



Written by [Michael Tennant](#) on January 31, 2012

Obama's Solution to High College Costs: Fight Subsidies With Subsidies

Obama, speaking at the University of Michigan in Ann Arbor on January 27, sketched out a plan for bringing the cost of college tuition down. The President said he considers it an urgent need because "tuition is going up faster than inflation, faster than even health care is going up." At that rate, he explained, "no matter how much we subsidize it, sooner or later, we're going to run out of money."



A more observant (and less opportunistic) individual might, at this point in his speech, have asked the obvious question: If the costs of two of the most heavily subsidized sectors of the economy are growing at a clip far outpacing inflation, are the subsidies, perhaps, at the root of the price hikes?

Obama, apparently, has never bothered to ask himself that question or else has decided that the reverse — that high prices cause subsidies — is the case. As a result, his solution to rising college tuition is exactly the same as his solution to increasing healthcare costs: Subsidize those costs some more, then order everyone on the receiving end of the subsidies to behave in ways that run counter to their own interests. The results are predictable: Prices will continue to rise rapidly, in turn bringing calls for greater subsidies and stricter mandates.

There is little doubt that federal student aid is the underlying cause of spiraling higher education costs.

Rep. Ron Paul (R-Texas), for instance, [noted](#) that "education costs went through the roof when government became involved." "In the name of 'helping' students through federal loans," he said, "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."

Neal McCluskey, associate director of the Center for Education Freedom at the Cato Institute, likewise told [CNSNews.com](#): "The root problem isn't that colleges charge too much. The root problem is the federal government gives too much money to too many people to pursue an education that perhaps they're not ready for, that they're not motivated to succeed in. And that money allows colleges to raise their prices at will. To deal with the real problem, you have got to cut student aid. There is simply no other way around it."

McCluskey said that Obama's proposal is "the least prudent way to deal with college inflation." What's more, he argued, it addresses the problem "only in the most superficial level."

The President, after all, is proposing a change in the way Washington doles out about two percent of



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college loans and grants, which means, *ipso facto*, that 98 percent of federal aid will continue to be distributed under the current terms. (Perkins loans and work study programs, which Obama wants to modify, constituted just \$3 billion of the \$142 billion in federal aid for higher education in 2011; Obama wants to increase spending on those programs to \$10 billion.) Why would an educational institution work to reduce tuition under such circumstances? It can surely make up for whatever it loses from those two small programs by the increased aid it will get from the others as its tuition rises and becomes less affordable for most students.

In some cases it may not even be possible for colleges and universities to reduce tuition. Many state-run educational institutions are being forced to raise their tuition because states are feeling the pinch of the recession and cutting tuition subsidies.

“Most people, including the president, assume if universities were simply more efficient they would be able to operate with much smaller state subsidies, and I believe there are certainly efficiency gains that can be realized,” [Illinois State University President Al Bowman told the Associated Press](#). “But they pale in comparison to the loss in state support.”

Obama also emphasized the need for a college diploma, noting that “in the coming decade, 60 percent of new jobs will require more than a high school diploma.” “Higher education,” he said, “is not a luxury. It’s an economic imperative that every family in America should be able to afford.”

However, as McCluskey pointed out, if everyone has a college degree, the value of each degree will be greatly reduced. Even now, with a large percentage of the population already in possession of a sheepskin, “earnings for people with Bachelor’s degrees have decreased” in recent years, he explained, with “about one-third of people with Bachelor’s degrees ... in jobs that don’t require one.”

“If all you’re going to tell colleges is graduate,” he maintained, “they’ll just give out less meaningful diplomas than we’ve been giving out so far.”

Clearly Obama’s announcement in Ann Arbor was not intended as a serious proposal to rein in college costs but as an election-year ploy for votes. (“Political theater of the worst sort,” University of Washington President Mike Young called it in an interview with the AP.) Whether it succeeds in reducing tuition is of little consequence to Obama, who needn’t worry much what happens to college costs once he has (he hopes) secured another four years in the White House.

One might think that Republicans would see through the President’s feigned concern over tuition hikes and refuse to help him win another term; but according to CNSNews.com, “Rep. John Kline (R-Minn.), chairman of the House Education and Workforce Committee, said [Obama’s proposal] deserves consideration.”

“Competition and transparency are basic principles Republicans have long supported to help lower costs in higher education, and institutions have a responsibility to do everything they can to provide a good education at an affordable price,” Kline said in a written statement.

“We need responsible solutions that will serve the students of today and tomorrow without increasing the federal role in our nation’s education system. The president has proposed a number of interesting ideas that deserve a careful review,” he added.

If Kline is really looking for a responsible — not to mention constitutional — solution to rapidly growing college costs, he would do far better to try McCluskey’s suggestion of cutting student aid than to waste taxpayers’ time considering Obama’s election-year attempt to solve a subsidy-created problem with



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more subsidies.

Photo of President Obama at the University of Michigan in Ann Arbor: AP Images



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