



Student Loan Debt and the Reproduction of Racial Wealth Inequality

September 2017 podcast episode transcript

Featuring [Jason Houle](#), Assistant Professor of Sociology, Dartmouth

Hosted by Dave Chancellor

Chancellor Hello and thanks for joining us for the September 2017 episode of the Poverty Research and Policy Podcast from the Institute for Research on Poverty at the University of Wisconsin-Madison. I'm Dave Chancellor.

Our podcast this month is about racial disparities in student loan debt and features Jason Houle, who's a sociologist at Dartmouth and an IRP affiliate. In April of this year he gave a talk at IRP and pointed out that Americans now over a trillion dollars in aggregate student loan debt and that that amount has now passed credit card debt as the second leading category of consumer debt in the U.S., behind only mortgage debt. So, when we first started talking, I asked him how we got here.

Houle We know that for the past 10, 20, probably more like 30 years, we've seen the costs of college have increased dramatically. Federal and state aid really have not kept up with rising costs. And a big part of this story at the state level for publics is that states have kind of backed off and pulled appropriations. We've seen a lot of states where budgets get slashed and states have become more tuition dependent. It's really been families and their adult kids who are going to college who are being asked to foot the bill and use debt to make up the widening gap between the costs of college and the families resources. Let's not forget for example that we know that middle class incomes in this country have been relatively stagnant for the past twenty years and we've asked more and more of families this whole time.

Chancellor With these rising levels of student debt, some scholars see this is a big problem whereas others aren't too worried about it. And Houle says the divisions here are pretty stark.

Houle We see these two competing narratives that are diametrically opposed in this constant back and forth tug of war with one another. On the one hand, which I think many sociologists might be in this camp, maybe, maybe not. You have the folks who would say, student loan debt is destroying a generation, the sky is falling. We're all going to die, right? It's this really doom and gloom narrative, which it turns out us sociologists are very good at spinning. On the other hand, again, diametrically opposed to that, you have the folks who say, actually student loan debt is not a big deal. The returns to college, the wage returns to college, and the expected lifetime earnings, highest they've ever been, maybe even higher — and what we're expecting people to pay with student loan debt, we're basically asking them for the price of a new car — a nice new car perhaps? You get a lifetime of earnings and benefits and all of the benefits that come with a college degree whether that's health benefits or being able to buy homes, and supporting a middle-class lifestyle. There are folks on that end who say that student loan debt, not a big deal. I would say, I think that creates lots of blind spots. Those are two viewpoints that are very, very far apart on the spectrum and so I think we've kind of been blind to what might be going on in the middle.

Chancellor And Houle says his work falls in this middle ground between these two points of view about student debt because he thinks both of these sides are in some senses right.

Houle For some kids, student loan debt, it will pay off. Great. It was a good investment and the returns to college are great and it's going to be fine. They'll have no problem paying it down. Perfect. But for some kids, that gamble won't pay off. It was always the case, always the case, even before the costs of college were high that going to college was a risk, you know, you go to college, maybe it works out, maybe it won't, maybe you graduate, maybe you don't. But it is a far riskier proposition now in a world where the costs of college are so high and debt is rising that you're basically asking students to gamble with their future and I completely agree with a lot of folks who say, yes, for many folks that gamble will pay off. But it's also the case that for many it won't. And so the risks of failure are now, I think, as high as they've ever been.

Chancellor So, part of what Houle has been trying to understand is who these risks are paying off for and who they're not and, specifically, is the division happening around the traditional lines of social inequality?

Houle What I'm kind of finding is that it looks like the kids for whom this gamble doesn't pay off, these tend to be more likely to be students of color. More likely to be first generation college students, more likely to be students from socially or otherwise economically disadvantaged backgrounds. And if that's the case, you know we have to ask ourselves some hard questions about the role of a college degree as the great equalizer in this country. It's always been the case, we've talked about college as the engine of upward social mobility in this country, but I think this issue of rising costs and rising debt at least raises some important questions about how true that is today versus or 30 years ago.

Chancellor Houle and his coauthor, Fenaba Addo, an IRP faculty affiliate here on campus, have been researching these questions about student debt and how it matters for social mobility and social inequality for a few years now.

Houle What we've found historically is, yeah, it looks like students of color, particularly black students tend to leave college with a lot more debt than white students and they have a harder time repaying that debt. The question has always been, why is that the case? If you think about it, as sociologists, we often like to think about things these days in life course perspective. So maybe you're having trouble repaying debt because your wages weren't good, or maybe you went to a not great college, but try to trace that back to how their life decisions and pathways have been shaped by kind of everything since birth. And there are a lot of ways we know that some of the reasons that black young adults tend to have more debt and a harder time repaying their debt than white young adults, kind of from these things that reverberate across a life course or are linked to them in some ways. We know that in this country, racial inequalities are very much tied to economic inequalities. And that's due to perhaps discrimination, perhaps a legacy of disadvantage in terms of wealth accumulation that can go back to slavery. And we know that kids from less wealthy backgrounds, kids who are first generation college students, who are from just more socially and economically disadvantaged backgrounds more generally have more debt and that ends up being part of the story of why black kids have more debt than white kids is because black kids are far more likely to be from these backgrounds due to a lot of these historical processes we think about and talk about as social scientists.

Chancellor A second part of this story, Houle says, is the colleges the students actually attend, which are in part influenced by the students' backgrounds.

Houle There's been so much great work, Tressie Cottom's work on for profits, for instance, that has recently come out on the for-profit industry, and we know just how predatory these institutions can be. How they're really not paying off for a lot of kids, how they're leaving a lot of kids saddled with debt that they have really little hope of repaying and they're just not going to get very good jobs with those degrees. Well, that's been a very racialized phenomenon as well. For profit colleges have in a lot of ways preyed on students and youth of color. It's not surprising that the type of institutions that young people attend, and perhaps we could argue, have been funneled into to some extent are in some ways parts of the reasons why we see these racial inequalities in debt.

Chancellor Houle says that these same students then also face what some view as a predatory lending environ-

Chancellor, continued ment, with comparisons being made between the situation with student loans and the foreclosure crisis of 2007, 2008 with what's been called "reverse redlining" where families of color were targeted by home lending products that may have been predatory in some way -- this is in contrast the more traditional form of redlining where immigrants or families of color were denied access to credit or access to particular neighborhoods.

Houle Other folks have also argued that at the point of college entry or when you're in college, when you want to borrow, that we always think of government loans as being relatively low interest, relatively safe, but there's a lot of private loans out there and we see in the news, Navient, and Sallie Mae, et-cetera, which have higher interest rates, which have fewer protections for borrowers so if you go into default, you have fewer protections, you might have higher fees, they might have few rules regarding forbearance, you might not be able to defer your loans, etcetera. And there's some evidence, at least descriptively, that black young adults are far more likely to have access to these types of loans or need these types of loans after they've exhausted government loans. So we've moved when we think about the racial dynamics and credit, from an issue of fair access to credit to an issue of access to fair credit and there are a lot of folks these days who are making the same argument that we see things that look a heck of a lot like subprime loans, these bad mortgages, but in the student loan market.

Chancellor Houle says that when it comes to debt, an important part of this picture involves a person's ability to repay their loans after they've left school.

Houle We know for instance that — we talk about racial discrimination in the country — that black youth are far less likely to have access to high paying jobs that have good prospects for upward career mobility and that some of that might be due to human capital but a lot of that is due to discrimination so Michael Gaddis, a really great sociologist, has done some cool audit studies where, you know, let's take two job applicants and these job applicants are exactly the same, right? These resumes look identical, but one applicant is black, one is white. And let's get these applications out there and see what happens. And what you find is the white candidates quote unquote are the ones that are far more likely to get callbacks, far more likely to get offers for the types of jobs that would have career upward mobility options, for example. We know that that's an issue. And we also know descriptively — demographers, economists, sociologists, that we see wage gaps, we see wealth gaps, we see those things emerge early in young adulthood, so again, these social inequalities, we again see them and these start to rear their head when it comes time to not only accumulate the loans, but now repay them.

Chancellor Houle says that looking at five-year repayment rates raises even more questions about how college related debt affects people over time, given the apparent lack of progress that many individuals have made toward paying it off.

Houle We know from college scorecard data, which is institutional level data, basically, that in the aggregate, if we look at all colleges in the U.S., 47% of borrowers who are A, in repayment, and B, haven't defaulted on their loans, haven't made any progress toward their principal which means they haven't paid at least a dollar toward their loans, right? So what that tells us is that, well, a lot of kids, for whatever reason I keep calling them kids, but these are young people, are not repaying their loans. Or not repaying their loans as quickly as one might think. Now of course there's a lot of differences across institutions. If you look at that college scorecard data in particular, you'll find that things look a lot worse for for-profits, for colleges that have high dropout rates, etc. So we see these cleavages at an institutional level, but what that really told Fenaba and I, well we really need to be thinking about tracking these young people over time and looking at "is their debt going down, is it going up, is it staying the same?"

Chancellor So one of the things that Houle and Addo tried to do for this project was to understand what happens to racial disparities in debt once students have graduated and moved onto their adult lives.

Houle And what we find is these inequalities that we kind of always knew about that we've been talking about

Houle, continued for a few minutes, get a lot bigger. And we find in fact that from around age 20 to around age 30, it looks like these racial disparities in debt double. Judy Scott Clayton who's an economist has done a really nice report on Brookings looking at just four-year college graduates and goes a little bit further than us and has said that, actually, we find that this inequality triples just five years out of graduation and what not. So, two different research groups, two different data sets, as limited as these data can be, as big as these questions can be. You know, you want to get at as many pieces of evidence, as many sources as possible, and we're kind of coming to the same conclusion that, yeah, we thought things were bad, but they're getting much worse as these young adults are aging.

Chancellor For Houle, one of the concerns coming out of this and a reason it deserves a closer look is the potential impact of increased student debt levels on what he calls the fragile black middle class.

Houle What sociologists mean when we talk about the fragile black middle class, what we basically mean is it has historically been a lot harder for black families to kind of break in to the middle class. And once there it is far easier for them to fall out of it. And one of the pieces of this argument, one of the reasons it's easier for black families to fall out of the middle class and one of the reasons it's harder to get into it in the first place is because black families tend to have much lower wealth. Wealth is basically like a safety net. If you lose your job, if you are for whatever reason you need to draw from some wealth, white families are very easily or much more easily able to do that than black families. And so we were kind of interested in saying, well, these big inequalities in student debt that seemed to be getting bigger as people age, could this be contributing to what we know are long standing wealth inequalities by race in the United States? And we kind of show very descriptively that if you were to kind of compare black college going young people and white college going young people and kind of magically, poof, make their student loan debt levels equal, that that looks like it would at least descriptively shrink the racial wealth gap. Which is to say that if we kind of follow this line of logic, it is certainly possible or worth looking into for further inquiry at the very least that because black young adults are so saddled with student loan debt that that might reverberate for wealth inequalities, racial wealth inequalities among this next generation. And it might be the thing that makes this generation of the black middle class as fragile or even more fragile than their parents.

Chancellor Houle says one of the real challenges of this kind of work is that data sources on student loan debt and repayment all tend to have shortcomings that can make it difficult to see the big picture.

Houle When we study these things, we want to do the best job we can with the available data. What would we like? We would like default data, we would like credit report data so we can get an objective measure of debt or something like that. And we do have those data sources, but unfortunately those data sources tend to either not be at the individual level, so we can't track people, or even if they are at the individual level, we really lack a lot of rich information about people's lives from following them from when they're teenagers or earlier and following them all the way through when they're starting to start their adult lives and gain their footing and set out on their own. And so because we're so interested in those types of questions, we rely on these longitudinal data sets in which we're basically asking people how much, or the Bureau of Labor Statistics are asking 'how much debt do you have?' And there are shortcomings to that. We don't know if they're defaulting, we don't know this, we don't know that. There's tradeoffs and it's tricky.

Chancellor Professor Houle says that thinking about how to reverse inequalities in student loan debt is a big challenge because they are so tied to these broader racial wealth inequalities. But he says there are a number of policy options for helping people to repay their debt.

You know obviously there's a lot of things out there right now. There's income based repayment plans, which I think have helped a lot of young people. There's talk of loan forgiveness now, which is always really tricky, and always kind of politically difficult in part because it looks like a tax write off for the middle class often and often is. And then you have sometimes, you have policies that look like they promise loan forgiveness. When it's time to forgive the loan, it doesn't look like they're being forgiven

Houle, continued so the Department of Education is now saying that if you've worked at a nonprofit and we've promised that we're going to forgive your loans after 10 years or 120 payments, we're going to do that, and then people are finally getting to the point, the leading edge of borrowers who are finally getting to that 10 year mark and they're submitting their final paperwork and saying I'm done and the Department of Education is now kind of walking back on some of that so we see a lot of folks who have been trying to do this loan forgiveness stuff and look like they might not be able to get it, perhaps. And so these policies are difficult. I kind of am a little bit of a believer in -- sort of -- nudges and so, when it comes to income based repayment, for example, the participation rates are just abysmal. There are so many people who would benefit from IBR that just don't use it. And perhaps it's an information thing but I think this comes in a lot of programs where if you have an opt in program, participation is typically going to fail or flail whether -- whatever it is you're talking about. And so having an opt out on IBR might be something that would make it easier for kids who would most benefit from IBR to actually benefit from it.

Chancellor Houle says broader changes or reforms to the way that college is paid for have also become a big part of this discussion.

Houle You can't have this conversation without talking about what has now become the mantra of liberals and progressives everywhere and that is free college, hashtag. And there's certainly some interesting academic work and there's lots of academics out there like Sara Goldrick-Rab who are kind of carrying that torch and it's interesting stuff. I think there's a lot of questions about that. I also think that some of the policies that have been put forth for free college might not do a heck of a lot to solve the problems and the reason why I say that is a lot the policies we see now are really focused on tuition. But if you look at what's driving student loan debt, I think what a lot of people don't realize is tuition is a really small piece of that puzzle. A lot of the reasons people borrow isn't necessarily just tuition, which tend to be one of the smallest parts of the costs of college. You look at public universities and you look at tuition, tuition looks kinda like nothing. What is it? It's books, it's room and board, it's being able to live somewhere, it's being able to eat and, you know, being able to focus on your studies while not necessarily being able to work that much. And so the cost of living ends up being big part of this too. There are certainly countries that have free college setups that have debt levels that are comparable to the United States of America. So, I think it's certainly good that we're having this national dialogue around free college, but I think we also have to, again, evaluate these claims very carefully and think about this. Because I don't think there is a silver bullet to this question.

Chancellor Thanks to Jason Houle for taking the time to talk to us. This podcast is based on a forthcoming paper from Houle and Addo titled "Racial Disparities in Student Loan Debt and the Reproduction of Inequality."

This podcast was supported as part of a grant from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation but its contents don't necessarily represent the opinions or policies of that Office or the Institute for Research on Poverty.

To catch new episodes of the Poverty Research and Policy Podcast, you can subscribe on iTunes or Stitcher or your favorite podcast app. You also can find all of our past episodes on the Institute for Research on Poverty website. Thanks for listening.