

SEMINARIO INTERNACIONAL



**Crédito Educativo en la  
Educación Superior**

**EQUIDAD  
&  
MOVILIDAD SOCIAL**

Con el apoyo de:



# **The economics and public policy of student loans: Lessons for Colombia**

Prof Bruce Chapman  
College of Business and Economics  
Australian National University

Bogota, Colombia  
April 2022



## **Student Loans: The world in summary**

**Let it be known that:**

- (i) Just about all countries want to have more finances for higher education;**
- (ii) Just about all countries have student loan troubles;**
- (iii) Just about all countries have problems with student loan defaults; and**
- (iv) Countries currently undergoing serious debates: Brazil, the UK, Malaysia, Japan, Chile and the US. Colombia is not alone!**

## Outline

1. Is there a case for university tuition charges?
2. Why are student loans necessary?
3. The major difference between TBRLs and ICLs
4. The critical role of administration for ICL
5. Conclusion



# International comparisons of tuition



## “Free” HE:

- E.g. Denmark, Estonia, Finland, Germany, Norway, Scotland, Sweden
- **About 1/3 of OECD**

## Tuition Charges:

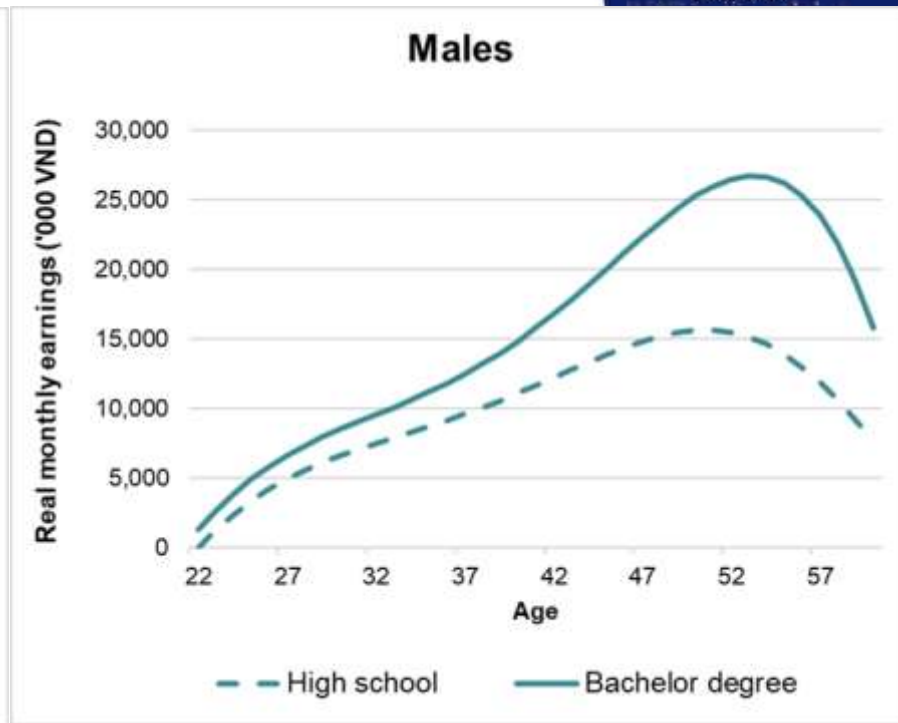
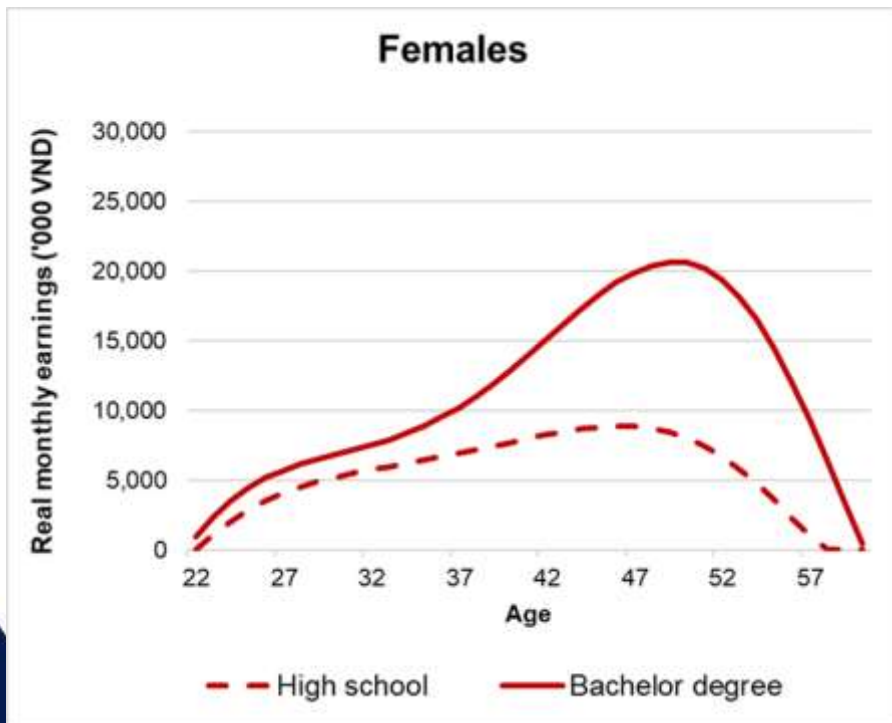
- E.g. Australia, Brazil, Canada, China, Colombia, England, France, Hungary, Italy, Japan, New Zealand, Portugal, Spain, the US
- **About 2/3 of OECD**

# Is there a case for charging university tuition?



- i. What does “free” higher education actually mean?
- ii. Private rates of return to higher education are high: see age-earnings profiles
- iii. Not charging tuition fee is regressive and inequitable (see Karl Marx)
- iv. Additional money can be used to grow the system (e.g. Australia and the UK)

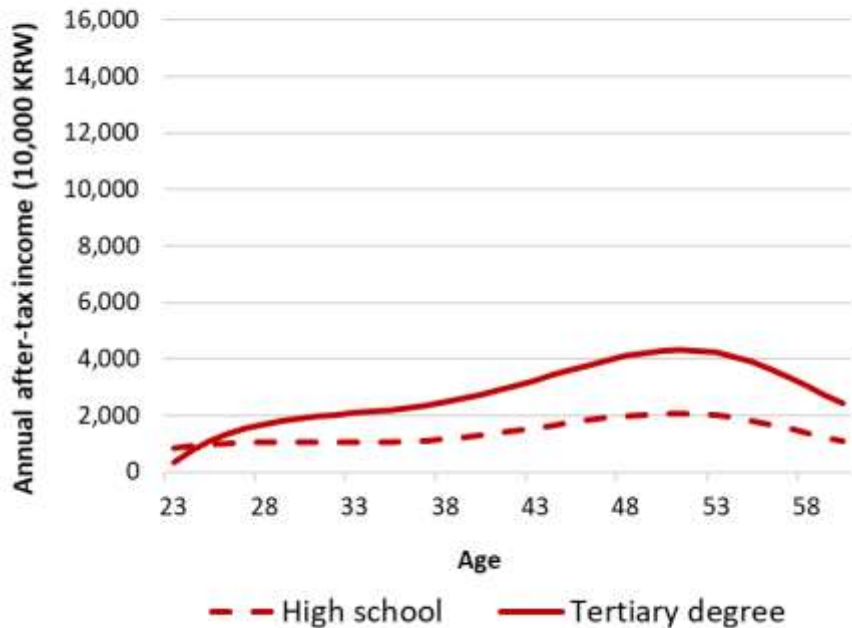
# Age-Earnings Profiles: Vietnam



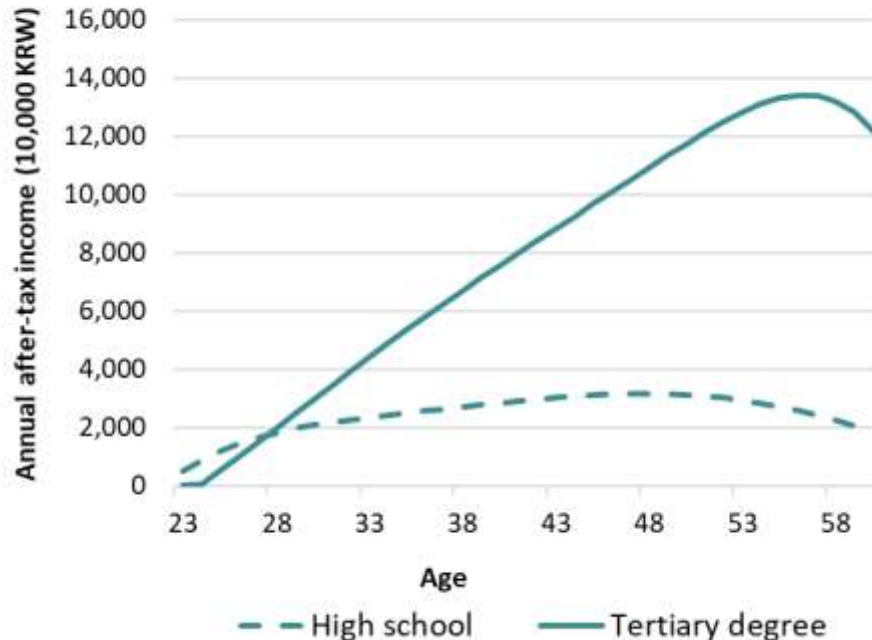
# Age-Earnings Profiles: South Korea



## Females

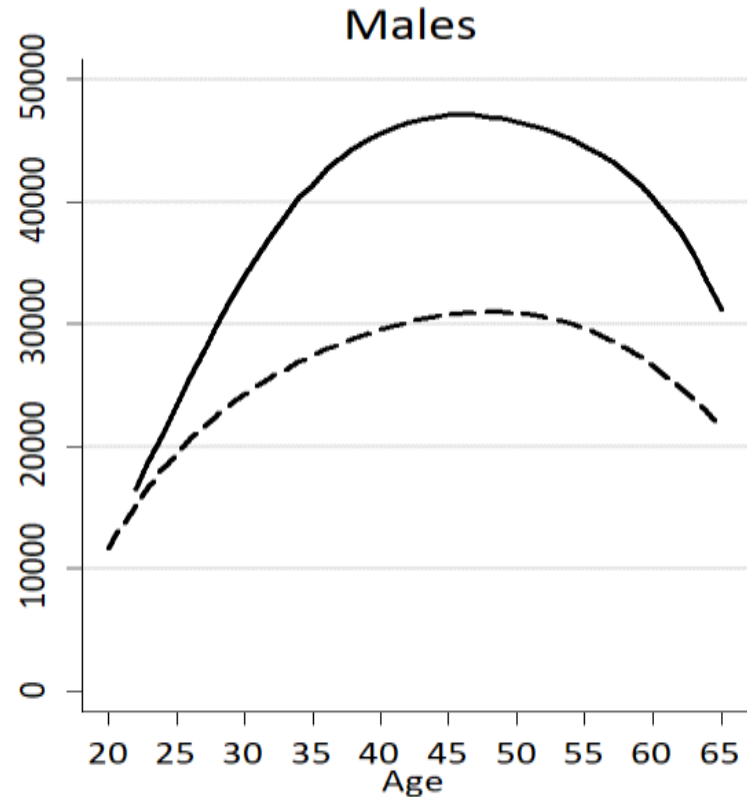
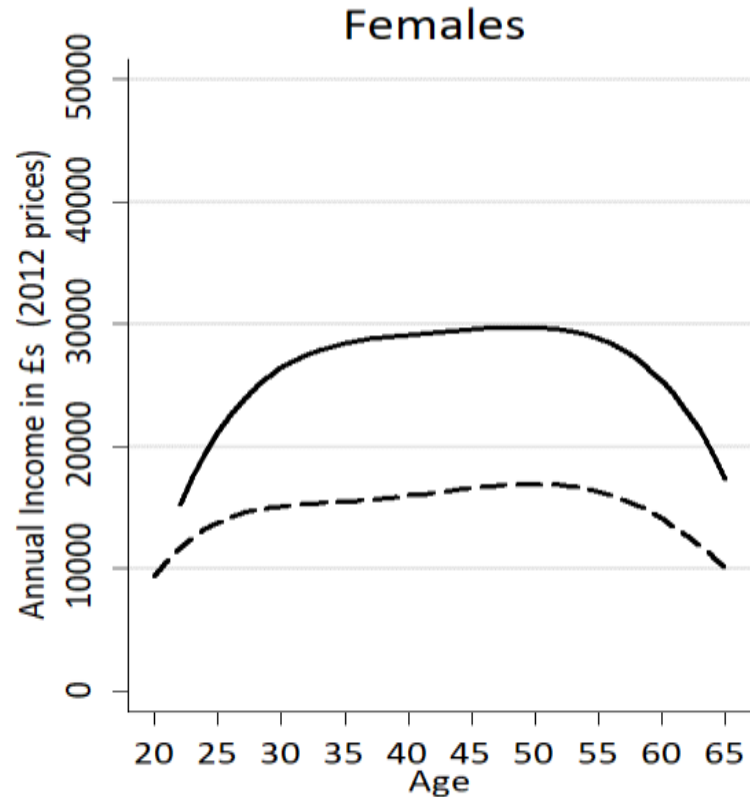


## Males



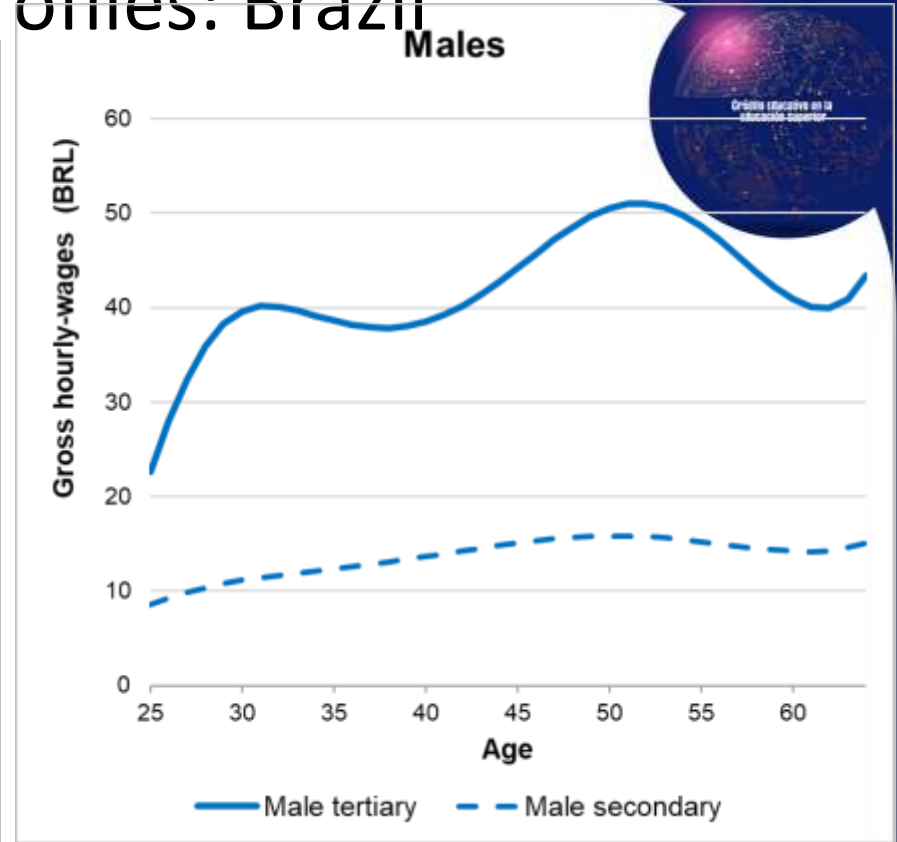
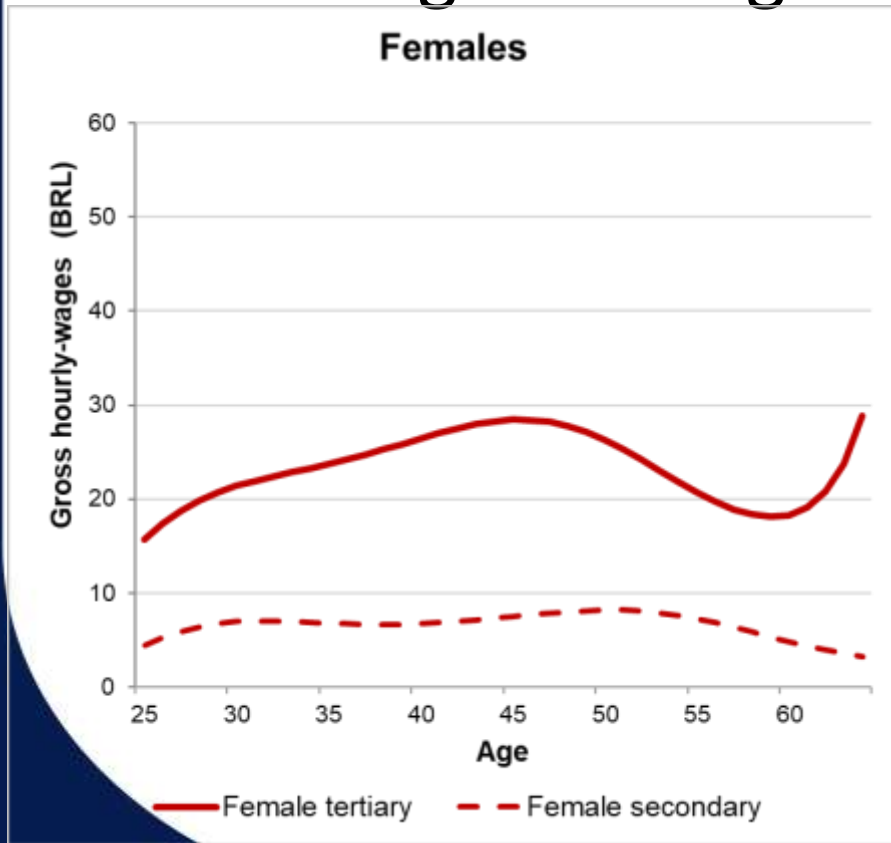


# Age-Earnings Profiles: England

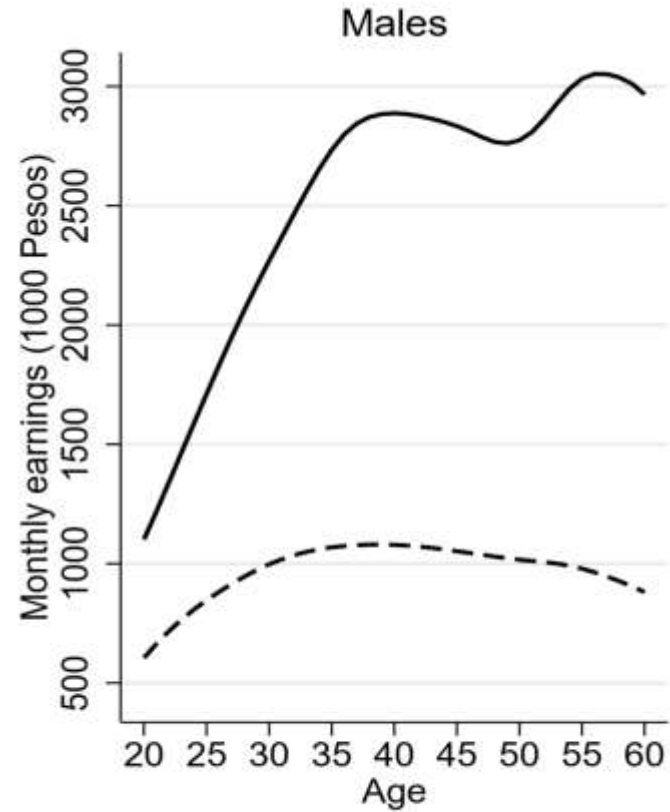
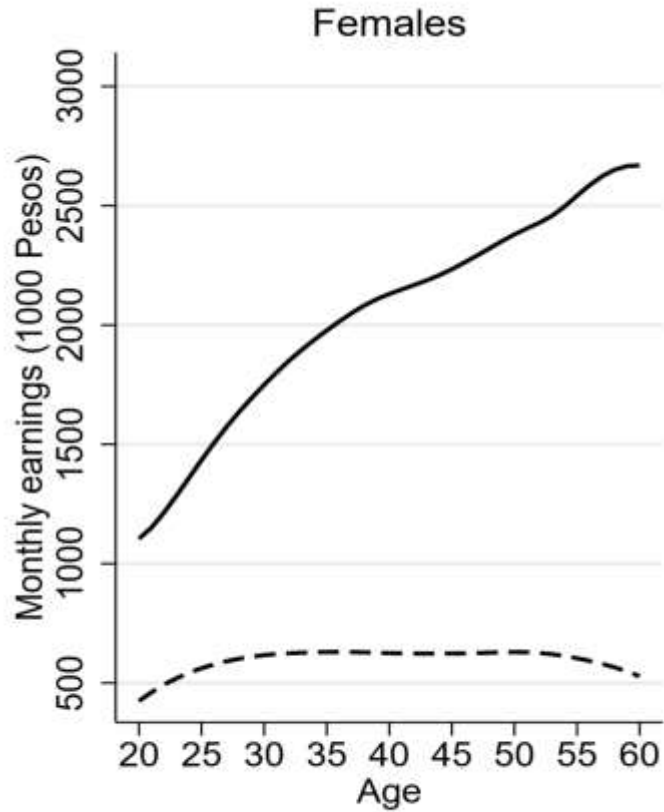


— HE Graduate      - - - High School Graduate

# Age-Earnings Profiles: Brazil

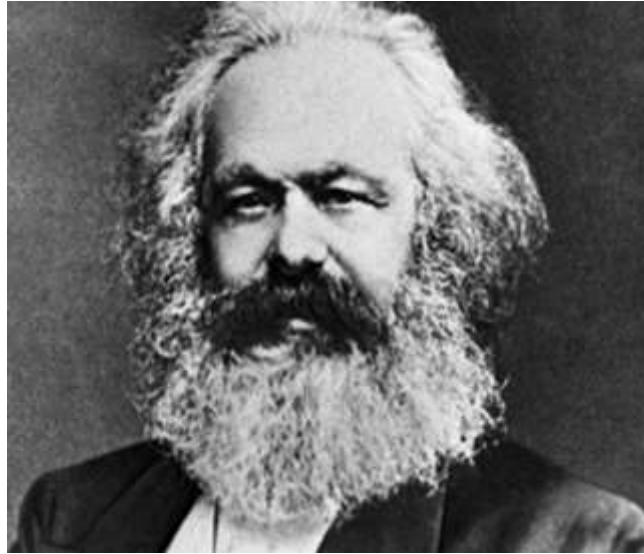


# Age-Earning Profiles Colombia



Orígenes educativos en la educación superior

— HE graduate    - - - - Non-graduate



*“If ... higher education institutions are also “free”, that only means in fact defraying the cost of education of the bourgeoisie from the general tax receipts.”*

*Karl Marx, Critique of the Gotha Program, 1875*





## Additional money can be used to grow the system (e.g. Australia and the UK)

- (i) With tuition each additional university place costs the government less; thus
- (ii) Tuition makes it easier for the government to have a larger HE system;
- (iii) Australian and UK places increased: 280 and 200%



# Why are Student Loans Necessary?

- i. Risky investments: non-graduation, poor jobs
- ii. Poor education/employment outcomes for students/graduates can lead to default
- iii. With no saleable collateral, banks/governments are unprotected



# Two types of loans:

## Time-based Repayment Loans (TBRL):

US, Canada, Colombia, China, Japan, Brazil, Chile

## Income-contingent Loans (ICL):

Australia, New Zealand, England, Hungary, South Korea

# Understanding TBRLs





# The Effects of TBRLs

- Because capacity to pay is ignored, TBRLs can mean:
  - Repayment hardship and anxiety
  - Borrowing from loan sharks, or friends and family
  - Defaults: loss of credit reputation (Canada poster)
  - Low government revenue from deferment or default
  - High collection inefficiencies and costs from chasing loans
  - Family formation distortions

RAPPEL

## REMBOURSEZ VOTRE PRÊT D'ÉTUDES DU CANADA

POUR ÉVITER D'ÊTRE EN DÉFAUT DE PAIEMENT,  
COMMUNIQUEZ AVEC VOTRE BANQUE :

- au début de chaque année scolaire;
- à la fin de vos études;
- si vous déménagez;
- si vous abandonnez vos études;
- si vous devenez étudiant à temps partiel.

SINON VOICI LES CONSÉQUENCES :

- votre réputation de solvabilité sera ternie;
- vous n'aurez plus droit à des prêts d'études;
- vous serez l'objet de mesures de recouvrement;
- vos remboursements d'impôt seront retenus.



Ministère de l'Éducation, du Développement  
humain et de la Jeunesse

Canada



REMINDER

## REPAY YOUR CANADA STUDENT LOAN

TO AVOID DEFAULTING, KEEP IN TOUCH WITH YOUR BANK:

- when you begin a new school year;
- at the end of your studies;
- if you move;
- if you drop out;
- if you become a part-time student.

CONSEQUENCES IF YOU DON'T:

- poor credit rating;
- no further Canada Student Loans;
- collection action;
- withholding of income tax refunds.



Ministry of Education, Human  
Development and Youth

Canada





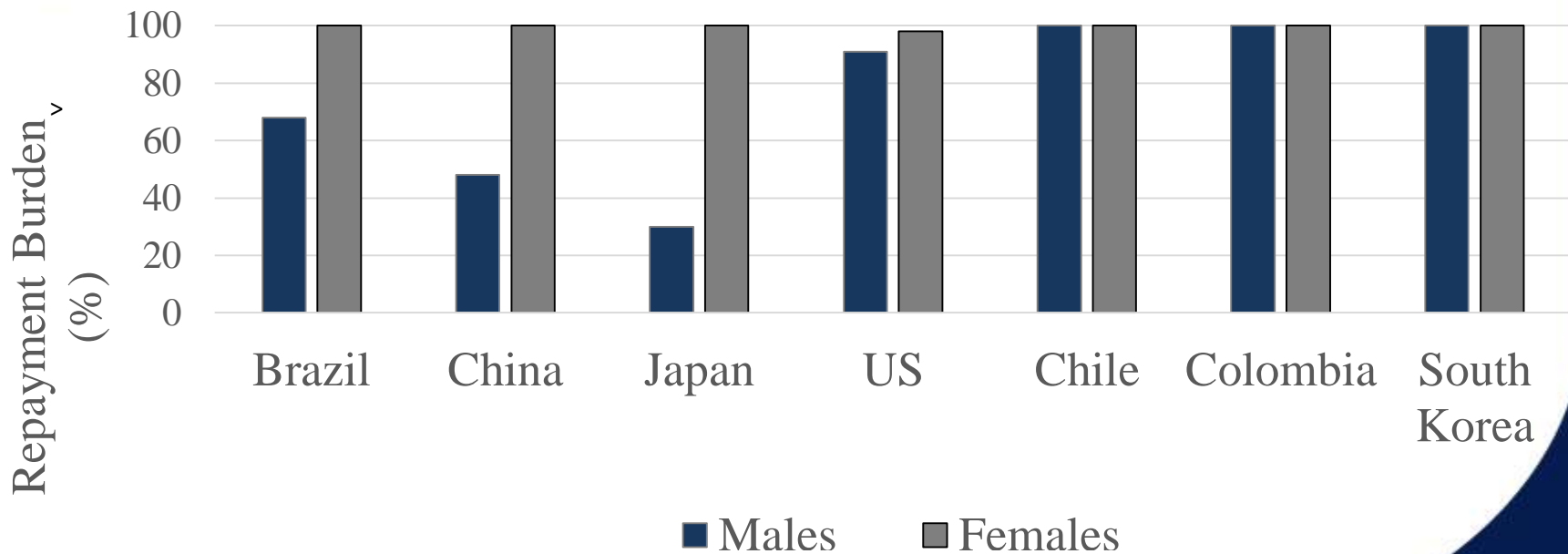
# The Critical Role of Repayment Burdens in TBRLs

$$\text{Repayment burden}_t = \frac{\text{Loan repayment}_t}{\text{Income}_t}$$

- High RBs lead to anxiety, consumption hardship, borrowing from loan sharks and defaults
- How high can RBs be?



# International comparison of RBs with TBRLs (bottom 20% of graduate earners)





# International experience of defaults with TBRL (per cent)

Brazil: >30

Canada: 15

Colombia: 30-35

Malaysia: 40-60

Thailand: 45-65

Philippines: 90

Thailand: 45-70

US: 20-25

**Default risks for borrowers is a major concern**



# TBRLs and ICLs: Family formation and job choice

- i. Major parts of TBRLs are being paid by family members so this must influence marriage and fertility decisions
- ii. TBRL and occupational choice: the case of US lawyers
- iii. Thus TBRLs are inefficient and distortionary from the perspective of economic choice

# Understanding ICLs

# Understanding ICLs





## The Effects of ICLs

- **ICLs have no repayments when incomes are low, so:**
  - No repayment when unemployed, automatic
  - No repayment when in low paying jobs, automatic
  - No repayment if not in the labour force eg rearing a child, automatic
- **Therefore:**
  - No repayment hardships
  - No struggle or anxiety
  - No default and credit reputation loss
  - No loss of future government revenue from default
- **Also:**
  - Highly efficient if collected by employers;
  - No job choice or family formation distortions



## The Effects of ICLs

- **ICLs have no repayments when incomes are low, so:**
  - No repayment when unemployed, automatic
  - No repayment when in low paying jobs, automatic
  - No repayment if not in the labour force eg rearing a child, automatic
- **Therefore:**
  - No repayment hardships
  - No struggle or anxiety
  - No default and credit reputation loss
  - No loss of future government revenue from default
- **Also:**
  - Highly efficient if collected by employers;
  - No job choice or family formation distortions

# Australian ICL: HECS

- i. Introduced in 1989, public sector undergraduates
- ii. No payment at enrolment, debts recorded with the ATO (IRS), employer with-holding (admin costs trivial: < 1% of annual revenue)
- iii. No payment until earn \$A47,000 pa, 1-810% (therefore, no payment when in low paid job, child-rearing, unemployed)
- iv. Debt continues until repaid, or death
- v. Indexed to CPI
- vi. Enrolments increased by 280% by 2020
- vii. No access issues, enrolments from the poor increased by 300%
- viii. Adopted by 6 other countries, 3 others close



## International comparison of RBs with ICLs (max % of annual income)

- Australia: 10
- NZ: 10
- England: 9
- Hungary: 6

**Thus, RB risks for borrowers are  
a zero concern for ICLs!**



# International ICL Experience of Defaults (%)

Australia: 0

England: 0

New Zealand: 0

Hungary: 0



# Student Loans in the Time of COVID

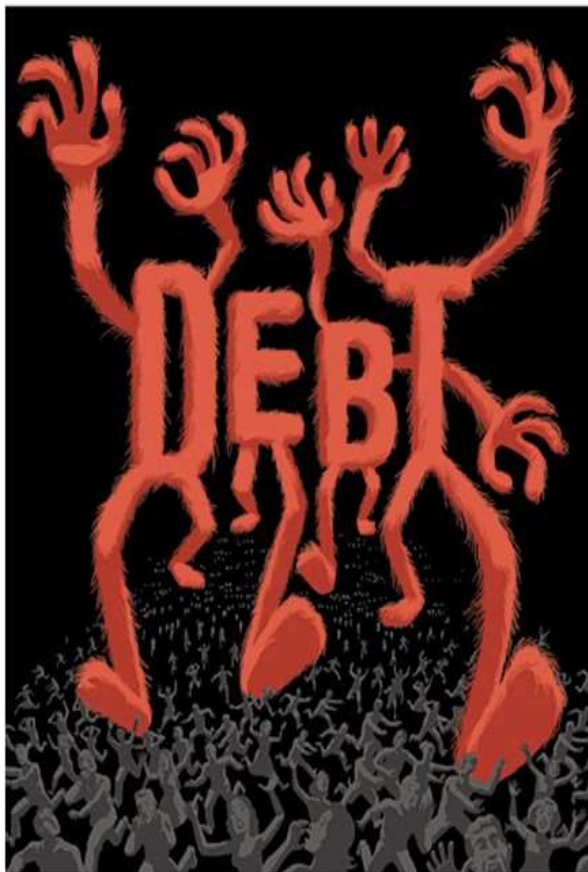
- (i) Major macroeconomic disruptions illustrate the problems of TBRL: repayment hardships and defaults;
- (ii) Remember: Defaults can ruin borrowers' (graduates') lives;
- (iii) Remember: Defaults can ruin governments' budgets;
- (iv) Recently is the worst time in history for TBRL borrowers; the best time in history for ICL borrowers.
- (v) ICL avoid recession problems for borrowers and governments



# Images of TBRLs and ICLs

CREAR UNICENS ES LA  
EDUCACION SUPERIOR

# TBRLs





# TBRLs



CREAR UNICIONES EN LA  
EDUCACIÓN SUPERIOR

**ICLs**





# The critical role of ICL administration

- For the government:
  - i. All countries are different; but
  - ii. Employer with-holding is critical and very efficient
  - iii. Close to no transactions costs
- For the student/graduate:
  - i. Automaticity is very valuable
  - ii. No actions need to be taken (no need for applications or documentation)
  - iii. Close to no transaction costs



# Conclusion

- i. There is a strong case for tuition
- ii. Student loans are necessary
- iii. The two loan options differ radically: collection is everything
- iv. TBRLs incur difficult RBs, default and credit reputation losses, administratively expensive
- v. ICLs provide insurance against repayment difficulties and default
- vi. For governments ICLs are likely to maximise revenue
- vii. Transactions costs for ICL are close to zero

SEMINARIO INTERNACIONAL



**Crédito Educativo en la  
Educación Superior**

**Muchas  
gracias!**

**EQUIDAD  
&  
MOVILIDAD SOCIAL**

Con el apoyo de: