4 reasons Rand Paul's college tuition pander is a terrible – and un-libertarian – idea

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Rand Paul, R-Ky., speaking to Iowa college students on Friday, declared, "Let's let college students deduct the entire cost of their educations over their working careers. Let's make college tuition entirely deductible."

The move was a transparent attempt to pander to a constituency that Paul hopes will bolster his candidacy and make up for his weaknesses among other groups of voters. But it is a terrible policy idea that runs contrary to his generally libertarian economic philosophy. Here are four reasons why:

1. It represents the government telling people how to best spend their money

In an ideal world (and certainly in a more libertarian one) the purpose of the tax code would be to raise revenue for limited government functions. Whenever a new tax credit or deduction is added as a carve out for a special interest, it not only complicates the tax code, but it represents the government telling individuals that the only way to keep more of their money is to spend it the way government wants them to. Every time a deduction is added, it means either more government debt — or that tax rates will have to be higher on everybody else. So, under his plan, people who, for example, wanted to leave school and start their own businesses would be paying higher taxes than they otherwise would have just to subsidize the deduction of those who decided to attend college.

2. It would have massive budget implications

Right now, there is a deduction for tuition and fees capped at $4,000. But Paul's proposal would increase that significantly. Average tuition and fees in 2014-15 were $9,139 for in-state public universities, $22,958 for out-of-state public universities, and $31,231 for private universities, according to the College Board. Paul's proposal clearly hasn't been fleshed out. He could argue, for instance, that he'd make up for the reduced revenue in the form of spending cuts. Even if he does that, however, he'd still be left with the problem described above. Absent this massive tax deduction, any spending cuts proposed could be used to slash tax rates on everybody — yet Paul's proposal would be limiting that tax relief to give preferential treatment to those attending college.

3. It would drive up the price of tuition

It's basic economics that, all else being equal, if something is subsidized, the cost will increase. There's little doubt that if Americans were able to deduct the full cost of college tuition, colleges would respond by increasing tuition due to the heightened ability to pay. Thus, in the end, the
financial burden of college or college attainment is unlikely to be affected. The primary result of the policy would be to provide a massive subsidy to colleges. There’s already evidence of this in the housing market in which there’s a deduction for mortgage interest payments. A 2012 study by the Swiss Finance Institute found that, "empirical evidence suggests that, contrary to popular wisdom, the [mortgage interest deduction] generally does not increase the ownership rate. This result is likely due to the fact that the [deduction] is capitalized into house prices, especially where housing supply is inelastic."

4. It would benefit wealthier families at the expense of those with lower incomes

The benefits of Paul’s proposal would be concentrated on wealthier Americans and would be of little benefit to those it theoretically would hope to help — those with lower incomes struggling to pay for college. There are many reasons for this. Wealthier Americans are more likely to attend college; they are more likely to itemize their tax deductions; and their overall tax liability is higher. In contrast, those with lower incomes tend to take the standard deduction when filing taxes and have a lower tax liability. For instance, somebody who makes $40,000 isn’t going to be able to claim $30,000 in tuition deductions, because that person won’t owe anywhere near that in taxes.

This terrible proposal by Paul — which I have no doubt will be modified and "clarified" — is indicative of a trap his campaign may easily slip into. Because of his foreign policy views and other vulnerabilities, any path he has to the nomination will have to depend on pulling a patchwork of support from various constituencies that don’t typically show up in Republican primaries. It’s a shaky foundation for a campaign, but it’s the only one he’s got. So the risk is that in seeking the votes of these constituencies, he starts to pander in a way that erodes his credibility.