

Low-Income Graduates and their Economic Hardships in Achieving the American Dream

AP Seminar

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Introduction

Joe Neel, a Deputy Senior Supervising Editor and Correspondent on Science Desk, found through a National Public Radio survey that 40% of low-income graduates responded that the American dream was “out of reach” (Neel, 2020). James Truslow Adams, an American author and historian who founded the term “American Dream” through his best-selling novel, “The Epic of America”, defined the American dream as “the dream of a better, richer, and happier life for all citizens of every rank.” Student debt has been rapidly growing over the last decade, causing an issue of financial instability in low-income households. It is now the second largest source of household debt in the US, behind mortgage debt (Federal Reserve). In 2015, there were over 43 million borrowers with student debt in the United States, with the total outstanding student loans exceeding \$1 trillion (Federal Reserve). Thus the student debt crisis emerges. Students of low-income households take out loans they cannot repay to continue their education, thus making it difficult to achieve financial stability. Clara Riggio, a prominent member of Northeastern University, states that the student debt crisis has made it harder for students to buy a home, start a family, or pursue other aspects of the American dream (Riggio, 2021). The burden of student debt causes low-income graduates to postpone or forego secondary life decisions, which can further limit their opportunities and upward mobility (Riggio, 2021). These factors play a key role in upholding the American dream of becoming “better, richer, and happier” (Riggio, 2021). Thus, leading to the question: To what extent does the student debt crisis affect low-income college graduates in achieving the American dream?

Postpones Essential Life Decisions

The student debt crisis in the United States became a major issue with the total amount of student loans surpassing \$1.7 trillion (Federal Reserve, 2020). Economic researcher named Chen, who published a Journal of Housing Economics, discovered that this crisis disproportionately affects low-income college graduates, who are forced to delay important life decisions due to their overwhelming debt (Chen, 2018). With the most important decision being the purchase of a home. The accumulation of debt drowns graduates in a never ending hole, making it nearly impossible for them to pay it off. The most significant way that student debt postpones important life decisions for low-income college graduates is by delaying the ability to purchase a home. An educational researcher named Anthony Carnevale, who published a paper for Georgetown University, found that many young adults with student loan debt are unable to save enough money for a down payment on a home, and are unable to qualify for a mortgage due to their high levels of debt (Carnevale, 2013). A down payment for a home is a big financial decision for individuals. Rather than paying off the debt monthly, the money should be used towards the monthly mortgage of a home. This delay in home ownership has long-term consequences, which evidently leads to financial instability. According to Lisa Dettling, a Principal Economist in the Division of Research and Statistics at the Federal Reserve Board, owning a home is often seen as a key component of the American dream and can lead to financial stability and wealth accumulation (Dettling, 2019). Therefore, the importance of purchasing a home is apparent.

The setback in being able to start a family is another way that student debt affects these low-income graduates. According to a Family Economist Specialist named Brown, financial constraints cause young adults with student debt to put off having children, as the costs associated with raising children interferes with paying off student loans (Brown, 2016). These

costs include the purchase of additional weekly groceries, healthcare, education costs, and other various necessities related to maintaining a family. These costs can add up, preventing them from starting a family. According to Kim Parker, the Director of Social Trends Research at Pew Research Center, this burden in starting a family can have significant emotional and social consequences, as many people place a high value on having children and building a family (Parker, 2015). This largely affects happiness levels in these graduates. Which inhibits the achievement of life satisfaction.

Ultimately, the postponement of important life decisions in contribution to achieving the American dream is a direct consequence as a result of the student debt crisis. Economically speaking, the student debt crisis is detrimental to all financial aspects of a graduate's life. Therefore, by postponing the creation of a family and the purchase of a house, the graduate fails at reaching the supreme goal of prosperity, happiness, and a fulfilled life.

Delays Secondary Life decisions

When it comes to secondary life decisions, retirement and business ventures are two prime examples. In some circumstances, personal bankruptcy can succumb to these debt burdens. Low-income graduates can live without these, but in order to escape poverty and achieve the American dream, it is recommended by Housing Economics Specialist Agha, to get a retirement plan (Agha, 2018). This could be through opting into retirement savings programs such as a 401k, and even a bank savings account. Rather than paying off student debt monthly, that money should be allocated to a retirement plan. Many graduates with student loan debt are unable to contribute to a retirement savings plan, as they are focused on paying off their student

loans (Agha, 2018). This delay has significant financial consequences, as people are often unable to retire comfortably without a retirement savings plan (Sass, 2015).

In extreme cases, student loan debt causes these low-income graduates to file for personal bankruptcy. The debt accumulates to astronomical numbers that are nearly impossible for a graduate to pay off, especially when they are making low-income salaries. According to Brenda Beauchamp, a Cornell Law School graduate from the *Touro law Review*, finds that in New York, an individual could file for personal bankruptcy relief (Beauchamp, 2014). The downside of filing for personal bankruptcy is the drastic drop in credit score. According to a study conducted by the *University of Chicago Law Review*, the median credit score for individuals who file for Chapter 7 bankruptcy is around 550 - 575. This is critically lower than the median score of the general population, which is 700 (Sullivan, 2019). This prevents any seller from selling a home to them, leasing a car, and even getting loans from the bank.

Furthermore, the inability in taking out loans makes it difficult to start a business. According to a resource article written by Walden University, the biggest difficulty for small businesses is their lack of funds (Walden, 2019). When starting a business, business owners take out a loan to pay the upfront costs of starting a business. A credit score is a safety measure used by banks to determine how likely a person is to pay off the loan. The higher the score, the more likely. According to Bing Li, a researcher at the Department of Management Sciences at Nanjing University found that without a loan, small businesses coming from low-income individuals can't take off (Li, 2021). Without a business, a steady flow of income is out of the question, and various financial checkpoints in the American dream are difficult to obtain.

Conclusion

Consequently, primary and secondary life decisions are targeted through the student debt crisis. This leads to a harder time at seeking a satisfactory, happy, and better life, and an even harder time at achieving the American dream. The accumulation of debt prevents individuals from paying off a mortgage for a house, and even prevents families from starting, as maintaining a family is expensive. Not being able to open up a business and having a low credit score backpedals the intended goal. Therefore, the problem is a reality for low-income graduates who put up with the student debt crisis.

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