rising college costs, increasing inflation, regressive effects, and moral hazards for future borrowers have been considered.

However, as an economist I noticed that one incentive has been ignored. **If people expect future loan forgiveness to happen in this way, they will choose lower quality colleges, everything else constant.** Why would loan forgiveness make people choose lower quality colleges?

Let's explain with some intermediate economics.

To see why students will be more likely to choose low-quality education, let's consider a simplified example.

Imagine there are two universities: High Quality University (HQU) and Low Quality University (LQU).

HQU offers students better classes, amenities, and connections. It is "high quality" in every sense. **Let's say HQU costs $40,000 a year.** (In reality, expensive universities are more than this, but using a larger number wouldn't change the results.)

On the other hand, LQU is a budget university. Class selections are limited, living spaces are in disrepair, and there is no promise of an expansive alumni network to offer new grads jobs. Due to this lower quality**, LQU is less expensive, with a price tag of, say, $20,000.**

Notice the *relative* cost of these two universities. HQU is double the price of LQU. Or, put differently, with the resources used to go to HQU one time, students could attend LQU two times. If these are the two options, the opportunity cost of attending HQU is two trips to LQU. Likewise, we could also say the cost of attending LQU is forgoing half a trip to HQU.

Enter loan forgiveness.

What's important about Biden's forgiveness plan for our example is that it offers a fixed payout for every student *regardless of university quality*. So let's see what forgiveness does to the relative cost of these universities.

With $10,000 in forgiveness, the price of HQU (faced by students) falls from $40,000 to $30,000. The price of LQU falls from $20,000 to $10,000. It's possible colleges could raise tuition in response, but we'll hold that consideration unchanged for now (or in economist speak: ceteris paribus—"all else equal").

Before the loan forgiveness, remember that HQU was double the price of LQU. Things have changed now. After the forgiveness, HQU is *triple* the price of LQU ($30,000 compared to $10,000).

In other words, going to HQU once would cost you three trips to LQU. Before forgiveness the cost was two trips. Thus, while the relative "price" of HQU has gone down, the "cost" of HQU in terms of lost opportunities has gone up. The following table summarizes the change:

	HQU	LQU	Relative Cost
Before Loan Forgiveness	**$40,000**	**$20,000**	HQU is **2x** more expensive than LQU
After Loan Forgiveness	$40,000-$10,000 =**$30,000**	$20,000-$10,000 =**$10,000**	HQU is **3x** more expensive than LQU

The result is that high-quality education is relatively more expensive compared to low-quality education than before the loan forgiveness. If people expect future forgiveness that takes this form, they'll be making their education decisions with this fact in mind.

How will this impact education decisions? Well, if the cost of apples increases relative to oranges, we'd expect people would buy fewer apples and more oranges. Likewise, **if the cost of high-quality college increases relative to low-quality college, we'd expect people to buy less high-quality education and more low-quality education.**

Graduate Students

High Earners: Student Debt cancellation would most help high earners with high debt loads, like doctors, lawyers and PhDs in various fields

Miller et al. 19– [Addressing the $1.5 Trillion in Federal Student Loan Debt. (2019, June 12). Retrieved October 6, 2023, from Center for American Progress website: https://www.americanprogress.org/article/addressing-1-5-trillion-federal-student-loan-debt/] Joel.

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Colleen Campbell is a research analyst at the Institute for Higher Education Policy (IHEP), where she is responsible for managing projects and conducting data analysis for the organization's work on postsecondary data and related topics. Campbell is primarily interested in higher education finance, student aid mechanisms, interdisciplinary education, and institutional organization and leadership. She graduated from the University of Michigan's Gerald R. Ford School of Public Policy and Center for the Study of Higher and Postsecondary Education in 2014, where she earned an M.P.P and an M.A. in higher education.]

How simple is it from a borrower standpoint? This policy should be easy to implement for borrowers, since it should not require any opting in or paperwork.

How broad is its impact? This policy would help all 43 million federal student loan borrowers.

Will it feel like relief? Yes—borrowers will not have to make any payments, so they will feel the change.

Who are the greatest beneficiaries? From a dollar standpoint, the highest-balance borrowers have the most to gain from this proposal—especially those who also have higher salaries. They would experience the greatest relief in terms of reduction of monthly payments while also having the wages to otherwise pay back the debt. This is because undergraduate borrowing is capped in law at $31,000 or $57,500, depending on if they are a dependent or independent student, whereas there is no limit on borrowing for graduate school. Those who have higher incomes would also feel larger benefits by freeing up more of their earnings to put toward other purposes. Therefore**, those with debt from graduate education, especially for high-paying professions such as doctors, lawyers, and business, would significantly benefit.** That said, this proposal would help anyone who is particularly worrying about or struggling with their student loans—whether they are in or nearing default. In addition, research suggests loan cancellation would help stimulate national gross domestic product, which has broad-based societal benefits.

What is the biggest advantage? The policy is universal, and it could be implemented without the need of action on the part of borrowers as long as there are no tax implications for forgiveness.

80%: Graduate debt is ½ student loan disbursements, and would account for 80% of projected student loan forgiveness

Dealing with graduate debt would require non-topical reforms like capping graduate school tuition or auditing graduate school programs

Delisle & Cohn 22– [Master's Degree Debt and Earnings. (2022, December 13). Retrieved October 7, 2023, from Urban Institute website: https://www.urban.org/research/publication/masters-degree-debt-and-earnings] Joel.

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Policymakers enacted a series of reforms in the mid-2000s that significantly expanded benefits in the federal student loan program for students pursuing graduate degrees. These reforms allow students to borrow up to the full cost of attendance for their degrees and use an Income-Driven Repayment (IDR) program that offers loan forgiveness after 20 years of payments or as early as 10 years for those who use the Public Service Loan Forgiveness Program. **Debt for graduate school now accounts for half of disbursements in the loan program and 80 percent of the projected loan forgiveness in IDR, or about $17 billion annually.** Yet despite virtually unlimited access to federal loans and the availability of a generous IDR program, **policymakers have done little to prevent institutions from offering high-cost programs and those that consistently leave students with high debts relative to their incomes.**

To inform the future development of quality assurance policies, we analyze debt and earnings data in the Department of Education's College Scorecard for master's degree programs. Calculating a debt-to-earnings ratio for each type of master's degree, we find:

- **Master's degrees in social work, counseling, and mental health are the most common among those with high debt-to-earnings ratios, accounting for about half of master's degrees with the highest debt-to-earnings ratios.** Music and fine arts degrees are also prevalent among programs where graduates have high debts relative to their incomes, but these programs are generally small and only account for 7 percent of high debt-to-earnings programs overall.

- **Some master's degrees that policymakers often worry lead to unaffordable debts but are socially valuable, such as those in teaching and nursing, are far less likely to result in high debt-to-earnings ratios than other masters' degrees**. Debt-to-earnings ratios for teaching are in line with what is typical for master's degrees generally, and **nursing degrees tend to result in some of the lowest debt-to-earnings ratios.**

- Private non-profit institutions are heavily overrepresented among master's degree programs that lead to high debt-to-earnings ratios and account for nearly 80 percent of the master's degrees that result in the highest debt-to-earnings ratios.

- **Black and Hispanic students are overrepresented in programs with the highest debt-to-earnings ratios, as are women**. The share of students in high debt-to-earnings master's degree programs who received Pell Grants as undergraduates because their families have low or moderate incomes is, however, similar to the share among the overall population of master's degree recipients.

- **A quality assurance policy that sanctions programs where graduates' debt exceeds their early-career earnings would affect nearly one in four master's degree recipients who borrow.** A higher debt-to-earnings limit, such as one that sanctions programs with debt that exceeds 150 percent of early-career earnings would affect programs that enroll about 7 percent of master's degree recipients.

- **Reinstating the $20,000 annual limit on federal student loans for graduate students could affect about half of master's degree programs**, including many with low debt-to-earnings ratios. **A $30,000 annual limit would better target programs with the highest debt-to-earnings ratios but would still affect many master's degrees in high-earning health care fields.**

Although federal loan policies increase access to graduate degrees and the economic payoff they provide, these policies also entail risks for both students and taxpayers. The College Scorecard provides a new source of information that policymakers can use to determine where those risks are greatest and gauge the potential effects of quality assurance policies that target programs where borrowers take on high debt relative to what they can expect to earn with their degrees.

Inflation

College-side: Student loan forgiveness will inflate the cost of college tuition, as educational institutions can charge more for degrees financed by taxpayers

Young 22– [Student Loan Forgiveness Is Regressive, Will Increase Tuition - Competitive Enterprise Institute. (2022, August 25). Retrieved October 4, 2023, from Competitive Enterprise Institute website: https://cei.org/blog/student-loan-forgiveness-is-regressive-will-increase-tuition/] Joel.

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The loan forgiveness has an income cutoff of $125,000, which is twice the average American income. It also nearly four times the $26,500 poverty line for a family of four, and nearly 10 times the $12,880 poverty line for an individual. Given the poor targeting and the close timing with the upcoming midterm elections, this round of loan forgiveness likely has more to do with politics than poverty.

A longer-term problem is that student loan cancelation will raise the cost of college. As it is now, many families are willing to save and sacrifice for years to pay for their children's educations. Loan forgiveness will not change this. Parents will continue to do everything they can to send their kids to college, and universities know this.

With a $10,000 subsidy, colleges can charge $10,000 more for a bachelor's degree. They will just tell families they can take out a larger loan, which will later be forgiven. For other types of subsidies, they can tell families they are offering a $10,000 discount from an artificially high sticker price. Families will still pay the same amount they do now while thinking they are getting a discount. Taxpayers will give universities the extra $10,000 behind the scenes, in this case through paying for loans.

Much of the new money will never reach the classroom. Since 2003, for example, Yale's administrative staff has grown by 1,500 people, or nearly 45 percent. The student body grew by 600, or about 9 percent. Other funds get spent on sports facilities, aquatics centers, and lavish dormitories that look great in brochures, but that students and families might not be willing to pay for if they were aware of their true costs.

This dynamic has already been happening for years with existing lending and financial aid programs. Subsidies are a major reason why college tuition has been increasing faster than inflation for decades. Runaway college costs are an unintended consequence of subsidies, but not an unforeseeable one.

President Biden's proposal will make existing tuition bloat even worse, while redistributing income upward. It might make for good politics, but it's a bad long-term deal for poor and middle-class families.

Consumer-side: Student loan forgiveness will inflate the cost of college tuition, as borrowers have little incentive to shop for cost-friendly education

Carden 19– [Carden, A. (2019, July 3). If Student Loans Might Be Forgiven, Why Not Borrow More? | Art Carden. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/if-student-loans-might-be-forgiven-why-not-borrow-more/] Joel.

[Art Carden is a Professor of Economics, author of *Leave Me Alone* and *I'll Make You Rich: How the Bourgeois Deal Enriched the World* published in 2020, co-editor of Southern Economic Journal, and recipient of the 2021 Faculty Outstanding Scholarship Award at Samford.]

The prospect of being able to enjoy good times now and stick other people with the bill later encourages people to be less-than-completely-responsible right now. My kids are seven, nine, and almost-eleven, and we're very fortunate in that I work at an institution with an employee tuition benefit (which means, of course, that my salary is lower--so it's not exactly "free" tuition), but there are a lot of other expenditures that go into college beyond tuition. If student debt cancellation is on the horizon within the next couple of decades, we now have an incentive to change how we plan to finance their college education and what they plan to study.

There are three important effects here. **First, the prospect of student debt cancellation encourages us to finance the entire thing with borrowed money. Why pay now or go to the trouble of trying to earn scholarships if we can borrow on the cheap and have a reasonable expectation that taxpayers will ultimately be left with the bill**? **Second**, **why should we be price-sensitive college shoppers, and why should colleges work to contain costs if there's a good chance it will all be paid for with other people's money**? **Third**, **we have incentives to borrow a lot of money to pursue boutique degrees with limited job prospects if (again) we know that someone else is going to pay the bill.**

As EconTalk host Russell Roberts explained it in the mid-90s, **if we go to a restaurant and know that someone else is paying, we have incentives to order the best thing on the menu, drinks, appetizers--the whole lot. If you go to dinner with a few friends, it's relatively easy for you to monitor one another and check anyone who seeks to take advantage of the situation. It's a lot harder to do this in larger groups, and as the benefits get more concentrated and the costs get more dispersed over a larger and larger population, people have stronger incentives to take advantage of everyone else**. What's more**, given our psychological proclivities and our tendencies to be self-serving, it can be pretty easy to convince ourselves that we're *actually* doing everyone a favor by borrowing tons of money to study something that doesn't translate into employable skills.**

Student debt cancellation is already suspect because it redistributes wealth upward. As we can see**, the prospect of debt cancellation changes people's incentives for the worse. I don't know if I would call it the *worst* idea ever, but it's certainly not a good one.**

Status Quo

Interest suspension: Suspension of interest on student loans which started during Covid means that student debt forgiveness is already well underway, with an average of $3000+ forgiven per borrower (as of July 2022 – the number is higher now)

Jacobsen 7/22– [Jacobsen, P. (2022, July). Student Debt Forgiveness Is Already Happening Because of the Payment "Freeze" | Peter Jacobsen. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/student-debt-forgiveness-is-already-happening-because-of-the-payment-freeze/] Joel.

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In March of 2020, Donald Trump paused federal student loan payments and "froze" interest accumulation in an effort to help borrowers through the difficulty of pandemic shutdowns.

The Oval Office has changed occupants, pandemic shutdowns have ended, but the payment and interest freeze has been extended several times. **As Friedman quipped, "there's nothing so permanent as a temporary government program."**

When Brad Polumbo and I wrote about temporary pandemic programs (including the student-loan payment freeze) becoming permanent in September, I noticed some criticism in the line of "the programs are still here because the pandemic is still here."

Well, for what it's worth, Fauci now says we're out of the pandemic phase. Of course, some may simply disagree with Fauci. To some, we may never be.

In any case, **the student loan payment freeze has certainly outlasted the government shutdown**. And, although there are many problems in the economy right now, it wouldn't be hard to point to worse economies in the past when student loan payments were still being collected.

So I think **it's safe to say that the payment freeze has moved on from being temporary relief, and it can now be better classified as "student loan forgiveness".**

Whose Interest?

Why would a pause on payments and interest accumulation fall under the category of student loan forgiveness?

Well, every day this program continues, borrowers are exempted from paying interest they agreed to pay. Or, put differently, the federal government is taking the hit for the monthly interest payment in terms of lost cash inflows.

Ultimately, this means taxpayers are the generous ones picking up the tab. Why? Well, **when the federal government chooses not to charge interest it is owed, the revenue of the government is lower than it would be.**

All government spending must ultimately be financed with government revenue. **So when the government spends money or borrows money, it must ultimately come from the taxes it collects** (for the sake of simplicity we'll ignore revenue via seigniorage).

So **if the government decides to spend the same amount it budgeted to spend before freezing interest, and it receives less money from interest due to the freeze, it must take more money from present or future taxpayers.**

Alternatively, **even if the government decided to spend *less* money to offset the lack of interest received** (an otherworldly scenario)**, taxpayers would still be worse off because they'd be paying the same taxes for less government services provided.**

In either case, taxpayers are left holding the bag. Student loan holders who don't have to make payments or deal with interest accumulation are better off. Interest is forgiven on the public's dime.

How Much Have We Forgiven?

If you're not a finance person, this might seem minor. How much could this really be costing? Well, in the first few months, it was probably not that much. But **the thing about interest is, it compounds.**

To estimate the total revenue the federal government has forgone with this freeze, let's do a simple back-of-the-envelope estimate.

Student loan interest compounds daily, but the rate on the loans is represented in annual terms. In other words, a 4% interest rate on your federal student loans means your balance will be 4% larger at the end of the year if you didn't pay anything toward the initial loan amount itself.

For simplicity's sake, imagine you had a loan of $100, and a 4% interest rate in annual terms. At the end of the year, you'd owe 100*1.04=$104. Next year the 4% interest would accumulate on the balance of $104 so your new balance would be $104*1.04=$108.16.

In reality, this *understates* the growth of the loan balance because of factors dealing with how annual interest rates are expressed compared to how interest compounds, but this simplification will do for a conservative estimate.

So to find the total amount of interest forgone, we need the balance of federal loans and the average interest rate (weighted by loan amount).

Average interest rate data are difficult to come by. Educationaldata.org claims the average rate for Federal Student Loans is 4.12%. But this number is just an average of interest rates since 2013, not a weighted average. It also uses only undergraduate loans which have lower interest rates. If you extend that back to 2007, you get an unweighted average of 4.66%.

I also did some quick calculations using Federal Reserve Data on outstanding student loans to determine the weight of different years. This gave me a weighted average of 4.69%. Lastly, If I use only the last 10 years, I get a weighted average of 4.03%.

Since most federal student loans are paid off in 10 years, let's stick with the lower 4.03%, which will provide a more conservative estimate anyways. (My guess is this is much lower than reality, but it provides some guidance.)

We have an interest rate, but what about an amount? Well**, outstanding Federal Student Loan debt is $1.61 trillion.**

Finally, as a last simplifying assumption, **I'll be calculating the forgiveness over two years.** It's been 2 years and 3 months, but not including the last 3 months of forgiven interest provides a more conservative estimate.

So, compounding 4.03% interest on $1.61 trillion twice leaves a total balance of $1.74 trillion. This means **a total of over $130 billion dollars in interest has been forgiven. Since there are 43 million borrowers, this comes out to an average of around $3,078 of interest forgiveness per borrower**. In other words, we're already 30% of the way to Biden's $10,000 forgiveness dream.

Forgiving Who?

As a recent FEE article summarized, student loan forgiveness tends to benefit the wealthy at the expense of the poor and middle class. Economists call this sort of policy *regressive* (not to be confused with the "going backward" meaning of the term).

It's clear why. **Those with large student loan balances tend to be people pursuing higher-paying careers with an expensive education. Being a doctor or a lawyer is lucrative but becoming one is expensive.** And top liberal arts schools charge higher tuition than state schools.

The student loan payment freeze is in some ways *even more regressive*. Remember, the $3,078 of forgiveness was an average. That means some borrowers are benefiting more than that and some are benefiting less. **Unlike a flat $10,000 forgiveness, which at least forgives all borrowers equally, the interest freeze is most beneficial for those with large loan balances.**

Bankrate claims **the average lawyer graduates with $165,000 in student loan debt. At the interest rate of 4.03% this translates to over $13,000 in forgiven interest**. In fact, anyone with student debt more than $125,000 has already received more than the $10,000 in forgiveness Biden has promised. **Compare this to someone who graduates from a regional college with $10,000 in debt. This only translates to around $800 in forgiveness.**

To sum up, **student loan forgiveness is already here. And it's already helping the rich at the expense of the poor.**

November 23: The United States federal government should forgive all federal student loan debt.

SAVE: the SAVE plan, Biden's Income-Driven Repayment (IDR) Plan, is already forgiving huge amounts of student loans, despite the Supreme Court's recent ruling against loan forgiveness—contrary to established law, "loan forgiveness is just a few bureaucratic tweaks away"

Jacobsen 7/23 –[Jacobsen, P. (2023, July 5). Biden Begins Shadow Loan Forgiveness Plan | Peter Jacobsen. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/biden-begins-shadow-loan-forgiveness-plan/]

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Last week, the Supreme Court ruled against the Biden administration's student loan forgiveness proposal which would have forgiven $10,000-$20,000 of student loans per borrower. But the fight for student loan forgiveness isn't going anywhere.

In a previous article for FEE, I highlighted how student loan forgiveness has already been happening and started under president Trump due to the freeze on interest accumulation. Although this may not be as visible as a $10,000 lower balance, **frozen interest means the real cost of taking a loan out became smaller than the initial terms suggested.**

This highlights a simple truth about student loan forgiveness—the Biden administration has already and can continue to forgive student loans in spite of this ruling. In fact, they already have plans to do so.

Almost immediately after the Supreme Court decision was announced, the Biden administration announced their response.

Perhaps the most important announcement by the Department of Education was the introduction of a new student loan repayment plan—the SAVE plan.

The SAVE plan is a modification of the current REPAYE plan. Both of these plans are **considered income-driven-repayment (IDR)** plans.

IDR plans are complicated, but **essentially** they **limit the size of a borrowers monthly payment based on income.** The payment calculations depend on the borrower's income relative to the poverty line.

Under the new guidelines by the Department of Education, someone making 225% of the federal poverty rate will now have their income completely protected from payments according to Fox Business. That means borrowers earning $32,805 or a family of four with income of $67,500 will be required to make payments of $0.

Even borrowers who make more than those amounts who qualify for a SAVE plan will see lower payments.

But wait, won't low or zero dollar payments mean the interest on these loans will grow out of control? Nope. The administration is capping interest rates to make sure loan balances don't grow. **So how much do we expect someone to pay on a student loan with a required payment of $0 and no interest accumulation? It's not hard to see that this is just shadow forgiveness.**

It doesn't end here either. **IDR plans already offered loan forgiveness to borrowers who made payments for 20-25 years.** So borrowers who have a small payment under Biden's new SAVE plan will see their balances disappear eventually based on already existing rules.

So, if a borrower qualifies for a $100 monthly payment, and they pay that over 20 years, that's a total repayment of $24,000 (not even including the fact that the present value is lower). So **if someone has a $50,000 student loan, that means they got forgiveness of $26,000. That dwarfs Biden's $10,000 forgiveness promise struck down by courts.**

Not only that, borrowers can get even more forgiveness if they take jobs in the government or non-profits. The Public Service Loan Forgiveness (PSLF) program grants forgiveness after just 10 years of payments to those who work for qualifying public and non-profit jobs. Using the previous example, that would increase forgiveness to $38,000 of the $50,000

The Cost of Our Student Loan System

It would be nice if the cost of this convoluted shadow forgiveness program was limited to the dollar value of the forgiveness (which ultimately is borne by taxpayers). But that isn't the full cost.

Perhaps an even worse aspect of this system, is it distorts the incentives of future generations in making career decisions. The current system, exacerbated by the Biden Administration's new plans encourages and rewards those who take out massive student loans to pursue jobs which consumers do not value highly.

Even more damaging, **the new repayment program exacerbates the use of PSLF which encourages workers to avoid value creating private sector jobs, and, instead, pursue wealth-extracting public sector jobs.**

What world-improving things would have been created had individuals been left to become educated at their own expense? Those forgone benefits will go largely unseen a la Bastiat.

On the other hand, many will experience direct benefits from these programs which are very visible, making the programs very hard to end.

So while some have celebrated the Supreme Court decision as defeating loan forgiveness once and for all, I'm not nearly so optimistic. So long **as the Department of Education has administrative control over the country's student loan system, loan forgiveness is just a few bureaucratic tweaks away.**

At this point, the only way the Supreme Court would be able to do anything about it is if they declared the Department of Education itself unconstitutional. But I doubt this will ever happen. **Unfortunately, the administrative state seems to always be forgiven.**

Moral Hazard

Cancelling debt creates a Moral Hazard, whereby students are incentivized to borrow more in the future because they presume their debt will also be forgiven—non-topical policy changes would be required to avoid this moral hazard

Fullwiler et al. 18– [Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum . The Macroeconomic Effects of Student Debt Cancellation. (2021). Levy Economics institute. Retrieved October 3, 2023 from https://www.levyinstitute.org/pubs/rpr_2_6.pdf] Joel.

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Catherine Ruetschlin is the Associate Director of the Economic Evaluation Unit at the University of Utah. She produces economic research for state and federal agencies to inform evidence-based policy.]

The best context for student debt cancellation is one where a high-quality college education is available to all students who seek it without the need for debt financing**. Without a change to our current system of increasingly private responsibility for funding higher education, households will continue to meet the growing cost of a college degree by taking on debt, diverting household resources from other types of investment and consumption. The primary theoretical criticism of debt cancellation plans focuses on the reaccumulation of debt following the cancellation, in particular the potential for problems of moral hazard to arise. From this perspective, debt relief today could change the incentives of future student debtors who may increase borrowing with the expectation that the loans will be forgiven, causing an even faster accumulation of debt and increasing the negative consequences at the household, local, and macroeconomic levels.** The perverse incentives for unsustainable borrowing in this scenario are the result of inappropriate policy institutions that absolve borrowers of their debts while perpetuating the necessity of increasing debt. In order to avoid problems of moral hazard, **any restructuring of student debt—including our debt cancellation proposal—should be accompanied by strong and appropriate policies that enforce the consequences of borrowing and address the market failures that lead to undesirable social costs. In combination with debt cancellation, publicly funded free or debt-free college would provide the institutional reform necessary to avert the problem of moral hazard.**

Although complementary reform of higher education financing should accompany a student debt cancellation, this research is focused on the specific question of the impact of total cancellation of current debts. It is not an attempt to study the institutions necessary to frame a debt cancellation. Each model in this report isolates the effects of debt cancellation. In Moody's structural macroeconomic model, the cancellation is evaluated in the context of the Clinton Compact, a policy making debt-free public college attainable for more than 80 percent of households and largely eliminating the need for future debt associated with a four-year college degree. The difference between the modeled effects of debt-free college alone and debt-free college in conjunction with a program of student debt cancellation is the positive impact of debt cancellation in the absence of moral hazard. **In the Fair model scenario, student debt reaccumulates beginning in the first quarter following the cancellation**. No complementary policy is incorporated into the simulation. Each model imposes an institutional context in which moral hazard problems do not arise in order to focus the analysis on student debt cancellation.

Timeframe: it is likely debt will return to normal in less than a decade.

CRFB 22– [Committee for a Responsible Federal Budget. (2022, September 1). How Long Before Canceled Student Debt Would Return?. Retrieved from https://www.crfb.org/blogs/how-long-cancelled-student-debt-would-return] Sophia G.

[The Committee for a Responsible Federal Budget is a non-profit public policy organization based in Washington, D.C. that addresses federal budget and fiscal issues.]

There is currently $1.6 trillion of total outstanding federal student debt. We estimate that if all eligible borrowers receive debt cancellation, the portfolio would fall to $1.1 trillion. But **after cancellation, the loan portfolio would grow quickly and soon return to its current level in each scenario.**

Two factors drive the rapid expected portfolio growth. First, **lower balances resulting from debt cancellation would also reduce the pace of repayment relative to the current student loan portfolio.** We estimate that the amount would drop from $85 billion (assuming payments restart in January) to a little under $60 billion in the years immediately following the cancellation and then will slowly build back up. There is a lag in the increase in repayments because the portfolio would be comparatively younger, with a higher proportion of debt held by borrowers in school or in a grace period compared to before cancellation.

The lower repayment amount would exacerbate the growth in the first few years because interest will still be accruing on the new loans that are not being paid back. Since a higher proportion will be accruing interest with no principal payments made, that means faster growth for the portfolio than during normal circumstances.

Secondly, **new borrowing would continue to accrue at at least the previous pace (in reality, it would likely accrue faster due to moral hazard from debt cancellation and the new IDR program).** We use the Congressional Budget Office's (CBO) loan growth estimates for the next ten years. CBO projects $85 billion will be borrowed in 2023 and will increase through the decade, resulting in $108 billion in borrowing in 2032. In reality, **debt is likely to increase even faster than we project due to the moral hazard effect associated with debt forgiveness as well as a generous new IDR plan that could affect borrowing.**

A Short-Term Fix to a Structural Problem

We estimate that President Biden's cancellation plan will cost between $330 and $390 billion and that his full student debt plan will cost $440 to $600 billion. It would temporarily wipe out nearly a third of the student debt portfolio, but the sum of student debt will return to its current level in five and a half years, by 2028.

Instead of costly blanket loan forgiveness, should focus on policies that lead to less borrowing or better outcomes for borrowers, as opposed to policies that likely lead to more borrowing and higher tuition going forward.

Personal Debt

The covid-era pausing of student loan payments led borrowers to take on ever more debt, ending with an average of 5% more household debt

Dinerstein et al. 5/23– [Michael, Dinerstein; Constantine, Yannelis; Ching-Tse, Chen. Debt Moratoria: Evidence from Student Loan Forbearance. (2023). National Bureau of Economic Research. Retrieved October 5, 2023 from https://www.nber.org/system/files/working_papers/w31247/w31247.pdf] Joel.

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Our results speak to several policy comparisons. First, we can compare the effects of a payment pause relative to no policy change. We find that the payment pause had a large effect on immediate consumption. Policymakers focused on boosting short-term consumption, especially for stimulus effects, may then find debt moratoria to be effective policy tools at relatively low long-term fiscal cost. At the same time, **we find that the student debt payment moratorium led to higher levels of overall leverage, not only through borrowers not paying down student debt balances, but also through the accumulation of other types of household debt. By the end of the sample period, student debt borrowers have about 5% more household debt, driven roughly half by student and non-student debt.** Perhaps paradoxically, **temporary student debt relief leads to higher overall household debt levels and larger future debt burdens**. On the one hand, this increased debt could be financing productive investments or durable purchases that smooth consumption. On the other hand, **this could be a potential concern to policymakers, as both theoretical and empirical work has shown that higher levels of leverage can affect aggregate consumption and the transmission of costs through household balance sheet or debt overhang channels.**

Second, we can compare the effects of a payment pause to an announced direct transfer. As the former targets liquidity while the latter targets debt reduction, the optimal policy depends crucially on the nature of constraints households face. The larger effects from the payment pause indicate that it may be more effective in providing stimulus and consumption smoothing.

Our combination of results also highlights the potential mechanisms at play. **That outcomes only respond to the payment pause and not the loan forgiveness announcement suggests that borrowers are more constrained by limited liquidity than high balances.** Further, the finding that the increased consumption (through borrowing) is concentrated among never delinquent borrowers, whose creditworthiness hardly changes, highlights an important interaction between liquidity and credit. The policy serves as a liquidity shock that induces increased use of credit. The effects do not appear to be driven by the subset of borrowers who saw an improvement in their credit scores. This raises the question of why such credit was not previously being used. We speculate that using credit requires a certain level of liquidity for making down payments or making the first due monthly payments. This interaction between liquidity and credit is important for policy design and highlights that policymakers should consider them jointly.

Regression

Regression: Forgiving all federal student loans would be regressive, helping wealthier, whiter, and well-educated Americans more than poorer or minority Americans

Looney 23– [Adam Looney | Brookings. Brookings. Published September 27, 2023. Accessed October 1, 2023. https://www.brookings.edu/people/adam-looney/] Joel.

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Beyond the sums that debt forgiveness would represent**, the beneficiaries of student loan forgiveness would be higher income, better educated, and whiter than beneficiaries of other transfer programs**. The following table describes the economic and demographic characteristics of beneficiaries of selected income support programs as well as would-be beneficiaries of student debt forgiveness.

F**ood stamps, for instance, serve households whose median income is about $19,000 a year** (half are in poverty), and provide $2,300 annually for the average household. **Medicaid households earn about $33,000;** about 34 percent are below the poverty line. **Families that claim the Earned Income Tax Credit—the largest cash income support for working families—earn about $36,500**; their average annual benefit is about $2,200.

In contrast, the median income of households with student loans is $76,400, and 7 percent are below the poverty line. **Among those making payment on their loans** (and who would have an immediate cash flow benefit from forgiveness), **the median income is $86,500, and 4 percent are in poverty**. **If debt forgiveness were capped at $50,000, the average benefit to these households would be roughly $26,000—about the same as we provide a family living on food stamps over the course of 11 years.** In terms of demographics and educational attainment, households with student debt largely mirror the characteristics of households in the population at large, except they are better educated. Student loan borrowers are more likely to be white and highly educated. Indeed, **among those making payments on student loans the fraction of households that are white is the same as in the population at large, but they are about 70 percent more likely to have a BA and twice as likely to have a graduate degree.**

In contrast, households that benefit from federal programs, like SNAP, the EITC, SSI, or Medicaid, are more likely to be Black or Hispanic, and have much lower levels of educational attainment; few have gone to college, and almost none have a graduate degree.

For reference, among all households, the Census reports that 66 percent identify as white, 13 percent Black or African American, and 14 percent as Hispanic. About 42 percent have a BA and 18 percent a graduate degree.

In short, beneficiaries of across-the-board student loan forgiveness would be higher income, better educated, and more likely to be white than beneficiaries of just about all other programs designed to reduce hardship and promote opportunity and targeted to those who need help.

Politics: Student loan forgiveness is more political than moral, with most money going to the middle class, in order to garner more votes

Young 22– [Student Loan Forgiveness Is Regressive, Will Increase Tuition - Competitive Enterprise Institute. (2022, August 25). Retrieved October 4, 2023, from Competitive Enterprise Institute website: https://cei.org/blog/student-loan-forgiveness-is-regressive-will-increase-tuition/] Joel.

[Ryan Young is a senior economist at the Competitive Enterprise Institute (CEI). His research focuses on regulatory reform, trade policy, antitrust regulation, and other issues. His writing has appeared in USA Today, The Wall Street Journal, Politico, The Hill, Investor's Business Daily, Forbes, Fortune, and dozens of other publications. Ryan holds an M.A. in economics from George Mason University in Fairfax, Virginia, and a B.A. in history from Lawrence University in Appleton, Wisconsin]

President Biden on Wednesday **announced a plan to forgive up to $10,000 of student loans** for people with individual incomes up to $125,000, or up to $250,000 in household income. According to the National Taxpayers Union, **the total cost will be about $430 billion, or about $2,000 per taxpayer. President Biden is also apparently pushing the measure through without congressional input. Even for people who favor loan forgiveness, this is an executive power overreach.**

There are two other problems with the proposal. One, it's regressive. Two, it will raise the cost of college.

The stated goal of most income redistribution, whether through private charities or government, is to help the poor. In practice, many government-run relief programs mostly benefit the middle class and up, because that's where the voters are. Today's student loan forgiveness is just the latest example.

According to the U.S. Census Bureau, 55.5 percent of high school graduates voted in 2020, versus 77.9 percent of college graduates. College graduates also have greater lifetime earnings than high school graduates by a margin of $900,000 for men and $630,000 for women, according to the Social Security Administration. Yet **it is the more affluent of these groups that gets the $10,000 in aid.**

The loan forgiveness has an income cutoff of $125,000, which is twice the average American income. **It also nearly four times the $26,500 poverty line for a family of four, and nearly 10 times the $12,880 poverty line for an individual. Given the poor targeting and the close timing with the upcoming midterm elections, this round of loan forgiveness likely has more to do with politics than poverty.**

Inequality: Cancelling student loans would exacerbate economic inequality by mostly benefiting high earners.

Cockrell 20– [Jeff Cockrell (2020, December 20). Canceling All US Student Debt Would Mostly Benefit High Earners. (n.d.). Retrieved from https://www.chicagobooth.edu/review/canceling-all-us-student-debt-would-mostly-benefit-high-earners] Sophia G.

[Digital Editor and Deputy Print Editor, Chicago Booth Review]

There are a number of ways policy makers could go about relieving some of this burden, and Catherine and Yannelis focus on three broad approaches to debt cancellation: universal forgiveness (canceling all student debt for everyone), capped forgiveness (canceling up to $10,000 or $50,000 of every borrower's student debt), and targeted forgiveness (wherein borrowers' relief is tied to their income). Using data from the Federal Reserve Board of Governors' 2019 Survey of Consumer Finances, the researchers examine how student debt is distributed throughout the income spectrum, and how that would define the beneficiaries of various debt-relief plans.

They find that **following universal student-debt forgiveness, the average person in the top decile of the earnings distribution would receive more than five times as much relief as the average person in the bottom decile**, **and almost half of all relief would go to people in the top 30 percent of the distribution.** "Patterns are similar under policies forgiving debt up to $10,000 or $50,000," they write, "with higher-income households seeing significantly more loan forgiveness."

Canceling student-loan debt could exacerbate US economic inequality

While the highest-income groups have about twice the student debt as the lowest-income groups, research finds that **across-the-board loan forgiveness would disproportionately benefit the rich, saving them well more than twice as much money.**

There are two primary reasons why the better off would benefit most, Catherine and Yannelis explain. First, as prior analyses have shown, loan balances are correlated with income. Broadly speaking, before surgeons, lawyers and executives embark on their lucrative careers, they often amass large debts from advanced-degree programs. But just looking at balances understates the degree to which the benefits of student-debt forgiveness would pool at the top of the income distribution, the researchers say. Focusing on the balance of a loan ignores its present value—the total value today of all future payments on the loan, factoring in the rate of return that money would earn on a risk-free investment.

That gets to the second reason: The **researchers find that because borrowers further down the income distribution are less likely to repay their loan in full, the ratio of a debt's present value to its balance increases with income. For those in the bottom income decile, the present value of student debt is about 40 percent of the balance, whereas present value and debt balance are almost equivalent for those in the top decile.** "Once you factor that in," Yannelis says, "universal student-loan forgiveness policies are actually much more regressive than if we simply look at balances, because the ratio of present values to balances is much lower at the bottom of the income distribution relative to the top."

Unfair

Fairness: Student loan forgiveness is unfair to students who worked hard to pay for college, to students who attended less prestigious schools to avoid debt, to students in the trades, and to all taxpayers who will shoulder weight of student loan forgiveness

Davies & Harrigan 21– [Davies, A., & Harrigan, J. R. (2021, January 28). 3 Unintended Consequences of Student Loan "Forgiveness" | Antony Davies, James R. Harrigan. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/3-unintended-consequences-of-student-loan-forgiveness/] Joel.

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James R. Harrigan is a Senior Editor at the American Institute for Economic Research. He is also co-host of the Words & Numbers podcast. Dr. Harrigan was previously Dean of the American University of Iraq-Sulaimani, and later served as Director of Academic Programs at the Institute for Humane Studies and Strata, where he was also Senior Research Fellow. He was also Managing Director of the Center for Philosophy of Freedom at the University of Arizona.]

Second, colleges and universities will respond to this new reality by raising tuition commensurately. Tuition and fees were a pretty constant 18 to 19 percent of family income from the 1960s until 1978. In 1965, the federal government started guaranteeing student loans. In 1973, Congress established Sallie Mae and charged it with providing subsidized students loans. And by 1978, tuition and fees had started a steady march to 45 percent of family income today. When the government makes it less painful for students to borrow, whether by guaranteeing, subsidizing, or forgiving loans, it takes away some of the pain of student borrowing, which makes it easier for colleges and universities to raise tuition.

Third, **expect many taxpayers to cry foul**. **Homeowners will quite sensibly wonder why the government is not forgiving their mortgages. After all, student loans add up to about $1.4 trillion, while American mortgages total more than $16 trillion. If relieving students from the burden of their debts is a good idea, it should be an even better idea to relieve homeowners of theirs.**

What about students who worked multiple jobs or attended less prestigious schools so they could avoid going into debt? Why aren't they being rewarded? **What about students who diligently paid off their debt and are now debt free?** Will they receive nothing? **What about**, fantastically, **people in the trades? Is it reasonable to charge people—via the higher taxes loan forgiveness will bring—who did not go to college to subsidize those who do?** Regardless of the answers to these questions, implementing this plan will be fraught with difficulty.

In the end, there are three big winners in this scheme. Universities will be able to raise their prices even more, because students will, all of a sudden, have extra money to pay. Students who took on gargantuan levels of debt will be able to force their fellow citizens to pick up the tab. And finally, politicians will buy votes by appearing to be magnanimous with other people's money.

The big losers are future students, who will see tuition spike yet again, working-class Americans who suddenly find themselves stuck paying for other people to go to college, and taxpayers in general who will be—as always—left holding the bag.

Accountability: Blanked-forgiveness sends the wrong message – that you don't need to take responsibility for your decisions

Cohen 22– [Cohen, Steve. National Service for Student Loan Forgiveness? (2023, March 23). Retrieved October 7, 2023, from City Journal website: https://www.city-journal.org/article/national-service-for-student-loan-forgiveness] Joel.

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When I mentioned to my sons that I planned to write an article opposing President Joe Biden's student-loan forgiveness proposal, one uttered a (loving) expletive; he still owes tens of thousands of dollars. The other cursed himself; he recently finished paying off his last loan and said that he now feels like a fool.

Forgiving college debt may be good politics, but it's dubious policy. The administration's argument that the estimated $240 billion cost is already paid for by deficit reduction is both insulting and misleading. Still, I recognize the benefits of enabling recent graduates—and those who never finished getting a degree but still racked up sizable debt—to enter the workforce without the burden of debt.

The biggest problem with Biden's proposal is that it sends the wrong message. Instead of saying that, when people borrow money, they incur an obligation, it tells them that they can be excused from accountability. This approach does nothing to draw us together as a nation. Indeed, it will drive us further apart and seemingly make fools of those who "play by the rules."

It's time to consider loan forgiveness from a different perspective, one that asks what we, as individuals, owe our country. Accordingly, I propose a program of national service in exchange for debt relief. By linking loan forgiveness to service to the nation, we could spark some sense of common national purpose among a cohort of young adults. We might even boost military enlistments—much needed, given the armed forces' recent recruiting shortfalls.

For more than 20 years, I have called for a mandatory national service program—civilian, with a military option. I believe that such a universal obligation would generate significant benefits to both to the country as a whole and to individuals. But that's not what I am proposing here.

Instead, I suggest a purely transactional bargain that could have beneficial side effects. Instead of simply wiping out a large portion of a student's college debt, let's first require one year of national service.

A program of minimally paid national service tied to loan forgiveness—again, civilian, with a voluntary military option—can forge common experiences, develop important work habits, and expose participants to Americans different from themselves. Such a program would naturally encourage military service, but it would also incorporate other programs that meet real needs—for example, environmental conservation, pre-K assistance in schools, and senior-citizen companionship.

Neg Blocks

AT 2023 Repayment Resumption

The resumption of student loan repayment will subtract less than 1% from total annual consumption, averaging only $2-300/month

Wall Street Journal 10/23– [Student Loans Expected To Be a "Contained Headwind." (2023, October 2). Retrieved October 5, 2023, from WSJ website: https://www.wsj.com/articles/student-loans-expected-to-be-a-contained-headwind-c97e64fc?page=1] Joel.

The resumption of student loan payments "should be a relatively contained headwind" for the U.S. economy, Wells Fargo analysts write in a report. They note that some repayments have already started and **estimate the average payment will be between $200 and $300 a month**, or around 5% of the U.S. median annual salary. "Relatively large outstanding student loan balances are concentrated in a small number of households," **the analysts write. "We estimate student loan debt repayment to subtract just about 0.4-0.6% from total annual consumption."**

AT College Good

It's no secret that college simply isn't a good investment—if it was, students with degrees would be able to pay back their loans. Forgiving federal student loan debt will further encourage students to pursue useless degrees, on the backs of American taxpayers.

Beienburg 23– [Gold Water Institute. (2022, July 5). Retrieved October 4, 2023, from Goldwater Institute website: https://www.goldwaterinstitute.org/our-team/matt-beienburg/] Joel.

[Matt Beienburg is the Director of Education Policy at the Goldwater Institute. He also serves as director of the institute's Van Sittert Center for Constitutional Advocacy. Published in local and national outlets, Matt's work focuses on promoting educational freedom, parental rights, and greater civic appreciation of America's founding principles. A native of Arizona, Matt earned a bachelor's in economics from Claremont McKenna College, where he graduated summa cum laude, and a master's in public affairs from Princeton.]

Taken together, amid the screening of new applicants via diversity statements, the chilling of student and faculty speech via bias reporting systems, the takeover of the campus climate by hordes of DEI officers and the decline in academic rigor, there is perhaps little wonder why prospective students (or would-be professors) **might balk at committing four or more years to the college experience.** That aspect alone might be enough to undermine the decades-long sprint toward more universal college participation. But **add to that the increasingly unsustainable economic model of college for so many students, and it is clear that higher education risks the bottom falling out.**

It's no secret that tuition costs of public and private colleges have exploded over the past several decades—by some estimates rising as much as five times faster than inflation. And while it's true that the conventional wisdom holds that even costly degrees still pay for themselves in the long run via higher lifetime earnings, the James G. Martin Center for Academic Renewal has observed that **"underemployment among recent college graduates has remained high over the past decade, with between 12% and 15% of recent college graduates working in low-wage jobs."**

Moreover, the current crisis over student loan "forgiveness" makes clear that the "value" of college never actually materialized for a large swath of students, leaving *taxpayers* potentially on the hook to bail out university-related debts. Unfortunately, rather than pursue reforms that might better align the risks and rewards of college-borrowing (such as holding the institutions themselves partly responsible for unpaid tuition bills), **left-wing politicians appear bent on exacerbating the problem by issuing taxpayer-funded amnesty for some borrowers. It's a move that will almost certainly encourage *more* borrowing for college, regardless of the value of the degree being pursued.**

Given this increasing disconnect between the cost and value of college degrees, it's perhaps no surprise that leaders on both the left and right have called for decoupling job prospects from college attainment. Just last month, for instance, Virginia Gov. Glenn Youngkin joined other Republican and Democratic governors in Maryland, Colorado, Utah and Pennsylvania in removing artificial college degree requirements from government job applications. And legislators in multiple other states are working to do likewise. **What for years has served as a signaling mechanism of quality applicants to employers increasingly looks to represent little more than an expensive paper credential—even if it's purchased at taxpayer expense.**

Such reforms may help to reduce the current pressures artificially propping up college enrollment. In fact, coupled with demographic changes and COVID-19 disruptions**, American higher education may have already hit a tipping point: Enrollment has tumbled by nearly 1.4 million students in the wake of the pandemic, dropping swiftly among both men and women.**

AT Covid Emergency

Despite the financial troubles covid brought, forgiving student loan debt is a wild overreaction to the prospect of loan default – there are more direct and less costly ways to lessen the harms of default

Shapiro 5/23– [Cooper, P. (2019, May 21). Why Forgiving Student Debt Would Solve Nothing | Preston Cooper. Retrieved October 5, 2023, from S.org website: https://fee.org/articles/why-forgiving-student-debt-would-solve-nothing/] Joel.

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In 2003, Congress gave the secretary of Education limited authority to waive or modify federal student-loan provisions "as may be necessary to ensure" that certain defined goals are achieved. One of those defined goals is **that "recipients of student financial assistance" who are affected by a military operation or national emergency "are not placed in a worse position financially** in relation to that financial assistance because of their status as affected individuals." **The government now argues that under this law, it has the authority to forgive billions of dollars in loans across millions of borrowers.**

Specifically, it argues that (1) the Covid-19 pandemic is a national emergency; (2) every federal student loan borrower either lives in a Covid disaster area or has otherwise been financially affected by that emergency; (3) as a result of that emergency, some borrowers will default on their loans once payments finally resume after a multi-year pause; and (4) forgiving some (or all) of the borrowers' principal balances will ensure their overall risk of default is no worse than it 3was before the pandemic. This argument runs headlong into a key limiting word in the statutory text: "necessary."

Most of the steps in a Rube Goldberg machine are far from "necessary" to achieve their final aim, because a simpler and more direct method is available. The same is true here. If the government's purpose were truly to reduce the harm of more frequent defaults, there are far more direct means available, including putting borrowers on income-based repayment plans and, even more simply, waiving some of the legal consequences of missed payments. Forgiving $400 billion of debt so that fewer people will suffer penalties for missed payments is like cutting $400 billion in income taxes so fewer people will suffer IRS underpayment penalties.

Finally, the "major questions doctrine" clear-statement rule makes this an easy case: since the action here was not "necessary" to achieve the government's purported aim, the statutory text lacks a clear statement granting the secretary such power. Whether to grant nationwide debt forgiveness is undoubtedly a major question, one that Congress debated as it considered bills that would explicitly make that choice. A $400 billion debt-forgiveness plan is a major policy decision that must be made by Congress—and Congress has declined to make it.

AT Economic Stimulus

Student loan forgiveness is "a weak strategy for economic stimulus" and will mostly give money to middle- and upper-class Americans

Chingos & Marron 20— [Is Student Loan Forgiveness an Effective Form of Economic Stimulus? (2020, July 28). Retrieved October 7, 2023, from Urban Institute website: https://www.urban.org/urban-wire/student-loan-forgiveness-effective-form-economic-stimulus] Joel.

[Matthew M. Chingos directs the Center on Education Data and Policy at the Urban Institute. He leads a team of scholars who undertake policy-relevant research on issues from prekindergarten through postsecondary education and create tools such as Urban's Education Data Portal.

Donald Marron is an Institute fellow and director of economic policy initiatives at the Urban Institute. He conducts research on tax and budget policy and identifies opportunities for Urban to develop policy-relevant research on economic and financial issues. From 2010 to 2013, he led the Urban-Brookings Tax Policy Center.]

Forgiving student loan balances provides weak stimulus because most financial savings to borrowers show up in the future. A borrower paying off $30,000 of student loans—roughly the average amount for a college graduate—over 10 years would have a monthly payment of about $300. Forgiving $10,000 of that debt would free up $100 a month for the borrower to spend over the rest of the decade.

That long tail of payment reductions would do little to boost spending during the next year or two. Some borrowers might be more comfortable dipping into savings or taking on other kinds of debt, such as car loans and mortgages. But the immediate benefits would be modest, especially compared with sending each borrower $10,000 that can be spent right now.

In addition, **many borrowers make payments based on their income, not their loan balances, by using income-based plans that limit student loan payments to a fraction of income (generally 10 percent).** For these borrowers, moderate reductions in loan balances would generally not lower their monthly payments and would thus have no immediate stimulus effect. Any benefit would come later, in the form of paying off the loan sooner. Borrowers who pay nothing on their loans (because their income-based payments are zero or they are unable or unwilling to pay) would get no immediate benefit and would thus generate no direct stimulus. Some of these borrowers might spend more because their future loan payments are lower, but any effect would be spread over the remaining life of their loans.

Loan forgiveness is not well targeted at people most likely to spend. By definition, student debts are owed by people who attended college and, in most cases, graduated. Many of these people are struggling in today's economic downturn. **On average,** though, **they are doing better than people with less education.** Households with graduate degrees hold nearly half of all student debt, despite making up only a quarter of households. On average, people with graduate degrees earn much more than people with less education. But evidence consistently finds that people with low incomes and income declines are the most likely to spend new resources. If policymakers want to stimulate the economy, they would do better providing financial assistance to low-wage essential workers than highly educated young professionals Zooming from home.

Student loan cancelation could be more targeted by wiping out the debts of borrowers with the lowest incomes or those who rely on safety net programs. There is compelling evidence these borrowers are most likely to struggle with their loans, despite having relatively low balances. **This approach may be worth pursuing, but not on economic stimulus grounds because the benefit would be spread out over a long period of time.**

Another strategy is to focus assistance during times of economic weakness. The CARES Act, for example, suspends federal student debt payments and waives interest accruals through the end of September. Congressional Democrats have pushed to extend that suspension. This eases cash-flow pressures during the suspension but does not reduce overall principal balances. Pausing or forgiving payments provides stimulus more cost effectively than forgiving loan balances because only short-term relief is provided, without the cost of forgiving balances that would be paid off years in the future. In principle, either of these approaches could be targeted to people with low and moderate incomes.

Even with these adjustments, forgiving student loan payments raises hard questions. If the goal is providing economic stimulus, why should a person with $30,000 in income and $1,000 in annual student debt payments get assistance while a person with $29,000 in income and no student loans gets nothing?

The CARES Act provided $1,200 payments to more than 90 percent of Americans, regardless of whether they have student loans. If Congress decides to provide additional economic stimulus, it could build on that structure, perhaps by focusing on people with lower incomes. Congress could also extend expansions in unemployment insurance, which provide benefits specifically to people who have experienced a drop in earnings.

Canceling student debt outright is a weak strategy for fiscal stimulus because it provides a slow drip of benefits over a long period of time. Forgiving payments during a limited time would be more cost-effective as stimulus, but it still raises concerns about targeting and about overlooking Americans who face similar economic challenges but do not have student debt.

AT Need

Most people with student loans aren't in need of the help – 70% of student loan holders will pay off their debt within the standard 10-year timeframe

Cooper 19– [Cooper, P. (2019, May 21). Why Forgiving Student Debt Would Solve Nothing | Preston Cooper. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/why-forgiving-student-debt-would-solve-nothing/] Joel.

[Preston Cooper is a senior fellow at the Foundation for Research on Equal Opportunity (FREOPP), where his work focuses on higher education policy, student loans, and college ROI. He has written nearly 400 op-eds and blog posts and published more than 20 research papers, most notably "Is College Worth It? A Comprehensive Return on Investment Analysis," which calculated the financial value of over 30,000 bachelor's degrees. He has worked at the American Enterprise Institute and the Manhattan Institute. He is also a regular contributor to Forbes and a PhD candidate in economics at George Mason University.]

The final argument offered in favor of debt cancellation is that it will help borrowers struggling to repay their student loans. Near-universal loan forgiveness is quite an inefficient way to go about that, however, because most borrowers are not struggling—in fact, 70 percent will pay off their loans within the standard 10-year time frame.

A better way to help the minority of borrowers who have trouble meeting their loan obligations is to make them aware of the existing options to make their debt more manageable, such as repayment plans that tie monthly loan payments to income. According to Department of Education surveys, less than one-third of college students even know this is an option; surely we should try to increase awareness before we embark on a $640 billion loan forgiveness adventure.

Warren's student loan forgiveness plan, along with many others like it, is a solution in search of a problem. **For $640 billion, it will neither boost the economy, nor encourage investments in education, nor fairly redistribute wealth, nor efficiently help struggling borrowers**. It is a third-rate solution to every problem it supposedly addresses.

Student loan forgiveness might succeed as a presidential campaign's bumper sticker, but it fails as a serious policy.

AT Redistribution

Student Loan Forgiveness would distribute more money to wealthy people, and is an inefficient way to redistribute wealth

Cooper 19– [Cooper, P. (2019, May 21). Why Forgiving Student Debt Would Solve Nothing | Preston Cooper. Retrieved October 5, 2023, from Fee.org website: https://fee.org/articles/why-forgiving-student-debt-would-solve-nothing/] Joel.

[Preston Cooper is a senior fellow at the Foundation for Research on Equal Opportunity (FREOPP), where his work focuses on higher education policy, student loans, and college ROI. He has written nearly 400 op-eds and blog posts and published more than 20 research papers, most notably "Is College Worth It? A Comprehensive Return on Investment Analysis," which calculated the financial value of over 30,000 bachelor's degrees. He has worked at the American Enterprise Institute and the Manhattan Institute. He is also a regular contributor to Forbes and a PhD candidate in economics at George Mason University.]

Dividing up the $640 billion based on the amount of student debt each person has leaves some poor and middle-class families with windfalls, and others with nothing. Consider three people who each earn $35,000 per year and therefore have roughly the same position on the economic ladder. One attended an expensive private college and has $50,000 in debt, one went to community college and owes $10,000, and the third did not attend college and owes nothing. Though these people all have the same income, Warren's plan would give $50,000 to one person, $10,000 to another, and nothing to the third.

Moreover, lower-income people are less likely to have attended college in the first place, and thus are less likely to have student debt to cancel. Though she includes limitations on forgiveness for the highest earners, the primary beneficiaries of Warren's plan are still upper-middle-class professionals who need assistance far less than their peers further down the income scale. **The highest-income quartile holds nearly three times the amount of student debt as does the lowest-income quartile.**

Finally, **if redistribution is the goal of student loan forgiveness, why is student debt part of the plan at all? Student debt is not a strong predictor of economic need. A more effective redistribution program—should policymakers see the need for it—would simply pick a household income threshold and divide the money equally among every person below it.** There's no reason debt cancellation is superior to a redistribution program of similar magnitude that allocates benefits purely by economic status rather than indebtedness.

AT Rising Debt

No rise: Since 2012, undergraduate student debt has fallen by 10%

Malkus 23— [The Looming Student-Loan Entitlement. (2023, June 21). Retrieved October 5, 2023, from American Enterprise Institute - AEI website: https://www.aei.org/articles/the-looming-student-loan-entitlement/] Joel.

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As Jason Delisle and Preston Cooper explained in these pages in 2021, politicians pointing to rising college sticker prices have elided concomitant increases in the amounts and distribution of grant aid that have kept the cost of attendance relatively constant, especially for low- and middle-income students. The **College Board's Trends in College Pricing and Student Aid 2022** not only bear this out, they **show that sticker and net prices have actually fallen over the past five years.**

Likewise, borrowers' typical loan payments have remained reasonable. Delisle and Cooper show that typical student-loan payments in 2021 were similar to or lower than they were 10, 20, or even 30 years earlier. Simply put, the dramatic increases in overall student debt have not yielded increased monthly payments, nor have they neatly translated into growing total debt per borrower. **Undergraduates' average debt at graduation increased significantly in real dollars between 1990 and 2012, but that figure has since fallen by roughly 10%.**

Graduate-student debt has grown far more, and at a more consistent pace, than undergraduate debt; it now constitutes about half of all federal student-loan debt. This is in part because graduate-degree recipients' loans are far larger than those of undergraduates. According to a Congressional Research Service report, after the 2017-2018 academic year, borrowers earning a bachelor's degree owed an average of $27,500 upon graduation — much less than the average debt loads of $71,800 for those earning a master's degree, $112,400 for those earning a Ph.D., and $185,100 for those earning a J.D. or an M.D. Despite these figures, graduate borrowing's share of total student debt remains far larger than its share of the student-debt narrative in our politics.

Impacts

Inflation

Increased inflation from forgiving student loan debt has a detrimental effect on developing countries.

EquityPandit 22– [EquityPandit (2022, November 16). How US Inflation Is Affecting World). Retrieved from https://www.equitypandit.com/how-us-inflation-is-affecting-world/] Sophia G.

[EquityPandit is a leading research and advisory firm in India, The firm is one of the biggest player with a dominant position in both Institutional and Retail. Company specializes in the business of Analysis, Information and Intelligence.]

Effects of US Inflation on Emerging Nations

As consumers from the US to Britain feel the pinch of the record high inflation in decades, rising energy and food costs are also squeezing household budgets in emerging economies. Last Month, US annual inflation clocked its highest rate in 40 years, whereas Inflation in the UK breached a 30-year high of 5.5%.

By increasing interest rates, the Federal Reserve's determined to crush inflation, and these raised interest rates are inflicting profound pain on other countries. Pushing up prices, ballooning the size of debt payments, and increasing the recession risks.

Underdeveloped countries often have no option but to pay back loans in dollars, regardless of the exchange rate when they first borrowed the money. **Spiraling the US interest rate might set off a crisis in emerging nations. In African countries like Nigeria and Somalia, where the risk of starvation is already dangling, the strong dollar is pushing the price of imported food, medicine, and fuel. The strong dollar is nudging debt-ridden Egypt, Argentina, and Kenya closer to default and threatening to discourage foreign investment in emerging markets like India and South Korea. According to the International Monetary Fund, around 40 per cent of the world's transactions are done in dollars.**

Poverty

Poverty is linked with hundreds of thousands of deaths every year, making it the 4th leading cause of death in the U.S.

Danelski 23– [David Danelski. (2023, April 17). Poverty is the 4th greatest cause of U.S. deaths). Retrieved from https://news.ucr.edu/articles/2023/04/17/poverty-4th-greatest-cause-us-deaths] Sophia G.

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Poverty is the 4th greatest cause of U.S. deaths
Only heart disease, cancer, and smoking were associated with a greater number of deaths, UCR study finds

Poverty has long been linked to shorter lives. But just how many deaths in the United States are associated with poverty? The number has been elusive – until now.

A University of California, Riverside, (UCR) paper published Monday, April 17, in the Journal of the American Medical Association associated poverty with an estimated 183,000 deaths in the United States in 2019 among people 15 years and older.

This estimate is considered conservative because the data is from the year just prior to the COVID-19 pandemic, which caused spikes in deaths worldwide and continues to take its toll.

The analysis found that only heart disease, cancer, and smoking were associated with a greater number of deaths than poverty. Obesity, diabetes, drug overdoses, suicides, firearms, and homicides, among other common causes of death, were less lethal than poverty.

“Poverty kills as much as dementia, accidents, stroke, Alzheimer's, and diabetes,” said David Brady, the study’s lead author and a UCR professor of public policy. **“Poverty silently killed 10 times as many people as all the homicides in 2019.** And yet, homicide firearms and suicide get vastly more attention.”

Another finding is that people living in poverty – those with incomes less than 50% of the U.S. median income -- have roughly the same survival rates until they hit their 40s, after which they die at significantly higher rates than people with more adequate incomes and resources.

The analysis estimated the number of poverty deaths by analyzing income data kept by the Institute for Social Research at the University of Michigan and death data from household surveys from the Cross-National Equivalent File. Deaths reported in surveys were validated in the National Death Index, a database kept by the National Center for Health Statistics, which tracks deaths and their causes in the U.S.

Current and Cumulative poverty lead to increased risk of death.

Mueller and Brett 23– [Paul S. Mueller and Allan S. Brett (2023, April 20). Poverty is a Leading Cause of Death in the U.S.). Retrieved from https://www.jwatch.org/na56040/2023/04/20/poverty-leading-cause-death-us] Sophia G.

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Both current and cumulative poverty are associated with excess mortality.

The number of deaths associated with poverty in the U.S. is unknown. Researchers used several large databases to estimate risk for death and number of deaths associated with poverty (i.e., income <50% of median) in the U.S. Analyses were adjusted for self-rated health, overweight or obesity, smoking, chronic disease, and other potential confounders. **Current poverty is associated with 42% excess risk for death. Cumulative poverty (i.e., 10 continuous years of poverty) is associated with 71% excess risk for death.**

Survival of people in poverty diverges from those not in poverty at age 40. Divergence peaks at age 70 and diminishes thereafter. In 2019, among people who were 15 or older, cumulative poverty was the fourth leading cause of death (296,000 deaths), behind heart disease, cancer, and smoking, and ahead of dementia and obesity. **Current poverty was the seventh leading cause (183,000 deaths), ahead of accidents, chronic lung disease, stroke, suicide, and homicide.**