

Study Now, Pay Forever: Income Contingent Repayment Loan Schemes

Income contingent repayment (ICR) student loan schemes are funding models for post-secondary education that are based on the belief that the individual is the primary beneficiary of education and therefore should bear the full cost. ICR is neither a progressive nor fresh alternative to the Canada Student Loans Program, nor is it intended to improve access to post-secondary education.

An Old, Outdated Idea

In 1955, the late U.S. economist Milton Friedman devised ICR as a way to reduce the role of the state in financing education. Instead of public funding, Friedman proposed full cost-recovery tuition fees. In order for students to pay these vastly higher tuition fees, he proposed that they have access to large loans. For repayment of the loans to be manageable, he proposed that the size of loan payments be based on each individual's level of income after graduation (i.e. income contingent).

For Friedman and those who advocate ICR, the larger political and economic principle guiding this funding model is stark: primary, secondary, and post-secondary education is seen as a commodity like any other and should be priced and produced subject to the dictates of "the market".

"It is not a form of student assistance"

Starting in the mid-1990s, Canadian proponents of ICR have sought to gain support for it by exploiting the student debt crisis. Rather than being up-front about their true purpose—to shift the cost of education from the state to the individual—they have tried to "sell" ICR loan schemes as an improved student aid plan that allows student loan recipients to pay off their loans as their income allows.

But the purpose of ICR is not to improve student aid. Even policy analysts involved in designing and administering ICR models concede this point. The Government of Australia describes its ICR system in these terms: "The purpose...is to raise revenue from the recipients of higher education for return to the system as part of...funding of higher education; it is not a form of student assistance."¹

In Canada, documents obtained through a federal Access to Information request filed in July 2004 also reveal the purpose of these schemes: "ICR loans would solve the problem of

university and college underfunding, by allowing institutions to increase tuition fees to cover a greater portion, or even all of its costs."

Lower Wage Earners Pay Far More in the Long Run

Under ICR, borrowers would repay their loans as a percentage of their incomes upon completion of study. Graduates with lower levels of income would repay their loans over a longer period of time, while those in high-paying jobs could repay their loans more quickly and pay less interest. Those who could afford to pay their tuition fees upfront would avoid high interest rate payments after graduation and end up paying less for post-secondary

education. In Australia, students who can afford to pay their tuition fees in full at the beginning of every academic year receive a 25% discount.

A Lifelong Debt Sentence

ICR would disproportionately hurt women because it would take them, on average, considerably longer to pay back their interest-bearing loans. Repayment difficulties would be more pronounced because women still earn less than men on average and many leave the workforce to have children. Under one model considered in Canada in the mid-1990s,

43% of women would not be able to pay off their debt after 25 years of repayment.

"Graduates with high balances and/or low incomes will take longer to (and may never) discharge their balances...Unpaid balances should last until death".

Ben Allaire and David Duff, An Income-Contingent Financing Program for Ontario, 2004.

The International Evidence

In other countries, ICR schemes have been accompanied by higher tuition fees, higher debt loads, and extended repayment periods. In 1989, Australia introduced ICR as part of a package of new tuition fees that were more than 500% higher than the previous administrative fee of \$263. The government promised that tuition fees would rise with the Consumer Price Index, but broke this commitment within three years. In the seventh year of Australia's ICR scheme, the government introduced a three-tiered differential fee structure that increased tuition fees by anywhere from 35% to 125% in one year alone.

New Zealand (1993) and the United Kingdom (1998) followed Australia's lead, introducing both tuition fees and an ICR scheme simultaneously. Accessibility and affordability have been undermined in both countries.

ICRs: A Canadian Chronology

1964

The birth of the Canada Student Loans Program.

1969

The Council of Ministers of Education approves, in principle, an ICR coupled with tuition fee increases.

1984

The Ontario government's Bovey Commission supports ICR along with increased tuition fees.

1991

The federal government's Smith Commission advocates increased tuition fees coupled with a self-financing ICR.

1993

The Council of Ontario Universities proposes an ICR along with a tuition fee increase of up to 50%.

1994-95

The federal government's Social Policy Review proposes a massive withdrawal of federal funding for post-secondary education accompanied by ICR.

January 25, 1995

The Canadian Federation of Students organises one of Canada's largest national student demonstrations against ICR and funding cuts to education.

May 2, 1995

The federal government takes ICR off the table.

1996

The Ontario Conservatives promise to implement ICR. They never followed through due to a lack of support from lending institutions.

1997

The federal government announces that ICR is being considered again, but the proposal dies due to a lack of support.

2005

Former Premier Bob Rae's review of Ontario's system of post-secondary education calls for ICR and deregulated tuition fees.

2006

The Federation lobbies successfully to have the federal Conservatives pull ICR from their election platform.

2007

A review of New Brunswick's universities and colleges recommends ICR.

In the United Kingdom, university applications from lower income students have dropped by nearly 10% since the introduction of tuition fees and ICR loans.²

In New Zealand, total student debt had risen to over \$5 billion by 2002 and only one in ten students is debt free.³ The New Zealand University Students' Association estimates that by 2020, total student debt in New Zealand will rise to almost \$20 billion, an amount the country's Auditor General believes could be "a major source of risk" to New Zealand's national government.⁴

Women, indigenous people, and students from minority groups in New Zealand have been hit particularly hard by the inequities inherent in ICR schemes. For example, a Maori woman can expect to spend an average of 24 years repaying the cost of her bachelor degree under ICR, as opposed to 13 years for a New Zealand male of European ancestry.⁵ These figures are even worse for Pacific (non-Maori Polynesian) women in New Zealand, who face a staggering estimated average loan repayment time of 33 years. A woman with a bachelor degree in New Zealand can expect to take an average of 28 years to repay her loans under ICR—almost double the 15 year average repayment time for men.

A leading New Zealand demographer recently found that soaring student debt loads and lengthy repayment times may even be a factor in New Zealand's declining birth rate, increased emigration, and reduced rates of home ownership since the mid-1990s.⁶

In Canada

Despite various attempts to implement ICR in Canada over the last three decades, Canadians continue to reject them.

In 1995, the federal government shelved its ICR proposal after the Canadian Federation of Students mounted a massive campaign. According to two leading Canadian journalists, the government's proposed reform to post-secondary education "simply seemed like a bald-faced attempt by government to double tuition fees."⁷ In 1997, the federal government tried again to revive ICR but lending institutions and most provinces rejected the scheme as either regressive or unworkable.

The Ontario government proposed ICR in 1996 to accompany a 20% funding cut to post-secondary education. It was ultimately unable to deliver on the promise to implement this scheme due to widespread opposition from lending institutions and students.

Income Contingent Repayment Today: Gone, But Not Forgotten

Canadian students consistently and unequivocally rejected ICR schemes during the 1990s, leading governments in Canada to temporarily retreat from overt attempts to introduce ICR. However, past experience and international precedent should dispel any sense of complacency. When the opportunity arises, governments have a history of repackaging ICR as a solution to the funding crises created by their own cuts to post-secondary education funding. Canadians will need to be wary of new attempts to introduce ICR in coming years. Moreover, ICR schemes must be challenged on the basis of what they actually are: a means of privatising and individualising the costs of post-secondary education. The lifelong debt and increased barriers to access that result from ICR will not contribute to a healthier, more prosperous, and better-educated society.

Endnotes

1. Robert Green, Assistant Secretary, Programs and Operations Branch, Department of Employment, Education and Training, Central Office, Government of Australia, Letter to the Canadian Federation of Students, November 5, 1991.
2. National Union of Students, United Kingdom press release: "NUS reacts angrily to minister dismissing student debt", Friday 15 November 2002. Available on-line at: <<http://www.nusonline.co.uk>>.
3. New Zealand University Students' Association, The Student Loan Scheme: Inequities and emerging issues. Wellington, 2002.
4. New Zealand University Students' Association, The Student Loan Scheme: Inequities and emerging issues. Wellington, 2002.
5. New Zealand University Students' Association, Pacific Students and Debt. Wellington, 2002.
6. Ian Pool, "The Demography of the Student Loan", transcript of presentation from the Student Debt Summit, Auckland, July 23, 2002.
7. Edward Greenspon and Anthony Wilson Smith, Double Vision: The Inside Story of the Liberals in Power. Toronto, 1996, page 193.