



Student loans driving high tuition costs

The high rate of government subsidies is artificially increasing demand for higher education

By Thomas Lucente – August 11th, 2013

Across the country, millions of young men and women are preparing to begin or continue their collegiate studies.

While the cost of college is skyrocketing and many economists and other professionals are beginning to question — rightly so — the value of a college degree these days, it still seems to be the best way out of poverty for some. A bachelor's degree reportedly pays off six times more than a high-school diploma.

The largest problem with college education is the rising cost and the correspondingly high debt load students are taking on in order to earn that diploma that may, or may not, turn out to be a good investment for that particular student.

This is caused largely by the increasing subsidies being offered by the federal government in the form of loans and grants.

"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," according to Neal McCluskey, associate director of the Cato Institute's Center for Educational Freedom.

This is simply a matter of basic economics.

Subsidies increase the demand for education. This artificial rise in demand increases the cost of education. The increased cost of education drives even more subsidies.

Or, as McCluskey so eloquently put it: "Give everyone an extra dollar to buy a hot dog, and what will wiener vendors do? Raise their prices!"

As if to prove this point, the inflation-adjusted cost of tuition, fees, room, and board at private four-year colleges rose from \$16,745 in 1982 to \$39,518 in 2012, an increase of \$22,773. At four-year public institutions, it rose from \$7,510 to \$17,860, a \$10,350 leap.

The victim of this vicious cycle are the students who are taking on more debt and getting less value for their money — the literacy rate for degree holders dropped significantly between 1992 and 2003, the last year it was measured.

The other problem with all these government subsidies is that students who are ill-qualified to go to college are going anyway and then dropping out without earning a degree and owing tens of thousands of dollars in debt.

While college enrollment has increased about 50 percent during the last 25 years, about 64 percent fail to graduate in four years, according to the U.S. Department of Education. About 40 percent of college students drop out without earning a degree at all. In fact, the United States has the highest college dropout rate in the industrialized world.

And for those who do graduate, they might not be seeing the higher wages they hope for. Economist Alex Tabarrok found that in 2009, there were almost as many psychology majors graduating as the total number of jobs in clinical counseling and school psychology in the whole country. Additionally, half the graduates in the humanities end up in jobs that do not even require a college degree.

Meanwhile, there is about \$1 trillion in student debt outstanding with more than 80 percent of that debt backed by the federal government. About \$85 billion of that debt is past due. The average debt load for the Class of 2011 was \$26,600, according to a study from the Project on Student Debt.

And the government passes out this easy money regardless of a student's academic ability, hence the large dropout rate.

Finally, as an unintended consequence, the increased number of degree holders has watered down the value of the degree and financially hurt those without degrees who are seen by employers as somehow lacking in basic job skills.

Obviously government subsidies are skewing market prices, encouraging the academically unprepared to go to college, and increasing the debt load of students. While such subsidies are supposed to help defray college costs, they actually make matters worse.

The response from Congress and the president is simply to tweak interest rates.

If the pols really want to fix the looming student debt crisis and reduce college tuition, their best course of action would be to eliminate federal education subsidies. But don't expect that in an era when politicians on both the left and the right are irresponsibly falling over each other to see who can pass out money from the public fisc the fastest.