



Intuition: The BYU Undergraduate Journal in Psychology

Manuscript 1223

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Forever in Debt: Effects of Debt-Funded Education on Racial Disparities

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Abstract

Federal loans originally were made available to students for the purpose of helping those who couldn't afford to attend a college or university to do so and to graduate. As researchers examined the effects of federal-loan debt on matriculated students and graduates, they found that loans may be beneficial when used appropriately but otherwise may hinder the academic success of student borrowers. Black students rely more on federal student loans than White students do, a difference that is correlated with disparities in wealth accumulation post-graduation. I will describe alternative means of funding college education that are designed for all students and that have the intent of reducing the inequality in post-graduation wealth. A combination of these methods may be more effective than any of them by themselves.

Keywords: student debt, race, college, student loans, debt, wealth, university, students

Forever in Debt: Effects of Debt-Funded Education on Racial Disparities

Is a college degree worth it? In today's world, many people would dismiss the question, given the status of higher education as a cultural goal. However, when college graduates tally their outstanding debt following graduation, they may question the financial worth of their degree. In one study, Dwyer, McCloud, and Hodson (2012) examined the effects of different levels of student debt on the probability of graduation and discovered that any debt beyond \$10,000 decreased the chances of students completing their degree. Surprisingly, the average American student relies on debt more than double this amount, with the Project on Student Debt (2011) indicating a debt load of about \$25,250 among college graduates. Student debt can be beneficial to those seeking an education without the means to pay for it, but it seems that society is simply not using it in the correct way, and this misuse may cause more damage to some than to others.

Effects of Student Loans

Debt accumulated in the pursuit of a higher education is higher for Black students than for White students (Jackson & Reynolds, 2013). Houle (2014) reported that Black students were 15% more likely to fund their education through debt than White students were and to graduate with an average debt level (\$37,000) almost \$15,000 greater than that of White students (see Figure 1 \$22,000; Addo, Houle, & Simon, 2016). Moreover, there is a direct relation between the amount of student debt and the delay of marriage (Addo, 2014) and between the size of debt and the delay before having children (Nao, Dwyer, & Hodson, 2015) and the delay before making major purchases (Stone, Van Horn, & Zukin, 2012).

A partial solution to the problems that excessive college debt presents is part-time employment. Researchers have observed that 15 to 20 hours of employment per week improves

academic performance on average relative to students without part-time work (Dundes & Marx, 2006; King, 2002). Furthermore, Dundes and Marx (2006) showed that working more than 20 hours per week did not reduce students' academic performance as measured by their GPA. Students reported being more comfortable paying for college expenses by working part-time, because it was a stable form of income (Ziskin, Fisher, Torres, Pellicciotti, & Player-Sanders, 2014).

The cost to students of a college education has increased faster than inflation for the last 30 years. This has contributed to the total student debt of more than one trillion dollars as reported by the Federal Reserve Board (Stone et al., 2012). The average student borrower now graduates from college with over \$25,000 in educational loans (Project on Student Debt, 2011). Stone and colleagues (2012) also found that 75% of students surveyed up to five years following their graduation had not paid any of their student loans.

The debt crisis is accompanied by positive effects, such as the greater probability of degree completion and minority groups' increased access to a college (Dwyer et al., 2012; Roksa, Grodsky, Arum, & Gamoran, 2007). Researchers have reported positive effects on self-esteem and self-concept among college students from lower and middle socioeconomic backgrounds (Dwyer, McCloud & Hodson, 2011). They also found that college students viewed their educational loans as an investment in their own human capital. However, this view reversed and impacted self-image negatively following graduation and as loans came due.

The reality is that paying for a college education primarily using student loans involves a financial trade-off. This trade-off is evident later in life when comparing the wealth accumulation of those who borrowed against those who did not borrow to pay for college. One group of researchers reported that students who graduated with student loans had a net worth

approximately 75% (\$13,000) less than their non-borrowing counterparts at age 30 (Zhan, Xiang, & Elliott, 2016). Egoian (2013) found that non-borrowers had approximately \$115,000 more in their retirement accounts than those who had relied on student loans. Fry, Parker, and Rohal (2014) reported that, for individuals 40 or younger, borrowers' individual net worth was 1/7th that of those who graduated without education-loan debt. Typically, higher incomes resulting from the completion of a college degree should translate into greater levels of wealth later in life, but student-loan debt seems to counteract this effect. In fact, Pew Charitable Trusts reported that only about 36% of Generation X, or individuals between 30 and 40 years of age, had greater wealth than their parents had, even though three out of four earned larger incomes than their parents had (cited in Elliott & Lewis, 2015).

Differences in College-Debt Levels Between Black and White Students

As noted earlier, Black college students rely on debt more heavily than do White students (Addo et al., 2016; Despard, Perantie, Taylor, Grinstein-Weiss, Friedline, & Raghavan, 2016; Grinstein-Weiss, Perantie, Taylor, Guo, S., & Raghavan, 2016; Jackson & Reynolds, 2013). According to Grinstein-Weiss and colleagues (2016), Black students were twice as likely to take out student loans as White students were and to accumulate higher levels of debt than their white counterparts did. Addo et al. (2016) found that Black students reported an average of almost 70% (\$15,000) more debt than White students did. In another study, researchers controlled for the students' socioeconomic background and confirmed the racial disparity in the level of student debt (Grinstein-Weiss et al., 2016).

The disparity also applies to graduates who transition into adult roles. For example, Houle and Berger (2014) demonstrated a negative correlation between home ownership and level of college debt in Black college graduates. It is important to note that Black students relied on

private loans more than on federal-insured loans than their White counterparts did. Goldrick-Rab, Kelchen, and Houle (2014) pointed out that private loans offer much higher risks, including higher interest rates, less guaranteed protection, and greater charges for failure to pay. Williams, Nesiba, and McConnell (2005) explained that Black students may also experience lesser purchasing power following graduation than White students do because of discrimination in the loan and credit industries.

College-Education Debt and Future Wealth Accumulation

Income is the amount of money an individual receives on a recurring basis and is used for living expenses, such as rent, groceries, and transportation. Wealth refers to the ownership of financial assets and includes real estate, other investments, and savings. One reason a college education may serve as an economic equalizer among races is the assumption that, for comparable college degrees, graduates receive relatively equal incomes. However, Gaddis (2015) found that Black graduates receive smaller average incomes than Whites do, thereby impacting future wealth accumulations.

According to Addo et al. (2016), 13% of the difference in levels of college-student loan debt between Black and White students was attributable to the net worth of a student's parents. Parents of White college students contributed more money to the cost of their children's college education—about three times more than the parents of Black students contributed (Addo et al., 2016). Gittleman and Wolff (2004) have further speculated that wealth not only differs quantitatively between the parents of Black and White college students but also qualitatively. For instance, the wealth of the latter is more liquid and thus easier to transfer to their offspring. Greater access to parental wealth likely contributes to the White college students' lower average level of student-loan debt and thus to their greater net incomes following graduation.

Other Factors

Part-time Employment

Debt plays a paradoxical role in socioeconomic disparities by increasing access to college for Black students but diminishing their potential rewards for completing such an education. A potentially mitigating factor is part-time and even full-time employment while in college (Broton, Goldrick-Rab, & Benson, 2016; Dwyer et al., 2012; Kalenkowski & Pabilonia, 2010; Scott-Clayton, 2012). According to Broton and colleagues (2016), students working part- or full-time represented roughly 75% of the college-student population, and 30% of students working part-time reported work hours exceeding 20 hours a week. Working more than 20 hours per week while simultaneously attending college is directly related to lower graduation rates (Dwyer et al., 2012). Broton et al. (2016) pointed out that students employed in on-campus jobs may be buffered from some of the adverse effects of employment because of increased scheduling flexibility and employer empathy.

Dundes and Marx (2006) reported that the most common reason cited by a sample of working college students was greater disposable income in order to pay for rent and tuition. Cheng and Alcántara, Goldrick-Rab, Kelchen, and Houle (2014) and Perna cited additional reasons for part-time employment during college, including workforce experience and identity, exploring career options, and meeting cultural expectations.

Racial Differences in Time Spent Working While in College

Differences in levels of parental wealth and other socioeconomic factors, the college attended, and reliance on educational loans affect the time a student spends working while pursuing a college degree. Greene and Maggs (2015) measured differences in hours worked during college between Black and White students and reported that Black students spent almost

three more hours per week than did the White students who were surveyed. Given that Black students are more likely to utilize private loans with higher interest rates and are less likely to receive parental contributions towards the cost of their education, it is likely that Black students work longer hours to compensate for the disparities (Addo et al., 2016; Greene & Maggs, 2015; Goldrick-Rab, Kelchen, & Houle, 2014).

Conclusion

Racial and socioeconomic disparities are on display in the financing of a college education in the US. Black college students receive less financial assistance from their parents and are more likely to attend for-profit colleges with higher tuitions (Addo et al., 2016; Elliot & Friedline, 2013; Houle & Warner, 2017). Black students rely more heavily on student loans than White students do, and the loans are more likely to be private loans with higher interest rates and more costly consequences for defaulting (Addo et al., 2016; Grinstein-Weiss et al., 2016; Houle & Warner, 2017; Jackson & Reynolds 2013). In order to pay for the greater costs of their college education, Black students also tend to work longer hours than White students do, thus potentially affecting their academic performance adversely (Greene & Maggs, 2015). Heavier debt loads may cause Black graduates to accumulate wealth at slower rates than White graduates do, because more of their income goes toward paying off their loans (Elliott & Lewis, 2015; Gaddis, 2015; Grinstein-Weiss et al., 2016; Zhan et al., 2016). With less wealth accumulated than their White counterparts, Black college graduates are not able to contribute as much financially as White graduates contribute to their children's higher education, and so the cycle of disparity continues.

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Appendix A

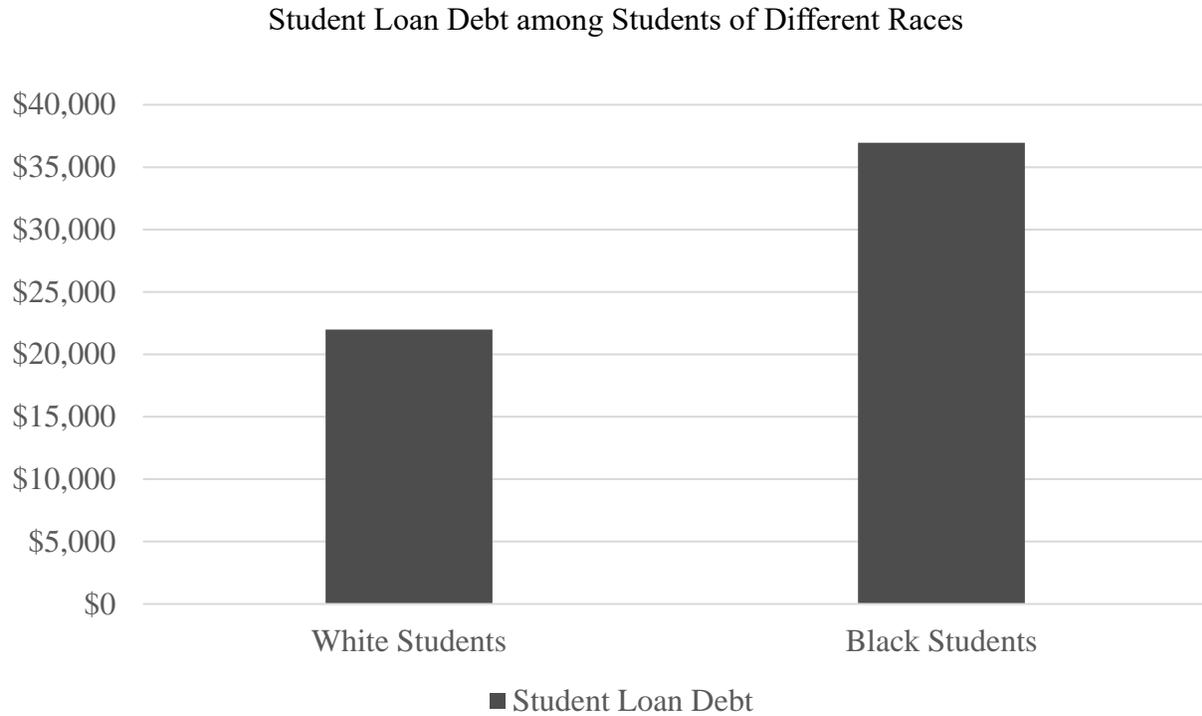


Figure 1. Average difference in amount of student loan debt carried by White students as compared to Black students. Black students have been shown to use more debt than White students use in several studies and on average Black students use \$14,960 more than White students. Adapted from “Young, Black and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt,” by F. Addo, J. Houle, and D. Simon, 2016, *Race and Social Problems*, p. 70

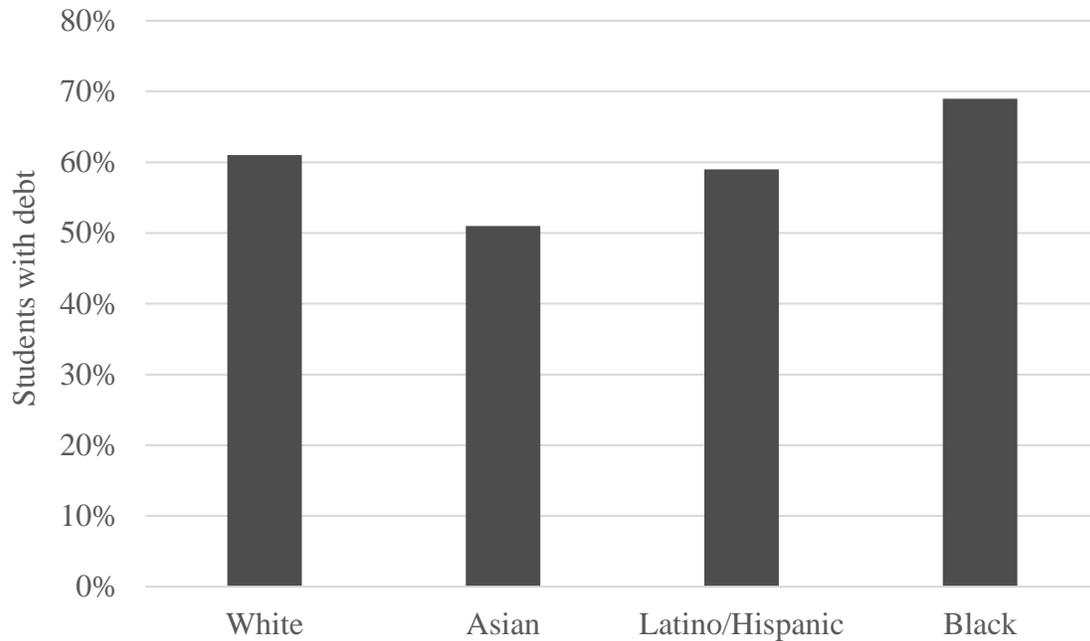


Figure 2. A comparison of the usage of student loans across all races. Black students use debt more often than White students do, but other races seem to be much more similar in education debt levels to White students. Adapted from “‘You Pay Your Share, We’ll Pay Our Share’: The College Cost Burden and the Role of Race, Income, and College Assets,” by W. Elliott, and T. Friedline, 2013, *Economics of Education Review*, p. 140

Hours Spent Working Grouped by GPA

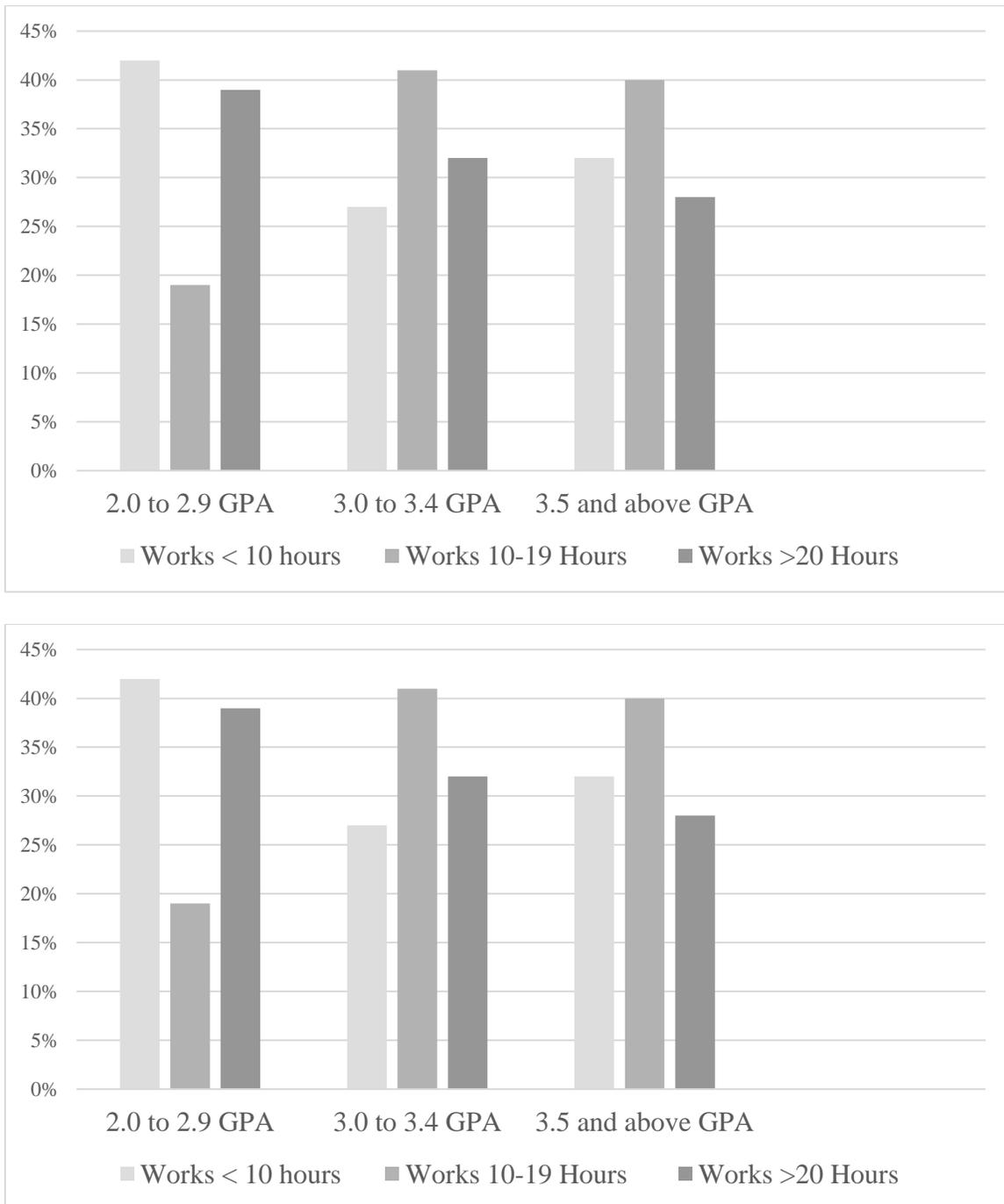


Figure 3. Weekly work hours spent by students grouped by GPA. Adapted from “Balancing work and academics in college: Why do students working 10 to 19 hours per week excel?” by L.

Dundes and J. Marx, 2006, *Journal of College Student Retention: Research, Theory and Practice*, p. 111