STUDENT DEBT

Susan Dynarski

KEY FINDINGS

- **Relative to Generation X, millennials took out more student loans, took out larger student loans, and defaulted more frequently.**
- **Defaults increased because millennials faced higher tuition payments, took out larger loans to meet those higher costs, turned to for-profit schools that don't offer any returns, and entered a labor market in the throes of recession.**

Millennials have been tagged, characterized, and stereotyped in all manner of ways. But one of the most common tags is that they're the "student debt generation." By this account, millennials are notably a generation that's saddled with extremely high levels of student debt, a problem that compounds the already daunting misfortune of having entered the labor market during a recession. It is frequently argued that the one-two punch of high debt and compromised opportunities leads to high rates of default and, more generally, to much stress and anxiety.

Or so the story goes. The first task for this chapter is to establish whether millennials are indeed the student debt generation. Are they taking on more student loans than Generation X? Are their loans larger than those that Generation X took on? And are millennials defaulting more?

I'll show that all of those questions can be answered in the affirmative. The second part of my piece is a whodunit. How could we have let this happen? How did millennials become the student debt generation? What are the roles of the Great Recession, reductions in public funding of education, and the rise of low-payoff schooling in explaining this debacle?

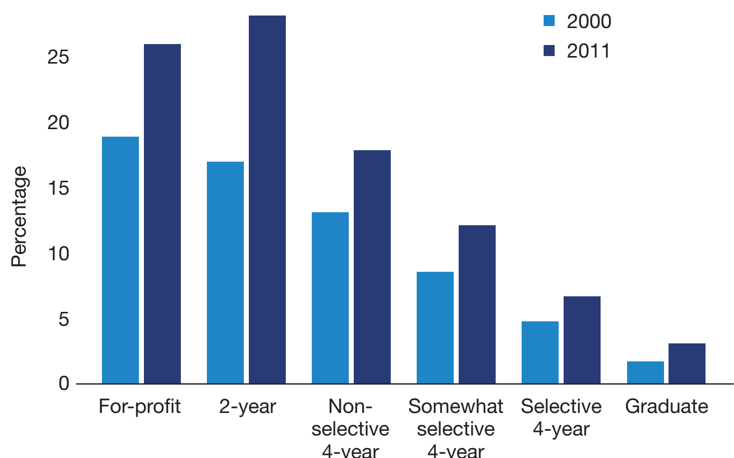
Debts and defaults

But first the facts. Are millennials fairly characterized as the student debt generation?

The short answer is yes. Over the last several decades, more students have taken on debt to pay for school, and the size of their debt has grown. According to the National Center for Education Statistics, 46 percent of students enrolled in all degree-granting schools had student loans in 2016, a percentage that pertains to the tail end of the millennial generation.[1] This is up from 40 percent in 2000, when Generation X represented much of the college population. Over the same period, the average loan amount increased by nearly $2,000, from $5,300 in 2000 to $7,200 in 2016.

But what about defaults? Are they increasing too? As shown in Figure 1, the default rate has increased among all types of borrowers, although the increase is far less pronounced among borrowers for selective schools and graduate schools.[2]

Figure 1. Student loan defaults spiked among millennials.



Source: Looney and Yannelis tabulation of 4 percent sample of National Student Loan Data System.
Note: Cohorts are defined by the fiscal year they entered repayment.

The simple conclusion: Relative to Generation X, millennials indeed took out more student loans, took out larger student loans, and defaulted more frequently.

How did this happen?

The facts are quite clear. And so too, I will argue, are the causes of the problem.

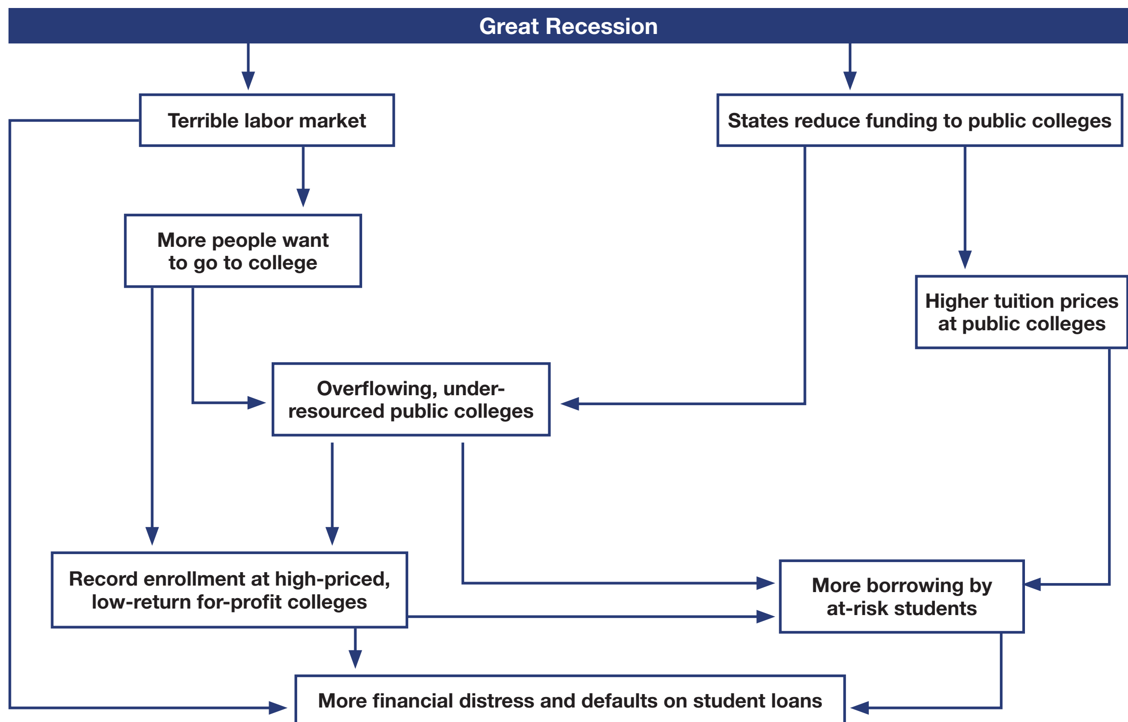
As shown below, the starting point is the Great Recession. Millennials had the very bad luck of both starting and leaving college during the Great Recession. Even before the Great Recession, tuition prices at public schools had been rising, as states reduced their support for colleges in the wake of tax revolts and rising health and prison costs. But the Great Recession led to further reductions in support for public institutions. When the Great Recession hammered tax revenues, strapped states froze or cut appropriations to their public colleges, which are attended by 80 percent of undergraduates.

How did public colleges respond? With their state subsidies shrinking, they either restricted enrollments, spent less on instructing each student, or raised tuition—or all three. For students who remained in the public sector, higher tuition costs increased borrowing, especially at community colleges, where the rate of borrowing had historically been very low.

But some students were obliged to turn away from public colleges. This is because public colleges responded to reduced appropriations not just by increasing tuition but also by reducing capacity. While community colleges are open-enrollment schools, they can still impose waitlists for classes and other capacity controls. How did students respond? As public colleges burst at the seams, record numbers of students turned to for-profit institutions; indeed, enrollment at for-profits hit an all-time high during the Great Recession.[3] This surge reflects not just the loss of public college slots but also the understandable tendency to treat higher education as a refuge in a weak labor market.

The turn to for-profit alternatives led students to take out more loans because students have to borrow more when they're at expensive for-profit colleges. When millennials flooded into the for-profits, they thus responded as students in for-profit colleges have always responded: They borrowed to meet the high costs.

This stark rise in borrowing among for-profit and community college students is revealed in Figure 2. As this figure shows, nearly a million for-profit students entered repayment in 2011, as did another half-million community college students,



a tripling over a single decade. The spike in loan defaults during and after the Great Recession is concentrated among these borrowers.

Why were there so many defaults among millennials? Low returns to their schooling, high unemployment, and student debt combined to create a surge in loan defaults. It's a three-part disaster: Millennials borrowed to make their tuition payments; many went to for-profit schools for which the return has been shown to be zero;[4] and, finally, after finishing their education and laden with debt, they hit a labor market of high unemployment and low earnings. The result is a takeoff in loan defaults that is only now abating.

It would have been bad enough for millennials even without this debt problem. This is because we know that young workers fare the worst during an economic downturn. Those who leave school during a recession start lower on organizational ladders at lower pay than other workers, if they are fortunate enough to find a job. And economists have found that earnings never fully recover from this weak start. Recessions reduce income for decades.

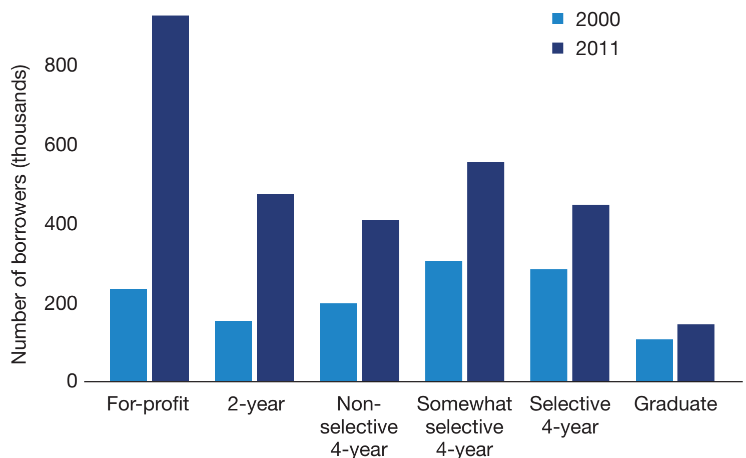
This hit to income alone would have delayed home-buying, marriage, and other mileposts for millennials. But carrying student debt compounds the problem.

Conclusions

Millennials hit a perfect storm, facing crowded colleges and higher tuition than previous generations of students. They borrowed to make their tuition payments. They left school only to hit a labor market of high unemployment and low earnings. And this precipitated a takeoff in loan defaults.

Some students escaped this disaster. Millennials who attended and graduated from selective colleges have been largely shielded from this turmoil. Their default rates barely budged during the Great Recession (see Figure 1), and they will likely earn a handsome return on their degrees.

Figure 2. Nearly 1.5 million for-profit and community college students entered repayment in 2011, a tripling over a single decade.



Source: Looney and Yannelis tabulation of 4 percent sample of National Student Loan Data System.
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But of course only a minority of students attend selective institutions. What should be done for those who aren't afforded the protection that selective colleges offer? When a recession happens, some students will inevitably be in less selective schools and will exit during the recession. We can't do much about the luck of bad timing. What we can do is use social and economic policy to buffer the effects of economic downturns. In the case of postsecondary education and the millennials, we failed at this spectacularly.

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Notes

1. Table 331.20. Digest of Education Statistics. Retrieved from https://nces.ed.gov/programs/digest/d18/tables/dt18_331.20.asp?current=yes.

2. Looney, Adam, and Constantine Yannelis. 2015. "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults." Brookings Papers on Economic Activity.

3. Looney and Yannelis, 2015.

4. Cellini, Stephanie Riegg, and Nicholas Turner. 2019. "Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data." *Journal of Human Resources* 54(1).