



Elizabeth Warren's plan to forgive student loan debt could lead to an economic boom

Scotty Hendricks

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Student loans are a leading cause of debt in the United States. Edging out credit cards for the number two spot, 45 million Americans are into their creditors for at least 1.5 trillion dollars' worth of student loan debt. This weighs down on the economy, as money that could be spent on starting businesses, buying homes, or paying for basic needs is instead spent on servicing debt.

These numbers make it easy to understand why people are so keen about ideas for universal tuition-free higher education, however, those plans would do little for those already drowning in student loan debt. Perhaps that is why Sen. Elizabeth Warren announced that her education plan would not only open up the colleges to all no matter what their ability to pay but also reduce the debt held by millions upon millions of Americans.

Elizabeth Warren's Debt Free Jubilee

Warren, one of 19 Democrats currently running for president, has announced a bold education reform plan. It hits on many of the significant democratic talking points in proposing that the federal government step in and make two- and four-year undergraduate programs tuition free at public universities. But her policy differs from those of other Democrats in that she would also forgive the debt of many Americans who are already out of school.

Her policy proposal, laid out in detail in a Medium post, includes at least partial forgiveness for 95 percent of the Americans who have student debt. The plan would cancel up to 50,000 dollars in such debt for everyone with a household income up to 100,000 dollars a year.

She explained in her post how the benefit would slowly phase out after household income rises above that:

"The \$50,000 cancellation amount phases out by \$1 for every \$3 in income above \$100,000, so, for example, a person with household income of \$130,000 gets \$40,000 in cancellation, while a person with household income of \$160,000 gets \$30,000 in cancellation."

Americans making more than 250,000 dollars a year with student debt would get no relief under her program, but they do get to continue being in the 95th percentile of income. They'll probably be fine.

Debt owed to the government would be cancelled automatically using information Uncle Sam already has. Privately held loans would also be eligible for cancellation, though the government would have to work with the banks and creditors who hold that debt to arrange that relief.

How many people would benefit? Who are they?

Elizabeth Warren claims her plan would completely obliterate the debt held by 75 percent of those holding student loan debt and provide some form of relief for 95 percent of people with such debt. Some quick math shows us that this works out to be a direct boon to 42 million people. There are also considerations for low-income students who might have a hard time affording room and board even after tuition is abolished.

As higher education policy gets complicated when race gets involved, her plan also has considerations for Historically Black Universities and state-driven programs to help improve outcomes for low-income students and students of color.

What Are Experts Saying About This?

An analysis carried out by Brandeis University predicted that there would be a positive economic result from her plan, as the sudden removal of such a tremendous debt burden from so many people would lead to "consumer-driven economic stimulus, improved credit scores, greater home-buying rates and housing stability, higher college completion rates, and greater business formation."

The proposal was similarly praised by Former Secretary of Labor Robert Reich on his Facebook page, where he said "Eliminating student debt would be a big boost for the economy. It would allow millions of young people to invest in things like buying a home or starting a business. Ensuring the next generation can compete in the global economy — without taking out crushing loans — is essential to rebuilding the American middle class."

On the right, criticism has been quick to materialize. Neal P. McCluskey, the director of the Center for Educational Freedom at the Cato Institute, told the New York Times that the plan would be unfair to taxpayers "who had no choice but to give them that money, on the terms the borrowers voluntarily agreed to."

One obvious pitfall does exist with her plan, similar to one that has plagued the Affordable Care Act. According to Vox's Ella Nilsen, the program would require states to accept the federal money to make their schools tuition-free. As the experience of trying to give states free money for health care shows us, some states will refuse to do so out of principle or spite.

What's The Thinking Behind This?

Education is one of the best investments a country can make, paying back every dollar in investment in several dollars of new economic growth. Her reform plan not only helps people get out of debt and frees their cash for better use elsewhere but will allow others to go to college that might not have been able to otherwise, improving their lifetime earning potential.

Beyond this, Warren's plan calls for a fundamental rethinking of how Americans view higher education. While many Americans consider higher education an investment in their futures to be made worthwhile with higher earnings later, Warren's plan takes the view that a college education is every bit as necessary to both individuals and society in the 21st century as a high school education was in the 20th, and should be treated as such by the government.

What Will It Cost?

The debt forgiveness plan would cost Uncle Sam \$640B up front, and the free college tuition plan would cost \$1.25T over the next 10 years. Senator Warren has pointed out this could be paid for entirely with her Ultra-Millionaires tax that would levy a 2 percent surtax on all fortunes valued over \$50M dollars with an additional 1 percent would be tacked on for every billion in wealth.

Of course, we must also ask what it will cost not to forgive the debt. Not only does the cost of college and the burden of debt cause young adults to struggle to make ends meet, but it is proven to reduce college graduation rates. Federal Reserve Chairman Jerome Powell said that the student loan debt crisis "absolutely could hold back economic growth."

Given these considerations, Warren's plan may turn out to be a wise investment.

The price of a college education in the United States has grown dramatically over the years. Many proposals have been put forward to solve the problem, but only one plan currently exists to forgive the debt of those who already finished school. If the United States will enact such a policy remains in question, but its proposal suggests that many Americans are ready for a new way of thinking about higher education.