Relief Beliefs: Effects of Anticipated Student Loan Forgiveness

Danial Salman and Xuan Xie

University of Washington – Foster School of Business

UNIVERSITY *of* WASHINGTON

Motivation

- Growing political support for student loan forgiveness
  - Empirical evidence on the effects of such policies is lacking
- Laboratory for studying Δ expectations $\rightarrow$ behavior
  - Meaningful, yet *uncertain*, wealth shock
  - Rational consumers immediately incorporate news about permanent income changes?
  - What is the role of presidential announcements in shaping households' expectations?

This Paper

- What are the effects of student loan forgiveness on household consumption?
  - Following the announcement, retail stores located in counties with a 1 percentage point higher share of eligible borrowers saw a persistent $.1-.2\%$ increase in weekly sales
  - Average quarterly MPC is approximately 4.5%
  - No spending response in counties with high shares of financially delinquent households
  - Results are consistent with a beliefs channel

Student Loan Forgiveness Plan

- Mar 2020: Start of Debt Moratorium
- Aug 2022: Biden's Debt Relief Plan
- Sep 2022: First Legal Challenge
- Oct 2022: App Website Launches
- Jun 2023: Supreme Court Blocks Plan
- Oct 2023: Repayment Resumes

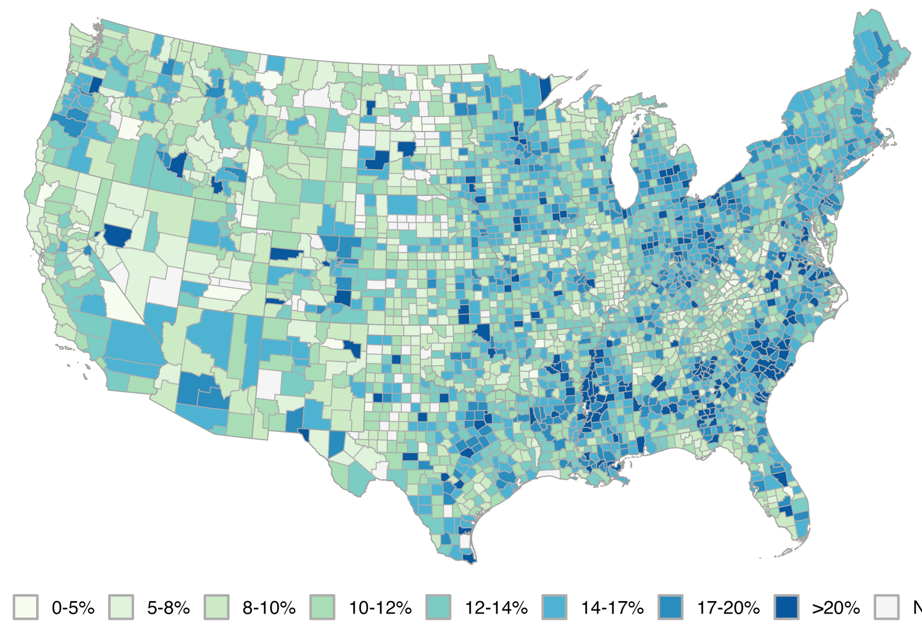
- President Biden's 2022 loan forgiveness announcement promised debt relief of \$10,000 to \$20,000 for approx. 42 million borrowers

Data

- Department of Education (FOIA):
  - # of eligible borrowers at the zip code level
  - # of debt relief applications at the zip code level
  - High cross-sectional variation
- Retail Scanner: [a]
  - Weekly store-level spending data for over 50,000 U.S. retail stores
  - Sales exceed \$500 billion in 2022; stores geolocated by county
- Credit Bureau:
  - Representative county-level data from a major credit bureau
  - 15% of people have student debt; median balance \$20,108; median payment: \$160
- Demographics:
  - Sourced from ACS, IPEDS, MIT Election Lab, and FEC
  - Includes population, income, college enrollment, political affiliation, etc.

[a] *Disclaimer: Researchers' own analyses calculated (or derived) based in part on data from Nielsen Consumer LLC and marketing databases provided through the NielsenIQ Datasets at the Kilts Center for Marketing Data Center at The University of Chicago Booth School of Business. The conclusions drawn from the NielsenIQ data are those of the researchers and do not reflect the views of NielsenIQ. NielsenIQ is not responsible for, had no role in, and was not involved in analyzing and preparing the results reported herein.*

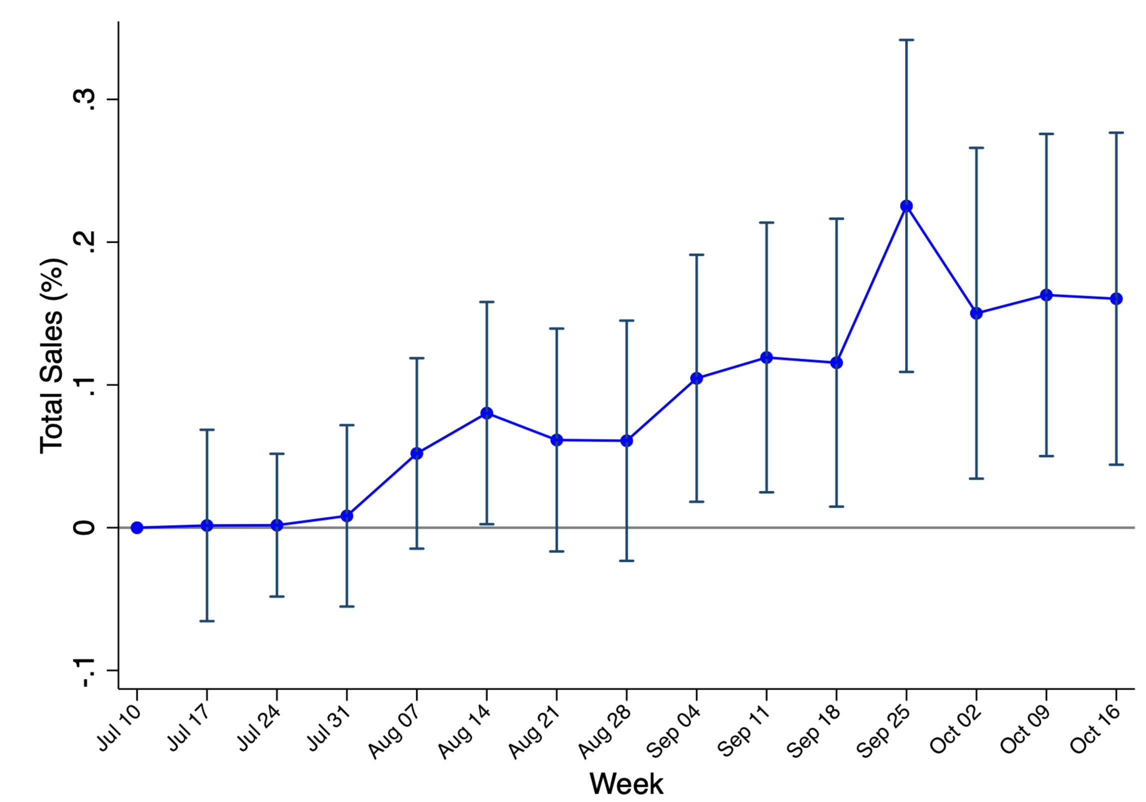
Distribution of Eligible Student Loan Borrowers



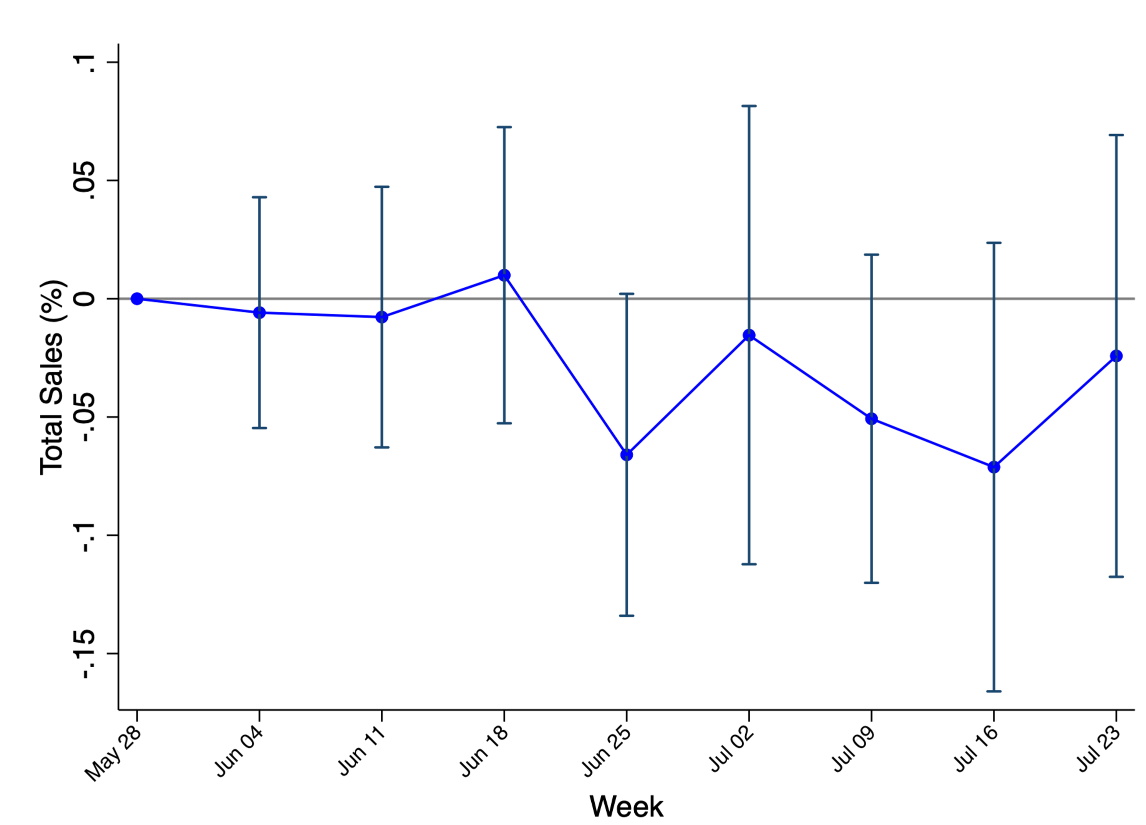
Dynamics of Spending Response

$$Y_{ikt} = \mu_i + \sum_{t=-6}^{8} \beta_t\,(\text{Eligible Share}_k \times \text{week}_t) + \sum_{t=-6}^{8} \delta_t'(X_i \times \text{week}_t) + \varepsilon_{ikt}$$

- Y_{ikt} is $ln(Sales)$ in store i in county k in week t
- *Eligible Share$_k$* is the share of adults in county k who were eligible for forgiveness under the plan



Supreme Court Reversal



Increased Spending at Retail Stores Post-Announcement

$$Y_{ikt} = \beta_{DiD}\text{Eligible Share}_k \times Post_t + \mu_i + \tau_t + \epsilon_{ikt}$$

	(1)	(2)	(3)	(4)
Eligible Share x Post	0.24*** (0.034)	0.22*** (0.045)	0.23*** (0.044)	0.10*** (0.038)
Store FE	YES	YES	YES	YES
Week FE	YES	NO	NO	NO
Market-Week FE	NO	YES	YES	YES
Parent-Week FE	NO	NO	YES	YES
Channel-Week FE	NO	NO	YES	YES
Demographics-Week FE	NO	NO	NO	YES
Adj. R-squared	0.99	0.99	0.99	0.99
Observations	798240	798030	798015	798015

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Weaker Effects where Delinquencies are High

$$Y_{ikt} = \beta_{DDD}\text{Eligible Share}_k \times Post_t \times \text{High Delinquency}_k$$
$$+ \beta_2\text{High Delinquency}_k \times Post_t$$
$$+ \beta_3\text{Eligible Share}_k \times Post_t + \mu_i + \tau_t + \epsilon_{ikt}$$

	(1)	(2)	(3)
Eligible Share x Post	0.17*** (0.050)	0.075 (0.046)	0.32*** (0.085)
High SL Debt x Post	0.022* (0.013)		
Eligible Share x High SL Debt x Post	-0.12* (0.068)		
High SL Payment x Post		-0.021 (0.016)	
Eligible Share x High SL Payment x Post		0.100 (0.087)	
High Delinquency x Post			0.057*** (0.016)
Eligible Share x High Delinquency x Post			-0.33*** (0.088)
Store FE	YES	YES	YES
Week FE	NO	NO	NO
Market-Week FE	YES	YES	YES
Parent-Week FE	YES	YES	YES
Channel-Week FE	YES	YES	YES
Demographics-Week FE	YES	YES	YES
Adj. R-squared	0.99	0.99	0.99
Observations	781447	770410	797893

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Conclusion

- Consumer spending is responsive to political news
- Government debt relief interventions can have stimulatory effects
- Results highlight the role of public communication in shaping expectations