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Student Debt in Selected Countries

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Although the average lifetime college premium has been rising over time in both developed and developing economies, there is a lot of heterogeneity in returns across students. This raises concerns with the short and long-term impact of student debt, as student aid is increasingly made available in the form of loans in many countries. Some countries have started to incorporate incentive schemes in their student loan design in order to prevent unwanted effects. Regarding the link between the absence or presence of loans and equity of opportunity one cannot draw general conclusions.

STUDENT LOANS: MORTGAGE TYPE OR INCOME CONTINGENT?

Mortgage type loans require repayments in the form of predetermined fixed monthly instalments. In contrast, income contingent loans tie repayments to earnings during a given period.

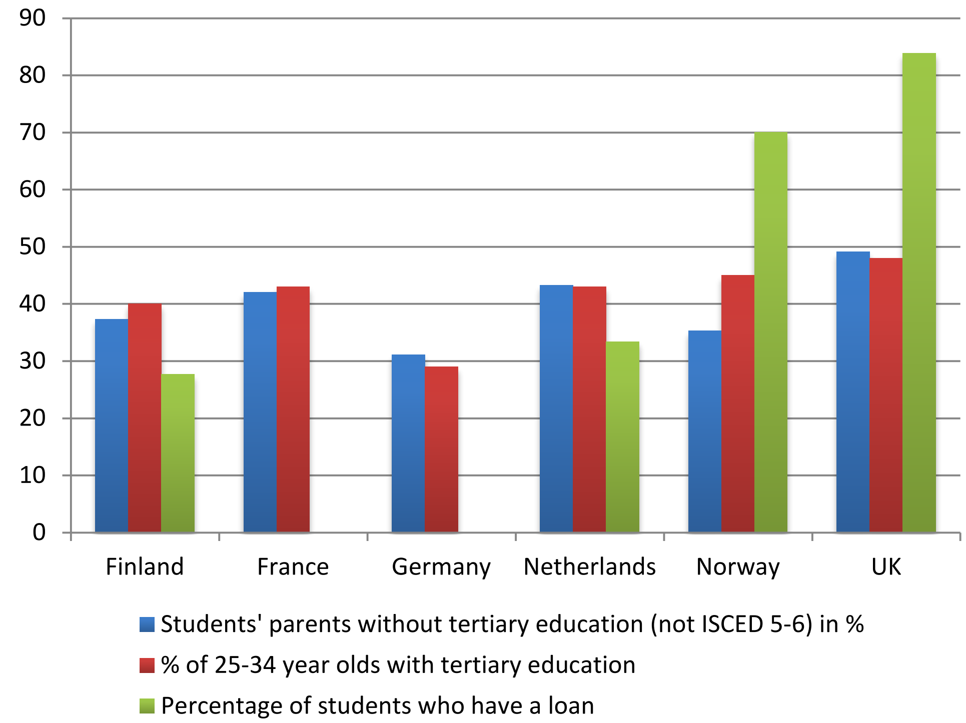
One problem of the former type of loan is that it can impose high burdens on graduates with lowest incomes. To reduce the burden on low income groups, some countries like Finland or the Netherlands, where most loans are of the mortgage type, allow some graduates to benefit from reductions in the amounts due. In Finland, loan reductions can also be obtained if the degree is completed on time. In Norway, low-income students with good academic progress can convert a portion of the loan into a non-repayable grant. Under the system in place until 2015 in the Netherlands, the amount owed could be turned into a grant if the student graduated in less than ten years. Thus, funding schemes incorporate incentives for good academic progress in some countries.

On the other hand, income-contingent loans have become widespread and are increasingly adopted around the world (e.g. the Netherlands as of September 2015, the U.S. in 2012, and Canada in 2009). Because debtors only pay a given proportion of their incomes, and obligations usually expire after 15 to 30 years of graduation, income-contingent arrangements transfer part of the repayment burden to the funding institution and, often, ultimately to the taxpayer. For this reason, in Australia and England there are some concerns about the sustainability of their income contingent loan systems over the medium run. By contrast, in other countries, like the U.S., where mortgage type student loan programs are prevalent, and Hungary, where the cost of non-repayment falls on the participating cohort of graduates, the student loan programs are profitable.

STUDENT LOANS MAY AFFECT INCENTIVES IN UNINTENDED WAYS

Beyond financial sustainability in terms of the public budget, recent research has considered more carefully the implications for individual welfare. Interestingly, studies carried out in Australia and the United States, two of the countries with the largest uptake and longest tradition of student loans, have shown that student debt is correlated with delaying marriage and/or children, lower likelihood of home ownership, and lower wealth accumulation. Of course this does not imply causality. Student loans may also increase the access to higher education of students who are less prepared academically and thus more likely to experience lower returns from college, difficulties in debt repayment and lower wealth accumulation. As a result, they may delay marrying, having children or buying a house.

Characteristics of students in selected countries



Percentage of students who have a loan in UK includes England and Wales only; not available for France and Germany. Sources: National Profiles from EUROSTUDENT IV (2008-2011); OECD, Education at a Glance 2014.

In Australia, which pioneered income-contingent loans, there is also evidence of income concentration below the minimum repayment thresholds. Although, again, causality is not proven, this evidence indicates that the repayment schedule may give incentives to work in low-paid or part-time jobs and suggests such possibilities should be taken into account in the design of the income-contingent loan schemes.

Funding Higher Education Access: Large Differences Across Countries

While present in many developed economies, student loans are by no means universal. For example, France and Germany, two of the largest economies in the EU with spending per student similar to that of Australia, Finland, or the UK, do not have broadly based student loan programs. How does this affect access to higher education in these countries?

Although there is evidence that parental contributions to student income are significant in France and Germany, the percentage of 25 to 34 year olds having a tertiary education diploma and the degree of upward educational mobility largely differ between these two countries (see Figure). In France, 43 percent of 25 to 34 year olds have a tertiary education degree while the figure is only 29 percent for Germany according to the OECD. At the same time, 54 percent of students in France are children of parents without tertiary education, versus only 37 percent in Germany. Some countries with broadly based student loan programs (e.g. Netherlands, UK) do not perform worse in terms or attainment and social mobility than France.

Thus one cannot draw general conclusions regarding the link between the absence of loans and equity of opportunity. Many factors interact to generate such outcomes including, among others, the quality of pre-college education, redistributive policies or the productive structure of each country. A more systematic analysis would be required in order to identify the links between student support policies and educational opportunity.

For more details see: Elena Del Rey, Ioana Schiopu, *Student debt in selected countries*. EENEE Analytical Report 25, November 2015, http://www.eenee.de/dms/EENEE/Analytical_Reports/EENEE_AR25.pdf.

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