



Written by [Brian Koenig](#) on April 26, 2012

Obama Courts Young Voters With Student Loan Debt Plan

The student loan debt debacle is only worsening, as college tuition costs rise exponentially and unemployment for recent college graduates remains persistently stale. Bachelor-degree graduates are barely paying their bills, as they are stuck working lower-wage jobs while watching their loan debt mount higher and higher.

Borrowers in their thirties are averaging \$28,500 in debt, and the burden has continued to boost as economic growth remains sluggish. Moreover, most student loan debt is not forgiven or discharged in bankruptcy, partly because the federal government — rather, the taxpayers — has guaranteed about 80 percent of all outstanding student loan debt.



The question, of course, is what to do about the purported crisis. Naturally, many young, heavily indebted graduates are campaigning for debt forgiveness. Late last year, for example, young people in the Occupy Wall Street crowd called for a [movement-wide boycott](#) on student loan debt repayment, which professors and even some members of Congress supported.

"Since the first days of the Occupy movement, the agony of student debt has been a constant refrain," New York University professor Andrew Ross [announced](#) to a crowd of OWS protesters at a rally last year. "We've heard the harrowing personal testimony about the suffering and humiliation of people who believe their debts will be unpayable in their lifetime."

One group, like the social action website [Change.org](#), has called for a three-percent cap on federal student loan interest rates. Obama has hopped on this bandwagon, and is urging Congress not to allow interest rates on federal Stafford loans to double to 6.8 percent in July. The President spent the earlier part of this week touting his student loan plan, campaigning at universities and courting America's youth for the upcoming election.

"I didn't just read about this. I didn't just get some talking points about this. I didn't just get a policy briefing on this. Michelle and I, we've been in your shoes," Obama [told](#) a crowd of students at the University of North Carolina. "We didn't come from wealthy families. So when we graduated from college and grad school, we had a mountain of debt. When we got married, we got poorer together."

"And yet the trouble with those initiatives," [notes](#) CNBC reporter Kelly Evans, "or with forgiving student loan debt in whole or part, is threefold." First, the costs of subsidized debt reduction must be picked up by someone — most likely the taxpayer — at a time when the federal debt is on a steep upward slope.

The second issue, Evans writes, is the "moral hazard" of the scheme, that is, rewarding reckless behavior rather than discouraging it. Telling every high school graduate, for example, that they are entitled to a college degree only manipulates behaviors. In other words, PhDs or white-collar jobs are



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not for everyone.

"You can make more money on average if you go to college, but it's not true for everybody," [asserts](#) Harvard economist Richard Freeman, noting the growing possibility of a new debt bubble. "If you're not sure what you're going to be doing, it probably bodes well to take some job, if you can get one, and get a sense first of what you want from college."

The third issue under the microscope is a question of how to prevent future graduates from amassing such mountainous loads of debt. Kelly describes how calamitous the upcoming crisis could be for the U.S. Economy:

Our current system, in fact, has so failed that it may now be exacerbating income inequality (by saddling low-income students with high loan balances and shaky job prospects), economic malaise (by keeping would-be homebuyers stuck in costly rentals because of already high debt loans and/or poor credit histories, thereby damaging both the housing market and potential consumer spending), and long-term economic vitality (by hampering household and family unit formations with a higher share of 20- and 30-somethings currently stuck at home with mom and dad).

The reality is federally-subsidized student loans are generous subsidies for higher-education institutions, and the broader availability of low-interest loans — combined with the dangerous perception given to students that their debt will eventually be forgiven — allows colleges and universities to spike tuition costs to unprecedented levels. And due to such government intervention, these institutions can do so without endangering their efforts to attract prospective students.

Expounding on this conundrum, one that is largely spawned by the federal government, is senior fellow of the Ludwig von Mises Institute Thomas E. Woods , who wrote in his [recent book](#), *Rollback: Repealing Big Government Before the Coming Fiscal Collapse*:

Of course, it is the subsidies themselves that push tuition costs ever higher. Here's the obvious point everyone pretends not to realize: *colleges know the students have access to low-interest loans courtesy of government*. Aware that prospective students enjoy artificially increased purchasing power, college administrations raise tuition (and cut back their own aid programs) accordingly. When tuition thus continues to rise, as any fool could predict, we hear huzzahs for the government — for however could students pay this high tuition without government assistance? It is the classic case, as Harry Browne said, of the government breaking your leg, handing you a crutch, and saying, "See? Without me you couldn't walk."



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