



Correction, Please!

Offering “Free” College, Student Loan Forgiveness



Making monetary mayhem? Presidential aspirant Senator Elizabeth Warren wants government to provide “free” college and pay off student loans, but to pay for this unconstitutional idea, she plans to hit up a few rich Americans, as she does for several other spending proposals. *(Photo credit: AP Images)*

Item: *An article in the D.C.-based Hill for June 13 reported that Senator Elizabeth Warren (D-Mass.) had just “announced a bill that would forgive billions of dollars in outstanding student loans and wipe out almost all student debt held in the U.S.”*

The publication quoted her saying: “The student debt crisis is real and it’s crushing millions of people — especially people of color. It’s time to decide: Are we going to be a country that only helps the rich and powerful get richer and more powerful, or are we going to be a country that invests in its future?”

Item: *The Associated Press for June 16 reported that Warren and Vermont Senator Bernie Sanders are among the Democratic presidential candidates who have proposed plans “to eliminate tuition at public colleges and universities, while former Vice President Joe Biden and others back plans for free community college.”*

Item: *The Warren education announcement was first made on the Medium online platform for April 22; it calls not only for the widespread cancellation of student debt but also for “Universal Free Public College.”*

Correction: We can’t afford more “free” gifts from the welfare state, even if they are disguised by obsequious political leaders as “basic public goods.”

Our failure to recognize this has been a major contribution helping to drive the national debt to more than \$22 trillion. That’s up \$10 trillion from a decade ago, with projections pointing to \$34 trillion in just 10 more years. The debt’s interest is added to our national debt, to be picked up by taxpaying Americans. As a result, in just a decade about a fifth of all federal taxation will be eaten up by interest on the debt. We are on track to shell out more in debt service than for Medicaid in 2020; by 2023, we are expected to pay more on such interest than on military spending.



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In short, the tax-eaters are destroying the tax-earners.

Wonder why college is expensive? Should we really be asking former Harvard Professor Elizabeth Warren — who was paid \$350,000 a year for teaching one class, twice a week? We are reasonably sure that she was not teaching the wisdom of French economist Frédéric Bastiat — who famously observed that the government is the “great fiction through which everybody endeavors to live at the expense of everybody else.”

But wait, didn't the distinguished senator say this was going to be “free”? Don't believe it. The initial cost of cancellation of student debt is said to be \$640 billion — or about \$2,000 for every person in the country. That \$640 billion figure comes from Warren's experts, though others put it at \$900 billion or so.

Even Warren concedes that “free” college will cost \$1.25 trillion (that's with a “t”) over the next 10 years. That money is supposed to come from the wealthiest Americans, as is funding for a number of her other proposals. This projection also leans on the assumption, a dubious one, that such a tax is constitutional.

Meanwhile, let's admit that college costs are skyrocketing, as is the total amount of student debt. Virtually all of the Democratic presidential candidates, who have been competing in a panderfest of giveaways, are happy to bemoan this. And average tuition costs, *Forbes* has reported, have increased eight times faster than wages since the 1980s. Borrowers in the United States owe more than \$1.5 trillion in student loans.

Here are some more figures: Washington's total spending on student loans (as culled from the Heritage Foundation) has jumped from \$24.8 billion in the 1995-1996 school year to \$93 billion in 2017-2018. Meanwhile, between 1998 and the present, tuition at four-year institutions has roughly doubled; the tuitions at private four-year colleges jumped 58 percent. Or if you go back further, to 1980, one finds that the cost of attending a four-year public university in this country has increased 287 percent.

Sheer totals give an incomplete picture. Sure, there are some horror stories about individuals who have huge student debt. These are sad tales, even though nobody put a gun to the head of these borrowers. Yet, at the same time, many more people are going to college, in terms of both numbers and percentages.

As Nick Gillespie has observed in *Reason*, all of this free college hype is happening at a time when “a historically high percentage — about 70 percent — of recent high-school graduates are already enrolling in college. College has somehow become so unaffordable and remote that more and more people are attending.”

Also keep in mind why college prices have jumped. When the government subsidizes something, you get more of it — in this case, students and debt. With so many federal loan dollars available, colleges are more than happy to raise prices to collect some of the taxpayer-backed loot.

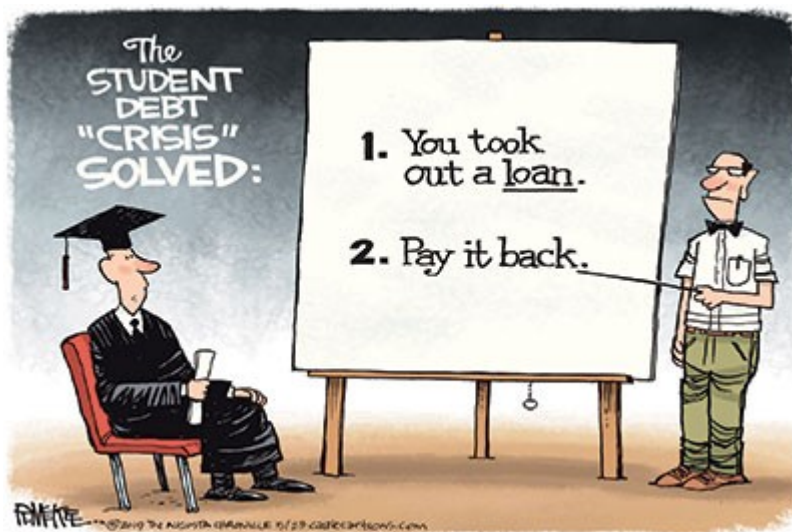
Writing in the *Washington Free Beacon*, Charles Fain Lehman points out what Warren does not mention in her massive loan forgiveness proposal: This cancellation is made possible “because the federal government holds the overwhelming majority of all outstanding student debt — about 78 percent as of the end of 2018. This is thanks in large part to Obama-era changes that moved the federal government from guarantor to issuer of loans.”



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The higher-education loan “bubble” was inflated in much the same way as the Obama-era housing bubble. A good exposition has been made by Antony Davies and James Harrigan for the Foundation for Economic Education (“The High Cost of Free College,” May 17, 2019), wherein they noted that the federal government in both cases “interfered in markets in two critical ways. First, the government stepped in as a lender. Second, it shielded private lenders from the consequences of making bad loans.” With higher demand, prices are pushed up by colleges. Seeking to purchase votes, members of Congress then boost the loan limits and grants. A recent study by the Federal Reserve Bank of New York concluded that each dollar of federally subsidized loans leads to as much as a 60-cent increase in tuition.



This phenomenon is known as the “Bennett Hypothesis,” after then-Education Secretary William Bennett. He wrote in a *New York Times* op-ed in 1987 (called “Our Greedy Colleges”) that “increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that federal loan subsidies would help cushion the increase.”

Too, this “crisis” is not as dire as politicians would have us believe. As Neal McCluskey put it for *Forbes.com* in April, recent data show

only about 65% of new bachelor’s degree holders graduated with debt, and the average amount for them was about \$29,000. That’s sizeable, but the earnings boost of a bachelor’s degree versus only a high school diploma is roughly \$1 million over a lifetime, justifying the debt.

For a little more perspective, the median American household as of 2014 had about \$18,000 in student loan debt and \$13,000 in auto loans. Those numbers are pretty close, and unlike education cars mainly depreciate in value. The median home debt was far larger than either at \$120,000.

At the same time, as the president of the National Association of Independent Colleges and Universities has said, nearly 30 percent of U.S. undergrads graduate without debt. Is it really justice to bill such people through taxes because others did not pay off their debts?

So who gets forgiven from their debts? In general, under Warren’s plan, the reasonably well-to-do would benefit. Here’s an abridged list from the senator:

- It cancels \$50,000 in student loan debt for every person with household income under \$100,000.



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- It provides substantial debt cancellation for every person with household income between \$100,000 and \$250,000.
- It offers no debt cancellation to people with household income above \$250,000 (the top 5%).
- Private student loan debt is also eligible for cancellation, and the federal government will work with borrowers and the holders of this debt to provide relief.
- Canceled debt will not be taxed as income.

Warren's mass forgiveness would cost about \$640 billion, or so she says. This would allegedly be covered by her Ultra-Millionaire Wealth Tax, as would her "free" college scheme, which will supposedly cost \$1.25 trillion.

Of course, this is unfair to those people who never took out student loans or scrimped and repaid all of their loans. The responsible become suckers when the government offers subsidies for potential votes.

Though politicians who are leaning to socialism (or are already there) do claim otherwise, there really are no free lunches — or free colleges. Someone has to pay. That truism was a key point in the science-fiction classic by Robert Heinlein *The Moon Is a Harsh Mistress*. A personal favorite, that book was published in 1966, way back when this writer was in college. The tenet is abbreviated there as TANSTAAFL ("There ain't no such thing as a free lunch"). In the book, a character in a taproom points to a sign marketing a "Free Lunch" and explains that the claim is not true. If it really were free, he notes, the accompanying drinks would cost half the amount being charged — the drinks are priced high to pay for the "free" lunches. This is more than a fictional shtick. Similarly, government aid leads to higher costs, even if it is not recognized by some immediate consumers.

A related concept was proffered by economist Frédéric Bastiat (1801-1850) in an essay entitled "That Which Is Seen, and That Which Is Not Seen." Officials, he wrote, advocate advantages that are seen; the benefit accrues to the providers. But the disadvantages to the taxpayers — who now don't have money to spend as they would prefer — are not seen.

In other words: Helping some for political reasons may well hurt many others, even if that is not widely apparent.

Lindsey Burke, director of the Center for Education Policy at the Heritage Foundation, recently discussed the growing body of literature that has demonstrated the tendency of federal subsidies to drive up college tuition prices. One study she cited (by Grey Gordon and Aaron Hedlund) "found that raising subsidized loan limits led to a 102% increase in tuition from 1987 to 2010. Absent that additional federal money, the authors estimate tuition would have only gone up by 16% on net."

Another analyst, writing in the *Chicago Tribune* in April, observes that widespread debt forgiveness is unfair in other ways. It is essentially regressive, commented Mary Clare Amselem. She continued:

Only one-third of American adults hold a bachelor's degree, and presumably, earn more than those who chose not to attend college. A report by the Urban Institute found that the top 25% of households by income hold almost half of all student loan debt, while the bottom 25% hold just 10%. It's hard to escape the fact that debt cancellation proposals would



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reward higher-income households.

In the same vein, a Brookings Institution analysis by Adam Looney reveals that about 50 percent “of all student debt is owed by borrowers in the top quartile of the income distribution and only 10 percent owed by the bottom 25 percent. Indeed, the majority of all student debt is owed by borrowers with graduate degrees.” One can assume that, in general, the economic situations of those graduates in the long run will be better than those in the population who would be billed for the debt that the graduates willingly incurred.

It is an odd “progressive” campaign that takes from the poorer and gives to the richer. But even Warren’s experts acknowledge that, when considering those households currently holding student debt, the senator’s plan would forgive debt for 72 percent of those with a BA and 47 percent of those who have already earned an MA.

Then there are those super-rich who are supposed to get the bill. As Warren puts it: “The entire cost of my broad debt cancellation plan and universal free college is more than covered by my Ultra-Millionaire Tax — a 2% annual tax on the 75,000 families with \$50 million or more in wealth.” She further claims, duplicitously, “For decades, we’ve allowed the wealthy to pay less while burying tens of millions of working Americans in education debt.” (By contrast, here is an actual fact, from the Tax Foundation: In 2016, the top one percent paid a greater share of individual income taxes, 37.3 percent, than the bottom 90 percent combined, at 30.5 percent.)

Elizabeth Warren has been boasting for months about her sundry big ideas. She crows about how, regardless of the problem, she has a plan for it. However, it turns out that there is no fresh air in her higher-education trial balloon. Rather, it has been inflated with more of Washington’s swamp gas.



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