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Attitudes to debt among indebted undergraduates: A cross-national exploratory factor analysis

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ABSTRACT

This paper reports the results of a cross-national study spanning England, New Zealand and the United States. A total of 496 first year undergraduates studying business or social science completed a 20-item questionnaire. This focused on their attitudes to their debt incurred while studying, as measured on a five-point Likert scale. A factor analysis model was developed, from which four consistent factors emerged, explaining 45 percent of the variation and consistent between countries. These factors were named: Anxiety, Utility-For-Lifestyle, Utility-For-Investment and Awareness. The first three factors were found to be uncorrelated with each other, but higher Awareness was associated with lower levels of Anxiety and Utility-For-Lifestyle and higher levels of Utility-For-Investment. The relationship with previous studies and implications for theory and practice are discussed.

1. Introduction

Over the last fifty years, the likelihood of students across the developed world accruing debt to finance their studies has grown rapidly (Usher, 2005). This has partly been a response to the 'massification' of higher education, with higher numbers progressing to university and governments reducing or abolishing grant funding as it has become judged to be an unsustainable drain on the public purse. Another strand has been the liberalisation of various forms of commercial credit, with young people having access to various forms of overdraft, credit card and personal loan that would not have been available to their antecedents. Banks and other financial institutions have taken the view that students are useful customers to have, as they tend to turn into high-earning graduates who will invest, save or borrow in greater depth later in their working lives.

From the students' perspective, borrowing to fund extended education is generally seen as a good investment, with long-term rates of return that exceed the cost of borrowing for most (Walker & Zhu, 2011). There has been a strong (and growing) perception that a degree is essential for entry into lucrative non-manual careers, such that some judgement of the expected

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return becomes a component within the cost/benefit analysis that those considering university make. This is wholly consistent with *human capital theory* (Becker, 1994), which predicts that individuals will make economically rational decisions about their education, as with other forms of capital investment, although Brynin (2013) questions the extent to which prospective students are in a position to make this assessment. However, there are also wider wellbeing returns that act as an additional incentive, for example around the diversity of social experiences, improved job satisfaction or an increase in life expectancy associated with being a graduate. Furthermore, Brown (2003) argues that due to an 'opportunity gap' in graduate labour markets in developed economies, growing competition for a static number of jobs causes a drive for more credentials in order to establish a personal competitive advantage, such that contemporary students require a longer education to achieve the same occupational status as previous generations. This, in turn, is driving increased borrowing, for both undergraduate and postgraduate study.

With student debt thus becoming commonplace in many developed nations, it is surprising that more attention has not been placed on understanding what factors drive students' attitudes and behaviours around debt. This clearly has implications for theory, policy and practice, both for the individual and for wider society. This paper aims to move forward understanding of how students construct their attitudes to debt. In particular, it will address the following research questions:

1. How many dimensions are there within the complex attitudes around student debt and what do these dimensions describe?
2. What is the most simple, robust and parsimonious model for these dimensions?
3. To what extent is this model consistent between countries?

This paper describes the results of an cross-national study, with data collected from corresponding samples of students from three English-speaking nations that were selected pragmatically to eliminate issues around translation in an exploratory study; it is appreciated that other nations, particularly outside of the Anglophone world, may well have different perspectives. The study is grounded broadly within a behavioural economics perspective, seeking to understand economic decisions that may be complex, contradictory or irrational. The primary data are subjected to exploratory factor analysis, with the structure and description of these factors being reflected upon and discussed. Finally, some implications for theory, policy and practice are suggested.

1.1. Policy contexts

The three countries represented in this study have varying approaches to the provision of governmental loans to students, amounts available and varying take-up rates. At the time of the study the approximate prevailing exchange rates were £1 = US$1.50 = NZ$2.

- In *England*,[1] government loans for undergraduate students were introduced in the late 1980s to supplement the existing programme of means-tested grants for living costs. Their scale and importance has grown rapidly since the early 2000s, when grants were temporary abolished and tuition fees were introduced. English students have been paying the full cost of their tuition (up to £9,000 a year) since 2012, with loans available to defer the cost; there is also a complex system of means-tested grants and bursaries in place to offset a proportion of the fees (usually no more than one-third). Combined with an expanded loan available for maintenance costs, the English cohort in this study could borrow up to £14,500 per year, up from around £8,500 for those entering in 2011. Total indebtedness over the course of a three-year degree could therefore exceed £40,000.
- Student loans in England have always been based on a delayed repayment system, where the first payment is ordinarily due nine months after graduation. However, if the graduate is earning under a threshold, repayments can be deferred. From 2012, this threshold was raised to £21,000 a year, which is some way above the average graduate starting salary, such that most students would not expect to repay for some years. Repayments are set at 9 percent of income over the threshold. Prior to 2012, the interest on student loans was pegged to the retail price index, but there is now a means-tested premium of up to 3 percent above inflation. Take-up of student loans prior to 2012 was around 85 percent, but it is now approaching 100 percent as very few students are able to fund maintenance and tuition costs from their existing resources.
- The Student Loan Scheme in *New Zealand* (NZ) has undergone a number of modifications since its introduction in 1992. Students are able to borrow for course related costs such as textbooks, living expenses, and to pay for tuition fees. Initially, the interest rate charged on student loans was indexed to the consumer price index; however in 2000, interest was abolished for full-time students and part-time students on low incomes. This was extended in 2006, when loans were made interest free for all borrowers living in New Zealand, even including ex-students who were no longer studying. In 2010, a voluntary repayment bonus was introduced, which is a 10 percent bonus borrowers can receive for making voluntary repayments that total NZ$500 or more in a tax year. So a borrower making a voluntary repayment of NZ$1,000 receives

[1] The constituent nations within the United Kingdom have different student funding systems and levels of indebtedness. The data in this paper and the references to social policy focus on England, which has the highest levels of average debt. The English system is similar to those in Wales and Northern Ireland, while Scotland does not charge tuition fees and so average debt levels are much lower.