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From issue: **Higher Education and Competitiveness** (Summer 2014)

■ AQ FEATURE

Student Debt in the Americas

BY [Carolina Ramírez](#)

A threat to the region's middle class?

The promise of upward mobility for Latin America's new middle classes has led to swelling university enrollment rates, but also to growing debt.¹

In Colombia, high school graduates enrolling in higher education rose from 24.87 percent in 2002 to 45.02 percent in 2012.² Meanwhile, in 2011, 23 percent of 25- to 34-year-old Mexicans had attained a university education, compared to only 12 percent of 55- to 64-year-olds.³

The increased demand has strained the region's highly competitive public education institutions,⁴ while at the same time fueling the rise of small, private four-year universities and technical colleges—and of credit-based financing services to help students pay for them.

But while a credit-financed university education opens doors, there are growing risks as an increasingly debt-burdened generation enters the workforce, with no guarantee that newly minted graduates will earn the income necessary to pay back their loans.



Student debtors take to the streets: Demonstrators carry dollar signs past the New York Stock Exchange to protest rising national student debt. Photo courtesy of Andrew Burton/Reuters.

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In the U.S. alone, student loan debt has surpassed \$1 trillion after both the number of borrowers and the size of their loans grew by 70 percent between 2004 and 2012.⁵ Federal student loan debt forgiveness programs emerged in response to borrowers' desperation, and as of April 2014, enrollment in such programs had jumped 40 percent in six months.⁶

Chile's for-profit educational system—a legacy of the late President Augusto Pinochet's privatization of the public education system in the 1980s—has made the country's relative per capita cost of education one of the highest in the world. A university education costs an average \$3,400 per year, or 22 percent of per capita income.⁷

By 2012, 500,000—or about half—of Chilean university students had some form of student debt; more than 110,000 have defaulted on their payments.⁸ The crisis prompted mass student mobilizations in 2011, when debtors demanded an end to for-profit education. During President Michelle Bachelet's 2013 re-election campaign, she promised sweeping educational reform that includes universal, free access to higher education.⁹

“There's a big increase region-wide in the number of programs offering student loans,” says Marion Lloyd, a higher education researcher at the *Universidad Nacional Autónoma de México* (National Autonomous University of Mexico—UNAM), “but countries that have perfected this model, like Chile, are starting to rethink it.”

Meanwhile, student loan programs in other countries have also faced criticism. Mexico's *Programa Nacional de Financiamiento a la Educación Superior* (National Program for the Financing of Higher Education), launched in 2012, promised loans to 25,000 students in 21 participating private institutions, backed by the national bank, *Nacional Financiera* (Nafin).¹⁰ By August 2013, the program had expanded to 30 participating universities, three banks, more than 3,300 students and more than 356 million pesos (more than \$27 million).¹¹

But, as Lloyd notes, the participating universities initially were of lesser quality. “They may produce engineers, but second-tier engineers,” she said.

One of the region's oldest government-led student loan programs is the *Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior* (Colombian Institute of Educational Credit and Technical Study Abroad—ICETEX), founded in 1950 to give poor Colombians access to higher education.

But icetex has attracted criticism as borrowers are saddled with heavy debts upon leaving school. ICETEX has instituted relief plans, particularly for some 1,050 borrowers from the 1990s who were still paying off student debt in 2012 with interest rates as high as 24 percent.¹²

While student loan programs have democratized higher education in countries where access was almost unheard of for low-income students, the crises that some of these models have caused in Chile and the U.S. are sending warning signals to countries in Latin America.

The impact of student debt may be felt not just by the debt-strapped former students, but also, as loan payments constrain consumption, in the economy generally.

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