Finance challenges for Public PSE Today

- Low profile of PSE.
- Rising demand, increased social need, competing spending priorities.
- Neo-liberalism: privatization, user-pays.
- Unpopular tuition increases:
  - UK: 1998 introduction of fees
  - Canada: from $2000 to $4000 in 12 yrs.

Recent trends

- Decline in funding as % of GDP.
- 25% decline in gov't funding per student.
- Increase in student-faculty ratio.
- Strained capacity relative to demand
- Almost 2x increase in tuition (last 12 yrs).
- Fewer grants, more loans.

Recent Funding policies

- New transfers for individuals – Millenium scholarships, student loan forgiveness, tax credits, education savings grants
- Slanted toward mid-upper classes.

The future?

- Increase in expected participation rates
- Little increase in carrying capacity of gov't budgets
- Pressure for tiering:
  - Creation of low-budget subsidized sector, self-financing elite sector.
  - High vs. low cost programs

Tuition and accessibility: Low tuition side

- PSE as a public good.
- Large participation gap between high and low socio-economic status (SES) groups.
  - Keeping the poor out.
- Ghettoization of some sectors of PSE.
- Canada: growing deregulation of tuition (Univ. of Toronto Law - $22,000)

Other issues

- High user fees → private good?
- Should higher ed be seen as an economic investment?
  - Privatization and corporatization
  - Social and civic returns.

- Pay for higher ed through progressive tax system?

Reality check

- Real participation barriers: social and cultural capital. Parental education.
- Real behaviour vs. perception
  - Paradox? High fees (Ont./N.S.) correlate with high participation.
  - Frozen tuition provinces (BC, Quebec): lower participation, more selective admission.
  - Enrollment choices based more on grades than ‘sticker price’.
  - High achievers from all SES groups have almost same participation rates.

Conventional Economists’ view

- PSE increasingly a private good. Payoffs.
- Markets and competition better than shortsighted gov’t managerialism.
- Shortcomings of tax-financed PSE:
  - Regressive: Subsidy to higher income groups.
  - Inevitable choice between **insufficient capacity** or **low quality.**
- Sometimes recommend ‘user fee’ model.

Markets in Higher Ed

- More efficient and productive university sector.
- Eliminate ‘useless’ disciplines.
- Fees→reward excellence→compete with U.S.
- Fear of free-riding (province-switching) keeps gov’t funding too low.

Canadian Response to the Financing Squeeze and Tuition Burden

- Higher student – faculty ratios.
- Reconfigured funding:
  - Targeted research funding. More teaching-only faculty.
  - New transfers to individuals: Millenium scholarships, tax credits, etc. (all regressive)
- Problem of fed / provincial coordination – PSE grants from feds bundled with health funding.

Smart funding - ICR

- ‘Beneficiary pays’ (on deferred basis) rather than ‘user pays’. Payment scaled to eventual income.
- Increased borrowing funds expansion.
- Allows targeting of new and existing public funding toward greatest need.
- Better redistribution: helps poor, risk-averse, non-beneficiaries, non-utilitarian users.
- Solves failure of credit and insurance markets in developing human / intellectual

capital.

Mid-90's: ICR rejected in Canada

- Neo-liberal reforms, student protests.
- Fears of displaced public funding, debt burdens.

Lessons from the UK

- Large participation gap, under-funded system.
- Blair government's target of 50% participation.
- Fees introduced in 1998: cover 25% of teaching costs; public PSE spending < 1% of GDP.
- Limited ICR loans.

2003 White Paper and subsequent Reform

- Now variable capped fees: $2500 - $7000.
- New ICR scheme: Full coverage (tuition and living costs) – no up-front costs.
- Grants for low income students.
- Repayment threshold ($34,000) set near avg. income.
- Gov't increased spending by 6%. (shared cost)
- New capacity targeted at non-research institutions.

More on new policies

- Top-up fees: conditional on meeting widened access objectives.
- Increased applications for admission.
- Increased fee revenue used for bursaries for:
  - Poorer or minority students.
  - Less marketable disciplines.

Advantages of ICR for Canada

- Sustainable model of expansion.
- Alternative to outright deregulation of fees, begging for corporate money, pressure for elite 'split-offs'.
- May solve fed / provincial coordination problems.

What kind of ICR?
The devil's in the details.

- Universal access to loans.
- Interest subsidy or not?
- How much will be covered?
- Supplemented by non-repayable assistance for lower SES groups?

Advantages (cont'd)

- Eliminates free-rider problems.
- Supports risky, open nature of PSE.
  - Parity among utilitarian and non-utilitarian uses of PSE. High-paid careers, etc.
  - Frees students from parental influence.
- Encourages broad 'social contract' mentality about PSE

Cautionary note

- Is excessive fee differentiation necessary for success of ICR?
- Does ICR (a new social insurance program) legitimize more actuarial approaches by governments?
- Not a substitute for strong public funding.

A related policy challenge: Fee regulation or deregulation?

- US- style variable tuitions, mixed public and private system.
- Deregulated fees → Wasteful competition
  - Status competition:
  - Institutions are competing 'brands', compete for best students.
- High tuition → recycled as 'aid → merit rather than need based aid.
  - Expensive amenities, star professors, greater inequalities among universities.

Lesson:

- ICR is best policy.
- But: shouldn't be used as a fig leaf for:
  - Large tuition increases
  - Tuition deregulation
  - Institutional tiering.