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It’s Not Just Students Drowning in Debt. Colleges Are Too!

When universities have to borrow just to keep the doors open, bankers and rating agencies call the shots.

By Eleni Schirmer

Illustration by Adrià Fruitós.

For colleges and universities this year, back to school has been tumultuous. At the University of North Carolina, administrators defiantly brought students to campus, only to send them home within days as Covid-19 outbreaks ravaged the commons. The University of Wisconsin pushed ahead with in-person reopening despite outcries from faculty, staffers, and even county health officials; within weeks, the campus had to shift all instruction online. Students at the University of Georgia staged die-ins, unwilling to sacrifice their lives for their education. Notre Dame's student newspaper published an editorial begging not to have to print classmates' obituaries. Big Ten football was canceled—and then it wasn't. By July, more than 51,000 campus workers in the United States had been laid off, furloughed, or did not have their contracts renewed. Meanwhile, the majority of universities' remaining adjunct instructional staffers found themselves without sick leave or employer-sponsored health insurance. All this mayhem caused many to wonder, "Exactly who are universities accountable to?"

For universities, this crisis has been long in the making, its vectors not just the spray of coronavirus-laden droplets unleashed over the past months but also jagged budget lines plunging across decades. During the past 30 years, per-pupil public funding for higher education has declined more than 30 percent. Ten years after the Great Recession, annual state funding for public colleges is still $6.6 billion below 2008 levels. As the federal government has dialed back funds, universities have turned to debt financing to keep their doors open.

Over the past decade, vibrant organizing has forced student debt into the political limelight. Once considered a wild utopian ideal, debt cancellation has become part of the mainstream liberal political conversation. Thanks to efforts by the Debt Collective, the Movement for Black Lives, Rolling Jubilee (an offshoot of Occupy Wall Street), and others, top Democratic presidential candidates rushed to issue plans for addressing student debt, from lowered interest rates to free public college. This fall, Senators Elizabeth Warren and Chuck Schumer called on Donald Trump to forgive up to $50,000 of federal student loans per borrower. Activists have similarly pressured Joe Biden to commit to canceling student debt, though so far he has proposed canceling only $10,000 worth per student. Even Trump has ordered Secretary of Education Betsy DeVos to stop collecting interest payments on federal student loans during the pandemic.

But it's not only students who are buried in debt. Institutions are, too. Just as decreased state funding has caused students to go into debt to cover tuition and fees, universities have taken on debt to keep their doors open. Institutional debt at public colleges in the United States has more than doubled, jumping from $73 billion in 2003 to $151 billion in 2012. As schools borrow more, greater proportions of their budgets service that debt through interest and fee payments.

Between 2003 and 2012, university interest payments jumped from $6 billion to $11 billion annually. Similarly, in 2003, public colleges spent an average of $519 on interest payments per full-time student. By 2012, they were spending $750 on interest payments per student—a nearly 45 percent increase.

Student debt and institutional debt are integrally connected. As Hannah Appel, a professor at UCLA and a co-founder of the Debt Collective, told me, “Public institutions have been starved of public funding. Their funding model has been forced to privatize. And part of what that means is…they’re issuing bonds, but they are also tuition funded. So these are part and parcel of the same thing.”

Whereas student debt load is intimate, determining the work we seek and how much of our wages we take home, institutional debt is opaque. Most students and workers pass through campus unaware of their institution’s dependency on debt financing in any of its basic terms, such as the amount their school owes and what the money was borrowed for—much less who lent it and under what conditions. Lack of budgeting transparency, in combination with complex financing streams, makes these matters intimidating, if not unintelligible, for many, including the workers and students paying the cost.

Yet institutional debt is the invisible architecture of higher education. In an era of dwindling public revenue, universities build dorms, staff classrooms, and furnish libraries by taking on debt. The biggest increases in institutional debt have been used to finance the explosion of shiny new buildings on less wealthy campuses. Luxury dorms and state-of-the-art gyms serve a common purpose: to lure top-paying students, especially out-of-state and international ones.

This drive to recruit paying customers (sometimes called students) has triggered an amenities arms race to construct the flashiest, poshest accommodations—all financed by borrowing. Even the wealthiest schools, whose large endowments could easily cover capital expansion projects, have submerged themselves in debt. Why? Investment earnings from their bulging endowments more than offset the cost of borrowing. As UC Berkeley sociologist Charlie Eaton and his colleagues have reported, the financialization of higher education has meant that “less wealthy public and private colleges are using institutional debt towards maximizing commercial revenues, while at the wealthiest institutions it was oriented toward maximizing financial revenues.” Universities, in other words, are becoming increasingly more like country clubs (however aspirational) with an interest in education or investment banks that run degree programs.

More than a financial arrangement, debt financing creates a power relationship. The rules of credit govern campuses with more force than virtually any other institutional body. Debt covenants (the legally binding conditions of borrowing) stipulate the payment order: creditors first, everyone and everything else last. Only after money has been set aside for the banks does a university begin to pay its workers, distribute financial aid to students, or grant sick time and health insurance to employees.

Frequently, universities take on debt through a version of municipal bonds. Essentially legal IOUs, the bonds pledge that universities will repay their debt, plus interest and fees to the Wall Street banks that secure this financing. But banks are first and foremost concerned with securing profits for themselves, not the well-being of students, workers, or taxpayers. Even attempts to curb the banks' profiteering at taxpayers' expense, such as the 2010 Dodd-Frank legislation, excluded municipal bond underwriters. As a result, banks that secure money for municipal entities, such as institutions of higher learning, are not required to protect taxpayers' interests and can act freely to pursue financial gains without penalty. Using their role as lenders to act as de facto financial advisers, the banks sell universities complicated financial products that increase borrowers' fees while lining their own pockets.

Lethal lessons: At the University of Georgia, students staged a die-in to protest the campus's reopening in August. *(Kyle Peterson)*

With universities beholden to creditors, credit rating agencies have become de facto governors. In theory, these private firms evaluate an institution's likelihood of defaulting on a loan. But for agencies like Moody's, Standard & Poor's, and Fitch, their rating scales are far more rooted in ideology than reality. (For example, they routinely downgrade municipal bonds despite their extremely low default rates, suggesting a costly bias against municipalities.) As universities must increasingly borrow money to operate, their credit ratings have become their lifelines. Given such influence, the rating agencies not only evaluate institutions; they also incentivize their behavior.

What the rating agencies deem important, universities must do. The firms prize branding strength, so universities pour money into marketing campaigns and targeted brand research. The agencies value a school's ability to unilaterally raise tuition, so public universities scramble to seek such authority from state legislatures. Moody's rating methodology measures a university board of directors' fluency in business complexities. Thus the number of finance executives who chair these boards at research universities more than doubled between 1989 and 2004, rising from 26 to 56 percent.

Rating agency algorithms also consider a university's ability to control labor costs, in terms of both employee unions and faculty tenure. The more unionized and publicly regulated a university, the weaker its credit rating. Moody's credit rating methodologies for higher education suggest that political pressures to keep tuition low may limit institutions' market strength. Similarly, pushes to maintain staffing, especially amid an economic downturn, might weaken universities' financial power. When universities keep tuition low, workers securely employed, and are democratically governed by non-investment bankers, Moody's warns, credit ratings may suffer.

In 2009, shortly after the University of California announced it was facing an "extreme financial emergency" and furloughed thousands of workers, a strange thing happened: Its bond rating jumped. One month later, the UC system issued $1.6 billion in highly rated bonds. How could a flailing institution that cut $170 million in workers' pay suddenly raise more than $1 billion in bonds? The answer was simple: The UC Board of Regents followed the rating agencies' playbook, as explained by their rating methodology documents. The board cut workers' pay and raised tuition by a jaw-dropping 32 percent. Assuaged by the promise of decades of students' future wages, Moody's and S&P awarded the UC system a higher rating than even the state of California. This rating enabled it to easily secure $1.6 billion from private banks and lenders. UC not only used student tuition as collateral for institutional debt; it also made its bond rating its highest budgetary priority.

Such financial terrain has proved disorienting for campus activists, who often cite rising administrators' pay as the main driver of campus austerity politics. "Chop, chop, chop from the top!" yell students and workers who protest wage cuts and tuition hikes while administrators continue to collect six-figure salaries. The allocation of scarce campus resources is a crucial question, but perhaps an equally fundamental issue is why resources have been made scarce in the first place. In an era of debt-financed universities, administrators, however overpaid, are merely puppets—perhaps more than they themselves realize—with the strings held by Wall Street banks and their guard dogs, the rating agencies.

Amid pandemic-exacerbated financial peril, students, faculty members, and other staffers at campuses across the country have begun to call attention to the rising debt loads at their institutions. For example, when, with Covid's arrival, the Board of Trustees and administrators at Salem State University in Massachusetts threatened to raise tuition, furlough workers, and postpone faculty promotion and tenure decisions, Rich Levy, Joanna Gonsalves, and other members of the Salem chapter of the Massachusetts State College Association, their union, began to wonder just whom their university was really serving. With guidance from groups like Bargaining for the Common Good, the Debt Collective, and Labor Notes' Public Higher Education Network, Levy and a handful of other faculty members and undergraduates began to investigate debt financing on their own campus. "We didn't have special skills," Levy told me. "It was people just reading public documents." Although they vaguely understood their university had been slowly privatizing many of its assets, from its workforce to its buildings, these unionists found the school's numbers spelled it out: Each full-time SSU student paid $2,960—11.53 percent of annual tuition and fees—just to service the university's capital debt, a 403 percent increase since 2010. "We knew this was happening," Levy said. "We just didn't know it was happening like this."

A similar effort at the University of Wisconsin that I have been involved in has revealed that since 2007, its debt service payments have increased 63 percent. In 2019, UW spent roughly the same amount to service its debt as it distributed in financial aid. At its flagship campus, the University of Wisconsin–Madison, where I am a graduate student, almost 3 percent of last year's budget went to servicing its debt. By comparison, the entire School of Education—the 10 departments that, among other duties, prepare future educators—is allocated slightly more than 4 percent of the revenue budget. At UC San Diego, faculty discovered the campus's debt obligations have nearly doubled since 2012, imposing $70 million in debt service payments annually; the UC system as a whole paid $767 million in interest expenses in 2019.

Campus blues: At the University of California, Santa Cruz, police arrest members of the graduate students' union striking for higher pay. *(Dan Coyro / Santa Cruz Sentinel via AP)*

While making institutional debt visible is critical, the real challenge is to organize this knowledge into power. How can we—students, low-wage workers, adjuncts, beleaguered professors—do anything to stop the financialized machine of higher education? The first task: Remember that we have power and then envision how we can use it.

"We start to make demands, and that opens up new perspectives and new possibilities," said Jason Wozniak, a professor of educational foundations at West Chester University in Pennsylvania and a member of the Debt Collective. Demands can help students and adjuncts, taxpayers, low-wage workers, and even administrators see themselves in common cause. More than just a means to achieve immediate wins, demands are tools to bring groups together to envision and articulate long-term aims, however utopian they may seem.

One such demand would be for public, democratically accountable financing of higher education, via the federal government instead of profiteering banks. Public financing of universities would weaken credit rating agencies' power over universities' priorities. And it would eliminate millions of dollars in interest and fees that universities give to Wall Street. According to a recent report by the Action Center on Race and the Economy, state and local governments spend more than $160 billion a year on interest payments for their debts. Yet, as the document highlights, the Federal Reserve has the capacity to issue zero-cost, long-term loans directly to public institutions, from state governments to community colleges. So why doesn't it? Because movements have yet to demand it, much less organize for it.

The reality of today's economy means that demands for justice must reach beyond the boss: They must grab for the invisible hand. Such acts have precedent. In the 1990s, when the International Monetary Fund conditioned its willingness to lend to the Bolivian city of Cochabamba on its selling off the city's public water supply, activists launched a general strike. This movement laid the groundwork for Bolivia's protest movement against the World Bank and International Monetary Fund, arguing that money should go to public services in the country instead of private financial conglomerates elsewhere.

A similarly inspired global Jubilee Debt Campaign has won $130 billion in debt relief for debtor nations from 2000 to 2015. Student activists in Puerto Rico have fought against the debt extraction that has shuttered their universities. In 2012 the city of Oakland, Calif., terminated financing with Goldman Sachs for engaging in predatory interest swaps. In 2011 the Chicago Teachers Union called on Chicago Public Schools to stop doing business with the five banks responsible for the most foreclosures in the city.

But the invisible hand will not release its grip by itself. Nor will Congress command the Fed to make zero-interest loans to public institutions without movements demanding them. Achieving these goals must begin with organized movements. The goal of organizing: to build unity strong enough such that those involved—educators, basketball players, consumers—can withhold their participation from the system that denies them power.

Given the right kind of organizing, a university's debt could actually become a source of strength. To withhold debt servicing payments would be to strike at the jugular of the predatory finance system. "Every million dollars that goes to Wall Street is a million dollars we could use to give adjuncts better pay, to provide benefits to poor students, to keep classes running," explained Wozniak. "Debt service is a form of extraction that we need to stop immediately, especially during this crisis." Even a moratorium on debt servicing could offer a strategic pause, allowing students, faculty members, and other staffers a moment “to feel what it’s like to not have our necks squashed by debts and creditors,” he said.

Such organizing would necessitate coalitions of students, workers, faculty members, and even administrators, standing together to demand publicly financed higher education. Following the lead of graduate workers at UC Santa Cruz, for example, university instructors, in coalition with students and administrators, could refuse to issue grades—higher education’s own unique brand of credit rating—to strike against debt-financed universities. Campus groups could call for debt audits of universities. Unions could analyze campus debt and organize around it. The invisibility of universities’ debt financing is what enables its power to operate undetected; organizing can bring it to light.

In some cases, Covid-19 has accomplished decades of movement work in a matter of weeks. Demands previously written off as far-fetched or impossible have become political realities. Evictions have been halted. Prisoners have been released. Water, heat, and electricity flow freely to homes. Mutual aid networks have deepened. Yet on campuses, Covid-19 has only heightened the austerity regimes, not transformed them. Universities’ strategy to paper over decades of budget cuts with tuition hikes—i.e., student debt—is no longer viable amid the pandemic. For many universities, declining enrollment and tuition dollars will mean less collateral for their debt loads. In March, predicting such a turn of events, Moody’s downgraded the outlook of the entire higher education sector from stable to negative. For cash-strapped schools, bleaker credit ratings mean institutional debt financing will become both more necessary and more expensive. Some colleges, such as the historic San Francisco Art Institute, have already shuttered their doors because of unmanageable debt loads. And the worst is likely still to come.

These financial pressures will undoubtedly accelerate plans to transform universities into profit machines rather than sites of teaching, learning, and reparative community. The time has passed to merely resist these pressures; we must dismantle the system that produces them. And we have power to move toward that goal. We can begin by demanding that our universities halt debt repayments. Doing so would withhold our participation in the predatory financing that extorts university workers and students for Wall Street’s gains. Refusing to pay debt service would strike a crucial blow against the privatization of universities—and mark the first step toward their public, democratically determined financing.

Eleni SchirmerEleni Schirmer, a PhD student at the University of Wisconsin–Madison, studies labor movements, social movements, and public education.