

Student Debt:

Rhetoric and Realities of Higher Education Financing

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Student debt: Good, bad, and misunderstood

Why is the common understanding of student debt so at odds with the realities—both the positive and the problematic aspects of borrowing for education?

How can public policy discussions better address the real problems—rather than focusing on general solutions that tend to be poorly targeted?

What we hear

Media anecdotes: unrepresentative, misleading

Few stories of success and opportunity

Many stories of distress

2014 public radio examples:

--Student graduated from public four-year college after transferring from community college—with \$40,000 in debt. (12% of public four-year graduates had this much debt.)

--Master's degree in history, \$110,000 in debt. In income-driven repayment (now 25% of borrowers, 43% of dollars)

--Highly selective private college, \$30,000 in debt, organic farmer

Not just good or bad

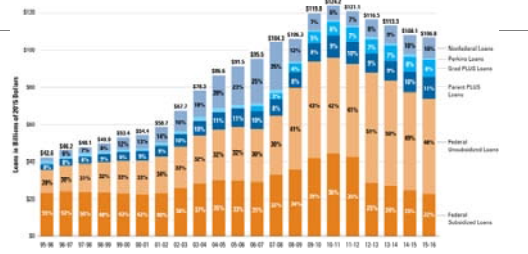
Housing market collapse, sub-prime mortgages. Should we just make housing free / have people stop borrowing for housing?

Marriage analogy: when, why, to whom?

Public benefits not the same as a public good

Positive impact: educational opportunity, responsibility for private benefits

Total federal and nonfederal loans in 2015 dollars, 1995-96 to 2015-16



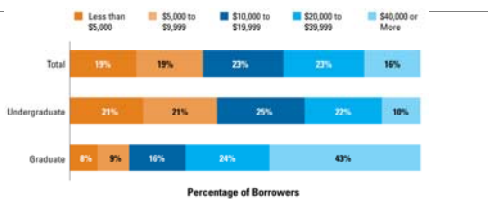
SOURCE: The College Board, Trends in Student Aid 2016, Figure 6

For related data, visit trends.collegeboard.org

Trends in Student Aid 2016

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Distribution of borrowers by amount of outstanding education debt, 2015



SOURCE: The College Board, Trends in Student Aid 2016, Figure 8

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Trends in Student Aid 2016

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Why the misperceptions?

Strong emotional reactions to exaggerated images

Barry Glassner, *The Culture of Fear* – road rage

Ebola cited by 17% as nation's most pressing problem in Gallup Poll. Four reported cases in the country.

2014 *Huffington Post*: Author called for "civil disobedience on a massive scale" to free millions of former students "trapped in a debtors' prison without walls."

Availability cascade: Simple idea for explaining complicated concept catches on, is repeated, spreads. People claiming danger is overstated are accused of a cover-up.

Causation and correlation

Counterfactual for studying impact of student debt

--Same education?

--Who would pay?

Housing, wealth, entrepreneurship

Surveys measuring perceptions

Moral panic

Fear spreads and leads to policies disproportionate to threat

Forgive all debt

Debt free college

Free college

Policies: Preventing problems

- Excluding institutions that don't serve students well
- Helping students make better choices—more than just information
- Stronger incentives for institutional performance
- More nuanced loan limits
- Limits on PLUS loans
- Better tracking of students across institutions

Policies: Managing existing debt

- Don't forgive all student debt!
- Income-driven repayment /ease of repayment
- Lowering interest rates?
- Accumulating unpaid interest
- Garnishing Social Security payments
- Private loans
- Bankruptcy
- Lines of credit
- Limits on borrowing
- Taxing forgiven balances
- Loan servicing

Conclusion

- Should subsidizing students borrowers be at the top of the social agenda?
- Put student debt into larger social context: early childhood, health care, neighborhoods, elementary/secondary school.....
- Target reforms to causes of problems
- General relief vs. subgroups
- Not high debt, but non-completion
- Composition of borrowers
