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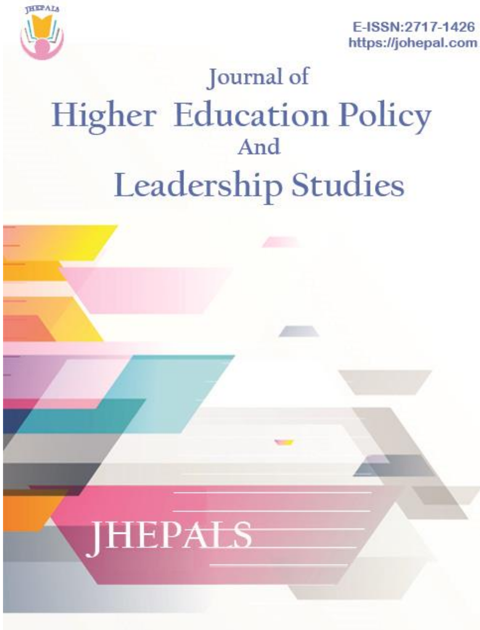

Origin, Debates and Recommendations: A Critical Review of Biden's Student Debt Relief Plan

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Origin, Debates and Recommendations: A Critical Review of Biden's Student Debt Relief Plan

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Highlights

- In response to escalating higher education costs and interest rates, addressing the mounting burden of student debt in the United States is imperative.
- While federal-level student loan forgiveness policies have emerged periodically, alleviating the weight of educational borrowing remains a pressing concern for the Biden administration.
- Biden's Student Debt Relief Plan employs a blend of incentive and authoritative policy tools. However, questions persist regarding its potential impact on racial justice, student welfare, and specific borrower categories.
- As implementation unfolds, addressing these concerns and challenges is essential to ensure the plan effectively meets the repayment needs of diverse borrowers while mitigating the risks associated with disparities related to race and wealth.

Keywords: Student Loan Policy; Student Loan Cancellation; Minority Empowerment; Tuition Fee; Higher Education Finance

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Challenges of American Student Loan

With surged higher education tuition and interest rates in past years, there is an urgent need for a powerful debt cancellation policy to ease student debt holders' burden in American. Among all types of four-year public/private institutions, tuition and fees in 2021-22 have increased by 1.6%-2.1% compared to it was in 2020-21 (College Board, 2021). This number is 1.3% in two-year public institutions. In the span of 1991-92 and 2021-22, inflation-adjusted tuition hike changed from $2,310 to $3,800 at public two-year, from $4,160 to $10,740 at public four-year, and from $19,360 to $38,070 at private nonprofit four-year institutions (College Board, 2021). The average published tuition and fees are 1.65, 2.58, and 1.97 times as it was in 1991-92 at public two-year, public four-year, and private nonprofit four-year institutions (Figure 1).

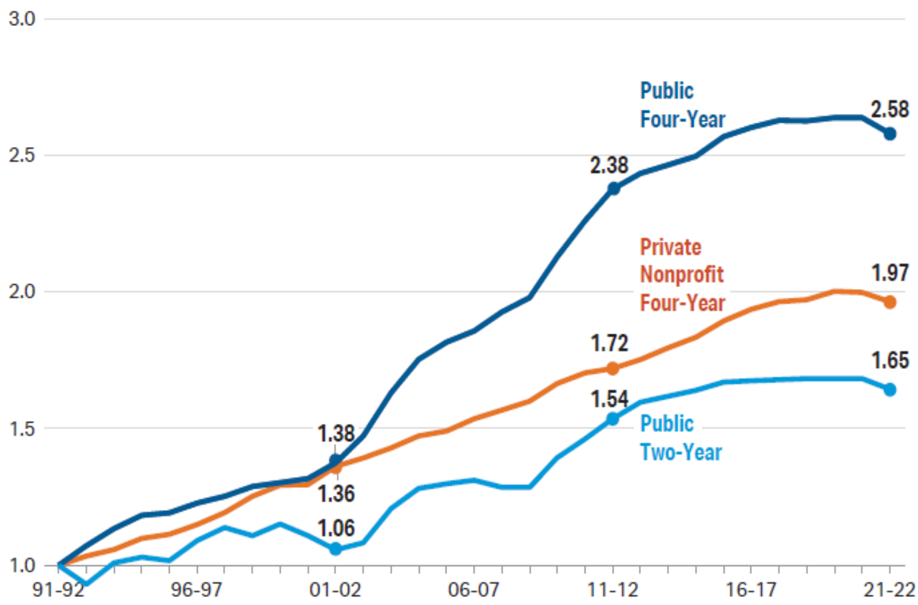

Figure 1. Inflation-Adjusted Published Tuition and Fees Relative to 1991-92,1991-92 to 2021-22(1991-92=1.0) (Source: College Board, 2021, p. 12.)

Concurrently, this tuition increment was nationwide. The average tuition of public four-year institutions grew by over 60% in seven states; 40% in 21 states; and 20% in 41 states (Mitchell et al., 2019). Moreover, interest rates for student loans are 6.8%- 8%, higher than the mortgage and car loans around 4% (Dobson, 2019). During 2011-2019, the rates soared to 8.5% starting from the baseline of 3.4% (Mattingly II, 2019). More than 2/5 of people who went to college carried debt for their higher education now (Board of Governors of the Federal Reserve System, 2023; U.S. Department of Education, 2022). But 12% of them lagged repayment in 2019. Many student loan borrowers experienced negative emotions about their education debts, such as anxiety, guilty, depression, etc. (Johnson et al., 2016), and postponed their home purchase for at least 5 years (Gorey, 2016). Also, racial inequality was exacerbated because of high tuition and interest rates. The black group encountered more difficulties in repaying tuition than other racial groups. Average loan amounts of student debt of black households were $30000, far more than white ($23000) and Latinx households ($17600) (Charron-Chénier et al., 2022). On the flip side, most black households earning under $50,000 per year were debt holders, compared to no more than 1/6 of white householders (Huelsman et al., 2015). Even though federal-level student loan forgiveness policies have been incepted from time to time since George Bush's administration, the public concern about reducing the education borrowing burden is still a critical issue that Biden's administration should tackle. A student loan bailout policy is needed for debt holders' well-being and social equity.

Assessing Biden's Student Debt Relief Plan

Biden's Student Debt Relief Plan is one of the combination punches to shore up education, expecting to relieve pressure on debt holders, so as to truly assist disadvantaged groups in society. The Biden administration made the commitment to promote education equity during the presidential election. In *The Biden Plan for Educators, Students, and Our Future*, he claimed: "ensure that no child's future is determined by their zip code, parents' income, race, or disability (Badge Messenger, n.d.)." A parallel strategy was increasing support to educators including easing their anxieties about student debts, which fixing loan forgiveness policies is considerably based on. In this regard, Biden's student debt relief move continued Obama's education tenet in essence. That is, eases the education burden on low-income students, especially of color (Ferguson, 2020). On top of more investment in the Title I program and appropriate responses to the shock of the pandemic, Student Debt Relief Plan mobilized additional policy tools.

According to Schneider & Ingram (1990), policy tools consist of incentive tools, authority tools, capacity-building tools, symbolic and hortatory tools, and learning tools. American preexisting loan forgiveness policy tools can be generally categorized into incentive tools, authority tools, and capacity-building tools. As for Biden's Student Debt Relief Plan, it mixed incentive and authority policy tools. The three-part plan intended to (1) provide $20000 debt cancellation to Pell Grant recipients and $10000 debt cancellation to non-Pell Grant recipients directly; pause the current repayment period to January 2023 (The White House, 2022). (2) cut loans for undergraduate students in half and grant loan forgiveness credit through Public Service Loan Forgiveness (PSLF) (The White House, 2022). (3) invest more in Pell Grant and upgrade accountability on higher education administration (The White House, 2022). Echoed the economic downturn caused by the pandemic, most provisions in the Plan were authority measures to ensure fewer financial risks lurked on campus. Up to 20 million borrowers would expect to receive the relief automatically (Minsky, 2020). Moreover, this Plan innovated an income-driven repayment mechanism, for borrowers whose incomes are low, their debt and interest would not grow, even could be forgiven, only if they finish the required manipulations. Targeted middle- and low-income families (U.S. Department of Education, n.d.), the Biden administration chose such an incentive strategy in addition to basic, direct debt cancellation. The flexible policy tilt toward financially disadvantaged groups, which is consistent with Biden's educational pursuit of education equity. More students would succeed in college; black students would be more possible to take greater loans and less repayment stress (McCann et al., 2020). The plan strengthened National Student Loan System, stepping forward in promoting inclusiveness in universities and colleges.

Debates Surrounding the Plan

But doubts are lingering surrounding Biden's Student Debt Relief Plan. Is it a racial justice issue? Would it be worse for students? How about certain categories of borrowers? Come with these questions, potential problems are remained to be solved in implementation.

Is It a Racial Justice Issue?

The Plan might contribute to narrowing the racial wealth gap. Taking all the aforementioned, Black groups are clearly disadvantaged across all races on the student loan, while benefiting the most from mass cancellation with the perspective of debt-to-income ratios (Eaton et al., 2021). Whereas the Plan poorly targeted Black students and covered a wide range of non-Blacks (McCluskey, 2022). The racial wealth gap would increase by 9% when canceling all household borrowers' student debt (Huelsman et al., 2015). Despite this, relying on "net worth" which would wight household assets and debts concomitantly, the distribution of student loan forgiveness is progressive in general and mainly beneficial to the bottom 40% in income (Eaton et al., 2021). It is a step to help Blacks obtain upwardly mobile access and practice education equity (LaRochelle, 2021). Biden is ambitious against systemic racism embedded in basic aspects of day-to-day life (Schram, 2022). Black students would be permitted to borrow larger loans literally (The White House, 2022). Nevertheless, the Plan hasn't changed Blacks' disadvantage in repayment in fundamental. Targeted remedial student debt reform moves are still in dearth.

- Potential problem 1: What should formula policies do to deal with racial justice issues in debt cancellation?

Would it be worse for students?

Even though students would be benefited from the Plan, it might also pose risks for them. Some scholars pointed out that high-income and graduate school borrowers would be restricted from taking out high proportional benefits with the Plan. Undergraduate and low-income borrowers would be the main audience for it (Delisle & Cohn, 2022). However, nobody guaranteed the tuition fee and student loan interest would stop rising (Duggan, 2020). Past experiences showed colleges would raise tuition fee corresponding to the aid amounts (McCluskey, 2022). The student loan crisis cannot be fully addressed with governmental power since it is a complicated education task that calls for cross-sectional cooperation and more social engagement (Berger, 2021).

- Potential problem 2: How to reduce the risk the Plan might bring?

How about Certain Categories of Borrowers?

Incarcerated Borrowers

There is a special barrier between incarcerated borrowers and student loan forgiveness. They cannot control their own finances without the prison's help. If the Department of Education doesn't release certain provisions of debt cancellation in the future, they would be "forgotten" / "excluded" in implementation (Loonin et al., 2022).

Student Parent Borrowers

Single mothers and Black fathers often face up greater difficulties in college access and success. Many of them are likely to suspend or drop off because of family burdens and financial limits (White & Cruse, 2021). Covid-19 exacerbated their dilemma, making it harder for them to balance programs and families.

Retired & Unenrolled Borrowers

President Biden didn’t cancel student loans at once but adopted the in-wave method to cancel debt group by group that was identified before (Berger, 2021). For retired and unenrolled borrowers, current income-based repayment (IBR) cannot provide a takeaway to repay monthly (Granville, 2022).

- Potential problem 3: How to satisfy the repayment demand of certain categories of borrowers?

Policy Recommendations for Problems

Except for incentive and authority policy tools, capacity-building and learning instruments could also be used to advance student debt cancellation reform. Three suggestions tailored to potential problems were provided below:

For potential problem 1, expand the scale of HBCU student loan reduction and exemption. Different repayment standards of income-driven payment were divided according to debt-to-income ratios. Additional policy measures, such as special deferment of repayment deadlines, will be set for minorities who are under pressure to repay. A program of directing to choose debt cancellation and connecting to government departments will be constructed.

For potential problem 2, encourage the state government to increase funding for higher education, issue a tuition rising restriction order, and establish a task force to dynamically control and balance the state-level debt cancellation and tuition surge percentage.

For potential problem 3, the Department of Education should introduce a specific tuition reduction plan for incarcerated borrowers, student parent borrowers, and retired & unenrolled borrowers as soon as possible. At the same time, collect student data, supplement variables, and upgrade the database construction. Take advice from grassroots and Think Tanks and enrich the certain categories of unwitting groups that need help.

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Originality Note

The author confirms that the manuscript is her original work, and if others' works are used, they are properly cited/quoted.

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