



Written by [Michael Tennant](#) on October 31, 2011

Federal Student Loans: Borrowing Trouble for Students and Taxpayers

Paul responded to his critics with a cogent [op-ed](#) in *USA Today* in which he explained that he had merely proposed transferring the student loan program to another federal agency and has no intention of repealing the program in the short term. However, he added that, in his opinion, the program ought to be retired in the long term, arguing that “we will assist [students] the most by eventually transitioning student aid away from the inefficient and ineffective federal government and back to local governments and private market-based solutions — which simply work better.”



Is Paul correct that federal student loans are a bad idea? Certainly it doesn't make good financial sense for students to take on tens of thousands of dollars worth of debt in the present economy. Americans already owe about \$1 trillion in student loans, and delinquency and default rates are on the rise.

Reason's [Tim Cavanaugh](#) wrote in 2010:

The overall cohort default rate on student loans has increased by more than 50 percent since 2003. The media have focused on the portion of this growth coming from students at for-profit colleges: According to the Department of Education, more than 40 percent of loans granted from 2003 to 2006 to students at such institutions will go bad over time. But students at nonprofit four-year colleges are also projected to default at rates between 10 and 20 percent. And the trend will worsen: Among 20 to 24-year-olds, college graduates are doing slightly better than non-graduates in the job market, but they still suffer an unemployment rate of 8.4 percent.

With most of those loans issued or guaranteed by the federal government, taxpayers could find themselves forced to pony up billions upon billions of dollars.

The whole idea of loaning large sums of money to young adults with no credit history is something only government, with no sense of responsibility, would dream up. As [B.T. Donleavy](#) observed:

In most cases, student aid is an immeasurable liability. The individual's risk at 18-years-old cannot be accurately quantified even with a cosigner. Realistically, no private institution would lend this kind of capital to such a young demographic without credit history. It also should be noted that reports have shown average college students to carry 4 credit cards and an average balance of \$3,000 that they cannot pay off in full. This is a small sum compared to the amount they will inherit after a four-year tenure, but it shows that credit is being handed out indiscriminately. A massive amount of speculation is being placed on the payees with no indication of them being able to afford repayment.

Still, in a healthy, growing economy, one might argue that the benefits of student loans outweigh the risks. The primary benefit, of course, would be more adults with college degrees, which presumably



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would translate into higher earnings (though even that causal link has [never been established](#)). Yet the more people who have degrees, the less each degree is worth, as [John Stossel](#) noted:

“There are 80,000 bartenders in the United States with bachelor’s degrees,” [*Going Broke by Degree: Why College Costs Too Much* author Richard] Vedder said. He says that 17 percent of baggage porters and bellhops have a college degree, 15 percent of taxi and limo drivers. It’s hard to pay off student loans with jobs like those.

Moreover, said Stossel:

Lots of people not suited for higher education get pushed into it. This doesn’t do them good. They feel like failures when they don’t graduate. Vedder said two out of five students entering four-year programs don’t have a bachelor’s degree after year six.

Worse still, federal student loan programs are the prime cause of the high cost of higher education. By increasing demand for higher education, loans push up the price, which, in turn, causes more students — students who might previously have been able to finance their own schooling — to take out loans, further inflating the price, and so on, in the proverbial vicious circle. As Ron Paul himself recounted:

Like housing and medicine, education costs went through the roof when government became involved. In the last three decades, the overall inflation rate has increased more than 100%, which means we basically pay double now for everything we buy.... But compare this inflation to the rise in the cost of college tuition, which has increased almost 500% in the same amount of time....

When I went to school, we didn’t have a federal student loan program, and I was able to work my way through college and medical school because it wasn’t so expensive. What has changed? In the name of “helping” students through federal loans, the government has really hurt them in the long run by drastically driving up the overall cost of education and forcing poor and middle class Americans, who are just trying to better their lives, to take on unreasonable debt.

Colleges and universities, of course, don’t mind this one bit. They get an ever-growing student body at ever higher tuition rates, and they have no need to concern themselves with their students’ debt repayment problems. And as Thomas Sowell explained in his 2008 book *Economic Facts and Fallacies*:

Government subsidies for students whose families’ incomes are not high enough to make college “affordable” become an incentive for colleges to keep tuition high enough to be unaffordable for large numbers of students. When the government’s formula for awarding student aid subtracts a family’s “expected contribution” to a student’s higher education, based on family income, from the prices charged by colleges, in order to determine how large the government subsidy will be, even a small college would forego millions of dollars in government money annually if it kept its tuition down within the range of what most families could afford. From the standpoint of the college’s financial interests, it makes more sense to keep tuition unaffordable for most of its students and use the additional money this brings in from the government to upgrade campus amenities in order to compete with other colleges that way.

With government money, naturally, comes government control; and so the federal government now regulates myriad aspects of higher education in the name of “diversity” and “fairness.” Those few schools that have the nerve to resist, such as Grove City College and Hillsdale College, find that the only way to retain their independence is to forego Uncle Sam’s handouts.

Besides being unconstitutional, then, federal student loans increase the cost of higher education while



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decreasing its value, thereby making it more difficult for borrowers to repay their loans and more likely that taxpayers will have to pick up the tab.

“Centralized government planning is the main cause of so many of the challenges we face, and removing that obstacle is the primary way to ultimately fix education in the long term,” Paul wrote. “Getting the federal government out of the way will give us better educational opportunities at a better price.” As usual, he’s right.



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