

CHAPTER 5

WHAT ALL THIS REALLY MEANS

“In the land of the blind the one-eyed man is king.”

—Desiderius Erasmus

Your history lesson is over. You understand how we got here. Effectively, all at the same time:

- Our culture enshrined college as the one true path for kids;
- The mortgage meltdown rippled across American society;
- Tuition costs skyrocketed;
- Wages stagnated;
- A new, huge generation of students flooded our schools.

Today, around 70% of all college students have some sort of debt²². That’s shocking. On top of that, Parent Plus loans are starting to become more and more prevalent²³. These loans constitute another dangerous trap; they invite parents to sacrifice their futures for their kids’. This process delays and, in some cases, stops their retirement hopes in their tracks.

Ask almost any economist in America today: they’ll tell you that the next bubble to burst will be student debt²⁴. But here’s the thing. It’s not

going to just burst like the mortgage bubble did, where suddenly we lost billions of dollars; where pensions, savings, and retirements lost half their value; and where the sky fell overnight. Federal student loans are not designed like that, because they are not securitized. That means that they are not bundled and sold on the open market. They are not invested in. They can't be shorted or over-inflated.

But the popping of this bubble could, in the long term, prove even *more* devastating than the 2008 explosion. The catastrophe will look different and feel different. It will not be sudden but rather a slow bleed. This bubble will be more like a wall stopping people from living freely. It will suck the lifeblood from them, creating an invisible friction that drags on their dreams. Ironically, this fate is exactly what their college education was supposed to protect them from enduring. This drain, just like all others, will affect everyone, not just those with student loans.

We're already feeling the effects of this drag:

- Researchers have measured a **30% drop in entrepreneurship** among Millennials, directly correlated with the student loan debt²⁵. Fewer young people are taking the leap of faith to create new things because of their debt. Young people traditionally drive innovation; what happens when thousands of would-be founders of companies in medicine, science, clean energy, and social awareness never take the plunge because they can't afford the risk?
- As early as 2012-2013, the Census Bureau noted **huge drops in college enrollment numbers** across the country. As PBS reported, many Millennials just decided that college is simply not worth the cost²⁶.
- **The median age for buying a first home is growing older**, shifting from early 30's to late 30's. But more interestingly is the **NUMBER** of first-time home buyers under 32 has gone

down significantly²⁷. Many economists blame student loans for this shift. People are scared to buy homes. They are renting with roommates and sharing costs to save money because they have to feed their loan payments.

- **The rental markets also seem to be affected by student debt.** A recent report by Pew Research shows a startling trend: For the first time in more than a century, young adults between ages 18-34 are more likely to live at home with their parents than rent their own homes with a spouse or partner²⁸.
- **Less consumerism.** Young people are opting for tiny houses, fewer possessions, smaller wardrobes, and simpler living. They take Uber instead of owning cars. Student debt is stoking a yearning for an “uncluttered existence.” On some level, that’s lovely. But what happens to our consumer-driven economy if consumerism plummets drastically?
- **More people are not in relationships or are delaying marriage because of their massive student debt.** A poll conducted by the National Foundation for Credit Counseling reveals that debt has become a primary concern in relationships today²⁹: 37% of the people surveyed said they would not marry a partner until their debts were paid off! And the student-loan research³⁰ of Dora Gicheva, a professor at the University of North Carolina, shows a direct negative correlation between student-loan debt and a decreased probability of marriage. Potential partners are scared to marry into massive student debt.
- **A rapidly increasing rate of older people not being able to retire.** Did you know that nearly 30% of all Americans have nothing saved for retirement? While 70% will probably outlive what they do have saved. The Consumer Financial Protection Bureau reports³¹ that during 2012–2017, total outstanding

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student debt held by borrowers over age 60 increased by more than 50 percent. How will this trend play over the next 20-30 years? When Baby Boomers can't retire, the ripple effect for the generations to follow will be profound.

Lastly, consider this thought experiment. Imagine what will unfold in our not so distant future if the well-educated portion of an entire generation doesn't buy homes, buy cars, start businesses, or start families because of their student loan debt. What if those same people must take care of their parents because their folks didn't have enough money to retire? Our society and our economy will grind to a halt. It is tragic to think that an irritation so seemingly trivial as student loan debt could effectively undo the American experiment. But eerie historical parallels abound³².

So here we are. We're watching this \$1.5 trillion wet blanket smother everything we hold dear. Even worse—every single year, roughly 2.5 million graduates leave college with student debt. As of the summer 2017, the average debt for new grads was \$37,000. Again, if nothing changes, those numbers will *double* over the next decade.

Depending on how you look at it—the pessimist's perspective—we may have already crossed the point of no return. Maybe we're hurtling towards disaster at an unstoppable pace. But I am not a pessimist. I'm quite the opposite in fact. I believe that awareness of the scale of this problem will bring solutions.

Speaking of **awareness, everything** we've covered so far makes it sound like we did this to ourselves, almost by accident. But there are bad guys in this story. Many people are secretly profiting from the unraveling of our society...