The Effect of Student Debt on Consumption: A State-Level Analysis
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Abstract
This paper examines the link between student debt and aggregate consumption in the medium run. Using state-level data for the 2003-2017 period, we show that changes in the state-level student debt-to-income ratio are associated with lower consumption growth over the next four years. We use the exogenous increases in annual limits for subsidized federal student loans and grants to identify the causal relationship between student loans and consumption, which is confounded by educational attainment. Our results are robust to controlling for mean reversion, as well as using alternative lag structures.

Research Question
• How does student debt affect aggregate consumption, holding educational attainment constant?

Trends in Household Debt

Data
• Outstanding student debt and other components of household debt from the New York Fed Consumer Credit Panel / Equifax
• Per-capita consumption and income from the U. S. Bureau of Economic Analysis
• State-level educational attainment from the American Community Survey
• Shares of students who borrowed the maximum subsidized Stafford loan or received any Pell grant in 1999-2000

Results
Effects on Consumption
• Percentage point higher change in student debt to income ratio leads to 2.97 percentage point lower consumption growth during the subsequent three years.
• Higher magnitude of the effect when we control for lag in consumption growth that factor in macroeconomic conditions and mean reversion.
• OLS results are biased up, consistent with positive indirect effect of student loans on consumption through education.

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