THE HILL

End the student loan-acy

Neal McCluskey

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Sen. Elizabeth Warren (D-Mass.) and other left-leaning pols have often decried the federal government using student loans to profit off of college kids. A new Government Accountability Office report explains why we don't hear that much anymore: the government has hardly been profiting.

Indeed, taxpayers have been getting clobbered.

The GAO examined actual and projected revenue and costs of federal Direct Loans — since 2010, the only type of federal student loan — over the last 25 years. It found that projections of a nearly $114 billion profit were off by $311 billion. Federal taxpayers are now predicted to lose nearly $200 billion.

Why the yawning difference?

About $102 billion is attributable to the student loan repayment freeze that started with the CARES Act in March 2020, which has been extended by executive action five times since the CARES freeze expired at the end of September 2020. Crucially, the freeze does not just hold the loans in stasis, to pick up right where they were when they were frozen. No, interest has been set to zero and considered paid, while the two-years-plus freeze counts toward various time-based forgiveness plans.

Borrowers have been gaining and taxpayers losing.

That is not the end of the freeze story. The GAO does not have a loss estimate for the current extension, which started May 2 and is supposed to end Aug. 31. Also, the Department of Education recently told loan servicers not to send billing statements letting borrowers know they will have to restart payment, so another extension seems imminent. $102 billion will not be the final loss.

The other major changes stem primarily from faulty projections about what borrowers will repay, especially through Income-Driven Repayment plans that peg repayment amounts to a borrower's income and forgive remaining balances after 20 to 25 years, depending on the plan. In part, borrowers have not done as well financially as the government predicted, while repayment programs have been repeatedly revised to make conditions more borrower friendly.

Alas, these losses are not a surprise. In 2016, the GAO reported that the Department of Education expected to lose $74 billion on Income-Driven Repayment. The Biden administration recently estimated $68 billion in long-term losses. And a report done for the Trump administration projected a $435 billion beating.

The massive taxpayer cost is hardly the only problem with federal student loans. On the side of disgruntled borrowers, one of the worst effects is higher education's notorious price inflation. Aid, including loans, is baked into college prices, requiring many people to borrow.
A study from the Federal Reserve Bank of New York estimated that for every $1 increase in federal subsidized loan caps, colleges raised their prices 60 cents.

Given their immense cost to taxpayers and inflationary effects — not to mention the Constitution giving the feds no authority to run them — federal student loans should be phased out. But that conclusion does not support the nuclear option that Sen. Warren and other progressives want employed: executive cancelation of up to $50,000 for nearly everyone with student loans.

President Biden is reportedly looking at something smaller, but still big: $10,000 per borrower, possibly with an income cap.

This would be a giveaway of up to a trillion taxpayer dollars, depending on the plan, to people who are typically already economic winners.

While college costs more than it should, the payoff from a degree is still big. Data from the Georgetown University Center on Education and the Workforce show that the average person ending their formal education with a bachelor's degree will earn $1.2 million more over their lifetime than someone with only a high school diploma. Someone with a professional degree — and student loans are disproportionately used for graduate studies — such as in law or medicine, will earn $3.1 million more.

Meanwhile, average student debt owed is $37,014, with numerous forgiveness options. Many borrowers are, quite simply, doing well, and should make taxpayers whole by repaying the loans they chose to take on.

It is well past time to end the repayment freeze, the drive for mass cancelation, and the student loan programs themselves. Taxpayers need relief.

Neal McCluskey directs the Cato Institute's Center for Educational Freedom.