The Crisis of Student Debt in America

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It was the best of times, it was the worst of times; it was the age of wisdom, it was the age of foolishness; it was the epoch of belief, it was the epoch of incredulity; it was the season of Light, it was the season of Darkness; it was the spring of hope, it was the winter of despair; we had everything before us, we had nothing before us; we were all going directly to Heaven, we were all going the other way. ~ Charles Dickens

We are in a time of crisis, a time of austerity, a time the where poor are getting poorer and the rich are getting richer at a faster pace than at any other time in recent US history.

We have gone from having a well-functioning economy to a real unemployment rate of 14.5% [1]. During all of this, the situation has greatly affected college students, who are taking on massive debt just to further their education. With student debt at over $1 trillion, an examination is underway of how we have gotten into this scenario and how we can get our way out of it.

The situation began in 1964 when Lyndon B. Johnson established a task force to examine the role of federal government in student aid, headed by John W. Gardener. The taskforce firmly believed that cost shouldn't be a barrier in attaining a college education and to this end they concerned themselves with how lack of funds contributed to students being unable to attend college. Gardener :

> focused on a study which revealed that one out of six students who took the National Merit Scholarship test in high school did not attend college. Of the students who did not attend college and who had families who could contribute only $300 or less to their education, about 75 percent of the men and 55 percent of the women indicated that they would have attended college if they had had more money available. [2] (emphasis added)

Upon seeing this information, Johnson was shocked as he viewed the situation as a loss in human capital. This drove him to sign the the Higher Education Opportunity Act of 1965 into law. The bill included the recommendations put forth by the Gardener taskforce that the federal government should aid student in their journey to attain a higher education by providing loans, remedial classes, and grants to college-aspiring students as well as special programs and projects for low-income students who have an interest in attending college. This allowed for low-income and middle-class students who have an opportunity to go to college.

There was an uphill battle, though, as the American Bank Association was against the loan guarantee provision. The ABA was mainly concerned about possible government encroachment in their business, arguing that "the federal government could not replicate the working relationships that locally-owned financial institutions had with state and private non-profit guarantee programs" and "the federal government would end up taking over the industry because there would be little incentive for the state and private non-profit agencies to establish their own programs." [3] To solve this problem, the Johnson administration met with the ABA and worked to "[assure] the bankers the loans would pay them back handsomely over time because they were investing in young people who would become their best customers in the future," [4] as well as telling the banks that the government would be the ultimate loan guarantor if there was no one else available. Thus, with the banks placated, the bill could be passed.

There were several reauthorizations of the Higher Education Opportunity Act, but one of the most important reauthorizations was in 1972. In the 1972 bill, there were several new programs created, yet one of the most important ones was the Basic Educational Opportunity Grant which sends "a payment directly from the federal government to undergraduate students based on their financial need," yet this act also "tied institutional aid to the number of students receiving federal student aid at the given institution." [5] Tying institutional aid in this manner only served to increase costs. According to the Bennett hypothesis, first proposed in the 1980s by Secretary of Education William J. Bennett, colleges absorb federal student aid by increasing tuition costs. (This was proven in a paper done by two economics professors at the University of Oregon. [6]) While these increases in tuition were not seen in the 1970s, they began to be felt substantially during the 1980s, thus causing students to increase their debt levels. However there was another factor involved that led to student debt increase: President Ronald Reagan.

During the presidency of Ronald Reagan, he launched a massive attack on federal student aid. Reagan's budget included a proposal that would cut deeply into the two major student assistance programs, the Pell grants and the Guaranteed Student Loans, to reduce sharply or eliminate a series of categorical programs in higher education, and to eliminate a group of social or economic programs which either directly or indirectly affect higher education. With rare exception, every college campus would be affected by the proposed cuts beginning in academic year 1981-82. [7] (emphasis added)

In cutting these student assistance programs, Reagan went against the spirit of the 1965 Higher Educational Opportunity Act, in which the main goal was to ensure that a college education was both *accessible* and *affordable*. In addition to this, he was effectively targeting low-income and middle class people who needed that assistance in order to afford a college education. Congress attempted to enact amendments to the Higher Education bill that would allow for both programs to continue until 1985 and expanded programs such as Guaranteed Student Loans to middle-class families.

Yet, there were complaints from the Reagan administration, specifically Secretary of Education Terrence Bell, that the expanding such programs "had the potential for eroding the traditional roles of the student and the family in the financing of educational costs" [8] and that the Guaranteed Student Loans program was actually an entitlement program as its costs couldn't be constricted without Congressional approval. Rather than actually allow students greater access to education, the Reagan administration was able to pass a plan that would gut federal student aid assistance by cutting the amount of aid per Pell Grant from $1,900 to $1,750, limiting Guaranteed Student Loans to remaining need, and eliminating the in-school interest subsidy and the subsidy to lenders on Parent Loans.

This decrease in federal aid only served to disenfranchise millions of potential college students from attaining an education. Student debt also increased. A survey done by the College Scholarship Service and National Association of Student Financial Aid Administrators showed that "those students at public institutions who borrow will graduate with an average debt of $6,685, while their counterparts at private colleges and universities will assume $8,950 in debt on average."

This decrease in aid hit minority students quite hard as in 1987 there was a seven percent decline in college enrollment for Native Americans and eleven percent for blacks. Many minority groups depended on grants and scholarships to go to college, but now their only option was to borrow money or just not go at all. This would have a major ripple effect as "Many studies have shown that one of the most important factors influencing the decision to go to college is parental educational level" and that "If today's minority high school graduates choose not to participate in further education, out of concern for loan burdens or for other reasons, their children may not be as likely to go to college as the next generation of white and Asian students." [9] This would only serve to further increase educational- and with it economic- disparities between races.

The situation did not get any better in the next decade as the median student loan debt more than doubled in a 10 year period, increasing from $4,000 in 1990 to about $11,000 in 1999. [10] It was to become even worse with the passing of the Higher Education Amendments of 1998, which stated that student loans could no longer be forgiven under bankruptcy. Thus, if one found themselves in bankruptcy, but had student loans, they would be in debt bondage until the loans were paid. In such a situation, the only possible out is to default on one's student loans, however, that would not only worsen your credit but your entire financial life can potentially be destroyed as if you default

- Your entire loan balance will be due in full, immediately.
- Collection fees can be added to your outstanding balance.
- Up to 15% of your paychecks can be taken.
- Your Social Security, disability income, and state and federal tax refunds can be seized.
- You will lose eligibility for federal aid, including Pell grants.
- You will lose deferment or forbearance options.
- Outstanding fees and unpaid interest can be capitalized (added) onto your principal balance. [11]

Thus, by the very circumstances, a situation of 'damned if you do, damned if you don't' is created and students are put into de facto debt slavery.

This brings us to our current situation where student debt nationwide is over $1 trillion. Student debt can potentially turn into a major problem by threatening economic growth due to the fact that people are defaulting on their student loans as they cannot find jobs. A recent article came out from the *Associated Press* which stated that 53% of college graduates are either unemployed or underemployed and that when "underemployment [is taken] into consideration, the job prospects for bachelor's degree holders fell last year to the lowest level in more than a decade." [12] This is an even further economic threat when one realizes that the current level of student is unsustainable and that there will be major ripple effects on the economy when this house of cards comes crashing down.

In order to deal with the situation, there are some in Washington who favor rewriting bankruptcy laws as to allow for a return for student debt to be cleared in bankruptcy, however, this would only apply to *private* student loans, thus the student would still be on the hook for any federal loans owed. Yet, allowing federal loans to be absolved in bankruptcy is quite a thorny issue as taxpayers would have to pick up the tab. Once again, just as in 1965, the American Bankers Association is against such a proposal "saying it would tempt students to rack up big debt that they won't repay [and that] 'The bankruptcy system would be opened to abuse.'" [13] It will be interesting to see whether or not the government can once again placate the banks.

The only way to get out of this mess is forgiving loans. There is already some support in Congress as bill H.R. 4170 also known as The Student Loan Forgiveness Act is currently being proposed. The bill would fully forgive the loans of those who have been making payment for the past decade or will be able to do so in the coming years. It also "caps interest rates on federal student loans at 3.4 percent and enables existing borrowers to break free from crushing fees by converting many private loans into federal loans." Such a bill would free students from debt slavery and "would give Americans greater purchasing power, helping to jumpstart our economy and create jobs." [14]

This is what needs to be done in order to aid getting our economy back on track. If the government can spend over $1 trillion on wars and billions to bailout corrupt banks, hopefully they can spare a couple billion to bailout America's college graduates.

The alternative is to have the student debt bubble explode in our faces and the economy slump into even more dire straits and banks tighten up the flow of credit.

America now has a choice before it concerning its young people: they can either set them free, aiding in economic regrowth or risk shattering the economic recovery and mantain their children in the shackles of debt slavery.

Notes

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(http://web.archive.org/web/20081011160038/http://darkwing.uoregon.edu/~lsingell/Pell_Bennett.pdf)
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