Elephants and Donkeys by Kathleen Klenetsky

The Dukakis student loan rip-off

The student-loan plan which Michael Dukakis unveiled in early September has to be one of the biggest frauds in recent memory.

Far from being the solution to the college financing dilemma facing the bulk of American families it purports to be, STARS (Student Tuition and Repayment System) is a thinly disguised lifetime supertax which could have been borrowed straight from mafia loan-sharks.

According to the Dukakis camp, STARS would work like this: A student would borrow X amount of money, and then repay it at the rate of between one-eighth of one percent to one-fourth of one percent of his or her monthly income. Loan repayments would be deducted from the borrower's paycheck by the federal government, in the way that Social Security is.

The scheme's main selling point is that borrowers would have to shell out smaller payments than they would for standard student loans.

But that would be true for a short time only. The plan's most important feature—its supposedly "innovative" part—is that it is "income contingent." That is, as the borrower's income rises over the span of his career, so would his loan repayment.

The "income contingent" idea comes from monetarist economist Milton Friedman, the same fellow who argues that heroin and cocaine should be legalized so they could be taxed. Given its origins, it's no surprise that under the Dukakis scheme, borrowers could end up repaying the government more than *1,300%* of their original loan. According to several estimates, participation in the plan would translate into a 12% lifetime tax, over and above income tax and Social Security deductions.

A telling analysis of the plan comes from consumer finance writers Jeff Blyskal and Marie Hodge. Writing in the Sept. 22 *New York Times,* they slammed STARS as a "perpetual-motion debt scenario."

They take the average case of a student who borrowed $8,000, and after graduation, finds a job paying $19,000 a year. The required annual loan repayment (at the one-eighth of one percent) would be $190.

But, they note, that does not include interest payments, and the Dukakis plan specifically states that market interest rates would apply. Assuming a 7% interest rate—a very optimistic figure—this same borrower would have to shell out $560 in finance charges alone during the first year. After annual payments and interest accrual are accounted for, they point out, the balance outstanding would *rise* from $8,000 to $8,370.

"Bankers call that negative amortization," Blyskal and Hodge write. "Consumers know it as a perpetual-motion debt machine. Under a best-case scenario—the borrower never loses his job, never takes a pay cut, never stalls his income in a lateral job switch—negative amortization would continue to year 23.

"Unlike other loans, a STARS loan depends on inflation to make the scheme work. In this example a paycheck that balloons to $457,629 by the year 2028 would save the day. To reduce negative amortization, Mr. Summers [Dukakis's chief economic adviser Lawrence Summers] says the repayment rate may have to be one-quarter of one percent per $1,000 borrowed. Unfortunately that doubles the cost.

"The negative amortization continues for the first seven years. But while the principal is finally paid off in year 20, ever increasing annual payments continue for the next two decades. In other words, the middle-income borrower ends up paying $104,000 in interest versus $48,000 in the previous case—both are exorbitant prices to pay for an $8,000 loan."

Exorbitant isn't strong enough a word. Dukakis's plan would bring back indentured servitude. Can you imagine the insanity of having people mortgage their whole lives to pay for a college education? And this from the man who advertises himself as the "education candidate!"

Bestiality charges plague Dukakis

Charges that Mike Dukakis favors bestiality—i.e., sex with animals—have proved so embarrassing that his campaign aides have had to put out a briefing paper clarifying his position.

The charges have a very real basis: In 1970, Dukakis, then a Massachusetts state legislator, introduced five bills to abolish state laws against pornography, abortion, and various "unnatural and lascivious acts," including sodomy and bestiality.

Protestors dressed as animals and wearing signs like "Wag your tail if you're against bestiality and Dukakis," have turned up at numerous Dukakis campaign events.

But the campaign's attempt at damage-control isn't likely to placate those who find Dukakis's actions deplorable: The explanation offered by the briefing paper is that Dukakis introduced the bills as a favor to a constituent—anti-abortion activist Bill Baird. Great excuse, Mike.