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The case against lowering student loan interest rates

By [Daniel de Vise](#)

All of a sudden, the arcane topic of [student-loan interest rates](#) has surged to the top of the news cycle. President Obama has placed the issue front and center in his reelection campaign, urging Congress (from various college-campus podiums) to preserve legislation that [caps interest rates](#) at 3.4 percent on the main federal student loan program.

Few [higher education](#) leaders have anything bad to say about the president's push. So I took note of this comparatively critical essay from Neal McCluskey, an education scholar at the libertarian Cato Institute.

Here it is, [republished from](#) the Cato@Liberty blog.

Sometimes I wish politicians were more like good parents. I know that doesn't sound very libertarian — the last thing we want is for politicians to become humanity's moms and dads — but there's at least one thing good parents do that most politicians constantly avoid: say "no."

When kids want their food pyramids to have a base of candy, center of ice cream, and peak of ice cream with candy sprinkles, good parents say "no."

When young 'uns want to show off their mumblety-peg skills with the Bowie knife they found in dad's old camping gear, good parents say "no."

And when the children want to borrow the family sedan for a little off-road speed competition, good parents say "no."

Of course, saying no all the time doesn't make life with the kiddos easy or fun. The kids get angry. Mom and dad fume. "I hate you" may even be uttered. But refusing to help the children seriously endanger their arteries, digits, or worse — even if it makes the parents' life tougher — is what good parenting is all about.

If only our politicians would exercise the same restraint.

But they don't, with the latest case-in-point being the drive to keep interest rates on subsidized federal student loans at super-low levels. It will be the centerpiece of a three-state presidential tour beginning today.

Currently, interest rates on subsidized loans — loans on which Washington pays the interest while a borrower is in school and for a six-month period after graduation — are at 3.4 percent, a surface-skimming level reached after the College Cost Reduction and Access Act of 2007 cut rates in half over a five-year period. Rates are scheduled to return to 6.8 percent in July.

The argument proffered for keeping the rates at 3.4 percent is that interest rates generally are at historic lows, and 6.8 percent would simply be too high. Much more important, though, seems to be the political reality: President Obama appears intent on currying favor with both college students and, frankly, any voters looking at exorbitant college prices and asking, “How the heck am I going to pay for that?”

But it's not just the current president who [appears to be playing politics](#). Mitt Romney, the presumptive GOP challenger to Mr. Obama, yesterday also urged Congress to freeze the rate at 3.4 percent.

This certainly looks like election-year politics, and no doubt the unusual focus on student loan rates — not exactly a political thriller — stems from that. But the reality is that policymakers have been lavishing cheap money on students for decades because it helps keep relations cordial with the kiddos. The ultimate result, however, hasn't been greater college affordability, but damage inflicted on millions of Americans.

First and foremost, all the cheap aid has enabled colleges to raise their prices at [breakneck speeds](#), rendering the aid largely self-defeating and college pricing insane.

Second, giving dirt-cheap ducats to wannabe students — no matter how poorly prepared they are, or how little they actually want to tackle college work — has resulted in [massive overconsumption and noncompletion](#) of postsecondary education, and left millions without the earnings-upping degrees they need to pay their college debts. At four-year institutions, more than 40 percent of first-time, full-time students fail to complete their studies within six-years, and in community colleges almost 80 percent don't finish in three years. Most who aren't done in those time frames will never finish.

Finally, there's the cost to taxpayers. Overall, federal student loans originated in just 2010-11 involved \$104 billion in taxpayer money, and if those loans don't get paid back, or interest rates are slashed, it is taxpayers who will take the hit. That, of course, seems unfair at any time, but making it even worse is that the nation is facing a nearly \$16 *trillion* debt. But good luck getting the politicians to pin down the cuts that will offset the billions of bucks that will be lost if student loan rates are kept at 3.4 percent. Sure, you'll get uber-confident promises that the move won't cost taxpayers “[one nickle](#),” but you sure won't find anything concrete [in the legislation](#) that would keep rates low.

Federal student aid is, frankly, a classic example of garbage parenting. No matter how much damage the policies inflict, the politicians do anything they can to stay best friends with the kids.

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