Student Debt, the College Experience, and Transitions to Adulthood

By Steven Brint and Matthew Baron Rotondi

The cost of attending college is, by some measure, the most important concern expressed by Americans when they are asked their views about higher education. In a survey conducted by the Educational Testing Service published in 2003, 80% of respondents said that high tuition was a "very serious" issue, and 82% said that students accumulated "too much debt" from attending college. These levels of concern greatly exceeded the next most often mentioned concerns: those having to do with educational quality and accountability issues, mentioned by about half of respondents, and those having to do with political bias in the classroom, mentioned by about one-third of respondents (Educational Testing Service 2003).

It is not surprising that concerns about the costs of attending college have reached such high levels. Costs for tuition and fees have increased at a rate faster than inflation for nearly three decades now. In 1950, the average tuition price at a private college was roughly 14 percent of the U.S. median family income, and public college tuition was at 4 percent of the median family income. Contributions relative to family income have risen steeply since then. In 2005, the cost of attending the average private college was 45 percent of median family income – more than triple the rate in 1950 -- and the cost for attending public colleges it was 11 percent of median family income – nearly triple the 1950 rate (Katz and Goldin 2007). In the 1990s alone, "tuition at public colleges, where 80 percent of American students are enrolled, went up four times (faster) than the median family income" (Kamenetz 2006).

The combination of increasing costs for new and improved services, including pressures to "buy the best" in the elite private sector (Clotfelter 2000), combined with declines in state support in the public sector, have produced a "high cost-high aid" model for financing higher education (Geiger 2004). Institutional financial aid has increased for needy students, but tuition and fees have also dramatically increased for most students.

Higher tuitions have, in turn, led to increased borrowing. Today, more than two-thirds of students at four-year colleges and universities have incurred student loan debts, compared to less than half of four-year graduates in 1993 (Reed 2007). A widely accepted estimate is that graduating seniors in the class of 2006 left college with an average of $21,000 in educational loan obligations, an eight percent increase over the just the year before (Ibid.).

Most students take out Stafford loans, issued either by the federal government or by private lending institutions, such as Sallie Mae. These loans require that repayment begin six months after graduation, but can be deferred if students enroll in graduate or professional schools. Private loans connected to federal programs through the Federal Family Education Program have the same terms as those issued by the government. They provide financing at fixed rates not subject to market fluctuation. Private non-subsidized loans, however, increased by nearly 750% in the decade between 1996-7 and 2006-7[1] and now account for 24 percent of total loan volume.

Like tuition, debt levels vary by state. For the class of 2006, average debt levels varied by nearly $28,000 in the District of Columbia to under $12,000 in Hawaii (Reed 2006: 7). One-quarter of public college students have debt obligations above $25,000, and one-quarter of private college students have debt obligations above $28,000 (Dillon

2007). “High debt” students (defined as students owing more than $40,000) increased from a small fraction of 1 percent 15 years ago to more than five percent in 2004 (Project on Student Debt 2006).

The widespread use of credit cards by college students contributes to total indebtedness. Three out of five college students now own at least one credit card, and 44% carry a balance forward from month to month. In 2004 the median of these credit card balances was more than $2,000, and both the likelihood of carrying a balance forward and the amount of that balance increases from freshman to senior year (Nellie Mae 2005). Almost one-quarter of undergraduates in 2004 carried balances in excess of $3,000 (Ibid.) A study by the American Council on Education found that one out of four students owning a credit card said they had used it to pay tuition (King 2006).

It is important to keep these figures in perspective. Because of relatively low interest rates on federal educational loans, educational debt is not as burdensome as many other forms of consumer debt, and the most notorious practices of the consumer finance industry are largely absent from the student loan industry (see, e.g., Commission on Thrift 2008). Moreover, and most importantly, educational debt can be considered an investment which continues to bring a good rate of return for most borrowers. Indeed, the “college wage premium” has increased over time. In 1975, the average college graduate’s hourly wage was 24 percent higher than the average high school graduate’s. By 2002, the college wage premium had risen to 43 percent (Katz and Goldin 2007) Due in large part to the steep decline of well-paying unionized jobs in the labor market for young people with high school degrees, the gap between the economic worth of a college degree and that of a high school diploma has grown steadily wider over time

(Attewell and Lavin 2007: 161-3; Bernhardt et al. 2001). Moreover, the major alternative to debt, working longer hours and taking out fewer loans, is associated with less desirable academic outcomes. Controlling for a variety of socio-demographic and academic background variables, working long hours in paid employment is associated with lower grades and higher rates of college non-completion (Brint and Cantwell 2008). Although some trends in borrowing provide cause for concern, it would be wrong to classify student debt as a social problem.

Nevertheless, student debt has become a distinct and growing part of the broader American debt culture. It reflects changing attitudes among Americans about savings and debt, attitudes that persist into adult life, where debt has indeed become, for many people, a personal problem connected to the social and economic conditions of our time. It also has important consequences, as we will show, for students' experience of college and for their transitions from college to the labor market and adult status.

In this paper, we will begin by raising questions about economists' views of the behavioral consequences of student debt, based on interviews with students and the existing empirical literature. We will show that predictions of economic theory are, for the most part, not supported. We will then posit a sociological alternative to the "rational actor" model underlying the predictions of economic theory. This sociological alternative is based on the proposition that institutional and economic changes have led to a cultural change in students' understanding of debt. The rise of a culture of debt is, we will argue, marked by new assumptions and norms governing behavior. Using qualitative data collected by one of the co-authors, Matthew Rotondi, we will show how, in the context of widespread encouragement from the consumer finance industry and growing dependence on debt financing, students no longer think of student loans as a burden to be avoided or discharged quickly, but rather as a means of freedom, which opens up rather than limits behavioral options and particularly opportunities to enjoy "the full college experience." Students do not view debt exclusively as an investment, but also as a vehicle for consumption. At the same time, we will suggest that the "debt as freedom" optimism that we find in these interviews contributes, albeit often in a minor way, to delayed transition to adult status – as well as to significant economic hardships for some. In the last section of the paper, we will explore the consequences of growing indebtedness on a number of college-to-adult status transitions, including graduate school attendance and jobs, major purchases marking the transition to adulthood, and household and family formation. We will also examine psychological responses to debt among young adults.

Puzzled by inconsistencies in quantitative studies of the consequences of student indebtedness, we have turned to qualitative data in an effort to tease out student understandings of debt. We believe this qualitative approach will ultimately help to explain inconsistencies and anomalies in the quantitative evidence. However, ours is very much an exploratory study. The empirical analysis is based on interviews with 129 students at one Southern California public university.[2] The contribution of the paper, therefore, will be to raise questions about existing approaches to understanding the consequences of indebtedness, to develop a conceptual alternative supported by the student interviews (but requiring additional investigation), and to describe some of the behavioral consequences of the "culture of debt" as it influence both the college years and the years of transition to adult status. We have reviewed a wide range of studies.

We will cite figures from some of these studies in addition to our own, including a few studies based on small samples in which, as we will note, margins of error at the 95% confidence level are as large as +/- 5%.

ANOMALIES IN ECONOMIC PREDICTIONS

Because debt falls in the realm of market forces and financial transactions, economic theory provides a logical starting point for social science efforts to understand the behavioral consequences of student debt. Undoubtedly, the major causes for the growing dependence on debt for financing college can be interpreted as economic in origin. Increasing costs of attending college combined with stagnating family incomes and the growing relative benefits of college education have propelled the upsurge in student borrowing. However, economic analysis fails in other respects to shed much light on the behavioral consequences of increased indebtedness. Let us look at three propositions that seem to us to follow logically from the rational actor assumptions of economic theory.

These are:

(1) Indebtedness should affect the amount of information students have about debt; as obligations increase, debt literacy (i.e. knowing the terms of loans, repayment options and timelines, and the advantages of different forms of financing) should also increase.

(2) Indebtedness should affect work effort; if good grades are associated with labor market opportunities, students should on average work harder for good grades in order to be in a position to pay off their debts by obtaining better jobs.

(3) Indebtedness should affect the choice of majors; other factors being equal, the higher the debt the more likely students should be to choose majors with high average initial earnings on graduation.

Our interview data and the findings of existing research provide, at best, weak support for one of these propositions (the relationship between debt and majors), and no support for the other two.

Debt and Financial Literacy

Few studies have inquired about student's knowledge of the terms of their loans. Because the existing literature is sketchy at best on this topic, we will rely on the interviews conducted by Rotondi. Of the 129 students who responded to these questions in the study, a decided majority did not know the interest rate of their loan, the name of their lenders, or the risks of default. A near majority could provide no information about any of the following: the total amount they owed, the length of time they had to repay their loans, when their repayment began, or what their monthly repayment amount would be.[3] The interviews contained many instances of students revising their estimates of their rates and their monthly payments during the course of the interview. Some said that their parents had taken responsibility for the details of their indebtedness, so they really had no reason to know this information.

When asked about interest rates, some students had a good sense of their rates, while other students had no inkling. One student, for example, told Rotondi that her interest rate was “like 5.89% or something like that,” while another could only recall that it was “low, it’s really low.” Many could not respond to the question. Nor were the names of lending companies clear. When asked the name of her lender, one student said, “Um, I went through…I forget the name of it, but it was, um, National Student Loan…something.” Another said: “I don’t remember which one it is, but I have the one (that) has interest.”

Many took out loans online without any human interaction. The ease of taking out loans seemed to foster a sense that those providing them were working on the students’ behalf. Also in some cases, the combination of the tediousness of the process combined with the simplicity of applying online led to apathy: One respondent said “I was honestly tired online, and I didn’t read everything. The website was like so many pages, and so I just kept clicking okay; it was easier”. Nevertheless, students were required to take a tutorial on the basic facts about their loans and promissory notes. Most, however, quickly forgot the contents of the tutorial. When asked if she remembered the contents of the tutorial, one student spoke for most of her classmates interviewed by Rotondi: “No… Not really… Not at all.”   Most students expressed an “I’ll worry about that later” attitude. Some students spoke literally, as well as metaphorically, of putting their loans in a drawer to forget about them. They felt that thinking about debt while in school would be a waste of time, because they were not expected to pay them back until after graduation. One student expressed this present-time orientation in a succinct way: "I don't want to think about it…it's too far from now."

Debt and Academic Work Effort

Indebtedness shows little or no connection to student work effort. Increases in debt have not led to increases in out-of-class study time. Indeed, out-of-class study time has been declining since the early 1960s. Project Talent data indicates that students spent, on average, about 25 hours a week in out-of-class study in 1961. Today, they spend on average about 12 hours a week in out-of-class study (Babcock and Marks 2007). Some types of students (notably, engineering students, women students, first-generation students, and students attending highly selective institutions), spend more time studying than others (Babcock and Marks 2007; Brint et al. 2008). But no groups begin to approach the average levels of study found in the early 1960s.

Economic incentives for study could be considered significant. Out-of-class study time is a strong predictor of grades, controlling for socio-demographic and academic background characteristics (Brint and Cantwell 2008). Grades, in turn, are well established as a predictor of students' job prospects, controlling for background, major, and college selectivity level (Bowen and Bok 1998; Murnane, Willit and Levy 1995).[4]

It is therefore surprising that no studies have demonstrated a connection between indebtedness and out-of-class study time. Hours of paid employment are strongly related to lower grades, but levels of indebtedness, an alternative to paid employment for many students, seem not to be related to higher grades or even to higher than average hours of out-of-class study. In Rotondi's interviews students talked about the importance of degrees for their future job prospects, but they did not mention the importance of grades. Given the well demonstrated links between out-of-class study and high grades, and between higher grades and higher paying jobs, these non-findings would, we think, be considered a puzzling anomaly by most economists in the human capital school.

Debt and Major Choice

Evidence on choice of majors is mixed, but one point is clear: the rise in student debt follows by more than a decade the shift toward more market-oriented majors. The shift from arts and sciences to occupational/professional careers began in the early 1970s, during a period of downturn for college educated labor (Freeman 1976), and reached its apex at approximately two-thirds in the mid- 1980s at the high tide of the market-oriented "Reagan Revolution" (Brint et al. 2005). Students' attitudes about the purpose of attending college changed during the same period from motivations highlighting intrinsic rewards to motivations highlighting financial prospects associated with college degrees (Astin 1998). Since the mid-1980s, the proportion of occupational/professional majors has declined slightly but has remained above 50% throughout (Brint et al. 2005). Thus, the timing of the shift to occupational/professional majors in the 1970s and 1980s does not coincide with the timing of the rise in student indebtedness more than a decade later. Some 455 of students continue to study arts and sciences fields with little direct connection to careers. In spite of increased debt levels, students pursue non-applied majors in which they are interested and feel they have an aptitude (Choy and Li 2005), sometimes with the idea of studying a more applied field in graduate school.

Subjective reports give a conflicting impression that debt can matter greatly for major choice. One study, for example, found that nearly one in five of 1280 college graduates surveyed said they had changed their careers due to the risk of debt (Baum and O'Malley 2003). Similar findings have been reported for legal and medical students contemplating public service versus private practice opportunities (Araventes 2007; Field 2002). Subjective reports based on survey data are, we believe, of dubious value; in a utilitarian culture opportunities for higher levels of remuneration may in fact be the driving factor in the decision making of most students, but admitting to this motivation may not be as socially acceptable as citing concerns about debt as a reason for pursuing majors leading to remunerative careers

More convincingly, in a natural experiment, when one university shifted from financial aid based on loans to financial aid based on grants, more students chose public service careers. Based on the changing distribution of major choices, the researchers estimated that a decrease of $10,000 in student debt would increase the likelihood of taking a job in the non-profit or public sector by 5 to 6 percent (Basken 2007).

In sum, the role of debt in major choice is probably not as pronounced as survey studies, particularly those focusing explicitly on debt, suggest. The best evidence suggests that significant reductions in debt obligations (by $10,000 or more) would produce, at most, a modestly greater propensity among undergraduate students to pursue arts and sciences degrees rather than occupational/professional degrees and majors tied to the non-profit and public sectors.

A SOCIOLOGICAL ALTERNATIVE: THE CULTURE OF STUDENT DEBT

If economic theory is an unreliable guide to the behavioral consequences of increasing student debt, what alternative would be preferable? In this section of the paper, we will develop a framework based on analysis of what we will call "the culture of student debt."[5] Against rational choice approaches, we will take the position that the behavior of individuals is grounded in a context formed, not just by changing economic conditions, but by institutional agency and by the norms and practices of those with whom students interact. We will also emphasize that the consequences of debt vary along lines of social differentiation – in the case of student debt this variation is particularly evident along racial and class lines. The culture of student debt is, we will argue, fundamentally a middle-class phenomenon. Students from disadvantaged backgrounds are well integrated into it, but they do not share fully in its benefits.

As we have emphasized already, changing economic conditions are the first element in our approach to understanding the culture of student debt. Absent low tuition policies, students have had to find ways to finance their now more expensive college educations. The robust "college wage premium" has provided motivation for students to want to find ways of financing their educations. Any analysis of student debt must include changing economic conditions as the backdrop to cultural adaptation.

Institutional behavior is the second element of our approach. Like other actors in the consumer finance industry, student lenders have seized the new market opportunities by making the purchase of loan financing easy and convenient. No elaborate credit checks are necessary, and online applications can make loans seem easy to obtain. The industry has also marketed favorable repayment terms, allowing a short grace period after graduation and opportunities to extend repayment periods. No efforts are made by lenders to go over the terms of loans carefully with students; these are left to the fine print and are, consequently, often unread.

The loan industry has followed the blueprint of the rest of the American consumer credit and loan industry. This blueprint emphasizes that providers should make their products seem as attractive as possible by marketing the investment and lifestyle opportunities that loans open up. They should, in addition, make financing readily available and easy to obtain, and maximize flexibility in repayment. They should not dwell on the interest rates, repayment terms, or potential risks to consumers in the case of default. Although the student loan industry lacks, for the most part, the exploitative features of other segments of the consumer financing industry, student lenders are not averse to inculcating norms and values that foster unwise choices and contribute to regrettable outcomes. Moreover, most students also carry credit card debt, and credit cards do have very high interest rates. What the Commission on Thrift writes about such predatory practices as subprime mortgages and payday lending applies with little modification to student lenders: “For today’s anti-thrifts, the effort to influence values takes the form of highly organized and self-conscious marketing and lobbying campaigns. Modern anti-thrift institutions spend a lot of money studying the beliefs, habits, and preferences of their consumer base; promoting their financial products through advertising, celebrity endorsements, and consumer testimonials; making the case for favorable industry legislation; and burnishing their image and reputation for probity” (Commission on Thrift 2008: 31). Marketing on college campuses confers a sense of legitimacy to lenders, who are connected in this way to the seemingly non-commercial character of educational institutions.

The third element in our approach is an appreciation of the impact of social norms. We emphasize the fundamental sociological principle that individuals do not act in a vacuum, but rather seek the acceptance and respect of others by modeling their behavior on the norms typical of their milieus. As patterns of understanding and action change in students' reference groups, so too do individuals' interpretations of and actions in the world. In the case of student debt, the dominant themes in Rotondi's interviews mix understandings of loans as investments and understandings of loans as "freedom" to participate in "the college experience." Thus, loans are not only investment instruments; they are also means for realizing consumption norms.

The first theme is consistent with the standard social science understanding of loans as investments in human capital. Indeed, many of Rotondi's interviewees understood loans as an investment in their futures, with an emphasis on the dim prospects associated with failure to obtain a college degree. Most identified college as "a necessity." One student said, "You pretty much can't get by in life now without a college degree." Others equated college graduation with chances of achieving a middle-class style of life. One student said, "I think nowadays without it, it would be very difficult to have a middle class life, or a more decent life, without worrying or stressing the whole time about money. With a good education, you probably have higher chances to have a good life." Another identified the value of the college degree with the evocative term "successful financial freedom."

At the same time – and here is where we differ from human capital theorists -- loans were seen equally as providing opportunities for consumption. The concept of "the full college experience" was a touchstone for the students interviewed by Rotondi. For most of those interviewed, quality-of-life was at the heart of the full college experience. It meant, above all, a style of life in which opportunities to spend time with friends, participate in campus activities, and "enjoy life" were abundant.[6] Before he took out loans, one student interviewed by Rotondi said he would never have thought of participating in his ideal college experience, but now that has changed: "In the back of my head I would think about joining a club or something, but I have the opportunity now because of loans." Another student equated loans with "easy living" and "soak[ing] in the college experience." "I was president of my fraternity…It has allowed me to do that kind of stuff." Another student said that instead of taking out loans, "…I could have lived at home and commuted, but…that would take up a lot more time, and I don't want to take up that much time going in between school and the college experience..." Altogether, among the respondents who answered this question, a sizable majority of the respondents said that taking out loans had "improved the quality" of their time in college.[7]

The idea that consumption is at least as important to students as investment is not surprising, given the patterns of time use found among students. For example, while the average University of California student works about 9 hours a week in paid employment and studies in and out of class about 27 hours a week, s/he is involved in social and recreational activities about 42 hours a week (Brint and Cantwell 2008). The ideal college experience includes study, to be sure, but even more time spent on entertainment and socializing.

Loans also provide extra cash that facilitates these experiences and reduces the stress of having to worry about money. One student said, "When I have (the loan) I'm okay, and when I don't it makes me stressed and I worry." Another had similar feelings: "I don't want to stress myself out. I want to enjoy life. [I don't want to] sit at home… [and worry about money]. So to me that's kind of more important because I want to enjoy my college life as well." Another student said, "What's the point of coming to college if you work the entire time?"[8] Even the prospect of repayment could be put on the back burner while students focused on the college experience. Said one, "I try not to let it (repayment) bother me much. I don't want to live my life thinking that I have to pay this back." Although they were aware of long-term differences, some students looked at loan disbursements in the short term as similar to being paid, because the consequences were similar; after their loan disbursements, they could pay their bills and start "enjoying life" again.

The theme of freedom reappears in students' thinking about pursuing scholarships as compared to obtaining loans. Many students find applying for scholarships unappealing. Students interviewed by Rotondi disliked applying for scholarships because they required quite a bit of time to complete and were difficult to obtain. Many felt that they did not have time to apply for scholarships. As one of Rotondi's respondents said, "I always tell myself I should [apply], but I don't. Because it's just hard when you don't have that much time to do it…I think a lot of people like me are, like, I just don't have the time to do it..." Unlike scholarship applications, which are seen as costly (in time) and a burden, loans were associated with freedom, because they were so much easier to obtain and were a “sure thing.”

We think the association of loans with freedom may be very important in understanding the student debt culture. For the students interviewed by Rotondi, loans were, above all, “freeing,” because they reduced financial anxieties (at least in the short run) and allowed students to enjoy the full college experience. Moreover, the entry to this world of “freedom” seemed, again, at least in the short term, “free.” Even though students realized that they would have to pay back their loans at a future date, the money seemed to be almost without cost, because repayment seemed so far in the future. Loans allow for a “starter middle class life” in which opportunities to purchase some of the good things in life and to enjoy campus activities and socializing with friends are expected features of the normative package. Some sociologists have argued that indebtedness increases students’ stress and anxiety (see, e.g. Drentea 2000). But the evidence of Rotondi’s interviews suggests the opposite conclusion may be truer. Loans may provide stress relief, rather than contributing to stress. They reduce student anxieties about money so that students can do what they expect to do: study and “enjoy life.”

The fourth and final element of our sociological approach to student debt is an emphasis on differential exposure to the consequences of debt along class and racial-ethnic lines. Debt-aversion has dropped among all groups, as the price of attending college has risen. This represents a significant change over borrowing patterns in the 1970s and 1980s when minority students showed a distinct disinclination to take out loans, in part because of concerns they felt about their ability to repay (Hauser and

Anderson 1991; Karen 1991). Today, the best available evidence suggests that African American, Hispanic, and Asian American students are more likely to be borrowers than whites and also borrow more on average than whites (NCES 2002, 2008). The student debt culture, in short, has incorporated every segment of the college-going population, overcoming minority groups' historic aversion to debt.[9] Middle-income students tend to borrow more than either upper-income or lower-income students, reflecting the availability of Pell grants and institutional financial aid as alternatives to borrowing for lower-income students (NCES 2008).

However, groups vary in the hardships they face from debt obligations. According to King and Bannon (2002), a decided majority of African American and Hispanic students graduated in 2000 with "unmanageable" debt (defined at the time as more than 8 percent of monthly income), compared to 39% of all students. Default rates continue to be higher among minority students, and more minority students report economic hardships due to debt (Baum and O'Malley 2003). These figures reflect not only higher levels of borrowing, but lower levels of parental resources to help with repayment and lower average monthly incomes following graduation.

From the beginning of American higher education in the 17th century, campus culture has been divided between "outsiders," who work to attend school and tend to adopt a more strictly bread-and-butter approach to their educations, and the "college crowd," whose interests are in campus social life and who have neither the need or inclination to work long hours in paid employment to support their studies (Horowitz 1987). Today, the college crowd increasingly supports its lifestyle through debt financing rather than family savings. Hours of paid employment continue to be a primary line of demarcation between the "outsiders" and the "college crowd," because some students do work many more hours than the norm. What is less widely appreciated is that debt financing has led to a major expansion in the numbers of students who are able to join the "college crowd." The norm for all racial-ethnic groups has been to rely on debt financing and through this reliance to participate in the full college experience. To cut back on "enjoying college" in favor of working long hours to pay off tuition or to support family is to be placed in exile from the "full college experience." For most students who understand college as both a good investment and a "special phase" of life, such a choice would be painful, if not intolerable. As the debt culture expands, so too does the size of the "college crowd."

Our analysis is exploratory and based on limited data. Additional research will be necessary to demonstrate that the sociological approach we have developed actually explains anomalies in the literature that rational choice theories cannot explain. For the time being, we will only claim that our alternative conceptual framework *may* prove to be superior to rational choice as an explanation of student behaviors in the face of increasing debt. This alternative framework turns on the normative character of debt and its association in middle-class culture with freedom to "enjoy life." We can summarize how this framework helps to explain the three anomalies we noted at the beginning of the paper as follows:

(1) *Debt Literacy:* Because most students take out loans and because students see loans as a mechanism of freedom rather than a burden and constraint, their interest in the specific terms of their loans is low. As long as others are in the same boat, the

underpinnings of their economic obligations are of little interest; they are “normal” and “unexceptional,” and, in any event, have little bearing on current conditions of life.

(2) *Work Effort:* If the college experience includes a “normal” (and low) level of expected study and studies are only one part of the college experience that students are “buying” through debt financing, little direct connection should be expected between loans and work effort. Moreover, the evidence suggests that in the minds of college students, degrees are the key to success, not grades, and as long as students feel that they are moving forward in their degrees, they also feel that they are moving forward to the good jobs they anticipate await them on graduation. The common saying “Cs get degrees” reflects this attitude; it does not matter how you obtain your degree, as long as you find a way to obtain it.

(3) *Major Choice:* Freedom is also a factor in major choice. Utilitarianism is a central element of contemporary campus culture, and for this reason remunerative majors have been very popular on campus for more than 30 years. Within this context, it is not surprising that debt has little impact on choice of major. Because debt is associated with freedom rather than constraint, students feel empowered by debt to study what they want to study, particularly since college is a “special phase” of life in which students discover what interests and abilities they have, and what they want to do in life.

DEBT AND TRANSITIONS TO ADULTHOOD

Students tend to be very optimistic about the future. All of the students interviewed by Rotondi were confident that we would find good jobs and therefore be in a position to pay off their debts. None of them had adjusted their plans to attend graduate or professional school on the basis of indebtedness, a finding consistent with other research as well (see, e.g., Choy and Li 2005; Monks 2001; cf. Millett 2003).

Although debt seems to exercise little constraint on students' behavior and plans during their college years, it does have consequences for transitions to the labor market and adult status. Students' high hopes for the future take considerable time to be realized. This time lapse extends the period of latency between adolescence and adulthood and pushes transitions out later into the life cycle. Debt is one factor – albeit often only a minor factor – that can influence these delayed transitions. More frequently, high hopes can turn sour when the reality of starting off life with significant financial obligations hits home. We believe debt looms larger in students' understandings of the struggles they face in the transition to adulthood than it does as an actual cause of these struggles. Just as it is a convenient rationale for pursuing remunerative careers, so to is it a convenient source of blame when things seem not to be working out as easily as anticipated. In this section, we will review what we know about the consequences of student debt for transitions to adult status – and for young adults' attitudes about these transitions.

The consequences of debt, of course, depend on the size of debt as a proportion of monthly income. Many come out of college with little or no debt. Others obtain high-paying jobs immediately out of college and can comfortably afford their monthly payments. Today, average monthly payments out of college are approximately $233/month, or 9 percent of average monthly income (Simmons 2008).[10] When charges on credit card debts are added into monthly bills, the average debt burden grows to 10 percent of monthly income.

A major change over the last generation has been the “boomerang effect,” in which children return home to live with their parents while they search for jobs and financial independence. Unfortunately, good data on the “boomerang effect” is as yet scarce. A survey of 320 college graduates in 2006 found that 58% had moved back home with parents after college, and 48% said they had done so to save money. One third of these 2006 graduates stayed at home for more than a year (Markarian 2008).[11] Difficulties obtaining jobs that allow for financial independence are the primary cause of the “boomerang effect” (Mishel and Gould 2008), but some studies suggest that debt may be a contributing factor. Carlson (2005) found that both younger and lower-income persons were more likely to be living with their parents after college, as were borrowers paying more than 15% of their monthly incomes for loan repayments.

Debt may be a factor, albeit a minor one, in the delay of marriage. Americans have been marrying later for more than a generation, and the trend began well before the growth of student indebtedness. Primary causes for this shift to later marriage have been women’s greater educational and labor market opportunities, as well as technologies that allow for control of fertility. No studies have been able to identify the size of the causal contribution of debt, if any, to delayed marriage. Indeed, one cohort study found no difference in likelihood of marrying within a year of graduation by level of borrowing or debt burden (Choi and Li 2005). Those studies finding effects on delays of marriage are based on subjective responses, which can be highly misleading. Even here, measured effects are relatively minor. One recent study, for example, of 1280 college graduates found that 14% of college graduates said student loans had caused them to delay marriage, just a 5% jump from findings 15 years earlier (Baum and O'Malley 2003).

Stronger effects are possible, but again not yet proven, for delay of first child birth. Age of first child birth has shifted later in the life cycle for married couples. In 1970, 19% percent of first births were delivered by women 25 or older; by 2000, this percentage had risen to over 50% (Demos 2007). Again, women's educational and labor market opportunities and the diffusion of technologies for control of fertility are primarily responsible for delays in first child births. At the same time, young couples are aware of the financial burden associated with raising children. Debt payments affect the total family budget and, if they are substantial, can reduce the confidence that young people feel about their capacity to raise a family. Child care costs are a particular issue. The average monthly fee for child care is $325; most families receive tax credits of less than $1000/year. Consequently, the average two parent family with two children spends 11% of their budget on child care, up from 1% in 1960 (Ibid.). Subjective data support the notion that debt obligations may loom larger in family planning than in marriage decisions. More than one-fifth (21%) of the 1280 college graduates surveyed by Baum and O'Malley (2003) said that debt had led them to delay having children, a 9% jump from 1987.

Student loan debt may more directly contribute to delaying the major commodity purchases associated with adult status, although the cost of these commodities is clearly also an important factor, particularly in the case of home purchases. Thirty-eight percent of the 1280 college graduates surveyed by Baum and O'Malley (2003) said that debt had caused them to delay purchasing a home, and another 30% said that it had caused them to delay purchasing a car. In both cases, these were large jumps from earlier surveys of college graduates going back to 1987. In 1987, 23% of graduates said that student loan debt had delayed them from purchasing a house, and only 17% said it had delayed them from purchasing a car (Ibid.).

Evidence of economic hardships and frustrations due to debt are evident in both survey and interview studies of young college educated adults. One-third of 1500 respondents with student loan debt said they had sold personal possessions to make ends meet compared to 17% of those without debt (Young 2006). More than 25% of those surveyed said they had delayed a medical or dental procedure, compared to fewer than 5% of those without debt (Ibid.). Debt also contributes to marital stress, although student debt is almost certainly a relatively minor factor in the development of marital unhappiness as compared to mortgage payments and credit card charges (see, e.g., Sullivan, Warren and Westbrook. 2000). In a large-scale survey of married couples, three-quarters of "happily married" couples agreed with the statement "Major debts are not a problem," but only 35% of "unhappy couples" agreed with the statement (Usher 2005).

For most students, years of enjoying the college experience are now predictably followed by years of struggle to gain a foothold in the labor market and to achieve the symbolic markers of adult status. Debt repayment is not the primary cause of young adults' economic problems, but, because it is a monthly reality, it may be a primary perceived cause. Bitterness often follows an attractive seducer who promises the world and departs delivering much less than the world. In contemporary American society the marketing of debt provides a very powerful seduction to pursue the pleasures of consumption, including consumption of college life.

Not surprisingly, after college young adults look for those to blame for their struggles to achieve financial independence and the markers of adult status. A survey of 1508 college graduates by the investment house AllianceBernstein found that 44% said they would give their parents or guardians a "D" or "F" grade for preparing them financially for college. A companion study showed that parents themselves were almost equally unhappy with themselves over the preparations they had made for covering the costs of college (AllianceBernstein 2006). The tendency of young adults to blame student debt for their struggles following college may increase in the future, given the attention currently being paid to debt as a source of Americans' financial woes (see, e.g. Brooks 2008; Commission on Thrift 2008; Morgenson 2008). Debt is being constructed by well-connected actors as a key social problem, building on attributions, fair or not, that are already embedded in public consciousness.

CONCLUSIONS

It is not surprising that recent college graduates express ambivalence about student loans. On the one hand, positive views remain prevalent. Students are very inclined to credit student debt with fostering their personal development and, to a lesser degree, their career opportunities. A clear majority (59%) of the 1280 graduates surveyed by Baum and O'Malley (2003) said that the benefits of loans outweighed their disadvantages. On the other hand, higher proportions of students are also critical of their dependence on loans while in college. A majority (54%) of college graduates in the same survey said they would have borrowed less if they had it to do over again. These responses have changed significantly since 1987, when 68% were convinced that the benefits of loans outweighed the disadvantages, and only 31% said they should have borrowed less if they had it to do over again (Ibid.). More than half of these recent college graduates said they are burdened by debt and more than one-third reported experiencing hardships after college because of debt

Although student debt is for most "good debt" in the long run, its broader implications as a source of support for less good forms of debt may merit inspection. From a critical perspective, it is plausible to interpret student loans as "trainer debt." By taking out loans, students engage for the first time with the consumer credit industry on terms that are relatively benign. Relatively low interest rates and state-regulated programs make entry into the debt culture seem safe and secure. Students can begin to associate debt with relatively painless access to the good life. Colleges are particularly well designed to build associations with the good life, given the new freedoms they offer for personal exploration, their acres of greenery and stately buildings, their inclusive cultures, the many exciting artistic and social opportunities they offer, and their wide variety of nurturing student services. Like other domains of the American middle class, they are also environments in which competitive consumerism thrives. Terms that allow for repayment well out into the future greatly reduce the salience of the burdens lying ahead. Student debt may foster, through its very mildness, a mentality that equates debt with convenience and pleasure. Whether this mentality contributes to the later acceptance of riskier and more burdensome forms of debt is a question we hope future research will address. Clearly, during the years of struggle following college other lessons about debt come to the foreground, but memories of the good life in college may live on as the deeper impression for most young adults.

From a policy perspective, it can be argued that we have lived during the last decade in a topsy-turvy world in which elite private colleges and universities are moving toward free tuition for most admitted students, while costs continue to rise for middle and working-class students attending public institutions. The costs of college will not decline any time soon, so long as the current structural causes of the "high tuition-high aid" system are in place. Therefore, tools for ameliorating the negative outcomes of student debt must be found elsewhere. In our view, Congress has taken a promising approach by considering cutting interest rates for the federal Stafford loan program.[12] Congress has also passed an income-based repayment plan (H.R. 2669) which puts repayment caps for different family sizes and income levels. For two people with a combined income of $60,000 the rate is 9.9%. Loan forgiveness programs based on public service represent a potentially valuable policy mechanism, although they have not yet proven that they are effective in encouraging more qualified students into public service careers (Field 2007).

In theory, effective debt education would be a final valuable component of a reform agenda. However, because students are resistant to focusing on the terms and consequences of debt, this will almost certainly be the most difficult reform to enact successfully. Nevertheless, the current crises in the mortgage lending and consumer finance industries are providing an opening for creative approaches to reviving a culture of thrift. Public support for doing something about reducing exposure to debt (Educational Testing Service 2003; Greenberg Quinlan Rossner 2006) and media attention on the American "culture of debt" (see, e.g., Brooks 2008; Morgenson 2008) have never been higher than they are today. Clever educators, consequently, have an opportunity to step into the breach.

Notes

[1] The growth of private loans unrelated to federal and state regulated programs is troubling, because private loans are typically based on variable interest rates and charges can be as high as 10.5% percent APR. Moreover, private lenders typically prevent student borrowers from paying off the loan amount ahead of time or paying more than the required amount on each installment – thus ensuring the lender maximum interest over the repayment period.

[2] Twelve of these interviews were lengthy, in-depth interviews conducted by Rotondi. The remaining 117 were shorter and more focused interviews, conducted by undergraduate students supervised by Rotondi.

[3] Because Rotondi's was a small, convenience sample, these figures may not be indicative of underlying distributions.

[4] See also Rosenbaum and Binder (1997) on the importance of cognitive skills to employers of high school students.

[5] Our work is a more comprehensive treatment of the "culture of debt" concept than those found in recent discussions by social scientists (Commission on Thrift 2008), which have emphasized institutional interests and agency, or journalists (Brooks 2008), which have emphasized changing social norms.

[6] For some students, the full college experience included the opportunity to meet new people and make contacts, too. One student defined the full college experience as "finding yourself, and finding what it is that you want to do in life, and making valuable connections, and then enjoying yourself part of the time." Contacts can be considered a form of human capital and can be understood within the framework of loans as investment. In this respect, an investment perspective can be applied to understand at least a part of the meaning of the "full college experience."

[7] Again, we make no inferences from this figure which is based on a convenience sample.

[8] These responses are consistent with the work of other researchers who have argued that most students who take on debt develop a positive attitude toward it. As Davies and Lea (1995) concluded, most students in college think of themselves as in a "special phase" of their life and choose to take on debt to "sustain an acceptable lifestyle," which means combining studies with making contacts and enjoying the college experience. Other researchers, too, have found that while students with low levels of parental support see loans as a necessity that should be repaid with effort; for middle-

class students loans are closely connected to ideas about improving their lifestyle while in college (Christie and Munro 2003; Christie, Munro, and Rettig 2001).

[9] Some evidence suggests that Mexican-American students remain debt-averse, partly because of concerns about exposing relatives to immigration inquiries (Burdman 2005).

[10] This figure is based on a calculation of the average monthly payment on the average debt ($21,000) for the average term (10 years). Based on this calculation, the average student will pay nearly $7,000 in interest on the principle of student loans.

[11] Precise estimates are not possible in a survey of this size, given that margins of error at a 95% percent confidence interval are +/-5%.

[12] The College Student Relief Act of 2007, passed by the house as H.R. 5 and currently under consideration by the Senate, would decrease rates in a step fashion annually until they reach 3.4% in 2011.

References

AllianceBernstein Investments. 2006. *Failing Grades: American Families and their College Savings Efforts*. New York: AllianceBernstein. (October).

Aravantes, James. 2007. "Graham Center to Launch Study on Student Career Choices, Debt Levels." Washington, DC: The American Academy of Family Physicians. Retrieved from www.aafp.org.

Astin, Alexander W. 1998. "The Changing American College Student: Thirty-year Trends, 1966–1996." *Review of Higher Education* 21: 115–35.

Attewell, Paul and David E. Lavin. 2008. *Passing the Torch: Does Higher Education for the Disadvantaged Pay Off Across the Generations?* New York: Russell Sage Foundation Press.

Basken, Paul. 2007. "Study: Debt Affects Career Choices." *The Chronicle of Higher Education* 53 (41).

Babcock, Philip and Mindy Marks. 2007. "The Falling Time Cost of College: Evidence from Half a Century of Time Use Data." Unpublished paper. Department of Economics, University of California, Santa Barbara and Department of Economics, University of California, Riverside.

Baum, Sandy and Marie O'Malley. 2003. *College on Credit: How Borrowers Perceive their Education Debt: Results of the 2002 National Student Loan Survey.* Braintree, MA: Nellie Mae.

Baum, Sandy and Diane Saunders. 1998. *Life after Debt: Results of the National Student Loan Survey.* Braintree, MA: Nellie Mae.

Bernhardt, Annette et al. 2001. *Divergent Paths: Economic Mobility in the New American Labor Market.* New York: Russell Sage Foundation Press.

Bowen, William G. and Derek Bok. 1998. *The Shape of the River: Long-Term Consequences of Considering Race in College and University of Admissions.* Princeton: Princeton University Press.

Brint, Steven and Allison M. Cantwell. 2008. "Student Time Use and Academic Outcomes." Unpublished paper. Department of Sociology, University of California, Riverside.

Brint, Steven et al. 2005. "From the Liberal Arts to the Practical Arts in American Colleges and Universities, 1970-2000: Organizational Analysis and Curricular Change." *The Journal of Higher Education* 76: 151-80.

Brint, Steven et al. 2008. *A New Generation: University of California Undergraduate Experiences Survey (UCUES) General Report.* Berkeley: Center for Studies in Higher Education.

Brooks, David. 2008. "The Culture of Debt." *New York Times* (July 22): A19.

Burdman, Pamela. 2005. "The Student Debt Dilemma: Debt Aversion as a Barrier to College Access." Research and Occasional Paper Series. CSHE 13.05. Berkeley: Center for Studies in Higher Education, University of California, Berkeley.

Carlson, Allan. 2005. "Anti-Dowry? The Effects of Student Loan Debt on Marriage and Child Bearing. Retrieved from http://projectonstudentdebt.org/recent_data_and_research.vp.html.

Christie, Hazel and Moria Munro. "The Logic of Student Loans: Students' Perceptions of the Costs and Benefits of the Student Loan." *British Journal of Sociology of Education* 24: 622-35.

Christie, Hazel, Moira Munro and Heidi Rettig. 2001. "Making Ends Meet: Student Incomes and Debt." *Studies in Higher Education* 26: 363-83.

Choy, S.P. and X. Li. 2005. *Debt Burden: A Comparison of 1992-93 and 1999-2000 Bachelor's Degree Recipients a Year After Graduating.* Washington, DC: National Center for Education Statistics. NCES 2005-170.

Clotfelter, Charles T. 1996. *Buying the Best: Cost Escalation in Elite Higher Education.* Princeton: Princeton University Press.

Commission on Thrift. 2008. *For a New Thrift: Confronting the Debt Culture.* New York: Institute for American Values.

Davies, Emma and Stephen E.G..Lea. 1995. "Student Attitudes to Student Debt." *Journal of Economic Psychology* 16: 663-79.

Demos. 2007. *Generation Debt: Student Loans, Credit Cards and their Consequences.* Report from the Young Adult Economics Series. Retrieved from www.demos.org/pubs/yaes_web_debt.pdf.

Dillon, Erin. 2007. *Hidden Details: A Closer Look at Student Loan Default Rates.* Retrieved from www.educationsector/org/analysis/analysis_show.htm?doc_id-559757.

Drentea, Patricia. 2000. "Age, Debt and Anxiety." *Journal of Health and Social Behavior* 41: 437-50.

Educational Testing Service. 2003. *Quality, Affordability, and Access: Americans Speak on Higher Education.* Princeton: Educational Testing Service. Retrieved from www.ets.org/media/2003/report.pdf

Field, Erin. 2002. "Educational Debt Burden and Career Choice: Evidence from a Financial Aid Experiment at NYU Law School." Princeton Univeristy Industrial Relations Section. Working Paper #469. Retrieved from www.irs.princeton.edu/pubs/working_papers.html.

Field, Kelly. 2007. "Forgiving Loans of those in Public Service Grows Popular, but Programs are Unproven." *Chronicle of Higher Education* 54 (12).

Freeman, Richard B. 1976. *The Over-Educated American*. New York: Academic Press.

Geiger, Roger L. 2004. *Knowledge and Money: Research Universities and the Paradox of the Marketplace.* Stanford: Stanford University Press.

Greenberg, Quinlan Rossner. 2006. *Public Recognizes Debt as a Fast Growing Problem in the U.S.* Washington, DC: Greenberg, Quinlan Rossner. (July).

Hauser, Robert M. and Douglas K. Anderson. 1991. "Post-High School Polans and Aspirations of Black and White High School Seniors." *Sociology of Education* 64: 263-77.

Horowitz, Helen. 1987. *Campus Life: Undergraduate Cultures from the End of the Eighteenth Century to the Present.* New York: Knopf.

Kamenetz, Anya. 2006. *Generation Debt: Why Now is a Terrible Time to be Young.* New York: Riverhead Books.

Karen, David. 1991. "The Politics of Class, Race, and Gender: Access to Higher Education in the United States, 1960-1986." *American Journal of Education* 99: 208-37.

Katz, Lawrence and Claudia D. Goldin. 2007. *The Race between Education and Technology: the Evolution of U.S. Educational Wage Differentials, 1890-2005.* Cambridge, MA: National Bureau of Economic Research.

King, Jacquelyn E. 2006. *Credit Card Ownership and Behavior among Traditional-Age Undergraduates, 2003-4.* Washington, DC: American Council of Education. Retrieved from http://projectonstudentdebt.org/recent_data_and_research.vp.htiml.

King, Tracy and Ellynee Bannon. 2002. "The Burden of Borrowing: A Report on the Rising Rates of Student Loan Debt." Retrieved from http://www.pirg.org/highered.

Markarian, Marjorie. 2008. “Report from the Real World.” *Career World* 36 (5).

Millett, Catherine M. 2003. “How Undergraduate Loan Debt Affects Application and Enrollment in Graduate and Professional School.” *Journal of Higher Education* 25: 195-213.

Mishel, Lawrence and Elise Gould. 2008. *Economic Snapshots: Inhospitable Job Market to Greet College Graduates.* Washington DC: Economic Policy Institute. Retrieved from www.epi.org.

Monks, James. “Loan Burdens and Educational Outcomes.” *Economics of Education Review* 20: 545-50.

Morgenson, Gretchen. 2008. “Another Day Older and Deeper in Debt: Lending Practices Encourage Rampant Borrowing, Critics Say.” *The New York Times* (July 20): A1 ff.

Murnane, Richard, John Willett, and Frank Levy. 1995. “The Growing Importance of Cognitive Skills in Wage Determination.” *Review of Economics and Statistics* 77: 251-66.

National Center for Education Statistics. 2002. *Profile of Undergraduates in U.S. Postsecondary Institutions, 1999-2000.* Washington, DC: NCES. NCES 2002-168.

---. 2008. *The Condition of Education 2008.* Washington, DC: NCES. NCES 2008-031.

Nellie Mae. 2005. *Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends.* Braintree, MA: Nellie Mae. Retrieved from http://projectonstudentdebt.org/recent_data_and_research.vp.html.

Project on Student Debt. 2006. "Student Debt and the Class of 2005: Average Debt by State, Sector and School." Retrieved from http://projectonstudentdebt.org/files/pub/State_by_State_report_FINAL.pdf.

Reed, Matthew. 2007. *Student Debt and the Class of 2006.* Retrieved from http://projectonstudentdebt.org.

Rosenbaum, James E. and Amy Binder. 1997. "Do Employers Really Need More Educated Youth?" *Sociology of Education* 70: 68-85.

Simmons, Charlene Wear. 2008. *Student Loans for Higher Education.* Sacramento: California Research Bureau, California State Library.

Sullivan, Teresa A., Elizabeth Warren, and Jay Lawrence Westbrook. 2000. *The Fragile Middle Class: Americans in Debt.* New Haven: Yale University Press.

Usher, Alex. 2005. *Global Debt Patterns: An International Comparison of Student Loan Burdens and Repayment Conditions.* Toronto: Educational Policy Institute.

Young, Lauren. 2006. “Mom, Dad, I’m Home! *Business Week* 3987 (June 5).