UNITED STATES - Income Inequality and Student Loans

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Currently, borrowing is the principal way to pay for higher education for American families of all socioeconomic statuses. For instance, two-third of graduates, have student loans, and debts have increased by more than 50% in the last ten years. [1] and payments have doubled in the last five years [2]. Moreover, students are "bumping up" against aggregate loan limits in the federal loan programs, and turning them to private loans, with much higher interest rates. Finally, this fact impacts students from low-income families, who "find that they do need to borrow to get their degrees" [3].

The Federal Direct Loan Program (FDLP) is a policy, which seeks help students or parents to pay the costs of the student's higher education. FDLP is an affordable option, rather than borrowing from a bank or other types of financial institutions, to pay for university costs and guarantee access to higher education [4]. This policy assumes that high levels of education are correlated with better jobs and higher incomes, which could help to improve social justice and reduce income inequality [5]. In addition, by providing high levels of instruction the population can participate in public affairs.

However, the problem with FLDP is the huge debts after graduation. College costs have risen 900% since 1978 [6], and debts have increased by more than 50% in the last ten years. Therefore, economic justice and chances to improve incomes and reach social mobility, and avoid inequality, through education, are in risk. Additionally, student loan debts profoundly affect students from low-income families. Despite the fact they can access to universities, high rates of debts will limit their chances to improve their income, especially in financial crisis context and unemployment episodes.

Student loan debts officially "surpassed total credit card debt in the United States in 2010" (Baker, 2012), and it will reach the amount of $1 trillion in the next two years. Finally, this reality affects students from low-income families, who "find that they do need to borrow to get their degrees" [7]. Cunningh & Kienzl (2010) have proposed that rising college prices and stagnating family income have been exacerbated by the current economic downturn [8]. According to Cunningham & Santiago (2008), nowadays, there exist specific groups of students who are "more likely to borrow than others" [9]: students who have enrolled in higher priced public institution or private nonprofit and for-profit institutions, are attending full-time programs, and students with greater financial needs. The analysis of Kantrowitz (2009) has complemented the conclusion of Cunningham & Santiago. Student borrowers are African American or Hispanic or more than one race; the cost of attendance of their programs is over $20,000, they are over 24 years old age, and their total income is less than or equal to $50,000 [10].

As a consequence student loans have contributed to increase income inequality rather than avoid it. Debts have grown in the recent years because of high costs of tuition in universities and economic crisis. These conditions have created default and delinquency episodes, which impact the national economy and students' lives. Today, there is a high amount of debts without specific policies to resolve it.

Public discussions about this issue are influenced by economic approaches and political views because the core problems are the rising cost of tuition, the current model for funding, and loan repayment options. Education can be a private invest and help to improve personal income and individual well-being. Therefore pay for it is the right decision no matter how students pay paid for it. On the other hand, higher education can be a public good, thus financial resources should not be a barrier to get a degree.

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Notas

[1] Cochrane & Shireman, 2008, p. 4)

[2] Cochrane & Shireman, 2008, p. 6

[3] Cochrane & Shireman, 2008, p. 8

[4] Bickley, 2012, p.1

[5] OECD, 2012, p. 119

[6] Parker, 2012, p. 1

[7] Baker, 2012, p. 5

[8] Cunningh & Kienzl, 2010, p. 10

[9] Cunningham & Santiago, 2008, p. 6

[10] Kantrowitz, 2009, p. 5