The Daily Dish

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The Consumer Financial Protection Bureau (CFPB) is under fire for using methods that overestimate the number of people harmed by discrimination. The results of this are not a hypothetical case, CFPB regularly fines companies accused of discrimination based on how many people are harmed. Memos also reveal the CFPB conceded other methods are equally valid, though they would reduce the amount of fines the bureau could collect based on discrimination. In one case using this other method would have reduced an $80 million fine to $5 million.

ICYMI: Regulators last week added $5.3 billion more in costs. That brings the yearly tally to over $156 billion in proposed and finalized rules issued by the federal government.

The U.S. and China are discussing a possible agreement on an "arms deal for cybersecurity." Initial reports are showing flaws in the deal. According to the New York Times "it would not, at least in its first version, protect against most of the attacks that China has been accused of conducting in the United States, including the widespread poaching of intellectual property and the theft of millions of government employees' personal data."

Eakinomics: Student Loan Update

One almost daily hears references to the "student loan crisis." But what is the crisis, and how should it be fixed?

The most common claim is that there are too many student loans, with the result that new cohorts of workers are unable to obtain mortgage financing, auto loans, or other forms of credit. This raises two possibilities. If students/families are making sensible financial decisions, the rise in borrowing for higher education reflects that decision that education contributes greater value over the lifecycle than does early access to debt-financing a home or car. This might be bad news for lenders, home builders, and car companies but it is not a problem *per se* . This assumes, of course, that government policymakers respect the values of families — something that is open to doubt in a world where the White House believes in "nudging" Americans toward its preferred behavior.

The second possibility is that students made sensible choices financing their college education, but that for cohorts as a whole the performance of the economy has disappointed (it will always be the case that some plans don't work out as anticipated). There is certainly some truth to this; the recovery has been tepid and wages have not been growing. Mechanically, the lower-than-expected income growth would raise the cost of carrying loans. This might be a problem (crisis is in the eye of the beholder), but in the interest of fairness it should be noted that the college-educated are faring better than others in the Obama economy (the unemployment rate for those with a bachelors degree or more is 2.5 percent; it is 7.7 percent for those who did not finish high school). The solution in any event is better economic growth.

A second common assertion is that everyone should get a college education (or at least have the chance to get one), but that it requires too much borrowing to finish. There are several variants of this. The first is related to the "too-much-aggregate-debt" concern (above), which says that students just simply "must" incur too much debt or that the debt costs too much. The "solution" in this world view is to reduce payments or simply forgive debt altogether. In the extreme, the solution is simply to make college education "free" — either in whole or in part. The close cousin to this view is that the problem is for individual students — it is not fair that some have to borrow more to cover the same college costs, or that one should have a large interest burden simply for finishing college, or a host of other complaints.

The flaw in these assertions is that the ultimate student loan burden is the result of (a) the cost of the college of choice, (b) the decision to borrow instead of paying directly for tuition, (c) the education received and the time needed to complete it, and (d) the job market performance of graduates. There is some truth to the fact that some colleges charge more than they deliver, and take too long to deliver it. But students are still choosing those colleges. Should the solution be cheaper or free loans? Some students graduate on time and receive an excellent education, but do not perform on the job. Should the solution be to forgive their debt? Some students take out loans that vastly exceed their narrow education costs. Whose fault is that?

In all of these instances, the fact that the government has taken over the private market and adopted a "one-size-fits all" loan program is part of the problem. A private lender whose money is at risk has every reason to decide whether the combination of student, school, and curriculum choice is a bad, good, or great bet for repayment. The interest charged as a result conveys important information to the student and school alike. Put differently, looking at the menu of student loan costs is the same as seeing information on the menu of education and career choices. There can still be a place for subsidizing loans, but that does not mean getting rid of market discipline entirely. The discipline conveys important information.

One thing you almost never hear is that the crisis in student loans is poor performance and a burden on taxpayers . But it is. And the solution, again, would be a reliance on market discipline.

There is no question that student loan policy could be improved. But the first step is to identify the real problem.

From the Forum

Week in Regulation by Sam Batkins, AAF Director of Regulatory Policy

Fact of the Day

Jobs supported by goods exports pay 18% more on average.