New Labor Forum
22(1) 23–28
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DOI: 10.1177/1095796012471638
nlf.sagepub.com

Mortgaging the Future: Student Debt in the Age of Austerity

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Keywords
debt, finance, neoliberalism, labor, politics

In the course of industrialization, the conflict over wages commands the stage. In societies like ours, which are heavily financialized, the struggle over debt is increasingly the frontline conflict—not because wage conflict is over (it never will be) but because debts, for most people, are the wages of the future.

If or when a debtors' movement comes into being, the student debt crisis will prove to have been a key trigger. Even in the immediate prerecessionary years, when debt was regarded as a good consumer asset and decent employment was still a plausible prospect, it was easy to see that the mounting burden of student loans was blocking smooth passage of the college-educated into the middle strata of economic life. When the aggregate student debt burden surpassed consumer debt in the spring of 2011, and then reached the $1 trillion threshold a year later, public dismay about the dimensions of the problem began to surface. Talk about the imminent collapse of the so-called student debt bubble became a regular feature in the business media.

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Today, it is impossible to ignore that workforce entrants, especially the college educated, have to take on large debt burdens simply to prepare themselves for employability. An increasingly larger share of wages is going to servicing the debts incurred to meet the basic mental and physical requirements demanded for modern work. This includes the direct fiscal burden of keeping ourselves in good health, increasingly through add-on items like gym membership fees, more costly nutrition (an affordable American diet of processed food makes people sick), and preventive medicine among other therapies (to reduce stress). None of these are typically covered by health insurance, but all are now considered essential to maintaining a requisite mind–body balance for the well-tempered knowledge worker. Add on the costs of upskilling—the given wisdom is that everyone now needs a master's degree, not just a bachelor's, to compete for decent employment in the knowledge economy. Throw in the costs of self-support during at least one unpaid internship, not to mention the mortgages, auto loans, and consumer credit that have turned our subsistence needs—shelter, transportation, and daycare—into debt traps.[1]

The time and resources expended on all of these basic needs are more and more perceived as a hedge—in the language of finance—against falling below the threshold of employability in the decades to come. This calculating outlook is consistent with the mentality of a financialized society, which has exhausted its capacity for profit-taking in the present and resorts to circulating ever more paper claims on the future.[2] Borrowing is always an act of renouncing the

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future, especially when high- or compound-interest rates swallow up great chunks of it. But when the cost of servicing the debts surpasses the actual value of the debt, then another threshold—called negative equity—is reached, which at a societal level can be regarded as a tipping point. The premise of a democracy to deliver an incrementally improved future begins to collapse. This failure is particularly egregious in the case of countries like the United States, for whom the creation of a relatively stable middle class with rising expectations was the pinnacle achievement of the mid-twentieth century.

Current levels of household debt are massively unsustainable: 75 percent of American households are deeply indebted, and one in seven is being pursued by a debt collector. Median household debt has risen to $75,600. There is no large-scale fix available, the sums can never be paid off, and the only question is whether debt forgiveness can or will be administered fairly in the years to come. Bargaining over debt forgiveness could take many forms. In the early-twentieth century, Henry Ford and other industrialists realized that factory wages had to be raised to give birth to the consumer society. In retrospect, this principle seems like common sense, but, at the time, it went against the grain of capitalist habit. In that same spirit, today's economic managers might have to seek debt reduction to facilitate the reentry of debtors into big-ticket consumer life. Whether they can pull this off without damaging the all-important utility—to creditors—of payback morality remains to be seen.

Without any relief, the conditions will ripen for a full-blown debtors' movement. The option of debt refusal, once seen as reprehensible, is increasingly openly discussed. Among some Occupy groups, collective refusal is promoted as a legitimate, democratic response to circumstances under which the economic monopoly of the creditor class extends to tight political control over lawmakers.

The Private Financing of Education

By 2012, the average student debt was more than $27,000, having doubled since 2007. Defaults had also doubled over the same period. Of those who graduated in 2005, an astonishing 41 percent were either delinquent or in default. Suffering the consequences of debt and default in private is harrowing, leading to depression, divorce, and suicide for ever increasing numbers. A generation or two of the most indebted are now facing down chronic underemployment, and have every reason to feel that, collectively, their futures have been foreclosed.

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Thanks in part to the great public amplifier of the Occupy movement, this year's presidential contenders were forced to embrace student loan reform in their respective campaigns. But the debt relief pushed by the Obama administration was a token gesture, aimed at getting some traction on the youth vote—especially the more disillusioned or alienated student constituencies. Bills introduced in Congress—Student Loan Forgiveness Act (H.R. 4170) and the Private Student Loan Bankruptcy Fairness Act (H.R. 2028)—had zero chance of passing. Practically speaking, no reform program of any substance is on the legislative horizon, least of all one that would regulate the predatory lending practices of Wall Street banks.

In 2010, the Obama administration oversaw the passage of legislation (attached as a rider to the health care reform bill) that disbanded the old FFELP (Federal Family Education Loan Program) lending system. FFELP had been an extremely lucrative program for private banks, subsidized as they were, for issuing government-guaranteed loans.[3] As part of the reorganization, all federal loans now originate with the government. But in taking this step, the federal government put its official stamp on the neoliberal funding formula that is now normative in U.S. higher education. Indeed, universities are one of the few places where neoliberalism has not missed a beat in the years since its death was prematurely declared in 2008.[4]

Government, at all levels, is fast exiting the business of funding higher education. Instead,

lawmakers in Washington and state capitals across the nation are compelling users—the would-be beneficiaries—to finance the system privately. To facilitate this transfer of responsibility, the federal government lends monies, at interest rates far above that (less than 1.5 percent for 10 years) at which it borrows. And it is not inappropriate to talk about government profit in this business—120 percent of every defaulted loan is recovered.

This transfer of fiscal responsibility from the state to the individual—which is the chief hallmark of neoliberalism—has been steady for more than three decades, but the rate of transfer has quickened in recent years, driving up tuition costs in all sectors (they have risen by 500 percent since 1985), but in state universities in particular. Last year, overall state funding was cut by 7.6 percent, the largest decline in more than half a century. When academics complain about the "privatization of education," typically, they mean university–industry partnerships, intellectual property licensing agreements, corporate sponsorship of research, or "contract education"—whereby a firm will pay a community college to upskill its trainees. But the quintessential act of privatization is this shift in responsibility for funding onto individuals, and, like other neoliberal rollouts, it is largely government-driven, aimed primarily at wealth transfer and not equalization of opportunity.

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Of course, the rates and returns are much higher for the private sector. While banks now issue only 20 percent of all student loans, the rate of issuance is greater than for federal loans, and so private lending is expected to surpass the government sector in ten to fifteen years. Unlike almost any other kind of debt, student loans cannot be discharged through bankruptcy, and, over time, collection agencies have been granted extraordinary powers to extract payments, including the right to garnish wages, tax returns, and social security. It is no wonder that student loans are among the most lucrative sectors of the financial industry.

Nor is it any surprise to find a thriving market in securitized loans (almost a quarter—$234.2 billion—of the aggregate $1 trillion debt) known as SLABS (Student Loan Asset-Backed Securities). Given the predatory nature of student lending, many commentators have compared SLABS to the subprime mortgage securitization racket that inflated the housing bubble and triggered the financial crash. Since SLABS are often bundled with other kinds of loans and traded on secondary debt markets, investors are not only speculating on the risk status of student loans but also profiting from resale of the loans though collateralized derivatives. In the meantime, creditors stand to profit most from defaults, when additional fees and penalties kick in, and so, like the subprime lenders, they often seek out high-risk borrowers.

This is not the only way in which debt-based profit is mined from the business of higher education. As low-income families get priced out of public colleges, they are pushed into the for-profit system, the mercurial rise of which has been fueled by the ready availability of federal loans. Even for families with multigenerational experience of college, the staggering array of higher education choices can be confusing. But first-generation students, with limited access to information about their choices, are easy prey for the "admissions counselors" of the for-profit colleges that act as a conduit for the lending industry. A total of 95 percent of students graduate with debt in the for-profit sector (vs. 58 percent of students at all institutions), where graduate rates, already perilously low, are falling. The result is a familiar demographic profile. While the single largest student debts are racked up by students from middle-income families seeking a private university degree (mainstream media outlets feast on the stories of these "profligate" individuals), the overall impact of debt is magnified among low-income families. African-Americans graduate with the highest average debt of all racialized groups, and Deep South states where community colleges do not participate in the federal loan system are the most disadvantaged of all.

With wealth now diverted more exclusively to the 1 percent (bypassing the top quintile to

which most college graduates aspire), the belief that education debt is a smart investment in a high-income future is fast eroding. Should we, instead, compare student debt with a form of indenture?[5] While offensive to some, the analogy has been a useful provocation to many debtors and analysts of the topic. In a knowledge economy, where a college degree is considered a passport to a decent livelihood, workforce entrants must go into debt in return for the right to labor. This kind of contract is the essence of indenture.

For the traditional indentured, who today include tens of millions of migrant workers crisscrossing the globe, upfront fees for work can deliver them into indefinite debt bondage. Student debt can also endure for decades, even beyond the grave for co-signers, and, of course, employment prospects are more and more precarious. A damaged credit score—from one or two delayed payments—will make it even harder to find work, since many employers consult applicants' student debt payment schedules to gauge their reliability. Ironically, one of the quickest pathways toward discharging debts is to find lucrative work in the finance industry—issuing the high-interest loans that force more people into debt.

The Long Shadow of Debt

The tight relationship between wages and debt is hardly a new phenomenon. Indeed, the history of work is haunted by its specter.[6] The use of debt to deepen every form of labor exploitation has been systematic—from the debt peons and debt slaves of antiquity, forced by creditors to bond their labor through servitude; down to the sharecroppers of yesteryear, unable to pay off loans advanced on their harvests; or the factory workers subsisting on company scrip; to today's transnational migrants, toiling to work off their transit and recruitment fees; payday loan borrowers, targeted because they are least likely to afford the extortionate interest rates; and victims of wage theft, who are effectively financing their employers.

No less palpable is the imposition of debt as a political instrument of social control. This was most notable in the era of structural adjustment, when the IMF visited its "debt trap" on so many postcolonial countries as part of the Cold War client diplomacy. But this strategy of pacification has long been institutionalized in U.S. domestic policy in the form of homeowner debt, first promoted as an explicitly antisocialist program in the 1920s. Subsequently, the long-term mortgage loan became the basis of anticommunist citizenship; William Levitt, the master merchant builder of the postwar years, pronounced that "no man can be a homeowner and a Communist." In the postwar decades, a first-class citizen was someone who had entered into a long-term relationship of debt with a bank (a circumscribed ethnic population, given that most people of color were denied access to mortgage loans). In this way, the threat of a ruined credit score went a long way to reducing the political agility of a "nation of homeowners." The rise of the student debt burden has played a similar role in stifling the optional political imagination of educated youth—student protest is no longer a generational rite of passage.

"Odious debt" is the legal term applied in the case of authoritarian rulers borrowing without citizen consent and for their personal benefit. But the scope of odious debt should surely be extended to individuals and households unjustly targeted by predatory lenders. In addition, when populations are compelled to privately debt-finance the provision of basic social goods, we might consider these to be "anti-social debts," because they violate the mutualist foundations of society.

The Occupy Student Debt Campaign (www.occupystudentdebtcampaign.org), launched in 2011, favors a write-off of current student debt, in the jubilee tradition, whereby elites periodically forgive unsustainable debt burdens. But this single corrective act by itself won't alter the formula for the debt-financing of education. So the campaign adopted some principles aimed at reestablishing an affordable education system. On a rough estimate, it would only take $70 billion of the federal budget to cover the tuition costs at every two- and four-year public college. This happens to be the sum that the Pentagon

wastes annually in "unaccountable spending," according to a recent audit. That comparison alone shows just how skewed our national priorities have become since the era of the GI bill, when the doors of higher learning were opened to working-class families. If the United States is to have any kind of durable middle class in the twenty-first century, it will have to match those countries that manage to provide free public education at the tertiary level (some examples include Denmark, Mexico, Brazil, France, Argentina, and Germany).

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In addition, the campaign argued that education loans should be interest-free—no one should profit from them. So, too, all universities—including private ones, which benefit from public largesse in all sorts of ways but not least through the federal loan program—should adopt full fiscal transparency. Students and their families surely have a right to know how college administrators spend and allocate their tuition checks.

At a campus teach-in on student debt, a student recounted to me that the layoff of her father had resulted in the family falling behind in mortgage payments. A co-signer of her loans, for which the family home was collateral, he had also been using home equity loans to pay some of her college bills. That source of credit was now closed off, and the family's balance sheets were deep in negative territory. At the same time, her parents were landed with some of her grandmother's hospital bills. To bring relief to a household that had been hit by what she called "a perfect storm of debt," she had considered dropping out. Instead, she had turned to her two credit cards as an alternate source for funding her degree, opening up yet another door for creditors to come knocking at. Fading fast were the college dreams of her younger sister. Newly graduated from high school, she was about to join her mother on payroll at their local Walmart supercenter to help make ends meet.

This student's predicament was a lesson to me in the interdependency of debts, especially those related to the cost of maintaining basic social needs—in housing, health, and education. The Chinese call these "the three mountains," weighing down on the people. Their explosive growth is more and more perceived by the government as a threat to that country's stability. In the United States, our inability to meet these costs has been turned into a source of lavish profit for the finance industry.

In mid-2012, Occupy's Strike Debt coalition (www.strike.debt.org) was formed to respond to increasing calls for debt abolition and to generate relief initiatives. Its long-term goal is to build a movement capable not only of launching debt strikes but also of creating alternative economies run by mutualist means. In this vein, Strike Debt favors commons-based projects, organized around the principles of mutual aid, and some of these are small-scale demonstration projects. Through a Rolling Jubilee, for example, we plan to buy up and cancel bad debt—ordinarily sold for pennies on the dollar to venal collection agencies. The Debt Resistors' Operations Manual, launched on the first anniversary of Occupy Wall Street (OWS), was also conceived as a mutual aid project. It offers advice (much of it culled from industry insiders) on how to survive by escaping debts of all kinds: medical, education, credit card, and financial fringe services.

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Because creditors lend money into existence, they need borrowers to perform that magical act.[7] In the same vein, bankers treat their own debts as matters to be renegotiated or written off at will, and the federal government has responded sympathetically. In the years since the financial crash, the disparity between the generosity shown to Wall Street (more than 3

trillion public dollars spent already, with an additional $12.2 trillion committed by the U.S. government) and the conspicuous lack of relief for household debtors has made it quite clear whose debts are expected to be honored and whose are written off. Under these circumstances, the only way to salvage popular democracy is by asserting the right to refuse debts that were incurred illegitimately.

In the mid-1970s, as capital owners started transferring their profit-making outside traditional sites of production and into the currents of daily life, critics pointed out that capitalist society more and more resembled a "social factory."[8] Less than forty years later, the social factory is no longer an avant-garde thesis. It is written all over today's debt economy, whereby the 1 percent extracts its wealth from our efforts to sustain life, even in its most basic forms. Different tactics of resistance are called for, but because debt is experienced as an isolating and shameful experience, it is all the more crucial that a debtors' movement take a collective form. In the sloganeering words of Strike Debt, "You Are Not a Loan."

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

Notes

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