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Need a Student Loan?

Boy, does Uncle Sam have a deal for you.

by Andrew Ferguson

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The House Committee on Education and Labor is having a busy summer. (Everybody in Washington is having a busy summer!) Earlier this month, for example, one of its essential subunits--the Subcommittee on Early Childhood, Elementary and Secondary Education and Healthy Families and Communities, or SECESEHFC--held lengthy hearings to determine new ways the United States Congress might accomplish one of its many important goals: the "Prevention of Bullying."

The subcommittee chairman, a congressman named Kildee, from Michigan, pointed out that last year, fully 75 percent of schools in the United States had reported an incident of bullying or worse.

"One incident is one too many," Kildee said, thoughtfully if not originally. "We must do something immediately to address this widespread problem."

With the "prevention of bullying" safely in the solution pipeline, the committee went on to do something immediately to address another widespread problem. Apparently college students are getting private loans to fund their education. Last week the committee approved a bill that will put an end to all that.

The committee's vote accelerates a process that was begun under President Clinton. In 1994, Congress approved his idea of a Direct Lending Program for students who needed to borrow money to go to college. Before then the government had merely guaranteed student loans, which were originated and serviced by private banks selected by the government. The guarantee ensured that the "private" loans made huge profits for the banks, regardless of interest rates or default rates.

Guaranteed loans are a textbook example of crony capitalism or (if you prefer) corporate socialism: The government assumes all the risk while doling out contracts to favored businesses, who then reap the profits. With student loans, the lender gets preening rights in the bargain, marketing itself as a Merchant of Dreams, a benefactor of America's youth, a sweet-tempered Mr. Jaggers to a nation of eager Pips. In truth, the only people who like the system of guaranteed loans are the student loan industry--now handling more than $90 billion a year--and the congressmen whose districts contain large numbers of people who work in the student loan industry.

Direct lending eliminates these unctuous middlemen by encouraging students to borrow money directly from the federal government. The program semi-satisfies libertarians, who dislike cronyism, and thrills liberals, who believe the noble goal of universal college education should be uncorrupted by the yuckiness of money making. Liberal backers of direct lending believe, in effect, that there's room for only one Merchant of Dreams around here, and it better be the federal government. Moreover, direct lending saves the government money--no really, it does--by reducing fees and other handling costs, savings which can then be passed on to the poor borrowers, though they never are.

The bill that passed out of committee last week completes the triumph of Clinton's program. The grandly titled

Student Aid and Fiscal Responsibility Act of 2009 does away with the federal guarantee for student loans and brings them all under the care of Congress and the federal Department of Education, saving (say the committee's accountants) nearly $10 billion a year. The committee plans to rechannel more than half those savings to purposes other than financing higher education. But for a college student trying to make tuition, the most dramatic consequence is that federal direct lending will soon be the only kind of lending there is. Washington will be the lender of first and last resort.

Some students--or more likely, their parents--still take out private bank loans with no federal guarantees. This accounts for about 14 percent of the student loan market. But it's unclear how long that corner of the market can last, as the federal government slowly crowds out truly private lenders by offering customers lower interest rates, greater discounts, and easier eligibility rules. Most likely the private lenders will abandon the field altogether, and the last chance to build a genuinely competitive market in college loans will be lost.

Few will weep over that vanished opportunity--until, perhaps, they see what Congress does with the new power that has fallen into its lap. For whatever else the monopoly in direct lending accomplishes, it will greatly expand the number of young people who find themselves entangled with, and ultimately beholden to, the vast system of rewards and rebukes that the federal government has at hand. More than 65 percent of college students borrow money to go to college. That's a lot of guinea pigs.

We already have a foreshadowing of the possibilities. Congressmen are tinkerers, and they have been tinkering with federally backed student loans for years, hoping to push borrowers into doing things that congressmen find pleasing. The most interesting of their ideas was signed into law by President Bush. This shouldn't be a surprise, since by his second term Bush had proved a pretty ambitious tinkerer himself. The Public Service Loan Forgiveness Program of the College Cost Reduction and Access Act of 2007--such big titles you have, grandma!--was designed to let college students know what they should do once they got out of school.

Student borrowers can have their federal loans forgiven after 25 years, on the condition that they make a single minimum payment every 360 days. This is already a significant inducement to acquire a federal rather than a private loan. But the Public Service Loan Forgiveness Program goes a step further: You can have your loan forgiven after only 10 years, vastly reducing the total amount of money you pay for your college education--to below $5,000 in some cases--on three conditions. Your loan has to be handled directly by the government, with no contamination from private lenders; you have to meet a schedule of monthly minimum payments; and upon graduation you have to get the right kind of job.

The right kind of job turns out to be what's loosely called "public service." In common discourse *public service* is already an elastic term, used mostly as a form of self-flattery, but seldom has the euphemism been stretched quite so far as it was in Bush's bill. Work for the government, any government--whether as an actuary, a diplomat, or a teacher; a social worker, a fighter pilot, or a forklift driver--and you qualify for the loan forgiveness. You qualify, too, if you take a job with any 501(c)(3) nonprofit organization: the Wilderness Society, U.S. Public Interest Research Group, the Rainbow Coalition, the Transgender Law and Policy Institute, even, theoretically, the Heritage Foundation. It doesn't matter if you're an agitator, lawyer, lobbyist, congressional aide, or a pavement-pounder hectoring passersby into signing petitions for Greenpeace. The important thing is, you can't be helping anyone turn a profit.

The first loans won't be forgiven till 2017, so there's no telling yet how many people are taking advantage of the program or how much it will cost. But it's clearly designed to cast a very wide net. Indeed, its definition of public service is so broad that only a certain kind of graduate would be denied this splendid perk of an almost-free education: the idiot who went to work in the world of buying, selling, inventing, making, and producing.

Through Bush couldn't have known it, his program anticipated the age that dawned this January. It fits the ambitions and tastes of the Obama era, especially as summarized on several occasions by the first lady. She and her husband are perhaps the most famous student-loan borrowers in history. She speaks often of the torment of living under the debt load they had accumulated in college (Princeton, Columbia) and law school (Harvard). In remarks first reported by Byron York in *National Review*, in February 2008, she was particularly graphic. Thanks to their student loans, the Obamas found themselves "struggling to figure out how we would save for our kids."

What placed them in this position, Mrs. Obama said, was their decision to "move out of the money-making industry"--both had worked in corporate law--"into the helping industry." Again, the term "helping" is loosely defined: After leaving their law firms, he went to work for the Illinois state senate, she to Chicago city government and then a nonprofit hospital. "We left corporate America, which is a lot of what we're asking young people to do," she said.

Recently she expanded on the theme. "I went from college to law school to a big old fancy law firm," she told a group of Americorps workers, "where I was making more money than both of my parents combined." But then came a revelation. "I had to ask myself whether, if I died tomorrow, would I want this to be my legacy, working in a corporate firm, working for big companies? And when I asked myself the question, the resounding answer was, absolutely not."

How great their struggles were, and to what extent the struggles were aggravated by college-loan payments, are open questions. From the time they left their money-making days behind, according to tax returns, the Obamas never had a combined yearly gross adjusted income of less than $207,000. Usually it was much more. (During those years in the helping industry, the Obamas donated 0.9 percent of their income to charity, presumably because, as the old saying goes, "we gave at the office.") By 2005, Mrs. Obama alone was making $315,000 a year as an industrial helper, directing "community affairs" at her hospital. Except for the bad timing, she could have had her loan debt scrubbed by President Bush's program.

One justification for the program is that people in the helping industry need the financial help, because of their low pay. But most people would consider the Obamas' income pretty good money. It turns out that public service, even strictly defined, doesn't necessarily require financial sacrifice. Neal McCluskey and Chris Edwards, of the libertarian Cato Institute (one of those public-serving nonprofits), have tried to show that government work, including public school teaching, compares favorably with work in the private sector, whether you count wages, benefits, or both. Using data from 2004, Edwards found that the average federal worker earned an average of 56 percent more than the average employee in the real economy.

So if public servants don't need their loans forgiven any more than do debtors in the private sector, what's the point of the Public Service Loan Forgiveness Program? Why provide an incentive for graduates to steer clear of the private workforce? Mrs. Obama's remarks capture the spirit behind the program. The implication isn't merely that nonprofit jobs are admirable. It's that they're always and everywhere more admirable than jobs in the world of commerce.

The logic closes like a pincer: The only loans available to students will be from the government; and the only way to get the most favorable terms on the loans will be to do what the lender likes. Of course, you don't *have* to work for Greenpeace or Amnesty

International or AmeriCorps. But if you don't, you'll pay every penny of your student loan, plus interest, while your friends who made the right decision won't have to do that. No one's making anyone do anything. It's not a threat, it's a nudge. It's not an ultimatum, it's a suggestion. And it's certainly not bullying. Bullying is about to be made illegal.

Andrew Ferguson is a senior editor at THE WEEKLY STANDARD.