

How student debt impacts the racial wealth gap

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With an increasing number of young Americans accumulating student debt as they strive for a higher degree and a more secure economic future, their growing financial burden has been highlighted by the media and lawmakers. However, current policy conversations have failed to address the racial disparities that exist in student borrowing and how student debt impacts the racial wealth gap among young households.

The Institute on Assets and Social Policy (IASP) and Demos recently released "Less Debt, More Equity: Lowering Student Debt while Closing the Black-White Wealth Gap" to add a racial equity lens to the discussion. Using the Racial Wealth Audit, a framework developed at IASP to assess the impacts of policies on the racial wealth gap, this report highlights how new policies can both lower overall student debt burdens and reduce racial wealth disparities among young households. IASP Director Thomas Shapiro provides an overview of the Racial Wealth Audit in the video below.

Thomas and fellow IASP researchers Tatjana Meschede and Laura Sullivan recently talked with Heller Communications about the key findings in this latest Racial Wealth Audit report.

Why apply the Racial Wealth audit to a student debt lens?

Growing tuition rates and skyrocketing levels of debt have reshaped the

financial landscape for today's young people. With a college degree increasingly a requirement for access to quality jobs and a secure financial future, college access and affordability are more important than ever; however, at the same time, rising tuition rates, particularly due to state funding cuts during the Great Recession, have dramatically increased the real cost of college for students in recent years.

We know that student debt is a key factor shaping the financial outlook and mobility of young adults and we wanted to explore how student loans were impacting [racial disparities](#) in wealth. Research has demonstrated that early financial opportunities and hurdles, including the acquisition of large levels of student loans, can shape financial trajectories later in life.

Our goal for this report was to develop a better understanding of how current trends in student loans are affecting the racial wealth gap among young people. Since this is a policy area with substantial political momentum in the upcoming presidential election, inserting a racial equity lens into current policy discussions has the potential to help promote better, more equitable policies that may be adopted in the near term.

Did the results support or conflict with our previous understanding of this issue? Were there any surprises?

The results of our analysis highlighted the particular burden that student loans have among young, black households who are seeking higher education opportunities. The majority—54 percent—of young (25-40 years of age), black households hold student debt. For these households who are just starting their financial lives, this creates a major obstacle to long-term economic security.

Another important finding, that may be surprising to some, is that broad-based student debt relief, which does not take income into account, could actually increase the racial wealth gap among young households. Universal debt relief or tuition reduction policies that do not address financial need could benefit students with greater capacity to pay loans such as those from wealthier households as well as professional degree holders. By contrast, targeted policies that lower student debt levels for families with fewer financial means would both steer scarce public resources to those with financial need as well as lower the racial wealth gap.

Receiving a college education is a key factor in an individual's likelihood to accumulate wealth, yet as your report shows, student debt is also a major barrier. What's the solution?

Our report highlights the fact that policy should direct investments in higher education towards low to moderate-income students in order to expand educational opportunities and reduce debt burdens among college students. Students with modest family resources are more likely to have difficulty paying back student debt and are therefore more likely to face long-term financial barriers due to growing debt levels. Our report highlights that expansions in financial assistance for low and moderate income students and current debt holders would both reduce the financial burden of going to college for those who face the greatest economic hurdles, while also reducing racial wealth disparities among young households. Policy design matters; as policymakers debate how to address the student debt crisis, our analysis demonstrates the importance of directing investments to students with more financial need in order to foster both equity and a reduction in households facing enduring [student debt](#) levels.

Provided by Brandeis University

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