

The Human Capital Purist Case Against Tax-Funded College

In the Soho Forum debate on “All government support of higher education should be abolished”, I heavily based my argument on the signaling model of education. But if I were a human capital purist, I still would have defended the abolitionist position – albeit less triumphantly. Here’s how:

1. Prospective college students, unlike K-12 students, are adults – both legally and practically.
2. Hence, if they want to invest in themselves, they or their families can and should pay for it. This would be a lot easier than it is today, because government subsidies have greatly inflated tuition.
3. If prospective college students or their families don’t have the money, they can borrow the money on the free market. This will normally be doable as long as the investment is worthwhile.
4. As an added bonus, lenders will provide useful feedback about the wisdom of prospective students’ educational plans. If you can’t get finance on reasonable terms, you’re probably making a mistake with your life.
5. While a free-market for educational loans suffers from numerous credit market imperfections, so does a free market for *any* business loan. In the real world (as opposed to a homework problem), government is unwise to second-guess lenders’ reluctance to lend large sums to borrowers with no/bad credit and little/no collateral.
6. It’s especially unwise to arbitrarily pick out *educational* investments for special treatment. If investment is socially suboptimal, government should adopt across-the-board pro-investment policies (for example, by making investment interest tax-deductible), not play favorites.
7. Educational philanthropy provides a massive safety net for poor but talented, motivated youth who can’t obtain financing. In the absence of government funding, we should expect this philanthropy to be even more generous than it already is.