



Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02

---

## Correction, Please!

### Seeking to Aid Their Educated Elite, Democrats Push Massive Cancellation of Student Debt



**Biden's first 100 days:** Senators Elizabeth Warren (left) and Chuck Schumer (center) want Biden to write off as much as \$50,000 in student debt for each student, though such inflationary spending will raise the cost of products across the country, hurting the poor. *(Photo credit: AP Images)*

**Item:** *"Even before taking office, President-elect Joe Biden is already facing a political storm among his ideologically diverse base of supporters over the volatile issue of student-debt forgiveness," reported Time for December 13. "Roughly 45 million Americans currently hold \$1.6 trillion in student debt, with the average student-loan recipient owing between \$20,000 and \$25,000, according to the Federal Reserve."*

*Progressives, noted the magazine, "say that student-debt forgiveness could be a boon for the economy."*

**Item:** *Senate Minority Leader Schumer "continues to put pressure on President-elect Joe Biden to forgive up to \$50,000 in student debt per borrower on the first day of his presidency," said CNBC on December 7. Speaking from his Midtown Manhattan office, Schumer said: "We have come to the conclusion that President Biden can undo this debt, can forgive \$50,000 of debt the first day he becomes president. You don't need Congress; All you need is the flick of a pen."*

**Correction:** When you want to get an extreme, unappealing notion through Washington, it often helps to have bad, worse, and worst options in play. It's not likely that the worst choice — that is, the most left-wing one — will prevail, at least at first, but even its presence helps in negotiations.

Once the principle in question is ceded, it becomes (as in the old joke about prostitution) just a matter of haggling over the price. In such instances, the "bad" and "worse" picks, by comparison, don't appear as damaging.

Over the last several months, we have heard from avowed socialist Bernie Sanders, who has pushed for canceling all student debt; Elizabeth Warren and Chuck Schumer have set the forgiveness limit at \$50,000 for borrowers; and Joe Biden has (depending on the day and question asked) come out for



Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02

---

canceling \$10,000 in federal student debt per borrower. One conservative-leaning analyst likes the idea at a lesser amount, maintaining that forgiving debts of under \$5,000 — but just once and as a tax credit — might suffice for certain strained low-income households.

Forgiving every borrower even \$10,000 would cost about \$370 billion, according to Preston Cooper, a visiting fellow at the Foundation for Research on Economic Opportunity. As Cooper notes, that huge total is more than what the government spent on “stimulus” checks as part of the CARES Act.

Of course, Joe also has other ideas in his back pocket, where his extremist supporters have put their IOUs. As the *Wall Street Journal* noted in mid-November, Biden also wants to forgive “any student debt that covered tuition at public colleges for borrowers earning under \$125,000, and any student debt owed by those who show they were defrauded by for-profit colleges.”

Numerous progressive groups who supported Biden’s election want more, of course, as the *New York Times* acknowledged on December 10. Democratic leaders, said the *Times*,

backed by the party’s left flank, are pressing for up to \$50,000 of debt relief per borrower, executed on Day 1 of his presidency. More than 200 organizations — including the American Federation of Teachers, the N.A.A.C.P. and others that were integral to his campaign — have joined the push.

That’s the Schumer/Warren version — with \$50,000 being forgiven. Its total cost would run to at least a *trillion dollars*. In a piece Warren wrote for the *Washington Post* shortly after the election, she praised the Biden-Harris team for “running on the most progressive economic and racial justice platform of any general election nominee ever,” before adding the reminder that this support has a price tag. This was one of the key “bold steps” she advocates: “Cancel billions of dollars in student loan debt, giving tens of millions of Americans an immediate financial boost and helping to close the racial wealth gap. This is the single most effective executive action available to provide massive consumer-driver stimulus.”

So she claims. There are, as it happens, multiple left-wing activists who don’t see the forgiving of student debt to be a particularly effective stimulus.

An excellent depiction of the proposed move — what the author called the “Brahmin Bailout,” after the upper caste in India — was made by Zaid Jilani in the *Wall Street Journal* on November 29. As Jilani wrote:

Canceling student debt would play well with the Democrats’ growing base of educated elites. But how much would it help the workers who once formed the backbone of the Democratic Party? Sen. Elizabeth Warren claims forgiving student debt would be the “single biggest stimulus we could add to the economy.”

But Jason Furman, a chairman of the Council of Economic Advisers under President Obama, writes that this debt forgiveness “likely has a multiplier close to zero,” because it would be taxable. Matt Bruenig, founder of the left-wing People’s Policy Project, writes that forgiving student debt is “possibly the least effective stimulus imaginable on a dollar-for-dollar basis,” because “normal stimulus measures try to put money in people’s pockets so that they can spend it. But student debt forgiveness does not do this. It’s like giving out \$1+ trillion that is then immediately garnished by creditors, leaving households with no extra liquid cash to



Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02

---

spend.”

In other words, it is not just stingy right-wingers who are skeptical.

The Committee for a Responsible Federal Budget also agrees that loan forgiveness doesn't make much of a “stimulus” — in part because such borrowers generally pay back loans “over 10, 15, or even 30 years,” so “debt cancellation will increase their available cash by only a fraction of the total loan forgiveness.”

When the mass media and politicians try to make their case for debt forgiveness, they usually leave out a key point — one that was made in an October analysis by the Brookings Institution, which decidedly does not lean to the right. What is omitted, noted the Brookings report, is the fact that the “households in the upper half of the income distribution and those with graduate degrees hold a disproportionate share of that debt.” Using data from the Federal Reserve's Survey of Consumer Finances, the analysis reveals that the

highest-income 40 percent of households (those with incomes above \$74,000) owe almost 60 percent of the outstanding education debt and make almost three-quarters of the payments. The lowest-income 40 percent of households hold just under 20 percent of the outstanding debt and make only 10 percent of the payments. It should be no surprise that higher-income households owe more student debt than others. Students from higher-income households are more likely to go to college in the first place.

It turns out that the Left's vaunted solutions are not only inordinately expensive but also do a poor job of stimulating the economy.

Tellingly, proponents do not explain why those with student debt should be considered more deserving of federal relief than those, say, holding auto loans or home mortgages. Meanwhile, most federal student loans are handed out with little heed to their recipients' creditworthiness. Private lenders, on the other hand, do pay attention to such matters when it comes the purchases of houses or cars.



**Smart?** Democrats routinely chastise Republicans for supposedly giving tax breaks to the rich, but now they want to pay off student debts, though the debts have been largely incurred by the wealthiest



Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02

---

families in the country and by individuals who stand to earn the most money. (*Photo credit: RattankunThongbun/iStock/GettyImagesPlus*)

As a result, many student loan defaults just become government losses. A recent internal audit shows that Washington will put the taxpayers on the hook for \$435 billion for losses in the federal student loan program. Once again we find that the more the government is in the economy, the less economy is in the government.

Both current and proposed plans anticipate that the working poor will pick up the tab for the much more affluent — often those with graduate degrees. Yet, various academic studies (with differing results over the years) show that average holders of bachelor's degrees earn about a million dollars more (over a lifetime) than high-school graduates. Those with graduate degrees, debtors though they may be at some point, usually earn even more.

The American Enterprise Institute's Frederick Hess has rightfully observed that it is "the oddest sort of progressivism" that promotes a policy that largely benefits those who are highly educated and financially successful at the expense of taxpayers in general. Indeed, says Hess, "more than 40 percent of student debt was accumulated during graduate study by doctors, lawyers, and other professionals in pursuit of lucrative credentials."

Such proposals scream unfairness. Moreover, these loan-forgiveness designs also commit the mortal modern social sin of increasing economic inequality. Cooper, a former analyst at the Manhattan Institute and American Enterprise Institute, notes that out of the

255 million adult Americans, just 45 million have federal student debt. If economic relief is in order, it's highly inequitable to distribute tens of thousands of dollars to the 45 million while the other 210 million get nothing. Underlying student loan forgiveness is the logic that people who attended college in the recent past are more deserving of government assistance than everyone else, which makes little sense. For the cost of forgiving \$10,000 in debt per borrower, the federal government could instead cut every adult American a check for just under \$1,500.

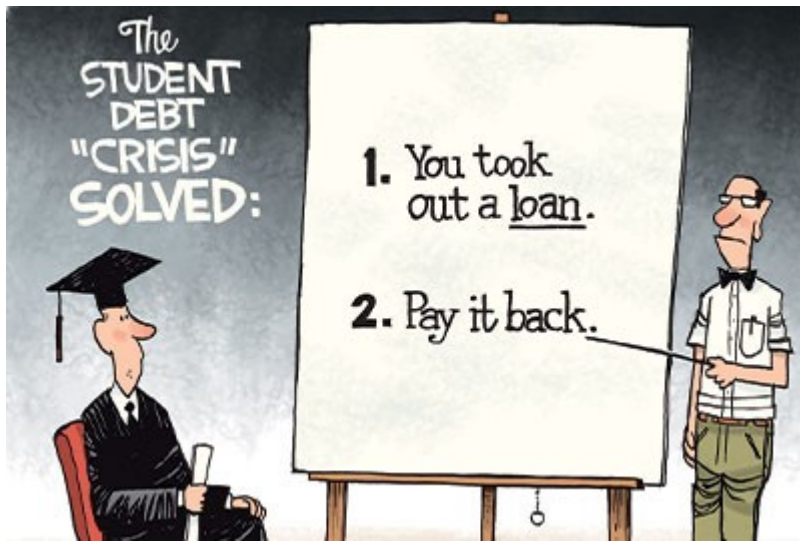
Making matters worse, these broad student-debt-forgiveness schemes would establish a damaging precedent — setting the table to do this all over again.

George Leef of the James G. Martin Center for Academic Renewal is on target in observing that current and future students would recognize that "a 'generous' government has eliminated debts for those who have graduated," and thus be "inclined to run up larger college debts than they otherwise would have, thinking that politicians won't dare to deny them their debt relief."



Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02



What we are really talking about, of course, is shifting the burden to others. This fits to a “t” the definition of an economic “moral hazard” — when one party can take risks because he will not be held responsible for his actions and the consequences will fall on others.

As detailed in a recent paper from Wharton economist Sylvain Catherine and the University of Chicago’s Constantine Yannelis (“The Distributional Effects of Student Loan Forgiveness”), the complete cancellation of student loans would “benefit the top decile as much as the bottom three deciles combined” — with the distribution of \$192 billion going to the top 20 percent, while the bottom 20 percent would receive just \$29 billion.

Liberals claim they are doing this for our own good. Right. On the other hand, Ronald Reagan hit the mark when he said that the “nine most terrifying words in the English language are: ‘I’m from the government, and I’m here to help.’”

Washington’s heavy hand has certainly been disastrous for education. Inez Feltscher Stepman, senior policy analyst at the Independent Women’s Forum, explains some of its counterproductivity as follows, saying that “student loan forgiveness” and “increasing grants” make

the inflationary pressure on the cost of a degree worse, not better. One major reason for the cost increase has been — you guessed it — federally-backed student loans. More than nine in ten student loans are originated or held by the federal government today, and unlike a private bank, Uncle Sam doesn’t evaluate whether a high school student is likely to be able to pay back a five- or six-figure loan.

The “Bennett hypothesis” — named after Reagan’s Secretary of Education [William Bennett] who first advanced the idea that easy federal loans were creating a cost crisis — is no longer a hypothesis. The Federal Reserve Bank of New York found that for every single subsidized taxpayer dollar a university takes, its sticker price increases by 60 cents.

As pointed out by Richard Epstein — a senior fellow at the Hoover Institution, a law professor at the New York University Law School, and senior lecturer at the University of Chicago — it is this “constant infusion of new capital into the lending market” that is “causing increases in college tuition that outstrip inflation, imposing additional costs on individuals who do not take out student loans, and



Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02

---

raising the overall cost of education above competitive rates.”

Persons of a certain age used to say jocularly that the younger generation would learn the value of a dollar when it began paying off our debts. It’s no joke, however. Our so-called leaders are setting all of us up for a painful rendezvous with debt.





Written by [William P. Hoar](#) on December 23, 2020

Published in the January 18, 2021 issue of [the New American](#) magazine. Vol. 37, No. 02

## Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



[Subscribe](#)

### What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.