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GOVERNMENT OVERHAUL OF STUDENT LOANS LIKELY TO ELIMINATE JOBS AND INCREASE TUITION COSTS

By *Julie Borowski* on *Mar 30, 2010*

Today, Obama signed the Health Care and Education Reconciliation Act of 2010 which grants government substantially more control over higher education. [This legislation](#) overhauls student loans by making the federal government the primary distributor of student grants and loans. In addition, it expands Pell Grants by more than \$40 billion and provides billions of taxpayer dollars to community colleges and historically black colleges and universities.

Senator Mitch McConnell (R-KY) [claimed](#) that the government running the student loan business is a bad idea:

"It's a very bad idea. We now have the government running banks, insurance companies, car companies" and Democrats want the government to now "take over the student loan business."

The student loan overhaul is expected to eliminate tens of thousands of jobs. Rep. Howard P. "Buck" McKeon (R-Calif.) [claims](#) that:

The proposal would eliminate 30,000 loan industry jobs.

Six Democratic Senators, Thomas R. Carper (DE), Blanche Lincoln (AR), Ben Nelson (NE), Bill Nelson (FL), Mark Warner (VA) and Jim Webb (VA), even wrote a [letter to Harry Reid](#) that expressed their concern that the student loan overhaul would increase unemployment.

We write to make you aware of our concern with provisions of contemplated student lending reform that could put jobs at risk.

The rapidly rising cost of college is a major cause for concern. College inflation is significantly higher than general inflation, the cost of college rises [6 to 7.5%](#) percent annually. In the 2008-2009 academic year, [two-thirds](#) of students were forced to borrow money to attend college. The average student that graduated from college last year borrowed an outrageous [\\$23,186](#). Therefore, the real focus should be on decreasing the amount that students have to borrow by lowering college costs for all students. Unfortunately, government intervention in higher education often raises cost without regard to the taxpayers.

As an [article](#) in the Wall Street Journal states, the price of college is likely to increase under the newly signed the Health Care and Education Reconciliation Act of 2010:

As for the cost of college, expect it to become even less affordable as the subsidies keep flowing. The main achievements of this new legislation will be to give more power to government, and to transfer more of the costs and risks of college financing to taxpayers.

Neal McCluskey, associate director of Cato Institute's Center for Educational Freedom, [claims](#) that student aid such as Pell Grants can be detrimental to students and is likely to impede economic growth:

The reality is that student aid drives massive, self-defeating college price inflation, creates ugly bloat and waste in our ivory towers, and ultimately cramps economic growth.

Cato Institute scholar Tad DeHaven [summarizes](#) key points against federal subsidies in higher education:

Federal student loan and grant programs have been subject to waste and fraud for decades. The Pell grant program (which SAFRA would enlarge) costs taxpayers hundreds of millions of dollars per year in fraud. Another ongoing problem is the high default rate on student loan programs.

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The effect of subsidy programs, in part, is to impose taxes on blue collar workers—who have not attended college—to pay for the tuition of future white-collar professionals. Why should the government subsidize future high earners at the expense of average working people?

Federal student aid programs transfer wealth from taxpayers to academic institutions. That's because the rise in student subsidies over the decades appears to have fueled inflation in education costs. Tuition and other college costs have soared as subsidies have risen. College cost inflation induced by federal aid probably hurts low-income families—the people that federal aid was supposed to target—more than others.

Ideally, all qualified students should be able to attend an affordable college. It is shameful that an intelligent and high-achieving college student might be forced to drop-out based on their inability to pay the college's sky-rocketing tuition costs. However, Obama's plan will not target these rising costs. Massively subsidizing college tuition through taxpayer money only gives colleges less of an incentive to reduce costs and tuition is likely to continue to rise at unprecedented rates.

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