At Issue:

Are students borrowing more than their educations are worth?

ALAN COLLINGE
FOUNDER, STUDENTLOANJUSTICE.ORG

WRITTEN FOR *CQ RESEARCHER*, OCTOBER 2011

yes

President Obama made it clear in his State of the Union address that two areas of focus going forward will be education and "fixing what is broken" in the federal government. The most meaningful way for the president to demonstrate this — on both fronts — lies in the federal student-loan system.

Like subprime lending, the student-lending system has been corrupted deeply, enabling college prices to rise faster than both housing and health care over the past three decades. Today, we owe an astounding $1 trillion in student debt, and instead of decreasing in the slow economy, borrowing has accelerated massively to keep pace with record-breaking tuition increases.

Unlike loans for housing, student loans were stripped of bankruptcy protections and nearly every other consumer protection Americans assume is there when they borrow. At the same, time, Congress gave the student-lending system collection powers so draconian that big lenders, guarantors and likely even the Department of Education have made far more money on defaults than healthy loans. This is not tolerable in this or any other country. On this there is no debate.

As Harvard Law Professor Elizabeth Warren, who established the government's new Consumer Finance Protection Bureau, put it: It's impossible to buy a toaster that has a one-in-five chance of exploding, but similar standards aren't imposed on financial products. Indeed, education-loan defaults have been greater than one in four for many years and are probably between 30 percent and 40 percent today, yet the Department of Education has not warned the public. Congress, too, needed to know this as they debated whether to raise loan limits time and again. But they were shown only misleading cohort rates that reflected a small fraction of the true default rate. As a result, students now borrow far more than their educations are worth, and they (and often their co-signing relatives) are being decimated financially.

Ultimately, the removal of bankruptcy protections is the root of this mess, and their immediate return is the solution to both the exploitation of borrowers and the prices being charged to all students, rich and poor. Economists and true conservatives everywhere should agree with this assertion. Student debt is a top issue in the protests going on around the country this fall, demonstrating that the public is unlikely to tolerate for much longer the political and administrative games that perpetuate this harm.

NEAL MCCLUSKEY
ASSOCIATE DIRECTOR, CENTER FOR EDUCATIONAL FREEDOM, CATO INSTITUTE

WRITTEN FOR *CQ RESEARCHER*, OCTOBER 2011

no

Looking at the basic facts, college students are not absorbing more debt than their educations are worth. But that doesn't mean debt shouldn't be much smaller.

While methodologies for calculating it are hotly debated, the college-earnings premium is generally considered to be substantial. On the high end, the Census Bureau estimates expected lifetime earnings to be $1.1 million greater with a bachelor's degree than just a high-school diploma. Low-end estimates — between $100,000 and $300,000 — also suggest that debt pays off. Why? Because the average debt for graduates is only $24,000, so most are paying only a modest price for the return in additional wages — at least $100,000, even by the most conservative estimates. Those, though, are just basic averages. There is much that they miss.

First, many students enroll in college, incur debt, but never finish their studies, failing to obtain the degree that is crucial to increased earnings. Indeed, the six-year graduation rate for first-time, full-time students enrolled in four-year institutions is just around 57 percent, and most who do not finish in six years probably never will.

Then there's what a degree does. Rather than indicating mastery of valuable skills, it often signals to employers only that the possessor has some basic positive traits, such as threshold levels of intelligence or perseverance. The extent to which that is the case varies greatly by major — as do earnings — but generally speaking, paying for college is a very expensive way just to indicate that you'll show up at work on time.

Proving this, to be fair, is tough, because we have no comprehensive measures of what students actually learn in college. What we do have, though, is discouraging. The National Assessment of Adult Literacy shows markedly decreasing literacy rates for college grads between 1992 and 2003. Meanwhile, research by academics Richard Arum and Josipa Roksa, authors of *Academically Adrift: Limited Learning on College Campuses*, suggests that 45 percent of four-year college students learn little in their first two years, and 36 percent nearly nothing in four years.

Finally, there's price inflation: Going into debt might be worthwhile, but the levels shouldn't be nearly as high as they are. College prices have inflated at astronomical rates over the last several decades, at least in part because student aid, including grants and cheap federal loans, enable it. Give students an extra dollar, and schools raise tuition by a buck.

So does a degree pay off handsomely? Generally, yes. Does that mean debt levels are just right? No way.