

Today's Campus

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Neal McCluskey

*Associate Director
Cato Institute's Center for
Educational Freedom*

*A savvy Washington-watcher
discusses the present condition
of student loan federalization.*

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Discuss the Student Aid and Fiscal Responsibility Act.

It's a bill that has been passed by one House Committee. Yet there's no way to clearly tell when and by whom it might become law.

What does our audience need to know about it right now?

If it becomes law in its present form it will cause all federal loans to be originated as federal government lending by next summer. However, it will also produce a cascade of federal spending within and outside higher education. It also includes FAFSA form simplification.

Briefly describe the cascade of spending.

Over ten years, \$40 billion for Pell grants. \$9.5 billion for community colleges. Perkins will provide \$6 billion per year and include a 'low-tuition incentive' to encourage schools to tamp down tuition increases. \$10 billion over 10 years for early childhood and pre-K education. \$4 billion for K-12 buildings. There's more. The theory is that all of the new spending will be covered by savings resulting from the switch to direct lending.

Is everyone in agreement that there will be \$87 billion in savings?

The initial CBO estimate – and Congressman Miller's promise – was \$87 billion in savings. After two new CBO estimates, savings were revised downward by around \$40 billion *from the \$87 billion figure*. Congress then turned its attention away from student loans toward recess.

Is there any way to predict an outcome?

There's a wild card known as 'budget reconciliation.' That process could cause a law like this to be passed in a hurry—perhaps on a party line vote, below the radar of many senators and congressmen. If congresspeople are focused on health care, it's even more possible.

Sum up the politics.

For decades, student lending has been largely a government enterprise, though ostensibly private companies have been intimately involved. The present Congressional brilliance has been to promise so much money to campuses that colleges and universities have offered very limited objection to throwing those lenders almost totally out of the mix and ushering in near-complete federalization.



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