What does $1-trillion in student debt really mean? Maybe not that much
Beckie Supiano

Student-loan debt is having a moment in the spotlight. An interest-rate hike planned for July 1 has become a hot political issue. New graduates, the majority carrying loans, are entering a still-weak job market. Through it all, nearly every public analysis on education debt now cites the same statistic: The total amount of outstanding student-loan debt is more than $1-trillion.

That milestone made headlines in The Wall Street Journal, Forbes, tabloids, and blogs; it was on CBS and NPR. Pundits and interest groups have used the number to raise eyebrows about the high volume of education debt, sometimes suggesting a crisis.

A trillion is a big, round number. It has some shock value. But what does crossing the $1-trillion mark really tell us?

For one thing, that more people are going to college--and graduate school. The sum is an estimate of all outstanding education debt: private and federal student loans for undergraduates, parents, and graduate and professional-school students. And greater educational attainment is a goal the Obama administration and many nonprofit groups are pushing.

At the same time, in the wake of severe state budget cuts, tuition is rising, and students and their families are footing a larger share of the bill. A greater percentage of bachelor's-degree recipients have borrowed, and the average amount of debt per borrower has also risen. About two-thirds of graduates of public and private nonprofit colleges have loans, with the borrowers' average debt about $25,000, according to the most recent analysis, of the Class of 2010, by the Project on Student Debt. (The average debt for the Class of 2004 was under $19,000, according to the federal government, which counts somewhat differently.)

Total outstanding student-loan debt--even $1-trillion of it--may not have broad economic implications. It's still too small a sum to derail the economy, at least for now, says Mark Kantrowitz. He runs a well-known consumer Web site, FinAid, that displays a Student Loan Debt Clock, perpetually ticking up. But the clock is "intended for entertainment purposes only," the site says.

The student-loan market can't be viewed like the housing market, says Mr. Kantrowitz. No one speculates on the value of an education, artificially inflating its price.

Total annual student-loan payments, which come to $60- or $70-billion, now represent only about 0.4 percent of GDP, Mr. Kantrowitz says. And should a day come when the federal government--which makes most student loans--is too hard up to offer them, that will be the least of the nation's worries.

Besides, education debt is "good debt," says Anthony P. Carnevale, director of Georgetown University's Center on Education and the Workforce. "This is exactly the kind of debt a society wants."

A homeowner might find himself underwater on a mortgage, but an education doesn't lose value. And the government's new "gainful employment" rules, which attempt to prevent borrowers from ending up with worthless degrees, should make student debt an even better bet, Mr. Carnevale says.

Still, student loans have been called the next bubble. That doesn't faze Judith Scott-Clayton, an assistant professor of economics and education at Columbia University's Teachers College. It is "not something that keeps me up at night," she says.

Parallels with the housing market, she says, are unconvincing. But rising debt levels could affect graduates' pursuits, potentially deterring them from careers in public service. The

government does offer income-based repayment programs, but few borrowers take advantage of them, she says, a fact that puzzles economists.

INDIVIDUAL IMPACT

The $1-trillion total, which varies depending on where data come from and how interest is counted, didn't hit 13 digits suddenly. It has been climbing for years, and there's little reason to think it will stop now.

So today's tally doesn't necessarily matter, says Robert A. Sevier, senior vice president for strategy at the higher-education marketing company Stamats. "It's the trend line that's terrifying."

But pointing to an impressive number can be helpful to groups that want to raise awareness about student debt and what they see as its repercussions. "It represents the impact to the economy as a whole, not just to individuals," says Jen Mishory, deputy director of Young Invincibles, an advocacy group that has called itself the AARP for young people. Debt delays some recent graduates from buying homes or starting a family, she says, decisions that affect the economy. (The group conducted a poll last fall of about 900 people ages 18 to 34, finding that almost half had delayed purchasing a home, but because of the "current economy" in general, not student loans specifically.)

Meanwhile, the total student-loan debt now has enough zeros to get the attention of policy makers, who are used to thinking in trillions, says Andy MacCracken, associate director of the National Campus Leadership Council, a new student advocacy group. But students themselves are more concerned with the numbers that bear on them directly: how much they have borrowed, what their monthly payments are, and whether they can afford to make them.

Individual calculations, of course, have more impact on students and colleges. And the total amount of debt isn't inherently bad. "If it can be paid off the way it's supposed to be, it's not a problem," says Kathy Dawley, president of Maguire Associates, a higher-education consulting firm. What matters is who has borrowed, and if they can pay it back.

Someone who borrows a reasonable amount to help finance a good education, finds a well-paying job, and repays loans comfortably is evidence of the system's working. But if a borrower has either taken on too much debt, attended a subpar college, or failed to graduate or find work, that's a different story. Last week The New York Times posited that student loans are "weighing down a generation with heavy debt." Unemployment for recent college graduates stood at 8.9 percent at the end of 2011.

When the Institute for College Access & Success, an independent nonprofit, started the Project on Student Debt in 2005, its goal was to bring attention to an overlooked issue, says Lauren J. Asher, the group's president. Now, she says, it is no longer on the sidelines: "Student debt has touched more and more people's lives."

But what has this heightened awareness amounted to? When high-school students and their families choose a college, its price is a factor, though still not the most-cited one (strength of the academic major is). And when families consider price, they tend to focus on finding ways to pay the annual bill rather than calculating the total cost of borrowing, says David Strauss, a principal at the Art & Science Group, a consulting firm that studies families' decision making for colleges.

But perhaps all this talk about student debt bodes well for the students and families whose borrowing decisions are still ahead of them. The government has made a push in recent months to better educate consumers about college costs, requiring institutions to provide net-price calculators on their Web sites and offering a new tool to compare confusing financial-aid award letters through the Consumer Financial Protection Bureau. That agency's Know Before You Owe project is also tackling student loans.

Such resources are imperfect, and they matter only if families actually use them. Maybe the current focus on student debt will encourage that.
Ultimately, though, student debt may be getting more attention than its root cause: the high cost of college, says Andrew P. Kelly, a research fellow with the American Enterprise Institute. "The longer we focus on repayment and debt," he says, "the longer we'll tinker around the edges of the real problem."

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