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A Review of the Federal Student Loan Debt Relief Plan

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ABSTRACT

The Biden-Harris Administration's federal student loan debt relief plan aims to relieve student loan debt burdens from the United States. Their relief plan impacts the overarching national economy with multifaceted effects on the economy and attainment of vital life milestones. This paper explores the multifaceted effects and their impacts. It utilizes a Cost-Benefit Analysis to assess the potential limitations and transformative impact the plan could have on America’s socio-economic landscape. The contents of this paper highlight the complex interplay between the economy and societal well-being and the many factors that affect policymaking.

Introduction

It is important to outline the substantial student loan debt in the United States and address the challenges posed by it. Student loan debt in the United States adds up to about 1.76 trillion dollars with 1.65 (93%) trillion dollars being federal loans. Federal student loan debt is held by 43.6 million borrowers with an average debt balance of around 38 thousand dollars. At public four-year institutions, 55% of students have student loans. At private nonprofit four-year institutions, 57% of students have education debt (Hahn). Student loan debt in the United States has been increasing at a much faster rate than the number of federal student borrowers (Hanson). The Biden-Harris Administration introduced a long-term federal student loan debt relief plan in August of 2022 as an effort to fix “past administrative failures” (“Biden-Harris Administration to Provide”). Despite being overruled by the U.S. Supreme Court the following year, the Biden-Harris Administration has pursued alternatives such as the Saving on a Valuable Education (SAVE) Plan. The SAVE Plan is an income-driven repayment (IDR) plan that the Biden-Harris Administration estimates will benefit over 20 million borrowers with benefits that are essential to low and middle-income borrowers. It works to cut payments on undergraduate loans in half as payments will be reduced from 10% to 5% of borrowers' discretionary income (“The Biden-Harris Administration Launches the SAVE Plan”). However, IDR plans such as the Save plan forgive student loan debt after a certain amount of payments or time. For example, the Biden-Harris Administration has canceled nearly 132 billion dollars of student debt for more than 3.6 million Americans (“Biden-Harris Administration Announces”). The administration plans to continue student debt relief by forgiving an additional 4.8 billion dollars for 80,300 borrowers (Nova). This approach articulates the administration’s commitment to addressing the challenges of student loan debt and promoting economic mobility for lower classes. Thus, the student loan relief plan poses an essential question, “Where is the money to fund all these expenses coming from?” The answer to that is the federal government. They have a choice to reduce spending or raise taxes. Either trade-off could be costly, cutting into vital social programs, or adversely impacting the general public - the taxpayers. The controversial aspect of the SAVE Plan and student loan debt forgiveness questions the costs and benefits of the Biden-Harris Administration’s new policy.

The implementation of this plan will be important to the financial well-being of countless individuals and the stability of education. This contribution to the extensive policy discussions about student loan debt

relief and the attainment of higher education provides a comprehensive insight for advocates and other stakeholders. This review paper assesses the effectiveness of the current student loan debt relief plan in addressing the needs of the overarching country through the use of the Cost-Benefit Analysis method. Additionally, it offers an analysis of the broader benefits of the plan on the economy and marginalized groups. Moreover, it delves into areas where the relief plan may be limited in effectively managing government spending.

In this paper, the methodology for weighing costs and benefits is introduced. Next, two potential positive impacts of the student loan relief plan, small business growth and reducing the racial wealth gap, are highlighted and reviewed. Subsequent to that, unfairness and social programs are discussed in the negative impact section of this paper. Following the review of literature, a conclusion and limitations will be presented.

Methods

This paper keeps the criteria for inclusion of studies within a decade of the time of the writing, 2023 and 2024. Studies were selected by determining the information's relevancy to the subtopics at hand. All studies selected are cited throughout this paper.

This paper utilizes a Cost-Benefit Analysis to assess the opportunity costs of potential benefits and determine potential risks and adverse impacts. Though there is not a single universally accepted method to perform a Cost-Benefit Analysis, this paper will follow a general rule of thumb. More specifically, the procedures of the Cost-Benefit Analysis are listed in Table 1. First, determine the scope of impacts by understanding the situation and identifying key stakeholders. Following this framework, assesses the costs, looking at both the qualitative and quantitative costs of the policy alluded to in this paper. Thirdly, tackle the challenge of examining both explicit and implicit benefits by making scholar-source-backed assumptions and reviewing data.

Table 1. Steps of the Cost-Benefit Analysis

01	Scope of Impacts	• Understand the Situation • Identify Key Stakeholders
02	Assess the Costs	• Qualitative Costs • Quantitative Costs
03	Explicit and Implicit Benefits	• Scholarly Assumptions • Credible Data

Potential Benefits

Small Business Growth

Small businesses are the backbone of the US economy, responsible for the creation of 60 to 80 percent of net new jobs (Longley). The growth of small businesses is crucial right now because they are currently in a rapid decline. An article by The White House found that the creation of new business has fallen by nearly 50% since the 1970s with economists proving that the impact has caused a slowdown in productivity, innovation, and income (“Executive Order on Promoting Competition”). The adverse implications of a lack of small businesses impact not only the nation as a whole, causing a decline in GDP growth, but also on an individual basis. These are the key stakeholders. The Roosevelt Institute learned that with the millennial age group, 50 percent reported

that student loans negatively affected their ability to start a business ("How Canceling Student Debt Can Boost"). Debt burdens have resulted in two million fewer businesses being formed between 2006 and 2015. With student loans as one of the highest sources of debt for Americans, it deters entrepreneurship which has caused the creation of small businesses to be in a steep decline.

Why are student loans affecting small business creations? Starting a business requires access to startup capital. Since student loan debt appears as a negative net worth, it is hard for borrowers with high monthly payments and debt balances to accumulate enough capital either through saving or borrowing. The Federal Reserve Bank of Philadelphia examined the correlation between the creation of small businesses and student loan debt, finding a 14.4 percent decline in small business formation with an increase of one standard deviation of student debt (Fullwiler et al.).

The growth of small businesses is vital to boosting the national economy. The U.S. Chamber of Commerce quantifies that Small businesses represent 43.5 percent of America's GDP, a critical component of our nation's socio-economic ecosystem where large enterprises, small businesses, and their respective workforces have an interactive impact on each other (Ferguson & Lucy 2023). An increase in GDP per capita will have lasting impacts on economic and health disparities according to historical trends. For every 1 percent increase in GDP per head, poverty was found to be reduced by around 1.7 percent (The Economist 2013). The Economist finds that poverty is identified by countries as those who have less than the minimum level of income required to meet basic needs such as food, clothing, and shelter. This concept is based on a study by a British priest who documented the lives of laborers in a rural parish. It was the first ever attempt to measure poverty systematically, in which the priest calculated the amount of money needed for working-class families to live in "tolerable comfort" ("Not Always With Us").

Racial Wealth Gap

The burden of student loans disproportionately affects Black families. Business Insider quantifies that Black students not only need to take more loans for school, but graduates are also five times more likely to default on their loans than their white colleagues ("9 startling facts that show just how hard the student-debt crisis is hurting Black Americans"). The article found that almost 87 percent of Black students attending four-year colleges borrow federal loans compared to 60 percent of white students (Akhtar and Hoffower). Moreover, historical data shows that the median Black borrower still owes 95 percent of their debt after 20 years, compared to the median white borrower who has already paid off 94 percent of their debt (Brooks et al.). It is clear that the racial wealth gap compounds over time as the average Black graduate has more than 7 thousand dollars of debt than their white peer when they graduate but after four years, Black graduates hold almost twice as much student debt as their white counterparts (Akhtar and Hoffower). The facts presented show that the necessity of achieving higher education is simply out of reach for many Black families unless they agree to take on exorbitant levels of debt.

Student loan forgiveness and a sustainable relief plan will be crucial for mitigating the racial wealth gap that plagues our nation. Currently, white households have 12 times the wealth on average than Black households. The elimination of student debt, to a certain extent, could shrink the ratio to just five times the amount of wealth (Akhtar and Hoffower). Not only would the federal student loan debt relief plan help to eliminate a large amount of income inequality, but it would also lift 12.2 million people across the country out of poverty. This includes 3.9 million Black people, 5.2 million Hispanic people, and 3 million non-Hispanic White women (Lynch).

Our country must address the vastly unequal distribution of wealth that is rooted in systematic racism. In the modern day, education should be in the hands of all. However, higher education is a necessity that is plagued with high costs and structural obstacles.

Potential Risks

Social Programs

Canceling nearly 132 billion dollars of student loans begs the question as to where this money will come from. The US government, as of 2023, has a national deficit of 1.7 trillion which means its federal spending exceeds its revenues ("What is the national deficit?"). It has the choice to raise taxes or cut into vital social programs (Smith and Bailie). Both these options are to the detriment of the American general population as a whole.

Forgiving student loan debt for some, would cost so much for many others. The Supplemental Nutrition Assistance Program (SNAP), commonly referred to as food stamps, has had to increase its support to more and more people, making the total more than 42 million despite stricter eligibility requirements. That means the social program supports roughly 12.5% of the entire American population and is one of the nation's largest social welfare programs in terms of cost. In 2022, the federal government spent 119.4 billion on SNAP (Desilver). However, that number is still smaller than the medium estimate for the 2023 year budgetary cost of Biden's IDR plan, SAVE, which stands at 200.2 billion dollars (University of Pennsylvania). In comparison, the SAVE plan has approved 127 billion dollars in targeted relief for 3.6 million borrowers in 2023 while SNAP spending has a spending budget of 127 billion and targets more than 42 million people who live below the federal poverty level (Edward).

The Supplemental Nutrition Assistance Program is just one of the many social welfare programs that need funding increases. This includes welfare programs like the Earned Income Tax Credit (EITC) and Supplemental Security Income (SSI). Both of these, like SNAP, help lift millions of Americans out of poverty every year (Looney). However, the opposite is happening because congressional policymakers are pushing for federal spending cuts, specifically reduced spending for social welfare programs (Kearney and Pardue).

In addition, these social welfare programs are key to reducing childhood poverty. They are a crucial resource for children, securing both their long-term health and "ultimately saving the government money". It was found that when the spending increase on SNAP went from 2.1% of outlays in 2015 to 2.4% in 2022, measures of child poverty fell by 50% (Kearney and Pardue).

It is clear that federal social programs are crucial for several reasons. Their importance addresses imminent societal needs and promotes well-being across the United States. Moreover, the scope of programs such as SNAP, EITC, and SSI outweigh the potential positive impacts of the SAVE plan.

Unfair

About half of Americans, both those who have had student debt and those who never had student debt, think that debt forgiveness would be unfair to former borrowers who have already finished paying off their student loan debt (Safier). The millions of previous borrowers who worked hard and sacrificed numerous times to repay their debt would be blatantly insulted. Burke and Kissel write that "the millions of Americans who graduated from college, lived modestly, and did without fancy dinners and vacations so they could diligently repay the debt they agreed to pay back are surely wondering why they will get no such rebate. Those responsible Americans are left standing there, holding the bill like chumps. They have good reason to feel insulted" ("Why Biden's Student Loan Bailout Is Unfair").

Likewise, debt relief creates a moral hazard. This student loan debt forgiveness plan encourages future borrowers to take on excessive debt with the expectation that it too, will be forgiven. Biden's IDR plan could be promoting irresponsible borrowing behavior. Rick Seltzer, a seasoned writer for higher education articles, is critical of Biden's student debt cancellation stating, "We have basically sent a message to borrowers now that you won't necessarily be on the hook to repay all the money that you borrowed to pay for school" ("Is Biden's

student debt cancellation a moral hazard?"). Furthermore, this debt relief essentially penalizes personal responsibility; "Taking out a loan is a choice, and a personal responsibility shouldn't be supplanted by taxpayer bailouts" (Drozdowski).

Loan forgiveness is fundamentally unfair to former borrowers who have adhered to their loan agreements. Forgiving the student loan debt creates a sense of neglect and inequity among generations. On top of that, it undermines the core principles of personal responsibility and what it means to be an adult and take care of yourself. The fostering of a culture of irresponsibility can have many economic and social repercussions in addition to an extraneous burden on the common taxpayer.

Conclusion

In conclusion, the issue of student loan debt in the United States is a heated topic that poses multifaceted effects. There are many potential positive impacts and negative impacts, each followed by its army of critics and supporters. This important policy raises various questions regarding the economy and societal well-being.

It is shown that the negative impacts of Biden's Income-Driven-Repayment plan (IDR), the Saving on a Valuable Education (SAVE) plan, create a moral hazard by driving ethical questions challenging the principles of individualism and adulthood, and can strain critical social welfare programs that target a vast majority of low-income families. Nevertheless, the policy itself does pose a positive correlation between the growth of small businesses and the lowering of the racial wealth gap.

Despite limitations, this paper can serve as a public discourse and practical education resource for those interested in the intricate dynamics of policymaking and student loan debt. The cost-benefit analysis provides a well-rounded approach that evaluates the scope and feasibility of proposed impacts.

Limitations

As a heavily debated topic, there are many studies regarding Biden's IDR plan. The research of this paper is limited by the fact that it was not able to exhaust all studies.

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