

Climbing or Drowning? Consumer Credit and Intergenerational Mobility

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Abstract

In my dissertation, I use data from the National Longitudinal Survey of Youth to examine how parental indebtedness, measured across the life course, impacts the ability of their children to attain social mobility. In the first phase of this research, I transform the parent data in order to look at debt holding across age. I then use developmental trajectory analysis to assign parents to groups based on the amount of existing consumer debt balances they carry at each age data is collected, including parent's income at each data point as a risk factor of their consumer indebtedness. I find that 7 distinct groups of debt holders among the parents: 1) those with consistently insignificant or no consumer debt, 2) those who start adulthood with considerable consumer debt and initially repay only to amass large amounts later in life, 3) those who start adulthood with considerable consumer debt they repay late in life, 4) those who start adulthood with considerable consumer debt they repay mid-life, 5) those who start adulthood with considerable consumer debt they repay early in adult life, 6) those who start with no consumer debt but amass some at midlife they later repay, and 7) those who consistently carry significant amounts of consumer debt across their lives. I conduct thorough descriptive analysis of each group to identify likely risk factors to understand why parents emerge in the various groups.

In the second phase of this research, I link parent data to their young adult children to assess the impact parental indebtedness has on their children's social mobility. Because consumer debt can be used as a mechanism to both invest in children and to drain fiscal resources that could be invested in children, I initially examine the impact of parental indebtedness on financial investment in their young adult children. I find that young adult children whose parents hold significant amounts of consumer debt in later life (groups 2, 6, and 7) are much more likely to receive financial support from their parents. These parents are more likely to support their young adult children by paying their children's bills, financing their education, and letting them live at home than are children whose parents consumer carry little debt when their children become young adults. My findings suggesting that some parents likely incur consumer debt as a means of investing in their young adult children. I next examine the impact parental indebtedness has on their young adult children's financial behaviors. I find that young adults whose parents have consistently low debt (group 1) are unlikely to become consumer debtors themselves during young adulthood and that young adults whose parents have consistently high consumer debt (group 7) are very likely to hold sizeable consumer debt balances early in life. I also find, however, that young adults with parents who, in their own young adulthood, followed a trajectory compatible with the life course hypothesis (groups 2, 3, 4, 5, and 6) have indistinguishable debt patterns. Because important distinctions of consumer behavior did not emerge until later ages among their parents' cohort, these findings still support my hypothesis that carrying debt is a somewhat socialized behavior. My dissertation finally examines how parental indebtedness impacts educational outcomes. Preliminary findings suggest that young adults whose parents hold significant amounts of debt in later life (groups 2, 6, and 7) are more likely to attend college than children of parents who have consistently low consumer debt (group 1), but that only children of parents who repay their own debts mid-life and re-emerge as consumer debtors (group 6) matriculate faster than the children of low debtors (group 1) when enrolled.