

MAY 19, 2022

Wealth Inequality and Student Debt

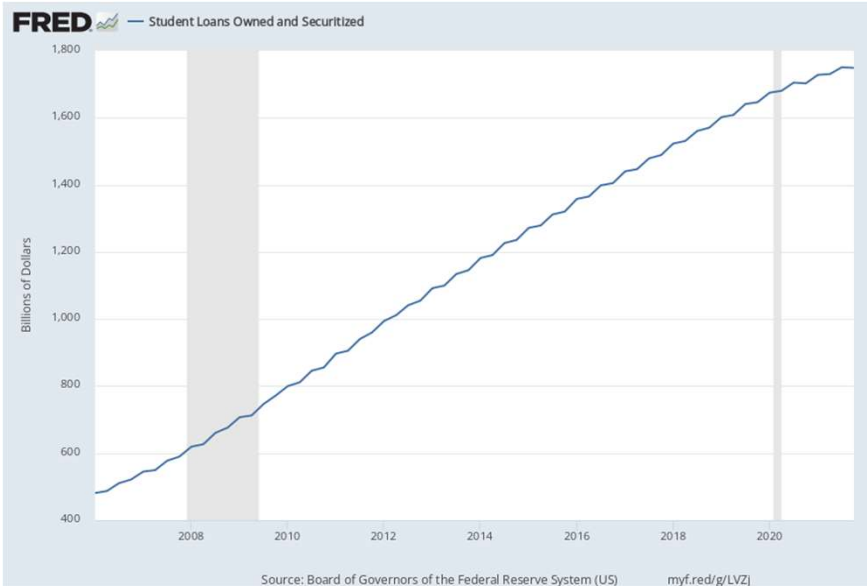
Louise Seamster, University of Iowa
Panel, Oregon Legislative Task Force on Underrepresented Student Success

EDUCATION= GREAT EQUALIZER?

Higher education as a
primary policy mechanism
for individual mobility

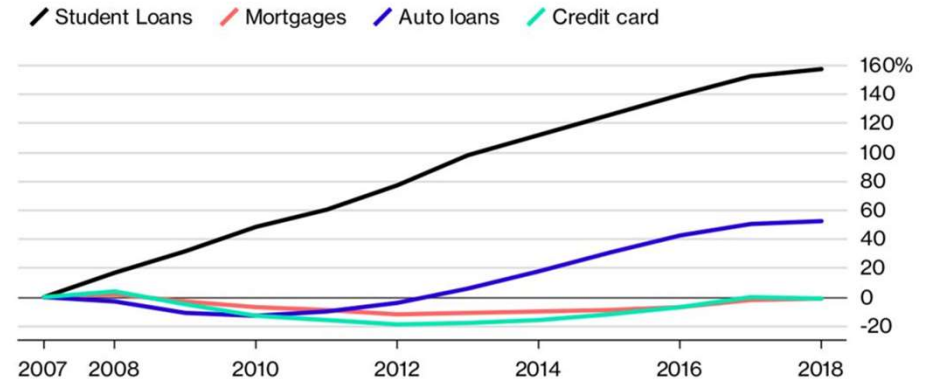


Education unaffordability changes the terms and benefits of access



Student Debt Just Keeps Growing

Student loans are the fastest growing segment of U.S. household debt, seeing almost 157 percent growth since the Great Recession.



Source: Bloomberg Data

Bloomberg

“Affordability” framework

vs.

**Shifts in distribution of resources
and risks**

A debt trap

The current debt structure is bad for
students,
universities,
and states--

*And allows debtholders to drive
education policy*

student debt shapes lives

- Delays or prevents savings, homeownership, family formation
- Restricts career choices
- Rural population loss

Example: homeownership

Phenomenal  World

- Poorest half of borrowers have 0% homeownership rate
- Next 40% in income have declining chances of owning a home

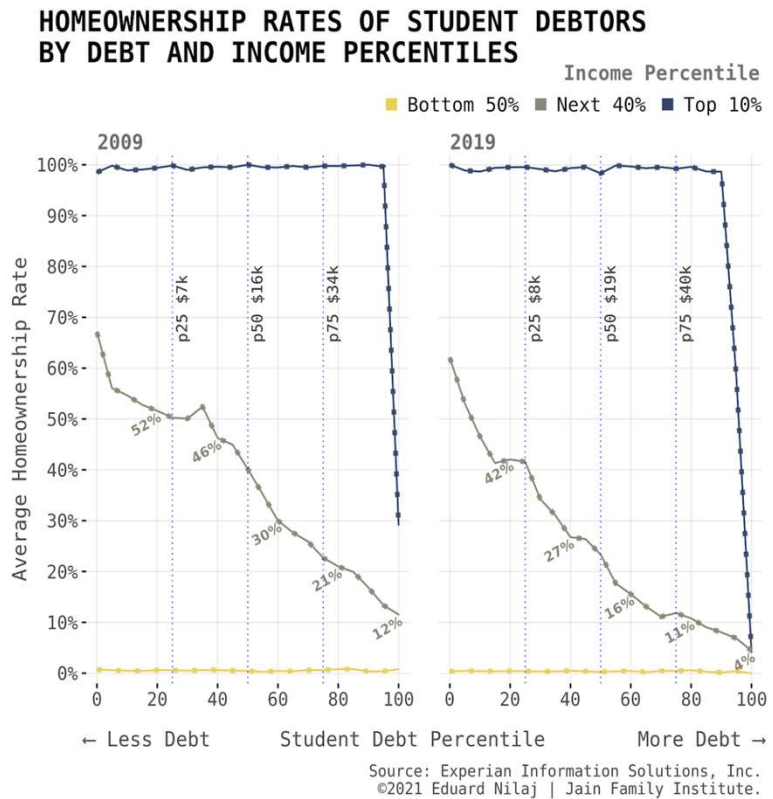


Figure 5: Homeownership Rate by Student Debt and Income Percentiles

debt sentences

As of 2021, 4.4 million student borrowers had held loans for at least 20 years

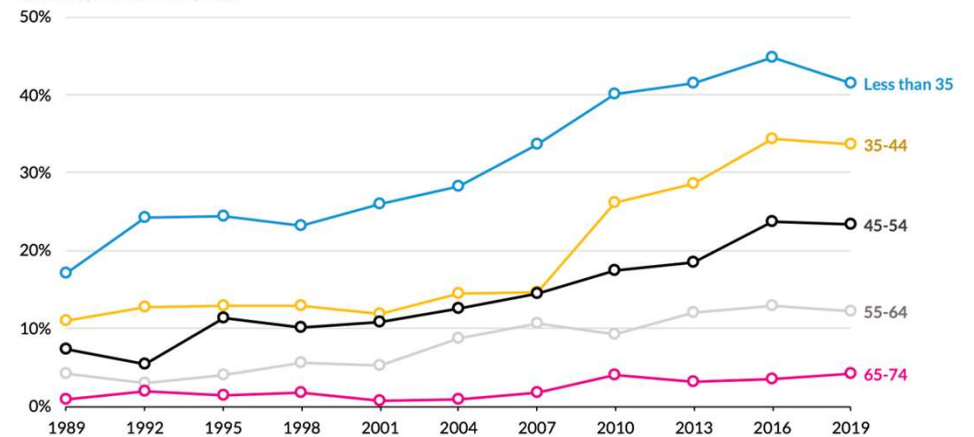
Over 8 million borrowers are over 50, hold 22% of federal student debt

Rising balances, failure of reforms have led to “debt traps”

Student Loan Holders

Education installment loans by age of reference person

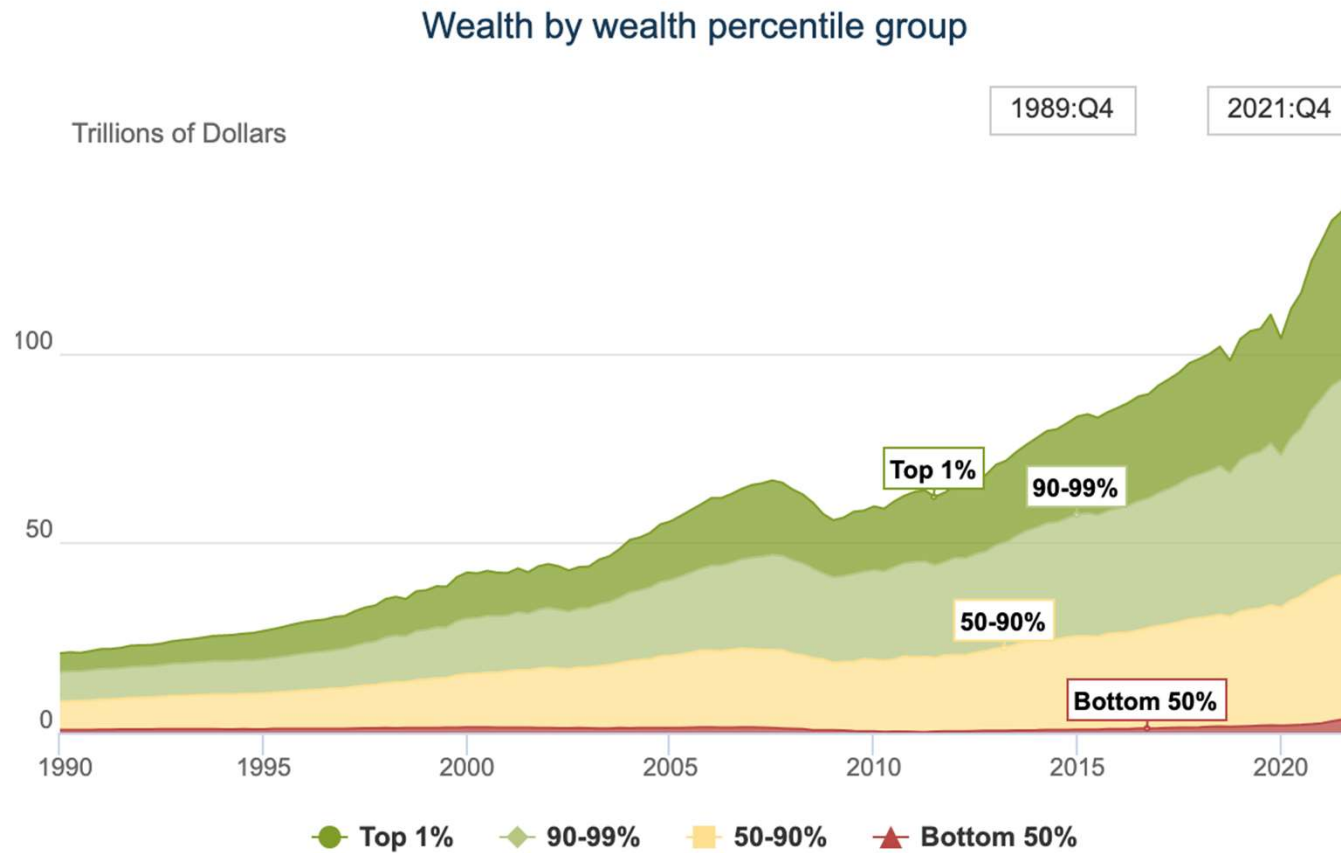
Share of Age Group Holding Loans



Source: Survey of Consumer Finances.

URBAN INSTITUTE

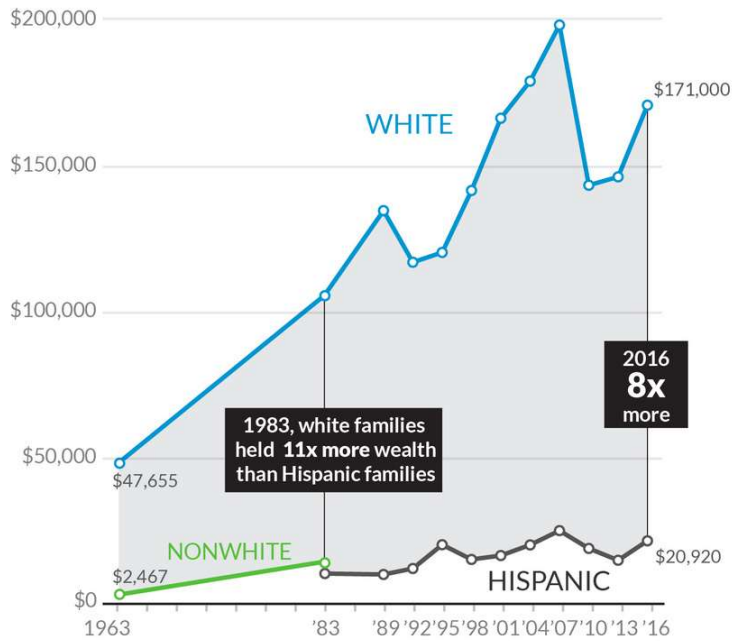
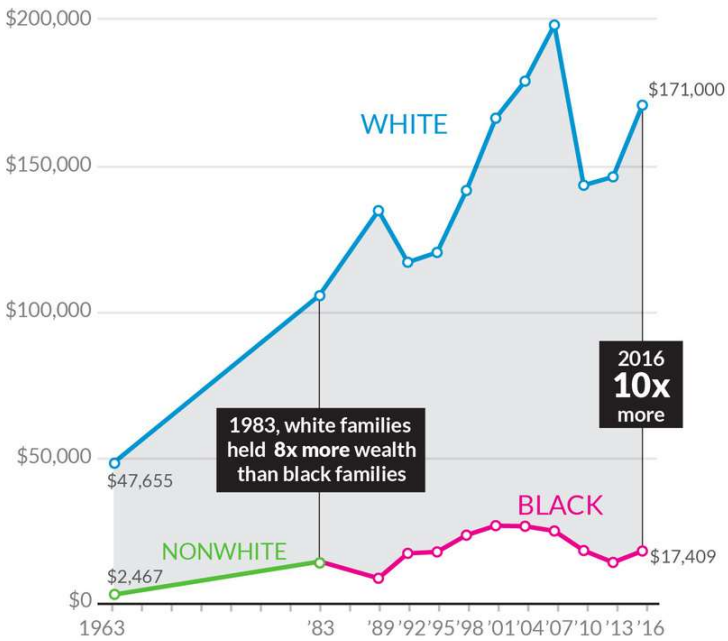
Growing wealth inequality



Source: Survey of Consumer Finances and Financial Accounts of the United States

wealth gap as thermometer of racial inequality

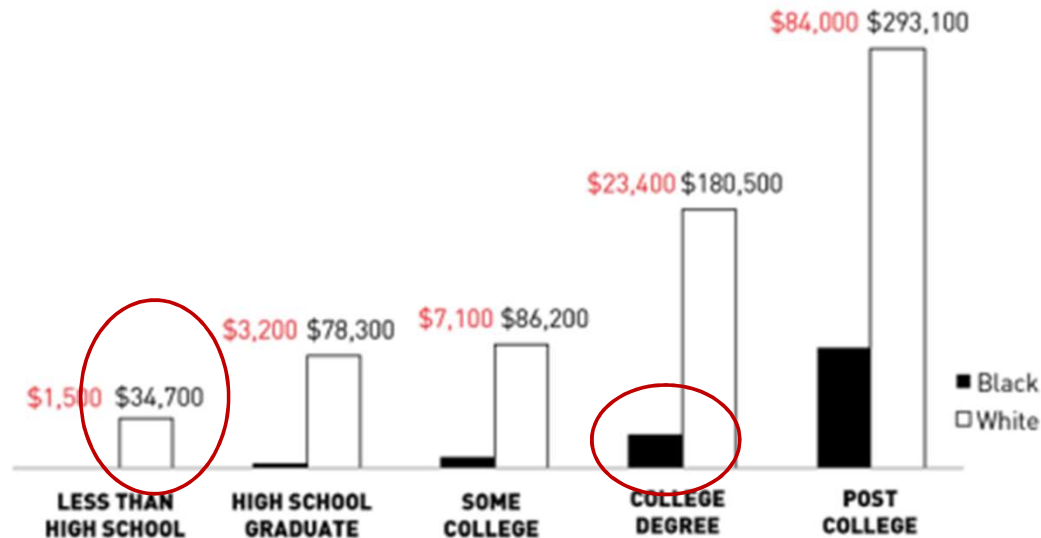
Median Family Wealth by Race/Ethnicity, 1963–2016



Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2016.

Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.

WEALTH BY EDUCATION AND RACE



White high school dropouts have more wealth than Black college graduates

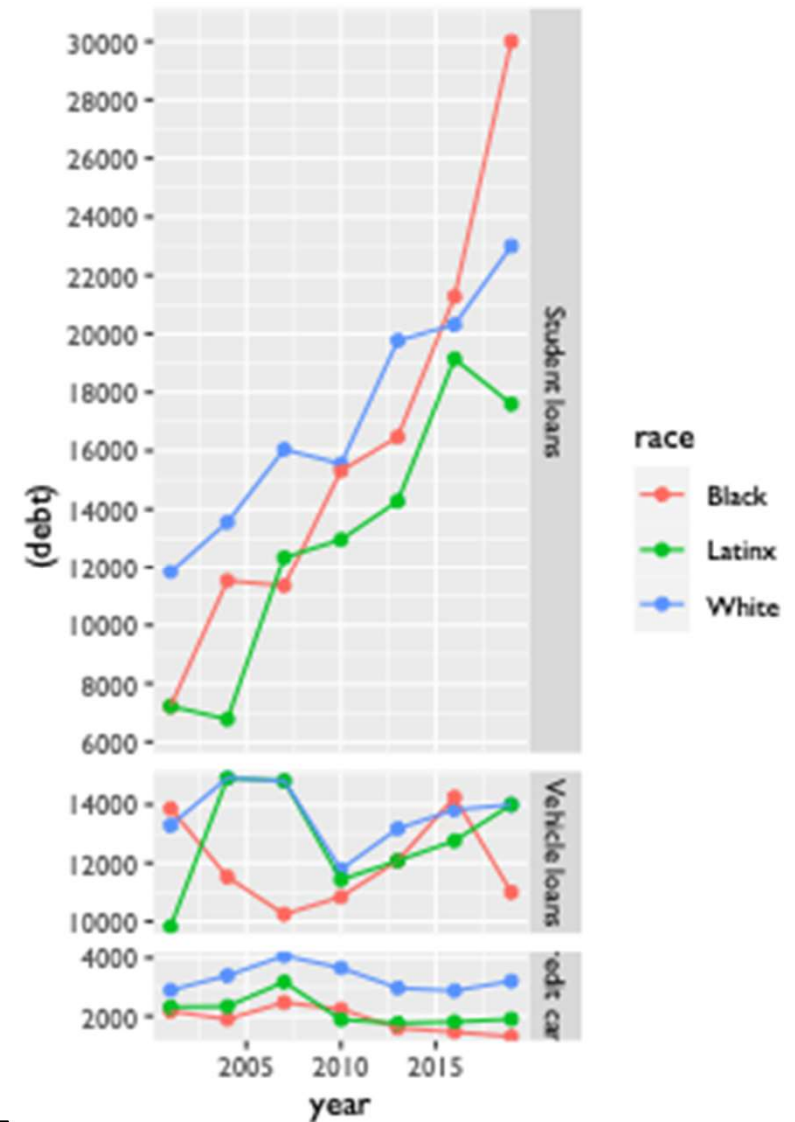
Education is not the Great Equalizer

Median wealth by educational level and race, SIPP 2011

Source: "[Umbrellas Don't Make it Rain](#)," Hamilton et al

Racial disparities in median student debt

BLACK, LATINX AND WHITE HOUSEHOLDS, 2001-2019 SCF



The median racial wealth gap is greater for borrower households

median Black household



10 cents

Median white household



Black borrowers



5 cents

white borrowers



Empirical/Policy



**A Pathway to Racial Equity:
Student Debt Cancellation
Policy Designs**

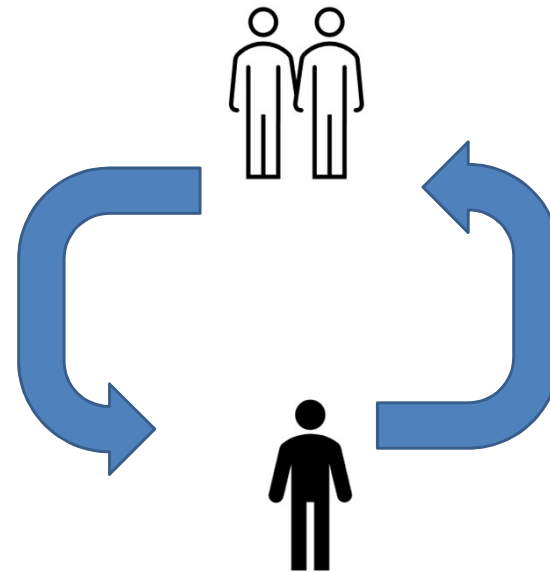
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Raphaël Charron-Chénier¹, Louise Seamster²,
Thomas M. Shapiro³, and Laura Sullivan⁴

Education → Wealth?

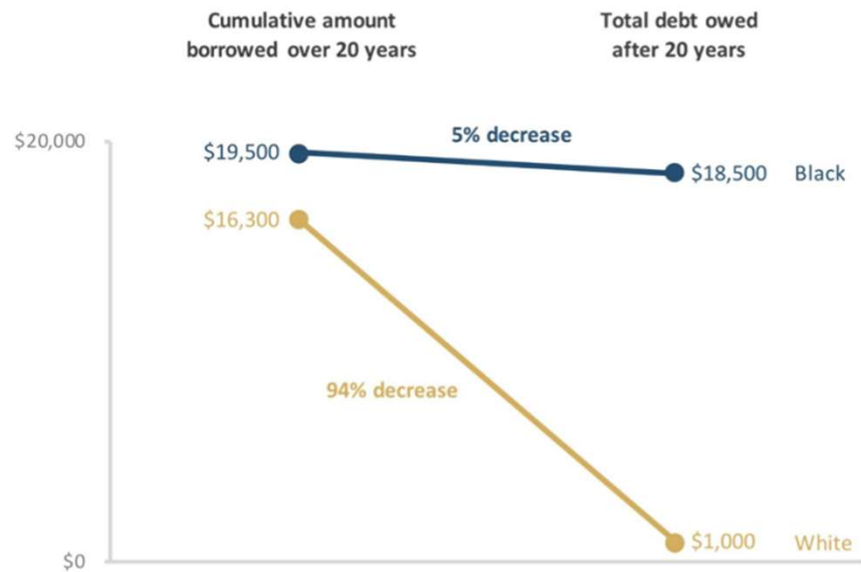
or

Wealth → Education?



outcomes after twenty years

Figure 1: 20 years after starting college typical Black borrower still owes 95% of debt, typical White student owes just 6%



Data Source: Authors' calculations of Beginning Postsecondary Students (BPS) survey, BPS: 96/2001 cohort.

"Stalling Dreams: How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap," Sullivan et al, 2019

Women hold almost 2/3 of all federal student debt

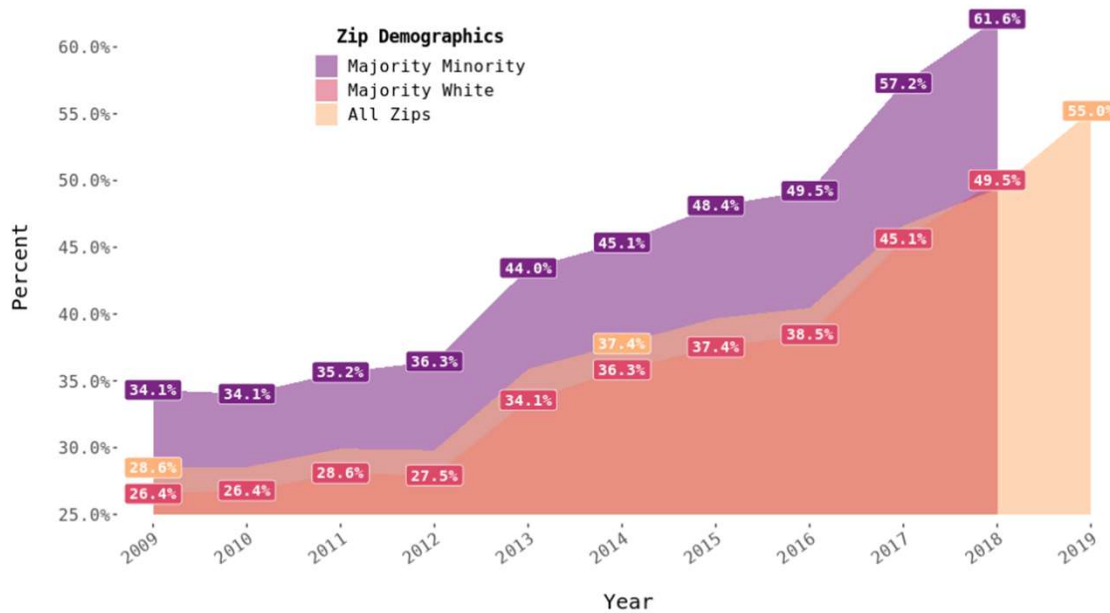


Credit: Charles Dharapak | Credit: AP

DEBT TRAP

Share of Student Loans where Current Balance Exceeds Original

Each point references the percent of student loans that have a current balance that is higher than the loan's original balance, by year. This data is broken down to show the disparities by neighborhood racial demographics. Demographic data is from zip level ACS 5-year estimates (2009-2018). The 'All Zips' trend includes data from majority minority, majority white, as well as unknown/unreleased zips.

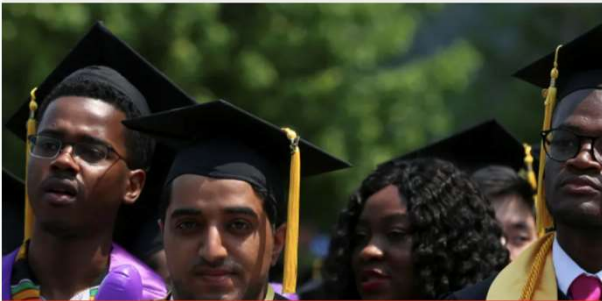


The majority of student loans have growing balances

Source: Experian Information Solutions, Inc.
© Jain Family Institute, 2020.

STUDENT DEBT IS REGRESSIVE

BROOKINGS



HOW WE RISE

A regressive student loan system results in costly racial disparities

Louise Seamster and Alan Aja | Monday, January 24, 2022

- Pay higher costs for same education (with lower returns)
- Penalizes people not able to complete a degree
- Higher share of income (burden) for lower-income people
- Reforms tend to expand cost disparities

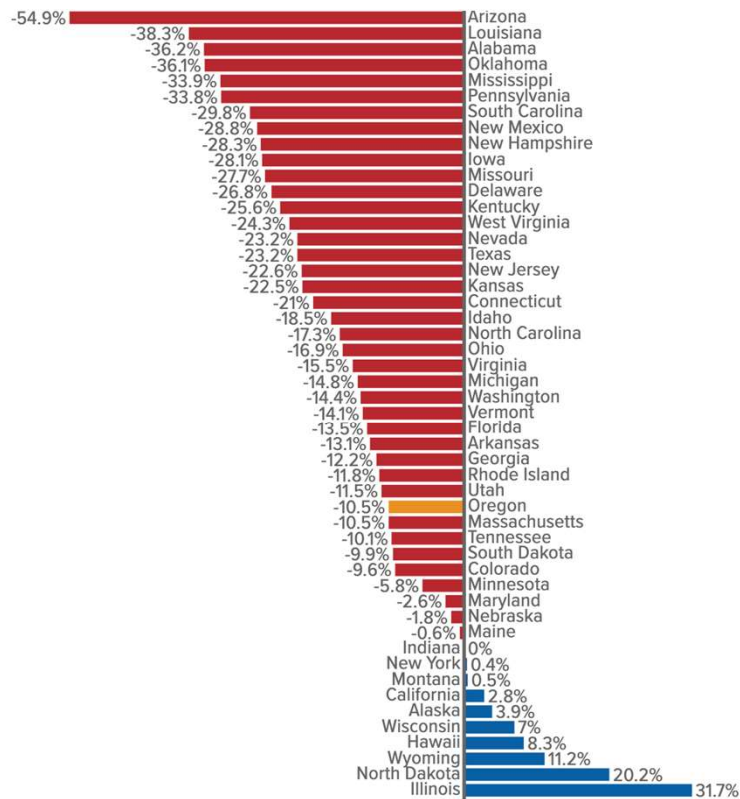
“the process by which previously excluded groups gain inclusion to an institution, market, or benefit, but under exploitative terms” (2017)

PREDATORY INCLUSION

SEAMSTER AND CHARRON-CHÉNIER, 2017

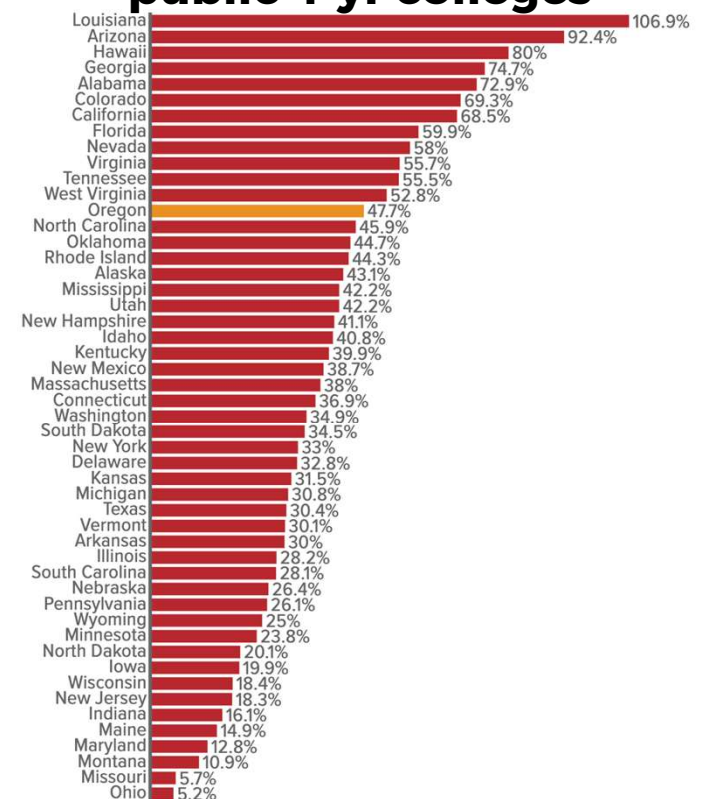
Shift in financing burden, 2008-2018

% change in state spending per student



Source: CBPP analysis using SHEEO State Higher Education Finance Report and BLS CPI-U-RS

% change in average tuition public 4-yr colleges



Source: CBPP analysis using College Board Trends in College Pricing Report and BLS CPI-U-RS

ENROLLMENT

rising numbers of women and students of color attending college

FUNDING STRUCTURE

public institutions increasingly rely on tuition

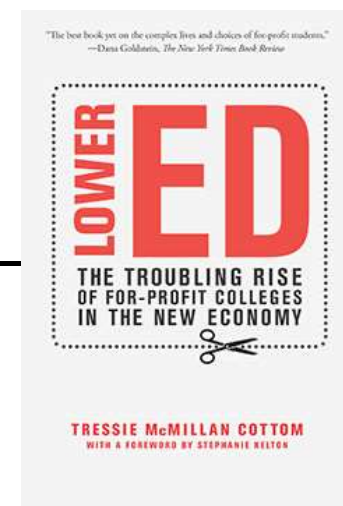
"PUBLIC GOOD"

timing of tax revolts, welfare rhetoric alongside CRM

LABOR MARKET

push to credentialization as individual solution to structural problems

shifts in higher education



Debt financing and universities

Incompatible goals/incentives

- Stretched to “solve” bigger labor/inequality problems
- Reliance on students as revenue (fees, “destination” university branding, etc)
- Labor casualization
- Privatization; PPPs

Universities' institutional debt

Reliance on institutional debt,

Often relies on tuition—perverse incentives

shapes spending priorities

Need to remain “credit worthy” shapes policies



Politics World Culture Events Shop

ETHICAL ECONOMICS STUDENT LOANS FEATURE NOVEMBER 30/DECEMBER 7, 2020, ISSUE

It's Not Just Students Drowning in Debt. Colleges Are Too!

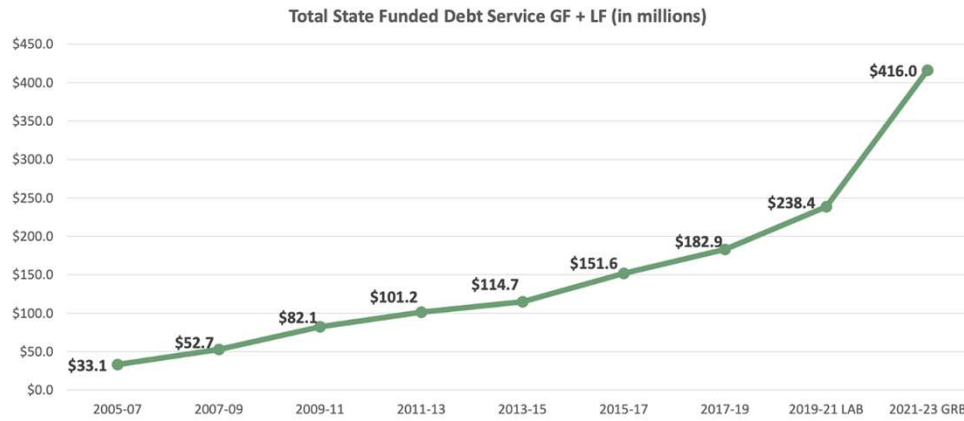
When universities have to borrow just to keep the doors open, bankers and rating agencies call the shots.

By Eleni Schirmer

NOVEMBER 20, 2020

debt locks in a future path

State Funded University Debt Service History





PUBLIC EDUCATION AS A PUBLIC GOOD

summary



- Debt is an extractive relationship
- Debt reliance locks in inequality
- How we pay for public goods shows how we value them and shapes their efficacy

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