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Fixing the Student Loan Mess

A Montana Public Radio Commentary by Evan Barrett
June 5, 2014

I do not accept, *carte blanche*, the reigning conservative belief that higher taxes directly shrink the economy and reduce economic growth. However, that macro-economic premise drives decisions in Congress that have made it virtually impossible to approach our economic challenges in a balanced manner. As a result, the only balancing that has been occurring is the balancing of our economic solutions on the backs of middle and lower income families. Meanwhile, money is allowed and even encouraged to continue to “trickle-up” to the wealthy, increasing income and wealth disparity -- the scandal of our time.

But, if taking some money (via taxes) from wealthy corporations and individuals is supposedly bad for the economy, then why is it not equally bad or even worse for our economy to be extracting unnecessary money from virtually all student loans and those young adults who carry that debt?

Today, students are caught in an economic vise. Total student loan debt exceeds 1.2 trillion dollars. Between 2004 and 2012, average student loan balances increased by 70%. But, according to the Census Bureau, during the even longer 2000 to 2012 period real median household income actually decreased by 6.6 percent. Add to that the fact that there are often multiple student debt carriers in a middle income family. That truly is an economic vise squeezing away at families.

How did this huge student debt mess happen? It started with the “starve the beast” philosophy that the political right imposed upon state governments starting with California’s Proposition 13 and carrying on for decades. Prior to that the norm was for state governments to strongly support “public higher education for all” with decent levels of state appropriations. There was a time in Montana when 60-70% of the cost of public higher education was borne by the public itself because the people believed that more education meant a better society as well as better economics.

But draconian cuts in state funding for higher education imposed by the right forced universities to find their money by rapidly increasing tuition, way beyond the level of middle class family affordability. How was a prospective student to cover the cost of that high tuition? The easy answer advanced by the student loan cartel dominated by banks – take out a loan -- or two or three or more!

Making the resulting student loan debt problem worse was the interest rate extracted from students. Older federal loans carried an interest rate as high as 8 or 9%. Older bank-backed student loan interest rates sometimes reached 13 or 14%.

Thankfully, last year Congress set maximum interest rates for new undergraduate student loan debt at 3.86%. But it did nothing to help with previously existing student loan debt. The Government Accountability Office recently projected that the payment of federal student loans issued between 2007 and 2012 alone will produce \$66 billion in “profit” for the government, way more than the cost for administration of the program.

Why is it OK for Congress to extract that huge amount from the buying power of emerging young students while at the same time refusing to make Warren Buffet pay taxes at the same rate as his secretary? Protect the millionaires, billionaires and corporations and punish the student. Is that any way to build a stronger future for our nation?

Senator Elizabeth Warren's "Bank on Students Emergency Loan Refinancing Act," would allow all previous government and private undergraduate student loan debt to be refinanced at the 3.86% level. As an example, the total savings on \$50,000 of student debt at that level as compared to 12% over 20 years is over \$61,000. The reduced payments that would result will allow more students and young people to move out of their parents' homes, perhaps save for a home down payment or buy a starter home, maybe start a small business, or purchase a car, all of which would help the economy grow.

If a corporation refinanced its high interest rate debt at lower interest rates, the political right would hail it as a smart and prudent business practice. Yet, few if any of them have signed on to this important bill. Isn't it time for Congress to treat those who seek to advance themselves through education with the same respect it treats the millionaires, billionaires and corporations who, through their expensive lobbyists, buy their prosperity with special favors from our elected representatives?

Isn't it time? Isn't it time?

This is Evan Barrett in Butte, thinking about students getting an education without an enormous debt load that limits their future.

Evan Barrett of Butte, but formerly from Red Lodge and Roundup, has spent the last 45 years at the top level of Montana economic development, government, politics and education. He is currently the Director of Business & Community Outreach and an instructor at Highlands College of Montana Tech. These are his personal views.