

School begins—business as usual?

The new academic year begins soon, and with it the traditional scramble by university students and their families to meet rising tuition fees (not to mention multiple associated costs for books and supplies and food and clothing and housing and transportation and insurance and...) to continue completing their degree programs. Unless the student attends a college like Davidson or university like Princeton—schools that have replaced loans with grants and work-study jobs for those who meet needs-based criteria—overall costs are likely to be covered by a combination of grants and loans, whether provided by the federal and state governments or public and private agencies and financial institutions.

What is the final burden? Figures vary, of course, depending on school and program and length of study, in light of individual and family resources. But students generally carry anywhere from \$20,000 to \$120,000 of debt by the conclusion of their degrees, which of course is to be repaid by installments beginning soon after graduation. Much ink has been spilt and angst generated over these debt levels, and the serious sub-optimal social outcomes that follow from them: ranging from students who simply cannot afford to complete their degrees and drop out still indebted for whatever they borrowed up to that point, graduates who must look for any work to repay debt that will be with them for years to come, to job searches that are skewed to higher-paying employment rather than lower-paying public service opportunities, not to mention those who are financially shut-out of higher education altogether.

It's time to rethink the process.

No, this is not a call for schools to dramatically lower their tuition rates, or for the federal and state governments along with private financial institutions to increase grants and lending levels with lower interest rates. Nor is it a demand for rewriting loan rules to lift maximum borrowing levels or make the current burdens easier. Any or all of these moves might be welcomed. But they do not address the underlying problem of indebtedness.

Of course, one might resurrect the suggestion that we restructure the loan process to be income contingent. That repayment of debt, however high, might be linked to one's post-graduation income (say, 3% of taxable income above some minimum threshold), might likewise be a welcome change of policy. Hence, a former student might make payments for longer or shorter periods of time based solely on income: if one is employed in a high paying position, debt is retired relatively quickly; while if one is unemployed or employed for lower paying work, one might never pay or pay only small amounts without ever retiring the full debt, equaling debt forgiveness, all as a matter of policy. This idea was floated by no less an economic luminary than Milton Friedman as early as 1955, and has been applied in various forms over the years by a few private institutions like Yale, and even a few countries, like Australia and New Zealand, where education access is a high public priority.

But I mean to suggest something different, a scheme similar to one promoted by an Australian economist a few years back and that takes the public purse (and therefore the need for increased taxes or levies) out of the equation. Let's consider a market solution, where willing buyers and sellers contract for specified outcomes. I cannot here delve into the complexities of the proposal,

but consider the outlines of a simplified transaction: investors advance monies today in exchange for a percentage of a student's future income stream for a stipulated period of time. Naturally, as in regulation of any securities or bond markets, there could be legally mandated boundaries to such sales; so, one is in no way selling oneself as a "slave" or into a modern equivalent of indentured servitude for a period of years. Neither is the investor providing mere charity, but can expect some return on the investment. Like income contingent loans previously noted, certain thresholds before payment begins could also be established, and like invocation of usury laws, there could be maximum percentage levels or years of repayment agreed. Thus, one might imagine something like the following: an investor advances \$50,000 over a 4 year period in return for 6% of the student's future annual income stream for a period of 20 years. If the student earns \$45,000 per annum, the investor receives \$2,700; \$75,000 yields \$4,500; and so forth, for each year.

While the investor would wish for a relatively high income to yield a higher return, the student owes only a percentage of whatever actually is earned, no more or less, without regard to whether the cumulative annual payments meet, fail to meet, or far exceed, the monies originally advanced. Of course, a wise investor would seek to diversify investments, so one wouldn't choose a single student, or students only interested in a single career path. One might seek to hold a portfolio of diverse students, from diverse schools, seeking diverse degrees, in diverse career paths. So it would make good sense to invest in potential lawyers and doctors and engineers, but also teachers and social workers, anthropologists and political scientists, historians and philosophers. Think of investment clubs where students rather than companies are the focus.

Indeed, this diversity begins to look like the make-up of a typical university. So why shouldn't universities, themselves, invest in their own (and even select others') students, in just this way? Rather than disbursements just on traditional grants and loans to incoming and continuing students, colleges and universities can show their confidence in their programs and their students by quite literally investing in them and their future, and thereby create a coterie of alumni with continuing real "ties" to their alma mater. What better way to lighten the load of debt now riding the backs of students across the country, while opening the doors of higher education to those now shut out.

Daniel W. Skubik
Professor of Law, Ethics & Humanities
California Baptist University
Riverside, CA 92504
dskubik@calbaptist.edu