HEAVY DEBT

If you are reading this magazine, you are likely a supporter of and advocate for higher education.

Here is my question: Do you think student loans are worth it?

For our discussion, consider the Theory of Human Capital outlined by Theodore Shultz (1960) and Gary Becker (1964). The theory compares an investment in one's self to a financial investment that will bring a return. It suggests an individual will make investments in human capital when the potential benefits surpass costs. Overall, a college education is considered an investment in human capital with expectations of returns in the future for employment in terms of salary, opportunities, and promotions.

THE VALUE OF A COLLEGE DEGREE

Reports show mixed results. A recent research study found a college education, even including the cost of a student loan, still produces a significant return on investment in terms of salary that surpassed the earnings of a high school graduate (Nonis et al., 2015). Even though we see rising tuition costs, those with bachelor's degrees earn an overall return of about 15 percent on their investment. Statistics regarding earnings show a typical bachelor's degree recipient can expect to earn 60 percent more over his or her lifetime compared to an average high school graduate. In addition, in 2015, the unemployment rate for college graduates was 2.8 percent where the unemployment rate for high school graduates was 5.4 percent. So, even though student loans are getting a reputation in the media, it appears that they still help support a productive and beneficial investment. But …

STUDENT LOANS ARE A CONCERN FOR GRADUATES WHO ARE OVERBURDENED AS THEY ENTER THE WORKFORCE

Debt from an undergraduate education may discourage young adults from pursuing a graduate degree or may cause them to choose a high-salary job over a lower-salary, public interest job. Also, young adults may delay making major purchases. In addition, the cost of a college education does not vary much across disciplines, while wages vary by profession, potentially making it difficult to repay a large loan. The solution may be to borrow in moderation, using the funds only for tuition and education-related expenses, resisting the temptation to use the entire amount for which a student qualifies merely because it is there, and choosing a school or program that matches future potential earnings.

STUDENT LOANS ARE A CONCERN FOR THOSE WHO DID NOT GRADUATE

The August 2016 issue of *Consumer Reports* contains an article reporting that 38 percent of the people who think college was not worth the money did not graduate. In this case, without completion of the degree, the return on the investment is not realized. Indeed, researchers have reported individuals with a college degree are less worried about repaying their student loans than those without. It is more difficult and adds more stress and worry to the process of paying down a student loan without a corresponding degree.

THE VALUE OF A COLLEGE DEGREE VERSUS THE ISSUE

Overall, while a student loan may lower a graduate's level of financial well-being, it is offset by the positive impact of a college degree. The issue is when students borrow more than they can reasonably repay given their profession, or if they are generally overburdened with debt, especially if the degree is never realized.

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