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Neal McCluskey: Let student loan interest rates rise

By NEAL MCCLUSKEY / Associate director, Center for Educational Freedom, Cato Institute

It seems simple: College is expensive and interest rates are at historic lows, so rates on federal student loans shouldn't suddenly double. But this isn't simple at all.

Despite constant talk about the huge value of education, and the need to get many more people into college, aid is driving massive overconsumption of higher education and squandering billions of student and taxpayer dollars.

The Associated Press just published a story brilliantly illustrating reality. Of graduates ages 25 and younger, the AP reports, roughly 50 percent are either unemployed or in jobs that don't require a degree. In addition, despite what we hear about the economy's imminent voracious appetite for highly educated workers, the U.S. Department of Labor estimates that just three of the 30 jobs expected to have the greatest growth by 2020 will require a bachelor's degree or higher. Finally, right now a third of bachelor's holders of all ages are in jobs which don't require their credentials.

And that's just bad news for people with degrees. Below the surface is the even more massive problem of people who enroll in college, often take on debt, but don't get the credentials they need to increase their earnings and comfortably pay back what they owe.

In four-year institutions, more than 40 percent of first-time, full-time students don't complete their programs within six years, and most of these students will never finish. At community colleges, almost 80 percent don't finish within three years.

Then there are those outlandish prices.

The basic problem is simple: Give everyone \$100 to pay for higher education and colleges will raise their prices by \$100, negating the value of the aid. And inflation-adjusted aid – most of it federal – has certainly gone up, ballooning from \$4,602 per undergraduate in 1990-91 to \$12,455 in 2010-11.

Of course there are more variables than aid in college pricing, but this basic, inflationary effect is almost certainly a major reason that real tuition and fees at four-year institutions have roughly doubled between the 1990-91 and 2011-12 academic years.

What all this tells us about Stafford interest rates is that they should be allowed to go from a measly 3.4 percent up to 6.8 percent. Most importantly, higher rates would encourage potential students to think a little harder about the decision they are about to make, and that is something that clearly needs to happen.