

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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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. This resulted in prospective debt relief, while holding liquidity fixed. Second, the grants were only available to students if parental income was below a set 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 aware of non-refundable study grant opportunities, I find that the grants had no impact on postsecondary or university attendance. The findings of the study, along with those from previous studies showing a positive association between liquidity and attendance, are consistent with the notion that students on the margin of attending PSE prefer liquidity over debt relief. Furthermore, the results suggest large economic rents among students who would have attended PSE without the grants. The policy implication is that the grants could have been better spent on providing more aid for liquidity-constrained youth.

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