Erase student loans?

Justin Wolfers

by Justin Wolfers (/people/justin-wolfers)
Monday, October 10, 2011 (All day)

Kai Ryssdal: Whatever degree you have on your resume -- associate, bachelor's or more -- they have one thing in common: They don't come cheap.

Student loan debt in this country now exceeds the amount we collectively owe on all our credit cards. Best guesses are it's going to hit $1 trillion by the end of the year. Perhaps not coincidentally, that's one of the things the Occupy Wall Street protesters have been protesting (http://marketplace.publicradio.org/display/web/2011/10/03/am-occupy-wall-street-focuses-on-rising-student-debt-in-us/). There's even a petition circulating that asks Uncle Sam to forgive student debt. More than 400,000 people have signed it.

Commentator Justin Wolfers isn't one of them.

Justin Wolfers: There's an argument going around that forgiving the country's student loan debt will stimulate the economy. The basic argument is this, the president signs a bill, and millions of Americans would suddenly have hundreds -- even thousands -- of extra dollars each month. Consumer spending increases and then businesses will start hiring again.

Sounds promising, but here's the thing.
If government money is just to be given away, why on earth would we give it to college grads? They are on average richer than most, and they are suffering the least during the recession.

Plus, if you spend money for stimulus, you want to get a big bang for your buck. But forgiving $50,000 worth of debt is not an ideal. It an expensive way to get these folks to spend the few hundred dollars that currently goes to loan repayment. Much better to give fifty poor people $1,000 each. That money will be spent much more rapidly.

And think about the incentives. If we give one generation a free trip through college, what will happen during the next recession? I reckon the next generation will feel entitled to the same privilege, and they’ll lobby to get it. So we’ll end up with more spending in the least productive part of our economy -- the lobbying industry.

I know that my arguments won't be convincing to those of you struggling under mountains of debt. They'll say, "Bail us out, not the millionaires, billionaires, and corporations!"

But this isn't the choice we face. Economists talk about opportunity cost. It's a principle that says you should compare your choice with the best alternative. Relieving student loans may be a better idea than more tax cuts for the rich. But is it better than providing stimulus to the one-in-seven Americans currently living in poverty.

My conclusion: Yes, let's stimulate the economy. But let's do so in a way that serves the greater good, rather than just ourselves.

---

**Ryssdal:** Justin Wolfers teaches public policy at The University of Pennsylvania's Wharton School of Business. Got a comment? Send it along -- write to us (http://marketplace.publicradio.org/contact/).


**RELATED STORIES**

[Occupy Wall Street protesters irked by rising student debt in U.S.](http://www.marketplace.org/topics/life/occupy-wall-st/occupy-wall-street-protesters-irked-rising-student-debt-us)

[The debt ceiling and student loans: How the deal could affect your education](http://www.marketplace.org/topics/life/raising-debt-ceiling/debt-ceiling-and-student-loans-how-deal-could-affect-your-education)

[Personal finance 101 for freshmen](http://www.marketplace.org/topics/business/personal-finance-101-freshmen)