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Congress must act before America falls into a student loan debt crisis

By Andy Puzder

In testimony before the Senate Banking Committee, Federal Reserve Chairman Jerome Powell recently acknowledged the negative impact of the student loan debt crisis for both borrowers and the economy. For students, Powell noted that "it impacts the entire path of their economic life." Asked whether this crisis posed a risk to the overall economy, Powell stated that over time as "student loans continue to grow and become larger and larger, then it absolutely could hold back growth."

Congress should act before we experience a collapse in the student debt market similar to the collapse in the subprime mortgage market that led to the recession after the 2008 financial crisis. Fortunately, the House Committee on Education and the Workforce, chaired by former educator Virginia Foxx (R-N.C.), has a bill that would do the job. Known as the Prosper Act, it would address this crisis by reducing the student loan burden, making it easier to repay student loans and increasing the educational opportunities that qualify students for jobs that actually exist.

This is a rapidly expanding crisis. According to the Federal Reserve Bank of New York, in the first quarter of 2008, student loan debt totaled $579 billion. In the first quarter of 2018, it will total nearly $1.5 trillion, an increase of over 150 percent in just the past decade. The weight of this debt is more than many students can bear. Late last year, the Wall Street Journal reported that about 4.6 million borrowers were "severely behind" on their student loan payments.

So, why has student loan debt increased so dramatically? The simple answer is government policy. With the government making virtually unlimited student loans, costs have soared, and borrowings have correspondingly increased. A Federal Reserve Bank of New York studyexamined how student loans rose from 2001 to 2012. It concluded that the more government subsidizes education, the more colleges raise tuition.

Consistent with this study's conclusions, between 1985 and 2011 average tuition nationwide increased an eye-popping 498 percent, while the general rate of inflation increased only 115 percent. Colleges simply have no incentive to hold down costs. They pass them on to students who pay them by taking out financially crippling loans.

How do colleges spend this money? According to the National Center for Education Statistics (NCES), the number of college administrators rose by 57 percent between 2001 and 2011, roughly twice the increase in students and faculty. This likely understates the administrative growth as NCES began grouping administrative employees with "other" employees after 2011. A back-of-the envelope calculation suggests the number of administrators may have increased by 100 percent between 2001 and 2015, while total student enrollment increased by only about 27 percent.

The Prosper Act would help reduce these costs by capping federal student loans, limiting the ability of colleges to increase costs as they could no longer count on nearly infinite taxpayer-backed loans. The bill would also bring long overdue accountability to colleges by requiring that students meet loan repayment benchmarks. If students are to achieve these benchmarks, colleges would have to offer programs where students could actually find jobs after graduation.

That means more vocational training programs and less pushing kids into the traditional four-year college model. In other words, more classes in welding and fewer in gender studies. This would arm young people with real skills they could leverage to fight for $50,000 a year careers, enabling them to pay off their student loans in a reasonable time. It would also help create the skilled workforce our economy needs for growth.

The Bureau of Labor Statistics reported that number of job openings in January increased to a record 6.3 million. It also reported that in February, there were 5.1 million people "not in the labor force" who "want a job now." Why don't these individuals come off the sidelines and get back into the labor force? Moreover, there were 6.7 million people in the labor force but unemployed, meaning they had looked for a job in the past 30 days but were unable to find one. With record job openings, what's the problem?

While it hard to generalize, it's also hard to ignore the fact many of these individuals simply lack the training needed for the jobs that are open. In fact, the latest National Federation of Independent Businesses optimism index found that the No. 1 concern for small businesses was the difficulty finding qualified workers.

The Prosper Act would address this problem by using Pell grants to cover the costs of practical skills education for students in need. The bill would also encourage businesses to work with colleges in setting the academic agenda. Businesses know far better than government or academicians what jobs are open and what skills are needed to fill them.

The Prosper Act would lower tuition, reduce student loans, and create a more skilled workforce. It is legislation that politicians from both parties should get behind, and that the business community should support if we are to continue the current economic boom.

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