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EDITORIAL: The student debt explosion

Higher education bubble threatens to add to nation's economic woes

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President Obama and members of Congress have spent so much that the federal debt is headed toward $16.4 trillion. Those lawmakers must be using budgetary skills they picked up in college, as undergrads around the nation are racking up red ink at a record pace. Student loan debt jumped $42 billion last quarter, the New York Federal Reserve reported last week, bringing the total owed to about $1 trillion.

That's more than Americans owe on automobile loans or credit cards, and school bills have become so large that many have found themselves unable to pay. The official student loan delinquency rate hit 11 percent, which is higher than any other category of consumer debt. The official rate doesn't include loans that are deferred or in their forbearance period, so the depth of the problem could be far greater.

Some want to foist responsibility for the situation onto taxpayers. Mr. Obama started the trend last year with an executive order limiting student loan repayments to 10 percent of discretionary income. Rep. Hansen Clarke, Michigan Democrat, is pushing his Student Loan Forgiveness Act, which would give even more breaks to borrowers. All this does is make the problem worse.

The endless supply of taxpayer subsidies has fueled the rise in college tuition. On average, the cost of attending a university has outstripped inflation by 5 percent annually over the past decade. The Cato Institute's Neal McCluskey estimates federal student aid increased by 372 percent between 1985 and 2010, from just less than $30 billion to almost $140 billion. Most of the increase has come in the form of loans rather than grant money, which has contributed to the looming crisis.

Easy credit and the push to send an ever-increasing number of young people to college have combined to create what University of Tennessee law professor Glenn Reynolds has termed the "higher education bubble." College has become much more expensive, but barely 60 percent of enrollees complete a four-year degree within six years. The other 40 percent are left with no degree, and plenty of debt.

For obvious reasons, loan burden falls almost exclusively on youth. Almost 40 percent of loans belong to people younger than 30, an age category hit hard by the current economic stagnation. That's still no reason to stick taxpayers — many of whom don't have college degrees — with the bill for graduates.

By removing the sliver of budgetary discipline that comes from holding individuals responsible for paying off debt, loan forgiveness encourages bad decisions. It also fosters the expectation of a "free" college education — with free meaning taxpayers foot the bill. The better solution is to cut off taxpayer-subsidized credit to universities. This would force institutions of higher learning to provide students an education that is actually valuable, not merely a credential.