# Drowning in Debt

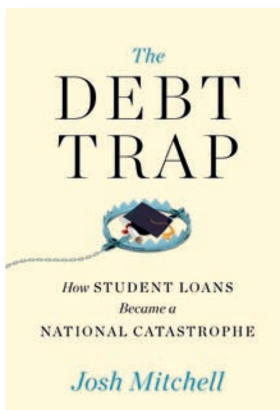
*Profiles of mega-borrowers spotlight broken student-loan policy*

**The Debt Trap: How Student Loans Became a National Catastrophe**
by Josh Mitchell

*Simon & Schuster, 2021, $27; 272 pages.*

***As reviewed by Matthew M. Chingos***

STORIES OF SIX-FIGURE STUDENT DEBTS tend to grab more public attention than tales of the typical college graduate or struggling dropout. One of the most extreme recent examples was the used-Tesla-driving orthodontist with $1 million in education debt, profiled by Josh Mitchell in the *Wall Street Journal* in 2018.




Mitchell's new book *The Debt Trap* blends the narratives of four six-figure borrowers with a detailed account of the history of student lending in the United States. These mega-borrowers are outliers—the typical borrower graduates from college owing less than $30,000—but Mitchell points out they constitute a large and growing segment of student-debt holders.

The four profiled borrowers collectively highlight the worst features of student-loan policy in the United States. Graduate students and parents of undergraduates can borrow unlimited amounts from the federal government, with few or no questions asked. Students can take on huge sums of debt regardless of their earnings potential, and low-income parents who choose to support their children's education may find that it spells their own financial ruin.

Government oversight of the quality of colleges, universities, and their programs is weak at best, so students who interpret the provision of federal-loan dollars as an implicit government seal of approval are too frequently mistaken. And too many Americans working in fields that have strict education requirements but modest pay, such as teaching and social work, end up with unreasonable debts.

Underfunded institutions, such as historically Black colleges and universities, are in a particular bind, because they rely on tuition dollars to survive, too often at the cost of piling unmanageable debt on students and families. This in turn further entrenches racial wealth gaps as Black students disproportionately fall further behind simply by trying to get ahead.

More than 60 years after the federal government started lending money to students, why do these problems seem to be getting worse rather than better? Mitchell chronicles how Congress repeatedly acted—generally with good intentions—to expand student lending from a small experiment launched in response to Sputnik to the behemoth it is today.

The chief villain of Mitchell's history is Sallie Mae, the congressionally created private company that profited handsomely from building much of the infrastructure for broad-based student lending. What began as a necessary arrangement modeled after the Federal Housing Administration's role in the mortgage market morphed into the epitome of corporate welfare.

Under this system, most student loans were made by banks but guaranteed by the federal government. This meant that the banks (and the guarantee agencies like Sallie Mae that facilitated these transactions) profited regardless of whether students repaid their loans—and the more students borrowed, the more money they made.

Successful lobbying efforts by Sallie Mae and other beneficiaries kept this system in place long after it had outlived its usefulness; the government began lending directly to students in the 1990s but kept the old program in place until 2010. Mitchell reveals that Sallie Mae's chief lobbyist, Mary Whalen, was literally in bed with Representative Bill Ford, the chairman of the House Education and Labor Committee, which was supposed to oversee Sallie Mae.

The loan program was exceptionally wasteful and inefficient, and Sallie Mae certainly made for a storybook villain. But it's unclear to what extent this history led to the challenges with student lending today. The Clinton administration began the process of ending the loan-guarantee program, a step that was completed with President Obama's strong support more than a decade ago. This move saved taxpayers billions of dollars, but it did not address the significant structural problems with the student-lending system.

Searching for a new villain to blame, Mitchell unconvincingly sets his sights on Obama. He faults Obama for his "unprecedented push to get people into college" and for "putting in place an income-driven repayment plan that drove up many borrowers' long-term costs while allowing colleges and universities to raise tuition."

It's fair to criticize the Obama administration for making income-based repayment of student loans more generous while not addressing the underlying issues surrounding borrowing and repayment, but there's little evidence to support the view that the changes to the repayment terms made borrowers worse off or that they were an important contributor to rising tuition prices.

On the plus side, *The Debt Trap* identifies the worst aspects of the loan program and the set of players and incentives that propel a continued increase in borrowing: a labor market that increasingly values formal credentials; colleges hungry for resources (to return to investors at for-profit colleges and to support an amenities arms race at many nonprofits and publics); and a Congress that repeatedly caves to pressure to expand access to loans (which are much cheaper to provide than grants).

Aspects of Mitchell's analysis of the problem point to straightforward (if politically fraught) solutions, such as ending unlimited lending to graduate students and to parents with no prospect of repaying. Congress could certainly end some of the practices that harmed the borrowers profiled in the book, such as the student whose relatives borrowed more than $100,000 to help him obtain an undergraduate degree from an expensive out-of-state public university.

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Where the book falls short is in failing to adequately grapple with the inherent tensions in the student-loan program and offer feasible solutions. For example, Mitchell acknowledges that the availability of student loans opened up educational opportunities for many students and points out that "there is a blurry line between predatory recruiting of vulnerable students and providing opportunity to them." But how to resolve this tension is unclear, as the whole point of a government loan program is to help students who would not be eligible for credit in the private market.

Many of Mitchell's policy proposals are underdeveloped. He suggests that we "revise the idea of the American dream" to be more inclusive of educational paths other than a four-year degree, without explaining how anyone might go about doing this. Mitchell also proposes that four-year colleges be required to put some of their own money on the line to discourage them from heaping debt on students, without acknowledging that student loans are an entitlement that colleges cannot limit under current government policy.

There are versions of some of these reforms that are worth pursuing, but any efforts to significantly curtail student loans will face stiff political headwinds. Even seemingly radical solutions, such as broad-based loan cancellation (which Mitchell does not support), would only reset the clock on student indebtedness. Universal access to student loans is a bell that will be very hard to un-ring, in light of the many constituencies that rely on student debt, including both colleges and borrowers themselves.

The sad truth is that radically reforming the loan program to address both the struggles of current borrowers and ensure future students are not put in the same position will likely require reaching a boiling point that comes with even greater human cost.

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