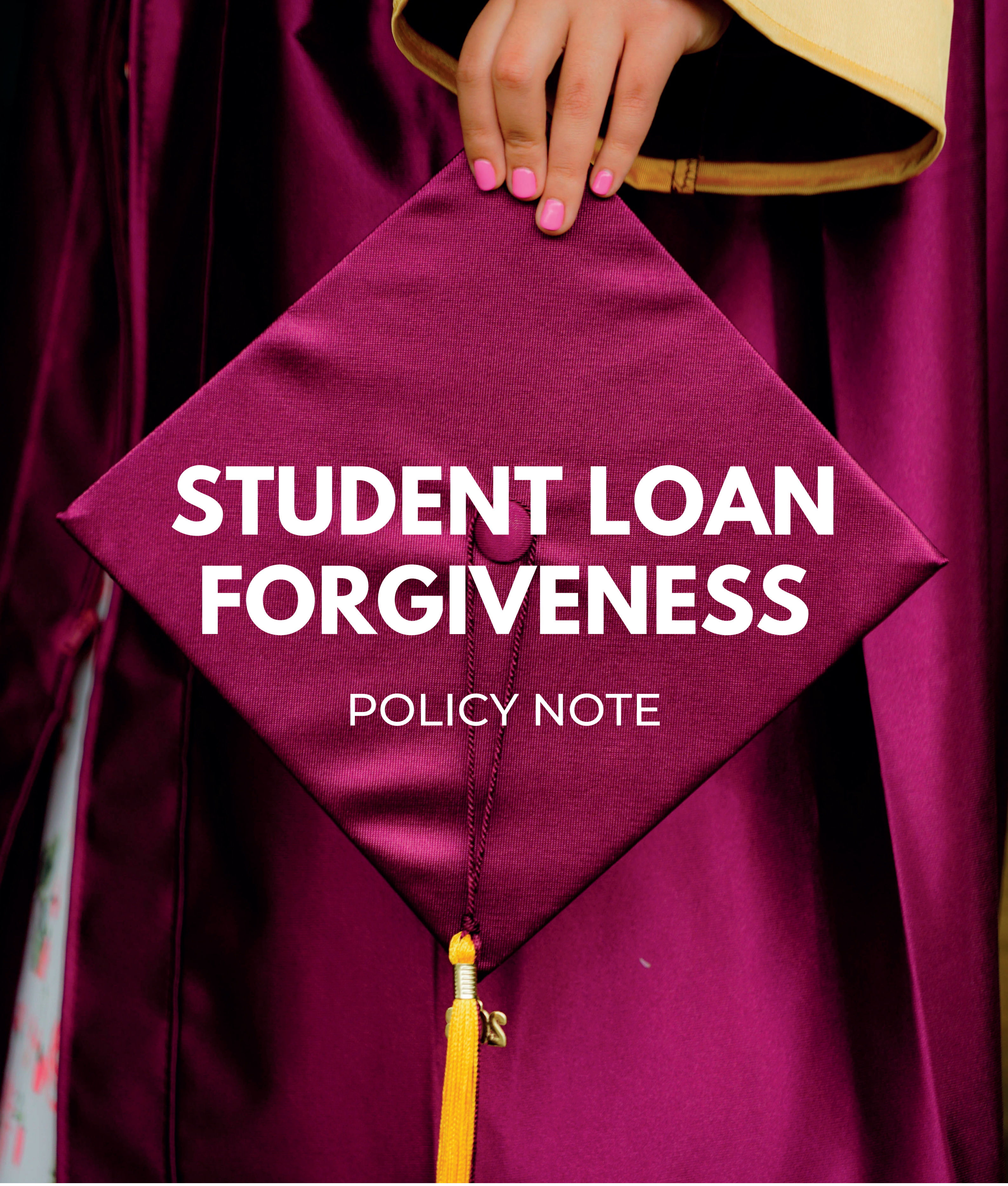

STUDENT LOAN FORGIVENESS

POLICY NOTE

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CONSUMER CHOICE CENTER

INTRODUCTION

In the recent decade, calls for student loan debt forgiveness have been rampant in the U.S. as citizens have accumulated over $1.6 trillion in student loan debt. Recently, the Biden Administration responded through executive action canceling $9.5 billion of select student loan debt, and the president is being encouraged to follow through on much more.

However, these actions won’t be able to solve the larger problem of inflated education costs and will, unfortunately, end up doing more harm than good. This policy note provides a set of arguments as to why student loan debt forgiveness is a regressive and misguided policy.

Background

Over the years, student loan debt has been increasing at an alarming rate. In just the last ten years alone, it has increased by more than 100%. In 2010, there was around $800 billion in student loan debt within the United States. In 2020, the total student loan debt surpassed $1.6 trillion and will likely continue to increase. Of the 43.2 million student borrowers in debt the average owes $39,351 each.

Tuition prices play a large role in the massive student loan debt within the U.S. The cost of tuition has been on the rise over the years, and even adjusting for inflation, the average tuition price for 4-year public colleges is up 361% since 1963. In 2020, the average tuition cost to attend an in-state 4-year public college was $9,580, but the average student attending that college would spend $26,615 per academic year when factoring in other expenses such as room and board, books and supplies, and other necessities. With the price to attend college being so high, it's no surprise that 43.2 million students in the U.S. have taken out loans to help cover those costs.

Factors that Fuel the Crisis

A major factor fueling the increase in college prices is federally-backed student loans. According to research, for every dollar of tax-based (federal) aid, institutional grant aid is reduced by $0.83, meaning that the intended reduction of cost from the federal aid is significantly offset by reductions in institutional aid. As a result, students often increase their loan borrowing to make up the difference and therefore are not actually benefiting from more affordable tuition.

Another important factor leading to tuition increases is the bloated administrative costs from colleges and universities. From 1993 to 2007, administrative costs increased by 61.2% while instructional costs only increased by 39.3%. These administrative costs have little impact on improving graduation rates, but are paying for more non-instructional staff, such as counselors, diversity coaches, and others who aren't directly contributing to educating students within the classroom. To put this into perspective, administrative spending at colleges in the United States from just 2016 to 2017 exceeded the GDP of 134 countries. Unfortunately, students are the ones who end up footing the overly bloated administrative bill.

It is not a stretch to imagine that the bountiful supply of federal loans has encouraged universities to commit to tuition hikes and higher administrative costs because they know that those the government will continue aiding and abetting borrowing for students, guaranteeing significant income for schools. The textbook case of a moral hazard.

The Reality of Student Loan Forgiveness

As the total student loan debt in the United States continues to rapidly increase, there have been calls to forgive the loans and free the borrowers of their debt. Recently, some politicians have called for upwards of $50,000 of debt per student to be forgiven, while others have proposed making 2 years of community college free for everyone. The reality of student loan forgiveness is that it is a misguided and regressive policy that will do more harm than good to those it purports to help.

If the federal government was to forgive all student loan debt, it would disproportionately benefit those in higher income brackets. According to a study from the University of Chicago, total college debt forgiveness would distribute $192 billion to the top 20% of earners while the bottom 20% would only receive $29 billion. In reality, complete student loan forgiveness would be an extremely expensive taxpayer funded bailout for educated individuals who are generally well off economically, at the expense of many taxpayers who did not even go to college.

In addition to harshly punishing the taxpayer, forgiving all student loan debt also punishes the millions of students who worked hard to pay back their student debt, or did not borrow any money at all. It is patently unfair that those who paid off the bill for their education would then be expected to pay for other students who did not make as financially responsible decisions. In line with how debt forgiveness would benefit the top 20%, many of those who rack up expensive debt typically come from affluent families and run up their tab by attending out-of-state or private schools, while those from lower-income backgrounds are more likely to make cost-saving decisions and limit the amount of debt they take on.

With more conversations and policies aimed at trying to forgive all student loans, the unfortunate truth is that it is creating a moral hazard within the United States. As more and more politicians make campaign promises or give energetic speeches about making college more affordable or forgiving student loans, they are indirectly encouraging many to take on more loans with the impression that they will likely be relieved or forgiven in the future. This mentality is dangerous as it incentivizes people to take on an amount of debt they may never be able to recover from, as well as very harmful to the taxpayer who could end up being on the hook financially for all of the debt accrued by those irresponsibly taking on more loans.

Currently, there are a handful of student loan forgiveness programs through the federal government, whether to public employees or doctors who work in less populous communities. However, some are becoming increasingly problematic, such as Borrower to Defense Repayment (BDR), which creates alarming loopholes for massive amounts of student debt to be forgiven. BDR loan forgiveness operates on the basis that a college failed to do something related to the loan or educational services provided.

Recently, a slew of companies have popped up with information or offers to assist with the loan relief or forgiveness process. However, they specifically market to students in order to collect their data and contact information to sell (unknowingly to the student) to trial attorneys for potential lawsuit claims.

Naturally, this has turned into a trial attorney's dream as more and more frivolous class action lawsuits are being filed against colleges thanks to these recruiting ads, opening up every private educational institution to massive losses or claims.

Although some may have legitimate claims through BDR, many are taking advantage of the poorly written rule and are ultimately defrauding taxpayers to cover the costs. And if we were to consider the general track record of university degrees for employment and skills in various industries, it is likely that the entire university establishment would find itself in trouble.

Conclusion

The amount of student loan debt collectively owed in the United States is a serious concern that needs to be addressed. However, forgiving all $1.6 trillion in student loans is an expensive and dangerous solution that does not even begin to address the root of the problem: the inflated cost of education. Debt forgiveness would only be a band-aid on a bullet wound and would only encourage colleges to continue bloating their budgets, knowing full well that the taxpayers, both college educated and not, will painfully suffer as they pick up the tab of yet another failed government policy.

Policymakers have a real opportunity to help alleviate the negative repercussions of inflated higher education costs, but instead of focusing on student loan debt forgiveness, they should encourage policies that do not require more money from the 144.3 million taxpayers within the United States.

A worthy first step in addressing this issue would be to close the glaring loopholes within Borrower to Defense Repayment (BDR) loan forgiveness in order to prevent blanket forgiveness of student debt that does not meet the criteria in which BDR was intended while also ensuring that each BDR application is reviewed diligently by the Department of Education.

To address the inflated costs of higher education, policymakers should consider capping or reducing the amount of federal funding that higher education institutions receive to help prevent increasing the administrative bloat that drives up tuition prices and leads to more students needing to take out loans. An eventual phasing out of government-backed student loans in favor of private loans at competitive market rates could be a potential long-term solution to both save money for taxpayers while benefiting consumers and students. A true market, not crowded out from government spending, would likely reduce costs of borrowing and introduce more innovative solutions for borrowing and funding in the future.

About the Authors

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Elizabeth Hicks is a writer, speaker, and U.S. Affairs Analyst at the Consumer Choice Center.

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