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Forget "Pearl Harbor"

Student loan reform's lessons for health care reform.

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The conservative meme about final passage of the health care reform bill is that it's Pearl Harbor all over again. Fred Barnes said it; Glenn Beck said it; Sen. Pat Roberts, R-Kan., said it. Lindsey Graham, R-S.C., said House Speaker Nancy Pelosi had gotten House Democrats "all liquored up on sake and you know, they're making a suicide run here," which is just about saying it. The Pearl Harbor comparison breaks down when you consider that the Japanese attack on Dec. 7, 1941, *killed* more than 2,000 Americans, whereas the health care reform bill that just passed the House, 219-212, will likely *save the lives* of tens of thousands of Americans annually.

Even if you're willing to look past its tasteless conflation of death with life, the historical comparison breaks down on another level. The Pearl Harbor attack started a war that the aggressor lost. Health care reform, on the other hand, stands virtually no chance of being repealed by free-market fundamentalists. Indeed, it may one day become the stepping stone to the single-payer system that Republicans fear. Most distressing of all to conservatives, that final step, if it comes, may fail to stir much controversy. A precedent lies within the health care reform bill itself.

Tucked inside the House-passed reconciliation bill (which won't become law until the Senate passes it too) is a *second* reform bill, this one concerning the student loan program. This second bill completes a reform, begun in the first year of the Clinton administration, to eliminate the wasteful subsidizing of private banks in the granting of government loans to college students. If you haven't heard anything about it, that's because its "socialistic" premise that the government can lend its own money more efficiently without a middle man has stirred controversy only among the middle men themselves and their friends in Congress.

For student loan reform, Pearl Harbor occurred on Sept. 2, 1958, when President Dwight Eisenhower signed into law the Sputnik-inspired National Defense Education Act, which sent a torrent of cash to schools across America. Some of that money flowed to colleges and universities through a newly created student loan program, which was called (in the spirit of the larger bill) the National Defense Student Loan Program. Under the program, the government provided funding to colleges and universities, which in turn lent money to students in need. The idea came from a left-wing economist named Milton Friedman.

The program worked so well that within a few years the government wanted to expand it. But this proved difficult to achieve because the loans showed up in annual federal budgets as expenditures rather than investments. The solution was to switch from *making* direct loans to *guaranteeing* loans made by private banks and nonprofits. That change was implemented under President Lyndon Johnson in the Higher Education Act of 1965. This legislation's enlargement of the government's stake in helping people attend college was roughly analogous to the health reform bill's enlargement of the government's stake in helping people get health care. So was its principal shortcoming: a reliance on the private sector to perform two tasks (cutting checks and collecting payments) at which the government was already reasonably proficient.

Over time, the federal government made it easier and easier (and therefore more and more profitable) for banks to lend to college students. As Steven Waldman explains in his 1995 book, *The Bill*, first Congress helped create "guaranty agencies" to collect defaulted loans from the federal government so banks wouldn't have to. Then it created the Student Loan Marketing Association so the banks wouldn't even have to hold on to the loans; instead, they could sell them to Sallie Mae. By 1992, the federal government was spending $6 billion annually to create $15 billion in loans.

In 1993, newly elected President Bill Clinton signed a law gradually replacing private student loan guarantees with direct government lending in order to save money. But not long after, Congress halted the phase-out of private-loan guarantees and let the private lenders compete with the direct-loan program (much as proponents of a public option favor letting private insurers compete with a government health insurer). For the next decade and a half, the private lenders were winning, mainly because Sallie Mae leveraged its profits from guaranteed student loans by romancing members of Congress for more favorable terms—i.e., more costly to the taxpayer—while romancing college financial aid officers for more business. But after the credit markets went haywire in 2008, banks fled the program in droves, and schools started steering students to more cost-efficient direct loans, creating a perfect opportunity for President Barack Obama to propose ditching student loan guarantees altogether.

Republicans are making many of the same arguments against student loan reform that they're making against health care reform: It's a government takeover, a job-killer, etc. But with student loan reform, there are two differences. One is that the Republican caricature of Uncle Sam muscling out private industry is somewhat more accurate (though remember that Uncle Sam has for years pampered and subsidized the private lenders). The other is that, unless you take an especially keen interest in policy questions surrounding the funding of higher education, you probably haven't noticed all this Republican caviling. That's because the typical voter (and therefore the typical news outlet) doesn't much care whether the government muscles in on this racket. Voters care only that student loans remain freely available and that they cost taxpayers as little as possible. The "socialism" issue was defused in 1993.

There is some danger that health care reform will turn the larger private health insurance companies into the same sort of black-belt lobbying champs that Congress created in Sallie Mae. That would make an already-expensive new program even more so. But if that occurred, the government might eventually tire of being manipulated by the private entities it funds and decide it would be simpler, and cheaper, to do the job itself. By the time that happened, the public would be so familiar with the idea that the federal government pays for much of its health care that cries of "socialism" wouldn't likely attract much notice. It's happened before.

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