BOOKSHELF | By David Wessel

Don't Call It a Crisis

Student Debt

By Sandy Baum
(Palgrave, 120 pages, $54.99)

Game of Loans

By Beth Akers & Matthew M. Chingos
(Princeton, 181 pages, $26.95)

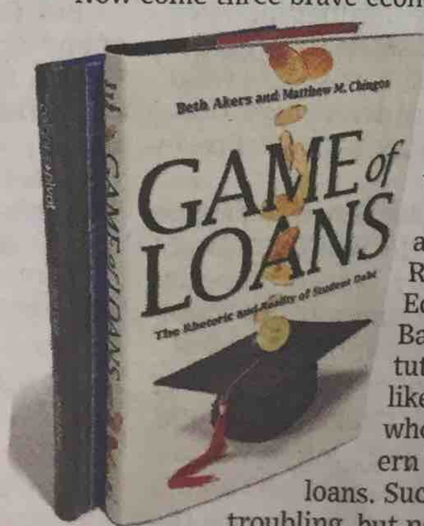
Lyndon Johnson didn't invent student loans, but he probably was the most influential student borrower ever. When he graduated from Southwest Texas State Teachers College in 1930, he had $275 in debt ($3,900 in today's dollars).

LBJ never forgot that debt. As a member of Congress, he pushed for a federal student loan program; as president, he succeeded. He returned to his alma mater in 1965 to sign the sweeping Higher Education Act, which broadened a narrowly targeted student loan program into a system of government-guaranteed loans for nearly all.

The law triggered an explosion in borrowing for college. In the early 1970s, students were taking about $8 billion (in today's dollars) in new federally backed student loans each year; today, it's about $100 billion a year. What's driven the increase? More people are going to college. College prices are up. And the government has made it easy to borrow, with few if any questions asked. Americans now owe more on student loans than on credit cards, better than $1 trillion in all. Nearly 40% of those between ages 20 and 40 have student debt.

Doing something about "the student loan crisis" is a staple in this year's political campaigns.

Now come three brave economists with a simple message: There is no student loan crisis—if by "crisis" one means that a huge number of Americans are buried under piles of debt for college educations that aren't paying off.



In a fact-laden but passionate volume, "Student Debt: Rhetoric and Realities of Higher Education Financing," Sandy Baum, now at the Urban Institute, counts up press accounts like the one about the woman who graduated from Ohio Northern University with $120,000 in loans. Such stories are accurate and troubling, but not at all typical. One scholarly analysis of 100 news stories from 2014 showed that the subjects profiled had borrowed more than $85,000 each. But only 7% of student loan borrowers at the end of 2014 owed more than $75,000, and the vast majority of those had graduate degrees. Two-thirds of all borrowers owed less than $25,000.

Beth Akers, until recently at the Brookings Institution, Beth Akers, until recently at the Brookings Institution, and Matthew Chingos of the Urban Institute argue further in their cleverly titled "Game of Loans" that the popular narrative about student loans is making it harder to address the substantial problems in a system that encourages far too many people to borrow more for schooling than the education will be worth. (Full disclosure: I work at Brookings, but had nothing to do with Ms. Akers's research or book.)

Both books start from the premise that, as Ms. Baum puts it, "it is actually reasonable for people to borrow to invest in their futures"—provided they are making well-informed choices to invest in education that is likely to pay off for them in higher wages in the future. "If students shouldn't have to pay for a portion of their education with their post-college earnings, who should pay?," Ms. Baum asks. Ms. Akers and Mr. Chingos acknowledge the attraction of making college tuition free; it would make college accessible to all.

The highest student-loan default rate is not among borrowers with large debts but among those who left school owing less than $5,000.

But, they say, it would be costly to taxpayers, offer subsidies to the affluent, fuel further increases in college budgets and possibly require substantial new regulation. All three economists see a role for government in student loans, though. Why? Because society as a whole benefits, not only individual students. Private lenders can't repossess an education as they can a car, so the market, left to itself, will extend fewer loans than optimal.

Successfully aimed at non-economists, both books are clearly written. They are light on people and anecdotes, though, so they're not exactly engaging. They are, however, powerful antidotes to the stereotypes and myths that have grown up around student loans. Did you know, for instance, that both the number of borrowers and the size of the average loan has fallen for four years in a row? That grad students account for more than a third of all student borrowing? That fewer than one-fifth of community college students borrow at all? That the median monthly payment on student loans has been essentially flat for two decades at 3% to 4% of monthly earnings? That only a quarter of college freshmen can state the amount of their own student loans within 10%? Or that the highest default rate (34%) is not among those with huge debts, but among those who left school with less than $5,000 in debt?

That last fact is particularly important. Both books oppose politically popular proposals for debt forgiveness because they'd be much bigger handouts to better-off borrowers with big loans than to those with smaller loans who are truly struggling to make their payments.

What would these economists have us do? They would like to prevent people from borrowing for programs they aren't likely to complete or to attend institutions that aren't likely to serve them well; yes, that means tougher lending standards and more regulation of higher ed—and not just of for-profit schools. They'd also limit the amount that students can borrow. Ms. Akers and Mr. Chingos would streamline the labyrinth of student aid into a single federal grant program for low-income students and a single loan program, in which repayment is tied to future income and payments are withheld automatically from paychecks. Ms. Baum, also a fan of income-based repayment, would, among other things, treat student debt like any other loan in bankruptcy and limit the amount of unpaid interest that can accumulate on overdue loans.

When the heated rhetoric of the presidential campaign is over, and the new president and Congress abandon bumper-sticker slogans and confront what's truly broken in the federal student loan system, these two books will be valuable guides.

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