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## COLLEGE LOAN GLUT WORRIES POLICY MAKERS

Massive investment in improving skills turns sour, echoes of housing crisis

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The U.S. government over the last 15 years made a trillion-dollar investment to improve the nation's workforce, productivity and economy. A big portion of that investment has now turned toxic, with echoes of the housing crisis.

The investment was in "human capital," or, more specifically, higher education. The government helped finance tens of millions of tuitions as enrollment in U.S. colleges and graduate schools soared 24% from 2002 to 2012, rivaling the higher-education boom of the 1970s. Millions of others attended trade schools that award career certificates.

The government financed a large share of these educations through grants, low-interest loans and loan guarantees. Total outstanding student debt—almost all guaranteed or made directly by the federal government—has quadrupled since 2000 to \$1.2 trillion today. The government also spent tens of billions of dollars in grants and tax credits for students.

New research shows a significant chunk of that investment backfired, with millions of students worse off for having gone to school. Many never learned new skills because they dropped out—and now carry debt they are unwilling or unable to repay. Policy makers worry that without a bigger intervention, those borrowers will become trapped for years and will ultimately hurt, rather than help, the nation's economy.

Treasury Deputy Secretary Sarah Bloom Raskin compares the 7 million student-loan borrowers in default—and millions of others who appear on the same path—to homeowners who found themselves underwater and headed toward foreclosure after the housing crash.

"We needed individual households to stabilize property values and help revive communities," she said. "We want to stabilize this generation of student borrowers and revive their prospects for the future. I think students are essential to our future economic growth and contributions to productivity."

New research highlights the challenges.

In a working paper released last week, economists at George Washington University and the Treasury Department tracked the earnings of some 1.4 million students who left a for-profit college in the two years through September 2008. Seventy percent of them dropped out.

Those who enrolled in associate's and bachelor's programs earned an average of \$600 to \$700 a year less in the six years after leaving school compared with the six years before they entered. Almost all of them left with student debt—an average \$8,000 for associate's candidates and \$13,000 for bachelor's candidates.

Those in for-profit certificate programs earned an average \$920 less. The National Bureau of Economic Research working paper used federal tax records and Education Department data.

There are similar problems in nonprofit colleges, which enroll about 2.7 million students a year. A report released in May by Third Way, a nonpartisan think tank, revealed that among students who enrolled in 2005, on average only half graduated from such institutions within six years. On average, nearly four in 10 undergraduates at those schools who took on student debt earned no more than \$25,000 in 2011, the same as the typical high-school graduate. Other research shows similar dropout rates at public colleges and universities.

Along with the weak job prospects, most of these students are now severely behind on their payments, damaging their credit and limiting their ability to borrow for homes and cars.

More than a fifth of all student debt is at least 90 days delinquent, according to the New York Federal Reserve, and federal data show dropouts are three times more likely to default than degree earners.

No group saw its net worth decline more between 2010 and 2013 than college dropouts. The median value of their assets minus debts fell 14% over that period, according to the Federal Reserve's Survey of Consumer Finances. By comparison, the typical college graduate saw her wealth increase 5%.

In that sense, student debt threatens to widen the gap between society's haves and have-nots. A disproportionate share of for-profit college students is poor, black and Hispanic. The NBER study showed that half of the 1.4 million for-profit school borrowers were parents.

Ms. Raskin worries these borrowers are at risk of having their financial positions spiral downward due to debt. During the housing crisis, plummeting home values left millions of Americans underwater on their mortgages, preventing them from selling their homes and moving to better jobs. The lack of mobility in turn hurts productivity, since it limits the pool of workers that employers can choose from.

The Obama administration faced criticism that it was too slow to help ailing homeowners during the foreclosure crisis, which impeded the economy from recovering more quickly from the recession. The administration is determined to avoid similar criticism with student-loan borrowers.

It has already put forth an array of programs to help borrowers, including slashing monthly bills by tying payments to incomes, and forgiving some of their debt. But this time they face a different challenge: How to get borrowers to pay anything—even a penny—for an asset they never received.