



Obama Further Inflates Student Loan Bubble

On June 9 President Obama announced [new](#)  [executive actions](#) to make borrowing for college easier and less costly. Speaking to students via Tumblr, the president said:

A higher education is the single best investment that you can make in yourselves and your future, and we've got to make sure that investment pays off....

In America, higher education opens the doors of opportunity for all.

He dusted off the old shibboleths that a college degree will improve chances to get hired and will result in higher earnings as well:

The typical American with a bachelor's degree or higher earns over \$28,000 more per year than somebody with just a high school education — 28 grand a year.

And right now the unemployment rate for workers with a bachelor's degree is about half of what it is for folks with just a high school education.

He ordered Secretary of Education Arne Duncan to set up a "Pay As You Earn" (PAYE) plan that caps interest payments on student loans at 10 percent of disposable income which he estimates will help another five million students to get those loans. He is pressuring Sallie Mae — the student loan originator which currently manages more than \$180 billion in loans for over 10 million borrowers — to renegotiate agreements in order to make their loans "more flexible" and thus more attractive to more potential borrowers.

According to the White House fact sheet that accompanied his remarks, the president will continue to apply pressure on Congress to allow existing student loan debt to be refinanced at lower rates, and to cancel any student loan debt remaining after 20 years. This would put the ultimate cost of education onto the backs of taxpayers, but the president excluded any mention of that in his remarks.

All this will do is to increase the demand for student loans which have already skyrocketed during the Obama administration by more than 500 percent. The U.S. Treasury carries most of those loans on its balance sheet as debts. At the beginning of Obama's first term, that debt totaled \$120 billion. At the end of May it exceeded \$750 billion. The total student debt now exceeds \$1.2 trillion owed by roughly 37 million students and graduates.

The average college graduate who can actually find work makes, according to Pew Research, less than two-thirds of what the president said the graduate would make: about \$45,000 a year compared to \$28,000 for those with just a high school diploma. But it's even less than that once interest payments on student loans are factored in.

There are other cost considerations as well. Those payments would otherwise likely be used to fund savings, investments, and retirement accounts. Without those savings, college graduates with student debt will ultimately be much poorer than their peers without debt. As William Elliott, director of assets and education at the University of Kansas, explained:

If you graduate with a B.A. ... and you get the same job at the same place, you make the same amount of money.



Written by [Bob Adelman](#) on June 17, 2014

But that money [after paying off your student debt] will actually mean less to you in the sense of accumulating assets in the long term.

Even that “million-dollar advantage” to having a college degree that the president referred to last week isn’t accurate: All things considered, the advantage is more likely to be half that. For example, a recent study by PayScale.com found that out of 2,700 four-year schools in the country, only 72 of them show a one-million-dollar lifetime earning advantage over a high school diploma.

In addition, the unemployment rate among recent college graduates aged 20 to 24 is nearly eight percent, higher than the national unemployment rate.

Also lost in translation is the time involved in getting that degree. Even if a student worked at a minimum wage job for those four years instead of attending class, he would earn more than \$56,000, according to Jeremy Anderberg, a recent college graduate himself. He wrote:

Factor in out-of-pocket expenses as well as the debt for someone in four years of school (which is generous in itself — the average these days is closer to 5 and even 6 years) — you’re looking at anywhere from \$25,000 to \$100,000 [in lost earnings] for the average student.

Then you consider interest on those student loans, and the fact that you’ll take an average of 16-v18 years paying them off ... and all of a sudden the difference is not as great as it once appeared.

There’s another problem with college education these days as well: The students don’t appear to be learning, or at least learning what potential employers are seeking. The Hechinger Report in January 2011 said that “large numbers [of students don’t] learn the critical thinking, complex reasoning and written communications skills that are widely assumed to be at the core of a college education.” It added:

Forty-five percent of students made no significant improvement in their critical thinking, reasoning or writing skills during the first two years of college.

After four years, 36 percent showed no significant gains in these so-called “higher order” thinking skills.

Part of the problem, according to Hechinger, is that the students don’t study; they watch video games and hang out with friends:

Combining the hours spent studying and in class, students devoted less than a fifth of their time each week to academic pursuits. [Instead] students devoted 51 percent of their time — 85 hours a week — socializing or in extracurricular activities.

When left to their own devices, the students selected easy classes as well, thus increasing their chances of learning little while in college. Noted Hechinger:

In a typical semester, a third of students took no courses with more than 40 pages of reading per week. Half didn’t take a single course in which they wrote more than 20 pages over the [entire] semester.

Once graduated, holding a certificate in one hand and a student loan repayment schedule in the other, students don’t have the skills to get hired. FTI Consulting conducted a survey of corporate hiring decision-makers in November 2011 and learned that:

Only 7 percent believe the higher education system does an “excellent” job preparing students....



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Only 16 percent say that applicants are “very prepared” with the knowledge and skills they would need for the job.

Undaunted by such facts and surveys, the president nevertheless is determined to make borrowing more attractive to students, turning more and more of them into virtual debt slaves for the next decade or more of their working lives — assuming, of course, that they can find a job.

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