Case 6
Student Loan Forgiveness Case

As higher education becomes an increasingly essential qualification for jobs and the price of higher education rises, many middle and lower class students have turned to low-interest student loans to finance higher education. Lately, however, student loan debt has soared to $1 trillion dollars and many recent graduates report having trouble finding a job in a slowly recovering economy. Faced with large amounts of student loan debt and no way to repay those debts, default rates are on the rise, with 8.8% of borrowers defaulting two years into repayment in 2009[1]. Many recent graduates believe they were not properly informed of the risks of taking out large loans to finance an education, especially with news that interest rates are set to rise to 6.8% in 2012 (absent action from Congress)[2].

Troubled economic patterns make up a perfect storm for a bill like the Student Loan Forgiveness Act of 2012, which was submitted to Congress earlier this year by Michigan Congressman Hansen Clarke. The bill is intended to lessen the crippling amount of debt that some students have incurred by pursuing higher education in a tough job market. The bill would go a long way towards lessening the burden on borrowers: capping interest rates at 3.4%, offering forgiveness of loans after 10 years of payments, and strengthening programs that trade loan forgiveness for public work. But relief for borrowers is not the only goal of the bill. Supporters of the bill cite the overall economic benefits of loan forgiveness as well. Billions of dollars that are now going into paying off student loans could presumably find their ways into the pockets of business owners, large and small, causing demand for products and services to rise and creating a cascade of new jobs to fulfill that demand.

However not everyone is thrilled with the idea of bailing out struggling students and criticism comes from some surprising sources.

Although the goal of attending the college of one's dreams frequently over-shadows it, those who took on student loans are required to be informed of the risks of carrying debt into uncertain times. While no one could predict an economic collapse, students who started college in 2008 should have known they were entering college during a financial crisis. And there are many ways that students could avoid paying more money for loans such as attending less expensive state schools or working while earning credit at community colleges. Students were, by and large, consenting adults who signed papers promising to repay. Furthermore, no relief is extended to students who worked to pay for their educations without taking out student loans. So the act seems to punish those whose ambitions caused them to work harder during college than some of their peers.

But perhaps more importantly, while no one is saying that debt-burdened college graduates don't encounter hardships when they can't find a job after college, these people are, statistically speaking, nowhere close to the least well-off in society. College graduates in 2011

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[1] Tanar Lewin. "Student Loan Default Rates Rise Sharply in Last Year," *The New York Times*. September 12, 2011, http://www.nytimes.com/2011/09/13/education/13loans.html.

[2] Jennifer Liberto, "Student loan rate hike: what you need to know," *CNN: Money*, April 24, 2012, http://money.cnn.com/2012/04/24/pf/college/student_loans/index.htm.

overall are half as likely to be unemployed as those with just a high school diploma, and are almost three times as likely to be employed versus someone without a high school diploma[3]. Even unemployed college graduates still have a college education — no small qualification in the job market. Those without higher education are suffering even more in the poor economy, since they do not even have the entry requirements to higher-paying jobs. Funds that would go toward relieving student loan debt could be targeted at programs that serve the poor and under-educated by offering job training or welfare assistance. Perhaps funds would be better directed at improving the plight of the least well-off rather than younger, college-educated people in the prime of their lives.

[3] Bureau of Labor Statistics, "Education pays in higher earnings and lower unemployment rates," March 23, 2012. http://www.bls.gov/emp/ep_chart_001.htm.