Empirical/Policy Piece

A Pathway to Racial Equity: Student Debt Cancellation Policy Designs

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Abstract

Student debt in the United States has had a disproportionate negative impact on black and Latinx borrowers. We argue that analyses of plans proposing student debt cancellation should therefore foreground their potential impact on racial equity. To do so, we use data from the 2019 Survey of Consumer Finances and model the impact of debt cancellation on four key policy outcomes (reach, impact on the most vulnerable borrowers, borrower wealth gains, and impact on racial wealth gaps). We examine universal policy designs as well as designs that incorporate an income eligibility threshold as a means of targeting benefits toward less affluent borrowers. We find that cancellation amounts ranging from $50,000 to $75,000 yield the most desirable outcomes, especially when paired with a relatively low household income eligibility cutoff at between $100,000 and $150,000. Such policies would cancel roughly half of all outstanding student debt without substantially expanding the racial wealth gap, while still reaching a large majority of borrowers and leading to substantial wealth gains, especially for black households.

Keywords

Introduction

With cumulative student debt in the United States reaching $1.74 trillion (Federal Reserve 2021), there is growing consensus that individual borrowing is an unsustainable practice for funding higher education. Even prior to the emerging COVID-19 economic crisis, the shifting demographics of college attendance, rising tuition costs, and stagnant earnings have required revisiting the assumption that student debt is always a worthwhile long-term investment (McMillan Cottom 2017). This is especially true for black households, who experience disproportionate and lasting burdens from student borrowing (Sullivan et al. 2019), raising concerns that student debt is

becoming a form of racialized "predatory inclusion" into higher education (Seamster and Charron-Chénier 2017).

Recently, politicians, scholars, and impacted groups have called for student debt forgiveness as an important policy option for reducing the harm of existing student loans. It featured

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prominently, for instance, in several 2020 presidential Democratic primary candidates' platforms. As implemented through federal policy, student lending has reproduced and exacerbated racial wealth gaps and economic inequality. As such, debt forgiveness is also a matter of racial justice (Zewde and Hamilton 2019) and is key to addressing inequality and rebuilding families' capacity to weather economic shocks.

In this article, we argue that the 40-year experiment in devolving the cost of higher education to individuals has caused specific and avoidable harms that can be partly remedied through extensive debt cancellation. Using data from the 2019 Survey of Consumer Finances (SCF), we propose simulations of various student debt forgiveness policies to determine their potential impact on key policy measures. We focus on two simple policy levers—amount of debt canceled and income eligibility caps—and determine their potential impact on (1) policy reach, (2) vulnerable borrowers, (3) ability to increase wealth, and (4) racial wealth gap. As a primary policy goal, we aim to identify a debt forgiveness policy that maximizes individual benefit to black, Latinx, and white households overall, while also promoting greater racial equity.

Student Debt as Social Policy

The United States' student loan system originated in the 1950s as a support for students who, for the most part, could cover public tuition costs through summer employment (Herrine 2019). Since then, student lending has become big business for loan servicers, collection agencies, securities issuers, and private lenders—not to mention the federal government itself, which has become a direct lender through the Obama administration's Direct Loans program. The quasi-public nature of student lending has earned less critical attention than is warranted given the structure and consequences of student debt. Some have argued that precipitous growth in student indebtedness does not simply reflect sharp tuition increases but has actually helped drive costs upward as universities compete to capture student revenue (see E. P. Berman and Stivers

2015). While this has been especially true in the for-profit education industry, McMillan Cottom (2017) points out that similar dynamics characterize ostensibly "non-profit" institutions that depend on tuition revenue.

While nominally public, this financing model puts the primary responsibility for covering education costs on individuals. Federal and state support has not kept pace with cost increases. In 2015-16, the maximum Pell Grant covered only 22 percent of students' average total cost of attendance at a four-year public college (National Center for Education Statistics [NCES], tables F1). Higher education's share of state funding has fallen by a third since 1990 (M. Mitchell, Leachman, and Masterson 2016). Between 2008 and 2013, the median research university saw its state funding cut by over 25 percent (American Academy of Arts and Sciences 2015). In 2017, funding was still roughly $10 billion below prerecession levels (M. Mitchell et al. 2016).

Consequences of this shift in higher education financing are disproportionately borne by black and Latinx students (Kahn, Huelsman, and Mishory 2019). As of 2017, the cost of attendance at a four-year public university is at least 30 percent of median household income for Latinx families in 32 states and for black families in 45 states, compared with only three states for white families (M. Mitchell, Leachman, and Saenz 2019). Indeed, public institutions of higher education moved from a public-funding model to self-financing just as students of color gained wider entry into higher education institutions. The shift coincided with a larger post-Civil Rights turn against investments in public goods from education (Seamster and Henricks 2015; Steinbaum 2019b) to taxes (Henricks and Seamster 2017) to welfare (Gilens 2009). For-profit colleges have maximized opportunities from this financing model (McMillan Cottom 2017), playing a significant role in the spike in student debt (Looney and Yannelis 2015).

Social Mobility and Student Debt

College has long been a means to achieve economic mobility. In that context, student debt is often seen as a reasonable investment more

than repaid through increased future earnings. As such, borrowing is not conceptualized as burdensome: it simply allows individuals to reallocate their own income and wealth over the life course as a form of consumption smoothing. Yet research on higher education suggests a more complicated picture. The assumption that college pays off in higher wealth is less likely to hold for people with student debt (Elliott and Nam 2013; Elliott and Rauscher 2018). Given that black college-educated households still have less wealth than white households lacking a high school degree (Hamilton et al. 2015), it seems likely that some of the estimated benefits of a college degree reflect precollege household wealth. Rising costs of attendance, the changing student population and higher education landscape, and changes in labor markets have led to what McMillan Cottom (2017) calls a credentialization trap, whereby more education is required to secure the same jobs over time. As Morgan and Steinbaum (2018) explain, "successive cohorts have climbed further up the ladder of higher education, [yet] the ladder itself is subsiding" (p. 6).

Student debt is hindering young educated adults from making significant long-term investments, like buying a home (Mezza et al. 2016). A 2017 survey found student debt was the most common expense preventing first-time homebuyers from saving for a down payment (National Association of Realtors 2017). Paying back debt can be extremely difficult for some borrowers; half of students from families with income below $30,000 experience negative amortization five years after graduation (Carnevale and Smith 2018). As a result, student debt is also burdening people much longer than it used to. Almost a third of student debt is held by people aged over 40 (Sullivan et al. 2015).

The past few decades have seen greater numbers of first-generation and low-income college students, who are more likely to be black or Latinx. These students typically have fewer resources and intergenerational wealth to subsidize education costs or help pay off debt, and are less likely to earn a degree (Wilbur and Roscigno 2016). Seventy percent of college students work to help their families and pay college costs, with low-income students working more hours than students from higher income families. In 2012, 74 percent of "low-income working learners" were working over 15 hours a week, the amount at which working starts to adversely impact grades (Carnevale and Smith 2018). Students who work are disproportionately likely to be non-white (Carnevale and Smith 2018). Students from low-income families also have lower returns to education in terms of earning premiums (Bartik and Hershbein 2018).

Racial Inequity in Student Debt

Households' student debt burdens have increased massively over the past 20 years, reaching median levels nearly four times as high in 2019 as they were in 2001. No other household debt type has increased at that pace over the same time period. This increase has been highly unequal across race, with black borrowers experiencing higher rates of growth than both white and Latinx borrowers. As Figure 1 shows, in 2019, 20.0 percent of white households and 14.3 percent of Latinx households held student debt, compared with 30.2 percent of black households. Among student debt holders, average loan amounts also differed across groups—$23,000 at the median for white households, $30,000 for black households, and $17,600 for Latinx households.[1]

This disproportionate debt burden on black families has been observed across successive cohorts of students (e.g., Houle and Addo 2018). Recent spatial analyses have shown the same disproportionality in majority-minority zip codes (Haughwout et al. 2019; Student Borrower Protection Center 2020). The disparity holds when considering class differences across students (Grinstein-Weiss et al. 2016). While median Latinx debt loads are not as high as black student debt, the shared difficulty in repaying debt and lower returns to education, combined with upward-trending debt balances, mean that student debt can still pose great difficulties for Latinx borrowers. Black and Latinx students share a lower likelihood of graduating (e.g., Huelsman 2019; Jackson and Reynolds
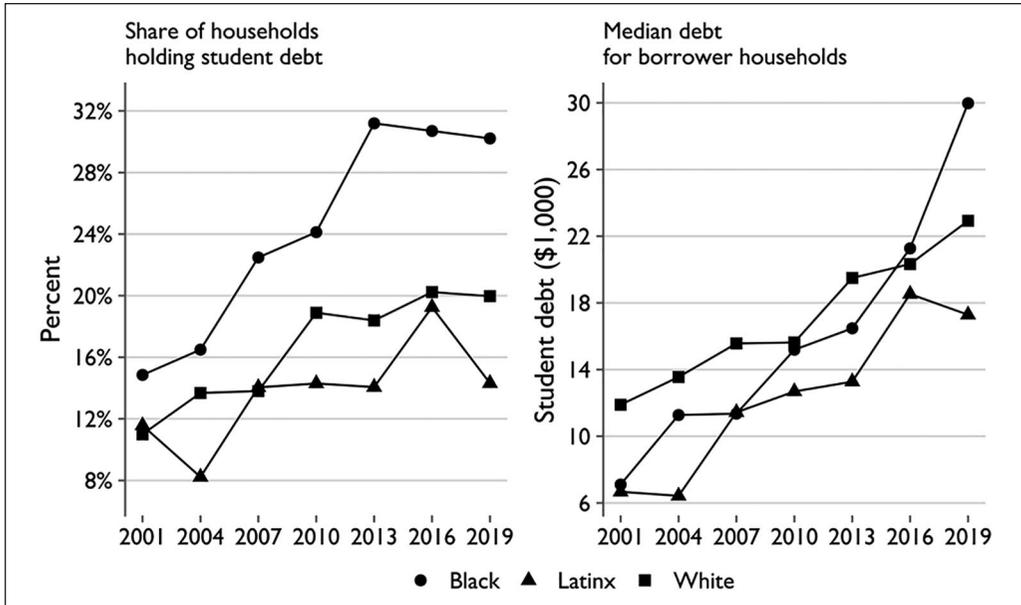
Figure 1. Percentage of households holding student debt (left) and median student debt held among borrower households (right).
Note. Student debt holding and levels have increased sharply since 2001, especially among black borrowers.

2013) and a higher likelihood of default (Hiltonsmith 2017; Scott-Clayton 2018).

Long-standing wealth inequality and structural racism mean that student debt is particularly burdensome to black and Latinx families and is actively worsening racial disparities stemming from historical discrimination. Along with predatory mortgage lending (Burd-Sharps and Rasch 2015), education debt has contributed to the recent widening of the racial wealth gap (Kahn et al. 2019). Some of this effect is compositional. Kakar, Daniels, and Petrovska (2019) estimate that in 2016, student debt accounted for roughly 5 percent of the black-white wealth gap. The effect of student debt is also felt over time, as black families experience lower returns on their educational investments. Addo, Houle, and Simon (2016) found that black wealth is less protective for young black borrowers than white wealth is for young white borrowers. Morgan and Steinbaum (2018) argue that static monthly debt payment numbers also mask the larger and longer-lasting overall burden of student debt for students of color, as repayment stretches out through default, forbearance, and longer payment

plans. Black and Latinx borrowers also have lower familial wealth and postcollege income, making debt harder to pay off (Baker 2019). Moreover, even as educational attainment of the population is increasing, median earnings are declining over time for most groups of young people, including black college graduates (Morgan and Steinbaum 2018). As a result, "the average white graduate *with student debt* is in better financial shape than the average black or Latino graduate *with no student debt*" (Hiltonsmith 2017:7).

The federal student debt system has effectively created dual borrower tracks. Wealthier white students leverage loans into higher earnings, while black and Latinx students experience significant financial burdens. Indeed, the gap in student debt between black and white borrowers triples in size for recent graduates just four years after graduation (Scott-Clayton and Li 2016), and more than quadruples by Year 12 (Scott-Clayton 2018). Twenty years after starting school, the median white borrower has paid off 94 percent of their education debt, while the median black borrower still *owes* 95 percent of their debt (Sullivan et

al. 2019). The amount Latinx borrowers owe is virtually unchanged after 12 years (Scott-Clayton 2018).

Importantly, these low repayment rates do not entail that black and Latinx households are not making debt payments. Instead, it often indicates that lending conditions are such that the financial burden of debt grows faster than households can manage. For black borrowers especially, this bifurcation matches patterns of racialized debt experiences observed in other domains (Seamster 2019), like predatory mortgages (Rugh, Albright, and Massey 2015), payday loans (Charron-Chénier 2020), and legal financial obligations like court fines (Harris 2016; Henricks and Harvey 2017). Far from providing greater wealth security, student debt contributes to the racial wealth gap. As of 2019, the median black borrower household held only five cents for every dollar of wealth for the median white borrower household. This represents *double* the already staggering racial wealth gap for households as a whole.[2]

Need and Policy Momentum for Reform

Momentum has grown in recent years for addressing the negative impacts of student debt and its disparate impacts for black students (see, for example, J. Berman 2021; Goldstein 2019; Jiménez and Glater 2020; J. Mitchell and Fuller 2019). Policy proposals typically focus on both relief for current borrowers and ways to prevent debt levels from rising again (e.g., free public college, or state and local promise programs; College Promise Campaign 2018). Here, we focus on relief for existing borrowers and outline some of the major proposed debt reduction and relief policies.

Relief proposals for current borrowers fall into several broad frameworks. Some researchers and policymakers have suggested that reforms should focus on improving access to the existing income-driven repayment (IDR) program. This program caps payments according to borrowers' income but has so far been insufficient to avert defaults and reduce loan burdens among current borrowers. For example, Looney (2019) has suggested reforming IDR by making the existing Revised Pay As You Earn (REPAYE) program, which caps payments at 10 percent of discretionary income, the default repayment plan for borrowers. Additional proposals, including the Affordable Loans for Any Student Act (2019) introduced in Congress, have also aimed to improve IDR without providing direct loan relief (e.g., Baum and Chingos 2017; McKay and Kingsbury 2019).

By contrast, others have suggested that the current student loan crisis requires direct relief to borrowers. These proposals have centered on eligibility, levels of forgiveness, and impacts on economically vulnerable populations and students of color (Huelsman 2019; Miller et al. 2019, Steinbaum 2019a). Several candidates for the 2020 Democratic presidential nomination proposed debt relief for current borrowers. Senators Warren and Sanders each proposed substantial debt relief as part of a larger college affordability platform. Senator Warren's 2019 plan proposed to cancel up to $50,000 in student debt for each borrower in households with income of $100,000 or less, phasing out relief by $1 for every $3 in income above $100,000. In response, Senator Sanders introduced a bill that would eliminate all outstanding debt for all borrowers. Several other former candidates—including now President Biden and Vice President Harris—proposed more targeted loan forgiveness plans for smaller groups of eligible borrowers and reforms of current Pell Grant, Public Service Loan Forgiveness (PSLF), and IDR programs.

As nominee, President Biden proposed several major modifications to college affordability and debt repayment, and has expressed support for $10,000 in across-the-board debt relief due to the pandemic. Moreover, in April 2020, candidate Biden released his own student debt proposal under which the federal government would pay for undergraduate debt incurred at public schools, historically black colleges and universities (HBCUs), and other minority-serving institutions (Biden 2020). Most recently, Senate Majority Leader Schumer and Senator Warren, along with Congress members Pressley, Omar, Adams,

and Jones, have introduced resolutions calling on President Biden to cancel $50,000 in student debt through executive action, and announcing plans for legislation to the same effect (J. Berman 2021), while Biden has reaffirmed his support for $10,000 in forgiveness.

Policy Aims and Structure of the Analysis

Our analyses examine projected impacts of student debt relief on household wealth, with a focus on racial equity metrics. In undertaking any policy analysis, core criteria by which to evaluate the policy should be established (Bardach 2012). We therefore propose four broad policy goals and metrics:

1. Providing substantial, widespread relief, as measured by percentage of borrowers who receive full debt cancellation;
2. Generating significant relief for the most vulnerable borrowers, operationalized as the percentage of borrowers who shift from negative to positive net worth values as a result of cancellation;
3. Promoting wealth accumulation, as measured in absolute wealth gains for those targeted by the policy; and
4. Promoting greater racial equity, as measured by changes in the black-white and Latinx-white wealth gaps among all households.

The rest of this article evaluates potential design options for a national student debt relief policy by estimating how the different designs impact these four goals and metrics. We focus on the use of two policy design variables. First, we model the impact of different student debt cancellation *levels*. We also examine the impact of an *income cap* for debt relief eligibility as a tool for targeting benefits toward less affluent households. The remainder of the article is as follows. The following section outlines our data and methods. We then present our estimates with respect to the policy metrics. We conclude by discussing implications for policy design and racial equity.

Method

Data

Data are from the SCF, a comprehensive triennial survey of U.S. families' financial lives. We use data for 2019, the most recent year available. The SCF is sponsored by the Federal Reserve Board and the U.S. Department of the Treasury. It relies on a dual-frame sampling design where roughly three quarters of respondents are selected using a multistage area probability sample and remaining respondents are sampled from wealthier households identified using tax records. We use nonresponse adjusted sampling weights provided by the Federal Reserve to correct for differences in the probability of selection across respondents. The final sample includes 5,777 households, of which 1,052 report holding student debt.

The unit of analysis in the SCF is the "primary economic unit" (PEU). The PEU is comprised of an economically dominant single individual or focal couple, and all other household members who are "financially interdependent" with them. SCF documentation notes that "[t]he great majority of the time, the PEU and the household are identical" (Federalreserve.gov. 2021). Still, former students who move back into the family residence but maintain financial independence may not always be captured in the PEU. Students living in dormitories are also not considered eligible households, although they may appear in their parents' PEU if voluntarily reported.[3] These sampling considerations could lead to downward biases in estimates of total student loan volume and could explain discrepancies in total student loan volume estimates between the SCF ($1.12 trillion in total), the Federal Reserve ($1.65 trillion in 2019:Q4), and the Federal Reserve Bank of New York ($1.51 trillion in the last quarter of 2016).

Analytic Strategy

To understand the impact of different loan cancellation policies, we estimate their effect

on household net worth—the sum of all household debts and assets. We estimate household net worth under the various policies by subtracting up to the eligible student debt cancellation amount from each individual borrower's student debt liabilities.[4] This projection method assumes full participation in the program and only considers immediate first-order impacts. We do not attempt to capture effects of increased wealth on future investments and their long-term impacts on household net worth. We also do not model the impact of reduced loan payments on household disposable income and its potential effect on saving behavior.

Analyses assume that loan cancellations apply to individual loan holders, rather than households or individual loans. The SCF is not designed to provide balance sheet information for individual PEU members. We estimate student debt held by individual holders using information reported for individual loans. The SCF provides information on up to six student loans per household, plus a remainder "all other student loans" category. To obtain an approximate measure of the number of individual loan holders and the value of their loans for each PEU, we used information regarding whose education each loan supported. Loans were reported as supporting (1) the respondent, (2) their spouse/partner, or (3) a child. Each of these categories was treated as an individual loan holder. Relatively few households report more than one loan holder (906 households report one holder, 143 households report two holders, and only three households report three holders), which means the impact of this assumption on the final reported results is minimal.

As an example, if a household reported a total of $45,000 in student loans, of which $10,000 was for respondent's education and $35,000 was for a child's education, we considered the household to have two individual loan holders. Under that assumption, a policy canceling $20,000 in student loans (no income cap) would yield a $30,000 increase in net worth for the household ($10,000 relief for the respondent's loans, $20,000 relief for

their child's). The household would still hold $15,000 in student debt.

Student Debt Cancellation Outcomes

To evaluate how various cancellation policies impact the four policy goals listed above, we use our net worth projections to estimate the following four outcomes. Each outcome corresponds directly to a policy goal.

1. The proportion of borrowing households experiencing *full debt cancellation* under given policies;
2. The proportion of borrowing households with negative net worth experiencing *a return to zero or positive net worth*;
3. The resulting *absolute wealth gains* at the median for borrower households;
4. The resulting *absolute racial wealth gaps* at the median over all households (i.e., borrowers and nonborrowers).

Race and Ethnicity Variables

Characteristics of households in the SCF are reported for the PEU head, defined in the survey as the single core individual in households without a core couple, and either the male (for mixed-sex couples) or the older individual (for same-sex couples) in partnered or married households. "White" refers to nonmixed race, non-Hispanic white heads of household; "black" refers to nonmixed race, non-Hispanic black heads of household; and "Latinx" refers to all Hispanic heads of household.

Income Eligibility Caps

When modeling income caps, we use household income to determine whether a given individual is eligible for student debt cancellation. We use hard income thresholds with no phase-out structure: individuals living in households with income below the threshold receive the full cancellation amount, while individuals living in households with income
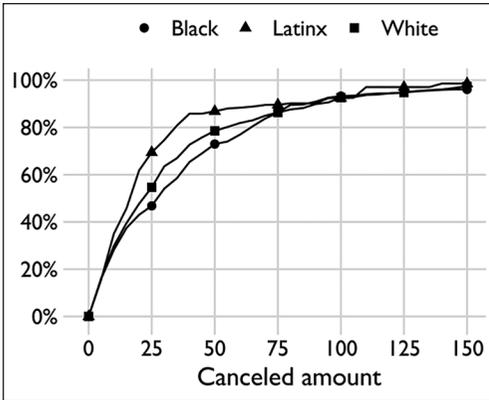
Figure 2. Percentage of borrowing households receiving full student debt cancellation.
Note. Horizontal axis shows proposed debt cancellation amount, in thousands of dollars. More generous cancellations led to more widespread benefits. Benefits reach all three groups roughly equally when at least $75,000 is forgiven.

Figure 3. Percentage of borrowing households with negative net worth who return to zero or positive net worth.
Note. Horizontal axis shows proposed debt cancellation amount, in thousands of dollars. Student debt cancellation is more effective at reaching highly indebted black and white households than Latinx households.

above the threshold receive no cancellation amount. We do not make adjustments for household size.

Results

First Policy Lever: Cancellation Amount

Our first set of projections examines the impact of canceling various debt amounts on our four policy metrics. For these projections, all households are eligible for debt cancellation, regardless of income. Figure 2 shows estimates of the proportion of households with student borrowers that would experience full student debt cancellation, at different forgiveness levels. This provides an estimate of policy reach. We estimate effects of up to $150,000 in cancellation, in increments of $5,000.

Estimates suggest three overall conclusions. First, larger debt cancellations yield a wider policy reach for all three groups, although marginal benefits decline beyond the $75,000 threshold. Second, cancellation policies below roughly $75,000 disproportionately reach Latinx households, although reach for white and black households remains substantial. Beyond $75,000, cancellations have essentially
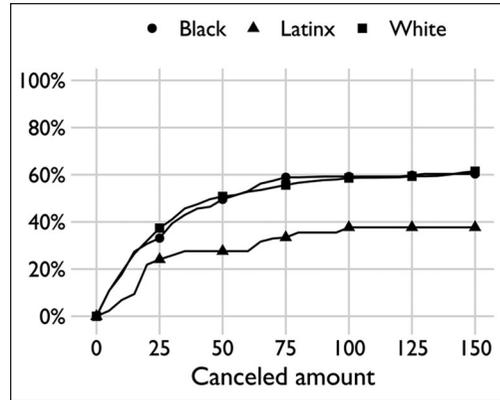
the same effect on policy reach for all groups. Third, fairly generous policies are required to achieve full debt cancellation for a majority of student borrowers—forgiveness of at least roughly $30,000 is needed to cancel the debt of half of borrowers in all groups.

Figure 3 provides estimates of the proportion of borrower households with negative wealth that would return to zero or positive wealth under a given cancellation policy. This provides an estimate of the extent to which policies offer significant relief for the most vulnerable borrowers. The estimates suggest a more limited impact on the most vulnerable borrowers. This is particularly true for Latinx borrowers, for whom student debt cancellation has a markedly lower impact on vulnerable borrowers. Even at very high cancellation levels, no more than roughly three out of five borrowers with negative net worth can return to solvency through student debt forgiveness alone. As with policy spread, the cancellation amount at which marginal benefits for the most vulnerable borrowers appear to plateau stands at roughly $75,000. This is likely due to households holding other, nonstudent debt liabilities (as opposed to holding more student debt than the policy cancels).

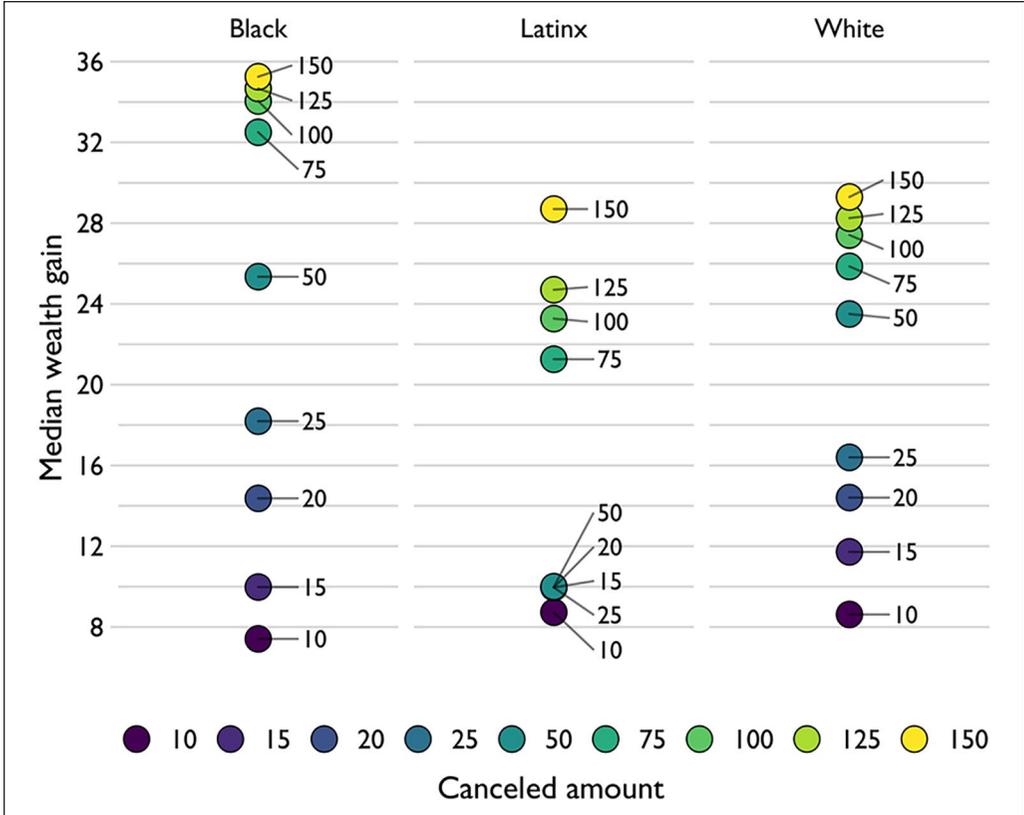Figure 4 provides estimates of median wealth gains for borrower households following debt

Figure 4. Median wealth gains in thousands of dollars among borrower households.
Note. Color scale shows proposed debt cancellation amount, in thousands of dollars. More generous policies lead to greater wealth gains, especially up to $75,000 cancellation. Gains are generally greater for black and white households. Cancellation amounts below $20,000 lead to greater relative gains for white borrowers.

cancellation. This provides estimates of the policy's impact on those it specifically targets. Estimates suggest three general conclusions. First, less generous policies tend to disproportionately benefit white borrower households. Median wealth gains are slightly larger for white borrower households than for black borrower households at cancellation levels below $20,000. Second, less generous policies lead to very small wealth gains for Latinx borrowers. Third, generous cancellations tend to offer the greatest marginal benefits to black and Latinx borrowers. With policies canceling $75,000 or more, black borrower households tend to disproportionately benefit.

Although not shown directly in Figure 4, estimates also suggest that for black and Latinx households, debt cancellations can immediately eliminate the wealth gap between borrowers and nonborrowers. The median wealth gap between borrower and nonborrower households is roughly $167,000 among whites, $31,000 among blacks, and only $2,050 among Latinxs. For black households, cancellation of $75,000 or more eliminates this gap. The same holds true for Latinx households at all cancellation levels. By contrast, the gap for white households is more substantial—likely reflecting the age difference between borrowers and nonborrowers, and white households' greater ability to accumulate wealth over the life course—and student debt cancellation does relatively little in terms of immediate closure.

Figure 5 focuses on projected black-white and Latinx-white wealth gaps, providing estimates of how different policies impact overall racial economic equality. Notice that the scale used differs across groups. Estimates indicate
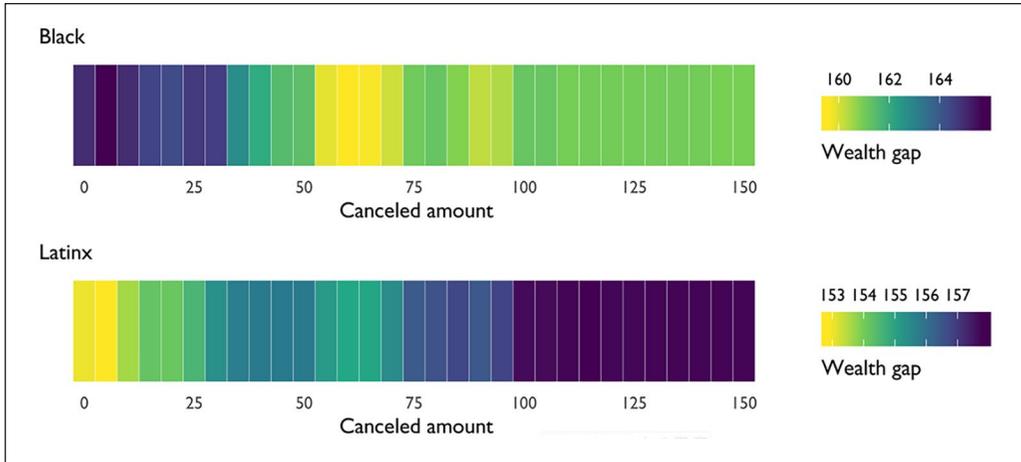
Figure 5. Black-white and Latinx-white wealth gaps at the median across all households, in thousands of dollars.
Note. Horizontal axis shows proposed debt cancellation amount, in thousands of dollars. Color scales show the size of the wealth gap, in thousands of dollars. Nearly all options improve the black-white racial wealth gap, with optimal amounts in the $50,000 to $75,000 range. By contrast, nearly all options increase the Latinx-white wealth gap. For both groups, however, the impact of cancellation is small.

that optimal cancellation amounts for reducing wealth gaps tend to be relatively high for black households (at around $60,000) but quite low for Latinx households (at around $5,000—but note a local minimum around $60,000 also). This means cancellation policies face two important trade-offs. First, policies that reduce the wealth *gaps* are not the same policies that maximize wealth *gains* for black and Latinx borrower households. Second, policies that favor greater black-white wealth equity led to greater Latinx-white wealth inequality. While most policy options lead to a reduction in the black-white wealth gap, the opposite holds true for the Latinx-white wealth gap. Importantly, these estimates also suggest that student debt forgiveness has only a limited immediate impact on racial wealth gaps. Even the most beneficial options do not reduce wealth gaps by more than a few thousand dollars.

Second Policy Lever: Income Eligibility Caps

Higher income households are more likely to hold student debt and tend to hold larger debt amounts. As a result, student debt cancellation risks disproportionately transferring wealth to already affluent households. As a means of targeting benefits toward less affluent households, we examine how income threshold tests for student debt cancellation eligibility impact our four policy goal metrics. We model impact at selected cancellation levels, over a range of proposed income eligibility caps starting at $50,000 and increasing to $200,000.

Figure 6 examines policy reach again by providing estimates of the proportion of borrower households that would experience full student debt cancellation under different policy combinations. Income caps are provided on the horizontal axis, from the lowest modeled cap of $50,000 to the highest modeled cap of $200,000. Within panels, each line provides estimates for a different debt cancellation level. The yellow line in the leftmost panel, for instance, shows that providing $25,000 in debt relief to households with income up to $200,000 would lead to full student debt cancellation for roughly 45 percent of black households. As we reduce the income eligibility cap to $50,000, that proportion falls to approximately 20 percent.

Estimates show that income eligibility caps have different impacts on policy reach for black, Latinx, and white households. Patterns
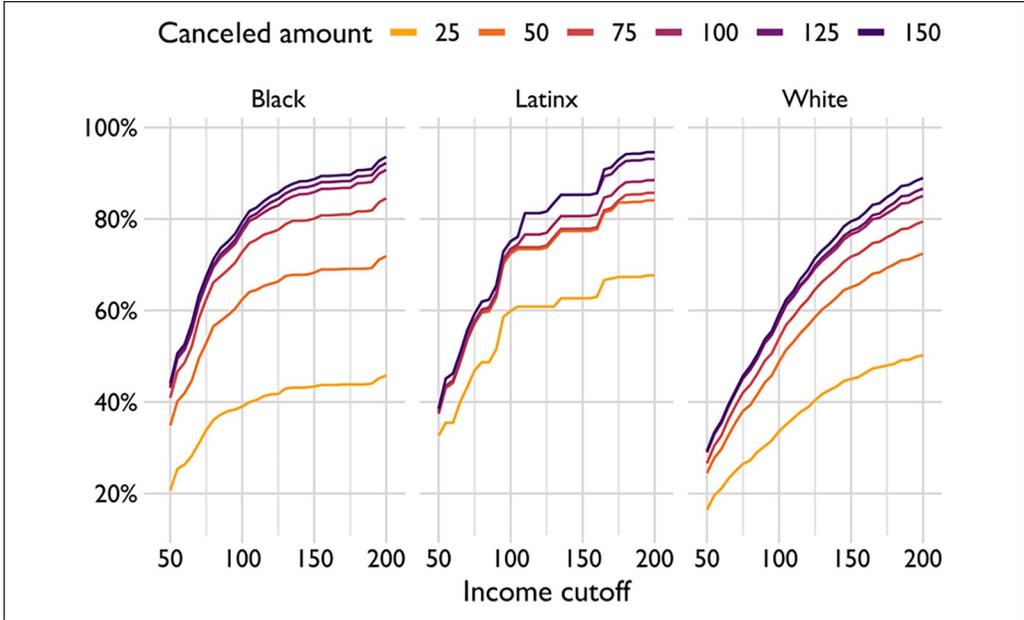
Figure 6. Percentage of borrowing households receiving full student debt cancellation.
Note. Horizontal axis shows proposed income eligibility threshold, in thousands of dollars. Color scale shows proposed debt cancellation amount, in thousands of dollars. Income cutoffs below $100,000 have the most restrictive impact on policy reach.

are difficult to summarize succinctly, but overall, the figure suggests that lower income eligibility thresholds tend to disproportionately target benefits toward black and Latinx borrowing households, rather than white households. When considering all three groups, income eligibility thresholds in the $100,000 to $150,000 range allow most cancellation policies (especially those forgiving $75,000 or more) to reach a substantial proportion of borrowing households. As with the uncapped policies, these estimates suggest smaller marginal returns to cancellations beyond $75,000 and virtually null ones for cancellations beyond $100,000.

Figure 7 examines the proportion of borrower households that currently have negative wealth who would return to zero or positive wealth under a given cancellation policy. From these estimates, we see that imposing an income eligibility cap has different impacts on policy reach for vulnerable black, Latinx, and white borrowing households. For black households, estimates suggest that an income cap near $100,000 already reaches the largest

proportion of vulnerable borrowers possible under the policies considered. For Latinx households, similar plateaus also occur, but the thresholds at which they appear depend on the amount canceled. For white households, no dramatic transition point in the marginal effect of income caps can be seen, although like for other groups the marginal effect of income caps is larger at lower cap levels. For all groups, we again see relatively small marginal benefits to vulnerable borrowers of increasing cancellation amounts beyond $75,000.

Figure 8 shows median wealth gains for student borrower households under various policy combinations. Income eligibility cutoffs are again provided on the horizontal axis, and selected cancellation levels are provided at different points. Again, we see that lower income eligibility caps lead to lower expected wealth gains, although this pattern is more marked for white borrowers than for black and, especially, Latinx borrowers. Income thresholds tend to have the most significant impact on median wealth gains for cancellation amounts at or beyond $50,000. This is
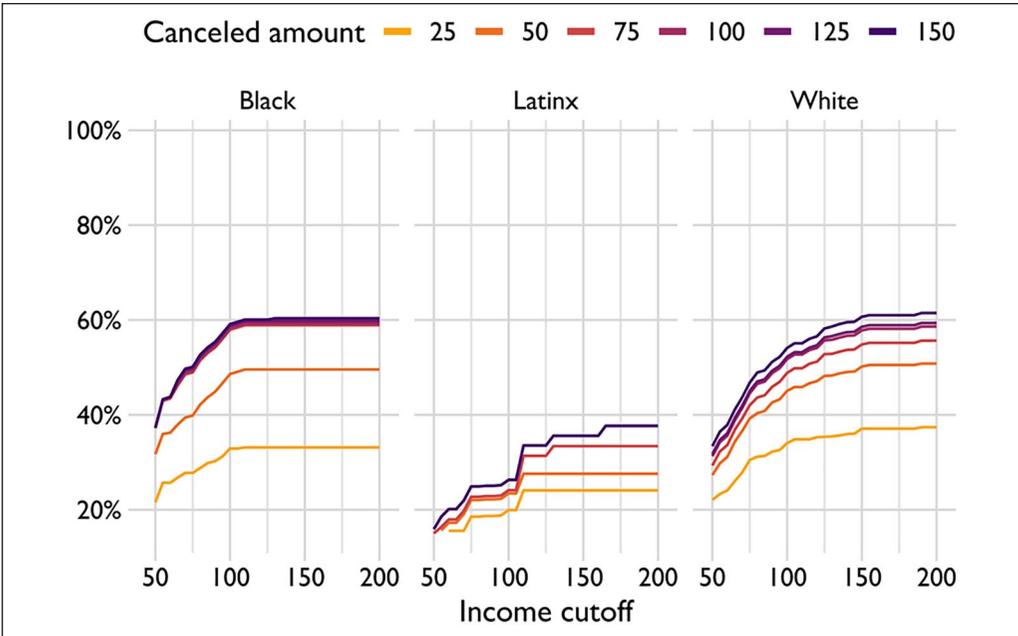
Figure 7. Percentage of borrowing households with negative net worth who return to zero or positive net worth.
Note. Horizontal axis shows proposed income eligibility threshold, in thousands of dollars. Color scale shows proposed debt cancellation amount, in thousands of dollars. For black households especially, income cutoffs below $100,000 have the strongest negative impact on reaching the most vulnerable borrowers.

most obvious for black households, for whom income thresholds below $100,000 lead to a significant drop in the benefits associated with even relatively generous policies, but income caps beyond $100,000 have relatively limited impact. The impact of eligibility caps is smoother across the range for white borrower households. Overall, an income eligibility threshold around $100,000 appears optimal in terms of promoting racial equity through student debt cancellation.

Finally, Figure 9 provides estimates of absolute median wealth gaps across the different policy designs. The figure provides debt cancellation levels on the horizontal axis and income eligibility thresholds on the vertical axis. As described earlier, the color scale has a different range for the black-white and the Latinx-white wealth gaps. Overall, the figure suggests that for black households, income eligibility thresholds near $100,000 combined with a generous debt cancellation policy ($100,000 and above) lead to the largest

reduction in the median wealth gap relative to white households. For Latinx households, the optimal combination is drastically different. Reducing the Latinx-white wealth gap requires the lowest possible income eligibility threshold and the lowest cancellation amount. Again, even with the optimal policy combination available, the effect of student debt cancellation on either wealth gaps is quite limited, although caps do allow a greater reduction in the black-white gap than possible under a universal eligibility policy. Even with income eligibility caps, however, student debt forgiveness is a limited tool for addressing racial wealth inequality.

Proposed Policy Design

Based on our estimates, we conclude that a student debt cancellation policy that seeks to maximize policy reach, impact on the most vulnerable households, wealth gains to borrowers, and racial wealth equity should rely on
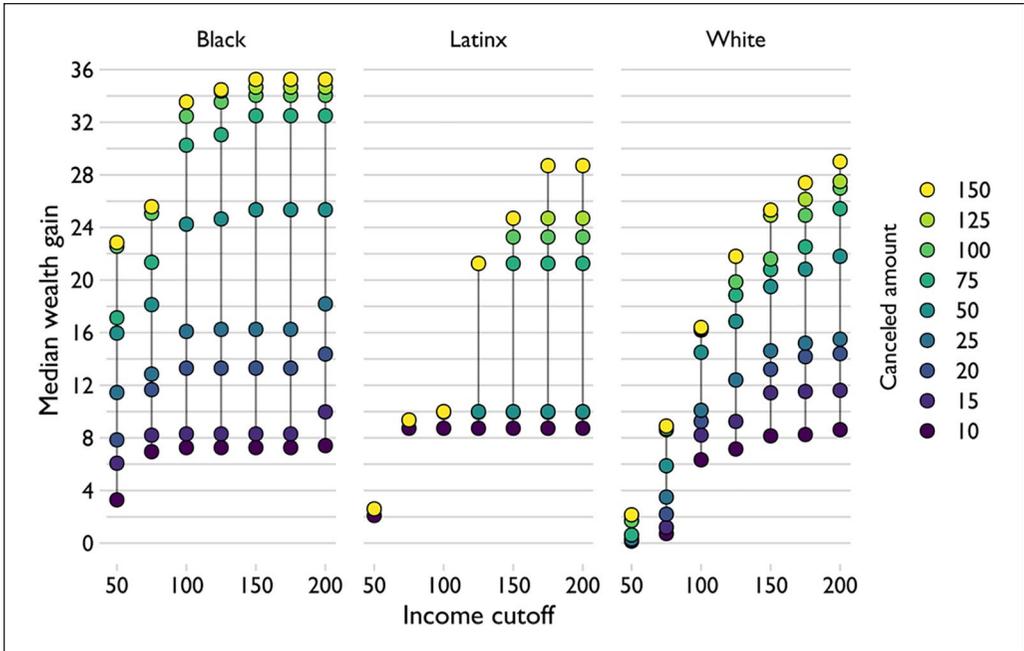
Figure 8. Median wealth gains in thousands of dollars across borrower households.
Note. Horizontal axis shows proposed income eligibility threshold, in thousands of dollars. Color scale shows proposed debt cancellation amount, in thousands of dollars. Income eligibility caps have greater negative impacts on wealth gains when more generous cancellations are considered. Income caps tend to have a greater negative impact on white borrowers' wealth gains.

relatively high debt cancellation levels combined with relatively low-income eligibility thresholds. Policies providing between $50,000 and $75,000 in debt relief for households with income below roughly $100,000 are strong candidates. With $50,000 in debt relief and a $100,000 income cap, roughly 45 percent of all student debt reported in the SCF would get canceled (42 percent for white, 52 percent for black, and 41 percent for Latinx households). With $75,000 in debt relief and the same cap, 51 percent of all reported student debt would be canceled (48 percent for white, 61 percent for black, and 43 percent for Latinx households). In terms of reach, impact on vulnerable borrowers, and wealth gains for borrowers, these policies (and any alternative policy) are much more effective for black and white households than for Latinx households. In terms of reducing racial wealth inequality among the general population, student debt cancellation has relatively limited utility. Yet student debt cancellation still represents a massive wealth transfer,

one that disproportionately benefits black households. As such, we believe it can have a transformative impact on broader patterns of racial and economic inequality in the United States, even if its immediate impact on the wealth gap is small.

Conclusion

Debt relief is an important policy goal, particularly now that long-standing economic vulnerability has been exacerbated by a major public health crisis. A recent quasi-experiment in debt cancellation at a for-profit college has shown immediate personal benefits to borrowers ranging from increased income to geographic mobility (Di Maggio, Kalda, and Yao 2019). Scholars have also shown student debt forgiveness can have a net positive economic impact (Fullwiler et al. 2018), which means it can also serve as a stimulus to bolster economic recovery. Our analyses show that debt forgiveness can also serve racial justice goals. Overall, our
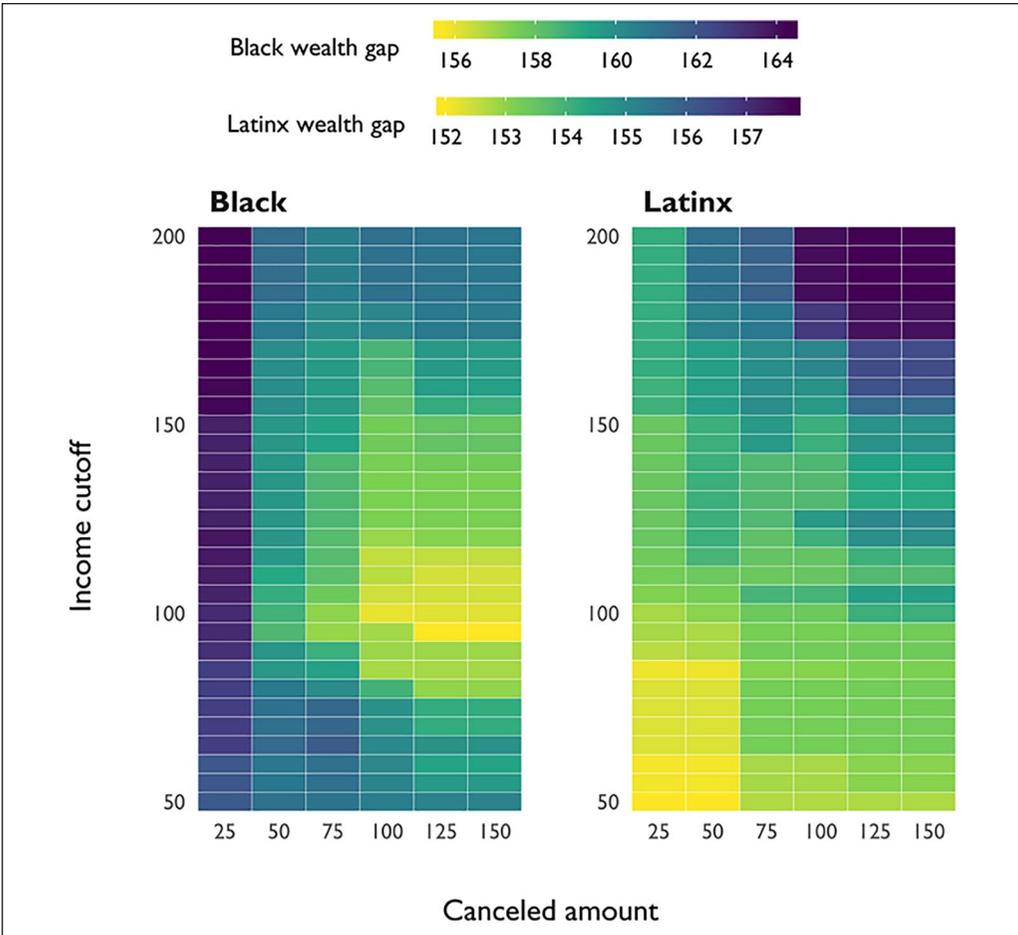
Figure 9. Black-white and Latinx-white wealth gaps at the median across all households, in thousands of dollars.

Note. Horizontal axis shows proposed debt cancellation amount, in thousands of dollars. Vertical axis shows proposed income eligibility threshold, in thousands of dollars. Color scales show the size of the wealth gap, in thousands of dollars. Generous cancellation policies combined with low-income eligibility cap most reduce the overall black-white wealth gap. By contrast, more generous policies and higher income caps generally exacerbate Latinx-white wealth inequality. For both groups, however, the impact of cancellation is small.

estimates suggest that debt forgiveness generally yields the greatest absolute wealth gains at the median for black borrowers, likely because of the greater amounts of debt black borrowers hold on average. By emphasizing the differential harm of student debt on black and Latinx families and its impact on wealth accumulation, our framework highlights debt forgiveness potential to undo racialized harms the current educational financing system imposes. Given the many advantages wealth confers in the contemporary U.S. context, this is a

significant contribution of student debt cancellation, one with potentially transformative positive impacts for black families overall.

Some opponents of student debt cancellation have argued that generous cancellations would be a regressive policy, offering disproportionately more benefit to higher income households, and as such should be avoided. We first note that income eligibility caps provide a straightforward solution to this issue and allow precise targeting of households with specific income levels. Our analyses showed that

generous debt cancellation can be paired with moderate income eligibility caps without much negative consequences on their benefits. Analysts concerned about debt cancellation's regressiveness also tend not to foreground racial equity as a core policy goal, a dimension on which student debt cancellation performs fairly well. Yet even when focusing more exclusively on the distribution of benefits across income groups, we believe student debt cancellation is less regressive than many authors suggest. Determining whether a policy is regressive should involve comparisons to realistic alternatives. In the current debate, the proposed alternatives include no or very small cancellations (e.g., around $5,000; Akers 2020) or reliance on IDR programs rather than broad cancellation (Catherine and Yannelis 2020). Both of these, we argue, fail as alternatives to the policies considered here.

With regard to proposals for low universal cancellations, we note that even among the lowest income borrowers (those in the bottom income quintile of the income distribution), nearly two-thirds (62 percent) hold more than $10,000 in student debt and over one-third (38 percent) hold more than $25,000 (Charron-Chénier and Seamster 2020). Small cancellation policies would fail to provide full relief for these low-income households, arguably the most vulnerable. Similarly, Steinbaum (2019a) analyzes the effects of debt cancellation for a younger cohort to show that the fairly generous debt cancellation plan initially proposed by Senator Warren would significantly alleviate the disproportionately high debt-to-income-ratio for low-income borrowers. Benefits from generous cancellations, in other words, by no means accrue exclusively to wealthy households. It is also worth noting that individuals with low income tend to support debt cancellation. A recent (November 2020) YouGov Survey shows that people earning under $40,000 a year were more likely to support than to oppose student debt cancellation, even without personally having debt or having already repaid their own loans.

With respect to reliance on IDR programs, we believe recent analyses make untenable assumptions about the program's anticipated success. Under IDR, borrowers make relatively small loan payments that are determined by their income level, rather than their loan balance. After a certain time (usually 20–25 years), any remaining balance is to be forgiven in full, which some scholars argue obviates the need for a broad debt cancellation policy. Yet this has thus far not been borne out in practice. Evaluations of IDR programs have shown high rates of first-year certification failure in a 20- or 25-year process (Consumer Financial Protection Bureau [CFPB] 2015).[5] Early data on PSLF have shown a 99 percent rejection rate (White 2020), while early data on broader IDR programs have shown a total of only 20 individuals who have had their balance forgiven between late 2015 and late 2019 (Yu 2020). Without a massive overhaul of these programs and sustained efforts to facilitate borrower access to them, these early evaluations suggest that they are not adequate alternatives to broad cancellation policies.

Student debt cancellation can have a substantial impact on the black/white wealth gap among borrowing households. Currently, black borrowers' wealth represents roughly 5 percent of white borrowers wealth. Canceling $50,000 dollars in student debt for households with income below $100,000 would increase that proportion to roughly 33 percent, and raising the cancellation level to $75,000 would further raise it to 42 percent. Care must be taken, however, not to present student debt cancellation as a miracle solution for racial inequity issues. As our analyses have shown, the impact of student loan cancellation on the *overall* black/white wealth gap is much smaller. Latinx/white wealth gaps are also relatively impervious to debt cancellation efforts, consistent with prior studies suggesting student debt accounts for a relative small part of these racial wealth gaps (Kakar, Daniels, and Petrovska 2019). While it can substantially raise median wealth levels for black households, student debt cancellation alone is not a sufficient approach to eliminate wealth *inequality*.

Our models only considered immediate effects of debt cancellation on household net worth. We also note that the positive effects of a broad student debt cancellation policy for

individuals and households would likely extend far beyond these immediate accounting effects. We have not attempted to quantify these potential long-term effects—cross-sectional data limit us to the immediate wealth impacts—yet they are likely to be substantial. The ramifications of increased wealth for financial and personal well-being, credit access, job stability and satisfaction, homeownership, capacity to weather emergencies, human capital investments, and family stability would likely multiply throughout a person's life and indeed across generations.

We believe our analyses indicate there is ample reason to pursue student debt forgiveness on racial equity grounds. Student loans themselves have racially disproportionate impacts, and pursuing harm reduction by eliminating present and future debt is a worthy goal. We applaud the successful foregrounding of student debt as an issue for federal and state governments to address through cancellation as opposed to new loan products or adjusted lending terms. Student debt cancellation is necessary to tackle racial wealth inequity, but it is not sufficient. It should be considered as part of a broader approach designed to solve an economic injustice centuries in the making. We see student debt forgiveness as part of a larger set of necessary educational reforms in funding structure, all of which together can work toward greater racial equity (Jiménez and Glater 2020). Restructuring how college is paid for is increasingly urgent as higher education faces the simultaneous impact of a pandemic and a severe economic downturn, with negative implications for tuition revenue, public-funding streams, and investments.

With over 20 million people unemployed and another nine million people furloughed as of May 2020 (Shapiro 2020), the ongoing coronavirus crisis has sharpened the need for debt relief. The unemployment rate for black Americans was 16.8 percent in May 2020 and 17.6 percent for the Latinx population, compared with 12.4 percent for whites (Bureau of Labor Statistics 2020). Even before the public health crisis, two in five American families reported being unable to cover $400 in an emergency (Federal Reserve 2019). Alleviating

these economic vulnerabilities will require significant policy action. Student debt forgiveness could help households by freeing up money otherwise going to creditors. Moreover, federal student loans, by virtue of their ownership by government, can be more easily erased than other forms of debt (e.g., mortgages and consumer debt). So far, however, the federal government has offered economic support primarily through new debt mechanisms or by extending preexisting debt terms (Foohey, Jiménez, and Odinet 2020a, 2020b). Cancellation would be a new and worthwhile approach.

Student debt relief provides an opportunity to redress some racial injustice and implement more equitable methods of funding higher education. Racial wealth inequality, however, is a much larger problem with long-term causes that demands a more comprehensive set of interventions. As Hamilton and Zewde (2020) write—and as our analyses show—"[r]elieving student debt is not the policy tool for eliminating the racial wealth gap." Nonetheless, existing evidence shows clear disparate harm of student debt for black and Latinx households. As such, student debt forgiveness can be a remedial or restorative policy, serving as a harm reduction and future harm prevention strategy. Thus, we stress that education debt forgiveness should be seen as part of a much larger package of policy solutions for addressing racial equity issues in the United States and can serve as a powerful harm reduction tool (see Hamilton and Darity 2017; Oliver and Shapiro 2019 for additional suggestions).

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Notes

1. Authors' estimates using the Survey of Consumer Finances (SCF).
2. Authors' estimates using the SCF.
3. Correspondence with SCF staff.
4. We treat all student debt as eligible for cancellation. Some policy proposals have focused on federal student debt only. In 2019, 82.1 percent of borrowing households held all their student loans from the federal government, and another 5.1 percent held a mix of federal loans and private loans (on average, two-thirds of the loan balance for these borrowers are held as federal loans). Given this, a policy targeting only federal loans would necessarily have an overall impact very similar to that of a policy targeting all loans. We therefore do not present estimates for policies targeting federal student loans only.
5. This report (the most recent data available) showed that almost 60 percent of income-driven repayment (IDR) enrollees did not meet their first income certification deadline, causing unpaid interest to capitalize and raising concerns about their successful persistence in the program.

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