
Student Debt and the Spirit of Indenture

Jeffrey J. Williams

WHEN WE think of the founding of the early colonies, we usually think of the journey to freedom, in particular of the Puritans fleeing religious persecution to settle the Massachusetts Bay Colony. But it was not so for a majority of the first Europeans who emigrated to these shores. “Between one-half and two-thirds of all white immigrants to the British colonies arrived under indenture,” according to the economic historian David W. Galenson, a total of three hundred thousand to four hundred thousand people. Indenture was not an isolated practice but a dominant aspect of labor and life in early America.

Rather than Plymouth, Jamestown was a more typical example of colonial settlement, founded in 1607 as a mercantile venture under the auspices of the Virginia Company, a prototype of “joint-stock” corporations and venture capitalism. The first colonists fared badly because, coming primarily from gentry, they had little practical skill at farming and were ravaged by starvation and disease. In 1620, the Virginia Company shifted to a policy of indentured servitude to draw labor fit to work the tobacco colonies. Indenture had been a common practice in England, but its terms were relatively short, typically a year, and closely regulated by law. The innovation of the Virginia Company was to extend the practice of indenture to America, but at a much higher obligation, of four to seven years, because of the added cost of transit, and also because of the added cost of the brokerage system that arose around it. In England, contracts of indenture were directly between the landowner and servant, whereas now merchants or brokers in England’s ports signed prospective workers, then sold the con-

tracts to shippers or to colonial landowners upon the servants’ arrival in America, who in turn could re-sell the contracts.

By about 1660, planters “increasingly found African slaves a less expensive source of labor,” as Galenson puts it. An economically minded historian like Galenson argues that the system of indenture was rational, free, and fair—one had a free choice to enter into the arrangement, some of those indentured eventually prospered, and it was only rational that the terms be high because of the cost of transit—but most other historians, from Edmund S. Morgan to Marcus Rediker, agree that indentured servitude was an exploitive system of labor, in many instances a form of bondage akin to slavery. For the bound, it meant long hours of hard work, oftentimes abuse, terms sometimes extended by fiat of the landowner, little regulation or legal recourse for laborers, and the onerous physical circumstances of the new world, in which two-thirds died before fulfilling their terms. **[AU: Is it true that there were black indentured servants who were turned into actual slaves?]**

College student-loan debt has revived the spirit of indenture for a sizeable proportion of contemporary Americans. It is not a minor threshold that young people entering adult society and work, or those returning to college seeking enhanced credentials, might pass through easily. Because of its unprecedented and escalating amounts, it is a major constraint that looms over the lives of those so contracted, binding individuals for a significant part of their future work lives. Although it has more varied application, less direct effects, and less severe conditions than colonial indenture did (some have less and some greater debt, some attain better incomes) and it does not bind one to a particular job—student debt permeates everyday experience with concern over the monthly chit and encumbers job and life choices. It also

takes a page from indenture in the extensive brokerage system it has bred, from which more than four thousand banks take profit. At core, student debt is a labor issue, as colonial indenture was, subsisting off the desire of those less privileged to gain better opportunities and enforcing a control on their future labor. One of the goals of the planners of the modern U.S. university system after the Second World War was to displace what they saw as an aristocracy that had become entrenched at elite schools; instead they promoted equal opportunity in order to build America through its best talent. The rising tide of student debt reinforces rather than dissolves the discriminations of class, counteracting the meritocracy. Finally, I believe that the current system of college debt violates the spirit of American freedom in leading those less privileged to bind their futures.

In a previous essay, "Debt Education," in the summer 2006 issue of *Dissent*, I detailed the basic facts and figures of student-loan debt, pointed out how it rewrites the social contract from a public entitlement to education to a privatized service, and teased out how it teaches less than humanistic lessons, about education as a consumer good, about higher education as job training rather than intellectual exploration, and about civil society as a commercial market rather than a polis. I also promoted some solutions, notably the Labor Party's proposal for FreeHigherEd and fortified forms of public service linked with college. Here, I look more seriously at the analogy to indenture. While it might not be as direct or extreme a constraint as indentured servitude, student debt constrains a great many of Americans. It represents a turn in American thought and hope to permit such a constraint on those attempting to gain a franchise in the adult or work world. I also want to promote a relatively little known proposal for relieving some of the most inequitable terms of student debt, "Income Contingent Loans."

INDENTURED SERVITUDE seems a strange and distant historical practice, like debtors' prison. But there are many ways that college student loan debt revises for the twenty-first century some of its ethos and features:

- **Prevalence** Student-loan debt is now a prevalent mode of financing higher education, applying to two-thirds of those who attend. If upward of 70 percent of Americans attend college at some point, it applies to half the rising population. Like indenture through the seventeenth century, it has become a common experience of those settling the new technological world of twenty-first century America, in which we are continually told that we need college degrees to compete globally.

- **Amounts** Student debt has morphed from relatively small amounts to substantial ones, loosely paralleling the large debt entailed by colonial transport. The average federal loan debt of a graduating senior in 2004 (the most recent year for which statistics are available) was \$19,200. Given that tuitions have nearly doubled in the last decade and grants have barely risen, and that debt more than doubled from 1994, when it was \$9,000, not to mention from 1984, when it was \$2,000, one can assume that the totals will continue to climb. Also consider that, as happens with averages, many people have significantly more than the median—23 percent of borrowers attending private and 14 percent attending public universities have over \$30,000 in undergraduate loans. Added to federal loans are charge cards, estimated at \$2,169 per student in 2004, quite often used for necessities; private loans, which have quintupled in number since 1996, when 1 percent of students took them, to 5 percent in 2004, and which have risen in total to \$17.3 billion in 2005, a disturbingly large portion *in addition to* the \$68.6 billion for federal loans; and, for over 60 percent of those continuing their educations, graduate-student debt, which more than doubled in the past decade, to a 2004 median of about \$28,000 for those with master's degrees, \$45,000 for doctorates, and \$68,000 for professional degrees.

- **Length of term** Student debt is a long-term commitment—for standard Stafford, guaranteed federal loans are amortized over fifteen years. With consolidation or refinancing, the term frequently extends to thirty years—in other words, for many re-

turning students or graduate students, until retirement age. It is not a transitory bond, say, of a year for those indentured in England or of early student debtors who might have owed \$2,000. To be sure, it is not as concentrated as colonial indenture, but it is lengthier and weighs down a student debtor's future.

- **Transport to work** Student indebtedness is premised on the idea of transport to a job—the figurative transport over the higher seas of education to attain the shores of credentials deemed necessary for a middle class job. The cost of transport is borne by the laborer, so an individual has to pay for the opportunity to work. Some businesses alleviate debt as a recruiting benefit, but unfortunately they are still relatively few. (Another factor is the precipitous rise in student work hours, as Marc Bousquet's stunning indictment, *How the University Works*, recounts. According to recent statistics, students at public universities work an average of twenty-five hours a week, which tends to lower grades and impede graduation rates. Servitude, for many current students, begins on ship.)

- **Personal contracts** "Indenture" designates a practice of making contracts before signatures were common (they were torn, the tear analogous to the unique shape of a person's bite, and each party held half, so they could be verified by their match); student debt reinstitutes a system of contracts that bind a rising majority of Americans. Like indenture, the debt is secured not by property, as most loans such as those for cars or houses are, but by the person, obligating his or her future labor. Student-loan debt "financializes" the person, in the phrase of Randy Martin, who diagnoses this strategy as a central one of contemporary venture capital, displacing risk to individuals rather than employers or society. It was also a strategy of colonial indenture.

- **Limited recourse** Contracts for federal student loans stipulate severe penalties and are virtually unbreakable, forgiven only in death, not bankruptcy, and enforced by severe measures, such as garnishee and other legal sanctions, with little recourse. (In one

recent case, the Social Security payment to a person on disability was garnisheed.) In England, indenture was regulated by law, and servants had recourse in court; one of the pernicious aspects of colonial indenture was that there was little recourse in the new colonies.

- **Class Student** debt applies to those with less family wealth, like indenture reinforcing class differences. That this would be a practice in imperial Britain before modern democracy and where classes were rigidly set, is not entirely surprising; it is more disturbing in the United States, where we ostensibly eschew the determining force of class. The one-third without student debt face much different futures, and are more likely to pursue graduate and professional degrees (three-quarters of those receiving doctorates in 2004 had no undergraduate debt, and, according to a 2002 Nellie Mae survey, 40 percent of those not pursuing graduate school attributed their choice to debt). Student debt is digging a class moat in present-day America.

- **Youth Student** debt incorporates primarily younger people, as indenture did. One of the more troubling aspects of student debt is that often it is the first step down a slope of debt and difficulties. Tamara Draut, in her exposé *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead*, shows how it inaugurates a series of strained conditions, compounded by shrinking job prospects, escalating charge card debt, and historically higher housing payments, whether rent or mortgage, resulting in lessened chances for having a family and establishing a secure and comfortable life. The American Dream, and specifically the post-Second World War dream of equal opportunity opened by higher education, has been curtailed for many of the rising generation.

- **Brokers Student** debt fuels a financial services system that trades in and profits from contracts of indebted individuals, like the Liverpool merchants, sea captains, and planters trading in contracts of indenture. The lender pays the fare to the college, and thereafter the contracts are circulated among Sallie Mae, Nellie Mae, Citigroup,

and four thousand other banks. This system makes a futures market of people and garners immense profit from them. The federally guaranteed student loan program was originally a nonprofit corporation, Sallie Mae, whereas in the past two years Sallie Mae became a private, for-profit corporation, reporting a profit of 69 percent a year ago.

- **State policy.** The British crown gave authority to the Virginia Company; the U.S. government authorizes current lending enterprises and, even more lucratively for banks, underwrites their risk in guaranteeing the loans (the Virginia Company received no such largesse and went bankrupt). In the past few years, federal aid has funneled more to loans rather than any other form of aid (52 percent of all federal aid, whereas grants account for 42 percent).

My point in adducing this bill of particulars is not to claim an exact historical correspondence between indentured servitude and student indebtedness. But, as I think these particulars show, it is not just a fanciful analogy either. The shock of the comparison is that it has any resonance at all, and that we permit, through policy and practice, the conscription of those seeking the opportunity of education, especially the young, into a significant bond on their future labor and life. While indenture was more direct and severe, it was the product of a rigidly classed, semi-feudal world; student debt is more flexible, varied in application, and amorphous in effects, a product of the postmodern world, but it revives the spirit of indenture in promulgating class privilege and class subservience. What is most troubling is that it represents a shift in basic political principle. It turns away from the democratic impetus of modern American society. The 1947 Report of the President's Commission on Education, which ushered in the vast expansion of our colleges and universities, emphasized (in bold italics) that "free and universal access to education must be a major goal in American education." Otherwise, the commission warned, "If the ladder of educational opportunity rises high at the doors of some youth and scarcely rises at the doors of others,

while at the same time formal education is made a prerequisite to occupational and social advance, then education may become the means, not of eliminating race and class distinctions, but of deepening them." Their goal was not only an abstract one of equality, but also to strengthen the United States, and, by all accounts, American society prospered. Current student debt weakens America, wasting the resource of those impeded from pursuing degrees who otherwise would make excellent doctors or professors or engineers, as well as creating a culture of debt and constraint.

THE COUNTERARGUMENTS for the rightness of student loan debt are similar to the counterarguments for the benefits of indenture. One holds that it is a question of supply and demand—a lot of people want higher education, thus driving up the price. This doesn't hold water because the demand for higher education in the years following the Second World War through 1970 was proportionately the highest of any time, as student enrollments doubled and tripled, but the supply was cheap and largely state funded. The difference between then and now is that higher education was much more substantially funded through public sources, both state and federal; now the expense has been privatized, transferred to students and their families.

Galenson argues that with indenture, "long terms did not imply exploitation" because they were only fitting for the high cost of transport; that more productive servants, or those placed in undesirable areas, could lessen their terms; and that some servants went on to prosper. He does not mention the rate of death, the many cases of abuse, the draconian extension of contracts by unethical planters, nor simply what term would be an appropriate maximum for any person in a free society to be bound, even if they agreed to the bondage. Galenson also ignores the underlying political question: Is it appropriate that people, especially those entering the adult world, might take on such a long-term commitment of constraint? Can people make a rational choice for a term they might not realistically imagine? Even if one doesn't question the principle of indenture, what is an appropriate cap for its amounts and

term? In the case of student debt, although it might be a legal choice, it is doubtful whether it is always a rational choice for those who have no knowledge of adult life. One of the more haunting responses to the 2002 Nellie Mae survey was that 54 percent said that they would have borrowed less if they had to do it again, up from 31 percent ten years before. One can only imagine that this informed judgment will climb as debt continues to rise.

Student-loan debt is justified in terms similar to Galenson's by some current economists. Because college graduates have made, according to some statistics, \$1,000,000 more over the course of their careers than non-college graduates, one prominent argument holds that it is rational and right that they accumulate substantial debt to start their careers. However, while it is true that many graduates make statistically high salaries, the problem is that those results vary a great deal: some accrue debt but don't graduate; some graduate but, with degrees in the humanities or education, for instance, they are unlikely to make a high salary; more and more students have difficulty finding a professional or high-paying job; and the rates have been declining, so a college degree is no longer the guaranteed ticket to wealth that it once was. **[AU: Doesn't it also matter which college, i.e., the income gap is greater for graduates of elite schools.]** An economic balance sheet also ignores the fundamental question of the ethics of requiring debt of those who desire higher education and the fairness of its distribution to those less privileged.

IN THE PAST YEAR, there has been more attention to the problem of student loan debt, but most of the solutions, such as the recent interest rate adjustment for current graduates (so the rates don't rise when the prime rate increased) or laws forbidding graft to college loan officers, are stopgaps that do not affect the structure and basic terms of the system. The system needs wholesale change. I believe that the best solution is "FreeHigherEd," put forth by the Labor Party (see Adolph Reed's article, "A G.I. Bill for Everybody," in *Dissent* in 2001). It proposes that the federal government pay tuition for all qualified students at public universities, which would cost around

fifty billion dollars a year and which could be paid simply by repealing a portion of the Bush tax cuts or shifting a small portion of the military budget. It would actually jettison a substantial layer of current bureaucracy—of the branches of the federal loan program, of the vast web of banking, and of college financial aid offices—thereby saving a great deal. Like free, universal health care, free higher education should be the goal, and it's not impracticable.

The next best solution, I believe, is "Income Contingent Loans." Income Contingent Loans, as their name implies, stipulate an adjustable rate of payment according to income. They were first adopted in Australia in 1989, the invention of the educational policy expert Bruce Chapman, and have since been adopted in the United Kingdom. They are currently supported by The Project on Student Debt. Such loans represent a pragmatic compromise between free tuition and the current debtor system. They provide a safety net for those with the most debt but least resources and they stipulate a reasonable scale of payment for those doing better.

One of the most pernicious aspects of the current structure of student-loan debt is that it puts a particular burden on those who have lower incomes, especially at the beginning of their careers, because the repayment schedule is fixed (there are very limited terms of forbearance, capping at four years). For instance, an elementary school teacher with a salary of \$23,900 (the 2005 median) who has a debt of \$40,000 after her four years at a private college would have to pay about 15 percent or more of her salary, before taxes. After taxes it might be closer to 25 percent, which would make ordinary living expenses difficult. Income Contingent Loans stipulate a minimum threshold below which one does not have to pay—\$23,242 in Australia in 2002. Income Contingent Loans protect those most at risk.

They also have other safeguards and measures of fairness. Beyond the minimum threshold, they stipulate a sliding scale, in Australia beginning at 3 percent and rising to a cap of 8 percent, so that if the teacher got a raise to \$30,000 she might have to pay 4 percent. In the United Kingdom, the cap is 6 percent.

Rates adjust over the long term, so that if a graduate starts with a low salary but eventually makes a sizeable income, then it seems fitting that he pay a higher rate. If you graduate from Carnegie Mellon, where I teach, and get a job in engineering for \$80,000 a year, it does not seem an inordinate burden to pay \$4,800 a year. But it does seem unreasonable to have to pay \$400 a month when you make \$18,000 a year.

The real shift is that Income Contingent Loans obligate someone's actual salary. They absorb some of the risk, in a sense, of those who do not attain high salaries, but they also have a certain fairness: they are a kind of tax levied on the actual economic value of a degree, rather than the imagined value. One counterargument is that this is unfair—as with income taxes, those who make more pay at a higher rate. But I would argue that the current system is unfair and unbalanced, insofar as some people derive more benefit from a college degree. For instance, at Carnegie Mellon, the value of a computer science degree is far higher than one in English, so those in computer science should have to pay proportionately more. The Australian system adjusts for degrees in fields such as the humanities. **[AU: How is it unfair if they're all paying off their debt, but some, paying at higher rates, will pay it off more quickly?]**

One practical problem of Income Contingent Loans is collection. In the United Kingdom collection is administered through income tax. Although this would require a new line or worksheet on one's yearly tax report, it would rid one of payment books and complicated refinancing plans and greatly reduce the many layers of financial aid offices, the federal loan system, and the brokers of banking, saving substantially more paperwork as well as money than the system we now have. Banks will lobby that this is inefficient, but the tax system works: it's already in place; and the current system, with its multiple brokers, is hardly more efficient. The the specter of socialism would certainly be invoked, but the present system is already socialized, insofar as the federal government guarantees the loans—with banks

rather than students gaining a good deal of the benefit. Income contingent loans would shift the benefit more fully to students.

The College Student Relief Act of 2007 institutes an "Income-Based Repayment Option" on the model of Income Contingent Loans. This is a feint in the right direction, but a muddled one. It mandates qualifying for economic hardship through a labyrinthine process and relies on an overly complicated formula, of the amount of one's adjusted gross income exceeding 100 percent of the poverty line, then capping payments at 20 percent of that, which often results in a still substantial payment. (Based on the 2006 poverty line of \$10,488 for a single person, our elementary school teacher would have to pay 20 percent of \$13,412, or \$220.17 a month; in the other systems, she would have to pay little or nothing until she made more.) **[AU: Should we say, "Clearly, such adjustments could lead more qualified students to go into teaching,]** The advantage of the Australian and British models is that they apply to everyone—one does not have to file yet another set of forms to find out if you qualify, nor can one be rejected—and payments are based on a fixed and clear scale. The Relief Act shows admirable concern for the problem, for instance cutting interest rates from 6.12 percent in 2007 to 3.4 percent in 2011 (much to the displeasure of banks), but, as with the health care system, adds another codicil to an already far-flung and confusing web of regulations. The Australian and British systems work and are standardized and simple, with one plan for all.

Although it seems as if it sneaked up on us, student-loan indebtedness is not an accident but a policy. It is a bad policy, corrupting the goals of higher education. The world we inhabit is a good one if you are in the fortunate third without debt, but not nearly as good if you live under its weight. Student debt produces inequality and over-taxes our talent for short-term, private gain. As a policy, we can and should change it. ●

JEFFREY J. WILLIAMS teaches in the Department of English of Carnegie Mellon University.