The Developing Student Debt Crisis

Last weekend’s Economist examined the pay-off for students of the investment they make in various degrees. It’s the kind of unsentimental return analysis that needs to take place far more often. Not surprisingly, Engineering graduates enjoy anywhere from $500,000 of additional lifetime earnings to over $1 million (depending on the school from which they graduate). At the other end of the scale an arts graduate from a state school in Kentucky is, after paying for college, worse off than a high school graduate.

No doubt some will quarrel with the numbers, but the toxic combination of plentiful financing for students and tuition inflation that bears no relationship to the economy at large has resulted in debt burdens for thousands of young people that are disproportionate to their ability to pay them off. Making it almost impossible to default on college debt served the admirable public policy purpose of making loans more available, but it’s also resulted in young people taking on mortgage-sized obligations before they were old enough to buy a beer (though who could blame many for making up for lost time as they contemplate their finances?).

It’s a sobering thought when one discusses such issues with the children of friends – I had one such conversation very recently, and the best advice I could offer was to seek a renegotiation of existing debt. In fact, the true villains in this sorry spectacle must be the colleges themselves who have allowed their expenses to rise uncontrollably while their young and generally poorly informed customers sought higher education on virtually any terms available without regard to the return on investment. Institutions of higher education seek to educate, except on the basic economics of whether their young charges are investing their time and money wisely.

Surely every applicant for a college loan should receive a disclosure of salary ranges for graduates in their chosen major and years required for repayment?

In my book *Bonds Are Not Forever; The Crisis Facing Fixed Income Investors* I highlighted the sharp growth in tuition debt and noted how unsustainable it was. It shouldn't be surprising if over time it becomes a political issue that eventually leads to the inevitable discussion of a Federally-funded bailout of some type. When I researched the issue in 2012-13, tuition debt outstanding was $1 trillion. It's still growing. It's another section of the population that is poorly equipped to handle higher interest rates, and shows why "low for a long time" is a pretty good description of the Fed's intentions for policy rates.