

Overview

Student debt forgiveness refers to the cancellation of all or part of a borrower's student loan debt by the government or another lending institution. This initiative aims to alleviate the financial burden on individuals who have taken loans to finance their education. Advocates argue it can provide significant economic relief, stimulate consumer spending, and reduce income inequality, allowing graduates to pursue careers without the constraint of overwhelming debt. Critics, however, contend widespread forgiveness could unfairly benefit higher-income earners and undermine personal responsibility while imposing a financial burden on taxpayers. Several student debt forgiveness programs are currently in place, such as Public Service Loan Forgiveness (PSLF) and income-driven repayment plans. Various proposals for student debt forgiveness differ in scope and eligibility criteria, ranging from targeted relief for specific professions or income levels to more comprehensive plans aiming to cancel most or all outstanding student debt. Despite support from some policymakers and activists, significant challenges remain, including legal and legislative hurdles, as well as differing opinions on the economic implications and fairness of such policies. The future of student debt forgiveness continues to be a contentious and evolving issue in the realm of higher education and economic policy. In this Basic, we will review what the current state of student debt is and what forgiveness could look like.

How Did We Get Here?

Until the 1960s, public higher education in the U.S. was very affordable. Colleges charged minimal fees, with students mainly paying for room and board rather than tuition. For instance, during the 1963-64 academic year, the average tuition and fees at four-year public universities were \$243 annually, equivalent to about \$2,400 today, according to the Bureau of Labor Statistics.

This affordability was due to the belief that higher education was a public good, benefiting society as a whole, not just individuals. Therefore, public universities were heavily supported by taxpayer funds. In 1965, state funds covered 76% of the University of Michigan's operating budget. However, by 1983, state support had decreased to 50%, and today it stands at just 13% for the university. In 1967, Ronald Reagan, who was then-governor of California, addressed concerns about raising tuition which he believed limited access to education for those of modest means and advocated for adequate loans to be repaid after graduation. Following his lead, officials in Florida and New York raised tuition, marking a shift in the perception of college from a public good to a personal investment. This era marked a turning point in U.S. higher education policy, moving away from bipartisan support for state-funded, nearly free public colleges. This ideological shift led to a surge in student loan debt, with American students borrowing \$73 million in 1966, skyrocketing to \$7.8 billion by 1981 when Reagan became president.

Student debt has more than doubled over the last two decades. As of July 2024, U.S. borrowers collectively owed more than \$1.75 trillion in federal student loans. Adding private loans brings the amount of debt above \$1.8 trillion, so total student debt

Center Forward Basics

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In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

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exceeds debt from auto loans and credit cards. Only home mortgage debt, at more than \$12 trillion, is larger at this time. Roughly one in five Americans hold student debt. Most students graduate with around \$30,000 in loans, but a small portion of borrowers hold an outsized share of student debt. More than one-third of the total debt is held by the 7 percent of borrowers who owe more than \$100,000. The average student is also taking on more debt than ever before. The cost of college, and resulting debt, is higher in the United States than in almost all other wealthy countries, where higher education is often free or heavily subsidized.

Forgiving the Debt: Benefits & Drawbacks

The controversy surrounding the cancellation of student debt centers on issues of fairness, economic impact, and long-term policy implications. Proponents of debt forgiveness argue it would provide much-needed financial relief, stimulate the economy, and address systemic inequalities in access to education. However, critics assert it would be unfair to those who have already repaid their loans or chosen more affordable education options. They also express concerns about the moral hazard of encouraging future borrowing with the expectation of debt forgiveness. Additionally, opponents highlight the significant cost to taxpayers and the potential for increased national debt. Without addressing the underlying issues of high tuition costs and the structure of higher education funding, some fear debt cancellation would be a temporary fix which fails to prevent future debt accumulation.

- **Benefits:**

- Eliminating student debt could provide immediate financial relief to millions of Americans, allowing them to redirect their income toward other essential expenses and investments, such as buying homes, starting businesses, or saving for retirement.
- The cancellation of student debt could stimulate economic growth by increasing consumer spending and investment.
- It could alleviate the financial burden on younger generations, who are currently delaying major life decisions due to outstanding student debt.
- Health-wise, it could also reduce stress and improve mental health for many borrowers, leading to a more productive and satisfied workforce.

- **Drawbacks:**

- Eliminating student debt could be seen as unfair to those who have already paid off their loans or chose less expensive education options to avoid debt. Not only to those who have already paid off their loans or chosen less expensive educational paths but also because it disproportionately benefits those with college degrees.
- There may be a moral hazard, encouraging future students to borrow more than necessary, expecting that their debts might be forgiven.
- The cost of debt elimination would likely be borne by taxpayers, which could lead to increased taxes or reduced public spending in other critical areas such as healthcare or infrastructure. The policy is considered even more unfair when it directs significant financial benefits to degree holders, either excluding those without degrees or requiring them to subsidize the forgiveness through their taxes.
- Without addressing the root causes of high tuition costs, this solution would be temporary, failing to prevent future debt accumulation.

Executive Actions

In 2022 The Biden-Harris administration announced they would be canceling the student loans of millions of Americans. President Biden's initiative to cancel student debt encountered significant legal and political obstacles. His plan, which aimed to forgive up to \$20,000 in student loans for millions of borrowers through the Higher Education Act, faced immediate

pushback. Legal challenges quickly emerged, arguing the President lacked the authority to enact such widespread debt relief without Congressional approval. These legal disputes culminated in a Supreme Court ruling, ultimately striking down the plan and deeming it an overreach of executive power. This decision was a significant blow to the Administration's efforts to address the growing student debt crisis directly.

In response to the court's ruling, the Administration explored alternative methods, such as refining and expanding existing programs like income-driven repayment plans and the Public Service Loan Forgiveness program. The Administration's persistence in seeking ways to alleviate the financial burden of student loans reflects its recognition of the profound impact this debt has on millions of Americans.

Links to Other Resources

- Council on Foreign Affairs - [Is Rising Student Debt Harming the U.S. Economy?](#)
- PBS - [Biden administration canceling student loans for 160,000 borrowers, says it will erase \\$7.7 billion in debt](#)
- The White House - [The Economics of Administration Action on Student Debt | CEA | The White House](#)