THE DAILY CALLER

Student loan deal ‘basically self-defeating’

By: Robby Soave – July 18, 2013

The Senate struck a compromise to keep the interest rates on student loans from doubling, but some critics continue to maintain the deal is counterproductive.

“This compromise… does essentially nothing about the real federal loan problem: federal student aid fuels rampant price inflation and higher ed overconsumption,” wrote Neal McCluskey, director of the Center for Educational Freedom at the Cato Institute, in an email to The Daily Caller News Foundation. “It is basically self-defeating.”

Multiple studies have found that subsidized student loans drive up the cost of higher education. Since students can always borrow more money to pay their education costs, colleges have an incentive to simply raise tuition prices in response.

The bipartisan deal, if passed, would index interest rates on student Stafford loans to the Treasury bond market — something that Republicans and President Obama have long supported.

More liberal Democrats, however, will get an overall cap on interest rates, keeping them below 8.25 percent for undergraduates, 9.25 percent for graduates, and 10.5 for parents. For now, the interest rate on undergraduate loans will drop from 6.8 to 3.86, which is just slightly higher than what it was before the one-year extension ran out on July 1, but still artificially low.

The Treasury bond market would peg student interest rates at 4.57 percent — meaning that lawmakers intend to subsidize the rate to make the deal more appealing to student borrowers, said McCluskey.

“Pegging student loan rates to overall interest rates is better than having Congress specify a rate that has nothing to do with overall borrowing costs,” he wrote. “This compromise appears to chicken out on doing that for the coming year.”

Tennessee Republican Sen. Lamar Alexander praised the compromise at a press conference on Thursday.

“It’s good news for 11 million students who are borrowing money to go to college,” he said. “For everyone of them, the interest rates on their loans will be lower.”

The interest rates are expected to increase in the next few years, however, as financial markets continue to improve.

The compromise bill has the support of both Republican and Democratic leadership. It’s unclear whether the more liberal members of the Senate will fall in line, however.

Massachusetts Democratic Sen. Elizabeth Warren is still pushing for her own bill, which would greatly lower student loan interest rates by subsidizing them through the Federal Reserve. The proposal is popular among student borrowers and college professors, but has drawn harsh criticism from financial experts.