

Forgiving Student Loan Debt Would Be Irresponsible

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Increasing attention is being paid to the problem of student loan debt, and there are some reasonable as well as unreasonable solutions. The approach outlined by Robert Applebaum, which is to simply forgive student loan debt, would be irresponsible. However, there are other suggestions worth pursuing, such as Senator Dick Durbin's recommendation that [bankruptcy](#) rules should be amended to allow [student loans](#) to be discharged.

Everyone wants a bailout these days. Everywhere you look you'll see a group that thinks the U.S. Treasury should issue them a blank check or two to ease their financial pain. Graduates of this country's institutions of higher learning are no different.

An Irresponsible Plan

We will avoid throwing around a lot of numbers here as we summarize. College and graduate school are expensive. Students borrow an awful lot of money to earn degrees which, their schools promise them, will provide an ample return on investment. But graduates often find themselves earning far less than they expected, or even unable to find work in the field they've trained for. Result: monthly loan payments that eat up a huge chunk of income, stretched out over 10- and 20-year repayment schedules. Many borrowers end up right where they were before they entered school: living in financial uncertainty or barely getting by.

Making matters worse is that federal law makes student loans exceptionally difficult to include in a bankruptcy. Both federal and private loans are now excepted from bankruptcy discharge, unless the debtor petitions for a determination of "undue hardship."

Is there anything that can help? A recent USA Today article highlighted a couple of approaches being suggested to help address what may or may not be a student loan repayment crisis.

Robert Applebaum, a lawyer (of course), is emerging as a spokesman for the full-blown debt-forgiveness option. His proposal is as follows: Congress should pass legislation forgiving student loan debt. Yes, that's the plan in all its detail, unless we are missing something on this proposal page. Unburdening debtors via a forgiveness plan will stimulate our battered economy with a massive increase in consumer spending, the argument goes. Everyone wins. No word on how (or if) all those lenders would get compensated, but the lack of detail in Applebaum's plan has not made it unpopular: Applebaum's Facebook group (of course) has a membership in the hundreds of thousands.

The Applebaum debt-forgiveness proposal is over-the-top, dangerous, and fraught with moral hazard.

A More Moderate Approach

USA Today also notes that Senator Dick Durbin (D-Ill.) is taking a more cautious and probably more viable approach, seeking to reform the bankruptcy rules to allow private student loans to be dischargeable. Lenders have always

argued that making it easier to include student loans in bankruptcy will ultimately drive loan costs higher, but of course one could say that about any kind of debt, and yet many debts are in fact still dischargeable. This plan may strike the right balance and offer some hope for the many who are already on the edge of bankruptcy.

Finally, according to the Guardian, in the UK, student-loan interest rates are being adjusted downward to 0%. Here is a much less drastic version of the Applebaum plan, something that might offer relief to all borrowers (and presumably stimulate consumer spending) without unduly harming lenders. Perhaps interest-free loans would be too much to ask for, but a significant rate cut may be in order.

It should be obvious where we stand here. The Applebaum debt-forgiveness proposal is over-the-top, dangerous, and fraught with moral hazard. Other plans are more moderate, socially responsible, and potentially viable. But sign us up with Applebaum. We've got loans too, after all, and there's a reason we call ourselves Greedy Associates.

Further Readings

Books

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