

NR PLUS EDUCATION

An Idea for Student Loans: Get Rid of Them

By KEVIN D. WILLIAMSON | April 18, 2019 6:30 AM



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It's time to shut down the Bank of Uncle Stupid.

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ere is a three-part plan for something practical the federal government could do to relieve college-loan

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H debt. Step 1: The federal government should stop making college loans itself and cease guaranteeing any such loans. Step 2: It should prohibit

educational lending by federally regulated financial institutions or, if that seems too heavy-handed, require the application of ordinary credit standards in any private educational lending, treating the student himself as the main credit risk in all cases, including those of secured or unsecured loans taken out by parents or other third parties for that student's educational expenses. And 3: It should make student-loan debt dischargeable in ordinary bankruptcy procedures.

The most likely end result of this would be the effective abolition of government- and bank-based financing of college education in all but the most narrowly defined circumstances. Good riddance. That leaves about \$1.5 trillion in existing debt on the table, a very large number from which the federal government derives very little income, about 0.1 percent a year, or \$1.5 billion — a fact that should enter into our calculations about whether we attempt to collect every nickel of that money or, perhaps, slowly forgive some of that debt for students who keep up with their payments and are otherwise good citizens, maybe at a rate of 2 percent of the principal a year.

It is time to shut down the Bank of Uncle Stupid.

Colleges will have two choices: Bring their tuitions down to a more reasonable rate or, if they are so inclined, work out financing arrangements of their own. This would not present too much trouble to splendidly endowed schools such as Harvard and Princeton, or to public schools with substantial resources at their disposal. A senior official of my

alma mater, the University of Texas, once caused a stir by confessing — in public — that UT Austin doesn't need to charge tuition at all but does so mainly as a population-control mechanism. The problem, he said, wasn't money as such but the fact that the state would not let him raise admissions standards. Admittedly, UT has become a little more selective in recent years.

I have a theory about why there has been so much tuition inflation: *inflation*.

When we talk about “inflation,” we generally mean to denote a general rise in consumer prices; but, properly understood, that is the *result* of inflation, not inflation itself. Inflation itself is an increase in the money supply, and its effects need not necessarily be general. You can inflate the money supply by printing money, but you can also do it by expanding credit. Our friends at the National Association of Realtors and other charter members of the Committee to Reinflate the Housing Bubble, for example, have a keen understanding of the relationship between loosey-goosey mortgage-lending standards and brisk sales in the face of rising housing prices (and rising commissions). Your local new- or used-car dealer knows that he can charge higher prices for vehicles that are to be financed by people who care more about their monthly payment than about the total cost. There are some critics of the federal response to the 2008–09 financial crisis who believe that the recent run-up in the stock markets and the prices of other assets is fundamentally the result of inflation through quantitative easing and other measures. (You don't have to believe that that was a necessarily bad policy to believe that this is true, incidentally.) Easy credit contributes to higher prices.

If you make a few gazillion dollars available to finance tuition payments with underwriting standards a little bit lower than those of the average pawn shop, you create a lot of potential tuition inflation. Another way of saying this is that if Uncle Stupid puts a trillion bucks on the table, there are enough smart people at Harvard to figure out a way to pick it up.

We managed to provide college educations to those wanting them for many generations without creating a body of debt larger than all of the credit-card bills in the nation combined. Our colleges have become faintly ridiculous places, in terms of their modest academic ambitions (lookin' at you, journalism majors, women's-studies departments, undergraduate programs in business administration), their top-heavy administrative structures (the number of administrators per student has exploded along with college debt, suggesting that colleges are being treated as full-employment programs for the politically connected classes), their resort-style amenities, etc. We accept more students but *educate* far fewer of them — at much greater expense.

The best way to impose a little discipline on that mess is to make students, their families, and, most important, the institutions themselves carry their own water. The current system is exploitative: The students essentially function as a conveyor belt carrying government money into the universities, leaving borrowers instead of taxpayers on the hook because it looks better from an accounting point of view: If we just gave the universities money, that would show up on the books as an expenditure; lending it to students allows us to pretend that we have created an asset when all we have actually created is a great deal of debt and horses**t.

And, hard as it is to believe, it's even worse in the so-called trade schools and "professional" programs advertised in subways and buses from coast to coast. If you want to know how much money has been transferred to the nation's bartending academies, the Professional Golfers Career College, or the Northwest School of Wooden Boat Building under the guise of student lending, look [here](#).

So, let's cut the Gordian knot here. Don't reform student lending, don't try to lower the interest rates or create special debt subsidies for college graduates who follow careers of which the people with political power approve. Just get rid of it. With a meat ax.

There are lots of smart people at the universities. Or so we're told. If they can't figure out how to teach the liberal arts or accounting without dipping into the Bank of Uncle Stupid with both hands and all available snouts, then maybe somebody else should give it a try.



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