

# Research shows impact of student debt on small business creation

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Small business creation—a critical economic engine—is significantly hampered in areas of the country where residents carry more substantial student loan debt, according to research co-authored by Brent W. Ambrose of the Penn State Smeal College of Business.

The recently updated study "The Impact of Student Loan Debt on Small Business Formation" examined [student loan](#) debt across the United States by county and compared it with small-business creation in those areas. Between 2000 and 2010, one standard deviation increase in student debt reduced small businesses by 14 percent, on average .

Ambrose, the Smeal Chaired Professor of Real Estate and director of the Institute for Real Estate Studies, along with Larry Cordell and Shuwei Ma at the Federal Reserve Bank of Philadelphia, concluded that potential entrepreneurs are so encumbered by student debt they can't borrow more money to start a business.

"The research shows that individuals need to pay special attention to the decisions they make and realize that incurring debt has consequences," Ambrose said.

The researchers found that the correlation only exists for the smallest of small businesses. Those businesses are the most likely to rely on the founder's personal credit.

"The effect on larger firm formation is not significant," the report read,

"which we interpret to mean that these firms have greater access to outside capital."

This correlation could have broad implications for the economy, the researchers said. They cited United States Small Business Association (SBA) data showing that small businesses account for approximately half of the private-sector economy and 99 percent of all businesses—and almost 60 percent of new jobs in the private sector are created by small businesses.

Student-loan debt almost tripled from 2004 to 2012 and is now approximately \$1 trillion. While other forms of consumer debt (home equity loans, auto loans and [credit card debt](#)) declined during the recent financial crisis, the report said, student loan debt increased substantially. It accounted for 10 percent of all consumer [debt](#) in 2012, up from 2.9 percent in 2000.

"Given the enormous growth in the use of [student debt](#) in recent years, the issue of whether it may impact future [small business](#) formation is becoming critically important," Ambrose said.

**More information:** "The Impact of Student Loan Debt on Small Business Formation." (March 29, 2014). Available at SSRN: [ssrn.com/abstract=2417676](https://ssrn.com/abstract=2417676) or [dx.doi.org/10.2139/ssrn.2417676](https://dx.doi.org/10.2139/ssrn.2417676)

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