

Obama offers a drop in the bucket for student loan crisis

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President Obama announced the latest in a series of empty gestures in response to the impact of the economic slump on working people, telling an audience of college students at a rally Wednesday in Denver he would issue an executive order extending more favorable repayment terms for some federal student loans.

The Denver rally was the latest in what might be described as Obama's scam-a-day campaign swing through the western United States, during which executive actions announced with maximum fanfare and populist demagoguery (three) have been outnumbered by fundraising appearances before audiences of multimillionaires (six).

Each of the announcements has dealt with a massive social problem—the housing mortgage crisis, the jobs crisis, the student loan crisis—by offering a drop in the bucket, then grossly exaggerating the significance of the action using the media spotlight.

For the 17 million families who are either in foreclosure or under water on their home mortgages, Obama offered a plan that would encourage banks to forgive a few thousand dollars a year in repayments, on a purely voluntary basis, helping only a tiny fraction of those at risk of losing their homes.

For the 25 million facing unemployment or underemployment, Obama appealed to US health care facilities to hire 8,000 veterans returning from the wars in Iraq and Afghanistan, another purely voluntary effort.

The student loan order issued Wednesday is of a piece with the two previous declarations. Millions of students and former students face appalling levels of debt from tuition and other college expenses, many without having either a degree or a decent job to show for the effort. Student loan debt in the United States now tops \$1 trillion, more than credit card debt.

Only a relative handful of students—and none of those who are actually in default on their loans—will benefit

from Obama's order that the Department of Education speed up by two years the introduction of a slight relaxation in the repayment schedule for federal student loans, which has already been approved by Congress.

Some students who consolidate multiple loans into a single one may be able to save one-half of 1 percent on the interest rate as well.

The pathetic character of the proposed policy change did not stop White House spin doctors and the Obama reelection campaign from presenting the decision as a lifeline to young people, who voted in huge numbers for Obama during his campaign for the Democratic nomination and then the presidency in 2008.

As in his other campaign-style appearances this week, Obama lambasted Congress—half of which is controlled by his own party—and suggested that his administration wanted to do much more for the victims of the economic slump but was being blocked by intransigence in the legislative branch.

“I need you active,” he told students at the University of Colorado, Denver, campus. “I need you communicating to Congress, I need you to get the word out. We can't wait for Congress to do its job, so where they won't act, I will.”

Obama did not bother to explain why the Democrats did nothing to alleviate the conditions facing working people and youth during the first two years of his administration, when they controlled both houses of Congress by large majorities.

Instead of creating millions of jobs for the unemployed, or spending significant sums to deal with the housing and student loan debacles, the Obama administration funneled trillions of dollars into the bank bailout, corporate tax breaks and the escalation, continuation or launching of wars in Afghanistan, Iraq, Libya, Yemen, etc.

The sensitivity of the White House to social opposition was demonstrated in the treatment of a dozen students

who raised a banner against the Keystone pipeline project that would bring heavy oil from the Canadian tar sands in Alberta across the US Great Plains to refineries in Texas and other states. The protesters were quickly escorted out of the arena.

The actual provisions of the student loan plan announced by Obama, under the title “Know Before You Owe,” amount to a slight abridgement in the period of debt servitude facing millions of college students.

Instead of the current maximum repayment of 15 percent of annual income over a 25-year period, indebted students would be compelled to pay up to 10 percent of their annual income over a 20-year period. At the end of the period of payments, any remaining balance on loans is eliminated. This “forgiveness” deadline was to be moved forward from 25 to 20 years in 2014, and Obama’s executive order only accelerates that change by two years.

The prospect of “forgiveness” of all student debt after such a long period is hardly a concession, since after 20 or 25 years, the student borrower will have paid an exorbitant amount of interest to the lenders, far more than the initial principal on the loan.

Only a tiny fraction of students currently avail themselves of the cap on repayments—450,000 out of 36 million student loan borrowers—because the terms are so onerous. A few hundred thousand more might sign up under the slightly relaxed terms offered by Obama. But either way, 20 years or 25 years, students face the prospect of heavy debt payments for the majority of their working life

Moreover, as Obama was compelled to admit, students making such payments simply cannot afford to take such steps as buying a home, and will find establishing a family much more difficult.

The financial advice columnist for the *Washington Post*, Michelle Singletary, frequently sympathetic to the Obama administration, was scathing in her assessment, saying, “I can’t help but feel that President Obama’s new student loan proposal could take its title from William Shakespeare’s comedy *Much Ado About Nothing*.”

She pointed out that the Obama plan “does not affect borrowers who took on loans before 2008 and who do not take out a new loan next year,” nor does it benefit those who are already in default. Moreover, she added, “parents and students with oppressively high private student loans won’t see any relief,” because only Stafford, PLUS and consolidation loans under the Direct Loan and Federal Family Education Loan programs are covered.

In all likelihood, total student debt will actually rise, not

decline, under the Obama program, since college tuition and student borrowing are increasing much faster than the miserly measures proposed to alleviate debt.

According to a report issued this week on “Trends in College Pricing 2011,” tuition at public universities and community colleges rose 8 percent this year, fueled by the whopping 21 percent increase at four-year colleges in California, and 37 percent increases at California community colleges. Private four-year schools raised their tuition and fees by 4.5 percent, to an average of \$28,500,

Appropriations by the 50 states in support of public higher education have plunged 25 percent over the past decade.

Two thirds of students attending four-year colleges in 2009 had to go into debt to pay tuition, and they accumulated an average debt of \$24,000, according to the Institute College Access & Success. Some 320,000 students who left college last year, whether graduating or dropping out, defaulted on a federal loan debt.

By some calculations, the federal Department of Education is making a hefty profit from college student loans, since it charges 6.8 percent interest for federal loans, while the federal government can borrow money for under 1 percent in the money markets.

In September, the Department of Education reported that loan default rates were particularly high at for-profit private colleges and universities, up from 11.6 percent in 2009 to 15 percent of borrowers in 2010. The overall default rate, calculated two years after a student leaves school, was 8.8 percent for the fiscal year ending September 30, 2010, up from 7 percent in 2009.

Another study found that for every student borrower who defaults, two more fall behind in their payments without defaulting entirely. Only 37 percent of borrowers who began repaying their student loans in 2005 were able to pay them back in full and on time. These figures have undoubtedly become much worse after the 2008 financial crash and the ensuing economic slump.



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