Student Debt as Investment: Executive Summary

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With over $1.7 trillion in student loan debt nationwide, we analyzed 1,430 four-year U.S. colleges to answer: Does borrowing for college lead to higher earnings after graduation? The answer depends critically on whether one attends a public or private school and how effective that school is at graduating students. Three-quarters of private schools cluster at the federal $27,000 Stafford loan limit, while public universities show lower median debt ($21,000) due to state funding. For Public Universities, graduation rates dominate outcomes. Students at high-performing public schools (70%+ graduation rates) earn substantially more one year after graduation than those at struggling schools (poor graduation rates), even with higher debt levels. A student moving from a school with a 40% to an 80% graduation rate gains approximately $15,000 in predicted earnings, even if debt increases by $10,000. However, there's a "danger zone" at 40-50% graduation rates where earnings collapse regardless of debt. These struggling schools produce the weakest returns. For Private Nonprofit Schools, higher debt correlates with higher earnings, but this signals attendance at more prestigious, expensive institutions rather than debt's causal effect. Earnings peak around $15,000-$20,000 debt regardless of school quality, with higher graduation rates providing consistent high earnings across all debt levels.

Our models explain only 18-22% of earnings variation. The remaining reflects unmeasured factors such as field of study, student ability, family wealth, and career choices. We capture only one-year earnings for graduates, missing long-term outcomes and data for non-completers. For students, this translates to an important conclusion: moderate debt at high-graduation-rate schools produces better outcomes than minimal debt at struggling institutions. Students should prioritize school quality and completion rates over simply choosing lower tuition.