Ensino Superior
UNICAMP

07/08/2012

Original

The Dangers of Mexico's New Student-Loan Program

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 of Higher Education*

Once the province of a wealthy elite, higher education has become a mass commodity in many parts of Latin America, with some countries tripling or even quintupling enrollments over the past two decades. In the process, governments are increasingly relying on the private sector – and for-profit education providers in particular - to help meet soaring demand for college degrees in the global knowledge economy. But as in other regions, that strategy has come at a cost in the form of skyrocketing student debt.

Mexico, where the public sector continues to account for the vast majority of enrollments, until recently was an exception to this trend. However, in January, the government announced the first nationwide government loan system for students at private universities. The National Program for Financing Higher Education, launched amid great fanfare, seeks to extend some US$200 million in credit this year to more than 23,000 students at two dozen private colleges. The loans will be disbursed by private banks, with guarantees from the federal development bank, Nafin.

The program follows recommendations from the Organization for Economic Cooperation and Development (OECD), which reviewed Mexico's tertiary education system in 2008 and urged greater private-sector involvement. While the private share of enrollments has more than doubled since 1990, from 16% to 33%, it remains low by Latin American standards. Brazil and Chile, for example, have 70% private enrollments and Colombia has nearly 50%.

President Felipe Calderón argues that the loan program offers the first "affordable" credit option for the sector. He also claims that the program will dramatically expand enrollment in a country which, despite major gains in the past decade, still lags in terms of higher education coverage. Mexico´s gross enrollment rate of 27% in 2009 was well behind the Latin American average of 37% and less than half the 69% coverage rate in

Argentina, according to the most recent UNESCO statistics. While officially the rate has increased to 31% this year, it remains low even when compared with much poorer nations, such as Ecuador or Colombia, whose gross enrollment rates in 2009 were 42% and 37%, respectively.

In that context, Mexico´s decision to partner 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 currently operate such systems, which have been shown to facilitate expansion of higher education by enabling low-income students to attend private colleges. Mexico, if anything, is a late-comer to the trend, with the first commercial student loans available on the market in the late 1990s.

However, the student loan model is no longer seen as a panacea to the college access problem. Over the past year, protesters from Santiago to New York have taken to the streets to demand relief from crippling student-loan debt, which has mushroomed amid dwindling public support for higher education. In fact, opposition to such systems has been fiercest in countries cited by Calderón as models to follow: Chile, the United States, Colombia, Great Britain and Canada.

In the United States, student debt hit a record $1 trillion this year, surpassing credit card or automobile debt, with the average student owing $25,200. In Chile, there are more than 100,000 student loan defaulters who owe an average of $5,400 each - about a third the country's annual per capita income – according to the government´s own estimates. In Colombia, government proposals to open the way for for-profit universities and expand the student loan model triggered a year-long student protest movement. Meanwhile, in Canada and Great Britain, tuition hikes at public universities have also sparked major protests, with students in those countries unwilling to bankroll their college education through contracting unmanageable debt.

In that context, Calderón´s decision to join the student loan bandwagon is wrongheaded, if not downright cynical.

Paradigm shift

It also represents a major paradigm shift for Mexico, which, along with Argentina, remains one of Latin America´s last remaining bastions of state-funded higher education. Two-thirds of Mexico´s 3.1 million university students study in public institutions, most of which are essentially tuition-free (although some institutions have recently begun charging significant fees for costly programs such as medicine). The country is also home to the public National Autonomous University of Mexico (UNAM), a giant, research powerhouse which rivals the University of Sao Paulo as Latin America´s top-ranked university. The public sector as a whole accounts for more than 90% of research in Mexico, and public universities have long served as vehicles for social advancement, producing a majority of the country´s professionals and presidents.

However, the country´s proud tradition of public higher education is facing significant challenges, as the government turns to alternative sources of funding in its bid to increase access to higher education. Calderón, a member of the pro-business National Action Party (PAN), has set a goal of equaling Chile´s gross enrollment rate of 59% within two decades - a mammoth expansion that he insists requires opening up credit options for students in the private sector. As we will see in the following section, the student loan model adopted by Calderón is unlikely to achieve its stated goals.

The National Program for Financing Higher Education

Proponents of the Mexican loan program argue that it democratizes access to a sector once accessible only to the wealthy elite, and that, in Calderón´s words, it “benefits those students who need it most.” In reality, it primarily benefits the banks, whose investment is guaranteed up to 80% by Nafin. Unlike similar programs in other parts of the world, the Mexican loans are not subsidized by the government, resulting in a hefty 10-percent interest rate. The program is also restricted to a limited group of private universities – 23 had signed on as of May - which have agreed to cover the remaining 20% of potential loan defaults.

Despite the president´s insistence that the universities were among the country´s best, only one of them, the Monterrey Institute for Technology and Higher Education, ranks among the top institutions of higher education in Mexico. The others are a mix of second-tier not-for-profit private universities and for-profits, including UNITEC, which is owned by U.S.-based Laureate Inc. Like other for-profit institutions in the United States, Laureate has come under fire for abusive and deceptive recruitment policies. Students at for-profit colleges also carry on average higher student loan debt, due to the high cost of tuition and low graduation rates at those institutions compared with other private and public universities.

Equally questionable is Calderón´s insistence that the 10% interest rate is “highly affordable.” In reality, it is double that of existing government-subsidized programs in several Mexican states and far above rates charged by most other countries, according to a study by the **International Comparative Higher Education Finance and Accessibility Project** at the State University of New York at Buffalo. Among countries surveyed, the United States and South Korea have among the highest rates, at roughly 6%, while Japan and Germany provide no-interest student loans. Meanwhile, Brazil, another country cited by Calderón as a model to follow, offers rates of between 3.5% and 6%. Despite their high cost, however, the Mexican loans do not cover the full cost of tuition at most prestigious private universities. Loans are capped at $16,100 for undergraduates and $20,400 for graduate students, while the cost of a degree in business administration at the Monterrey Tec is about $47,000.

So why is Calderón endorsing the loan program? The answer may be part politics, part personal conviction. Launched in the run-up to the July 1 presidential elections, many observers saw the program as a calculated ploy to win votes from the middle classes, which have suffered during the economic recession. Calderón´s candidate, Josefina Vázquez Mota, took a distant third place in the election, which was won by Enrique Peña Nieto, a former governor and member of the long-ruling Institutional Revolutionary Party (PRI), which governed Mexico for seven straight decades before being ousted by the PAN in 2000. Peña has not yet said whether he will continue with the program, but during his campaign he announced an ambitious plan to double college enrollments by 2018 – a goal which will likely include expanding credit for students.

Critics also point to Calderón´s apparent preference for private education and distrust of the public sector. The loan program comes less than a year after Calderón made private school tuition – from preschool through high school - tax exempt, starting this year. Under his predecessor, fellow PAN member Vicente Fox, the government began paying a share of bonuses for top researchers at private universities, a cost previously covered by the institutions themselves.

In addition, as Manuel Gil and other higher education columnists have argued, the new loan program violates the constitutional guarantee of separation of church and state, by channeling public funds into the Catholic universities. It is not the first time Calderón and Fox have broken with the country´s lay tradition, which gained strength following the Church´s defeat in the Cristero War of the late 1920s, in openly displaying their Catholic faith. The Mexican Constitution outlaws religious instruction in schools, however a bill that would change that is currently under debate in the Mexican Senate.

By law, the president is the head of the public education system, and until Fox, all Mexican presidents in modern history have been graduates of the public universities, mostly the UNAM or the National Politechnical Institute. Fox, however, attended the Universidad Iberoamericana, a private Jesuit institution in Mexico City, and Calderón is a graduate of the private Escuela Libre de Derecho. Calderón and his Cabinet ministers have also made frequent allusions to the “sacrifice” that Mexican families make to send their children to private school, comments that are widely interpreted as the government urging a mass exodus from the public schools.

In unveiling the loan program, Calderón argued that graduates of private universities were guaranteed future economic success: “We´re going to offer [students] a viable option to continue their studies in the university of their choice and to secure better salaries in the future, which result, as has been statistically proven, from a solid professional formation at a high-quality university … This translates into a better quality of life and new horizons for development for the student, whose future income will easily enable him to pay off the college loans.”

It would be hard to find a more ringing endorsement of the student loan model. However, as with their counterparts in Chile and the United States, Mexican college graduates have no guarantee of landing a job that will enable them to pay off their student debt. The average annual salary for recent college graduates in Mexico is a meager $6,500. Those with a master´s degree earn an average of $9,800, and with a Ph.D., $12,200, according to a study in 2010 by the Public Education Secretariat.

At that rate, it could take decades for the students to pay off their college loans - to say nothing of the hundreds of thousands of college graduates or dropouts who are unemployed. The long-term impacts of the loan programs in other countries are illustrative of what could happen in Mexico if the still incipient model takes root.

The Chilean Spring

Of all the examples cited by Calderón in support of his loan program, Chile is perhaps the least promising. The South American country has been rocked by massive student-led protests since May 2011 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, tertiary enrollment has quintupled from 200,000 to 1 million, out of a population of just 15 million. Today, Chile has the second-highest college enrollment rate in the region, 59%, behind only Argentina, with 69%, according to the latest UNESCO figures from 2009. But Chile also leads the region in the number of student debtors. While total figures on the number of recipients of private and public loans are not available, more than 200,000 people who have taken out loans through the main government-backed program, Crédito con Aval del Estado, owe a combined $1 billion, according to the program´s directors. Just five years into the current program, the default rate is estimated at 36% and is expected to stabilize at 50% in the next few years.

Much of the problem stems from the high cost of higher education in Chile, both in the public and private sectors, the distinction between which is becoming increasingly fuzzy. Annual tuition at the newer private universities, including for-profits, rose 22% from US$4,370 in 2000 to $5,335 in 2009, while the cost of the traditional state universities jumped 37% from $3,250 to $4,450 over the decade, according to a study by Roberto Rodríguez Gómez, a higher education historian at the UNAM. The high cost is the result of extremely low government support for higher education in Chile. Tuition fees account for 21.5% of the budget of the public University of Chile, compared with 12% at the University of California system and 8.8% at the Autonomous University of San Luis Potosí, one of the costliest public universities in Mexico, according to Rodríguez.

As a result, many Chilean university students graduate with debts of as much as $40,000, equivalent to three times the annual per capita income. Under the Chilean system, family members must be cosigners to the loans, meaning the debt is shared by the entire family – a fact which helps explain the broad-based support within Chilean society for the protests against the loan system. At the height of the student movement last summer, support for the president was at a historic low of 26%, while 76% of the population supported the protesters.

President Sebastián Piñeda, Chile´s first conservative leader after two decades of center-left governments, has sought to placate the protesters by promising more funding for higher education. In May, he proposed a tax reform that would hike taxes for corporations and lower individual income tax, to raise a combined US$1 billion a year in extra funding for education.

However, the student protest movement has refused to budge in its demand for free, public higher education and an end to the student loan model. Meanwhile, thousands of Chilean students are migrating to other countries where higher education is still tuition-free. There are currently some 10,000 Chilean students enrolled in Argentine universities, according to the Argentine Ministry of Education.

United States: The student loan bubble

The United States, where students are staging nationwide protests to demand relief from skyrocketing 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. In addition, the share of debtors who have failed to make their payments during the first two years rose from 6.7% in 2007 to more 8.8% last year, according to U.S. Department of Education statistics.

The debt is not evenly distributed, however. Racial minorities shoulder a disproportionate share of the burden, with 27% of Afro-American debtors owing more than $30,500, compared with 16% of white students. While the proportion of Hispanics with debts over that level was lower, 14%, this group tends to have greater difficult paying off the debt, as on average they earn less than their white counterparts, according to a 2010 study by the College Board Policy and Advocacy Center. Minorities are also disproportionately represented within the for-profit university sector, accounting for 46% of enrollments compared with 28% in higher education as a whole, the study found. In these universities, 97% of students take out some form of student loans – either federally backed or private – and owe an average of $33,000. However, only 22% manage to graduate within 6 years, by which time they are required to start paying back the principal on the loan.

The problem has become so severe that many financial analysts are warning of a student loan bubble akin to the housing bubble whose collapse triggered the current

global financial crisis. The problem is the result of a combination of reduced support at the state government level for higher education, skyrocketing tuition and a boom in college enrollment. When the federal Pell Grant program was created in 1965, the grants for low-income students covered 75% of average college tuition. Today, the grants cover only one-third. During the same period, college enrollment increased from about 3 million in 1960 to more than 22 million in 2010, with 65% of students relying on loans to bankroll the cost of tuition, according to government figures.

Occupy Wall Street

The current outcry over student loans has been fueled by the broader anger over the 2008 economic meltdown, which erupted into the Occupy Wallstreet movement in 2011. Given the large proportion of students among the protesters, the movement has since given birth to the sister movement Occupy Student Debt, whose followers have staged sit-ins on campuses from New York to California. Last fall, its followers launched a nationwide call for a moratorium on debt payments, with signatories agreeing to halt debt payments if 1 million people signed the pledge. While only a few thousand people have signed, the movement has had a major impact in the media – particularly due to the violent repressive tactics by police on some campuses. In one such case last November, police at the University of California at Davis sprayed a group of peaceful, seated protesters with pepper gas, in a scene that later went viral on the Web, sparking copycat protests on dozens of campuses.

Student debt has also become a major campaign issue ahead of the November presidential election. President Obama managed to extend a 2007 law that cut interest rates for federally backed loans from 6.8% to 3.4%. The law was due to expire July 1, at which point the interest rates would revert to their initial level, affecting an estimated 8 million current or foreign students. Obama has also launched a controversial campaign to pressure public universities to lower tuitions, under threat of losing federal aid.

Several of Obama´s Republican rivals have criticized the federal loan program as passing the cost of higher education onto future generations of Americans. However, Mitt Romney, the likely Republican contender, has said he supports extending the current interest rate for another year, despite a projected $6 billion in lost revenue for the federal government.

In what marks a rare consensus, all the presidential candidates agree that the current depressed job market is making it virtually impossible for students to pay back their loans. The average salary for a recent graduate fell from $30,000 in 2009 to $27,000 in 2010, according to government figures. They also agree the loan system needs to be overhauled, although not necessarily on how to do so.

Colombia: For-profit higher education

In Colombia, the protests have centered on proposed changes to the 1992 higher education law, known as Ley 30. In March of 2011, President Juan Manuel Santos announced changes to the law that would relax controls on the private higher education sector as part of an ambitious plan to increase enrollment from its current 37% to 50% by 2014. The proposal included “diversifying” funding in the sector by opening the way for for-profit higher education providers, which are currently not permitted to operate in Colombia. Although the proposal also included increases in public spending, the protesters – which included university rectors, professors and students – argued that the suggested budget increase for the sector was insufficient to make up for decades of stagnant public investment in the sector.

The protesters were particularly opposed to legalizing for-profit higher education. Critics cited the massive expansion of such institutions in Brazil, which now account for two-thirds of private tertiary enrollments in the country, as an example of a misguided government policy. While opening the way for for-profits has helped Brazil more than double total enrollments over the past decade, many education experts question the quality of the education provided by those institutions.

In Colombia, the private share of the higher education sector has grown enormously since 1992, when there were only nine private universities in Colombia that accounted for 5% of enrollments, according to Gonzalo Arango, president of the National Federation of Colombian University Professors. Since then, total tertiary enrollments have more than quintupled, from 260,000 to 1.5 million. Of those, 725,000, or 48%, attend 48 private universities. At the same time, public funding per student has fallen from US$3,160 to US$2,050, while state subsidies as a share of public universities’ budgets have dropped from 85% to 50%.

Under this model, the cost of university is increasingly shouldered by students and their families, while the proportion of public university budgets that comes from tuition has increased from 7% in 1992 to 14% today, according to Arango. All public universities charge fees, which vary from about US$150 to US$300 per semester, depending on the students’ socio-economic situation.

Colombia was the first country in the world to institute a system of government-backed student loans: the Instituto Colombiano de Crédito y Estudios Técnicos en el Exterior (ICETEX), which was created in 1950. However, today a relatively modest 15% of students receive government loans, according to ICETEX figures. That´s largely due to institution´s above-market interest rates, which vary from 10% to 16%; like in Mexico, students are not required to provide collateral to guarantee the loan, which increases the risk for the crediting agency.

Under the proposed changes to the Ley 30, the government would dramatically expand access to ICETEX loans, from the current 50,000 recipients to 225,000 by 2014, by

adding co-signers on the debt. However, critics rejected the proposal on grounds that it would saddle students and their families with unmanageable debt, while channeling public funds into the private sector (only private university students are eligible for the loans).

Following massive marches from April until October 2011, President Santos finally scrapped the proposed reform. However, both sides have vowed to push for an overhaul to the country´s higher education system.

England: the great tuition hike

Great Britain is another country cited by Calderón as a model for a successful student loan model. But the massive protests against the government´s higher education policy over the past two years tell a different story. In November 2010, the British government announced it was nearly tripling the maximum amount that colleges in England are permitted to charge for tuition, from 3,290 pounds (US$5,100) to 9,000 pounds per year (US$14,000), starting in the summer of 2012. Outraged students responded by staging massive street protests, smashing shop windows and paralyzing large parts of London and other cities. Following the protests, the regional governments of Scotland, Wales and Northern Ireland announced lower tuition fees and an increase in subsidies for students. But the English government has refused to budge, arguing that it cannot continue to bankroll the massive expansion of the higher education system.

With the expected tuition surge, the average debt for students studying in England is expected to increase from the current $41,000 to $92,000 and total student debt is expected to reach $110 billion by 2015. The government has sought to lessen the blow by increasing subsidies and grants for low-income students. However, those measures are expected to benefit a minority of students.

Canada: violence in Montreal

Long a paragon of public higher education, Canada is facing the biggest protests in decades against efforts to increase tuition fees at its universities. Apart from communist Cuba, Canada is the only country in the Americas where all universities are public. But the government has been increasingly relying on tuition fees and government-backed loans to fund expansion of its higher education system.

Last fall, the Liberal government in Quebec proposed raising tuition at the province’s universities from $2,168 to $3,793 over the next five years. Students responded by staging a massive rally in November in Montreal against the tuition hikes. Since then, peaceful protests have been punctuated by violence, resulting in hundreds of arrests and damage to businesses and political offices.

While the fees would still be among the lowest in Canada, the protesters are unwilling to follow their counterparts in other parts of the country in taking on massive debt.

Currently, average tuition for students in the province is US$2,500 and average debt is US$13,000; by comparison, tuition in the rest of Canada averages US$5,000 and the average debt is US$27,000, according to *The Globe and Mail* newspaper.

Implications for Mexico

In Mexico, the prospect of massive street protests against student debt still seems remote, largely because the number of student debtors is a fraction of that in the countries profiled above. As of June, six months after Calderón announced the program, Nafin officials report granting just 1,600 loans – a fraction of the 23,000 projected for this year. This may be due to the fact that the program was launched after the spring semester had already begun, or that the program contains built-in restrictions. Candidates must demonstrate potential for future earnings; art history majors, for example, are not candidates. Neither are those whose family earnings are below a certain level, although the government has not made public the cut-off point.

However, Nafin officials are optimistic that the program will gain in popularity over the coming years, and that the number of loans will dramatically increase. If that happens, both enrollments in private colleges and the number of student debtors will likely go up. But are the potential benefits of a college education really worth taking on $20,000 worth of debt? Just ask the protesters sitting in at the University of California or the thousands of striking students in Chile, and the answer is most likely: no.

English version: http://www.revistaensinosuperior.gr.unicamp.br/noticia.php?id=143

Portuguese version: http://www.revistaensinosuperior.gr.unicamp.br/noticia.php?id=140