

Eliminate Debt

A creditor is worse than a slave owner; for the master owns only your person, but a creditor owns your dignity, and can command it. – Victor Hugo

Debt is poison—period. Any form of it (whether it be credit card debt, a mortgage, or even a student loan) is bad. Some financial planners speak of good debt and bad debt, but it is all bad. It is like alcohol. This substance, when people consume it, is never good for the body. Even when alcohol is combined with antioxidant benefits, such as in a glass of red wine, it is converted to sugar and raises triglycerides. Yet when it is consumed in moderation, the health risks are probably minimal for most people. And so it is with debt. If it is consumed in moderation, it is usually possible to avoid severe damage from its toxic effects. But like alcohol, it is terribly addictive, and some people should never touch it in any form whatsoever. There are also some types of debt that are far more dangerous than others. Credit card debt is analogous to the pure alcohol often consumed by bums in the street. A student loan or primary mortgage is more like the occasional glass of beer or wine. Some people will be able to manage these less destructive forms of debt, but those who want to enjoy the greatest possible financial health will choose to avoid it altogether. Two types of debt have traditionally been viewed positively by our society: mortgage debt and school debt. After the excesses of the real estate boom and the ensuing financial crisis, mortgage debt is starting to be regarded with more suspicion. School debt, on the other hand, is still considered by many to be a necessary and worthy means of obtaining an education and building a productive career.

In previous centuries it would have been very difficult to find a lot of investors willing to fork over their capital to pay for someone's schooling in the hope that this person would then pay them back with interest after landing a lucrative job. They wanted guarantees. There was, however, a good analog for the current debt-financed career pathway that begins in the colleges. In those days, the pathway started in Europe and ended in the New World. Rich people would pay for your passage across the ocean if you committed to pay them back with your labor for a certain number of years—typically 3 to 7.

If you happened to land a job with a nice guy, he might treat you well and give you a gold watch and a retirement party at the end of your stint. However, if you ended up with a jerk, you were in big trouble. Some of these “masters” could be

very abusive, beating their servants, overworking them, and even refusing to let them leave after their term of service was complete.

Indentured servitude has fallen out of favor in America, unless you are an immigrant who has been smuggled in illegally from China. Nevertheless, there are many parallels with the current student loan system. You take on debt—sometimes enormous debt—in the hope that you will find lucrative employment in the “new world” where you will presumably arrive after an arduous journey through college. In the past it was a pretty good gig for some people. Nowadays, however, more and more students—like their unlucky predecessors a few centuries ago—are finding out that they got a raw deal. If they can even find a job, it’s low pay and they’re going to be stuck paying off this debt for the rest of their lives.

Indentured servants had little hope of appealing to a benevolent government to rescue them from their tribulation. Kings and their officials were decidedly business-friendly. Nothing much has changed today. In 2005 Congress enacted much stricter bankruptcy laws that made private student loans non-dischargeable. So if you really run into hard times, you can potentially get rid of most of the debt hanging over your head (even casino debt) and get a new start. But forget about eliminating those student loans—you’ll take them with you to the grave. The interest payments will constitute a continuous draw on any money you’ll ever make, dragging you down into a lower standard of living and keeping you there for the rest of your life.

All of this is not to say that school is not a good investment. It’s absolutely the best investment you can make with your surplus funds. But classes, like stocks, should never be purchased with money that you don’t have. From time to time, articles appear on the Internet claiming that college isn’t worth the price you pay for it, since you can often make more money going straight into the job market right after high school. But the goal of college should be to get an education, not get a job, and an education will add value to our lives even if it doesn’t open up a pathway to lucrative employment. Claiming that education isn’t worth it is like claiming that a healthy diet isn’t worth it—it’s cheaper to go ahead and eat junk food and just pay the medical bills.

Education, like quality food, is always worth the price—and if we shop around, we can often find some pretty good deals that don’t require taking out a loan. Community colleges, even with the recent tuition increases, still offer a pretty good bang for the buck. If you need to delay enrollment while you save money for the registration fees, you can always get a jump start on things by heading down to the local library. Abraham Lincoln figured out that even if you couldn’t afford to pay for an education, you could still get one by reading books.

