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More “crippling” debt?

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A milestone in consumer borrowing was recently passed. Consumer borrowing for cars topped $1 trillion for the first time. Did you see this news on the front page of papers across the country? Not likely. If you saw this story at all, it was probably in the business section where is was treated as a cause for celebration.

CNBC wrote:

> *Auto Loans Roar to Trillion Dollar Level*
> *With auto sales cruising at a near record pace, the amount of money borrowed by car, truck and SUV buyers topped $1 trillion for the first time ever.*

Here is the *Wall Street Journal*:

> *Given Americans’ love of cars and debt, it was just a matter of time before zipping past a new mile marker: $1 trillion in auto loans outstanding. With the recession now six years behind in the nation’s rearview mirror, lending for automobiles has sharply accelerated: Around $119 billion in auto loans were originated in the second quarter of this year, a 10-year high, according to figures from the Federal Reserve Bank of New York.*

On the other hand, if you are the least bit interested in higher education, you undoubtedly know student loan debt has topped $1 trillion, and this represents a crisis.

Here is a *Forbes* headline about this borrowing:

> *How the $1.2 Trillion College Debt Crisis is Crippling Students, Parents and the Economy*

Two significant types of borrowing of the same order of magnitude that are viewed quite differently by the media and the public. The *Wall Street Journal* made an explicit link, but suggested it might be good to take out a car loan:

> *Americans have racked up more than $1 trillion in both auto-loan debt and student-loan debt, which surpassed $1 trillion for the first time in 2013. The overall indebtedness of U.S. borrowers remains lower than before the recession, owing to declines in home-loan and credit-card balances. But with low gas prices, a growing number of jobs, and an aging automotive fleet, many people have found it an opportune time to get a new vehicle.*

Auto loans create jobs that boost the economy despite the fact that the borrowers’ assets begin losing value the instant they drive off the lot. Student loans are a crushing burden that limits life choices despite evidence that educational investments have a high rate of return and benefit borrowers a over a lifetime. The contrast might be simply perplexing if it were not so potentially harmful.

Credit basically allows individuals to shift their consumption–be it an automobile, vacation, home or education–to the present based on a promise to pay the debt in the future. Any kind of borrowing can be either harmful or helpful. There are plenty of anecdotes about over borrowing that has made individuals worse off.

But handled responsibly, borrowing can make households much better off and strengthen the economy. The whole concept of micro lending in developing economies is built on the idea that borrowing can be extremely helpful to individuals and the reality that economies that do not have robust credit markets are likely to be underdeveloped and have limited growth prospects.

Millions of American and their families are economically better off because they were able to borrow to invest in education. The growing chorus of individuals and media stories that paint student loan debt as an unmitigated bad that should be avoided at all costs are doing real harm to students who would benefit from higher education, and, as I have noted previously, those most likely to be harmed are the least sophisticated young people who come from families that have little experience with higher education and who don’t understand how to carefully weigh the costs and benefits of judicious borrowing.

I was told recently of a young man who had been accepted to Saint John’s University and was excited about coming. He subsequently received his financial aid package, which included a modest loan as well as scholarships and work study, as do the vast majority of our aid packages. (Ironically, the median student debt at graduation for the two-thirds of Johnnies who borrow is just under $30,000, equivalent to a modest car loan.) This young man then changed his plans and decided to live at home and attend a local community college, telling his Saint John’s admissions counselor that he did not want to a have any loans when he graduated from college.

Maybe this was the right choice for this young man. He may have a great a community college experience and be able to save enough to then transfer to a four year institution and graduate debt-free.

But it is also possible that at this student would have benefitted tremendously from the holistic, residential, liberal arts experience at Saint John’s and that by under-matching in his college choice he will have more difficulty achieving his full potential, personally and professionally, because somehow he had come to believe that any student debt was a burden he could not and should not bear.

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Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] PrezHemesath.