

WHAT IS THE PROBLEM WITH STUDENT DEBT?

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INTRODUCTION

Student debt is a symptom of a serious problem: blocked opportunity for education beyond high school. While not a cure-all, education is a strong intervention that improves the lives of nearly all who receive it. A highly educated populace is necessary for a strong democracy, economy, and society. While private returns to individuals also accompany education, the substantial public returns are the primary justification for government investment.

When people seek, but cannot afford, further education they are often pushed into sub-optimal financial decisions, including taking out student loans. Given evident racial disparities in borrowing, some refer to this process as predatory inclusion—loans are offered on terms that limit or eliminate their long-term benefits (Seamster & Charron-Chenier, 2017). Against their better judgment, many students are taking out loans for college not because they are certain of the economic payoff, but because they are sure that their life chances, and those of their families, will suffer if they do not (Goldrick-Rab, 2016). The government imposes substantial penalties on them, including administrative burdens, for this constrained choice (Herd & Moynihan, 2018). When they leave college with debt, many without a degree, people start from behind—enjoying less financial stability and experiencing more stress than prior generations. This, in turn, makes them question the value of education, both for themselves and for others. The intergenerational consequences of that shift in valuation of a critical public good—education—is perhaps the most serious consequence of college unaffordability and resulting debt. But it is often overlooked in analyses framing students as economic subjects rather than citizens (Nissen, 2019).

Any solution should recognize that education at all levels is a public good and align the price of education with that value. When delivering support, administrative burden should be shifted from the individual to the state, where it belongs. We argue that this means making public higher education tuition-free and restoring broad cross-class public interest in also making it high-quality. We further contend that debt forgiveness, whether partial or full, is necessary in order to rectify past mistakes and restore well-being and faith in education among those who borrowed.

BACKGROUND

Paying for college challenges all but the wealthiest Americans. The new economics of college are characterized by high college prices and insufficient grants and scholarships, and today's students enjoy less wealth and income to contend with those prices. The labor market for college students needing employment offers low wages and schedules that are incompatible with class times (Goldrick-Rab, 2016). The social safety net, which used to provide more support when financial aid fell short, is hampered by administrative burdens and includes work requirements that exclude many students (Herd & Moynihan, 2018). Public colleges and universities enroll

nearly 75 percent of undergraduates, and compared to their private counterparts, spend less per-student primarily due to state budget cuts (Desrochers & Hurlburt, 2016; Webber, 2018).

The federal financial aid system fails to address these challenges. It was built on the assumption that students often have help from parents when paying for college, that only low-income students need assistance, and that means-testing can accurately distinguish between the deserving and undeserving. It was also constructed to deliberately minimize government subsidies for higher education (Goldrick-Rab, Schudde, & Stampen, 2014). Hechinger (1974) characterized the ideological motivations for the creation of the federal student loan program by claiming that “the private sector’s survival is threatened by competition from low-cost public education; that a greater part of the cost for public higher education ought, for this and other reasons, to be charged to students; that affluent families reap excessive benefits from tax-supported low tuition; and that middle-class students are well able to shoulder a higher tuition burden.”

Based on these assertions, beginning in the early 1980s student loans became the primary form of federal college financial assistance. This move reflects a market-based policy orientation that holds that education is a good investment with a clear, private payoff, that individuals should shoulder the burden of paying for education, and that these individual consumers of education are best equipped to extract accountability for institutional quality. Policymakers have historically paid very little attention to the accuracy of those assumptions or to the quality of program administration. But robust empirical evidence finds that those assumptions are flawed. The private returns to college are uncertain for many and especially for those most at risk of not obtaining the further education they seek (Bartik & Hershbein, 2018). Polls show that Americans expect both state and federal governments to ensure that public higher education is affordable and high quality (Demos, 2018). Institutional accountability for quality is lacking, and burdensome program administration is an overriding problem, as the burdens associated with learning about how to pay for college, access funds, and comply with requirements are substantial and consequential, hurting those most in need of support (Bettinger et al., 2012; Goldrick-Rab, 2016).

Government reliance on student loans without market discipline has created collateral damage. The private sector of higher education uses access to those federal dollars to run businesses with escalating prices and questionable quality (Baird et al., 2019; Cellini & Goldin, 2014). States follow the federal government’s lead, leveraging the availability of those dollars to shift the burden of paying for college onto those enrolled in higher education. A lack of viable alternatives to debt push families and students to simply accept the terms, even when they know better, because they see no better option (Zaloom, 2019). The result is a systematic normalization of debt that casts the borrowers as “responsible” and pushes them to be “self-reliant,” punishing them for non-payment even when it was entirely predictable. Even technocratic remedies such as income-based repayment, designed to ameliorate or spread out burden over time, has the effect (in combination with the withdrawal of mostly state-level public support) of shifting and spreading the cost of higher education deeper into life cycles of a larger share of the population. Evidence suggests it mainly benefits the already-advantaged (Collier, Fitzpatrick, & Marsicano, 2019).

The effects are felt by the poor, the working class, and throughout the middle class as well. Using a set of outdated assumptions similar to those employed by the federal poverty line, Pell Grant eligibility is tightly restricted to students with “exceptional financial need.” Many asset-limited, income-constrained, and employed families live on the edge of the middle class and face financial hardship but are left out of the Pell program. Even those with somewhat greater economic security

struggle. The federally calculated “expected family contribution” fell for all families in the bottom 75 percent between 1990 and 2016, indicating a decline in financial strength. In the 1990s, lower-middle class students (those in the next to bottom income quartile) largely had their financial need met, but by 2016 they faced an annual average shortfall of \$7,665 (Mortenson, 2019). Even at community colleges, low-income students now face unmet need of more than \$8,000 per year, while the lower middle-class faces unmet need of almost \$7,000 per year (Ma et al., 2019).

Individuals are not wrong to expect education to pay off; rather, government is wrong to assume that the payoff will be so substantial as to justify shifting the cost of higher education away from states, employers, and institutions and on to individual students and workers. As a larger share of the population comes into contact with higher education, the students look less and less like traditional undergraduates attending full-time directly after high school. That also means that the set of college students and graduates increasingly comes from populations that historically earn less.

The assumption that workers are paid what they are worth in the form of productive output, and that higher education leads to greater worker productivity, is oversimplified, and it mistakes correlation between higher earnings and higher educational attainment for causation. Earnings conditional on educational attainment are falling and are not as robust for marginal students (Emmons, Kent, & Ricketts, 2019; Webber, 2016). The only reason overall earnings in the population are stagnant (for all but the top decile or centile of the earnings distribution) is that educational attainment itself has been increasing. Workers are increasingly well-credentialed, but those credentials do not mean that they are increasingly well-paid. Rather, a larger share of each cohort entering the labor market has to pursue higher education in order to land a job paying better than minimum wage, even while the price of college continues to rise (Morgan & Steinbaum, 2018).

Having to rely on debt to pay for college creates other budgetary challenges downstream. It pushes parents to compromise on other investments that will improve their children’s lives, including early childhood education and extracurricular activities (Zaloom, 2019). Creating financial strain during college undermines students’ academic performance by impacting immediate cognitive functioning (Destin & Svoboda, 2017), and reduces the odds of degree completion (Anderson et al., forthcoming; Denning, Marx, & Turner, 2017). Student debt causes the deferral of economic priorities as households who once would have entered their lifecycles with zero assets now start from behind. The results are delayed, deferred, or abandoned household formation, homeownership, marriage, child-bearing, retirement savings, and entrepreneurship (Krishnan & Wang, 2018; Minn & Taylor, 2018; Velez, Cominole, & Bentz, 2018).

PROPOSAL

A century after making secondary education free, further educational expansion is necessary. Tuition-free public high school was remarkably successful—enrollment among teens grew from 14 percent in 1910 to more than 50 percent by 1940 (Snyder, 1993). The result was massive economic and social transformation (Goldin & Katz, 2008).

Community colleges were created based on strong demand from local communities, and the explosion of local college promise or free-college programs around the country over the past decade or so provides a similar signal of the need to broaden access to higher education (Perna & Leigh, 2017). The policies used to facilitate expansion should focus on universal *completion* of high quality post-high school credentials—certificates, associate degrees, and bachelor’s degrees.

While a large fraction of the U.S. population is not currently participating in higher education, properly financed educational expansion will open opportunities for many—people will enroll, re-enroll, and encourage others to enroll at much higher rates. These expectations stem from evidence from evaluations of promise programs in this country, free college policies abroad, and from studies of the impact of reducing college prices (Bartik, Hershbein, & Lachowska, 2019; Dynarski et al., 2018; Miller-Adams, 2015). The expansion of opportunity will be far more effective at reducing inequality, and will be much more politically feasible, if debt burdens created by past policy errors are addressed.

The next regime of higher education financing should impose minimal administrative burden on individuals, ensure investments that promote learning (e.g., full-time faculty and student supports), and be supported with a progressive and inclusive funding structure. Means-testing should be eliminated; it is not a necessary feature, as demonstrated by some of the country's most successful social programs—Social Security, Medicare, and unemployment insurance. Accountability for both institutions and states should be required. Social programs should be aligned with educational policy and re-structured to support college attainment by making living expenses such as food and housing affordable. These changes should be coupled with efforts to create alternative pathways to the middle class, such as shifting the balance of power in the labor market in favor of workers so that employers will need to shoulder the burden of job training, rather than making workers train on their own dime as students.

While most public attention to means-testing in higher education focuses on the length of the free application for federal student aid (FAFSA), that is hardly the most serious problem. More significant administrative burdens include learning costs (how to apply for financial aid), as well as psychological and compliance costs (Herd & Moynihan, 2018). Individuals experience a loss of personal power and autonomy when engaging with a “needs analysis” that is out of sync with the financial realities of today's families. They experience stigma as they are cast as undeserving of support and questioned about why they cannot abide by the system's rules. They experience undue stress in dealing with the financial aid process, which repeats annually, and lose valuable time during both application and verification periods. The practice of today's financial aid system is costly, confusing, and not overcome without significant expenditures of time and other resources (Bettinger et al., 2012; Harris, 2018).

Means-testing is unlikely to be more cost-effective than a universal approach. Higher education, once a force for eradicating class-based hostility, is now a source of class warfare. Universal programs enjoy much greater political support and are easier to explain/communicate to populations often frustrated by unclear information (Skocpol, 2000, 2001). Those attributes help ensure that they are more robustly funded. Lessons from college promise programs suggest that this is likely to be the case with free college as well. An analysis of states with statewide free college programs found that funding per student grew between 12 percent and 142 percent, while overall appropriations fell between 18 percent and 38 percent. Promise programs grow when financial aid budgets do not, likely due to their broader popular support (Mishory, 2018). Investments in student support and instruction matter—the key is generating political support to make those investments possible (Deming, 2017).

Targeting within universalism maximizes cost-effectiveness; the focus should be on making college free for students attending in-state public colleges and universities. The number of affluent families enrolled in public colleges and universities is quite small; most prefer private colleges, and those who attend public institutions do so from out of state. Just 3 percent of students attending public colleges and universities come from families making more than \$250,000, and only 1 percent come

from families earning more than \$1 million (Huelsman, 2019). Evidence from K-12 education does not support the notion that the wealthy would shift to the public sector if it were made tuition-free (Murnane et al., 2018).

The current system demands nothing from colleges and universities in terms of program quality, beyond the limited demands of accreditors. Inadequate financial support provided to the sector and a lack of clear expectations for ensuring all students' success drive poor outcomes (Kahlenberg et al., 2018; Kelchen, 2018). It is more expensive to serve low-income and marginalized students than it is to serve privileged students, and yet the distribution of higher education funding currently flows in the other direction, favoring institutions with the most privileged student bodies. Education and related spending at public regional and comprehensive universities (e.g., non-research universities) and community colleges averages \$10,000 to \$14,000 per student, while at private institutions it averages \$19,000 to \$24,000 (Desrochers & Hurlburt, 2016). These disparities have a lot to do with inequitable government spending. For example, in New Jersey, total federal, state, and local appropriations and tax subsidies are \$105,000 per student at Princeton University, \$12,300 per student at Rutgers University (a public institution), but just \$2,400 per student at Essex County College (a community college) (Klor de Alva & Schneider, 2015). By investing in a universal system, the federal government can engage states and institutions in a conversation about what is required to ensure that students begin and complete a quality college education. This is only appropriate in the public sector; policymakers should prioritize providers with the explicit, government-backed mandate to serve the public good.

The Higher Education Act assumes that private returns to higher education exceeded public returns, and that the states benefitted more than the federal government. Both are questionable assumptions. As student debt has swelled, communities have been weakened and destabilized, entrepreneurship and innovation have been discouraged, inequality has widened, and a growing chorus has questioned whether in fact hard work and talent bring economic opportunity in this country. These public penalties are likely more consequential than the individual ones. This is why forgiving a substantial amount of student debt, if not all of it, is especially important—to restore faith in a system that many believe has failed them. Impacts should be assessed at the societal level, not the individual level, and should include political and social as well as economic consequences.

The college affordability and student debt crises stem from flawed assumptions about the needs and behaviors of students, institutions, and states; insufficient attention paid to administrative burden; and mistaken priorities that cast education largely as a private good. These are problems that can and must be remedied.

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