

INCREASING ACCOUNTABILITY IN AMERICAN HIGHER EDUCATION

American Enterprise Institute

November 17, 2009

The collected papers from this conference are
available online at www.aei.org/event/100134.

The Politics of Higher Education

Mark Schneider



Punctuated equilibrium



George Miller, Chairman, of the House Committee on Education and Labor

We were paying these exorbitant subsidies to bankers who were taking government money, loaning it to somebody else, getting government guarantees that the loans would be paid back, and then taking all these profits.

Congress asked itself: "Hey, chump, what is it you don't get about what's going on here?"

Two major avenues to federal loans

- William D. Ford Federal Direct Loan Program (FDLP) or "Direct Loans."
 - US Department of Education program in which the department acts as a lender.
 - The Direct Loan program was signed into law by President Clinton in 1993.
- FFEL was created by the Higher Education Act of 1965 and far larger than Direct Loan program.
- in 2007-08, FFEL served 6.5 million students and parents, generating around \$55 billion in new loans (or 80 percent of all new federal student loans).
 - private lenders make federally-guaranteed student loans to parents and students.
 - Students are steered to the government's direct program or to outside lenders, depending on their school's preference.
- Loans are made by private firms such as Citigroup, Bank of America, Sallie Mae and Nelnet, with both the subsidy and the maximum interest rate for borrowers set by Congress.

Lord Acton

“Power tends to corrupt, and absolute power corrupts absolutely.”

Mark Schneider

“Money tends to corrupt and lots of money tends to corrupt lots more.”

2007 was an *annus horribilis* for the loan industry

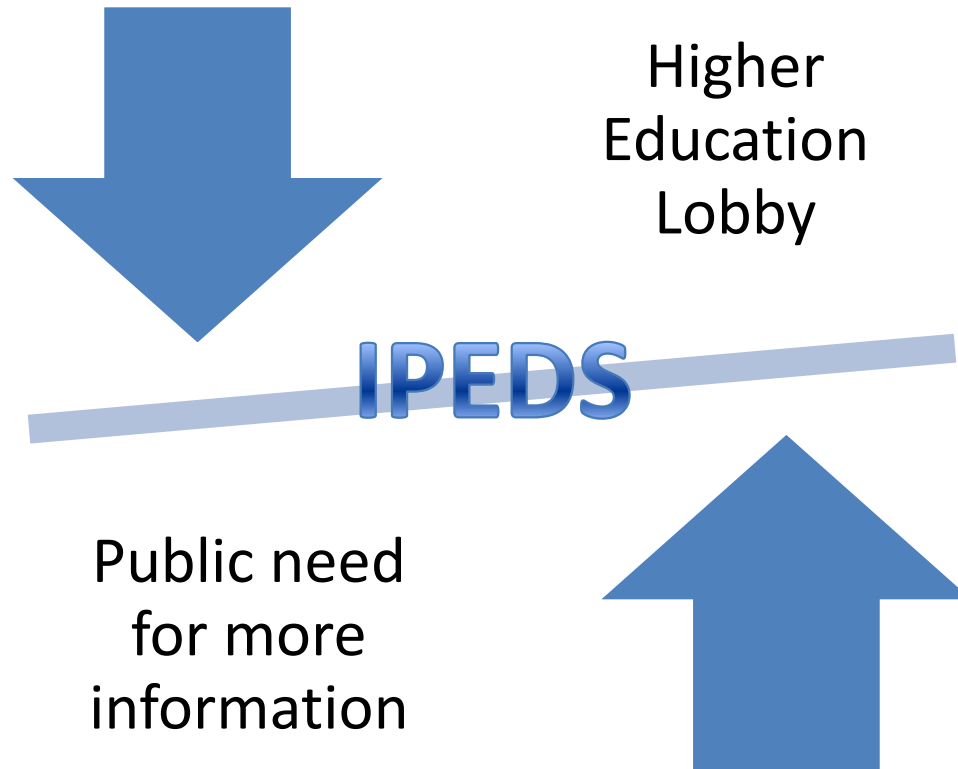
- Financial aid officials at Columbia, Southern California, the University of Texas, and Johns Hopkins were found to hold stock or took undisclosed payoffs from lenders, while others had invested in these companies.
- Eugene W. Hickok, a former deputy secretary of education under President Bush agreed to pay \$50,000 for breaking conflict-of-interest rules by failing to sell off hundreds of shares of Bank of America stock during his tenure, despite the fact an earlier department's ethics ruling.
- The Washington Post reported that Sara Martinez Tucker, who as Undersecretary of Education had a direct role in supervising the student loan industry, had more than \$10,000 invested in five of the nation's largest lenders.
- The investigations by Andrew Cuomo, NY State's Attorney General, found an "unholy alliance" between lenders and universities and threatened legal action in order to convince colleges and lenders to mend their ways.
 - six universities reimbursed students over \$3 million and ten major lenders paid between \$500,000 and \$2 million into a national education fund established by Cuomo.
 - a Senate investigation found many of the practices Cuomo documented were practiced throughout the nation.

May 2007, Secretary Spellings testified to Congress

“Federal student aid is crying out for reform. The system is redundant, it's Byzantine, and it's broken. In fact, it's often more difficult for students to get aid than it is for bad actors to game the system. For example, throughout the 1990s, millions of dollars meant to help families foot the bill for college were subject to waste, fraud, and abuse.”



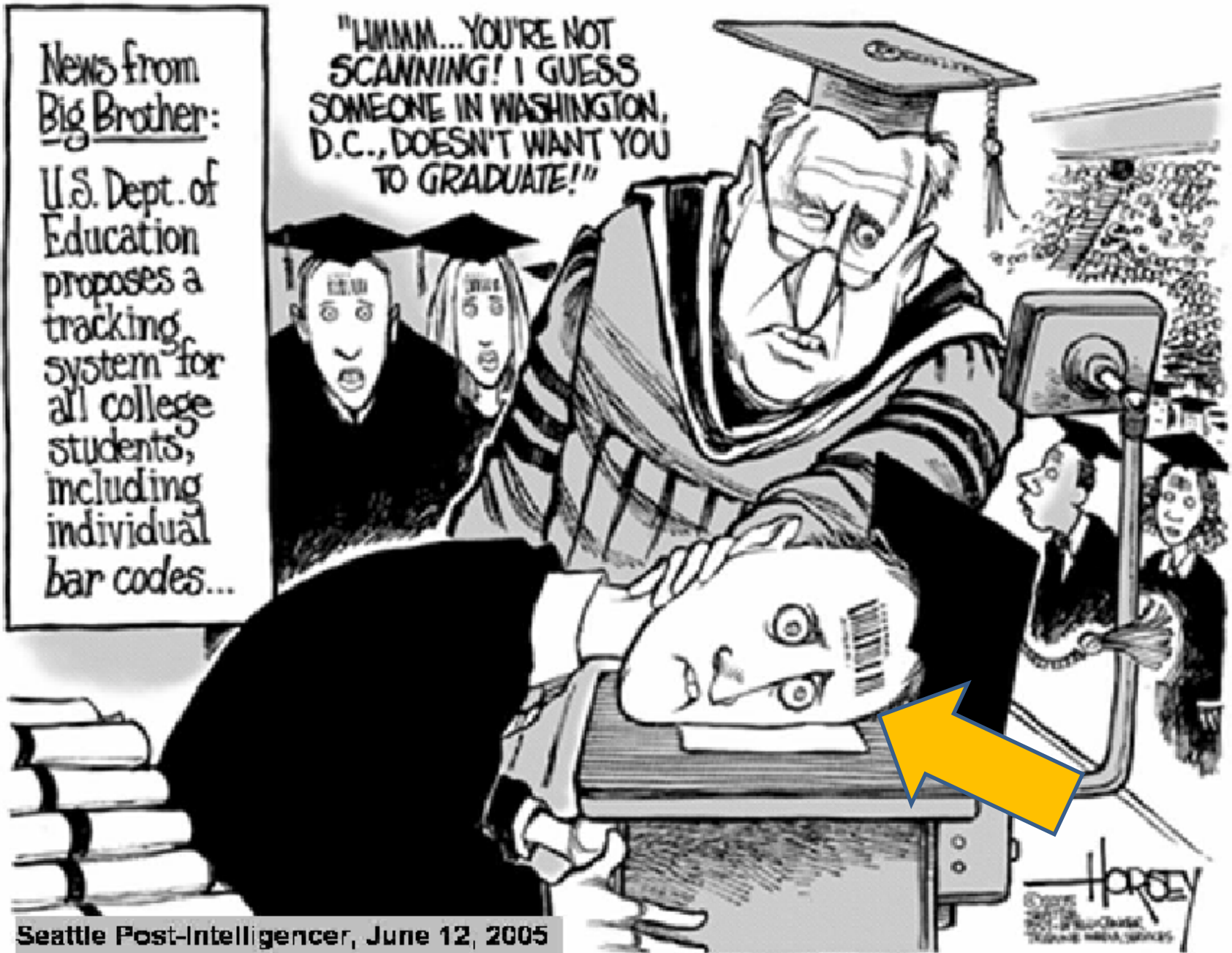
The Struggle Over Higher Education Information



News from
Big Brother:

U.S. Dept. of
Education
proposes a
tracking
system for
all college
students,
including
individual
bar codes...

"HMMM... YOU'RE NOT
SCANNING! I GUESS
SOMEONE IN WASHINGTON,
D.C., DOESN'T WANT YOU
TO GRADUATE!"



Seattle Post-Intelligencer, June 12, 2005

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