



Democrats push Biden to erase \$50k in student loan debt

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WASHINGTON (Sinclair Broadcast Group) — Democratic leaders are putting pressure on President-elect Joe Biden to immediately forgive up to \$50,000 in student loans as soon as he takes office, a move that critics claim would exacerbate the college debt crisis while providing lopsided economic benefits to the well-off.

At a Monday news conference in New York, Senate Minority Leader Chuck Schumer urged Biden to take unilateral action to undo roughly \$1 trillion of outstanding student loans. "You don't need Congress, all you need is the flick of a pen," Schumer said.

The move would offer economic relief to tens of millions of borrowers, the majority of whom have \$50,000 or less in student loans. Individuals making over \$125,000 would not qualify for forgiveness, according to Schumer.

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The proposal far exceeds the plan Biden endorsed last month to provide up to \$10,000 in loan forgiveness for "economically distressed" borrowers. That plan was included in House Democrats' \$3 trillion coronavirus relief package, the HEROES Act.

On the campaign trail, Biden proposed up to \$10,000 of student debt relief for every year of national or community service. He also favored a means to forgive loans after 20 years of responsible payments.

Schumer told reporters Monday that he spoke to Biden about enacting the \$50,000 loan forgiveness program through executive action and said that the president-elect "is considering it."

Last week, Schumer and Massachusetts Democratic Sen. Elizabeth Warren wrote an op-ed describing student loan relief as a way to boost the economy, reduce income inequality and remove the burden of debt from a generation of students.

"This is the single most effective executive action available to provide massive stimulus to our economy," the senators wrote, arguing their plan would give the average borrower an additional \$200 to \$300 per month to spend.

They also cited the disproportionate weight of student loan debt on Black and Latino borrowers. According to a Brandeis University study, \$50,000 in loan forgiveness would close the Black-white wealth gap by 25% and close the Latino-white wealth gap by 27%.

Some experts are unconvinced the plan would deliver the economic benefits to those who need it most and warn that it would actually benefit higher-income earners. There are also concerns that

a program to forgive the debt in 2021, would put the federal government and ultimately taxpayers in a position to cover the cost of all future student loans.

"The proposals are talking about a one-time cancellation of debt right now, but they do nothing to address the future growth of the loan program and the fact that we're going to be making \$1.1 trillion in new loans over the coming decade," explained Preston Cooper, a visiting fellow at the Foundation for Research on Equal Opportunity.

Economists and analysts have argued that it creates a moral hazard. Namely, it builds the expectation that student debts will be canceled in the future.

"That may be the worst part of it," said Neal McCluskey, the director of the Center for Educational Freedom at the Cato Institute. "The federal government has made so much money available, that it's enabled colleges to raise their prices to capture the aid from students."

If the government is expected to erase the debt, that could incentivize students to borrow more and give colleges another reason to hike tuition. Unless the debt cancellation was accompanied by broader higher education reforms, the federal government would add the cost to the national debt, ultimately leaving the taxpayer on the line for trillions in unpaid loans.

"Eventually, the bill comes due," McCluskey noted. "You can't get something for nothing."

Over the last 20 years, the U.S. student debt load has more than tripled from \$38 billion to \$1.6 trillion. Meanwhile, the average tuition cost has more than doubled at both private and public colleges and universities.

The federal government holds the vast majority of student loan debt, or about \$1.5 trillion. Debt from student loans dwarfs auto loans, credit cards and all other forms of non-mortgage consumer debt. Student debt also has the highest default rate, according to Federal Reserve data. Before the CARES Act halted payments, the default rate was above 11%.

The size of the loan is not necessarily related to the risk of default. As loan amounts increase, the number of defaults decreases. Department of Education data shows that three-quarters of defaults are on loans of \$40,000 or less. Only 1% of defaults occurred among borrowers with \$200,000 or more in student debt.

That raises questions about who would benefit most from a blanket debt cancellation.

There is no doubt that millions of borrowers would be better positioned if their debt was erased. In a Senate hearing earlier this month, Federal Reserve Chairman Jerome Powell agreed that the burden of student debt would "weigh on the economy" and hinder economic participation, especially when individuals carry it for a long time.

However, research has indicated that wholesale student debt forgiveness would provide greater benefits to those who are better off.

A recent working paper published by Chicago University's Booth School of Business found that "universal and capped forgiveness policies are highly regressive, with the vast majority of benefits accruing to high-income individuals." Rather than blanket relief, the researchers recommended tying loan repayment to earnings, requiring borrowers to pay a certain percentage of their income.

That does not appear to be the proposal being pushed by Senate Democrats or the one being considered by President-elect Biden.

"That's the first problem with this as a policy. It's really helping people who don't need it," McCluskey said. "Most of the benefits will be going to people who are going to get a very big payoff from going to college."

Studies show that two-thirds of all higher-income debt is held by households earning above the median income. Individuals with a bachelor's degree are also expected to earn more than \$1 million more over a lifetime than someone with only a high school diploma. That earning potential increases even more for advanced degree holders, who typically hold the largest dollar amount of student debt.

Schumer attempted to address the issue of high income-earners getting disproportionate relief by including a \$125,000 salary cap on the loan forgiveness. That would still mean all borrowers except those in the top 10% would qualify for relief. Warren also argued that their plan would eliminate debt for up to 40% of borrowers who went to college but never earned a degree. She described them as being in a "nearly-impossible situation — no diploma to boost their earnings and a debt load they simply cannot manage."

There are also doubts about whether loan forgiveness would stimulate the economy or provide relief from the effects of the coronavirus pandemic, as leading Democrats have claimed.

"As we know, the people who don't have student debt are people who only have a high school degree and didn't go to college at all," Cooper stated. "Those are the people who are the most likely to be low-income and most likely to have lost jobs during the pandemic. Student loan relief does nothing for them."

Overall, 30% of U.S. adults attended college. Fewer than half of those people went into debt for their education and 22% of them still owe money, according to the Federal Reserve.

During the pandemic, individuals with lower levels of education suffered the worst of the economic downturn. The San Francisco Federal Reserve found that the unemployment rate for people with a high school diploma or less rose more than 12%. For those with a bachelor's degree or more, the rate rose by 5.5%.

Of the roughly 45 million Americans who currently hold student loan debt, about 8 million are in default and facing serious consequences, including having their wages garnished and having tax refunds and Social Security benefits seized. Those borrowers also face steep fees and interest on their student loans. In some cases, those fees have compounded to make their current balance larger than what they borrowed initially.

"Those are the people who are really in trouble. Those are the people we should be focusing on," Cooper argued. "Mass student loan forgiveness is really not the answer to that."