



The Student Loan Debt Crisis is Reinforcing the Racial Wealth Gap

Student loan debt has more than doubled over the past decade, increasing from \$800 billion in 2010 to more than \$1.7 trillion in 2020. The increase continued a trend: between 2000 and 2010, aggregate student loan debt increased by 760%.¹ The growth of student loan debt can be explained by the meteoric rise in the cost of higher education, far above rates of inflation. Since 1990, tuition and fees at public four-year colleges have nearly tripled, after adjusting for inflation.² States are investing less in public colleges and universities, instead passing those costs onto individual students.³ Of those who graduated college during the 2018-19 academic year, less than half (44 percent) graduated debt free.⁴

This ballooning of student loan debt has hit Black students and their families particularly hard, limiting the power of education as an economic equalizer. Black students are more likely than their white peers to take out loans to pay for postsecondary education, fall behind on loan payments and ultimately default on those loans. Black students also accumulate substantially more debt than their white peers.

Disproportionately large debt burdens and high default rates on loan repayments interact with ongoing gaps in wages, employment, wealth and access to credit to reinforce racial economic disparities that are inherited across generations.⁵ As a result, Black borrowers and their families are less able to afford purchasing a home, starting a business and choosing to pursue a lower-paying, public service career. While postsecondary education is a demonstrated path to higher incomes, the constraints of student loan debt disproportionately prevent Black student debt holders from building wealth, reinforcing the racial wealth gap. In the words of Dr. William “Sandy” Darity, Jr., an expert in stratification economics, “if Black families had higher levels of wealth at the outset, there would be considerably less pressure to seek credit to finance their children’s higher education... Black families do more with less; they could do even more with more.”⁶

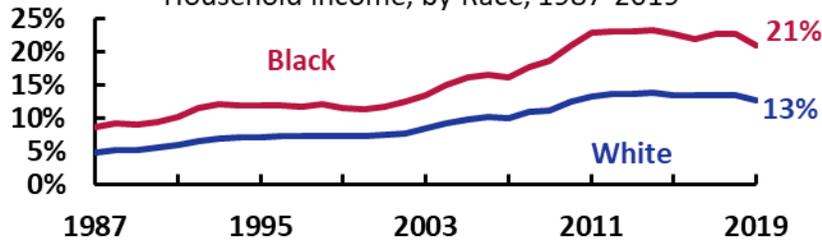
The worsening student debt crisis hurts Black students and their families more than whites

Since 1990, inflation adjusted tuition and fees at public and private four-year colleges have nearly tripled and more than doubled respectively.⁷ As a result, education costs eat up a much larger share of household income today. While Black and white students face similarly high sticker prices for postsecondary education, persistent disparities in unemployment, wages and household wealth make it harder for Black families to pay upfront. The cost of tuition and fees at a four year public institution in 2020 (excluding financial aid) makes up 21 percent of the median annual household income for Black Americans, a doubling from 2000 when the cost of tuition and fees was 12 percent of the median Black household income. By comparison, the cost of tuition and fees for white families has risen as a share of median household income to 13 percent, up from 8 percent in 2000. This is in large part due to wide disparities in median household

incomes: in 2019, the median household income for Black Americans was \$46,000, while it was \$76,000 for whites.

Tuition and Fees Account for an Increasing Share of Median Household Income

One Year of Tuition and Fees as a Share of Annual Median Household Income, by Race, 1987-2019



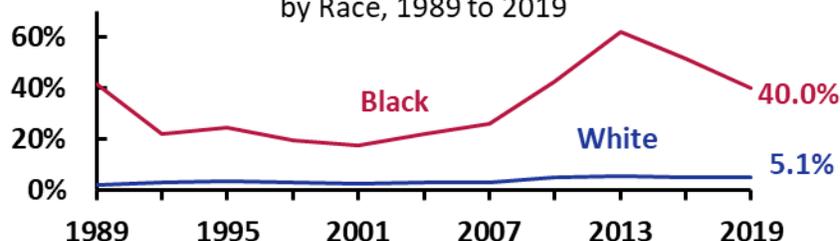
Note: Comparisons in 2019 USD; Tuition and fees are national averages for public, 4-year institutions (excluding financial aid).

Sources: College Board, Annual Survey of Colleges; U.S. Census Bureau, "Income and Poverty in the United States: 2019," Table A-2.

Due to stark disparities in family net worth, Black students are less able to rely on their family's assets to help pay for the costs of college than white students. In 2019, Black family median net worth was \$24,000, compared to \$188,000 for white families, generating a ratio of white to Black family net worth of 8 to 1.⁸ As a result, Black youth who are pursuing postsecondary education are systematically denied the support of parental (and grandparental) wealth available to many white students. This is not related to the desire of Black families to support their sons' and daughters' higher education, as Black parents who provide financial support for postsecondary education had a net worth one-third of that for white parents who provided no financial support for their children's educations.⁹ Even if the median Black family liquidated their net worth, they would only be able to pay for 2.4 years of tuition and fees at a public four-year college (excluding financial aid) for one child. By comparison, the median white family could pay tuition and fees (after liquidating their net worth and before financial aid) for nearly five children to attend a public four-year college for four full years.¹⁰

Wealth Makes the Sticker Price of College Less Intimidating for White Families

One Year of Tuition and Fees as a Share of Family Net Worth, by Race, 1989 to 2019



Note: Comparisons in 2019 USD; Tuition and fees are national averages for public, 4-year institutions (excluding financial aid).

Sources: Survey of Consumer Finances; College Board, Annual Survey of Colleges.

Black students graduate with more student debt and disproportionately struggle to pay it off

Young Black student borrowers have taken on substantially more debt than their white counterparts in order to finance their education.¹¹ In 2016, Black college graduates (including those without college debt) owed on average \$23,400 upon graduating, \$7,400 more than white graduates who owed \$16,000.¹²

Black borrowers are more likely to have trouble paying back these larger debt burdens. Four years after graduation, the Black-white gap in total student debt triples to nearly \$25,000.¹³ The Federal Reserve's 2020 "Report on the Economic Well-Being of U.S. Households," found that Black student loan borrowers under the age of 40 were nearly four times as likely as white borrowers to be behind on their loans.¹⁴

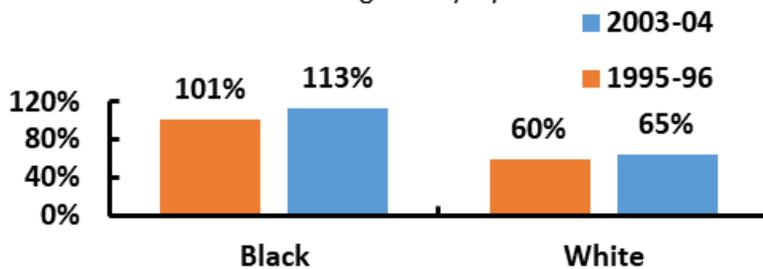
Another complicating factor of accumulating larger debt burdens, and eventually paying them back, is college completion rates. Among first-time, full-time students pursuing a bachelor's degree at 4-year postsecondary institutions in 2010, only 21 percent of Black students had graduated four years later compared to 45 percent of white students.¹⁵ This difference in completion rates is likely related to student debt, among other factors. Without a diploma, Black borrowers are less likely to generate higher earnings that reflect their investment in education, and the additional loans required to finish their degree would only add to the debt burden. In addition to differences in college completion rates, divergent labor market experiences for Black and white graduates contribute to the disparities in paying off debt.

Once Black students leave college, they face discrimination in the labor market.¹⁶ Black Americans, regardless of whether they completed a postsecondary program, make substantially less than white Americans and are twice as likely to be unemployed. Black graduates are offered lower paying jobs than their white peers and continue to earn less over their lifetimes, making it more difficult to pay off student debts. In addition, Black college graduates are more likely to be underemployed (working jobs that do not fully utilize their skills, experience and availability to work) than their white counterparts.¹⁷ Almost 40 percent of Black college graduates are

underemployed compared to 31 percent of white graduates.¹⁸ To achieve the same socioeconomic status, Black students must go to school for longer and get more academic credentials than white students.¹⁹

Black Student Borrowers Owe More than the Principal 12 Years After Entering College

Median Percentage of Original Balance Owed 12 Years After College Entry by Race



Note: Data reflect two separate longitudinal studies of students beginning college in 1995-96 and 2003-04, respectively.

Source: Center for American Progress; NCES.

A study conducted by the National Center for Education Statistics (NCES) found that the typical Black student who started college in the 2003-04 academic year, and took on debt to pay for it, owed more than they originally borrowed twelve years after graduating.²⁰ By comparison, the typical white student had paid off about one-third of their original balance. Failure to pay down the principal takes a toll: Black bachelor’s graduates are five times more likely to default than their white peers (21 percent versus 4 percent).²¹

Inequities in student loan debt limit Black Americans’ ability to purchase a home

Individuals with high levels of education debt have limited access to auto loans and home mortgages, despite their higher earning potential. This can close down an important path to wealth-building and is particularly harmful to Black student debt holders whose prospects for homeownership were already impeded by race-based discrimination in the housing market.²² Fewer than half of Black Americans own their home compared to three-fourths of white Americans.²³ The home ownership gap is particularly stark among young adults. In the 2019 Survey of Consumer Finances, nearly half of all white families under 35 owned their homes while less than 20 percent of Black families in the same age group owned their homes.²⁴

Student debt holders may have reason to doubt that they will be able to own a home. In the first volume of their “Consumer and Community Context” series, researchers for the Federal Reserve Board reported that the increase in student loan debt for borrowers of all races between 2005 and 2014 reduced the homeownership rate among young adults by approximately 2 percentage points, representing over 400,000 individuals who would have otherwise purchased a home.²⁵ While there is insufficient literature on the subject, it is possible that some young Black people are delaying or foregoing homeownership because of higher levels of student debt.

High levels of student loan debt likely hinder Black entrepreneurship

Small business entrepreneurship has long been thought of as proof of achieving the American dream. However, high levels of student loan debt, in addition to racial discrimination in lending, stand between many Black graduates and acquiring the capital needed to start a business.²⁶

While increases in most forms of consumer debt have been found to be positively correlated with business formation, student loan debt has the opposite impact. Researchers from the Federal Reserve Bank of Philadelphia found that counties where there was an increase of one standard deviation in student debt usage relative to all other counties also sustained a net decrease of 70 small businesses (14%).²⁷ Unequal student debt burdens and higher rates of default and forbearance disproportionately prevent Black borrowers from accessing the capital required to start a business.

Student loan debt may play a role in obstructing the path to college for future Black students

Student loan debt likely plays an underappreciated role in obstructing the path to college for Black students across generations by limiting teacher diversity.²⁸ Exposure to teachers of the same race and ethnicity has been shown to improve school attendance, increase test scores, reduce suspensions and virtually eliminate gaps in access to gifted education for Black students. However, despite evidence that exposure to Black teachers improves outcomes for Black students, the proportion of teachers who are Black has changed little in recent years while the proportion of youth who are not white has increased.²⁹

The unchanging trend in teacher diversity may be partly explained by student loan debt burdens. In 2019, 91 percent of Black individuals who trained to teach financed their undergraduate education with federal student loans, compared to 76 percent of whites. In one study looking at changes in debt burdens for students who trained to teach from 2008 to 2012, the median Black college student who trained to teach owed nearly \$4,000 more in federal student loan debt in 2012 than they did in 2008.³⁰

Choosing to teach, similar to other lower-salary public interest jobs, comes with a substantial “pay penalty,” meaning that teachers receive significantly less compensation compared to other professions that require a similar level of education.³¹ Evidence shows that when students are relieved from their need to pay down their debt, they shift toward lower-paying jobs in public service industries, like teaching. Extremely limited debt relief from programs like public service loan forgiveness (PSLF) have done little to draw Black graduates away from the private sector.³² The resulting lack of teacher diversity contributes to the continued cycle of inequities in educational attainment.

The student debt crisis is reinforcing the racial wealth gap

The rising cost of college and the burden of student loan debt has a disproportionate impact on Black Americans and their families. Black students’ higher rates of debt usage, larger debt burdens, late repayments and defaults are symptoms of ongoing inequity in wages, employment, wealth and access to credit. A generation of college-educated Black borrowers and their families

are struggling to purchase a home, start a business or choose a career free from the constraints of crippling debt. The reduction in wealth building imposed by the proliferation of invidious discrimination in student loan debt reinforces the racial wealth gap. While the long-term solution to the problem of the student loan debt crisis is to greatly reduce the real cost of postsecondary education, debt forgiveness (at any level) will chip away at a problem that is disproportionately harmful to Black students.

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² College Board. 2020. “Trends in College Pricing and Student Aid 2020.” <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>.

³ Mitchell, Michael, Michael Leachman, and Matt Saenz. October 24, 2019. “State Higher Education Funding Cuts Have Pushed Costs to Students, Worsened Inequality.” CBPP. <https://www.cbpp.org/research/state-budget-and-tax/state-higher-education-funding-cuts-have-pushed-costs-to-students>.

⁴ College Board. 2020. “Trends in College Pricing and Student Aid 2020.” <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>.

⁵ Addo, Fenaba R., Jason N. Houle, and Daniel Simon. March 2016. “Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt.” HHS Public Access. <https://doi.org/10.1007/s12552-016-9162-0>.

⁶ Darity, William A. February 24, 2021. “Testimony before the House Committee on Financial Services Subcommittee on Oversight and Investigations.” <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba09-wstate-darityw-20210224.pdf>.

⁷ College Board. 2020. “Trends in College Pricing and Student Aid 2020.” <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>.

⁸ Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu. September 28, 2020. “Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances.” The Federal Reserve Board of the United States. <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>.

⁹ Darity, William A. February 24, 2021. “Testimony before the House Committee on Financial Services Subcommittee on Oversight and Investigations.” <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba09-wstate-darityw-20210224.pdf>.

¹⁰ JEC Democratic Staff Calculation; College Board. 2020. “Trends in College Pricing and Student Aid 2020.” <https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf>; Federal Reserve Board. 2020. “Survey of Consumer Finances – Table 4.” <https://www.federalreserve.gov/econres/scfindex.htm>.

¹¹ Addo, Fenaba R., Jason N. Houle, and Daniel Simon. March 2016. “Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt.” HHS Public Access. <https://doi.org/10.1007/s12552-016-9162-0>.

¹² Scott-Clayton, Judith and Jing Li. October 2016. “Black-White Disparity in Student Loan Debt More Than Triples After Graduation.” Brookings Institution. https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf

¹³ Scott-Clayton, Judith and Jing Li. October 20, 2016. “Black-White Disparity in Student Loan Debt More Than Triples After Graduation.” Brookings Institution. https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf.

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¹⁵ National Center for Education Statistics. February 2019. “Status and Trends in the Education of Racial and Ethnic Groups – Indicator 23: Postsecondary Graduation Rates.” https://nces.ed.gov/programs/raceindicators/indicator_red.asp.

¹⁶ Quillian, Lincoln, Devah Pager, Ole Hexel, and Arnfinn H. Midtbøen. October 10, 2017. “Meta-analysis of field experiments shows no change in racial discrimination in hiring over time.” Proceedings of the National Academy of Sciences. <https://www.pnas.org/content/114/41/10870>; Gaddis, S. Michael. June 2015. “Discrimination in the Credential Society: An Audit Study of Race and College Selectivity in the Labor Market.” Oxford University Press. <https://academic.oup.com/sf/article-abstract/93/4/1451/2332119>; Wilson, Valerie and William M. Rodgers, III. September 20, 2016. “Black-white wage gaps expand with rising wage inequality.” <https://www.epi.org/publication/black-white-wage-gaps-expand-with-rising-wage-inequality/>; Darity, William A. and Patrick L. Mason. Spring 1998. “Evidence on Discrimination in Employment: Codes of Color, Codes of Gender.” American Economic Association. <https://www.aeaweb.org/articles?id=10.1257/jep.12.2.63>; and Borowczyk-Martins, Daniel, Jake Bradley, and Linas Tarasonis. May 2014. “Racial Discrimination in the U.S. Labor Market: Employment and Wage Differentials by Skill.” SSRN. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2441472.

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