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Commentary

Human Capital Enhancement in Depressed Communities by Utilizing Teacher Loan Forgiveness Programs in Mississippi

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Human capital – the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for the individuals, their employers or their community – is a critical component for community economic development. Economically depressed communities tend to show low levels of human capital, falling into a vicious cycle of poverty: Low income leading to low buying power, leading to low investment, leading to low rate of capital formation, low productivity, and low income (Nurkse, 1953). We need to figure how to increase the stocks of natural, social, financial, and human capital for regional/local economic development.

Enhancement of human capital through increased expenditure on public education is reported to generate multiple positive impacts on the socio-economic situation in local communities. For individuals, these benefits include: increased income and wealth of individual citizens, improved employment experiences (more chances for advancement and better working conditions, specifically), and even better personal health (due to improved access to health care, leisure, etc.). For the public, these benefits include increased spending and civic engagement, lowered public costs for things like assistance programs and criminal justice expenditures, and overall increased productivity (Phipps, 2006). It is important to note that while these social benefits directly affect both individuals and groups, they are not limited to direct labor market or fiscal benefits – they include non-quantifiable benefits that improve civic life and general well-being. This paper explores the potential benefits of Teacher Loan Forgiveness Programs as a tool for human capital enhancement in the State of Mississippi.

Federal Student Loan Debt and the Economy

Education has long been recognized as a key to building human capital and the American workforce. In a speech given at Pellissippi State Community College in Knoxville, Tennessee on January 9, 2015, President Obama referred to higher education as "the single most important way to get ahead" (WhiteHouse.gov, 2015) Yet, one impediment to this important function of education is the model of the debt-financed education system which the United States operates on. Additionally, this model hinders economic growth and recovery after periods of recession, such as that which occurred from 2008 – 2012. Indeed in the subsequent years, the U.S. has slowly begun to grind its way towards economic recovery – but affecting this recovery, is the formidable level of student loan debt Americans have accumulated and are becoming increasingly unable to pay off.

As early as 1986, a Congressional report warned that student loans were "overburdening a generation" (Mattera, 2011), and nearly 30 years later, we can observe the truthfulness of that prediction. A report by the Wall Street Journal states that the undergraduate (graduating) class of 2014 bears the special distinction of being "the most indebted class ever," with approximately 70% of their cohort owing upwards of $33,000 – nearly double the amount owed by graduates of the class of 1994 (Izzo, 2014). Beyond that, it is estimated that 10% to 20% borrow excessively, which is defined as “having monthly loan payments that exceed 10% of a person's gross income” (Dell, 2011).

Younger Americans are faced with large amounts of debt, delinquency, and default on federal student loans, leaving them in no position to buy homes, save for retirement or start families or businesses (Student Debt and Economy, 2013). In addition, student loan debt was the only kind of household debt that continued to rise through the Great Recession, and it is now the second largest debt after house mortgage (Student Debt and Economy, 2013). Also, recent college graduates and other young workers who tend to have lower incomes and higher rates of unemployment than older workers typically shoulder student loan debt (Burrus, 2012). About forty percent of people younger than age thirty have outstanding student loan debt, twenty-five percent of those aged 30-39 have education-related debt, but only 7.4% of people over age 40 have outstanding student debt (Clark, 2012). Of the $870 billion owed in student loan debt, persons younger than 40 years old approximately $580 billion of it (Clark, 2012).

For economically depressed communities, the impact of these unintended consequences of pursuing an education are amplified, and because of the cyclical and generational nature of poverty, citizens in these areas are left with higher education as their only hope for escaping these conditions. The Federal Reserve Bank of San Francisco released a research brief on community development, and included a study on student loan debt and default and other trends according to wealth status and institution type, and found that (relative) costs of higher education create a significantly larger burden for low-income households. According to this report, families earning $36,000 or less annually will end up paying over 70% of its income towards college costs (Choi, 2011). Yet federal grant aid for low-income students covers, at bet, about one-third of college costs, leaving these students from low-income backgrounds and areas the most vulnerable to the need to go into debt in order to achieve that higher education and bring their hopes for upward mobility within reach.

Likewise, the social cost to economically depressed areas is heightened by the implications of future debt on career selection. The alarming trends in student loan debt have prompted many young people in search of prosperity to eschew lower-paying career choices in public service in favor of higher-paying careers in private sector areas like technology and finance, as a means to better equip themselves to repay the large loan balances they acquire by attending college. As a result, economically depressed areas often suffer from shortages in fields like social work, health care, and early childhood education.

Using Policy to Address Mississippi’s Debt Burden

According to the U.S. Department of Education, the percentage of students defaulting on this debt has been on the rise, and Mississippi is no exception. Financial Aid Director at the University of Mississippi Laura Diven-Brown said in 2011 that despite “Ole Miss” being slightly below the national average in cohort default rates (for public universities), default for their students in particular was “higher than it has been in the past.” Hank M. Bounds, Mississippi Higher Education Commissioner, attributes the increase in default rates to “a number of factors,” saying the economic recession conditions of 2008-2012 took a particularly hard toll on the state of Mississippi and its families (Madden, 2011).

Nearly a half-million Mississippi residents owe student loan debt. According to a report on federal college loan debt, Mississippians owe a collective $11.2 billion in student aid – or an average of $26,420 per person. In Mississippi, more adults have student loan debt outstanding than have college degrees. Of the one million Mississippi residents who attended college: 385,985 earned Bachelor's degrees (48%), while 424,000 (52%) owe student loans (Le Coz, 2015). Financial analysis website WalletHub.com used data from the U.S. Census Bureau, U.S. Bureau of Labor Statistics, Federal Reserve Bank of New York, and other institutions to apply seven metrics and compare the effects of student loan on all 50 states (and the District of Columbia), and the results of this study ranked Mississippi as 51st, or the worst state for student loan debt. This includes last place rankings in: home ownership for people between the ages 25 – 34; highest unemployment rate for people aged 25 – 34; highest percentage of student loan borrowers in past due status or default (25%); highest percentage of student loan balances past due or in default; and a 46th place ranking in student debt as percentage of income as adjusted for cost of living (Bernardo, 2015).

The burden of student loan debt poses a unique problem for Mississippi, both in the ongoing need to improve upon the development of human capital in the state (through education), and in the manner that such debt has been shown to particularly impact low-income areas. As is characteristic of states with high poverty rates and many rural communities, Mississippi has for years experienced a teacher shortage which impedes the effect that education can potentially have on long-term development for the state. One of the linchpins of quality education is competent teachers, and there have been several programs and initiatives designed to tackle this very particular challenge (including No Child Left Behind).

Mississippi is one of several states that have struggled with a teacher shortage to the point of having "Critical Needs" status, meaning the shortage of qualified teachers has created one of the following conditions: 1) the district has at least 60 teaching positions that have less than 10% licensure among staff (or 15% in districts with fewer than 60 teaching positions total); and/or 2) at least 30 of teaching staff in the district is eligible to retire. In response, the Mississippi Critical Shortage Act was passed in 1998, and along with it, the Critical Needs Teacher Scholarship Program enacted for the academic year of 1998-1999 (Thomas, 2007). Currently, of the 148 reporting school districts in the state of Mississippi, the Department of Education lists 48 of these as "Critical Needs" districts (Mississippi Department of Education, 2015).

The Mississippi Teacher Loan Repayment Program is an already-existing public policy which encourages the development and deployment of high-quality teachers to areas of need throughout the state. Students with loans of all types (federal or private) qualify as long as they have not received funds from two other particular scholarship programs (the Critical Needs and William Winter Scholarship programs, which are designed to provide the same social benefit as the MS Teacher Loan Repayment Program), and are not currently delinquent or in default on their student loan balances. This program requires a minimum of one year in a full-time teaching or school administrator position in either a "geographical shortage" or Critical Needs district. In return, program participants can receive up to a maximum of $12,000 in student loan debt repaid directly to their lender (Mississippi Department of Education, 2015). Additional grants and scholarship funds are also available to students who commit themselves to a career in education.

The fundamental purpose of these programs is to provide incentive for university-trained teachers and administrators to devote their abilities to those districts that have the direst need, and to entice individuals into pursuing education-related majors in anticipation of their future careers. This fosters community development by making a concerted effort to improve educational performance in areas that are typically already distressed by poverty and/or geographical remoteness. But these programs in particular can offer the dual benefit of improving human capital through education, while simultaneously bolstering economic development in their relative communities. On one side – by encouraging utilization of loan forgiveness and "Critical Needs" scholarships to finance higher education, more qualified teachers become available to fill classrooms. More available teachers mean more students can succeed because of increased diversity among teaching staff, and smaller class sizes and ratios. More students succeeding mean more students with the potential to attend college in *their* futures. On the other side, utilization of these programs benefits economic development by relieving a large portion of the debt burden which prevents citizens from participating in the life cycle events that help keep the economy moving. Reduced student loan debt not only creates opportunities to invest in mortgages, vehicle and property purchases, and small businesses, but also frees up discretionary income that could be circulating in the local economy.

Conclusion

Federal student loans have come a long way from their beginnings. At their inception, lawmakers assumed that the combination of accreditation, state regulation, and consumer choice would be sufficient to safeguard public funds. It was not. Now federal lawmakers of all political persuasions are coming to realize one basic principle: if higher education is going to be nationally financed, it must serve the national interest. Whether the government, the schools, or the students are primarily to blame for this current situation, it is clear that it cannot continue without jeopardizing economic recovery.

Although economic recovery will certainly be impacted by the levels of student loan debt, adjustments can be made to help facilitate a smoother and faster recovery. At the institutional level, administrators and counselors should work more closely together to inform students on how to reduce and manage their student loan debt. As one example of the type of innovative changes taking place on the local level to help achieve this, the Mississippi Institutions of Higher Learning agency has created a new effort to inform incoming college students and their parents on how to plan strategically for higher education. As another, the University of Mississippi has set up a "check-in" system to help prevent students from dropping out while owing loans, and to educate them on debt management (Madden, 2011). Also at this level, school districts should find ways to recruit, facilitate, and encourage their employees' participation in these programs.

The Critical Needs Teacher Scholarships, Mississippi Teacher Loan Forgiveness, and the national Public Service Loan Forgiveness programs can help create paths to affordable education while facilitating community development through improved educational and economic opportunities for citizens. With this in mind, policymakers should devote significant effort to developing research which tracks the real value of the programs and maintaining this data in records, to establishing tax policy which keeps loan forgiveness penalty-free, and promoting these programs to students and the public as a salient option for combining individual empowerment and community development.

The affordability (as accessibility) of education to community and economic development becomes clearer as areas of the state struggle to reconcile the lack of qualified, college-educated teachers working to improve local human capital. As an illustration, the Jackson Public School district in central Mississippi began the 2014-2015 school year with a shortage of 218 teachers, and four other school districts (the Durant, Forrest County Agricultural, Kemper County and West Bolivar school districts) began with higher percentages of their teaching positions vacant (Royals, 2014). Consequently, local workforce bolstering and development has been cited as an "emerging issue" by 40% of U.S. states going back to 2001 (McKeown-Moak, 2001), and remains an issue of increasing legislative importance. However, there already exists a path to reducing the student loan debt burden and its impact on the state's economic outlook, while simultaneously engaging in community development. Of importance now is directing focus to this path, and encouraging people to follow it.

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