5-26-2014

Student debt: graduate versus undergraduate

Michael Hemesath
College of Saint Benedict/Saint John's University, mhemesath@csbsju.edu

Recommended Citation

Hemesath M. 2014 May 26. Student debt: graduate versus undergraduate [blog]. Quad 136. [Accessed 2017 June 5]. http://blogs.csbsju.edu/mhemesath/2014/05/26/student-debt-graduate-versus-undergraduate/.

Quad 136

Previous Next

Student Debt: Graduate versus Undergraduate

Amid the publicity and bad analysis of student debt that has been touched on in the Quad 136 blog in the past, the distinction between borrowing to finance a bachelor's degree and loans to pay for graduate education has not been emphasized. That distinction is an important on for two reasons.

1. The cost of graduate education varies widely—both due to program cost and length of time to degree. Therefore if a student is not careful, borrowing can quickly reach into six figures. Almost all the anecdotes about students with six figure debt involved borrowing for graduate school.
2. The variance on the returns to education for bachelor's degree holders is much smaller than the variance in lifetime earnings for graduate degree recipients. In short, for undergraduates the returns on education are almost certain to make a four year degree a good investment; for grad school, the outcomes are much less certain.

A recent report by the New American Foundation, entitled "Grad Students Driving the Growing Debt Burden," offers data on the growth in debt and debt burdens by graduate degree program. (It is important to note that debt data almost always is for borrowers only—the students who do not borrow are not included. So, for example, at Saint John's University about a third of our students graduate debt free.) The report highlights that the typical growth in debt between 2004 and 2012 was 43% in inflation-adjusted dollars, a big number, but maybe not that surprising given the state of the economy during much of that period.

As for the borrowing by program, not surprisingly medical school graduates lead the pack with median debt burdens of $162K and MBA borrowers bring up the rear with a median debt of $42K. In between are law students and various other master's degree programs. Interestingly, arts and science Ph.D. programs are not included in the data, probably because many of those students pursuing a Ph.D. are able to eke out a living by serving as teaching assistants and can often avoid borrowing.

So what is a student to make of these data? I think the empirical evidence strongly supports two conclusions:

1. An investment in a four year undergraduate degree is a sound one. The average bachelor's degree borrower (and many students don't need to borrow) had debt of $27K in 2012. This is the size of a modest car loan, as I have argued

in the past, and the returns on this investment over a lifetime are significant, compared to the alternative of a high school degree only.

2. Graduate school is a more complicated financial calculation. Some programs pay off handsomely. I would have no hesitation in encouraging a student to borrow, even into six figures, to go to medical school (in the US). That individual will make a very good living and be able to pay off their loans and generously support their favorite undergraduate institution to boot! If you are considering a master's degree in art history or leadership or education, you need to do more homework and ask exactly what the returns will be on that degree. Pursuing that degree might make great economic sense, but it might not. (Of course any education also has non-pecuniary rewards, too. This post focuses purely on the financial returns on an investment in graduate education.)

There is a third conclusion that these data support: news reports about student debt are often more complicated and subtle than the headlines suggest. Read critically, as all good liberal arts students are taught to do.

By Michael Hemesath | May 26th, 2014 | Categories: Economics, Higher Education | 0 Comments

About the Author: Michael Hemesath

Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] PrezHemesath.