Canadian Labour Market and Skills Researcher Network

Working Paper No. 76

Is Debt Relief as Good as Liquidity? The Impact of Prospective Student Debt on Post-Secondary Attendance among Low-Income Youth

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March 2011

CLSRN is supported by Human Resources and Skills Development Canada (HRSDC) and the Social Sciences and Humanities Research Council of Canada (SSHRC).

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Abstract

In this study, I estimate the impact of offering two large non-refundable grants to low-income Canadian youth on postsecondary attendance. The grants had two interesting features. First, they were clawed back from loans, thus reducing costs but providing no additional liquidity. Second, the grants were only available to students if parental income was below a fixed threshold. This sharp discontinuity in the offer of the grants provides for near ideal conditions to study their causal impact, closely mimicking random assignment. Despite the large size of the grants (up to $6,000 or $7,000), the fact that students were automatically assessed for the grants with their regular student loans application, and evidence that most Canadian youth are at least aware of non-refundable study grant opportunities, I find that the grants had no impact on postsecondary or university attendance. Some policy implications are discussed.

JEL: I22, I23

Keywords: Access to postsecondary, student debt

Executive Summary

Previous research suggests that student financial aid generally reduces liquidity constraints, and consequently, helps improve access to postsecondary studies. However, rising student debt load is also a concern. Student debt may have an impact on post-graduate outcomes (e.g. job quality, life outcomes), while prospective student debt may impact the decision to enroll in postsecondary education (PSE) in the first place since it affects costs. This study is devoted to analyzing the latter of these two hypotheses by studying the introduction of two large non-refundable grants made available to low-income youth in Canada (The Canada Access Grants for Low-Income youth and the Millennium Access Bursaries). An interesting aspect of these grants is that they help reduce debt, but they have no impact on liquidity constraints since they are simply clawed back from loans. Furthermore, there is a sharp discontinuity in the eligibility criteria, based on parental income. These two features provide near ideal conditions for studying the causal impact of prospective debt on PSE attendance, while holding liquidity constant. To date, no study in the world has looked at prospective debt load and PSE attendance under these circumstances.

Using a large longitudinal administrative data set of Canadian youth that is linked to their parents, I find no evidence that the reduction in prospective debt offered through the grants impacted PSE or university attendance. This is despite the fact that the grants were large (up to $6,000 or $7,000), students were automatically assessed for the grants with their regular student loans application, and most youth were at least aware of non-refundable grant opportunities. However, it is possible that students may not have been well informed about the mechanics of the grants. Although they had to apply and qualify for a Canada Student Loan (CSL) to obtain a grant, they did not need to take up the loan. Unfortunately, no evidence exists to support this hypothesis.

Important policy considerations are worth noting from these findings. First, the primary purpose of student aid is to raise access to PSE. Based on the results of this study and others, liquidity may be a more important factor in this decision than prospective debt. The windfall economic rents collected by students who would have attended in the absence of the grants could perhaps have been better directed towards reducing liquidity constraints for those facing them. Although Canadian students generally have all of their financial needs met with regards to attending PSE through government aid, this is not necessarily the case for all groups. In particular, students who are raised in remote areas must pay additional costs to attend university, and the ability of student loans to cover those costs is constrained by loan limits, which are no higher for these students.

Another policy consideration is the level of debt accumulated by PSE students. To this end, the grants no doubt succeeded as they represent an automatic reduction in debt. However, very little evidence exists to support the notion that debt matters in terms of post-graduate outcomes. More work is needed in this area, particularly with respect to identifiying exogenous variation in student debt. The grants studied here may serve this purpose quite well in the future.