STUDENT DEBT CANCELLATION *IS* PROGRESSIVE: CORRECTING EMPIRICAL AND CONCEPTUAL ERRORS

ISSUE BRIEF BY **CHARLIE EATON, ADAM GOLDSTEIN, LAURA HAMILTON,** AND **FREDERICK WHERRY** | JUNE 2021

EXECUTIVE SUMMARY

In recent years, student debt cancellation has come to the fore of the national policy agenda, with several proposals currently on the table—including Senator Elizabeth Warren (D-MA) and Senate Majority Leader Chuck Schumer's (D-NY) plan to cancel up to $50,000 of federal student loans per borrower.[1]

Opponents of these proposals have created what we refer to as the "myth of student loan cancellation regressivity": the idea that student debt cancellation is regressive because it involves a public transfer to a relatively well-off group—those with some college education.

In this issue brief, we offer three key takeaways for policymakers.

1. Contrary to common misperceptions, careful analysis of household wealth data shows that student debt cancellation—at all proposed levels—is progressive; it would provide more benefits to those with fewer economic resources and could play a critical role in addressing the racial wealth gap and building the Black middle class. The reason for this progressivity is simple: People from wealthy backgrounds (and their parents) rarely use student loans to pay for college.

2. More substantial student debt cancellation plans, like the Warren-Schumer plan, are in fact *more progressive*.

3. Income eligibility cutoffs and income-driven repayment are inefficient and counterproductive ways to achieve progressivity.

The regressive cancellation myth rests on a series of misleading methodological foundations: including private student loans in calculations of cancellation, conditioning analyses on borrowers only, focusing primarily on debtors' income rather than wealth, basing calculations on the value of debt to the government rather than the value to borrowers, and ignoring the racial distribution of debt.

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[1] For a draft of the resolution, see: https://www.warren.senate.gov/imo/media/doc/Schumer%20Warren%20resolution.pdf.

In this brief, we correct these errors by:

- Distinguishing federal loans from private debt to reflect existing proposals for debt cancellation by executive action;

- Including the full population in our analyses, not just borrowers;

- Modeling redistribution by wealth, not income;

- Valuing student debt by what it costs borrowers, not lenders; and

- Disaggregating the distribution of debt by race.

After making these corrections, the progressivity of debt cancellation becomes apparent. For example, in the case of the Warren-Schumer proposal for cancelling $50,000 in debt:

- The largest share of debt cancellation dollars goes to people with the least wealth, which addresses (but does not close) the racial wealth gap. The average person in the 20th to 40th percentiles for household assets would receive more than four times as much debt cancellation as the average person in the top 10 percent, and twice as much debt cancellation as people in the 80th to 90th percentiles (see Figure 3).

- Debt cancellation addresses racial disparities in debt burdens by benefiting those who carry the biggest loan balances. At every point on the income and asset distributions, Black households would gain equally or more from cancellation relative to white households. Upwardly mobile Black and Latinx people in the 50th to 90th income percentiles would receive the largest average cancellation. This reflects the fact that Black and Latinx students typically have to borrow more for college expenses than white students of comparable income due to the racial wealth gap in family resources (see Figures 1 and 5).

- A key metric for financial well-being is the debt-to-income ratio. Debt cancellation leads to the highest reductions in the debt-to-income ratio for people with the lowest incomes. As household income increases, the reduction in the debt-to-income ratio decreases (see Figure 4).

- Estimated debt cancellation from the Warren-Schumer plan is only $562 per person (including non-borrowers) in the top 10 percent of households for net worth. Estimated cancellation is $17,366 for Black persons and $12,617 for white persons in the bottom 10 percent for net worth (see Figure 7).

- If one analyzes student debt by income instead of wealth, neglects to disaggregate by race, neglects to exclude private debt, and values debt cancellation without a debt-to-income ratio (Catherine and Yannelis 2020), it will misleadingly appear that people in the 60th to 90th income percentiles receive twice as much benefit from cancellation as people in the 30th to 40th percentiles (see Figure 1).

In short, the debt cancellation proposal is progressive. It addresses long-standing racial inequities and leads to sharp improvements in household financial well-being.

INTRODUCTION

In the last decades of the 20th century, the US government shifted the financial burden for postsecondary education to students and families by prioritizing student loans as the primary funding mechanism for higher education. Now, we are tasked with cleaning up the mess of that choice, which has financially devastated recent generations of Americans—especially those with limited-to-moderate economic resources.

Young people from economically less advantaged households have been the most directly impacted by skyrocketing student debt, although the ripple effects extend out to their families and communities. Among students from households with less than $30,000 in income who began college in 2012, 61 percent left school with Title IV federal student loan debt.[2] By contrast, only 30 percent of students from households with over $200,000 in income left school with such debts. Seventy-four percent of Black students leave school with Title IV federal student loan debt compared to 55 percent of white students—reflecting racial differences in income and wealth.

Under this new regime of borrowing, people from less advantaged backgrounds struggle to build household wealth (Saez and Zucman 2016: 523, 555). Analyses of Federal Reserve data indicate that in 1989, baby boomers (defined as Americans born between 1946 and 1964) held seven times the amount of US total net worth as millennials (born between 1981 and 1996) held at the same age in 2019 (Hoffower 2019). Those generational disparities in wealth creation are almost entirely driven by student debt. Without student debt, the median net wealth-to-income ratio for the leading edge of the millennial generation looks strikingly similar to that of previous cohorts (Chen and Munnell 2021).

Student debt cancellation is not just a generational issue; it is also about racial equity (Charron-Chénier et al. 2020; Zewde and Hamilton 2021). Student debt has played a

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[2] This does not include parent borrowing. Data are from the US Department of Education, National Center for Education Statistics, and 2012/17 Beginning Postsecondary Students Longitudinal Study (Bryan et al. 2019).

central role in maintaining and exacerbating a persistent Black-white wealth gap in the US. Black families, who are more likely to have limited economic resources, rely more heavily on student debt than other borrowers, at both undergraduate and graduate levels of education (Addo, Houle, and Simon 2016; Houle and Addo 2018; Pyne and Grodsky 2020). Twelve years after college entry, the typical Black borrower with a four-year degree owes 114 percent of what they originally borrowed, and the typical Latinx borrower owes 79 percent of what they originally borrowed. In contrast, the average white student with a bachelor's degree only owes 49 percent of the original amount (Miller 2017).

Policymakers have proposed solutions to respond to these social problems. The Biden administration initially proposed a plan that cancels up to $10,000 of federally backed student loan debt for each American. The Warren-Schumer proposal would task the Department of Education with cancelling up to $50,000 in federal loans per borrower. A growing chorus of Democratic lawmakers have urged the Biden administration to implement the Warren-Schumer proposal via executive action. As advocates and policymakers debate the path forward, however, one issue that has emerged as a recurrent flashpoint is the policy's supposed regressivity.

Critics argue that blanket debt cancellation is a regressive social policy because it involves a public transfer to a comparatively well-off group—those with at least some college education. They also point to the fact that mean student loan balances tend to be greatest among professionals in the top half of the household income distribution as evidence that blanket cancellation of student debt would disproportionately benefit the economically advantaged (Catherine and Yannelis 2020; also see Akers 2020; Baum 2020; Baum and Looney 2020; Looney 2019). Believing that student debt cancellation represents an inefficient mechanism to ease burdens for struggling and lower-income borrowers, critics thus propose either abandoning student debt cancellation altogether or attempting to narrow transfers to specific groups—for instance, through income caps for loan cancellation or income-driven repayment plans.

In this paper, we tackle what we refer to as the "myth of student loan cancellation regressivity." This myth arises as a result of several straightforward empirical and conceptual errors that have plagued critiques of student debt cancellation. These errors include:

- Including private loans, when major proposals only cancel federal student loans;

- Conditioning analyses on borrowers only, rather than the entire population;

- Focusing on the distribution of debt by income rather than wealth, even though debt cancellation is a wealth transfer;

- Highlighting the value of debt to the government, rather than to the borrower; and

- Ignoring the racial distribution of debt.

Together, these errors obscure the reality that economically less advantaged students end up with more debt and lower net worth than students from wealthy families who can afford debt-free higher education. Once we correct these errors, current student debt cancellation proposals are shown to be highly progressive, contrary to prior analyses.

Drawing on data from the 2019 Survey of Consumer Finances, we clarify the progressivity of student debt cancellation by simulating balance sheet transfers to people across the wealth distribution under several alternative student debt cancellation policy variants. The results highlight that **blanket cancellation proposals would disproportionately direct relief to people in the lower quantiles of the wealth distribution.** We further find that larger federal loan cancellation limits result in a *more* progressive wealth transfer.

Our analyses consider not just class but race—a glaring omission in some arguments against student debt cancellation. One of the most important and well-documented benefits of student debt cancellation is, in fact, the potential to increase Black net worth (Charron-Chénier et al. 2020; Perry and Romer 2021; Steinbaum 2019a; Weller, Maxwell, and Solomon 2019; Zewde and Hamilton 2021). We examine distributional progressivity by racial group and emphasize the importance of student debt cancellation, without income caps or stipulations, for buttressing and building the Black middle class.

ERADICATING THE REGRESSIVE DEBT CANCELLATION MYTH

The supposed regressivity of student debt cancellation is perhaps most clearly demonstrated in recent empirical analyses by Catherine and Yannelis (2020) of the 2019 Survey of Consumer Finances (or SCF). Their National Bureau of Economic Research working paper, "The Distributional Effects of Student Loan Forgiveness," has been widely publicized as empirical "proof" of the regressivity of student debt cancellation, as is evidenced by coverage in the *Washington Post*, *Los Angeles Times*, *CNBC*, and other outlets.

In what follows, we first replicate the Catherine and Yannelis (2020) findings, then address each of the misleading empirical and conceptual errors by which they validate the regressive debt cancellation myth. Note that we rely on the same data as Catherine

and Yannelis, as the SCF is widely considered a reliable source for understanding household income, wealth, and debt (see Bricker et al. 2016).[3]

Although our primary focus is on Catherine and Yannelis (2020), they are far from alone in propagating the myth of regressive student debt cancellation. Many of the same errors in their analyses can be found in other similar critiques. For example, Baum's (2020) piece in the "Fallacy of Forgiveness" forum is titled "Mass Debt Forgiveness is Not a Progressive Idea." Looney (2019) finds the "Warren proposal to be regressive, expensive, and full of uncertainties." Akers (2021) argues that, rather than the "hugely regressive idea" of student debt cancellation, policymakers would be better served by simply relying on income-driven repayment plans. By systematically deconstructing the Catherine and Yannelis (2020) findings, therefore, we also address a wide range of regressivity claims.

Step by step, we identify how the Catherine and Yannelis analysis falls victim to each false claim of the regressive student debt cancellation myth and indicate how analysts and policymakers *should* be assessing student debt cancellation proposals. In applying empirical and conceptual correctives, we provide a much more accurate and progressive picture of student debt cancellation.

DISTINGUISH FEDERAL LOANS FROM PRIVATE DEBT

Figure 1 is a replication of Figure 1, Panel A in Catherine and Yannelis' (2020) paper.[4] The figure displays the mean student debt per person in households of respondents between age 22 and 60 with student debt.[5]

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[3] SCF data are, however, limited by the fact that the households surveyed are increasingly less representative of the circumstances of young adults in the US. Burdened by debt, many cannot form independent households, as required by the SCF sampling frame (see Morgan and Steinbaum 2018).

[4] Catherine and Yannelis declined to share their code when requested. Our replications are thus as exact as possible, without utilizing the same code. The code we wrote and data for all analyses and replications in this paper are available at https://github.com/charlieeatonphd/progressivecancellation.

[5] We render all figures in this issue brief using the color palette, other style elements, and categorical data visualization techniques employed by W. E. B. Du Bois in 1900 to analyze the impacts of slavery, emancipation, and Jim Crow on Black social and economic life (Battle-Baptiste and Rusert 2018). For more information on Du Boisian data visualization, see https://www.dignityanddebt.org/projects/du-boisian-resources/.

FIGURE 1: MISLEADING ESTIMATES, CASE A
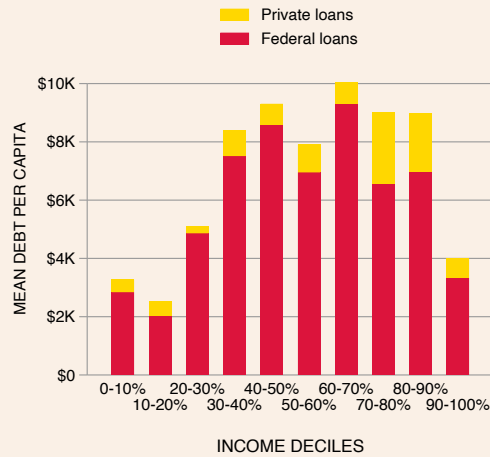
Note: This figure replicates misleading distributional estimates from Panel A of Figure 2 in Catherine and Yannelis (2020), which includes private student loans even though they are excluded from leading cancellation proposals. Like Catherine and Yannelis, we also exclude respondents under 22 and over 60, and non-parent loans that are within the grace period for students who are currently enrolled or recently left school. Data from Survey of Consumer Finances 2019.

At first glance, the figure suggests that, on average, higher-income households are more likely to carry higher student debt balances than households in lower income deciles. In particular, those in households between the 60 and 90 percent deciles would seemingly gain the most from student debt cancellation. This image implies that student debt cancellation is highly regressive and barely of any value to those in the bottom 30 percent of the household income distribution.

The Catherine and Yannelis version of Figure 1 combines both federal and private student loans. This is misleading because only federal student loans are eligible for cancellation under current student debt cancellation proposals from the Biden administration and from Senators Warren and Schumer. Unlike total student debt balances, mean federal loan balances are greatest in the middle (60th to 70th percentile) of the household income distribution.
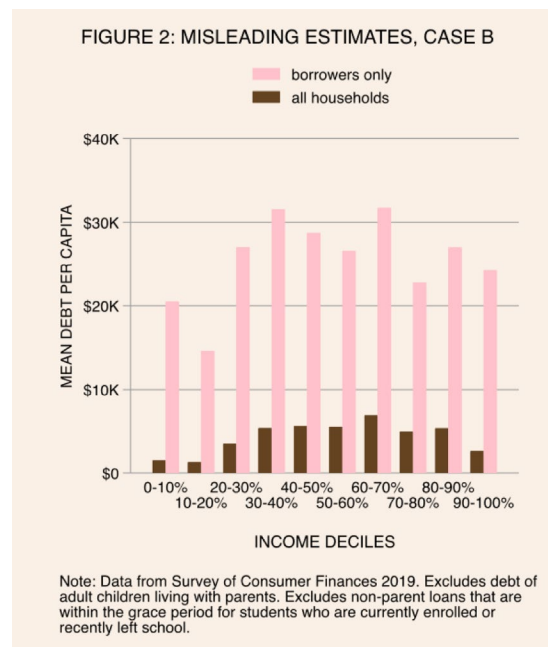
Like the Catherine and Yannelis analysis, prior studies have treated total student debt holdings as synonymous with debt that could be cancelled. Because private loans are held disproportionately by higher-income and higher-asset borrowers (private loans constitute 23 percent of student debt for those in the top 30 percent of the household asset distribution, versus 12 percent of student debt for those in the bottom 30 percent), properly accounting for private loans reveals a more progressive picture of leading proposals for student debt cancellation.

Our replication of Figure 1 illustrates the difference made by removing private debt from the naïve scenario that includes private loans (e.g., Catherine and Yannelis 2020, Figure 3, panel B), to reflect current student debt cancellation proposals. We simply differentiate federal student loans in red and private student loans in yellow within our stacked bar chart. This correction alone suggests an approximately 20 percent reduction in the magnitude of mean wealth transfer to households in the 70th to 90th percentiles of the income distribution.

INCLUDE THE FULL POPULATION, NOT JUST BORROWERS

The redistributive impacts of student debt cancellation should be measured across the full distribution of households, rather than solely among the beneficiary population. This is a standard vantage point for evaluating redistributive policies. For instance, the Earned Income Tax Credit may give a lesser credit to a worker who earns $14,000 than a worker who earns $19,000 per year, but the credits are all targeted at the lower end of the distribution, ultimately making it a progressive policy (see Crandall-Hollick, Falk, and Boyle 2021).

Focusing on the full distribution of households is particularly relevant in the case of educational debt because student loan balances tend to be more bimodal at higher levels of socioeconomic status. As Figure 2 illustrates, the subset of high-income and high-wealth households that carry student debt tend to carry it in large quantities, but the majority of these households have zero student debt. As a result, mean student debt collapses in the top income decile for all households but not in the top decile for borrowers.

FIGURE 2: MISLEADING ESTIMATES, CASE B

Note: Data from Survey of Consumer Finances 2019. Excludes debt of adult children living with parents. Excludes non-parent loans that are within the grace period for students who are currently enrolled or recently left school.

Yet critiques of student debt cancellation frequently rely on borrower-only comparisons. For instance, in Table 2, Catherine and Yannelis (2020) estimate that white borrowers held 67 percent of loan debt and Black borrowers held 22 percent of loan debt that could be canceled—a factoid picked up by the *Washington Post* editorial board (2020). This comparison of borrowers obscures the fact that only 17 percent of white adults have any student debt at all, compared to 27 percent of Black adults. That is why the same table from Catherine and Yannelis shows that the average student debt per Black adult is $7,407, compared to $4,962 per white adult. Had the *Washington Post* editorial board deliberated more carefully, they may have realized that this per-person disparity is why the 22 percent Black share of student debt balances far exceeds the 13 percent Black share of the US adult population.

MODEL REDISTRIBUTION BY HOUSEHOLD WEALTH

Unlike income transfer policies, student debt cancellation represents a onetime *wealth* transfer to households' balance sheets. As such, it is more appropriate to gauge its distributional impact across the distribution of household wealth, a cumulative measure of a household's net worth and assets (also see Perry and Romer 2021), rather than across the annual household income distribution, as is common among those who claim student debt cancellation is regressive. Focusing on household *income* significantly underestimates the socioeconomic impact on low-wealth borrowers, especially those who are Black and Latinx.

The transformation from income categories—as displayed in the replication of Catherine and Yannelis (2020)—to wealth categories is the most profound yet. Figure 3 shows the estimated mean gross wealth transfers per capita across the wealth distribution under the three most popular student debt cancellation policies. The figure takes a conservative approach by estimating wealth transfer by household asset quantiles using a measure of total household assets that excludes household debts, including student debts. Our regression models for estimating debt cancellation control for marriage status of household members and apply the debt cancellation maximum to each household member reported to have student loans. We show later that estimating gross wealth transfers by net worth (including negative net worth from household debt) produces an even more progressive distribution.

FIGURE 3: CANCELLATION BY HOUSEHOLD ASSETS
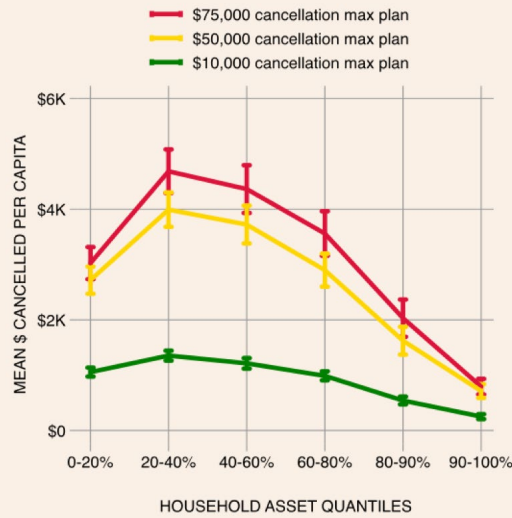
Note: Data from Survey of Consumer Finances 2019. Excludes debt of adult children living with parents. Excludes non-parent loans that are within the grace period for students who are currently enrolled or recently left school.

Student debt cancellation represents a progressive wealth transfer at all proposed levels of cancellation. In fact, **a more substantial plan is the more progressive option.** Compared to the $10,000 Biden plan, a $50,000 student debt cancellation approach grants almost no additional transfer to people in the top asset decile, and just over an additional $1,000 on average to 80th to 90th decile households. Meanwhile, it would grant over $4,000 to people in the 20th to 40th percentiles; this is a roughly threefold increase over the transfer to that group under the Biden plan.

Side by side, Figure 1 and Figure 3 are almost mirror opposites. Why might wealth provide a very different picture than income? Education is a primary path to social mobility in the United States. However, individuals from families with limited-to-moderate economic resources are more reliant on student debt as a means to achieve their educational and career goals. Many of these individuals will eventually arrive at higher incomes as a result of their educational attainment.

But adults who grew up in less advantaged families typically fail to catch up to the net worth of those who started in more advantaged families. Without multigenerational transfers of wealth, student debt can block the accumulation of adult wealth—for example, by making it more difficult to purchase a home or save for retirement. When we look at student debt across household asset quantiles, we capture the accumulation

of advantage (or disadvantage) across generations of families—a perspective favored by many social scientists who study stratification and inequality (see Hamilton and Darity 2017; Houle and Addo 2018; Killewald, Pfeffer, and Schachner 2017; Mare 2011; Pfeffer and Schoeni 2016).

One might expect that low levels of debt in higher household asset quantiles are a function of people attaining higher household wealth later in life, by which time they will have paid off student debt. In fact, the distribution of debt cancellation remains progressive if one compares cancellation between household asset quantiles among people of the same age. For example, people in the 40th to 60th percentiles for household assets receive four times as much debt cancellation under the Warren-Schumer plan as people in the top 10 percent, after controlling for age.[6] People in the 20th to 40th percentiles receive more than three times more cancellation than those in the top 10 percent, after controlling for age. We present full estimates with age controls in our online replication package.[7] Disparities in wealth between baby boomers in the 1980s and millennials today, however, suggest it is highly unlikely that millennials will attain comparable wealth later in life in the absence of debt cancellation. The estimates without age controls in Figure 3 therefore provide more informative measures of the progressivity of debt cancellation by wealth.

VALUE DEBT BY WHAT IT COSTS BORROWERS

The economic benefits of student debt cancellation to debtors should *not* be conflated with the accounting value of the loans to the government, in what is known as "net present value." This approach perversely treats a given dollar of debt cancellation as being worth less to low-income borrowers because they are statistically less likely to pay the loan back as compared to higher-income borrowers.

Catherine and Yannelis (2020) present a number of analyses using present value (see their Figure 1, Panels A and B), which modifies estimates of debt cancellation by taking into account assumed repayment to the lender across the borrower income distribution. These analyses only magnify the regressive pattern that we described in Figure 1, as using present value more than halves the apparent debt reduction relief that borrowers in lower income deciles receive through student loan debt cancellation, while hardly impacting estimates for households at or above the 70 percent decile.

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[6]   We estimate this by controlling for age and an age-squared quadratic term in our regression model for estimating mean cancellation by household asset quantile. Code and estimates are available at https://github.com/charlieeatonphd/progressivecancellation.

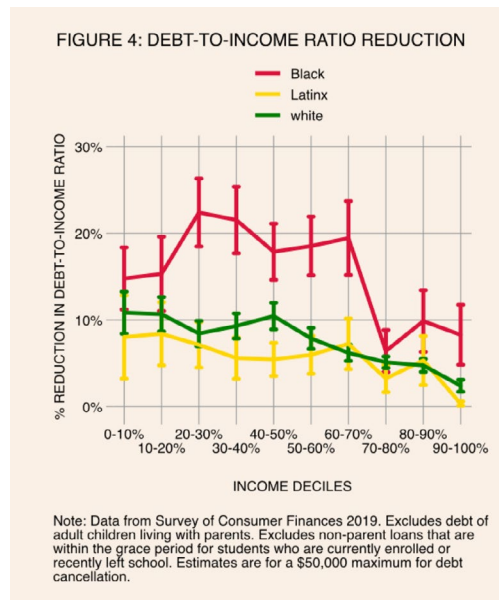[7]   https://github.com/charlieeatonphd/progressivecancellation.

Unpaid debts have substantial costs to low-income borrowers in terms of their ability to access consumer credit on favorable terms and to accrue assets over time. These dollars are not "worth less" in the lives of the low-income individuals who accrue debt. Indeed, trends on saving behavior amid the quasi-experiment of the CARES Act payment freeze provide new evidence that student debt burdens represent a substantial impediment to asset building. With federal student loan payments on hold and interest rates set to zero, borrowers were able to enjoy unexpected savings (see Burton and Carpenter 2021).

If the goal is to measure the value of debt to a *borrower*, rather than the lender, a more sensible approach is to use a debt-to-income ratio, as suggested by Steinbaum (2019b). As he explains:

> This measure of progressivity—amount of the benefit, as a share of pre-forgiveness income (or wealth)—is the standard way that distributional analysis is done when evaluating policy proposals, e.g., Tax Cuts and Jobs Act of 2017. The idea that it should be done on the basis of raw dollar amounts by quantile, as you find in the analyses that claim the plan is regressive, is not the standard approach taken in the evaluation of the distributional impact of policies.

This measure more accurately depicts the size of the burden experienced by those in lower-income households, for whom each dollar of debt is actually a more substantial barrier to economic security, access to consumer credit, and increases in net worth.

Following Steinbaum's approach, Figure 4 depicts the declining debt-to-income ratio across the distribution of household income under a $50,000 student loan debt cancellation plan. Foreshadowing our final point below, we present this data by racial category, highlighting some distributional differences for white, Black, and Latinx households.

FIGURE 4: DEBT-TO-INCOME RATIO REDUCTION

Note: Data from Survey of Consumer Finances 2019. Excludes debt of adult children living with parents. Excludes non-parent loans that are within the grace period for students who are currently enrolled or recently left school. Estimates are for a $50,000 maximum for debt cancellation.

For all racial groups, we see that the greatest benefits of student debt cancellation accumulate to those in the bottom 40 percent of the income distribution. Across the income distribution, we see that Black individuals receive the largest proportional reductions in their debt-to-income ratios.

DISAGGREGATE THE DISTRIBUTION OF DEBT BY RACE

Student loan debt is not evenly distributed across race. A much greater proportion of Black households hold debt than white households, and Black households owe more on average than any other racial group (Charron-Chénier et al. 2020).

At the time of graduation, Black college graduates owe on average $7,400 more than their white peers, but this number quickly grows due to differences in interest accrual and graduate school borrowing; four years after graduation, Black graduates owe almost double that of their white counterparts (Scott-Clayton and Li 2016). Six years after the start of college, nearly a third of Black borrowers and 20 percent of Latinx borrowers defaulted on their loans—compared to just 13 percent of white borrowers (Miller 2019).

Some of these differences can be attributed to racial differences in college completion. But even if we look only at graduates, stark disparities are apparent. Default rates are about six times higher among Black graduates and two-and-a-half times higher among Latinx graduates than among white graduates (Nichols and Anthony 2020).
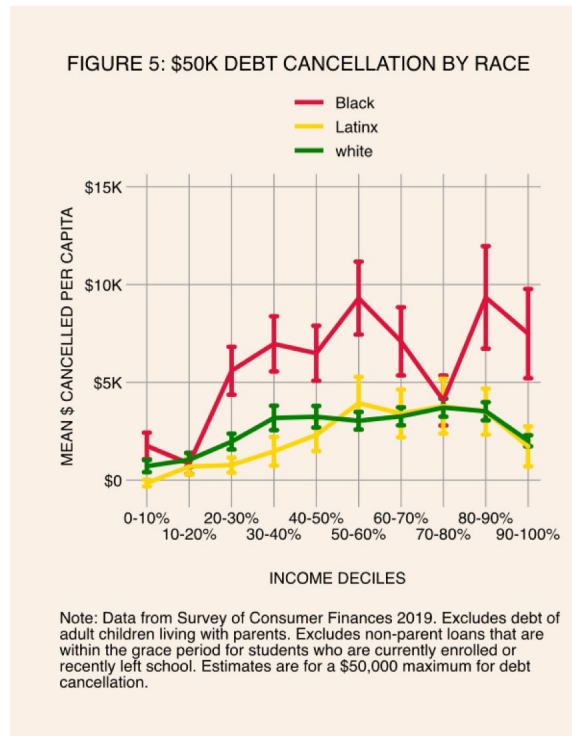
Explaining these outcomes requires thinking carefully about the relationship between race and social class in the US. Black, American Indian or Alaska Native, and Latinx students are disproportionately more likely to come from low-income families (Taylor and Turk 2019); however, income alone minimizes disparities in economic resources available to white students relative to their BIPOC peers. Wealth in the US is racialized, such that the median wealth of white households is 20 times that of Black households and 18 times that of Latinx households—and these gaps have grown over time (Taylor et al. 2011; also see Hamilton and Darity 2017). The wealth of Black and white families, in particular, is not only quantitatively but qualitatively different. Black families have historically lacked access to intergenerational inheritances and family property that white families have used to subsidize the education of their offspring (Oliver and Shapiro 2006; Seamster 2019).

Racial differences in access to income, and especially wealth, create heterogeneity in student debt cancellation's effects. However, those who treat student debt cancellation as regressive rarely report the racial distribution across household income deciles. If

race is referenced at all, there is a tendency to highlight *group* differences. For instance, Catherine and Yannelis (2020) present their findings by income decile *or* racial/ethnic group. They do not break out their income decile findings by race.

In Figure 5, we model the mean debt cancellation per capita by income decile and race under a $50,000 plan like that proposed by Warren and Schumer. When we do this, the supposed regressivity of student debt cancellation becomes more dubious. Racial differences are also immediately visible. Student debt cancellation is certainly not regressive for white people, as the line is flat among white people from the 30th to 90th income percentiles before actually declining in the top decile. Figure 5 also reveals that for white people, regardless of income category, cancellation under the Warren-Schumer plan will mean, on average, less than $4,000 of debt cancellation per capita. Patterns are, however, different for Black people. Here, we see increasing levels of debt cancellation across the income categories.

FIGURE 5: $50K DEBT CANCELLATION BY RACE

Note: Data from Survey of Consumer Finances 2019. Excludes debt of adult children living with parents. Excludes non-parent loans that are within the grace period for students who are currently enrolled or recently left school. Estimates are for a $50,000 maximum for debt cancellation.
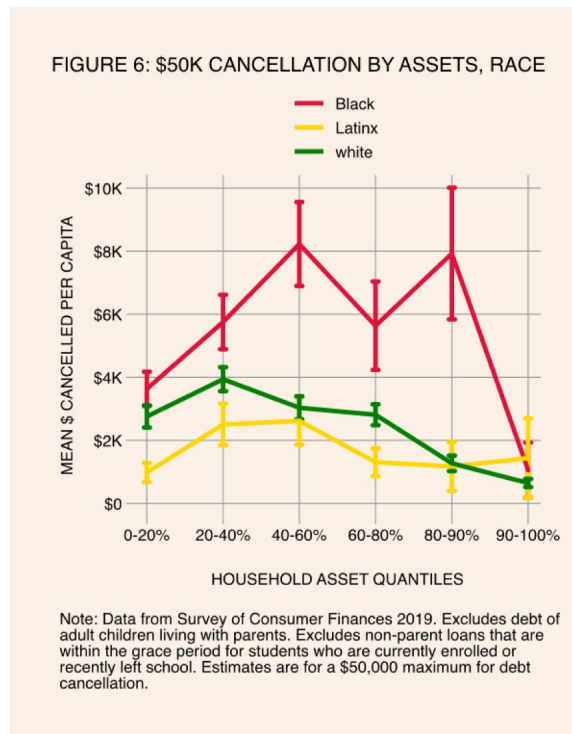
Is this evidence of the regressivity of student debt cancellation for Black households? We argue that this image actually depicts the building of the Black middle class. Higher levels of debt for those at the middle and high end of the income spectrum are to be expected, given more limited access to the financial means to attend college among Black families. These are households that have sought social mobility through higher education and seen income returns—but continue to be weighed down by debt. Student

debt cancellation could be considered a form of racial reparations, helping to provide Black families and Black professionals with wealth transfers that have systematically been denied to Black Americans.

As we have argued, a more fruitful way to ascertain the degree of progressivity or regressivity of student debt cancellation is to examine mean debt cancellation by quantile of household *wealth*. We do so by race in Figure 6, which shows that distribution of debt cancellation under the Warren-Schumer plan for white persons by household asset quantile has an even more progressive downward slope than we saw for all racial groups combined in Figure 3. White people in households in the top 10 percent would receive just an average $648 in debt cancellation per person. In contrast, white people in households in the bottom 20 percent would receive an average $2,759 in debt cancellation (four times as much debt). White people in households in the 20th to 40th percentiles would receive an average $3,959 (six times as much). This greater progressivity among white people reflects the fact that greater intergenerational wealth transfers shield wealthy white people from struggles with repayment and from taking out student debt in the first place (Addo, Houle, and Simon 2016; Houle and Addo 2018).

FIGURE 6: $50K CANCELLATION BY ASSETS, RACE

Note: Data from Survey of Consumer Finances 2019. Excludes debt of adult children living with parents. Excludes non-parent loans that are within the grace period for students who are currently enrolled or recently left school. Estimates are for a $50,000 maximum for debt cancellation.
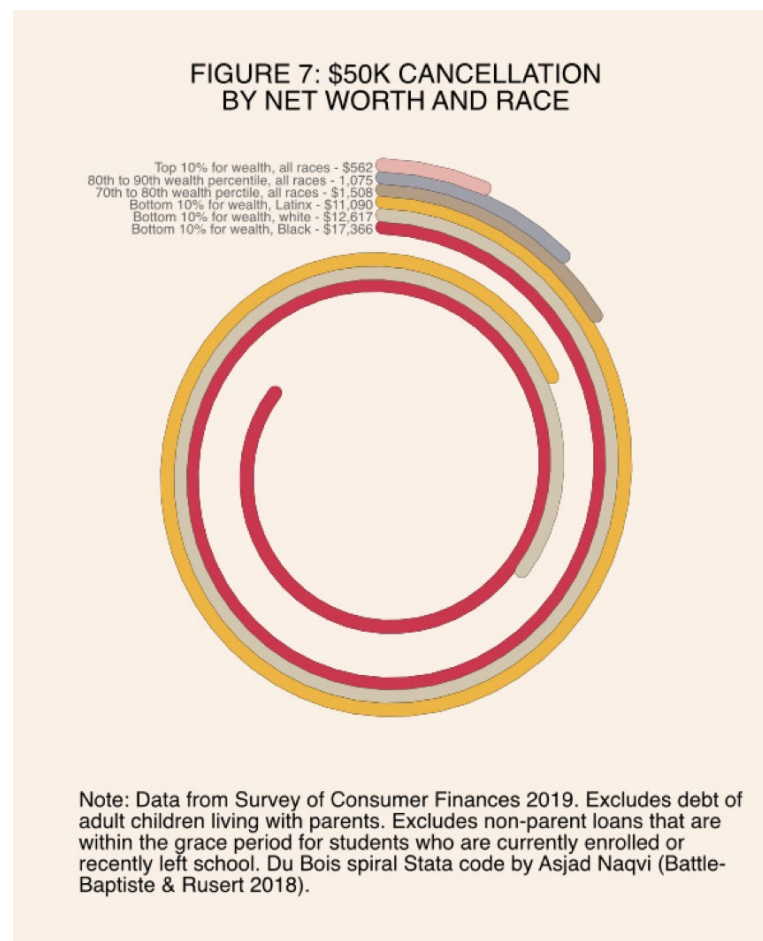
No clear pattern emerges for debt cancellation by household assets among Black and Latinx households. This is in part a function of small sample sizes due to the relative absence of Black and Latinx households in the higher quantiles of the asset distribution.

The absence of a pattern also reflects the fact that household assets can be accumulated over a lifetime, and using student loans to attain a college degree can help Black and Latinx borrowers attain greater assets than those who do not attend college. The racial wealth gap, however, deprives upwardly mobile Black and Latinx people of the intergenerational wealth transfers that protect upper income white people from struggles with borrowing and repayment.

The distribution of debt cancellation is even more progressive when we analyze debt cancellation by net worth, a wealth measure that includes both household assets and household debts. Figure 7 plots mean debt cancellation under the Warren-Schumer plan by net worth and race for selected net worth deciles. The disparities are so large that student debt bars for the bottom decile would run off the page in a bar graph that also plotted the minimal student debts of top net worth deciles. We instead use the Du Bois spiral developed in 1900 to solve similar scaling problems when graphing radical shifts in Black household wealth after emancipation.[8]

FIGURE 7: $50K CANCELLATION
BY NET WORTH AND RACE

Top 10% for wealth, all races - $562
80th to 90th wealth percentile, all races - 1,075
70th to 80th wealth percentile, all races - $1,508
Bottom 10% for wealth, Latinx - $11,090
Bottom 10% for wealth, white - $12,617
Bottom 10% for wealth, Black - $17,366

Note: Data from Survey of Consumer Finances 2019. Excludes debt of adult children living with parents. Excludes non-parent loans that are within the grace period for students who are currently enrolled or recently left school. Du Bois spiral Stata code by Asjad Naqvi (Battle-Baptiste & Rusert 2018).

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8   For an explanation of the spiral Stata code, developed by Asjad Naqvi, see https://medium.com/the-stata-guide/graph-replication-the-du-bois-challenge-f0db93e719e6.

Like canceled debts spiraling down a drain, the long, curving bars of Figure 7 show that estimated student debt cancellation is over $17,366 per capita for Black households in the bottom 10 percent for net worth. Average cancellation would be $12,617 per capita for white households in the bottom 10 percent and $11,090 for Latinx households in the bottom 10 percent. Average cancellation would be just $562 per capita for all races in the top 10 percent for net worth. Mean cancellation for Black persons in households in the bottom 10 percent is thus more than 30 times the average cancellation for the top 10 percent. Estimated cancellation per capita for white and Latinx households in the bottom 10 percent is roughly 20 times that of cancellation for the top 10 percent. Average cancellation is just $1,075 in the 80th to 90th percentile for net worth, and $1,506 in the 70th to 80th percentile. Outside of the bottom 10 percent, mean debt cancellation is highest in the 40th to 50th percentile for net worth at $2,993 (reported in the online replication package but not in Figure 7). These estimates conform with the recent finding by Perry and Romer (2021) that 51 percent of all student debt is held by households with negative net worth.

We do not break out cancellation for top net worth deciles by race in Figure 7 because there are so few Latinx and Black households in the top net worth deciles that sample estimates for those racial groups are statistically unreliable. Nevertheless, we include cancellation estimates for all net worth deciles by race in our online replication package.

By disaggregating cancellation estimates by race, wealth, and income, we can see that imposing income caps on student debt cancellation or relying on income-driven repayment plans (which provide little relief for higher earners) would significantly limit the potential for student debt cancellation plans to build the Black middle class. Income caps would cut out a number of Black professional households that, given systemic racial disparities in access to family resources, had to borrow heavily in order to experience the financial benefits of a college degree. These borrowers have higher incomes, but substantial disadvantages in household wealth.

Indeed, when viewed together, Figures 5, 6, and 7 support the claim that student debt cancellation is a means to reinforce and grow the Black middle class—a group that Houle and Addo (2018) have referred to as "fragile," due in large part to racial inequities in student loan debt. Student debt cancellation, as Charron-Chénier et al. (2020) have similarly concluded, would have a "transformative impact on the wealth of Black households through its positive impact on net worth." Student debt cancellation is thus also exceptionally *racially* progressive.

CONCLUSIONS AND IMPLICATIONS

The myth of student loan cancellation regressivity is now widespread. In this brief, we argue that critiques of student loan cancellation as regressive are based primarily on five empirical and conceptual errors: the inclusion of private student loans, conditioning analyses on borrowers only, focusing primarily on income rather than wealth distributions, highlighting the value of debt to the government rather than benefits to households, and ignoring the racial distribution of debt. Our analyses take as a focal point recent analyses by Catherine and Yannelis (2020) that have been portrayed as "proof" of student loan debt regressivity—but are also plagued by each of these errors. We show how correctives paint a much more progressive image of student debt cancellation.

We argue that any analyses of student debt cancellation must *distinguish federal loans from private debt*. Current cancellation plans only allow for the cancellation of federal student loans. It is thus misleading to include private student loans in reports focusing on student loan debt cancellation. Additionally, private loans are disproportionately held by more economically advantaged households, while federal student loan balances are highest among more disadvantaged households. In excluding private loans, we therefore provide a more accurate—and less regressive—picture of student debt cancellation.

Evaluations of student debt cancellation should also *include the full population, not just borrowers*. Assessing the impact on the full population is the standard approach for evaluating most redistributive policies. In the case of student debt, this is particularly important: Although most advantaged households have zero student debt, those with student debt have high quantities. Examining borrowers alone provides an artificially inflated and misleading picture of the benefits that flow to higher-income households. A full population analysis provides a more progressive picture of student debt cancellation's effects.

We contend that assessments of student debt cancellation should *model redistribution across the wealth distribution*. Student debt cancellation is, in fact, a onetime wealth transfer to a household's balance sheet. Thus, we should evaluate its progressivity by considering the impact across the distribution of household wealth rather than household income. This corrective provides a profound change to estimates of which households would benefit most from student debt cancellations. While households in the lower wealth deciles see considerable benefits from student debt cancellation, those in the top wealth deciles see very little benefit.

Student debt should also be *valued by what it costs borrowers, not lenders*. Many analyses conflate the economic benefits of student debt cancellation to debtors with the accounting value of the loans to the government (i.e., "net present value"). This statistical trick devalues the debt of low-income borrowers, as they are often less likely to pay back the loan relative to higher-income borrowers and suggests that borrowers in lower income deciles will receive little relief from student debt cancellation. We argue that **debt is not worth less to the low-income individuals who accrue it**. A more appropriate way to measure the value of debt to a borrower is a debt-to-income ratio. This modeling approach shows substantially greater benefits of student loan cancellation plans for lower-income households.

Finally, because student loan debt is so unevenly distributed by race, analysts should *disaggregate the distribution of debt by race*. Racial differences in student loan debt create heterogeneity in student debt cancellation's effects, for which any estimates must account. When we model the mean debt cancellation per household income decile by race, it is apparent that student debt cancellation is decidedly *not* regressive for white families, who are the imagined beneficiaries in tales of student debt cancellation regressivity. Only for Black households do we see increasing levels of debt cancellation across the income categories. When placed alongside analyses that model the mean debt cancellation per household asset decile, it becomes apparent that student debt cancellation would play a central role in buttressing the Black middle class. Black families have been systematically denied the resources necessary to pursue postsecondary education; those who obtain degrees may eventually earn substantial salaries, but they are more likely to be burdened by student debt than their white peers. As a growing body of work indicates, student debt cancellation is therefore important for closing the racial wealth gap in the US.

Our analyses suggest several important takeaways for policymakers.

First, student debt cancellation *is* progressive. Concerns about the regressivity of student debt cancellation plans are grounded in empirical and conceptual errors that provide a misleading picture of the impacts of student loan cancellation.

Second, more substantial student debt cancellation plans, like the Warren-Schumer plan, are in fact *more progressive* than plans with lower caps on loan cancellation, such as the $10,000 Biden proposal. That is, if policymakers wish to see progressive student debt cancellation, then they should be aiming for, at a minimum, $50,000 in debt cancellation, ideally more.

Third, income eligibility cutoffs are an inefficient way to achieve progressivity. In practice, income cutoffs would likely prove counterproductive insofar as the need to

collect information on borrower income as a precondition for cancellation will create additional administrative burdens for borrowers (Herd and Moynihan 2019). Such burdens have been shown to produce disproportionate access barriers for those would-be beneficiaries with fewer resources (just like existing income-driven repayment policy).

Moreover, because Black-white racial gaps in student debt balances are greatest in the upper-middle (60th to 90th percentiles) portions of the income and wealth distributions, the imposition of an income cap in student debt cancellation would actually limit rather than enhance the policy's effect in diminishing racial wealth gaps.

Fourth, income-driven repayment (IDR) plans are also a poor substitute for student debt cancellation. Even if they work as advertised, IDR plans will not provide debt relief for Black professionals with limited household wealth but substantial household income, decreasing student debt cancellation's abilities to reduce racial wealth inequalities. IDR programs are also not currently available for parent loans. The inability of the Department of Education (ED) to administer IDR and public-service loan programs accurately and equitably has further contributed to extremely low rates of cancellation for borrowers in these programs (NCLC and SBPC 2021). If the ED is able to increase the rate of cancellation after the minimum requirement of 20 years in repayment, those borrowers would have to first endure decades of constrained access to credit and wealth building.

These analyses indicate that student loan cancellation policies are an overall societal good. Attempting to ensure that not a single student debt cancellation dollar goes to the proportionately tiny numbers of advantaged households with some student debt is counterproductive—potentially derailing efforts to relieve masses of young borrowers, many of whom are Black and Latinx, from the burden of financing higher education. Debt cancellation is a necessary remedy for government policy that has come at a great cost to recent generations of Americans.

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