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Student Debt Crisis: The Recession Started It; Colleges Sustain It; And Politicians Make It Worse

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There's been a lot of ink spilled and words loosed over the growing mountain of student debt, now more than $1.3 trillion, about two-thirds as much as the combined total of credit card balances and auto loan debt held by Americans.

Politicians have varying explanations and proposed solutions for the "student debt crisis."

Sen. Bernie Sanders says that college should be free and that student loans have "outrageously high interest rates."

Former Secretary of State Hillary Clinton lays some of the blame on for-profit colleges, saying the schools, "…take all this money and put all these young people and their families into debt…"

Ohio Gov. John Kasich pointed to lowering the cost of higher education, citing online courses and how, in Ohio, "Universities won't get paid a dime unless a student graduates or completes a course."

While Florida's Sen. Marco Rubio said America needs more vocational schools where students can get trained to do skilled jobs while in high school, "…so they can graduate and go to work."

Before 2008, student loan debt wasn't considered a crisis worthy of national attention. What happened?

"Crisis" was first used to describe the student loan situation in spring of 2008, a few months after the onset of the Great Recession. But, 2008's crisis wasn't today's crisis, although the political response to it fed the current problem.

The "crisis" then in question was tied to the subprime mortgage meltdown and subsequent credit crunch, which resulted in more than 50 companies curtailing or exiting the private student loan market. But, as is often the case in recessions, the student loan market really didn't dry up, it just consolidated and became more efficient. The Cato Institute reported that while some companies got out of the student loan business in 2008, others looked to pick up the slack.

Congress, however, quickly stepped in and federalized the student loan market, voting in 2010 to shift the profits from student loan interest, in part, to pay for Obamacare.

So, the "student loan crisis" in 2008 meant lack of access to capital while today's problem is due to too much debt being taken on, hence, a "student debt crisis." The figure below charts the growth of $1.3 trillion in student debt owed by about 40 million people, up more than 80% since the recession.

Returning to the realm of politics, Secretary Clinton and many elected officials blame much of today's student loan debt on for-profit colleges. Last year, the Obama administration saw a federal court uphold the Department of Education's gainful employment regulations requiring that career colleges' graduates on average earn enough money to pay back their student loans. If not, they risk losing access to federal financial aid.

But, are for-profit career and vocational colleges entirely to blame for mounting college debt? The answer is "no," for at least three reasons.

First of all, a landmark 2015 study conducted by two researchers at the New York Federal Reserve Bank found that the flood of easy federal money into higher education had a predictable effect: higher tuition and fees. In fact, the research found that for every dollar of new subsidized loans, tuition went up by 65 cents. This "pass-through effect" was seen most clearly in "…expensive, private institutions that are somewhat, but not among the most, selective." In other words, the traditional colleges and universities which serve a large number of average students hike their tuition to absorb as much of the new federal money as they can.

This means that a significant portion of the $1.3 trillion in student debt can be attributed to tuition inflation pushed along by the flood of student loan money in recent years.

Secondly, vocational and career training in high school declined significantly in the 1980s and never recovered. The U.S. Department of Education estimated that the average high school student took 4.68 credits of vocational or technical courses in 1982—classes such as auto shop, wood shop, metal shop, home economics, and business accounting. By 1998, the average had dipped to 3.99 credits, a decline of 15%. In the meantime, academic requirements grew more stringent as politicians and parents alike expected every student to go to college as if all the children were above average. Federal researchers found that between 1982 and 1998 "…the breadth of vocational/technical coursetaking declined slightly, while the depth of this coursetaking declined more steeply" meaning that, many high schoolers expecting to enter the job market after graduation lacked the technical depth of job skills to be immediately useful to a prospective employer.

The pressure on vocational courses has been compounded by advancing technology and mounting cost pressures on high schools across the nation. In the 1980s, students learned to type on robust manual typewriters. But, 20 years later, computer keyboards were the norm—along with costly computers and software that didn't exist before. Auto shop in the 80s consisted of working on a junker car chassis. In 2015, cars have more computing power than did Mission Control for the Apollo Moon shot or even the desktop computers of 20 years ago.

The decline of vocational education in high school coupled with the increasing complexity of the modern workplace has naturally boosted demand for additional training beyond what high schools commonly offer today.

The Texas State Technical College, a network of public schools in the Lone Star State, estimates that there is a growing gap between job openings and qualified employees in what they term "middle skill" occupations, those requiring AA degrees or some form of certification. Their analysis of U.S. Bureau of Labor Statistics and U.S. Census Bureau data found that 56% of jobs in Texas were "middle skill" but only 42% of prospective employees had needed training.

In addition to public community colleges, many for-profit schools serve to close this knowledge gap. Politically-motivated attacks on for-profit schools do not address the underlying fact that these schools have expanded in recent years to meet demand caused by changing labor force needs compounded by a lack of relevant high school training.

Lastly, ongoing talk of student loan forgiveness by politicians operates to encourage students to take on more debt in the expectation that they won't have to pay it back. Signed into law by President Obama in 2010, a program nicknamed "Obama Student Loan Forgiveness" made new borrowers eligible for student loan forgiveness after 20 years. Meanwhile, Sen. Sanders has called for large-scale student loan forgiveness.

Borrowing money with the expectation of forgiveness leads people to borrow more money, just as a person ordering dinner at a restaurant may order a more expensive meal if he knows someone else is picking up the tab.

The solution to the growing tally of student debt is two-fold: get the federal government out of the business giving ever-increasing amounts of money to virtually any student with a pulse to pay for ever-increasing college tuition; and seriously grow the economy, so wages rise to make college loan repayment a far lighter burden for today's graduates.