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POLICY focus

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Loan Forgiveness: Costly, Unfair, and Regressive

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What You Should Know

In recent years, calls for student loan forgiveness and "free college" have gotten louder in response to the very real crisis of student debt. While debt incurred for higher education is a growing problem for an entire generation of Americans, loan forgiveness ultimately does not solve the underlying problems in the university sector, lets colleges off the hook, and instead shifts costs to taxpayers, many of whom will never see the benefit of a college education.

Federally-backed student loans were meant to ensure that everyone would have the opportunity to pursue higher education if he or she had the academic qualifications. In reality, it's fueled a credentialing boom that has made life harder for the two-thirds of Americans without a college degree, made the university sector rich through ever-escalating tuition costs, and left millions of Millennial and Gen Z students in crippling debt.

Promises of student loan forgiveness sound compassionate, but they statistically benefit the wealthy at the expense of Americans of lesser means, and make the underlying college cost problem worse. Instead of looking to bail out universities with student loan forgiveness, we should be holding them to account for the success of their graduates and the value of the diplomas they're awarding.

Universities currently bear no responsibility for the success of their graduates, incentivizing them to treat every high school graduate as a walking blank check from the federal government. Universities should be held accountable if the degrees they're granting do not allow many graduates to pay off their loans.

Why You Should Care

Loan forgiveness will not solve the underlying problems in higher education. Instead of unfair bailouts and loan forgiveness, we should look for solutions that make college more affordable and opportunities outside of four-year institutions more accessible.

- **The College Cost Crisis:** Millions of American borrowers are suffering under the weight of student loan debt. But the root of this crisis is related to college costs. Controlling college cost, rather than giving current debtors a band aid of loan forgiveness, should be the focus of policymakers.
- **Unfair and Regressive Proposed Solution:** Student loan forgiveness is unfair and regressive. The benefits of loan forgiveness accrue mostly to the children of the upper middle class, while those who foot the bill, whether directly through taxes, or indirectly through a "credential treadmill" are those in the working and middle classes, as well as those who worked very hard to pay off their student loans.
- **A Bailout in Disguise:** The real beneficiaries of student loan forgiveness and "free college" are not students, they're the universities themselves, who today face little accountability. This allows for predatory behavior, whether a school is technically classified as a non-profit, or whether it is a profit-making entity. Reforms to address college costs present an opportunity to address this.

More Information

The Student Debt Crisis

Let's start with a hard truth: the student debt problem is real and enormous. Forty-five million borrowers, representing one in six Americans and one in three under 30, owe almost 1.7 trillion dollars in student loans. Outstanding educational debt has now outstripped both car and credit card debt, and many economists believe it may be responsible for young Americans delaying larger purchases, such as buying houses and cars, long after their parents did in a similar stage of life.

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And even pre-pandemic, the crisis was accelerating. Just between 2013 and 2016, the average debt amount a student leaves college with jumped upwards by a quarter. Even more worrying, that debt is largely not being paid off. Almost half of borrowers do not have their loans in any kind of repayment, and that doesn't even include the millions more who use income-based repayment plans that do not pay down the principal amount. Pre-pandemic estimates warned that as many as four in ten loans may be in default by 2023.

And who holds the tab on all this debt? The U.S. taxpayer, because the Department of Education owns nearly the entire student loan market. As the debt situation hits the boiling point, loan forgiveness proposals are being advanced. President-elect Joe Biden has already signaled his intention to forgive $10,000 of student loan debt per borrower, and some Democratic Senators want the incoming administration to expand that forgiveness to $50,000.

But instead of putting an expensive and unfair band-aid on student loan debt problems, policymakers should be looking to its root cause: the student debt crisis is really a college cost crisis, and loan forgiveness will make the problem worse, not better.

College Cost is the Real Problem

For decades now, tuition at both public and private universities has skyrocketed well above inflation, outstripping even other hair-raising commodities like healthcare premiums and childcare by a considerable margin. Public universities have seen a threefold increase in cost just over the last 30 years, and tuition at private universities has seen an even steeper slope upward over the same period. Many who attended university in the 1980s and 1990s often do not realize that the cost for a typical four-year degree, even at a public institution, now often reaches well into the six-figure rage, and far outstrips the earning power of the average student, even those who want to "work their way" through college.

Unfortunately, well-meaning federal policies, tracing all the way back to the Great Society under President Lyndon Johnson, have created a falsely-propped up market for universities in which they can continually raise their prices and count on federal loan help for students to match. Under the guise of making it possible for those of lesser means to attend college, federal backing for student loans, and the eventual government takeover of the student loan market, has taken all the natural brakes off tuition inflation. The Bennett Hypothesis that subsidized loans were causing tuition to skyrocket—named after Ronald Reagan's Secretary of Education William J. Bennett who first advanced it—is no longer a hypothesis, it's a fact. The Federal Reserve Bank of New York, for example, found that for every subsidized federal dollar a university is awarded through student loans and grants, its price increases by 60 cents.

Add this inflationary pressure up year after year, and the cost of higher education is completely untethered from the value of the degrees it grants. Meanwhile, students taking out the federal loans are shouldering the burden after the university takes its check to the bank.

Worse, federal subsidies for student loans have created a credentialing treadmill, where jobs that previously did not require a college degree several years ago now can, due to the presence of so many diplomas among potential employees, foreclosing opportunities for high school graduates and forcing more people to take on student loan debt for the necessary credentials. As Neal McClusky of the CATO Institute eloquently put it: "federal 'help' has instead powered a credential treadmill that has forced everyone to run faster [and take out more debt] just to stay in place."

But one group isn't staying in place: Working-class Americans—meant to be the primary beneficiaries of federal largess—are further behind than ever. This, ultimately, is the greatest harm caused by bad student loan policy. In addition to making life harder for those without college credentials, subsidizing the college route has not raised the percentage of lower-income students who attend four-year institutions. To the contrary, while there are more Americans receiving degrees than ever before, students from the lower two economic quartiles make up a smaller percentage of them than they did in the 1960s, before the government started these programs on their behalf.

Loan Forgiveness is an Unfair Payout to the Wealthy and to Universities

It's not working- and middle-class Americans who benefit from student loan forgiveness because, statistically-speaking, they're not the ones mostly holding the outstanding student loan debt. Instead, it's largely the children of the upper middle class that will find relief from proposed forgiveness schemes.

The top quintile of earners **holds** $3 in debt for every $1 held by those at the bottom of the economic spectrum. And a large proportion of student debt (about a quarter) is held by graduate and post-graduate students—those going on to earn a medical or legal degree that will put them on track for high-salary careers. It is unfair to ask the roughly two-thirds of Americans without a college degree—not to mention those who painstakingly made their payments—to pick up the bill for those who took on the debt, especially when they, as a group, are wealthier than the taxpayers they're asking to bail them out.

As previously discussed, another beneficiary of both subsidized student loans and their forgiveness is the university sector itself. Unlike students saddled with disproportionate debt for decades, universities get their government checks upfront. In exchange for an enormous advantage—the government heavily encouraging and subsidizing their services—universities were supposed to be adding value to society. We were promised, in exchange for taxpayer trillions, a more educated citizenry, who would go on to use their education to become community leaders, entrepreneurs, and business owners who would lift up those around them.

Sadly, while those with college degrees still make more over the course of a lifetime than those without, a lot of those other benefits have been waning. As a degree becomes more of a box-checking credential than anything else, the expectation that universities are actually imparting knowledge and wisdom for the money becomes ever more laughable. Among college graduates, "proficient prose readers"—people who can read a newspaper article and answer some basic questions about its subject—declined from an already-paltry 40 to 31 percent over the past couple decades. Graduates are also ignorant of rudimentary civic facts; half do not know that a Senator's term runs six years, while more than half cannot identify what the Bill of Rights is. And the academy's increasingly radical politics and universities' hostility to free speech and inquiry on campus are well-known, which is perhaps why just 48 percent of Americans in polls trust that universities are, on net, a positive force for the country, a new low.

Instead of a genuinely more educated populace, the student loan boom has fueled 21 million new square feet of construction, 60 percent growth in administrative positions (ten times the growth in tenured faculty), and, of course, sprawling "diversity" and "critical theory" departments.

With federally-backed student loans, we have created a system of higher education that costs vastly more, delivers less, and shunts the ever-increasing burden on to students and taxpayers alike.

Loan Forgiveness Doesn't Solve the Problem—It Makes it Worse

It's often said that the first rule when you're in a hole is to stop digging, but instead, loan forgiveness proposals will bring in a whole construction crew to speed up excavation. At least future generations of students can eye the deal colleges have gotten for Millennials, and make more cost-savvy choices. With loan forgiveness, or even worse, "free" college, universities will have no incentive to rein in costs. Rather, they'll be able to rely on Uncle Sam to bridge the gap, fueling further price inflation and leaving more future students in untenable debt. Instead, we should look to reintroduce some limits to the higher education system. First, and most importantly, federal student loans should be frozen at current rates, or even better, lowered year over year to phase them out. Universities have not proven worthy of taxpayer investment. In addition, loans and grants should be tied to basic obligations that schools—particularly public schools—already have under the law, such as respecting the First Amendment.

Restoring student loans to the free market, rather than the federal government, will reintroduce natural limits to the entire sector. A student wishing to study "critical whiteness studies" at a 1456th-ranked university will not be able to secure a six-figure loan from Wells Fargo or Bank of America, which will be looking at his or her ability to repay. But with Uncle Sam fronting the money regardless of likely ability to pay back, no assessment is ever made on the value of one degree over another, allowing—no, encouraging—predatory behavior on the part of universities. Indeed, there is substantial evidence that making every high school graduate a walking blank check has incentivized universities to admit academically underprepared students for financial reasons, contributing to the low 60 percent six-year college graduation rate.

Second, we should be encouraging alternatives: Purdue University in Indiana has introduced innovative Income Share Agreements, which allow students to borrow on a percentage rather than absolute basis, promising a certain percentage of their income for a predetermined number of years. This has several advantages: it gives borrowers some predictability and stability to their payments, and it shifts risk assessment where it belongs, with colleges and financial institutions, rather than with 18-year-olds straight out of high school. Furthermore, it helps bind universities to the futures of their graduates.

But we should also encourage alternatives, not just to student loans themselves, but to the notion that a college degree is necessary for success. Apprenticeships, trade schools, and other innovative training programs should be welcomed as equally important and admirable paths to the American Dream.

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Lastly, we should help cement the bond of accountability between universities and students by explicitly making universities responsible for part of the debt burden, should their degrees not be worth the cost. If a school, whether it be for- or non-profit, is consistently turning out graduates who cannot pay off their loans, it should be responsible for some part of the bill that is currently going to the American taxpayer.

What You Can Do

Get Informed

- **Student Loan Forgiveness a Regressive Policy That Hurts Working Americans:** Lindsey Burke, The Heritage Foundation
- **Stop America's Woke Seminaries—*Now*:** Inez Stepman, *The American Mind*
- **"Free" Comes with a High Cost for Students and the Economy:** Neal McCluskey, *Wall Street Journal*

Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.