

Debt: The Student Loan Crisis

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What is Debt?



- A simple definition of debt is money that one person or party owes to another.
- While the term is most commonly used in the discussion of finance and economics, debt is something anyone who is or wishes to be financially independent should become well acquainted with.



Important Vocabulary

- Secured Debt
- Collateral
- Unsecured debt
- Credit

Common Types of Debt

When one party owes a debt, that debt can be either **secured** or **unsecured**. If the debt is secured, that means the party in debt has outlined another asset of equal value that can be seized if debts go unpaid. This asset is known as **collateral**, and it helps to keep borrowers accountable for their debts.

Unsecured debts have no collateral established; however, if these debts go unpaid, a party could be faced with a lawsuit, credit score damage, and financial repercussions. Those repeatedly unable to pay off debt will have poor **credit**, which is the ability to borrow and spend money immediately and pay for it later.

Etymology

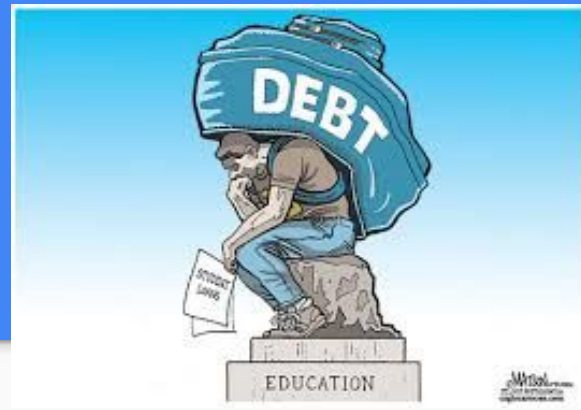


Origins of the term debt

- The word first came about from the Latin word “Debitum”, which translates to “what is owed”.
- This led to the old French word “dette” with the same meaning
- The modern English version of the word Debt, pronounced with a silent B
- Now, almost every language has some term for debt, as it is used across the world as goods and services are exchanged
- As it is a critical concept for the exchange of goods, its definition has held constant over time

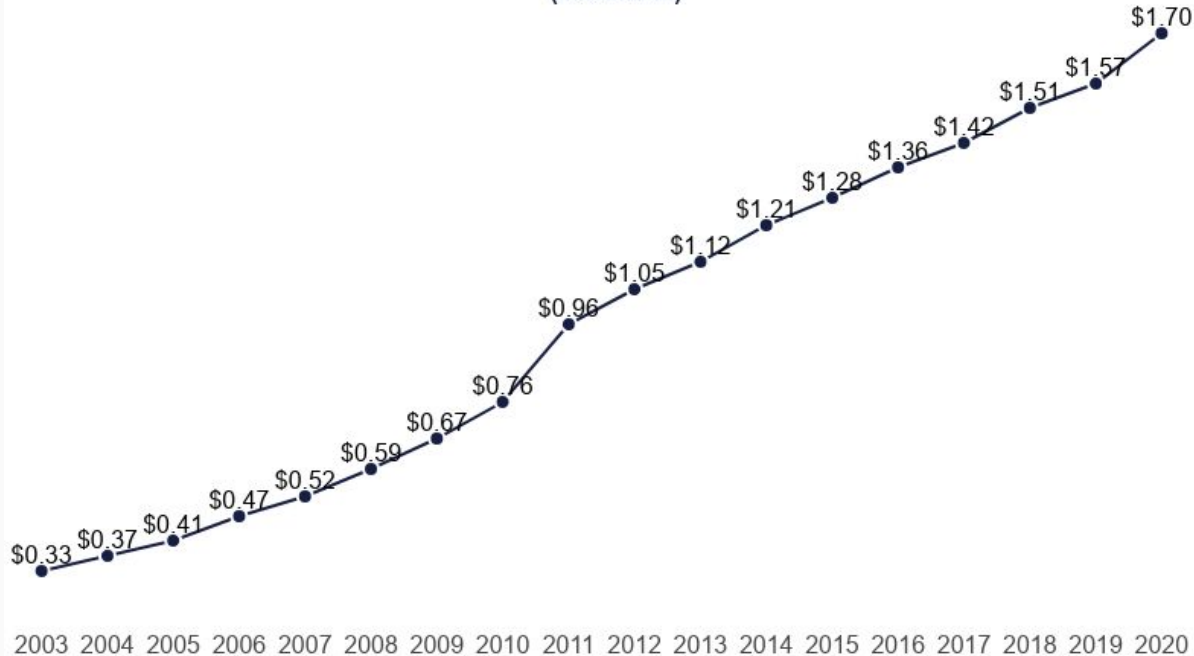
Analysis of Debt in 2021

Student Loan Debt



Many young people view colleges and higher education as the gateway to a successful future and fulfilling career. While some individuals receive scholarships or have money saved to fund college, the majority of students are forced to take out student loans to cover enormous tuition costs. While these individuals may be entering the workforce with a degree, they also have a hundred thousand dollar burden weighing them down. The issue has only spiraled out of control as time progresses. Now, we have collectively accumulated 1.5 trillion dollars of federal student loan debt, according to Forbes.

Historic Total* National Student Loan Debt Balance (in trillions)



*Totals prior to 2011 do not include private loans

- Debt Rate increasing
- Total debt in 2020 is 2.2 times what it was in 2010
- Total debt in 2020 has increased 515% since 2003

What is driving the student loan crisis?

Economists agree that the primary factor in the student loan crisis is the ever increasing cost of tuition for higher education. According to statistics from Forbes, the average cost of tuition as well as room and board has increased by 68% in the past 20 years, and this trend is not slowing down anytime soon. While many students who are in need receive some financial benefits from the government, this is often insignificant compared to the total cost of higher education.

AVERAGE EDUCATION COSTS 1971–2019 IN 2018 DOLLARS

Since 1971, higher education costs have increased 145%.



How can we connect student loan debt with our course theme?

Student Debt and Class

The student debt crisis affects people of different socio-economic classes disproportionately. While upper class families often have money saved that frees them from relying on loans, middle and lower income families struggle. While financial aid can be acquired by some lower class families, for many individuals, paying to attend a college seems impossible. Students from lower class families suffer from a lower quality education with fewer resources and support to prepare them for the next step. Many of these factors pose challenges even before student loans and tuition costs present themselves.

How student loan debt squeezes the middle class

Students from the middle class receive a wide range of schooling and preparation for the next level of education. While middle class students find more luck receiving admission into a college or university than students from low income families, they are often faced with the greatest financial burden. For many middle class students, the same programs and scholarships that provide financial aid for low income students are unavailable as they do not qualify for assistance. This puts them in a tight position because they too are unable to afford their tuition and living expenses. This is squeezing the middle class as young adults are entering the financial world from a major disadvantage.

A recurring cycle of debt



- The current state of the student loan crisis actively reinforces the socioeconomic classes while increasing the wealth division between them
- In theory, a degree should allow an individual to secure a higher paying job; however, this increase in salary with an education rarely makes up for the cost of education, which can take decades to pay off in full.
- As many parents are still suffering with their own debt, it makes it challenging to save for their children's education, reinforcing the cycle for the next generation

Potential Student Loan Cancellations



One idea that has been proposed to help combat the student loan crisis and provide young adults with a more stable foundation upon which to build wealth is the federal cancellation of student loans. Recently, the Biden administration has proposed to cancel up to \$50,000 in student loans for those suffering from student loan debt. This debt relief would be available to those who earn an annual salary of less than \$125,000. Supporters of this motion argue that this will decrease the disparity between socioeconomic classes and make a college education more accessible to students of all backgrounds. They also hope that the reduced financial burden on millions of Americans will help to stimulate the economy.

Argument against canceling student loan debt

One important argument against the cancellation of student loan debt is the massive costs that would ultimately come from taxpayer money. Over 200 million people who did not take out student loans would be forced to pay for this aid. If 40 million Americans were to each receive \$50,000 in aid, it would cost the federal government over 2 trillion dollars. Others claim that the cancellation of student loans is unfair to those who were forced to struggle and work to pay for college without the use of loans. Critics of student debt cancellation argue that it would take a long time for the benefits of loan cancellation to begin stimulating the economy. They also argue that this is a short term solution that does not consider the rising costs of college education at the heart of the issue.

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