Student Loans and the Macroeconomy

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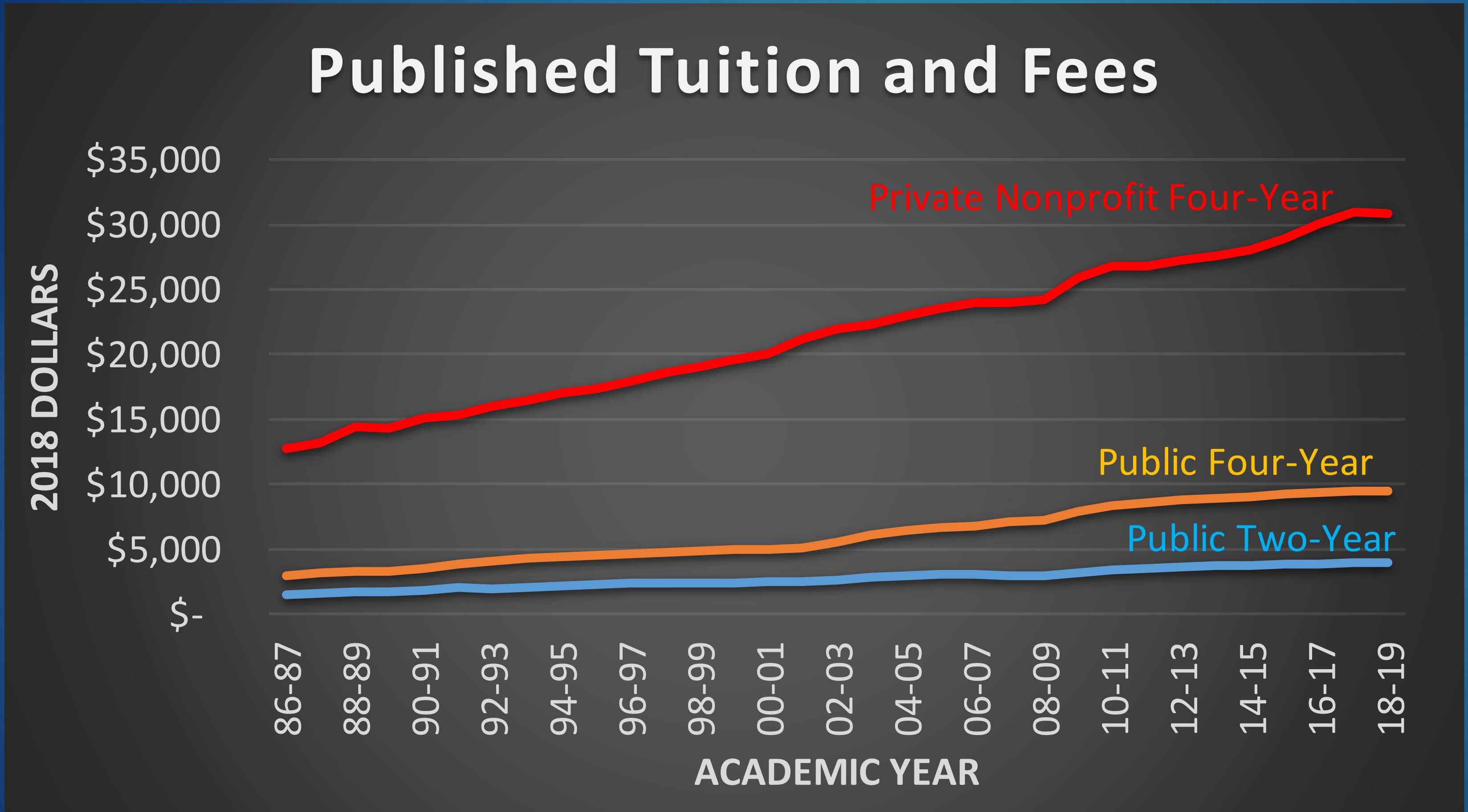
Are student loans holding back growth?

Suppose student loans were lower because…

1: <u>They were less accessible, tuitions unchanged</u>

→ Less growth

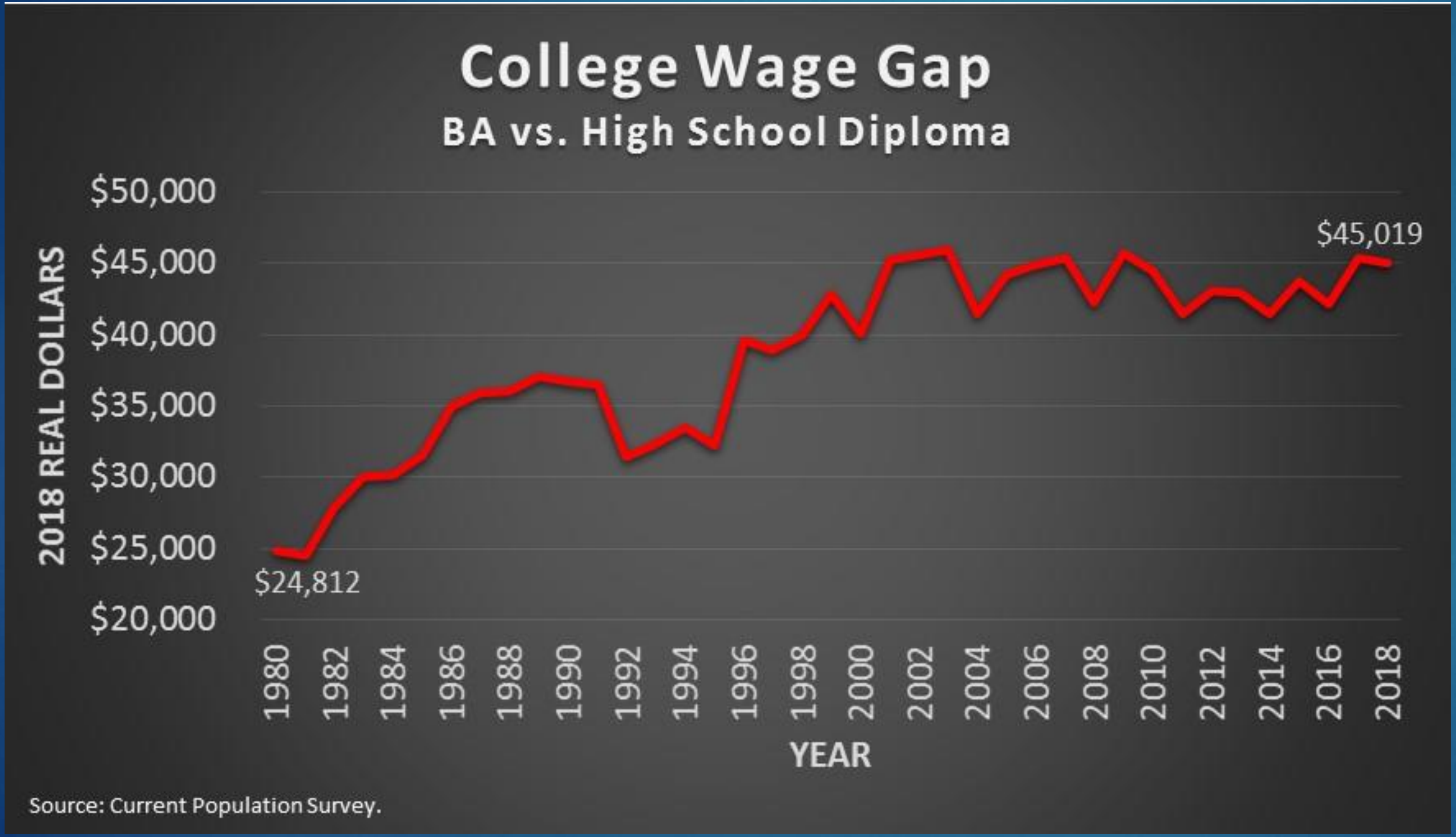
College tuition is high and rising



Source: College Board *Trends in College Pricing.*

Average undergraduate student loan debt ~$30,000

College is a good investment



Lifetime benefits of attending college ~$500,000

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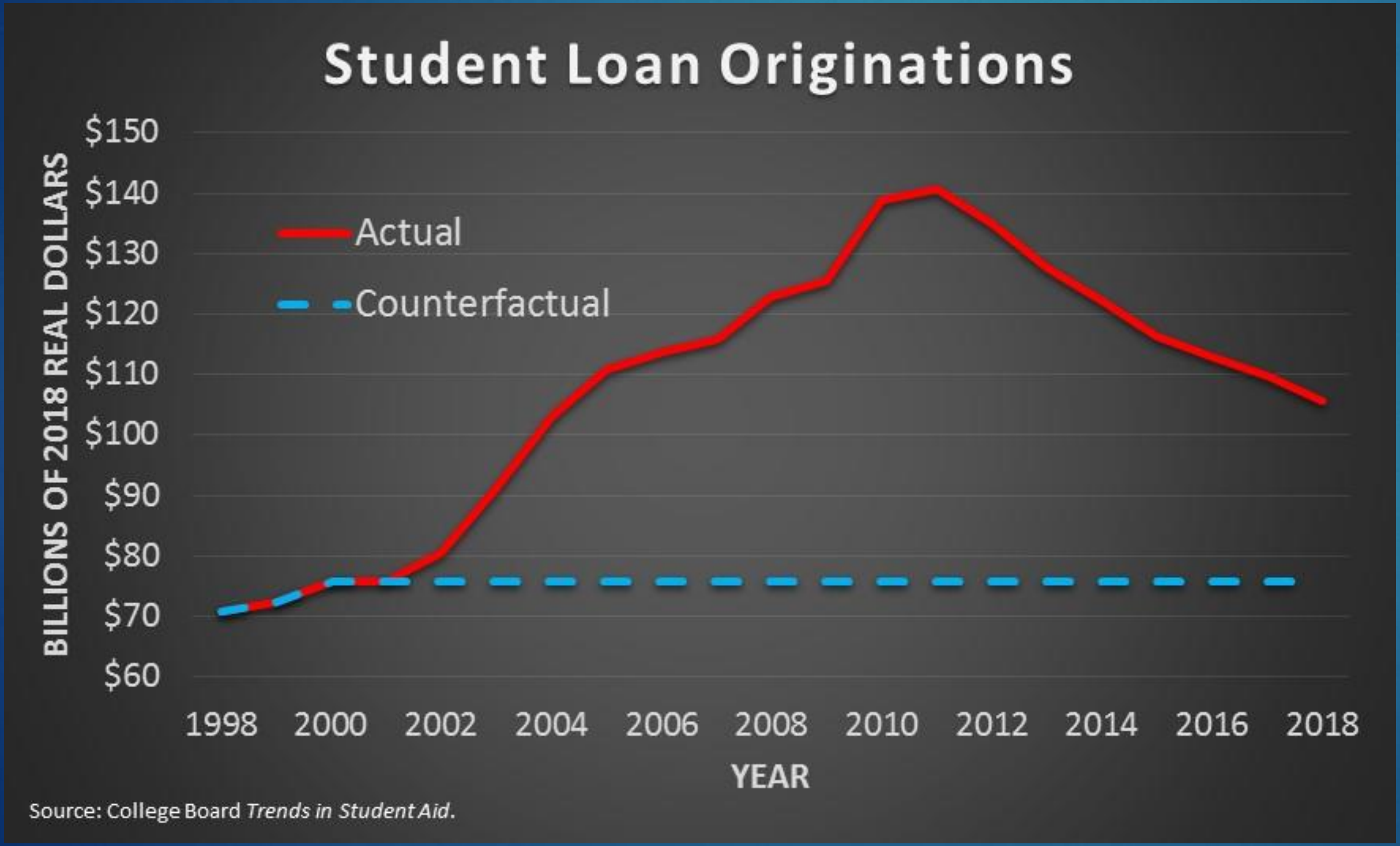
2: <u>They were unavailable to borrowers who did not receive benefits from their education</u>

→ 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

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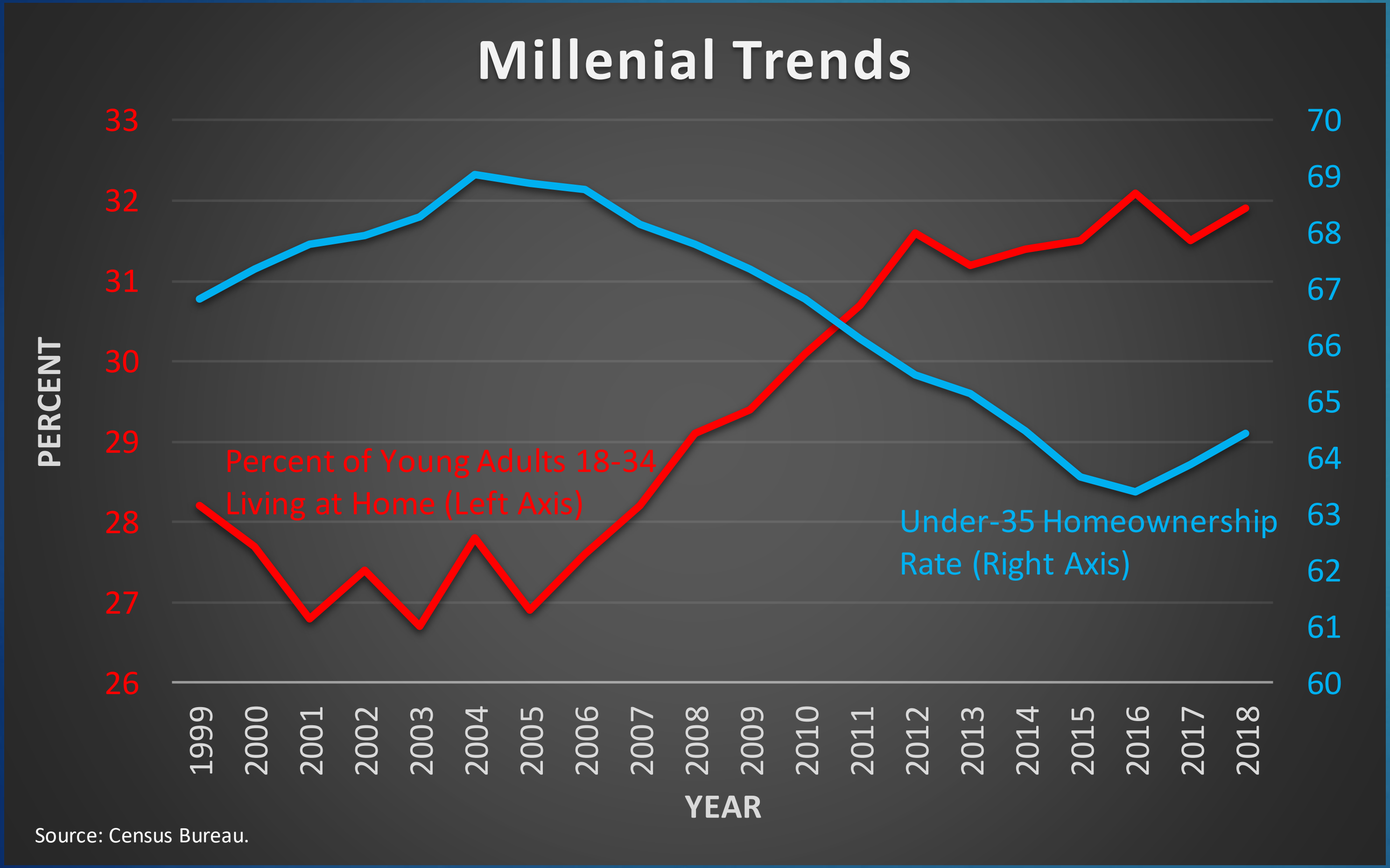
3: <u>They were unnecessary due to publicly funded education</u>

→ 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)