



Insight

The delinquency of the debt ceiling and student debt

AUGUST 2, 2011

The debate about the nation's debt ceiling has led to important discussions about student debt. And as negotiations came to a deal, Congress was not afraid to critically examine student loan programs, particularly as student loan debt will surpass \$1 trillion later this year and has already passed the credit card debt amount. How legislators approached the debt ceiling was an opportunity to not only substantively reform student loan policies, but even set a moral compass for how the nation and particularly students look at debt.

The largest change related to student loans that is included in Speaker Boehner, Senator Reid, and the revised Budget Control Act, is to end subsidized interest loans for graduate students after July 2012, resulting in a savings of approximately \$18.1 billion over 10 years. Moreover, the revised Budget Control Act, largely resembles the Speaker's original proposal.

The Budget Control Act of 2011 would end giving interest subsidized loans to graduate or professional students excluding those students enrolled in teaching credential or certification programs required by the state, while unsubsidized loans are still available. The Act would also give Pell Grants \$17 billion in mandatory funds over two years to make up for the funding gap. The elimination of subsidized loans for graduate students will save approximately \$18.1 billion over 10 years for all three plans. Like Boehner's plan, the current deal will also end the Department of Education's loan repayment incentives saving about \$3.6 billion over 10 years. Based on information comparing the three acts, the deal would reduce total direct spending by about \$4.6 billion over 10 years, or about the same

amount that Speaker Boehner's act would save.

The CBO estimated that Speaker Boehner's plans also would have given additional funds for the federal Pell Grant program, \$17 billion worth, ended subsidized interest on loans for graduate students, ended loan repayment incentives, and would have resulted in savings of about \$21.6 billion.

Senator Reid's plan would have also added funds for the Pell Grant Program, \$18 billion worth, and ended subsidized student loans for graduate students, which would have resulted in savings of \$18.1 billion over 10 years and reduce direct spending by \$75 million.

The federal government has historically been involved with providing access to higher education through legislation like the GI Bill, the Higher Education Act of 1965, and most recently in the 2010 SAFRA, the government became the only provider of federal student loans, ending bank-based lending. In fiscal year 2010, federal student financial aid programs provided \$124 billion for all undergraduate and graduate students. All of this investment made in the name of increasing access to the ivory tower of the academe.

The proposals to eliminate interest subsidized Stafford loans is not new, as both the College Board's student aid panel and President Obama himself in his 2012 budget request proposed ending the subsidized interest on graduate student loans, though both would have used that saving to fund Pell Grants.

Subsidized interest loans are awarded based on financial need and allow the federal government to pay the interest that is accrued while students are in school. In 2003, Stafford subsidized loans accounted for nearly 50 percent of all federal education borrowing, according to the American Council on Education.

The drawn-out debate about the debt ceiling has brought to the fore the necessity of reforming federal student loan programs. Rather than looking at how much money can be disbursed to the greatest number of students, the more important question to address is how is that money being used and how are student loans, Pell Grants, and other financial aid services being effective in helping students graduate from college?

The current student loan default rate is 7 percent and an overwhelming 40 percent of students who start college do not graduate. Many students who start college are not finishing and moreover are leaving college buried in debt, with few prospects for employment. Even though the Bureau of Labor Statistics job projections have found that most jobs available in the next decade will not require skills acquired from traditional four year colleges according to the Heartland Institute. While the fabled halls of the academy are good, they are not the best option for everyone.

Rather than encouraging and enabling more burdensome borrowing, perhaps the government should learn from its own lessons and encourage more saving instead. Providing incentives for students and families to save more for college and allowing families to receive more transparent information about the risks and rewards of college may be a better alternative than throwing more money at the problem. Perhaps the debt ceiling crisis will be an opportunity and catalyst to rethinking debt accrual in general and responsible saving on an individual level.

This article originally appeared in [The Hill](#) on 8/1/11.