The Economic Costs of Swelling Student Loan Debt

BLACKROCK'S RICK RIEDER SAYS THE $1.3 TRILLION STUDENT LOAN DEBT IS A BURDEN FOR THE ECONOMY AS WELL AS INDIVIDUAL STUDENTS AND FAMILIES

The more than $1.3 trillion in student loan debt is not only a burden to those borrowers but to the U.S. economy as a whole, according to Rick Rieder, chief investment officer of global fixed income for BlackRock.

It "has underappreciated negative side effects" for the economy, which, if unaddressed, will likely be a major drag on growth "for years to come," writes Rieder in a recent investment note.

The student loan debt burden has more than tripled since 2003, accounting for 10.4% of total household debt as of the end of 2016, second only to mortgage debt, what has a 71% share, but that has been declining, according to the Federal Reserve Bank of New York.

(Related: The New Shape of US Household Debt)

The economic side effects of college debt, as opposed to its personal impact, may not get enough attention because they are more about what doesn't happen in the economy than what does

For example, graduates struggling to pay off their loans are less able to purchase a home. They don't have enough savings for a down payment and are likely to have lower credit scores than those with no outstanding student debt, both affecting their ability to qualify for a mortgage.

More than 70% of would-be first-time homebuyers have said their student loan debt is delaying their home purchase, according to a National Association of Realtors survey that Rieder cites.

That delay, says Rieder, is behind the declining home ownership rate, which has fallen every year over the last six, according to the U.S. Census Bureau.

Less home buying also affects the job market because, according to the National Association of Home Builders, one permanent job is created for every two homes built, writes Rieder.

College graduates with outstanding student loan debt are also likely to spend less money, which can have a big impact on the economy since consumption accounts for 70% of U.S. GDP and spending by young adults has been a key driver of consumption.

Moreover, their spending and productivity levels "have typically grown faster than those of older adults, fueling GDP growth," writes Rieder. "However, when young adults are saddled with disproportionate amounts of student debt their consumption overall grows at a lower level than it would otherwise."

The high cost of college plus the prospect of borrowing heavily to pay for it may cause students from lower income households to bypass college, which, like student debt, will impact their lives as well as the broader economy.

"Those without higher education face higher unemployment rates and lower earnings power," and the economy faces "a worsening of the class divide," writes Rieder.

By Bernice Napach /July 3,2017