Insight

Three Ways to Flunk at College (Reform)

CHAD MILLER, GORDON GRAY | AUGUST 10, 2015

Increasingly, many policymakers are calling for taxpayers to foot the bill for either "debt free college" or refinancing of student loans. But, do these proposals actually help? Offering the same failed Obamacare model of higher taxes and mandates will do nothing to curb costs. Ultimately, the proposals are counterproductive as taxpayer subsidies cause rising tuition.

$140 BILLION IN LOST INVESTMENT

When policy proposals include significant amounts of public funding, the taxpayer has the right to expect a return on the investment. When it comes to higher education policy the expected return comes in the form of more students earning college degrees. The new proposal, unfortunately, steers $140 billion to zero-return investments – i.e., to students and states that will see no real economic benefit because 42 percent of students that begin but never complete a degree. There is no actual policy with in the plan to lower that number. Though the plan has $350 billion to improve access to higher education, today only 58 percent of 4 year college students and 30 percent of two year college students who are already enrolled complete their education and earn a degree. Some loan reductions will even go to students who have already completed their degree.

LOANS' "PAPER PROFITS" PAY FOR OBAMACARE

Within this new proposal is an old refrain that the government should not profit from any student loan. In reality, according to a CBO report, the government will lose $88 billion on current loans.

In 2010 when the federal government essentially nationalized student lending, the current administration took advantage of obscure budget rules, to find that the government would profit $19.2 billion from student loans. Unfortunately, the "profit" is merely a paper one because of budget rules (known as "FCRA") that underestimate the cost to the federal government. What they then did was use the "paper profits" to pay for part of Obamacare.

"FREE" ISN'T FREE

Touted as debt-free college tuition, this reform, as with Obamacare, merely shifts costs onto taxpayers, with no focus on improvement in degree attainment. One such reform would shift $58 billion in new costs on taxpayers.

Other approaches include income based repayment (IBR)) plans. AAF has demonstrated that the increasingly popular income-based repayment programs are also adding billions of unadvertised costs to the federal budget. These costs haven't gone unnoticed. Reflected in President Obama's 2016 budget proposal is a $21.8 billion shortfall largely attributed to the rapid growth of the Pay as You Earn initiative (an IBR program).