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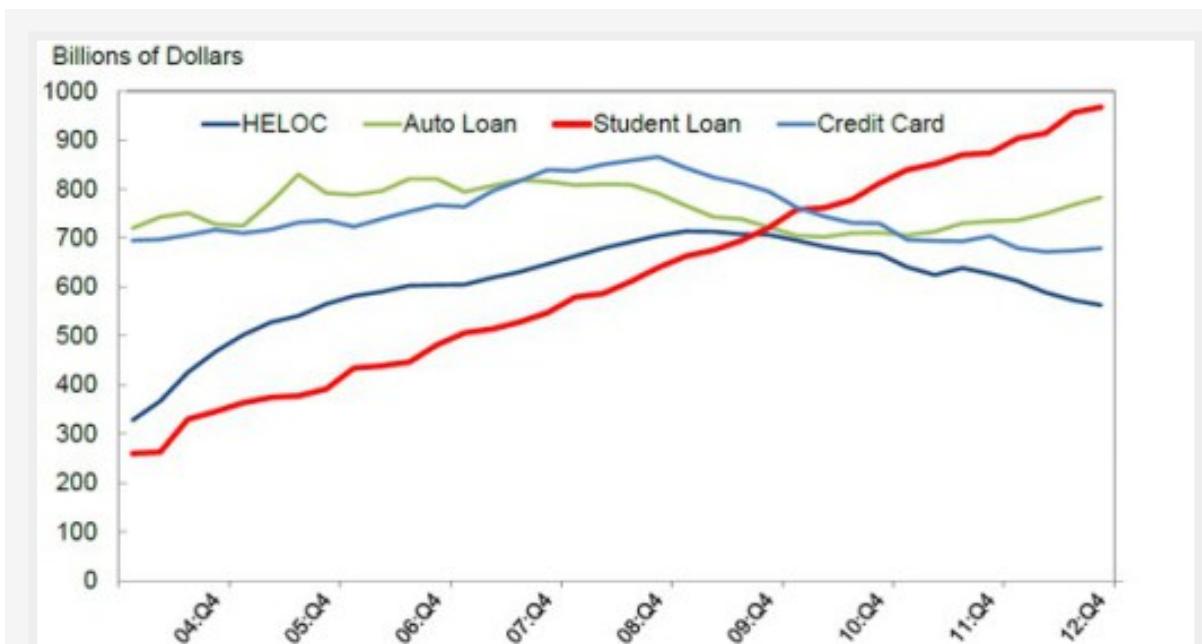
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DECEMBER 17, 2014

## How student loan debt could sink the American economy

 October 26, 2014 by [stevenyoder](#)  Leave a Comment



Source: Federal Reserve Bank of New York, "Household Debt and Credit: Student Debt"

### FEATURED VIDEO

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Most American parents want their kids to graduate from college. But Heather Lavender's story might make them think twice.

Lavender got her bachelor's degree in chemistry from a 4-year college. After working 5 years, she went back to school for a nursing degree and now works in the field. She says she loves her nursing job—but not what getting into it cost her. She owes \$115,000 in student loans, at least half of that in higher-interest private loans. “I would love to buy a new car and buy a home, which I won’t be able to do for a very long time because of the amount of my debt and also wanting to start a family,” she wrote last April to the federal Consumer Financial Protection Bureau.

Her experience shows how student loan burdens have morphed from a personal problem to a challenge for the economy as a whole.

Student debt has quadrupled since 2004, a period during which credit and auto loan burdens have [hardly budged](#). Today 40 million Americans owe a total of \$1.2 trillion in student loan debt, according to the CFPB.

Public policy has everything to do with the rise. Without much public discussion, there's been a massive shift away from government support for college and university systems. Today, 49 states (all but North Dakota) are spending less on higher education than they did before the Great Recession, according to a [report](#) this year from public policy think tank Demos.

As tuition rates have soared—up an average of 20 percent at 4-year public universities from 2008 to 2012—more students are taking on debt, and their loans are bigger than in the past. The share of 25-year-olds with student debt has increased from 25 percent in 2003 to 43 percent in 2012, according to [data](#) from the Federal Reserve Bank of New York. During that period, the average student loan balance grew from under \$11,000 to more than \$20,000, a 91-percent rise.

While much ink has been spilled on Millennials' embrace of the sharing economy,

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**Commentary: For Hunger Games – Mockingjay, teens are doing the marketing**

December 4, 2014

By Joan Oleck – The Hunger Games:



Mockingjay—Part 1 is, for its teen fan base, a powerful lesson in marketing manipulation. For anyone not living in a cave, this third film in the series of four is based on

there's little attention to whether they're choosing group rental houses and ZipCar because they can't afford the alternatives.

Homeownership rates for all 30-year-olds, for example have been dropping since mid-2009. But they're falling fastest for those with student loan debt—down from about 34 percent in 2008 to 23 percent in 2012, according to the New York Federal Reserve. And while the real estate market as a whole has suffered from a shortfall in household formation, three-quarters of the drop is due to drop in home buying by young adults 18 to 34, according to the CFPB. Two million more Americans ages 25–34 are living at home with their parents than before the recession, according to an analysis of Census data by the Center for American Progress. That's a problem—each new household formation leads to \$145,000 of economic activity, according to Moody's Analytics.

Meanwhile, U.S. car companies desperately trying to get Millennials to buy are worried they won't because of the student debt they've taken on. The proportion of students with auto loans (which the New York Reserve takes as a proxy for car ownership) has fallen overall for 25-year-olds, but it's dropped fastest among those with student loans, from 38 percent in 2007 to 30 percent today. General Motors' chief economist acknowledged the obvious in a speech last August—high student debt is a key factor in young people's relatively low level of car purchases.

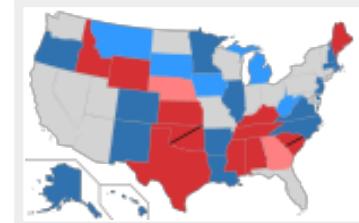
And now there's evidence that student loan burdens may be slowing small business growth. A [study](#) this spring by researchers at Penn State University and the Federal Reserve Bank of Philadelphia found a "significant and economically meaningful" negative correlation between higher student loan debt and small business formation. That association makes sense, concluded the authors, because small businesses are those most dependent on taking out personal debt to finance startups.

Overall, there's consensus among economists that student debt poses risks to the economy. At a meeting of the Federal Reserve's Federal Open Market Committee last spring for example, participants noted their worry that high levels of student debt

the über-successful book series by Suzanne Collins and weaves a compelling tale of teen survival in [...]

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**Commentary:  
The 2014 US  
Midterms –  
The  
democratic  
election  
that wasn't**



November 11, 2014

Commentary: The 2014 US Midterms – The democratic election that wasn't American democracy is predicated on two critical pillars. The selection of political representatives by the majority via the ballot box, and the availability of timely and accurate information that is vital for voters in their assessment of candidates and policies consistent with their self-interest. [...]

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**Commentary:  
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community  
must address  
Myanmar's  
mistreatment  
of Rohingya  
minority at East Asian summit**



October 31, 2014

could risk dragging down aggregate household spending.

The economic case for more investment in higher education appears hard to argue with—the net *public* return on U.S. investment in higher education is about \$231,000 for men and \$88,000 for women, higher than for most other countries in the Organisation for Economic Co-operation and Development. The private return is even higher—median lifetime earnings for someone with a bachelor's degree are about \$1 million more than those of someone with only a high school diploma, according to a 2011 Georgetown University [study](#).

But financial arguments haven't yet changed policy. In 2010, just 36 percent of U.S. postsecondary education costs were paid out of public money, about half the average for OECD countries and lower than all but three (2013 OECD Study).

Pressure for change is coming from unlikely quarters. In testimony this summer before the U.S. Senate Budget Committee, CFPB student loan "czar" Rohit Chopra described the impassioned pleas the agency has gotten from the Mortgage Banking Association, the National Association of Home Builders, and small business coalitions for reforms that would cut student debt for the next generation, their future customers and constituents.

Helping college grads out of the squeeze they're in, they argue, will help not just them—but the rest of us too.

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As Myanmar, a country with an incipient democracy and alarming human rights record, prepares to host a prestigious regional issues summit in coming weeks, the Southeast Asian nation's galling treatment of its ethnic minority populations is receiving renewed attention. It's an inopportune time for the country's president, Thein Sein, for these issues to be resurfacing in [...]

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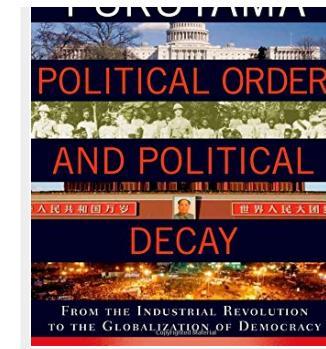
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