Framing the Tuition Question Differently

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Introduction

In the current debate over postsecondary reform the question of 'Who pays?' is bound to steal the headlines and occupy the energies of the political and intellectual protagonists. In my view, in order to untangle and clarify the problems of affordability and access in Ontario's university system we must go further, and try to understand that the question of 'how we pay' is equally as important. Here we need to keep our eye on a number of recent trends. Many national and international jurisdictions are experiencing rising higher education participation rates and lower per student funding, and the correlation between these two factors is becoming increasingly evident. In Canada government funding of institutional operating budgets has fallen 17% from a decade ago and tuition has increased by 133% (Junor and Usher, 2004). Bodies like the Council of Ontario Universities (COU) are projecting a 37% increase in University enrolments by 2010 (COU, 2004). In the meantime, higher tuition has prompted increases to certain categories of financial aid in the light of the important societal goal of ensuring access and inclusion, the economic goal of adapting to the so-called 'knowledge economy' and the institutional goal of attracting the desired number and kinds of students.

The area of postsecondary funding and access confronts governments and active policy stakeholders with a number of political choices and dilemmas which are the subject of intense public debate. However, it is my contention that the meaning and consequences of these choices are often obscured by the continuing prevalence of models that are no longer suited to today's reality. Take for example the debate over the decline of public subsidy and the trend toward higher real rates of tuition. The case for high levels of public subsidy cannot be ignored, either on moral grounds or on the grounds of ensuring wise policies toward investments in public goods and social/intellectual capital. At the same time the desire to protect the level of public subsidy must be placed in the context of contemporary developments. For example, in a knowledge-intensive society the burden of paying the costs of higher education is unlikely to be absorbed by economic growth alone. Unless we are prepared to tolerate significant declines in quality or unmet demand, sustainable funding for postsecondary education will consume an increasing proportion of government funds or family income, or both. Even if we place the blame on rising credential inflation (Collins, 2002), the transition from elite to mass higher education is unlikely to abate, and it appears that we are in need of new policy models and options that cannot easily be mapped onto the pre-existing public discourse.[1] In what follows I want to discuss two important examples of the way this tension is being played out, with a focus on current debates in Ontario. The first case concerns the issue of the shift toward tuition-offsetting assistance for individuals, including proposals for income contingent loans. The second example is the drift toward tuition deregulation in public university systems in general (such as those found most recently in the 'Rae Report') and the unacknowledged – and perhaps unintended – consequences of such a policy.

Changing Systems of Subsidy and Support

It is a common mistake to say that the most important changes in postsecondary funding for families and students can be expressed in a sort of quantitative manner, i.e., in terms of the declining proportion of public to private costs. Although this quantitative dimension remains important politically, it is arguable that many of the most relevant changes are taking place at a structural level, particularly in terms of the composition and type of government assistance, subsidies and transfers. In particular, there is a shift in government spending away from direct institutional grants toward tuition-offsetting aid where grants and tax credits are allocated directly toward to eligible (admitted) students. In these cases universities find that money follows students, and institutions must therefore compete for enrolments (Slaughter, 2001). Governments

[1] I have discussed the sociological and political implications of this transition at greater length in an unpublished paper entitled "The University Student in a Reflexive Society: The Problem of the Student-Consumer" (2004). Many passages in the final section of this discussion are based on that study.

are also being asked to play a more constructive role in both rationalizing and alleviating the burden of student debt.

In addition, recent studies have shown that direct government support to students has taken a distinct turn toward non-need based assistance. This raises important issues about the effective targeting of government assistance (Junor and Usher, 2004). Because of the nature of long-standing tax incentives for parents and students, rising levels of postsecondary participation and higher tuition costs bring even higher levels of tax credits for those enrolled in postsecondary education. This approach clearly has a perverse effect from the standpoint of equitable access and burdens. The nominal costs of postsecondary tuition fall on all students equally, but higher-income students and families receive most of the benefit of tax deductibility, not only because these groups have higher marginal tax rates, but also because higher-income groups have greater levels of participation. As tuitions increase, this regressive impact will automatically worsen. Of course, it is true that need-based grants have been marginally improved with the introduction of the Canadian Millenium bursaries introduced in the late 1990's. However, these have been offset by new regressive measures (introduced at the same time) which awarded Canada Education Savings Grants for those families who are able to save for their children's prospective college or university careers. It is therefore easy to see that, from a social assistance standpoint, Canada's system of postsecondary finance can be fairly accused of upper middle class bias.

The Rae report (2005) recognizes the need to re-focus direct student support to address affordability and access while taking remedial action against two decades of declining quality. One proposal is to boost support for low-income college and university students by providing full tuition grants for students with family income below $22,615 and partial waivers for families up to $35,000 (Rae, 2005, p. 72). This targeted assistance would be used to offset potentially large increases in fees for middle and upper income groups as recommended by the report for 2006-07. Rae correctly acknowledges that there is little point in lowering postsecondary costs for needy students if these same students are less likely to possess the social and intellectual capital required to gain admission and succeed in higher education. Despite his understanding of the structural dimensions of the problem, there are flaws and blind spots in Rae's preferred approach to targeting support. For instance, Rae places an unwarranted degree of confidence in a plan to boost Education Savings Grants for low income families. On the heels of a federal initiative in early 2004, Rae believes that extra savings incentives (providing extra matching amounts of

40%, rather than the normal amount of 20%) for low income families holds great promise. What he doesn't see is that increased savings by low income families is counter-productive. If successful, such incentives would induce poorer families to steer their scarce resources away from the very activities that bring the cultural capital (educational preparedness and childhood enrichment) which Rae himself says is necessary for a truly inclusive and accessible system of higher education.

As I have already mentioned, tuition increases, accompanied by targeted tuition and loan relief for lower income students is already becoming part of the landscape in Canada and other countries such as the UK. In some respects the Rae report correctly sees that a 'higher tuition' policy does not by itself mean that we would be achieving expansion and quality improvements at the expense of accessibility. This is because the conditions for expanding higher education in a fully tax-financed system are bound to be limited by the politics of annual state budgeting. In turn, a system which fails to meet demands for expanded participation will have no chance of overcoming the current bias toward the participation of economically advantaged groups who possess the required levels of cultural and intellectual capital to receive admission to selective institutions.

The Case for Income-Contingent Loans

Solutions to these dilemmas seem difficult, largely because we cannot think about higher education as akin to other subsidized social programs. Of course, there is every reason to maintain a strong level of public subsidy; but our system of financing higher education policy has tilted this subsidy in the wrong direction, namely, toward supporting those students who need the least assistance or incentives. What is clearly needed, then, is a 'smarter' approach to targeted assistance. The UK government has recently adopted such a plan, which I have discussed in greater detail elsewhere (Wellen, 2004; Goodman and Kaplan, 2003) and which the Rae report endorses as a subject of future discussion between the provincial and federal governments. The cornerstone of the policy is to raise additional funding for both quality improvement *and* increased participation by modestly increasing government funding and allowing universities to raise tuitions from $2300 to a maximum of $6500, with little fee variation among programs. Most students would have the choice to defer payment of both tuition and living expenses by enrolling in government-run income-contingent loan scheme which would only be repayable if and when income rises to the national average (with repayments at a rate of 9% of income above that amount). Lower income students would have most or all of their tuition covered by non-repayable student grants, and universities would be required to provide either expanded enrolments, financial assistance (or both) for disadvantaged students if they want the full funding available to them.[2] University funding would also increase and fewer students will be deterred by high sticker prices.

The advantages of this system of 'smart funding' are many. In the first place, income contingent loans are the best means by which government can insure the costs and risks of students' investments in their own intellectual capital. Although total private costs will likely rise, a system of publicly insured student debt would guarantee that this burden would only be assumed by financially successful graduates. Secondly, it targets tuition discounts where they can do the most good - on the basis of financial need - and even threatens penalties for institutions that pursue admissions policies that fail the test of socio-economic inclusion.

Perhaps most importantly, smart funding has the potential to transcend some of the more shrill notes in the ideological debate around postsecondary finance. From those on the right we hear that increasing private contributions are justified in the light of the significant and growing private benefits of higher education achievement. In economists' terms, reducing subsidies will allow us to use markets to "get prices right." Many economists support income-contingent loans – often as an *alternative* to subsidies – in order to overcome the failure of markets to provide the kind of lending needed to support human capital markets. This is because human capital is not the kind of alienable asset that can be offered as collateral to prospective lenders. Beyond this, however, the neo-liberal right suggests that lower subsidies and higher tuition will introduce more market discipline, leading students to demand greater accountability from postsecondary institutions, and, especially, more services and curriculum options that are plugged into students' labour market needs.[3] What these views often ignore is that society itself benefits from subsidies to higher education because higher education is both a 'public good' and an 'experience good'. It is a public good because it provides benefits that are consumed collectively and therefore cannot be priced in an effective way. It is an experience good because the process and experience of

[2] It is not certain how successful this aspect of Tony Blair's 'Widened Access' policy will be. Although an 'Office of Fair Access' has been established, it appears that many universities will be given a free hand to determine whether to offer supplementary assistance to admitted students or to ensure that access is achieved by adjusting admissions criteria and policies.

[3] We also hear echoes of the neo-conservative belief that if the poor were more responsible, and could defer present consumption in favor of saving for the future, they would need to rely less on wasteful public subsidy.

questioning and discovery remains open, critical and curious in a way that is not supported by the market and utilitarian frameworks. One of the more important functions of advanced learning and reflection, is to change and/or challenge the person or society whose interests you want to serve. In this sense, the model of the normal markets – where consumers have full knowledge of their wants and needs – does not apply.

By contrast, from the left we often hear that increased funding should be drawn from progressive income taxes rather than from tuition paid from income contingent loans. This, it is argued, would have the happy result that, for the most part, the beneficiaries of higher education will pay a proportionately higher amount, much like the cost-sharing goals of ICL plans. Since 1992, the left-wing critique of ICL has not been without advantages, since there are obviously many reasons to draw increased funding from government budgets, and to ensure that ICL is not used as a 'fig leaf' for neo-liberal withdrawal of state support. However, the left's antipathy to ICL has a number of shortcomings. In the first place it doesn't account for the fact that the appeal for higher postsecondary budgets will always compete with inevitably more popular health and social spending demands which are certain to make more successful demands on government coffers. Secondly, there is little acknowledgement on the left that tax-financed funding itself may be inegalitarian, in an area like higher education. Higher education is a social service area where both participation and the political market for fiscal allocations is strongly dominated by middle and higher income groups. It is not obvious that these groups have an organized and sustainable interest in expanding access and system capacity to the same degree as affordability. Finally, the left's equation of low tuition and affordability is misleading and inflexible; it does not offer a built-in way of addressing the non-tuition costs of higher education as successfully as ICL (and other student loan programs that scale borrowing to both tuition and living costs).

What makes the ICL model attractive is that it can provide a pragmatic platform for sustaining the kinds of progressive higher education financing ambitions that would otherwise be undermined by either the narrow market-based approaches of the right or the tuition myopia of the higher education lobby. More specifically, it avoids the binary choice of whether the state or the 'user' should pay (in a policy area where coming down on one side or the other will mean an unacceptable trade-off between fairness and efficiency). Since higher education is the type of good for which 'ability to pay' and the experience of benefits cannot be known up front, it is *both fairer and more efficient* to scale payment obligations to income after graduation. It is significant that ICL allows contributions to be scaled to the life-cycle of students. This is the best way to properly differentiate between those who are current 'users' - who are all either poor or dependent on parents - and later 'beneficiaries'. Indeed, insuring graduates against an "inability to pay" adds an element of fairness that blanket tuition subsidies to current users cannot. In fact, the fairness of this arrangement is paid for by its efficiency since the state needs to spend less on supporting participation from groups who have a high marginal propensity (and support) to participate anyway. This efficiency gain will also have a large benefit from a social equity standpoint as well, since it will help pay for the kind of targeted means-tested assistance and tuition discounts that most Canadians would agree should be afforded to lower-income postsecondary aspirants.[4]

The Dangers of Fee Deregulation

I have argued here and elsewhere that the debate over rising tuition and the extent of public subsidy in Canada's system of public higher education has been conducted in a way that often obscures the need and opportunity for rethinking the deep structure of our approach to financing. As a result, we have a funding crisis which, in turn, has meant that public higher education is under pressure to adopt policies of tuition deregulation and to free 'elite' institutions and programs to differentiate themselves in the market. A recent submission by the Council of Ontario Universities to the Bob Rae Commission provides a hint of the conflicting priorities and coming struggles. On the one hand, the COU document includes the usual prodding of the provincial government to boost per-student funding and to ensure the long-term operating and capital resources to accommodate higher participation rates in the province. On the other hand, however, the COU asked the government to

> introduce institutional flexibility in the determination of tuition fees, allowing each university's governing board to exercise its authority to determine fees, program by program, based on analysis of the value of programs in a competitive market, the resources that are needed to provide a high quality learning experience for students, and the capacity of the university to help ensure that no student is denied access due to lack of financial means (COU, 2004).

[4] For a longer discussion of these points see my "The Tuition Dilemma and the Politics of Higher Education" (2004).

In the end, the Rae report sided with the COU proposal for establishing fee-setting autonomy for standard undergraduate programs.[5] The new policy would have some minor conditions attached. High fee institutions must agree to supplement standardized government fee rebates for the (small number of) low income students they would have to accept. Beyond this, universities would be required to guarantee transparency and predictability of fees and available assistance at the point of admission.

Among the many problems with this recommendation – which was not unanimously accepted even by the COU's own member institutions - is the lack of a convincing and cogent rationale. The report states:

> Greater tuition fee variation will promote institutional and programmatic differentiation, by accommodating the unique revenue needs associated with different approaches to program delivery, student services and quality enhancements (Rae, 2005, p. 102).

Unfortunately there is no explanation about why, if universities and programs have different revenue needs based on their missions and services, at least some of those needs might not be met better by differentiating levels of support from government according to program need. Alternatively, if the goal is to introduce market competition, fee variability would have little to do with mission-related revenue needs and everything to do with pricing power in the market. To make matters worse, the introduction to the report (p.23-24) cites changes in other countries, concluding that the "the weight of evidence clearly points to the need to shift the locus of the tuition decision from central planning to the individual institution" (Rae, 2005, pp. 23-24). Once again, there is no evidence cited in support of this proposed change. In fact, the international examples of higher education reform that the report does mention (such as England and Australia) all include very strong government-mandated bands and ceilings for tuition, albeit at higher rates than before. Nevertheless, after a vague reference to combining "excellence and accessibility" the report continues:

> A ceiling on all tuition fees across all institutions is a blunt and ultimately unsuccessful instrument to promote accessibility. Controlling up-front costs through grants for lower-income students that eliminate or reduce fees, and better loans for middle-class students, is a better approach (Rae, 2005, p.103).

[5] Such autonomy already exists for selected graduate programs and most professional programs in the province of Ontario.

Even a casual reader of my analysis to this point will note that Rae has allowed the rationale for smarter funding (where tuition is offset by income-contingent loans and tuition rebates for low-income families to ensure accessibility) to be conflated with an entirely different argument for deregulating undergraduate tuition fees, that is, for opening the core of our public university system to market pricing.

Against Deregulation

It is beyond the scope of my discussion to speculate about why the Rae report, one of the most exhaustively researched reviews of post-secondary funding ever conducted in Ontario, should be marked by such gaps and inconsistencies of reasoning in support of one of its most important policy recommendations. What we can do is try to remedy these gaps by examining the evidence and studies that have emerged in the United States about that country's system of competitive pricing and recruitment.

Let us assume that public higher education funding has reached a crossroads for all the reasons we have highlighted above. In this context, quality, capacity and accessibility are now threatened by funding shortages, and it is even arguable that higher tuition may be needed to supplement whatever additional funding may be coming from government. Does this mean that the answer is for government to encourage and allow the pricing of higher education according to "the value of programs in the competitive market?" In order to answer this question, many scholars such as Robert Frank and Gordon Winston have pointed to some of the perverse and unintended consequences that are intrinsically associated with prestige competition and pricing in credentials markets. In their view, it is evident that American universities find themselves locked into a "positional arms race" with each other (Frank, 2002; Winston 1999; Winston and Zimmerman, 2000). One obvious example of this phenomenon is today's intensified competition for "star" researchers. Big name professors have an enormous impact on the reputation of academic programs. What's interesting about the compulsion to spend large sums of money to attract big names is that it does not necessarily lead to efficiencies in the same way as 'normal' processes of market competition do. The strategy of attracting famous professors offers the prospect of acquiring more highly visible markers of prestige than one's competitors, and it can therefore force competing universities to pursue this strategy over less visible alternative investments, such as improving the curriculum or admitting more students (Kirp, 2003).

Of course those who support competitive pricing will reply by saying that markets are doing their job, rewarding the best and punishing the worst, so that consumers or society as a whole benefit. But the problem with prestige competition is that gains are normally offset by how much each competitor must spend to keep up with others. Once again, this is because prestige is a positional good (the amount that exists can't increase, only some can have more than others), and, *by necessity*, competing efforts tend to leave everyone worse off than if neither had spent resources on it in the first place. Each competitor must respond to its counterpart's success without the competition itself benefiting society.[6] In fact, because at an aggregate level all programs must ratchet up the amount they spend on competing as compared to what they spend on improving their academic performance, this positional arms race becomes a race to the bottom. Each will have spent more on elite professors and each will have to offset that expense by hiring more low-paid contract faculty and graduate students to teach courses and sustain the curriculum. Even worse, as proportionately more resources and effort go to supporting the elite professor, or the elite department, institutions will likely have less ability to support the collegial life and resources of the institution (Kirp, 2003).

Of course, the same kind of positional arms race occurs with respect to competition for the best students. Universities have an interest in attracting the best students in order to attain positional advantages over their competitors. By contrast to most consumer markets, the customer is not just a recipient, but also a vital input into the delivery of the service (Frank, 2000; Winston, 1999). In fact, the quality of educational experience one can offer depends in large part on creating these "peer externalities" whereby the value of the learning and credentialing each student receives is improved by the presence of other good students. This is why selective admissions standards signal high prestige as well as a better product. In some ways this kind of sorting may add value, creating advantageous groupings at all levels of the system, and perhaps sharpening the focus of each institution. In the process, however, universities compete extraordinarily hard to increase their relative share of 'good' students, of which there is a fixed amount within a given pool of applicants applying to a group of competing institutions. Since one is always most vulnerable to one's nearest competitor in the prestige hierarchy, and since that competitor might try to gain an edge through more aggressive recruiting, the costs of competing are likely to rise far higher than any offsetting benefits in terms of educational quality. Reciprocal

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[6] My formulation of this problem is indebted not just to Frank and Winston, but also to Joseph Heath's *The Efficient Society*.

and offsetting moves by competitors lead the sector as a whole to assume higher average competition costs – or average prestige-maintenance costs -without any corresponding increase in the quality of the product or service they offer to students or society at large.

One of the most socially problematic forms of competition for students is the awarding of merit aid to more qualified applicants (McPherson and Shapiro, 2002). The Rae report is silent on this important issue, providing no recommendation to the Ontario government about how to ensure that, as tuition revenues rise, there will not be an undue escalation of merit awards as compared to needs-based assistance. Neverthess, with the exception of fee rebates for the poorest students, everything about his proposed policy leads in this direction. Once again, the problem is 'who pays?' Presently in Canada most direct non-merit financial aid to students (outside of regressive tax credits and savings grants for parents) is awarded by government on the basis of need to students who have already made an enrolment decision. This type of assistance allows students from different socio-economic backgrounds to pay different prices for higher education. Clearly it is socially beneficial when prices are lowered for those in need, not only because of social justice concerns, but also because price incentives are less necessary to attract highly qualified students into the system (due to the high correlation between high academic achievement and high socio-economic status). Most importantly, when governments provide this assistance the payer has no competition-based incentive to shift student aid from needs-based aid to merit aid.[7] Unlike individual institutions, government has no interest in boosting the relative peer quality of any given university over another. Once again, since prestige is a positional good, adding costs to the way the prestige orderings are achieved and maintained makes little sense for governments, especially since it will increase the overall demand for government funding. For this reason, when the previous Conservative government in Ontario allowed universities to increase tuitions, it also required those institutions to recirculate a portion of those revenues as needs-based student assistance. Although this was one of the few positive policies adopted by that government, the Rae report recommends it be dropped.

If I am right, the proposals of the Rae report are a recipe for importing some of the worst practices of American universities. These universities place a far greater emphasis than that of their Canadian counterparts on competitive tuition discounting, or merit assistance awarded

[7] This is analogous to the advantage of Canada's public, single-payer health care system over that private insurance plans. Private medical insurance is not only unfair to those who are uninsured; it is also fraught with inefficiency due to the costs of managing moral hazards, or competing for the best part of the risk pool. See Heath (2002).

directly from institutional budgets, as well as other expensive practices such as direct marketing to high-ability students and sophisticated individualized bidding for these high ability students at the application stage (College Board, 2004). American university admissions offices will go to great lengths to identify which students they must attract with discounted tuition and which students will want to pay a higher price to be grouped with high-ability peers (Geiger, 2002). Because merit based price discrimination - and the credentialism that corresponds to it - is so pervasive, American college-bound students are hiring more university consultants (and spend far more on preparation for admission tests) in order to achieve admission to more selective institutions or win cheaper prices at somewhat less selective institutions. Universities have also been spending more on expensive on-campus amenities, and those who refuse to play this game pay a big price. (Kirp, Levine)

Practices like these have been identified as one of the main reasons that American universities have grown both more expensive and unaffordable to students from lower-income families, who are losing more than ever before by their continued exclusion. The average level of tuition discounting in the U.S. is 39% but, due to the increase in merit aid, the proportion of tuition discounts going to higher-income students has more than doubled since 1995 (Goral, 2003). Of course, one might argue that competition for merit-based tuition discounts may give greater incentives for students to improve their academic performance and for universities to improve the quality of services they provide. However, the practice has come under increasing criticism (Goral, 2004). The biggest impact may be the widening segregation of institutions in the prestige hierarchy (Reich, 2000). This is because competitive pricing compels 'high prestige' universities to use a higher proportion of their tuition revenue to attract better students and faculty, while low prestige institutions must compete on the basis of low price.

Conclusion

As higher education becomes more decisive for economic security and social empowerment, it is unfortunate that Canadian jurisdictions such as Ontario, Alberta and British Columbia are heading down the road of tuition deregulation. As I have shown, governments need to be attentive to the difference between higher education markets and normal or 'classic' markets, and how full fee variability may push competition expenses higher, thereby importing some elements of the American system that have compromised equitability and efficiency. It is undeniable that, until now, tuition regulation has been a large part of the reason Canada's universities are regarded as a "community of equals," all serving students across a sustainable range of quality programs (Quirke and Davies, 2002). One of the best ways to avoid (or reverse) this trend is for the federal government to improve provincial transfers for postsecondary education, and also to move quickly to adopt ICL as the foundation of Canada's student loan system. This would create pressure for provincial tuition levels to 'shadow' loan limits in the federal plan. However, this is unlikely to happen until the higher education lobby can organize itself differently and focus on the difficult higher education financing issues that lie beyond the issues of state subsidy.

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