The Burden Of Student Loan Repayment In Norway

Posted on September 23, 2019

View this essay online:
https://academic-master.com/the-burden-of-student-loan-repayment-in-norway/

Over time, student loans are gaining popularity throughout the world. In most developed countries, secondary and higher learning students get the chance to receive loans to cater for school expenses. The loan is paid after the completion of studies. Most developing countries can only provide this service to higher-learning students. In Norway, the issue of student loans goes way back to 1947, when the education fund was invented. Over time, it has gone through numerous reforms and amendments to become what it is today (Johnson 308).

Norway's Student Loan System

The main objective of student loans is to lighten the burden on the government for the cost of education to the students themselves or their family members. A huge percentage of students in Norway use student loans both in secondary and higher education. Different economic burdens arise at the time of repayment of the loan. The purpose of this paper is to analyze the economic effects of student loan repayment on the household economy. The research is specifically based in Norway, but it may be used as a projection for other parts of the world.

The analysis of the burden of student loans on households is based on the academic journal article by Vibeke Opheim. It compares the difference in economic burden and lifestyle of households that are repaying their student loans and those that are not. From the study, it is suggested that households that are repaying their student loans in Norway have a heavier economic burden than those that do not have such loans. It also suggests that while they are still paying their loans during the years of their employment, they are likely to live at a relatively lower standard of living due to the economic burden (Ravi 438). However, the size of the loan does not have much impact because of the repayment schedules that are given to individuals depending on what they earn and the duration they take to repay it.

Education Investment and Repayment

A significant increase in the demand for education means that the government has to increase its investment in education. Since a higher population of people in the current generation has made literacy a mandatory venture, there has been a significant demand for more institutions and

expansion of those that are already in existence (Cassar et al. 86). The Norwegian government has for a long time been able to support this demand because it has managed to come up with and maintain many educational facilities. However, the demand has come to a level where it is impossible for the government to cater for the development of the institutions and still support the students with their educational funds. With the increased demand for education, the government came up with a system that allows students to borrow a fixed amount of money and use it for their education (Johnson 310). They can then repay the money once they have finished studying or acquired permanent employment. Also, it is one of the ways that ensure that every person gets the right to education, regardless of whether they can afford it or not.

Most people start repaying their loans after they secure stable employment that allows them to repay their student loans and still fend for themselves and their families. Investing in education has been viewed for a long time as an economic investment that increases the productivity of an individual (Opheim 429). However, another theory argues that education is not necessarily a way of increasing state productivity, but instead, it is channelled to the advantage of employers. “While the human capital theory implies that the economic outcome of education is caused by increased individual productivity, the signalling theory argues that education functions as a sorting mechanism. By investing in education, the individuals signal their productivity to employers. Contrary to the human capital theory, the theory rejects any causal connection between education and productivity. Both theories show that investing money in the form of loans, grants, and other means has an economic effect on the individual.” (Opheim 429)

Household Location and Employment Pressure

Considering the age of most households, it is not surprising that most of them have young families. Also, a good number of them have been through higher education with the help of a student loan. The age of having a young family coincides with settling down and plenty of uncertainty regarding future career opportunities and a permanent job. When this situation is combined with an unpaid student loan, the economy becomes unbearable (Johnston and Roten 1). As a result, 80% of households that are repaying their student loans reside in areas that are densely populated because such areas have relatively lower standards of living. Households that do not have student loans are evenly distributed. Only a small percentage live in a major city, while the higher percentage live in rural areas and regions of geographical density (Johnson 312).

The concentration of households with student loans in urban areas can be explained by the rate of unemployment. Most of them choose to reside in such areas because of the pressure to seek and maintain job opportunities to cater to their pressing needs. For instance, a household with a young family and an unpaid student loan is likely to reside in an urban area because of the number of job opportunities that may arise there. It may not always be the promise of permanent employment, but most of the time, it is the job that sustains an individual and gives them the chance to repay their student loan slowly (Ravi 440). On the other hand, a household with no student loan to repay may

choose to reside anywhere because they do not have as much pressure (Cassar et al. 91). An employment opportunity that they land in the rural areas may be sufficient to support their young families and offer a tolerable settlement plan.

Debt Income and Financial Hardship

The economic characteristics of the two groups of households show that those who have student loans have a higher annual income than those who do not. However, the difference kicks in when comparing the total debt of the two groups. Research shows that the total debt of households with student loans is approximately 37% higher than that of households without student loans. This shows that the loans contribute to a high percentage of debt. The accumulation of the amount over time also becomes an economic burden because the households have to pay way more than the amount that they borrowed (Ravi 450).

Repaying a student loan that one used in secondary or higher level education is inevitable. Most of the systems are connected with tax payment programs as well as employers. Therefore, one of the first deductions from households that are employed is the student loan. Afterwards, other tax deductions are made, leaving the employee with only a small amount of budget for the rest of his or her life. Since the loan repayment system deducts a large percentage of debt, the individual is likely to experience difficulties in paying their regular expenses. Fewer households without student loans have been unable to cater for regular expenses (Cassar et al. 100). The only economic difference between the two groups of households is the repayment of student loans in their expenditure. Thus, the difference in the ability to pay for regular expenses can be attributed to the student loan.

Studies on the economic effects of repayment of student loans have shown that the loan has a relationship with the economic hardship households have had to undergo. Another difference between the two groups of households is the ability to save money. It is easier for a person with a lower total debt to save money than one with a higher amount. The money that would have alternatively been saved is instead used for loan repayment (Johnston & Roten 1). Most researchers have used the ability to save money, the amount of total debt, and difficulties with regular expenses as means to determine the extent to which households are affected by repaying student loans.

Parents Expectations

Most parents have high expectations of their children once they have finished higher education. The reason why student life may be easier, even without short-term employment, is that they receive most of the financial support from their parents. After completing school, parents expect them to contribute financially towards sustaining the rest of the family. In a family where there are younger siblings, some parents expect the older siblings who have completed school to assist them in educating their younger siblings. The parents also withdraw their financial support once an individual

is through with school. This increases their expenditure and worsens the economic conditions (Ravi 450).

Loan Burden

Most individuals who have problems with loan repayment do so because of the loan burden that is increased when they have a student loan to repay. The loan burden is a disadvantage because it is used to determine whether an individual is eligible for another loan or whether one is financially fit for the current society that they are living in. With poor economic status, the loan burden is likely to increase because of the accumulation of the amount if an individual does not commence immediately. Some individuals have had to be fined for raising the accumulated loan. If such individuals do not get a stable job, they may experience reduced economic conditions until they finish their repayment plan (Cassar et al. 99).

In conclusion, from the above discussion, one cannot underestimate the economic advantage of student loans. They help see most people through higher education and support increased productivity. However, there is a challenge experienced during the repayment process, especially for households. Since the repayment process starts almost immediately after completing studies, which is most often the settling stage, most households experience a hard time trying to cater for their expenses, save, and repay loans.

Works Cited

Cassar, Alessandra et al. “The Effect of Social Capital On Group Loan Repayment: Evidence from Field Experiments”. *The Economic Journal*, vol 117, no. 517, 2007, pp. F85-F106. *Wiley-Blackwell*, doi:10.1111/j.1468-0297.2007.02016.x.

Johnson, Carrie. “Understanding Federal Student Loan Repayment”. *Family and Consumer Sciences Research Journal*, vol 43, no. 4, 2015, pp. 306-312. *Wiley-Blackwell*, doi:10.1111/fcsr.12108.

Johnston, Jarrod, and Ivan C. Roten. “The Implications of Income-Based Repayment and Public Service Loan Forgiveness On Student Loan Debt”. *SSRN Electronic Journal*, 2014. *Elsevier BV*, doi:10.2139/ssrn.2480446.

Opheim, Vibeke. “The Economic Burden of Student Loan Repayment in Norway”. *Education Economics*, vol 13, no. 4, 2005, pp. 427-447. *Informa UK Limited*, doi:10.1080/09645290500252043.

Ravi, Shamika. “REPAY AS YOU EARN: LOAN REPAYMENT FREQUENCY, CASH FLOWS, AND SAVINGS OF HOUSEHOLDS”. *Journal of International Development*, vol 26, no. 4, 2012, pp. 438-453. *Wiley-Blackwell*, doi:10.1002/jid.2884.