Student Loans (Again)

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Student loans are back! This time, it is not another round of Biden-era loan forgiveness issues. Instead, *The Washington Post* has a story featuring the hyperbolic headline "Loan rules would gut aid for thousands of low-paying college majors." What, exactly, is going on here?

The rules in question are Department of Education rules to implement the student loan reforms contained in the One Big Beautiful Bill Act (OBBBA) passed in 2025. The fact that the reforms are in OBBBA is alone enough to send some on the left over the edge. The fact that they modestly trim the amount of taxpayer money being handed out is what passes for "gutting" a program. But the actual restriction is incredibly modest:

> *Under the proposal, for federal loans to be preserved, graduates would have to earn at least as much as the average pay for people without that level of education. For example, students completing undergraduate degrees would generally need to earn more than people with only high school diplomas.*

But the supposed harms are described as apocalyptic.

> *Some officials said the impact could be catastrophic for some trade schools and small colleges with low-paying majors and graduate degree programs. For instance, the government estimated the proposed regulations could shut off federal loans to 89 percent of students enrolled in master's programs for religion and religious studies.*

The impact on schools and colleges is, of course, beside the point. These are not supposed to be subsidies to entities. They are supposed to be subsidies targeted on the right individuals.

As a framework for thinking about the rules, recall that there are two criteria for government intervention in a private market. The first is equity or income distribution issues. Student loans long ago became so broadly available that it is hard to justify on these grounds. The other criterion is to improve the efficiency in the economy by capturing a benefit that private markets will miss.

In the case of student loans, private lenders will make loans as long as they can expect them to be repaid, and that is certainly part of the intent of these reforms. But investment in skills and knowledge might also provide a broader return to society that merits the government making more education available. The evidence of the investment is the greater pay earned after college; the rules identify exactly those situations.

The student loan reforms will target aid more narrowly and likely spend less as a result. Fine. There will be some classes of borrowers who no longer can rely on federal loans. Fine. There are other loan sources. And some colleges or schools will be impacted. Okay. It is not the job of the student loan program to finance every school.