THE PROBLEMS WITH STUDENT LOAN FORGIVENESS

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Executive Summary

College student loan debt is receiving more attention from policymakers. One policy that is being pushed by many progressives is loan forgiveness or cancellation, which would relieve former students of the responsibility to repay their loans by shifting the financial burden from the borrowers to taxpayers. We find that student loan forgiveness would be a mistake because it suffers from, creates, and/or exacerbates numerous problems. This paper highlights 18 of these problems, grouped into the following categories:

Logical and rhetorical problems

1. Advocates overstate the problem
2. Forgiveness is badly targeted
3. Existing and better solutions are ignored
4. Rhetoric too often relies on bad reasoning

Educational problems

5. Current and future students would be encouraged to increase their borrowing
6. Colleges would be encouraged to raise tuition
7. Forgiveness would exacerbate the problem it is trying to solve

Economic problems

8. Forgiveness is expensive and has a high opportunity cost
9. Wasteful rent-seeking such as lobbying would increase
10. Forgiveness does not provide much if any economic stimulus and may even shrink the economy

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11. Forgiveness pursued for the explicit purpose of benefiting certain sexes or races is wrong
12. Faith in lending would be undermined
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14. Student loan forgiveness is regressive

Political problems

15. Forgiveness is not popular
16. Much of the population would resent student loan forgiveness

Legal problems

17. The executive branch cannot unilaterally forgive student loan debt
18. Even if unilateral forgiveness was possible, it could only be applied to pre-2010 era loans

Key Points

- Student loan forgiveness is being pushed by the current administration and many progressives.
- We find 18 reasons policymakers should avoid implementing student loan forgiveness.
- These 18 reasons are grouped into the following categories of problems: logical and rhetorical, educational, economic, moral, political, and legal.

Introduction

College student loan debt has been getting more attention from the public and policymakers over the past few years. A big reason for that is the high and growing aggregate student loan balance. Current and former students have accumulated more than $1.6 trillion in debt from the federal student loan programs (U.S. Department of Education, n.d.-a).

Many policy reforms have been proposed to address the issue of student loan debt, and one of the most popular among progressives has been student loan forgiveness or cancellation, which would wipe away all or some of the debt, relieving the borrowers from the obligation to repay their loan, and transferring the financial burden to taxpayers. For example, U.S. Sen. Bernie Sanders has proposed forgiving all student loans, Sens. Elizabeth Warren and Chuck Schumer want to forgive up to $50,000 per borrower, and President Joe Biden proposed forgiving $10,000 per borrower on the campaign trail (Looney, 2021).

In this study, we highlight many of the arguments against student loan forgiveness. But we begin by presenting the strongest case *for* student loan forgiveness, so that readers will be familiar with the reasons and arguments made in favor of forgiving student loans. We then discuss the many logical and rhetorical, educational, economic, moral, political, and legal problems we see with forgiveness. After evaluating the case for forgiveness compared to the case against, we conclude that forgiveness is not a wise or worthwhile policy as the problems associated with it vastly outweigh its benefits.

Steel Manning the Case for Student Loan Forgiveness

This report is highly critical of student loan forgiveness. Yet too often in policy discussions, advocates present a strawman of their opponent's views. But as John Stuart Mill once wrote,

> He who knows only his own side of the case, knows little of that. His reasons may be good, and no one may have been able to refute them. But if he is equally unable to refute the reasons on the opposite side; if he does not so much as know what they are, he has no ground for preferring either opinion… Nor is it enough that he should hear the arguments of adversaries from his own teachers, presented as they state them, and accompanied by what they offer as refutations. That is not the way to do justice to the arguments, or bring them into real contact with his own mind. He must be able to hear them from persons who actually believe them; who defend them in earnest, and do their very utmost for them. He must know them in their most plausible and persuasive form. (Mill, 1859)

We therefore seek to argue against not the weakest case for student loan forgiveness (the strawman), but the strongest case (the steelman). So, what is the steelman case for student loan forgiveness? Advocates in favor of forgiving student loans usually make some combination of moral, distributional, quality-of-life, and economic arguments.

Moral Arguments in Favor of Student Loan Forgiveness

The moral arguments for student loan forgiveness tend to highlight the injustice of asking students to take on debt burdens. There are three common reasons student loan debt is viewed as immoral.

First, education is argued to be a fundamental right, so requiring students to pay for something they were born with a right to is wrong. After all, we do not ask students to take out loans to pay for publicly provided kindergarten or high school, so why do we require them to do so for college? Sen. Bernie Sanders offered a representative framing of this argument when he stated that "[forgiving student loans] ends the absurdity of sentencing an entire generation to a lifetime of debt for the 'crime' of getting a college education" (Terkel & Jacobovitz, 2019, para. 14).

Second, a college degree is commonly argued to be necessary to attain a living wage. It used to be possible to support an entire family with the earnings from one high school graduate working a full-time job. That is not as common these days. Whether the increased need for educational credentials is driven by the modern economy requiring more educated workers or government policies (e.g., occupational licensing and legal protections for employers requiring educational credentials), some college is increasingly necessary to achieve one's American Dream. And because of that, the argument is that it is immoral to ask students to pay for something that is increasingly viewed as essential. Socialist Freddie deBoer provides a representative framing when he writes that students asking for forgiveness are "asking to be freed from crushing financial burden that feels almost compulsory in our society today" (deBoer, 2021, para. 1).

Third, a moral case is often made that many students have been misled, paying exorbitant sums for degrees that do not adequately prepare them for a promising future. A representative framing of this argument was offered by a recent letter from 105 organizations supporting student loan forgiveness to President Biden:

> Over the last 20 years, an entire generation of students were told that the best way to climb the economic ladder in an ever-changing competitive world was to

> go to college, and that student loans were a "good debt" product that could help them attain that education. (Coalition letter to President Biden, 2021, p. 1)

Therefore, students struggling with debt are evidence that their degrees were overpriced if not outright scams, in which case it would be immoral to require students to repay.

Distributional Arguments in Favor of Student Loan Forgiveness

Another common argument for student loan forgiveness is that it would redistribute income and wealth from those who have plenty to those who do not. This is sometimes supported in a race- and gender-neutral fashion, arguing that wiping out the debt of low-income and low-wealth borrowers would reduce overall inequality. Some also argue that "debt is more costly — even ruinous — lower down the income scale" (D'Amato, 2021, para. 12), providing further justification for redistribution toward the have-nots of society.

But many advocates also use explicit racial and gender-based arguments to argue that forgiveness would help remedy other societal injustices related to women and racial minorities. These advocates argue that "student debt cancellation is … also about racial equity" (Eaton et al., 2021, p. 3). The recent letter to President Biden from 105 organizations supporting student loan forgiveness provides representative framing of these arguments.

Regarding women, the letter explains that "women hold two-thirds of the country's student debt and on average borrow $3,000 more than men to attend college — yet because of the wealth and wage gap, women find it harder to repay their loans" (Coalition letter to President Biden, 2021, p. 4).

Regarding racial minorities, the letter states that "canceling student debt would work to address longstanding issues of systemic inequality that have left Black and Brown borrowers with more debt and less wealth" (Coalition letter to President Biden, 2021, p. 2).

It is argued that women and minorities suffer from systemic injustices, that one consequence of these injustices is higher student loan debt, and that therefore loan forgiveness would help remedy these injustices. For example, the open letter to President Biden states that "twenty years after starting college, the median white borrower has paid off 94% of their debt while the median Black borrower still owes 95% of their debt" (Coalition letter to President Biden, 2021, pp. 3–4). Such a disparity is argued to be proof that Black borrowers face systemic racism, and that therefore their student loan debt is itself a manifestation of racism.

Quality-of-Life Arguments in Favor of Student Loan Forgiveness

While difficult to quantify, student loan forgiveness is argued to lead to a number of quality-of-life improvements, such as less (financial-induced) stress, greater social mobility, higher homeownership rates, and higher marriage rates. And without the burden of monthly student loan payments, former debtors would also be more willing to seek more fulfilling jobs that may not be as financially remunerative (Fullwiler et al., 2018). Some of these quality-of-life improvements could have beneficial secondary effects as well. For example, higher homeownership rates could lead to stronger communities as new families tend to put down stronger roots and become more involved in the community when they own a home as opposed to rent. And higher marriage rates could lead to an increase in birth rates.

Economic Arguments in Favor of Student Loan Forgiveness

The last set of arguments made in favor of student loan forgiveness is that it would provide a stimulus to the economy. Student loan debt has two effects that both reduce the savings and consumption of those holding the debt. First, student loans reduce the debtor's net wealth. When wealth is reduced, most people respond by reducing their spending. Second, student loan payments reduce the disposable income available for debtors to spend by the amount of their loan payments (Fullwiler et al., 2018).

When multiplied across millions of student loan borrowers, these two effects—lower spending due to reduced wealth and lower spending due to reduced post-payment disposable income—leave the economy facing an unnecessary economic drag.

The most persuasive (though, as we argue later, quite unrealistic) economic estimate of the stimulus provided by student loan forgiveness is given by Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum (2018) in their paper *The Macroeconomic Effects of Student Debt Cancellation*. They estimate that student loan cancellation (circa 2017) would "boost real GDP by an average of $86 billion to $108 billion per year ... reduces the average unemployment rate by 0.22 to 0.36 percentage points ... [and] adds roughly 1.2 million to 1.5 million new jobs per year" (p. 6).

The Problems with Student Loan Forgiveness

We have tried to provide the most persuasive and sympathetic case for student loan forgiveness in the previous section. Yet we are unpersuaded by these arguments. We reject

some of the arguments outright, dispute others, and introduce other issues to be considered. Overall, we conclude that student loan forgiveness should not be pursued because we think it suffers from too many logical and rhetorical, educational, economic, moral, political, and legal problems.

Logical and Rhetorical Problems With Student Loan Forgiveness

We begin with the logical and rhetorical problems of student loan forgiveness.

Advocates Overstate the Problem

The first logical problem is that loan forgiveness proponents overstate the problem. First, not all college students take out student loans. In fact, most undergraduate students do not—63% to 74% depending on the year (College Board, 2021, p. 40). And of the students who do borrow, most use it to finance a lucrative investment in their career and can afford to repay their debt. Indeed over 80% of those who entered repayment in 2002 had fully repaid their loan 14 years later, and later cohorts of borrowers were on a similar repayment trajectory (Gibbs, 2017, p. 11).

Among those who borrow, repayment burdens are generally affordable. Beth Akers, a scholar at the American Enterprise Institute, notes that the

> typical graduate will have borrowed $28,500 in pursuit of a bachelor's degree. That can be repaid with monthly payments of $181 on a standard, 20-year repayment plan... By contrast, median earnings for that college-educated millennial would be $56,605 ... [meaning loan payments would be] 4% of this family's pretax, monthly income. (Akers, 2019a, para. 8–9)

Paying 4% of income (an income that is presumably higher than what the individual would have earned without a college degree) is eminently affordable and is not an existential threat to the finances of debt holders that would justify forgiving their loans in the name of relieving unaffordable debt.

The bottom line is that most students do not borrow, and even for those who do, the typical repayment burdens are reasonable, not a crisis warranting massive taxpayer-financed giveaways in the form of loan forgiveness.

But even if repayment burdens are reasonable for most, what if they are getting worse? There is considerable debate over whether student loan burdens have been getting worse over time. In their book *Game of Loans*, Beth Akers and Matthew Chingos (2017) argue that per student debt payments as a percent of income have been stable over time, meaning that student loans today are no less affordable than they were in the past.

But the pro-forgiveness side argues that the increase in college enrollment over time distorts the figures.

> Households that would have appeared as "zeroes"—that is, not included—in the computation of the student debt burden distributions in the 1990s or the mid-2000s now enter those distributions with positive values for their debt burdens. Akers and Chingos condition on positive student debt to include households in their sample, but if they had instead conditioned on a given level or range of income or on a given educational attainment, they would have found that the distribution of debt burdens had shifted substantially to the right. (Fullwiler et al., 2018, p. 15)

Even if true, there are two counterpoints. First, the increased enrollment was presumably disproportionately made up of students from lower income families, who commonly borrow more than average to attend college since they are more liquidity-constrained (unless they disproportionately enroll in lower-cost colleges where there is less need to borrow). If increasing the number of high-needs borrowers does not increase the overall average, then other students would be facing a lower debt burden, undermining the argument that student debt is getting worse over time.

Second, the trend does not tell you much about current affordability. For example, suppose the price of toothpicks started doubling every year. The trend looks scary, but it could go on for many years before people would consider toothpicks unaffordable. Similarly, even supposing student loan debt burdens are getting worse over time (a contested claim) does not prove that the burden today is unaffordable.

Forgiveness Is Badly Targeted

Another logical problem with student loan forgiveness is that it is badly targeted. Advocates for loan forgiveness often rely on extreme examples of student debt gone wrong to make their case. Two mainstays are college dropouts who accumulated significant debt but earned no degree and graduate students who accumulated hundreds of thousands of dollars in debt.

These stories are real and tragic, and reforms should be implemented to ensure that such cases are eliminated or at least extremely rare. Yet these cases are also outliers. As noted earlier, over 80% of students repay their debt within 14 years (Gibbs, 2017, p. 11) and the most recent data show that 9.7% of students who entered repayment in 2017 defaulted within three years (U.S. Department of Education, n.d.-c).

Yet forgiveness advocates jump from these outlier cases to argue for universal forgiveness. The solution (universal forgiveness) simply does not match the problem (isolated cases of unaffordable debt). It would be like arguing that hurricanes pose a danger to states along the Gulf Coast and then devoting resources to hurricane proof non-coastal states like Montana. A better policy would focus resources on where the problem is concentrated.

Unaffordable student loan debt is a problem for some, but it is not the typical case and is nowhere near the universal experience, which implies that the appropriate policy response is more likely to involve scalpels than sledgehammers.

Existing and Better Solutions Are Ignored

The third logical problem is that forgiveness proponents too often ignore existing and alternative solutions.

Unaffordable student loan repayment burdens have been all but solved by policymakers over the past couple decades as a series of income-driven repayment programs (e.g., Revised Pay As You Earn [REPAYE]) were established. In these repayment programs, the borrower's monthly loan payment is adjusted based on their current income. If a student's income falls, so does their payment to ensure that payments are always affordable. These programs eliminate the possibility of default due to unaffordability and ensure that student loan payments are affordable for the entire lifetime of the student. If students are struggling with unaffordable payments, the solution is simple—enroll in an income-driven repayment plan. We want to emphasize that these income-driven repayment programs already have loan forgiveness built in—after making payments for a certain number of years (10–25 depending on the program), any remaining balance is forgiven.

In other words, income-driven repayment programs ensure that monthly payments are always affordable, and then forgive any unpaid debt after the student makes payments for a predetermined period of time. Universal and immediate loan forgiveness would reinvent the wheel, attempting to solve a problem that the income-driven repayment programs solved years ago. It should also be noted that in contrast to immediate and universal loan forgiveness, the loan forgiveness embedded in income-driven repayment programs is targeted to those students, and only those students, whose income was not high enough to repay their loans. While these income-driven repayment programs are not perfect, in part because their forgiveness provisions are too generous (Gillen, 2020), they are the best alternative to universal student loan forgiveness and have the advantage of already existing.

Targeted forgiveness would also be better than universal loan forgiveness (though we think significantly inferior to income-driven repayment). Shelbe Klebs writes that

> instead of considering a blanket solution that gives an arbitrary amount of forgiveness to every single person, regardless of their ability to pay, Congress should commit to forgiving the entire balance of the loans held by those who have been enrolled in or received Supplemental Nutrition Assistance Program (SNAP), TANF, Medicaid, CHIP, EITC, housing assistance, Supplemental Security Income (SSI), and other key means-tested federal public assistance programs for at least three of the past five years. (Klebs, 2021, para. 8)

Matthew Chingos, a scholar with the Urban Institute, also thinks targeted forgiveness would be a better approach than universal forgiveness:

> An alternative approach would be to use participation in means-tested federal benefit programs, such as Temporary Assistance for Needy Families (TANF), as a proxy for economic hardship, rather than household income… Forgiving all education debt for households that participate in public assistance programs would concentrate benefits on low- and middle-income Americans. (Chingos, 2019, para. 10–12)

Rhetoric Too Often Relies on Bad Reasoning

A fourth problem is the rhetoric that sometimes accompanies calls for student loan forgiveness, which often relies on strawmen to make the policy seem more reasonable. During the Occupy Wall Street protests, a common refrain was that if Wall Street was getting bailouts, why shouldn't students? Yet, as Justin Wolfers noted,

> notice the political rhetoric? Give free money to us, rather than "corporations, millionaires and billionaires." Opportunity cost is one of the key principles of economics. And that principle says to compare your choice with the next best alternative. Instead, they're comparing it with the worst alternative. So my question for the proponents: Why give money to college grads rather than the 15% of the population in poverty? (Wolfers, 2011, para. 9)

If your arguments only look good when matched against a strawman, then you do not have a very good argument. If a main argument for student loan forgiveness is that it would benefit the less well-off, it is trivially easy to find groups that are worse off than those with student loan debt.

Students are not the only ones who would react strategically to student loan forgiveness—colleges would "respond to this new reality by raising tuition commensurately."

Educational Problems With Student Loan Forgiveness

The next category of problems with student loan forgiveness focuses on the educational problems it would create or exacerbate. As noted above, most students borrow reasonable amounts that they can repay. But some students do have unaffordable student loan debt. Yet this problematic debt is a symptom. The root causes are high and rising college costs and overborrowing by students. Loan forgiveness would not only fail to address either issue, but it would make both problems worse.

Current and Future Students Would Be Encouraged to Increase Their Borrowing

Some students already overborrow; yet, as noted economist Lawrence H. Summers writes, "across the board relief of debts, where the vast majority can pay and are expected to pay, has the perverse effect of rewarding those most who borrow most" (Summers, 2021). For example, one orthodontist borrowed over $600,000, and because his payments do not cover the accruing interest, his balance has since grown to over a million dollars (Mitchell, 2018). Student loan forgiveness would reward decisions like this.

But it gets worse because rewarding past bad decisions will encourage future bad behavior. As Douglas Holtz-Eakin notes, forgiveness would "create moral hazard — the notion that past forgiveness programs will be repeated, thus reducing the incentive to repay loans in a timely fashion" (Holtz-Eakin, 2020, para. 2) as future students expect additional rounds of forgiveness. Beth Akers walks us through the likely response of current and future students:

> Suppose we wiped away all student debt today. What would it mean for a student about to enroll in college this fall? It means they would be smart to borrow every penny they could for school, and hope and pray for a politically inevitable second round of loan forgiveness. (Akers, 2021a, para. 2)

Forgiveness would also "likely encourage future students to … attend more expensive schools, and make less of an effort to constrain living expenses (also paid with loans)" (Akers, 2021b, para. 4). We have already seen evidence for this response due to the forgiveness provisions of some of the income-driven repayment programs where one college's advertising campaign told students "Stop wasting your money on student loan payments" (Delisle & Holt, 2012, p. 1). Imagine how much students will borrow when that becomes the conventional wisdom among all college students. Instead of around a third of students borrowing, virtually all students would; and instead of striving to minimize their debt, students would borrow as much as possible.

Colleges Would Be Encouraged to Raise Tuition

Students are not the only ones who would react strategically to student loan forgiveness—colleges would "respond to this new reality by raising tuition commensurately" (Davies & Harrigan, 2021, para. 6). Raising tuition would provide colleges with additional resources that they can use to hire more and better faculty, recruit more and better students, upgrade the campus, etc. (Gillen, 2012). If students do not have to repay the debt that finances all these ventures, then one of the only significant constraints on tuition—student and parent willingness to pay—is removed. The resulting incentives for colleges to raise tuition would "exacerbate the already out-of-control inflation in the higher-education industry" (Akers, 2021b, para. 4). Mike Rowe correctly argues that "forgiving student debt would send a terrible message to the very same universities that already gouge their customers with sky-high tuition. Tuition will never come back to earth" (quoted in Conklin, 2020, para. 4).

Forgiveness Would Exacerbate the Problem It Is Trying to Solve

If high tuition and overborrowing are the root causes of problematic student loan debt, then proposing a solution that makes both overborrowing and tuition inflation worse is counterproductive. Forgiveness would seek to treat the symptom rather than the disease, and in doing so would inadvertently make the disease worse. To borrow a quote from Wolfgang Münchau (writing on a different topic) "this is the equivalent of putting explosives into a can, before kicking it down the road" (Münchau, 2011, para. 1).

This point is recognized by both sides of the political spectrum. Kevin Carey, from the left-leaning New America, writes that "debt forgiveness alone would be like treating a contaminated river without stopping the source of the pollution" (Carey, 2020, para. 18). Similarly, Rick Hess, from the right-leaning American Enterprise Institute, writes that forgiveness "ineptly addresses the symptoms of runaway college costs (by disproportionately showering largesse on

Ivy-trained law school grads) while doing nothing about the drivers of this purported 'crisis'" (Hess, 2020, para. 6).

While most progressives ignore the problems that one-time student loan forgiveness would create, there are a few exceptions. For example, Fullwiler et al. (2018) acknowledge that one-time forgiveness would lead to undesirable outcomes and argue it needs to be paired with "free or debt-free college" to "avert the problem of moral hazard" (p. 49) that would accompany one-time forgiveness. Yet, the costs of implementing "free" or "debt-free" college are not included in their analysis of the costs and benefits of student loan forgiveness.

Economic Problems With Student Loan Forgiveness

Student loan forgiveness also suffers from several economic problems.

Forgiveness Is Expensive and Has a High Opportunity Cost

The first economic problem with student loan forgiveness is that it is expensive, using vast sums of money that could be used for more pressing needs. Current and former students owe $1.6 trillion in federal student loans. Spending $1.6 trillion to forgive their loans will reduce the funding available for other uses.

The enormity of the sums involved has led some advocates to push for capping the amount forgiven at $50,000 or $10,000. But even then,

> in sheer magnitude, canceling $50,000 in student debt would rank among the largest transfer programs in U.S. history. At a cost slightly above $1 trillion, it would equal the total amount spent on cash welfare since 1980. And its largest effect would be to improve the finances of college-educated workers, who have already tended to be [economic] winners. (Looney, 2020, para. 10)

Others have advocated for forgiveness targeting certain subpopulations. Financial aid expert Mark Kantrowitz provides estimates (without necessarily endorsing the idea) that

> forgiving the federal student loans of borrowers age 65 and older would cost $59 billion, and affect more than 2 million borrowers. ... Forgiving the federal student loan debt of social workers would cost about $18 billion. Forgiving the federal student loan debt of teachers would cost about $117 billion. Forgiving the federal student loan debt of all doctors and nurses would cost about $248 billion. (Kantrowitz, 2021a, p. 3)

It would also be possible to avoid forgiving the loans of high earners by means-testing forgiveness, only forgiving the debt of former students below an income threshold. Matthew Chingos estimates that "income-based targeting reduces the total amount of loans forgiven by about one-third, significantly reduces the share of benefits going to the highest-income families, and modestly increases the share of benefits going to low-income groups" (Chingos, 2019, para. 9).

The amount of money required for even partial loan forgiveness is massive, and there are much better uses for that money. To illustrate the opportunity cost of student loan forgiveness, consider the student loan payment pause established by President Trump and continued by President Biden that temporarily paused all student loan payments during the COVID-19 epidemic. This payment pause costs taxpayers roughly $5 billion per month (The Great Student-Loan Income Transfer, 2021) and was recently extended by President Biden until September 1, 2022. This $60 billion per year is roughly twice as much as total spending on Pell Grants (funds that are provided to generally lower-income students to attend college and do not need to be repaid). In other words, for the same cost as extending the payment pause for a year, we could have tripled Pell Grants. Similarly, the Committee for a Responsible Federal Budget calculates that "the annual cost of extending the moratorium is about five times the total estimated cost of President Biden's plan to provide free community college," concluding that "while this expensive and regressive policy may have been justified in the depths of the pandemic, it no longer makes sense, particularly in comparison to other, better-targeted higher education reforms" (Committee for a Responsible Federal Budget, 2021b, para. 3).

Wasteful Rent-Seeking Such as Lobbying Would Increase

As noted earlier, forgiving loans will lead to future calls for more forgiveness, and those efforts will divert resources, time, and attention from productive activities and instead use them for wasteful lobbying that just seeks to redistribute wealth and income. As Justin Wolfers wrote,

> do this once, and what will happen in the next recession? More lobbying for free money, rather than doing something socially constructive. Moreover, if these guys succeed, others will try, too. And we'll just get more spending in the least socially productive part of our economy—the lobbying industry. (Wolfers, 2011, para. 8)

Forgiveness Does Not Provide Much if Any Economic Stimulus and May Even Shrink the Economy

As noted earlier, student loan forgiveness advocates argue that forgiveness would provide economic stimulus by increasing the wealth and disposable income of debtors. They argue that the increased savings and consumption this would generate would increase the size of the economy by

around $100 billion per year in the first five years after loans are forgiven (Fullwiler et al., 2018, p. 15).

However, most economists who have examined the issue disagree. The Committee for a Responsible Budget concludes that "student debt cancellation would be an ineffective form of stimulus, providing a small boost to the near-term economy relative to the cost. … Student debt cancellation will increase cash flow by only $90 billion per year, at a cost of $1.5 trillion" (Committee for a Responsible Federal Budget, 2020, para. 2–3).

Beth Akers agrees:

> many have argued that loan cancellation would provide a valuable stimulus to the economy... however, the magnitude would be small relative to the cost. This is because the benefits would be disproportionately delivered to higher-income borrowers and because the benefit would not be delivered immediately but rather through alleviating payments that were due monthly for decades into the future. There are far more effective forms of stimulus that could be immediately enacted if this were a priority. (Akers, 2021c, p. 3)

Some prominent economists even argue that forgiveness could reduce the size of the economy.

Why the vast disagreement, with some economists arguing that student loan forgiveness would provide substantial stimulus to the economy, most economists thinking it would provide minimal stimulus, and some even arguing it would shrink the economy?

The key question is whether the stimulative effect of student loan forgiveness in the form of an increase in net wealth and disposable income of former student loan debtors are offset by factors that shrink the economy and/or whether they have positive feedback loops. Tracking all the offsetting and positive feedback effects from a policy change is impossible, but if the biggest factors are accounted for, a reasonably accurate assessment can be provided. Economists often use the concept of a multiplier as shorthand for how stimulative (or not) a policy is after taking into account these offsets and positive feedback loops.

For student loan forgiveness, a simplified version of the multiplier with all else held constant would be the total increase in the size of the economy (GDP) divided by the total cost of loan forgiveness. In other words, if $1 spent on loan forgiveness generates $1 in additional economic activity, then the multiplier would be 1. Multipliers greater than 1 are considered to provide stimulus because each dollar spent generates more than a dollar of additional economic activity. A multiplier less than 1 indicates that each dollar spent generates less than a dollar of additional economic activity, and such a policy is not considered stimulative. For student loan forgiveness, if the macroeconomic offsets are numerous and large, the multiplier will be less than 1 or even negative. But if there are positive feedback loops, the multiplier could be greater than 1.

What are the potential offsetting and positive feedback effects for student loan forgiveness?

The most glaring problem with arguing that loan forgiveness has a high multiplier is that loan forgiveness is a transfer, and most modern macroeconomic models predict that for transfers, the "multiplier is 0, since the taxes and transfers cancel in the aggregate" (Ramey, 2011, p. 681). As Hyunseung Oh and Ricardo Reis explain,

> Most macroeconomic models of business cycles assume a representative agent, so that lump-sum transfers from one group of agents to another have no effect on aggregate employment and output. Many also assume that the conditions for Ricardian equivalence hold, so that government transfers across time are likewise neutral. (Oh & Reis, 2011, p. 3)

In the other words, the standard assumptions used in the vast majority of macroeconomic modeling—representative agents (an average household), Ricardian equivalence (the timing of taxation does not matter), and lump-sum taxation (non-distortionary taxation)—imply that the multiplier from transfers will be 0.

However, these theoretical results are not a nail in the coffin for loan forgiveness as economic stimulus because all three of those assumptions are simplifying assumptions that do not necessarily hold in the real world. And once those assumptions are relaxed, a case for a non-zero multiplier from transfers like forgiveness is more plausible (e.g., Oh & Reis, 2011). While these models are "admittedly ad-hoc" (Galí et al., 2005, p. 4), that does not mean they are wrong. Indeed one leading economist argues that "it is a fair presumption that the effects of higher consumer purchases [due to transfers] are similar to the effects of higher government purchases" (Hall, 2009, p. 184).

While that presumption is debatable, it is at least plausible that transfers could have non-zero multipliers, so we identified 6 key factors discussed in the broader multiplier literature that could heavily influence the multiplier from student loan forgiveness and summarize their likely impact later in **Table 1**.

Tax Financing of Forgiveness

The first and most important offsetting factor would be the effect of higher taxes to pay for loan forgiveness. The basic idea is that student loan forgiveness financed by taxes is just a redistribution of wealth and income, and redistribution does not magically create more wealth and income. If you give student loan debtors $1.6 trillion by forgiving their loans, the money to do that comes from making other taxpayers $1.6 trillion poorer by raising their taxes to pay for the forgiveness, leaving overall wealth, income, and spending unchanged.

The easiest way to see how this offset could neutralize the stimulative impact of forgiveness is to assume that the $1.6 trillion in loan forgiveness is paid for by raising taxes by the exact amount of forgone loan payments each year. In that case, the $1.6 trillion in higher wealth for former debtors is exactly offset by a $1.6 trillion reduction in wealth for other taxpayers, leaving aggregate net wealth unchanged. The effect on total annual disposable income is exactly offset as well, with former debtors having extra disposable income, but other taxpayers having an equal amount of lower disposable income due to higher taxes. In this scenario, the stimulus from higher spending by former debtors is exactly offset by lower spending by other taxpayers, leaving the economy unaffected. The multiplier in this case would be 0.

In reality, the multiplier would be negative due to deadweight losses. Taxes transfer money from taxpayers to the government, so the amount of taxes paid represent losses to the taxpayer, but this loss is offset by an equivalent gain for the government. But that is not the end of the story, because except in unusual circumstances, taxes generate deadweight loss—losses to the economy that are not accounted for by the tax revenue raised as the taxes reduce the incentives to produce and save. Most types of taxes generate deadweight loss, which means that if forgiveness is paid for with taxes, then deadweight losses likely drive the multiplier negative.

There is compelling evidence that taxes would substantially offset the stimulative effect of forgiveness. For example, in a literature review, Valerie Ramey finds that "tax multiplier estimates range from – 0.5 to – 5.0" (Ramey, 2011, p. 677).

Government Deficit Financing of Forgiveness

A second potentially offsetting factor arises when forgiveness is financed by increasing government borrowing rather than raising taxes. Most of the time, an increase in government borrowing competes with the private sector for funds from savers. This increased government borrowing increases the demand for loans, bidding up interest rates. These higher interest rates make borrowing more expensive, which then lowers investment (spending by businesses) and consumption (spending by consumers). This "crowding out" of investment and consumption due to higher interest rates will reduce the size of the economy. When this happens, the lower investment and consumption (crowding out) from the higher interest rates would offset some or all of the increased spending from the student loan beneficiaries, reducing the size of the multiplier.

There is also the effect on future taxes of current deficits. Higher deficits today imply higher taxes tomorrow, which will suppress future economic activity. As Michael Woodford explains,

> tax increases … required to pay off debt issued during the crisis, [are] likely—to the extent such a change in future fiscal policy is correctly forecasted, and intertemporal expenditure decisions are forward looking—to significantly reduce the stimulative effects of increased government purchases during the crisis. (Woodford, 2011, p. 33)

While both crowding out and the effect of higher future taxes would tend to reduce the multiplier, there is a plausible argument that things are different when the economy is at the zero lower bound. This phrase refers to the situation when interest rates have reached zero (or close to it), and there is a surplus of savings. We discuss this case in more detail in a later section, but when this happens, it may be possible for the government to borrow more without affecting interest rates. In this case, when student loan forgiveness increases the government's borrowing, it may not lead to higher interest rates, leaving private investment and consumption unaffected. Thus, at the zero lower bound, the multiplier for forgiveness may not be reduced because increased government budget deficits may not lead to higher interest rates and therefore may not cause crowding out.

Timing

The multiplier for student loan forgiveness is also influenced by the issue of timing. Most of the benefit for former debtors takes the form of relieving their future payments. But as the Committee for a Responsible Budget notes,

> economic stimulus works by increasing total spending when the economy is in a period of weakness. Yet forgiving student loan debt will have a relatively small effect on what is available to be spent. ...
>
> [B]ecause borrowers often pay back their loans over 10, 15, or even 30 years, debt cancellation will increase their available cash by only a fraction of the total loan

> forgiveness. (Committee for a Responsible Federal Budget, 2020, paras. 1, 3)

This line of thought led economist Justin Wolfers to conclude that student loan forgiveness is

> the worst macro policy I've ever heard of. If you want stimulus, you get more bang-for-your-buck if you give extra dollars to folks who are most likely to spend each dollar. Imagine what would happen if you forgave $50,000 in debt. How much of that would get spent in the next month or year? Probably just a couple of grand (if that). (Wolfers, 2011, para. 6)

The mismatch in timing between when forgiveness occurs and when the additional economic activity occurs will reduce the multiplier.

Beneficiary Taxes

The fourth potential offsetting factor that could reduce the size of the multiplier is how loan forgiveness for the beneficiaries is taxed. Usually, forgiven student loans have been treated as taxable income. This makes logical sense, as forgiveness is essentially a large cash gift used to pay down debt. But, as Jason Furman, the former chair of the Council of Economic Advisors under President Obama noted, this taxation can more than nullify the stimulative effect of the initial forgiveness:

> Student loan debt forgiveness likely has a multiplier close to zero. Forgiveness is taxable. If this negative cash flow effect outweighs interest savings would even be net negative. And wealth effect small in short run. Arbitrary/regressive $1T for ~$0 GDP, not a great idea. (Furman, 2020)

For example, consider the typical bachelor's degree graduate who borrowed $28,500 (Akers, 2019a). If that debt was forgiven, it would increase their annual disposable income by about $2,200 from not having to make loan payments (assuming they were on the 20-year repayment plan). But if they are in the 25% tax bracket, loan forgiveness would increase their federal income taxes by $7,125 (plus whatever their state income tax increase might be). Thus, forgiveness would reduce their disposable income by about $5,000 in the first year, which would likely reduce their spending, which would reduce the multiplier. After the first year, there would be no offset from a higher tax bill, and forgiveness would stimulate higher spending (assuming no other offsets).

President Biden's COVID-19 relief bill in March 2021 made any student loan forgiveness tax free until 2025, temporarily nullifying this offsetting factor (at the cost of giving forgiveness recipients another huge windfall and increasing the government's budget deficit).

Unemployment and Underutilization

A fifth factor focuses on whether there are lots of unemployed people and resources (factories, machinery, storefronts, vehicles, etc.) or not. Unlike all previously discussed factors, this one has the potential for a positive feedback loop depending on the state of the economy.

Suppose the economy is in a recession with many unemployed people and underutilized productive resources (sometimes called an economy with slack). When student loans are forgiven, the former debtors respond by spending more since they now have higher net wealth and more disposable income. Their additional spending would bring some of the unemployed people and resources back into production, and those newly employed people would spend more since their income increases, bringing even more unemployed people and resources back into production. This positive feedback loop would magnify the initial stimulus provided by forgiveness, increasing the size of the multiplier.

However, if the economy is already at its productive capacity (an economy with no slack), meaning there is not much unemployment or many underutilized resources, then there is no positive feedback loop. Since there are few unemployed people and underutilized resources available, the higher spending by former debtors does not generate a feedback loop but rather just bids up the wages and prices of people and resources respectively.

The empirical evidence on whether the multiplier is higher when there is slack is mixed. Some scholars have found "large differences in the size of spending multipliers in recessions and expansions with fiscal policy being considerably more effective in recessions than in expansions" (Auerbach & Gorodnichenko, 2012, pp. 2–3). They find that the "multiplier is between 0 and 0.5 in expansions and between 1 and 1.5 in recessions" (p. 11). However, other scholars "find no evidence of significant differences in multipliers when the U.S. economy is experiencing substantial slack as measured by the unemployment rate" (Ramey & Zubairy, 2014, p. 28). They estimate the multiplier to be between 0.6 and 1 (p. 3). Mulligan (2011) also finds no evidence of higher multipliers during the Great Recession.

Inflation and the Federal Reserve Response

A sixth potential offsetting factor is the reaction of the Federal Reserve to changes in inflationary pressure. If forgiveness increases spending by former debtors and not all of

the additional spending is satisfied by bringing in formerly unemployed people and underutilized resources, then some of the additional spending will show up in the form of higher inflation as the new spending by former debtors competes with the preexisting spending in the economy for workers and resources.

The Federal Reserve (Fed) is the central bank for the country and is responsible for ensuring price stability and full employment by adjusting the supply of money. When the Fed increases the money supply, it is called expansionary monetary policy and there is a loose consensus among economists that this will reduce real interest rates, which increases investment and consumption spending, which then boosts output and employment in the short run, while the long run effect is higher inflation.[1] Conversely, when the Fed reduces the supply of money, this is called contractionary monetary policy, and the loose consensus among economists is that this will increase real interest rates, reducing investment and consumption spending, which reduces output and raises unemployment in the short run, while in the long run it will only reduce inflation.

If student loan forgiveness increases inflationary pressure, the Fed will respond by shifting to a more contractionary monetary policy to prevent the inflation rate from rising.[2] Contractionary monetary policy leads to higher real interest rates, making borrowing more expensive, reducing investment and consumption and therefore reducing the multiplier. Economist Brad DeLong (2015) estimates that when the economy is not in a recession, the Fed's response—shifting to more contractionary monetary policy—will reduce the multiplier to 0.4.

However, some economists argue that when the economy is in a recession, especially one where interest rates have reached zero (the zero lower bound), the Fed will not shift to more contractionary monetary policy:

> In standard [Dynamic Stochastic General Equilibrium] models, an increase in government spending triggers a rise in output and inflation. When monetary policy is conducted according to a standard Taylor rule that obeys the Taylor principle, a rise in inflation triggers a rise in the real interest rate. Other things equal, the policy-induced rise in the real interest rate lowers investment and consumption demand. So, in these models the government spending multiplier is typically less than one. But when the zero lower bound binds, the rise in inflation associated with an increase in government spending does not trigger a rise in the real interest rate. (Christiano et al., 2018, p. 19)

If student loan forgiveness increases inflationary pressure, the Fed will respond by shifting to a more contractionary monetary policy to prevent the inflation rate from rising.

However, the evidence for this theoretical result is also mixed. For example, one scholar found that even at the zero lower bound, the multiplier was just 0.7 (Ramey, 2011, p. 680).

So, given all these offsetting factors and positive feedback loops, what is the multiplier for student loan forgiveness?

There is no single and stable answer to that question. Whether forgiveness is financed by higher taxes or increased government borrowing will impact the multiplier. Forgiveness implemented before 2025 will likely have a higher multiplier than forgiveness in 2026 or later due to President Biden's temporary policy of exempting forgiveness from taxation. Similarly, much may depend on the overall state of the macroeconomy. Forgiveness when unemployment is high could have a higher multiplier than forgiveness in a typical year. Similarly, in a normal year, forgiveness could be offset by crowding out, whereas if the economy is very weak, crowding out may not be a concern. And much also depends on the Federal Reserve's reaction, which will depend on forgiveness' effects on inflation (itself likely driven by the amount of slack—unemployed people and resources—in the economy). **Table 1** provides a summary of how the various factors discussed above would affect the multiplier for student loan forgiveness.

1 If monetary policy has no effect on "real" variables like output and employment, it is considered to be neutral. Virtually all economists and economic schools of thought agree that money is neutral in the long run. But the Keynesian, Monetarist, New Classical, Dynamic New Keynesian and the New Neoclassical Synthesis schools of thought generally argue that money is not neutral in the short run, while the Real Business Cycle school of thought generally argues that money is neutral in the short run.

2 Given the fractional reserve banking system currently in use, how much of the additional income is used to repay debt will have an influence on money supply and therefore inflation and therefore how the Fed responds.

Table 1
Factors Affecting the Multiplier for Student Loan Forgiveness

		STATE OF THE ECONOMY	
		Strong economy	Weak economy
Offsetting or positive feedback factor	Factor description	Unemployment and resource underutilization are low, there is no surplus of savings, and the Fed is meeting its inflation target	Unemployment and resource underutilization are high, there is a surplus of savings, and the Fed is not meeting its inflation target
Tax financed	When forgiveness is paid for by raising taxes…	Reduces multiplier	Reduces multiplier
Government deficit financed	When forgiveness is paid for by increasing government borrowing…	Reduces multiplier	No effect on multiplier
Timing	When forgiveness recipients only spend a fraction of the forgiven amount quickly…	Reduces multiplier	Reduces multiplier
Beneficiary taxes	When forgiveness recipients have to pay taxes on the amount forgiven…	Reduces multiplier	Reduces multiplier
Employment and utilization	Are there many unemployed people and underutilized productive resources?	No effect on multiplier	Increases multiplier*
Federal Reserve response	Does the Fed shift to more contractionary monetary policy to fight the inflationary impact of forgiveness?	Reduces multiplier	No effect on multiplier*

* The empirical evidence is mixed, but we view these as plausible theoretical results.

As of early 2022, the multiplier from student loan forgiveness is likely to be close to 0 or even negative because no matter how forgiveness is paid for, it would likely have no or even a negative effect on the size of the overall economy. If it is paid for with higher taxes, money is simply shifted from one person to another, yet the deadweight losses from taxes shrink the economy. If it is paid for with more deficits, someone has to buy the bonds to pay for these deficits, reducing the investment or consumption spending that would have otherwise utilized those funds. If it is paid for with inflation, that is just taking purchasing power from everyone and giving it to a few. Even more important, the economy is currently suffering from the worst inflation in decades. This indicates that the Federal Reserve, seeking to bring inflation back down, would likely offset most of the potential stimulus provided by student loan forgiveness by shifting to a more contractionary monetary policy. Other analysts also predict a low multiplier, with the Committee for a Responsible Federal Budget estimating the multiplier is between 0.02 and 0.27 (Committee for a Responsible Federal Budget, 2021a).

But some pro-forgiveness scholars disagree. Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum "relied on two macroeconomic models to simulate these effects: Ray Fair of Yale University's US Macroeconomic Model ('the Fair model') and Moody's US Macroeconomic Model" (Fullwiler et al., 2018, p. 7). They estimate the multiplier for student loan forgiveness under four different scenarios and believe that the multiplier is between 0.6 and 1.5, and is higher than 1 in three of them.

We are not convinced by these model simulations for several reasons.

Our first objection relates to multiplier estimates in general and is not restricted to the Fullwiler et al. paper specifically. A multiplier greater than 1 is extremely powerful. It essentially means that the government can borrow or tax $1, send it to someone else to spend, and the overall effects would be to grow the economy by more than $1. This is essentially a perpetual economic growth machine. If student loan forgiveness really has a multiplier of 1.5, then why stop at forgiving $1.6 trillion of loans? Why not give former borrowers several trillion dollars more? The answer is that the circumstances that allow for a multiplier greater than 1 are rare. If they were not, then countries could become fabulously wealthy by running massive and sustained budget deficits. Yet countries that have done so, like Japan, Greece, and Italy, have not been rewarded with robustly growing economies. In fact, close to the opposite has occurred as their economies have stagnated. Their experience indicates that large deficits do not magically create increased income or wealth. So, when we see a multiplier greater than 1, we should ask what circumstances are driving this unusual result, and under what policies the estimate remains valid. For example, suppose the economy is in a recession, and that some fiscal stimulus would generate a multiplier greater than 1. That does not mean that unlimited fiscal stimulus would still have a multiplier greater than 1, because at some point the fiscal stimulus would be sufficient to end the recession. So rather than present "the" multiplier, it would be more useful to present the estimated multiplier under each of several different policies (e.g., stimulus in increments of say $100 billion). If a model predicts the same multiplier for $100 billion in forgiveness as it does for $1.6 trillion, then it is clear that there are some flawed assumptions underlying the model (or that they have discovered an economic perpetual growth machine).

Second, it is hard to see how student loan forgiveness could have a multiplier greater than 1 without the economy being in a recession. The offsets from higher taxes if tax financed or crowding out of investment and consumption spending if deficit financed provide a devasting dampening effect for virtually all stimulus proposals, dooming their prospects of providing stimulus. To achieve a multiplier greater than 1 from a transfer payment like loan forgiveness almost certainly requires the economy to be in a deep recession. That was not the state of the economy in 2018 when their paper came out, and it is not the case in early 2022 either. By way of comparison, the Obama administration took office during the Great Recession, the worst economic crisis since the Great Depression, with the unemployment rate around 8% and getting worse, projected to climb into the double digits. They estimated that the multiplier from fiscal stimulus in the form of higher spending was 1.6 (Romer, 2009). And yet Fullwiler et al. want us to believe that the multiplier circa 2017, when the unemployment rate was between 4% and 5%, and the economy was growing, was 1.5. This strikes us as implausible.

Third, both "the Fair model and the Moody's model share a Keynesian short-run theoretical foundation" (Fullwiler et al., 2018, p. 7), and we trust Keynesian models less than those authors because Keynesian models have such a mixed record. Recently, many Keynesian economists predicted that the budget sequester of 2013, which reduced federal spending, would cause a recession. Instead of being harmed, the economy seemed to do better after the sequester (Beckworth, 2013).

But a more telling example is that Keynesians famously failed to predict or explain stagflation (high unemployment and high inflation) in the 1970s. Keynesian thinking has undergone substantial revision since then of course, but it is notable that the Fair model was "created in the 1970s, [and] the model's structure has changed little across more than 40 years of business cycles and macroeconomic events" (Fullwiler et al., 2018, p. 37). The main reason Keynesians failed to predict or explain stagflation was that they tended to ignore the long-run effects of policies—in that case, the long-run effects on inflation expectations from pursuing expansionary monetary policy. The models used to estimate the multiplier from student loan forgiveness likely have a similar blind spot. We noted earlier that one of the main effects of student loan forgiveness on future behavior is moral hazard, the increased incentive that students would have to borrow and for colleges to raise tuition. Yet in estimating the multiplier for loan forgiveness "each model imposes an institutional context in which moral hazard problems do not arise" (Fullwiler et al., 2018, p. 49). In other words, just like the Keynesians in the 1970s, these models assume away a key factor that may affect the policy's impact.

These examples do not prove that these models' predictions of the multiplier for loan forgiveness are unreliable, but they do imply that we are not required to uncritically accept their simulations as gospel.

Fourth, in two of the four scenarios examined, Fullwiler et al. essentially assume away one of the main factors that might reduce the multiplier, namely, the Federal Reserve's reaction. In their paper, they "simulate an alternative scenario in which the Fed's interest rate reaction function is 'turned off.' … The rationale for turning off the Fed is that

the student debt cancellation produces little to no inflationary impact" (Fullwiler et al., 2018, p. 38). This is not internally coherent. If forgiveness does not result in much inflation, then the Fed's reaction would not be that large, so why bother turning the Fed's reaction function off?

Turning off the Fed's reaction artificially raises the multiplier, and this can be seen most clearly in the Moody's model. When the Fed is turned off, the multiplier is a little higher than 1, meaning that each dollar of forgiveness grows the economy by a little over one dollar. But when the Fed's reaction is not assumed away, once "student debt cancellation stimulates the economy, the Fed raises interest rates" to fight against the resulting inflation and the "effect in the Moody's model is to slow the economy significantly" (Fullwiler et al., 2018, p. 45). The slower growth reduces the multiplier to around 0.6, meaning that every $1 spent on loan forgiveness would only generate $0.60 of additional economic activity.

Fifth, the results from the most plausible simulation should raise numerous red flags. Of the four simulations, two artificially turn off the Fed's response to inflation, and we think should therefore be dismissed for anything but analytical comparisons. Of the remaining two simulations, we have more faith in the Moody's model because "in the long run … Moody's takes on a 'Classical core' while the Fair model remains fundamentally Keynesian" (Fullwiler et al., 2018, p. 7–8). What red flags does the Moody's model with a Fed response included contain?

For starters, while forgiveness boosts the economy by about $100–125 billion per year in the first five years, in the next five years, forgiveness shrinks the economy by around $50 billion per year. As a result, the multiplier over the whole 10-year window is just 0.6, which means that every $1 spent on forgiveness would only generate $0.60 in additional economic activity. The low multiplier is driven by forgiveness leading to higher spending by beneficiaries, which then leads to higher inflation, which the Fed responds to by shifting to more contractionary monetary policy, which leads to higher interest rates, which in turn reduces spending by businesses and consumers. Recall that a multiplier less than 1 is not stimulative, so a multiplier of 0.6 means that forgiveness would fail as a method of stimulating the economy. This reduction in the size of the economy in the latter half of the simulation entails undesirable effects such as higher unemployment (about 0.2% higher) and fewer jobs (almost half a million fewer jobs 10 years later). In addition, the government's cost of borrowing increases by about 0.4 percentage points. With the publicly held debt currently standing at around $23.9 trillion (U.S. Department of Treasury, n.d.), an increase in the government's cost of borrowing by 0.4 percentage points would lead to an increase in annual interest payments of over $95 billion per year once the debt is rolled over at the higher interest rates. By way of comparison, we currently spend $26 billion per year on Pell grants.

In summary, the notion that student loan forgiveness would stimulate the economy is incorrect. While some forgiveness advocates argue the multiplier is 1.5, this result relies on questionable simulations and bizarre assumptions (such as ignoring the Fed's response) that artificially inflate the multiplier. The actual multiplier is likely to be close to 0 or even negative.

Moral Problems With Student Loan Forgiveness

Student loan forgiveness also suffers from a variety of moral problems.

Forgiveness Pursued for the Explicit Purpose of Benefiting Certain Sexes or Races Is Wrong

Many advocates for student loan forgiveness are explicit that a main motivation for them is the argument that forgiveness would disproportionately benefit women or preferred races (Coalition letter to President Biden, 2021). This is an unjustified basis for advocating a public policy.

Public policies are not guaranteed to affect all sexes or races equally, and that is generally acceptable so long as the policy was not implemented with the explicit purpose of achieving such disparate impacts. For example, the number of women attending college outnumber men by over 30% (U.S. Department of Education, n.d.-b). Thus, any policy that benefits college students will have a disparate impact, benefiting women more than men. So long as the disparate impact is an unintended consequence, the policy should not be considered sexist. But if the government pursues a policy *because* of its disparate impact, then that is immoral because it is seeking to advantage or disadvantage certain groups of people based on sex.

The same argument holds for racial groups.

When the Roosevelt Institute argues that "student debt cancellation could be considered a form of racial reparations" (Eaton et al., 2021, p. 14–15) and that "one of the most important and well-documented benefits of student debt cancellation is … the potential to increase Black net worth" (p.5), they are advocating a policy for unjust reasons. If a policy is implemented for justifiable reasons and happens to increase Black net worth disproportionately, that is great. But if a public policy is pursued *because* it will disproportionately increase Black net worth (or any other race's net worth), then that is an inappropriate reason to support the policy.

Progressives who support student loan forgiveness because of the racial implications are seeking to reestablish the worst parts of the world's and America's past—policies that explicitly favored one race over others—but with their preferred races as the beneficiaries. But previous policies in America that favored Whites were not unjust because they favored the *wrong* race, they were unjust because they favored *any* race over others.

In addition to being morally wrong, calls for universal loan forgiveness in the name of racial justice would actually exacerbate rather than alleviate differences in disposable income by race. Adam Looney estimates that "the average white household makes about $895 in annual student loan payments, slightly above the $839 in payments in the average Black household" which means that debt forgiveness would put "more cash into the pockets of white households each month" (Looney, 2022, p. 14).

Faith in Lending Would Be Undermined

Student loan forgiveness would undermine faith in public lending. The government offers grants—aid that does not need to be repaid—but does so to a much more narrowly targeted subpopulation of students, typically those from low-income backgrounds (e.g., the Pell grant) or those advancing the scientific frontier (e.g., National Science Foundation grants).

In contrast, because the presumption is that student loans will be repaid by the borrower, virtually anyone can get a student loan, and they can borrow vast sums that far exceed the grant aid provided to even the most economically disadvantaged students. Yet student loan forgiveness would transform all past lending into grants after the fact. This would undermine the public's faith in lending. As Rick Hess notes,

> The compact that undergirds any form of lending—but especially public lending—presumes that borrowers are taking responsibility for their choices. Typically, that means borrowing no more than is absolutely necessary, borrowing to meet needs rather than wants, and making good-faith efforts to repay in full. That kind of behavior fuels a virtuous cycle of civic trust.
>
> Proposals for sweeping loan forgiveness shatter that compact in every possible way. (Hess, 2020, para. 10–11)

If student loan forgiveness is implemented, any future public lending program will operate under the justifiable suspicion that it is really a grant program in disguise.

Overpriced Colleges Would Be Rewarded

When a student borrows too much, some of the responsibility falls on the college for either charging too much or failing to provide an education that is remunerative enough to enable the student to repay their loans. Yet forgiveness would reward colleges that are overpriced. As Beth Akers writes, forgiveness would

> mean that taxpayers are financing a guaranteed bailout when students attend colleges that don't deliver an education enabling them to earn enough to pay back the loans. This takes the pressure off the colleges to provide value while allowing them to benefit from rivers of cash. (Akers, 2019b, para. 5)

An illustrative example of this phenomenon is found in the Grad PLUS program, which allows graduate students to borrow without limit. As Charles Lane recounts,

> Congress enacted Grad Plus thinking it would make graduate school more affordable, to the benefit of students and of the larger society. Instead, it enabled some universities to turn their master's programs into cash cows and (some of) their graduates into modern-day debt peons… [Forgiving loans] would make taxpayers shoulder the entire cost of fixing this screw-up — from which many well-endowed universities profited. That hardly seems fair. (Lane, 2021, para. 11–12)

Student Loan Forgiveness Is Regressive

Virtually no one thinks that it is appropriate for the government to provide handouts to those with high incomes in the name of charity. Yet, to a disturbing extent, that is precisely what loan forgiveness would do. The reason for this result is that student loan debt is concentrated among high earners. Sandy Baum and Adam Looney (2020) document that "the highest-income 40 percent of households (those with incomes above $74,000) owe almost 60 percent of the outstanding education debt. ... The lowest-income 40 percent of households hold just under 20 percent of the outstanding debt" (para. 3). This means that student loan forgiveness would disproportionately benefit upper-income households because they hold most of the outstanding student loan debt.

Consider the 7% of borrowers with more than $100,000 in student loans:

> This small share of borrowers owes more than one-third of the outstanding balances. Doctors and lawyers and MBAs have lots of debt, but they also tend to have high incomes. … Forgiving all student debt would deliver a big windfall to a few people: those who can

> afford to pay. Virtually all of those with the largest debts have bachelor's degrees, and most have advanced degrees. That is not a progressive policy. (Baum, 2021, para. 7)

In the most comprehensive analysis of who would benefit the most from student loan forgiveness, Sylvain Catherine and Constantine Yannelis (2020) find that "universal and capped forgiveness policies are highly regressive, with the vast majority of benefits accruing to high-income individuals" (p. 22). And the skew is substantial: "forgiveness would benefit the top [income] decile as much as the bottom three deciles combined" and "The average individual in the highest earnings decile would receive a little less than five times more forgiveness than the average individual in the bottom earnings decile" (pp. 1, 13).

Other analysts reach similar conclusions. Economist Justin Wolfers (2011) writes that "if we are going to give money away, why on earth would we give it to college grads? This is the one group who we know typically have high incomes, and who have enjoyed income growth over the past four decades" (para. 5). Anthony P. Carnevale and Emma Wenzinger (2021) conclude that "under a broad student loan cancellation program, more of the funds would go to higher-income college graduates who are already in a good financial situation to pay off their loans" (p. 9). And writing for Third Way, Shelbe Klebs (2021) argues that "universal debt cancellation plans offer a one-time, short-term fix—with a massive price tag that benefits upper-income Americans the most" (para. 3).

In the face of this overwhelming consensus that student loan forgiveness is regressive, some progressives have made two counterarguments.

Their first argument is that "the redistributive impacts of student debt cancellation should be measured across the full distribution of households, rather than solely among the beneficiary population" (Eaton et al., 2021, p. 8) because a policy could be regressive among beneficiaries but progressive across the whole population. They give the example of the Earned Income Tax Credit, which "may give a lesser credit to a worker who earns $14,000 than a worker who earns $19,000 per year, but the credits are all targeted at the lower end of the distribution, ultimately making it a progressive policy" (p. 8). For student loans, they argue that students from higher income households are less likely to take out student loans, so even though those who do borrow have higher balances, there are simply fewer of them compared to students from lower income households. This means that if student loans are forgiven, even though individual borrowers from an upper income family may benefit more individually, there are so few of them that most of the aggregate benefit accrues to those from lower income families.

Yet this argument is quite misleading. Regressive policies among beneficiaries that are progressive across the whole population are possible, as their Earned Income Tax Credit example demonstrates. Yet the regressive nature of the Earned Income Tax Credit among beneficiaries is there for a reason—to encourage recipients to work and increase their earnings. In other words, regressivity among beneficiaries is a tradeoff, an unintended consequence of the desire to maintain incentives for recipients to work. Yet there is no tradeoff for student loan forgiveness, where the regressive nature of the policy among beneficiaries serves no purpose other than to give a windfall to those with high incomes.

Moreover, the regressive nature of student loan forgiveness among beneficiaries could be easily eliminated by including income caps (often called means-testing), which would make the policy progressive among both beneficiaries and the overall population. While progressives do not object to means-testing for most other government programs, some are oddly hostile to an income cap for student loan forgiveness. The Roosevelt Institute argues that "income eligibility cutoffs and income-driven repayment are inefficient and counterproductive ways to achieve progressivity" (Eaton et al., 2021, p. 1). And 105 pro-forgiveness organizations argue that "an income-based means-testing regime, for instance, will direct relief to borrowers based only on a short-term snapshot of a borrower's finances" (Coalition letter to President Biden, 2021, p. 5). We disagree. Including an income cap in any loan forgiveness policy would be an excellent way to ensure that it is progressive among recipients as well as across the population as a whole. Failing to include means-testing in loan forgiveness ensures that graduates with high income will receive massive windfalls.

The second argument some progressives make to distract from the regressivity of forgiveness is that "student debt cancellation represents a onetime wealth transfer to households' balance sheets. As such, it is more appropriate to gauge its distributional impact across the distribution of household wealth … rather than across the annual household income distribution, as is common among those who claim student debt cancellation is regressive" (Eaton et al., 2021, p. 9).

There are two responses to this. First, a policy is traditionally considered regressive or progressive based on its impact

across the income distribution, not the wealth distribution. It is perfectly fine to conduct a different analysis looking at the impact across the wealth distribution, but that does not allow one to characterize analyses that look at the impact of student loan forgiveness across the income distribution and find the policy to be regressive to be a "myth" driven by "misleading methodological foundations" (Eaton et al., 2021, p. 1) when it is standard practice to gauge regressivity by income.

Second, if you want to consider wealth rather than income, then you need to account for assets, not just liabilities since both influence wealth. For student loan forgiveness, that means accounting for the higher lifetime earning potential associated with having a college degree. Yet the Roosevelt Institute's analysis does not do so, instead relying on a snapshot of wealth soon after graduation. This leads to a misleading picture of recent graduates' financial condition. As Adam Looney explains,

> excluding the value of education from a calculation of net worth while including debt used to finance that education is like measuring a homeowner's wealth by subtracting their mortgage but ignoring the value of the home itself. You'd find that homeowners were poorer than renters, and that people living in mansions were the poorest members of society.
>
> That's clearly wrong, yet advocates for debt forgiveness make the same mistake, arguing that recent college graduates with student debt have negative wealth and are thus worse off than otherwise similar Americans who have not gone to college. …
>
> [S]tudent loan borrowers appear to be low wealth only because their valuable educational investments aren't measured as an asset on their balance sheet. (Looney, 2022, p. 6)

Once the value of a college education is properly included as an asset, it turns out student loan forgiveness would primarily benefit those with higher wealth. This perverse result is driven by the fact that

> student debt is concentrated among higher-wealth households. The top 20 percent of households, ranked by wealth (including human capital), owe 31 percent of student debt. …The bottom 20 percent owe 8 percent. (Looney, 2022, p. 9)

The bottom line is that student "loan forgiveness is regressive whether measured by income, educational attainment, or wealth" (Looney, 2022, p. 2).

One of the main drivers of the regressivity of student loan forgiveness is graduate students. Graduate students—those with a master's, professional, or doctoral degree—have the weakest case for loan forgiveness. They are the most highly educated (or at least the most credentialed) people in the country, meaning claims of being misled about the costs and benefits of their degree carry less weight. And they are also among the highest paid after leaving school, reducing the "need" for loan forgiveness. Yet graduate students would be among the largest beneficiaries of student loan forgiveness because they account for a disproportionate amount of student loan debt. Recently, "about 56 percent of student debt is owed by those with masters or professional degrees" (Looney, 2020, para. 6).

New data from the U.S. Department of Education's College Scorecard (U.S. Department of Education, n.d.-d) provides a glimpse into how tilted toward graduate degrees loan forgiveness would be. Looking at all borrowers who graduated in 2016–17 and 2017–18, it is clear that the students receiving the most benefit from forgiveness are former graduate students. **Table 2** shows how much debt would be forgiven for the 25 academic fields and credentials with the highest debt per borrower. All 25 of the fields and credentials with the most to gain from student loan forgiveness are graduate degrees. For example, the typical dentistry graduate with student loan debt would get a quarter of a million dollars gift from taxpayers, and lawyers with debt would get over $128,000. The next 25 fields are all graduate programs too, as are the 25 after that, and the 25 after that. In fact, the undergraduate field with the highest debt ranks 316 on the list, and those students would get just under $40,000 if their loans were forgiven.

Graduate students, given their years of education and relatively high salaries, have the weakest case to receive forgiveness. And yet they would be the biggest beneficiaries under these supposedly progressive proposals for loan forgiveness. Dropping graduate student debt from forgiveness proposals would dramatically reduce the price tag while simultaneously reducing the regressivity of forgiveness. Yet virtually no forgiveness proponents support eliminating graduate student debt from forgiveness proposals.

Political Problems With Student Loan Forgiveness

There are also a host of political problems with student loan forgiveness.

Forgiveness Is Not Popular

While student loan forgiveness may be popular on Twitter, Twitter does not provide a representative cross section of America. It is not even a representative cross section of younger generations. "Sixty-six percent of millennials," one

Table 2

Academic Fields and Credentials With the Highest Student Loan Debt per Borrower

Academic field	Credential	Debt per borrower	Median earnings of graduates
Dentistry	First Professional Degree	269,457	113,233
Pharmacy, Pharmaceutical Sciences, and Administration	Doctoral Degree	257,870	110,357
Osteopathic Medicine/Osteopathy	First Professional Degree	257,554	57,099
Podiatric Medicine/Podiatry	First Professional Degree	234,322	55,318
Advanced/Graduate Dentistry and Oral Sciences	Graduate/Professional Certificate	228,458	180,833
Alternative and Complementary Medicine and Medical Systems	First Professional Degree	218,582	31,167
Chiropractic	First Professional Degree	195,605	41,937
Medicine	First Professional Degree	188,184	59,880
Advanced/Graduate Dentistry and Oral Sciences	Master's Degree	187,395	195,210
Psychology, Other	Doctoral Degree	176,910	61,783
Veterinary Medicine	First Professional Degree	176,555	82,053
Optometry	First Professional Degree	173,841	94,071
Dispute Resolution	Doctoral Degree	173,785	68,145
Philosophy and Religious Studies, Other	Doctoral Degree	171,999	NA
Human Services, General	Doctoral Degree	165,515	79,953
Public Administration	Doctoral Degree	160,381	80,616
Pharmacy, Pharmaceutical Sciences, and Administration	First Professional Degree	141,896	107,217
Business/Commerce, General	Doctoral Degree	138,542	94,304
Alternative and Complementary Medicine and Medical Systems	Doctoral Degree	135,560	34,331
Area Studies	Doctoral Degree	132,644	NA
Legal Research and Advanced Professional Studies	Graduate/Professional Certificate	129,933	59,322
Clinical, Counseling and Applied Psychology	First Professional Degree	129,905	69,642
Gerontology	Graduate/Professional Certificate	128,660	NA
Law	First Professional Degree	128,626	62,385
Legal Professions and Studies, Other	Graduate/Professional Certificate	128,322	76,783
Computer/Information Technology Administration and Management	Doctoral Degree	127,384	110,196

Note. Data from *College Scorecard* (data set), U.S. Department of Education, n.d. (https://collegescorecard.ed.gov/data/) and author's calculations. Debt (at graduation) and earnings (one-year post-graduation) for 2016–17 and 2017–18 graduates.

of the generations most supportive of student loan forgiveness, "have no student debt at all" (Akers, 2019a, para. 1). Indeed among the broader population, 54% oppose student loan forgiveness (Swaminathan & Smith, 2021). While other surveys (e.g., Williams, 2021) have found more support for forgiveness using different wording of the question, there is little reason to believe that student loan forgiveness is overwhelmingly popular.

One of the reasons student loan forgiveness is not more popular is that even though college attendance primarily benefits the individual student, student loan forgiveness would force everyone else to pay for it. As pointed out in the introduction to an article by Robin Smith, "Student loan forgiveness doesn't forgive the loan. It just transfers the loan to those who never asked for the loan, agreed to the loan, or benefitted from the loan" (Smith, 2022).

If student loan forgiveness were popular, it should have been possible to make these college programs free to students years ago. Yet as Adam Looney explains,

> there seems little political appetite or public support to make graduate programs or professional schools free, or to spend federal tax dollars providing grant support to lawyers, doctors, or MBAs. If we are unwilling to make their education free, why pay for those programs retroactively for yesterday's graduates? (Looney, 2022, p. 15)

Much of the Population Would Resent Student Loan Forgiveness

Student loan forgiveness would also fuel resentment among many groups of people. As Marguerite Roza notes, "when the rules are changed midstream, those who sacrificed under the old rules see themselves as losing out" (Roza, 2021, para. 9).

The first group that would resent forgiveness consists of some of those who did not attend college—98.5 million Americans (Solon, 2019)—many of whom would presumably be unhappy about paying the cost for someone else to attend. As Antony Davies and James R. Harrigan ask, "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?" (Davies & Harrigan, 2021, para. 8).

A second group that may be resentful consists of many college attendees who either did not borrow or already repaid their debt. Michael Solon estimates there are 106 million people in this category (Solon, 2019). Popular television host Mike Rowe summarizes how many of them would view forgiveness:

> My reasons for opposing student loan forgiveness are not a secret. I've written at length on this page about the fundamental unfairness of doing such a thing — especially to the millions of Americans who have paid their college debts, and sacrificed much to do so. (Quoted in Conklin, 2020, para. 3)

A third group that would resent forgiveness consists of former college students who chose a lower-cost school, worked while enrolled to limit their borrowing, or chose a safer major to ensure they could repay their debt. As Rick Hess writes,

> Those who chose to attend cheaper colleges will realize they left free money on the table, compared to those who disregarded such concerns and borrowed big. Those who waitressed during college, worked nights, started out at community college, or scrimped and saved in order to minimize their borrowing wind up feeling like suckers. (Hess, 2020, para. 11)

Recent college graduate Ethan Ames provides a compelling account of how many graduates would view forgiveness:

> I'd already passed up the opportunity to attend the more expensive and more prestigious Denison University, a private liberal-arts college in my home state of Ohio. Denison, I thought at the time, was too expensive. But now the same seemed true of South Carolina. So I transferred to the University of Toledo, a public institution much closer to home, where I studied accounting. Accounting isn't my passion, but like a Honda Civic it's safe and reliable. After three years, two universities and thousands of hours spent studying debits and credits, I graduated and accepted a job...
>
> If I could have borrowed without limit to pay for my education because the loans would later be forgiven, this wouldn't have been my path. I wouldn't have majored in accounting, transferred to Toledo, or even attended South Carolina. I would have attended a pricey private school on Uncle Sam's dime and majored in political science—a subject I might have found more engaging if less remunerative...
>
> The greatest flaw in plans to forgive student loans: Like all ex post facto policies, they would punish or reward people for decisions made based on laws and information available at the time, while casting an air of uncertainty over present decisions. (Ames, 2019, para. 2–5)

A fourth group that would resent forgiveness consists of parents who sacrificed to pay for their children's college education. The best illustration of this occurred during the

2020 presidential primaries, when Democratic contender Sen. Elizabeth Warren was confronted by an angry man this week in regards to her proposal to eliminate student loan debt. The father of a current college student said he had worked double shifts, diligently saving for college, so he could pay for his daughter's education without the need for student loans... "I just wanted to ask one question," said the man at a presidential town hall campaign in Grimes, Iowa. "My daughter is getting out of school… She doesn't have any student loans. Am I going to get my money back?" When Warren responded of course not, the man frustratingly questioned her plan further. "So, you're going to pay for people who didn't save any money and those of us who did the right thing get screwed?" (Kuchar, 2020, para. 1–4)

A fifth group of people that would resent forgiveness consists of other debt holders. After all, what's so special about college debt? Some may argue that if we are trying to find sympathetic borrowers, why not focus on medical debt? Others may contend that, in terms of the number of people affected, forgiving home mortgage debt would benefit an even greater number of people.

Overall, as Michael Solon argues

> debt forgiveness punishes those who did the right thing, made sacrifices, and acted wisely and frugally, as well as those who simply didn't have the opportunity to go to college. Isn't this the sort of private gain at public expense that people on the left claim to abhor? (Solon, 2019, para. 6)

Legal Problems With Student Loan Forgiveness

The Executive Branch Cannot Unilaterally Forgive Student Loan Debt

The legislative path to loan forgiveness is currently closed because there is little prospect for student loan forgiveness to receive enough votes to overcome a potential filibuster in the Senate. However, some adherents argue that the president can forgive loans unilaterally.

Financial aid expert Mark Kantrowitz convincingly shows two reasons why this argument is wrong. First,

> The President does not have the legal authority to forgive student loans on his own. Only Congress has the power of the purse. Executive action can be used only when it has been specifically authorized by Congress.
>
> The executive branch cannot spend money that has not been appropriated by Congress, per 31 USC 1301 et seq (Antideficiency Act (P.L. 97-258)) and Article I, Section 7, Clause 7 of the U.S. Constitution.

The claims that the President has the authority to forgive student loans are based on a misreading of the Higher Education Act of 1965 at 20 USC 1082(a)(6). That section of the Higher Education Act of 1965 provides the U.S. Secretary of Education with the authority to:

> "...modify, compromise, waive, or release any right, title, claim, lien, or demand, however acquired, including any equity or any right of redemption."

But that quote is taken out of context. The preamble to that section of the Higher Education Act of 1965 limits this authority to operating within the scope of the statute:

> "In the performance of, and with respect to, the functions, powers, and duties, vested in him by this part, the Secretary may—"

In other words, when Congress authorizes a loan forgiveness program, such as Public Service Loan Forgiveness, Teacher Loan Forgiveness or the Total and Permanent Disability Discharge, the U.S. Secretary of Education has the authority to forgive student loans as authorized under the terms of these loan forgiveness programs.

Without authorization by Congress of a specific loan forgiveness program, the President does not have the authority to forgive student loan debt. As the U.S. Supreme Court ruled in Whitman v. American Trucking Assns., Inc., (531 USC 457, 2001), Congress does not "hide elephants in mouseholes." (Kantrowitz, 2021b, para. 4–11)

Kantrowitz's assessment is almost certainly right. No one else in the U.S. government can unilaterally spend $1.6 trillion dollars at their sole discretion, so it would be strange if the secretary of education was the sole exception to that rule based on an obscure provision that laid undiscovered for decades.

Some forgiveness advocates agree that "the Executive Branch does not have congressional authority to cancel student debt" since "broad student debt cancellation would trigger The Antideficiency Act. … That is why we will ultimately need a legislative solution" (Freedom to Prosper, 2021). Yet others continue to push for the Biden administration to unilaterally forgive student loans. For example, the Roosevelt Institute is encouraging the Biden administration to "implement a full cancellation of student debt via executive order" (Bustamante, 2021, para. 6).

Even If Unilateral Forgiveness Was Possible, It Could Only Be Applied to Pre-2010 Era Loans

The second legal problem is that even if Kantrowitz is wrong, and there is a loophole that allows universal forgiveness without congressional approval, it would not apply to the vast majority of current student loans. All student loans since 2010 have been made under the Direct Loan (DL) program. But as Kantrowitz notes, the loophole would only apply to loans made under the legacy Federal Family Education Loan (FFEL) program:

> the "this part" language refers to Part B of Title IV of the Higher Education Act of 1965, which applies only to loans made under the Federal Family Education Loan (FFEL) program. … There is no similar language for Part D for the William D. Ford Federal Direct Loan (Direct Loan) program. (Kantrowitz, 2021b, para. 12–13)

Out of the $1.6 trillion dollars in outstanding federal student loan debt, only $230 billion are FFEL loans (U.S. Department of Education, n.d.-a).

Conclusion

This paper has argued that there are at least 18 major problems with student loan forgiveness:

Logical and rhetorical problems

1. ***Advocates overstate the problem***
   Most students do not borrow and of those who do, they typically borrow reasonable amounts and are able to repay their loans without undue hardship.

2. ***Forgiveness is badly targeted***
   Helping the small minority of students who are unable to repay their loans does not require forgiving everyone else's student loans.

3. ***Existing and better solutions are ignored***
   Forgiveness would try to solve a problem—unaffordable student loan debt—that income-driven repayment programs already solved years ago. These programs tie monthly payments to the student's income, ensuring payments are always affordable.

4. ***Rhetoric too often relies on bad reasoning***
   Advocates often argue that loan forgiveness would be a better use of money than a host of other wasteful government spending. But that's a better argument to eliminate the other wasteful government spending rather than adding yet more wasteful spending.

Educational problems

5. ***Current and future students would be encouraged to increase their borrowing***
   If existing student loans are forgiven, current and future students will borrow as much as possible in the expectation of additional future forgiveness.

6. ***Colleges would be encouraged to raise tuition***
   If existing student loans are forgiven, colleges would raise their tuition, encourage their students to borrow more to pay it, and then advocate for another round of forgiveness.

7. ***Forgiveness would exacerbate the problem it is trying to solve***
   Student loan forgiveness is argued to be a solution to unaffordable student loan debt, which is caused by a combination of student overborrowing and high college prices. Yet by encouraging students to borrow more and colleges to raise tuition, forgiveness would exacerbate the problem it is supposed to solve.

Economic problems

8. ***Loan forgiveness is expensive and has a high opportunity cost***
   Student loan forgiveness is extremely expensive. Even partial forgiveness would cost more than we have spent on welfare since the 1980s.

9. ***Wasteful rent-seeking such as lobbying would increase***
   Forgiveness would encourage wasteful future lobbying advocating for yet more loan forgiveness.

10. ***Loan forgiveness does not provide much if any economic stimulus and may even shrink the economy***
    Loan forgiveness would not provide much if any stimulus to the economy. The additional spending from those receiving loan forgiveness would be offset by reduced spending from higher taxes, higher government budget deficits driving up interest rates, or higher inflation leading to more contractionary monetary policy.

Moral problems

11. ***Forgiveness pursued for the explicit purpose of benefiting certain sexes or races is wrong***
    Many proponents are pushing student loan forgiveness because they think it disproportionately benefits women or racial minorities. These arguments are wrong—past policies that disproportionately benefitted White males were wrong not because they benefitted the wrong sex or race, but because they purposely favored any sex or race over others.

12. ***Faith in lending would be undermined***
    Loans are different from grants. By converting loans into grants ex post, forgiveness would fuel suspicion

that any government loan program is just a delayed grant program in disguise.

13. ***Overpriced colleges would be rewarded***
    Forgiveness would reward overpriced colleges by shifting all the costs of addressing the resulting student loan debt to taxpayers.

14. ***Student loan forgiveness is regressive***
    Higher income individuals would benefit more from student loan forgiveness than lower income individuals.

Political problems

15. ***Forgiveness is not popular***
    Some polls indicate that a majority of people oppose student loan forgiveness.

16. ***Much of the population would resent student loan forgiveness***
    Many groups would resent loan forgiveness, including many of those who did not attend college, those who did not borrow to attend college or already repaid their student loans, those who minimized their college borrowing by working while in school or attending a less expensive college, parents who sacrificed to pay for their child's college, and other sympathetic debt holders.

Legal problems

17. ***The executive branch cannot unilaterally forgive student loan debt***
    Some forgiveness proponents argue the secretary of education can unilaterally forgive all student loans. But the law only allows for forgiveness when Congress has established a program explicitly authorizing forgiveness.

18. ***Even if unilateral forgiveness was possible, it could only be applied to pre-2010 era loans***
    Even if the secretary could forgive loans unilaterally, he or she could only do so for loans made under the legacy FFEL loan program. Since FFEL stopped making loans in 2010, most student debt would be unaffected.

Justin Wolfers once called student loan forgiveness the "Worst. Idea. Ever." (Wolfers, 2011, para. 10). We would not go quite that far, but after reviewing these 18 major problems, we agree student loan forgiveness would be terrible policy.

So, what should we do about unaffordable student loan debt instead of forgiveness? We recommend two approaches. First, stop providing loans to students in programs that consistently fail to prepare their students sufficiently to repay their loans. We estimate that about 10% of college programs fall into this category (Gillen, 2021). Second, as noted earlier, the income-driven repayment plans already ensure that payments are always affordable for the entire lifetime of the student. Changing the default loan repayment from the traditional 10-year plan to an income-driven repayment plan would completely solve the problem of unaffordable debt.

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