The Daily Dish

Student Debt and Housing in Perspective

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Eakinomics: Student Debt and Housing in Perspective

The *Wall Street Journal* headline is breathless — "Fed Says Student Debt Has Hurt the U.S. Housing Market" — but digging a bit deeper suggests that the impact needs to be put in perspective. First, the Federal Reserve isn't opining on anything. The underlying article was written by staff members at the Fed and is based on their research that contains the standard disclaimer: "The analysis and conclusions contained in this paper are those of the authors and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System, its members, or its staff."

Second, the effect isn't that large. The authors note that the rate of homeownership among 24 to 32 year-olds fell 8.8 percentage points — from roughly 45 to 36 percent — between 2005 and 2014. They then say, "we estimate that roughly 20 percent of the decline in homeownership among young adults can be attributed to their increased student loan debts since 2005." That means 1.8 percentage points of the decline, or about 400,000 individuals, can be attributed to student debt. The remainder of the decline — over 1.5 million young people — stems from economic conditions, changes in cultural attitudes toward homeownership, and other factors.

Third, the effect could have more to do with timing than with anything else. The median age at which people become homeowners is 32; the authors acknowledge that the data indicate theimpact gets smaller as people age.

Fourth, the underlying research finds that a $1,000 increase in student-loan debt leads to a 1 to 2 percentage point drop in homeownership *other things being the same*. But other things are not usually the same as debt mounts. In one direction, the additional debt could finance a graduate degree leading to a lucrative profession — hardly the recipe for difficulty in getting into a home. In the other, additional debt not associated with a productive educational experience may be evidence of poor financial management in general. Is the problem student debt, or debt in general? In the data, the median level of student debt is zero. The rise in the overall level of indebtedness between 2005 and 2014 comes from about 10 percent more students borrowing at all, and especially a rise in the amount of debt at the upper end of the borrowing distribution. That is precisely where one is likely to find doctors, lawyers, and other professional degree holders who can service their student debts and pursue other financial opportunities. In contrast, the canonical troubled student loan borrower is someone who did not finish a degree and ran up $30,000 to $40,000 of student debt in the process.

Finally, why should one care? I know why I would care if I was in the homebuilding industry or a real estate broker. But as a matter of public policy, why should we necessarily care which kind of shelter young people have — rental or owner-occupied — as long as they have adequate shelter?

The headline will doubtless stir some to renewed calls for loan forgiveness and other assistance for student borrowers. But there is nothing in the details that suggests such policies are the appropriate response.