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**I believe in the free speech that liberals used to believe in, the economic freedom that conservatives used to believe in, and the personal freedom that America used to believe in.**

## Looking Behind The Federal Takeover Of Student Loans

by [Doug Mataconis](#) @ 9:16 am on April 1, 2010. Filed under [Barack Obama](#), [Economics](#), [Education](#), [Politics & Pundits](#), [Politics](#)

Though not nearly as well-publicized as health care reform, the federal government's takeover of the student loan industry, which became law earlier this week, promises to have far-reaching economic implications. And, like health care reform, we're only now discovering what the government has done to us.

The Cato Institute's Neal McCluskey, for example, points out that [the law essentially takes a bad situation and makes it much worse](#):

First, the leeches have hardly been burned off. Sallie Mae and a few other now-former lenders have been promised big federal contracts to service loans under the new regime, so don't worry — they'll still get theirs.

Second, though this isn't a federal takeover of anything close to a truly private market, it is marginally worse, from a free-market perspective, than the status quo ante. At least until the recent credit crunch, firms in the guaranteed-lending program got their money through capital markets, keeping at least a small amount of discipline about whether students won the capital that everyone was competing for. Now students will just take their dough from the Treasury.

(...)

Third, the president's goal of having a greater percentage of college graduates than any other nation in the world by 2020 — which this expansion of aid is supposed to help accomplish — is economically dubious. We already have far more four-year degree holders than we have jobs for them — to say nothing of whether we have the right four-year degrees for the jobs — and the greatest numerical growth in employment in the coming decade is supposed to be primarily in jobs requiring only on-the-job training. So what we are heading for if the president gets his profusion of sheepskins is not a stronger economy, but a much less efficient one.

McClusky's final point is something that I've thought myself for a long time. It's considered a given that a college degree is required for success in life, and I'm just not sure that's true anymore. Yes, there is evidence that shows that college graduates earn more than non-college graduates, but what that study doesn't tell you is that there are many graduates out there working in fields that have almost nothing to do with what they studied in college.

More importantly, is it really true that the tens of thousands of dollars in tuition that students pay every year are really worth it in the end? Outside of people who go on to graduate or professional schools, I'm dubious.

To the extent that this student loan “reform” ends up sending more students to college for four years, I’m not sure that it’s actually accomplishing anything.

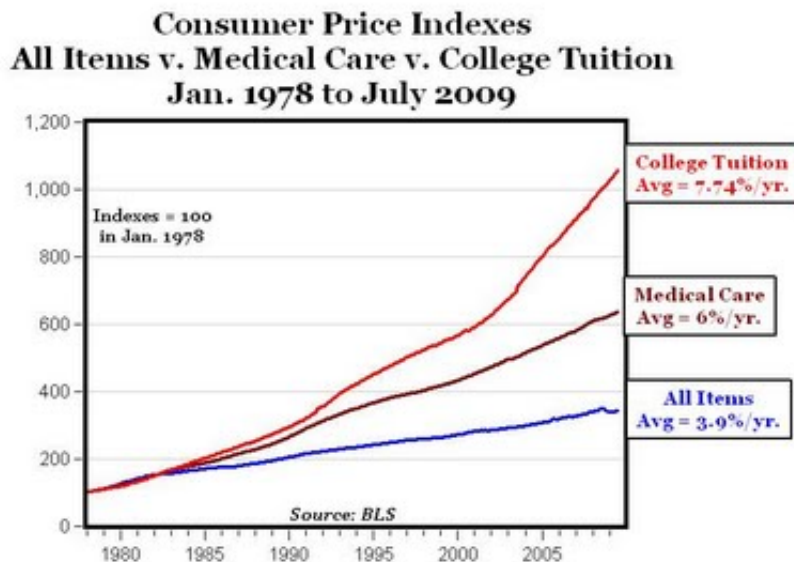
James Joyner points out another problem with the new student loan regime, [the fact that it’s likely to actually make student’s financial position worse:](#)

Presumably intended to “protect” students from incurring massive amounts of high interest debt early in life (the conspiratorially-minded will say to prevent competition), the real result (as is so often the case) will actually be to put a major hurdle in the way of some such students getting their tuition paid on time – or at all.

Lots of students and their families use credit cards to bridge the gap between the tuition bill being due and loans or grants arriving. With the feds more or less taking over the sector, that problem is likely to become worse. So now students whose checks are delayed are deprived of the quick and easy — and almost always painless — fix of being able to put it on their plastic and simply pay it off when the tardy check arrives.

To make matters worse, another provision seems extend last year’s Credit Cardholder’s Bill of Rights Act to cap limits on those omnipresent student credit card offers. So those same students whose checks are late and who need to buy expensive books and/or supplies may also find themselves in another kind of bind.

Finally, [there’s this chart:](#)



Over the last 30 years, college tuition has increased at *twice* the rate of inflation. Does anyone really think that a federally-run student loan program that does even more to shield the real cost of college from it’s consumers is going to do anything to stop that ?

As with everything else, this federal takeover is going to make a really bad situation so much worse and may, in the end, make college less affordable for everyone.

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