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Student loans in Canada: an analysis of borrowing and repayment

S. Schwartz^{a,*}, R. Finnie^{1,b}

^a Carleton University, School of Public Policy and Administration, Carleton University, Ottawa, Canada K1S 5B6

^b Queen's University, School of Policy Studies, 99 University Avenue, Kingston, Ont., Canada K7L 3N6

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Abstract

This paper reports the results of an econometric analysis of the borrowing and repayment patterns of Canadian bachelor's level university graduates, using data from the National Graduates Survey (NGS) of the class of 1990. After confirming the intuition that the level of borrowing is determined by supply-side rather than by demand-side factors, we analyze the repayment experience of the graduates. We calculate that the fraction of graduates who reported problems repaying their student loans was, overall, quite small, falling in the 7–8 percent range. Among both men and women, graduates with low current earnings and those in fields likely to have low lifetime earnings reported significantly greater problems with repayment. Holding other variables constant, women reported more difficulty in repayment than men. Overall, it would seem that women borrowed only slightly less than men, repaid as quickly as men (despite lower earnings), but reported having significantly more difficulty in repayment. © 2002 Elsevier Science Ltd. All rights reserved.

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1. Introduction

The extent to which Canadian university students pay for their own education changed substantially in the 1990s. At the end of the decade, students and their families were paying proportionally more, and governments proportionally less, than when the decade began.

Almost all Canadian universities are publicly funded, relying on government grants and student tuition fees for the vast majority of their revenues.² In 1998, universities had a full-time equivalent enrolment of 644,434 students and general operating revenues, in current dollars, of

approximately \$7.65 billion.³ Government grants provided 64.5 percent of operating revenues while tuition fees accounted for another 30.6 percent.

In 1979, the situation was different — government grants comprised 83.8 percent of operating revenues and tuition fees only 13.3 percent. From 1979 to 1989, the

² The other sources of revenues are investment income, bequests, donations and non-governmental grants. The phrase 'government grants', as used in the text, includes a relatively small 'government contracts' component.

³ All dollar figures in this paper refer to Canadian dollars. In recent years, one Canadian dollar has been equivalent to between 65 and 70 US cents; thus multiplying each dollar figure by 2/3 will yield a number that roughly represents the value in US dollars. All years in this section are fiscal years; for example '1998' refers to the fiscal year spanning April 1, 1997 to March 31, 1998.

* Corresponding author. Fax: +1-613-520-2551.

E-mail address: saul_schwartz@carleton.ca (S. Schwartz).

¹ Also at: Statistics Canada, Tunney's Pasture, Ottawa, Ont., Canada K1A 0T6.

number of students (on a full-time equivalent basis) rose by 38 percent, creating the need for increased university operating expenditures. Real government grants did not keep pace, rising by just 11 percent. In an effort to cover the growing gap between operating expenditures and government grants, universities raised tuition fees, over this period, by 7 percent more than the Consumer Price Index.

These trends continued into the 1990s. Overall university enrolments, on a full-time equivalent basis, grew by just under 4 percent in the 1990–1998 period. At the same time, large federal and provincial budget deficits affected the level of real government grants. In fiscal 1989, those grants were \$3.9 billion in 1986 dollars and hit a peak of \$4.3 billion in fiscal 1993. By fiscal 1997, government grants had fallen to \$3.6 billion, below their 1989 level. Since Canadian universities have no important revenue sources beyond government grants and tuition fees, the latter were bound to rise.⁴ In the 1989–1997 period, real tuition fees rose from \$8.0 to \$15.4 billion, an increase of 93 percent. The 1990s shift in the burden of university finances is clear. In real dollars, on a per student basis, government grants fell from \$7569 in 1990 to \$5543 in 1997, while tuition fees rose from \$1363 to \$2385 and expenditures fell by \$800.

Note, however, that full-time equivalent enrolments continued to grow despite the increased burden shouldered by students and their families and even though the number of 19- to 24-year-olds in 1997 was only 82 percent of what it had been in 1980. Between 1980 and 1997, enrolments grew by 42 percent even though real tuition fees grew by 289 percent.

In the 1980s, when tuition fees were relatively low, the majority of university students were able to finance their education without direct government assistance. For potential students who needed financial aid because of low family income, grants were available from provincial programs. The major source of loans, for those who qualified by dint of low family income, was the federally funded Canada Student Loans Program (CSLP).

Between 1984 and 1994, even though tuition fees were increasing, the maximum that could be borrowed from the federal CSLP remained constant. In 1994, the CSLP finally made more loan money available by increasing

the maximum that could be borrowed by more than 50 percent.⁵ The provincial response to increased tuition fees varied, but the tendency was to replace provincial grant programs with provincial loan programs; that substitution allowed the same amount of subsidy dollars to put more money into the hands of students.

One set of questions raised by these changes is normative. Who should pay for higher education? What is the share that should be shouldered by students themselves, by their parents and by the government? What are reasonable debt loads for graduates? Despite the importance of these normative issues, they are left to other discussions.

In this paper, we address two important empirical questions concerning student borrowing and repayment by analyzing the experience of a sample of individuals who graduated with Bachelor's degrees from Canadian post-secondary institutions in 1990. The questions are:

- Did students borrow as much as they were offered during this period or, alternatively, did demand-side factors play an important role?⁶
- Which groups of borrowers, if any, were most burdened by their loan repayment?

2. Sample definition and the NGS databases

The National Graduates Survey (NGS) and Follow-up databases include information on those who successfully completed programs of study at Canadian universities in 1982, 1986 and 1990. Information was gathered during interviews conducted two and five years after graduation. Response rates were around 80 percent for the first interview and 90 percent in the second, which is quite good for a survey of this type. Each of the three cohorts of the NGS has completed interviews for about 16,000 university graduates. The models estimated in this paper use

⁴ One response to lower revenues was an attempt to reduce operating costs. In the 1980s, universities were able to reduce per student operating costs by 15 percent but the increase in the number of students led to an increase of 17 percent in overall operating expenses. Real university operating expenses per student then grew from \$8108 in fiscal 1989 to \$8646 in 1994 before falling back to \$8288 in 1997. Little (1997) attributes the increase in operating expenditures to the rising seniority (and thus compensation) of university faculty and the difficulty, created by the tenure system, of laying off faculty to lower operating costs.

⁵ The maximum that could be borrowed was increased to \$100 per week of full-time studies in 1983. It rose slightly to \$105 per week in 1984 and then remained constant until 1994, when it was increased to \$165 per week (Finnie & Schwartz, p. 11). A typical annual study period is 34 weeks. The maximum loan was therefore 34 times \$165 or \$5610. In 1999–2000, average tuition in Ontario was approximately \$4000 for an academic year and living costs were about \$7000. Thus the CSLP part of a maximum financial aid award covered tuition and about 20 percent of living costs. Provincial loans were also available.

⁶ 'Demand-side factors' are those variables that are thought to play a role in the individual demand for post-secondary education, variables such as expected future earnings.

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