

# WP OPINIONS

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## Are we subsidizing student debt too generously?

By [Jennifer Rubin](#)

It is not fashionable to say this but both political parties have suffered a lapse of logic and Economics 101 when it comes to student debt. Recently, Mitt Romney joined President Obama in calling for additional subsidies for student-loan borrowers.

I went to two critics of the current craze for federal subsidies and extension of student loans, Lindsey Burke, the Will Skillman Fellow in Education at the Heritage Foundation, and Hans Bader, senior attorney and counsel for special projects at the Competitive Enterprise Institute.

### Why am I subsidizing student loans for Harvard kids?

BURKE: Exactly. The burden – and risk – is passed along to taxpayers, including the three-quarters of Americans who don't hold a college degree (and likely earn less than those who do hold a degree). Taxpayers will be on the hook for \$6 billion if the rates are kept low.

BADER: I have no idea why. It never made sense to me even when I was at Harvard. Harvard has a huge endowment, and just hoards it. It's not mostly for the students. As the Dean of Harvard Law School publicly said then, students are merely "incidental."

### Don't federal subsidies drive *up* the price of tuition?

BURKE: Keeping interest rates artificially low will fail to drive down college costs in the long run. Colleges will once again be able to increase costs, and students with easy access to low-interest loans will once again be able to pay. The Obama administration has significantly increased federal involvement in the student loan industry, effectively nationalizing student lending through language buried in Obamacare, by continuing to increase federal subsidies, and by "forgiving" student loans altogether after 20 years on the backs of taxpayers. But these policies only exacerbate the college cost crisis, continuing a vicious cycle whereby college costs rise in tandem with ever-increasing federal subsidies.

BADER: Yes, federal subsidies do drive up tuition. It's Econ 101: basic economics dictates that conclusion. Cato Institute education expert Neal McCluskey links to 4 studies so concluding at this [link](#). Andrew Gillen persuasively argues that subsidies drive up tuition in a study available [at this link](#). Gillen's study is discussed [at this link](#). Government loan ceilings are higher for law students than for undergrads, and, surprise, surprise, [law school tuition and student debt](#) are much higher there. The more taxpayer-backed student loans available, the higher the tuition rises, and the more crippling students' debt upon graduation. Even the liberal law professor Brian Tamanaha was driven to observe that "This financial insanity will not stop until significant changes are made to the federal student loan program." As a story in the ABA Journal [noted](#), "Law students . . . are treated generously as future professionals and able to borrow, with virtually no cap, significantly more money than undergrads. . . . For several decades, most higher education loans were made by private lenders with the federal government providing guarantees against loss — and, in some cases, interest rate subsidies." Now,

students routinely graduate from law school with well over \$100,000 in debt – an average of \$165,000 at John Marshall in Chicago.

### **Why are colleges allowed to keep tax-exempt status while sitting on mounds of endowment money?**

BURKE: It's an interesting question, particularly when one considers the increase in non-instructional staff at universities over the years. The Goldwater Institute found that administrative positions at colleges increased 39 percent since 1993. But ever-increasing federal subsidies give colleges little incentive to cut costs. If the administration wanted to drive down college costs, they could consider reforms that would encourage savings-based – instead of debt-based – college financing, and ending the witch hunt against the for-profit higher education sector.

BADER: Logically, I can't explain why colleges are allowed to [keep] tax exempt status while sitting on mounds of endowment money. Private charities usually have to spend a certain percentage each year. Why not wealthy colleges? They are accumulating extravagant wealth due to preferential tax treatment in a way that reminds me of the Medieval Church, which ended up controlling much of the land due to its favored, tax-free status (which later kings – even some Catholic rulers – ended up confiscating in large part later in the Renaissance and Enlightenment). But if you tried to limit their tax-free hoard, they would send high-paid lobbyists to fight you, and claim you were stealing from the children and America's future.

Bader went on to explain: "Sometimes, financial aid increases lead directly to tuition increases. The federal government imposed the 90-10 rule, which forced low-cost for-profit educational institutions to raise their tuition to comply with a new federal regulation requiring them to charge enough over federal financial aid so that at least 10 percent of education costs don't come from financial aid. Corinthian College had diploma programs in health care and other fields that can be completed in a year or less. Until 2011, many of those programs had a total cost of about \$15,000, which meant that federal grants and loans could cover nearly 100 percent of their cost. In response to the Education Department's rule, the college [raised tuition](#) to comply with the 90/10 rule. The [net result](#) of the government's rule, as Corinthian College notes, was to "create a perverse, no-win 'Catch-22' that could prevent low-income students from attending college," by encouraging such colleges to raise tuition to outstrip rising financial aid by more than ten percent.

In sum, Bader finds that President Obama has "harmed America's students, not only by perpetuating financial aid policies that drive up tuition" but also by encouraging students to seek degrees that don't make them employable "even though a credit rating agency, Moody's, is now [warning student borrowers](#) that college may not be worth the money for some majors. Meanwhile, he says, the administration is "seeking to cut back on useful vocational training needed for in-demand, high-paid blue collar jobs, such as the skilled workers who factories need before they can expand and hire more unskilled workers (among whom unemployment is very high)." His analysis on that topic is [here](#).

Not unlike with health care, if someone else is paying the bill (in part), you're going to overspend. But more important, rather than searching for nonexistent illegal oil speculation, how about an investigation of tuition-gouging and a re-examination of guilty institutions' tax-exempt status? If Harvard is sitting atop [an endowment](#) of **\$32 billion**, why is it charging students [more than \\$50,000 a year](#)?