



## Now let's try real student aid reform

By Neal McCluskey, Associate Director, The Cato Institute's Center for Educational Freedom

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The U.S. Senate and House have passed a student loan bill President Obama will almost certainly sign. Bipartisanship lives! But don't get too excited. Heck, don't get excited at all: The bill will only deliver minor tweaks to a system that needs elimination, not a screw or two turned a little harder.

The bill, which ties interest rates on federal student loans to 10-year Treasury notes, certainly makes more sense than having Congress arbitrarily set a rate. Student loan rates moving with overall interest rates – not stuck well above or below them – makes sense if you are trying to balance the government's need for revenue with a desire to furnish loans more cheaply than students would otherwise be able to get them. For supporters of such programs, getting this should have been simple, which is why – despite significant fighting – it ultimately got done.

The big problem is such programs should *not* be supported. If the evidence shows us anything, it is that federal student aid is largely self-defeating when it comes to prices, and likely hurts low-income people more than anyone else.

The price problem is easy to understand. Give everyone an extra dollar to buy a hot dog, and what will wiener vendors do? Raise their prices! Essentially the same thing has been happening in higher education for decades.

According to data from the College Board, the inflation-adjusted cost of tuition, fees, room, and board at private four-year colleges rose from \$16,745 in the 1982-83 school year, to \$39,518 in 2012-13, an increase of \$22,773. At four-year public institutions, it rose from \$7,510 to \$17,860, a \$10,350 leap.

How about aid? In 1982-83 year, the average full-time equivalent student received \$3,802 in federal grants and loans. By 2012 that amount had risen to \$13,552, a \$9,750 leap that tracks closely with increases in overall prices, especially when considering much greater enrollment in cheaper public institutions. And those figures exclude aid such as work-study and tax credits.

Of course these figures don't prove that aid fuels rampant inflation, but they certainly track with the basic logic that schools will raise their prices if they can get people to pay them. And there is a growing body of empirical research showing that colleges do, in fact, capture aid.

The true cost of aid, however, goes beyond just skyrocketing prices. Aid also enables massive, wasteful overconsumption of higher education.

First, roughly half of people who enter college will not finish, and many who do not complete will have accumulated substantial debt without having gotten the credential needed to increase their earning ability. A substantial part of the problem is that the Feds hand out money regardless of meaningful evidence of a prospective student's academic ability. As long as you have a high school diploma or GED – and until recently you didn't even need one of those – you can get federal aid.

Who does this hurt the most? Ironically, the low-income people the aid is most supposed to help. Indeed, two brand new reports show that sizable disparities in colleges' graduation rates are driven largely by how many low-income students they enroll. This suggests that low-income students are disproportionately being admitted to colleges without the drive, ability, or both to do college level work. And, alas, the federal government is happy to let them go into debt to do it.

That said, things aren't hugely better among graduates. About a third of people with bachelor's degrees are in jobs that don't require them. On top of that, there is likely serious "credential inflation," with employers seeing increasingly commonplace degrees simply as signals that job applicants have minimum persistence and self-discipline. Those without degrees are assumed to be hopelessly deficient. That literacy rates for degree-holders dropped significantly on the National Assessment of Adult Literacy between 1992 and 2003 – the last time the assessment was given – supports the conclusion that degrees are indicating appreciably less learning or ability.

So let's all take a moment to enjoy Washington getting something relatively uncontroversial done. Then let's start demanding that the Feds do something that will really help: phase out student aid.