Student Debt and Entrepreneurship in the US[*]

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Abstract

This paper studies the interplay of education and entrepreneurial outcomes, and its implication for business dynamism, capital allocation and aggregate productivity in the US. Using micro-level data, I document that having a student loan is associated with a lower likelihood of opening a firm and obtaining funding, and it is linked to lower firm size but higher profit margins. To rationalize my findings, I build a heterogeneous agents model enriched with education and entrepreneurial decisions, where student debt slows down the accumulation of wealth and reduces the collateral entrepreneurs can pledge to rent capital on financial markets. Calibrated to US data, my framework matches between 30 and 80% of the gaps in entrepreneurial margins across agents with and without college, and with or without loans. I also show that the increase in university prices and student debt since the late 1980s accounts for a third of the decline in the entrepreneurial rate of college graduates with loans over time. Finally, I use the model as a laboratory to study the effect of policy reforms, such as expanding grants and college borrowing limits, switching to income-driven repayment plans and loan forgiveness.

Keywords: Student Debt, Education, Entrepreneurship, Financial Constraints, Productivity.

JEL Classification: E21, E23, I2, L26

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