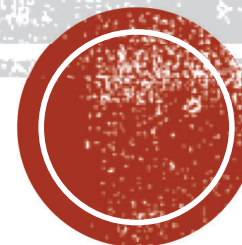


THE STUDENT DEBT CRISIS AND GENERATIONAL DEBT

By: Christopher Dionne



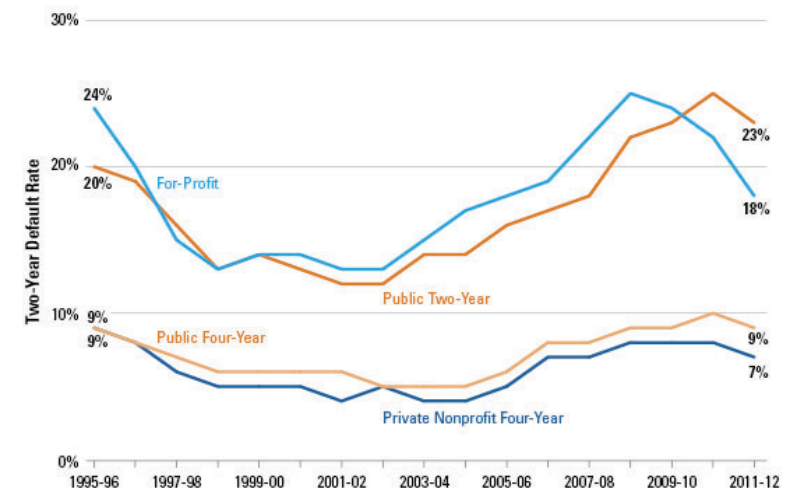
TIMELINE

- The Serviceman's Readjustment Act of 1944 (GI Bill)
- National Defense Education Act of 1958
- The Economic Opportunity Act of 1964
- Higher Education Act of 1965
- The Student Loan Marketing Association (Sallie Mae) in 1973
- Reauthorization of the Higher Education Act in 1992
- The College Cost Reduction and Access Act of 2007



TRENDS IN STUDENT DEBT, LOANS, AND TUITION

- Reagan Era crackdown on the Department of Education
- Loan consolidation
- Proprietary schools cause default rates to peak in 1992
- Tax credits for higher education and a tax free IRA for saving in 1997
- Record low default rate in 2004



COLLEGE ON CREDIT

- Federal Student Loans/Grants
 - Federal Application for Federal Student Aid (FAFSA)
 - Loans
 - Subsidized vs Unsubsidized Loans
 - Private Loans
 - Grants
 - Declining proportion of grants to loans issued
 - Pell Grants
- Credit Card Debt

Federal
Student
Aid

@FAFSA



PRIVATE STUDENT LOAN MARKET

- Sallie Mae – “The New Company Store”
 - 2nd most profitable company in returns on revenue in the entire Fortune 500 in 2005
- Secondary Markets
 - Student loan bubble



RISING COLLEGE COSTS

- Budget balancing
 - Decline in state appropriations to public colleges and universities
- Technology needs
 - New costs without large improvement in productivity
- Competition amongst schools



"HIGHER EDUCATION"



UPPER AND MIDDLE INCOME LEVELS BENEFIT

- Affordable vs Accessible
 - Taxpayer Relief Act of 1997
- Merit-Based Aid
 - Benefits upper/middle class but hurts lower class
 - Disparity amongst socioeconomic classes



UNCERTAINTY FOR YOUNG AMERICANS

- Educational debt crowds out consumer debt and home buying
 - Ex: A student leaves college with about \$24,000 of debt at 7% interest and a starting salary of \$48,000 commits to paying off loans using 7% of income over ten years. This student is looking to purchase a car to get to work and is also looking ahead to purchase a house.
- Marriage
- Job
- Is college worth it?
 - Lifetime standard of living
 - Higher income vs burden of debt and increasing job uncertainty



ERODING BENEFITS

- Healthcare Coverage
 - Dramatic increase in healthcare coverage
 - Difficult for young to get healthcare
 - No universal healthcare
- Private Pension
 - Shift from defined benefit to defined contribution
 - Unpromising Social Security
 - Individual retirement accounts
 - 401(k) and IRA's



FAILING GOVERNMENT POLICIES — DEFICITS, SOCIAL SECURITY, AND MEDICARE

- Increasing federal debt and consistent deficits
 - Increased taxes on future generations
- Global Aging
 - Baby Boomers
 - Starving economy of both capital and consumer demand
- Generational Accounting
 - Comparing total government spending with tax revenues from living generations over their lifetimes
 - Entitlements



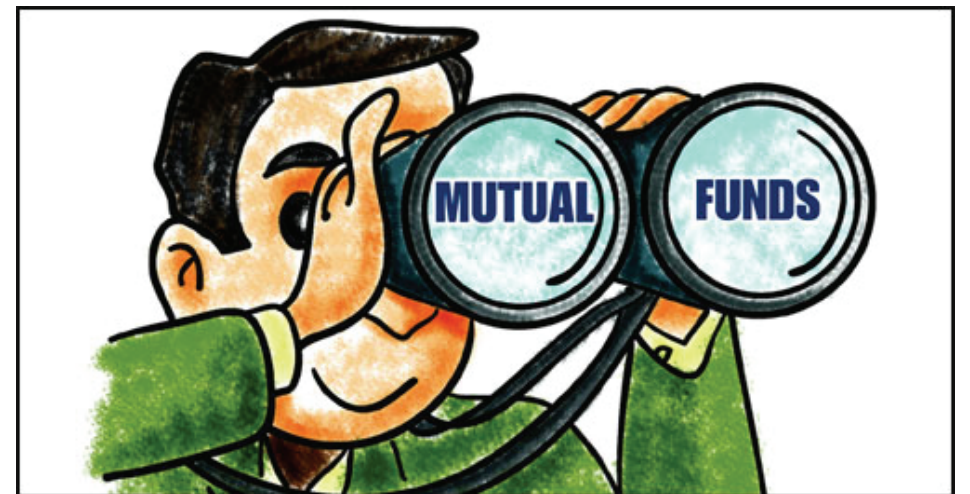
SOMETHING HAS TO GIVE

- The “trust-me” financial system manufactured and marketed trillions of fraudulent securities
 - Parallels student loan market
- Federal Reserve printing money to cover the financial crisis and jumpstart the economy
 - Triple basic money supply
 - Hyperinflation



PURPLE FINANCIAL PLAN

- Limited Purpose Banking
 - Banks simply perform intermediary role
- Limited Liability
 - Owners of the bank cannot be sued for the bank's losses
- Leveraged banks have unlimited liability
- Is Limited Purpose Banking feasible?



TOO LITTLE, TOO LATE?

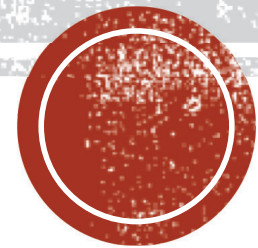
“Age and treachery will overcome youth and skill every time”

- Greek Proverb

Solution: Generational Balance



QUESTIONS?



CITATIONS

Baum, Sandy. Student Debt: Rhetoric and Realities of Higher Education Financing

Kamentz, Anya. Generation Debt: Why Now is the Worst Time to be Young

Kotlikoff, Laurence. Generational Accounting

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