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The Tuition Dilemma and the Politics of "Mass" Higher Education

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ABSTRACT

The prospect of tuition fee increases for public sector universities has attracted an enormous amount of attention in recent years as governments in all industrialized countries have responded to the converging pressures of increased demands for higher education and rising costs of competing areas of social spending. I show that this dilemma is fast approaching a critical point in both Canada and the UK. As contemporary society become "knowledge societies," postsecondary systems become "complex," requiring a sensitive political blending of different institutional goals, such as accessibility, diversity of mission, critical thought, relevance, and social usefulness. This article draws upon the policy model of income contingent repayment (ICR) as a touchstone for debates and larger proposals about addressing the future of higher education reform. My hope is to show the partial shortcomings of the traditional alternatives: reliance on state-provided subsidy on the one hand and deregulated and flexible fees on the other. I then argue that changes in the social and political meaning of participation in higher education might warrant taking a second look at the "smart funding" approach represented by ICR proposals.

RÉSUMÉ

La possibilité d'augmentation des frais de scolarité dans les universités du secteur public a attiré beaucoup d'attention ces dernières années. Pendant ce temps, les gouvernements des pays industrialisés répondaient aux pressions convergentes suscitées par les demandes accrues d'un enseignement plus élevé et par les coûts croissants de domaines économiquement concurrents. Cette étude montre que ce dilemme devient rapidement critique au Canada et au Royaume-Uni. Alors que la société contemporaine développe ses connaissances, les systèmes post-secondaires deviennent plus complexes, exigeant que l'on sache ménager les sensibilités et prendre en considération de nombreux objectifs institutionnels tels que l'accessibilité et la diversité de la mission. Cet article utilise le modèle du remboursement des revenus contingents (ICR) comme base d'argumentation pour traiter de la réforme de l'enseignement supérieur. Tout d'abord, j'essaie de montrer les imperfections partielles des alternatives traditionnelles : les subventions gouvernementales d'une part et de l'autre, la dérégulation et la flexibilité des frais. Ensuite, je discute de l'idée selon laquelle les changements politiques et sociaux sur le plan de l'éducation supérieure pourraient justifier un second coup d'œil sur les propositions du ICR (approche smart funding).

INTRODUCTION

In recent years, governments have begun to redesign tuition-based financing systems for universities. Some (most recently Britain's Labour government) have introduced a method of what I call "smart" funding, whereby financing is increasingly drawn from (or against) the future income of "beneficiaries" of the system, and less from current "users" of the system, or their parents. The putative goal is to ensure that assistance can be delivered in a targeted way, while preserving public insurance objectives such as accessibility and incentives to invest in "human capital." Most importantly, the adoption of the new student finance schemes are a response to concerns about how to cover the increased carrying costs of higher education due to increasing participation rates and greater competition from other areas of public spending. Because income-contingent repayment (ICR) systems allow targeted benefits, while covering everyone, they have become an attractive policy model for postsecondary financing. A smart funding scheme can retain the most important and relevant qualities of a distinctly "public" postsecondary system. It does so, partially, because it redistributes scarce support more equitably and efficiently, providing somewhat less to those who can afford to fund themselves, either from parents or out of future earnings, and leaving more to be concentrated toward those who face the greatest hurdles and barriers. More importantly, however, it holds the prospect of creating a more constructive and explicit moral dialogue about the social contract underpinning the provision of a modern postsecondary education system.

This article inquires more deeply into the "political" implications of the still-unresolved tuition dilemmas facing Canada's postsecondary sector. The approach is to survey recent economic and policy arguments and also the background for recent policy developments in both Canada and the U.K. It is argued that if smart funding frameworks evolve in Canada they will need to be developed and evaluated based on the possible interplay with other policy challenges related to weak provincial/federal policy coordination, the potentially dangerous impact of fee differentiation/ deregulation, and the shift toward a contributions-based social insurance model. Seeking a socially progressive solution, it shows how a more systematic analysis would help address some of the shortcomings of the positions taken in recent years by both "tuition freeze" advocates, who normally oppose ICR, and economists, who sometimes support it for the wrong reasons.

Costs, Quality, and Expansion in a "Mass" Higher Education System

The tuition dilemma is intimately linked with the changing scale and structural shape of the modern higher education system. Canada, like all other industrially advanced countries, is at a pivotal stage of its transition from an "elite" to a "mass" system of higher education. However much we are inclined to think of this as a natural and attractive development, the strains and burdens of expanding postsecondary education are considerable. A compelling case can be made that the central problem of university funding policy in a "knowledge society" is how to respond to pressures for greater participation without making compromises in the areas of quality, accessibility, institutional mandates, and capacity. Even Germany, long known for its commitment to a free tuition policy, has begun to consider how it can maintain a universal and full student subsidy at a time when enrolment demands are outstripping population growth and ever-growing threats to the quality of university learning and research are becoming more obvious and serious. (Ziegele, 2001)

In virtually all industrially advanced countries, postsecondary systems have reached unprecedented levels of participation increases at a time when higher education budgets face increasing competition with other public needs, such as health care and social security. Despite increased participation in Canada, public spending on postsecondary institutions has remained flat in real terms and has actually declined sharply as a share of both GDP and overall government spending (OECD, 2001). Over the past 22 years, the share of university operating budgets provided by government transfers has slipped 25% and per student funding has declined by approximately the same amount (AUCC, 2002). Many governments have been tempted to reduce per-student subsidies by either raising fees or by switching from grants to loans (Barr, 2001; Davenport, 2002). This has driven private educational spending in Canada from .7% of GDP to 1.3% (OECD, 2001). In Canada, this has led to concerns about declining quality as the national average student/faculty ratio has been pushed up by around 25%. Over the mid to late 1990s, Canadian universities actually saw a levelling off of participation rates, accomplished in effect by making admissions policies more selective, which generally has an adverse effect on prospective students of less advantaged backgrounds (AUCC, 2002). Taken as a whole, these trends are problematic since they come at a time when social and economic institutions are increasingly reliant on broadening the base of knowledge, intelligent and active citizenship, as well as capacities for innovation.

Declining government contributions cannot be absorbed by cutting institutional costs alone, and, as a result, average undergraduate tuition fees have nearly doubled from approximately $2000 in 1990-91 to almost $4000 in 2001-02 (Usher, 2002). Due to large increases in private contributions, overall spending on higher education has actually increased as a percentage of GDP since the mid 90s. In fact, on a per student basis, operating revenues have actually risen by 8%. However, this can be deceiving: actual per student expenditures on faculty and staff salaries has declined, and all of the increases in spending have been directed toward overhead and institutional student assistance to help offset higher tuition costs (Statistics Canada, 2003). Even if we leave "affordability" issues aside, it is debatable whether large tuition fee increases have adequately offset reduced transfers from government. In response to these fears, all levels of governments have created or expanded more targeted streams of funding. Some of these are expenditures and programs targeted at strategic innovation and research (AUCC, 2002; Axelrod, 2002). Most of the remainder of the restored funding has come in the form of tuition-offsetting transfers to individuals, such as "Canada Millennium" scholarships, student loans, education savings grants and tax credits for individuals and families. Many scholars and advocacy groups have complained that the new funds are regressive, providing little help to the neediest individuals, whose families are least able to save for university, or who gain fewer benefits from tax deductions (Bell & Anisef, 2002; Finnie, 2001).

From 1986 to 1994, all socio-economic groups increased their rate of participation in university, but the "lower" groups fell further behind the "middle" and "high" groups, despite evidence of high demand in all groups (Usher, 2002). Tuition freeze advocates see a necessary connection between rising tuition or heavy student debt loads and neo-liberal policy preferences for reduced social expenditures, deregulation, and increased reliance on private user fees. They have been able to point to polls suggesting that students and their families are increasingly worried about the rising private costs of higher education, and they perceive these increases as actual or potential barriers to participation. Among their fears has been that the introduction of an ICR loan scheme might be one of the final nails in the coffin of strong public support for universities. This feeling has been supported by the fact that the original idea for an ICR scheme was devised by Milton Friedman as part of his plan to eliminate government funding for universities altogether (Friedman, 1955). Among federal parties in Canada, the ICR model has had the enthusiastic support of privatization-friendly parties on the right, such as the former Canadian Alliance.

At the crest of neo-liberal reform in Canada, vibrant and effective protests organized by student groups in 1995 were successful in opposing policies that would have increased tuitions after introducing an ICR plan. Among the very few promises not kept by Ontario's tax-cutting Progressive Conservative government in the late 1990s was the pledge to introduce an income-contingent loan system which would complement the introduction of higher tuition fees and greater flexibility to charge differentially higher fees for selected programs, particularly in fields where graduates are well-remunerated. The Council of Ontario Universities supported ICR as part of an approach that would allow universities greater freedom to raise fees and absorb cuts to government transfers. In the end, fees were selectively increased, partly to offset lost federal government transfers, and also partly to pay for reductions in provincial tax rates.

The Contested Link between Tuition and Accessibility

If common ground is to be found on the question of the future mix of public and private costs, one might expect that it would emerge in the context of policy deliberations about widening accessibility and expanded participation. Indeed the point is often made by governments that, because we live in a knowledge society, accessibility to higher education will have to be widened for the sake of accelerated social mobility, maintenance of a high-wage economy, and the building of a more informed, inclusive and egalitarian society. Expansion of the system will obviously have to occur through recruitment of those groups traditionally most excluded. In its recent publication, *Knowledge Matters*, the federal government has, therefore, declared that "[a]ction is needed to address factors such as debt aversion, lack of information or the "sticker shock" effect of high and rising education costs that may discourage less advantaged Canadians from pursuing postsecondary education" (Human Resources Development Canada, 2002). However, on the issue of the stated goal of ensuring affordability, current government policy directions either lack clarity or are counterproductive. The possible approaches mentioned in the document were vague and included simplifying loan programs, holding discussions with the provinces around student assistance and using e-learning and lifetime learning to "manage the pressure of enrolment growth." In its 2004 budget, the new Liberal government of Paul Martin has continued the old strategy of encouraging more long-term education savings (even by dangling increased savings incentives for low and middle income families, most of whom cannot save in advance of their child's participation) and raising student loan limits to cover increased tuition costs. In a gesture to the very poorest students, tuition grants of $3000 will be made available, but only in the first year. What is missing are increased transfers to the provinces for institutions. This approach signals to provincial governments that, if they wish to meet increasing demand and maintain quality, they can continue to raise tuition fees or deregulate them for selected programs.

Perhaps it is too simplistic to say that the shortcomings of the federal government's approach can be blamed solely on a failure of political will or its constitutionally limited authority in this area. In fact, there is another problem: the very task of understanding and clarifying how tuition fee levels relate to the goal of accessibility has proven controversial and complex (Lowe & Looker, 2001). For instance, Quebec has lower tuition levels than any other province, but also lower and more slowly growing participation rates than many. For their part, Ontario and Nova Scotia have higher average tuition levels, but also have among the highest and fastest growing rates of participation (Doherty-Delorme & Shaker, 1992). Presumably these counter-intuitive correlations exist because enrolment decisions are based on a number of factors, such as labour market conditions and social and cultural influences.

There is little doubt that there is a very strong and stubbornly persistent correlation between low socio-economic status and low participation in higher education. In addition, there appears to be a similar relationship between parental postsecondary education and participation among all socio-economic groups, but especially the lower two quartiles (Knighton, 2002). The problem, therefore, demands serious attention. However, it is doubtful that solutions can be sought if one's sights are fixed solely on the relationship between fee levels and the choice to pursue higher education. This is probably because socio-economic factors and the possession of social and cultural capital each have an impact on later postsecondary participation, long before students and their families are faced with tuition and borrowing costs (Heckman & Carneiro, 2002; Piatt & Robinson, 2001). In the U.K., students from different socio-economic backgrounds with similar "A-level" scores have virtually the same rate of university attendance (Vignoles, 2003). In Canada, a study done for Alberta Learning highlighted the gap between the perceptions about the "affordability" barrier and the actual behaviour reflected in enrolment decisions. Price-sensitivity clearly dominates popular perceptions about affordability. Forty-four percent of non-attendees in the survey group stated that the reason for their own non-enrolment was related to tuition fees. When all respondents were asked about their perceptions about access to university, the barrier posed by high fees was the most commonly cited reason (given by 70% of participants). However, when enrolment behaviour itself was analyzed, the results showed that university enrolment rates by students from low and high income groups varied by only 3% among those who were academically eligible for admissions (Ipsos-Reid, 2001). Therefore, social and economic inequality affects preparedness and the cultural dispositions for higher education—especially university—and not just the ability to pay the toll to enter the system.

As government funding has decreased, it is not only rising student fees that have filled the gap, but also rising student debt, which in 2000 was 76% higher than it was a decade before (Allen & Vaillancourt, 2004). It is, therefore, important to consider what the impact of rising debt has been. According to economist Ross Finnie, the concern over dramatically rising student debt burdens is warranted, but he also warns that many aspects of the student debt problem tend to misrepresent the problem of affordability and accessibility. Finnie and other economists argue that although students are covering the increasing private costs of higher education by borrowing, they are doing so at a time when the private returns to postsecondary education are more attractive than ever (Finnie, 2001; D.A.A. Stager, 1996). Moreover, although students and their families may be squeezed at the specific life-phase when they must pay tuition, governments have begun to respond with more responsively-designed and flexible loan systems which promise to offer a self-correcting mechanism that provides both equity and efficiency. In particular, governments responsible for implementing the Canada Student Loan Program have begun to offset the rising threat of increased loan defaults, by adopting ex post income-contingency, that is, by introducing debt relief and forgiveness for those facing demonstrable hardship after graduation (Finnie, 2001). Some have therefore argued that Canada needs a more systematic and formal ICR plan. Australia was among the first countries to introduce a "smart" funding scheme in which fees were introduced rapidly in the late 1980s, but tuition payments were deferred—and made income-contingent—by an ICR plan. The data shows Australia—which up until recently subsidized approximately 63% of the cost of higher education, despite the prevalence of neo-liberal policies since 1996—has been able to increase participation rates despite higher fees, although the participation gap between lower and higher socio-economic groups is quite similar to that of Canada (Chapman & Ryan, 2002).

It is hard to conclusively demonstrate what impact existing ICR programs have had on easing the burden of higher fees, since one can't know how outcomes would have varied under different policies, labour market conditions, etc. It can be speculated that ICR programs might turn out to be the best available political mechanism for expanding postsecondary enrolments. If they are to be successful in increasing participation by less advantaged groups, they should be coupled with the use of grants for the poorest and most debt-averse students. Just as importantly, they should be blended with other policies that bring in the funding necessary to meet expansion and alleviate the deeper social inequalities that matter most. Otherwise, socio-economic exclusion could occur through less visible mechanisms that have nothing to do with tuition, such as selective admission, reductions in funded enrolments, and poor funding of primary and secondary education.[1]

The Normative Debate about Price Subsidies: Public or Private Good?

The prospect of "smart" funding of higher education, therefore, points to the need to examine and clarify the connection between normative and economic questions. The faith in markets and the expectation of high private returns guide the traditional thinking of many economists who favour private contributions over low tuition. However, many of these same economists have had to recognize the rationale for price subsidies in higher education. The traditional arguments for highly subsidized fees are well-known. Higher education produces a large amount of "social returns." These include not only human capital assets and skills from which all of society benefits, but also less tangible benefits, such as an atmosphere of critical inquiry, an appreciation of the value of learning, tolerance, and civic participation, and so on. In a similar vein, investments in higher education lead to "positive externalities," which are unpriced benefits captured by those other than the buyer or seller of higher education. This weakens the incentives for economically rational agents/consumers to invest in the socially optimal amount of postsecondary education unless third party subsidies are made available. Another problem of "market failure" is connected to the unavoidable characteristics of investments in human capital, as distinct from other forms of capital. Many people who, by participating in higher education, would create private benefits for themselves and spill-over benefits for society, will not be able to borrow the money to invest in human capital. This is because human capital is not the kind of alienable asset that can be offered as collateral to prospective lenders. Finally, because higher education is an "experience" good, its value is hard to determine before it is "consumed," even by rational economic agents. (Winston, 1999). In order to produce the "right amount" of higher education, we therefore need significantly subsidized tuition or loans and a large government role for supporting and rewarding the choice to pursue it.

State subsidies are justified by considerations that lie outside of incentive problems in economic theory. Normative, critical, and institutional arguments suggest that distance from the market is necessary to sustain the internal goods and integrity of the higher education enterprise. According to these perspectives, the advance of knowledge itself—perhaps especially in areas of basic research and general education—can only occur in an environment where there is separation from the pressures of the market and protection against commercialism. Society benefits from higher education precisely because the process and experience of questioning and discovery remains open, critical and curious in a way that is not supported by the market and utilitarian frameworks. In the end, governments have a difficult responsibility that they would be wrong to offload into the marketplace. It is true that as postsecondary institutions become broader and more expansive, they are inevitably evaluated increasingly in diverse terms, including that of marketability. The problem is that this reinforces the image of universities serving consumers or "publics" with pre-given wants and needs, or identifiable "utility functions." If this image is taken too far, one runs the risk of undermining the very function of advanced learning and reflection, which is often to change and/or challenge the person or society whose interests are being served. Indeed, it is arguable that one of the best qualities of universities is that they can play a crucial role in prompting social actors to reflect on how the utilitarian and non-utilitarian values of their culture might be appropriately blended or distinguished.[2] Activities involving higher knowledge and learning, therefore, involve a complex mix of incommensurable goods, which is why we expect them to be responsive to markets and independent of them at the same time.

In some respects, however, the very complexity of the university-society relationships can make it easier for traditional economic scepticism toward price subsidies to gain traction, especially as cash strapped governments and public universities look to solve the funding challenges of an expanding system. Although most economists in reality believe that some level of subsidy is necessary because of spillovers, they worry that the political process can drive the level of subsidy too high and that unwarranted antipathy toward the market can lead to unrealistic, self-serving or dysfunctional policies. A sampling of their arguments follows:

1. Even if the social and civic returns to higher education rival the importance of the "private" returns, the latter are increasing in importance given the role of knowledge and innovation in today's society. Relying on social returns or "spillovers" to justify higher support for universities may have a moral and ideological appeal, but it assumes a level of good will and farsightedness that is rare among policymakers. The expectation of private returns by individuals is a more tangible and powerful lever for motivating support and participation, and therefore provides a more sustainable incentive system for increased investment (Laidler, 2002; D.A.A. Stager, 1996).

2. The claim that universities need full independence from the market is self-serving, at best, and socially wasteful, at worst. The best way to get universities to be responsible is to expose them to the discipline of the market where their services would have to be priced. Students would become more alert consumers than the state has been up until now; they will make a greater effort to assess the real value of the

services offered, choose more relevant disciplines, complete their degrees more quickly, etc. In recent years governments have not recognized the autonomy of universities and colleges, and have become more managerial in their demands upon them. Seeking "value for money" from a subsidized sector, they have imposed performance contracts that may not adequately reflect the appropriate missions and priorities for each institution. A far better approach than adding another layer of inefficient state regulation would be to make universities more accountable for their performance in the market. Reliance on tuition revenue will make universities more responsive—and perhaps even more independent—than will performance contracts which encourage distortions associated with rigid compliance, political expediency, and *ad hoc* bargaining (Barr, 2001; Davenport, 2002).

3. Subsidies in higher education are leaky. Provinces in Canada are wary of supporting students who, because of their high level of skills, become mobile and frequently migrate to "free-riding" jurisdictions. Public support is inevitably too low because of this fear of free riding. Hard-nosed realism dictates that funding will only be adequate when people pay fees that are closer to the full cost or value of the education they receive.

4. Canadian (or British, etc.) postsecondary institutions need to become more competitive with their elite American counterparts. The ability to charge whatever fees the market will bear will bring in the funds necessary to hire the best faculty, bring in the best private sector partnerships, win the confidence of governments, etc.

From this survey of economic opinion, we can see some of the attractions for policymakers to lean toward market competition over the state as a governance and resource allocating mechanism. However, it is important to see that, in many respects, the very alternative between subsidy and market competition is misleading. Even the American private university sector is largely subsidy-based; although the source of those subsidies is typically found in "donative wealth" (largely from alumni contributions), which is re-circulated as financial aid, and increasingly merit aid. The dynamic of competition and private financing in the American system has led to higher-than-inflationary tuition increases, almost half of which are redistributed back into financial aid schemes. As Winston has argued, this has led to skewed hierarchies where the price paid has little relation to the value of the "product":

> The average student subsidy in U.S. higher education is an impressive \$8,200 a year. The student pays \$3,800 for \$12,000 in education...The average school in the top decile gives each student a subsidy of nearly \$22,800 a year from donative resources—to support a \$28,500 education—while the average school at the bottom gives each student a \$1,800 subsidy to help pay for a \$7,900 education. One result is that the student at the bottom actually pays a higher net price than the student at the top (Winston, 1999).

Following influential arguments by Winston (1999) as well as Frank and Cook (1995), the American system of market-oriented high tuitions (in the elite private sector especially) is both fictional and far from ideal; it has led to winner-take-all markets and wasteful spending on competition for merely positional advantages that don't improve overall quality and social equity in the system. The over-emphasis on merit-based aid becomes a survival strategy in winner-take-all competition, where universities are forced to channel too many resources into competition for "customer inputs" and "peer quality." It, therefore, effectively inflates the elitism and prestige hierarchy of the system, while producing little return (Dynarski, 2002).

The underlying reality of the putative market model in the United States system of higher education involves some largely unexamined moral and political choices about how to subsidize. The best way to approach the reality of the Canadian situation is to see that it is faced with similarly unexamined moral and political choices about how to configure "assistance"—or redistribution—around the various options between loan relief and taxpayer subsidy.

ICR and the Struggle against Marketization

ICR plans are part of what can be called a "smart funding" approach to postsecondary reform. They involve deferred and contingent payment of fees on the basis of a loan scheme that specifies income thresholds for repayment—usually through the tax system—after graduation. Some observers argue that what makes the ICR approach "smart" is that it opens the door for an increasingly market-based orientation. However, most countries that have adopted ICR have not tried to deregulate fees. Nor have they cut total public funding over the long term, but, instead, have used it to finance expansion. Recent announcements by fiscally conservative governments in the U.K. and Australia have promised to supplement ICR-covered tuition increases with government transfers in order to expand the system. In reality, then, what makes this approach "smart" is that it avoids the binary choice of whether the state or the "user" should pay. Instead, contributions are scaled to the life-cycle of students on the grounds that current "users" are also potential "beneficiaries." Since higher education is the type of good for which "ability to pay" and the experience of benefits cannot be known up front, it is both fairer and more efficient to scale payment obligations to income after graduation. ICR means that the system is "beneficiary-financed" rather than "user-financed" (or "parent-financed") in a way that is not possible with either of the traditional "state" or "market" models. The exact repayment formulas and mechanisms are subject to significant variation, and they can be either well or poorly designed from both a technical and a normative perspective. Typically, those who don't earn above the threshold do not pay, and a sunset clause may stipulate that the loan is forgiven after a certain number of years. In addition, interest rates may be more or less subsidized, or no interest may be charged and the value of the loan principal may be simply increased by inflation until it is paid off or forgiven. The scope of insured borrowing can vary in breadth—in Australia, ICR loans do not cover living costs, while in the U.K. they do (up to a maximum of approximately $9,000 per year).

One of the central reasons ICR proposals can be both intriguing and vexing is that they apply to the provision of a non-compulsory public service quite unlike universal medicare or primary and secondary schooling (Goodman & Kaplan, 2003). The pool of students participating in higher education—or at least university education—is distinctive: compared to non-participants, they are far more likely to come from wealthier families and far more likely to have higher incomes after graduation. In addition, postsecondary education possesses many counter-intuitive qualities for a public good: it is distributed in a way that on the whole rewards merit, not just by the awarding of scholarships, but also by granting unequal admission to more selective, and more recognized institutions. From this perspective, universal subsidies in higher education are a morally questionable instrument of public policy, in that they involve a net transfer of resources from less well-off to more well-off students, leaving too few resources to support quality improvements and to enhance participation opportunities by people from disadvantaged backgrounds. ICR-covered tuition is justified to the extent that it makes available a more targeted and effective form of subsidy.

Some people have argued that collecting more money from the progressive income tax system is a fairer and more efficient source of funding, especially since postsecondary graduates earn more and therefore pay proportionately more as they move into higher marginal tax brackets (Allen, 1998; Barr, 2001). The reliance on a tax-financed subsidy also appears to have a strategic advantage: providing a standard subsidy for each enrolment maintains a kind of "benefits universality," which strengthens the willingness of more advantaged groups to support a strong public system. However, it is questionable whether, in practice, this model always achieves the right balance between equity and efficiency. Even fully subsidized fees cover only part of the cost, leaving less advantaged students exposed to especially high barriers to participation because of the need to borrow or work to pay living costs. The universality of the subsidy treats all students as equally in need of assistance only when it comes to paying educational costs, but in doing so, it leaves fewer scarce public resources to help the most needy in other ways, and it does little to encourage participation from groups who would participate without these public resources. A system that leaves little room for targeted means-tested assistance, or expansion to meet rising demands and aspirations, would be self-defeating from a social justice and equity standpoint.

There are other arguments against the introduction of an income-contingent loan system. The ICR approach has been introduced to manage the introduction of increased tuitions and even variable fees, and, as a consequence, it might encourage the view that higher education is a consumer good or commodity. This would lead to declining overall support for public postsecondary institutions, and could become one of the driving wedges toward "privatization" favoured by neo-liberals. There would be less reason to regard higher education as a public good or to ensure that universities—however relevant and socially engaged we want them to be—must have their independence from the market protected. In fact, some economists actually oppose ICR plans on the grounds that they create a moral hazard. Like any other insurance plan that is intended to protect against adverse events or financial shortfalls, ICR can give an incentive for people to be irresponsible or insufficiently self-reliant.

Rather than worrying about getting a good job to pay down one's student loans, some people will decide to be malingerers. Even more alarming to these economists, some students might decide that the process of learning, critical inquiry, and discovery might have its own rewards and not merely a utilitarian benefit in the labour market (Smith, 2002).

Contrary to fears about losing protection from the market, in today's context, over-reliance on transfers and subsidies may be more likely to reinforce market values or misplaced entrepreneurialism than a contributory social insurance regime (Johnstone, 2000). In Canada, political constraints against raising fees on uninsured students has lead to a model of bargaining for university support that, in effect, has enlarged the emphasis on market-oriented development. The behaviour of university administrators and lobbyists becomes shaped by the threat of funding cuts and the concomitant need to negotiate for those "pieces of the action" that are independent of core funding (Slaughter & Leslie, 1997). Universities are then too easily tempted to become either cost-cutters or shortsighted supplicants for industry-sponsored projects and corporate clients. In some provinces, like Ontario, high-prestige areas like business and professional programs have won exemptions from fee regulation altogether. This is in sharp contrast to the moderately graduated, but nationally regulated, fee schedules in countries that have ICR schemes.

In Ontario, there is a strongly warranted fear that professional schools are becoming elitist enclaves promising high financial rewards for students from well-heeled families or for highly indebted graduates who need to strike it rich after they earn their credentials. Quirke and Davies (2002) mention a number of distortions that may result from this, such as the polarizing split between affordable and elite niches, as well as erosion of the tradition of maintaining a community of equals among institutions in the larger postsecondary system. Many areas of education that prepare graduates and researchers for disinterested and forward-looking service to society are strained in favour of a market-oriented model. This leads to a "defection of the rich" and a consequent self-reinforcing ghettoization of the subsidized or less marketable sectors. Arguably, this has affected many basic arts and sciences areas where faculty become divided among higher-tier researchers and lower-tier, lower-paid teaching-only staff who have irregular careers teaching large impersonal classes. In this context, it is widely accepted that students tend to adapt to larger classes by adopting an increasingly instrumentalist and narrow consumerist attitude toward their courses, degrees, and grades (Buchbinder & Rajagopal, 1993). Finally, inflexible reliance on annual state budgeting has possibly increased "corporatization." Areas ripe for commercialization and "technology transfer" now receive much of the attention from policy-makers concerned with university research. Such arrangements enable governments to keep basic operating grants low by promising to selectively fund those areas that are either "open for business" or which have short-term market needs. For all these reasons, a world of low tuition fees may not only offer a false promise of better accessibility; it may also offer little guarantee against the vices of excessive commercialism, privatization, and marketization.

"Smart" Funding: Not in Canada, But in the U.K.

One of the likely factors contributing to the problematic shape of Canada's response to the postsecondary funding squeeze is the notoriously weak and disjointed pattern of provincial-federal coordination, which is widely blamed on the country's strategically cumbersome constitutional assignment of jurisdiction (D. Stager, 1996). The federal government shares jurisdiction with the provinces over some sources of student assistance, and it administers most of the key programs having to do with sponsored, targeted, and direct research funding. Unwilling to specify how much of the Canada Health and Social Transfer (CHST) is ultimately transferred by the provinces to higher education institutions, Ottawa has concentrated a disproportionate amount of new student assistance money toward socially regressive tax relief and postsecondary savings grants. One would also assume that if an ambitious financing policy, like ICR loans, was initiated, the loan amounts set for tuition deferral would mean increased federal influence over tuition policy currently firmly in the hands of the provinces. Although this change might offer welcome relief from the funding uncertainty built into the CHST, political opposition remains strong.

Matters are different in the U.K., not because student fees are popular, but because authority over higher education policy resides at the national level. Indeed, as this article is being written, vast structural reforms are being finalized amidst stormy debates. The underlying structural challenges and dilemmas in the U.K. bear some significant similarities to those in Canada. Higher education has expanded rapidly in the U.K. to the point where participation rates are now approximately 43%, but per student public funding has declined 36% since the early 1980s (DfES, 2003; Greenaway & Haynes, 2000). Until 1998, students paid no fees and some students had access to means-tested maintenance grants. In the 1990s, the government partially replaced grants with loans, and the structure of the loans were conventional (non-contingent payback provisions), with interest deferred until after graduation. In 1998, Blair's New Labour government enacted a number of reforms recommended in the "Dearing Commission" report. It eliminated "maintenance" grants, introduced means-tested fees of CA$2300 (covering approximately 25% of operating costs), and re-structured loans so that they were income-contingent and were paid back—through the income tax system—at a rate of 9% on income above $23,000. The 1998 reforms also tied eligibility of loans to parental income. The reforms did little to solve the funding problems in the British system and did much to reinforce the growing perception that "New Labour" was simply another neo-liberal government in disguise. Despite the partial introduction of fees, per student funding remained more than one-third below the levels of 1989-90, funding for research and teaching remained stretched and participation rates among students from socially disadvantaged backgrounds fell further behind those of other groups (Barr, 2001).

In short, the problem with the 1998 reforms was that all of the funds made available by grant reductions and the re-introduction of fees went to meet the cost of increased demand, but none could be freed up for quality improvement or widening access (Callender, 2002). In early 2003, after two years of consultation and acrimonious debate within and outside the New Labour caucus, the government finally issued its so-called "White Paper" outlining plans for a more adequate and ambitious reform (DfES, 2003).

Although these reforms (covering England only) require final passage in the House of Lords, the three major pillars are likely to stand: regulated (capped) yet variable fees, a vastly expanded income contingent loan system, and non-repayable grants for poorer students. Although "base" fees will be set at $2500, institutions will be free to vary these fees to a maximum of $6900. It is expected that all of the elite "Russell Group" universities will charge the maximum for most or all programs, and surveys indicate that many of the universities across the system plan to follow suit. However, universities charging the full "variable" fees must sign an agreement with a newly constituted "Access Regulator" who would set targets for recruitment of non-traditional and disadvantaged students. Most importantly, no student will have to pay fees up-front, and loans will be available for all students independent of means-tested "parental contribution" requirements. Income-contingent loans—to cover as much as $9000 in living costs—will also be made available to virtually all students, again, with very little or no family means testing. No interest will be charged for the loans—ensuring that those who pay back more slowly will not incur greater costs—but they will be indexed to inflation. In addition, the threshold for repayment of loans will be raised from $23,000 to $34,300 so that graduates are insured against having to pay educational costs until it is affordable (again, at 9% of income above the threshold), and after 25 years the remaining liability is completely forgiven. The higher fees and the prospects of larger debts will be offset by grants aimed at students from low to middle income families. The family income threshold for receiving some of these targeted grants is near $70,000, and about one-third of all students will receive grants—some as high as $5500 per year—to offset both fees and living costs. The government has promised to increase public funding by 6% to ensure that new funding from fees does not displace government contributions or require a trade-off of greater participation for lower quality (DfES, 2003).

The final shape of the package was determined by ten months of student lobbying and caucus revolts within a Labour party already seriously divided by Tony Blair's support for the U.S.-led war in Iraq. Universities welcomed the new sources of revenue, although they worried about increased government meddling and "access regulation." Lecturers worried that variable fees would lead to the "marketization" of higher education and tiering between disciplines and institutions. The Conservative Party opportunistically reversed its "higher fees" platform from the previous election and proposed that fees should be eliminated altogether. Initially, the National Union of Students (NUS) publicly embraced the Conservative tactic of "isolating" New Labour on the fee question, while arguing that increased "welfare state" financing through the tax base could achieve the goals of low fees and an improved and expanded system (Curtis, 2003a, 2003b). Eventually the NUS orchestrated a vocal campaign of protests that failed to convince the government to alter its imposition of higher fees, but helped to win larger grants with more generous eligibility criteria. Only a last minute compromise allowed the bill to pass by a five-vote margin in the House of Commons, and, as of this writing, there is still pressure on the House of Lords to seek changes.

Reflections on Risk, Social Insurance, and Postsecondary Finance

The recent political upheaval in the U.K. clearly illustrates the dilemmas of tuition policy and the challenge of building political support for "smart funding" alternatives, even where efforts are made to tilt many elements of the policy in a socially progressive direction. Part of the problem is that "smart" funding creates a more fluid and pluralistic platform for groups with contending ideological and theoretical commitments to compete in the same policy space (Johnstone, 2001). This represents much more of an opportunity than a drawback, especially in the challenging and awkward arena of postsecondary funding policy.

It is notable that the policy initiatives in Britain have been proposed by Tony Blair who has adopted many of the "Third Way" reforms to the welfare state elaborated by sociologist Anthony Giddens. Together with Ulrich Beck, Giddens has developed the idea of the "risk society" or "reflexive society." (Beck, 1992; Giddens, 1994). In a risk society, there will be a move away from direct regulation and transfers, but not because of an ideological or pre-emptive fondness for the market. Rather the transition occurs because more of our social and individual fates, and therefore, more of our capacity to manage risk, deals with open-ended and indeterminate processes which are by their very nature harder to regulate ex ante or harder to cover by direct social provision. We live in an age of personalization and individualization which is, in large part, premised on the growing importance of knowledge for most life-contexts. This growing reflexivity means that the state cannot fully control whether higher education becomes a public or a private good for either its users or its beneficiaries; but the state can take steps to ensure that opportunities to pursue knowledge and learning are as socially inclusive as possible.

The idea of ICR appeals most to those who see the welfare state as a system of insurance that manages risk and uncertainty. One of the features of a risk or reflexive society is that collective action and solutions must be adapted to fit with increasingly individualized and self-organizing behaviours. Unlike the more vertical schemes for sharing risk characteristic of the traditional welfare state, our current society is one in which people are expected to participate actively in the measures by which opportunities and knowledge is managed relative to their life-process. This alters the moral expectations and claims we can make about the social contract underlying social insurance (Forss, Kalimo, & Purola, 2000; Stone, 2002). We are expected to be more aware of the role of opportunity and individual mobility in our lives and, as a result, more of our entitlements and interests must be seen against the background of our capacity to become self-active and self-creative. We still need a system where people can be protected against unforeseeable economic shocks and disadvantaged backgrounds, but this takes place under conditions in which we are learning how to equip ourselves for an "open future" (Giddens, 1998). In this context, the socially progressive state doesn't simply guarantee minimum benefits for those who passively receive them, but neither does it stand aside and declare itself an impartial referee in market competition stacked in favour of those with greater resources. In more cases public goods provision means helping people manage risk and self-development in the ambiguous and variable forms it takes.

An ICR policy is one that fits with the politically ambiguous, but morally promising, idea of a "responsive" state that tries to "scratch where it itches." Any model that places limits on the categorical responsibility of the state for security and public goods provision can run the risk of strengthening neo-liberal policies. In the context of access to higher education, however, the goal should be to devise a student financing model that carefully incorporates the right combination of the different forms of social insurance, including contributory risk pooling, universal benefits, and means-testing. One of the problems of a contributory insurance scheme is that it may be managed in the manner of a private insurance plan which follows an "actuarial" definition of the relationship between contributions and benefits (Forss et al., 2000). Commercial insurance schemes are preoccupied with erecting safeguards against moral hazards, defined as so-called "opportunistic" use of available pooled resources. However, too much actuarialism can breed a performance culture (Power, 1997), skewing higher education priorities in undesirable directions by requiring supported institutions and individuals to meet rigid performance objectives. For example, there might be too much emphasis on rewarding research institutions that can "spin off" lucrative pharmaceutical patents at the expense of broader public and community health. Or an actuarially minded government might worry that, if it adopts ICR, it will never be paid back by under-performing graduates, and it might try to tie each institution's funding to its record of producing high-paying graduates, missing out on how well that university produces "transformation" for its students (Lomas, 2002). As a result, an approach that was too actuarial would be dismissive of the tentative and exploratory aspects of the mission of higher education. In social terms it might fail to reward institutions that sought to include socially disadvantaged groups into its mission. In intellectual terms, it might under-appreciate some forms of creativity, innovation, and critical approaches. A well-designed (truly "smart"!) contributions-based model for higher education would link contributions and benefits, but in a way that does not assume that all costs, risks, and benefits should be somehow perfectly priced.

Similar issues arise in connection with the goals of "universality" and "means-testing." When it comes to determining responsibility for paying the costs of higher education, strict universality of benefits can be "too expensive," not in the neo-liberal sense of getting poor value for money, but in the social justice sense of being poorly targeted at the greatest needs. And means-testing must also be carefully developed; one needs to worry not only about "stigmatizing" the needy, but also about identifying "means" in a clumsy or static way that is inappropriate for the choice to pursue higher education. This is why supporters of ICR argue that it is both distorting and socially paternalistic to force students to meet a parental means test to qualify for an income-contingent student loan (Barr, 2001; Finnie, 2001). Indeed, recent studies suggest that the current Canada Student Loans program often disqualifies applicants because of unrealistic expectations of parental support (Hemmingway, 2004).

A well-designed smart funding model would include the appropriate mix of social insurance mechanisms and objectives. It would be partially contributory to the extent that recognizing the relationship between benefits and contributions does seem to be well suited to the individualized, "self-investment" qualities of the process of acquiring and developing post-compulsory skills and education. But it would also be partially universal in the sense that anyone who is enrolled in post secondary education is entitled to the protection of the plan. Finally, it would include means testing, but only in a "proportionate" way, that is, by scaling repayment obligations to eventual income and by supplying grants to those who might be deterred even by the more forgiving approach of deferring *and* insuring higher education costs.

The adoption of an ICR program could have tremendous benefits in breaking the logjam related to federal/provincial conflicts. Today's neo-liberal funding policies, as well as the excessive push to "marketize" higher education, is at least partially a product of the institutional framework in which new funds must be negotiated in a distrustful turf battle between transfer payers and transfer recipients seeking short-run accountability and bargaining advantages from one another. If some of the new funding were to come from the later earnings of an insured, less fearful "user," a new source of trust might be introduced into a system in which the partially conflicting goals of accountability, autonomy, and accessibility find themselves in delicate balance.[3] Overall tax-financed contributions might even be increased in an environment that was less polluted by the acrimony and shortsightedness of federal/provincial turf battles.

CONCLUSION

The federal government of Canada should give renewed consideration to ICR loans as a platform for creating sustainable and equitable expansion of Canada's public postsecondary education system. Such a system is justified, in part, as a response to the implicit "fiscal politics" that constrains quality and expansion in higher education in favour of tuition subsidies. While public transfers should remain at the core of higher education funding, wider accessibility requires more targeted subsidies, particularly in a country like Canada that already devotes a greater share of its overall public expenditure to postsecondary education than any of its OECD counterparts (OECD, 2003). ICR offers a promising conceptual and moral envelope for bringing together agreed-upon principles for sharing the costs and risks of mass postsecondary education. Most Canadians strongly believe that higher education should be socially inclusive and affordable, and that the private burden of paying for it should be absorbed by student loans that are easily accessed (Ipsos-Reid, 2004). Because today's postsecondary students comprise a large cohort of borrowers of unequal social backgrounds, this principle can best be implemented by universally insuring their education against later inability to pay, and by offering generous "up-front" grants for those from poorer backgrounds.

It is equally important to remember that every approach to financing higher education can be said to exist in a complex interplay with other social and political interests that are likely to make themselves felt in the newly created policy space. Several notes of caution are therefore worth mentioning:

1. **Governments may opportunistically respond to the new credit driven funding model.** If tuition charges rise, it is important that the new money supplements, rather than replaces, public support that comes in the form of block

grants and formula funding. As the recent examples of Britain and Australia show, the advantage of smart funding approaches will be lost if they do not translate into quality improvements and increased accessibility and responsiveness to unmet demand. In addition, more reliance on student—or graduate—contributions should not cause governments to over-react by vastly increasing their powers of review and supervision in the guise of "protecting" the value of students' investments. As higher education expands, the task of demonstrating the value and quality of its activities will have to become more attuned to broader social influences and standards. Narrow "value for money" accountability schemes can lead to internal divisions and distrust as well as short-sighted compliance-oriented practices that become self-defeating (Barnett, 2003).

2. **The attractions of fee deregulation should be resisted.** In recent years, provincial governments in Ontario, Alberta, and British Columbia have moved to partially or totally deregulate fees. Sharply differentiated fees lead to tiering, which is not only socially inequitable, but also rests on the myth that flexible pricing reflects the "true" costs or marketable benefits of academic programs and courses. In reality, academic pricing can also play a role in influencing and distorting the social and economic priorities it is intended to reflect. Career paths, research interests, and models of professional service can be driven by the price of credentials. In addition, the problem of elite defections and "split-offs" from publicly supported sectors can obscure the value of cross-disciplinary collegiality, as well as cross-subsidies among disciplines within and among institutions. Adoption of ICR-driven funding arrangements should, therefore, be accompanied by standardized tuition bands, like those which

still prevail in nearly all Canadian provinces. Although there could be some limited variability for discipline and level—along the lines of recent reforms announced in Australia and the U.K.—great caution should be exercised in allowing fees to vary among same-category institutions. Resistance to outright deregulation is necessary to maintain one of the great strengths of Canada's public university system, namely, its capacity to support a sustainable middle ground in a context of regional and institutional diversity.

3. **Smart funding should be used as an opportunity to transform the defence of public higher education, rather than ease the transition toward privatization.** Smart funding schemes are met with scepticism by traditional advocates of publicly funded higher education who rightly fear the increasing privatization of higher education or defeatism in the struggle to expand public funding. From a strategic point of view, advocates of low tuition have helped to thwart neo-liberal policy ideas that might otherwise have led to the withdrawal of adequate public funding. However, their approach is likely to become unsustainable in the face of further expansion (and institutional differentiation) that will mark the next phase of the "knowledge society." Reports submitted to governments in the U.K. and Australia have already given strong consideration to higher education vouchers and credits which could be spent at fully private institutions of varying quality and cost (Dearing, 1997; West, 1998). This would lead to far greater inequities, status competition, and fragmentation and could ultimately be ruinous for the kinds of equity goals that will be highlighted in a world of expanded higher education. Far from contributing to the privatization of higher education, smart funding—rather than education credits—may be the best chance to contain its spread.

Notes

[1] This point has been captured nicely by Peter Scott (2003): "It is true that the well-off have benefited disproportionately from the expansion of universities. We now have a mass system of higher education for the middle classes, into which the brighter (and luckier) members of the working class are co-opted. But this outcome is inevitable so long as wealth and opportunities are so unequally distributed. It happens everywhere. Social inequality is at the root of higher education's "failure" to recruit a better social mix of students, not the elitism of universities which, however discreditable, is a side-show. Fair admissions cannot compensate for an unfair society."

[2] A generally similar argument—made with greater depth and different emphases—can be found in Axelrod (2002) and Barnett (2003).

[3] David Robertson (2000, p. 92) offers the following scenario explaining the possible institutional consequences of students becoming more independent stakeholders in the realm of higher education: "[Students'] behaviour will increasingly recognise that intellectual capital is a personal property to be developed in terms which reflect their own preferences and life-career points. Its development need not fit conveniently into the organizational and professional values of the university. This will truly challenge the power of the academic guild more fundamentally than any incursion by the state in the past century. Yet the academic guild need fear little if it recognizes that autonomy is better secured via alliances with freely acting students than with an unbiddable regulating state."

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