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Student loans - forgive and forget

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One of the great things about America, President Obama told students at the University of Colorado, is that no matter how humble your roots, you still have a shot at a great education. He also told students that his goal is to "make college more affordable." Alas, the president's prescription for making higher education affordable seems likely to yield the same results as his plan for curbing health care costs - that is, it is likely to drive prices higher than inflation.

The nation's next fiscal nightmare may well be a higher-education bubble.

Americans now owe more on student loans than on credit cards. As USA Today reported, America's student loan debt is expected to exceed $1 trillion this year. Rising costs have left many graduates in a deep hole. Many of last year's graduates walked away with a diploma and, on average, $24,000 in student loans. The default rate on student loans rose to 8.8 percent in 2009.

Occupy Wall Street activists have been calling for forgiveness of student loans.

Congress already passed legislation proposed by Obama to cap some student loan payments at 15 percent of a graduate's discretionary income and to forgive the balance after 25 years. Thursday, Obama pledged to lower the cap to 10 percent of discretionary income - with forgiveness after 20 years.

What next, 5 percent and 15 years?

"And we can do it at no cost to the taxpayer," U.S. Secretary of Education Arne Duncan cooed in a statement.

"That is simply not true," responded Neal McCluskey of the libertarian-leaning Cato Institute. Taxpayers are on the hook for those loans.

Last week McCluskey put out a paper that concluded that when government bestows more aid, institutions benefit far more than students. The phenomenon predates this administration. The College Board reports that for the last decade, college tuition and fees exceeded inflation by 5.6 percent a year. That's where McCluskey believes increased financial aid goes.

"There is no question," McCluskey wrote, "that colleges and universities have been raising prices at a very brisk pace in recent decades and that those increases have largely nullified aid increases."

Rush Limbaugh delights in blaming the rising price of higher education on "greedy academics." Look at the salaries that California's public universities pay administrators. The new Cal Poly San Luis Obispo president is about to take home $50,000 more than the published maximum salary of $328,212. With federal and state student aid dollars feeding the beast, eggheads cash in.

The biggest losers are students who get sucked into colleges, because the federal loans look like free money, only to drop out of school. They get the debt, but no degree. As McCluskey observed, "We give money regardless of their aptitude to do college work."

The other losers are graduates with six-figure debt and little income. The White House is working on a "Know Before You Owe" project to warn students about the cost of student loans.

As a beneficiary of a state university education and a repaid student loan, I don't want to end a program that helped me and can help others. But like mortgages that fueled the housing bubble, there can be too much of a good thing.

The unintended consequences of the steep rise in government financial aid, McCluskey concluded, may well be "sky-high non-completion rates and rampant tuition inflation."

In his 2005 Stanford commencement address, Steve Jobs explained the economic factors that went into his decision to drop out of Reed College. "I naively chose a college that was almost as expensive as Stanford, and all of my working-class parents' savings were being spent on my college tuition."

He actually thought about the money - that sounds so quaint today. I am not suggesting that anyone drop out of the right school. I just want graduates to look back at their education and know in their hearts it was worth it.

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