Student Loans: The Taxpayers Lose Again

So Much Money, So Much Effort to Forego Repayment

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Politicians typically try to win votes by giving away money. Being a political Santa Claus is usually seen as more rewarding than being a federal Ebenezer Scrooge. Which is why there's now a $1.2 trillion federal student loan program that, the *New York Times* politely observed, "has been removed from the norms and values of prudent lending."

Federally subsidized student loans have become a political favorite, as Uncle Sam added $82 billion to his loan portfolio in 2015. An incredible 42 million Americans have outstanding debt; 6,100 schools have collected subsidized loans. Most of the money obviously has nothing to do with helping those in genuine financial need. Instead, Congress has created an educational "entitlement" akin to Medicare and Social Security, only for the young.

A lot of that cash will never be repaid. Borrowers whose loans came due from 2010 through 2012 collectively owed more two years *after* they started repaying their loans. The *New York Times* profiled the incredible story of a teacher who graduated in 1994 with a student loan debt of $26,278 that has ballooned to more than $410,000, mostly due to interest when she took out additional loans for graduate school and her kids and thrice took advantage of temporary federal loan forbearance, which allows borrowers to stop making payments for up to 12 months while interest continues to accrue.

As of 2014, 28 percent of those whose loans began requiring repayment in 2009 were in default. Almost half, 47 percent, of those who attended private schools were in default. Default rates were 51 percent at ITT and 53 percent at Kaplan. Anticipated lifetime default rates for cohorts 2007 through 2011 steadily increased from 15.9 percent to 18.4 percent. The *Huffington Post*'s Shahien Nasiripour warned, "Federal student loans made in recent years resemble the toxic subprime mortgage loans that helped cause the Great Recession."

After shoveling out money to people with little credit to attend schools unlikely to prepare them for work that pays, Uncle Sam provides multiple outs from having to repay the loans. For instance, people are entitled to three periods of forbearance. Try that one on your mortgage lender or credit card issuer.

The federal government also forgives loans for students who it believes have been scammed in some sense by poor quality (typically for-profit) schools. Of course, not being good itself doesn't constitute fraud, and not every student looks carefully at the details of what he or she is choosing. But even in the case of outright, flagrant fraud, why are the taxpayers responsible?

As journalist Megan McArdle pointed out, “People get taken by scams every day, often with the help of government money. Should Fannie Mae forgive the mortgages of people if the buyer misrepresented the condition of the house?” The Small Business Administration, Export-Import Bank, Overseas Private Investment Corporation, Federal Housing Administration, and many more public institutions underwrite what turn out to be very bad ideas. Indeed, asked McArdle, “what about people who go to a big, public party school and major in sports marketing or tourism?” People may need relief, but, she observed, that’s what bankruptcy is for. “The government should change the law to make it easier to bankrupt student loans,” she writes.

Congress also has created a forgiveness program for “public service,” which, of course, mostly means government work. This program is nonsensical: private jobs typically offer plenty of “service,” and the government often pays more — and provides far greater job security — than private employers do for similar “service.”

Indeed, Alexander Holt, an education policy analyst for the think tank New America, suggested including farmers in the Public Service Loan Forgiveness program “because they are uniquely serving the public” by producing food. So do writers, I want to emphasize. We help keep the nation informed, so that republican government can operate! So far, some 300,000 people have taken advantage of the program, with the number increasing dramatically over the last three years.

As a result, noted the *Wall Street Journal*, the program is yet another to spiral out of control, “encompassing far more workers than envisioned, many of them well paid. Thousands of workers with graduate degrees are on track to discharge five- and six-figure debts on their way to typically lucrative careers.” One sponsor of the law, Rep. John Sarbanes (D-Md.), said it was supposed to benefit physicians in underserved areas, not higher-paid colleagues. The Obama administration has proposed capping the benefit at $57,500, the maximum an undergraduate can borrow.

Yet the president and legislators constantly come up with new ways to sacrifice taxpayers to those who already enjoyed subsidized educational loans. Next year, the Pay As You Earn program (PAYE), passed by Congress but expanded via executive order, will cost Uncle Sam $22 billion in lost loan repayments. PAYE limits monthly payments to 10 percent of income and forgives the remaining debt after 20 years. (Why didn’t I get that for my mortgage?)

Sen. Elizabeth Warren (D-Mass.) has pushed a $60 billion refinancing plan to reduce borrowers’ interest payments. But there’d be no cost, she explained. Impose a new tax and millionaires would pay — as they are supposed to do for everything else on the left’s wish list. Taxpayers are already helping middle class kids attend college. Shouldn’t they at least pay what they promised on their loans?

So much money, so much effort to forego repayment. Why? Publicly subsidized student loans, whether directly from Uncle Sam or through private banks backed by Washington, make no policy sense. The “social” benefit from education is greatest at the lowest levels, when people learn to read and write: the building blocks for participation in society. Someone with little academic inclination isn’t even likely to gain a lot from high school, which is why kids can leave early.

College is viewed as the ticket to professional success, and graduating from college yields a large wage premium. But that benefits the individual, not society. Which is precisely why individuals, not government, should pay for school. The “social” benefit of piling up bachelor degrees — especially in the soft social sciences — isn’t obvious. After all, what practical social value comes with yet another sociology or English literature degree? Even more so, advanced degrees primarily yield individual, not “social,” benefits. It is particularly perverse to force lower income people to finance professional degrees for those destined to be part of the 1 percent. Indeed, one could argue that increasing the number of lawyers and PhD sociologists actually *reduces* society’s productivity.

The federal student loan program, like so many other federal programs, desperately needs to be rolled back. Students should borrow at market rates and finance their education through loans only if they are likely to repay their debts. They shouldn’t receive endless opportunities to avoid repayment. They certainly shouldn’t be able to get out of their obligations by taking a government job, or a government-favored job.

Washington’s operating principle is simple: the taxpayers always lose. It’s time for someone in government to act in the interests of those who work and pay for everyone else.

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