Student Loan Forgiveness Is Regressive Whether Measured by Income, Education, or Wealth:

Why Only Targeted Debt Relief Policies Can Reduce Injustices in Student Loans

Adam Looney

Marriner S. Eccles Institute

University of Utah

Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS

Summary

Some advocates have called to forgive student loans because student loans contribute to racial and socioeconomic wealth gaps. The usual measures of financial wealth, however, is a misleading indicator of the economic status of student loan borrowers. Medical school graduates typically owe six-figure student loans but that doesn't mean they are poorer than high-school graduates who did not go to college. Wealth, properly measured, should include the value of educational investments students borrowed to make. Measured appropriately, student debt is concentrated among high-wealth households and loan forgiveness is regressive whether measured by income, educational attainment, or wealth. Across-the-board forgiveness is therefore a costly and ineffective way to reduce economic gaps by race or socioeconomic status. Only targeted policies can address the inequities caused by federal student lending programs.

- The persistence of the Black-white wealth gap is disturbing and deserves addressing. Across-the-board forgiveness of student loan debt is not a good way to address that problem. There are better, more effective, and more progressive ways to reduce racial wealth gaps.

- Whether measured by income or wealth, student loan borrowers are better off than other Americans, and widespread loan forgiveness is regressive. Some argue that loan forgiveness isn't regressive when measured by financial wealth. But that's because such measures exclude the very asset the person borrowed to buy—an education that increases lifetime earnings. That's like assessing a homeowner's wealth by counting their mortgage balance but not the value of their home.

- For many borrowers, the amount they are required to repay on their student loans is far below the amount they borrowed because of income-based repayment plans and existing forgiveness programs. We can and should make these programs work better.

- Accounting correctly for both human capital and effect of subsidies in student lending plans, almost a third of all student debt is owed by the wealthiest 20 percent of households and only 8 percent by the bottom 20 percent. Across-the-board student loan forgiveness is regressive measured by income, family affluence, educational attainment—and also wealth.

- Racial gaps in lifetime wealth are even larger when measured including the market value of educational attainment. But the key causes of that gap, as it relates to postsecondary education, are that Black Americans are much less like to have the opportunity to go to college in the first place, to attend a high-quality, low-cost college, to complete a degree, and to pursue a graduate or professional degree than their white peers. And Black graduates are rewarded less in the labor market for the degrees they complete. In part because of all this, Black borrowers struggle more repaying their student loans. But the contribution of student loans to the gaps in wealth and income is small, and the effects of loan forgiveness policies on economic gaps is surprisingly unclear.

- The best way to use federal postsecondary educational systems to close racial and socioeconomic gaps in income and wealth is through means-tested grant and loan aid that promote access and completion at high-quality educational institutions; rigorous oversight of institutions that

participate in federal programs; progressive, well-designed and well-administered income-based repayment plans that insulate borrowers whose education doesn't pay off, and targeted relief to borrowers who can clearly demonstrate that their loans impose significant economic hardship.

- o Legislators should first decide how much taxpayers should pay of the tuition and living expenses of future students—a process that, in the name of fairness and efficacy, would no doubt choose to treat undergraduate, graduate, and professional degree students differently, base aid on need, and cap subsidies for high-cost programs—and use that as a template to provide retroactive relief to existing borrowers who missed out on those benefits while asking others to repay their loans.

1. Introduction

Black college students are much more likely than others to incur student debt they will struggle to repay. Ensuring that Black students have more help paying for college, rely less on student debt, and have an easier time repaying their loans after they leave school is critical to reducing racial inequities.

Some observers of this situation, however, argue that Black students' struggles with student debt are an important contributor to the [staggering wealth disparities](#) between Black and White households, and that forgiving student debt would reduce racial and economic disparities. (For example, see: [here](#), [here](#), [here](#), [here](#), or [here](#).)

Collectively, these observers argue for debt forgiveness on the basis that student loan borrowers have less wealth than non-borrowers and thus, by that metric, forgiveness is not regressive (as it is when measured by income or educational attainment); that the disproportionate difficulty Black borrowers have with their loans implies they benefit disproportionately from forgiveness; and that targeted relief polices, like income-based plans that result in eventual forgiveness, both fail to help low- and middle-income borrowers and yet (paradoxically) imply that immediate loan forgiveness is costless because of the low payment rates of borrowers in those plans.

There is no doubt that we need better policies to address the crisis in student lending and the inequities across race and social class that result because of America's postsecondary education system. But the reason the outcomes are so unfair is mostly the result of disparities in who goes to college in the first place, the institutions and programs students attend, and how the market values their degrees after leaving school. Ex-post solutions, like widespread loan forgiveness for those who have already gone to college (or free college tuition for future students) make inequities worse, not better. That's clearly true when assessing the effect of loan forgiveness: the beneficiaries are disproportionately [higher income](#), [from more affluent backgrounds](#), and are [better educated](#).

But it's also true when it comes to wealth. Unfortunately, the usual measures of financial wealth provide an erroneous and misleading measure of who is burdened by student loans and who would benefit from loan forgiveness because it excludes the value of the education purchased by borrowers and the forgiveness baked into existing plans. Measured accurately, most of the benefits from across-the-board loan forgiveness policies go to high-wealth individuals.

Likewise, while Black students are unfairly burdened by student debt—Black borrowers are more likely to default on their loan or to struggle to make progress paying their loan—that doesn't mean that debt forgiveness primarily benefits Black borrowers. Accounting for repayment differences, forgiving all student debt benefits Black households only slightly more than white households. On a cashflow basis, however, debt forgiveness puts more money in the pockets of white households each month, because the average white household pays slightly more each month than does the average Black household.

(As an aside, like other analysts, I report statistics from the Survey of Consumer Finances, which is the nation's best and most widely-used source of data on racial wealth gaps. However, these data are woefully insufficient to undertake an accurate or complete assessment of the consequences of student debt on Black borrowers or on racial wealth gaps. The sample is too small, 30 percent of aggregate student debt is missing and not accounted for, the value of debt is frequently missing and statistically imputed,

and race and ethnicity are only recorded for the household respondent, not necessarily for the borrower. The demographics of student debt holders are shockingly unclear.)[1]

Beyond aggregate comparisons of Black and white households, it's clear that forgiveness would exacerbate racial and economic inequities on important dimensions. For example, the academic fields where students accumulate the most debt are fields like dentistry, medicine, veterinary medicine, pharmacy, and law—fields that collectively account for a disproportionate share of all student debt. But those are fields where Black graduates are vastly underrepresented. Loan forgiveness for borrowers with expensive professional degrees expands both racial and economic inequities.

And it is likely that loan forgiveness expands future gaps by providing an expectation of future forgiveness. The children of high-income white families are vastly overrepresented at American universities, and all of them (as well as their credit-worthy parents) are eligible for student loans. Today, when these affluent students do borrow, they rapidly pay off their loans. But they won't if they don't have to. And while some choose to pay out of pocket now, they won't if student loans don't need to be paid back. As unequal as postsecondary education is in America, it's easy to make it even less fair.

The broader analysis of wealth gaps, which includes the market's valuation of human capital, suggests that the role of postsecondary education in the racial wealth gap is not predominantly about student loans, or even the cost of college (which burdens high-income, whiter households more, because they consume more postsecondary education—an observation that is salient in the debate over "free college"). Instead, it is about differences in educational attainment—including degree completion, graduate and professional degrees, and the quality of the institutions and programs attended—and the treatment of Black students in the labor market after they graduate. There are enormous disparities at every level of education and employment that would be left intact or exacerbated by blanket loan relief.

There are many opportunities to improve outcomes and reduce inequities in higher education with targeted student loan relief, means-tested financial aid policies, and scrupulous oversight of institutions. By targeting aid to those in need, we can do more with the resources in hand to reduce inequities in access and outcomes.

In this essay, I first describe and correct flaws in how wealth is measured for student loan borrowers. Next, using a more accurate definition of wealth, I present measures of the distribution of wealth and

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1. The latest 2019 SCF sample includes only about 1,000 households that report student debt. Of those, only 200 are Black households. Questions of race and ethnicity are only asked of one person in the household, the "household respondent," but not individual household members (who may be the ones who actually owe the student debt). The survey implicitly assumes that if the household respondent is Black or Hispanic or white, then individuals in the household who owe the student loans are of the same race and ethnicity. That assumption is clearly wrong in a significant share of American households. Even when respondents report owing a student loan, many don't know that the balance is; in 13.5 percent of SCF households with student debt and 19 percent of Black households, the respondent doesn't provide a dollar value for the first student loan balance owe, and instead the value is imputed (estimated using statistical methods). About 30 percent of all student debt is missing from the survey for reasons that aren't fully clear. I believe the SCF provides a good measure of the distribution of student debt by income class because I've checked it independently in administrative data, but I can't say the same for the demographic characteristics of borrowers. While the Federal Reserve is working to improve the measurement of racial and ethnic disparities in its surveys, these improvements won't address all the challenges associated with measuring disparities in student debt. The Department of Education and the Census Bureau could provide a definitive answer to these questions by confidentially merging the administrative records of student loan borrowers with Census survey data as the Census does with other administrative records. If a goal of student debt policy is to reduce racial and economic disparities, policymakers should first verify that these disparities actually exist, and their magnitude.

student loans for different groups. Using those measures, I show the impact of debt forgiveness on wealth gaps. Finally, I describe better ways to reduce the burden of student debt on struggling borrowers.

2. The wealth of student loan borrowers and the importance of human capital and progressive repayment plans

Surveys of financial wealth—such as those reported in the Federal Reserve's Survey of Consumer Finances—are a poor measure of the economic wellbeing of student loan borrowers because they exclude the value of the educational investments students borrow to purchase. In order to get a more accurate understanding of the overall financial circumstances of households owing student debt, my analysis adds an estimate of the future value of the education earnings premium to measures of household financial wealth and subtracts amounts expected to be forgiven following Catherine and Yannelis.

People go to college and graduate school to earn degrees that help them earn higher wages over their lifetime—what economists would call "human capital." You don't need to be an economist to understand that education has value. The vast majority of students report economic opportunity as the reason they pursue postsecondary education. On average, typical college graduates earn a million dollars more over the course of their careers than students who have only a high school diploma. Indeed, there is no other asset that is so readily available to ordinary Americans that yields such a high return on investment.

Excluding the value of education from a calculation of net worth while including debt used to finance that education is like measuring a homeowner's wealth by subtracting their mortgage but ignoring the value of the home itself. You'd find that homeowners were poorer than renters, and that people living in mansions were the poorest members of society.

That's clearly wrong, yet advocates for debt forgiveness make the same mistake, arguing that recent college graduates with student debt have *negative* wealth and are thus worse off than otherwise similar Americans who have not gone to college. Consider that the median doctor graduating from medical school in 2017 or 2018 owed $171,000 in student debt, according to the College Scorecard, the median MBA owed $46,000, the median borrower with a BA in business $25,000, and the median AA degree holder in business $18,000. The implied conclusion is that doctors are the worst-off individuals, those with the two-year AA degrees are doing far better, and richest of all are those who never went to college.

In reality, the economic circumstances of those borrowers is exactly the reverse. Just as households with mortgages aren't poor because the mortgage is used to purchase a valuable asset (a home), student loan borrowers appear to be low wealth only because their valuable educational investments aren't measured as an asset on their balance sheet.

Undoubtedly not all students finish their degree (though there are benefits to going to college even if you don't finish). Not every individual gets the same high return to their investment in education. Often, the return to education takes years to manifest itself in higher earnings or financial wellbeing in comparison to young working individuals who haven't gone to college. But after just a few years, the typical earnings premium for a college education leads to a larger and larger gap favoring those who invested in college.

In addition to understating the assets of adults with a college education, comparisons of financial wealth can overstate the economic cost of student debt (or benefit of loan relief) especially for low-income borrowers and borrowers with high debt-to-income levels. A counterintuitive but essential fact of the impact of debt relief is that the benefit you gain from having your debt discharged is equal to the amount you would have paid, not the amount you can't or don't have to pay. While borrowers who can't pay their

loans may have high and even rising balances, and forgiving their loans nominally increases their apparent financial wealth, they can't spend that money. In contrast, for borrowers who can and do make their monthly payments, loan forgiveness is a tangible benefit—they have more money in their wallets to save or spend.[2] Hence, a borrower's monthly payments, enrollment in subsidized income-based plans, and eligibility for forgiveness through existing relief programs are essential to understand how student loans affect a borrower's economic situation.

About one-third of current borrowers, holding about half of the outstanding federal student debt, are currently enrolled in income-based repayment programs like Pay As You Earn. Many of these borrowers will qualify for loan forgiveness after 20 years for those with only undergraduate debt and after 25 years for those who borrowed for graduate school, or sooner under the Public Sector Loan Forgiveness program. And other borrowers who are simply insolvent and cannot repay their debts will not repay their loans for the simple reason that they can't. The impact of repayment behavior and income-based plans is especially important to take into account when measuring the Black-white student loan gap because there are large differences in the debt-to-income levels of Black and white borrowers and in how much Black and white borrowers pay each month (which is a major cause of differences in student loan balances).

In the aggregate, students are expected to repay about $0.83 for each dollar they borrow over the next decade, according to recent projections from the Congressional Budget Office. But the average subsidy masks substantial variation across borrowers because of the types of loans they owe, the interest rates applied, and the repayment programs they enroll in after leaving school. Parent borrowers and certain graduate borrowers' loans aren't subsidized during enrollment and have higher interest rates, and those borrowers are more likely to pay their loans in full. On average such borrowers will eventually repay more than $1 for each $1 they borrow. Undergraduate borrowers from low-income families, who take out subsidized loans with lower rates, are expected to repay far less than one dollar for each dollar they borrow. Likewise, income-based plans suspend principal payments and subsidize the interest of low-income borrowers and require higher-income borrowers to pay a higher share of their income. Eventually, lower-income (and higher balance) borrowers in income-based plans will have their balances forgiven. In other words, persistently poor individuals, who have generally completed relatively little postsecondary education, will repay only pennies on the dollar. But high-income professionals, most of whom have advanced or at least bachelor's degrees, will make higher payments over a long period and will repay more than $1 for each $1 they borrow. This is by design—the loan subsidies, interest rates, and repayment terms are intended to be progressive.

In fact, the difference between the face value of debt and the amount that will actually be paid (in present value) is often greatest for borrowers whose balances are negatively amortizing. The less one pays, the larger the balance grows, which makes those borrowers look like they are just getting poorer. But the reality is that paying less means that those borrowers have more disposable income and more of their loan will eventually be forgiven. To be clear, the optics of this system are terrible, and the mental consequences of seeing your balance rise must be bad. But the purpose of the financial accounting is to identify the true cost and subsidies—where the dollars are going—and the out-of-pocket financial cost falls more on those who pay their balances than those who don't.

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2. It's true that there are other costs of having debt, such as its impact on credit scores, eligibility for other loans, and its psychological burden. But those are problems that often can be addressed without eliminating the debt outright, such as by helping borrowers reduce credit-damaging default and delinquency through enrollment in income-based plans.

To quantify the net effect of these policies on effective loan balances, Catherine and Yannelis [estimate](#) the cumulative total value of payments different student loan borrowers will make over the course of their careers. According to their analysis, on average, borrowers in the lowest-income quintile will only repay 53 cents of each dollar they currently owe. In contrast, high-income borrowers will repay 98 cents on the dollar. (While low-income borrowers should expect significant forgiveness, that's not generally true. Borrowers with higher long-term earnings are expected to pay in full.) In other words, were student loans measured not based on their face value but instead based on their true financial value, the cost of student loans to high-income borrowers would be the same, but would be lower for low-income borrowers. Beyond income group, Catherine and Yannelis show that the true balances are more concentrated among well-educated borrowers and less among Black and Hispanic borrowers.

Such challenges measuring wealth of specific populations aren't new—the SCF also excludes the value of Social Security wealth or defined pension benefit plans, making some affluent retirees look destitute— and surveys value many other assets at face value when their real value differs greatly because of differences in taxes, interest rates, or payment streams.[3] While it's true that, unlike a home or a financial asset, you can't sell your education in order to retire their debt (just like you can't sell your Social Security benefits or your pension plan), ignoring this valuable asset seriously distorts the economic picture.

3. An accurate measure of the distribution of student loans and wealth

To correct these omissions, I calculate a more accurate measure of household net worth using the 2016 and 2019 Federal Reserve Survey of Consumer Finances, the 2015-2019 Annual Social and Economic Supplement to the CPS, and Catherine and Yannelis' (2021) measure of the present value of student loan payments for each SCF household. I measure human capital based on the increase in remaining lifetime earnings of an individual from their postsecondary educational investments relative to otherwise similar individuals who have not gone to college. I calculate income separately by educational attainment (the highest degree of the household respondent or their spouse: some college, BA, master's degree, doctoral or professional degree), by race, and by income quartile. I assume that individuals in a given education-race-income group at a specific point in time remain in that group for the remainder of their working lives (so that an individual in the lowest-income quartile of white college graduates will remain in the lowest-income quartile for that group for the remainder of their career).

Within each race, income, and educational group, I estimate the average income at each age using a regression of income age, and use that to measure the net present value of income each year until age 65 for each household in the SCF.[4] (The CPS samples vastly increase the sample size to allow more accurate and complete calculation of annual income.) The sample includes households between the ages of 25 and 65 who are not in school and not in the six-month grace period on their loans after leaving school. To measure net worth, I replace the SCF measure of the face value of student debt with Catherine and
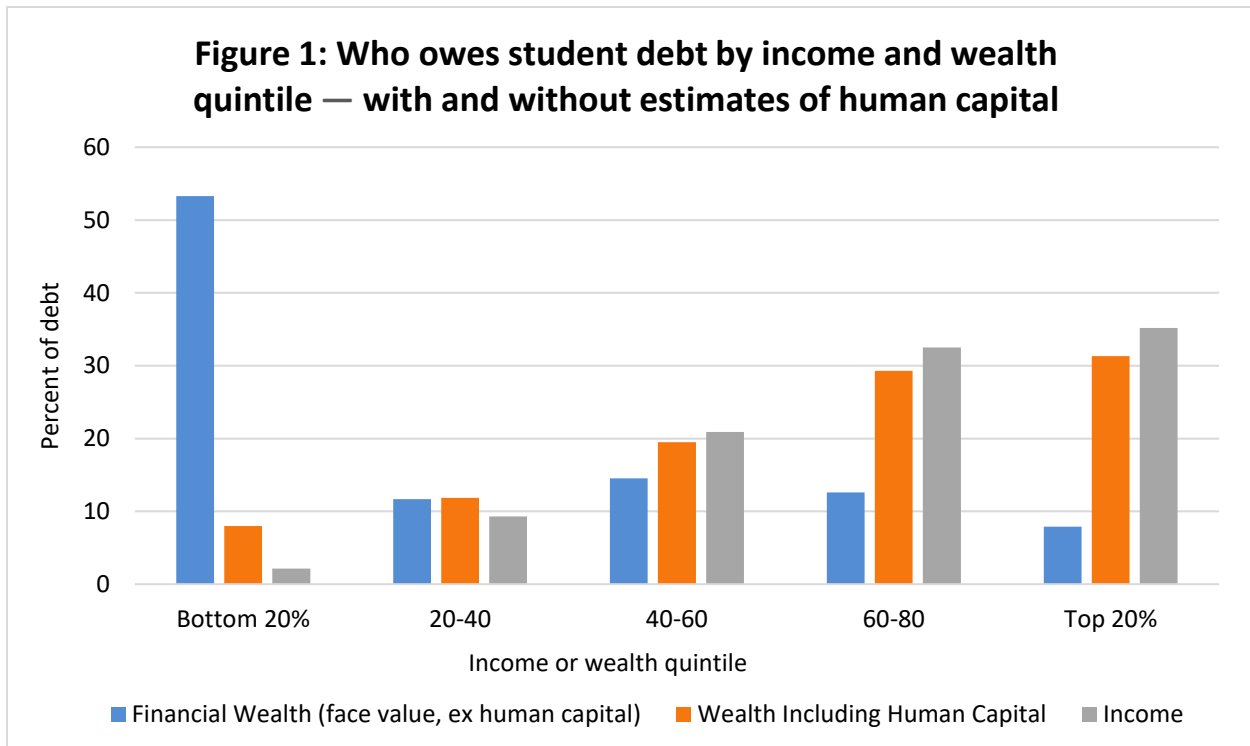
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3. Likewise, the assets recorded in retirement accounts or as unrealized capital gains are overstated for the analogous reason they are measured on a pre-tax basis ([Looney and Moore 2016](#)); most wealth surveys ignore the [Social Security wealth](#) accumulated over a career and [defined-benefit pension wealth;](#) and certain financial products, like mortgages or installment loans, are often erroneously valued at their original face value rather than "marked to market" when interest rates or payment stream change (such as when mortgage borrowers refinance to reduce their payments).

4. Specifically, I use a regression on a fourth-degree polynomial in age, to closely fit an age-income profile.

Yannelis' present value measure, which incorporates expected payments, and add the value of human capital.

Figure 1 shows the distribution of student loan debt by comprehensive wealth quintile and compares it to the naïve distribution of financial wealth and to the distribution of income. The analysis shows that student debt is concentrated among higher-wealth households. The top 20 percent of households, ranked by wealth (including human capital), owe 31 percent of student debt, and the second highest quintile owes 29 percent. The bottom 20 percent owe 8 percent. By comparison, ranked by income, the top 20 percent owe about 35 percent of student debt, the second highest income quintile 33 percent, and the bottom 20 percent only 2 percent. In other words, ranked by income or (true) net worth, affluent households owe the most student debt.

Figure 1: Who owes student debt by income and wealth quintile — with and without estimates of human capital
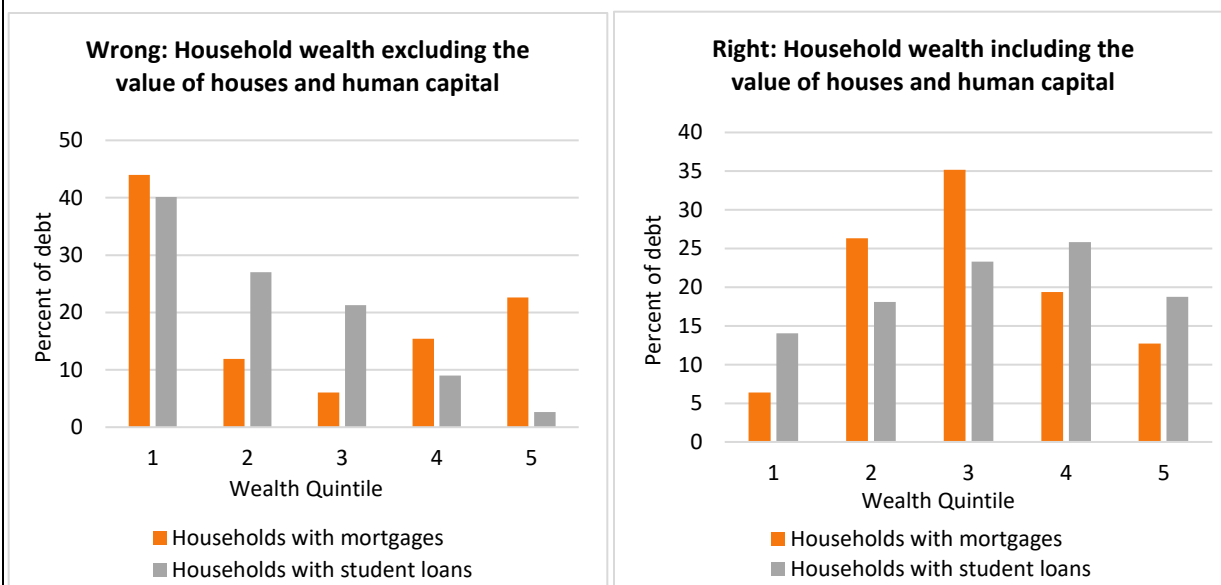
For perspective, if you exclude the value of education from a calculation of net worth and measure student loans at face value, most borrowers are lumped at the bottom of the wealth distribution, as if they incurred debt but got nothing in return. In that scenario, as figure 1 shows, 53 percent of borrowers are in the bottom 20 percent of the distribution. But that's simply because they are more likely to be young, at the beginning of their careers, and their wealth is primarily in their educational investments. They have not had time to accumulate financial assets, but they have much of their work lives ahead of them and can expect many more years of the earnings premium associated with their education. In reality, their lifetime economic status ranks them much higher than their initial financial wealth does. Many of the people in the bottom 20 percent of the financial wealth distribution move up toward the top of the ladder with the revised measure of wealth.

In short, measured by either income or wealth, student debt is owed disproportionately by more successful Americans with greater lifetime income and wealth; untargeted loan forgiveness proposals are

regressive based on either measure. In part this is because student loan borrowers have high levels of lifetime wealth.

What if measures of wealth included mortgage debt but not the value of a home? An analogy to ignoring the value of postsecondary education.

To help understand why ignoring the value of an education purchased with a student loan is misleading, the following analysis ranks households by net worth including their mortgage but excluding the value of their home. The left-hand figure below shows that if you rank households that owe mortgage debt by their net worth excluding the value of their homes they look poor: more than 40 percent of homeowners would rank in the bottom income quintile—about the same fraction of student loan borrowers that fall into the bottom income quintile when you exclude the value of their educational investments. The right-hand panel instead ranks households by net worth including the value of the assets their mortgages and student loans have financed. Unsurprisingly, when you include these assets to produce an accurate picture of their economic situations, these same households rank much higher in the distribution of wealth. The graph that excludes the household assets financed by the debt suggests that student debt is much more concentrated at low incomes than mortgage debt is. In the graph that incorporates a fuller measure of net wealth, the reverse is true.

Wrong: Household wealth excluding the value of houses and human capital

Right: Household wealth including the value of houses and human capital

In short, whether looking at income or wealth, debt is mostly owed by higher-income, higher-wealth, and better-educated households. Student loan forgiveness is regressive whether measured by income or wealth.
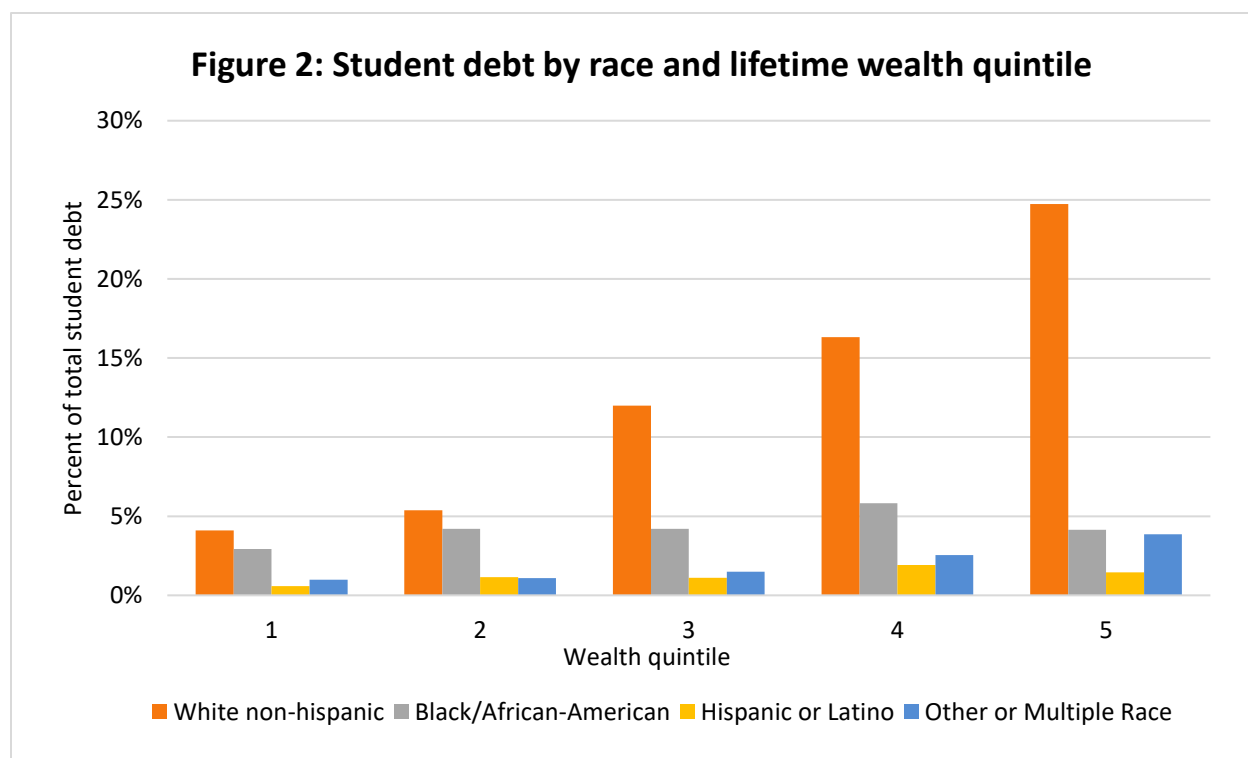
4. The distribution of student loans by lifetime wealth and race

In the aggregate, including the market value of educational investments in net worth, the average Black household's net worth is about $331,000 and the median is $132,000. By comparison, the average white household's net worth is about $1.4 million (34 percent greater) and the median is $428,000 (98 percent

greater). Measured including the value of educational investments, absolute racial gaps are *larger* than if measured using financial wealth alone, because of the substantial racial gaps in educational attainment and the disparate return earned by Black graduates in the labor market.

As a starting point, the analysis suggests that white households hold about 63 percent of student debt (the same as their share of the population), Black households owe 22 percent of student debt (a disproportionate amount relative to their share of households of 15 percent), Hispanic or Latino households hold 6 percent of student debt (lower than their 9 percent share of the population), and "other" or multiple race households hold 10 percent of the debt (compared to 12 percent of the population). (While balances are perhaps the most salient indicator of who is burdened by debt, by another measure—debt payments—the story is slightly different. White households made 70 percent of debt payments in this sample, Black households 15 percent, Hispanic households 5 percent, and "other" households 9 percent. Payments are an important indicator of economic wellbeing because they represent the amounts of money households could have used to save or consume in the absence of the liability.)

Looking at both wealth and race, student debt is highly concentrated among the wealthiest white households. Figure 2 shows that white students owe the largest share of student debt, and their debt is concentrated among wealthier households. About 25 percent of all student debt is owed by white borrowers in the top 20 percent of the lifetime wealth distribution (even though white households in the top 20 percent of the distribution represent only 16 percent of the total population). In fact, white households in the top 20 percent of the wealth distribution owe more student debt than all Black households combined. While non-white students borrow more while they are enrolled, that is offset, to varying degrees, by the fact that they are less likely to go to college, to complete a degree, or go to graduate school.

Figure 2: Student debt by race and lifetime wealth quintile

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The concentration of student debt in high-lifetime-wealth white households has obvious causes. Affluent white individuals are much more likely to go to college and complete college, and subsequently to go on to graduate and professional programs, and thus accumulate significant amounts of debt. And with those degrees and the privileges they enjoy in the labor market, they are able to achieve higher-paying careers, and accumulate more wealth.

The racial inequities in higher education are significant. For perspective, 41 percent of white adults 25 or older have completed at least a bachelor's degree, compared with 28 percent of Black adults; 32 percent of white and 43 percent of Black adults have not been to college at all. White adults are twice as likely to hold a professional or doctoral degree (4 percent versus 2 percent) and 60 percent more likely to have any graduate degree (16 percent versus 10 percent).

Those gaps are even more stark at the extremes of costly professional degree programs where borrowers accumulate the most debt. The fields where students borrow the most, according to the College Scorecard, include dentistry (median debt $242,000), osteopathic medicine ($232,100), medicine ($170,600), veterinary medicine ($156,700), pharmacy ($126,000), and law ($119,286). These rarified, elite professional fields accounted for 12.5 percent of student loans among graduates of all programs in 2015 and 2016. But in the most recent graduating year, Black graduates were 5 percent of dentists, 3 percent of osteopaths, 6 percent of doctors, 3 percent of veterinarians, 9 percent of pharmacists, and 9 percent of lawyers. We should not conflate the experiences of struggling Black borrowers with that of dentists and lawyers and veterinarians, almost none of whom are Black, just because both groups have student loans.

And regardless of race, this analysis shows that for every group and overall, the lowest-lifetime-wealth households owe the least amount of student debt.
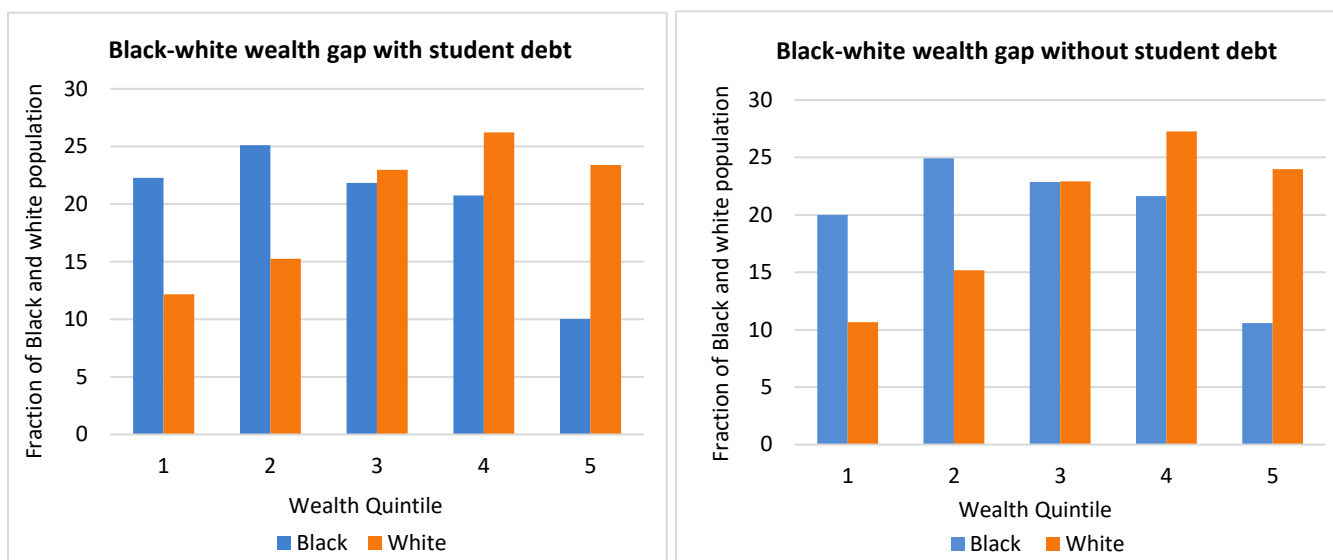
5. The role of student loans and student loan forgiveness in racial wealth gaps

There is no doubt that one of the most disastrous consequences of our student lending system is its punishing effects on Black borrowers. Black students are more likely to borrow than other students. They graduate with more debt, and after college almost half of Black borrowers will eventually default within 12 years of enrollment. Whether measured at face value or adjusted for repayment rates, the average Black household appears to owe more in student debt than the average white household (despite the fact that college-going and completion rates are significantly lower among Black than white Americans). One reason for the disparity is financial need. Another is the differences in the institutions and programs attended. But an important reason is also that Black households are less able to repay their loans and are thus more likely to have their balances rise over time. According to estimates by Ben Miller, after 12 years, the average Black borrower had made no progress paying their loan—their balance went up by 13 percent—while the average white borrower had repaid 35 percent of their original balance. These facts certainly constitute a crisis in how federal lending programs serve Black borrowers.

However, the role of student debt in the enormous Black-white wealth and economic gaps is less clear. Measured accurately, the differences in student loan balances are small, and the average white household actually pays more each month on their student loans than does the average Black household. According to Catherine and Yannelis' estimates, averaging across all households (both with and without student debt), the average person in a Black-headed household owes about $3,060 more in student debt than the average person in a white-headed household. (Individuals in Hispanic households owe far less then either white or Black households.) For perspective, the average financial wealth of white households

exceeded that of Black households by $840,900 in 2019 (and the wealth gap including human capital exceeds $1 million).

As a result, widespread loan forgiveness has little effect on Black-white disparities. The following two charts compare the distribution of wealth (including human capital) for Black and white households in 2019 to that which would prevail if all student debt were forgiven. The left-hand chart shows the distribution of households across the distribution of wealth today, and illustrates significant wealth gaps—Black households are overrepresented in lower-wealth quintiles and white households in higher-wealth quintiles. (If households were equally represented in each wealth group, each bar would equal 20 percent.) The right-hand panel, which shows the ranking of households if all student debt were forgiven, shows the distribution is essentially unchanged.

To some extent, the similarity in the distribution of households by wealth reflects the fact that similar amounts of debt are owed by white and Black households, and thus both groups benefit by a similar amount. Partly, this reflects the fact that debt is already so concentrated among higher-wealth households: many of the beneficiaries are already high in the wealth distribution.

And partly, this reflects the fact that the dollar value of debt owed by lower-wealth households is less than the amounts owed by higher-income households. Because low-wealth households are more likely to be insolvent or will receive forgiveness through existing programs, they gain less, in economic terms, from forgiveness. Applying the estimates of Catherine and Yannelis, the benefit of forgiveness in the bottom lifetime wealth quintile averages 39 cents per each dollar they owe while the benefit for households in the highest-income quintile is 95 cents on the dollar. Lower-ranked households don't catch up if you give them less money.

This may appear perplexing given the widespread distress low-income student loan borrowers experience when they are unable to repay their loans. But the analysis illustrates a key point—the benefit you gain from having debt discharged is commensurate with the amounts you would have paid, not the amount you can't. As an example, consider two borrowers who each borrowed $10,000. One borrower is unable to make any payments and after 5 years still owes $10,000. The other borrower pays $200 a month and owes $5,200 after 5 years. If their debts are forgiven, who is better off? On the one hand, the reform reduces the nominal wealth gap—both borrowers' debts are now zero. And the borrower who owed

$10,000 sees the largest reduction in his balance. But that's misleading—he can't spend that $10,000. The real beneficiary of the change is the borrower who was paying the loan. He now has $200 more a month to save or spend.

Indeed, for this reason, my worry is that debt forgiveness in the name of closing nominal wealth gaps actually does more to improve the lives of affluent white households. The average white household makes about $895 in annual student loan payments, slightly above the $839 in payments in the average Black household, and almost twice as much as the average Hispanic-headed household ($478). And the differences in payment amounts across income and wealth groups are even larger. In other words, while debt forgiveness reduces the gap in the apparent amount owed between Black and white households, it actually puts more cash into the pockets of white households each month. It's like a tax cut for high-income, college-educated households.

As a last observation about broad student loan forgiveness, it is important to recognize that as unfair and unequal as postsecondary education is in the U.S., it is easy to make it more unfair. Wealthy white students are vastly overrepresented in postsecondary education. There are more white kids from the top 10 percent of the income distribution who go to college than all Black college students combined. Households in the top 10 percent of the income distribution pay 39 percent of the total out-of-pocket cost of education in the entire U.S., and the second highest decile pays 18 percent. There is no income or wealth limit for who can borrow a student loan—in fact, the more income you have and the more expensive your school, the more you are allowed to borrow. And while undergraduate students face strict limits on federal student loans, graduate students and parents do not. Universal debt forgiveness, the expectation of future debt forgiveness, or universal free college would transfer huge amounts of wealth to high-income families, increasing wealth gaps rather than reducing them.

6. Targeted policies can reduce racial and income gaps

The best way to use federal postsecondary educational systems to close racial and socioeconomic gaps in income and wealth is through means-tested programs that promote access and completion at high-quality educational institutions.

The major cause of lifetime wealth gaps between Black and white households, or between children who grow up in low- versus high-income families, are differences in educational attainment and in the value of those investments, which stem from who goes to college in the first place, what institutions, degrees, and programs they pursue and complete, and how they are treated in the labor market after graduation. Black students are underrepresented at all levels of higher education, less likely to complete a degree, vastly more likely to attend low-quality, high-cost institutions like for-profit schools, and, most of all, face discrimination in the labor market. Not all of those problems can be solved by changes in postsecondary aid, but some can.

Process-wise, the right approach is to decide first what educational investments the federal government should finance and for which students, and then to carry back that same framework to existing student loan borrowers to provide commensurate treatment.

For example, there is widespread support for means-tested grants, including the Pell Grant. Pell Grants increase the likelihood that students go to college and complete a degree. The Pell Grant program is awarded for undergraduate study and is income- and asset-tested using information from the FAFSA. As a result, it is highly targeted to individuals from low-income households, to members of disadvantaged

groups, and first-generation students. Low-income, non-white students are over represented among Pell Grant recipients.

In particular, while 19 percent of all dependent students [who started college in 2012](#) lived in poverty (just like 19 percent of student loan borrowers were poor), a much larger share (34 percent) of Pell Grant recipients were poor. Likewise, 13 percent of new students were Black and 19 percent were Hispanic. Of borrowers, 17 percent were Black and 17 percent were Hispanic. But 19 percent of Pell Grant recipients were Black, and 25 percent Hispanic. In other words, the Pell Grant's need-based formula more successfully targets low-income, non-white students than does (non-need-based) borrowing. [Doubling the Pell Grant](#) is thus a good way to support college enrollment and completion, target federal resources to low-income and non-white households, and reduce the amounts students need to borrow.

As a policy for loan relief, doubling the Pell Grant also turns out to be a good way to think about targeting loan relief to existing borrowers. Erica Blom [examines](#) a proposal to "retroactively" double the Pell Grant by forgiving student debt of prior students up to the amounts they borrowed because they themselves missed out on the chance to receive the higher Pell amount. As her analysis shows, a retroactive Pell Grant increase is vastly more progressive than across-the-board loan forgiveness, disproportionately targets benefits Black and Hispanic borrowers relative to white borrowers, and is far less costly than universal debt forgiveness. Because it Is based on previously-filed FAFSA information, the Department of Education has all the information it needs to implement such a plan.

In contrast, however, there seems little political appetite or public support to make graduate programs or professional schools free, or to spend federal tax dollars providing grant support to lawyers, doctors, or MBAs. If we are unwilling to make their education free, why pay for those programs retroactively for yesterday's graduates? (There is, I hope, some appetite to cap the loan amounts offered to graduate and professional students, and to provide more accountability over institutions that currently charge usurious tuitions for low-quality programs. Having enacted such limits, we could feasibly go back and provide relief to existing borrowers whose loans we decide should not have been made in the first place.)

More generally, unless Americans suddenly decide they want to pay for living expenses, and graduate programs, and expensive private non-profit educations, we will continue to have federal loan and grant programs. Given that reality, we need to make those programs work effectively. Too often, Pell Grants and student loans are wasted on useless degrees at for-profit schools and at public or private nonprofit programs that don't lead to a good job. Past federal efforts to impose oversight over low-quality programs eliminated the worst-performing programs and improved the success of students. The problem today is those historical provisions have been watered down or rendered toothless.

Likewise, income-based repayment plans are [the ideal solution](#) to the concern that too-high debts contribute to wealth gaps. Those programs are dysfunctional for many borrowers, but that is a failure of legislation and administration, not an indictment of a program that functions well in other countries, and in the U.S. for many borrowers.

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