

EFFECTIVE TREATMENT FOR THE STUDENT DEBT CRISIS REQUIRES AN ACCURATE DIAGNOSIS

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The thrust of our colleagues' column on handling the problem of outstanding student debt through institutional accountability, borrowing limits, and extension of income-based repayment is only partially responsive to the causes of the student debt crisis. The central problem is that as demand for higher education increased, state support for public higher education declined. This put the private market for higher education at a distinct advantage, allowing the exploitation of some students by low-quality for-profit providers, and the exploitation of others via excessively high prices conflated with better quality. As a result, over time, a larger and more diverse population of students was pushed to take on federal student loans in order to finance their increasingly extensive and expensive postsecondary education.

Labor market credentialization is a key factor driving increased demand for college. It is no longer possible to reliably obtain stable labor market status without at least some form of higher education. Employers have shifted the cost of training and qualifying onto workers, to be paid for with student debt.

As demand for higher education credentials filtered to an increasingly nontraditional population, in terms of age, race, and family background, reliance on debt shifted from a marginal experience to a central one. While student debt used to be primarily held by graduates of expensive and elite professional programs, it is now held by a much broader group of people, including those who did not complete or even attend college. With that shifting identity came shifting economics: having student debt was once a mark of relative privilege; now it is a mark of disadvantage. Correspondingly, the perceived "pathologies" of non-repayment, default, and other forms of credit market distress have become more prevalent.

Looney and Yannelis focus on one aspect of credentialization: the expansion of for-profit institutions. Public institutions have long been constrained by inadequate levels of funding, even before the Great Recession. This led them to be less nimble at serving historically underserved populations, but over time those funding cuts pushed them to become increasingly entrepreneurial—even adopting practices for which the for-profit colleges are rightly criticized. It is a bit ironic that the authors refer to "an emerging empirical consensus . . . that institutions themselves are responsible for the success or failure of their students—not the demographics or socioeconomic status of their students" without acknowledging the role of structural changes in the economics of higher education.

Their claim is without much merit. Of the four studies they cite to buttress it, only the paper by Zimmerman (2014) even purports to establish a causal relationship between higher education and student outcomes. And, contrary to the way the authors characterize that study, it does not document heterogeneity among institutions, since it focuses on admission to a single institution. One study the authors cite elsewhere, Hickman and Mountjoy (2020), actually demonstrates the opposite—homogeneity among the causal effects of admission to a range of institutions in Texas, taking selection into account. The crucial fact of the student debt

crisis is, in reality, credentialization and the resulting changes in the composition of the population of student debtors.

We firmly agree that institutional accountability should be a priority. But federal policy that uses the college wage premium to justify ever-increasing student debt works *against* accountability. The basic premise—that the purpose of college is the earnings premium available to individual workers against their private counterfactual of not attending college—is faulty, but it has been a powerful shield against institutional accountability since it provides a justification for institutions to adopt predatory business models and practices. Instead, federal policy must be based on securing substantial social returns for higher education and institutions must be held accountable on the basis of serving the public interest.

Income-based repayment (IBR) simply cannot solve the problems we now face. Research shows that enrollees in such programs tend to be well-off among student loan borrowers (Collier, Fitzpatrick, & Marsicano, 2019). That is unsurprising, since the approach offers students with large loan balances the highest dollar return, and thus makes transcending the substantial barriers to enrollment most worthwhile for those with the most to gain. IBR also presumes cancellation of outstanding balances at some point in the future, which makes payments in the intervening period feel pointless to borrowers. In fact, the well-publicized difficulty obtaining relief under the Public Service Loan Forgiveness program highlights the futility of IBR as a stand-alone solution to student debt problems (Berman, 2018). Debtors making career and repayment decisions on the basis of promised future forgiveness are likely to be disappointed, since these programs did not take labor market credentialization and wage stagnation into account when they were enacted. For that reason, they imagined the future cancellation amount to be small. Instituting automatic IBR to avoid the onerous enrollment and income verification provisions of the program is a good start, but the deferred payments and ultimate cancellation do nothing to solve the underlying problem. Free college and debt cancellation in the present are more straightforward, albeit more difficult for policymakers with a stake in the convoluted status quo to swallow.

Similarly, instituting borrowing limits has surface appeal, given the tuition spiral that seems to be partly driven by the availability of federal student loans to private colleges and universities (Robinson, 2017). But that policy does not address the disproportionate need for loans among racial/ethnic minorities due to a discriminatory labor market and large racial wealth gap. When relatively low-cost federal debt is unavailable, they are likely to be victimized by predatory private lenders or not attend college at all.

The student debt crisis is not the result of poor decisions made by students, and thus punitive approaches will also fail. The crisis is the predictable outcome of a set of policy changes designed to shift the cost of higher education from states, institutions, and employers on to students and workers, justified by the college wage premium. That the latter have responded by borrowing a great deal is not due to their moral or prudential failings.

Federal higher education policy followed an unfortunate pattern laid down by federal housing policy in the 1990s and 2000s. In both cases, ownership of a certain asset is correlated with higher wealth and income, so the policy presumed that extending credit to individuals in order to purchase that asset would have the causal effect of increasing their income, enough to make the debt incurred repayable. We saw how that worked in housing when the bubble burst in the late 2000s. The dynamics of non-repayment are different, however; since student loans are unsecured, there won't be a dumping of assets at fire sale prices that causes the sudden bursting of a bubble. Instead, this time the debt burden will simply persist and weigh down successive generations of borrowers, unable to save instead for homeownership, household formation, entrepreneurship, retirement, or their own children's

education. We must address the core challenges, forgive debt to ameliorate past policy errors, and make public higher education free.

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