



Australian
National
University

The economics and public policy of student loans: Lessons for Chile

Prof. Bruce Chapman

College of Business and Economics
Australian National University

Santiago, Chile

October 2018



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



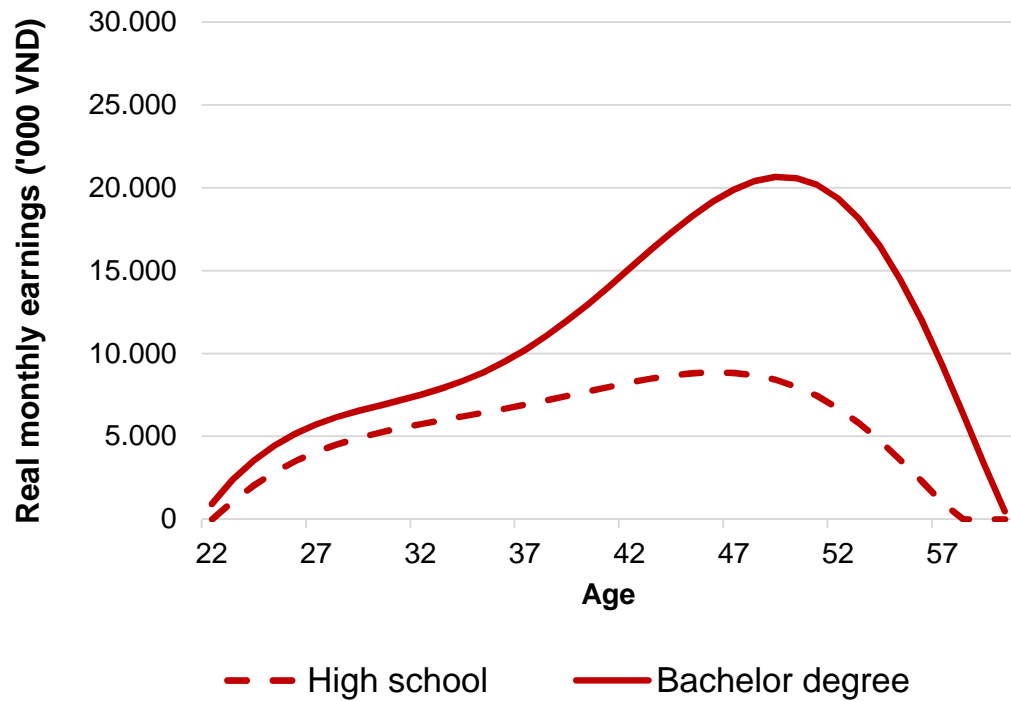
Is there a case for charging university tuition?

- (i) What is “free” higher education.
- (ii) Private rates of return to higher education.
- (iii) Not charging tuition fee is regressive and inequitable (see Karl Marx)

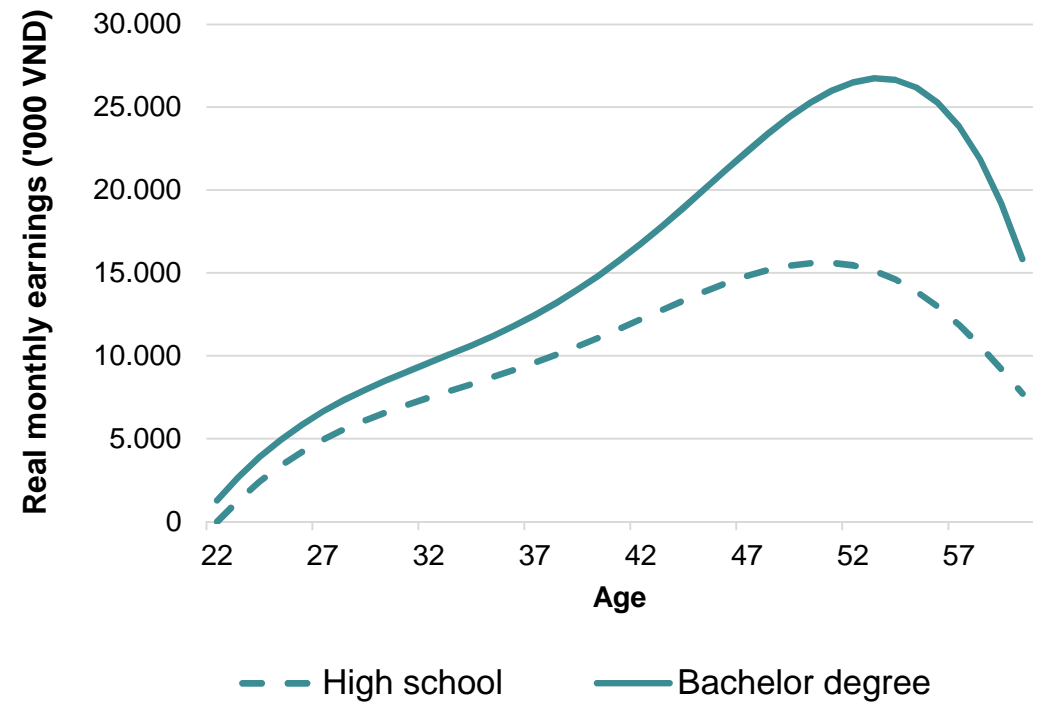


Age-Earnings Profiles: Vietnam

Females



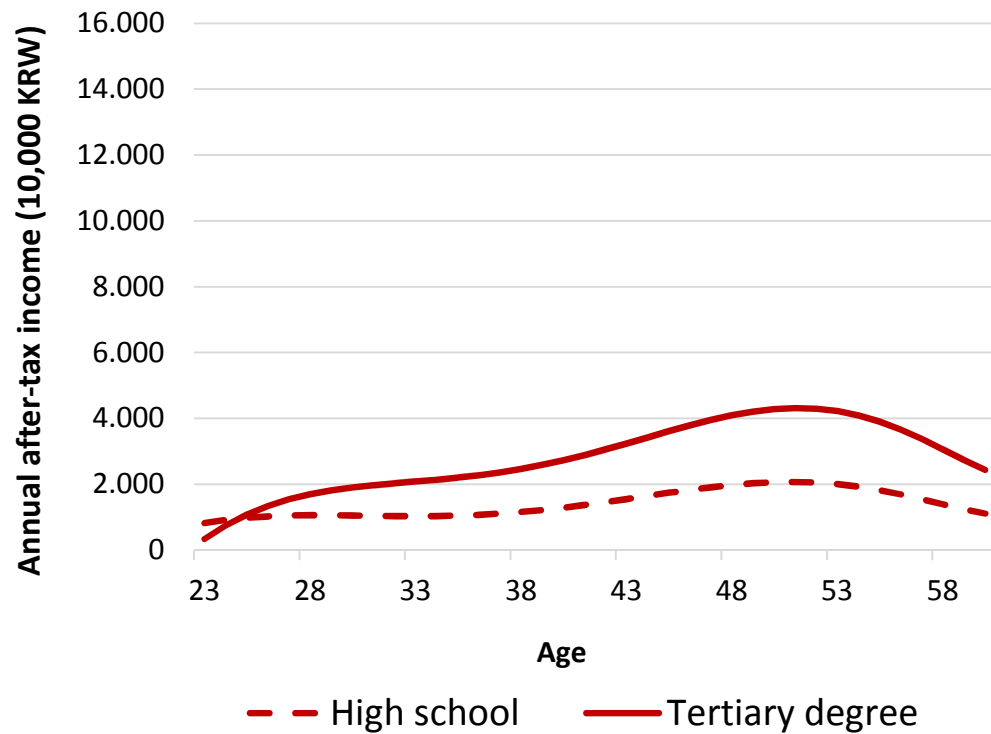
Males



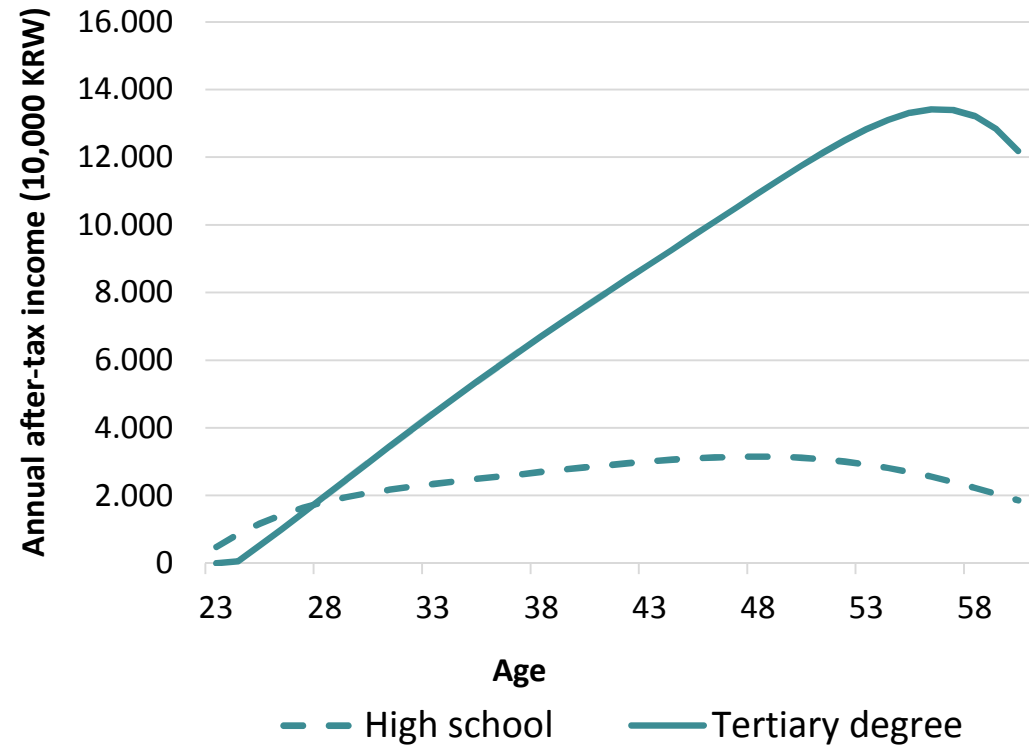


Age-Earnings Profiles: South Korea

Females



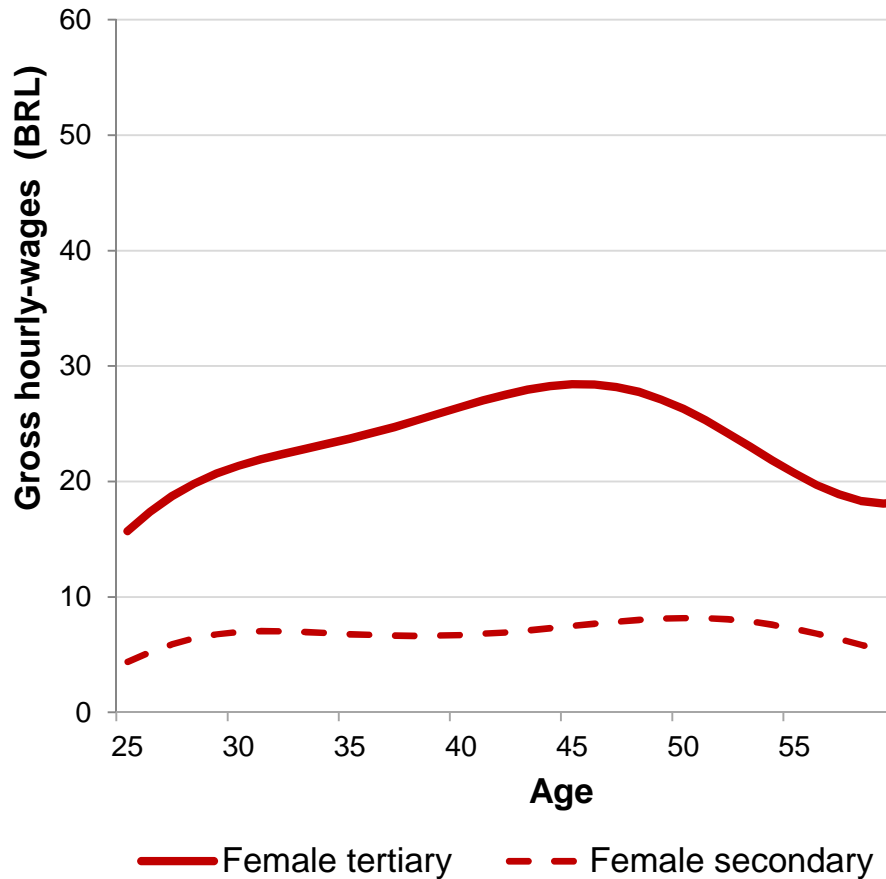
Males



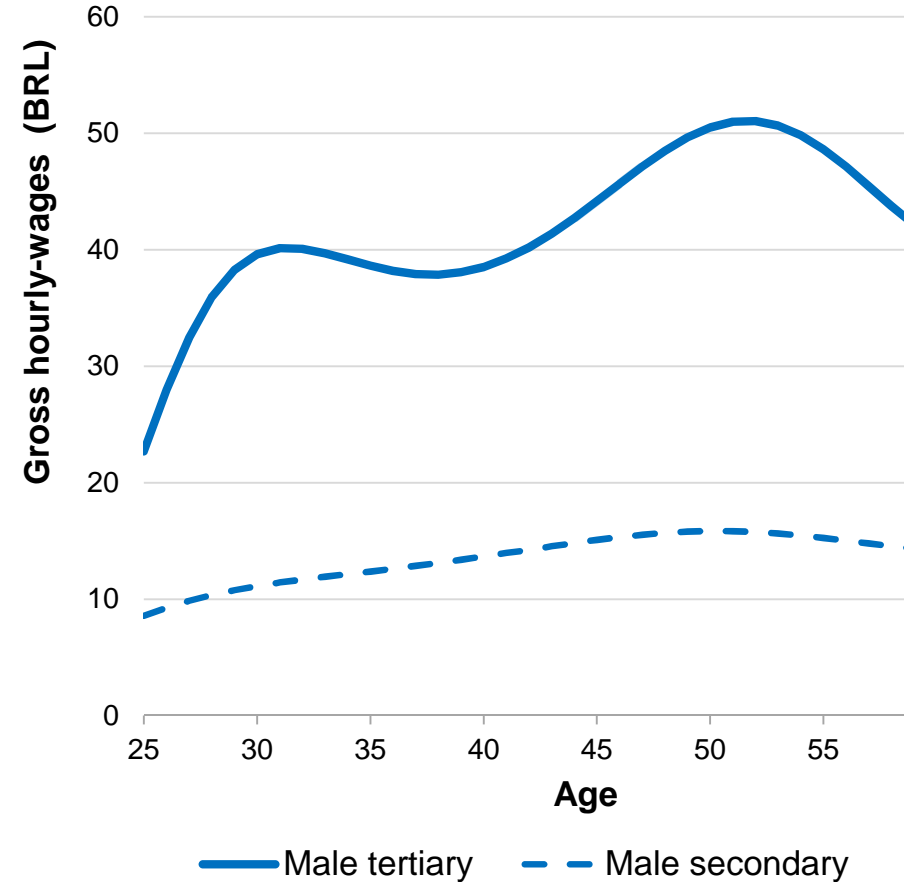


Age-Earnings Profiles: Brazil

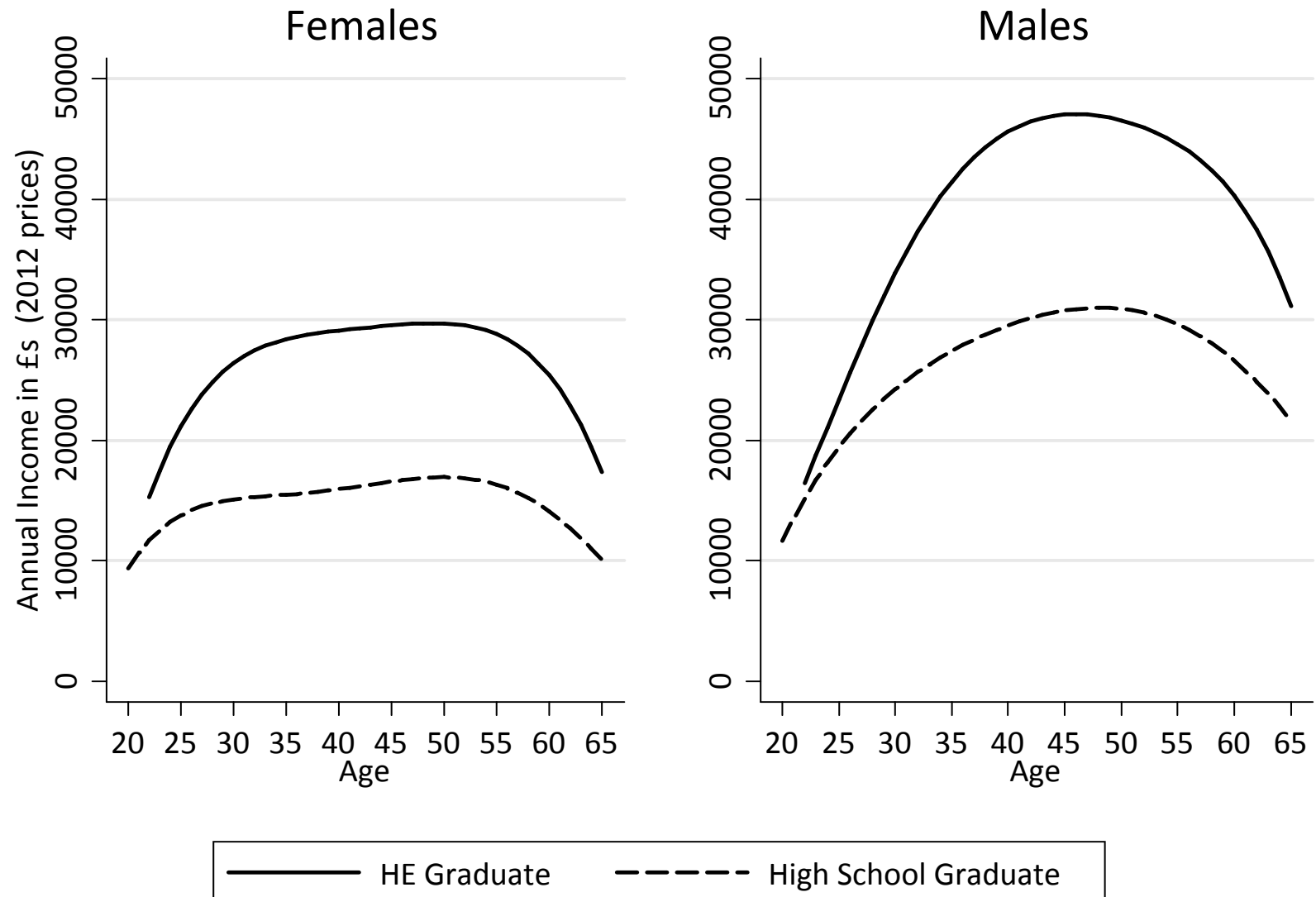
Females



Males

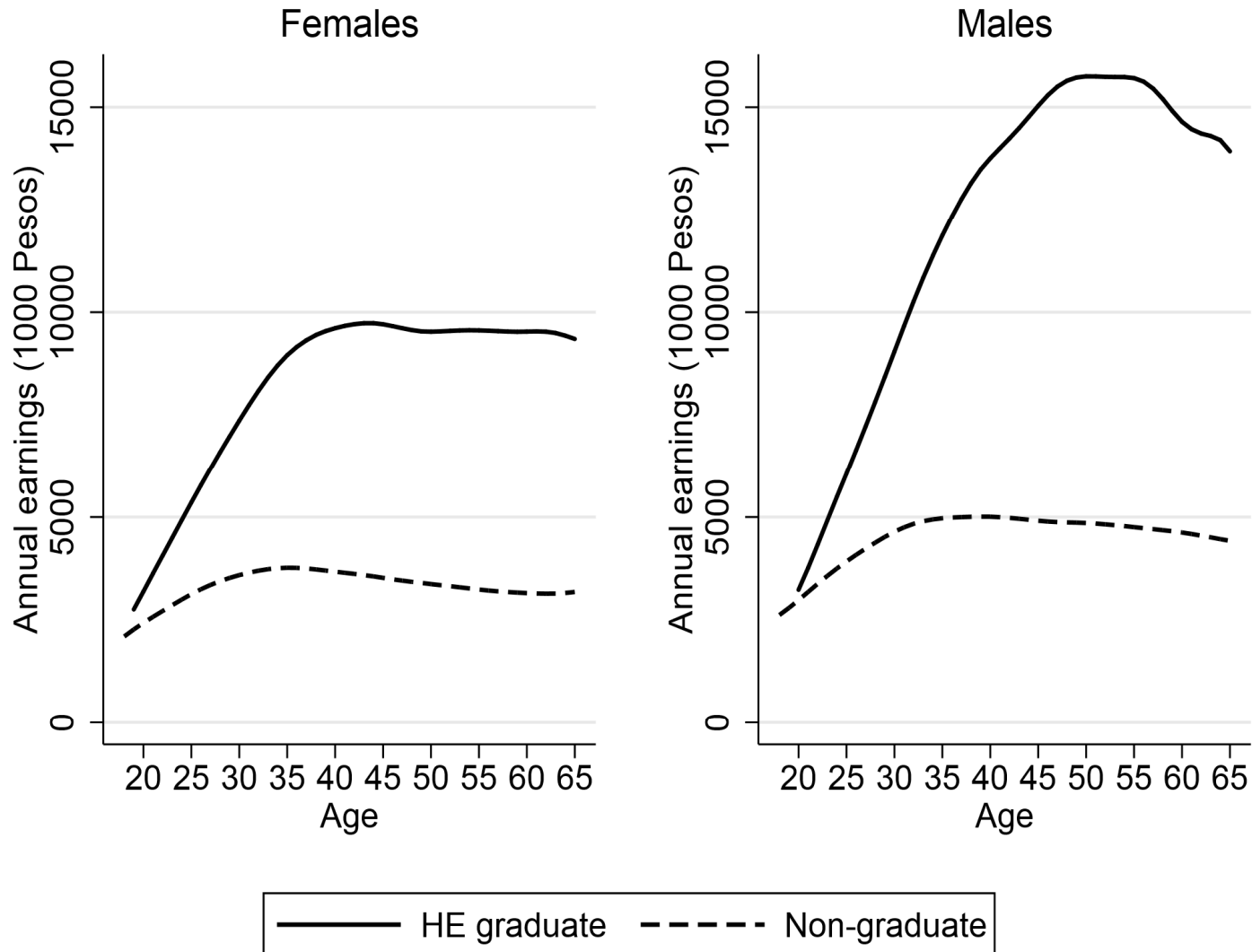


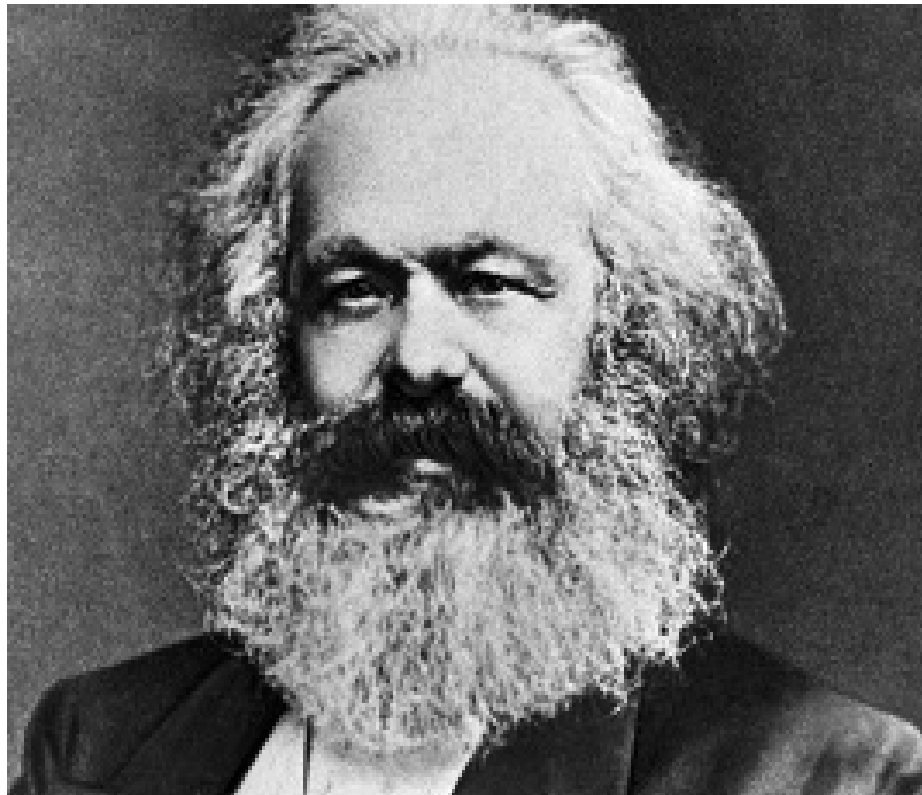
Age-Earnings Profiles: England





Age-earning profiles: Chile





“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



International comparisons of tuition

- “Free” HE:
 - Eg Denmark, Estonia, Finland, Germany, Norway, Poland, Scotland, Sweden
 - **About 1/3 OECD**
- Tuition Charges:
 - Eg Australia, Brazil, Canada, China, Colombia, England, France, Hungary, Italy, Japan, New Zealand, Portugal, Spain, the US
 - **About 2/3 of OECD**



Why are Student Loans Necessary?

- i. Risky investments
- ii. Poor outcomes for students/graduates can lead to default
- iii. With no saleable collateral, banks lose

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, the Netherlands



The Major Difference between TBRLs and ICLs: Repayment rules

- i. **TBRLs** have repayment obligations fixed over time
- ii. Explaining the US TBRL: requires all repayments in 10 years, Chile, 20 years
- iii. **ICLs** have no repayment obligations unless the debtor's income is high



Understanding TBRLs



The Effects of TBRL

TBRLs can mean:

- ❖ Repayment hardship and anxiety
- ❖ Borrowing from loan sharks, or friends and family
- ❖ Defaults
- ❖ High collection inefficiencies and costs from chasing loans
- ❖ Family formation distortions



Australian
National
University

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 ferez l'objet de mesures de recouvrement;
- vos remboursements d'impôt seront retenus.

Canada

1-877-882-7232

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.

Canada

1-877-882-7232



The Critical Role of Repayment Burdens in TBRLs

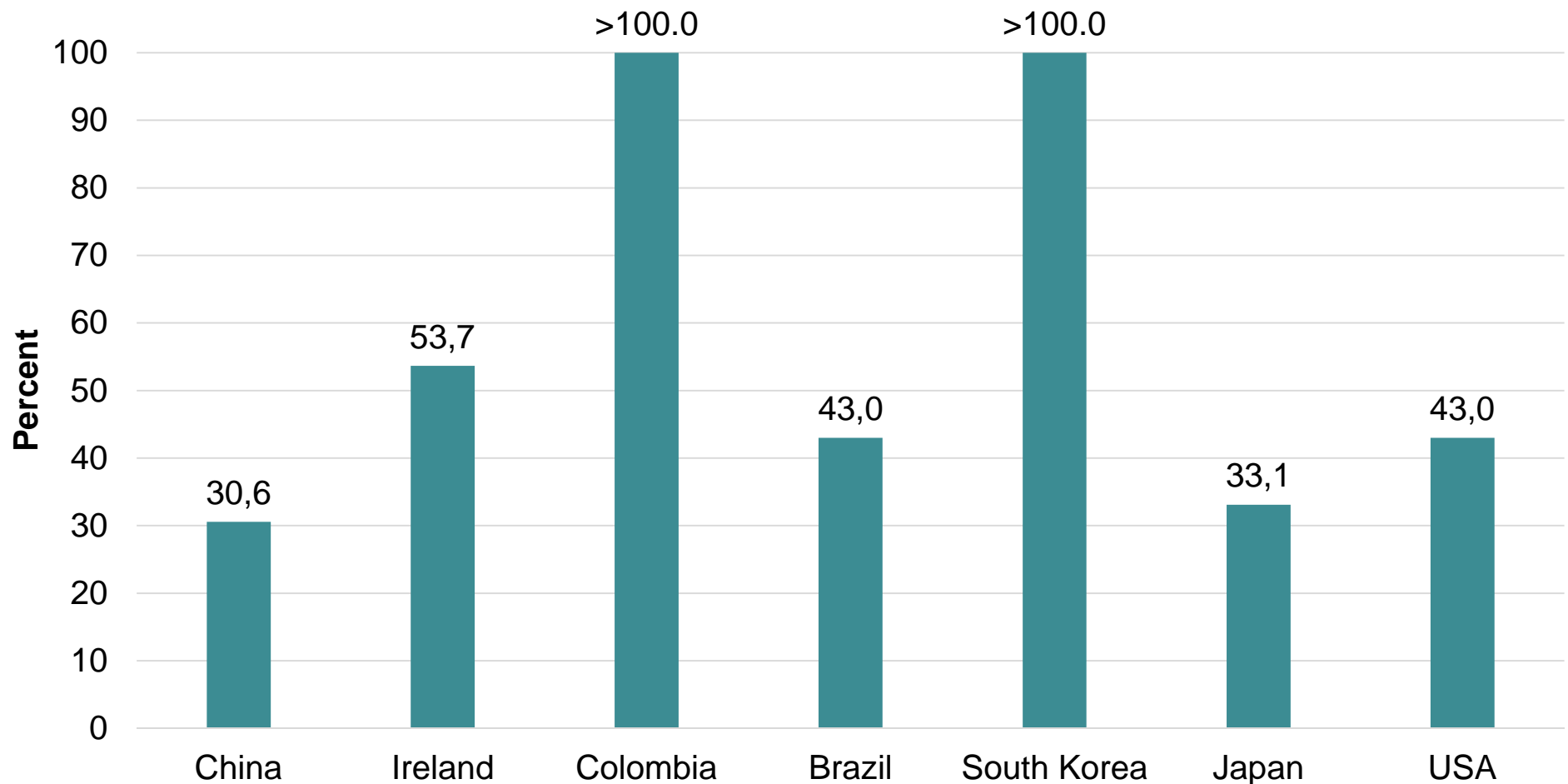
$$\text{Repayment burden}_t = \frac{\text{Loan repayment}_t}{\text{Income}_t}$$

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



International comparison of RBs with TBRLs

Repayment Burdens for Poorest 20 percent of Male Graduates



And the RB for the bottom 20 per cent for male graduates in Chile is...?

- ❖ 20%?
- ❖ 60%?
- ❖ OR, > 100%?

And the RB for the bottom 20 per cent for male graduates in Chile is...?

- ❖ 20%?
- ❖ 60%?
- ❖ OR, > 100%?
- ❖ ANSWER: > 100%!



International experience of defaults with TBRL (per cent)

Brazil: >30

Canada: 15

Colombia: 35-50

Malaysia: 40-60

Philippines: 90

Thailand: 45-70

US: 20-30

Default risks for borrowers is a major concern



TBRLs and ICLs: Family formation and job choice

- (i) Must influence marriage and fertility decisions
- (ii) The case of US lawyers



Understanding ICL



No payment until earn \$A57,000 pa, 4-8%

Enrolments increased by 250% by 2017

Has increased revenue by > \$A70 billion

Adopted by 8 other countries, 4 others very close



The Effects of ICL

Because ICLs have no repayment obligations when incomes are low:



Therefore:

- No repayment hardship or anxiety
- No default and credit reputation loss

Also:



Highly efficient if collected by employers



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

- ❖ Australia: 8
- ❖ NZ: 10
- ❖ England: 9
- ❖ Hungary: 6

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

International Experience of Defaults with an ICL (%)

Australia: 0

England: 0

New Zealand: 0



Images of TBRLs and ICLs

TBRLs



TBRLS



ICLs





The critical role of ICL administration

For the government:

- (i) Universality is crucial;
- (ii) Employer with-holding is critical

For the student/graduate:

- (i) No actions need to be taken
- (ii) No need for any applications or documentation



Conclusion

- i. Student loans are necessary
- ii. TBRLs incur difficult RBs, important default costs, administratively expensive
- iii. ICLs provide insurance.
- iv. Administration/collection issues are critical for policy



Muchas gracias!