

The Biden administration's student loan debt relief agenda

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Summary

In recent weeks, Democratic leaders in Congress have increasingly called for President Joe Biden to cancel outstanding student loan debt by executive order. On the campaign trail, candidate Joe Biden promised to forgive at least \$10,000 in student loan debt, tantalising many progressives. Debt cancellation on this scale has never been tried and it could affect everything from college tuition rates to inflation to consumer spending. Observers from across the political spectrum have questioned whether it is effective policy or will instead reward the college-educated at the expense of lower-income Americans. It could create a precedent that leads to more debt cancellations in the future. So, can President Biden do it through executive power? Will he? Should he?

Since his election, there has been a lot of attention paid to whether President Joe Biden will cancel student loan debt by executive order. Student loan debt in the US is at an all-time high, with more than 45m Americans, or nearly a quarter of all adults, holding more than \$1.7 trn in debt. Since the US government owns about 92% of all student loans, student loan debt is a political problem. Student loan debt cancellation has been a familiar refrain since the Democratic presidential primaries in 2020, and then-candidate Joe Biden [promised forgiveness for at least \\$10,000](#) in federal student loans as part of a covid relief package. He is now facing growing pressure from prominent Democrats and supporters to act on his promise.

There are many implications to his decision. Widespread loan cancellation would be an unprecedented giveaway from the government, exceeding the cost of the direct payments authorised by the American Rescue Plan but to far fewer Americans. It would underscore the Biden domestic policy agenda as spend first, worry about inflation later. There is some economic upside: on the low end, forgiving \$10,000 in debt and eliminating \$100-\$200 monthly payments could stimulate consumer discretionary spending; on the higher end, forgiving \$50,000 and eliminating \$500-\$600 monthly payments could lead to increases in home buying and vehicle sales. Loan cancellation

would disrupt the precarious higher education economy, which has recently explored cost reforms but has not substantively addressed its affordability and ROI problems. Colleges would almost certainly lose any incentive to charge less. It could also create a perverse incentive in which student borrowers begin to borrow more, anticipating future loan cancellations.

If President Biden does follow through with loan cancellation, the price tag will be in the hundreds of billions of dollars. But most of the beneficiaries from student loan cancellation are more affluent, college-educated Americans rather than those living in poverty. It's led observers from across the political spectrum to challenge whether loan cancellation is a worthwhile policy objective. So ultimately, what will happen? There are three main questions: *can* President Biden cancel \$10,000 or more in student loan debt? If he can, *will* he do it? And *should* he?

Can President Biden cancel student loan debt by executive order?

In the past, some student loan debt has been cancelled by executive order, such as for permanently disabled military veterans. However, the executive authority to issue widespread student loan debt cancellation is untested, and there is not agreement among legal scholars

regarding the extent to which the president can unilaterally cancel student loans. Senate Majority Leader Chuck Schumer and Senator Elizabeth Warren have been vocal in their support for loan cancellation of \$50,000 per borrower and claim that the federal Higher Education Act (HEA), which governs institutions of higher education and federal student loans, affords President Biden the authority to cancel loans en masse. [Supporters](#) rely on a rather literal interpretation of the statute to justify their position; [opponents](#) claim it would be unconstitutional.

Although Biden has consistently said that he would prefer Congress to pass legislation to cancel student loan debt, that won't happen. The Democratic majorities in both chambers are too narrow and Democratic congressional leaders think Biden already has the authority to do it on his own. Consider that while nearly every other progressive wish list item was included in either the \$1.9 trn American Rescue Plan stimulus or the American Jobs Plan (Biden's \$2.5 trn infrastructure plan that includes other "human infrastructure" programs like free community college), student loan debt cancellation has been noticeably absent from both major legislative proposals.

If it happens, it will happen through executive action. Any executive action authorising widespread student loan cancellation will face legal challenges. However, Biden has a plausible case that he has the legal authority to do it, and it's backed by leading Democrats and reputable progressive legal groups like the [Harvard Predatory Lending Project](#). The answer is that, if President Biden wants to cancel student loan debt, he can.

[Will President Biden cancel student loan debt by executive order?](#)

President Biden has said that [he will not forgive \\$50,000 in student loan debt](#), which is what some progressives have called for. Therefore, Biden's plan would likely be at least \$10,000 (his campaign promise) and less than \$50,000. Congressional Democrats passed a provision in the American Rescue Plan that some view as clearing the way for debt cancellation: any student loan cancellation that occurs in the next two years will be tax free. This is necessary for executive action, since previously the tax burden on loan cancellation would negate the immediate savings for most borrowers.

Thus far, Biden has taken a gradual approach. In March, his administration announced it will fully forgive loans from defrauded borrowers (in contrast with the previous administration's use of a partial forgiveness formula) and discharged loans for borrowers with a permanent disability, which together amounts to more than \$2 bn in

loan forgiveness. Although this only a tiny fraction of total outstanding loan debt, it does suggest a willingness to use executive power on the issue.

In March, Biden's chief of staff [Ron Klain said in an interview](#) that the Department of Education and the Department of Justice were studying the relevant legal and policy questions and would provide a memo with recommendations to the president soon. That's probably more of a delaying tactic than a real obstacle. It's very likely that Biden's cabinet agencies staffed with his appointees will find it within the president's power to cancel student loan debt, considering that some prominent progressive legal groups have already concluded he can and since there's precedent for loan cancellation by executive order (albeit on a smaller scale).

Since Biden has already used executive authority to cancel some debt, has plausible legal authority to do more, and campaigned on a promise of widespread forgiveness, there is little reason to think that Biden won't cancel \$10,000 in student loan debt for all borrowers. This would be the minimum Biden needs to do to follow through on his campaign commitments and his public statements about student loan debt. It's a bold action that wouldn't require Congress and fits with his administration's liberal approach to spending. It would be timely given the ongoing economic crunch due to the pandemic. It's also fairly [popular](#) - more than 64% in a recent poll thought the government should forgive \$10,000 in debt.

[Should President Biden cancel student loan debt by executive order?](#)

[Surveys](#) have suggested that the current level of student loan debt forces borrowers to put off buying homes, travel, and saving for retirement. Many borrowers feel trapped, and borrowers with the highest debt-to-income (DTI) ratios have [reported](#) extreme mental health distress. In one recent [survey](#), six in ten borrowers said that their life would be "significantly improved" if \$10,000 in student debt was cancelled.

The cost is substantial: [universal forgiveness of \\$10,000 would cost approximately \\$422 bn](#) while only reducing outstanding student loan debt by about a quarter, to \$1.3 trn. Universal student loan debt cancellation has also been criticised as rewarding some borrowers who have the means to repay loans, such as those with professional degrees like doctors or lawyers. The left-leaning Urban Institute [found](#) that the top 25% of households with the highest incomes hold the most student loan debt, which makes sense, since high earners often hold advanced degrees, thus incurring more debt. Joe Biden himself suggested he wanted to avoid cancelling debt for students who ["attended Harvard](#)

[and Yale and Penn](#)”, although it’s unclear how he would do that.

A financial policy is considered “regressive” when it is applied uniformly without regard for income (in contrast with “progressive” policies that often charge more based on higher income levels, with the assumption being the rich can afford to pay.) Universal student loan cancellation is a regressive policy, as many beneficiaries (like doctors and lawyers) could in fact afford to pay back their debt. As a basic policy matter, it is inefficient because it spends on those who could afford it or don’t need it. There is also a question of fairness for those who already paid off their debt, who lose out after having fulfilled their obligation.

Lastly, as happened with immigration in the US, a general government amnesty inevitably seeds future amnesties. This is particularly true when (as with immigration) the government fails to reform the system that created the problem in the first place. The emergence of guaranteed financing for any student backed by the government has led to an astronomical rise in the cost of higher education. Over the past 15 years alone, the total student loan portfolio held by the US government went from \$516 bn to \$1.7 trn. It’s not slowing down, either: it’s expected to be \$2 trn by 2025. Until costs in higher education are reformed, and/or graduates are better able to secure employment that will help them successfully pay down their student debt, any loan cancellation that happens now will need to happen again in the future. In fact, the cancellation of some loans will almost certainly impact borrower behaviour, as there is less incentive to pay back debt today if one assumes there could be more forgiveness coming. It may also encourage borrowers to borrow more, assuming forgiveness in the future.

Ultimately, on the question of whether Biden *should* do it, the best answer is the same one that many policy experts on both the [left](#) and [right](#) have given: no. There are more effective ways to spend over \$400bn that could help more low-income families, rather than widespread forgiveness that would mainly benefit affluent Americans. The economic effects are questionable, or as a leading nonpartisan budget watchdog has [said](#), “Cancelling student loan debt is poor economic stimulus” and that a large share of debt cancellation would go to those with higher incomes who are more likely to save rather than spend the windfall. By itself, loan cancellation presents modest inflationary pressure; however, the cumulative effects of it plus other recent government spending bills could put the economy at greater risk of overheating. (The Biden administration [spaced out their infrastructure bill over eight years](#) to reduce the inflationary risk, suggesting an acute sensitivity to more short-term spending.)

But remember - President Biden probably will do it. He promised he would on the campaign trail and has repeatedly said so since then, even if he hasn’t been as quick to act. There is big political upside, as it will satisfy many (although not all) of his progressive supporters, who he needs to keep in his coalition. He can credibly claim to be fighting on behalf of the large number of racial and ethnic minority borrowers that are saddled with immense debt, which is consistent with his administration’s equity agenda. The biggest downside risk is the immense cost and the unprecedented scope, both of which Biden has already shown are not prohibitive factors for him when implementing major policy initiatives, as evidenced by the size and ambitiousness of his (mostly successful) legislative agenda so far.

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