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Student debt forgiveness could narrow the racial wealth gap

By Danielle Douglas-Gabriel November 25

Eliminating student debt for low- to middle-income families could dramatically narrow the racial wealth gap between black and white households, according to a joint study by liberal think tank Demos and the Institute for Assets & Social Policy at Brandeis University.

Though 43 million Americans across the racial and socioeconomic spectrum have nearly \$1.3 trillion in college loans, black households are far more likely to have student debt at all income levels. About 54 percent of young African Americans between the ages of 25 and 40 have student loans, compared to 39 percent of their white counterparts.

[Minorities and poor college students are shouldering the most student debt]

That debt is exacerbating existing racial wealth disparity by making it more difficult for black families to save money and accumulate assets to cushion against economic turmoil. According to the study, the median household wealth is \$3,600 for young African Americans, compared to just under \$36,000 for young white households.

“It upholds a pattern we’ve seen, no matter what age cohort we’re looking at, of about a dime of wealth that is held by the typical African-American household for every dollar of wealth held by white households,” said Thomas M. Shapiro, co-author of the report and director of the institute at Brandeis. “This is emblematic of a deeper abiding continuing pattern in the United States.”

As presidential candidates and policymakers explore ways to alleviate the burden of student debt, the authors of the study say targeting any sort of debt relief to people making at or below the national median household income would have the greatest impact on racial wealth inequality.

“Higher education policy and efforts to reduce student debt burden do have the potential to both increase access to higher education and reduce the racial wealth gap. But policy must be designed to direct relief to those with more financial need,” said Laura Sullivan, senior research associate at the institute at Brandeis.

If policymakers were to reduce student debt for households making less than \$50,000, it would reduce the wealth disparity between black and white families by nearly 37 percent, and more than 50 percent for those making \$25,000 or less, according to the study. But providing debt relief to all households regardless of income would actually increase the racial wealth gap among young adults, as white households would reap greater benefits because of their higher rate of college completion and graduate degrees.

Even though African Americans are more likely to have student debt, they are less likely to have graduated from college, making it more challenging to find work that pays well enough to repay the debt, according to an earlier Demos study.

While carrying a high debt load can lead students to drop out of college, even balances below \$10,000 can be a struggle to someone without resources. The largest number of people who have not made a payment on their student loans in at least nine months are those with less than \$5,000 in debt and often no degree, according to the Federal Reserve Bank of New York.

“It’s not often the high-balance students with the most pressing case for relief,” said Mark Huelsman, a policy analyst at Demos and co-author of the report. “If we provide an income eligibility threshold, those who have taken on student debt but have not yet seen the payoff that an education can bring, we’d see something different.”

Policymakers, he said, could ensure that students from low-income households do not have to borrow for an undergraduate degree by guaranteeing debt-free public college. Demos has outlined a plan, the inspiration for the Democrats’ Debt-Free college initiative, for the federal government to award grants to states that increase spending on higher education. That way, fewer students would have to take on high debt loads to attend public colleges.

[How student debt became a presidential campaign issue]

Huelsman said the federal government also could do a better job of targeting debt forgiveness through its student loan repayment plans. There are five repayment plans that cap borrowers’ monthly bills to a percentage of their income and forgives the debt after at least two decades of payment. Critics of the plans say they disproportionately benefit graduate students with out-sized debt but high enough earnings to afford the loans. Imposing income restrictions or limiting the debt relief to low-wage borrowers could allay those concerns.

But getting lawmakers to sign off on any higher education proposals that could add to the budget would be an uphill battle. Focusing policy on lower-income students has broader appeal than targeting racial minorities. But even that strategy has its limitations, considering that Republican lawmakers are working to freeze the maximum award the country’s neediest students receive from the government to pay for college.

College graduation rates among African Americans have soared during the past two decades, delivering more

black families into the middle class. A recent study by the Federal Reserve Bank of St. Louis found that the median income of black graduates in 2013 was at least twice as high as those without degrees, and that the median family wealth — retirement accounts and homes — was nearly four times higher.

[College is not the great equalizer for black and Hispanic graduates]

The economic recession muted much of that success for many families, who remain mired in debt and struggling to reverse course. Between 1992 and 2013, median wealth declined by about 56 percent among college-educated African Americans, while the median net worth of white graduates climbed 86 percent during the same time.

“The racial wealth gap in the United States is a large manifestation of racial inequality, and much of that gap is the result of historic policy decisions and some contemporary ones,” Shapiro said.

Take the most recent housing boom and bust, a period that created and destroyed a great amount of wealth in African American communities. After decades of banks denying mortgage financing to many people of color, credit flowed through their communities and home ownership rates skyrocketed.

But African Americans often were steered into high-cost home loans that many could not afford once the housing market crashed. Those who managed to stave off a foreclosure watched the value of their properties take a nosedive, especially if they lived in minority neighborhoods. And because so much of black wealth is concentrated in their homes, the losses were in some cases devastating.

[Ex-loan officer claims Wells Fargo targeted black communities for shoddy loans]

With minimal savings and other assets to use to cover college expenses, African American families borrow heavily to pay for college, placing greater strain on already tenuous wealth.

“A college degree has become a type of insurance policy, it’s a near necessity for entering and staying in the middle class,” Huelsman said. “But it’s also become riskier as we essentially require students to borrow to get a degree, and that risk is being borne by low-income households, households of color.”

Danielle Douglas-Gabriel covers the economics of education, writing about the financial lives of students from when they take out student debt through their experiences in the job market. Before that, she wrote about the banking industry.
