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Underemployment and Student Debt

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ABSTRACT

This paper investigates the causes of the student debt crisis. Some authors have suggested that the increase in tuition, which they believe to be a result of either less state funding or more competition between schools, has forced students to take out more money in student loans, causing the crisis. Other authors see underemployment as the cause because students are unable to find substantial work after graduation in order to afford the monthly payments on their student loans. After looking at multiple data sets from several sources, this paper concludes that underemployment is the cause of the student debt crisis; the difficulty of repaying student loans, and not the price of a college education, has caused the crisis.

INTRODUCTION

The cost of college is ludicrous for something that has become almost essential to having a successful career. Data from the Federal Reserve of New York shows that the total nationwide debt from students was $1.08 trillion in 2013, over 300% greater than a decade earlier. The average debt of a 2012 graduate was $29,400 (Frizell 2014). Leaving college for the workforce already $30,000 in the hole is no easy way to begin one's independence. Debt affects every part of one's life, such as being able to take out a mortgage for a house or buy necessities for daily life after making the monthly payment. About 12% of student loans are at least 3 months behind in payment, primarily because the structure of payments do not take into account how much a student makes after college (Norris 2014). Many students are drowning in student loan debt even decades after graduation.

Scholars have long argued over the causes of the student debt crisis. Draut and Hiltonsmith (2014), Robert Ovetz (1996) and Jennifer Washburn (2005) see the decline in government funding for higher education institutions as the cause for the student debt crisis because schools have to compensate for less funding by increasing tuition, which in turn means that they have less aid available to students. Archibald and Feldman (2011), Victor Ferrall (2011) and John Cheslock (2006) believe that competition causes schools to charge more for tuition, also forcing students to take out more loans. Daniel Feldman and William Turnley (1995) consider underemployment to be the essential cause of the student debt crisis because college graduates are not able to get jobs that require their degrees after graduation, so they are not making enough money for the monthly payments on their student loans. In this paper, I will evaluate the validity of the possible causes of the student debt crisis by examining various sets of data about state funding, competition, and underemployment, and I will ultimately argue that underemployment is the leading cause of the student debt crisis and that repayment plans need to be income-contingent to quell the crisis.

POTENTIAL CAUSES

Many authors see the government's declining financial support for higher institutions as the cause of the student debt crisis (Draut and Hiltonsmith 2014; Ovetz 1996; Washburn 2005). As a result of less state and federal financial support, colleges and universities have had to cut back on resources while simultaneously raising tuition and fees in order to sustain their campuses. Washburn (2005) reports that from 2000 to 2003, "state spending on the U.C. system declined 14 percent, even as enrollment climbed 18 percent" (19). Furthermore, Ovetz (1996) says, "for the first time in the 33 years that records have been kept, state governments spent less on higher education in 1991–92 than the previous fiscal year" (129). The lack of government funding for higher education institutions has damaged their ability to run smoothly, so they either have to cut back on resources or find new ways to make money, such as research. Ovetz, Washburn, Draut, and Hiltonsmith believe that because the government is cutting back on its support to higher education institutions, schools are having to raise tuition to compensate for the lost funds. Hiltonsmith says that because "public colleges and universities rely on tuition to fund an ever-increasing share of their operating expenses...students and their families rely more and more on debt to meet those rising tuition costs". Students have to pay more and are receiving less aid, forcing them to take out more student loans and making it more difficult to pay them back.

On another note, Ferrall (2011) says that competition between schools is one of the core reasons for the increase in tuition because colleges and universities spend copious amounts of money attracting students and offset the cost of doing so by raising tuition. When tuition is higher, students have to take out more loans that are hard to repay to be able to attend, which could be causing the student debt crisis. Schools compete primarily in two ways: by "purchasing" students, and by adding as much "sugar" to their campus as possible. Higher education institutions try to draw in the best applicants by offering them unbeatable financial aid, which in turn costs the school more. The applicants might not necessarily need the extra money, but schools want students with the best statistics, such as test scores, to boost their reputation. Ferrall (2011) says that students are "a key determinant of [a higher institution's] quality" (63), so "they are competing to buy the best available students" (71). Schools are purchasing attractive students to better their reputation, and to further attract these students, they also make their school more appealing by building and renovating facilities. Ferrall (2011) says that “in their efforts to attract applicants colleges mix in as much ‘sugar’ as possible—sports, activities, luxurious dormitories, and so on” (67). Due to the fact that higher institutions do not always have the extra money to undertake projects and they are not always completely funded by donor support, schools have to increase tuition to compensate for the cost. While these additions to schools are not essential, they help persuade applicants to choose their school. When schools raise tuition for reasons such as to have the funds to compete with other schools, students have to take out more loans, making it challenging to pay them back.

Robert Martin's model of higher education explains how higher education does not follow the standard principle of competition in lowering prices; instead, competition in higher education costs the students more because schools need to fund projects that appeal to applicants. Martin’s analysis suggests that “‘extensive recruiting’ and ‘academic branding’ campaigns undertaken to attract students from competing schools can result in little change in educational quality and substantial increases in costs” (Cheslock 2006). Martin’s analysis disproves policymakers’ assumption that increased competition will lower tuition. Archibald and Feldman (2011) have similar opinions as Martin. They say that “ever-increasing costs...suggests to us that the majority of these choices [about higher institutions] have come out on the side of trying to preserve or increase quality as opposed to the side of decreasing costs” (90). Martin, Ferrall, Archibald, and Feldman argue that competition has resulted in increased tuitions, which forces students to take out numerous loans and spend their lives repaying them. The school is spending more, so they compensate by charging the students more.

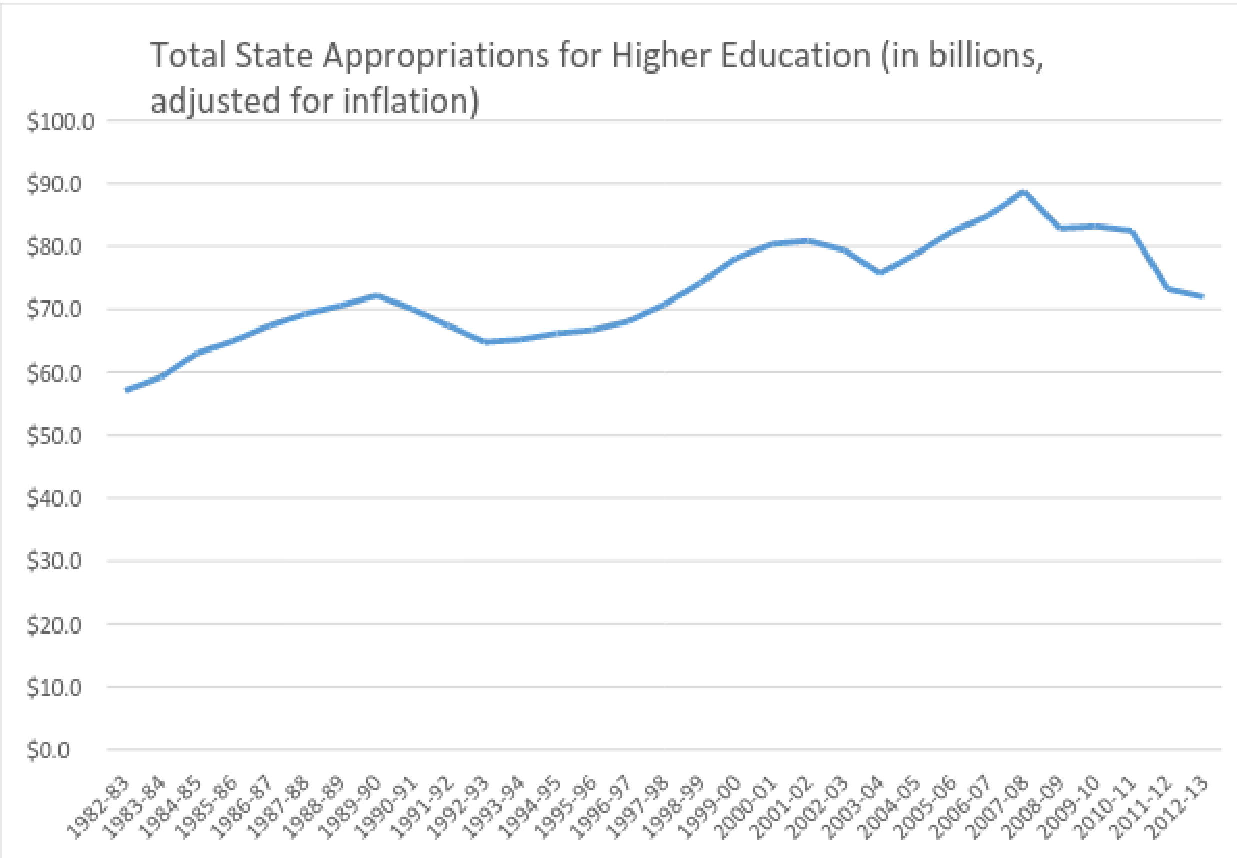
Furthermore, underemployment is also discussed as a key cause of the student debt crisis because after graduation, students are not being hired for jobs that pay them the salary that their degree should have earned them. Instead, many are working in jobs that do not even require a college degree. Researchers Feldman and Turnley (1995) state that: “for more and more young adults, college graduation leads to neither full-time employment in high-skill positions nor unemployment, but rather to a third outcome: employment in jobs which do not require as much education as they possess” (691-692). When their journal article was published, the U.S. Department of Labor’s Bureau of Labor Statistics reported that more than 20 percent of that year’s college graduates had jobs that did not require a college degree (Feldman and Turnley 1995); however, now the Department of Labor Statistics estimates that “about 48 percent of employed U.S. college graduates ‘are in jobs that…require less than a four-year college education’” (Coy 2014). These statistics show that underemployment has doubled for college graduates in less than two decades. This is troubling because it illustrates how hard it can be for college graduates to find jobs relevant to their degrees, which could affect graduates’ abilities to pay off loans. Many students have had to move back in with their parents because they can’t afford rent and their student loan payments. Many postpone continuing their education because they do not want to acquire more debt, and others hold off on their dreams until they are more financially secure (Frizell 2014).

METHODS

I used data from 2013 reports by CollegeBoard and data from a 2013 “Employment Situation” news release by the Federal Bureau of Labor Statistics. I investigated the trend of state spending on higher education, the reported spending of colleges and universities each year, average grant aid given to students, and underemployment statistics. I analyzed the data by creating visualizations for each section. For the state appropriations for higher education, I included all money states gave to higher education, including federal stimulus. I included all the data from the chart of average reported spending of endowments provided by CollegeBoard. For average grant aid, I disregarded the data about average federal loans because those have to be repaid. I found a graph from the Economic Policy Institute that illustrates the differences in underemployment rates relative to level of education, with data from the Federal Bureau of Labor Statistics. Also, I used the Federal Bureau of Labor Statistics’ calculations of average underemployment of workers in the United States. Through this analysis, I will show that state funding and competition are not to blame for the student debt crisis, but rather that underemployment is the culprit.

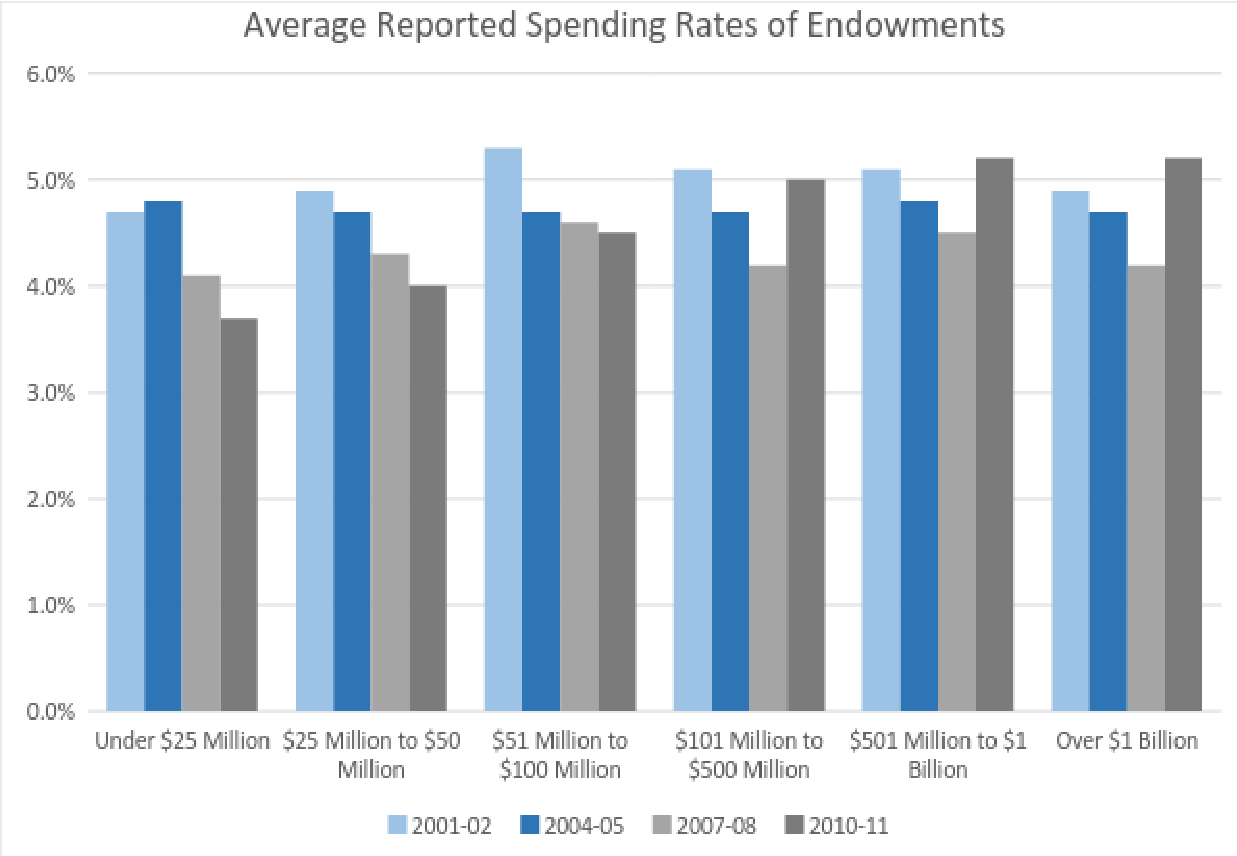
FINDINGS

The following chart illustrates the trend of state funding for higher education. The data was taken from the 2013 report by CollegeBoard on college pricing.



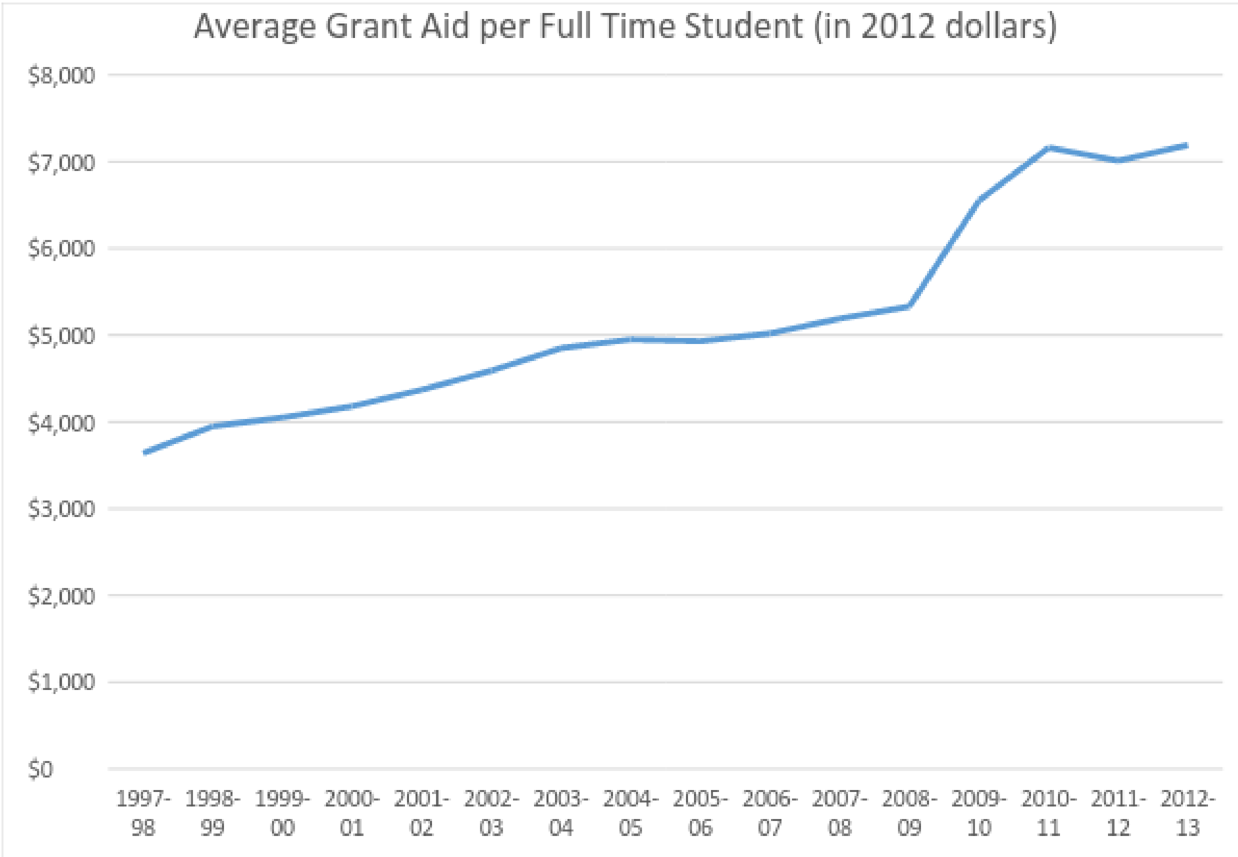
This chart has a general flat trend with a slightly positive influence. There is a decline starting at the time of the 2009 recession, with funding returning to be about the same amount as the years before the recession, although slightly less.

The next chart is a representation of the percentage of an endowment that a college or university spends per time period, broken up by endowment size. Scholars' analysis of competition state that higher institutions are spending more money to compete, so spending habits are a quantitative way to classify competition trends. The data was also taken from the 2013 CollegeBoard report on college pricing.

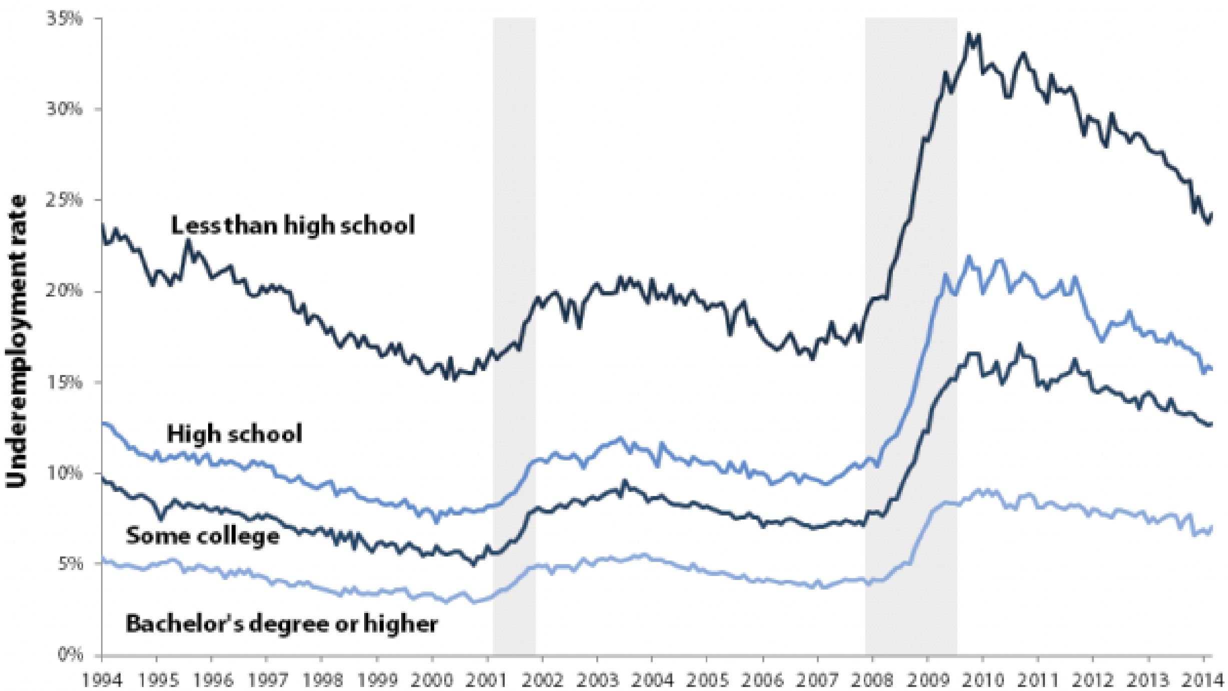


The data indicates that colleges and universities' spending habits have stayed relatively constant over the last decade. Institutions with smaller endowments spent slightly less over time, while those larger endowments reached earlier levels of spending in recent years.

The next graph shows the average amount of grant each full-time student received per academic year. It is from the 2013 CollegeBoard report on student aid.



This graph shows that students are receiving significantly more grant aid than they were a few decades ago, and that it spiked around the recession.

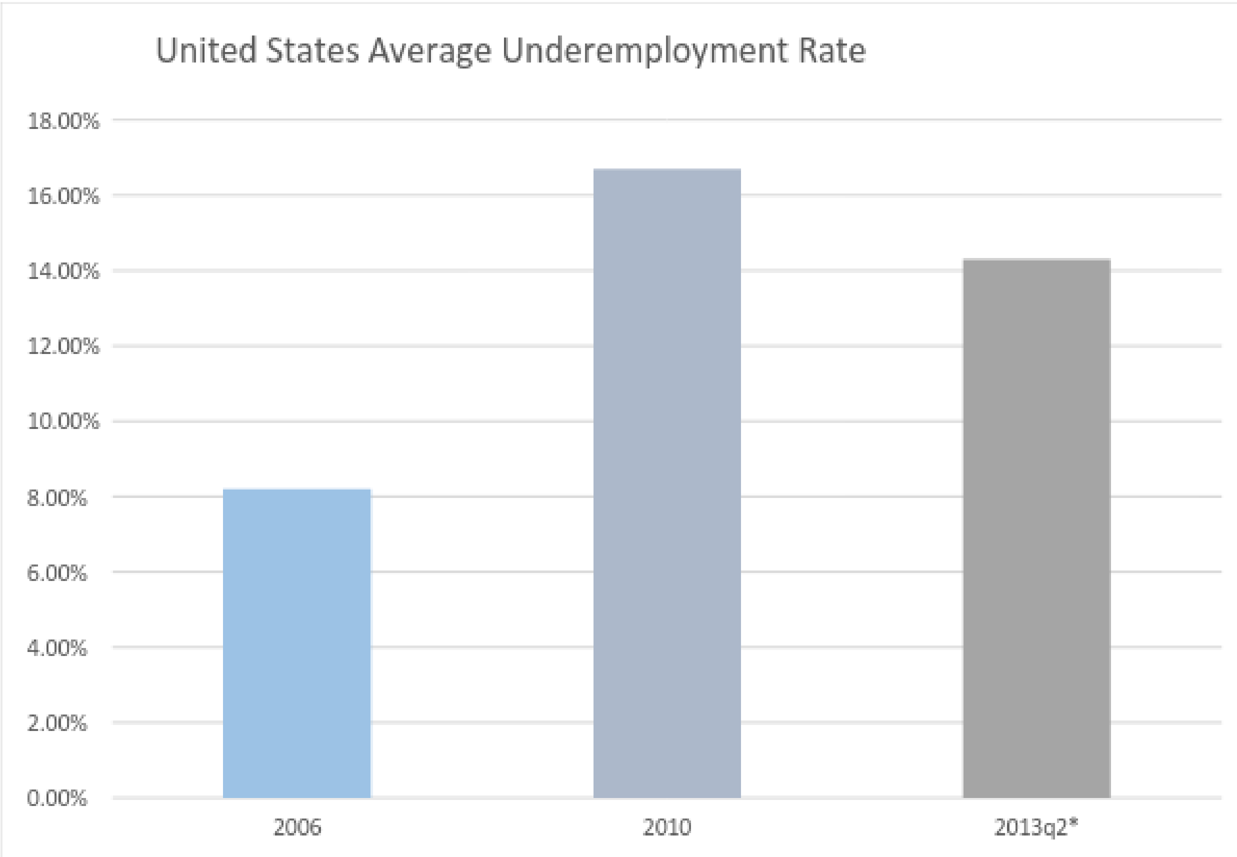


Note: Shaded areas denote recessions.
Definition: Underemployment is measured to correspond to the Bureau of Labor Statistics' U-6 measure as "total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force." Underemployment is seasonally adjusted.
Source: EPI analysis of Bureau of Labor Statistics basic CPS monthly microdata

The following chart displays the trends in underemployments according to level of education. The chart is from the Economic Policy Institute.

This chart shows that as expected, people with more education have lower amounts of underemployment. It also shows, however, that the recession affected all types of people, no matter their level of education. It also demonstrates that underemployment rates are still drastically higher than before the recession.

The next chart is a representation the average underemployment in the United States per year. The data is from the Federal Bureau of Labor Statistics.



This chart further emphasizes how underemployment increased during the recession and is still significantly higher than underemployment rates from before the recession.

DISCUSSION

The data reveals some surprising insights into perceived problems in higher education. State spending on colleges and universities has remained fairly constant, and is actually higher than it was decades ago. Also, higher education institutions' spending habits have not noticeably changed. Underemployment, on the other hand, demonstrated the most significant change; it was comparatively low prior to the recession, then it rose steeply during it, and slightly fell afterwards, but still remained quite high. The data contradicts some of the literature's conclusions of the causes of the student debt crisis, but supports one: underemployment.

Robert Ovetz was correct in saying that state governments spent less on higher education in 1991 than they had the previous year, but it was not by much (70 billion dollars to 67.3 billion dollars, in today's dollars). Draut, Hiltonsmith, Ovetz and Washburn all stressed how government funding has decreased for state schools, causing them to raise tuition. The data shows, however, that their findings do not apply to the overall trend of state funding because it has actually **increased** over the last couple decades, from 59.2 billion dollars in 1983-83 to 72 billion dollars in 2012-13, and has never dropped below the amount of state funding in 1982-83. This suggests that a decrease in government funding is not the cause for the student debt crisis, because schools are receiving the same amount of money, if not more, than they used to; so it does not explain why they have raised tuition. The data is limited, however, because it does not provide information about federal funding other than federal stimulus funds, which could have decreased. Also, the data is only about funding to public schools, so government funding could have decreased for private schools.

While it is possible that competition has increased, it has not had a significant effect on spending habits of colleges and universities. Institutions with endowments under $100 million have been spending a smaller percentage of the endowment each year. For institutions with endowments over $100 million, the percentage of endowment spent each year decreased, but now it is back to the same percentage as it was in the early 2000s. The data tells us that if anything, college spending has decreased over the last decade. Therefore, even though colleges may be competing, they are not spending more money than they used to. This suggests that competition is a weak explanation for tuition hikes which many blame for the student debt crisis. Also, even though some scholars think that competition raises tuition, schools are giving out more aid, as shown in the graph. This indicates that even when higher institutions raise their prices, they provide more aid, making it seem like they offer unbeatable deals. This set of data is limited because it specifies only average spending that is not weighted by a school's enrollment, which could affect the findings. Also, the average amount of aid awarded escalated during the recession, which could mean that students need more aid nowadays because of the economy.

Underemployment has the most noteworthy data, with the rate of underemployment skyrocketing during the recession and only decreasing by a small percentage afterwards. The data tells us that no matter what type of education an individual obtains, he or she is still vulnerable to being underemployed. This affirms Feldman and Turnley's analysis of underemployment in America: more graduates are finding themselves without a well-paying job or sometimes no job at all. The data is limited in that it makes no distinction between people who have obtained a Bachelor's degree and those who have obtained a higher degree, such as a Master's or a Ph.D. Nonetheless, the data still demonstrates that even with a college degree or higher, many people are still underemployed. Graduates are not getting jobs that require the skills they obtained in college, and thus they are paid less. They do not have the expected salary of someone with their degree, but are still required to pay monthly student loan payments as if they do, which makes it difficult to stay current with set payments. This causes people to default on their loans, making a seemingly incessant struggle to afford payments. Since payments are not income-contingent, students are taking a gamble when taking out loans and assuming they will be able to find a career with their degree, but underemployment statistics suggests that this is a risky gamble because an abundance of college graduates do not have a job that requires a degree. When an individual graduates with an average of $30,000 in debt and is unable to get a well-paying job, it is hard to afford monthly payments of student loans. Therefore, underemployment hinders a college graduate's ability to repay their loans. Even though underemployment rates are lower for those with a college degree, a substantial amount of college graduates are struggling to make enough money to support themselves **and** repay loans, which makes their situation more difficult than a underemployed individual with no higher education but also no debt.

CONCLUSION

The preceding data shows that college and universities' funds from the government or their spending habits are not to blame for the student debt crisis. While the price of tuition is increasing, state funding and institutional spending are staying constant, and the average amount of grants per student is increasing. Instead, underemployment is causing students to struggle for decades after graduation with student loan payments. The sticker price of a college degree is not what is creating the crisis, but instead the crisis is the hardship of paying off the loans later in life. Therefore, to tackle the student debt crisis, one must examine the policies of student loans, such as the repayment plans. Instead of a monthly payment based on how much someone borrowed, the default repayment plans should be income-contingent so students are not paying more than they can afford with the job they were able to get with their degree. Currently, there are two options for income-contingent payment plans in which monthly payments are a fixed percentage of the borrower's disposable income, and after either 20 or 25 years, the remaining debt is forgiven (Bidwell 2014). Many policymakers, however, believe that this type of payment plan is ineffective because oftentimes it costs borrowers more in the long run. While this should not be mandatory because some borrowers do not struggle to afford set payments, it should be a more frequently used option for people that encounter underemployment after graduation. California political consultant Bill Zimmerman also suggests that "Interest rates on student loans should be nonprofit, which means equal to the Fed's discount rate, currently 0.75 percent" (Zimmerman 2014). Interest rates and payment plans are making it almost impossible for students to repay their loans, so in order for the student debt crisis to be resolved, the student loan system needs to be reevaluated. Whether it be repayment plans based on one's income or mandatory low interest rates, something needs to change. If not, more and more students will continue to be overwhelmed by increasing debt. One can hope that with the recession over, underemployment rates will continue dropping. It is, however, foolish to just expect underemployment to resolve itself so that graduates can find well-paying jobs in the future and repay their loans. Passively watching the statistics of underemployment will do no good in fixing the student debt crisis, and for possible future recessions, a plan needs to be made to help graduates in times of economic disparity not be crushed by mountains of debt.

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