The History of Student Loan Debt

Introduction[1]

How education is funded and how students pay for it has changed significantly since the inception of the first American colleges. Postsecondary education was once free or very inexpensive, a far cry from the exorbitant sums now expected of students even at state universities.

The student loan system that now enslaves most students with significant debt is only 60 years old. The evolution of student loans has been attributed to a series of social and economic developments, from changing enrollment demographics to the Industrial Revolution to World Wars.

College tuition costs are rising exponentially, with the average cost of tuition and fees and room and board at in-state public 4-year colleges standing at $21,370 for 2018-19 according to College Board. That's nearly triple what it was 50 years ago in constant dollars.

At the end of 2018, student loan debt outstanding reached a staggering $1.56 trillion per the Federal Reserve. For most students, incurring some amount of loan debt to attain a college degree is a given. About two-thirds of 2017 graduates exiting with a bachelor's degree carried a student loan debt burden.

Many early universities in the United States were free and stayed that way for decades. So how did we get from there to a system that requires students to go into significant debt before they have even begun their careers?

Timeline of Student Loan Debt[2]

The history of student loans stretches back longer than you think. They've been around in some form since the Middle Ages.

1240 – The first documented student loan system was created at Oxford University. Borrowers locked items of value in a chest, often a book, as collateral – the keys to which were kept by faculty members. This system lasted for 300 years.

1643 – The first endowed scholarship was created at Harvard as the nation's elites made education a major charitable priority. The benefactors didn't expect to be paid back – but they did expect to be prayed for in return for their generosity.

1838 – Higher education funding mostly continued with the benefactor model until Harvard created its own lending agency offering zero interest loans to students who couldn't pay their way. That system later expanded to other Ivy League schools.

1944 – In the wake of WWII, the GI Bill became the first program to solidify the government's role in helping students afford higher education. It provided funding for vets, and helped to double higher education enrollment over the next 10 years.

1958 – Panic surrounding the Soviet Union's successful launch of Sputnik, paved the way for the Government to get even more involved. The National Defense Education Act was passed creating a federal system that lent money to students studying areas supporting national defense.

1965 – President Johnson signed the Higher Education Act. It created the first government loan system open to students regardless of their topic of study.

1970s – Later iterations of the Higher Education Act spurred the creation of other types of government programs to help students pay for college, including the Pell grant.

1992 – Congress raised the annual borrowing limits and for the first time, opened the student loan program up to all students regardless of need.

2012 – Student debt surpasses one trillion dollars.

Contemporary Trends[3]

There is no single reason why student loan debt has grown exponentially. Increased tuition costs, reduced state spending and borrower behaviors have all played a role.

Tuition rates have skyrocketed in recent years. The average tuition at public four-year colleges have increased 73% from 1999-2009. One reason for this is that state governments have spent, on average 28% less on higher education since the recession began in 2008. In 1987, students only paid about 23% of the cost to fund higher education, but by 2012 their share had increased to over 45%.

Another factor is the nation's more relaxed attitude toward borrowing in recent times. Students 20 years ago were stricter in their borrowing and graduated with a median debt burden (monthly loan payment as a percent of monthly income) of only 3.3%. By 2003, the median debt burden of nearly 90% of borrowers hovered around 8%.

Prior to 1992, only those students who demonstrated financial need could participate in the federal student loan program; after 1992, many requirements for borrowing were relaxed.

The Problem with Public Service Loan Forgiveness

Created under the College Cost Reduction and Access Act of 2007, Public Service Loan Forgiveness (PSLF) is a government program to provided public service professionals forgiveness from their student loans. The program allows Direct Loan borrowers who make 120 qualifying monthly payments while working full-time for a qualifying employer, to have the remainder of their balance forgiven. The earliest time in which borrowers could receive forgiveness under the program was after October 1, 2017.

Cumulatively, only about 640 borrowers have received public service loan forgiveness based on approximately 132,000 processed applications. That's less than 0.5%.[4]

Race & Student Loan Debt

In May 2019, billionaire investor Robert F. Smith shocked and delighted the 396 graduates of Morehouse College when he pledged to repay their student loans. The gift, which was praised for its potential to transform the life of each recipient, is also focusing attention on a systemic problem that one donor's generosity cannot solve: the large student debt burdens shouldered by tens of millions of Americans.

Recent black graduates of four-year colleges owe, on average, $7,400 more than their white peers. Four years after graduation, they still owe an average of $53,000, almost twice as much as whites.[5]

Twelve years after entering college, white men have paid off 44% of their student-loan balance on average. For white women, that share drops to 28%. For black borrowers, the picture is even bleaker. Black women see their loan balances actually grow 13% on average, 12 years after leaving school, while black men see their balances grow 11%.[6]

The Future of Student Debt[7]

The silver lining in all of this is that policy makers, college administrators, borrowers, parents, students, and prospective college enrollees are at least aware of the problem, and many are proposing solutions.

Some solutions look to change the terms of the loans themselves. In addition to locking in low interest rates on federal student loans, some lawmakers are seeking to add provisions such as debt forgiveness for those who have made payments for a period of time, as well as suspension of interest accrual during times of high unemployment.

Another idea, put forward by Senator Kirsten Gillibrand (D-N.Y.), would allow borrowers with student loan debt to refinance at a lower, fixed interest rate, in the same way people refinance their mortgages. Resulting in a savings of an estimated $14.5 billion for borrowers in the first year alone. Sounds like a no-brainer, right?

Wrong. Many don't realize that Wall Street (and thus, lot of people with a 401K) invests in student debt to the tune of $291 billion. Additionally, the Department of Education owns another $600 billion in loan debt; experts predict the DOE will generate a profit of $51 billion from these funds. With so many powerful interests standing to lose by transferring tis money back to borrowers, it's unlikely that a bill like Senator Gillibrand's – which has no co-sponsors – will pass.

No one has a clear idea of what the future holds for education borrowers, but all agree that solutions are needed to ameliorate the student debt crisis. With ever more experts forecasting a burst of the student debt bubble, perhaps lenders and investors will have some incentive to work proactively with borrowers to make student loan repayment easier. In any event, until we act, our young people will continue to face more and more debt on an annual basis.

Conclusion[8]

Our country cannot afford to let our students and workforce fall further behind the world because of the well-financed lobbying efforts of the education-industrial complex. Reforming the way we pay to learn is the first step in reimagining higher education.

The current form of indentured servitude that lasts from graduation to the grave is not a sustainable economic policy and does not reflect the meritocratic principles fundamental to the American dream. If we truly believe people should be able to pull themselves up by their bootstraps, we must first ensure we have given them boots and not cement blocks.

Enacting policies would promote innovation and create an educated workforce to better compete in the global marketplace. It would permit greater flexibility in career choice and allow for more of our country's best and brightest to give back to their communities. Most importantly, student loan reform would empower Americans to make a better life for themselves and their families.

STUDENT LOAN DEBT MAY WELL BE THE NEXT FINANCIAL CRISIS IN THIS COUNTRY **IF THE ISSUE IS NOT RESOLVED SOON.**

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[1] www.savingforcollege.com/article/history-of-student-loans-origins
[2] www.marketwatch.com/story/how-we-got-to-1-trillion-in-debt-an-illustrated-history-of-student-loans-in-america-2017-03-21
[3] www.onlinecolleges.net/student-debt-in-the-u-s-part-2-a-brief-history-of-student-debt-in-the-united-states
[4] www.forbes.com/sites/zackfriedman/2019/05/01/99-of-borrowers-rejected-again-for-student-loan-forgiveness/#16f009b16b7a
[5] www.nytimes.com/2019/05/20/us/student-debt-america.html
[6] www.marketwatch.com/story/12-years-after-starting-college-white-men-have-paid-off-44-of-their-student-loans-and-black-women-owe-13-more-2019-06-06
[7] www.onlinecolleges.net/student-debt-in-the-u-s-part-2-a-brief-history-of-student-debt-in-the-united-states
[8] harvardlpr.com/online-articles/generation-debt-and-the-american-dream-the-need-for-student-loan-reform/