

Individual and social influences on students' attitudes to debt: a cross-national path analysis using data from England and New Zealand (0199)

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Abstract

Student indebtedness is increasingly ubiquitous within the English-speaking world, but surprisingly little is known about the attitudes students hold about it. Indeed, the public discourse about debt is increasingly detached from academic findings from the disciplines of economics, psychology and sociology.

This paper reports the results of a quantitative 'path analysis' study based on an online questionnaire completed by 439 first year full-time social science and business undergraduates at two universities in England and New Zealand. Path analysis enables chains of causal relationships between complex variables to be explored.

The findings suggest that while there were significant differences in debt attitudes by country and gender, the role of social class and financial literacy levels was much less important than hypothesised. Individual personality factors exerted some influence, with, for example, a general predisposition toward anxiety being important in predicting specific anxiety about debt.

Paper

Indebtedness has increasingly become part of the student experience across the developed world, especially within English-speaking countries (Usher 2005). However, relatively little is known about the attitudes that students hold about their situation or what factors work to construct these attitudes. Indeed, there appears to be a disjuncture between popular beliefs and emerging academic understanding. The former are often played out within public policy debates, where students are constructed as being simplistically dissuaded from progression to university by a fear of debt. The latter finds a much more mixed picture from student-centred research – while some students clearly are highly concerned about their indebtedness, others are pragmatic or even positive about the educational investment involved.

For example, Bachan (2013) and Eckel et al. (2007) find no significant relationship between debt aversion and student indebtedness, while Esson and Ertl (2014) report that prospective students are more focused on securing graduate-level employment than concerned about what they perceive to be a 'safe' form of debt. Maringe, Foskett and Roberts (2009) do identify some debt aversion among prospective students, but conclude that it has little dissuasive power in light of the attractions of higher education. Kettley, Whitehead and Raffan (2008) suggest that gender may

have an important role, as female students use a range of coping strategies to ameliorate their higher anxiety, compared to 'complacent men' who are more likely to get into difficulty. Kamleitner, Hoelzl and Kirchler's (2012) review finds that the willingness to accumulate debt has been linked to a wide range of individual personality factors.

This paper reports a quantitative approach ('path analysis') to data collected from 439 first year full-time business and social science undergraduates from England and New Zealand (NZ) soon after the start of their studies. Data were collected through an online questionnaire that garnered a broadly representative sample representing a response rate of around 17 percent of the respective cohorts. The questionnaire asked participants to provide attitudinal data about indebtedness, as well as a popular personality inventory, a multiple-choice test of financial literacy and demographic information about them and their backgrounds. This paper follows on from one delivered at the 2014 SRHE Annual Conference which reported that four distinct debt attitudes emerged from the data: Anxiety, Utility-for-Investment, Utility-for-Lifestyle and Awareness.

Student debt differs somewhat between the two countries in the study. English students are exposed to significantly higher levels of debt than NZ students and are expected to pay a higher rate of interest on the debt accrued. However, the threshold for repayment is lower and the repayment rate is higher for NZ students. Furthermore, NZ students are much more likely to voluntarily repay their debt early than English students.

A number of interesting findings emerged from the analysis, including:

- Social class (through the proxy of parental education levels) was not a predictor for any of the four debt attitudes in either country. This was confirmed using more detailed socio-economic data within the NZ dataset.
- Debt anxiety was significantly higher for social science students and NZ students. It was also higher for those students who had a higher general propensity towards neuroticism; women were more likely to be in this category and so had higher levels of debt anxiety than men.
- A strong belief in the value of debt as an educational investment was stronger among business students, NZ students and those with a conscientious personality type. It was significantly lower among women, who were more circumspect about the long-term prospects of seeing a return on their educational investment.
- Contrary to established theory, financial literacy had a surprisingly low impact on debt attitudes. Those with a stronger understanding of financial principles were less likely to see debt as useful for maintaining a desired student lifestyle, but it did not impact on the other three measures. Higher financial literacy was found among men, NZ students, business students and older students. Perceived utility for lifestyle purposes was also higher for

students with extravert and easy-going personality types, as well as for younger students and men.

- Students that were more anxious about their debt also had lower levels of awareness about its terms and size and were more likely to view it as useful for lifestyle purposes. These relationships are difficult to disentangle. For example, low awareness could lead to anxiety or those that are already anxious may choose not to find out about their student debt. Similarly, students with a high social expenditure may find their increasing debt worrying, or anxious students may spend more on their lifestyle to alleviate their anxiety in the short-term.
- Debt anxiety was also negatively correlated with belief in debt as an educational investment. This suggests that a long-term planning horizon can help to ameliorate short-term concerns about indebtedness.

These findings will be discussed in the context of human capital theory (Becker 1994) and Simon's (2000) theory of bounded rationality, to explore why students are willing to accept higher levels of debt than might be expected. The impact of social background and gender will also be discussed, especially in light of the finding that the former has little or no impact on attitudes – at least within the sample studied. Consideration will be given to why NZ students are more anxious about their debt despite the lower levels accrued and their higher confidence in debt as a long-term investment.

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