

# Ending the Free Market Hoax

House reclaims student loan program from profligate banks.

By [David Bollier](#)

It's a great victory for the commoners that our tax monies for student loans may soon go directly to students, via a U.S. Education Department program, rather than through banks. Yesterday, by a 253 to 171 margin, the House of Representatives voted to shift billions of dollars in college student loans to the Education Department. The move prevents Sallie Mae (the largest private corporation providing student loans) and banks from continuing to act as parasites on public resources and as predators of needy students.

The current system was instituted by Ronald Reagan, ostensibly to prevent government from stifling the innovation, efficiencies and other benefits of the so-called free market. Direct government lending to students was simply handed over to private banks. The result, as described [here](#) a few months ago, was a 35-year plunder of taxpayers and borrowers.



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Banks enjoyed government guarantees for their student loans, making them virtually risk-free. Then they turned around and jacked up interest rates, lavished gifts on financial aid officers to get them to steer students to take out the banks' loans; and illegally data-mined the personal data of borrowers.

None of this should come as a surprise, of course. But because the banking industry has insinuated itself so deeply into congressional policymaking, the needlessly corrupt and expensive system remained in place.

The lion's share of credit for pushing reform through the House goes to Representative George Miller of California. I love his victory quote: "Today the House made a clear choice to stop funneling vital taxpayer dollars through boardrooms and start sending them directly to dorm rooms."

What is galling and pathetic is the response of opponents of the reform, mostly Republicans and friends of the banking industry. They say that the new House bill makes you a gosh-darn socialist! Representative John Kline, the top Republican on the House Education Committee, called the reforms "a government takeover of an industry."

So we've come to this Orwellian pass: Getting corporations off the public dole amounts to a government takeover. Ridiculous. Weirdly, the selfsame defenders of the "free market" see no philosophical contradiction in their dependence upon government subsidies. The banks, after all, were making enormous profits by making risk-free, taxpayer-guaranteed loans to a captive customer base procured through cozy relationships with colleges, which enjoyed kickbacks and junkets from the arrangement.

It is striking how the reforms of the student loan business parallel those of health insurance. In both cases, the government can perform a fairly mundane, commodity-like transaction far more efficiently and honestly than the self-styled entrepreneurs and innovators of the free market.

The GAO concluded in 2005, for example, that the federal government can make direct loans to students for \$1.70 per \$100 loaned, as opposed to the \$9.20 per \$100 that private banks charge. Health insurance could be provided for a similar fraction of the prices charged by private insurance companies — but letting the government work its magic would be (cue the fright music)..*socialism!*

No political reformers are going to make much headway — in student loans, health insurance, or dozens of other issues — until they can get past the fear-mongering and demonization of government. Too bad that hardly anyone in positions of power in Washington is providing a full-throated defense of government as an instrument to protect our common interests. No wonder the private interests are succeeding in distracting our attention with overheated rhetoric and bogus arguments — time-proven tactics for plundering our common wealth.

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