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# BORROWING Inequality

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**RACE,  
CLASS, AND  
STUDENT LOANS**

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**DEREK V. PRICE**

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## **Race, Class, and Student Loans**

**Derek V. Price**



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# Introduction

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**D**uring the last two decades of the twentieth century, the transition to an information economy developed alongside the export of well-paid manufacturing jobs to low-wage havens in developing countries. The old economy manufacturing jobs that did not require a degree beyond high school and provided a middle-class lifestyle are becoming a smaller share of the occupational structure of the U.S. economy. Technological advances and the rapid exchange of knowledge and information that require a workforce with advanced educational credentials drive the economic opportunities in the twenty-first century. According to the U.S. Department of Labor, 42 percent of the job growth in the first decade of this information century will require some form of post-secondary credential.

These trends in economic development are functions of global economic “integration” and enhance the power of higher education as an arbiter of socioeconomic opportunities within the United States. Indeed, higher education controls the allocation of educational credentials, which are becoming more central to determining access to jobs, goods, and economic security. Higher education also provides social benefits: a more educated citizenry increases economic productivity, enhances the quality of life among diverse communities, and strengthens democratic political institutions. As the college credential replaces the high school diploma as the required level of educational competency, expanding access to higher education should be a priority of public policy. Yet higher education is not available universally or subsidized

adequately so as to be within reach of all qualified students. On the contrary, persons from low-income backgrounds and race and ethnic minorities do not experience equal opportunity for higher education compared to upper-income students and more affluent whites. This educational inequity undermines the long-term economic prosperity of the nation, threatens democratic institutions by weakening civic participation, and undermines the ability of the United States to maintain its leadership among the world's nations.

The U.S. higher education system operates with the support and encouragement of federal and state governments. After World War II, politicians, communities, and corporations expressed nearly universal support for education as a national priority. Between the 1940s and 1970s, the federal government made considerable investments in the human resources of U.S. citizens through the GI Bill and Basic Educational Opportunity Grants (later known as Pell Grants). The widespread consensus about the importance of postsecondary education among a cross-section of society culminated in the Higher Education Act of 1965 (HEA). The HEA institutionalized federal support for higher education as a national interest and pledged that no student would be denied opportunities in higher education due to financial barriers. During the 1960s and 1970s, the expansion of opportunities in postsecondary education accelerated as a result of demands by historically excluded groups such as women and minorities for access to the socioeconomic mobility routes of higher education.

During the 1980s, federal higher education policy retracted from the historical concerns for equity in access, and the social benefits of a more educated citizenry were redefined as essentially private benefits. Individuals were encouraged to treat higher education as a necessary personal investment and to calculate the benefits of this investment in purely economic terms. From this perspective, higher education was primarily a private good because individuals with a college credential have a competitive advantage over other individuals.

Although financial aid reduces the amount of money college students must raise through work, family contributions, and other assets (such as a family home), not all forms of student aid are equally beneficial to individuals pursuing postsecondary education. During the past two decades, federal financial aid expanded

considerably and currently represents a \$60 billion annual investment—yet the mechanism for the expansion in financial aid for college was student loans. Unlike grant financial aid, which reduces the price of college, loans actually *increase* the price of college due to the accrued interest students must pay. This shift in the federal commitment to financial aid from primarily grants to primarily loans echoed the new philosophy of higher education as a private good.

The overreliance on student loans to finance higher education, rather than expanding equal opportunity in higher education, reinforces the U.S. stratification system. Individuals from disadvantaged locations within the social hierarchies of race, class, and gender are more likely to borrow for college and are at increased risk for excessive educational debt burden after graduation. Furthermore, the overreliance on student loans conditions an instrumental consciousness that defines a college education as a “means-ends” rational investment. The debt acquired from the college experience results in pressure for students to find immediate employment in order to repay their investments (i.e., student loans). Consequently, alternative choices for college graduates that privilege community interests over self-interest are deemed unreasonable.

This book is a call for a new social compact around higher education as a public good and for a more equitable distribution of the socioeconomic rewards of higher education. The social benefits of an increasingly educated citizenry should be justification enough for a renewed public commitment to equal opportunity in higher education. As the forces of global economic integration intensify, the importance of a college degree for entry into the preferred labor market positions will only increase. The competition among various social groups for access to higher education represents an important harbinger for the kind of society we wish to create in the twenty-first century. Will the United States continue to privilege individual self-interest in higher education policy with the consequence of increased polarization between the haves and the have-nots, largely shaped by race, ethnic, and class differences? Or will it pursue the democratic vision of a more egalitarian and meritocratic society and renew the collective commitment to opportunities in higher education? This book stakes out a transformative vision for higher education policy that can improve the

well-being of all members of society, not simply the most privileged.

### **The Book Chapters at a Glance**

Chapter 1 lays out the dual purposes of higher education from the philosophical standpoints of individual self-interest and collective common interest. The dual purposes of higher education have historical roots in the political writings of Thomas Jefferson, who believed that intellectual freedom and widespread educational opportunities were necessary conditions for political democracy. This chapter also lays out the basic perspective of the book: social reproduction theory. I explain that society is organized unequally and that individual actions are shaped by this unequal organization. Social inequality is measured as the relationships between race and ethnic groups, men and women, economic classes and their intersections. Public policy represents the way that social institutions can be used to encourage social reproduction or social transformation.

Chapter 2 explains the two trends in student financial aid that have come about over the past two decades: a transition from mostly grants to primarily loans, and the rising share of college costs that students and families pay. A brief review of federal financial aid policy is followed with data indicating that increased participation in higher education does not mean that gaps are closing in educational attainment among race, ethnic, gender, and income groups. The overreliance on student loans to finance higher education is contributing to education attainment gaps and undermining the balance between the individual and collective purposes of higher education.

In Chapter 3, the common misperception that poor and minority students attend college for “free” while middle-class and white students must borrow is shown to be false. Not only are African American, Hispanic, and lower-income students borrowing to pay for college, these students are more likely to adjust their college choices due to price and potential indebtedness and less likely to graduate from more prestigious colleges and universities. The data further illustrate that low-income students and African Americans are less likely to have earned a graduate or professional degree

within four years of receiving a bachelor's degree. This lack of parity in educational outcomes is an indication of unequal opportunities in higher education.

In Chapter 4, the penalties associated with the successful pursuit of higher education credentials are explored. In particular, differences in the distribution of undergraduate and total educational debt burden across race, ethnic, class, and gender characteristics are examined. Moreover, the resulting educational debt burden once students enter the labor market is documented. The data show that students from lower-income families are more likely to have excessive debt burden than students from higher-income families, and black students are more likely to have excessive debt burden than white students. That is to say, low- and lower-middle-income students and black students who successfully attain a college degree are paying more for postsecondary education and thus receive a lower return on their investment in higher education. The increases in average educational debt levels over the past decade, and the increasing reliance on loans to provide financial assistance to students and families, very likely increased the total debt burden for more recent college graduates.

Chapter 5 revisits the work of Samuel Bowles and Herbert Gintis, whose book *Schooling in Capitalist America* (1976) documented the correspondence between students' class background and their ultimate destination in the labor market. The economic class distribution of undergraduate students from 1991 is compared to their class distribution in 1997 based on their income from employment. Although the range of class categories may reflect individual upward mobility, the group pattern after the attainment of an undergraduate or advanced degree is roughly equivalent. In colloquial terms, "if you entered college in the smallest boat, you're probably still in the smaller boat after you graduate." This chapter provides direct evidence that individuals may achieve upward mobility relative to their family's circumstances by receiving a bachelor's degree while at the same time the structural pattern of inequality among social groups during the life course continues to reflect race, ethnic, class, and gender characteristics.

Chapter 6 concludes that higher education represents both the promise of socioeconomic opportunity *and* the potential for inspiring agents of social change. The current overreliance on stu-

dent loans to finance higher education creates an imbalance between these dual purposes of higher education. This imbalance diminishes the value of higher education as the social institution responsible for cultivating progressive ideas that can shape and transform society. In this chapter, I describe reforms that call for an integrated higher education policy across federal, state, and institutional levels. These innovative policies are informed by a philosophical vision for higher education that moves beyond the normative “means-end” framework fashionable among most political and economic elites. That is to say, federal and state policy regarding opportunities in higher education must be reinvigorated with the collective purpose of a more widely educated citizenry. Only in this way can the range of college and career choices for students, especially those with high financial need, be expanded and the dual purposes of higher education be rebalanced.



# 1 Higher Education and the Reproduction of Social Inequality

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The reproduction of social inequality through higher education occurs against the backdrop of a two-decade trend in rising college prices that students and families are expected to pay, as well as the increased reliance on student loans to cover the corresponding rise in financial need. The consequence of a public policy that emphasizes the use of student loans to finance higher education is to alter the balance between the social and individual purposes of higher education. That is to say, requiring indebtedness to obtain a postsecondary education institutionalizes an antagonistic (rather than complementary) relationship between instrumental self-interest and communicative social interest.

*Instrumental self-interest* is the desire for individual mobility and the attainment of the American dream. *Communicative social interest* is the desire to contribute to the common good by improving the overall quality of life for all members of society. The reliance on student loans in federal financial aid policy privileges the individual value of higher education as a means to socioeconomic mobility, and it diminishes the collective value of higher education as a vehicle for social transformation. Thus, the pursuit of innovative and progressive ideas is diminished as a guiding principle of a college education; rather, the acquisition of educational skills valued in the marketplace becomes more important so that students can recoup their significant personal investment in higher education. This imbalance between the dual purposes of higher education contributes to the reproduction of social inequality.