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Abstract

This paper summarizes recent research into the cost of higher education, and specifically the effects of growing student debt loads. It explores the utility of debt related to access to degree programs, entry into the job market, and economic impact in later life. It is not an economic analysis of higher education financing, but a consideration of the costs and benefits of education financing today. The central ethical consideration of "who benefits" applied to the current state of play in higher education financing leads to the questions: With constantly rising debt loads for individual students and the general population, is higher education still worth it? What are some of the issues that school debt creates and what impact do they have on diverse student and graduate populations? Finally, what are some potential areas for further research that can positively affect the cost vs. benefit of higher education for students and the state, while respecting prevailing social, economic, and political realities? The research shows while going into debt for a college degree is still "worth it" for the average student, as debt rises the payback of obtaining a degree is delayed. Debt loads have a negative disparate effect on vulnerable populations and a negative impact to the states as debt load drives some students away from careers that could benefit populations. Finally, there is a need for improved financial literacy and an opportunity to research and implement less costly financing options for students pursuing higher education.

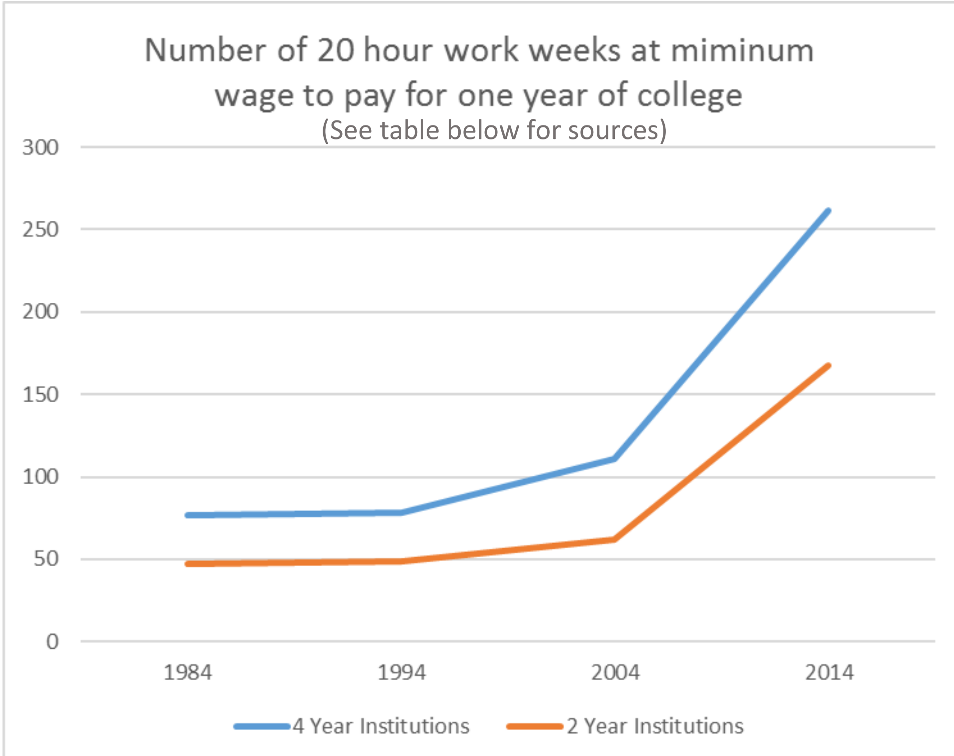
Keywords: college, debt, education, ethics, loan, student

The decision to pursue a degree from an institution of higher education is an ethical decision at its core. Of the two primary motives students' report for college attendance one is classic virtue ethics, the desire to acquire education in order to be somebody. The other primary motive is classic utilitarianism, to obtain a rewarding career (Jennifer & Jeanne, 2007). Even duty can be the reason for attending college for students who do so because it was expected of them (Phinney, Dennis & Osorio, 2006). The assumption behind all motivations to attend an institution of higher education is that the personal, financial, or societal benefit will be worth the effort and cost of obtaining a degree. However, the exponentially rising cost of obtaining a college degree paired with contemporary economic uncertainty strains traditional expectations of the benefits of higher education. At what cost is a college degree still worth attaining for personal growth, financial potential or social benefit?

The Rising Debt Load for Students

As of June 2017, total student debt in the United States was over $1.46 Trillion (Student Loan Debt Clock, 2017) and increasing at a rate of over $2,800.00 per second. The rate of accruing debt is increasing at a high rate. Total student loans in 2013 were $113.4 Billion, and that number was 24% higher than five years previous (Elliott, 2014).

In the 2016 Presidential election cycle, the idea of "free college" posed by some of the candidates received responses like "there's no such thing as free", and "I managed to pay for my college back in the day by working part time." However, comparing "back in the day" to contemporary realities of education cost and financing is a non-sequitur.



	1984	1994	2004	2014
Minimum Wage (US Department of Labor, 2017)	$3.35	$4.25	$5.15	$7.25
Annual Cost for 4 Year Institutions (National Center for Education Statistics, 2016)	$5,160.00	$6,670.00	$11,426.00	$37,990.00
Annual Cost for 2 Year Institutions (National Center for Education Statistics, 2016)	$3,179.00	$4,137.00	$6,375.00	$24,317.00

The number of twenty hour work days a student would have to work at minimum wage (the maximum hours and base rate for a Federal Work Study Program participants) to pay for the cost of a year's tuition surpassed the number of weeks in a year in the 1980s and has increased rapidly in the last thirty years. Paying for college with a part time job is no longer a viable option from a purely financial standpoint.

Government underwriting college outright is politically charged and fraught with its own ethical dilemmas. New York State's proposed Excelsior Scholarship would insure free tuition at New York's public two- and four-year institutions. This plan could significantly reduce debt for students attending public colleges; however, it shifts the burden to taxpayers who may not receive any direct benefit. The plan could be disadvantageous to smaller private institutions who compete with state institutions for students. The plan provides no additional benefit for low-income students who already receive tuition through other programs (Seltzer, 2017).

The unintended consequence of the Higher Education Act in 1965 spawned a student loan industry and effectively insured that lower and middle income students whose parents could not defray the cost of education pay more for the same credit hours including cost plus interest (Shermer, 2015). This creates a vicious cycle as the availability of loans abets the increase of tuition, pricing college out of the range of the lowest income students and forcing them into additional debt. A study of Canadian students working during full-time university showed that the only economic variable that explains a substantial portion of increase in student work hours was the increase in tuition fees (Neill, 2015).

Using debt to finance higher education has mixed effects. While initially it can provide access to higher education for those individuals who might not have access otherwise, the impact of debt during and after obtaining a degree is significant. That impact no longer ends within a few years upon entry into the job market. Some families are repaying student loans even as their children are taking on student debt. Some are even carrying education debt into their retirement years (Hsu & Fischer, 2016).

The Effects of Debt during College

One intended consequence of college loan programs is to provide college access for lower and middle-income students. Accessibility to Federal loans increases the debt load of community college students but for borrowers it also increases the number of credits attempted in the first year, as well as completion of math and science courses (Wiederspan, 2016). While loans can increase accessibility, there are negative side effects of the current education loan system. The complexity of the current loan system may drive students to institutions that that are not well suited to their "persistence and success". Conversely, the perceived financial barriers of taking on debt increases the risk of where students are prevented from selecting institutions where they are well matched for success. One determinant of this "undermatching" is cost considerations like the cost of travel, tuition, and room and board which may cause students to make tradeoffs in the quality of education (Dillon & Smith, 2013). Borrowing for education has a positive effect on persistence in pursuing a degree during the first year of community college, but then had a negative effect on continuing in subsequent years, perhaps due to students dropping out in order to avoid taking on further debt (McKinney & Burridge, 2015). Access and completion are two different things and the same mechanisms that increase access may lower completion rates if not carefully balanced (Page & Scott-Clayton, 2016).

Debt can be both a responsibility as in having "skin in the game" or liability for students. For students who embrace responsibility this can be a motivating factor, but for students who succumb to liability this can be a negative factor in completion. Despite media portrayals of students being irresponsible with funds, students with debt are less involved in partying and non-academic activities (Quadlin & Rudel, 2015). Some debt may afford middle-income students to enjoy constructive activities (sports, clubs) that they would otherwise not be able to partake in. Debt financing of higher education places a burden on the student to weigh economic viability of career choices over other important considerations like personal growth, leveraging talents, and career satisfaction. This also affects individuals feeling of reciprocity towards society for education, making it more transactional (as in "my obligation is done when I've paid my monetary debt"). This loss of autonomy can negatively affect human flourishing (Martin, 2016).

"Student loans are associated with poorer psychological functioning while enrolled in school as well as in early adulthood". Students with higher parental wealth see the amount of their debt somewhat moderated (Walsemann, Gee & Gentile, 2015, p. 93). Anxiety over student debt is moderated by students' overall satisfaction with their financial situation. However, this may be due to some naiveté about the impact of this debt before they enter the workforce and have to make their first payments. There is a need to provide more substantial counselling resources for students who take on debt to finance their education (Archuleta, Dale & Spann, 2013).

Financial stress has a statistically significant negative impact on student's performance for multiple reasons such as the inability to purchase required texts, or the requirement to work more hours to meet financial obligations. This negative impact is greater for women, minorities, and first-generation college students (Bennett, McCarty & Carter, 2015).

Student debt influences choices for further education and early career options for graduates. Increased higher education costs, intersecting with diminished state aid to public universities is contributing to increased student debt. Debt that is leading to higher default rates, and may affect career and consumer choices, for example, leading graduates away from public sector careers into higher paying private sector careers (Cornelius & Frank, 2015). Debt causes students to choose substantially higher salary jobs upon graduation and reduces the probability that they will seek out low-pay public interest jobs. It is not known if this effect will continue throughout the student's life cycle. Paradoxically debt may drive some students from further education that can prepare them for higher paying careers. "…For public college graduates, college debt has a negative and significant effect on graduate school attendance. This negative effect is concentrated on more costly programs associated with doctoral, MBA, and first professional (FP) degrees"; the very degrees that provide higher income and the ability to pay debts (Zhang, 2013, p. 154).

The Effects of Debt after College

After graduation and entry into the job market, the effects of debt continue. Debt aversion and lower credit scores due to college debt are delaying entry into home ownership for Millennials. This is compounded by the Great Recession (the years following the market collapse of 2007) and less liquidity for younger graduates (Xu, Johnson, Bartholomae, O'Neill & Gutter, 2015). "…having student debt outstanding is associated with a lower rate of homeownership as well as with lower wealth holdings." This is not just for recently graduated students, but also for groups including those studied twenty years post-graduation (Cooper, Wang & Federal Reserve Bank of Boston, 2014, p. 22). In addition to delaying home ownership, there is another negative effect of debt on wealth accumulation. "The student-loan program prevents loan-burdened four-year-college graduates from reaping equal returns on their education as classmates who graduate debt free – not simply because of loan payments but because of a differential capacity for capital accumulation" (Elliott, 2014, p. 26). The amount of student debt has a negative effect on the probability of first marriage. This effect diminishes with age (Gicheva, 2016).

There is a direct negative impact on the institutions where students graduate with large debt loads. Credit restraints reduce students' contributions to their institution after graduation (Rothstein & Rouse, 2011).

There are also considerations for funding education through grants or debt for the state. The return on investment of education funds brings a positive return to the state over an educated citizen's lifetime. For federal monies spent on education, there is an over 20% rate of return that comes back in the form of taxes paid over a lifetime. For state governments that return is just over 3% (Trostel, 2010). One justification for state funding of education is to retain educated employees in the state. The Georgia HOPE scholarship program increased the percentage of students studying in Georgia. However, it had no significant impact on those staying in the state post-graduation. In fact, those high performing students who stayed in Georgia because of HOPE were less likely to stay in state post-graduation than their peers were (Sjoquist & Winters, 2013).

Disparate Impacts of Higher Education Debt

Debt has an uneven impact on different socio-economic groups. Middle-income students and their families are the most heavily impacted by debt (Cho, Xu & Kiss, 2015). While needs-based grants mitigate debt for lower income students, and students from higher income families can draw on family resources, the middle-income students are likelier to take on larger amounts of student debt creating a “middle income squeeze”.

Students from low-income families and first generation students are much more likely to accrue debt than their peers are. Lower salaries for certain areas like social sciences has a disparate impact on females and minorities who enter into these fields at larger numbers. Graduates of private institutions tend to have higher levels of debt burden that is not offset by higher earnings on the part of those graduates (Chen & Wiederspan, 2014).

African American students are at higher risk of student loan debt (Houle, 2014). Low and middle-income black students’ odds of student loan indebtedness are almost twice that of low and middle-income white students (Grinstein-Weiss, Peratie, Taylor, Guo & Raghaven, 2016). Debt has a disparate negative impact on African-American students when it comes to financial stress (Grable & Joo, 2006). “As the debt load of matriculated poor and minority students rises, so too do their dropout rates” (Elliott, 2014. p. 26). The likelihood of having student loans is significantly higher for females, non-Hispanic blacks, and those with dependent children ages eighteen to twenty-five (Hsu & Fischer, 2016). Non-white students tend to have higher credit card and student debt. This may suggest a vulnerability among minorities (Kim, Chatterjee & Kim, 2012).

Part of the reason for financial distress and dropouts is due to financial constraints beyond tuition and fees. For some minority and poor students, things like family obligations, transportation costs, and other factors outside the scope of traditional financial aid affect their ability to complete college (Pierce, 2016). These financial constraints for young adults from financially struggling families are a significant predictor of "stopping out", or leaving college with the intent of returning (Terriquez & Gurantz, 2015). The risk of stopping out turning into dropping out, or permanently departing college without completing a degree, is very high. One study revealed that only "9.4% of students who stopped out at least once graduated, 6.4% of those who stopped out at least twice graduated, and only about 4.6% of those who stopped out three times eventually graduated from [the large research] institution" they started at (DesJardins & McCall, 2010, p. 521). Additional researchers have concluded that the longer students are stopped out the more likely they are to permanently depart and not complete a college degree (Johnson, 2005).

Data from the National Center for Education Statistics show, while college completers and non-completers borrow at similar rates, those who complete college are more able to pay their debts based on higher salaries. "Debt to income ratio for non-completers ranged from 26% for those who started in public 2 year colleges, to 51% for those who started in private non-profit 4 year institutions. Among non-completers who started at for profit institutions, nearly one third (31%) accumulated federal loans totaling 100 percent or more of their annual 2009 income" (Wei, Horn, National Center for Education Statistics, & MPR Associates, 2013, p. 5).

Is It Still Worth It? Cost vs. Benefit of Financing Higher Education

The cost of a degree is still “worth it” given lifetime earnings. However, the break-even point is moving later in life as the cost of college goes up, and so do debt loads. The non-trivial rate of non-completion increases the risk to reward. Even low performing students have a net payback on their degrees but there is a delay in the break-even point for this group (Webber, 2016). While education costs will continue to grow at a fast rate, the contributions of education to the economy will spur growth in overall purchasing power – making education worth the cost even at higher and higher rates (Wolff, Baumol & Saini, 2014). Student debt delays home ownership, yet having a college degree vs. no college degree is a stronger predictor of home ownership than the amount of debt an individual carries, including school loans (Dynarski & Center on Children and Families, 2016). As noted earlier, the cost of starting a college education funded on debt and not completing it is significantly worse than not attending college at all.

The difference in lifetime earnings between college majors is significantly different, and in some cases even greater than the difference between obtaining a high school vs. a college degree. STEM, Business, Medical and Legal fields far out earn Education, Liberal Arts, and Social Sciences (Kim, Tamborini & Sakamoto, 2015).

The Need for Financial Education and Counselling

A large volume of research shows the need for financial education and counselling for college students. The research also shows a lack of those resources, especially for students who attend lower resource schools.

In one study, borrowers felt that loans had contributed to academic freedom and success, “however they had many misconceptions about debt management and loan repayment” (McKinney, Mukherjee, Wade, Shefman & Breed, 2015). A large percentage of students cannot accurately estimate the financial obligation of paying back their student loans, even though they express confidence in their ability to pay back those loans upon employment (Kuzma, Kuzma & Thiewes, 2010). An alarmingly high percentage of students are not aware of their total debt incurred, or even if they have student debts. There is a need for financial literacy and exit counselling among college students. Education about debt and periodic reviews of debt accumulated can help mitigate this “loan confusion” (Andruska, Hogarth, Fletcher, Forbes & Wohlgemuth, 2014). Higher loan amounts are associated with the combination of belief that working hard will result in paying off loans, and at the same time more students believe that taking on debt is an inevitable part of obtaining a college education. When it comes to loans students are making short-term decisions rather than focusing on what their quality of life might be in the future (Norvilitis & Batt, 2016).

Universities are lacking in substantial programs to educate all students in money management skills and their impact on student life (Grable & Joo, 2006). Often students who attend community college come from lower resource high schools with fewer opportunities for financial and academic counselling (McKinney, Mukherjee, Wade, Shefman & Breed, 2015). Parental influence plays a role also. Students who communicated with parents (about credit and debt) tended to carry less credit card and student debt (Kim, Chatterjee & Kim, 2012).

The impact of these short-term decisions carries well into post-graduation, often beyond the expectations or comprehension of someone who is primarily focused on completing their degree. A colleague confided to me that after making minimum loan payments for over a decade, they were shocked to find out that none of the payments had gone towards the principal of their student loan, and the total amount owed had doubled since graduation. While apocryphal, it is likely this case is common among those who take out student loans, expecting the practices of government regulated loan-servicing companies to be based on sound financial practices.

Strategies for Mitigating the High Cost of Higher Education Debt

The National Association of Student Financial Aid Administrators (2013) has created some research-based goals for easing the burden of student debt. These goals are “1) More aware borrowers; 2) More responsible borrowing; 3) Tools and frameworks for institutions to assist borrowers; 4) More borrowers repaying their loans, and; 5) Federal and institutional policies that reinforce the above.” Among their recommendations: Rethink the current structure of loan subsidies, targeting subsidies to replace front-end interest subsidies, and improving education over current loan counselling with better tools like the Department of Education Financial Awareness Counselling tool (United States Department of Education, 2017).

Some strategies confirm conventional wisdom. Graduating in four years significantly decreases the amount of student debt (Craig & Raisanen, 2014). “…Institutional practices that better educate and protect borrowers, could help ensure that for many community college students, the immediate benefits of using loans are not overshadowed by financial hardships that remain with them long after their time in college” (McKinney, Mukherjee, Wade, Shefman & Breed, 2015, p. 350).

Students who received grant aid are able to work fewer hours and are able to increase the quality of work they engage in (fewer late night or overnight hours). “Grant aid thus appears to partially offset student employment, possibly improving prospects for academic achievement and attainment” (Broton, Goldrick-Rab & Benson, 2016, p. 477). State merit programs like the state of Georgia’s HOPE program offset debt burden (Georgia Student Finance Commission, 2017).

However, increases in tuition have outpaced government grant programs. The use of needs based and merit based grants must be reviewed to narrow this gap (Chen & Wiederspan, 2014).

The distribution of financial aid affects student debt. Lower-middle income students receive too little financial aid compared to students from higher income families. “Transferring a dollar of grant money from a student from a high income family (annual income above $100,000) to a student from a middle income family (annual income between $48,000 and $75,000) reduces average student debt by $1.80. Student debt can be reduced considerably without increasing total aid” (Craig & Raisanen, 2014, p. 672). Tuition price has less of an effect on enrollment rates as household income. This suggests that if tuition were increased and resources targeted at poorer students, the overall access to college for black males would increase (Price & Sheftall, 2015). Student debt vs. increased income is a larger problem for graduates of poorer quality institutions. Adjusting the current system to align incentives with quality of education could have a positive impact on student debt (Eden & Manhattan Institute for Policy Research, 2016).

Moving to grant and scholarship programs has a positive impact, not only on students, but also on the institutions and states who engage in assisting students with funding their educations. “Forgiveness policies and…scholarship programs may help students avoid burdening debt and encourage them to enter social interest jobs” (Choi, 2014, p. 35). There is a benefit to providing “…strategic use of financial aid. Providing aid, in contrast to not providing any at all, [which] clearly reduces stopout behavior, increases reenrollments after a stopout, and increases graduation” (DesJardins & McCall, 2010, p. 536). However, frontloading that aid (as opposed to disbursing it evenly throughout the attainment of a degree, is slightly less effective in reducing stopout behavior (DesJardins & McCall, 2010).

Some strategies may disagree with conventional wisdom and require further exploration of personal and institutional practices, and government policy. Loan debt for students who start in a two-year program and finish in a four-year program is not significantly different from those who started in a two-year program. In addition, this may crowd-out some students who truly need to begin in a two-year program (González, 2014). The way Federal Work Study monies are currently allocated, disproportionately fewer resources go to the students who can most benefit from the programs (Scott-Clayton & Minaya, 2016). Part-time college students do not see a negative impact of their work on academic performance, however full-time students who work complete fewer credits per term. This can increase time to degree. It can also penalize students by making them ineligible for some financial aid and loan programs due to their income (Darolia, 2014). Using differentiated pricing for programs (premium tuition, etc.) can be a lever through which governments can steer students into specific majors. However, this has a disparate effect on minorities and women who seek to enter those fields (Stange, 2015). Many community colleges have opted out of federal loan programs due to high default rates. If colleges opt out of Federal loan programs, they will need to develop aid programs to replace the absence of loans (Wiederspan, 2016).

Another strategy to reduce the total debt load for college students and graduates could be enacting state programs to make loans available at lower rates. The range of interest rates varies dramatically from 3.76% for a direct subsidized federal loan to higher than 8% for private loans (Leong, 2017). The Georgia Student Finance Authority offers the needs-based Student Access Loan Program at a 1% fixed rate, and a loan discharge option for technical college students who graduate with a minimum 3.5/4 cumulative grade point average. However, the state funded program is limited, and on a first come, first serve basis (Georgia Student Finance Commission, 2017). Programs like these can have multiple benefits for students and the state. For a state that self-funds its loan programs, any interest will go back to the state and not the economies of other states where loan originators reside. For the student, any reduction in interest will significantly reduce payments and overall cost through the lifetime of the loan. Those same students upon graduation and entry into the workplace will have increased purchasing and investment power that, in turn, will benefit the state's economy.

These benefits are not limited to state governments. The Church of Jesus Christ of Latter-day Saints (2017) instituted a loan program for students in areas with widespread poverty. The Perpetual Education Fund mirrors a program from 150 years before, when Mormon converts seeking to immigrate to America were loaned funds for passage. When they were established and found employment, they in turn loaned funds to others to make it possible for them to emigrate. Over the last fifteen years of the program, over 80,000 individuals from around the world have been lifted out of poverty, and achieved self-reliance through generous private donations and by earlier recipients paying these loans forward (LDS, 2017).

Areas for Future Action, Research and Policy Considerations

There are actions that institutions of higher education can take to facilitate the process from orientation to matriculation. Academic and financial advising can increase student success and mitigate costly financial choices. Universities can focus on improving service, assist with ease of scheduling classes, increase access to education resources and materials, leverage distance learning and non-traditional classrooms, and allow students to transfer applicable credits from other institutions. By shortening time to degree, students can avoid a large percentage of the debt load taken on to complete college (University System of Georgia, 2011).

Institutional level solutions to combat inefficient processes do not have to be expensive or complex to implement. Often the simplest transactional issues are the things that cause delays in graduation, or a lack of access to support services. For students, the issues are often more about finding the right resources as opposed to lack of resources. During the administration of Governor Sonny Perdue, the University System of Georgia collaborated with the Georgia Governor's Office of Customer Service to identify ways to increase organizational efficiency, raise customer satisfaction and increase employee morale (University System of Georgia, 2017). Through a combination of customer service training and employee-led process improvement initiatives, focusing on academic success, and operational efficiency, institutions continue to increase access to educational services, increase student satisfaction and achievement, and save millions in tax and tuition dollars. Given promising results of institutional and system wide efforts to boost academic achievement and operational excellence, a recommendation for future research could be the effect of operational improvements on the cost and length of students' time to degree. Areas to focus on are directed advising, efficiencies in scheduling, and utilization of non-traditional and virtual instructional spaces. The results of these studies could have profound impact on funding and allocation of resources for expanded higher education services.

Another area for further research and policy consideration is the impact of alternative funding sources and methods for higher education. While "free college" does not conform to prevailing political or economic models in the United States, there are public and private examples of creative funding like the Georgia State Finance Corporation, Student Access Loan program, and the LDS Church Perpetual Education Fund. Further economic research and modelling could assess the full life cycle of education funds, their impact on graduates' financial power, and ultimately the return to the state in terms of economic benefit. These funding programs could decrease the cost for students and graduates, and keep financing in the state, without violating basic tenants of self-sufficiency and free enterprise. The Georgia Hope Scholarship program is an example of a student financing success story (Georgia Student Finance Commission- HOPE, 2017). However, HOPE is an “at risk” scholarship that can be lost in the early years of college if students fall below grade average requirements. The risk increases for students who pursue demanding degrees at top tier colleges as well as low-income students with burdens outside of the classroom. Given the reduced efficacy of front loaded scholarship and grant programs, could the HOPE and similar scholarship programs be more effective if modeled as a level loaded disbursement with incentives for academic performance over the course of attaining a degree? Further research through the Georgia Student Finance Corporation, the implementation of scholarship and grant funds, and their effectiveness in reducing “stopping out” and “dropping out” could provide beneficial insights into the best use of lottery proceeds and taxpayer funds for the benefit of students and the state.

Future studies could also measure the effectiveness and social benefit of using these funding programs to incentivize specific professions and areas of graduate studies in skill areas needed in state government and private industry. Aiming higher education at industry and government needs is not new. One example is the founding of the Kennesaw State University, Southern Polytechnic School of Engineering back in the 1940s as The Technical Institute. This was a direct answer to the needs of Georgia industry for applied engineering graduates (Bennett, 1997). If found to be feasible, targeted funding programs could make it more affordable for students interested in STEM fields, heath care, education, social services, the arts, and other socially and economically beneficial fields.

Conclusion

The cost of carrying student debt is high, and is likely to negatively affect higher education students' ability to complete college, choose careers that are fulfilling and beneficial to the state, and saddle them with additional psychological and financial strain throughout their lives. These effects are disproportionate for some groups including black, female, and low to mid-income students. The current methods of pricing and distribution of funds to various demographics need adjustments to negate the disparate impact of debt. Work programs and increased availability to loans alone, will not solve the issues of debt load for students and graduates. There is a large need for financial counselling and guidance before, during, and after college to help students understand and manage debt. A mix of funding, grants, and scholarship programs, in particular self-funded and self-perpetuating programs could benefit students, as well as the states they reside in. More effective student financing can have a beneficial impact on communities and states. Not only economically, but also by creating opportunities for graduates to select social service and other publicly beneficial careers. Efforts to increase the benefits and control the cost of higher education have broad ethical considerations beyond the needs of the individual student or taxpayer. The current system of financing higher education is in need of improvement, but any change should include a holistic consideration of the questions: who benefits? who pays? and at what cost?

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