Student Loan Forgiveness

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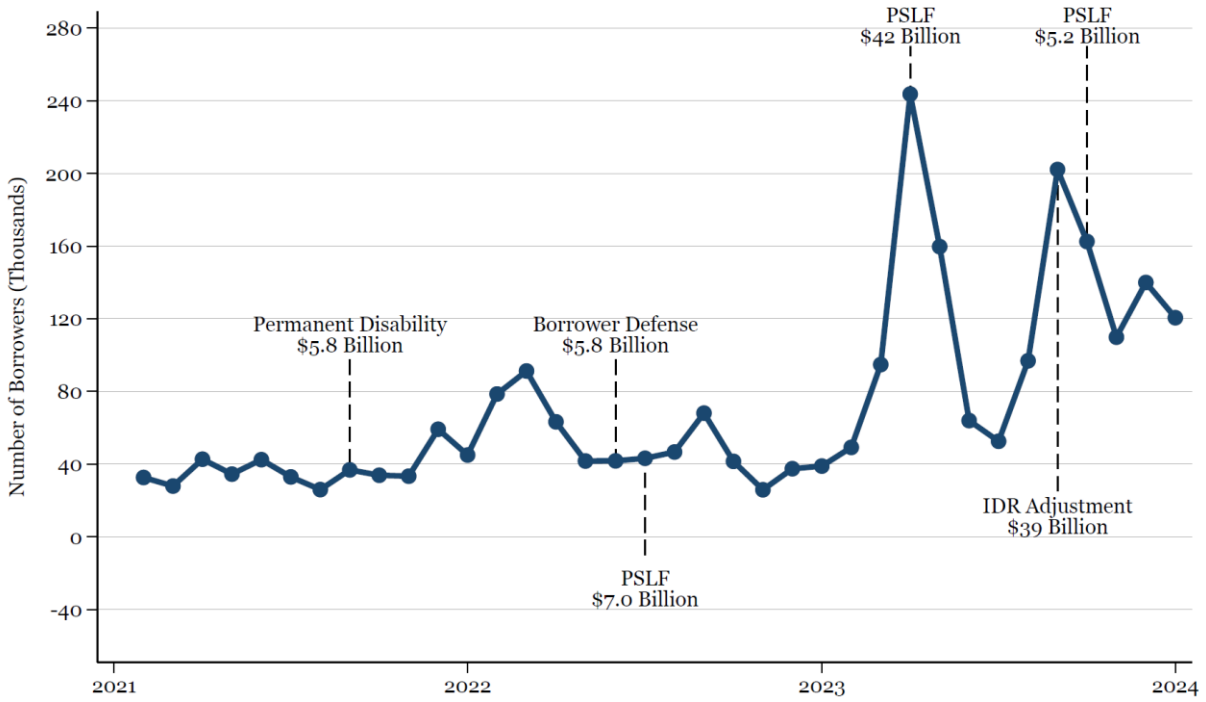
US Increasingly Exploring Student Loan Forgiveness

- Beginning March 21, 2021, over **$132 billion** in student loans were forgiven (**7.8%** of outstanding amt!)

- Supreme Court blocked initial plans to forgive $10-20k in debt
  - Would have been universal for with income < $125k
  - **Instead**, forgiveness was achieved by modifying existing policies

Figure 1: Borrowers Forgiven and Forgiveness Announcements



Policy Dreams vs Reality

- **Two goals: redistribution** and **stimulus**

- Judge redistribution success by examining *targeting* wrt income
- Judge stimulus by estimating MPCs out of debt relief

- Is student loan forgiveness a good way to pursue these goals?
  - **Redistribution:** if the goal is to provide resources to low-income people, why not just lower their taxes instead?
  - **Stimulus:** did the targeting of student loan forgiveness result in weaker stimulus?

Question 1: Is income regressivity the best way to assess redistribution?

How to evaluate redistributive success?

- **Find:** forgiven borrowers earn **$703 more** than unforgiven borrowers
  - **$504 more** than the general population

- To assess distribution of welfare gains, ideally, we would judge targeting of recipients in terms of **marginal utility**
  - **Consumption** is an ideal proxy—it's the argument of utility!

- Greater student loan debt can mean…
  - Higher debt payments ➔ less disposable income ➔ lower consumption
  - Lower wealth (overall & liquid) ➔ less credit access ➔ lower consumption

- **Policies may appear less regressive when measured by recipient's pre-policy consumption**

Can judge targeting by consumption in paper's setting?

1. Compare **pre-forgiveness** consumption of **durables**
   - 1[has auto loan] is similar (at 49% for everyone & recipients)
   - But 1[has mortgage] is much ***larger*** for forgiven borrowers 42% vs 30%!

2. Changes in **CC balances**
   - Caveat: ~80% CC balances are revolving (Bornstein Indarte, 2023)
   - Harder to interpret if unpaid/revolving % varies with forgiveness receipt

3. Possible to **impute** (~potential earnings) with other data?
   - CEX has payments on student loans…

Question 2: How well are high-MPC people targeted by student loan forgiveness?

Does Forgiveness Generate Relatively Large MPCs?

- Liquid wealth is the only observable that that robustly correlates with MPCs
  (see Havranek Sokolova (2020) for a meta analysis)

- May expect relatively higher MPCs among those with student loan debt
  - Lower net worth, and payments limit liquid wealth accumulation

- Estimate MPC out of loan forgiveness of 0.27
  - Similar (but **on the low side**) compared to other MPC estimates for low-liquidity households (Parker et al., 2013; Kaplan Violante, 2014; Boehm et al., 2025)

  - **Q:** smaller MPCs because of nature of policy (affects wealth more than liquidity) or because of who is targeted?
    - Answer can inform design of future debt relief (change who's targeted or wealth/liquidity impact of policies? Student loan forgiveness vs taxes? Etc.)

Can you tell us more about how MPCs or liquid wealth *differ* for recipients?

- Expect largest stimulus when targeting low-liquidity borrowers (not necessarily low-income)
  - **Q:** could student loan forgiveness **better target high-MPC** households than tax cuts for low-income households?
  - Is student debt a better predictor of a high-MPC than income?

- Estimate MPCs out of credit limit increases (pre-policy) for recipients and non-recipients?

- Impute their liquid wealth using the SCF?

Wrap Up

Misc.

- Median monthly student loan payments are zero in various samples (because of payment deferral), what were they before deferral?
  - Would give a better sense of impact on disposable income
- External validity: could political uncertainty about permanence of policy have dampened its effects?
- 6-month horizon may capture limited picture of labor market responses
  - Negative effects may reverse in the medium- to long-run (a la Hampole, 2024)
- What does the *distribution* of earnings (actual & potential) look like for recipients and non-recipients?

In conclusion…

- Powerful dataset, well-suited to identify student loan forgiveness recipients, linked to an array of important outcomes (including income!)
- Careful and well-executed assessment of important policy changes
- Valuable estimates to assess policy and also set stage for future research on the efficiency of student debt relief