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# No free lunch

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## No Free Lunch

Politicians often promise policy changes that benefit certain groups without being explicit about who is paying for the benefit. The latest promise benefits student borrowers and, indirectly, those of us in higher education who provide services to borrowers in the form of education. President Obama will use executive powers to limit student borrowers' monthly payments to 10% of their income, with the outstanding balance forgiven after 20 years.

In another policy proposal, Senator Elizabeth Warren has proposed capping interest rates on student loans. "Reduced interest payments would cost the government about $58 billion over 10 years, according to the Congressional Budget Office."

I have made the argument that we are too focused on student loans because of the significant return on investment that education provides. The average student with debt graduates with less than $30,000 in debt, which admittedly is not a tiny number, but with the returns to a bachelor's degree approaching $1M more in lifetime earnings compared to a high school diploma, borrowing can often make sense for students.

So the problem with the proposals above is not that they encourage borrowing for investing in education; it is that the borrowing is being subsidized. Someone must pay for the loans that are forgiven or the interest rate that is lowered. With these two proposals, as is true with almost all federally subsidized loans, the group paying for the subsidy is taxpayers—either directly through higher taxes or indirectly through increased Federal borrowing. Again, this may be a good thing or it may not. The policies are transferring income from taxpayers to student borrowers. If that transfer is believed to be equitable, then you probably support the policies. If you think it inequitable then you likely oppose the proposals. "The president framed

[his policy] as a choice between protecting 'young people from crushing debt' or 'tax breaks for millionaires.' "

What you cannot think is that there is no cost to such programs. Someone pays the interest or pays off the loan and those dollars could be used for any number of public expenditures.

Bloomberg columnist Megan McArdle raises another equity issue:

> *It's good to remember, as we discuss these plans, that people with college degrees are the best-off people in the U.S. They are a cognitive elite with substantially more earning power than almost anyone else, unless that someone else can throw a mean fastball, dunk or get their body fat down to less than 4 percent by the time their feature film is ready to shoot. It's hard to see why we would take money from other people and give it to this group.*

Further analysis of winners and losers can be found in "The surprising winners of Obama's student-loan program."

As you learned in your first economics class, if you were lucky enough to have one, there is no such thing as a free lunch – an important principle that is missing from most of the analysis of these policies. Loan subsidies have winners, but they also have losers.

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## About the Author: Michael Hemesath

Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] PrezHemesath.