2220

Brasília, August 2016

EXECUTIVE SUMMARY

COST SHARING AND INCOME-CONTINGENT STUDENT LOANS: POSSIBILITIES AND LIMITATIONS FOR STUDENT FINANCE IN BRAZIL

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Contemporary debate on postsecondary student funding involves two key issues: a) fiscally responsible ways to allocate more resources to public institutions, as by increasing student participation on the costs of their studies in a manner that avoids additional barriers to access; b) design of student aid programmes emphasizing equity goals, while limiting the amount of public subsidies. These are usually poorly discussed topics in the Brazilian context. Nonetheless, the current scenario of fiscal restriction and deteriorating economic indicators may bring to light topics such as cost sharing in public universities and the provision of income contingent loans (ICL).

This discussion paper presents a literature review on ICL, which are little known in Brazil, and discusses possible ways to implement them in the Brazilian context. The major objective is twofold: i) to introduce a research agenda on cost sharing in public higher education institutions; ii) to propose a reformulation of the existing federal student aid program designed for low-income students enrolled in private institutions. Besides that, ICL and equity-like financial instruments are briefly discussed as alternatives to: iii) expand the availability and decrease the costs of bank credits to finance student living costs; iv) finance professional certificates and postgraduate courses.

The main differences between ICL and conventional loans are in the calculation and collection of instalments. They occur through either one of the mechanisms by which the Government collects income taxes or social security contributions, whereby debts are fully repaid varying according to recipients' lifetime income. In general, forgiveness apply after twenty to thirty years to outstanding balance. These characteristics outline a more equitable and efficient student funding scheme – although concepts behind this are not new.

Deferred payments for postsecondary studies have been theoretically discussed in economic literature at least since Nobel Prize Milton Friedman argued in the 1950s that high average payoffs could enhance private financing even without any collateral, as long as society were ready to accept someone pursuing a "share" of someone else's income in exchange for financing his or her studies. Many authors discussed instead the introduction of taxes to ensure graduate professionals repay taxpayer funded debts which allow investments in their higher education. While in the US and in Europe the debate focused on the rationale for graduate taxes, student aid initiatives started to take place in Latin America based in the same principle of making the future professional pay for the present student. Resulting from Gabriel Betancourt Mejia's engagement, the first national agency specialised in student loans was created in Colombia in 1950 and soon inspired similar government organisations across the continent.

In the 1970s, another Nobel Prize winner, James Tobin, put together both ideas and designed the first ICL scheme which began at Yale University, where Tobin worked. The Yale ICL scheme was viewed as an innovative approach to student financing but was eventually discontinued due to collection difficulties. In 1989, the Australian Government designed and implemented the world's first ICL to be collected through the income tax system. The Australian scheme was the first nationwide ICL programme and inspired all national analogous arrangements introduced elsewhere thereafter.

Studies conducted in the last quarter of a century have pointed to a long-standing relative success of the Australian ICL scheme for higher education. University offerings grew substantially, whereas it has apparently imposed no additional access constrains for disadvantaged students. Subsequent similar initiatives, especially in New Zealand, UK and Hungary, have also been scrutinised. Growing numbers of countries – including the US – discuss student-financing reforms based on large-scale ICL arrangements.

EXECUTIVE SUMMARY

ICL extensions to a wide range of other areas are on academic and political agendas, aiming to finance from unemployment insurance and parental leave to solar rooftops. Nobel Prize Joseph Stiglitz celebrates ICL as an important social innovation in response to imperfections that emerge on capital markets due to transaction costs associated with problems of adverse selection and moral hazard.

In spite of all the recent attention in the public debate in several countries, this is indeed still an open field of study. Most of the current related literature is based on theory and practice concerning ICL applications. Further empirical analyses are needed. Researchers struggle to have access to suitable data all over the world, as data on student loans tend to be scarce in comparison to the size of this market. Student debt crisis have been taking place in both developed and developing world, thus quality empirical analysis are highly demanded. However, evidence-based policies usually require individual-level data, and so far, few countries produce feasible longitudinal data on individual education, earnings and financial burdens. Cross-sectional unit data on earnings and education have been used as a second best in most cases.

Amongst developing countries, Brazil has great promise as country institutionally prepared to introduce large-scale ICL schemes in higher and vocational education. In effect, relatively few adjustments would be necessary to make Brazil accomplish the minimum conditions for successful ICL designs, and the country's censuses, household surveys, tax records and wide range of administrative datasets provide rich information on the key variables to construct evidence-based ICL arrangements, which are earnings, employment and education. Most of the implementation difficulties would thus be rather due to political opposition than technical issues.

This article is an initial discussion to the introduction of cost sharing and ICL systems in Brazilian postsecondary education institutions. Policy alternatives presented herein are yet to be further developed in future studies that will rely on up-to-date methods and appropriate microdata to assess and design such systems. It introduces a research agenda to contribute to the debate on student finance alternatives in Brazil, particularly ICL arrangements designed to finance higher and vocational education, in both public and private environments.