INCOME CONTINGENT LOANS:

Inequity and Injustice on the Installment Plan

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Those who stand on neutral principles often wish to be neutral in the political sense, and they avoid taking a stand in deference to the pluralism of the forces in the field. It is for them that Machiavelli reserves his greatest scorn: "As a general thing anyone who is not your friend will advise neutrality, while anyone who is your friend will ask you to join him, weapon in hand." Taking sides, weapon in hand, is not a sign of zealotry or base partisanship; it is the sign of morality; and it is the morality of taking sides, of frank and vigorous political action.

Stanley Fish, *The Trouble With Principle*, 2003

A new favorite among deceptive labels is "reforms," whose meaning is inverted, being applied to any policy dedicated to undoing the reforms that have been achieved after decades of popular struggle.

Michael Parenti, *Monopoly Media Manipulation*, 2001

INTRODUCTION

In *Much Ado About a Very Small Idea* Alex Usher stakes out a novel position on the issue of Income Contingent Loan Repayment Schemes (ICR). Instead of taking a position on the controversial funding model, Usher adopts a sage-like position and dispenses advice from above the fray:

> It may be more sensible given the negative connotations that ICR has accumulated over the years, to abandon discussions of ICR *per se* and concentrate instead on the actual program features that appear of value. (16)

Of course, for Usher what is of value is a given and presumably so obvious as to not require debate. However, by shifting the debate away from ICR *per se* and toward specific details Usher merely sidesteps the debate for strategic reasons rather than settling the more vexing assumptions at stake in the philosophy and practice of ICR policy. Usher's paper, released shortly before Bob Rae's recommendations for a major overhaul of Ontario's system of post-secondary education, was a pre-emptive strike against a debate he assumes will be "long on passion and short on analysis" (3).[1] Given that Rae has already generated substantial controversy with his confident and magisterial pronouncements on tuition fees and student debt, Usher is unlikely to succeed in defusing the vigorous debate Rae's recommendations are generating. However, in what follows, I want to argue that what Usher seeks to disarm is the very marrow of the debate about tuition fees and student debt. Both issues are inimical to the kind of student financial assistance model you design. Yet throughout his argument, Usher implies that the balance between fee levels and public funding and the level of debt students are forced to incur are, at best, ancillary to adjudicating between student financial assistance models.[2]

Usher preaches neutrality in the realm of ICR and counsels that various elements of student financial assistance be evaluated in isolation. However, I want to argue that this clarion call to neutrality and non-partisan policy-making masks a political strategy. In effect, *Much Ado About a Very Small Idea* can be read as strategic political advice to those who favour the econometric spirit embodied by ICR. Usher's advice is to fight for "reform" of the system incrementally rather than through ambitious, wholesale change. Ambitious wholesale change is likely to elicit mobilized political resistance, while incremental change offers the possibility of assembling an ICR model one regressive policy at a time. In arguing that the various components of ICR should be judged in isolation and not related to any larger political conception of how to fund post-secondary education, I want to argue that Usher implicitly (and at times explicitly) assumes a funding model for post-secondary education premised on increasing the individual cost burden and increasing the amount students are forced to borrow. I will make this case by pointing to critical ellipses in *Much Ado About a Very Small Idea* and Usher's previous policy commitments. It will become obvious as my argument unfurls that Usher's neutrality wilts under the slightest probing and that his sanguine policy observations on ICR are designed to consolidate and naturalize a social world of ever increasing debt and a market regime of tuition fees. In the end, *Much Ado About a Very Small Idea* is a template for debt management under a market regime of tuition fees and not a contribution to the debate about how to provide equitable, accessible, and affordable public post-secondary education.

ICR AS A FUNDING MODEL: THE POLITICS OF IGNORING DATA

In dissecting Usher's argument, it is critical to make the case that the model of student financial assistance one favours is very likely to be related to one's position on tuition fees; this is particularly true of ICR. Though student financial assistance must also address the issue of living costs and other expenses, one simply cannot evaluate and devise effective models of student financial assistance without reckoning with the cost of tuition fees. Usher seems to either not know or not care that most of the vexing dilemmas we face in constructing an effective model of student financial assistance are a product of massive fee hikes. Steep fees hikes through the 1990's and into the 21st century have complicated the political policy terrain of student financial assistance in ways Usher seems unwilling or unable to comprehend.[3] Usher's need to banish the question of tuition fees can, I think, be explained by the fact that it is quite simply not an issue for him. *Much Ado About a Very Small Idea* assumes an environment of high fees and increasing debt as a *fait accompli* and all else he has to say about student financial assistance flows from this very unnatural assumption.

Throughout *Much Ado About a Very Small Idea*, Usher unconvincingly conflates repayment assistance based on a borrowers income (that is, income tested assistance such as interest relief under the Canada Student Loan Program) and comprehensive income contingent loan repayment schemes. Usher dutifully ignores the fact, notwithstanding specific nuances, that ICR schemes are *a posteriori* an emblem for rewriting the funding compact for post-secondary education.[4] Though Usher does cite neo-conservative economist Milton Friedman as the founding architect, he largely leaves aside the political legacy Friedman symbolises. In particular, those who favour ICR see it as a funding mechanism. The defining element of ICR is downloading the cost of funding post-secondary education from the common pool of social resources to the individual. In dividing ICR into hard and soft camps Usher obscures this point and ignores the fact that the very need for the flexibility in repayment that defines ICR is inseparable from the fact that the individual is forced to shoulder more of the burden.

In attempting to summarise ICR as he understands it Usher suggests the following:

> Primarily ICR is supposed to have two positive outcomes: first, that it is more efficient and is therefore less costly to run than other loan schemes and second, by acting as a type of insurance scheme, that it will improve access to post-secondary education. (9)

What Usher vitally leaves out is arguably the defining feature of ICR; that it is a model of **funding**. Unlike Usher, most proponents of ICR are not all shy about this aspect of the policy. In his contrived notebook Bob Rae lists ICR under the funding section, not under student financial assistance. In Australia, Robert Green, Assistant Secretary in the Department of Employment, Education and Training says the purpose of "ICR is to raise revenue from the recipients of higher education for return to the system as…funding for higher education; it is not a form of student assistance." In Nicholas Barr's book, *The Welfare State as Piggy Bank*, the arguments he makes in the name of quality and a two-tier system all hinge on a direct link between ICR and tuition fees as a source of funding.[5] Steven Schwartz's paper, "Income Contingent Loans: The Future of University Finance" echoes Barr's contention that ICR is defined by increasing students' share of the cost.[6]

In the Canadian context, in a recently released book entitled *Taking Public Universities Seriously*, Ron Daniels and Michael Trebelcock outline the preferred funding plan for the University of Toronto as follows:

> In order to maximize the benefits of diversity of institutions and increase choice in post-secondary education in Ontario, when the province has introduced an ICL (Income Contingent Loan) program it should deregulate tuition fees. Deregulating tuition fees would encourage universities and colleges to expand enrolment to meet the demand for their programs and enable outstanding programs to differentiate themselves and aspire to even higher levels of international excellence. It would also provide colleges and universities with funding they need because of the reduction in public funding. This added funding would aid in improving the quality of higher education in Ontario. (110)

In this context, choice is a euphemism for an elitist two-tier system of post-secondary education. Trebelcock and Daniels re-iterate a long-standing desire on the part of the University of Toronto, Queen's, and Western to offer their students the "choice" of Ivy League tuition fees. Differentiation is yet another euphemism to allow the University of Toronto, Queen's, and Western to take advantage of their current research and fundraising edge. Such elite institutions would be able to leverage extra funds under a system designed to reward excellence. In reality, all the University of Toronto plan would do is exacerbate current funding and private endowment inequities and hive off Queen's, Western, and the University of Toronto—creating an Ivy League of the North with all of the attendant social, class, and race inequities. The key point here is that the University of Toronto, Queen's, and Western know that such a scheme is unimaginable without massive fee hikes and a system of income contingent loans.[7]

Finally, Usher would have done well to read what the federal government said in a document recently released to the Canadian Federation of Students (and publicly distributed) on Income Contingent Loan Repayment Schemes. Listed under the benefits of ICR, the document argues as follows:

> ICR loan schemes…would solve the problem of university and college under-funding, by allowing institutions to increase tuition fees to cover a greater proportion, or even all of the costs. Fees would be unregulated and institutions would charge whatever the market would bear. Needy students and those with cash flow problems would pay the increased fees with the help of ICR loans.

Given the case Usher is trying to make in *Much Ado About a Very Small Idea* it is understandable he would leave out these aspects of ICR; it is without doubt easier to view ICR as a small idea when it is stripped of its defining feature.

Pace Usher's attempt to paint those who link ICR and tuition fee hikes as alarmist, his own international survey is also proof enough that he misses the point. While Usher enthusiastically points to Sweden and Germany as countries with ICR and no tuition fees, neither country has any of the elements that define the kinds of comprehensive ICR schemes that prompt progressive organisations to oppose them. In the case of Germany, Usher simply conflates a form of income-tested assistance with ICR as a larger policy concept. Sweden, however, is truly an exception: a country with zero tuition fees, a generous system of grants and an ICR loan scheme for those forced to borrow.[8] Besides Sweden, virtually every case in which ICR is the preferred model of reform the need for flexible, long-term payment is premised on a rapid escalation in student debt and user fees. At the most elementary level the need for the extended repayment *is* conceptually and practically linked to higher individual costs. Usher admits that this is the case when he grudgingly acknowledges, "history does give some succour to those who argue in favour of the existence of the tuition-ICR link." (12) Usher further concedes that in the Canadian context ICR has been advocated exclusively by those favouring higher fees and the deregulation of tuition fees. Despite his game admission, Usher simply ignores this history in his political quest to disentangle tuition fees and student financial assistance. In every case in which Usher thinks he is disarming the controversy about ICR he is, again, merely conflating income tested assistance with the founding regressive principles of ICR. In short, all that these two concepts share is the noun income. By expanding the period of repayment, thereby diminishing the monthly payment, ICR, so its proponents argue, allows students to manage much higher cost up front and much greater debt obligations on the back end.

REAL *POLITIK* — ICR IN PRACTICE

The national and international cases Usher leaves out are instructive about what is missing from *Much Ado About a Very Small Idea*. In addition to dismissing the generative role that increased tuition fees play in the creation of ICR schemes, Usher must also ignore the fact that ICR plans are pitched as funding solutions and, *a posteriori*, only secondarily as student financial assistance. In short, the drive to reform how education is financed comes first, in the form of a decrease in public funding and a greater individual burden, and the details of the financial aid plan to suit that ideological choice follow. Usher assumes an ideological vacuum in which all financial aid options on the table are good faith efforts to make student financial assistance work better and that they have little if anything to do with making students pay more. Three brief examples should suffice to demonstrate what is lacking in Usher's attempt to set the record straight on ICR; Bob Rae's aggressive call for ICR, a brief history of ICR in Canada, and, finally, the ICR model driving the University of Toronto's elitist aspirations.

First, Bob Rae's recently released report on post-secondary education calls for the deregulation of tuition fees for all programs in concert with greater access to loans and the creation of a new, unsubsidised private for-profit loan system to be accessed by parents to pay for substantially increased tuition fees.[9]

The key plank in Rae's reform is the deregulation of tuition fees. Following from Rae's ferverent belief in higher fees comes a set of financial aid changes designed to allow for increased debt. Rae sees his recommendations being phased in over several years and instructively he calls for aggressive efforts to replace the entire system of student financial assistance with an income contingent repayment scheme. Rae has made no secret of the intertwined nature of shifting the funding burden to students and their families; as noted above, in his highly manipulative Workbook the option of ICR is listed under the funding section and not the student financial assistance section.

A second example from the Canadian context is the first major attempt to implement ICR in Canada. During the 1995 social policy review then Human Resources Development Canada Minister Lloyd Axworthy proposed a radical reform of student financial assistance in which the provinces would see less funding for education from the federal government in exchange for greater flexibility in how they spend. As a key component to this plan. ICR would have allowed students to borrow far greater amounts to finance their education as a response to increased fees. Though, of course, the federal government does not set fee levels, increased tuition fees were the assumed result of the funding cuts. More importantly, ICR was the student financial aid model chosen to implement this policy program of cuts and downloading of cost.

By ignoring the ICR debate in 1995, Usher is also able to offer a superficial analysis of the thorny issue of interest subsidies. Interest subsidy refers to both the interest the government pays in-study as well as back end assistance with the interest cost of a loan in repayment.[10] Though Usher does discuss the political role interest subsidies play in ameliorating the effect of ICR, his glib treatment of the role that increasing tuition fees play in the debate blinds him to the paradoxical manner in which the logic of ICR undermines the argument for progressive subsidies. The cost of both forms of interest subsidy soars under ICR precisely because ICR is designed to spread the payment of higher costs over an extended period. The higher the debt and the longer the repayment period the more expensive the interest subsidy. Managing interest rates and ever expanding debt loads over a 25 year period took much of the economic and administrative shine off of this allegedly simple and efficient model of student financial assistance in 1995. This is one of the primary reasons the federal government and the banks backed off of ICR. Recently, Nicholas Barr has argued vehemently against interest subsidy, employing the founding logic of ICR in a very precise and perverse way: because the payment is spread over 25 years or longer the length of the repayment period allows you to increase the actual cost of the loan by charging market rate interest. Usher ignores this key element of the debate and suggests that interest subsidies would make “the politically unattractive side of hard ICR…disappear”.[11] Usher never addresses the fact that interest subsidies address a financial exigency created by high fees and high debt in the first place. He also never confronts the reality that, in practice, in the high fee, high debt world of ICR, interest subsidies will be constrained if not outright eliminated.[12]

While Usher seems resigned to accepting interest subsidies as a political exigency, he seems to endorse the logic that the extended repayment period itself may be justification for eliminating interest and repayment subsidies for all but a few.[13] The following passage offers some insight into Usher’s politics of student debt:

> One could argue that there is nothing wrong with negative amortization—that although nominal principal may grow, the net present value of the debt never does. Moreover, it could easily be argued that there are some benefits to negative amortization; after all, the alternative to negative amortization in an interest-bearing loan is default and bankruptcy. (7)

This passage harbours several pernicious assumptions. First, it must be stated that negative amortization means the student is paying greater than a 100% premium for the privilege of borrowing. A loan is negatively amortized when the interest on the loan exceeds the principal. Second, those most likely to be subject to negative amortization are those plagued by perennial unemployment and underemployment. While Usher acknowledges this point, he still argues that the extended borrowing period would make ICR a fair and efficient way of dealing with the problem. Third, the only repayment poliy options Usher arbitrarily considers include a lengthy 20–25 year repayment period of ICR or default and bankruptcy. What Usher elides and dismisses in policy considerations like these is a whole panoply of progressive alternatives—alternatives such as increased public funding, reduced tuition fees, and a comprehensive system of grants to insure that those graduates currently forced to borrow never have to decide between paying rent, a 25 year repayment schedule, default, bankruptcy, or negative amortization. Fourth, his view of default and bankruptcy is a cynical endorsement of the federal government’s current policy on bankruptcy. Though he does not mention it, the federal government changed the Bankruptcy and Insolvency Act in 1998 to prohibit government student loan borrowers from declaring bankruptcy for a period of ten years.

Usher’s paternalistic concern about the perils of declaring bankruptcy exactly mirrors one of the federal government’s primary justifications for the law. Again, some context is vital. In the final year in which students could declare bankruptcy, the average yearly income of those with student debt as their primary debt was $12,000.[14] There is compelling case to be made that those surviving in Canada on $12,000 face fiscal, social, and emotional trials more menacing than the moralising stigma attached to bankruptcy.[15] Thanks to the federal government’s benevolence these individuals are spared the stigma of bankruptcy in exchange for ten years of harassment and humiliation from collection agents.[16] Only by setting ICR against bankruptcy and the status quo of harassment by collection agents can Usher coherently argue that there is “nothing wrong with negative amortization.” (7)

More recently, the University of Toronto held a conference entitled “Taking Public Universities Seriously”. The signature panel of the conference was “Enhancing Accessibility: Normative Foundations for Income Contingent Grant and Loan Programs”. Though the preceding panels focused on the public benefit of investing in education, all of the substantive policy discussion was about increasing the cost of post-secondary education.[17] This demand for a new funding model culminated in an ICR panel. The panel gathered together the leading proponents of ICR from across Canada and the world. Each of the speakers called for higher tuition fees and a model of repayment tied to income. The favored model for the University of Toronto, presented by David Duff and Ben Allaire, was suggestively entitled “An Income Contingent Financing Program for Ontario”. Duff and Allaire are explicit about the fact that access to ICR loans would need to be universal because, under their model, students would pay most or all of the cost of their education: “the introduction of an ICFP [Income Contingent Financing Plan] is accompanied by the deregulation of tuition fees [and] eligible costs should include actual tuition fees without any limits” (574). Unlike most proponents of ICR, who model repayment on a 25-year horizon, Duff and Allaire argue for a repayment period that stretches over the lifetime of a borrower.[18] Duff and Allaire stressed that no interest subsidy or loan remission would be necessary precisely because the repayment period was so long. If repayment is spread over a lifetime, monthly payments could remain relatively low, thus eliminating the need for subsidy of any kind. It would seem that the University of Toronto well understands the role ICR must play in increasing tuition fees and student debt.

UNITED KINGDOM — ICR AND THE HISTORY OF FEES

The final example is from the United Kingdom. Given the heat of the battle waged in England around fee hikes and ICR loan arrangements, it is highly suspect that it was not included in Usher’s international roundup. Again we had a radical reform in which a government sought a rapid introduction and escalation of tuition fees (0 to $7,000 in less than five years). Every one of the reforms to financial assistance in the United Kingdom was designed to facilitate the introduction of tuition fees. While Tony Blair was able to send British troops to Iraq without ever seeing his massive parliamentary majority challenged, he came within five votes of losing a confidence vote with one of the largest majorities in parliamentary history because of his controversial tuition fee policy. The introduction of massive fee hikes coupled with student debt in excess of £20,000 was explained away by the defining elements of ICR.

Usher makes much of the fact that a real rate of interest is not charged in some jurisdictions, including the UK, and the fact that those under a certain income (£10,000 in the UK) do not have to make payments on their loan. The reality is that while a graduate is below that very low income threshold the loan remains waiting to be paid in full.[19] If you fall under the income threshold your loan continues to compound at the rate of inflation. Such a scheme all but ensures that even a temporary period of unemployment or underemployment for the average graduate means that such a borrower will take the full twenty year period to repay. In addition, the allegedly generous UK scheme ties repayment to income levels but the result of this allegedly progressive policy is that the less successful you are in the job market the longer you will take to retire your loan. Nowhere in Usher’s piece does he take up the equity challenge posed by the fact that those who don’t have the up-front resources are likely to be paying back a debt for the better portion of their working lives. This is simply not a burden carried by those who come from families with the means to defray some or all of the cost. In short, Usher has mistaken efficiency with equity. Extending the repayment period, as all comprehensive ICR schemes do, may efficiently allow a student to take all or most of their working life to pay off the loan, what they also invariably do is facilitate massive cost increases. In the short term, the payment may be lower but it is indeed a very perverse form of equity that ramps up the cost of an education, introduces a substantial borrowing premium, and tethers a person to their debt for 25 years or more.

Nicholas Barr, one of the key architects of British reforms, argues in his book, *The Welfare State as Piggy Bank*, that the new reforms ensure that education is “free” at the point of use and that it is graduates that pay. Barr’s spin of Blair’s policies would have us believe, in a fit of economic transubstantiation, that the person who consumes the good is not the same as the person who eventually pays for the consumed product or “good” (with interest). It is intellectually dishonest to call something free when the payment of that good is offered on credit and payments are spread over time and sensitive to income. Barr’s attempt to sell these reforms as equitable has adopted the founding language of the credit industry and its self-interested attempt to pass consumer debt off as innocuous and painless. The fact remains that the massive debt that low and modest income student accrue as a result of the cost of their education remains with them for 20 years. Barr, Usher and others who approve of the UK reform remain deaf to the reality that student debt has a variety of detrimental social and economic effects. The basic premise is that the price of a post-secondary education should be determined by the market and this premise has as its political and economic corollary the proviso that, if you can spread the repayment over a period of 20 years or more, massive increases in student debt and tuition fees are justified.

These assumptions are on full display in the following passage from *The Guardian*, June 12, 2003:[20]

> Many students are scared by the talk of up to £20,000 debt. But that figure should be seen in context. It seems large because we think of the expenditure on a weekly basis so it that the cumulative totals seem shocking. But over a full career a typical graduate will pay £850,000 in income tax and national insurance contributions and will spend a half a million pounds on food. Quite rightly, nobody loses sleep over a career tax debt approaching £1 million because he/she looks at the figure through the other end of the telescope, in monthly terms. Student debt—given income contingent repayments—is no different.[21]

In addition to ignoring the massive premium paid by those forced to borrow, this Pollyanna approach to debt ignores the fact that it adds yet another user fee to the myriad of other individualised costs in the era of small government.[22] One also gets the sense that Barr, Usher, and others view student debt in complete isolation from the ripple effects the accumulation of this debt will have on an individual’s social and economic life.[23] To take but one implication, it is unlikely that someone carrying a large debt-load over a 25 year period will have access to other forms of credit needed to buy homes or save for retirement.[24] Increasing the individual cost of post-secondary education and moving away from a collectively funded system penalises those without the up front resources to pay. Contrary to the slim but very loud rhetoric of Bob Rae and others, this burden does not fall to the ‘rich’ or those who do not need financial assistance—by definition, the burden falls on those from modest and low-income homes.[25] So long as these “reforms” remain blissfully isolated from the myriad of other financial pressures caused by the private cost of pensions, childcare, health care, and housing the real cost of high student debt can be explained away. Students are offered a chance to incur the pain in an installment plan of high debt, but those forced to borrow pay an ever-increasing premium for their education.

ICR AS REGRESSIVE PUBLIC POLICY

Underlying all of the assumptions that inform the arguments for ICR is the belief that if sufficient credit is available for students and their families there is no reason to be concerned about equality of access. While Usher evaluates the claim that ICR will increase access and finds it wanting, he neglects to examine the detrimental effect a high debt regime would have on access. In Canada, we know from the Youth In Transition Study (YITS), that at least 50,000 qualified students are denied access to post-secondary education every year for financial reasons. YITS surveyed over 30,000 students, following them from the age of 15, and researchers were able to track the reasons why some youth do not pursue post-secondary education. Of those listing barriers, 70% said that finances were the primary barrier preventing them from attending a post-secondary institution. There is ample evidence to suggest that those in danger of being shut out of the system would be most acutely affected by higher fees and higher debt.

There is also a bounty of longitudinal data in the United States that examines the role of debt on access and persistence. *Empty Promises: The Myth of College Access in America*, produced by the United States Advisory Committee on Student Financial Assistance, June 2002, found that "the primary cause of today's college access and persistence problem is the excessive level of unmet financial need and associated work and loan burden for low and moderate income high school graduates." This finding flies in the face of claims by many university administrators that covering fee hikes with increased access to debt will not undermine the participation of groups already underrepresented. In the area of persistence the data is even more compelling. Edward St. John found that for every $1000 in fee hikes low-income students were 19% less likely to finish a program of study. Thomas Kane made a similar finding in the context of fee hikes in California.[26]

In his book *Borrowing Inequality Race, Class, and Student Loans*, Derek Price's novel thesis explores several pernicious effects of using loans as the primary vehicle to fund post-secondary education. Price argues that a largely loans-based system distorts the social benefits of a post-secondary education towards a "means-end framework." Price argues that a loans based system promotes the idea of education as an individual economic investment and, therefore, has the effect of distorting the choices students make in school and in the labour market post-graduation. Price summarises this argument as follows:

> The consequence of a public policy that emphasizes the use of student loans to finance higher education is to alter the balance between the social and individual purposes of higher education…That is to say, requiring indebtedness to obtain a post-secondary education institutionalizes an antagonistic (rather than complementary) relationship between instrumental self-interest and communicative social interest. (7)

The founding assumption of Price's thesis is that we lose the sense of education as a public good when our analysis of student financial aid and fees pivots on individual benefit. Price's work is a good reminder of why using econometric tools of analysis almost always insure that you will never notice the loss of the public good—precisely because that loss is facilitated by your very tools of measurement.

In addition to refuting an econometric analysis of education policy, Price refutes the idea that loans are an equitable means of providing access to post-secondary education. Using labour market data and qualitative research, Price demonstrates that the racial and socioeconomic markers that precipitate borrowing in the first place follow the graduate into the labour market:

> That is to say low- and lower-middle income students and black students who successfully attain a college degree are paying more for post-secondary education and thus receive a lower return on their investment in higher education…In colloquial terms, "if you entered college in the smallest boat, you're probably in the smallest boat after you graduate." This chapter provides direct evidence that individuals may achieve upward mobility relative to their family's circumstances by receiving a bachelor's degree while at the same time the structural patter of inequality among social groups during the life course continues to reflect race, ethnic, class, and gender characteristics. (5)

Price's analysis offer's a slightly different spin on Usher's notion that one could argue that "there are some benefits to negative amortization."

CONCLUSION

Despite clear evidence to the contrary, Usher seems unwilling or unable to assess the degree to which user fees and the level of debt students assume drive ICR models. In his specious survey of particular aspects of student financial assistance, Usher misses the political bigger picture at work in debates about ICR. Both proponents and opponents understand that the underlying assumptions of ICR transform the social compact of post-secondary education in a manner that seems to elude Usher. The question of tuition fees and student debt are and should be contentious political issues that will simply not be quelled by an appeal to a non-existent world of depoliticised policy making. As I have shown throughout this paper, Usher's silence on the relationship between higher tuition fees and student debt and ICR is itself a political strategy that is, after all, long "on [politics] and short on analysis." (3)

The core of Usher's specific pronouncements on ICR boil down to an elaborate reminder that the devil is in the details. His catalogue of international examples of ICR certainly cements this truism and, at a remedial level, Usher is surely correct in his assertion that some models of ICR are more punitive than others. However, in perusing his argument one looks in vain for any contribution to the vexing question of tuition fee levels and the social problem of student debt. Usher utterly ignores the fact that student debt is not spread equally across the socio-economic divide. The very existence of student loans and student debt poses an equity challenge that Usher never addresses. The problem is exacerbated by the fact that those students most likely to take out extremely high debt are almost universally from low-income homes. These same students are also those most likely to have difficulty repaying their loan and most likely to be tempted by the false promise of flexibility and fairness peddled by those who favour ICR. By definition, a needs-based system of student loans is used by those students who come from family backgrounds in which the parents are unable or unwilling to assist with the cost of a post-secondary education. This defining element of ICR is not captured by Usher's econometric lens. This may also go some way to explaining why he seems so puzzled by the animus and allegiance ICR inspires. In the end, Usher's contribution to the debate is ironic and unintentional. Despite his avowed intention, Usher's attempt, in *Much Ado About a Very Small Idea*, to dismiss the controversy about ICR merely serves to remind both opponents and proponents of the very real stakes at play if ICR is the preferred model of funding post-secondary education.

ENDNOTES

1 Though it is not acknowledged in his paper, Usher is a paid adviser to the Rae review. Much of the rhetoric Rae employed in the town hall meetings seemed as though it was lifted, word for word, from Usher's prior arguments for higher tuition fees and student debt.

2 In his final report Rae echoes Usher's incredulity at those who would link tuition fee hikes and ICR: "The…argument made against income sensitive approach to repayment is that it will lead to more downloading of the costs from governments to graduates." (22) Rae fairly beggars the imagination with his cynicism here. Throughout his report he touts the benefits of higher fees and sets the reform of the student financial assistance system as *the* enabling condition for the full deregulation of tuition fees. One need only read Rae's report to dismiss, out of hand, Usher and Rae's canard that ICR and higher tuition fees are not linked: "Changes to tuition fee regulation must be preceded by student aid reform." (99) The most ambitious portion of Rae's call for reform is the implementation of a comprehensive system of ICR.

3 Between 1990 and 2003 tuition fees have increased by over 170%. The cumulative rate of inflation over that same period is 58%. In *Paying the Price* the Canadian Association of University Teachers (CAUT) also charts the decline of government funding as a portion of operating revenue. Between 1990 and 2003, government grants fell from 80% of operating budgets to 58% in 2003.

4 Throughout *Much Ado About a Very Small Idea* Usher stakes his argument on the fact that opponents of ICR assume *a priori* that ICR means higher tuition fees. Usher concludes his argument on fees and ICR as follows: "it is therefore a mistake to assume *a priori* that any ICR proposal will necessarily entail increases in tuition". (13) Usher's misuse of the term *a priori* is instructive in this case. Strictly speaking *a priori* is a philosophical term which means "acquired by the mind or reasoning alone independently of (in the sense of not being justified by) sense experience, a way of gaining knowledge without appealing to any particular experience(s).…The ontological argument for the existence of God is deemed *a priori*". In the strictest sense of the term Usher would be right if indeed anyone was claiming that ICR and tuition fees were linked *a priori*.

A more apt term here is *a posteriori*, which is defined as "based on or derived from (in the sense of being justified by) sensory experience, referring to knowledge or justification that is, or hypotheses that are empirical… A sentence, proposition, thought, or judgement is *a posteriori* (literally "after") if its truth is dependent on how our actual experience (experiment and observation) turns out." Clearly nobody claims any cosmological ground for associating ICR with tuition fees but there is ample evidence, as I have presented, to believe that "as it turns out" ICR and higher fees are related—*a posteriori*.

5 See the section entitled "Financing Higher Education" pp 191–222.

6 www.fusepr.com/stevenschwartz/Word/PolicyExchangeIntroduction_%2027Jan2005.doc.

7 See Paul Davenport's "Deregulation and Restructuring in Ontario's University System." Also see William Watson's interview in *Policy Options* (September 2000) with then Principal of Queen's University, Bill Leggett. Leggett ruminates on his own peculiar, cynical version of choice and freedom: "In my ideal world, each institution in the system would be free to chose…some might chose to serve local needs and keep tuition low…Others may aspire to international levels of excellence and adjust tuition to levels consistent with that vision." Leggett's shameless and disingenuous argument for deregulation is matched only by former University of Toronto President Robert Prichard who said "province-wide I believe we'll see tuition both go up and go down as a more competitive market emerges among institutions offering different combinations of quality and cost." When fees for professional and graduate programs were deregulated not a single institution reduced fees. At the University of Toronto Pritchard, ushered in a regime of fees for the law school that will see fees go from $4000 to $22,000.

8 It should be noted that Usher bases his entire case for delinking ICR and tuition fees on the Swedish exception. His other exception is actually not really an exception at all. In listing the United States as an example of a jurisdiction in which ICR was introduced without fee hikes Usher says the following:

> When ICR's were introduced in the US 1994 (sic), it was done without any changes in national tuition policy. (13)

This is an odd statement given that the federal government does not set fees in the United States. It is, therefore, somewhat beside the point to say there was no change in national tuition policy. Leaving that aside, the motivation for introducing ICR in the US was to deal with rapidly increasing tuition fees and higher student debt. In his memorandum prepared for the Congressional Budget Office in 1994, Bruce Johnstone talks of "broader possibilities *inherent* in income contingent loans [my emphasis]" and lists as the first inherent possibility that ICR allows "borrowers to receive much higher loans." (1) The need for higher loans was, of course, steep fee increases that were just starting to be felt at public four-year colleges in the United States. Though the US is not a charter example of a case in which ICR was introduced solely to facilitate fee hikes, it is surely a very weak example to buttress the case that ICR, increased debt burden, and fee hikes are unrelated.

9 At an October 2003 Millennium Scholarship Foundation conference Usher aggressively pushed the option of private loans in his capacity as Research Director for the Foundation. This idea, adopted by Rae in his report, assumes that the public loan system will not have sufficient resources to meet the increased need—a need generated, of course, by the deregulation of tuition fees. Those families who don't have the up-front resources and who have exhausted the public loan system would then borrow from this private scheme. Under such a plan parents would pay market-based interest from the moment the loan was negotiated.

10 Given the history of this debate, Usher's silence on the issue is perplexing. In 1995, the proposal for ICR coupled with massive fee hikes sparked some of the biggest student demonstrations in Canadian history. Shortly after the Canadians Federation of Students' national day of action it was clear Axworthy had lost the battle for ICR and beat a hasty retreat. In their book, *Double Vision*, Edward Greenspon and Anthony Wilson Smith examine the implications of Axworthy's loss for the student movement in Canada:

> Axworthy lost control of the critical terms of the debate. He no longer framed the question; the [Canadian Federation of Students] did … Axworthy put his office and department on war footing. He ordered the establishment of a Quick Response Unit to speedily counter the [Canadian Federation of Students] with letters to campus newspapers, leaflets and the like. He also sought to identify sympathetic academics and student leaders as spokespeople for his reforms … Axworthy came to loathe the Canadian Federation of Students … Each time Axworthy's office learned of the existence of a rival student union, it would establish contact and encourage the group to make its views known to local media. (193)

As Greenspon and Wilson recount, Axworthy was deeply bitter about his defeat and encouraged those student leaders opposed to the Canadian Federation of Students to speak out and organise. The primary goal of this opposition would be fealty to government policy and, as importantly, to provide an unrepresentative minority voice opposing the Canadian Federation of Students' call for lower tuition fees and a national system of grants. During this period five student unions, including McGill, where Usher was employed as the Policy and Communications Officer, founded the Canadian Alliance of Student Associations. In 1995 Alex Usher became the first national director of the newly formed Canadian Alliance of Student Associations. One of his first acts as national director was to shepherd through a motion endorsing Income Contingent Loan Repayment Schemes.

11 It is apt that Usher would frame such solutions in the context of politics rather than in terms of actual policy outcomes. In Canada, many of the measures that Usher lauds here and elsewhere (see Usher's analysis of the 2004 federal budget, Spring 2004: http://www.educationalpolicy.org/epicenter.html) sound politically attractive when announced, but do little in practice. For example, the Debt Reduction in Repayment (DRR) program announced in 1998 was supposed to help 12,000 borrowers a year. The program was designed to pay down the principal of the loan for borrowers experiencing repayment difficulties five years after graduation. In reality the Department of Finance set the income tables so high that virtually nobody qualified for the program in its first five years. By 2002, less than 2000 borrowers *in total* had been helped. The Millennium Scholarship Foundation was announced in the same budget with much fanfare and a $2.5 billion endowment.

Despite Paul Martin's promise that students in the greatest need would see their debt reduced by $12,000, most students have seen no reduction in their actual debt. The money is simply transferred to the provinces, which use the money to fund existing programs and pocket all or most of the savings. Though many commentators, including Usher, count MSF spending as student financial assistance they neglect to mention that the money is not actually reducing student debt. Despite Martin's explicit commitment to reduce debt, these concerns are dismissed by MSF officials who argue that the intention of the MSF was never really to reduce debt. In fact, despite the $2.5 billion investment, debt has steadily risen since 1998.

Finally, interest relief, arguably the federal government's most effective debt assistance tool, is also severely limited. For example, an individual with a debt of $40,000 and an annual income of $32,000 is ineligible for interest relief. Or, a single parent with a $40,000 student debt surviving in an urban centre on $34,780 is also ineligible.

[12] To take but one recent example, Bob Rae, in loudly advocating for ICR, also calls for the elimination of the current loan remission program. In Ontario, students who currently borrow more than $6,500 have that amount forgiven. Rae proposed to replace that program with a grant for low income students. While the grant Rae envisions for a low income student is substantial, the cut-off for that grant is $22,500 with a sliding scale up to $35,000. The idea, then, is that ICR justifies substantially higher tuition fees and debt for all students from homes above this very modest cut off of $35,000. More importantly, these students would incur this debt without the yearly $6,500 ceiling for repayable debt.

In the UK, the initial set of "reforms" eliminated the grant for tuition fees on the basis that students would not be forced to pay the actual fee until after graduation and on an income contingent basis spread over 25 years. Subsequent political pressure has resulted in the restoration of that grant.

[13] Usher offers a malicious caricature of the Canadian Federation of Students' position on ICR in the following passage:

> One of the persistent Canadian critiques against ICRs…is that they are synonymous with tuition increases. The argument that is made is as follows: the flexibility of ICR systems make student debt less of a burden. As a result students are able to take on more debt and this in turn gives governments an opportunity to raise debt levels, which they do so by increasing both tuition and borrowing limits. This argument is, to say the least, peculiar when it is combined with an anti fee message. In effect, it says that making student financial assistance better makes tuition increases more likely; therefore, in order to keep tuition down, improvements in student financial assistance should be resisted. Presumably, the logical conclusion to this argument is that in order to reduce or abolish tuition, one must first reduce or abolish student assistance. (12)

This mendacious spin on the argument against ICR relies on a feeble form of logical reduction. Usher drops the veneer of neutrality on ICR in this passage and claims that if you oppose ICR you are not in favor of making student financial assistance better—because, presumably, ICR does make student financial assistance and access better. Usher seems so attached to his own largely unstated assumptions that he is incapable of imagining a form of student financial assistance fairer than ICR. He seems even less capable of imagining a model of student financial assistance modeled on lower fees or the elimination of fees altogether. While Usher is entitled to such assumptions, he would do well to argue them on their merits rather than rely on laughable distortions of the positions held by those who oppose them.

[14] Saul Schwartz "The Dark Side of Student Loans: Debt Load, Default, and Bankruptcy," Osgoode Hall Law Journal, Volume 37, Nos. 1 and 2, p. 12

[15] Though bankruptcy is not a solution to the problem of student debt, it is undeniable that the implementation of the changes in 1998 has caused real hardship for those already economically vulnerable. The Insolvency Task Force appointed by Industry Canada noted the punitive nature of the law and called for a "hardship" hearing after a twelve month waiting period. In November 2003, The Senate Committee on Banking and Commerce also recognised the punitive nature of the law and also recommended a hardship hearing after twelve months.

Parroting the federal government's justification for the law simply ignores the founding principle of the Bankruptcy and Insolvency Act (BIA), which is to provide the "honest but unfortunate" debtor with a second chance. More importantly, it allows Usher to foreclose any possibility of solutions that would deal with the root problem of student debt. He has created a highly manipulative Hobson's choice in which one must choose between the debt management "solution" of 25-year repayment or the current broken system.

For further reading on the *real politik* of student debt and bankruptcy see Saul Schwartz's The Dark Side of Student Loans: Debt Load, Default, and Bankruptcy ", Osgoode Hall Law Journal, Volume 37, Nos. 1 and 2. See also canadastudentdebt.ca for first hand stories about the social reality of high student debt.

16 See Sue Bailey's "Student Loan collectors rely on bogus threats, broken rules: insiders", Ottawa Citizen, on January 10, 2004. Bailey outlines the kind of threats and humiliation collection agents employ in collection of student debt.

17 Ron Daniels, Dean of Law at the University of Toronto, argued for the deregulation of tuition fees and speculated that it would take a near doubling of undergraduate fees to allow the University of Toronto to compete internationally. During his tenure as dean, Daniels capitalised on the deregulation of professional programs to raise tuition fees to $17,000 for law school. Only the current tuition freeze in Ontario has stalled the law school's plans for $22,000 tuition fees. Lorne Sweetman, Professor of Public Policy, Queen's University, echoed earlier demands from Queen's University for fully deregulated, market driven fees.

18 After some reasoned consideration Allaire and Duff determine that an individual's full lifespan is a sufficient burden and that forgiving debt upon a borrower's death does not create a moral hazard:

> To the extent that on ICFP [Income Contingent Financing Program] 'taxes' participants based on their ability to pay and the benefits that they receive from higher education in the form of increased lifetime earnings, these principles are satisfied by income contingent payments during the individual's lifetime but not after death. Nor does death create the same opportunities for strategic behaviour one might expect with a repayment term limited to 25 years or to the age of retirement, since few individuals can be expected to pursue this option to avoid income contingent payments. (579)

In effect, Duff and Allaire are addressing the possibility that borrowers would intentionally seek low paying work to insure income under a repayment threshold, cease working at 65, or commit suicide as a means of escaping the obligation of their ICR loan. Presumably, under such a plan a portion of a senior's pension would be garnisheed to pay off any balance remaining from an ICR loan. At first glance, one might suspect this passage of being a satirical "modest proposal" devised by opponents of ICR. On closer analysis, however, Allaire and Duff are merely following the instrumental assumptions of ICR to their logical conclusions.

19 The current threshold in Britain is £10,000, rising to £15,000 in 2006. The poverty line for a family of two living in London is £11,000. In the University of Toronto's preferred model outlined by Allaire and Duff, the income threshold is $12,500.

These income cuts-offs ensure, according to ICR proponents, that borrowers are only forced to repay when they can "afford" it. However, as the UK model and those proposed in Canada suggest the thresholds ensure that all but those in abject poverty will remain in debt for most of their working lives—all to pay for a social good. The logic becomes particularly perverse if you accept the ideal of post-secondary education as a social equaliser. What Barr and others do is effectively ensure that if someone comes from modest means and is forced to borrow heavily for an education they remain on a lower social rung thanks to the "equity" of ICR. As noted, Derek Price, in his book *Borrowing Inequality Race, Class, and Student Loans*, quantifies this point.

20 Usher and Barr's view on this matter are almost identical. Usher, in the October 2002 inaugural research conference of the Millennium Scholarship Foundation meeting, offered the pithy version of Barr's argument when he suggested "it doesn't matter how much debt a student has, what matters is whether or not they can pay it back." The accumulation of the debt is an utter non-issue, only the repayment terms count as worthy of debate for Usher.

21 Though Barr used £20,000 in this passage, Barclay's bank puts the average debt figure at £33,000 by 2010 and that is assuming so called top up fees are capped by inflation in the £3,000 range (see, *Barclays Student Survey*, March

2003).

22 Though Barr is strident in his argument about the equity of his plan, he is stretching bounds of credulity by vehemently opposing interest subsidies of any kind. (*Taking Public Universities Seriously*, University of Toronto, December 3–4, 2004). The practical effect of such a move would mean students would pay a market rate of interest from the moment the loan is negotiated. Such a provision would massively increase the cost of borrowing and the premium paid for their education by those who borrow. Given that Barr sees himself as a crusader for fairness and justice in post-secondary education policy, it is odd that he does not address the equity challenge posed by this increased cost for those who borrow.

23 The crisis of student debt is relatively new and, therefore, very little longitudinal data is available about the long-term effects. However, several promising studies provide a sober counter to the idea that the accumulation of student debt comes without social cost. In the Unites States, a recent study found that those with student debt were much less likely to ever own a home, or start a family.

In New Zealand a recent study, entitled The Wealth of a Nation The Level and Distribution of Wealth in New Zealand" by David Skilling and Arati M. Waldegrace (www.nzinstitute.org), showed that 16% of the population has "negative wealth", that is more debt than combined assets and income. Forty four per cent of those with "negative wealth" listed student debt as their primary debt.

In Canada, Leslie Andres has undertaken the first study of its kind to track the long-term effect of student debt in British Columbia. Andres first cycle is complete and her first results from the graduating class of 1997 show several disturbing trends, namely that those with higher debt are less likely to be attached and starting families (measuring only those who listed that as a thwarted ambition), purchase homes and begin saving for retirement. It is important to note, as Andres recently did, that the 1997 class was still in the early stages of the massive expansion of debt. It is also important to note that the graduating class of 1997 was also protected by a tuition freeze for most of its study period.

24 Barr, Rae and Usher all vastly overestimate the degree to which modest and middle income families can absorb more debt. A recent study (http://www.ccsd.ca/pubs/archive/psi99/psihle.htm) conducted by the Canada Council on Social Development (CCSD) shows that when balanced against debt Canadians have close to zero net savings. In the case of those families now expected to borrow privately to fund an education, that worry is added to the persistent worry of saving for retirement (see recent research conducted by the Canadian Labour Congress on the shrinking public and private pension options: http://clc-ctc.ca). In the case of students expected to take on greater debt to be paid over most of a working life, there is absolutely no consideration of the economic effect debt will have and even less concern about the intergenerational inequities ICR will likely create. If it is now expected that parents will take out sizable private loans to help fund a child's education, one must ask what the effect will be on the next generation of students whose parents will still be carrying ICR balances.

25 Like Usher, Rae is of the view that the "rich" should pay more and that low tuition fees are invariably a subsidy to the "rich". Despite the sheen of logic and fairness, Rae and Usher's logic falters on the definition of rich. In his final report, Rae recommends grants for low-income students and massive fee and debt levels for everyone else. In Rae's scheme all those below $22,500 would receive a grant for the full cost of tuition fees. Those from families with income between $22,500 and $35,000 would receive a grant on a sliding scale down to a minimum of $500. Therefore, Rae assumes that those families earning over $35,000 are indeed wealthy and in position to pay far higher fees. *Access Denied*, produced by the Canadian Association of University Teachers, examines the cost of tuition fees relative to the average working wage (well above Rae's "generous" income threshold for grants) and found that the ratio is higher now than at any time since World War II. In addition, Hugh MacKenzie's *Beyond the Path of Least Resistance* examines the socio-economic demographics of those claiming the tuition fee tax credit. MacKenzie found that the claim of Usher and Rae that low tuition fees are a subsidy to the rich, paid for by the poor, is a myth simply not supported by the evidence.

On the issue of tuition fees, Rae is disingenuous about the long-term implications of his recommendations. The report clearly calls for the deregulation of tuition fees and sets out a framework for student financial assistance for those institutions who, in an unregulated market, choose to charge over $6,000 in tuition fees. The report has been received particularly well at Queen's, Western, and the University of Toronto where university administrators have long called for a deregulated environment in which the market would determine fee levels. Rae is not hesitant to be dishonest about the implications of this model in different environments. While he hysterically claims that those who say his report calls for higher fees misread his recommendations, he is not hesitant in more conservative media to play up the need for a two-tier system and a deregulated market. On February 23, 2005, on the *Report on Business Television*, Rae accepted hearty congratulations from host Kevin O'Leary for opening up tuition fees to full deregulation and market forces.

26 See: https://secure1.sc.netnation.com/~russells/programs/proj_reviews/si/revkane01.pdf