

POLICY BRIEF • MAY 2022

# Forgiving Student Loan Debt

Who wins and who loses?

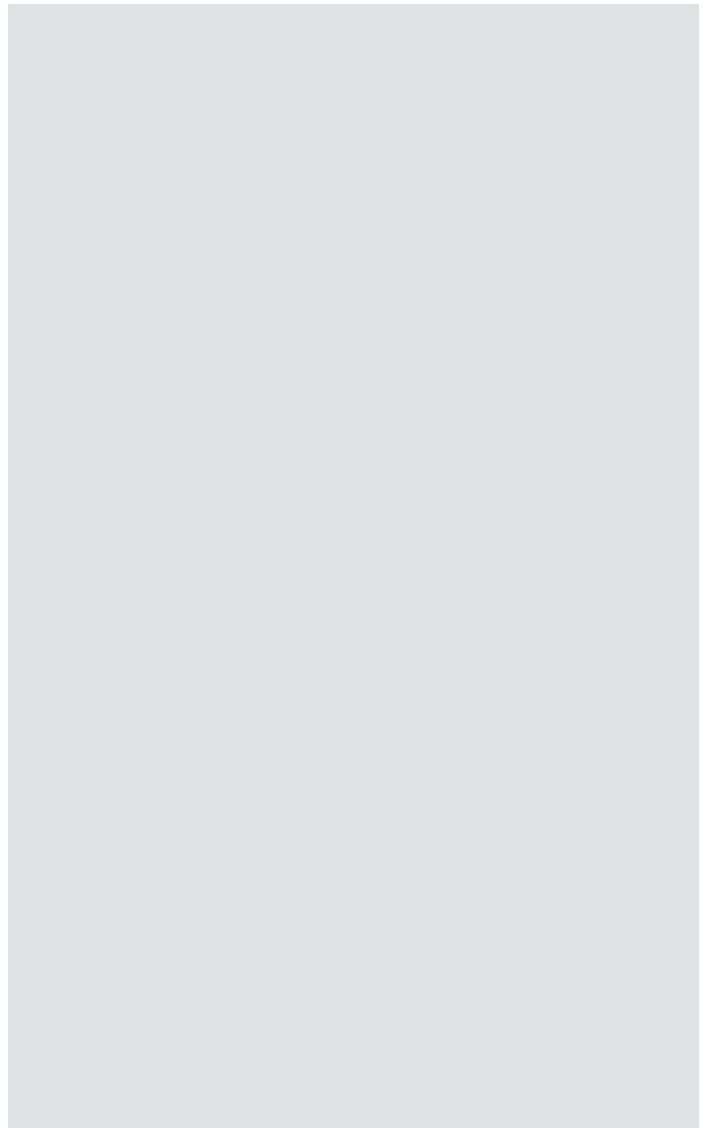
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owe less than \$5,000. At the top end, nearly 2% owe more than \$200,000.



## Student debt forgiveness plans

U.S. Sen. Elizabeth Warren (D-Mass.) has proposed forgiving the first \$50,000 of student loan debt for all borrowers. President Biden has indicated that he is more comfortable forgiving \$10,000 or less per borrower. Who would win and lose under such plans?

Given the data presented in this policy brief, it is clear that student debt forgiveness schemes are both inefficient and unfair policies for helping low-income families. First, it is apparent that any plan to eliminate student debt across the board would end up benefiting doctors, lawyers and many others who have or are likely to get high-earning jobs and won't need help paying off their loans. Further, because the majority of student debt — both nationally and in Wisconsin — is held by those in the top 40% of the income distribution, such a plan would most benefit the

wealthy, contributing further to income and wealth inequality. In addition, debt forgiveness would add to inflationary pressures, as the former debt holders have freed-up money to spend on other uses.

Debt forgiveness amounts to spending \$1 trillion from the federal Treasury exclusively on people who went to — and in most cases graduated from — college. This essentially punishes Americans who didn't go to college and, because of that fact, are more likely to need government help. While polls have shown strong support for some debt forgiveness, it's less clear how voters would respond to such a broad cancellation — especially those who paid full freight for college costs or who already have repaid expensive loans.

## Conclusion

In all, 58% of college student debt is held by borrowers from the top 40% of incomes. Further, 56% of student debt is held by those with master's, professional or doctoral degrees. Such groups are not typically targeted for federal welfare or subsidy programs. But that is exactly what any across-the-board student loan forgiveness program would do. Further, such a plan seems exceedingly unfair for families whose children either didn't attend college or, if they did and borrowed money to do so, paid off their loans as most responsible borrowers do. One can't help concluding that this inefficient and inequality-increasing program

can be designed for only one reason — to cater to young voters in an effort to win elections this fall.



### About the author

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## Endnotes

<https://www.federalreserve.gov/econres/scf/index.htm>

