Why Student Loan Forgiveness Would Not Have Solved the Problem

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Over the years in presentations and through the media I've often addressed student loans and the economic drag they create. Recently, student loan forgiveness was struck down by the Supreme Court, and while everyone agrees that student loans are a problem, it's important to consider some of the underlying causes of onerous student debt. This financial drag on individuals and households would not have gone away had student loan forgiveness happened because we are not addressing the root causes. In fact, the problem is only likely to get worse.

First, let's look at some simple facts. Average student loan per borrower is approaching $40,000 with a total amount in student debt of $1.6 trillion or about 7% of annual U.S. GDP. Total credit card debt is less at $1 trillion and student loan debt is only second to mortgage debt. Two-thirds of college grads have student loans, which isn't surprising given that average four-year college tuition for a public university including living in dorms is $26,000 per year or $104,000 over four years. For a private university the total bill is $223,000. Forty-five million Americans have student loans, and the number of borrowers is only likely to increase given the exorbitant price tag.

What's talked about less is that the weighted average graduation rate between public and private colleges after six years is only 50%. After six years the chance of graduation is slim. The low graduation rate means that many students have debt and no degree. Also, technology and other innovations have drastically changed employer needs and universities have been like the Titanic in terms of changing course. Thus, many grads with more traditional, legacy degrees either have trouble finding a job or their skill set lands them a job making less money than they thought they would when they took on the loans. This is part of the reason certain groups like white males are declining in terms of college enrollment. College just doesn't seem worth it for many.

Having said that, college grads do make more on average over their lifetime than those who graduate with solely a high school diploma. That is changing somewhat with targeted certifications for high demand occupations in industries like construction and technology, but I would argue that four-year institutions that start offering more certifications during a student's four years are the game changing institutions we need. For those students who want it, why not combine the benefits of a liberal arts degree with specific skill sets and, where applicable, certifications that we know are in high demand? That provides students with insurance of sorts that they will quickly land a livable wage job upon graduation. It greatly increases the return-on-investment for the student while helping businesses with critical labor shortages that are not going away given our aging demographic and given rapidly changing technology needs. I would add that we definitely still need those golden undergraduate degrees that are in high demand such as nursing and computer science as well as the Ph.D.'s in physics (and economics!).

Many say that student loans should have been forgiven as many borrowers will be pinched when loans resume in October. Default rates are also going to increase. However, how about addressing the underlying problem of the 750% increase in tuition since 1963 – and that's in inflation-adjusted dollars. How about addressing that more specific skills sets and certifications needed for today and tomorrow's jobs? How about capitalizing on the more ubiquitous use of technology to make the classroom more accessible and thus increase enrollment while decreasing tuition? This could also open slots at top-tier universities for the hard-working "good" students and not solely the exceptional. I am not an education expert, but this is what many of those experts are saying is both doable and scalable with a new mindset.

There is also the opportunity cost of the money borrowers are putting towards student loans that could be used to buy homes, start families, pay for quality childcare, and generally boost U.S. economic activity and growth. Although experts say the resumption of student loans are not likely to tip us into recession, I worry about the stackable headwinds facing many borrowers. Student loan payments will resume in October right around the time pandemic-savings are projected to run out. Interest rates are high and will stay elevated for a while, including for credit cards. Thirty-five percent of households are renters, shelter costs have ballooned, and many renters have student loans. If individuals choose to invest in their future through education and in the process boost the U.S. economy, it needs to be easier financially, and the return-on-investment needs to be higher for many degrees. I would say now is an especially opportune time for innovation in higher education.

Tatiana Bailey is Executive Director of the nonprofit, Data-Driven Economic Strategies (DDES). An abridged video with this information recently aired on The Economic Update with Tatiana Bailey on Fox21 and can be found on their website or at ddestrategies.org.