Insight

“Fix-it-First” Should Include Student Lending

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In his State of the Union address, the President suggested policies to encourage economic growth by repairing structural weaknesses that impair job creation. The President went so far as to include his support for private sector participation in the effort to rebuild roads and bridges and other aspects of the country's infrastructure. A welcome statement to a private sector that feels scorned by the current Administration, but a difficult one to swallow, based on prior actions.

It's difficult to follow the Administration's inconsistencies on involving the private sector. Just four years ago, at the Administration's request, Congress eradicated an entire industry, eliminating thousands of private sector jobs in the student loan sector. It was alleged to have saved money, but history has punctured holes in that particular narrative – and the fact that student lending remains the only consumer credit function dominated by the federal government suggests the direct loan model isn't as attractive as we were told.

In between the not-so-subtle lines of the President's statements is the clear signal that there are limits to how much private sector participation he believes is acceptable. Perhaps student loan executives aren't as sympathetic of figures as construction workers.

Even so, it begs the question. Why should the federal government be allowed to choose which industries qualify for taxpayer investment and which others are targeted for extinction? If that Caesarian style of justice is to be the basis for economic growth, the private sector had better become comfortable targeting political whimsy as much as consumer demands. Clearly, this Administration prefers private sector participation only on a limited basis — best to keep the capitalists confined to those areas that can be carefully quarantined.

One might be tempted to justify the elimination of private sector participation in student lending by arguing that profit motives led to the rapid rise in student debt. An attractive argument, but an incorrect one. Since the transition to exclusively direct federal student lending, the number of borrowers and the total debt has continued to rise. Not only are debt levels up, but delinquency and defaults are climbing as well. The federal government, as it turns out, has no incentive to reduce borrowing or work particularly hard at making sure students stay in repayment because these loans have already been counted as being repaid in federal budget terms.

If the White House is open to the idea of private sector participation to improve aspects of the economy and drive growth, it's time to reconsider the student loam programs. Reengaging the private sector would reduce the national debt and create good jobs in the private sector. With nearly a trillion dollars in student loans likely to be issued over the next decade, it’s one of the largest stimulus packages the government could support – without the stimulus price tag.

Among the other highlights from the State of the Union:

- The President encouraged colleges to rein in costs (for the second time), but the Administration's income-based repayment program appears to be part of the problem.
- Calling on colleges to take responsibility for costs, the President intends to publicize ‘best buys’ in higher education. Yet over the past four years, the average price at a four-year college has risen by an average of 6 percent, much faster than the rate of inflation.

In spite of the President’s claim that college has become more affordable, debt and borrowing is up, while enrollment is declining.