

# Increasing the Burden: Loan Repayment Schemes to Privatise Higher Education Costs

A response to Ross Finnie, Adjunct Professor, School of Policy Studies at Queen's University, "Measuring the Load, Easing the Burden: Canada's Student Loan Programs and the Revitalization of Canadian Postsecondary Education" in *Commentary*, No. 155, November 2001.

Canadian Federation of Students  
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# Increasing the Burden: Loan Repayment Schemes to Privatise Higher Education Costs

“Student loan schemes exist in more than 60 countries, making them an increasingly important financing mechanism for higher education.”

**Jamil Salmi**, Education Manager, Latin American and the Caribbean Region, **World Bank**<sup>1</sup>

“[A]n enhanced loan-relief system could also provide students with the means to shoulder higher costs for their postsecondary education.”

**Ross Finnie**, Adjunct Professor in the School of Policy Studies at **Queen’s University**<sup>2</sup>

IN THE NOVEMBER 2001 ISSUE of the C.D. Howe Institute's *Commentary*, Ross Finnie presents a series of recommendations for changing the Canada Student Loan Program and increasing tuition fees. Given the implications associated with implementing the proposals, it is worth responding to the paper in some detail.

To begin, it is important to understand the political context of Finnie's analysis. Although not explicitly stated, the title of the article offers a telling sign of his political agenda: "Measuring the Load, Easing the Burden: Canada's Student Loan Programs and the Revitalization of Canadian Postsecondary Education." It is clear from the title of the document that the underlying basis for suggesting changes to the Canada Student Loan Program is not the revitalization of student financial assistance, but rather a two-tier system of post-secondary education through the imposition of higher tuition fees.

This response paper will argue that Finnie's document is little more than a thinly veiled effort to make palatable the downloading of post-secondary education costs onto students and their families. Under Finnie's model, the restructuring of student financial assistance is presented solely as a political strategy to justify further tuition fee increases.

The underlying theme of the paper is that post-secondary education has been under-funded for the past dozen years and Finnie is rightly critical of this fact. He notes, for example, that while government contributions to higher education have declined, tuition fees have not adequately offset these decreases in funding.<sup>3</sup> However, this contention reveals Finnie's basic belief that tuition fees should be the primary source of post-secondary education. He notes that tuition fees “only cover a relatively small portion – somewhere around a third – of the full costs of [post-secondary education]”.<sup>4</sup> Despite the fact that the vast majority of the population do not want to see tuition fees

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<sup>1</sup> Salmi, Jamil. 2001. *Student Loans: The World Bank Experience*. International Higher Education, Winter 2001. p.1.

<sup>2</sup> Finnie, Ross. 2001. *Measuring the Load, Easing the Burden, Canada's Student Loan Programs and the Revitalization of Canadian Postsecondary Education*. C.D. Howe Institute Commentary. p 22.

<sup>3</sup> Ibid. p. 26.

<sup>4</sup> Ibid. p. 30.

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increase, but rather want to see an accessible system of higher education, Finnie is proposing a scheme designed to generate support for tuition fee hikes.<sup>5</sup>

It should be noted that Finnie's arguments mirror those of William Leggett, Principal of Queen's University, where Finnie is Adjunct Professor in the School of Policy Studies. Leggett and other university presidents argue that declining quality means that tuition fees must increase and therefore debt levels should be expanded to accommodate such increases.<sup>6</sup> Indeed, Finnie's paper was released shortly before Leggett's proposal was submitted to the Ontario government.

From start to finish, Finnie's arguments also portray a profound pessimism and politically motivated fatalism about the possibility of convincing provincial and federal governments to adequately invest in higher education. This pessimism provides Finnie a political alibi for the superficial solution that the only way to address government under-funding is by increasing tuition fees. He notes that his scheme would be a "means of raising some desperately needed new funds by making viable additional payments on the part of students, along with contributions from both the provincial and federal levels of government – an option that would be much more problematic without the sorts of reforms suggested here."

Despite the cynicism of Finnie and those who advocate similar views, there is a vibrant and mobilised political movement fighting for progressive solutions to government under-funding. Where students and faculty have been united, it has been possible to lobby governments to increase their commitment to accessible higher education. Over the previous two years, five provincial governments have shown leadership by freezing or reducing tuition fees. Moreover, such policy measures have proven extremely popular within the voting populace.

In Ontario, the government has failed to take steps to regulate access and has moved further away from such policies by allowing unlimited tuition fee increases for certain programmes. The resulting increases have been particularly stark for college level programmes like dental hygiene where tuition fees have increased by between 300 and 400 percent in only three years. Medical school tuition fees at the University of Toronto have increased from \$4,850 in 1997-98 to \$14,700 for the current year. Small wonder then, as demonstrated by public opinion surveys over the past two years, that more than eighty percent of those surveyed support a freeze or reduction in tuition fees.

Opposition to tuition fee increases is based on the very real fear experienced by working people that the costs of post-secondary education are becoming beyond their economic reach.<sup>7</sup> What is crucial to

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<sup>5</sup> In three independent surveys over two years, 82% of those surveyed opposed increasing tuition fees. See Feedback Research Corporation poll, *GTA Survey*, September 2001 (for poll results and tables, see the web site of the Ontario Confederation of University Faculty Associations at [www.ocufa.on.ca](http://www.ocufa.on.ca)). Also see the Ipsos-Reid poll, *Ontarians and Access to Post Secondary Education*, April 2001 (for poll results and tables, see the OCUFA web site at [www.ocufa.on.ca](http://www.ocufa.on.ca)). Finally, also see the Angus Reid poll, *Ontarians to Harris—Hold the Line on Tuition Fees*, February 2000.

<sup>6</sup> In 1998, the Ontario government introduced a policy to allow for the complete deregulation of all graduate programmes, as well as certain professional and post-diploma programmes, resulting in tuition fee increases significantly greater than the rate of inflation and increased earnings.

<sup>7</sup> According to the Canadian Association of University Teachers, access to higher education is linked to family circumstances. Research by CAUT shows that in 1990-91, 20% of the lowest income families would have had to set aside 14% of their after-tax earnings to pay the cost of one family member to attend university. By 1998-99, those same families would have had to set aside 23% of their after-tax income to allow one family member to attend university. By contrast, the top fifth of high-income families would have seen the amount of after-tax income required for university shift from 3% to 4% (CAUT, *Education Review*, Vol. 3, No. 2).

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note about Finnie is that his work provides a convenient excuse for the provincial and federal governments to ignore calls for more public funding for an accessible post-secondary system. Regrettably, this lazy way of doing politics has extended to many college and university presidents who now define their government relations strategy by begging the government to allow them to charge higher tuition fees.

There can be no doubt that one reason for the heightened level of concern about increasing tuition fees and student debt is the ongoing campaign launched by the Canadian Federation of Students. Since before the 1990s decade, the Federation has been highlighting the impact of rising tuition fees and the chronic under-funding of colleges and universities in Canada. As a result of the Federation's campaign, tuition fees were frozen by the British Columbia government in the mid-1990s and remained frozen until this year, when tuition fees were reduced by 5%.

In the fall of 1994, the federal government introduced the single largest cut to social programme spending – including post-secondary education – under the auspices of the Canada Health and Social Transfer. At that time, Human Resources and Development Canada also proposed to re-vamp the Canada Student Loan Program by introducing an "income-contingent loan repayment" scheme. The book *Double-Vision: The Inside Story of the Liberals in Power* by Edward Greenspon and Anthony Wilson-Smith highlights the impact of the Canadian Federation of Students in galvanizing opposition to a loan repayment scheme that would allow tuition fees to increase. As stated in *Double-Vision*, it was through the Federation's mobilising campaign that "Axworthy had lost control of the critical terms of the debate."<sup>8</sup> More recently, at a January 23, 2002 meeting in Vancouver, keynote speaker and former Minister of HRDC, Lloyd Axworthy, publicly credited the Canadian Federation of Students with forcing the federal government to retreat on its regressive income-contingent loan repayment scheme.<sup>9</sup>

The fact that the federal government was proposing the ICR scheme at the same time as it was cutting \$1 billion from social programme spending – more than a third of the HRDC budget – was no accident. As has been well documented by the Canadian Federation of Students in the early 1990s, the mid-1990s, and again last year, ICR schemes were developed as a mechanism to enable federal and provincial governments to download the costs of higher education onto students and their families. In other jurisdictions where ICR schemes have been introduced, tuition fees have increased dramatically.<sup>10</sup>

Finnie's paper relies on out-dated information about tuition fees. He bases his suggestions on tuition fee data that ends in 1995, thereby ignoring available data which reflects the highest tuition fee increases in Canadian history. Moreover, nowhere in his paper does Finnie address the issue of the effect that higher tuition fees and higher student debt have on access to post-secondary education. Like most of those who advocate for private solutions to the growing crisis in public post-secondary education, Finnie ignores the social consequences of his policy suggestions. Finnie consistently ignores the growing body of data that demonstrates that tuition fees are the determining barrier to higher education for people from modest and low-income homes.

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<sup>8</sup> Greenspon, Edward and Anthony Wilson-Smith. 1997 *Double-Vision: The Inside Story of the Liberals in Power*, Seal Edition, Doubleday Canada Limited: Toronto. p. 192-193.

<sup>9</sup> Graduate Student Leadership Conference, University of British Columbia, Keynote Address, Hon. Lloyd Axworthy, January 23-26, 2002.

<sup>10</sup> See various papers at Center for International Higher Education, Boston College, available online at: <[http://www.bc.edu/bc\\_org/avp/soe/cihe/Center.html](http://www.bc.edu/bc_org/avp/soe/cihe/Center.html)>.

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Finnie's private solutions to Canada's post-secondary education system should be placed in an international context. The World Bank echoes many of Finnie's suggestions in a document entitled: *Development in Practice, Higher Education: The Lessons of Experience*, published in 1994.<sup>11</sup> The Bank devotes an entire chapter to the issue of "Diversifying the Funding of Public Institutions and Introducing Incentives for Their Performance." In this section, the Bank has the following to say:

The financial base of public higher education can be strengthened by mobilizing a greater share of the necessary financing from students themselves . . . . Cost-sharing can be pursued by charging tuition fees in public institutions and eliminating subsidies for noninstructional costs. Governments can permit public institutions to establish their own tuition fees without interference.<sup>12</sup>

It is also no surprise that in this same chapter, "Diversifying the Funding of Public Institutions," the Bank reveals its vision for student financial assistance, advocating for income-contingent loan repayment schemes. Under this kind of scheme, students would be allowed – and encouraged – to borrow as much as required to purchase their education. This would ensure that students' borrowing capacity keeps up with tuition fees allowing for the privatisation of higher education funding. Upon graduation, students would then repay their loans based on post-graduation income. While on the surface this may sound equitable, the scheme essentially condemns students to lifetimes of debt – especially those who will earn relatively less.

In countries like New Zealand where this kind of scheme has been introduced, it is estimated that student debt now exceeds the country's national debt at \$4.1 billion dollars.<sup>13</sup> Moreover, by the year 2005 it is estimated that student debt will exceed \$15 billion. The student debt crisis has exacerbated that country's "brain-drain" with many high debtor graduates working abroad where wages are higher so that they may repay their debts quickly.<sup>14</sup> For those in less lucrative employment, student debt has prevented many from being able to participate in the economy, being saddled with debts the size of mortgages – but without the houses to show for it.

In his document, Finnie underlines the impact that government funding cuts have had on the higher education system in Ontario, yet he argues that if students were to pay more of the costs, then governments themselves might be more inclined to help with funding. Of course, this logic is contrary to the lived experience of Ontario institutions. In Ontario, the largest funding cuts have corresponded with the highest increases in tuition fees. At the same time, per capita funding for post-secondary education in Ontario is among the lowest of all jurisdictions in North America. In addition, there is an extreme faculty shortage and student-teacher ratios have soared. Again, to re-iterate Finnie ignores the implications of his proposal for access to post-secondary education and he seems blissfully ignorant of the context into which his suggestions will be received.

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<sup>11</sup> World Bank. 1994. *Development in Practice, Higher Education: The Lessons of Experience*, Washington: International Bank for Reconstruction and Development.

<sup>12</sup> Ibid, p. 41.

<sup>13</sup> Australian Union of Students, Tertiary Update, Vol. 4, No. 44, December 13, 2001.

<sup>14</sup> Australian Union of Students, Tertiary Update, Vol. 4, No. 29, August 13, 2001. It is also noted that "[a] survey of dentistry students at Otago University has found that less than half of the graduates are remaining in the country, with the rest flocking overseas to earn higher salaries and pay off debts of between \$50,000 and \$100,000. The Dental Council's 'Workforce Analysis' report shows that only 23 of 54 dentistry students graduating in 1996 were still in the country last year. According to the figures, retention rates four years after graduation are at about 43% compared with rates in earlier years of 50% to 70%." Student representatives say they hope new government funding, which has halved the cost of dentistry tuition, may mean more students remain in New Zealand after they graduate.

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As a strong advocate of private funding for higher education, the World Bank makes the case for governments to create incentives for corporations to make financial donations to post-secondary education. In this regard, the Bank highlights India as the developing country with the most "generous" tax incentives: 150% of donations are tax deductible. In other words, for every dollar donated to a post-secondary institution, the corporation will receive \$1.50 in tax breaks from the government (*Development*, p. 43). Finally, the Bank argues that an important income-generating activity for governments would be the introduction of "government matching funds linked to outside income in some ratio or the inclusion of income generated from outside sources as a positive element in funding formulas" (*Development*, pp. 41-42). This proposal is nothing short of a transfer of public dollars to private corporations.

It is clear that the models advocated by the World Bank do not favour publicly funded higher education. The Bank proposes complicated formulas to encourage governments to abdicate their responsibility to fund post-secondary education adequately. As a fig-leaf for enabling governments to withdraw from education funding, the World Bank – and indeed, Finnie himself – favours the concept of "targeted-funding" for student financial assistance. The idea sounds harmless on the surface: those who can afford to pay for their education should, while those who cannot will have debt loads reduced or forgiven. However, this model fails to recognize that many students from middle and lower income backgrounds may simply choose to avoid the risky venture of saddling themselves with excessive debt. These are the students who will not be captured in any student loan scheme that relies in the first instance on amassing high debt levels, with the possibility that some of that debt may be eliminated.

And while there is not a shred of evidence to suggest that increasing tuition fees, regardless of the student financial assistance model in place, will enhance access to higher education, there is growing evidence that increasing tuition fees in Canada and elsewhere have compromised access. Statistics Canada has presented data demonstrating a widening gap in higher education participation rates between students from affluent backgrounds and those from middle and lower income backgrounds.<sup>15</sup> This trend corresponds to a period of dramatic increases in tuition fees across the country. Moreover, studies at the universities of Guelph, Waterloo and Western Ontario have all documented the changing socio-economic composition of students in different medical class cohorts.<sup>16</sup>

In his paper, Finnie argues that the student debt crisis has been exaggerated. However, average debt upon graduation is \$25,000 – a figure released by Human Resources Development Canada in 1998. Neither this figure nor the figures presented by Finnie reflect actual student debt. For example, according to research recently released by the Millennium Scholarship Foundation, average credit card debt incurred by graduating students is \$1,500.<sup>17</sup> Far from representing students' joy of borrowing as suggested by Finnie, it is a sad statement indeed that students are funding their education at interest rates three hundred percent higher than standard lending rates. That those who

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<sup>15</sup> Statistics Canada. 2001. *Participation in Postsecondary Education and Family Income*. The Daily, Friday, December 7. Available online at: <<http://www.statcan.ca/Daily/English/011207/d011207c.htm>>.

<sup>16</sup> Medical Students of the University of Western Ontario. 2001. *Access to Medical Education: A Proposal to the University of Western Ontario Senate*. Sid Gilbert, Ian McMillan, Linda Quirke, and Joanne Duncan-Robinson. "Accessibility and Affordability of University Education," University of Guelph, December, 1999. University of Waterloo Federation of Students, *The Changing Face of Ontario Universities: Are Universities Becoming the Domain of the Rich?*, 1998.

<sup>17</sup> Canada Millennium Scholarship Foundation. 2002. *Student Financial Survey – Baseline Results*. Canada Millennium Scholarship Foundation Research Series: Montreal.

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are able to access this source of debt do so is not reflective of students' willingness to choose increased debt. Instead, it reflects the fact that students are increasingly held hostage by the very real fear of losing access to post-secondary education. We can only speculate about the number of students that are lost to the system because they do not have the financial confidence to incur debt.

Moreover, governments have implemented stricter borrowing criteria to determine a student's eligibility for student loans. This in itself has made higher education out of reach for those whose backgrounds require a more heavy, and perhaps unstable, reliance on credit. These are the people most in need of accessible higher education. These are also the people for whom the door has closed on their educational aspirations.

Although Finnie recognizes the problems associated with stricter borrowing criteria, he makes an incredible leap in logic to assert that students would be "glad" to incur higher debts were they given the opportunity. In other words, he argues, tuition fees should be allowed to rise, students should be allowed to borrow more with fewer restrictions, and they will be pleased to do so in exchange for higher quality education. This position has been advocated at one time or another by both the Canadian Alliance and the Ontario Undergraduate Student Association.<sup>18</sup>

There is simply no basis for asserting that higher tuition fees translate into higher quality education, as Ontario's experience with private colleges demonstrates. Moreover, the consequences of burdening an entire generation with excessive debt have been well-documented in Australia and New Zealand. Evidence is now surfacing in the United Kingdom which shows that as tuition fees have increased, public funding has declined further, and the Labour government has admitted that not a single penny in additional revenue has been generated for universities by imposing tuition fees (see appendix I). In all cases, student debt has skyrocketed, tuition fees have put higher education out of the reach of ordinary citizens, and governments have abdicated their responsibilities to fund public education. When Finnie's report is stripped of its academic veneer, this is his vision for post-secondary reform in Canada.

Even where the World Bank has been successful in determining government policy, the conditions for post-secondary education have not improved. Indeed, in a document outlining the global challenges facing systems of higher education, Philip Altbach and Todd Davis have stated the dilemma explicitly:

Demands for access come into conflict with another of the flashpoints of controversy of the present era – funding. Higher education is an expensive undertaking, and there is much debate concerning how to fund expanding academic systems. Current approaches to higher education funding emphasize the need for "users" to pay for the cost of instruction, as policymakers increasingly view higher education as something that benefits the individual, rather than as a "public good" where the benefits accrue to society. This new thinking, combined with constrictions on public expenditures in many countries, have meant severe financial problems for academe.

Academic systems and institutions have tried to deal with these financial constraints in several ways. Loan programs, the privatization of some public institutions, and higher tuition are among the alternatives to direct government expenditure. In many parts of the world, including most of the major industrialized nations, conditions of study have deteriorated in response to financial

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<sup>18</sup> See Parliament of Canada, Hansard, Monday, December 5, 1994 - Private Members' Business, <<http://collection.nlc-bnc.ca/>>.

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constraints. Enrollments have risen, but resources, including faculty, have not kept up with needs. Academic infrastructures, including libraries and laboratories, have been starved of funds. Less is spent on basic research. Conditions of study have deteriorated in many of the world's best-developed academic systems, including Germany and France. Students have taken to the streets in large numbers to protest declining budgets and poor conditions for the first time since the 1960s.<sup>19</sup>

The present dilemma for Canada is whether our federal and provincial governments are prepared to invest in higher education to ensure that it remains excellent *and* accessible. The outcome of the debate in Ontario and throughout Canada is critical, since this debate is well underway internationally. Are students prepared to accept the intransigence of governments and the World Bank who are advocating the state's retreat from ensuring that every qualified student has access to the education so critical for economic survival? The response in Canada and around the world would suggest that they are not.

Finnie's vision of "improving" student financial assistance is simply opening the door to increases in tuition fees that will put education out of the reach of ordinary Canadians. It is premised on the assumption that government cannot be convinced to change their spending priorities. That academics and administrators alike have been thoroughly imbued with such pessimism in our democratic institutions that they have abandoned the arena altogether reflects poorly on the health of democracy in Canada. Yet in contradiction to such views, where public support has been galvanized, where decision-makers have had the courage to put the needs and desires of its own constituents ahead of the corporate agenda, significant improvements have been achieved in many social spheres.

The Canadian Federation of Students – along with the vast majority of Canadians – remains committed to a post-secondary education system that is of high quality and accessible to all. We call on all those who support a publicly-funded, accessible system of higher education to oppose any schemes that will further erode the affordability of higher education.

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<sup>19</sup> Altbach, Philip G. and Todd M. Davis. 1999. *Global Challenge and National Response: Notes for an International Dialogue on Higher Education*. International Higher Education, Winter.

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## Appendix I

### **Tuition fees 'not benefiting' universities**

EducationGuardian.co.uk

**Lee Elliot Major**  
**Tuesday January 29, 2002**

Not one penny raised from charging students tuition fees has benefited universities, government officials admitted to MPs yesterday.

The admission came yesterday during an inquiry by the House of Commons committee that scrutinises government spending into the efforts universities are making to attract more students from poor backgrounds.

Professor Sir Howard Newby, chief executive of the Higher Education Funding Council, told the all party public accounts committee that there had been a "displacement effect" whereby the government had reduced the budget for English universities by exactly the same amount that had been generated by fees. The result is the £400m annual revenue has only been used to maintain university budgets, not provide extra resources for the academic sector.

In effect, the government has generated £400m per year in extra income.

"I am staggered," said Gerry Steinberg, Labour MP for the city of Durham and a member of the committee. Mr Steinberg said he had only backed the government's plans to introduce tuition fees in 1998 because of the extra funds they would generate for cash-strapped universities.

The unpopularity among voters towards the government's student funding policies in England and Wales prompted ministers to launch a review last October. But discussions within Whitehall have now hit an impasse. Initial plans to re-introduce maintenance grants for students, collect student payments for degree courses after university and scrap upfront tuition fees have now been relegated to mere options, following concerns from Treasury officials over the cost of the proposals.

Students, who graduate with debts, on average, of £12,000, now pay a maximum of £1,075 a year in fees and have access to loans for their living costs. Under Labour, university funding rates per student have not seen the annual cuts of previous years, although academic chiefs still argue they need to generate more income to survive in the future.

Yesterday's hearing follows a report this month by government auditors that partly blamed "snooty" attitudes in universities for the fact that student applicants from poor backgrounds are a third less likely to be accepted by some elite academic institutions. Women and ethnic minorities are now well represented among university students, found the watchdogs, but participation rates are still low for people with disabilities and those from poorer social classes.

The inspectors said universities in England need to do much more to attract and retain poor students, and called on more institutions to use a controversial scheme admitting students with lower A-level grades if they come from poorly performing schools. Piloted by the University of Bristol, the scheme is based on research that shows that students with poorer A-level results from low scoring schools perform as well in their degrees as those with higher grades.

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Yesterday, Sir Howard welcomed the Bristol initiative, but said university admissions officers have always taken into account a wider range of factors than just qualifications when selecting students.

David Normington, the permanent secretary for the Department for Education and Skills, meanwhile, told MPs there was a "mountain to climb" to reach the government's target of attracting half of all 18 to 30-year-olds into higher education by 2010. The government estimates that 41% of 18 to 30-year-olds now enrol on degree and diploma courses. Asked if he was sure the government could reach its target, Mr Normington said: "I am as confident as I can be."

Mr Normington also conceded that mounting debts were alienating some poor students from applying to university.