

**Income-contingent Loans:  
Implications for Accessibility to  
Post-secondary Education in Ontario**

by

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**A thesis submitted in conformity with the requirements  
for the degree of Master of Arts  
Department of Sociology in Education  
Ontario Institute for Studies in Education of the  
University of Toronto**

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## ABSTRACT

for

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This thesis will explore the implications for accessibility with the introduction of an income-contingent loan repayment program. I will examine some of the problems associated with repayment and default rates connected with the current loan programs available to Ontario students, which would be addressed by a new student aid system which takes into account a graduate's income in the establishment of repayment rates. This thesis will also explore the results of studies associated with determined and/or explaining enrolment patterns in Ontario universities, with the aim of determining the implications of future, substantial tuition increases which may accompany the implementation of a model of this new loan plan. As well, the ramifications of an income-contingent loan plan for women borrowers will also be considered.

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## **NOTE TO USERS**

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**UMI**

## **I. Intent**

This thesis will explore the context and the need for consideration of a new loan plan. The subject of this thesis is the concept of an income-contingent loan program, characterized by an income-adjusted repayment schedule, universal eligibility, and a higher ceiling on loan limits. And though proponents of an ICLRP have been uneasy about the connection between this student aid proposal and a reformed tuition fee structure, it is a loan program that would facilitate a shift towards greater reliance on tuition fees, thereby making them a more significant source of revenue for post-secondary educational institutions. The maturation of this concept in the Canadian political imagination will be traced through an examination of contractions in funding of post-secondary education and accompanying discussions about an ICLRP as a potential remedy.

The broader question that this thesis begins to answer is the matter of the trade-offs between the benefits of an ICLRP in terms of the introduction of a more flexible repayment schedule, and the impact of the shift to a greater reliance on student loans to finance post-secondary education.

It is a difficult task to argue in favour of a loan program that could facilitate and entrench this shift. It was a relatively accepted policy assumption that keeping the price of tuition fees low is an instrument that promotes both the government's and society's traditional goal of promoting access to a post-secondary education. And this proposed loan plan is a fairly transparent attempt on the part of the provincial and federal governments to further entrench the use of student loans as a major funding mechanism for post-secondary education.

But what is also transparent is that the current loan systems are in need of major reform. Debt-to-income ratios for fairly recent graduates is rising, representing loan repayment hardships, an assertion borne out by the relatively high default rates of graduates of Ontario's network of post-secondary educational institutions (although averages range greatly by institution and institution type). And a number of the features of this plan show promise in alleviating some of those pressures, in particular its income-paced repayment character.

But further shifts in reliance on a loan plan carries with it some hazard, depending of course upon the minutiae of the plan adopted. There is insubstantial data relating to how students of varying economic resources and future income expectations will react to this scheme. And there is lingering doubt in a variety of corners that loans do not always capture the participation of the "non-traditional" student — and that debt aversion is greater among these groups.

As well, the question of the responsibility of a loan plan to take into account both the decreasing but persistent gap in women's and men's performance in the wage labour market must be addressed, and their different relationship with the labour market given their varying degree of responsibility in child bearing and child rearing. Accumulated interest charges arising from this different income pattern will result — as women take longer to pay back their loans, interest accumulates. It is also for this group that instruments such as interest subsidies would play an important role in mitigating against dramatically prolonged debt life spans.

It is therefore the purpose of the thesis to explore the pros and cons of an income-contingent loan program and how it would fit into the Canadian context.



## **II. Income-contingent Loans: What are they?**

An income-contingent student loan program is offered by its advocates as a solution to the structural repayment problems of the current system and the insufficient loan monies available to support further and inevitable increases in tuition fees (Stager 1991, Johnstone 1977). There is some semblance of consensus on the part of politicians, universities and public-policy makers that tuition fee revenue must make up a more substantial portion of universities' operating revenue (Council of Ontario Universities 1992). And a universal, non-needs tested loan program with a flexible repayment schedule is considered by some to address both the issues of loan level available to support higher tuition fees and perceived loan repayment hardships.

As Stager explained his model in a 1991 edition of *University Affairs*:

In the current context of tight government budgets, additional funding can be found only by raising tuition fees quite substantially. Payment of higher fees, however, need not come from parental saving or whatever the student can earn during the summers. An attractive alternative is to establish a revolving bursary fund based on two principles: "Go now, pay later" and "Pay according to your income" (p. 14).

Though no form of income-contingent student loan plan has been implemented in Canada, some attempts to delineate the potential characteristics and features of a program have been attempted. The following are the basic features of a model designed for the council by University of Toronto economist David Stager in 1993, and/or identified by the federal government as potential program characteristics:

- **Repayment Rate:** Unlike the fixed nature of the repayment schedule of the current system, loans repayments would be tailored to a graduate's income.

- **Universality:** the loans available under an income-contingent loan scheme in contrast to current loan programs would require no means-testing, meaning parental income would not be used as it currently is to determine the degree of support.

- **Extension of Repayment Period:** in contrast to the time period stipulated under current programs, loans under the new plan would be repaid over a period of 15 to 20 years and contingent upon income. Any outstanding principle would be written off by the government.

- **Income Threshold for Repayment:** borrowers would not be required to begin repayment until their income rose above a stipulated level.

- **Collection Through the Tax System:** annual repayments would be calculated and collected by the federal income tax system.

Additionally, Stager's 1992 model noted that the program could be administered in such as way to make the program more or less dependent on public subsidy. "Funds [for the new loan program] would be raised initially through government borrowing or by borrowing directly from pension funds; later, the

major source of funding would be the payments received from graduates" (1992;2).

According to Johnstone, the fundamental logic behind this approach to student loans is that given rising costs associated with higher education and the sum total of both the public's attitudes to post-secondary education and changing fiscal priorities on the part of governments, tuition will continue to rise and loans will increasingly become the way of financing rising education costs (1972;13).

Without additional credit, rising charges would discriminate severely against students from lower-income and even middle-income families. Student borrowing would shift some of the student/family-borne costs to the future income of the students, and would help make college attendance ... less dependent on the current income of the family (Johnstone 1972;13).

While universal, income-paced repayment loans shift the needs-testing process from the "front-end" to the "back-end," determining eligibility for loans without consideration of family income is broadened to include those cases where individuals do not receive parental assistance (Simpson 1987). And constructing a repayment scheme which is sensitive to ability to pay, as its based on a graduate's income, would provide a more flexible, less demanding repayment schedule (Johnstone 1977;15).

In 1989, Australia implemented a form of income-contingent student loans in order to fund an expansion of the system of post-secondary education in the absence of public money; to distribute more of the system's costs to those who use the system; and to achieve these aims without jeopardizing access to post-secondary education (Chapman and Chia 1995;2). Called the Higher Education Contribution Scheme (HECS), the Australian government felt financing a system

that would accommodate more students would be achieved equitably by charging more in the form of user fees (*ibid*;2). This transition to an alternative financing arrangement was guided by two principles; that the system was used more by students with relatively privileged socio-economic backgrounds; and that university degrees holders derived life-time economic benefits flowing from their education (*ibid*; 2-3).

HECS is more appropriately described as a "pay-later" mechanism, whereby tuition fees are recovered over a period of time (the outstanding debt is retired after probate). This characteristic of delaying collection of tuition fee charges instead of even partially relying on private lending institutions was guided principally by two concerns (Chapman and Chia 1995;3). Firstly, that access would be jeopardized by the banks' reticence in lending to particularly disadvantaged groups of students for fear of taking on such risk; and that debt-adverse students may "be reluctant to undertake borrowing for human capital investments not offering default protection (*ibid*;3).

Johnstone notes that this type of financing arrangements not only represent a shift to a greater reliance on tuition fees to replace lost revenue in higher education, there is increasing pressure on the education system to introduce "a more market-oriented pricing system" for higher education 1977; 26), characterized by a price level scheme more reflective of both differential institutional costs and demand. This pressure stems from discontent arising from a variety of corners: in an environment in which arguing for a portion of the public funding pie is an increasingly competitive task, post-secondary education has found itself near the bottom of the pecking order.<sup>1</sup>

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<sup>1</sup> 1996 OISE Survey on Public Attitudes Toward Education. One of the questions introduced by the authors in this year's survey was an approval rating for a loan plan with income-contingent features. The results of the survey indicated some degree of public support for a loan plan based along those lines.

Today this new student aid scheme coupled with a higher student share in education costs have gained considerable political support. The concept of an income-sensitive loan plan today enjoys endorsement from the Council of Ontario Universities, the Association of Universities and Colleges of Canada, several student lobby groups (the Ontario Undergraduate Student Alliance and the national group, the Canadian Alliance of Student Associations), most university administrations in the province, and perhaps not least importantly, the editorial board of Canada's national newspaper, The Globe and Mail:

Even with the increase in fees the students outlined, they would still only be paying a tiny fraction of the cost of their education. Instead of asking governments to foot so much of the bill for university operating expenses, why not divert their share into a greatly enriched income-contingent loan program of the sort students recommend, and let fees rise to cover the full cost of tuition?<sup>2</sup>

The main selling point, stressed the Globe and Mail's editorial board, was that it would not require any public money to run, excluding, of course, the initial costs of capitalizing the program. The following quote speaks to what many observers of the debate outside the PSE sector perceives in terms of the potential of the program:

... if the government did it right, it wouldn't have to cost taxpayers a cent. Start up costs could be covered by floating bonds on the open market, which would be a sound investment since collection through the income tax system serves as a guarantee of payments."<sup>3</sup>

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<sup>2</sup>The Globe and Mail, November 20, 1992, A26.

<sup>3</sup>The Globe and Mail, August 26, 1993, A20.

(It is important to point out, however, that this editorial rallying cry for full cost recovery goes above and beyond those of most transfer partners in the PSE sector.)

And more recently, an additional endorsement for an income-contingent loan program came from the Advisory Panel on Future Directions for Post-secondary Education commissioned in 1996 by Ontario's Progressive Conservative Government (the "Smith Report"). The panel recommended that the provincial government establish an ICLRP with or without the co-operation of the federal government, as well as the restoration of grants and bursaries to needy students and tax exemption on the interest paid on education related loans (The Smith Report, 1996;36).

This increase in interest in an income-contingent loan plan has arisen in a particular funding context in which public support for public institutions is dwindling, and is worth reviewing in order to gain an understanding of the broader political debate.

### **III. ICLRP: The Original Premise and Variations on its Theme**

Despite the recent rise of the concept of an income-contingent loan concept in the Canadian political imagination, the idea of a student loan system characterized by a repayment scheme based on the graduate's ability to repay is not new. The concept first sprung from a 1945 essay by Milton Friedman and Simon Kuznets, who proposed a radical prescription to what they perceived as the potential under investment in individuals in professional training:

The number and hence the incomes of professional workers are determined less by the relative attractiveness of professional and nonprofessional work than by the number of young men [sic] in the community who can finance their training, are cognizant of opportunities, and have the necessary ability, background and connections. Our data suggest that this

group is sufficiently small to lead to under investment in professional training... (1945;93).

The nature of their concern was that investment in human capital could not be treated as other investments: human capital was not a legally recognized form of collateral; investment in it carrying tremendous risk (Nerlove 1975;158). However, the risk could be virtually eliminated if a "portfolio of individuals" would be pooled for the purposes of lessening investor risk:

...if individuals sold "stock" in themselves, i.e. obligated themselves to pay a fixed proportion of future earnings, investors could "diversify" their holdings and balance capital appreciation against capital losses. The purchase of such "stock" would be profitable so long as the expected rate of return on investments in training exceeded the market rate of interest (Friedman and Kuznets, 1945;90).

Friedman later argued in a 1955 essay entitled "The Role of Government in Education" that the model should be applied to PSE student financing generally.

### The Loan Contract

Several of the characteristics of an income-contingent loan system make it dramatically different from any loan program that is currently offered by either the Canadian government or the provinces. Under an ICLRP, student borrowers enter into an agreement that at the outset does not stipulate either the schedule of repayments, or the life of the loan.

Johnstone contrasts the conventional and income-sensitive student loans by the following: In a conventional, fixed student loan, the student borrower agrees to an interest rate, a repayment period and an amortization schedule, which sets a fixed monthly payment until the loan is repaid, regardless of fluctuations in income level (Johnstone 1972:4). By contrast, in an income-contingent loan

system a borrower agrees to a repayment scheme expressed as a per cent of income to be paid monthly or yearly, and an income threshold under which repayment is not required. "In short, an income-contingent contract stipulates at the time of borrowing only the repayment burden, expressed as a percentage of future income, and the upper limits on repayments and repayment periods," (Johnstone 1972:4).

### Collection

Currently in Ontario, a participating lending institution may declare a student loan in default once three payments are missed. Once in default, the applicable government contracts outside agencies to collect on those debts. The costs of hiring those agencies is borne by the government, which according to 1992 figures amounts to between 19 and 28 per cent of the defaulted loan (West 1993:20). Though not necessarily a requirement of an income-contingent loan but a feature of virtually every model (either implemented or proposed), the income tax infrastructure could be utilized to take on loan collection duties. It would also act as a "needs-testing" mechanism in terms of its role as determining the appropriate level of repayment based on income.

### Eligibility

Under an ICLRP model, needs-testing has been shifted from the "front end" to the "back end." In other words, a graduate's ability to pay, in the form of their yearly repayment level, would be determined by their future income:

Under this proposal, loans would be available without means testing to qualified students in designated universities. These loans would be repayable contingent on the income level of the graduate. That is, a graduate who obtained a well-paying job would repay his or her loan at a higher and faster rate than someone who had a job which paid less.



Payment would not be made by anyone whose earnings fell below a designated threshold in that year (COU 1993; 6).

### The Issue of Subsidies

Thus far, this paper has treated the idea of an ICLR plan in general terms. But there is a vast array of policy options that make the number of models endless, and distinguishes them from Friedman and Kuznet's original proposal, which was based on the loan program's ability to generate enough "income" in order to fund itself :

... it would be profitable for an investor to finance the professional training of individuals with no resources other than their expected future incomes *only at a rate of interest that would be sufficiently high to provide for capital losses as well as for the usual interest charges* (Friedman and Kuznets 1945;90, my emphasis).

A "pure" or "non-mutualized" self-financing ICLRP model is therefore one that would not be reliant on public subsidies, requiring a surtax on higher income graduates which would in turn subsidize under- or unemployed graduates whose income would fall under an established income threshold (Stager 1993; Nerlove 1975). So instead of importing public monies which go toward meeting the shortfall created by loan defaults and the lower contributions made by those at the low end of the wage scale, subsidizers would be created out of higher income graduates, and by those who choose a more accelerated repayment schedule. Under this arrangement, "a given generation finances a significant portion of its own post-secondary education rather than relying on parental support and the political willingness or taxability of the preceding generation," (COU 1991;2).

One of the models implemented which was designed to be a true revolving loan system in the long-term was Yale University's institutional ICLRP. Called

the Yale Tuition Postponement Option, the cohort debt was retired when the principle plus interest for the group had been repaid (Nerlove 1975;168). Those graduates who had not repaid their principle plus interest received ex-ante grants in the form of debt write-offs. However, a program administered by the government with the intention of incorporating subsidies could cover the difference if the debt was the property of an individual rather than a cohort, in order for life-time low-income earners to benefit from ex-ante grants.

In the Canadian context, the use of interest subsidies in lieu of graduates' subsidization of each other within a cohort would be more consonant with this country's traditional take on access policy. And as discussions on the Canadian scene have progressed and become more detailed, the goal of having a self-financing system has been largely discarded.<sup>4</sup> "A self-financing loan fund would oblige the higher-income graduates to repay more than their principle and interest in order to off-set the incomplete repayments from low-income graduates."<sup>1</sup>

There are, therefore, models which incorporate a degree of public subsidy in a revolving loan system facilitated by the reliable flow of repayments collected through the income tax system. Stager (1992;2) identified five inter-related policy options to be considered in the design of an income-contingent loan system that would determine the degree of public contribution:

- the ceiling on the amount borrowed, and the conditions that affect eligibility;
- the proportion of annual income to be repaid;
- the effective interest rate on outstanding loans;

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<sup>4</sup>See David Stager's contribution to the *Final Report of the Income-Contingent Repayment Plan Symposium*, 1994, page 16.

- the maximum length of repayment period after graduation or withdrawal from education; and,
- the conditions under which borrowers could accelerate their repayment schedule
- the income threshold at which loan repayment would begin.

The purpose of Stager and Derkach's 1992 model showed how these variables, such as who is eligible (whether to include university, college students or both), the interest rate charged, and the repayment level, could be adjusted to favour either more or less public subsidy and thus the overall range of costs of the program to the government (1992;2). It included the following options, outlined in Table 5.1:

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**COU ICLRP Model and Fed./Provincial Pilot Model**
**Stager/COU Model**

- universal for tuition fees
- 25-year debt life span
- income threshold of \$20,117 after tax
- repayment based on individual  
(vs. household) income
- fund borrows at 1 per cent;  
students repay at 3 per cent

**Ont./Fed Pilot Project**

- universal for tuition, books
- 15-year debt span
- \$16,120 after tax income
- repayment based on individual  
(vs. household) income
- 8 per cent for both fund borrowing  
and students

**Repayment rate:**

<b>Gross Income</b>	<b>After tax</b>	<b>Repayment as %</b>	
		<b>Stager Model</b>	<b>Ont./Fed pilot</b>
\$20,000	\$16,120	0	0
\$25,000	\$20,000	0	1.02
\$42,000	\$30,000	2.5	5.04
\$57,000	\$40,000	3.0	9.27
\$73,000	\$50,000	3.5	12.37
\$89,000	\$60,000	4.0	14.58
\$95,000	\$63,650	4.0	15.0

Two of those policy options in particular are most relevant if the income-sensitive nature of the repayment program is to be maximized by the student borrower: the proportion of annual income to be repaid, and the income threshold at which repayment would begin, which is currently recommended to be between 20 to 30 years (Stager 1991:15). A third factor, the life-span of the debt, would have to be taken into consideration in relation to both threshold and percentage of income. If the repayment was high, the benefits of the income-paced feature may not be realized. But if it were set at an extremely low level accompanied by the opportunity to spread the repayments over a longer period of time, repayment would be drawn out into adulthood at which time borrowers are investing in pensions and other savings plans, and considering their own children's education related costs (Simpson 1987:707).

(The two models outlined above show how the policy options can be combined. For example, the Stager/COU model favoured a lower repayment threshold, with less dramatic increments in repayment and held yearly repayment contributions at 4 per cent at the high end of the wage scale. The proposed federal/provincial model opted for higher to the percentages of income to be repaid, hitting 15 per cent at the same level of income.)

The same issues involving the length of the debt also play out in the consideration of what is to be considered as an appropriate income threshold at which repayment would begin. If the threshold were set too high, the income-paced nature of the program could not be maximized by the borrower; if it were set too low with a longer debt life span, the same array of competing expenses would be experienced as graduates' family-related financial costs developed. The longer the life span of the debt and the lower the repayment threshold, the more interest accumulates. These issues would impact most obviously on the life-long low income earner.

Women would be particularly affected by some of these policy parameters, since female graduates have a different pattern of employment throughout life. Women leave the work force for varying lengths of time for the purposes of child bearing and child rearing, during which time income drops to zero and contributions to the repayment of their student loan would cease. Women graduates and their interaction with the labour market and their wage patterns are examined in more detail later on in this paper.

Lastly, the ceiling on the amounts borrowed would be determined by several factors; whether this loan fund would include the coverage of costs beyond simply tuition fees and books (for instance, rent, food, clothing and transportation); and the level of the province's tuition fees, once the provincial government concludes its series of policy changes in this area. This resolution is largely dependent upon the government's interest in running complimentary student aid programs available to cover these other education related costs.

#### Getting the Right "Mix": Higher Income Earners in an ICLRP

Given the revolving nature of the loan fund in some ICLRP models, the participation of high income earners is extremely important. But Krueger and Bowen note what they term "adverse selection" may be a problem in terms of the program's ability to attract high income earners (1986;196). Based on data from the National Longitudinal Study of the High School Class of 1972, those students who reported high income earning expectations before graduation tended to be more accurate in their predictions of future income earning power. This means that in an ICLR program in which participation is optional would have to have sufficiently attractive subsidy to the high income earner. Under a true self-financing model, for instance, a surtax levied on high income earners may be

necessary in order to off-set the incomplete payments of their lower income counterparts.

The Yale plan in effect required high income earners to subsidize those graduates who experience low earnings and thus make smaller repayments to the loan fund. It is subsidization in effect due to the fact that the cohort's debt was retired when it was paid off in its entirety, regardless of the individual contributions of the individuals within the cohort. The issue of a surtax would thus also impact on this group of borrowers' decisions about whether or not to participate, if choice is a feature of the loan plan. Given the greater accuracy in their future earnings predictions, an ICLRP in which they constituted a source of subsidies may cause them to seek more attractive financing sources, from either parents or private lending institutions (Johnstone 1972;41).

An additional dimension to the problem of keeping high income earners in an ICLRP involves the rather risky and unreliable dynamics of the labour market. As Simpson has pointed out, "[e]ven to the most committed student, borrowing can be viewed as a two-fold risk: the individual may not be among those who achieve average or better income... and there may be a downward shift in the market demand for the profession selected" (Simpson 1987;706)

For example, Trow describes these dynamics in the United States between an increasing participation rate and the labour market's expectations of an increasingly educated work force, which has lowered the extra-ordinary personal returns derived from investment in higher education:

The surfeit of college graduates on the labor markets in the 1970s, in the US and elsewhere, has produced the phenomenon of credential inflation... [graduates] eventually accept less prestigious positions than they had originally hoped for, often ones that had not been considered graduate positions at all. In doing so, they effectively displace workers with less

education. Thus, the positions in question become upgraded in time to graduate status, and graduates correspondingly become "occupationally downgraded" as they lower their original expectations (in CFS 1992;13).

The uncertainty of the labour market and its rewards structure will also therefore affect the take-up rate of these types of loans, again, if choice is a feature of the loan program. It is, however, near impossible, to accurately forecast these conditions.

#### **IV. International Models of Student Loan Plans with Elements of Income Contingency**

##### Australia

In 1989, Australia was the first political jurisdiction to implement a form of income-sensitive repayment scheme in its student loan plan, characterized as a "pay-later charging mechanism" (Chapman and Chia 1995;13). According to Chapman and Chia, this pay-later charging mechanism was implemented in order to; fund the expansion of the system of post-secondary education in the absence of public money; the distribute system costs to those who use the system; and to achieve these aims without jeopardizing access to post-secondary education (1995;2).

That country has two separate student aid plans — the Higher Education Contribution Scheme (HECS), which disburses aid for tuition fees, and Austudy, which covers academic related costs such as rent and food. Means testing is applied for consideration of Austudy, but not for the HECS allotments. HECS was established in 1989, while Austudy in 1993.

Prior to the establishment of HECS and Austudy, post-secondary education in Australia was almost entirely fully funded by public monies (Chapman and



Chia, 1994;2) in order to provide inducements to potential students under-represented in the post-secondary system (Stager 1989;121). However, in 1980, disaggregated enrolment studies showed that 14 years of zero-tuition policy had largely failed to alter the complexion of the undergraduate student body (Stager 1989;121). So in 1987, the government re-introduced nominal tuition charges equivalent to about 2 per cent of education costs. The current system requires students to either incur a yearly debt ("pay later") of 2,250 Australian dollars, or pay at the outset that fee less 15 per cent (Chapman and Chia, 1994; 3).

The federal government charges the cost of living increase which is applied from the start of the loan for both HECS and Austudy supplement loans. However, there are no payments required while students are registered full-time; the cost of living increases are incorporated into the debt.

HECS is designed to cover the full cost to the student of tuition fees, which is approximately 25 per cent of the cost of the institutional costs of academic programs, which constitutes the ceiling amount on HECS loans. Austudy is based on an estimate of the student's living costs based on the status of the student.

HECS has an income-contingent repayment character with an increasing percentage of income repaid (3 per cent to 6 per cent of net taxable income) as income rises above an established threshold, which was recently adjusted downward. Austudy loans do not begin repayment for up to five years after awarded, followed by an income-contingent plan. Repayments are not tax deductible, and the federal income tax infrastructure is used for collection. The life span of the loan terminates after probate.

The Australian government offers other student aid programs designed to address and enhance the accessibility of federally identified groups, such as HECs exemptions for undergraduate students identified as a member of Australian Equity Groups, Aboriginal Support Funding, supplements to Austudy for exceptional

needs, and deferment of loans based on exceptional financial hardship, as well as the use of other social programs.

HECS has several mechanisms to encourage early payments on the HECS debt. Students are offered a discount on their HECS payment if they pay up front of 15 per cent (initially it was 25 per cent). If a student makes a voluntary payment of greater than \$500, the HECS debt is reduced by 1.15 times that amount. If repaid within the first five years after graduation or withdrawal, the individual would pay 85 per cent of the amount outstanding.

### New Zealand

New Zealand also has two components to its student aid package which were both established in 1992 — the Student Loan Scheme, and the Student Allowance Scheme. Needs testing criteria are only applied to the student allowance portion, which are grant-based.

In terms of interest subsidies, the government covers the initial cost of borrowing the money, so the interest rate charged to the student is the government cost of borrowing, and is applied immediately after the loan is contracted. If in any given year the individual cannot make repayments, the rate applied is the rate of inflation. As in the Australian case, loan limits are established as follows: ceilings reflect the total cost of tuition fees, including academic and non-academic fees, and the estimated cost of books and living costs.

Repayment begins once a graduate's income is equivalent to 10 per cent above the full-time/full-year minimum wages. As well, repayments, based on net taxable income, are not tax deductible and are recovered through the tax system. Graduates cease to be responsible for the balance of their debt if not paid in full by the age of 65.

New Zealand too offers other programs to deal with federally targeted groups, to encourage participation among the Maori and Pacific peoples.

### United Kingdom

The Student Loan Company (1990) disburses both loans and grants, needs testing criteria being only applied to grant applicants. The government charges only the cost of living increase which is applied from the time the loan is contracted.

Loans for living costs are capped, and are based on an estimation of the required living costs and dependency status up to a maximum. Repayment begins in April after graduation unless income is below 85 per cent of the National Average Earnings, and is based on the graduate's gross income. As in other jurisdictions, loan repayments are not tax deductible, and loan collection duties have been handed to a body created for that purpose, called the Student Loans Company. The balance of the debt is waived after 25 years, age 50 or death. However, the case of mature students, the balance of the debt is canceled after 60 or death where the debt was contracted at age 40 or older.

Grants are still available in 1997 but are being phased out.

### United States

The Direct Loan Program (Stafford) established in 1993 disburses both publicly subsidized and unsubsidized student loans. Needs testing is applied to only to the subsidized loan programs.

The subsidized loans do not begin accruing interest until the student withdraws or graduates from their program and begins repayment. There is no interest subsidy on unsubsidized loans and interest accrued is capitalized. There is an overall interest cap of 8.25 per cent for both types of loans.

Loans are not attached to tuition fees but are attached to year of study and dependency status of the individual student up to a maximum.

Stafford loans have repayment options of standard amortization, graduated payments, extended repayment or income sensitivity. The income-contingent option bases monthly payments on income levels and total loan amount owing, based on gross income. There is no threshold or predetermined percentage, and interest payments are tax deductible. Collection is carried out by the federal government without direct involvement of the Internal Revenue Service, other than for income verification. For private (unsubsidized) Stafford loans, collection duties are performed by the participating lending institution.

There is a variety of other programs to enhance the accessibility of targeted groups, offered by federal and state governments, as well as by individual institutions: Pell grants, Federal Educational Opportunity Grants, Federal Work Study Program, Federal Perkins loans. Low interest loans targeted are used to target low income families, State Student Incentive Grants, Institutional aid packages combining loans, grants scholarships and work-study

Collection agencies in the United States employ a fairly aggressive approach to non-payments — they have at their disposal levers allowing them to deduct wages at the source, reporting mechanisms to prevent students access to other banks loans, and graduates are ineligible for federal employment.

Under the private Stafford Loans program, the interest rate is reduced by 2 per cent after the forty-eighth timely payment. If students opt to have their repayments deducted by automatic debit from their bank accounts, the rate is reduced by a further one-quarter percentage point.

The most widely known income-contingent plan in the United States is Yale University's former institutional arrangement, called the Yale Tuition Postponement Plan. The Yale plan, as noted above, was fully self-financing — the

life span of the loan was determined by how long it took for the cohort to pay off its collective debt. Under this arrangement, higher income earners subsidized lower income earners

### Sweden

The Financial Aid Program (1989) involves needs testing for both the grant and loan components of the student aid scheme, where loans constitute approximately 94 per cent of the student aid disbursements (Simpson 1987;699). Interest charged is 70 per cent of the State Deposit Rate and is applied from the time the loan is contracted.

The total amount to the student is limited and based on need assessed of which the loan portion then represents 70 per cent of the monies awarded. Repayment begins six months after graduation and is calculated as 4 per cent of gross income earned in the previous year, which is collected through the tax system, which allows for periodic adjustments to be made following changes in income levels. There is no income threshold, and repayments are not tax deductible. The balance of the debt is waived at age 66, or permanent disability or death.

Table 5.1

Summary Table of International Models with Income-contingent Features

Figures converted to Canadian \$'s where applicable

	<b>Australia</b>	<b>New Zealand</b>	<b>UK</b>
needs testing?	tuition - no living costs - yes	yes	loans - no grants - yes
subsidized interest rate?	yes	no	yes
debt life-span	after probate	lifetime	25 years 50 or death
income threshold	\$26,300	min. wage + 10 %	85 % of nat. ave. wage
repayment as % of income*	3-6	10	depends

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	<b>United States</b>	<b>Sweden</b>
needs testing?	yes/no	yes
subsidized interest rate?	no	yes
debt life-span	25 years	age 66
income threshold	0	0
repayment*	4-15	4

## **V. An Overview of Decreases in Funding Affecting Post-secondary Education: The Setting for ICLRP Discussions**

### The Federal Scene

In terms of federal funding shifts, changes and contractions in transfer payments have had a great impact on funding levels of post-secondary education (PSE). Both Liberal and Progressive Conservative governments have unilaterally reduced the growth of the Established Programs Financing (EPF) portion of provincial transfer payments six times since between 1982 and 1995 (Federal Government Research Branch 1995). The Liberal government's 1994 budget reconfigured the formula by which provincial entitlements were calculated, and has in some provinces contributed to a dramatic dip in the contribution of federal monies to Canada's colleges and universities.

Federal contributions to post-secondary education increased dramatically in 1965. The Federal-Provincial Fiscal Arrangements Act of 1967 replaced the grants the federal government made directly to universities with a much more generous funding arrangement (Mimoto and Cross, 1991:3.4). This was followed by a rapid period of expansion in the post-secondary education sector, guided by a federal government that regarded a high university participation rate as a key in promoting and ensuring growth in the post-World War II boom (Stager, 1989:46). The government was intent on designing a system that would accommodate the high demand for university degrees.

But by the middle of the 1980s, the federal deficit had reached 8.7 per cent of the Gross National Product, a ratio deemed unacceptably high by two of the three political parties represented in the Parliament of Canada, (including, most importantly, the government). Between 1975 and 1985, spending at the federal level had increased annually during those 10 years at a rate of 13.8 per cent. By

1985, the federal government spent \$1.33 on programs for every dollar it took in revenue (Frechette 1995).<sup>5</sup>

It was in the middle of the decade of the 1980s that Ottawa began selectively targeting transfer payments, singling out payments earmarked for post-secondary education. In 1984, the federal government amended the Fiscal Arrangements Act, introducing the "six-and-five" program, which restricted annual growth in the *education* component of the EPF portion of the transfers to between five and six per cent. Health care spending at that point escaped unscathed, as it was still the country's sacred cow (Frechette 1995).

By 1989, the view that Ottawa was down loading the deficit onto the provinces was fully entrenched in the collective language of the country's first ministers, as the federal government under Brian Mulroney embarked on Phase II of their attack on the deficit through the reduction of transfers. Bill C-33 brought increases in transfers down by a percentage point lower than that formula established in the piece of legislation which then spelled out the appropriate formula for provincial transfer entitlements. Federal Finance Minister Michael Wilson's 1991 federal budget extended previously announced freezes for the next five years, as the federal government looked to find savings of almost \$3 billion over the next five years.

The federal budget of February 27 of 1995 symbolized the end of EPF transfers as they had been hitherto configured. The government announced that transfer payments to the provinces then made under the EPF program and the Canada Assistance Plan would be replaced by the Canada Social Transfer

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<sup>5</sup>Though an in-depth look at the particular causes of the significant growth of the federal debt during the last two decades is beyond the scope of this paper, there are those who argue that in fact social spending relative to the Gross Domestic Product did not "soar" in the period of 1975-1991. Two of the nation's maverick statisticians contend that two biggest factors contributing to Canada's debt are recession-related unemployment increases and sharp increases in interest payments on the federal debt (Mimoto and Cross, 1991:3.1). Whatever the case, decreases in social spending would become the focus of deficit reduction.



beginning in 1996-97. (The program's legal term is the Canada Health and Social Transfer, as it is called in the Budget Implementation Act of 1995). This piece of legislation reconfigured the funding scheme for the three "big-ticket" social spending items (health care, welfare and post-secondary education), and rolled the three portfolios into one block funding grant called the Canada Social Transfer. The most recent budget speech of February, 1997, saw no further announcement in the reduction in EPF transfers than those already scheduled.

### Ontario Under Changes to EPF

Between 1982 and 1994, Ontario has lost over \$18-billion of the total of the overall reduction of \$49-billion experienced by all provinces. But the funding situation grew increasingly worse. In February, 1995, the federal government proposed to accelerate the phase-out of post-secondary cash transfers to the provinces. These reductions in federal monies for post-secondary education were massive — the reduction in the cash portion of the EPF payments represented a loss of \$700-million over three years for the province of Ontario. The size of this reduction is best expressed as the combined budgets of York University, the University of Ottawa and the University of Toronto. The figure also represents the combined budgets of all of Ontario's Colleges of Applied Arts and Technology (CAATs).

At the time of the 1995 budget announcement, the federal Liberals also indicated that they intended to explore the options for tuition aid reform with the goal of establishing an income-contingent loan program for the nation's students enrolled in qualifying PSE institutions. Potentially using the savings from the phase-out, the government proposed to provide non needs-tested, income-contingent student loans to cover the cost of tuition fee increases relating to the fall in EPF cash transfers. The federal government together with the provinces are also

exploring the option of pooling the resources of both the current provincial and federal student aid monies to capitalize a new loan scheme with income-contingent characteristics.

### Provincial and Institutional Responses

In the years between the late 1950s and the early 1970s, universities in the province of Ontario enjoyed a period of phenomenal growth in funding, the number of universities in the province tripled. This period marked the funding heyday for the province's network of institutions of higher education, buttressed by a more or less broadly based consensus of the value of post-secondary education, both as a mitigating factor to socio-economic class, and as an integral instrument in fueling economic growth (Newson and Buchbinder, 1988;13). As well, the decade of the 1960s saw the birth of the Ontario's system of colleges of applied arts and technology (CAATs).

But as participation in post-secondary education increased sharply, public support of higher education was severely cut back. But between 1976 and 1996, per student spending has fallen by 11 per cent at Ontario universities and 27 per cent at the province's colleges.<sup>6</sup> And during the same period, government contributions to provincial university operating grants grew by 2 per cent in real terms, despite an increase in university enrolment of 23 per cent, and an increase in research activity of 30 per cent (COU, 1988;1). A 1988 document prepared by the Council of Ontario Universities (COU) warned that a crisis was looming if the province did not infuse the system with an increase in operating grants if Ontario universities were expected to meet future demands on enrolment given the secondary school system's constant increases in their student retention rates, and

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<sup>6</sup> The Globe and Mail, December 18, 1996, A20.

the growing demand for higher education generally (p. 3). As well, the lobby group called for the establishment of multi-year funding commitments, which have been largely unforthcoming.

Beginning in 1990, the then NDP government unveiled a series of spending cuts to its transfer grants to universities during their time in office (most notably the Social Contract Act in 1993 which sought to achieve \$3 billion in savings over a three-year period). There was also a freeze on its contribution to the Ontario Student Assistance Plan. Instead of a restoration of funding and multi-year commitments called for by the COU, universities and colleges saw their budgets cut an average of 8 per cent per year (compare this, for instance, to the COU's request in 1988 for a 6.2 per cent increase in basic operating grants). Student lobbyists and university administrators alike were united in their condemnation of such cuts, and several student lobby groups felt that this would mean an inevitable flurry of increases in user fees at the province's colleges and universities.<sup>7</sup>

But the real cuts were just beginning. In November, 1995, the Progressive Conservative government of Mike Harris announced a reduction in provincial transfers to the province's post-secondary sector of \$400-million, or 15.8 per cent, for the academic year of 1996-97. And in that year tuition fees saw the largest single increase in Ontario history of 20 per cent for most students, and up to 30 per cent for others.

(Universities were given a 10-plus-10 option, the second 10 per cent increase called a "discretionary" increase, an arrangement which allowed universities and colleges to increase their tuition fee revenue by 20 per cent, not to exceed 30 per cent in any given program.)

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<sup>7</sup>The Varsity, Aug. 10, 1993; p.1)

The wording of the announcement regarding possible tuition fee increases was important for what it meant for future negotiations between the provincial government and Ontario universities with respect to the institutions' ability to further differentiate the fee structure. In the months following the economic statement of November, 1995, the provincial government indicated its willingness to follow through on their election promise to "partially" deregulate tuition fees. Post-secondary institutions were permitted to apply tuition increases of up to 30 per cent to certain, with the stipulation that tuition *revenue* in total could increase by 20 per cent. Tuition fees for professional programs, such as law and medicine, were raised the full 20 per cent, while academic stream graduate tuition rose 13 per cent.

As well, in April, 1996, the University of Western Ontario and the University of Toronto received permission from the Ministry of Education and Training to increase fees at their dentistry faculties by 100 per cent, in addition to the 20 per cent increase already scheduled.

And during the last decade, students have experienced substantial tuition fee increases. In the period of 1988-1997, fees increased in excess of 100 per cent, after having failed to keep up with inflation during the decade of the 1980s. For the academic year of 1988-89, the tuition fees (excluding compulsory non-academic fees) at Ontario's universities was \$1,411 for general arts and science programs and some second-level entry programs; \$1,531 for engineering and architecture, and \$1,794 for the schools of medicine and dentistry (Stager 1989;27). For the year 1996-97, general arts and science students paid a base tuition fee of \$2,950. And the proposed base tuition fee schedule at the University of Toronto for the year 1997-98 is \$3,196 for general arts and science, \$3,447 for first-entry professional programs such as engineering, and \$8,844 for first- and second-year dentistry students (Memorandum to the Business Board, University of

Toronto). Worthy to note is the re-emergence of tuition fee differentiation across programs. The gap between the average arts and science tuition fees compared to those charged to engineering and medical students at the University of Toronto was substantial from 1929 until the mid-seventies, at which time the difference narrowed (Stager 1989;22).

So, forces on the federal, provincial and institutional levels over the past seven years have converged on the apparent need for students to increase their portion of university operating revenue, suggesting that on most decision-making fronts, the result will be additional increases in tuition fees.

#### And Student Aid

Both in the provincial Progressive Conservative campaign document, *The Common Sense Revolution*, and the economic statement of November, 1995, the Mike Harris government announced their intention of introducing an income-contingent loan program, and that no new monies would be put into the provincial student loan program until September, 1997, at the earliest.

In August, 1994, the federal government made some significant changes to the Canada Student Loan Plan, including an increase from the maximum weekly allowance of \$125 to \$165 a week. And while all provinces except Quebec have eliminated their non-repayable grants programs, while the federal government has made this type of student aid available only to students with disabilities, high-need part-time students and women in doctoral programs with low female representation.

Though the increase in the weekly loan limit was duly noted by student lobby groups and the student press, the then Ontario NDP government reduced the amount available from the provincial program equal to the federal increase in their weekly loan limits. While the CSLP was responsible for 60 per cent of a student's

assessed need, the province met the remaining 40 per cent. The end result of the federal increase and the provincial decrease meant Ontario students would enjoy no benefit of access to more loan monies in the face of tuition fee increases.

According to U of T Business Board documents concerning tuition fees and student financial resources, the provincial government is contemplating harmonizing the assessment criteria with the federal program criteria. Under the changes, expectations of summer earning contributions would be increased for those students still living at home, and decrease for those no longer living at home.<sup>8</sup> As well, allowances for books and equipment could be lowered.

As well, federal student loans delivered and administered by the provinces are no longer guaranteed. Under the old arrangement, participating private lending institutions disbursed loans to students and were expected to service and collect their loans — but had little incentive to do so. The incentive came at the same time the increase in the weekly loan amount was announced. Students who defaulted on their loans or made irregular payments now had to contend with a bad credit rating — banks were permitted to report these repayment records to the proper credit bureau.<sup>9</sup> And because of the higher risk involved in lending to students, many banks withdrew from the program entirely and established their own student lines of credit.<sup>10</sup>

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<sup>8</sup>University of Toronto, *Tuition Fee Schedule for Publicly Funded Programs, 1997-98*, Agenda, Business Board, Office of the Vice-provost and Assistant Vice-president (Planning and Budget), March 27, 1997, page 2.

<sup>9</sup>*The Globe and Mail*, September 2, 1996, B1-B2.

<sup>10</sup> *Ibid.*

## **VI. Lobby Response to Contractions in Funding**

### The Council of Ontario Universities

An income-sensitive repayment model also has supporters outside the corridors of decision-making power. In August of 1993, the COU submitted a policy paper which called for a 30 per cent increase in tuition which would allow post-secondary education institutions to address the shortfall in their operating budgets, and an income-contingent loan system. The COU argued for substantial tuition increases in second-entry programs. It called for increases to liberal arts' tuition fees of 30 per cent, raising graduate programs to a level 1.5 times that of undergraduates; the lobby group called for raising medicine and dentistry fees 100 per cent, and argued fees for education and law should triple (1993; i).

Alongside such calls substantial increase in tuition, the council also reiterated its proposal for changes to the two student funding bodies to which Ontario students had access: the federal Student Assistance Plan, and the Ontario Assistance Program. It proposed the establishment of a form of income-contingent loan system, whereby monthly or yearly loan repayment levels would be sensitive and set according to a graduate's income (COU 1993;4). Provincial Education and Training Minister Dave Cooke approved of the lobby group's position, announcing at the same time that "substantial tuition increases were the only way to maintain the high quality of education."<sup>11</sup>

The council reasoned that as provincial and federal contributions to university operating budgets shrank while demand for spaces was in fact increasing, the logical and only source of more revenue was student contributions. "If governments are unable to find the additional [funds] needed to restore and

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<sup>11</sup> The Globe and Mail, August 26, 1993, A20.

enhance quality and accessibility in the universities ... increasing tuition fees is an alternative source of revenue," (COU 1993. Annex 1).

It should be noted that income contingent repayment continues to attract considerable interest from the present government, both the premier and the minister seeing the concept as a potential means of dealing with the political implications of a significantly different tuition fee policy for the province.<sup>12</sup>

### Student Lobby Responses to Tuition Increases and ICLRP Proposals

Although the recently born student lobby group the Ontario Undergraduate Student Alliance has, from the outset, called for the implementation of an income-contingent loan system, and endorsed the 1993 COU report, the longer established Canadian Federation of Students (CFS) condemned the proposal, saying a loan system which would facilitate a whole-hearted shift in dependency in university funding away from the public coffers to user fees would erode universal access to education (CFS 1992).

CFS-O and OUSA's difference of opinion over student aid reform resembled the classic "chicken or the egg" conundrum. While OUSA long maintained a co-designed federal/provincial income-contingent loan system would relieve some of the pressures caused by inevitable tuition increases, the Canadian Federation of Students-Ontario felt the policy move represented an excuse to shift the financial burden of education from the public purse onto individual students.<sup>13</sup>

Lobby groups have also reacted to the motives of the proponents of an ICLRP proposal. In particular, student groups have voiced their concern over the way the plan's proponents have characterized the scheme — or more accurately,

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<sup>12</sup> Unpublished Memorandum from the Secretariat, Council of Ontario Universities, Sept. 9, page 1.

<sup>13</sup> The Varsity Handbook, page 15



how they have not. The following excerpts are at the basis of a disagreement over the "naming" of the program. A selection of David Stager's endorsement of a income-contingent plan is best reproduced in its entirety:

A revolving bursary program, based on income-contingent repayments, would provide the increased funding universities need to restore quality and provide diversity, yet would overcome any financial barriers for students, and would replace inefficient and inequitable grants. University students in Canada could then be assured of a first-rate education without bankrupting their parents or themselves (Stager, 1991;15).

The Canadian Federation of Students reacted in the following manner:

...[T]he program is not really a bursary program at all, because under Stager's proposal students would repay the total sum of the "bursary" after graduation. Although interest would not be charged on the outstanding debt, the loan would be annually adjusted for inflation beginning the first year the loan was issued. Students would repay the "bursary" when their gross income reached a certain minimum level and the rate of repayment would be 2 or 3 per cent of annual income, depending on income level... A student would be expected to pay off her "bursary" within 20 or 30 years; if after that time a student had not managed to repay the total "bursary," then the outstanding debt would be canceled (CFS 1992;24).

The concern of student lobby groups such as the Canadian Federation of Students-Ontario is that although an income-contingent loan model may address a long-standing policy concern around the difficulty recent graduates have in repaying their loans, it is, rather, a new university financing scheme, rather than a well-thought out student aid program.<sup>14</sup>

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<sup>14</sup>Interview, Vicky Smallman, 1995-96 chair of the Canadian Federation of Students-Ontario, October 19, 1996.

## **VII. Canada — ICLRP as it Relates to Problems with the Current System**

Canadian policy makers have embarked on considerations of a dramatically different student loan system in order to accommodate increasing debt loads and an anticipated revision of a tuition fee structure characterized by higher fees. But regardless of what determination is made on the appropriate level of student contribution, it is undeniable that considerations of reform are needed in light of the problems associated with the current systems. Two areas in need of serious attention related to repayment are the present default rates, of interest to both policy makers and students, and the debt-to-income ratio of recent graduates which represent financial hardships, according to detailed analysis of the three most recent National Graduate Surveys. It is, therefore, appropriate to view in greater detail these two areas.

### Default rates — Ontario

In the fiscal year ending April 30, 1996, the provincial government disbursed \$592.6 million in student loans through the Ontario Student Assistance Plan. The total interest subsidies were \$73.7 million, interest relief totaled \$3.4 million, and \$68.8 million was forgiven in outstanding loans.

In all provinces except Quebec and the Northwest Territories, students assistance programs include loans provided by the federal program (called the Canada Student Loan program) together with provincial government loans, grants and/or bursary programs. Though eligibility requirements vary from province to province, the Canada Student Loan Plenary Group meets annually to arrive at some national definitions of such needs assessment principles such as "need," "full-time" and "post-secondary institution," (Kucharczyk and Monette, 1981;229). Those definitions, however, are not binding on the provinces.

Loan applications are assessed by provincial student aid offices who apply needs testing criteria, which in turn issue authorization to the student, called a Certificate of Eligibility, allowing students to negotiate a loan through a participating lending institution. Students begin repaying their loans six months after graduation or departure from full-time study, during which time the government responsible also pays interest on the loan. As well as interest relief for an additional period of 30 months available in the first three years after graduation.<sup>15</sup>

However, these repayment delay options appear insufficient in helping students through the potentially most difficult period immediately following graduation — the total federal loan monies in default in 1996 was \$35.3 million — the bulk of which was defaulted in the first three years after graduation or withdrawal from school.<sup>16</sup> In 1992, Canada's Auditor General had strong words for the federal government's failure to "clean up the mess" in the form of the almost \$1 billion in accumulated bad debt (West 1993;20). Estimates of the percentage of students who have defaulted on their student loans range from 5 per cent to 30 per cent are tossed about by both those in and out of "the know." According to Ontario figures, both figures are more or less correct.

According to Ontario figures as of May, 1996, the number of students who contracted their last loan in the academic year of 1993-94 and have defaulted on those loans range from an average of 11.5 per cent for graduates of the province's universities, to 21.3 per cent for those from Ontario's Colleges of Applied Arts and Technology (CAATs), to a high of 30.4 per cent of those who attended a private

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<sup>15</sup>This is newly introduced for the 1997-98 academic year.

<sup>16</sup>Interview with James MacKay, former director of the Student Support Branch, Ministry of Education and Training, Ontario.

vocational school.<sup>17</sup> As well, students at "other private institutions" have a default rate as of May, 1996, of 9 per cent.

Within those categories, institutional averages range greatly. For instance, among university graduates, who have an overall default rate of 11.5 per cent, the percentage of those students who have defaulted on their loans between the 1994 and 1996 varied from a low of 5.5 per cent for students who have taken their bar admission from the Law Society of Upper Canada, to a figure of 27 per cent for those who were enrolled at Algoma College (please see tables 7.1 and 7.2).

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<sup>17</sup> In September, 1996, Ontario's Ministry of Education and Training received a request under the Freedom of Information and Protection of Privacy Act, at which time the breakdown of default rates by institution was made public.

Table 7.1

Ontario Student Loan Recipients and Defaults for Post-secondary Institutions in Ontario, 1993-94

Institution Type	# of Loans *	# of Defaults**	(%)
Universities	26,198	3,024	11.5
CAATs	26,281	5,596	21.3
Private Vocational			
Schools	9,580	36	9

\*This figure refers to the number of students at the institution type who contracted their last student loan as of the academic year of 1993-94. It also refers to those who contracted at least five separate loans.

\*\*This figure refers to the number of students at the institution type who contracted their last student loan as of 1993-94, contracted for at least five separate loans, and have defaulted — as of May, 1996, Ontario Ministry of Education and Training

Table 7.2

## Ontario Student Loan Recipients and Defaults for Ontario Universities, 1993-94

Institution	# of Loans	# of Defaults	Default (%)
Algoma	115	31	27
Ontario College of Art	256	63	24.6
Carleton	1,645	260	15.8
York	2,527	377	14.9
Laurentian	668	96	14.4
Trent	483	69	14.3
Ryerson Polytechnic	1,338	182	13.6
Western Ontario	2,440	321	13.2
Windsor	1,750	230	13.1
Nippissing	337	42	12.5
Brock	954	111	11.6
Wilfred Laurier	714	73	10.2
Queen's	1,404	141	10.0
Ottawa	1,466	144	9.8
Lakehead	823	80	9.7
Guelph	1,681	162	9.6
McMaster	1,274	116	9.1
Toronto	4,057	367	9.0
Waterloo	1,773	132	7.4
Bar Admission Law Society (Ont.)	493	27	5.5
Total	26,198	3,024	11.5

\*This figure refers to the number of students at the institution who contracted their last student loan as of the academic year of 1993-94. It also refers to those who contracted at least five separate loans.

\*\*This figure refers to the number of students at the institution who contracted their last student loan as of 1993-94, contracted for at least five separate loans, and have defaulted — as of May, 1996.

In the eyes of both governments and the general public, these rates of default have not necessarily produced sympathy for the struggle of recent graduates in the job market, but rather demonstrate that students' do not take their debt seriously. As Bruce Johnstone writes of the American scene (with similar numbers and similar variation by type of institution) "... [t]o many, defaults are another reflection of the general loss of respect on the part of the young for institutions, laws, government, and moral obligations," (Johnstone 1977;24). The US. Secretary of Education, in defence of a 1986 plan to cut student aid awards by 25 per cent, declared out loud what many American (and arguably Canadian) taxpayers felt — that American college and university students could handle a reduction in student loans if only they gave up "their cars and stereos and vacations to the beach," (Stokes, 1988: 34).

In addition to this perception that the young have developed a great disdain for the social, moral and economic order of our time, there are a variety of other images that haunt the taxpayer's imagination, as noted by Johnstone:

Shocking stories of students from schools with defaults in excess of 50 per cent; of students marching from the graduation exercise to their bankruptcy attorney; and of loans that were never paid because bills were never sent all lend an air of latent scandal to the default story (1977;24-5).

Though the majority of graduates having incurred education related debt are able to make both timely and sufficient contributions to the repayment of their loans, the average student loan default rate for Ontario is higher than the average for other types, such as mortgage and other forms of household debt, which stand

at about 4 per cent.<sup>18</sup> This is attributed in part to the federal collection efforts which could be characterized until the 1995 changes as fairly relaxed.<sup>19</sup>

But the incentives to the banks were substantially increase in August, 1995. Changes were made to the Canada Student Loan Program which gave government-partnered lending institutions more of an incentive to step up the collection efforts, at least for those institutions that were still interested in issuing student loans after the changes were implemented.<sup>20</sup> Under the old system, federal student loans were guaranteed by the federal government, which meant that though the banks had the responsibility for collection. Any outstanding debts could be written off by the banks.

However, under the new system, the debt became the property of the banks, thereby greatly increasing the banks' stakes in collection.<sup>21</sup> As a result, several Canadian banks have established their own lines of credit. In order to ensure against the risk involved in issuing non-collateralized education-related loans, they have developed educational materials, and in some cases a CD ROM which students can use to plug in the particulars of their loan to enable students to "visualize" their long-term financial commitments.

Apart from the change in incentives for collection involving the reportage of student credit rating, proponents of an ICLRP argue that the cost burden of defaults to taxpayers would be lessened by assigning the task of collection to the income tax system (West 1993;20). Under the current system, the cost of

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<sup>18</sup>Interview with Ross Finnie, August 16, 1996, professor of Public Administration at Carleton University and author of a 1996 analysis of the debt burdens and debt-to-income ratios of 1982, 1986, and 1990 university graduates.

<sup>19</sup>Interview with Ross Finnie.

<sup>20</sup>The remaining partnered lending institutions are Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, National Bank of Canada, Credit Union Central, members of L'Alliance des caisses populaires de L'Ontario, members of La Federation des caisses populaires acadiennes, members of La Federation des caisses populaires du Manitoba, and members of La Federation des caisses populaires de L'Ontario.

<sup>21</sup>The Globe and Mail, September 2, 1996, B1-B2



employing private collection agencies is subsidized, where collection expenses are estimated to range from 19 to 28 per cent of each outstanding loan (West 1993).

As well, the value of writing off bad debts would be dramatically diminished if carried out by the income tax system, since evading loan repayment would be near impossible. Between 1986 and 1990, write-offs rose to \$16 million from \$2 million (West 1993;22). This dramatic increase in the value of write-offs were largely the result of the federal government's re-evaluation of what they considered to be "bad debts."

#### Growing Debt Burdens and Debt-to-income Ratios—Canada

One of the major benefits of an ICLRP to the student is its income-paced repayment feature. According to the most detailed analysis of the three most recent National Graduate Surveys of 1982, 1986 and 1990, the demand for student loans grew tremendously during a period which witnessed a surge in enrolment in Canadian universities. Gross and individual borrowing has also steadily increased from the early 1982 to 1990, as well as debt-to-income ratios (Finnie and Garneau 1996;11).

For those students who graduated in 1982 with a bachelor's degree, 46 per cent of men and 41 per cent of women had average debt loads of \$5,410 and \$5,120 respectively. For 1986 graduates, the incidence of borrowing fell but debt loads grew: 44 per cent of men borrowed an average of \$8,240, while 39 per cent of female graduates emerged from post-secondary schooling with a debt load of \$8,110 (Finnie and Garneau 1996;11). For the Class of '90, the numbers of students borrowing went back up: 47 per cent of male students and 44 per cent of female students graduated with an average debt load of \$8,660 and \$8,710 respectively (Finnie and Garneau 1996:12).

Graduates from master's programs also increased their level of borrowing. These rises were the result of a more or less level number of borrowers across the three cohorts — rates of 32 per cent for both men and women of the Class of 1990 (Finnie and Garneau 1996;15), and increases in the mean amounts borrowed between 1986 and 1990 (to \$8,440 and \$8,640 for men and women respectively) (*ibid*).

Table 7.3

Distribution of Loans, 1990 Graduates

Degree level	Amounts borrowed (%) (1990 constant dollars)			
	>\$1,000 to \$5,000	\$5,000 to \$15,000	\$15,000 to \$30,000	More
Bachelor's (men)	30.3	54.9	13.9	1.0
(women)	25.7	61.6	12.7	.6
Master's (men)	29.1	55.8	14.1	.9
(women)	25.8	61.3	12	.9
Doctorate (men)	41.4	46.6	10.5	2.3
(women)	30.7	48.2	18.8	2.1

Bachelor holders

	1982		1986		1990	
	Incidence	Mean Amounts	Incidence	Mean Amounts	Incidence	Mean Amounts
men	46%	\$5,410	44	8,240	47	8,660
women	41	5,120	39	8,110	44	8,710

Ph.D. holders

	1982		1986		1990	
	Incidence	Mean Amounts	Incidence	Mean Amounts	Incidence	Mean Amounts
men	42%	\$6,010	30	6,140	27	7,570
women	33	7,110	28	5,330	28	8,970

At the Ph.D. level, the number of students who had borrowed fell substantially, but the gap between men's and women's incidence of borrowing narrowed, from a difference in 9 per cent for 1982 graduates to 1 per cent for 1990 graduates, accounted for in part by their growing representation in the ranks of graduate study. But as this gap narrowed, the difference in means amounts borrowed increased. Nineteen-eighty two male doctoral graduates borrowed a mean amount of a \$6,010, which increased to \$7,570 for 1990 graduates. Meanwhile, women in the same category increased their borrowing over the period from a mean amount of \$7,110 to \$8,970 (Finnie and Garneau 1996;13).

Debt burdens, quantified as the percentage of outstanding debt to income upon a student's graduation or withdrawal from a program, also increased over time for each category of students (Finnie and Garneau 1996;18). Finnie and Garneau also found that debt burdens were higher for women than for men, given their self-reported lower earnings — with an exception at the Ph.D. level (Finnie and Garneau 1996;18-19). Though the mean amounts borrowed by women doctoral students increased substantially, income differences for this category of students has almost disappeared (Wannell and Caron, 1995;1).

Across all three levels of study, however, 18 to 25 per cent of the 1990 graduates who still owed money two years after graduation reported they had problems paying back their loans (Finnie and Garneau 1996;25). Across area of study for the 1990 cohort, graduates paid back slightly smaller proportions of their debts than the 1986 group, due to their increase debt. However, despite their larger loan amounts and their increasingly smaller but persistent difference in wage earning power, women did manage on average to repay their loans at similar or higher rates than men, even though their debt burdens are greater when their lower income levels are taken into account (Finnie and Garneau 1996;20).

The income-sensitive nature of an ICLRP could serve to ease the problem of high debt-to-income ratio. In contrast to the fixed mortgage-type payment scheme of current loan plans, repayments represent less of a burden by virtue of their relation to income. As well, collection through the income tax system would not only provide both efficiencies and the potential for fuller recovery, it would also be required in order to determine, on an ongoing and accurate basis, the appropriate level of repayment level. "...it is here where the coupling with the income tax process becomes crucial since the revenue authority processes more detailed and centralized data on individuals and their income than does any alternative institution" (West 1993;29).

However, Bruce Johnstone, former Chancellor of the State University of New York and a contributor to the Canadian debate on income contingent loans, warned against a "cure-all" perception of an ICLRP to the problem of defaults.

Don't assume that ICRP will eliminate all defaults. ICRP will lessen the basic causes of defaults; but, to the degree that defaults flow from a bad college experience or to the inability to find a job, or to any number of personal problems that beset young people today, defaults will continue — ICRP or not (Johnstone, 1995, 10).

Though it would be nearly impossible for defaults to occur in a loan program in which the income tax system were utilized to capture repayments, it is indeed correct to assume that an income-derived repayment system would solve some of the problems associated with the loan recovery process of the current system. Graduates face an increasing number of challenges associated with the broader economic and employment landscape.

There are undoubtedly certain features of an ICLRP which would address some of the problems of the current system; comparatively high default rates and

increasing debt burdens resulting in part from the fixed nature of the repayment schedule of the current loan systems need to be addressed. The principle of income-paced repayment would go towards addressing these problems.

However, an ICLRP of virtually any character must be viewed in the context of increasing tuition fees. The instrument of public policy, therefore, is changing in relation to perception of policy that supports the aim of accessibility. It is therefore necessary to examine competing interpretations of the character of an accessible system, and the role of high or low tuition fee policy in that system.

### **VIII. The Importance of Ticket Price:**

#### **Demand, Price and Other Factors Which Determine Participation in PSE**

Figuring out the relationship between tuition fee levels and accessibility is an elusive process, and the subject of endless debate between academics (and within this category, economists and sociologists), university administrators, governments and student lobby groups. There exists a mountain of research testifying to either the relevance or irrelevance of low tuition fees in promoting accessibility to the PSE system. Most would exit a brief visit to the debate with the impression that to believe any of the three contentions would require the strength of religious conviction: If you believe, research results selectively chosen will support that belief.

One of the stumbling blocks to making links between the costs of higher education and accessibility stems from the different theoretical treatments of the concept of accessibility. Economists, drawing on the theoretical concepts that define their trade — supply and demand theory, student price response, tuition price elasticity — demonstrate with these tools that demand has increased dramatically despite increases in price (Stager 1989, Bryan and Whipple 1995).

But this debate is germane to the consideration of an income-contingent loans, as this student aid proposal is perceived as being connected to substantial increases in tuition fee levels, though proponents of this plan resist connecting the two policy areas:

Some faculty and student organizations have been critical of this program because it has been associated with proposals for fee increases, but there is no necessary connection between these two policy initiatives. Their criticisms of these proposals also assumed that increased funding could be forthcoming from government, but this assumption is increasingly invalid in virtually all jurisdictions (Stager and Derkach 1992;3).

It has, however, indeed been used in other political jurisdictions, particularly in Australia, as a mechanism to ease the introduction of tuition fees after two decades of minimal levy. Johnstone has this to say about the relationship:

There is nothing wrong about making public policy with a mixture of motives, but those who advocate ICRP lending should be clear about exactly what it is they are advocating ... the public policy of massively shifting higher education costs to the students and their families should be faced squarely, not slipped in under the guise of alleged student loan reform (Johnstone 1995;9).

Whether the introduction of an ICLRP will necessarily introduce dramatic tuition increases is clear: the distinction between whether it leads to, or accompanies, increases in user fees is unimportant. In Australia, an ICLRP model was introduced to capitalize the expansion of the system; in Ontario, decreases Established Program Financing and the reduction in provincial transfers to colleges and universities have caused post-secondary educational institutions to look

elsewhere for funding, particularly to the users of the system. The political appeal of this student aid model is its use as an alternative financing arrangement.

It is therefore useful to necessary to consider how an ICLRP would address the impact of dramatically increasing fees on students with financial resources and socio-economic status.

### Student Price Response — The Econometric Approach

Economists have been at the front of the pack of those concerned with the relationship between rates of participation and the costs of attending a post-secondary educational institution.

Attempting to determine the relationship between demand and price in terms of their interaction and impact on participation in higher education has in part been informed by public policy concern over promoting access to the university and college system premised on the idea that control over price is a way of manipulating demand and participation (Stager 1989;46; Leslie and Brinkman 1987;182). Most of the studies concerned with establishing the tuition fee level at which participation rates are encouraged or discouraged have been carried out in the United States (Bryan and Whipple, 1995, and Leslie and Brinkman, 1987). Such studies have been much more rarely applied to the Canadian scene, as the system to the south of us is a mixed one, with wide variation in price stemming from the range of public, private, Ivy League universities, state schools and private vocational colleges, each typified by substantially different educational experiences and prices.

Demand theory stipulates that the rate of purchase of a product is a result of consumers seeking to maximize their total satisfaction (or utility) within the constraints imposed by their tastes, the prices of similar goods and the amount of their incomes (Archer. 1978;65). Demand can be illustrated in the form of a

schedule which shows the relationship between the likely amount of units sold at a given price. Most demand curves slope downward to the right, which means that so long as the other determinants of demand remain unchanged (i.e. the range of choice of goods and services), the lower the price of the good, the more of it will be purchased. Conversely, the higher the price, the less will be bought (ibid). There is, therefore, an inverse relationship between the price of the good and its demand.

There are, however, some difficulties in applying demand theory to higher education, given that higher education has never been designed or run on the basis of market principles, particularly in Canada. Tremendous subsidies have characterized the system, from federal transfer payments, provincial transfers and direct "user fees" subsidies in the form of student loans and grants, as well as institutional inducements such as scholarships and bursaries. In short, "[e]ducation with its many complex characteristics is more difficult to model than the demand for goods such as guns or butter" (Stokes, 1988, 33). As well, Stokes noted, demand theory can only be applied to a group of individuals who qualify for consideration to attend an institution of higher education, such as those defined as academically competent (Stokes 1988:34).

As applied to education, then, demand theory would support the view that high tuition fees will be negatively correlated with enrolment rates; that the availability of student aid would encourage enrolment in higher education and that finally, preference for, as it plays out in enrolment rates, at certain groupings or types of institutions will be a function of lower tuition fees (Leslie and Brinkman, 1987:181).

However, a compilation of econometric studies on the impact of tuition fee level on enrolment rates in the United States have shown that price elasticity of enrolment in response to changes to tuition fees is expressed as -1.0, meaning that



for every increase or decrease in fees of 10 per cent, there is an approximate change in enrolment of less than 10 per cent (Stager 1989;). Other studies have concluded that the relationship is quantified as -0.62 (Leslie and Brinkman, 1987).

Stager argues that the appearance of a weak relationship between price and demand with respect to higher education is supported by the fact that tuition accounts for about 15 per cent of a students' costs in enrolment in a Canadian university (1989;52). These other expenses habitually include rent, food, entertainment, clothes, the costs of travel, including that required to return twice a year to the family residence if applicable, and foregone income during enrolment. Stager then concludes that "a 10 per cent increase in fees would therefore be an increase of less than two per cent in the student's total cost of education. For this reason, changes in tuition fees generally have not had much effect on enrolment" (1984;53).

However, it was during the period of the growth in enrolment when tuition fees were stagnant. Enrolment and application rates began to steady as tuition fees experienced the dramatic increases of the last ten years.

Participation rates for Ontario universities dramatically increased in the 1980s, particularly in the middle of the decade. In 1979, almost 35 per cent of 18-year-olds were enrolled in first-year of a university program. That jumped to almost 40 per cent in 1981, reaching a high of 53.7 per cent in 1987. That number leveled off in the early 1990s, and has experienced small declines in 1994/95 and 1995/96, to the most recent figure of 46.6 per cent in 1995/96.

It was during this time of great increases in enrolment when tuition fees remained constant in relation to the inflation rate (Stager 1989;22). In the period of 1965 and 1972, there were no tuition increases permitted despite an inflation rate that was steadily increasing. But at the close of the 1980s, tuition fees began to rise. And during the period of 1988-1997, fees increased in excess of 100 per

cent. after having failed to keep up with inflation during the decade of the 1980s. For the academic year of 1988-89, the tuition fees (excluding compulsory non-academic fees) at Ontario's universities was \$1,411 for general arts and science programs and some second-level entry programs; \$1,531 for engineering and architecture, and \$1,794 for the schools of medicine and dentistry (Stager 1989:27). For the year 1996-97, general arts and science students paid a base tuition fee of \$2,950. And the proposed base tuition fee schedule at the University of Toronto for the year 1997-98 is \$3,196 for general arts and science, \$3,447 for first-entry professional programs such as engineering, and \$8,844 for first- and second-year dentistry students.<sup>22</sup>

Can the small declines in the enrolment rate of recent high school graduates be tied to the result of accumulated increases over the past decade? Two years of application data may tell part of the story. Application figures obtained by the *Globe and Mail* in February, 1996, showed that though only 1.3 per cent fewer high schools students had applied to an Ontario university (consonant with their fewer numbers), the University of Toronto experienced a 12 per cent increase in their application figures.<sup>23</sup> Other Ontario universities were not so lucky. The University of Western Ontario and Ryerson Polytechnic University each experienced a decline of 5.5 per cent, while applications to Carleton University in Ottawa fell by 20 per cent.

The relevance of the data did not escape the COU, the provincial university lobby group. In a memo directed to university presidents, the council wrote: "It is unfortunate that the caution to keep these statistics confidential has been ignored

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<sup>22</sup>Memorandum to the Business Board, University of Toronto, from the office of the Vice-provost and Assistant Vice-president (Budget and Planning)

<sup>23</sup>The Varsity, February 16, 1996, page 1.

but if we don't try to control the fall out we can look forward to story after story on tuition fees killing attendance..."<sup>24</sup>

The relevance of the numbers was to be found in the singular significant of the increase in applications to the University of Toronto. Four months prior, when the province allowed universities to increase their tuition fee revenue by 20 per cent, also the average individual fee increase, many forecast that students' mobility would be hampered.<sup>25</sup> While the overall, small decline in applications implied no real crisis in enrolment, students may have applied with the aim of avoiding paying costs over and above tuition fees, making the University of Toronto the beneficiary, since it has the largest population of 18-24-year-olds from which to draw. Though it can be argued that though Ryerson, York and Toronto should have similar application rates given that they draw from the same population, Toronto's success can be explained by its superior reputation. Given the choice of the three, Toronto was the favourite.

Another equally telling number is the enrolment rate of those entering the post-secondary education system directly from high school. The difficulty of determining this rate has been complicated in recent years by high school's inconsistent reporting protocol of their graduating students, numbers which are provided to the ministry in September preceding graduation. With the introduction of Ontario Academic Credits (OACs), a greater range in the length of completion of high school has resulted: completion ranges from four to six years. This has resulted in the inability to determine the proper applicant pool, due to the fact that the reporting procedures of high schools do not provide the ministry with the data

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<sup>24</sup>The Varsity, February 16, 1996, page 4.

<sup>25</sup>The Varsity, November 20, 1995, page 1.

which shows the number of OAC credits already obtained. The enrolment rate is therefore difficult to gauge given the unreliability of the true applicant pool.<sup>26</sup>

As well, the rate of enrolment does not reflect the enrolment rates of student groups within the aggregate. We do not know with any degree of certainty what the "ticket price" of tuition fees means to students with varying financial resources. It is therefore useful to revisit some older studies which provide insight into social class as it relates to attitudes toward attendance at a college of university.

### Socio-economic Status

Apart from considerations of the effect of the ticket price on the enrolment rate of students throughout the social class structure is that of socio-economic status.

There are, however, certain methodological difficulties in determining the precise class composition of university students:

First, it is not possible to generalize about students of low SES [social economic status] in higher education in the way that one can about women. This is partly because the category is itself less well defined; partly because the available figures are patchy; and partially because such evidence as there is, is ambiguous. In addition, the variables of type of institution and mode of attendance become important ... It may be that working class participation in higher education as a whole is increasing, but in the mass, not elite, sectors and institutions (in CFS 1992).

Despite this methodological difficulty, a number of studies show a positive correlation between a student's socio-economic status and their post-high school educational ambitions (Porter, Porter and Blishen, 1979;31). Going to university involves a number of different costs — the combination of the loss of potential

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<sup>26</sup>Interview with James MacKay, former director of the Student Support Branch at Ontario's Ministry of Education and Training, March 27, 1997.

income, books, rent, food, and the more or less up front payments expected in the form of tuition fees constitutes a substantial one-time expense.

It is also probable that the significance of the loss of income during study also differs among students from different socio-economic groups. In families where young people remain living at home and contribute rent and other household expenses, for instance, lost income would take on greater import. As well, for an increasing number of middle class students whose parents earn too much to qualify for grants and earn too little to substantively provide support for children in university, the choice to attend is sometimes not altogether clear.

Due to the importance of financial considerations in attending university, the choice to attend is even less clear for lower income students (Porter, Porter and Blishen, 1979;31). Given that the portion of the 18-24 cohort from lower income families tend to have a lower participation rate in higher education, cost no doubt plays a significant role. As such, the argument that high tuition fees drive away the children of lower-income families has been used by student advocacy groups to call on provincial governments to keep the tuition fee portion of education costs relatively low, such as the Canadian Federation of Students, the Canadian Federation of Students-Ontario, the Ontario Confederation of University Faculty, and the Nova Scotia Students' Union.

And the majority of sociological, qualitative research done in the past 25 years of research tend to support the assertion that the children from upper- and middle-income families are heavier consumers of post-secondary education (Dupre 1975; Porter, Porter and Blishen 1973; Profile of Post-secondary Students in Canada). However, a more useful cluster of characteristics used to describe those students more likely to go on to university include but are not excluded to financial attributes. This cluster of characteristics is termed "socio-economic status" (SES).

In tackling the question of whether financial barriers prevent high school students from continuing their education it is first important to show how strongly both students' education aspirations and expectations... are related to their social class.

Therefore, if students from lower income families are less likely to aspire to or expect to go to university than children from higher income families, it seems reasonable to conclude that cost must be a factor (Porter, Porter and Blishen, 1979;31).

Using the Blishen scale, SES is measured as a cluster of characteristics which can be used to *predict* their educational aspirations. At the basis of this scale is the division of students on the basis of father's education and income (*ibid*; 32). Porter, Porter and Blishen's research in 1979 showed a strong positive correlation between a student's likelihood of completing high school and their father's profession. When asked whether the student wanted to continue with their education or earn money, only 11 per cent of the children with fathers in a profession expressed their desire to enter into the work force (*ibid*, 34). At the other end of the SES scale, 40 per cent of students with low SES expressed their intention and aspiration to enter the work force upon leaving high school.

As well, 63 per cent of high SES Grade 12 students who filled out the questionnaire indicated either a desire to go to university, graduate from university, and/or carry on post-graduate work (Porter, Porter and Blishen 1979;36). This compares with 28 per cent of Grade 12 students of low SES who state the desire to do the same (*ibid*).

Other major studies concerned with establishing a relationship between university attendance and SES concluded with similar findings. In Anisef, Paasche and Turriffin's 1980 study of the attitudes of Ontario's high school students, SES criteria was updated to include and reflect both mother's and father's

educational attainment, as well as the both parents' professions and incomes (Anisef, Okihiro and James 1982;70). The sample included students from both rural and urban settings.

Though the participation rate in higher education substantially increased in the 1980s, there is no evidence to suggest that the relationship between social class and educational aspirations have shifted dramatically in the last 15 years.

### Emergence of "Equity" Concerns in Tuition Fee Debate

Low tuition fee policy has played a central role in a cluster of policies which encourage accessibility to higher education. It has been traditionally regarded as an instrument in facilitating the entry of the "non-traditional" student into institutions of higher education.

On the relative contributions to education costs on the parts of individual student and society, it has been argued that even in jurisdictions in low tuition fees, both parties contribute and both benefit, albeit in different ways:

[T]he student contributes his [sic] full share when he devotes years of his time, and sacrifices substantial earnings for his education... the student bears perhaps three-fourths of the economic cost of higher education in the form of sacrificed earnings. It seems unreasonable and unnecessary to load even more on him in the form of high tuitions to be financed, as is usually suggested, through loans. High tuitions are not an equitable method of finance (Bowen, 1968;26).

Low tuition fee policy does not in and of itself promotes accessibility. But policy recommendations stemming from research that deems universal subsidies in the form of student aid and low tuition inequitable may be interpreted as having renounced the old policy instruments viewed as integral in promoting access to the PSE system. A component of the language that leads to the different treatment of

the "problem" is the difference between equity and accessibility. It is posited as "inequitable" that those who do not attend are subsidizing those who can (Stokes 1988a). "Tuition fee determination has been blind to issues of equity among students, whether in terms of benefits received or ability to pay." (Dupre 1977;48). This notion was echoed in the 1981 findings of the Federal-Provincial Task Force on Student Aid, which incorporated the principle of cost-sharing in its recommendations: "Programs should place a fair distribution of costs, benefits and responsibilities on students, the Canadian public-at-large and on other sources of funding" (in Kucharczyk and Monette, 1981;233). Given the participation rates, it is noted that there no longer needs to be any inducement in the shape of subsidies designed to encourage the children of the middle class to attend, as this population subset regard attendance as routine (Stokes, 1988a;33, Leslie 1980;341). In the words of the Globe and Mail's editorial board, "[I]t seems unfair to ask the secretary to pay to send the office manager's kid to university."<sup>27</sup>

This is a sentiment expressed almost verbatim 150 years earlier in response to Egerton Ryerson's call for "a universal and compulsory system of primary and industrial education is justified by considerations of economy as well as humanity" (in Crowley 1973; 44). In 1846, editorial reactions in the nation's press expressed concern on behalf of Canada's rural folk, who would most certainly revolt at the idea: "men of property ... and farmers ... paying taxes to educate other people's children" (ibid). The idea smacked of communism, while "others forecast the doom of the entire system resulting from this abrogation of the principles of free enterprise" (ibid).

These political considerations also play out in the advocacy of greater differentiation in program charges at the level of the institution. For example,

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<sup>27</sup> The Globe and Mail, February 9, 1996, A20.



Dupre argues that programs which graduate those who anticipate a higher life time earning pattern are the very ones that benefit from the relatively homogenous fee structure, such as dental and medical students (Dupre 1977;50, and Kessleman 1994;60). "Differentiating tuition charges across programs (arts vs. sciences), levels of study (undergraduate vs. graduate), and in professional courses of study will be important for achieving equity and efficiency goals" (Kessleman 1994;60).

The idea that the wide availability of higher education lessens the differences in income and status has also been seriously challenged. There remains a wide perception that the distribution of income has remained quite stable, and sometimes has even become slightly more regressive, despite the growth in higher education participation (Stokes, 1988a;33).

Discussions about the need to achieve "equity," referring to the "unfair" lower-income subsidization of a system used predominantly by the middle class, have resulted in the call for higher tuition fees (Dupre 1977; West 1994). This change in focus is characterized by a shift away from the "promotional" approach to education planning designed to buoy demand, towards "accommodation," designed to simply address the surge in private demand for PSE. "[Policy] simply responded on the supply side to what was actually a private demand" (Stager 1989;46).

Though writing in 1989, Stager identified what has become a rather well-developed trend. Low tuition fee policy can be seen as a more "promoting," but since low tuition fee policy seems to have achieved the aim of buoying demand for post-secondary education, it is no longer perceived as necessary given the surge in private demand.

The difference in these concerns stem from the focus on the private demand for PSE rather than on former perceptions of the "transformative" potential of participation in higher education, transformative referring to the earlier

expectations that PSE's would play a role in minimizing the reproduction of class inequalities. This is perhaps the most important shift in the focus on tuition fee structure, which has made the spectre of a massive overhaul of the system politically feasible. In this scenario, the call for lower tuition fees to encourage the participation of all social classes is turned on its head. Lower-income people need not worry any longer about subsidizing the middle class.

But as in all social services, the decision to levy higher or lower user fees is indeed a political choice: "...[J]udging the extent of social returns is not easy and in the final analysis is a question of values. Value judgments in this context are political. Different groups of decision-makers might produce different solutions" (Crowley 1973;45).

#### General Criticism of Loan Programs

In addition to the critique of the accessibility of a system characterized by relatively low tuition fee policy, the fairness of a loan system as the major student aid financing mechanism has also been the subject of debate. From its very inception, Ontario's student assistance program drew criticism from a number of different lobby groups, including the Committee of Presidents of the Universities of Ontario (CPUO) and the Ontario Federation of Students (now called the Canadian Federation of Students - Ontario (CFS-O)) (Anisef, Okihiro and James 1982). These groups argued in 1971 that at the same time that Ontario student aid money in the form of grants was declining, so had the participation rate of children of lower income families (Anisef, Okihiro and James 1982;46).

When the Ontario government made professional and graduate students ineligible for grants in 1979, close to 3,000 graduate students and 7,000 professional students at Ontario universities were cut off from that form of student aid, two groups targeted as high income earning graduates and thus most able to

take on loans (Anisef, Okihiro and James 1982;46). This prompted the student lobby group to make the following charge: "As a result, it is in these programs where students from low income families are most under represented — graduate and professional programs — that [the Ontario Study Grant Plan] functions in the most retrograde fashion" (in Anisef, Okihiro and James 1982).

The CPUO also added to the criticism. The council released a report entitled *Towards 2000*, which included a critique of the assistance plan's emphasis on loans rather than grants. The report suggested that equity was not part of a system that required some to contract for debt while others did not by virtue of the class and economic position of the student's family:

There is a very real cost to being in debt, and it is difficult to see the principle of equity is served by requiring some to incur debts and others not. Equity is neither served nor denied by conferring a benefit on an individual that he did not previously enjoy. Equity must be determined by examining a person's position relative to others. When the benefit conferred imposes a penalty ... which is not required by others who enjoy the same benefit ... this is scarcely equitable (in Anisef, Okihiro and James 1982;45).

Evidence from the United States suggests that loans are not the most effective way of buoying the participation rates of disadvantaged groups. For instance, black students in the United States show a high degree of sensitivity in relation to the amount and type of student aid available (Carter 1988;11). Carter also argues that Black and lower-income students were particularly affected by the ceiling on the Pell Grants fund imposed in 1981 by the Reagan administration, who, on the basis of needs-testing criteria, were the major recipients of those grants (ibid, 14).

Some of the econometric studies concerned with this question also bear out these arguments. From the early 1970s through to the beginning of the next decade, enrolment rates in American colleges and universities remained relatively constant (St. John and Noell 1989;568). However, the participation rate of black and Hispanic students steadily increased, peaking in 1976, and is consistent with similar research done on the enrolment rates of other "non-traditional" student populations (St. John and Noell, 1989; 569).

During the same time period, the design and character of student aid packages in the United States changed significantly (St. John and Noell 1989;572). The percentage of applicants offered student aid increased from 26.8 per cent in 1972 to 30.7 per cent in 1980. Perhaps more significantly, the percentage of applicants receiving offers that includes scholarships or grants (non-repayable aid) increased from 16.1 per cent in 1972 to 17.9 per cent in 1980, and to 21.4 per cent in 1982 (St. John and Noell 1989;573). As well, while 16.5 per cent of applicants were offered loans as part of their student aid package dropped from 16.5 per cent in 1972 to 15.9 per cent in 1980. Part of this can be explained by noting that the early 1980s in the United States saw a sizable increase in the amount of resources set aside by institutions for grants and scholarships.

Additionally, with the subsequent decline in grants and scholarships and increase in loans, the enrolment rate of black students has too declined, leading some to conclude that the increased emphasis on loans had a negative influence in the participation rate of black students (St. John and Noell, 1987;574).

## **IX. Female Borrowers**

### Women and the job market in Canada

Student lobby groups have also made the case that an income-contingent model may import discrepancies in the wage labour market (Young 1994), which to this day reward men and women differently despite similar levels of education attainment (Wannell and Caron 1995). There have been tremendous gains born of the cumulative effects of feminism's consciousness raising efforts, a series of pay equity initiatives and the movement of women into unionized jobs. For instance, in 1979, women who had the same training, education and experience as their male counterparts narrowed the earnings ratio from 60 per cent to 80 per cent (Philips and Philips 1983:58). Unmarried women in the late 1970s earned 70 per cent of their male counterparts, and women between the age of 20 to 25, most of whom had will have had uninterrupted work experience, earned 75 per cent of men in the same category (Philips and Philips 1983:59). Based on statistics in the same year, the earnings ratio for women aged 40 to 45 dropped from 75 per cent to 60 per cent, demonstrating the importance of taking into account the effect of interruptions in women's work lives during child bearing years, a reality that persists despite a dramatic closure of the earnings gap.

The last 20 years have indeed witnessed a dramatic contraction in those gaps, according to the latest figures on the comparisons of male and female university graduates, which has perhaps been effected most dramatically by the rise of participation rates of women in higher education, particularly in the 1980s. But despite the overall gains in women's participation, certain areas of study remain the domain of male students. Instead, women are still concentrated in nursing and public health, the social sciences and education, fine and applied arts.

According to the most recent Statistics Canada figures, women comprised 67 per cent and 66 per cent of students respectively of those enrolled in education and fine arts, which have long had strong female enrolment, and 76 per cent of those in sociology, anthropology or demography (Wannell and Caron, 1995;1). At the other end of the scale, women represent only 14.6 per cent of students enrolled in engineering, 19.6 per cent in computer science, and 27 per cent in economics.

As well, the representation of women fall in each successive level of study. Women in master's programs represent almost 48 per cent of students enrolled, a fall from 56 per cent at the bachelor's level, and comprise almost 36 per cent of those enrolled in doctorate programs (*ibid*, page 6).

For the class of 1982, the earnings gap grew significantly over their first five years in the labour market (Wannell and Caron 1995;1-2). For the class of 1986, the earnings gap was basically the same two and five years after graduation. Overall, the difference in the reward structure for men and women grew from 1984 to 1988 and then shrank between 1988, based on the examination of both the yearly and hourly wage gap. Men worked an average of three to four hours more than women, reflecting the fact that women continue to be in large part responsible for domestic and child care responsibilities.

For the most part, the earnings gap between female and male university graduates has decreased from one graduating class to the next but grew within each class over time (Wannell and Caron 1995;12). Between 1984 and 1992, the female to male earnings ratio two years after graduation increase from 87 per cent to 91 per cent. Between 1987 and 1991 the ratio five years after graduation increased from 81 per cent to 86 per cent (*ibid*).

The persistent difference in earnings between men and women has serious implications for the establishment of an ICLRP. As Finnie and Garneau note, (as discussed above in the section on debt burdens), though the incidence and mean

debts contracted by both men and women are roughly equal, debt burdens are greater for women given women's lower wages and their departure from the labour market for child bearing and child rearing (1996;18). Though income earning gaps two years after graduation lessens with each successive cohort, the impact of an ICLRP without interest subsidies on women's different patterns of participation in the labour force due to taking time out to bear and rear children means women as an aggregate will face substantially more interest accumulation given loan repayments are based on a percentage of income, regardless of that interest rate is set. As outlined above in the section on debt burdens and debt-to-income ratios, repayment of relatively similar amounts borrowed by both men and women represents more of a hardship, except at the Ph.D. level where differences of income based on sex virtually disappears.

The former New Democratic government of Bob Rae in Ontario ran several scenarios borrowing policy parameters from the Stager and Derkach model, which showed the different costs of borrowing money for men and women broken down by area of study, given the average differences in men's and women's experience with the labour market. These models take the high end of the average debt upon graduation, and applies to it an income-sensitive repayment scheme. Repayment begins at 5 per cent of income, increasing by 2.5 per cent with every \$2,500 increase in income level, up to a maximum of 25 per cent of a graduate's income. Other parameters used in the modeling exercises included a student rate of borrowing is 8 per cent, and a repayment period of 15 years.<sup>28</sup>

Using these variables, the typical male arts and science graduate would repay a \$21,000 debt accumulated over three years of study in a general arts and

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<sup>28</sup>In anticipation of an ICLRP pilot project to be offered by the province of Ontario in September, 1994, the government created these models using David Stager's modelling for the COU in order to demonstrate the "look" of the proposed plan for graduates on the basis of gender and program of study.

science program over 15 years. With a repayment pattern predicated using the parameters outlined above, this male graduate would pay over the course of repayment a total of \$36,400 in interest, while a female graduate would pay \$46,725 over the 15 years. In both cases, at the end of the 15 years there remains unpaid debt. The female graduate would be forgiven for a total of \$13,468, while the male graduate would have \$5,567 in remaining debt. In fact, the only scenarios outlined in this modeling exercises in which the borrower managed to repay their entire debts are male law students and male master's level students.

What gets hidden behind these modeling exercises is how these issues play out in real life. In a speech given by Canadian Federation of Students researcher Caryn Duncan at McMaster university in 1994 provided an example of the life of a debt belonging to a 20-year-old female student who borrowed \$33,000 for a four-year bachelor of arts program, under an unsubsidized ICLRP at a rate of interest of 8 per cent. After beginning her employment period in a \$20,000 a year job, and having two children (requiring two stoppages in her repayments), at age 43 her principle remained at \$25,000.<sup>29</sup>

Some of the trends related to women's repayment burdens identified by Finnie in his extensive analysis of three National Graduate Surveys discussed above require special attention given their distinct repayment experiences. As previously noted, except for graduates of doctoral programs, debt burdens are greater for women given their persistent difference in wages. As well, the question of the difference in debt burdens across program of study also has much to do with gender. The concentration of women in academic programs leading to careers that promise less remuneration means there are systemic imperfections in the labour

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<sup>29</sup>Caryn Duncan, reprint of speech given at MacMaster University in October, 1994.



market. These inequities would be imported into a student aid system in the absence of extensive use of subsidies.

But it was in fact the cost of such extensive subsidies that prevented the former government from adopting an ICLRP. The New Democratic government based these modeling exercises on policy parameters identified by Stager and Derkach (1992) and additional considerations of equity. The interest rate, the income threshold and the life span of the debt were chosen in order to demonstrate how higher average per student levels of debt could be managed in a loan program with income-sensitive repayment features. However, according to policy analysts with the Ministry of Education and Training, the "out years" of the program was decidedly expensive. That is to say, the total amount in "ex-ante" grants in the form of forgiven debt remaining at the end of its determined life span outweighed any cost savings potentially enjoyed by tax payers.<sup>30</sup>

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<sup>30</sup>March 27, 1997, interview with James MacKay.

## **X. CONCLUSIONS**

It is undeniable that universities are facing unprecedented challenges in the closing years of the millennium. Funding commitments on various jurisdictional levels in Canada have fallen dramatically in the last decade. And though no form of income-contingent loan program exists in Canada, its promises of solving some of the problems created by the decline in public support.

The most notable living example of an income-contingent loan program comes to us from Australia, called HECS, where a "pay-later" tuition fees payment mechanism was introduced as a way of financing an expansion of the higher education system. In the process of reforming that system of higher education financing, two access-related principals guided the design decisions of the Australian government. Firstly, that a reliance, even partial, on the lending decisions of private banks to fund up-front tuition fees would jeopardize access, due to risk aversion on the part of these institutions and students.

In the Canadian context, some of the issues relevant to the establishment of an ICLRP posed by Chapman (1977) may be addressed, such as the problems associated with defaults partially flowing from fixed-term repayment rates and increasing debt-to-income ratios. But in terms of the proposals posed in Canada over the last five years carry come with them some unexplored problems.

For instance, some American data suggests a diminished effectiveness of loans in encouraging various groups of students from either economically or financially disadvantaged backgrounds to participate in post-secondary education would appear imprudent. The further entrenchment of the use of loans in replacing lost revenue in the PSE sector through the use of an income-contingent loan system should take place only after some public discussion of the plan's appropriateness and fairness.

If the evidence in all camps is inconclusive about the impact of low tuition fee policy, a move towards greater debt can only produce one outcome -- the status quo. Those who presently draw loans will most probably continue to do so, given that loans appear to be a major source of students' educational funding. Leslie offers the following on an income-contingent offering consisting exclusively of loans:

The basic idea [of ICLRPs] is far from unattractive, by any optimism that an all-out loan program would have little adverse effect on accessibility must be doubted... The income-contingent idea is of course designed to overcome "loan aversion" by eliminating the risk involved in borrowing, but the truth is we cannot predict how young people would react to a plan based on this principle (1980; 328).

An ICLRP will not necessarily enhance accessibility, let alone improve it: "...The regressive redistributive effects from low tuition fees and other subsidies may be eliminated by such loans..." (Stager 1989;125). Such was one of the policy assumptions of the Australian government: that an equitable expansion of its system of higher education was best achieved by turning to its users for more revenue.

However, there are trade-offs between the benefits of an ICLRP in terms of the introduction of a more flexible repayment schedule and the impact of the shift to further entrenching a reliance on tuition fees and student loans to finance post-secondary education. Though may address some of the problems associated with the "back-end" of an income-paced repayment schedule, reconfiguring the "front-end" carries hazards associated with the accessibility question which must be considered in the design of ICLRP.

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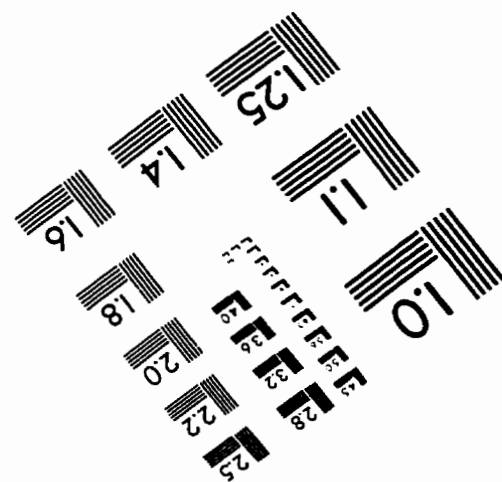
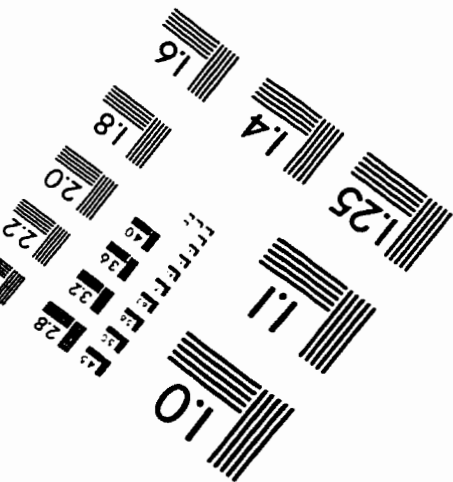
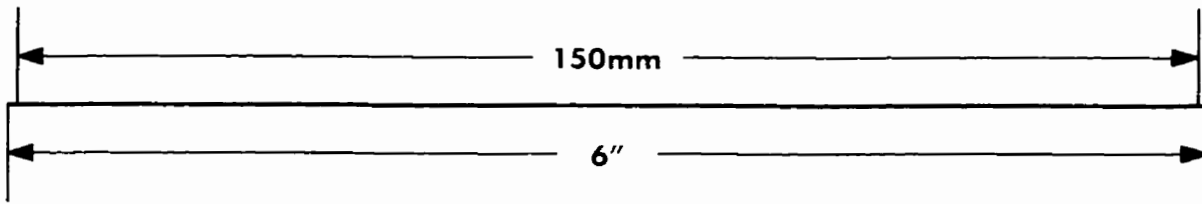
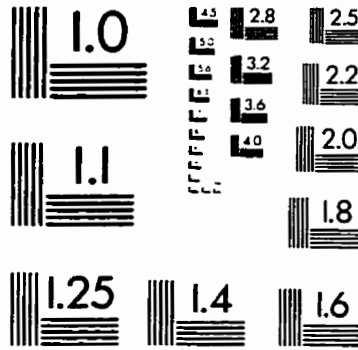
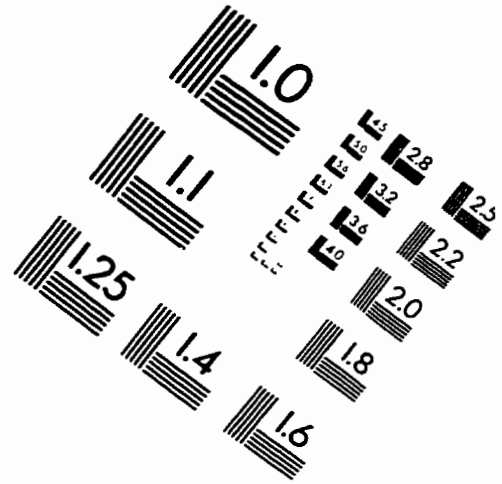
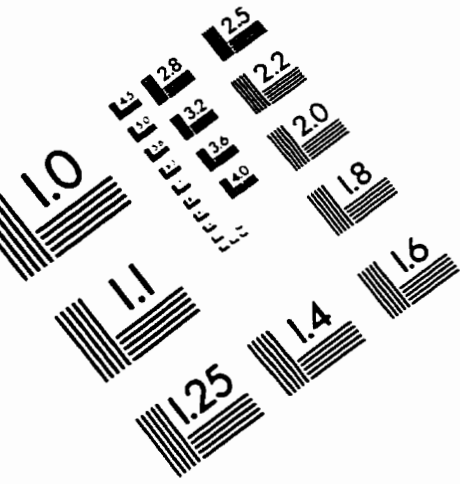
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