



Connecting Loans to College Preparedness

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December 7, 2015

I must start with what ultimately needs to happen to federal student aid: it needs to go away. As anyone in the higher education establishment will gladly tell you, the economic returns to a degree are, on average, very big. That means absent the current, *de facto* federal lending monopoly, private lenders and students would have strong incentives to work together – both would stand to profit from a partnership. Having government supply aid, in contrast, largely invites rent-seeking, overconsumption, and rampant price inflation.

That said, there is little chance federal loan programs will be heavily curtailed in the near future – though it was a little encouraging to see Perkins fade away – so we should try to make them better. And the way to do that may well be to make receipt of loans dependent on demonstrated ability to do real, college-level work, in a field for which there is significant demand. Even though it may be a powerful predictor of delinquency, eligibility shouldn't be conditioned on credit history, assuming that the goal of a federal loan program is to ensure that paying for college isn't a barrier to the poor. It should be conditioned on ability and preparation.

How might this be done? Perhaps with these minimum qualifications:

Combined SAT Critical Reading and Mathematics score: 1006 (the average in 2015)

Or

Composite ACT score: 21 (the average in 2015)

And

High school GPA of at least 2.5 in core courses, including 4 years of language arts; math through pre-calculus; U.S. and World history; science to include biology, chemistry, and physics

And

Intent to major in a field for which unemployment is not currently greater than 7 percent.

The goal is to greatly reduce the number of people who are unprepared for college who take on debt they won't be able to pay back because they won't complete school or obtain useful skills. Of course, the devil is in the details, and the thresholds above are pretty arbitrary. Indeed, "college-level work" is a very nebulous thing, varying from school to school and major to major. It is also inherently dangerous to have government encourage students to enter some fields and not others, as if government can, with crystal clarity, predict the economic future. But remember, this is in lieu of the real answer to these problems: getting the government out of postsecondary education and letting unsubsidized price signals and individual decisions rule the day.

So what should the threshold test scores be? What is the right indicator that a field offers unacceptable job prospects? Should the borrower's intended major be considered at all?

What do you think?

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