World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:16, No:04, 2022

Student Debt Loans and Labor Market Outcomes: A Lesson in Unintended Consequences

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Abstract : The U.S. student loan policy was initiated to improve the equality of educational opportunity and help low-income families to provide higher education opportunities for their children. However, with the increase in the average student loan amount, college graduates with student loans experience problems and restrictions in their early-career choices. This study examines the early career labor market choices of college graduates who obtained student loans to finance their higher education. In this study, National Survey of College Graduates (NSCG) data for 2017 and 2019 was used to estimate the effects of student loans on the employment status and current job wages of graduates with student loans. In the analysis, two groups of workers, those with student loans and those without loans, were compared. Using basic models and Mahalanobis distance matching, it was found that graduates who rely on student loans to finance their education are more likely to participate in the labor market than those who do not. Moreover, in entry-level jobs, graduates with student loans receive lower salaries than those without student loans. College graduates make job-related decisions based on their current and future wages and fringe benefits. Graduates with student loans tend to demonstrate risk-averse behaviors due to their financial restrictions. Thus, student loan debt creates inequity in the early-career labor market for college graduates. Furthermore, this study has implications for policymakers and researchers in terms of the student loan policy.

Keywords : student loan, wage differential, unintended consequences, mahalanobis distance matching
Conference Title : ICECLM 2022 : International Conference on Economics and Competitive Labor Market
Conference Location : Boston, United States
Conference Dates : April 21-22, 2022