



Student Debt Slavery: Bankrolling Financiers on the Backs of the Young

Posted on December 26, 2017 by Ellen Brown

Higher education has been financialized, transformed from a public service into a lucrative cash cow for private investors.

The advantages of slavery by debt over “chattel” slavery – ownership of humans as a property right – were set out in an infamous document called the Hazard Circular reportedly circulated by British banking interests among their American banking counterparts during the American Civil War. It read in part:

Slavery is likely to be abolished by the war power and chattel slavery destroyed. This, I and my European friends are glad of, for slavery is but the owning of labor and carries with it the care of the laborers, while the European plan, led by England, is that capital shall control labor by controlling wages.

Slaves had to be housed, fed and cared for. “Free” men housed and fed themselves. For the more dangerous jobs, such as mining, Irish immigrants were used rather than black slaves, because the Irish were expendable. Free men could be kept enslaved by debt, by paying them wages that were insufficient to meet their costs of living. On how to control wages, the Hazard Circular went on:

This can be done by controlling the money. The great debt that capitalists will see to it is made out of the war, must be used as a means to control the volume of money. . . . It will not do to allow the greenback, as it is called, to circulate as money any length of time, as we cannot control that.

The government, too, had to be enslaved by debt. It could not be allowed to simply issue the money it needed to meet its budget, as Lincoln’s government did with its greenbacks (government-issued US Notes). The greenback program was terminated after the war, forcing the government to borrow from banks – banks that created the money themselves, just as the government had been doing. Only about 10% of the “banknotes” then issued by banks were actually backed by gold. The rest were effectively counterfeit. The difference between government-created and bank-created money was that the government issued it and spent it on the federal budget, creating demand and stimulating the economy. Banks issued money and *lent* it, at interest. More had to be paid back than was lent, keeping the supply of money tight and keeping both workers and the government in debt.

Student Debt Peonage

Slavery by debt has continued to this day, and it is particularly evident in the plight of students. Graduates leave college with a diploma and a massive debt on their backs, averaging over \$37,000 in 2016. The government's student loan portfolio now totals \$1.37 trillion, making it the second highest consumer debt category behind only mortgage debt. Student debt has risen nearly 164% in 25 years, while median wages have increased only 1.6%.

Unlike mortgage debt, student debt must be paid. Students cannot just turn in their diplomas and walk away, as homeowners can with their keys. Wages, unemployment benefits, tax refunds and even Social Security checks can be tapped to ensure repayment. In 1998, Sallie Mae (the Student Loan Marketing Association) was privatized, and Congress removed the dischargeability of federal student debt in bankruptcy, absent exceptional circumstances. In 2005, this lender protection was extended to private student loans. Because lenders know that their debts cannot be discharged, they have little incentive to consider a student borrower's ability to repay. Most students are granted a nearly unlimited line of credit. This in turn, has led to skyrocketing tuition rates, since universities know the money is available to pay them; and that has created the need for students to borrow even more.

Students take on a huge debt load with the promise that their degrees will be the doorway to jobs allowing them to pay it back, but for many the jobs are not there or not sufficient to meet expenses. *Today* nearly one-third of borrowers have made no headway in paying down their loans five years after leaving school, although many of these borrowers are not in default. They make payments month consisting only of interest, while they continue to owe the full amount they borrowed. This can mean a lifetime of tribute to the lenders, while the loan is never paid off, a classic form of debt peonage to the lender class.

All of this has made student debt a very attractive asset for investors. Student loans are pooled and repackaged into student loan asset-backed securities (SLABS), similar to the notorious mortgage-backed securities through which home buyers were caught in a massive debt trap in 2008-09. The nameless, faceless investors want their payments when due, and the strict terms of the loans make it more profitable to force a default than to negotiate terms the borrower can actually meet. About 80% of SLABS are backed by government-insured loans, guaranteeing that the investors will get paid even if the borrower defaults. The onerous federal bankruptcy laws also make SLABS particularly safe and desirable investments.

But as economist Michael Hudson observes, debts that can't be paid won't be paid. As of September 2017, the default rate on student debt was over 11% at public colleges and was 15.5% at private for-profit colleges. Defaulted borrowers risk damaging their credit and their ability to borrow for such things as homes, cars, and furniture, reducing consumer demand and constraining economic growth. Massive defaults could also squeeze the federal budget, since taxpayers ultimately cover any unpaid loans.

Investing in Human Capital: Student Debt and the G.I. Bill

It hasn't always been this way. Until the 1970s, tuition at many state colleges and universities was free or nearly free. Education was considered an obligation of the public sector, and costs were kept low.

After World War II, the federal government invested heavily in educating the 15.7 million returning American veterans. The goal of the Servicemen's Readjustment Act of 1944, or G.I. Bill, was to facilitate their reintegration into civilian life. By far its most popular benefits were financial assistance for education and housing. Over half of G.I. s took advantage of this educational provision, with 2.2 million attending college and 5.6 million opting for vocational training. At that time there were serious shortages in student housing and faculty, but the nation's colleges and universities expanded to meet the increased demand.

The G.I. Bill's educational benefits helped train legions of professionals, spurring postwar economic growth. It funded the education of 450,000 engineers, 240,000 accountants, 238,000 teachers, 91,000 scientists, 67,000 doctors and 22,000 dentists. 14 future Nobel laureates, two dozen Pulitzer Prize winners, three Supreme Court justices and three presidents of the United States. Loans enabled by the bill boosted the housing market, raising home ownership from 44% before the war to 60% by 1956. Rather than costing the government, the G.I. Bill turned out to be one of the best investments it ever made. The legislation is estimated to have cost \$50 billion in today's dollars and to have returned \$350 billion to the economy, a nearly sevenfold return.

That educational feat could be repeated today. The government could fund a public education program as Lincoln did, by simply issuing the money or having the central bank issue it as a form of "quantitative easing for people." Infrastructure funded with government-issued US Notes in the 1860s included not only the transcontinental railroad but the system of free colleges and universities established through federal land grants.

The exponential rise in college costs occurred only after the government got into the student loan business in a big way. The Higher Education Act of 1965 was part of President Lyndon Johnson's Great Society agenda, intended "to strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education." The Act increased federal money given to universities, created scholarships, gave low-interest loans for students, established a National Teachers Corps, and included a PLUS loan program that allowed parents of undergraduate and graduate students to borrow up to the full cost of attending college. Unfortunately, the well-intended Act had the perverse effect of driving up tuition costs. The availability of federally guaranteed loans allowed colleges and universities to raise their prices to whatever the market would bear. By the mid-1970s, tuition was rising much faster than inflation. But costs remain manageable until the late 1990s, when the federal student loan business was turned over to private banks and investors with aggressive collection practices, converting federally-guaranteed student loans from a public service into a private investor boondoggle.

Meanwhile, in many countries in Europe university tuition is still free, including Denmark, Estonia, Finland, Germany, Norway, Slovak Republic, Slovenia, Sweden and Turkey. But providing an affordable education for the next generation is evidently not a priority with our government. Only 3 percent of the federal budget is spent on education – not just for college loans but for school programs of all sorts, from kindergarten through graduate school. Compare that to the outlay for military spending, including the Veterans Affairs and other defense-related departments, which consumes over half the federal budget and is an obvious place to cut. But there are no signs that our government is moving in that direction.

What then can be done to relieve the student debt burden? Stay tuned for Part 2.

Student Debt Slavery II: Time to Level the Playing Field

The lending business is heavily stacked against student borrowers. Bigger players can borrow for almost nothing, and if their investments don't work out, they can put their corporate shells through bankruptcy and walk away. Not so with students. Their loan rates are high and if they cannot pay, their debts are not normally dischargeable in bankruptcy. Rather, the debts compound and can dog them for life, compromising not only their own futures but the economy itself.

"Students should not be asked to pay more on their debt than they can afford," said Donald Trump on the presidential campaign trail in October 2016. "And the debt should not be an albatross around their necks for the rest of their lives." But as Matt Taibbi points out in a December 15 article, a number of proposed federal changes will make it harder, not easier, for students to escape their debts, including wiping out some existing income-based repayment plans, harsher terms for graduate student loans, ending a program to cancel the debt of students defrauded by ripoff diploma mills, and strengthening "loan rehabilitation" – the recycling of defaulted loans into new, much larger loans on which the borrower usually winds up paying only interest and never touching the principal. The agents arranging these loans can get fat commissions of up to 16 percent, an example of the perverse incentives created in the lucrative student loan market. Servicers often profit more when borrowers default than when they pay smaller amounts over a longer time, so they have an incentive to encourage delinquencies pushing students into default rather than rescheduling their loans. It has been estimated that the government spends \$38 for every \$1 it recovers from defaulted debt. The other \$37 goes to the debt collectors.

The securitization of student debt has compounded these problems. Like mortgages, student loans have been pooled and packaged into new financial products that are sold as student loan asset-backed securities (SLABS). Although a 2010 bill largely eliminated private banks and lenders from the federal student loan business, the "student loan industrial complex" has created a \$200 billion market that allows banks to cash in on student loans without issuing them. About 80 percent of SLABS are government-guaranteed. Banks can sell, trade or bet on these securities, just as they did with mortgage-backed securities; and they create the same sort of twisted incentives for loan servicing that occurred with mortgages.

According to the Consumer Financial Protection Bureau (CFPB), virtually all borrowers with federal student loans are currently eligible to make monthly payments indexed to their earnings. That means there should be no defaults among student borrowers. Yet one in four borrowers is now in default or struggling to stay current. Why? Student borrowers are reporting widespread mishandling of accounts, unexplained exorbitant fees, and outright deception as they are bullied into default, tactics similar to those that homeowners faced in the foreclosure crisis. The reports reveal a repeat of the abuses of the foreclosure fraud era: many borrowers are unable to obtain basic information about their accounts, are frequently misled, are surprised with unexpected late fees, and often are pushed into default. Servicers lose paperwork or misapply payments. When errors arise, borrowers find it difficult to have them corrected.

Abuses and fraud in handling student loans have brought the Education Department's loan contractors under fire. In January 2017, the Consumer Financial Protection Bureau sued Navient, one of the largest contractors, alleging that the company "systematically and illegally [failed] borrowers at every stage of [student loan] repayment."

Getting a Fair Deal

The federal government could relieve these debt burdens, given the political will. A stated goal of the changes being proposed by the Trump Administration is to simplify the rules. The simplest solution to the student debt crisis is to make tuition free for qualified applicants at public colleges and universities, as it is in many European countries and was in some US states until the 1970s. If the federal government has the money to lend to students, it has the money to spend on their tuition (capped to curb tuition hikes). It would not only save on defaults and collections but could turn a profit on the investment, as demonstrated by the seven-fold return from the G.I. Bill. (See Part 1 of this article.)

Alternatively, the government could fund tuition costs and debtor relief with a form of "QE for the people." Instead of buying mortgage-backed securities, as in QE1, the Fed could buy SLABS and return the interest to students, making the loans effectively interest-free (as were the \$16+ trillion in loans made to the largest banks after the 2008 crisis). QE that targeted the real economy could address many other budget issues as well, including the infrastructure crisis and the federal debt crisis and this could be done without triggering hyperinflation.

Needless to say, however, the government is not moving in that direction. While waiting for the government to act, there are things students can do; but first they need to learn their rights. According to a new survey reported in November 2017, students are often in the dark about key details of their student loan debt and the repayment options available to them.

Under the Borrower's Defense to Repayment program, you can get your loans completely discharged if you can prove they were based on deception or fraud. That is one of the alternatives the Administration wants to take away, so haste is advised; but even if it is taken away, fraud remains legal grounds for contract rescission. A class action for treble damages against offending institutions could provide significant financial relief.

Students also have greater bankruptcy options than they know. While current bankruptcy law exempts education loans and obligations from eligibility for discharge, an exception is made for "undue hardship." The test normally used is that paying the loan will prevent the borrower from sustaining a minimum standard of living, his financial situation is unlikely to change in the future, and he has made a good faith effort to pay his loans. According to a 2011 study, at least 40 percent of borrowers who included their student loans in their bankruptcy filings got some or all of their student debt discharged. But because they think there is no chance, they rarely try. Only about 0.1 percent of consumers with student loans emptied to include them in their bankruptcy proceedings. (Getting a knowledgeable attorney is advised.)

For relief as a class, students need to get the attention of legislators, which means getting organized. Along with degree mill fraud and contract fraud, a cause of action ripe for a class action is the student exclusion from bankruptcy protection, a blatant violation of the “equal protection” clause of the Fourteenth Amendment. If enough students filed for bankruptcy under the “undue hardship” exception, just the administrative burden might motivate legislators to change the law.

States to the Rescue?

If the federal government won't act and individual action seems too daunting, however, there is a third possibility for relief – state-owned banks that cut out private middlemen and recycle local money for local purposes at substantially reduced rates. The country's sole model at the moment is the Bank of North Dakota, but other states now have strong public banking movements that could mimic it. A November 2014 article in the Wall Street Journal reported that the BND was more profitable even than J.P. Morgan Chase and Goldman Sachs. The profits are used to improve education and public services.

According to its 2016 annual report, the BND's second largest loan category after business loans is for education, with nearly a third of its portfolio going to student loans. As of December 2017, the BND's student loan rates were 2.82% variable and 4.78% fixed, or about 2% below the federal rate (which ranged from 4.45% to 7% depending on the type of loan), and about 5% below the private rate (currently averaging 9.66% fixed and 7.81% variable interest. The BND also acts as the servicer of these loans, bypassing the third-party servicers abusing the system in other states.

In 2014, the BND launched its DEAL One Loan program, which offered North Dakota residents a unique option to refinance all student loans, including federal, into one loan with a lower interest rate and without fees. DEAL loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the BND.

The BND also makes 20-year school construction loans available at a very modest 2% interest. Compare that to the Capital Appreciation Bonds through which many California schools have been forced to borrow to build needed infrastructure, on which they have wound up owing as much as 15 times principal.

The BND's loan programs have helped keep North Dakota's student default rates and overall student indebtedness low. As of January 2017, the state had the second lowest student default rate in the country and was near the bottom of the list in student indebtedness, ranking 44th. Compare that to its sister state South Dakota, which ranked number one in student indebtedness.

The public banking movement is now gaining ground in cities and states across the country. A number of cities have passed resolutions to pull their money out of Wall Street banks that practice fraud as a business model. In New Jersey, Governor-elect Phil Murphy has made a state-owned bank the funding basis of his platform, with student loans one of three sectors he intends to focus on. If that succeeds, other states can be expected to follow suit.

We need to free our students from the system of debt slavery that has financialized education, turning it from an investment in human capital into a tool for exploiting the young for the benefit of private investors. State-owned banks can make the loan process fair, equitable and affordable; but their creation will be fought by big bank lobbyists. An organized student movement could be an effective counter-lobby. Historically, debt and austerity have been used as control mechanisms for subduing the people. It is time for the people to unite and take back their power.

An earlier version (<https://www.truthdig.com/articles/student-debt-slavery-time-level-playing-field/>) of this article was first published on Truthdig.org.

*Ellen Brown is an attorney, chairman of the [Public Banking Institute](http://publicbankinginstitute.org/) (<http://publicbankinginstitute.org/>), and author of twelve books including [Web of Debt](https://www.amazon.com/Web-Debt-Shocking-Truth-System/dp/0983330859/ref=dp_ob_title_bk) (https://www.amazon.com/Web-Debt-Shocking-Truth-System/dp/0983330859/ref=dp_ob_title_bk) and [The Public Bank Solution](https://www.amazon.com/Public-Bank-Solution-Austerity-Prosperity/dp/0983330867/ref=pd_bxgy_14_img_2?encoding=UTF8&psc=1&refRID=2JMJVCY9086X0CSC5CPR) (https://www.amazon.com/Public-Bank-Solution-Austerity-Prosperity/dp/0983330867/ref=pd_bxgy_14_img_2?encoding=UTF8&psc=1&refRID=2JMJVCY9086X0CSC5CPR). A thirteenth book titled *The Coming Revolution in Banking* is due out soon. Her 300+ blog articles are posted at [EllenBrown.com](https://ellenbrown.com/) (<https://ellenbrown.com/>).*