



The Daily Dish

Bernie and the Terrible, Horrible, No Good, Very Bad Idea

DOUGLAS HOLTZ-EAKIN | JUNE 25, 2019

Eakinomics: Bernie and the Terrible, Horrible, No Good, Very Bad Idea

The campaign-cum-fantasy-casino continues on the Democratic side. Earlier, Senator Elizabeth Warren proposed to cancel student-loan debt, but limited it to \$50,000 per person for those making under \$100,000. She added in more moderate reductions for incomes up to \$250,000 but stopped there. Senator Warren's plan is reported to cost roughly \$1.25 trillion over a decade. As it turns out, that is chump change. Yesterday, Senator Bernie Sanders [proposed](#) to cancel all of the roughly \$1.5 trillion in federal student debt, as part of a proposal that has a price tag roughly a trillion dollars higher.

Let's think about Bernie and the Terrible, Horrible, No Good, Very Bad Idea.

To begin, it undermines the basic notion of "debt." If one expects that a future debt will also be forgiven, the incentives to borrow are badly skewed. Could the federal government again run a student lending program with any credibility? No.

Indeed, this raises the question: Why student debt? Why not small business loans? Agriculture loans? VA mortgages? Why not, as a matter of fairness, forgive the debts of these Americans? Are they less deserving? Is there some reason to gut the behavioral incentives in student lending but not all federal lending? What principles are actually in play here — if any?

Why not make the forgiveness depend on affluence? Why not target those who have less ability to pay or those from less-affluent families? Why is a rich doctor's debt the same as a struggling rural social worker? How is this "fair"?

And I will point out that cancelling \$1.6 trillion in existing student debt will not send one more student to college, will not raise the labor force skill of the United States by one more Bachelor of Arts degree, and will not make the United States more prosperous or competitive.

The debt-cancellation policy is combined with a free college initiative that brings the total price tag to \$2.2 trillion. Sanders proposes to pay for his plan with a tax on "Wall Street speculators who nearly destroyed the economy a decade ago." In fact, his "speculators" tax is just a financial transactions tax. Since there is no way to identify speculative versus non-speculative trades, this tax just promises to damage trading incentives across the board. Wall Street is, of course, easy to pick on. But the more general question that demands to be answered is: Why should any taxpayers pick up the tab for this giveaway?

After all, forgiving past debts is a highly ineffective education policy. It does nothing about the future. Making college free for students does not reduce the cost of college. Where is a proposal that will produce genuine competitive pressures on tuition and fees? That would be a higher-education policy worth pursuing.