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The Dangers of Mexico's New Student-Loan Program

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By Guest Writer

The following is a guest post by ***Marion Lloyd,*** *chief project coordinator at the Office for Institutional Assessment at the National Autonomous University of Mexico and a former Latin America correspondent for* The Chronicle.

Citing the need to "democratize" access to higher education, Mexican President Felipe Calderón announced this month the country's first system of federally-backed commercial student loans. The National Program for Financing Higher Education, presented amid much fanfare on January 9, seeks to extend some $200-million in loans this year to more than 23,000 college students. As public universities are free, the program only applies to students at private universities.

At first glance, the government's decision to work with private lenders to expand credit options for students might seem like a no brainer. After all, Calderón notes, more than 60 countries in the world operate such systems. Mexico, if anything, is a late-comer to the trend, with the first private college loans available on the market here in 2006.

But with skyrocketing college debt triggering protests around the world, Calderón's push to increase the number of Mexican debtors is wrongheaded–if not downright cynical. Calderón cites Chile and the United States as examples of successful student-loan programs, but both are facing huge social problems because of their so-called success. The South American country has been rocked by massive student-led protests since May against the college-loan system. The protesters are demanding an end to reforms implemented by the Pinochet dictatorship in 1980, which required all universities–public or private–to charge tuition, and implemented a system of government-backed student loans.

The system helped bankroll the massive expansion of higher education, mostly through the creation of new private universities. Over the past two decades, enrollment has quintupled from 200,000 to a million, out of a population of just 15 million. Today, Chile has the second-highest college enrollment rate in the region, 59 percent, behind only Argentina, with 69 percent, according to the latest Unesco figures from 2009. But Chile also leads the region in the number of student debtors, including the

more than 100,000 loan defaulters, who owe an average of $5,400 each–roughly equivalent to the country's annual per capita income–according to the government's own estimates.

The United States, where protesters from California to New York are demanding relief from a record $1-trillion in college-loan debt, is another case that should raise alarm bells in Mexico. Fueled by rising college tuition and sliding wages, total outstanding student debt has doubled in just five years, with the average debtor owing a record $25,250 last year, according to government figures. In addition, the share of debtors who have failed to make their payments during the first two years rose from 6.7 percent in 2007 to more 8.8 percent last year, according to the U.S. Department of Education.

That said, there are arguments in favor of the student-loan systems in both Chile and the United States, to the extent that they have vastly expanded access to higher education. The Mexican program, in its current form, holds no such potential.

Despite Calderón's assurance that the program "benefits those students who need it most," in reality, it mostly benefits the banks, followed by a limited group of private universities. Unlike student-loan programs in other countries, in which students can decide which colleges to attend, the Mexican program is restricted to 21 private universities who committed to help cover part of the debt should the students default on their loans.

The announcement this month triggered scathing criticism from many of the country's most respected higher-education experts. They accuse Calderón of pandering to the private sector at the expense of the public universities, which enroll 70 percent of Mexico's three million students, including many of the poorest, and conduct the vast majority of scientific research.

Such claims are not totally unfounded. The program comes less than a year after Calderón made private-school tuition–from preschool through high school–tax deductible, starting this year. Under his predecessor, former President Vicente Fox, the government began paying a share of bonuses for top researchers at private universities, a cost previously covered by the institutions themselves.

Politics aside, however, there are other problems with the loan program–namely the high cost for students and the mediocre quality of most of the participating universities. Despite Calderón's assurances that the loans' interest rate of 10 percent is "highly affordable," in reality it's far above rates charged by most other countries, including the United States and Chile, according to a study by the International Comparative Higher Education Finance and Accessibility Project at the State University of New York at Buffalo.

While the program might marginally increase the number of poor and middle-class students attending private colleges, it also holds the potential to push thousands of Mexican youths into unmanageable debt. As with their counterparts in Chile–and increasingly in the United States–there is no guarantee that college graduates will land a decent-paying job. The average salaries for recent graduates in Mexico are $6,500 for those with a bachelor's degree, $9,800 with a master's degree, and $12,200 with a Ph.D., according to a 2010 study by the Public Education Secretariat, Mexico's equivalent of the Department of Education.

Under such a scenario, Mexico may soon have its own version of the Take Back Student Loan movement rocking the United States, albeit on a smaller scale. So far, the Mexican program is a fraction the size of those in place in other countries, although Calderón has pledged to vastly expand it if his party retains power.

While the student-loan program may be politically popular with middle-class Mexicans, are the potential benefits of a college education really worth taking on some $20,000 worth of debt? Just ask the protesters sitting in at Berkeley or New York University or the thousands of striking students in Chile, and the answer is most likely: no.