

Canceling student debt by presidential decree is wrong on many levels

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If you lent someone money to start a business that made big bucks, you would expect to be repaid, right? You took a risk and the borrower profited. Federal student lending is kind of like that, only you did not choose to lend, and now there is a movement to let the borrower just keep the money — through presidential decree, no less.

Senators Chuck Schumer and Elizabeth Warren are leading a call for the incoming Joe Biden administration to cancel huge amounts of federal student debt, which is close to all student debt since the federal government — read: the taxpayer — is by far the biggest supplier of student loans. Schumer and Warren have sponsored a resolution calling for up to \$50,000 in loan cancellation for an open-ended number of federal student debtors, though Schumer has subsequently mentioned capping eligibility at income of \$125,000, which would exclude only about the top 10 percent of earners.

This would be terrible policy on numerous levels.

First, it would be patently unfair. Having debt can be difficult, but why should anyone get to take your money, profit off it, and not at least make you whole again?

And yes, borrowers typically profit. The average bachelor's degree holder earns roughly \$1 million more over their lifetime than the average person whose education ended with a high school diploma. Go beyond a bachelor's degree — which is what a lot of student loans are for — and the payoff is even bigger, with someone holding a professional degree, such as in law or medicine, making about \$2.3 million more over their lifetime. Meanwhile, the debt of the average federal student borrower is around \$36,500. Appreciable, but small compared to the payoff.

Borrowers also tend to be people who started life pretty well off. The large majority of student debt — 63 percent as of 2016 — is held by people in the top half of the income distribution. The wealthiest 25 percent of Americans hold 34 percent of the debt.

The numbers make it clear that mass student-loan cancelation would largely help the well-to-do. But wouldn't it be an economic stimulus, especially valuable in these COVID-19 economic times?

The Schumer-Warren resolution touts it as such but ignores a big problem: The feds have budgeted based on loans being repaid. If they are not, someone else will have to make up for lost federal revenue. So while cancellation would put an extra \$250 or so in the average borrower's pocket each month, it would require someone else to curtail their own spending or investment to send more money to Washington.

So long, stimulus.

Meanwhile, the people most hurt by COVID-19 and its economic effects are not those with college degrees. It is people without them, working in jobs that cannot be done in the remote comfort and safety of, say, one's basement. The restaurant worker needs help more than the accountant or lawyer. And, of course, the only thing that will end the COVID economic slow-down is the end of COVID-19 itself.

Mass cancellation would also be damaging higher education policy.

America's Ivory Tower is an overwrought edifice, and forgiving student debt, far from solving rampant tuition inflation, or the spread of on-campus water parks, would only exacerbate such problems. By taking money from taxpayers and giving it to students, federal student aid has enabled colleges to charge higher prices, and often encouraged students to demand more expensive things that necessitate such prices. Mass cancellation would signal students to borrow even more — they won't really have to repay it.

Finally, there is the matter of presidential diktat. There is an interesting debate to be had about whether current statutes allow an administration to declare almost all student debt forgiven. But even if doing so were technically legal, it would be an affront to democracy, in which the people, represented in Congress, should decide such hugely consequential matters as whether \$1.6 trillion — with a "t" — in taxpayer money should be permanently handed over to borrowers.

Repaying debt can be difficult, but it is the right thing to do. Having a president simply declare that profit-making graduates can keep what they borrowed is the opposite of that.

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