On the Moral Responsibility of Repaying Your Student Loan Debt | by William O. Pate II

Most of the money in the economy is created, not by printing presses at the central bank, but by banks when they provide loans.

—"Money Creation in the Modern Economy." Bank of England, Quarterly Bulletin 2014 Q1, 14 Mar. 2014

Rarely do you hear of student loan debt driving a person into bankruptcy. With their options for income-based repayment and deferrals, student loan companies have many avenues to keep a former student paying their loans (or, at least, some of the interest on those loans) without a bankruptcy trustee getting involved.

Unfortunately, Texas Guaranteed Student Loan Corporation[1] wasn't one of the servicers willing to work with me a couple of years ago. While I had been sending regular payments—less than the monthly minimum but at least enough to show a good-faith effort to repay—they wanted their money. And they wanted it now. I'd also sent them—along with other creditors—a letter in September 2015 stating:

> *To Whom It May Concern:*
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> *We acknowledge our debt to you, and we apologize for our delinquency. We have every intention of repaying you in full (with the interest and penalties you add) but cannot afford to do so at this time. We have been unemployed for a couple of years. Misty continues to look for work while William has only recently found a position paying just over twice the federal poverty level ($15,930 for a household of two in 2015). Our income-to-debt ratio is untenable. Our debts are so high we cannot even afford to live in our own home and are living with my family.*
>
> *We are making as many payments as we can, and many do not satisfy the minimum payment required.*
>
> *We are attempting to show good faith, though—both in those payments and by this letter. It is our every intent to satisfy our debts to you (and many others) as soon as possible.*
>
> *Our only request is that you forgive part of our debt to you and/or offer us a lower repayment option with reasonable restrictions that will allow us to reimburse you in full.*
>
> *Thank you in advance for your help.*

Though I thanked them, no help came.

The Recession's Aftermath

I started college a few years after high school. Having work experience behind me, I treated college as a job

[1] Don't let the name fool you. That state didn't guarantee anything. After nearly forty years of operating as TGSLC, they renamed themselves Trellis Company earlier this year because they profit from more than just student lending.

(and continued working through college) and graduated in four years flat. My total debt was north of $30,000 when I graduated in 2006. It's still north of $30,000—and climbing.

The Great Recession hit us hard. I was working a job as a policy analyst for a Democratic state representative for $1,250 a month[2] and picking up freelance work on the side—$10 for a blog post here, $250 for two weeks of daily social media management there. My wife supported us on her six-figure salary. Until she couldn't. We didn't know it at the time, but she was on her way to becoming fully disabled in 2016 and, afterward, unable to work.

In 2010, my wife slowly and then suddenly became too ill to work and went on short-term disability. She finally resigned for the benefit of the company and herself. She tried to take new positions at roughly the same level or higher, but her illness prevented her from continuing to work. We lost her salary and all our benefits. At that point, there wasn't enough freelance work I could take on while searching for a full-time position that would pay our mortgage and/or medication costs, much less anything else.

We sold our close-to-foreclosure house[3] for a loss and moved in with my family. Not until June of 2015 did I secure full-time employment with a salary of $40,000 in a city, Austin, that is growing increasingly unaffordable.

In early 2016, we moved briefly to Harlem—my position allowed me to work remotely—so my wife could start a new job downtown. A couple of months later, she was unable to work again. It goes without saying that we couldn't live in New York City on my salary. So, we moved again, this time to New Orleans, where, despite the cheaper cost of living, we stumbled along on my low salary. At $40,000 (before taxes and health insurance premiums and such), we found ourselves selling many of our few and small retirement investments, including from IRAs, in order to afford our medications and stay afloat some months.

After my first year, I received a $10,000 raise—taking me to the more livable $50,000 yearly salary—though I still had to pay for part of my own and all of my wife's insurance coverage and the company didn't offer any kind of matching 401(k) retirement contribution. Thus, my take-home pay wasn't exactly exorbitant, and our "expendable income" generally meant we ended up close to zero at the end of each pay period. It was a time of constant financial worry.

We'll Be Taking That

Only days after my performance review and raise, I found out Trellis planned to garnish my wages via an email from my employer's controller—a scanned letter demanding they send over $500 from each of my paychecks. They threatened my employer with legal action if they did not immediately implement the garnishment.

I called the student loan company and asked to work out a payment plan. They couldn't come up with anything better than $800 a month—or an immediate payoff of thousands of dollars I didn't have. It was odd, considering my federal loans were letting me stay current with monthly payments of around $100.

Having just learned they were trying to take the money I'd only just started receiving merely days before from my first raise, I was in no mood to deal with the unhelpful and disagreeable "customer service" representative. So, I simply told him I'd file for bankruptcy if they didn't work with me. He didn't care.

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[2] One reason Democrats have a hard time building operations and candidates is their refusal to pay their staff. Most Democrats in the Texas House rely on unpaid interns from local colleges as staffers, which leads to the usual concerns about only those able to afford to work for free gaining the experiences and connections needed to influence public policy.

[3] A house in Austin which is now worth four times what we paid for it – another missed opportunity to, for once, make a return on an investment. Note that while we struggled to pay our $2,000/month mortgage while Misty reeled from illness and I took care of her and searched for jobs, the banks and other financiers were receiving our tax dollars to stay afloat. This is the beauty of being poor – even good investments consciously made are undermined by forces out of one's control.

How Did We Get Here? My wife and I had already discussed and decided that bankruptcy was our only option, if the student loan company wouldn't work with me. It wasn't until the bankruptcy process started that I received a letter from Trellis offering to work out a reasonable repayment plan. By then, it was too late for them.

Bankruptcy: Freedom and Bondage

1978: Neoliberalism Attacks Students

It's important to note that until 1978, one could have his or her privately owned student loan debt discharged in bankruptcy. Only government debt wasn't forgiven. That's no longer the case. As the focus for education funding was diverted from federal and state aid—scholarships, grants and other supports—to student loans, the more power private lenders have amassed. At this point, they have as equal standing as the U.S. federal government when they enter the bankruptcy courtroom.

As Linda Elizabeth Coco writes in the *The Neoliberal Agenda and the Student Debt Crisis in U.S. Higher Education*, Under the U.S. Bankruptcy Code, the federal government lender enjoys a special carve-out.

> This power runs counter to a fundamental purpose of the bankruptcy code that individuals receive forgiveness and a fresh start free from debt in the form of the bankruptcy discharge, making educational debts an exception to the general bankruptcy discharge provisions.[4]

A few paragraphs later, she continues,

> As a result, educational lenders—both public and private federally sponsored—became super-creditors substantially immune from the powerful consumer protections found under the U.S. Bankruptcy Code. This is a result of a move toward viewing education as a personal financial investment rather than a social good.

Bob Hertz reminds us,

> It is worth repeating that private colleges can declare bankruptcy; huge airlines can declare bankruptcy; Donald Trump has declared it several times, stiffing his suppliers and netting a huge tax deduction for his unpaid debts. Gamblers can declare bankruptcy; credit card abusers can declare bankruptcy; VA mortgage holders can declare bankruptcy; SBA loan recipients can declare bankruptcy. All across society, people can put their mistakes behind them. We would not be "coddling" ex-students, if we give them the same rights as all other borrowers.[5]

Chapter 7 or Chapter 13?

There are two kinds of bankruptcy most individuals pursue: Chapter 7 or Chapter 13. We chose a Chapter 13 bankruptcy, in which the court evaluated our income and necessary living expenses and reorganized our debts into one consolidated payment of $160 per month to a bankruptcy trustee. The trustee then doles it out in small pieces to our creditors. That is to say, Trellis gets virtually nothing each month.

At the end of five years, any unsecured debt (what little we had on credit cards and in medical debt) will be wiped away. Secured debt, including anything owed to the federal government and all student loans, will come back—it still must be repaid.

In a Chapter 7 bankruptcy, they immediately wipe away all those unsecured debts, leaving you with just the secured to deal with. We, however, weren't trying to skip out on our debt. We just need time and, more important, the money with which to pay it.

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[4] Hartlep, Nicholas Daniel, et al. *The Neoliberal Agenda and the Student Debt Crisis in U.S. Higher Education*. Routledge, 2017.

[5] Hertz, Jason. "New Laws for America." *New Laws for America*, 1 Jan. 1970, https://newlawsforamerica.blogspot.com/.

Also, the debt grows. It just continues to gather interest over the five-year bankruptcy period. But the bankruptcy protects my family from being swallowed whole by exorbitant payments to private student loan companies. For now.

Consequences?

Our credit scores fell into the 500s, but immediately started slowly improving, given we no longer have any debt except the student loans. And, given one of the requirements of bankruptcy is that you're not allowed to take on any debt without the bankruptcy trustee's permission, we continue to live without debt (aside from that which we're repaying to family who helped us when we were down). That means, no credit cards. Living without credit cards is lovely.

The bankruptcy hasn't prevented us from moving—from New Orleans to San Antonio and, finally, back to Austin—or finding housing because of it. We're always upfront about it with potential landlords in order to eliminate those who reflexively reject those in bankruptcy. But the fact is, aside from when my wife was the breadwinner, we can afford our rent far more now—with a total monthly debt payment of $160—than we could if we'd not filed.

Granted, that means we probably can't buy a house, if we wanted. I highly doubt the bankruptcy trustee would approve of us taking on that much debt while in bankruptcy. I would also like to hope that financial institutions have learned not to approve such seemingly unqualified applicants as we appear to be. That's no real matter anyway: even with my current pay in a new position at a different company and my wife's monthly Social Security Disability Insurance direct deposit, it's unlikely we could afford a house—especially in Austin. I don't worry about getting trustee approval for buying a car. That's an American necessity.

Overall, there is a freedom in not being allowed to take on debt. We live on what we earn. We even save a little here and there. (Those automatic saving and investing apps really do work.) Best of all: we don't have to worry about owing money to anyone but our personal relations, and they aren't shylocks or financiers. Aside from the loans waiting in the bankruptcy wings, we don't owe money to a bank or other financial company that, in reality, never had it to loan in the first place.

I don't necessarily advocate filing for bankruptcy, but it is an extreme option available.

Money from Nothing and Cash for Free

While living with my parents, I became more interested in debt—it's history, how its repayment or non-became imbued with such substantial moral value and consequence, different cultures' perception and use of it, how it's created and how it can be real money if it can be sold from one creditor to another for pennies on the dollar, among other questions.[6] So, I started reading.[7]

A while later, after having written about neoliberalism and student loan debt on my web journal, I was offered the opportunity to write a review of *The Neoliberal Agenda and the Student Debt Crisis in U.S. Higher Education* by one of the book's editors. The book's essays look at the neoliberal causes, effects, symptoms and possible fixes for our current neoliberal, debt-driven higher-education funding system and the personal and economic, societal and political crises it is causing. It has given me an even deeper understanding of the student loan crisis and neoliberalism's role in it.

The book is an incisive, scholarly look at how the influence of a debt-driven monetary system coupled with our more recent neoliberal policies drives U.S. student loan debt. It looks at how neoliberalism has transformed our education system from that aimed toward the greater good to only being considered a

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[6] Lenders sell debt for a fraction of its supposed value to nefarious debt collectors who often break laws in their attempts to get people to pay money they no longer legally owe. In my opinion, any deal offered to a debt-buyer should be first offered to the debtor.

[7] My great thanks for David Graeber and his many works, including, of course, *Debt: The First 5,000 Years*.

personally profitable endeavor. It begins a needed look at the connection between our monetary system and higher education financing. The authors' warnings and recommendations should be heeded, if only as thought-sparkers.

The most enlightening chapters, to me, were those by Lucille L. T. Eckrich, in which she discusses the true origin of most American money.

In the first essay, she explains that the government doesn't issue most new money. Private banks issue money in the form of debt. When they make you a loan, they create money out of thin air by placing a debit on their balance sheet.

That's right: money out of thin air. This is a fundamental aspect of our monetary system that most people don't understand.

Since the money only exists as a debt, banks and other financial institutions profit from the interest and fees they charge as you pay back money they never had in the first place and, as far as I've seen, doesn't exist at all except in the form of that which I pay student loan companies and their debt collectors.[8]

Did the bank actually loan me money to attend college? Clearly, the college would say so. But, yet, the banks just created a debit on their balance sheets. I mean, it was out of thin air, wasn't it?

As noted in *The Real-World Economics Review*,

> According to Richard Werner (2012), more than 95% of all money created in the US and UK is a direct result of credit creation by banks. When a bank creates credit, it also creates money. Post-Keynesians have been making this argument for more than three decades, though few have listened . . . and this view was recently affirmed by the Bank of England: "Whenever a bank makes a loan it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money."
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> Banks are authorized to create credit, ex nihilo ("out of nothing") so credit (money) cannot be neutral. **In creating credit, a bank creates money that a borrower uses to purchase goods and services that add to aggregate demand and economic growth**. Banks are not limited to acting only as intermediaries that move money from savers to borrowers. Importantly, banks also determine **how credit and money are allocated. In the real-world, money creation distinguishes banks from other financial intermediaries (e.g., shadow banks) that can extend credit but do not possess the authority to create money.** Within the financial sector, only banks are granted this authority. Money is a form of credit, an obligation to pay. In Werner's (2012) words, "banks are the creators of the money supply . . ."[9] [emphasis in original]

If the money never really existed, if it wasn't loaned to me by the government or from someone's bank account, if the bankers are willing to sell the debt for pennies on the dollar to debt collectors, how does a late payment, failure to repay or forgiveness of the debt hurt anyone really?

What's Neoliberal Capitalism Gotta Do with It?

While there rages a rather disingenuous criticism over the use of "neoliberalism" in leftist, liberal and Democratic Party circles recently, it's useful to sketch out what I mean when I refer to "neoliberalism" in this piece.[10]

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[8] I can't really complain as much about government-serviced loans, as they are much more willing to work with you on repayment terms.

[9] "Krugman vs. Keen." *Real-World Economics Review Blog*, World Economics Association, 27 Sept. 2018, https://rwer.wordpress.com/2018/10/05/krugman-vs-keen/.

[10] Chait, Jonathan. "How 'Neoliberalism' Became the Left's Favorite Insult of Liberals." Intelligencer, *New York Magazine*, 17 July 2017, https://nymag.com/intelligencer/2017/07/how-neoliberalism-became-the-lefts-favorite-insult.html.

Beyond its labeling of the peculiar economic system under which we current operate, neoliberalism is a belief system—a value system—that places one's ability to earn money and acquire property above all other values.[11]

As all belief/value systems do, this focus bleeds into the government and corporate policies that its holders enact. They privatize government services—from trash collection to the continuing, repeated attempts at public education—and give contracts to private companies that, in general, profit off providing fewer, less efficient and less effective services at higher costs.

The policies and programs used to support people that were once taken as a given are now treated as add-on services by private companies. The *A La Carte* Era.

Indeed, one can see this in the slow withdrawal of state support for public schools and universities; efforts at privatization (vouchers and Phoenix University); the application of and tying of funding to one-size-fits-all metrics of success on students and teachers/professors/researchers alike; the guilting of graduates who didn't choose a STEM course of study at 18-years old; the transformation of education into an exercise in resume padding—a production line for good, obedient workers; the replacement of tenured professors with no-benefit, underpaid adjuncts; the discontinuation of liberal arts programs and more. Fewer resources, less effective learning and, ultimately, complete ineffectiveness and inefficiency in providing the country with active, knowledgeable, critically thinking citizens.

As William E. Connolly, the Krieger-Eisenhower Professor of Political Science at Johns Hopkins University, recently described it,

> Neoliberalism is a set of practices that favors entrepreneurs and corporations, supports—often below the radar—massive state subsidies for the corporate estate, presses for radical deregulation of private markets, treats labor as an abstract factor of production, celebrates the authority of courts governed by a neoliberal jurisprudence, hates collective social movements on the left, protects imperial drives, strives to render democracy minimal, and moves to dismantle or weaken unions, social security, public schools and universal voting if and when the opportunities arise.[12]

It's more than just economics, as you can see.

Neoliberalism has infected society—even personal interactions. We know the old phrases, "Pull yourself up by your bootstraps," "personal responsibility," etc. Now we must "build our own personal brands" and "work for free to get work." You're supposed to closely examine—maybe even run a credit check!—your potential spouse's financial situation. "What have you done for me lately?" friendships. The continuing decline in Americans' participation in civic organizations, where people different from one another but within the same community can interact and perform good works, is a common example.[13]

As Nivedita Majumdar writes in *The ABCs of Socialism*,

> Capitalism does not merely oppress workers on the factory floor. It creates an entire culture in which the logic of oppression and competition become common sense. It turns people against each other and their own humanity. Like Franz Kafka's character in *The Metamorphosis*, Gregor Samsa, people are alienated from their human selves, isolated from their fellow beings, and tortured by the loss of all that could be possible.[14]

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[11] Harvey, David. "Neoliberalism as Creative Destruction." *The ANNALS of the American Academy of Political and Social Science*, vol. 610, no. 1, Mar. 2007.
[12] Connolly, William E. "Neoliberalism and Fascism: The Stealth Connection." *Common Dreams*, 27 Oct. 2018, https://www.commondreams.org/views/2018/10/27/neoliberalism-and-fascism-stealth-connection.
[13] See Putnam, Robert D. *Bowling Alone: the Collapse and Revival of American Community*. Simon & Schuster, 2007. for the classic case study.
[14] Sunkara, Bhaskar. *The ABCs of Socialism*. Verso, 2016.

Neoliberalism turns every person—at most, every family—into an economic unit disconnected from anything else in society. That unit is solely responsible for its own success or decline—no matter whether it started with a silver spoon or collecting aluminum cans. Your and your family's success is defined by its performance as an economic unit. Isn't that lovely?

Neoliberalism and Student Loan Debt

One of the catastrophes caused by the neoliberal value system being applied to community growth is the current student debt crisis. Humans and education have been reduced to financial investments. (Given the current student loan default rate, not great ones, at that.)

All because the elites have convinced everyone that college is a private good. That it only benefits the person who attends. Sometime in the past we got away from the acknowledgement that it's a social good for people to get an education. It's profitable for them (which is arguable given the student debt load now) and for society to have educated, engaged citizens who add to the economic vitality of the country and provide all the other essential (and non-) services everyone expects.[15]

But that isn't the view of neoliberals. Neoliberals already have their education, were able to pay for their children's without debt or were able—likely through family wealth—to pay for their educations in cash. Or they went to college when government provided far more financial support and, thus, came out with little to nothing in student loan debt.

Neoliberals live in the halcyon days of "earning one's way through college" that they prevented their children from enjoying. Most of them haven't been on a college campus—except to give a speech and accept an overpriced honorarium—in many years.

It is their belief that it's your fault if you went to college, got a degree in a field that there aren't many jobs in and can't find a job—ignoring the fact that the employment rate for the college-educated is far lower than the less educated and the neoliberal economic policies that both make under- and unemployment necessary and cause it to occur. They also ignore the fact that the pace of technological and societal change doesn't allow one to choose a job to pursue four years prior to entering the workforce. That job may no longer exist—or the skills needed for it completely.[16]

At base, the neoliberal motto could be, "I've got mine, you can go fuck yourself."

"Have to file bankruptcy due to student loans so I can get my exorbitant paycheck? Not my problem," says the neoliberal financier.

Promises, Promises, Blame

What's most interesting in reading the stories of peoples' debt woes in the second part of the book is how human they are. Just like my wife and I, people don't just decide not to pay. They can't pay. Illnesses, deaths, children happen. Life happens. The *homo economicus* does not exist.

As Brian R. Horn writes in an essay in the book (don't think becoming a professor will protect you),

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[15] Which brings up another point: Private loans are made based on the creditor's belief the debtor will repay (thus, credit-rating agencies). It is, to some degree, a gamble. Why are those who run financial institutions never made to suffer the consequences of poor investment/loan decisions—like loaning tens of thousands of dollars to unemployed people with no credit or work history (also known as students) who don't repay? Moral hazard is for others.

[16] On a more personal (and reasonable) level, are 17- and 18-year-olds really expected to be prepared to choose a profitable career field? We don't even trust them enough to allow them to drink. But there will always be those sadists who desire others suffer at least as much as they themselves imagine they did.

> I had faith that if I could earn my spot in top universities, I would be able to parlay that academic success into financial success. Extenuating familial circumstances and a misunderstanding of the new neoliberal economics of higher education proved that my faith was egregiously misplaced.

Debt-ridden Generation X and Millennial students were promised by their parents that exact thing: go to college and you'll get a good job. No one said, "Got to college, you'll have a shit ton of loans that will virtually attack you and you may find yourself in bankruptcy court" or elsewhere trying to get emergency help. Going to college was supposed to provide a boost into a better life, not sink us in quicksand.

Many of those same parents—or others in their age cohort, generally Boomers or older[17]—seem to have forgotten their earlier exhortations to youths.

In general, these are the same people who most benefited from the government supports put in place after the Depression and two world wars and a police action in Korea by their parents but who then, in the '80s and '90s, implemented the neoliberal policies that did away with those benefits for their children (us).

Going beyond placing blame, though, we must admit that the true villain is capitalism itself. So, the more pressing question is:

How do we fix this?

Essays in the book look at a few suggestions—Work Colleges, crowdfunding debt payments and others. I find them lacking.

I believe it ultimately comes down to reorganizing our monetary system so that the government actually issues money through income to public servants rather than the private, debt-driven money creation system controlled by the financial elite we have today. Further, student loan debt will have to be forgiven or otherwise reduced. As it is, it is untenable. It will only get worse.

The Moral Responsibility to Repay Your Student Loan Debt

As Noam Chomsky writes, neoliberal capitalism is concerned only with profit, not people. No less than the right's preferred (neo)liberal bugaboo George Soros once said, referring to his influence on world markets through his large currency investments, "I am engaged in an amoral activity that is not meant to have anything to do with guilt."[18] Given the neoliberal elites' otherwise laissez faire approach to the morality of money (indeed, the finance industry is more-than-willing help to dictators and other kleptocrats hide their money and look at our current president's personal and business financial history), it's clear money has no morality.[19] Thus, there's no moral responsibility to pay one's student loan debt, especially if it is debilitating. One's value isn't tied to one's ability to repay an unfair debt.

The most important thing to remember, though, is that banks and student loan servicers and others aren't abstract constructions. They are comprised of people. The people at the top and shareholders, those who stand to profit most, are causing the suffering and delayed advancement of thousands of Americans. It isn't "the bank." It's people. They clearly feel no moral responsibility to their struggling fellow humans. Why should those downtrodden humans worry about financiers' balance sheets?

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[17] People from every generation express these beliefs, especially among the wealthier classes. But you're more likely to hear it from (white?) people across classes in those generations, in my experience.

[18] Ackerman, Spencer. "There's Been a George Soros for Every Era of Anti-Semitic Panic." *The Daily Beast*, The Daily Beast Company, 13 Oct. 2018, https://www.thedailybeast.com/theres-been-a-george-soros-for-every-era-of-antisemitic-panic.

[19] Bullough, O. (2018). *Moneyland*. London: Profile Books. Hunter Biden isn't even the tip of the iceberg. More of a snowflake.