How Obama’s Student-loan Policy Makes College Impossible to Afford

John Perazzo

July 8, 2016

One of the most crushing economic burdens that will plague today's young Americans for decades to come, is the debt they incur on their college student loans. Seven of every ten graduating collegians owe money on such loans, and their average debt is currently about $28,950 per borrower—up 68% from a decade ago. During the Obama administration, the cumulative sum of all student loan debt in the U.S. has risen from $600 billion to almost $1.4 trillion, a figure that continues to grow by an astounding $235 million *per day*.

We were brought to this sorry state-of-affairs by many years of bad policy, topped off by a particularly catastrophic “innovation” by Obama and the Democrats. For decades prior to the Obama years, students most commonly borrowed money for college by dealing with private lending institutions, most notably the Student Loan Marketing Association (known colloquially as Sallie Mae). Each time these lenders issued a student loan, they paid a fee to the federal government, which, in turn, assumed responsibility for covering the cost of any defaults. Knowing that taxpayers would pick up the tab for bad loans, the lenders relaxed their approval standards and made money readily available at low interest rates—even to students with weak credit credentials. This led, predictably, to record levels of borrowing.

Colleges and universities, reaping the windfall of this easy access to student-loan money, had no incentive whatsoever to keep their operating costs or tuition fees in check. Consequently, from 1985-2010 the cost of college tuition rose at *more than 4 times the general rate of inflation*. The gravy train was running in high gear. As Cato Institute scholar Tad DeHaven puts it, “[T]he rise in student subsidies over the decades appears to have fueled inflation in education costs.”

But instead of trying to break this cycle by taking the government out of the equation and allowing the free market to operate, the Obama administration took *precisely the opposite* approach.

On July 1, 2010, Obama signed Congressional legislation eliminating the role of private lenders in federal student loans. Allsuch loans would now be issued through the Department of Education's Direct Loan program. Previously, the Department of Education had been responsible for about one-third of federal student loans through its direct-lending program. Now that figure became 100%. The *Wall Street Journal* correctly predicted that the new policy would cause the cost of college to “become even less affordable” while giving “more power to government” and transferring “more of the costs and risks of college financing to taxpayers.” House Education and Labor Committee chairman John Kline concurred that the new student loan program would “encourage more borrowing ... and leave the taxpayer holding the bag.”

In accordance with these predictions, delinquency rates on new student loans rose by 22% after 2010. Today, says the *Wall Street Journal*, “more than 40% of Americans who borrowed from the government’s main student-loan program aren’t making payments or are behind” on their loan payments.

Of course, where President Obama is concerned, government can never be big enough, or intrusive enough, or bloated enough. Thus, like the economic illiterate that he is, he has also called for a massive increase in federal Pell Grants to low-income students who are not required to repay the money. Meanwhile, economists at the Federal Reserve Bank of New Yorkreport that the Pell Grant program is little more than a boondoggle that fills the massive coffers of colleges and universities by driving tuition costs through the roof for everyone. As Forbes.com reports, “[F]or every dollar that Pell Grants are increased, college tuition goes up by 55 cents. In other words, the students pay an extra 55 cents in tuition for every dollar of Pell Grant they receive, meaning they only save 45 cents in terms of out-of-pocket costs. Colleges gain even more than the 55 cents from each dollar of new Pell Grants because they collect the extra tuition from all their students, including all the ones who do not receive Pell Grants.”

And what, pray tell, is presidential candidate Hillary Clinton's prescription for the problem of skyrocketing tuition and student debt? It's exactly what you'd expect from yet another economic illiterate. “Students at community college will receive free tuition,” she proclaims, and they “should never have to borrow to pay for tuition, books, and fees to attend a four-year public college in their state.” Does this mean that Hillary has devised a clever plan for persuading professors and administrators to work for free, and thus to eliminate tuition costs? Nope. Her “plan” is to have the federal and state governments do more to “meet their obligation to invest in higher education.”

That, of course, means that *you*—the American taxpayer, the plaything of our overlords in government—must “invest” more in the college education of people whom you've never met and will never know. Why? Because Hillary and Barack and the rest of the Democratic Party say it's your duty. And if you find that it's difficult to come up with the requisite cash, perhaps you could just do what Hillary does to earn a few extra bucks every now and then: Go give a one-hour speech somewhere for $250,000, and you'll be fine.