CORPORATIST DEMS KILLING ANOTHER PUBLIC OPTION

This story is several days old. But I wanted to go back and show how, after a pack of lobbyists killed one attempt to get government to use its power to save money and improve health care, another pack of lobbyists are trying to do the same with higher education.

Eric Lichtblau (who, IMO, does much better at digging out DOJ scandals than reporting legislative battles) describes how the plan to replace privatized student loans–in which the government guarantees student loans that lenders then repackage and profit off of–with direct loans form the government is in political trouble.

> But an aggressive lobbying campaign by the nation's biggest student lenders has now put one of the White House's signature plans in peril, with lenders using sit-downs with lawmakers, town-hall-style meetings and petition drives to plead their case and stay in business.
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> House and Senate aides say that the administration's plan faces a far tougher fight than it did last fall, when the House passed its version. The fierce attacks from the lending industry, the Massachusetts election that cost the Democrats their filibuster-proof majority in the Senate and the fight over a health care bill have all damaged the chances for the student loan measure, said the aides, who spoke on the condition of anonymity because they were not authorized to discuss the matter publicly.

The effort to return to using direct loans to students rather than using government guarantees to support student loans stems from a series of scandals under the Bush Administration. Loan companies gave school administrators kick-backs to make their loans preferred at the schools, regardless of whether those loans made sense for the students. Lenders manipulated a subsidy (and churned some loans) to take advantage of a 9.5% profit guarantee that they weren't otherwise entitled to. And, given a revolving door between the industry and DOE, students had little protection against fraud. As a result, students were paying far more than they should have for loans, and when they ultimately faced default, they had far fewer options for getting out of that debt assumed under what were basically fraudulent conditions.

By passing government-backed loans through private companies rather than lending money directly, students became captive consumers to an industry with little real competition and even less protection against fraud. The whole scheme turned college education from a necessary step to achieve a middle class lifestyle (and more broadly, to keep America competitive internationally) into a mere profit center for the finance industry.

The legislation before the Senate would curtail that system, replace a corporate welfare program, and use the savings to support the same number of loans plus many more education programs.

> The money that would be saved by cutting out the private-industry middlemen — about $80 billion over the next decade, according to a Congressional Budget Office analysis — could instead go toward expanding direct Pell Grants to students, establishing $10,000 tax credits for families with loans, and forgiving debts eventually for students who go into public service, administration officials say.
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> The bill would also shift tens of

> billions of dollars in expected savings to early learning programs, community colleges and the modernization of public school facilities.

So back to my parallel with the battle over the public option.

The choices now being made in health care risk making the same mistake we’ve made in the student loan industry. Captive consumers will be asked to support higher overhead (20% or more, in the case of the Senate bill) without adequate regulatory controls to make sure those consumers get the health care they’re paying for in return. A public option would have served as one check on this system by offering consumers one option that didn’t include that 20% overhead that also benefited from more direct government oversight. It would have saved $100 billion—in the same neighborhood of savings we’ll get by reverting the student loans to direct government assistance. But corporatist Senators like Ben Nelson and Joe Lieberman killed that plan, and as a result, we have to hope (assuming a bill passes at all) the HHS Secretary proves better at regulating a powerful industry than the Secretary of Education under Bush.

And now, having seen how easy it was to kill the public option, a solution that would save the government money and better achieve the underlying goal—health care (as distinct from insurance)—some of the very same corporatist Senators are turning their sights on direct student loans.

Now, I said above that Lichtblau was much better at digging out scandals that discussing legislative battles because this is really a crappy article. For starters, while Lichtblau names which states which lobbyists are targeting—Florida, Illinois, Nebraska, New York and Pennsylvania—he doesn’t mention one of the long term sponsors of the privatized student loan boondoggle: Ben Nelson (then, acting at the behest of Nebraska’s NelNet). The same Ben

Nelson who killed the public option.

Just as importantly, Lichtblau doesn't challenge the provably false myths propagated by the lobbyist sources he uses for his story—first, that the private companies offer some great benefit to students.

> If Congress backs Mr. Obama's proposal, opponents say that students will forfeit the individualized service that private lenders are better able to offer: a one-on-one meeting in a high school gym, a range of loan options to pick from, or an 11th-hour meeting to avoid a default.

The experience of the last decade proves that this is just a myth used to hide the history of fraud, higher costs, and brutal treatment privatized student loans gave students.

Then, Lichtblau allows a loan officer—precisely the kind of person targeted by years of kick-backs—to have the final word on the "benefits" of the privatized scheme.

> "We're caught in a political struggle," Caesar Storlazzi, the chief financial aid officer at Yale, said in an interview. Like a wave of other colleges in recent months, Yale decided in November to switch from private-sector loans to the federal government's direct-lending program.
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> But with passage of the White House plan now appearing "less inevitable," Mr. Storlazzi wonders whether keeping the private lenders in business is better for students.
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> "It really felt like the administration was just shoving this down our throats," he said. "It feels a bit like a federal takeover." With competition among lenders, he said, "We get better prices and services."

The student loan industry paid good money for years to get loan officers to make such claims, when instead real experience showed students were getting screwed. Lichtblau should know this, since NYT covered Andrew Cuomo's exposure of the scheme closely. But instead, Lichtblau lets those myths appear unchallenged.

What we're about to see is not–as Lichtblau suggests–a reaction to the MA election; losing the super majority serves only to make it easier for Ben Nelson to do precisely what he did with health care, because he won't have to share sole responsibility for it with Joe Lieberman. But the plan is the same.

This is an effort to continue the system of corporate welfare in which the government takes taxpayer dollars and uses it to help corporations develop captive relationships with consumers in all spheres in which the Great Society used to support taxpayers. Thanks to corporatists like Nelson and Lieberman, government is less supporting public good, like education and health care, but is instead helping corporations provide inadequate but financially lucrative pseudo-solutions for such things. And the corporatists, fresh off their victory on the public option fight, are redoubling their efforts to expand their scheme of corporate welfare.

(See also Jane's and David Dayen's take on this story.)