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# The Student Loan Debt Crisis in the United States and the Long-Term Economic Impact

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**Abstract**
The student loan indebtedness issue has become one of the most significant issues in higher education in the United States. This issue impacts nearly 45 million Americans and has long-term economic consequences that are just beginning to be felt throughout the country's economy. This article addresses the evolution of this national problem and discusses the economic ramifications of the student loan debt crisis.

To better understand the USD 1.8 trillion student loan debt crisis in the United States which impacts nearly 45 million college attendees and graduates, taxpayers need to recognize the complexity of the problem and to not simply blame student loan borrowers. In the last 50 years policy makers have created a federal funding scheme that has incentivized state governments to decrease funding efforts and to encourage tuition-based funding reliance in higher education. As Arthur Hauptman pointed out in 2011, "common sense suggests that growing availability of student loans at reasonable rates has made it easier for many institutions to raise their prices, just as the mortgage interest deduction contributes to higher housing prices." Expanding the complexity of this issue, the United States Supreme Court struck down President Biden's student loan forgiveness plan that would have erased student loan debts for nearly 23 million borrowers. Since the ruling, President Biden has announced much more scaled-down plans that have only addressed a fraction of this national problem.

Critics of President Biden's loan forgiveness plan, which included conservative politicians, private student-loan servicers, and major companies that manage commercially-held federal financial aid loans, contended that since the student voluntarily acquired the loans, they alone are obliged to repay them. A further claim by critics of the Biden federal loan forgiveness program is that the cost of the USD 430 billion program will lead to much higher inflation due to increased deficit growth. A similar accusation was made that never came to fruition at the beginning of the Social Security Act in 1935 and the G.I. Bill in 1944. This is a simplistic way to look at this complicated problem involving state government funding decisions and bountiful federal loan availability, which has incentivized many colleges and universities to adopt more tuition-based revenue models.

**The Domino Effect**

At the nucleus of this issue are decades of state government disinvestment resulting in ongoing tuition and fee growth with the federal government backstopping the system through its over USD 100 billion in federal loan programs. As federal loans have expanded, state disinvestment went further as many public colleges and universities have shifted their financial reliance from state government to more tuition-based revenue models. The result is that current state government investment in public higher education is nearly 50 percent less in state "tax effort" or "fiscal capacity" than it was in 1980.

Additionally, half of the states spend less in real dollars for public institutions than they did in 1991, while enrollments increased by nearly 20 percent during the same period.

Public colleges and universities were not the only institutions indirectly incentivized to become more tuition- and fee-reliant. In reacting to the largess of these available federal loan programs higher education institutions in the independent sector, including not-for-profit private colleges and universities and for-profit institutions, developed a fiscal addiction to the availability of federal loan programs. The disproportionate impact of these developments on underrepresented and lower-income populations is only beginning to be understood.

**The Long-Term Economic Consequences**

The economic consequences of this complicated issue are already beginning to affect the country's economy in the small business, housing, automobile, and most other consumer markets. In 2019, the Federal Reserve Bank issued a report highlighting a national decline in homeownership rates and especially among young Americans in their twenties and thirties, who experienced nearly twice the decline in homeownership as the general population between 2005–2014. The Federal Reserve also reported that student debt accounted for nearly one quarter of the overall decline and precluded 400,000 young adults from buying homes during that period. The report also noted that the rise in education debt increased borrowers' odds of default, adversely impacting their credit scores and ability to apply for a mortgage.

In the last three years, the rate of millennial renters giving up on homeownership has increased by 65.7 percent. The foreseen danger in the housing market is that we are creating a generation of renters and not buyers. Ultimately, consistent declines in homeownership will cause a significant decrease in revenue for banks and investment firms that lobbied against the Biden Administration's Student Loan Forgiveness Program.

*Rising student loan debt will prevent young people from saving for their retirement and weathering financial crises, making them increasingly reliant on social programs and government agencies.*

Another long-lasting economic impact of massive student indebtedness is a reduction in consumer spending power of those with student loan debt. It is estimated that each time a graduate or nongraduate student's debt-to-income increases 1 percent, their consumer consumption declines by as much as 3.7 percent according to the Education Data Initiative. Also, in a 2018 LendingTree survey, one in ten borrowers said they could not pay for a new car due to their student debt. In addition to homeownership and automobile consumer markets, areas such as clothing, home repairs, entertainment, travel, and grocery goods are all beginning to understand what saddling the next generation of American consumers with substantial student loan debt will ultimately mean for their bottom-line profits.

Perhaps the most damaging economic consequence to the nation is in the small business markets. According to a 2015 Philadelphia Federal Reserve report, an increase in student loan debt of approximately 3.3 percent resulted in a 14.4 percent decrease in the formation of small firms and businesses in each Pennsylvania county.

Moreover, rising student loan debt will prevent young people from saving for their retirement and weathering financial crises, making them increasingly reliant on social programs and government agencies. Demographically, the rise of student debt is already delaying marriage and family formation, which is increasingly becoming an issue of national concern. These economic and societal effects are not short-term, and also disproportionately impact Black, Hispanic, and female student loan borrowers.

Finally, young people in the United States managing substantial student loan debt have very few options except to spend less, since student loan debt is the only debt where filing for bankruptcy is not an option by law. According to Robert Reich, "bankruptcy laws allow companies to smoothly reorganize, but not college graduates burdened with student loans."

According to a warning from Federal Reserve Chairman Jerome Powell, "as it goes on and as student loans continue to grow and become larger and larger, then it absolutely could hold back the economy." If important reforms and recalibrations are left unattended, the problem that college graduates are facing today will have economic consequences for every US business, government agency, and citizen. ◢

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