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# How We Can Solve the Student Loan Debt Crisis

| Dana Edwards

In the United States, it costs far more to educate a college student than in countries such as Great Britain, France, Germany, and Japan.[1] The Federal Reserve Bank of New York revealed student loan debt ($1.19 trillion) surpasses auto loan debt ($968 billion) and credit card debt ($684 billion) in its May 2015 quarterly report on household debt and credit. If car prices had risen as fast as college tuition prices over the past three decades, the average cost of a new car would be more than $80,000.[2] The average 2015 college graduate owes more than $35,000 in student loans and takes about 17 years to pay it off.[3]

As a recent graduate of a Florida university, I'm particularly interested in


this issue and recently spoke with Dr. Robert Kelchen, assistant professor of higher education at Seton Hall University.

"Our main focus should be on the people for whom student debt is actually a very big issue," said Dr. Kelchen. "Student loan debt mostly affects the students who have fairly small loans and left college with debt, such as from a community college or public university, and are struggling in a low-paying job, or who left college with debt and no degree."

Currently, millennials make up about 40 percent of unemployed Americans. In relation to individuals in this age group a decade ago, when compared to the nation's median income, millennials are now earning less.[4] This has posed a frustrating challenge that has, in large part, forced many millennials to delay life decisions such as marriage, home buying, and starting a family. Higher college tuition and student loan debt make social mobility and financial security even more cumbersome for our young graduates.

**How Did We Get in This Mess?**

Scholars say several factors contributed to the current student loan debt issue. In an evaluation of the book, *The Student Loan Mess: How Good Intentions Created a Trillion-Dollar Problem*," George Leef, director of research for The John William Pope Center for Higher Education Policy, lists off the abundant federal government programs providing direct assistance to students.[5] While all well intentioned, these programs created a snowball of debt for taxpayers and college students.

Federal college assistance began with the GI Bill in 1944. Its purpose was to benefit veterans returning from the European and Pacific theaters. Fewer than half of veterans used GI Bill benefits, and most of those who did put the money toward vocational training. The rise of the Space Race in the late 1950s led politicians to advocate government subsidies to encourage the population to earn college degrees and "stop wasting brainpower." Thus, the National Defense Education Act (NDEA) of 1958 was born.

The NDEA made federal funds available to colleges on a matching basis for institutions to provide to students studying science, math, engineering, teaching, or modern foreign languages. This act popularized the idea of borrowing money one didn't have. It also contained the idea of loan forgiveness.

A majority of Congress wanted to go further to help more students earn a college education. The Higher Education Act (HEA) of 1965 was passed and took away the restrictions of the NDEA, allowing students studying for additional occupations to receive government assistance. And that's not all the HEA changed. This new act had students take out loans from private lenders, loans the government would guarantee. Politicians on both sides of the aisle wanted to take credit for this perceived benefit.

Not surprisingly, students began defaulting on their loans because of their inability to repay them after graduation. With the increasing expansion of "access" to college, the percentage of academically weak students increased. Politicians felt the need to intervene and, as a result, the federal government established two "solutions" for students: 1) allow them to claim bankruptcy instead of remaining in constant debt and 2) limit the amount of revenue a higher education institution could take from federal aid.

Bankruptcy, however, will not get rid of student loan debt and will only prevent aggressive collection action. Additionally, bankruptcy affects a student's reputation, self-image, property and possessions, and future credit rating. A bankruptcy remains on a credit report for up to 10 years.

The second solution was not as harmful. Limiting federal aid revenue that a higher education institution receives prevents it from operating at a "profit." However if a particular school is offering a quality product at a competitive price, then another source of revenue would fund the school. If there isn't enough demand from students willing to pay the price, it's probably not a quality education.[6] Ultimately, government still saw its role as the "fixers" of the issue and continued to make decisions causing harm in the following years. Higher education costs kept rising, and the number of students who heavily borrowed money rose as well.

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Fast forward to today. Students may receive the same amount of loan money, regardless of their academic major and expected career earnings. Again with good intentions, the government wants to provide as much access as possible to college for individuals of all socioeconomic backgrounds. While this is a worthy goal that many Americans want for their fellow citizens, this should be accomplished without massive student loan debt taken on by students and their families as a new form of "indentured servitude". Standards of education must be kept, and tuition cost must be affordable as determined by the market.

Because of government incentives,

a college education was in higher demand than government funds were possible. States also cut back on their higher education funding in addition to K-12 funding since both had alternative sources of revenue (colleges had tuition money, and K-12 education was offset by local government funding). This decrease in funding is in part due to Medicaid growth and prison expansion, two issues The James Madison Institute is currently working to remedy with solutions.

Most universities will blame the steep increase in tuition on the decrease in public funding for higher education. While this is partly true, colleges should be able to operate without government subsidies due to the willingness of students to attend and pay for the cost of the institution. Colleges did not see this business mentality and expected to perform with the same operating costs without the same funds from the government. Students and their families picked up that tab. The cost of college kept rising to the point where we are today.

What are these college expenses? Again, there are a number of answers.

Back in 1987, William Bennett, President Ronald Reagan's secretary of education, hypothesized that the availability of federal student loans drives up costs of higher education.[7] Some scholars agree, but others do not. The likely answer is more complicated.

"Salaries of full-time faculty members are, on average, barely higher than they were in 1970," said Paul F. Campos, author and law professor at University of Colorado, in a *New York Times* op-ed.[8] Since faculty salaries are most likely not the large brunt of higher education costs, what are the costs?

Higher education costs come from an expanding university administration (partly due to more regulations and partly due to inflated salaries for these individuals), benefits – health insurance and pensions for staff and graduate student teachers in particular, and campus services and amenities students seek.[9] Additionally, colleges have seen at least a 70 percent increase in adjunct professors (part-time professors, non-tenured full-time professors, and graduate students).[10] This growth in contingent faculty coincides with rising tuition rates as fewer tenured professors teach in the classroom and instead are pushed to work on research projects that may not add value to academia or the public. The rising demand for college degrees increases the price of tuition. Usually a student's willingness and ability to pay for college would restrain the price

of tuition, but government subsidies have helped absorb tuition increases and perpetuate the inflationary problem.[11]

**What Do Pell Grants Have to Do with Student Loan Debt?**

In August 2015, the Hechinger Report published an article about the return on investment of Pell grants.[12] A Pell Grant is money awarded from the government for the purpose of higher education. It is a grant, not a loan that needs to be repaid. Most Pell Grant recipients come from families earning less than $40,000 a year. The article disturbingly revealed that the federal government does not collect data on Pell Grant recipients. This means that taxpayers have spent $300 billion on Pell Grants since 2000 without knowing how many of the recipients have earned degrees. Pell Grants cost taxpayers $31.4 billion in fiscal year 2015, more than double what was spent on them in 2007.[13] Currently, some members of Congress want to freeze the maximum annual Pell Grant for the next 10 years at its current level, $5,775.

As of January 2014, Congress gave the U.S. Department of Education 120 days to produce Pell recipient graduation rates of every American university for the first time. The results were late and produced in November 2014 without an individual university breakdown, and with just 70 percent of Pell recipients analyzed. Of the 1.7 million students in the sample, only 39 percent earned a bachelor's degree in six years. While most degrees are supposed to take four years to complete, only 19 percent of full-time students earn a bachelor's degree in four years.[14] Slow student progress is due to credits lost while transferring colleges, remediation sequences that do not work, inability to register for required classes, switching majors or indecision in choosing a major course of study, and students taking too

few credits per semester to finish on time among other personal reasons. This lengthy graduation time has led education policy experts to routinely use six years as a bachelor's degree benchmark and three years for an associate's degree.

"In 1970, before Pell Grants, the federal government's student financial assistance programs totaled well under $2 billion; today they are about $160 billion. In inflation adjusted terms, these programs have grown at more than six percent a year," stated Dr. Richard Vedder, director of The Center for College Affordability and Productivity at Ohio University, in his remarks made at the University of Maryland at Baltimore in April 2015.

Individual universities, however, are required to provide Pell Grant data upon request. The Hechinger Report filed several information requests around the country seeking data for its report, with some schools not providing information. Overall, of the Florida universities sampled, Florida Pell recipients perform higher than most (99 colleges were sampled, nine of them Florida schools). Saint Leo University ranked 13th with an 86 percent Pell recipient six-year graduation rate, and the University of Florida and University

| School | Percent of Full-time, First-time Undergraduates Receiving Pell Grants | Six-year Graduation rate for Pell Recipients | Six-year Graduation Rate for All Students |
|---|---|---|---|
| Saint Leo University | 47 | 86 | 46 |
| University of Florida | 29 | 81 | 87 |
| University of Miami | 18 | 81 | 82 |
| Florida State University | 27 | 72.8 | 77 |
| University of Central Florida | 31 | 63.7 | 67 |
| University of South Florida (Main Campus) | 42 | 62 | 63 |
| Florida International University | 53 | 52.5 | 52 |
| Embry-Riddle Aeronautical University (Worldwide) | 23 | Did not provide information | 58 |
| Keiser University (Ft. Lauderdale) | 73 | Did not provide information | 68 |

Data collected and provided by *The Hechinger Report*. Not all Florida colleges and universities were asked to provide Pell Grant data, and as you can see from the data, not all colleges and universities provided the requested information per *The Hechinger Report*'s Freedom of Information Act requests. *(Source: http://hechingerreport.org/billions-in-pell-dollars-go-to-students-who-never-graduate/)*

of Miami ranked 16th with an 81 percent rate. Of note, Fort Lauderdale-based Keiser University and Embry-Riddle University in Daytona Beach did not provide information.

Accurate data needs to be published on this topic to share with students receiving Pell Grants so they can select the school giving them the most "bang for their buck" and ultimately a degree. Additionally, colleges typically apply grants and loan money toward tuition, fees, and on-campus room and board.[15] Any funds left over are paid to the student, without checking to see if need exists or where the funds go. Taxpayers do want these Pell recipients to succeed; otherwise, what's the point of a mandatory funding program that isn't successful?

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**Loan Forgiveness Creates Dependency, Exacerbating the Student Loan Debt Problem**

Loan forgiveness is a sweet deal for eligible students, but not so much for taxpayers. The Brookings Institution states, "Loan forgiveness creates incentives for students to borrow too much to attend college, potentially contributing to rising college prices for everyone."[16]

In 2013, the Consumer Financial Protection Bureau estimates one-fourth of the American workforce may be eligible for repayment or loan-forgiveness programs.[17] If all student loans were forgiven, there would be no incentive for schools to keep tuition costs down.[18] Students would not use restraint on their budgets. The government would encourage students to enroll in higher education that may be a poor choice for their career aspirations or skills, and the taxpayers would incur monetary consequences. Banks would be more likely to decline loan applications from a needy student if they know the debt will be forgiven and not paid back.

Taxpayers are on the hook to pay nearly $22 billion for President Obama's executive action in 2014 to expand student loan forgiveness, wrote *Forbes* contributing writer Jeffrey Dorfman, a University of Georgia economics professor, in February 2015.[19] As a recent graduate, I worry that not only have I made sacrifices and worked hard to pay my higher education expenses, but I bear the burden of someone else's education expenses who bore no financial burden. This could harm my future decisions, and the decisions of other taxpayers, to attend the grad school of choice, or even to attend at all.

George Leef of The Pope Center said loan forgiveness and easy terms help to keep this higher education bubble inflated. By the government encouraging students to borrow more than they should and hold on to loans for years without paying, students and taxpayers both have been underserved.

**What Can We Do to Remedy Such High Student Loan Debt?**
Because a variety of factors have contributed to the student debt crisis, solutions are not simple. Some solutions will also have unintended consequences. Our answers must embrace free-market principles to ultimately be successful long-term.

"We need to [bring down the debt], but we need to bring it down without a huge federal program," said Dr. Robert Kelchen. "The last thing we need is more anti-innovative regulation."

Dr. Katharine Lyall, former president of the University of Wisconsin System (1992 to 2004), suggests reducing regulation of health and safety issues, releasing universities from state government operating requirements such as mandatory participation in state health insurance and pensions, and enabling universities to manage their own human resources policies instead of state civil-service rules. Finally, Lyall suggests letting the institutions fail, just like any other business, when they can't compete

## Wise Choices for Students to Minimize Debt

*Here are some tips that Journal readers can pass along to aspiring college students. I gleaned these insights from personal experience. Graduating debt-free and paying for more than 80 percent of college fees on my own was an accomplishment, and should be for many more millennials. Below, I've included tips I used during my college career as well as tips from friends and professors.*

1. Public in-state universities or community college transfer programs can be savvy ways to save on education and living costs. Plus, travel to and from your family will be less expensive.

2. Look for a part-time job. On-campus jobs can be particularly beneficial. Oftentimes, on-campus jobs can be more flexible with a school schedule. Positions, such as working as a resident assistant in a dorm, can help pay for food, housing, and other fees as well.

3. Look for scholarships like it's your job. And don't stop after senior year of high school. Scholarships exist for all kinds of topics and in all types of submission formats. Regularly check with your high school guidance counselor or college department on scholarship opportunities. Fastweb.com allows you to create a personal profile where scholarship applications geared toward your credentials come to you via email.

in the marketplace. Dr. Vedder supports this idea, as he's stated that government subsidies have "shielded higher education from massive creative destruction."[20]

A small private liberal arts college in Michigan has implemented a program to help its students with indebtedness. Adrian College launched this program in the fall of 2014, promising to help repay all or part of a graduate's student loans if they are unable to secure a job paying more than $37,000 annually.[21] Because students eligible for this program won't begin graduating until 2018, no data has been collected on the results.

Other entrepreneurs have discovered another private solution. A startup nonprofit called SponsorChange.org encourages students to volunteer in the community and, in exchange, the nonprofit will help pay the volunteers' student loans.[22] SponsorChange.org works with donors across the country to help fund skilled graduates who seek to assist nonprofits in local communities.

To determine the services students

4 If working toward graduate school, accept once an assistantship or job outside the university is secured to help pay for tuition.

5 Build a budget for each month. A budget will help with planning finances, building wealth, and avoiding overspending.

6 Be smart with how spending money is used. Do you really need that latest Apple product? Is eating out for every meal necessary?

7 Research future occupations. Vocational school may be a better fit for your needs.

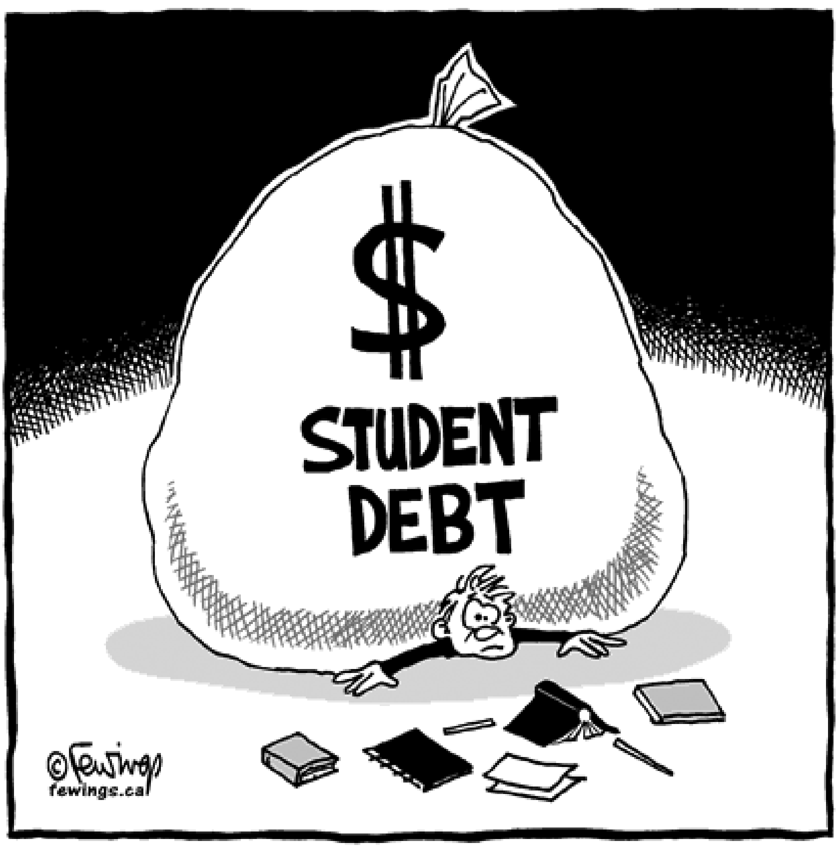
8 Some debt is not terrible, according to Dr. Robert Kelchen. However, students must ask themselves if the debt is worth taking on. Ask yourself: Are students in my financial situation graduating at a high rate at this university? Will my anticipated career path allow me to reasonably pay off this debt? Can I attend a public school for less money with equivalent results? Will my parents also have to borrow money to help me pay for my education?

9 If you are currently in debt, perhaps refinancing solutions can prove to help consolidate loans.

truly desire, student fees and expenses should be more transparent, and students should be able to select the services they wish to use – like an a la carte system. As an example, several universities around the state have shifted to charging additional fees for parking spaces. This user fee is far more equitable for students who do not bring automobiles to campus and who would not require a parking spot.

As another example, some colleges offer "free" initial counseling sessions or health center personal training sessions; however, these sessions are rolled into students fees, so in fact what is offered at "no cost" to a student is actually being paid for by the student whether they use it or not. Perhaps a student lives farther from campus and prefers an off-campus gym to the college gym, for example. Students should opt in to pay for services they want to use and opt out of services they do not want to use. The same goes for guest speakers, performers, and college athletics. An a la carte system would allow for the money to follow the consumer and colleges would become better informed on the amenities students desire.

Florida higher education institutions are working toward maximizing resources and creating initiatives to eliminate the underutilization of facilities. Public university students are required to attend a certain number of summer classes. The University of Florida started its Innovation Academy program in spring of 2013 for students to attend classes in a non-traditional semester cycle of spring-summer classes. However, many scholarships, including Bright Futures, and some student loans will not finance students during summer classes. Changing this stipulation would greatly improve the ability to be more efficient in facility use and possibly graduate students earlier.




Take the example of Mary Turner. Mary hopes future Florida college students won't have to go through the same financial binds she faced during the summer of 2015 while preparing to complete Florida's summer courses requirement.

Mary, a sophomore engineering student at the University of Florida, could not use her Bright Futures scholarship during the summer because the scholarship only covers spring and fall term classes; even though nine credits of summer classes are required of state university students. To fulfill this nine-credit-hour commitment without summer scholarship funding, Mary needed to secure a second job and take out additional loans so she could pay her tuition, fees, and housing expenses during the summer. Mary's Bright Futures scholarship was the only funding other than federal loans she received to help her pay for college.

Florida is already a national leader in K-12 educational options, and Gov. Rick Scott is looking to expand those options at the college level by proposing more flexibility in the use of Bright Futures scholarship funds. While no legislation was considered to expand the scholarship this past year, Gov. Scott suggested expanding the Bright Futures scholarships program by $23.5 million to cover credit hours taken during summer term in his 2014-2015 budget.

Summer scholarship coverage would allow students access to the education options they desire. These options could range from students graduating faster to join the workforce or attend graduate school, taking spring or fall internships, not needing to work multiple jobs, taking out fewer loans, and having access to different teachers or courses. Students would also graduate with less student debt, and would be able to pay off student loans sooner by entering the job market more quickly.

For the next legislative session, legislators should think about extending Bright Futures funds and flexibility to the summer so students such as Mary can pursue their education goals with less financial burden.

***"To determine the services students truly desire, student fees and expenses should be more transparent, and students should be able to select the services they wish to use – like an a la carte system."***

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## Endnotes


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