Student Loans and the Macroeconomy

LAURA FEIVESON

OCTOBER 7, 2019

The analysis and conclusions set forth are those of the author and do not indicate concurrence by other members of the research staff or the Board of Governors of the Federal Reserve System.
Are student loans holding back growth?

Suppose student loans were lower because…

1: They were less accessible, tuitions unchanged
   → Less growth
College tuition is high and rising

Average undergraduate student loan debt ~$30,000
College is a good investment

Lifetime benefits of attending college
~$500,000
Are student loans holding back growth?

Suppose student loans were lower because...

1: They were less accessible, tuitions unchanged
   → Less growth

2: They were unavailable to borrowers who did not receive benefits from their education
   → Little effect on growth.
Some borrowers do not receive benefits to education

- Their debt payments may crowd out consumer spending
- But aggregate drag on consumer spending growth is small
- Furthermore, loans lead to expenditures at time of receipt

**Student Loan Originations**

Source: College Board Trends in Student Aid.
Are student loans holding back growth?

Suppose student loans were lower because…

1: They were less accessible, tuitions unchanged
   → Less growth

2: They were unavailable to borrowers who did not receive benefits from their education
   → Little effect on growth.

3: They were unnecessary due to publicly funded education
   → Ambiguous (depends on how education was funded)
Millennials face more headwinds than previous two generations

- More young adults living at home and less young adults owning homes
- But these trends mostly due to entering the workforce during the Great Recession rather than student loans
Student debt is not currently a risk to the financial system

- Student loans are predominately guaranteed by government.
- Most private student loans have stringent standards.
- Student debt only $1.6 trillion (mortgage balances ~$11 trillion)