

The Student Loan Crisis and the Future of Higher Education

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The crisis in student loans has grown to the point that outstanding student loan debt will likely exceed \$1 trillion in early 2012. Yet employment prospects for college graduates have grown alarmingly bleak, particularly since 2008. The downturn in the world economy since 2008 is itself, in substantial measure, the outcome of the historic peaking of world oil production rates within the past six years. With the onset of permanent oil production rate declines within a few years' time, the world economy faces an epoch of contraction destined to last decades. These broader economic developments are setting the stage for a tragic bursting of the bubble in student loan debt. The situation also raises acute moral questions revolving around a basic conflict between the interests of the institutional complex of higher education and the masses of students who financially sustain that complex.

The crisis in student loans has been relatively little noted in public discourse, yet it has already reached epidemic proportions and continues to expand. Total outstanding student loan debt will likely exceed \$1 trillion early in 2012, and continues to grow at alarming rates. The total amount of loans taken out just for the year 2010 exceeded \$100 billion, and total outstanding debt has doubled in just the past five years.¹ One can get some sense of the breadth and depth of the crisis by noting that \$1 trillion is enough money for 20 million individuals to be carrying a balance of \$50,000 each.

At the same time, however, millions of student loan borrowers are finding it difficult if not impossible to service their debt. This is principally due to the fact that the current and recent annual cohorts of graduating college students, especially since 2008, face the bleakest employment prospects in decades. A recent study of 667,000 students who entered repayment in 2005 found that 15 percent of students in that cohort defaulted outright, and another 26 percent became delinquent in their payments.² Another recent study documents the bleak state of the labor market for more recent college graduates. According to this study, only 56 percent of the graduating class of 2010 had held at least one job by the spring of 2011. This is a drastic drop of the 90 percent figure for graduates holding a job in their first year following the classes of 2006 and 2007.³

The tragedy of the unfolding student loan crisis is greatly compounded by developments in the student loan industry over the past twenty years that have rendered student loan debt the most malignant and predatory of any class of legally enacted loans.⁴ The original foundation of the present student loan borrowing system was part of the Higher Education Act (HEA) of 1965. Among other things, this law made provision for federal loan guarantees to be extended to private lenders so as to encourage them to lend funds for the specific purpose of financing post-secondary education. Subsequently, in 1972, the Student Loan Marketing Association, more commonly known as Sallie Mae, was created as a semi-private Government Sponsored Entity (GSE) in order to provide a secondary market for student loans.

Yet in 1996, with congressional approval, Sallie Mae quietly initiated the transition from a GSE to a privately held, publicly traded corporation. Within just a few years, Sallie Mae had succeeded in establishing itself as one of the most successful publicly traded companies. Its stock skyrocketed in value even during the dot-com market collapse of 2000, and leading company executives such as CEO Albert Lord accumulated personal fortunes of hundreds of millions of dollars.

Since its original enactment in 1965, Congress has voted into law six amendments to the aforementioned HEA. For the most part, these amendments must be understood in the context of this too-little-known transition in the organization and mission of Sallie Mae, and to a lesser extent of other players in the industry. The most important of these amendments became law in 1998. One of its provisions established that all federally guaranteed student loan debt is non-dischargeable in bankruptcy in perpetuity. In 2005, this provision was extended to private, non-federally-guaranteed educational loans as well.

Other important aspects of the 1998 amendment to the Higher Education Act, and to a lesser extent of other federal legislation, stripped away most of the basic consumer protections from student loans that are taken for granted in all other legal forms of debt. The provisions enacted in this regard include the following:

- The elimination of the borrower's right to refinance following loan consolidation;
- The specific exemption of student loan debt from usury laws enacted at the state level, as well as from the federally enacted Truth in Lending Act;
- The power to secure payment on outstanding student loans through the garnishment of wages, Social Security and disability disburse-

ments, and seizures of tax returns—all without the requirement of a court order;

- The ability to penalize delinquent borrowers with the stripping of state-issued professional licenses and the termination of public employment;
- The permission to assess substantial penalties and fees in the event of delinquency or default, to the extent that the original outstanding principal on a consolidated loan in default can easily double or even triple.

In order to understand the full implications of the student loan crisis, it is necessary to situate understanding of it within the context of a broader phenomenon currently playing itself out in world industrial civilization, namely, “Peak Oil,” and the permanent cessation of economic growth that this historic turning point in energy availability entails. On July 12, 2008, the price of a barrel of oil reached nearly \$150 per barrel for the first time in history, closing the day at \$147.⁵ This event may be regarded as the climactic moment of what is almost certainly the peaking of worldwide oil production rates at a plateau of 82 million barrels per day over the time period spanning early 2005 into the present, following approximately 150 years of nearly continuous annual increases in production rates.⁶ As a result, currently, in late 2011, oil prices are hovering in the \$100 per barrel range even in the absence of significant worldwide economic growth.

Historically, there has existed a strong correlation between oil price increases and the suppression of economic growth. With regard to the operative causal connections, one may profitably quote words written approximately thirty years ago by the currently most prominent anti-Peak Oil controversialist:

Any price increase has immediate, undesirable effects on all oil-importing nations, causing a direct loss in national income. If the price rise is very gradual over a period of many years, thereby allowing the oil-importing nations a gradual adjustment, the direct effects might then be the main ones.

A large, sudden increase in oil prices would [however, in addition,] have serious indirect effects. It would exacerbate inflation, place further strains on the international monetary system, and sharply contract the demand for goods and services, further reducing national income. In short, the economic consequences would likely be a major recession, or possibly even a depression.⁷

These brief paragraphs, written in 1983 by Daniel Yergin, provide a very apt description of the nature of the role played by the international oil

markets in severely damaging the world economy during the recent years encompassing the worldwide peak in oil production rates. Originally, Yergin's words were intended to describe the effects of the oil shocks of the 1970s on the world economy. These oil shocks, as Yergin himself noted at the time, were themselves substantially precipitated by the peaking of U.S. domestic oil production in 1970.⁸ The applicability of Yergin's analysis to the situation that has prevailed in the period extending from 2005 to the present has been confirmed in a number of more recent studies of the effects of precipitously rising oil prices on the broader economy.⁹ Once the world begins to experience the onset of permanent declines in annual oil production rates, within a few years' time at most, a long-term process of contraction in world economic activity is sure to ensue.

Both the peaking of world oil production in the first decade of the new millennium and the peaking of U.S. oil production in 1970 constitute important remote factors contributing to the financial collapse of 2008 as well as the coming financial collapse imminently heralded by the European sovereign debt crisis. The inevitable onset of permanent declines in oil production rates renders any sustained economic growth, let alone the torrid rates necessary to service the European sovereign debt in any credible fashion, very unlikely. In the most fundamental sense, the widely expected resumption of long-term future economic growth serves as the collateral guaranteeing current debts, and the peaking of world oil production has objectively eliminated that collateral.

In a more proximate sense, however, the most significant underlying cause for both the student loan bubble collapse and the broader financial collapse, in whose train it will follow, will likely consist in a broad-based loss of confidence. The loss of confidence in question concerns the aforementioned expectation of future economic recovery and subsequent sustained growth. Eventually, this loss in confidence will extend to a critical mass of participants in world financial markets and the broader world economy sufficient to trigger a wave of defaults and market collapses. Currently, a degree of that confidence sufficient to prop up precariously the world financial system continues to persist, indicating that the subjective perceptions of the future prospects for sustained growth in the world economy continue to lag well behind the objective realities. Inevitably, however, the still widely-held illusion that sustained economic growth is shortly to resume will continue to evaporate. The imminent wave of defaults on European sovereign debt is destined to constitute a particularly dramatic episode in the evaporation of that illusion.

That same broad-based loss of economic confidence will likely also translate into the beginnings of a wholesale abandonment of higher educa-

tion by prospective students. In the case of the student loan collapse, this loss of confidence will take the specific form of the realization on the part of a critical mass of actual and potential students that a college degree no longer translates upon graduation into a decent middle-class job. At that point, the currently still-expanding student loan bubble will burst. It is quite likely that the broad-based onset of the triggering realization may be relatively sudden, and constitute an effect of the same dramatic loss of economic confidence that will also drive the events surrounding the coming wave of European sovereign debt defaults.

The bursting of the student loan bubble will also have portentous implications for the complex of institutions of higher learning in the United States. With the exception of a handful of extremely wealthy universities, institutions of higher learning are for the most part substantially dependent on student tuitions, and thus also on student loans, in order to operate. Without the continuing growth of the student loan bubble, it is foreseeable that many colleges and universities will be forced to declare bankruptcy and cease operations over the next ten years.

What are the implications of the rather ominous picture that has just been briefly sketched? On a practical level, any current or prospective college student should take careful stock of the current economic realities in relation to his or her personal circumstances. The critical question to ask is whether incurring substantial amounts of student debt, with all the particular sorts of dangers this type of debt entails, is fundamentally warranted at all. On an ethical level, the situation calls for careful reflection in light of Catholic social teaching. Central to the necessary analysis is the recognition of a basic conflict of interest that the student loan bubble creates. This conflict pits the interests of those employed in the higher education sector—including professors, administrators, and various support personnel—against those of students. The former require the continued infusion of student tuition and student loan money to support their livelihoods, while decisions on the part of the latter to shoulder the financial burdens necessary to sustain these infusions may well prove personally disastrous.

Notes

1. Cf. “Loan Volume Outstanding,” at www.finaid.org/loans/ (accessed December 14, 2011) for an estimated breakdown of the numbers. The \$1 trillion milestone received widespread publicity earlier this year due to Dennis Cauchon’s article, “Student Loans Outstanding; Will Exceed \$1 Trillion This Year,” in *USA Today* (October 19, 2011) (accessed December 14, 2011, at <http://www.usatoday.com/money/perfi/college/story/2011-10-19/student-loan-debt/50818676/1>).

2. Alisa F. Cunningham and Gregory S. Kienzl, *Delinquency: The Untold Story of Student Borrowing*, published March 2011 by the Institute for Higher

Education Policy (accessed December 14, 2011, at http://www.ihep.org/assets/files/publications/a-f/Delinquency-The_Untold_Story_FINAL_March_2011.pdf), 4–5.

3. Jessica Godofsky, Cliff Zukin, and Carl Van Horn, *Unfulfilled Expectations: Recent College Graduates Struggle in a Troubled Economy*, published May 2011 by the John J. Heldrich Center for Workforce Development, Rutgers University (accessed December 14, 2011, at http://www.heldrich.rutgers.edu/sites/default/files/content/Work_Trends_May_2011.pdf), 2–3.

4. The following history and data on student loan legislation are derived from Alan Michael Collinge, *The Student Loan Scam, the Most Oppressive Debt in U.S. History—and How We Can Fight Back* (Boston: Beacon Press, 2009): chap. 1, “The Rise of Sallie Mae and the Fall of Consumer Protections,” 1–22; and chap. 2, “Who Benefited?,” 22–36.

5. Kathryn Hopkins, “Fuel Prices: Iran Missile Launches Send Oil to \$147 a Barrel Record,” in *London Guardian* (July 12, 2008) (accessed December 15, 2011, at <http://www.guardian.co.uk/business/2008/jul/12/oil.commodities>).

6. Euan Mearns, “Peak Oil—Now or Later? A Response to Daniel Yergin,” *The Oil Drum* (September 22, 2011) (accessed December 14, 2011, at <http://www.theoil drum.com/node/8391>).

7. Robert Stobaugh and Daniel Yergin, “The End of Easy Oil,” in *Energy Future: Report of the Energy Project at the Harvard Business School*, ed. Robert Stobaugh and Daniel Yergin (New York: Vintage Books, 3rd ed. 1983), 14–15. Yergin is currently chairman of IHS Cambridge Energy Research Associates, and recently published “There Will Be Oil,” in *The Wall Street Journal* (September 17, 2011), defending the proposition that the peak and decline of world oil production lies decades in the future.

8. Stobaugh and Yergin, “End of Easy Oil,” 13.

9. One comprehensive recent study of the causal connections between the rise in oil prices and the subsequent collapse in the broader economy is by economist James Hamilton, “Causes and Consequences of the Oil Shock of 2007–08,” in *Brookings Papers on Economic Activity*, ed. David Romer and Justin Wolfers (Spring 2009) (accessed December 14, 2011, at <http://eepurl.com/cSPu>). For a detailed study of the direct causal connection between rising oil and gasoline prices and the historic reversal in housing price trends, see Joe Cortright, “Driven to the Brink: How the Gas Price Spike Popped the Housing Bubble and Devalued the Suburbs,” Discussion paper, *CEOs for Cities* (May 2008) (accessed December 14, 2011, at <http://www.ceosforcities.org/files/Driven%20to%20the%20Brink%20FINAL.pdf>). Since oil is the basis of 95 percent of the world’s transport fuel, the impact of the Peak Oil–related oil shock on the transportation sector of the economy has been particularly harsh. For a discussion of this issue in relation to the aviation industry, see U.S. Government Accountability Office Report to Congressional Requesters, *Commercial Aviation: Airline Industry Contraction Due to Volatile Fuel Prices and Falling Demand Affects Airports, Passengers, and Federal Government Revenues* (April 2009) (accessed December 14, 2011, at <http://www.gao.gov/products/GAO-09-393>).