



Opinion: Are student loans making college more expensive?

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A comment I made during a recent appearance on [KUED's The Hinckley Report](#) seems to be resonating on social media. It was to the effect that federal [student loan forgiveness](#) solves nothing because it doesn't tackle the real problem, which is the high cost of higher education.

Many students had to take out loans this month for a new school year, just as they will next fall. How long will it be before this new group of indebted students demands forgiveness, just as President Joe Biden gave their older brothers and sisters?

Instead, [I have argued](#), the government needs to pressure higher education to reduce costs. Tell schools that the amount of loan money available to their students will depend on how many graduates receive jobs, or on some other measurement relevant to success and the contribution of a greater good to society.

Or, perhaps, require variable tuition rates. Majors in subjects that lead to relatively low-paying careers could cost less than those that lead to high-paying jobs. This might be a way to stem the [teacher shortage](#), luring students with lower costs.

But, while I still maintain these are needed, it turns out there may be a more obvious culprit. Evidence exists that the mere presence of easy loans contributes to tuition increases.

Back in 2017, [a study of this connection](#) by the Federal Reserve Bank of New York concluded, "We estimate tuition effects of changes in institution-specific program maximums of about 60 cents on the dollar for subsidized loans and 15 cents on the dollar for unsubsidized loans."

In plain English, the more federal loans and grants that are available to colleges and universities, the more likely those schools are to raise tuition.

Similarly, [a 2014 study](#) by the National Bureau of Economic Research found that tuition at for-profit schools that were eligible for federal student aid were 78% higher than at schools that were otherwise similar but weren't eligible for aid.

Last year, The Wall Street Journal [profiled Al Lord](#), a former CEO of Sallie Mae who once was the king of student loans but who now regrets it all as he tries to pay tuition for his grandkids.

"It's criminal," he said of the \$75,230 the University of Miami was charging last year for a year of tuition, room and board. Back in the '60s, he said, he worked to pay his own way through Penn State.

“A thousand dollars or a \$1,500-a-year education was in bounds,” he told the Journal. “You could reach for it or pay for it, and I didn’t take on any debt.”

When he retired and joined the board at Penn State, he said, he realized student loan programs are enabling an inefficient business model that exists in higher education.

In a paper for the Cato Institute last year, David Boaz quoted former education secretary William J. Bennett, who argued way back in 1987 that financial aid was leading “colleges and universities blithely to raise their tuitions, confident that federal loan subsidies would help cushion the increase.”

Boaz argues there are other side-effects to easy college money. “Salaries rise; bureaucracies expand; more courses — from ‘history and analysis of rock music’ to ‘ultimate frisbee’ — are offered; dorms, dining halls and recreational centers become more lavish.”

He cited statistics from the Congressional Budget Office that outstanding federal student loan debt was \$218 billion in 1995 (using 2022 dollars). As of August of this year, it was \$1.75 trillion, according to the Federal Reserve Bank of St. Louis.

The connection between ample student loans and costs makes economic sense. Colleges may have to compete with each other for students, but because students have a readily available source of borrowed money for tuition, colleges don’t face a lot of downward pressure on costs.

Add to this a massive forgiveness program that the nonpartisan Congressional Budget Office now estimates could cost about \$400 billion, and the incentive to spend more will likely increase. That would be especially true if today’s students expect at least part of their loans to be forgiven at some point.

A more targeted forgiveness plan aimed at the poorest students would have made sense. At least, it would have tackled a clear need while minimizing impacts on higher education and the economy in general.

Legal challenges may keep Biden’s forgiveness plan from taking effect for a while. If so, this might be a good time to direct the nation’s attention to the runaway costs associated with obtaining a degree — tackling a real problem instead of further enabling it.