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Employment Research

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Student Loans

A Multidimensional Public Policy Issue

Student loans are instrumental in broadening access to postsecondary educational opportunities. For many individuals who want to develop their own human capital but lack the means, loans serve as an important supplement to governmental or institutional grants in making educational investments affordable and increasing educational attainment. The availability of student loans thus has great value for individual students and the country as a whole.

However, the burgeoning volume of debt and repayment difficulties that many people now experience have created a vigorous debate on whether public policy should further intervene in student loan transactions. In economic terms, do the benefits exceed the costs? Even with close examination of the data on cumulative debt, number and characteristics of borrowers, types of institutions, and repayment dynamics, the answer to this question is not straightforward. In alignment with its mission of investigating the underlying dynamics of the labor market, a component of which is the educational preparation of the workforce, the W.E. Upjohn Institute for Employment Research organized a conference on student loans to catalyze careful and informed analysis of this understudied but increasingly important public policy. Approximately a dozen papers were presented and discussed at the conference, held in Ann Arbor at the University of Michigan in October 2013. The Spencer Foundation and the Education Policy Initiative of the University of Michigan Ford School of Public Policy cosponsored the event.

Education debt was the only major source of debt that increased during the Great Recession.

Measuring Debt Burdens

Much publicity focuses on the size of outstanding student debt, which has surpassed $1 trillion. However, this aggregate number taken out of context can obscure, rather than enlighten, the policy debate. Measuring debt is complicated and can be done in different ways. Sandy Baum's conference paper brought attention to several of them. She begins by examining trends in total student loan debt, number of borrowers, and average balances. In the case of average balances, the denominator matters, as the average could be over all students or over the students who borrow. Interestingly, the former has declined over the past two years.

Baum also notes that student borrowers may be pursuing undergraduate or graduate education, and that loans may come from federal or nonfederal sources. She documents that the levels and growth trends in per-student loans are much greater for graduate than undergraduate students. Further, both the volume of private loan disbursements and the share of students

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taking them halved since their peaks in the 2007–08 academic year.

Baum concludes that the most pressing public policy concern is for students who may have unmanageable debt levels—these are disproportionately independent students, attendees of for-profit institutions, and African Americans—and to institute income-dependent repayment programs that shift risk from students to taxpayers.

The paper presented by Donghoon Lee and colleagues at the New York Federal Reserve Bank looks at trends in aggregate student debt and repayment vis-à-vis other forms of debt. Drawing on a longitudinal database of consumer credit reports that covers the entire country, they show that total education debt tripled between 2004 and 2012, and that it was the only major source of debt (among mortgages, credit cards, auto loans, and home equity lines of credit) that increased during the Great Recession. Some of this increase was due to more people pursuing education, but some of it was also due to interest accumulation from low repayment and high delinquency during the recession.

When the authors examine repayment, they find that as of the end of 2012, one-sixth of borrowers were behind on their student loan payments by 90 days or more, a delinquency rate greater than that for credit card debt. The rise in student debt and difficulty in repayment may have crowded out access to other forms of credit, the authors surmise, as other forms of debt—especially mortgages—fell sharply from 2005 to 2012 for young student loan borrowers.

Reasons for Growth

Undeniably, student debt—however measured—has increased over the past two decades. But it has not grown at the same rate for all students, or even all graduates. The paper that we presented at the conference addresses where in the entire distribution of college graduates debt has grown, when it was growing, and what factors, if any, can explain the growth. Focusing on individuals who earned bachelor's degrees, we find that debt—contrary to popular belief—grew faster over the 1990s than over the 2000s, with the sharpest increase occurring between 1996 and 2000. We also find that the increase that did occur between 2000 and 2008 was mostly concentrated in the top fourth of graduates and entirely due to private loans.

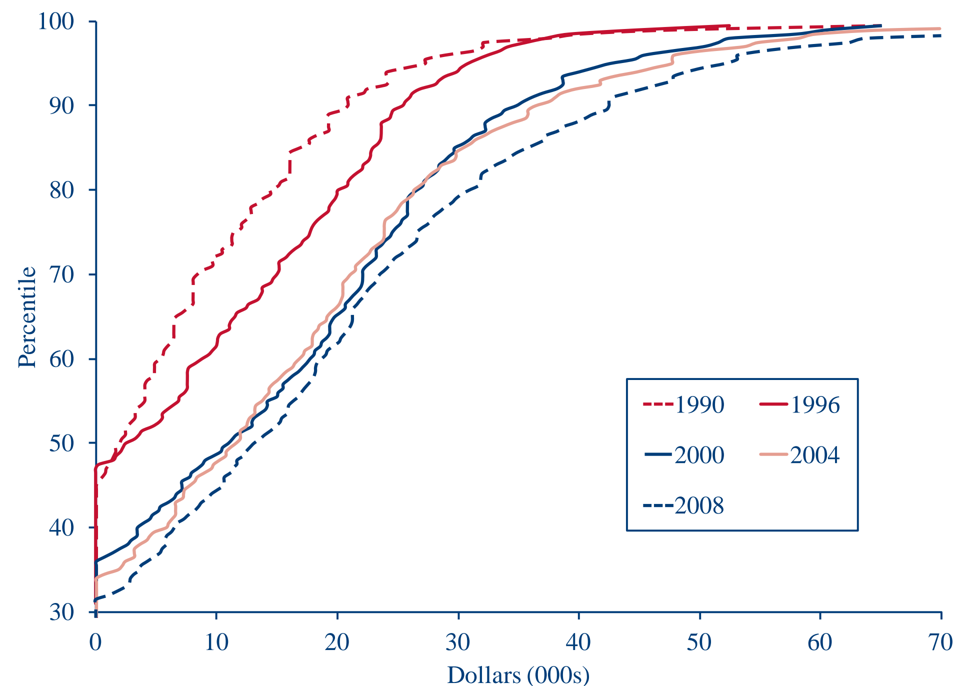
These facts can perhaps be more directly seen in Figure 1, which displays the cumulative borrowing distributions of bachelor's degree earners at graduation in today's dollars. The top two lines in the figure come from the classes of 1990 and 1996. They show that just over 50 percent of the graduates had borrowed funds for their education, and that approximately 95 percent had loan balances of less than $30,000. The fact that the distributions for the three later classes from the 2000s have shifted to the right relative to the earlier cohorts and are similar to each other illustrates how loan balances grew far more sharply in the 1990s than in the 2000s. The only part of the distribution that grew substantially in the last decade is the upper tail.

The analyses in our paper seek to understand the factors that shifted the borrowing distribution so dramatically between 1990 and 2000, and the factors that shifted the upper tail of the distribution between 2000 and 2008.

Using statistical decompositions, we show that increases in tuition and fees and the expected family contribution (a proxy for ability to pay) can explain most of the increase in borrowing in the early 1990s and over the 2000s. The surge in borrowing in the late 1990s, however, is not explained by costs or other observable factors. Instead, the paper suggests that this growth resulted from the introduction of new loan products, particularly unsubsidized Stafford Loans and private loans.

Complementing our paper was a study by Beth Akers and Matt Chingos. They also seek to explain the surge in debt between 1989 and 2010 and to examine the distribution of borrowers; however, they focus on all adults, not just recent bachelor's degree recipients. They infer, as we do in our paper, that extremely large debt burdens are exceptional cases, but they further demonstrate that rising educational attainment—particularly graduate education—explains a

Figure 1 Cumulative Borrowing Distribution among College Graduates



NOTE: All calculations use sample weights, are in constant (year 2012) dollars, and include student-level borrowing from all sources except informal loans from friends and family.
SOURCE: National Postsecondary Student Aid Study, selected years.

considerable part of the overall increase in educational debt. Tuition increases play an even larger role, but behavioral changes toward greater substitution of debt for out-of-pocket financing also have contributed to the increase. Akers and Chingos review several recent studies on the return to higher education, noting that the extent to which the increase in debt burdens is leading to financial hardship remains an open question.

Other Dimensions

The conference touched on many other issues and policy prescriptions related to student loans. Stephanie Cellini and Rajeev Darolia examine trends in debt among individuals who attended for-profit institutions. Their analyses suggest that relatively high and rising tuition, coupled with relatively low and stagnant student financial resources, explain the bulk of the elevated debt levels of for-profit students relative to those in other sectors.

The paper by Xiaoling Ang and Dalié Jiménez looks at the impact of congressional legislation in 2005 that amended bankruptcy law to make private student loans presumptively nondischargeable in bankruptcy. They find an increase in the volume of private loans originated after 2005, a skewing in the credit score of borrowers toward the lower end of the distribution, and a slight increase in the average interest rate of private loans at four-year undergraduate institutions. While the first two of these results are in line with theoretical hypotheses, the third is opposite of what was expected.

The paper by Lance Lochner and Alexander Monge-Naranjo examines default and repayment behavior over the 10 years following graduation for individuals who earned a bachelor's degree. The authors note that outcomes are not as simple as the binary case of repayment or default that is often the focus of media stories and creditors, including the federal government. They find that the amount borrowed and postschool earnings matter more for repayment outcomes than other factors, such as major and institutional characteristics, but their analyses also reveal that many borrowers who at one point are in default or forebearance later return to good standing in repayment.

Dora Gicheva and Jeffrey Thompson investigate the impact of student loan debt on long-term household financial stability. In analyses that control for several demographic characteristics and local economic conditions, the authors determine that borrowing amounts were positively related to bankruptcy and negatively related to home ownership and on-time payments, with especially strong results for individuals who failed to complete college.

In an interesting twist of emphasis, Sara Goldrick-Rab and Robert Kelchen look at students who chose to avoid taking on debt. In their sample of first-time undergraduate Pell Grant recipients at Wisconsin public institutions, the authors correlate student characteristics with loan package decisions to reveal how family background influences loan aversion. Surprisingly, they find little relationship between financial knowledge and borrowing behavior.

Contrary to popular belief, student debt grew faster over the 1990s than the 2000s.

Policy Recommendations

Three papers presented at the conference had specific policy prescriptions, all touching on the issue of how to improve loan repayment. Lauren Asher and Debbie Cochrane, with their coauthors at The Institute for College Access and Success, offer specific recommendations in four areas: 1) consolidation and simplification of federal loans, 2) streamlined repayment options, 3) improvements in loan counseling, and 4) strengthened consumer protections. They advocate that the federal government offer a single undergraduate student loan with no fees, a low in-school interest rate, and a fixed rate in repayment that cannot rise much beyond the rate paid by current borrowers.

Susan Dynarski and Daniel Kreisman also presented a specific plan for an income-based repayment system, which they label "Loans for Educational Opportunity." Under their proposal, payments would be automatically deducted from borrowers' paychecks, similar to the payroll tax for Social Security, except that rates would be tied to income. Instead of paying off loans during a fixed, 10-year period, borrowers would have up to 25 years, although they could opt to pay down the loan more quickly. The authors believe that this plan would reduce the administrative costs of the current student loan system.

Jason Delisle, Alex Holt, and Kristin Blagg demonstrate how a loophole in the federal government's Pay As You Earn (PAYE) program for student loans could affect graduate and professional students. The authors show that for many of these students, there is a level of borrowing at which increasing the loan balance has no impact on the total repayment amount under PAYE because of the program's loan forgiveness benefit. Using data from existing loans, they estimate that the majority of graduate and professional student borrowers will borrow more than the "no marginal cost threshold" and, as a result, that PAYE effectively functions as an expensive form of tuition subsidy.

Postscript

The conference exceeded expectations, and the invited papers constitute the most current research and knowledge about student loans and repayment. The volume with the conference proceedings to be published this year will serve as a valuable reference for researchers and policymakers who seek a deeper understanding of how, why, and which students borrow for their postsecondary education; how this borrowing may affect later decisions; and what measures can help borrowers repay their loans successfully.

Brad Hershbein is an economist at the Upjohn Institute, and Kevin Hollenbeck is vice-president, senior economist, and director of publications at the Upjohn Institute.

➔To access the conference schedule with links to the papers and presentations, visit *http://www.upjohn.org/stuloanconf/schedule.*

Dale Belman and Paul J. Wolfson

The New Minimum Wage Research

This article highlights some of the research in the authors' forthcoming book, What Does the Minimum Wage Do?*, which will be available in June. To preorder the book, visit www.upjohninstitute.org/Publications/Titles/WhatDoestheMinimumWageDo.*

What is now known as the *new minimum wage research* got its start at a conference at Cornell University in 1991. In the 10 years leading up to the conference, the number of articles studying the minimum wage as a share of all articles in economics had risen by 28 percent; in the subsequent 10 years, that increase was 81 percent. How did this conference stimulate the phenomenal growth of research on the minimum wage? By showing that minimum wage research could both ride and reinforce several new trends in economics regarding types of data analyzed, analytic approaches, and theories for understanding the data. Most empirical research prior to the conference had relied on data aggregated to the national level not only because of issues of data availability and low computational power, but also because the federal minimum wage was the effective minimum wage in almost every state. The paucity of increases in the federal minimum wage during the decade before the conference had led to greater variation in state minimum wages, and the rapid increase in computational power meant that it was no longer especially burdensome to analyze data that incorporated state-level variation.

In the wake of these developments, Neumark and Wascher (1992) used the conference to introduce national state-level panels into research on the employment impact of the minimum wage, extending their analysis in later work to relate the employment consequences to other economic decisions, such as school enrollment (Neumark and Wascher 1995a,b; 1996). Pursuing a different tack, Card (1992a,b) and Katz and Krueger (1992) recognized that minimum wage policy was a good arena for developing the natural or quasi-experiment framework. Card and Krueger (1994) extended their analyses of the employment response in what came to be seen as the exemplar of this framework (Meyer 1995), in both its design and its reliance on cutting-edge models to explain results at variance with the well-known supply and demand framework. In this case, the cutting edge was search models, which were then in a phase of early and rapid development for understanding the labor market, and later were the basis for the 2010 Nobel Prize in Economics. No longer a backwater, the minimum wage was hot!

It appears that if negative effects on employment are present, they are too small to be statistically detectable. Such effects would be too modest to have meaningful consequences in the dynamically changing labor markets of the United States.

Our forthcoming book, *What Does the Minimum Wage Do?*, surveys much of the work that emerged from this conference, with special emphasis on work that has been conducted in the current century. We consider more than 70 articles that focus on some aspect of the effect of the minimum wage on employment and find results that range between large, statistically significant negative effects to small, statistically significant positive effects. In some instances, qualitative results vary within an article as researchers apply a variety of methods to different data, time periods, and definitions of the minimum wage.

Neumark and Wascher and Card and Krueger dominated the first period of the new minimum wage research, which concluded with an exchange between the two pairs of authors at the end of 2000. In this exchange, Neumark and Wascher (2000) presented results flatly contradicting Card and Krueger's (1994), using data that they had in part collected and argued were more reliable. Card and Krueger (2000) responded by picking apart Neumark and Wascher's (2000) data and performing an analysis similar to their earlier one but substituting confidential government tax data for the data that they had earlier collected. They concluded that "the increase in the New Jersey minimum wage in April 1992 had little or no systematic effect on total fast-food employment in the state," largely, although not entirely, in agreement with their earlier results. It is widely believed that Card and Krueger had the better of this exchange.

There have been many developments over the subsequent years. One of the biggest is the recognition that the statistical inference in both lines of work—Neumark and Wascher's, which consider national panels of states, and Card and Krueger's quasi-experiments—is flawed because of problems with the standard errors and associated test statistics. Two other serious criticisms, one for each set of authors, have also been raised: 1) against the quasi-experiment framework of Card and Krueger (1994, 2000), that the focus is too local to be robustly generalized; and 2) against the sparely specified equations that Neumark and Wascher used to analyze national panels, that control for confounding variables are inadequate so that the effects of other factors are falsely attributed to the minimum wage. Over the last decade, beginning with Yuen (2003) and continuing most recently through Allegeretto, Dube, and Reich (2011), several researchers have developed approaches that combine the best elements of each—national scope and careful design—to precisely identify the consequences of minimum wage policy.

In addition to sifting through these findings to provide a qualitative synthesis of the state of the research, we performed

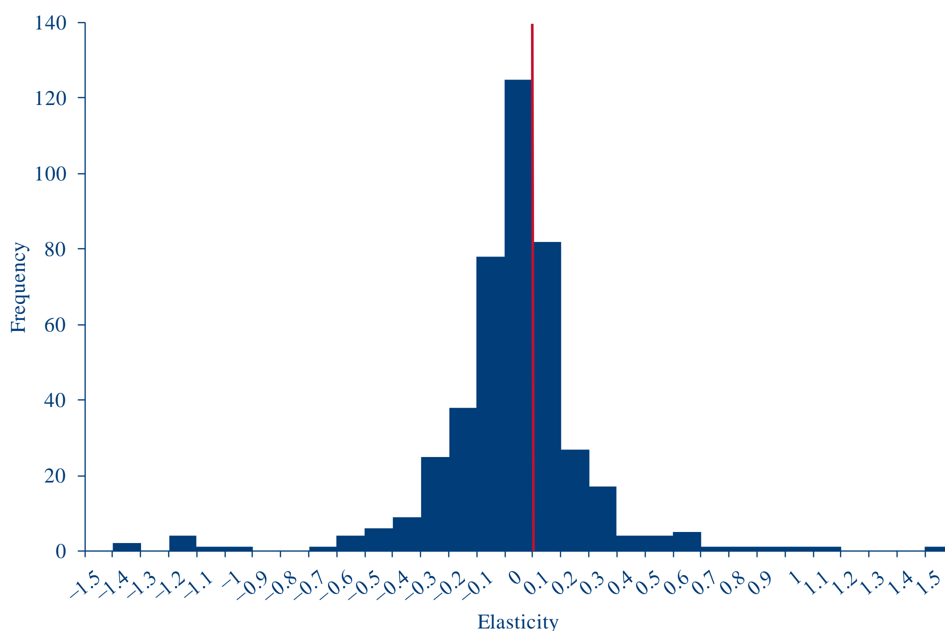
a meta-analysis to generate a transparent statistical summary and assessment of the effect of the minimum wage across studies. These metaregressions draw on the approach of Stanley and Doucouliagos (2012) to obtain estimates of the average elasticity of employment and hours with respect to the minimum wage, controlling for the effects of techniques (a conventional regression model or a quasi-experiment), differences between outcomes for employment and for hours of employment, the reliability of the standard errors, and dependence between estimates from the same study. In some models we distinguish the effects on young workers and those at eating and drinking places, and also distinguish between studies of the United States and other countries. We are able to obtain estimates of minimum wage elasticities and their standard error from only 23 of the more than 70 studies that address employment, hours, or both. These studies provide 439 distinct estimates of the elasticities. We can see from Figure 1 that they range from about −1.5 to 1.5, with most in the interval between −0.7 and −0.6. The distribution exhibits a rough and ready symmetry about the median of −0.05.

Using a variety of specifications, we generate a large number of meta-estimates of the employment elasticity. We began by benchmarking our estimates against the conclusion of Brown, Gilroy, and Kohen (1982) that the teen elasticity ranged from −0.1 to −0.3, and Brown's (1999) later conclusion that the work in the 1980s found the range moving down toward zero. Our initial estimates, which do not include many of the controls we have discussed, range from −0.018 to −0.06, with about half toward the top of the range and half near the bottom.

Applying a one-tailed 0.05 standard of significance to our more complete models, we find some evidence that increases in the minimum wage result in very small reductions in employment. Considering estimates that reflect the effect on both employment and hours and on employment alone, a 10 percent increase in the minimum wage is associated with a reduction in employment of between 0.0 and −2.6 percent. Somewhat less than half of the estimates are statistically significant, and more than half of those indicate an employment decline near the bottom of a range of −0.1 and −0.03 percent. Not allowing for the difference between studies of the United States and other countries, somewhat more than half of our meta-estimates indicate a small, statistically significant negative effect on employment or employment and hours.

The United States, however, faces a far more favorable situation. Considering the 16 means of meta-estimates (across the fixed effect, random effect, and random coefficient models) that include a control for whether the estimate is based on U.S. data, the implied employment declines following a 10 percent increase in the minimum wage are very small—between −0.03 and −0.6 percent—and statistically insignificant. Bearing in mind that the estimates for the United States reflect a historic experience of moderate increases in the minimum wage, it appears that if negative effects on employment are present, they are too small to be statistically detectable. Such effects would be too modest to have meaningful consequences in the dynamically changing labor markets of the United States.

Figure 1 Distribution of Employment and Hours Elasticities for the Meta-Regression



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2014 Early Career Research Award Winners

The Upjohn Institute announces the winners of the 2014 Early Career Research Awards. These grants are intended to provide resources for junior faculty (untenured and within six years of having earned a PhD) to carry out policy-related research on labor market issues.

- **Yaa Akosa Antwi**, *Indiana University–Purdue University, Indianapolis* "The Impact of Nurse Turnover and Quality of Care: Evidence from the Great Recession"
- **Colleen Chrisinger**, *University of Oregon* "Veterans in Workforce Development: Participation and Labor Market Outcomes"
- **Rajeev Darolia**, *University of Missouri* "Income-tested College Financial Aid and Labor Disincentives"
- **Rafael Dix-Carniero**, *Duke University* and **Brian Novak**, *Carnegie Mellon University* "The Dynamics of Trade Adjustment: Evidence from 25 Years of Brazilian Matched Employer-Employee Data"
- **Seth Gershenson**, *American University* "The Effect of High-Stakes Accountability Policies on Teacher Absences"
- **Bradley Hardy**, *American University* "The Effect of the District of Columbia Supplemental EITC on Poverty, Employment, and Income Growth"
- **Alexandra Killewald**, *Harvard University* "Moms at Work: The Dynamics of Maternal Employment"
- **Mingwei Liu**, *Rutgers University* "The Effects of Chinese Trade Unions on Workers"
- **Nikolas Mittag**, *CERGE-El/Charles University* "Income Support during the Great Recession: New Evidence from Linked Survey and Administrative Data"
- **Johannes Schmeider**, *Boston University* "You're In Then You're Out: The Incidence of Being Outsourced"
- **John Winters**, *Oklahoma State University* "The Production and Stock of College Graduates across U.S. States"
- **Nathan Wozny**, *U.S. Air Force Academy* "Military Personnel Retention, Bonuses, and Civilian Labor Market Conditions"
- **Marci Ybarra**, *University of Chicago* and **Heather Hill**, *University of Chicago* "The Effects of State Workforce and Safety Net Policies on Maternity-Leave Job Quitting among Less-Educated Workers"
- **Mevlude Akbulut-Yuskel**, *Dalhousie University*, **Mutlu Yuksel**, *Dalhousie University*, and **Melanie Khamis**, *Wesleyan University* "Family Policies and Female Labor Market Outcomes: Evidence from Social Security Records"
- **Assaf Zimring**, *University of Michigan* "Labor Markets and International Trade: Testing the Heckscher-Ohlin Trade Theory with a Natural Experiment"

Introducing the WE*focus* Book Series

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The Upjohn Press has begun a new series of "short books" called the "WE*focus* series." Books in this series will be authored by noted experts in the subjects and will provide a concise discussion of a range of important labor market issues along with the programs and policy recommendations that address those issues. The first book in the series is *The New Scarlet Letter? Negotiating the U.S. Labor Market with a Criminal Record*, by Steven Raphael. Other entries currently scheduled to appear in the series will address early childhood education, workers' compensation, the railroad retirement system, apprenticeships, employer resource networks, and natural disasters and the labor market. Books in this series will be available as paperbacks and as *free* PDF downloads from http://www.upjohn.org.

The New Scarlet Letter?

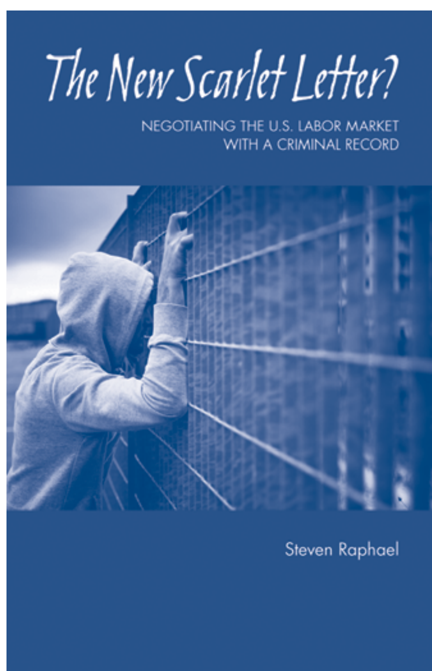
Negotiating the U.S. Labor Market with a Criminal Record

Steven Raphael

The numbers are eye-opening. In 2007, on any given day, 2.2 percent of all males in the United States were incarcerated, including 7.9 percent of all black males. Some 2.6 percent of white males, 7.7 percent of Hispanic males, and 16.6 percent of black males have spent time in state or federal prison at some point in their lives. And for a male child born in 2001, the likelihood of going to prison is 5.9 percent for whites, 17.2 percent for Hispanics, and a whopping 32.2 percent for blacks.

Of those who spend time in prison, the overwhelming majority will be released back into society, thereby becoming potential participants in the U.S. labor market. But the barriers they confront as they try to gain employment are substantial: they face the lack of public assistance, poor employment prospects, the reluctance of employers to hire ex-convicts because of liability issues, and the stigma associated with being an ex-convict. This has policymakers focused on ways to facilitate reentry into the labor market for this growing population.

Steven Raphael provides a concise overview of this issue. First, he studies the factors that influence the market's supply and demand sides. Next, he presents an empirical portrait of the inmate population, recently released inmates, and the youth who eventually enter the prison system as young adults.



Raphael reviews what is known about how employers use criminal histories in screening job applicants and the empirical research on the effects of a criminal record on labor market outcomes; he then describes programs designed to help inmates enter the labor force that show positive results. Raphael concludes with a set of policy recommendations aimed at addressing the concerns of employers and preparing inmates for the labor force as they exit the prison system.

"[Raphael] provides us with the most complete and compelling primer on an issue every policymaker should be wrestling with." –Christopher Wildeman, Yale University

"This book should be required reading for anyone who cares about prisoner reintegration, labor markets, and crime policy." –Joan Petersilia, Adelbert H. Sweet Professor of Law, Stanford Law School

"Much existing research on criminal justice policy adopts a static paradigm and seeks to compare the gains from incapacitation against the costs of running larger prison systems. However, this book forces researchers and policymakers to think about how changes in police behavior, corrections policies, and employer practices affect crime rates and inequality in the future." –Derek Neal, Department of Economics and the Committee on Education, University of Chicago

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