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# Feds should leave student loans alone

Ingrid Jacques

Politicians have proclaimed the woes of student loans in recent months. The debt young people carry as they leave college continues to burgeon, and both Democrats and Republicans have seized upon the issue in a contested election year.

Yet it's ironic the more the federal government tries to help, the worse things get for students. Neal McCluskey with the Cato Institute has pointed out that financial aid has gone from $4,602 per undergraduate in 1990 to $12,455 in 2010. He argues this aid has directly contributed to tuition and fees nearly doubling during that time.

Student loans made the news frequently earlier this year when President Barack Obama toured the country, plugging the need for Congress to extend a low interest rate on federally subsidized Stafford student loans. If Congress doesn't act by July 1, then the rate on these loans will double, from 3.4 percent to 6.8 percent. Even Mitt Romney, who normally defends market forces, has voiced his support for keeping the rate artificially low.

Congress lowered the rate five years ago but set an expiration date of 2012. As of Wednesday, senators were still working feverishly on a deal. The cost of extending the rate for just one year is $6 billion, and lawmakers can't agree on how to pay for it. It's likely they'll figure something out — albeit at the last minute.

José Cruz, higher education expert at the Education Trust, is concerned about how the rate increase would impact low-income and minority students. Student debt in the U.S. now looms around $1 trillion, and Cruz fears saddling students with an even greater burden.

But Stafford loans are just a small piece of the looming student debt problem. Richard Vedder, director of the Center for College Affordability, says in many ways this specific loan debate is "much ado about nothing." The higher interest rate won't make that much of a difference to students paying off their future debt, and it would only affect students just heading to college this fall — about 7.4 million. In a piece for National Review Online, Douglas Holtz-Eakin estimates the lower rate would only reduce monthly payments by $7.

Vedder, like McCluskey, blames the influx of federal aid, whether in the form of loans or grants, for driving up the cost of higher education. Universities are aware of the availability of this aid, so they've hiked tuition accordingly and used profits to hire more faculty and build buildings on campus.

Much of this aid was purportedly aimed at helping low-income students attend college. In reality, Vedder argues federal aid has largely become a middle class entitlement. In fact, fewer low-income students are graduating now than in 1970 — despite the increase in federal assistance.

The best way to get tuition costs under control is for the government to bow out of the student loan business. Of course, that can't be done overnight. Vedder suggests federal aid be targeted more narrowly to families who need it most.

And colleges should have "more skin in the game," he contends. Right now, if students default on their loans, the institutions themselves don't shoulder the responsibility.

It may not be popular for politicians to support higher interest rates. But the best long-term fix for students would be for Congress to back off.

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