

# ATMOSPHERICS

06.02.23

## STUDENT LOAN FORGIVENESS



### Bottom Line Up Front:

- The Supreme Court is expected to rule on President Biden's student loan forgiveness plan ahead of the conclusion of its term (traditionally at the end of June). Biden's plan would provide up to \$20,000 in debt relief to an estimated 43 million people. The total cost of this program is expected to be in excess of \$400 billion.
- An estimated 20 million people would have their student debt completely removed by this program. However, there are serious concerns about who benefits from this program (class, race, ethnicity, etc.) and whether or not we would see economic returns commensurate with this "investment."
- Beyond questions surrounding equity and economic sustainability, there are strong arguments around tax payer responsibility for student loans, particularly for individuals who did not attend college and may face difficulties attaining jobs or promotions as a result.
- Regardless of the Supreme Court's decision, the House-led debt limit deal — known as the Fiscal Responsibility Act — includes a provision to restart student loan repayments 60 days after June 30. Loan repayments have been paused since March 2020 due to the pandemic.

# INFORMATION



Blue terms are connected to the word of the week via news outlets and searches, whereas black and gray terms are not directly related, but still dominate the social space.

Student Loan Forgiveness defined: For purposes of this week, the topic of student loan forgiveness is focused on what's been the US' proposed set of federal support-initiatives to help reduce the debt burden associated with the growing costs of attending college. Though the name suggests something more "binary" in nature (i.e., from debt to no debt), there are a whole host of variables which would put outcomes on more of a sliding scale. It's also important to note this is a topic which transcends any single Presidential administration given the ever-changing environmental conditions which can lead to both the creation, as well as cancelation, of related programs or initiatives.

Why this topic is important right now: There are several factors related to student loan forgiveness which are emerging on the table right now, and though we can't go into all of them, three are particularly noteworthy: 1. timing of upcoming Supreme Court decision(s) on Biden's proposed student loan forgiveness plan, 2. timing of political campaigning, and 3. timing of potential economic implications, which to some degree will weigh on #s 1 & 2. The Supreme Court's current term ends in late-June, and will need to rule on Biden's \$400B program before then; student loan forgiveness was a key pledge of Biden's in 2020, with the current situation presenting a possible win for Biden or fuel for counterparts; no shortage of links to be made between the 'cost' associated with student loan forgiveness, who ultimately bears that cost, juxtaposition with debt ceiling talks, potential impact on consumer sentiment as well as spending, and even lesser-talked about implications on monetary policy decisions.

# TECHNOLOGY



AI Generated Image

*"Student loan forgiveness is like a compass in a dense fog, offering a sense of direction and hope to those burdened by debt, but navigating its implementation requires careful calibration to strike the right balance between providing relief for struggling borrowers and managing the potential challenges it may pose to the broader economy."*

-ChatGPT, 2023

Student loan forgiveness has emerged as a potential solution to alleviate the burden of student loan debt. As an increasing number of individuals struggle with the financial implications of higher education, the concept of forgiving outstanding student loans has gained traction. However, careful consideration is needed to address potential drawbacks and ensure the long-term economic sustainability of such programs

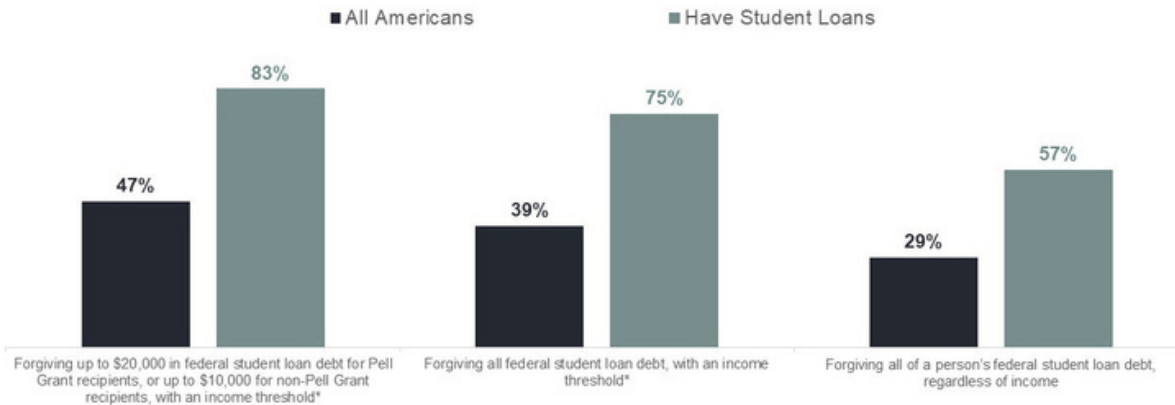
By relieving borrowers of their debt, individuals would experience immediate financial relief, enabling them to allocate their resources towards other expenses, such as housing, healthcare, or starting businesses. This injection of funds into the economy can stimulate consumer spending, which in turn has positive ripple effects on businesses and economic growth. Moreover, forgiving student loans can contribute to improved household financial stability, reducing their debt burden and allowing borrowers to invest in assets to boost their long-term economic prospects, such as purchasing a home or pursuing further education. However, critics argue that forgiveness programs may disproportionately benefit higher-income individuals who have larger loan balances, potentially exacerbating wealth disparities. Furthermore, the cost of forgiveness programs must be carefully examined, considering the funding mechanisms and the potential impact on taxpayers. It is crucial to strike a balance between providing relief to borrowers and ensuring long-term economic sustainability, while also considering the unintended consequences that may arise, such as moral hazard or potential tuition inflation.

Balancing the distributional impacts, examining funding mechanisms, and addressing unintended consequences are critical factors in designing effective and equitable student loan forgiveness policies. Additionally, the intersection between student loans and affirmative action highlights the broader goals of promoting accessibility and diversity in higher education, which should be considered in the design and implementation of forgiveness programs. By addressing these considerations, policymakers can work towards creating a fair and sustainable solution to the pressing issue of student loan debt.

# SENTIMENT

## Support for student loan forgiveness varies across different amounts

Percentage of Americans that *strongly or somewhat support* the following:



\*The income threshold is for individuals who earn less than \$125,000 per year or married couples who earn less than \$250,000

Source: USAA Today/Ipsos Poll, April 2023

The public sentiment in support of student loan forgiveness shows that forgiving student loan debt could have several positive ramifications:

1. **Increased consumer spending:** With less debt to repay, individuals may have more disposable income that can be put toward purchasing goods and services - driving economic growth while stimulating businesses. This increased consumer spending can boost economic development as a whole.
2. **Housing Market and Investing:** Reducing student loan debt may enable individuals to save for down payments on homes or invest in other assets, leading to increased activity in both the housing and investment sectors.
3. **Entrepreneurship and Innovation:** Student loan forgiveness could provide budding entrepreneurs with the financial freedom needed to launch their own businesses, leading to innovation and job creation.

Sentiment regarding the potential negative consequences of student loan forgiveness vary widely. Critics of student loan forgiveness typically raise three key concerns:

1. **Moral Hazard and Future Borrowing:** Critics contend that widespread student loan forgiveness could create a moral hazard by encouraging future borrowers to incur excessive debt in anticipation of its being forgiven in future loans, potentially exacerbating the situation over time.
2. **Allocating taxpayer funds:** To cover the costs associated with forgiving student loan debt, taxpayer funds or another means must be utilized. Critics argue that using taxpayer money for student loan forgiveness would be unfair to those who did not take out loans themselves or have already paid off theirs; also they suggest those who borrowed responsibly would effectively be subsidizing other people's debt.
3. **Distorted incentives and unintended consequences:** Forgiving student loan debt could relieve colleges and universities of pressure to address tuition costs, thus making education more affordable. Critics argue, however, that student loan forgiveness programs may cause institutions less incentive to manage costs effectively.

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## TECHNOLOGY:

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2. Neeva. (2023). [NeevaAI response to prompts about student loan forgiveness].
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5. Google. (2023). [Bard response to prompts about student loan forgiveness].

## SENTIMENT:

1. Multiple social platforms and proprietary listening tools.
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