Why President Bidens Relief Plan Should be Passed

but for More Limited Borrowers

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The last major recession for the United States economy came in 2020 thanks to the COVID-19 pandemic. Small businesses shutting down, supply chain issues, and a sudden pause in production were the main causes. This recession was inevitable due to the virus. The next possible recession can be prevented. The National Student Loan Debt problem is worsening and is starting to parallel one of the worst financial crises in this nation's history, the 2008 Housing Bubble. Now hearing this comparison is stressful but due to social outcry and continued research, the Federal government is making large leaps towards fixing the problem. On August 24, 2022, the Biden administration announced its Student Loan Debt Forgiveness Plan. President Biden's campaign stated they will provide up to ten thousand dollars in student debt cancellation for millions of Americans. These Americans must meet certain economic and or career factors to have their loans forgiven. Unsurprisingly, the announcement of the Biden campaign was met by praise and backlash. People of all ages, ethnicity, background, and political affiliation are picking different sides regarding this topic. Each side has compelling financial, economic, and historical arguments to support their stances. The two positions can also be defended using philosophical ideologies as well to justify the moral and ethical reasoning behind their opinions. Due to the severity and economic ramifications of Student Loan Debt for the nation and the ethical obligations of citizens to their peers, the Student Loan Debt Relief plan should be passed with amendments to restrict the number of eligible beneficiaries.

Background on the National Student Loan Debt Crisis

The Federal Reserve estimates, as of August 2017, that total outstanding student loan debt exceeds $1.4 trillion (Scott and Bloom, 1). Scott and Bloom also state that between 2000 and 2014, the number of borrowers has doubled to forty-two million. It is no surprise the number of borrowers exponentially increased over the past two centuries. Yet there is a constant discussion surrounding the inflation of the United States currency, but the inflation of college tuition has been swept under the carpet. According to McGurran, “Between 1980 and 2020, the average price of tuition, fees, and room and board for an undergraduate degree increased 169%, according to a recent report from the Georgetown University Center on Education and the Workforce,” (McGurran, 1). It is difficult to place blame on the American public for taking out loans when the average cost of college tuition is around $30,000 a year.

The increase of tuition warrants the question: why the price has risen so much? “When President Johnson signed the HEA in 1965, the intent was to provide every high school senior with the ability to attend any college or university anywhere, regardless of his/her income level,” (Byone and Di Liberto, 1). When the student loan program was started, a degree wasn’t necessary to enter the workforce, nowadays it’s a necessity. Additionally, universities no longer solely provide education; there are sports, food, networking, and more. This and other factors are the reason why student loan debt is reaching households everywhere. “By the first quarter of 2017, student debt has risen to a $1.34 trillion level (See Figure 2), and it is now the second highest category of consumer debt, behind only mortgage debt and ahead of automobile loan and consumer card credit,” (Byone and Di Liberto, 2). Being that our last recession was caused by the leading category of debt, it is easy to understand why economists and politicians are expressing urgency surrounding this issue.

Comparison to the 2008 Housing Crisis and Possible Bubble

So how close are we to a recession and can the student loan debt be classified as a bubble yet? Looking into the 2008 housing market crash will help determine that. Subprime borrowers, borrowers with low to average credit scores, large number of subprime loans, mortgages with variable interest rates, which they could never pay back. These risky investments later hurt the banks once the borrowers started defaulting on their loans. In addition, “Financial firms sold these subprime loans to large commercial investors in pools of mortgages known as mortgage-backed securities (MBS),” (Kosakowski, 1). These misleading investments fronted by financials firms resulted in a stock market crash that in turn made stock wealth decline trillions of dollars. The student loan debt crisis isn’t much different. “As we have seen, high unsustainable debt, has led to high default rates. Both huge debt and high default rates undoubtedly have serious consequences on the economic well-being of student debt holders as they try to move forward with their lives,” (Bynoe, 4). To make matters worse, this debt isn’t just being lent out by the banks, its being lent out by the federal government.

The student loan debt crisis is still growing, and it is shown through borrower numbers. The fear with this crisis is not the amount of money students are taking out in loans, it is the number of students who need to take out loans. Unless a borrower is pursuing a higher education degree, their loans are going to be relatively small when compared to mortgages. “Even with all debt together, the Federal Reserve Bank of New York’s Consumer Credit Panel from 2015, which includes over 44 million American borrowers, shows that of all people with student loans in the sample (n1⁄442,237,000), only 4.6 percent had student-loan debt balances of $100,000 or more,” (Scott and Bloom, 235). The image below shows the distribution of debt from borrowers, (Scott and Bloom, 236).

236 *Scott and Bloom*

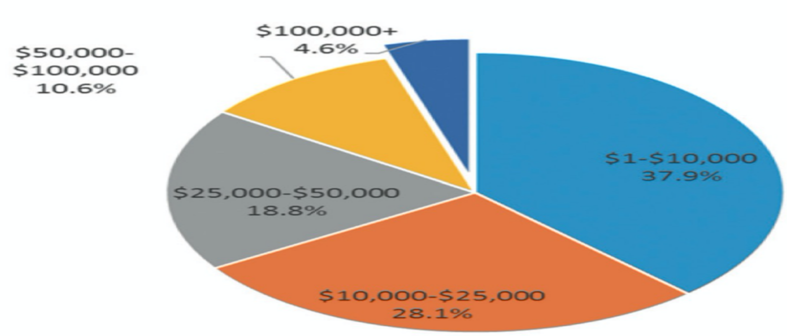


FIGURE 1 Percentage of Borrowers by Total Outstanding Student Loan Debt, 2015
Source: Federal Reserve Bank of New York’s Consumer Credit Panel (2016).

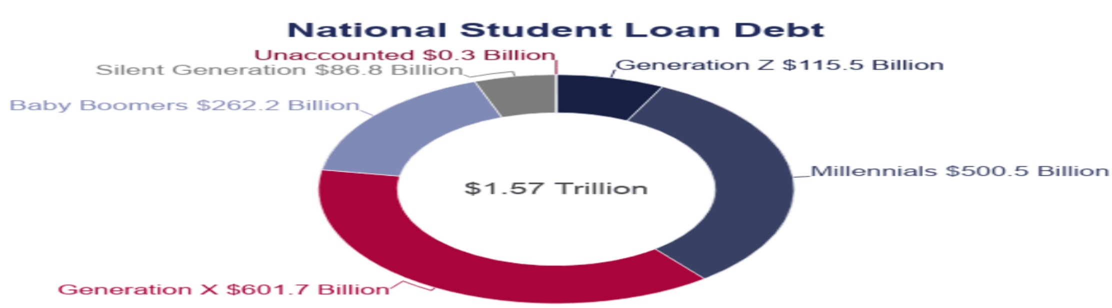
Another fear is the number of delinquency rates in nontraditional borrowers compared to traditional. Nontraditional borrowers are those who attend community college and for-profit colleges vs traditional borrowers who attend public or private institutions. Scott and Bloom on page 237 explain, "Traditional borrowers graduating from four-year public and private institutions experienced a default rate of 8 percent in 2011 compared to a default rate of 21 percent for nontraditional borrowers." So, is there a bubble and are we headed towards a recession? Yes, but it is not too big yet. The reason it can be defined as a bubble is because a bubble is a rapid escalation of market value, particularly in the price of an asset. A college diploma is an asset that is a necessity for the job force, which is why there are so many student loans. Now graduate degrees are becoming more of an essential requirement in the work force. If the market value for graduate degrees continues to climb, student loan borrowers and debt will skyrocket due to the price of this asset. On the condition that the price of college tuition and the market value for graduate degrees continue to rise, the bubble will expand at a faster rate.

Borrower Qualifications to Receive Relief

The amount of default rates, delinquency rates, and number of borrowers and overall debt rise could very easily lead to an economic recession. Fortunately, the federal government has taken a major step towards solving the problem. On August 24, the Biden administration announced its Student Loan Debt Forgiveness Plan. This plan is targeted to help working class families and alleviate the strains associated from the COVID-19 pandemic. There are multiple categories that people can fall into to receive some form of relief. The first, "The Department of Education will provide up to $20,000 in debt cancellation to Pell Grant recipients with loans held by the Department of Education, and up to $10,000 in debt cancellation to non-Pell Grant recipients," (The White House, 1). This may not sound like much, especially regarding lowering the cumulative debt, however, according to Tornoe and Vadala, about 14 million people who owe less than $10,000 in federal student loans will see their debt fully canceled, Biden told reporters 60% of all federal student debt holders, about 27 million people, are Pell Grant recipients (1). The next category is borrowers who are eligible for this relief if their individual income is less than $125,000 ($250,000 for married couples), (The White House, 1). Lastly, The White House stated that the Biden program is looking to provide relief for people who worked at a nonprofit, in the military, or in federal, state, tribal, or local government. Overall, the student loan debt crisis is severe and could easily lead to a bubble and a recession, but thanks to actions taken by The White House, we could see this problem slowly start to be relieved.

Why Bidens Student Debt Relief Plan Should be Passed

When President Biden announced his student loan debt relief plan, it was met with skepticism or praise. Much of the praise came from generation x and younger generations since they hold a vast majority of the debt according to Hanson and the Education Data. The figure below shows the generational breakup of the national student debt.



The reason these generations are supporting the relief plan is because they are the ones holding most of the debt. Furthermore, if people are being forgiven for their loans, then default and delinquency rates will drastically decrease resulting in a much more stable market. This will also slowly lower the amount of student loan borrowers and national student debt. One argument compares a very similar financial strategy used to help rebound the economy after the COVID-19 pandemic. “As part of the Paycheck Protection Program, the federal government has provided hundreds of billions in financial support to banks to make low-interest loans to companies and nonprofit organizations in response to the economic devastation caused by the coronavirus pandemic,” (Syed and Willis, 1). Syed and Willis explain that there were over eleven million loans approved and about 742 billion dollars forgiven for business all over the country. If the government can forgive millions of companies to better their financial standing, why can’t they forgive millions of borrowers for the same reason? Mitchell Tia explains in her article, *White House calls out Republicans on PPP loans: Critics of student debt relief cited for using pandemic relief funds,* that politicians who are expressing criticism for the relief plan are the same ones who received PPP loans and forgiveness from the government. For example, “U.S. Rep. Marjorie Taylor Greene was the first lawmaker to be called out after a video surfaced of her criticizing the student loan debt relief measure on the conservative TV network Newsmax… Congresswoman Marjorie Taylor Greene had $183,504 in PPP loans forgiven, the Biden administration wrote on its official account,” (Tia, 1). If the government can forgive hundreds of thousands of dollars for businesses all over the country, then they can certainly forgive ten to twenty thousand dollars for borrowers all over the country.

Forgiving student loans will help lower- and middle-class families substantially. Upper class families are less susceptible to student loan debt since they have resources to pay college tuition without having to apply for one. Bidens relief plan is targeted towards helping families with smaller incomes. “This plan offers targeted debt relief as part of a comprehensive effort to address the burden of growing college costs and make the student loan system more manageable for working families," (The White House, 1). The White House also stated that no one within the top 5% of incomes will receive relief. Not only is Bidens administration relieving debt, but they are reforming the repayment plan to make it more manageable. "The Department of Education has the authority to create income-driven repayment plans, which cap what borrowers pay each month based on a percentage of their discretionary income, (The White House, 1). By reducing the number of monthly payments, families will experience a couple changes. One, an increase in discretionary spending, and two, a raise in their standard of living. An increase in discretionary spending for millions of families could potentially spark an economic boost. For example, "A typical nurse (making $77,000 a year) who is married with two kids would pay only $61 a month on their undergraduate loans, compared to the $295 they pay now under the most recent income-driven repayment plan, for annual savings of more than $2,800.," (The White House). The country's GDP could experience a boost from a rise in personal consumption due to the increase in discretionary spending my lower- and middle-class families if the relief plan is passed. This would increase government spending which would hurt the GDP. However, the government can issue an increase in taxes to offset the nationwide forgiveness. Passing the relief plan would be a big step towards reducing student debt for millions of families.

Philosophical Ideologies to Support Passing the Plan

The decision to pass relief plan is not only economically right but philosophically as well. Utilitarianism is a perfect argument to use to defend passing the relief plan. Utilitarianism is the idea that the right decision is the one that benefits the majority. There are two different forms of utilitarianism and one can be used to defend passing the plan. Act utilitarianism is, "The right act is the act that produces the most well-being. This suggests that you should aim, on each occasion, to maximize welfare," (Mulgan, 115). If the relief plan was to be passed, then this would benefit the forty million people with student loans. It would also benefit the families of those borrowers by increasing their discretionary spending, savings, and their standard of living. It could also help boost the economy and in turn benefit millions of more Americans.

One way to look at this argument is with the trolley dilemma. The trolley dilemma explains a moral dilemma where one must perform an act to provide well-being for the most people. It states, "a trolley heading straight toward a group of people, who are on the rails and unable to escape. There is, however, a side track on which a single person stands, unaware of the trolley. Participants in this thought experiment are standing next to a lever that enables the trolley to switch to the side track, resulting in a moral dilemma," (Faulhaber, 401). If the person decides not to pull the lever the trolley will kill the group of people on the main track. If the lever is pulled the trolley will move to the side track where one person will be killed. The people on the rails are the ones with student loan debt and their families, the sidetrack arguably could be taxpayers. The lever would be the student loan debt relief plan. By pulling the lever and passing the relief plan, the well-being of those on the track outweighs the negative effects of not pulling the lever.

This leads directly into the next philosophical argument which would be deontological ethics. Deontological ethics states, "The word deontology derives from the Greek words for duty (*deon*) and science (or study) of (*logos*). In contemporary moral philosophy, deontology is one of those kinds of normative theories regarding which choices are morally required, forbidden, or permitted.," (Alexander and Moore, 1). All of us have a moral obligation to choose the most morally correct actions. Deontological theories judge the morality of our choices. We have a duty to pass this student loan debt relief plan since it would benefit the most amount of people, as explained by act utilitarianism. Act utilitarianism is the ideology that performing the act that produces the most welfare should be chosen. Going against this relief plan, one would be deciding against benefiting millions of borrowers and families thus breaking their moral duty. Overall, I support passing Bidens student loan debt relief plan and using the arguments I elaborated on as well as the philosophical ones, passing this plan is the right thing to do both economically and morally.

Why Bidens Student Debt Relief Plan Should Not be Passed

It is hard to see why giving thousands of dollars of relief could be a bad thing. However, there are some valid arguments that have been made by this side. The first and probably the most obvious is that inflation could rise. Moore explains in *Will Biden's Student Loan Relief Plan Boost Inflation?,* that inflation will rise, and it could be as similar as the rate that we saw with the stimulus checks during the COVID-19 Pandemic. "With a 5% interest rate, and $10,000 of debt relief your payments for both interest and repayment of principal may fall by around $800-$1,500 a year depending on the terms of your loan," (Moore, 1). It may be true that the relief plan won't be too inflationary, but it could come at a time where inflation has already been rising and just recently reached a forty year high. Economically it appears smarter to hold the relief plan until inflation rates begin to slowly decrease or even lower the amount of money being forgiven.

Another, and probably the biggest argument against forgiving student loan debt is that it would be a major bail out for these borrowers. This mass bail out would put the debt into the hands of taxpayers all over the country. It would be wildly unfair for taxpayers to pay for other people's debt. "Republicans object to the notion of using taxpayer money to pay off the student loan debt," (Coote, 1). Coote also reports that six Republican ran states even filed a lawsuit against President Biden and his relief plan. Their argument does make sense, why should families all over the country have to pay more taxes to help pay off the debt of people who signed these loans. Specifically for students who knowingly assumed large amounts of debt for degrees that offer little in return. It is easy to see why the term "bail-out" is being used, people are signing loans that cumulatively could cost over $100,000 for degrees that won't land them a job making anywhere near enough to put them in good economic standing. It's not just a bail-out for people choosing low paying majors, but for people who are making poor financial decisions. For example, people who can barely afford college choosing to go to a private school instead of community college or state school or not doing a work study or being an RA. There are ways to make college affordable but if you can't do that, there are much more lucrative careers that don't require a degree. So, this relief plan can be seen as a bail-out.

Another argument being used is that the relief plan wouldn't fix the actual problem. The main problem with student loans being so high in cost and quantity is that the cost of college is extremely inflated. Forgiving loans and changing the repayment system wouldn't do anything to address this issue. If anything, it could make the cost of college rise to compensate for the new repayment plan since they will be receiving less money per month. There are however other possible solutions that could be used instead. One solution would be to battle the greediness of the banks. Just like the 2008 housing bubble, banks were greedy for quick and easy profits, and today they are using extremely high interest rates to take advantage of young borrowers. Scott and Bloom state, "interest rates are generally too high for the various student loans (especially private student loans), and the government should work to make interest rates much lower—particularly allowing for more refinancing options," (1). Government intervention could be a huge tool in stopping banks which is why the relief plan is a good sign that the government is looking to help, but it's not enough. Another possible solution would be for the government to hold schools accountable for the outcome of their students. How would they hold them accountable? "Many for-profit colleges do not produce outcomes for their students that match the significant costs the students pay. The federal government can hold these (and any other poor-performing schools) accountable since they all rely heavily on government funding," (Scott and Bloom, 1). Lastly, a solution that is creative would be to provide a tax write off for people who help pay other people's student loans who meet a certain standard. Yes, it is a way for the rich to avoid taxes but in turn it saves the government money, even if it is money that is not going into the pockets of the government, by not having to provide relief for every borrower.

Philosophical Ideologies to Support Not Passing the Plan

Philosophically, there are different ideologies that provide support for not passing the student loan debt relief plan. Rule utilitarianism can be used as an argument. Rule utilitarianism is a form of utilitarianism that says an action is right as it conforms to a rule that leads to the greatest good. In other words, "Rule-utilitarianism begins with the standard utilitarian commitment to maximize happiness. Yet it then tells us to follow certain rules, even where this will obviously not produce the best possible consequences," (Mulgan, 120-121). The certain moral rule in this case would be that a person signed an agreement to pay back the money that was lent to them for college. For it to be forgiven would mean that they are not fulfilling their obligation and going against a set system that everyone else follows. It is wrong for them to not fulfill their duty because receiving the relief would only maximize pleasure for themselves whereas paying off the loan would maximize pleasure for the bank and all the people that rely on it.

Another philosophical ideology that supports not passing the plan would be consequentialism. “Consequentialists hold that choices—acts and/or intentions—are to be morally assessed solely by the states of affairs they bring about,” (Moore and Alexander, 1). Someone who made the choice to sign a loan knowing that they were in bad financial standing, knew that the amount would be very hard to pay back, chose a major that would provide them a small salary, and new that the amount of good from signing the loan would be low is someone who has low morals. The borrowers knew the consequences of their actions and by bailing them out would mean they will never grow morally or learn how to maximize the amount of good from the consequences of their choices. Overall, I still believe that the relief plan should be passed but the arguments that have been produced against it and the philosophical ideologies explained prove that it is not morally wrong to not support it.

Why the Number of Qualified Borrowers Should be Limited

President Bidens student debt relief plan is still very controversial, but it should ultimately be passed based on the economic and philosophical reasons explained. However, one necessary modification is the qualifications for borrowers to receive relief should be tightened. One reason is because how much it will raise inflation. With the way the economy is now, this country doesn’t need inflation to rise even more. One way to provide relief to and help all 43 million borrowers, the qualifications can become more limited to help those who desperately need the help and the new repayment plan can be used for the rest. This way all borrowers are saving more money and have an increase in discretionary income which will stimulate consumer spending. Another reason why I believe the qualifications should be stricter is the burden that will be put on taxpayers. What will most likely be done to pay for the relief is to make taxpayers pay, this would put a lot of stress on low- and middle-income families. It hasn't been specified how the government will be able to cover the debt, but the most likely solution is spreading the costs through the income spectrum for taxes. Restricting the amount of people that receive the relief, the less amount of money taxpayers will have to pay. How much harsher could the qualifications become? Instead of only focusing on income for single- and double-income households, the number of dependents should be weighed in as well. A single income household of $95,000 with zero dependents most likely wouldn't need $10,000 in relief, especially with the new repayment plan. The same goes for a double income household that is just below $250,000. I think, single income households making under $100,000 with at least one dependent, double income households making under $200,000 with at least two dependents, and those making under $80,000 with no dependents should receive relief.

Another way to restrict the number of borrowers who receive relief is by restricting the amount of public service borrowers. I firmly believe those working or have worked for nonprofit, in the military, or in federal, state, tribal, or local government should receive relief, however, those who are in a well-established financial setting should not be bailed out if they don't need to be. Lastly, limiting the amount of Pell Grant recipients could lower the number of borrowers as well. For the same reason as the public service workers, those who don't necessarily need to be bailed out shouldn't be. This would primarily exclude Pell Grant recipients who aren't struggling with their bills, don't have any dependents, and are making above the $100,00 or $250,00 limit. Pell Grant recipients should be a priority for relief but limiting the recipients is more of a priority. To summarize, President Bidens student loan debt relief plan should be passed but limiting the number of recipients would best economically.

Conclusion

This country experienced one of the worst economic crashes in its history in 2008 when the housing bubble burst. Now, a similar bubble has formed and could potentially create another recession. The Student Debt Relief plan can make the lives of millions of Americans financially easier, prevent another economic crash, and would be like the PPP loans given out by the federal government during COVID-19. Passing the relief plan could have some consequences as well. It could raise inflation similarly to the PPP loans, would be a bail out for poor economic decisions and fall into the hands of taxpayers, and could do little to solve the real problem unlike other possible solutions. Philosophically, both sides of the argument make sound moral and ethical stances. However, according to deontological ethics and act utilitarianism, we are morally obligated to pass this plan because it would produce the largest amount of well-being. Bidens campaign effectively targeted the right people to provide relief for, but it would be more fiscally responsible for inflation and taxpayers to restrict the amount of people to a smaller target based more on dependents rather than just income.

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