



Written by [Raven Clabough](#) on March 26, 2010

## The New Student-loan Program

President Obama's plan to help eliminate student-loan payments and minimize college students' reliance on banks was the subject of much controversy, and for good reason. While the plan does allow for more students to attend college, it proposes a system that would increase government spending and would likely reduce the quality of education for those who do go to college. Furthermore, the Democrat leaders' decision to insert the student-loan provisions into the already unpopular healthcare bill confirmed that the Democratic party has resorted to solely underhanded tactics.



The Student Aid and Fiscal Responsibility Act (SAFRA) was passed by the House of Representatives in September of 2009 as part of President Obama's American Graduation Initiative and intends to significantly increase graduation rates by 2020. The bill was awaiting approval by the Senate, where it was unlikely to receive the necessary 60 votes. As a result, Democratic Congressmen turned to reconciliation to get the bill passed. Since Congress can only use reconciliation once per budget year, however, Democratic leaders decided to combine the healthcare bill with the student-loan bill so that they could virtually kill two birds with one stone.

The motivation for this is that Democrats are fearful of the upcoming November elections if they do not carry out any of the major policy changes Obama promised, but many Republicans argue that they should be more fearful of what the election outcomes will be now that they have been passed.

Under the purported highlights of the bill, SAFRA would end the Federal Family Education Loan (FFEL) program, shifting all student loans to the Federal Direct Loan program. Estimates indicated this maneuver would save approximately \$61 billion over a 10-year period, which would be applied to programs and policies. Likewise, since the Democrats elected to pass the bill through reconciliation, some of the estimated savings must be redirected toward deficit reduction per budget reconciliation rules. Accordingly, \$10 billion in student-loan savings is expected to be redirected to deficit reduction.

SAFRA increases the maximum individual Pell grant award from \$5,350 per student in 2010 to \$5,975 per student in 2019. The new Pell program will include \$13.5 billion to cover the \$19 billion shortfall in 2009-10 and 2010-11, as a result of an increasing number of Americans enrolling in college seeking financial aid during the recession. Overall, the bill is expected to spend an additional \$36 billion on Pell grants over 10 years.

The bill also puts \$750 million toward the existing College Access Challenge Grant Program, whose purpose is to "foster partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants that are aimed at increasing the number of low-income students who are prepared to enter and succeed in postsecondary education."

During the January 2010 State of the Union address, Obama highlighted some of the other major



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provisions of the bill. “This bill will finally end the unwarranted taxpayer subsidies that go to banks for student loans. Instead, let’s take that money and give families a \$10,000 tax credit for four years of college and increase Pell grants. And let’s tell another one million students that when they graduate, they will be required to pay only 10 percent of their income on student loans, and all of their debt will be forgiven after 20 years — and forgiven after 10 years if they choose a career in public service.” These new repayment options will begin in 2014.

Proponents of the student-loan bill assert that college has become too costly for everyone to attend and that without a college degree, a person cannot serve as a benefit to society. They also claim that as college graduates, borrowers are likely to attain a job that will make it easy to repay the student loans when the time comes, as well as pay higher taxes in the future, offsetting some of the costs of those who do not pay the full amount of their loans. Fiscally responsible members of Congress, however, have raised concerns about the cost of the measures, as well as the overall effect the bill will have on our economy and the quality of college education.

### **Calculating the Costs**

While the act certainly piques the interest of those in the process of repaying their student loans, Obama’s plan is expected to significantly increase the national debt. According to the Office of Management and Budget (OMB), the debt held in the government’s various direct loan accounts is expected to rise from \$632 billion in 2009 to \$1.58 trillion by 2019, an increase of more than \$900 billion. Furthermore, the estimated \$61 billion in savings does not account for the \$40 billion in losses that the government would acquire from loan defaults. Besides, the alleged savings seem to be “smoke and mirrors” since the money raised is from students paying off other loans, not from increased support from the federal government. The *Chronicle of Higher Education* states that the “federal government isn’t providing any breaks to the students.”

Martha Holler, a spokesperson for SLM corporation (commonly known as Sallie Mae), the largest manager of student loans, claims that in addition to this cost, the process of converting the lending systems of 4,500 schools will be a monumental task to complete by July 1 and, most definitely, a costly one. According to Tara Payne, vice-president of Corporate Communications for the New Hampshire Higher Education Assistance Foundation, “Since the Direct Loan program’s inception in 1993, roughly 1,600 schools have been converted over a 16-year time-frame.” Somehow, this same task is expected to be completed at more schools in a significantly smaller time period.

Also under SAFRA, 4,500 colleges and universities currently signed up for the Federal Family Education Loan program, which allows the federal government to pay subsidies to banks and lenders to dole out money to borrowers and reimburse the companies up to 97 percent of any unpaid loan, will have to abandon the FFEL and start using the direct-loan option. The transition from FFEL to direct loan will result in a significant loss of jobs, projected to be somewhere around 35,000. Democratic Senator Ben Nelson of Nebraska has rejected the measure for this very reason. Cutting out the “middle-man” certainly makes sense and seems appealing, particularly since the Democrats have successfully vilified the corporations that serve as the “middle-men.” Unfortunately, they have failed to acknowledge that it is not only banks that handle the loan process. There are many local agencies handling the loan process, most of which are nonprofits that ensure that the loan process goes smoothly. The New Hampshire Higher Education Assistance Foundation, for example, works with approximately 30,000 New Hampshire students and parents each year, providing free college planning and valuable financial aid information. Institutions such as these will not be spared, and their elimination may even effect a



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rise from the current seven-percent default rate, since these organizations will no longer be available to prepare students for repayment.

### **Socialized Schooling**

To the dismay of Republicans across the country, the proposition introduces a “massive expansion of the Federal government,” says Alexa Marrero, spokeswoman for Congressman John Kline (R-Minn.). Jack Remondi, vice-chairman and CFO of Sallie Mae, states, “Ultimately, what they are trying to create here is the Post Office of student lending — you’ve got no choice.” He adds, “If you create competition, that should drive down costs and save people money.” That is the beauty of capitalism.

Advocates for SAFRA cite European examples like Germany to exhibit the success of a government-funded college education. What an unfortunate choice for comparison! Of the 375 colleges and universities in Germany, not a single German university is ranked in the top 50 of the *2008 Times Higher Education World Universities Survey*. German colleges continue to be overcrowded and underfunded. According to *The German Way* website, “Many entrenched German traditions — free college tuition and automatic acceptance to a university with just an Abitur [high school diploma] — have been changing.... Reluctantly forced into rethinking a system that is crumbling under its own weight, German universities and technical colleges, also faced with a growing budget crunch, are looking at new ways of selecting students and paying for higher education.”

In a survey conducted by the *Chronicle Review*, higher education experts discussed this very concept and concluded that the current loan programs and higher education system in the United States remain the best option. In fact, of the top 50 universities listed in the *2008 Times Higher Education World Universities Survey*, the first 25 were in the United States and the United Kingdom. Alison Wolf, professor of public-sector management at King’s College in London explains: In contrast to European countries, “The United States is different. But it is right, and other countries are mostly moving in the American direction anyway, as more and more people go to college. Many European countries have a deep-seated resistance to the idea that people should pay for any form of education, even though that actually means in practice that (poorer) taxpayers pay for middle-class college kids.” Wolf’s observation points to the hypocrisy of SAFRA, which ignores what happens when government taxes individuals and businesses to pay for social engineering: Not only do the poor pay for the education of middle-class kids through either direct taxes or through increased costs of goods produced by American companies that must support the program through taxes, less money is available in the private sector to create businesses and provide jobs for everyone, meaning there are fewer jobs (and usually poorer paying jobs) and less opportunity for advancement for poor people.

Likewise, Daniel Yankelovich, founder of Viewpoint Learning, Inc., addresses the nature of the American education system that allows for more flexibility and personal autonomy, as opposed to that of other countries. “Our system of four-year and two-year colleges is more flexible, allowing greater opportunity for highly motivated students. Our democracy tips the balance, in keeping with our social norm of equality of opportunity.... It is a core American tradition that fits our culture and history — a bastion of stability in an unstable world. We should do everything we can to safeguard it.”

In essence, the American system recognizes that students have varied physical and mental abilities, willpower, study skills, and educational backgrounds. American students require flexibility in education.

Expert Charles Murray agrees. “It has been empirically demonstrated that doing well (B average or better) in a traditional college major in the arts and sciences requires levels of linguistic and



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logical/mathematical ability that only 10 to 15 percent of the nation's youth possesses.... The four-year residential program leading to a B.A. is the wrong model for a large majority of young people." Students who graduate in the bottom 40 percent of their high-school class are 60 percent less likely to graduate college, and those who do graduate will likely do so with a low GPA.

### **Challenges of College for All**

Educators recognize the difference in students who fund their own education, and those whose educations have been paid for, whether by parents or an alternate funding source. When questioned about who should pay for students to attend college, Charles Murray, political scientist and scholar at the American Enterprise Institute, answered, "Ideally, students themselves. If that means delaying college for a few years to save money, so much the better — every college professor has seen the difference in maturity and focus between kids straight out of high school and those who have worked or gone into the military for a few years."

Career counselor Marty Nemko addressed the decreased investment of students and parents under a government-funded tuition program. "The more the government and private donors (alumni, private scholarships) pay of the college tab, the less responsibly the student and family need to determine college's cost-effectiveness. Also, every time the government increases financial aid or a private scholarship is set up, it merely allows college to raise their sticker prices more." In other words, not only would free higher education diminish the work ethic of the students, but it would also allow for regular increases in tuition at the expense of the government, which of course would be accommodated by tax raises.

Obama's insistence on putting Americans on the path toward getting a college degree has some analysts uncomfortable as well. Dr. Alfred Roval, professor of education at the Regents University of Education, states, "The focus on higher education gives me a little concern. That assumes that every job in this country needs a college education. That's not the case. Some jobs don't need one."

Similarly, the preferential treatment afforded to those college graduates who pursue government positions has raised concerns. Dennis Cauchon of *USA Today* said, "Federal workers are enjoying an extraordinary boom time — in pay and hiring — during a recession that has cost 7.3 million jobs in the private sector. The number of federal workers earning six-figure salaries has exploded during the recession, according to a *USA Today* analysis of federal salary data. The growth in six-figure salaries has pushed the average federal worker's pay to \$71,206, compared with the \$40,331 in the private sector." Despite the discrepancy in pay that has already provided federal workers an advantage, Obama's proposal forgives federal workers of their student-loan debt after 10 years, as opposed to 20 years for those employed in the private sector. This preference reflects President Obama's anti-business, pro-big government attitude that he brought to the White House.

Overall, the number of new jobs requiring a college degree is now less than the number of young adults graduating from universities, so more graduates are filling positions for which they are grossly overqualified, while students who are more fit for blue-collar positions are being pushed into academic programs for which they are grossly under-qualified. There is dignity in blue-collar work and President Obama's insistence that a college diploma is the key to success is a slap in the face to those for whom college isn't a fit.

Surprisingly, many experts agree that increased college attendance actually hurts the economy. Richard K. Vedder, director of the Center for College Affordability and Productivity, sums it up



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by saying, “Sending marginal students to four-year degree programs, only to drop out, is a waste of human and financial resources, and lowers the quality of life for those involved.” George Mason University professor Bryan Caplan argues that greater college attendance has the opposite of the intended effect. Caplan believes that there is little connection between the skills acquired in college and those required in life. Nemko adds that increasing student numbers may hurt the economy. “We now send 70 percent of high-school graduates to college, up from 40 percent in 1970. At the same time, employers are accelerating their offshoring, part-timing, and temping of as many white-collar jobs as possible. That results in ever more unemployed and underemployed B.A.s.”

And in many cases, an influx of ill-equipped college freshmen leads to decreased standards, which strips deserving students of a quality education, as is the case in Germany.

Obama’s emphasis on attaining a college degree, particularly at the expense of the taxpayers, is yet another example of the growing educational trend of mediocrity being rewarded. Hard-working students are already afforded opportunities for a free education, in the form of scholarships, veterans’ schooling, etc. In other cases, students who did not meet scholarships’ criteria have the option of attending a two-year community college before finishing their degree at a four-year college or taking courses online, as the classes fit into their schedule and budgets. This is ideal for students who may need to get their feet wet before they plunge right in.

SAFRA is further proof that Obama’s agenda involves bigger government and less individual autonomy. The government cannot be everything to everyone. Thomas Jefferson said it best when he said, “A government big enough to supply you with everything you need, is a government big enough to take away everything that you have.”

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