

Biden's Debt Relief

The president's plan focuses on less affluent student borrowers.

By David Leonhardt

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Fewer than 40 percent of Americans graduate from a four-year college, and these college graduates fare far better than nongraduates on a wide range of measures. College graduates earn much more on average; are less likely to endure unemployment; are more likely to marry; are healthier; live longer; and express greater satisfaction with their lives. These gaps have generally grown in recent decades.

As a result, many economists have expressed skepticism about the idea of universal student-loan forgiveness. It resembles a tax cut that flows mostly to the affluent: Americans who attend and graduate college tend to come from the top half of the income distribution and tend to remain there later in life. College graduates are also disproportionately white and Asian.

"Education debt," as Sandy Baum and Victoria Lee have written for the Urban Institute, "is disproportionately concentrated among the well-off."

But the idea of loan forgiveness has nonetheless taken off on the political left. As Democrats have increasingly become the party of college graduates living in expensive metropolitan areas — and as the cost of college has continued rising, while income growth for many millennials has been disappointing — loan forgiveness has obvious appeal.

These crosscurrents put President Biden and his aides in an awkward position. Biden fashions himself as a working-class Democrat. (He is the party's first presidential nominee without an Ivy League degree since Walter Mondale.) He did not initially campaign on a sweeping plan of college debt relief, adding it to his agenda only after he defeated more liberal candidates in the primaries, as a way to reach out to their supporters.

Yesterday, after months of behind-the-scenes work and internal debate, Biden finally announced his plan for loan forgiveness. And it is an attempt to find a middle ground.

Image
'The worst of both'

By definition, the plan will not help the many Americans who do not go to college. But its benefits are targeted at lower-income college graduates and dropouts, especially those who grew up in lower-income families. Compared with other potential debt-forgiveness plans, Biden's version is much more focused on middle-class and lower-income households.

It is restricted to individuals making less than \$125,000 (or households making less than \$250,000), which will exclude very high earners at law firms, in Silicon Valley and elsewhere. For anybody under this income threshold, the plan will forgive up to \$10,000 in debt. For somebody who received Pell Grants in college — a federal program focused on lower-income families — the plan may forgive an additional \$10,000.

More broadly, Biden also said he wanted to enact a new rule to restrict future payments on college loans to no more than 5 percent of a borrower's discretionary income, down from between 10 percent and 15 percent now.

(My colleagues Ron Lieber and Tara Siegel Bernard have written a Q. and A. that is full of useful information about the plan.)

The emphasis of Biden's plan partly reflects academic research that has found that the people who struggle the most to repay their loans don't fit a common perception. They are less likely to be baristas with six figures in debt and a graduate degree than blue-collar workers who have a smaller amount of unpaid loans but never graduated college. That worker, Biden said yesterday, has the "worst of both worlds — debt and no degree."

A study by Judith Scott-Clayton of Columbia University found that the loan-default rate for borrowers without any degree was 40 percent. For those with a bachelor's degree, it was less than 8 percent.

The details of Biden's plan mean that it targets the people most likely to default, rather than the caricature of them. "\$10k will forgive ALL the debt of many millions of borrowers," Susan Dynarski, a Harvard University economist — and herself a first-generation college graduate — tweeted yesterday. As an example, she cited "those who went to community college for a semester or two."

There is still some uncertainty about whether the plan will be implemented. Biden is enacting it through executive action because it seems to lack the support to pass in Congress, and opponents may challenge it in court.

"Let the lawsuits begin over presidential authority," Robert Kelchen of the University of Tennessee predicted. "I wouldn't count on forgiveness happening for a while, and it may go to the Supreme Court."

More commentary

"Thoughtful people disagree on student loan forgiveness," Arindrajit Dube, an economist at the University of Massachusetts, Amherst, wrote on Twitter. He praised the plan as a form of "disaster relief" that addressed the struggles of younger workers during the decade-plus since the Great Recession began.

Matthew Chingos of the Urban Institute has noted that the income cap increases the share of debt forgiveness that flows to Black borrowers.

Susan Dynarski told me she was "thumbs up" on the plan but wished people did not need to apply for forgiveness, because some would fail to do so. The government has the data it needs to cancel debt automatically, she said.

Progressive groups were mostly supportive of the plan. Indivisible called it a "bold move to improve the lives of working people."

Mitch McConnell, the Republican Senate leader, said: “Biden’s student loan socialism is a slap in the face to every family who sacrificed to save for college, every graduate who paid their debt and every American who chose a certain career path or volunteered to serve in our Armed Forces in order to avoid taking on debt.”

Democrats in competitive elections had mixed reactions. Senator Raphael Warnock of Georgia called for even more debt relief. Representative Tim Ryan, running for an Ohio Senate seat, criticized the plan: “Instead of forgiving student loans for six-figure earners, we should be working to level the playing field for all Americans.”