

**Enhancing Accessibility:
Normative Foundations and Income Contingent Grants
and Loan Repayment Programs**

Discussion: Mark Stabile, Department of Economics, U of T

I would like to focus my remarks on a few points. First, the new research on the relationship between tuition fees and accessibility and second, on a few of the proposals put forth in today's session.

I'd like to bring your attention to new work by Christine Neill, a Ph.D. candidate at U of T that I believe supports the direction presented to us by Professor Barr.

The work estimates the relationship between enrollment in university and tuition fees in Canada between 1979 and 2003.

The work uses data from the Labour Force Survey and the Student Living Accommodations Survey. It is a well-identified study that uses changes in tuition policy over time within provinces to identify the effects of tuition on changes on enrollment. It explicitly accounts for changes in financial aid and changes in demographics, a concern expressed by Professor Williams in her talk.

In a careful estimation of the effects of tuition fees on demand, Christine finds no relationship between tuition fee increases and enrollment.

This is consistent with other literature in other countries and in Canada.

However, Christine extends the literature by effectively dealing with a possible problem in these types of estimation: that prices (tuition fees) are not exogenously determined, and in fact may be a function of demand.

Here are 2 examples of how this might work:

1. An increase in the demand for university will put increasing pressure in the short run on government budgets. Governments may then respond by allowing a greater proportion of the cost to be generated through tuition fees.
2. In regions where there is room to adjust, universities could respond to increases in demand for spots by increasing tuition.

Both of these scenarios would then generate a positive correlation between tuition and enrollment.

If we believe that the "true" relationship between tuition and enrollment is, in fact, negative, then these two effects might balance each other out and the researcher would observe no relationship.

We observe no relationship. This is cause for thought.

What we need is to find a some variation that is correlated with tuition policy that is not correlated with demand.

Christine suggests the provincial government in power is one such variable.

She finds that there is a well supported relationship between the government in power and the level of tuition fees. The NDP is associated with a \$270 lower level of tuition than the PC Party, the Liberals with a \$100 lower level of tuition and the PQ with a \$200 lower level of tuition.

Using this variation in tuition prices to identify the relationship between tuition and enrollment Christine now finds a negative effect of increased tuition on enrollment. *But*, this relationship is primarily for students from families in the lower-middle end of the socioeconomic status distribution. Why this group? The lowest income students are either receiving loans or are not going to universities regardless of tuition. The lower-middle group is in fact the marginal student.

Linking this with the talks from today:

My interpretation of these results is that income contingent loans would solve the problem of higher tuition reducing university enrollment more effectively than lowering tuition.

Why? Lower tuition, or indeed subsidized loans, would provide a benefit to the entire enrolled population when Christine's results identify a marginal population-- those with low or middle level educated parents that are in need of support.

Some other comments brought up by the speakers this afternoon:

1. On debt aversion. Insurance is built into the income contingent loan structure. Therefore the ICLs deal, in part, with the problem of debt aversion.
2. On having a fixed payment end date for ICLs. There is a considerable amount of economic evidence that individuals respond to incentives in the tax structure. Having a fixed payment end date would likely result in inefficient tax avoidance and hence I would recommend against it.
3. On having no set price of payback for loans. Professor Ripstein suggested that we should not have a set payback amount as our tax system is set up to be contingent on the actualization of the talents, or tools, learned from university. However, it is important to note that not all of your future income is due to the return on your education. Part of your income is a function of education, but part is due to ability, hardwork, luck and other elements. Progressive income taxation taxes all these reasons for success and most of us in support of this. The remaining question then, is how much of this tax back should go to postsecondary education. Three reasonable ways to determine this would be as follows:
 1. The actual cost.
 2. That part of your return that is attributable to your education (lost of economic evidence on this).

3. Professor Carmichael's proposal where higher earners subsidize lower-earners such that the loan program is revenue neutral.

What is important to note here is that all of these amounts are independent of one's actualization of one's improved earning power as a result of post-secondary education. Therefore I believe we need to think carefully about how we determine how much is owed, and by whom.