Jason Altmire (00:05):

Welcome back to Career Education Report, and we have a great guest today to talk about student loans and higher education. He is Todd Zywicki and he's the George Mason University Foundation professor of law at George Mason University's Antonin Scalia School of Law. He's a research fellow and former executive director of the Law and Economics Center at GMU, and he's held a couple pretty important government positions too. He served as chair of the Consumer Financial Protection Bureaus task force on federal consumer financial law, and he's also been director of the Office of Policy Planning at the Federal Trade Commission.

Jason Altmire (00:49):

And he really is a thought leader. He's a very prolific commentator. He's the author of more than 130 articles in leading law reviews and peer reviewed economic journals. And I think really interestingly, to show you the interest in what he has to say, he's been one of the top 50 most downloaded law authors at the Social Science Research Network, and that's all time as well as in the past 12 months. He's testified multiple times before Congress. His specialty is issues of consumer bankruptcy law and consumer credit. He's a frequent commentator on TV and in the print media. He serves on a bunch of boards and civic organizations. And Todd, we are just thrilled to have you here. Thank you for being with us.

Todd Zywicki (01:35):

Well, it's great to be with you too, Jason.

Jason Altmire (01:38):

Your knowledge of consumer bankruptcy law and consumer credit is literally unmatched anywhere. And I think first we would just love to know why you think federal student loans are treated differently than most other consumer credit. And in particular, what are your thoughts on policymakers considering legislation to make it easier to discharge federal student loans and bankruptcy? And do you think making bankruptcy easier would create unintended consequences for either students or institutions?

Todd Zywicki (02:08):

Well, that's a great question, Jason, so I appreciate the opportunity to talk about it because it's something a lot of people don't understand and there's a lot in your question. So the first thing is, why do we have student loans? Basically the idea is, is that it makes sense for somebody to, you can think of it as an investment. Just like when you buy a house, it doesn't make sense to save up enough cash to buy a house. You buy a house, it's an investment. You live in the house and instead of paying rent, you basically pay your mortgage. And by accelerating the time of buying the house, you can basically get an asset and a place to live. Same logic with student loans, which is you could in theory work minimum wage and save up and then go to college, but that would miss the whole point.

Todd Zywicki (02:53):

The reason you go to college is to get higher wages, and the idea is if the higher wages you get from going to college exceed the cost, plus the finance cost, plus whatever foregone income you would've made while you were working during that period, then it makes sense. It's just a good common sense investment. The big difference between a house and a student loan of course, is that if you fail to pay your mortgage, the bank could come and take the house and sell it to make good on it, but if you borrow for a student loan, they don't have any sort of collateral like that, they have no asset for that.

Todd Zywicki (03:27):

And so you promise to do it by paying out of your future income. And this is where student loans get tricky, which is when you graduate from college, you are basically the worst credit risk you will ever be in your life, which is you now, if you've got student loans, you've got massive amounts of debt, you have no assets, you earn less money than you're ever going to earn in your life because you're going to be at a starting salary. And that raises both the question of risk, but also raises a concern of what we economists call the problem of moral hazard, which is that you can borrow the money and then file bankruptcy and walk away from all of that debt.

Todd Zywicki (04:08):

So two things. First is very few private lenders would be willing to lend to somebody under those circumstances, to lend tens of thousands of dollars back by no collateral with just a promise to pay if they knew you could file bankruptcy. And so that's why the government in some sense, makes sense to guarantee those loans because the private market would be unlikely to make them. And this is where the problem potentially of being able to file bankruptcy comes in, which is the guarantee by the government solves the problem making the loan, but then if you can walk away from it by filing bankruptcy, you've basically recreated the initial problem, which is taking out a loan where you have no assets and no clear income to back it and great incentives to file bankruptcy to walk away from it.

Jason Altmire (04:54):

I'm really interested, given the public interest in President Biden's plan for loan forgiveness on student loans for 40 million federal borrowers. What are your thoughts on that and what do you think the impact in the long term will be if that's able to proceed?

Todd Zywicki (05:10):

Well, the way I think about it, there's a couple of questions. Right. The first question we'd want to know is what is the impact of student loans on the economy and all the people who to take them? Well, turns out number one, for most people, especially those who finish college student loans are still a pretty good investment even though people borrow a lot of money, especially for college. For most people, the wage premium you get from graduating from college exceeds the amount that you borrow, especially if you go to a selective college, for example, right?

Todd Zywicki (05:43):

There are two problems with student loans. Two things that predict student loan defaults. The first is if you don't finish your degree, and the second is demographic characteristics. So for example, if you are an older student or you've got kids when you go to college, really the constituencies that we see in community colleges and in the career colleges that you guys service just have people whose demographics are correlated with a tendency to default on their student loan. And so you kind of have this catch 22 where the students who most need student loans, meaning minority students, first generation students, students from lower income backgrounds, and the like also turn out to be the students who are most at risk down the road when it comes to actually repaying their loans.

Jason Altmire ([06:36]):

And a large portion of our listeners, as you might expect, are very interested in how for-profit schools play into the public policy debate. And when you think about these issues, I can't think of a better person to ask because in 2019, you co-authored a book called Unprofitable Schooling: Examining the Causes of, and Fixes for America's Broken Ivory Tower. And in that book, you extensively cover the reflexive action against for-profit post-secondary education among policy makers and details how these schools often perform the same or better in outcomes than other types of institutions. And we see some policy makers pushing legislation and regulations that adversely impact for-profit colleges only, failing to hold accountable other sectors in higher education. Do you find similar sector disparities in other industries like let's say healthcare?

Todd Zywicki ([07:35]):

Well, this is I think one of the most important things that people can think about when they're thinking about student loans, which is, as I just said, what predicts student loan defaults are the demographics of students. So all of the evidence, all the reasonable evidence, all of the multivariate regression evidence, all this sort of stuff indicates that controlling for student quality, the type of institution you attend, does not affect your likelihood of defaulting on student loans. So in other words, community colleges, for-profit colleges serve more or less the same students. And what we see is that they have similar default rates. In fact, in some years for-profit colleges have lower default rates than community colleges, partly because of the fact that in for-profit colleges are really good at getting their students to graduate, really good at getting students through the program, getting the degree on the other side. And that also is related to this.

Todd Zywicki ([08:35]):

And so most of the time when you hear sort of for-profit college bashing, it's an apples and oranges comparison. They compare DeVry to a Harvard. And there's a lot of differences between DeVry and Harvard, among those is the kids who go to Harvard are just kids who are really well equipped to succeed and thrive in college and survive in making money when they graduate. The second thing that's related to this is that it turns out the amount of money you borrow generally is not correlated with whether or not you default on your student loans. Why is that? What is correlated, which is how much money you make, which is that if you make a good income, then you can and will be able to repay your student loans.And so one of the embarrassing things, one of I think, the bad things about the Biden plan or those plans that for student loan bailouts is that people who have the highest student loan debts are overwhelmingly people who went to graduate school. These are overwhelmingly people who have high incomes. And so if you're going to bail out student loans, it's very clear that that is a regressive effect that students with the highest student loan debts are the ones who have the least trouble paying off their loans and would get the biggest windfall from forgiving student loans or allowing them to file bankruptcy.

Jason Altmire ([09:57]):

I'm really interested, you referenced outcomes for different types of schools and in your book you do an excellent job of comparing the outcomes of for-profit schools to their non-profit counterparts. And maybe for our audience members, can you expand upon what your research has showed in that regard?

Todd Zywicki ([10:16]):

Right. And what we've found out is the for-profit colleges just are different from what most people, or at least most media elites and what most congressional hill staffers think of as a college. Right. The overwhelming number of Americans do not go to a four year residential college with Ivy on the walls. They go for a few years here, or they go to a community college, they go to a for-profit college. They're basically looking to get a skills-based education that will give them skills in the marketplace. And what is very clear from the evidence is that the students who end up in for-profit colleges, a lot of students end up in community colleges, just don't have what economists kind of call the social capital to be able to navigate sort of all these different sorts of complex things that you, philosophy classes and all this sort of stuff.

Todd Zywicki ([11:13]):

And what for-profit colleges really specialize at is getting students in, getting them through, getting them out the other side and getting them a job. And one of the things I thought was quite striking that one of the papers in the book revealed was a lot in those who are in the career college industry will know this, is a lot of those who end up in career colleges have actually tried community colleges. And community colleges let's be serious, most community colleges just frankly are terrible in this country. Right. They have very poor support services.

Todd Zywicki ([11:45]):

One of the papers said overwhelmingly, if you tried to call a community college, 80% of the time nobody would answer the phone. And if you did get to talk to somebody, half the time they refer you to the website for the answer. Right. And for people who have kids, people who are working, people who are on hourly jobs, that sort of thing, that's just not very conducive to that sort of life for somebody who's out there working, has kids, maybe a little bit older. And this is what for-profit colleges, career colleges are really good at doing is delivering for those students.

Jason Altmire ([12:17]):

It is true moving people through the process in the way that's most convenient, given unique life circumstances is a strength of for-profits. They're the type of schools that serve people in transition going through a difficult time in their life, single moms, veterans returning to the workforce, maybe been downsized in their job. They need a convenient way to approach their higher education, somebody that'll work with them, move them through quickly. And I do think that it really is one of the advantages of the for-profit sector. I've heard you speak a few times about how you feel that higher education in general is right for a major shakeup. You'd like to see big changes within higher education. Can you talk more about that?

Todd Zywicki ([13:02]):

And I think it really is, right? I mean, there's this old saying something that can't go on forever won't and that's what higher education feels like, right? It's getting more and more expensive. But what we've seen is what is quite clearly at this point, the evidence is pretty clear what it's making sort of traditional four year colleges more and more expensive is the expansion of government financial support, financial subsidies. There was a paper from the New York Fed a couple years ago, for example, that estimated that 65 cents out of every dollar of federal support for higher education gets captured in higher tuition costs. The other thing that we see is that that money is not going into the classroom. What we're seeing there is more and more part-time professors, fewer and fewer tenured professors, that money is basically going to an increasing army of bureaucrats and fancy buildings, opulent dorms.

Todd Zywicki (13:57):

Mitch Daniels who just announced he's retiring from Purdue said back when he started at Purdue, every university had to have a climbing wall. Now every university has to have a lazy river. The arms race of bread and circuses just keeps going up. And the other thing that's quite clear to me is that if the primary purpose of training students for the workforce, if that's the primary purpose of higher education, as opposed to say, providing a well-rounded liberal arts education, if the primary purpose is to basically build skills, nobody in their right mind would design universities the way they look today with trillions of dollars of real estate, gyms, health complexes, football fields, baseball fields, right? All these various different bizarre classes that they offer and majors. Quite frankly, it would look more like career colleges do, if we were to actually be focused on that.

Todd Zywicki (14:52):

And so what's going on now is we're basically creating four or five years of a country club experience for students funded by the federal taxpayer indirectly, and now directly if we're going to start forgiving student loans for students. And that's just not a sustainable situation. It's just not sustainable in terms of delivering educational outcomes. And it's not sustainable in terms of the financial obligations that that is creating for the country and for graduates.

Jason Altmire (15:20):

And that point that you've brought up just now funded by the federal taxpayer is a really important point. And we make that all the time when people ask us about why are for-profit schools more expensive? Well, it's because we're not publicly subsidized.

Todd Zywicki (15:36):

Right.

Jason Altmire (15:37):

We don't get the huge taxpayer subsidies that others get, and many of them are using them for purposes other than direct higher education as you talked about. So I really think that is important to consider. And we often hear that accreditors are barriers to change, that is a criticism you'll hear of accreditors, and you've written extensively about that. And I just wonder how you think we can improve the current system to ensure quality and value, but not bar new options from entering the market. Because as you know, this administration has shown signs that it does not support competition among accreditors.

Todd Zywicki (16:15):

Well, that's I think the big question here, Jason, which is we know that competition works in every sector of the economy. Right. We know that what competition and sort of free markets do is increase quality and decrease prices, whether it's cell phones, tennis shoes, cars, you name it. Right. But we have stifled competition in the higher education space. And the question is how have we done that and what can we do to fix it? How can we do it to bring sort of the blessings of the competitive dynamic, competitive process to higher education? And I think the accreditation history is one of the most fascinating things that I have learned looking at this. And the basic problem goes back to of all things the GI Bill following World War II, which is what happened. They passed the GI Bill, which is well intentioned and basically said, We'll pay for GIs to get a college degree.

Todd Zywicki (17:14):

Well, it turns out some wanted a college degree and a college education, others just wanted a college degree. And so what happened was sort of diploma mills sprung up that were basically willing to sell a college degree to GIs without making them go through the trouble of actually getting an education. So when the GI bill was reauthorized after the Korean War, they basically said, Well, how do we make sure that this is going to real colleges, to legitimate schools and not just to diploma mills? And they kind of randomly glommed on, grabbed a hold to this, the little thing that was out there called accreditation. And now that has become the Goliath, right, that has become the tail that wags the dog because they become the gatekeepers for everything. They become the gatekeepers for all of the financial aid and everything that students need to go to college.

Todd Zywicki (18:08):

And so they create a stranglehold on this. And as I said, there are higher education in this country, so-called nonprofit higher education is an incredibly lucrative enterprise. These are billions of billions of dollars sorts of things, billions of dollars in endowments, trillions of dollars of real estate, the salaries, everything that goes along with that, armies of lobbyists and lawyer and everything else, lobbying to prop themselves up to protect themselves from competition. And that's what really needs to be focused on now is breaking down those barriers to competition to allow new competitors, people with different business enterprises and that sort of thing. And instead, what we're getting, and especially with this administration, is these politically powerful, higher education cartel is basically stifling competition from people who could take away their business, and the community colleges are right there at the trough with them basically propping up their competitive position, trying to get more and more subsidies in the like.

Todd Zywicki (19:14):

And so I fear we're moving in the wrong direction rather than improving our competition. Essentially what we did, you mentioned earlier, Jason, the healthcare system, and essentially what we've managed to do is recreate the healthcare system, right? By creating a system of third party payer where students are not completely aware of what the prices are we've basically created the situation where these traditional universities just keep raising tuition more and more and more pay, and the government subsidizes it.

Jason Altmire (19:43):

Yeah, there is definitely an analogy to be made there where in a fee for service system, every time you go to the doctor, every test they run, every procedure they order, they make more money. And then if you treat somebody for something and they come back two weeks later and they're not better, you make more money because you get to treat them all over again. So I do think there's an analogy there. Well, you've given us a lot to think about, Todd, and I think our listeners can definitely see why you're such a popular speaker and guest in forums like this. Can you tell the audience as we close what you're working on now and how people might be able to get in touch and find out more about what you're working on?

Todd Zywicki (20:23):

Yeah, so as you mentioned, if they're interested in this, the book was Unprofitable Schooling from the Cato Institute a few years ago. You can also find we have a deep dive, fairly deep dive on student loans in the task force report of the Consumer Financial Protection Bureau that I chaired that you mentioned. In chapter 12 there we talk about student loans and the like. I can be found on Twitter at Todd Zywicki, and I'm easy to find, my webpage and various articles that I have linked there. So it's been a pleasure talking with you and working to try to promote competition and consumer choice in this sector that needs it so badly.

Jason Altmire (21:02):

Thank you. This has been Todd Zywicki from the George Mason University School of Law. And I can't thank you enough Todd. Thank you for being with us.

Todd Zywicki (21:10):

Thanks, Jason.

Jason Altmire (21:12):

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