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# **THE TUITION TRAP**

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A study commissioned by the  
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Since 1997, Mr. Mackenzie has been co-chair and principal analyst for the Ontario Alternative Budget project of the Canadian Centre for Policy Alternatives. In that capacity, he has authored each year's Alternative Budget, as well as numerous issue-specific technical papers.

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The Ontario Confederation of University Faculty Associations (OCUFA) represents 13,000 professors and academic librarians in Ontario's universities.

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## EXECUTIVE SUMMARY:

A decade of fiscally-motivated tuition increases which led to a doubling of fees – followed by an equally arbitrary tuition freeze – has left Ontario without a coherent tuition fee policy. A fundamental reconsideration of tuition policy is now badly needed. As the Ontario government contemplates a new tuition policy, key concerns need to be addressed in order to ensure fairness and affordability.

*The Tuition Trap* cautions against a narrow framing of tuition policy. It warns against embracing past practices of incremental annual fee increases or radically expanding the practice of fee deregulation. The study examines the impact of raising tuition on several fronts, including:

- The problems associated with Ontario government fiscal policy that promoted higher tuition over the past decade.
- The negative impact higher tuition would have on the current progressive subsidization of postsecondary education.
- The negative impact higher tuition could have on the goal of increased access to higher education.
- The negative impact higher tuition coupled with targeted assistance might have on Ontario families' ability to afford postsecondary education, including Ontario families in the middle-income range.
- Flaws in the arguments of those advocating higher tuition fees.

Key among *The Tuition Trap's* findings: Replacing the current progressive subsidization of postsecondary education with higher tuition could squeeze out many families in the middle of Ontario's income scale. In fact, embracing higher tuition could reverse the intergenerational "deal" Ontarians have traditionally endorsed which ensured their taxes subsidized the majority of families who otherwise might not be able to afford a university education. Given the pressures of a knowledge economy within a globalized market, a shift toward higher tuition could leave many families in the middle out in the cold.

Families in the middle- and lower-income range are already struggling with a decade's worth of rising tuition fees. From 1990 to 2002, tuition as a share of university operating revenue more than doubled, climbing from 21 per cent to 43 per cent. The share of college operating revenue accounted for by tuition jumped from 17 per cent to 31 per cent.

Higher tuition advocates claim Ontario families can handle even greater increases. To promote their position, they make two contentious claims: They suggest the current system is flawed because it represents a flat-out subsidy of high-income families who are most likely to take advantage of a publicly funded university education. They admit low-income families may need help getting to university and suggest the solution is to offer those students grants. Families in the middle tend to get squeezed out of the discussion.

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Contrary to what higher tuition advocates claim, *The Tuition Trap* reveals the following:

- Publicly subsidized tuition does not represent an income transfer from low-income families to higher-income families. On the contrary, more than 60 per cent of families with children benefit from the transfer inherent in subsidizing tuition from general government revenues.
- Substituting tuition for public funding will tend to reduce the net transfer from higher-income families to lower-income families; replacing tuition with increased public funding will tend to increase the net transfer.
- Families from low **and** middle-income groups would lose out if tuition were allowed to rise because they are net beneficiaries from funding out of general revenue.
- A strategy of raising tuition and targeting assistance to the lowest-income families will move the financial obstacles to participation in postsecondary well into the middle of the income distribution.

Although tuition in general has continued to be subject to government regulation – albeit at higher regulated levels – Ontario does have some direct experience with the impact of full deregulation in professional programs. Analysis based on surveys of physicians and medical students across Canada in 1997, 2000 and 2004 reveals a decline in the participation by students from lower-income families and adds some provocative data on changes in accumulated debt and career choices over time as tuition has increased.

The recently announced Ontario Access Grants for first-year students from low-income families, while a welcome departure from previous policies, are not a panacea. The grants highlight the extremely tight targeting of assistance for low-income students in proposals for higher tuition: Less than 15 per cent of first-year students in Ontario would receive any grant assistance under this structure. The Ontario and Canada Access Grants combined will cover only about five per cent of total first-year tuition. The grants fall short of the true cost of attending university for low-income students and totally neglect students whose families are in the middle.

The study also examines the claim that by increasing tuition the Ontario government will increase the resources available to postsecondary institutions. Experience tells us otherwise. In the 1990s, as the Ontario government allowed for dramatic tuition increases it also cut back on its funding to postsecondary education institutions, putting the prospect of offering quality, affordable, accessible university education in jeopardy.

As the study notes, this flies in the face of a fundamental notion that underlies the ‘social pact’ in Ontario: The role subsidized public education plays in Canadians’ sense of intergenerational equity. People active in the workforce pay taxes to provide subsidized public education with the expectation that when that generation retires, the generations behind it will in their turn subsidize the retirement incomes and health care costs of those

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who supported their education. Subsidized public education is an important part of the “Canadian bargain” among the generations. Those who advocate a tuition policy which makes each generation responsible for its own education costs put that bargain at risk.

In light of the serious questions the study raises about the merits of increasing tuition, *The Tuition Trap* concludes it is critical that a new tuition policy establish both coherent and consistent objectives that embrace fairness, equity, affordability, and a direction for change to realize those objectives.

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The Government of Ontario has signaled a turn around after more than a decade of deterioration in the finances of both postsecondary educational institutions and postsecondary students and their families.

This year, the government committed to increase base operating funding for postsecondary education institutions by 35 per cent, or \$1.2 billion, between 2005-06 and 2009-10. It also announced a plan to increase student financial assistance by \$358 million by 2009-10 – more than double the 2004-05 level.

After a decade in which tuition more than doubled, the government initially followed through on its 2003 election promise to freeze tuition for two years, pending a review of tuition policy which began with informal consultations with selected stakeholders over the summer of 2005.

A fundamental reconsideration of Ontario's tuition policy is badly needed. Over the past decade, fiscally-motivated tuition increases followed by an equally arbitrary freeze have left Ontario without a coherent tuition policy.

The consultations to date, however, suggest that the government's objective is to frame the questions for tuition policy as narrowly as possible, as a choice between deregulation of tuition at the level of the individual institution and regulated tuition linked to an index of costs or perhaps the earnings of college and university graduates.

It is understandable that a government facing significant fiscal challenges would be prepared to consider only marginal changes in regulated tuition, and would be attracted both fiscally and politically to the idea of getting out of the tuition setting business entirely. Indeed, given the substantial increases in both institutional funding and student financial assistance already announced, it would be unrealistic to expect any substantial reduction in tuition in the short term.

It is critical, however, that regardless of current fiscal circumstances a new policy establish both coherent and consistent objectives for tuition and a direction for change to realize those objectives.

The government's apparent decision to adopt a narrow framing of the issues in college and university tuition ignores the substantial increases in tuition that have already been imposed over the past decade, effectively embracing the status quo. It also defines away the critical issues of access, affordability and the role of college and university education as provincial public services that are at the heart of any debate over tuition policy.

Advocates for unregulated and/or higher tuition contend that Ontario students and their families can pay more, and should be prepared to pay more. They also deny that higher tuition has had or will have an adverse impact on access, affordability, and the role of postsecondary education in Ontario.

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Very little research exists to substantiate the claim. This research paper examines the impact of raising tuition on several fronts. It looks at:

- The problems associated with Ontario government fiscal policy that promoted higher tuition over the past decade.
- The impact higher tuition would have on the current progressive subsidization of postsecondary education.
- The impact higher tuition could have on the goal of increased access to higher education.
- The impact higher tuition coupled with targeted assistance might have on Ontario families' ability to afford postsecondary education, including middle-income Ontario families with children.
- The extent of public support for government funding of postsecondary education.
- Flaws in arguments from those advocating higher tuition fees.

The paper uncovers methodological pitfalls in the limited research presented by higher tuition proponents. It demonstrates how little is known about the impact higher tuition will ultimately have on families with children from all income levels – especially middle-income families. And it raises concerns about a higher tuition strategy that could effectively result in the majority of Ontario families with children losing out on the level of support for postsecondary education they currently receive. These findings raise serious questions about the merits of raising tuition, even in light of recent student grant enhancements.

### **College and university tuition in Ontario in perspective**

This section provides a brief historical overview of Ontario's tuition policy for colleges and universities, putting into context the fiscal reality university students face following a decade of tuition increases.

In their efforts to reduce public spending in the 1990s, initially to constrain the deficit and later to create the fiscal room for further income tax cuts, provincial governments found a path of least resistance to spending cuts in the college and university systems. Governments were able to create the space in the postsecondary education system for substantial cuts in provincial grants by imposing massive increases in tuition and fees on college and university students.

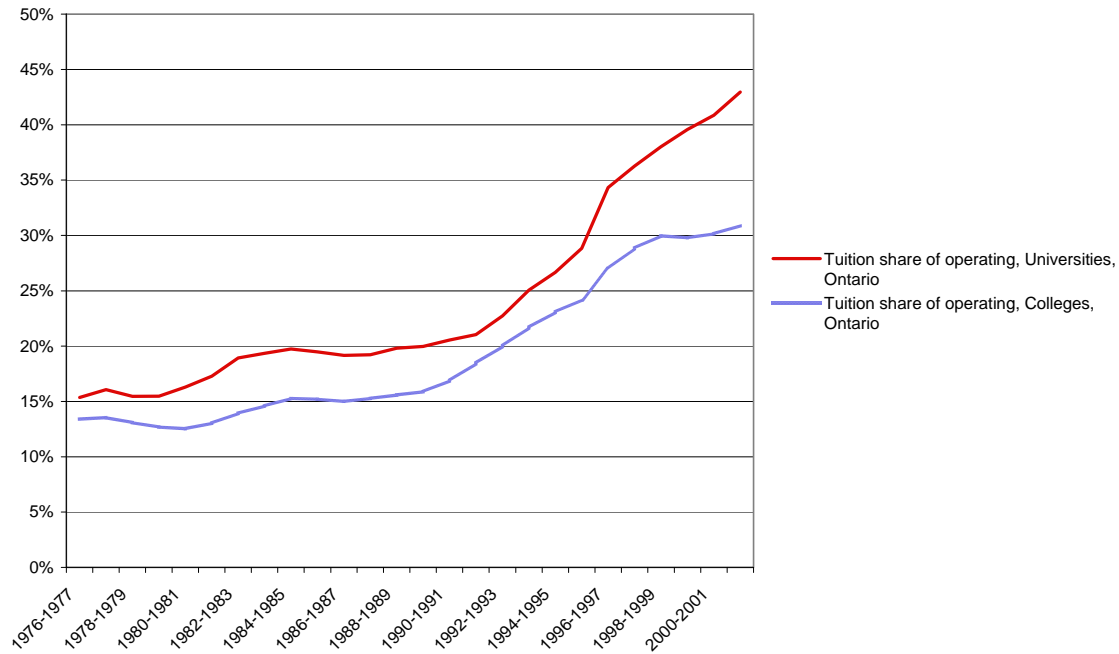
Chart 1 illustrates the role that college and university tuition has played in provincial fiscal policy, documenting the steady increase in the share of operating costs made up by students' tuition and fees as provincial funding has been reduced in response to fiscal pressures.<sup>1</sup>

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<sup>1</sup> Source: Statistics Canada, CANSIM Tables 478-0004, 478-0007

Chart 1

Tuition share of operating revenues, colleges and universities  
Ontario 1976-77 to 2001-02



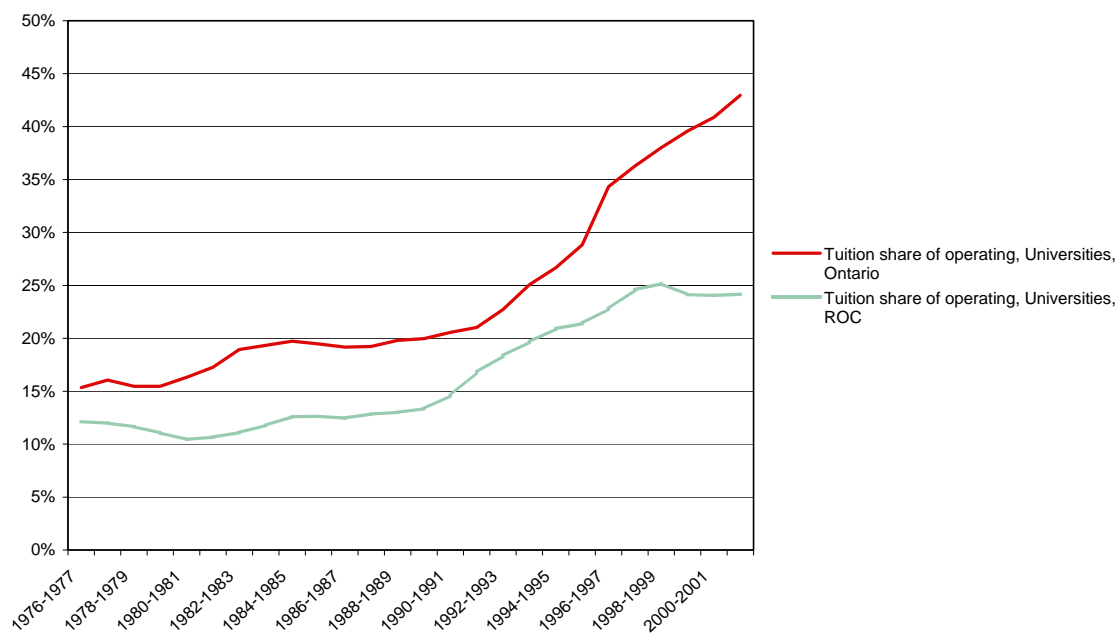
From 1990 to 2002, the share of tuition in university operating revenues more than doubled, from 21 per cent to 43 per cent. The share of college operating revenues accounted for by tuition jumped from 17 per cent to 31 per cent.

While tuition has been increasing in every province in Canada, its shift in Ontario puts the province substantially out of step with the rest of Canada.

Chart 2 compares tuition as a share of operating revenues in Ontario and in the rest of Canada, for universities.

Chart 2

**Tuition share of operating revenues, universities  
Ontario and Rest of Canada  
1976-77 to 2001-02**



While Ontario has always relied more heavily on tuition to finance university operating costs than the rest of Canada, the gap widened dramatically in the 1990s. The share of tuition in university operating revenues in Ontario is now rapidly approaching double the share in the rest of Canada.

The fiscal origins of the substantial increases in tuition in the 1990s are evident from the data on provincial grants for colleges and universities.

In 1990-1991, the total provincial government transfer per funding unit to community colleges was \$5,775. By 1999-2000, it had dropped by 40 per cent, to \$3,474 per funding unit. If the 1990-1991 funding level had simply kept pace with inflation, it would have reached \$6,451 by 1999-2000. Using this latter figure as the base, the 1999-2000 funding level of \$3,474 per funding unit represents a decline of \$2,977 or 46.1 per cent.<sup>2</sup>

Funding for universities shows a similar pattern. Between 1993-1994 and 2002-2003, provincial operating funding for universities dropped from \$7,074 per full-time-equivalent student to \$6,427. On an inflation-adjusted basis, funding has declined from an inflation-adjusted 1993-1994 level of \$8,440 per FTE student to \$6,427, a drop of \$2,013 or 24 per cent.<sup>3</sup>

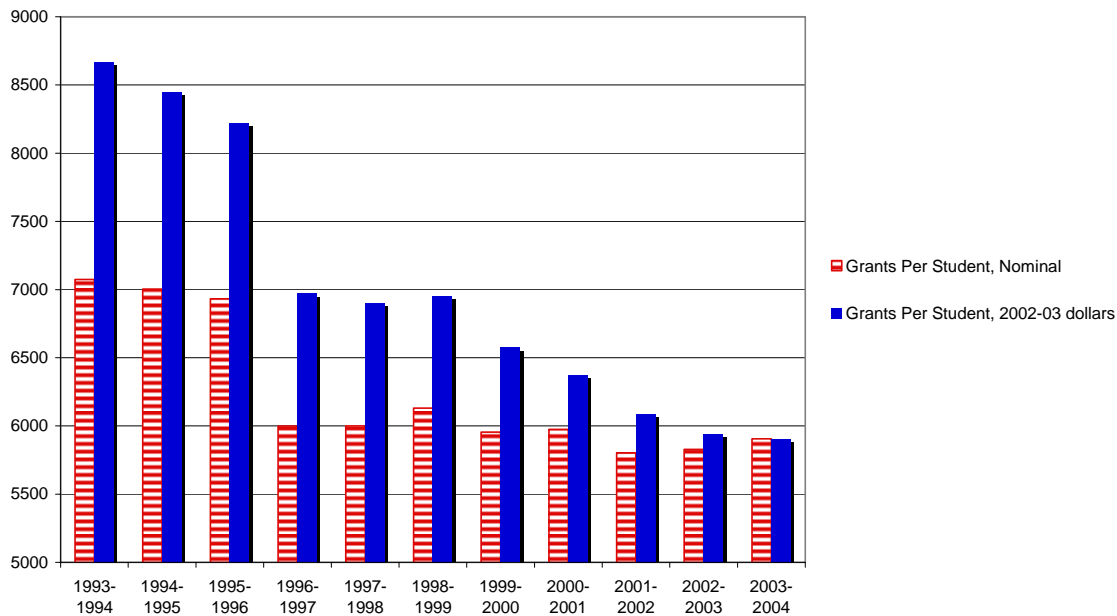
<sup>2</sup> *Ontario's Colleges: Leaders in Applied Learning*. Presentation to Investing in Students Task Force, Association of Colleges of Applied Arts and Technology (ACAAT), November 2000, p. 35.

<sup>3</sup> *Compendium of Statistical and Financial Information, Ontario Universities 2002-03*. Council of Finance Officers – Universities of Ontario Council on University Planning and Analysis, Council of Ontario Universities (COU), May 2004, tables A-1, B-1 and E-2.

Chart 3 shows the pattern over the decade.

Chart 3

**Ontario University Operating Funding 1993-94 to 2003-04  
Nominal and in 2003-04 dollars**



The impact of the change in tuition is reflected in student finances.

According to Statistics Canada, 52 per cent of Ontario B.A. graduates incurred debt during undergraduate studies, accumulating an average debt of \$22,800 in 2002. Forty-two per cent of students had government student loan debt.<sup>4</sup>

### **The high-tuition strategy**

The view that there is room for substantial increases in student tuition as a source of funding for postsecondary education ignores the reality of increasing tuition and student debt levels in Ontario.

Proponents of a higher tuition strategy advance six key counter-arguments concerning postsecondary education that they contend should make the public and its governments comfortable with the idea that higher tuition is a viable alternative to public funding for postsecondary institutions.

<sup>4</sup> Lynn Barr-Telford. *Postsecondary Financing, Making Ends Meet – With a Focus on Ontario*. Presentation for the Ontario Confederation of University Faculty Associations, January 21, 2005, Statistics Canada.

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First, they contend that public funding for postsecondary education is inequitable, that it amounts to a subsidy of the rich, paid for by the poor.

Second, they contend that the level of tuition does not affect either overall participation in postsecondary education or the access of students from disadvantaged groups.

Third, to the extent that higher tuition is – or is perceived to be – a barrier to participation in postsecondary education, they contend that it can be addressed through student assistance targeted to students from low-income families.

Fourth, they contend that individual economic returns from postsecondary education are sufficiently substantial that a decision by a qualified student not to participate in postsecondary education must be based on inaccurate information, and that providing accurate information would address many of the perceived problems of access.

Fifth, they contend that there is an untapped ability to pay on the part of students and their families; that students' claims of financial distress are exaggerated and unfounded.

Sixth, they contend that deregulating tuition and providing targeted assistance to students rather than general assistance to institutions will benefit the whole postsecondary sector by making public funding more secure and by making institutions less dependent on government and better able to differentiate themselves from each other.

Many of the factual claims that underlie these key contentions are incorrect, misleading, or made with far greater confidence and certainty than the data would suggest is reasonable.

Let's look at the key contentions.

### **I – Is subsidized postsecondary education regressive? Do tuition subsidies amount to a subsidy of the rich, paid for by the poor?**

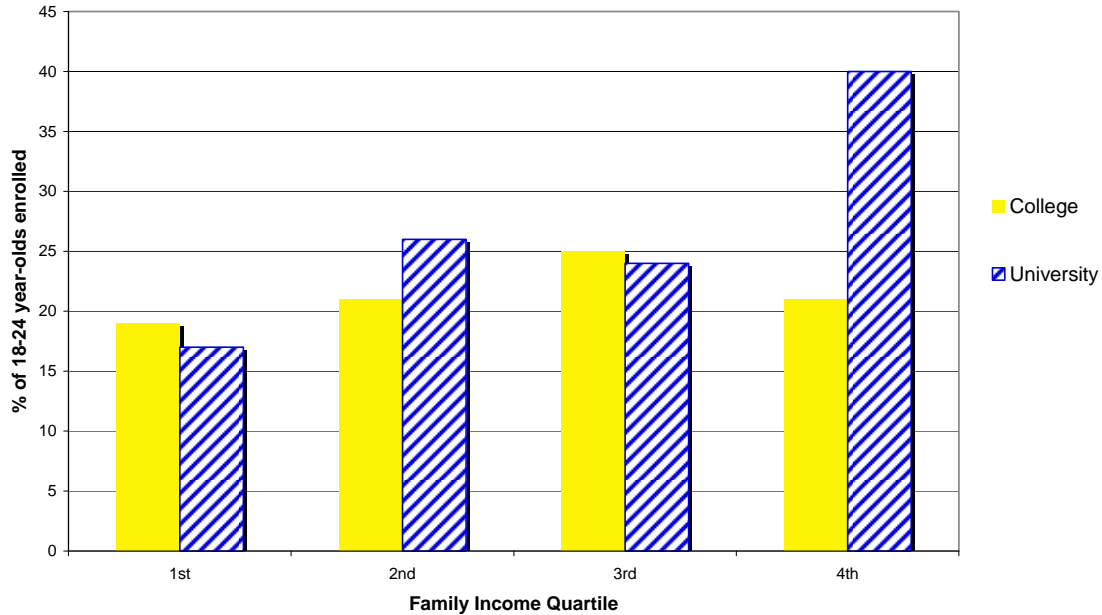
Advocates for higher tuition seek to use the fact that participation in the current system is skewed towards students from higher-income families as an argument to support raising the financial barriers faced by students from low- and moderate-income families even higher.

Typically, these arguments cite data from Statistics Canada showing that students from the lowest quartile of family incomes are less likely to participate in postsecondary education than students from families in the highest income quartile, and that each higher income quartile has a higher participation rate than each lower income quartile.

For example, chart 4 shows the percentage of college- or university-age Canadians who are full-time students in college or university programs. The bars in the chart show participation as a percentage of the potential student population in college or university, for each family income quartile.

Chart 4

**College and University Participation Rates Among 18-24 Year-olds  
by family income quartile, 2000**



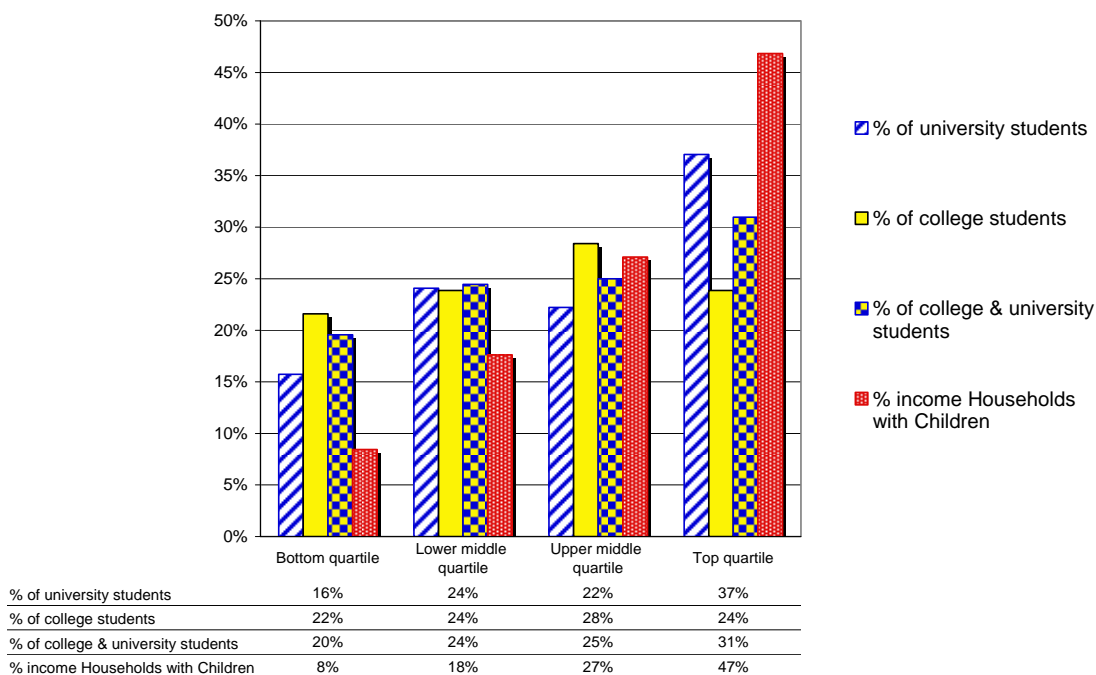
The data are drawn directly from a similar chart in *Ontario: A Leader in Learning*, the Ontario-government commissioned report by Bob Rae following his review of postsecondary education. The data were presented in support of its argument that subsidized tuition favours the rich.<sup>5</sup>

In chart 5, we look at the same data in a different way. In this chart, each bar shows the percentage of the total college or university student population that comes from families with incomes in each income quartile. If the distribution were unaffected by family income, we would expect to see 25 per cent of each category of student drawn from each family income quartile.

<sup>5</sup> Rae, Bob. *Ontario: A Leader in Learning*. February 2005. Toronto ON., p.61.

Chart 5

Households -- shares of postsecondary enrolment and income, by quartile



In fact, the data show that a higher percentage of both college and university students is drawn from the highest income quartile than from the lowest income quartile, making the same undisputed point as is made by chart 4: that students from high-income families are more likely to attend college or university than students from low-income families.

However, the fact that young people from high-income families are overrepresented in the student population and young people from low-income families are underrepresented does not mean that subsidizing tuition from general government revenues results in poor families subsidizing rich families.

One cannot make that claim without knowing the distribution of the taxes levied to provide the subsidies.

We know from other studies that overall, provincial taxes are distributed approximately in proportion to income.<sup>6</sup> This means that income groups in Ontario contribute to general revenue roughly in proportion to their share of total income.

Chart 5 adds to the information in chart 4 through a separate set of bars showing the share of income accounted for by each income quartile of families with children. It shows that family income is far more unequally distributed than college or university participation.

<sup>6</sup> Block, Sheila and Richard Shillington. (1994). *Incidence of Taxes in Ontario in 1991*. In Allan M. Maslove, ed., *Taxation and the Distribution of Income*, Research Studies of the Fair Tax Commission of Ontario, Toronto: University of Toronto Press, 3-39.

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Taken together, the data on the distribution of college and university students and the distribution of family income demonstrate that in direct contradiction to the claims of the higher tuition strategy advocates, subsidizing tuition from general revenues results in an income transfer from higher-income families to lower-income families.

Referring to chart 5, where an income quartile group's share of the college and/or university student population is greater than its share of the total income of all families with children, a tuition subsidy paid for from general government revenues amounts to a net income transfer in favour of that group. Where an income quartile group's share of the college and/or university student population is less than its share of total income, a tuition subsidy paid for from general government revenues amounts to a net income transfer from that group to other groups.

The first and second quartile groups (incomes below \$56,800) make up a larger proportion of the student population than of family income. Subsidized tuition provides a net transfer in favour of families in the lower half of the income distribution. Families in the third income quartile account for roughly the same share of students and of income. There is essentially no cross-subsidy either in favour of or against families in the third income quartile. The fourth (highest) quartile accounts for a smaller proportion of college and university students than it does of total income, so the highest-income 25 per cent of families in effect subsidizes tuition of the lowest-income half of families, through their contributions to the tax system.

Given the overall pattern, one would expect that families in the top half of the third quartile would be underrepresented among students relative to their share of income, and that families in the bottom half of the third quartile would be overrepresented among students relative to their share of income – producing a rough balance within the quartile.

This means that, to the extent that tuition does pose an economic barrier to college and university participation by people from lower-income families, substituting tuition for public funding will tend to reduce the net transfer from higher-income families to lower-income families; replacing tuition with increased public funding will tend to increase the net transfer. More than 60 per cent of families with children are net beneficiaries of the transfer inherent in subsidizing tuition from general government revenues.

The claim that subsidized tuition amounts to an unfair, regressive income transfer from poor families to middle- and upper-income families is simply not true.

## **II – Is access to postsecondary education adversely affected by tuition increases?**

Despite the substantial increases in tuition in Ontario and Canada in the 1990s, advocates of a high tuition model note that total enrolment has increased.

But total enrolment tells us little of value about the impact of higher tuition on participation. Total enrolment in Ontario is not determined by a “market” for postsecondary education. The number of available places is determined administratively,

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and is thus unresponsive to tuition levels. In Ontario specifically, enrolment increased over the past 10 years because the postsecondary system absorbed the so-called double cohort of first-year entrants arising from the elimination of Grade 13. Furthermore, attendance at a postsecondary institution is not simply a function of price; it is also a function of academic standards and student performance.

With respect to the issue of equity of access from disadvantaged groups, a June 2004 study for the Millennium Scholarship Foundation cites widespread evidence from both the United States and Canada that increasing costs have had an impact on participation by students from low-income backgrounds.<sup>7</sup> In the United States, the participation gap between students from low-income and higher-income families widened substantially between 1979 and 1997.

The foundation's paper concludes from its review of the impact of rising costs on post-secondary participation, as follows:

- The participation gap between low-income and middle-income students widened in the university sector in the mid-1990s.
- There is evidence to indicate that low-income students are more sensitive to changes in the net price of postsecondary education.
- A significant minority of students indicate that they do not pursue further study due to financial considerations.
- Unmet need is an issue for low-income students. Some jurisdictions in Canada have data on unmet need; others do not.
- There is evidence that students reduce their class loads in order to earn needed funding through part-time employment, thus increasing the time required to graduate.
- There is evidence that a number of students interrupt their studies or drop out of college or university due to a lack of finances.
- There is evidence that rural and low-income students may be opting for shorter programs in the college and technical sectors, in part because of lower cost.<sup>8</sup>

Despite substantial increases in tuition across Canada in the 1990s, however, aggregate studies tend to show little change in postsecondary education participation in Canada during that period. For example, a study published by Statistics Canada found that, over the period 1993 to 2001, a period in which average tuition increased by over 70 per cent, there was very little change in participation by students from low- and moderate-income families.<sup>9</sup>

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<sup>7</sup> Fred Hemmingway Consulting and Kathryn McMullen, Canadian Policy Research Networks. *A Family Affair: The Impact of Paying for College or University*. Canada Millennium Scholarship Foundation, June 2004.

<sup>8</sup> *A Family Affair*, p.25.

<sup>9</sup> Marie Drolet. *Participation in Post-secondary Education in Canada: Has the Role of Parental Income and Education Changed over the 1990s?* Analytical Studies Branch Research Paper Series, Statistics Canada, February 2005.

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However, other studies suggest that there may be a tuition threshold, above which increases have a more dramatic effect.

A study by Statistics Canada comparing the impact of income on university education in Canada and the United States found a far greater degree of inequality in participation by family income group in the United States than in Canada.<sup>10</sup> A summary of the paper observed that “The lower university participation rate among students from disadvantaged backgrounds in the United States compared to their Canadian counterparts may be related to a lack of affordable options available to some US students.”<sup>11</sup>

Closer to home, the substantial increases in tuition for professional programs in Ontario may provide some insight into the impact of tuition increases – even in programs with a high anticipated financial return – on participation by students from low-income backgrounds.

In 2002, the Provost of the University of Toronto, in a study prepared in support of the U of T Law School’s plans for substantial tuition increases, highlighted the inequity of access in the status quo.<sup>12</sup> The study found that, in a single year, only 60 of the U of T Law School’s 200 incoming students came from families with incomes below \$80,000 per year – an income well above the average income of families with children in Ontario of approximately \$56,800. If 70 per cent of U of T’s law students come from high-income families, then clearly barriers exist for potential students representing a more diverse income spectrum.

A 2004 study of students and graduates in five Ontario law schools by the Social Program Evaluation Group at Queen’s University looked at the characteristics of law school students and graduates over a period in which law school tuition had been deregulated and tuition had increased.<sup>13</sup> Notably, the report found “an increase of 4.7 per cent in the proportion of law students’ parents who earn incomes in the top 40 per cent of the average family income distribution in Canada and a decrease in the proportion of students whose parents earn incomes in the middle 20 per cent of the distribution.”<sup>14</sup> With respect to student debt, it found wide variances in student expectations. “One fifth of all current law students expected to graduate from law school with no debt, but 27 per cent expected to have debt of \$40,000 to \$70,000 and 13 per cent expected to graduate with over \$70,000 of debt. ... For students and graduates with low debt, personal savings and parents were the primary sources of support, while for students and graduates with high debt, bank and government loans provided the major portion of educational funding.”<sup>15</sup>

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<sup>10</sup> Marc Frenette. *Is Postsecondary Access More Equitable in Canada or the United States?* Analytical Studies Branch Research Paper Series, Statistics Canada, March 2005.

<sup>11</sup> Statistics Canada. *The Daily*, March 15, 2005.

<sup>12</sup> *Provost Study of Accessibility and Career Choice in the Faculty of Law*. Shirley Neuman, Vice President and Provost, University of Toronto, February 24, 2003.

<sup>13</sup> Alan J.C. King, Wendy K. Warren and Sharon R. Miklas. *Study of Accessibility to Ontario Law Schools*. Social Program Evaluation Group, Queen’s University, October 2004.

<sup>14</sup> *Ibid*, p. ii

<sup>15</sup> *Ibid*, p. v

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A study of medical students looked specifically at the income of medical school classes at the University of Western Ontario, before and after substantial tuition increases.<sup>16</sup> It found that, over a four-year period during which tuition increases were phased in, the average family income of a medical student increased from \$80,000 to \$140,000. In the first year of the study, when tuition was \$4,000, 17.3 per cent of students came from families with incomes under \$40,000. By the fourth year of the study, students coming from families with incomes under \$40,000 had dropped to 7.7 per cent of the incoming student body. These changes cannot be explained by overall population income growth over the four-year period.

Analysis based on surveys of physicians and medical students across Canada in 1997, 2000 and 2004 reveals similar changes in participation by students from lower-income families and adds some provocative data on changes in accumulated debt and career choices over time as tuition has increased.<sup>17</sup>

Over a period in which medical school tuition in Ontario increased from \$5,000 to \$14,500, the proportion of medical students from families with incomes under \$40,000 in Ontario dropped dramatically, from 23 per cent to 10 per cent. The proportion of students citing economic factors as a very important or the most important consideration in choosing a specialty leapt from 13 per cent to 32 per cent. The proportion of students citing debt as an important consideration in the selection of practice location increased from 21 per cent to 35 per cent. Notably, in the rest of Canada, where the tuition increase was more modest (\$5,200 to \$8,800), the changes in all of these measures were smaller.

### **III – Can the impact of tuition on access and affordability be addressed through targeted assistance?**

Proponents of a higher tuition strategy argue that concerns about access and affordability can be addressed directly through grants targeted to students from the lowest-income families.

While a number of approaches to targeting assistance to offset the impact of postsecondary tuition have been suggested to address these concerns, the structure proposed in the Rae report is the most recent and relevant to the current debate in Ontario. It also illustrates all of the major problems associated with tightly targeted tuition support.

The Rae report makes three key recommendations with respect to tuition: a \$6,000 grant to cover tuition, tied to parental income; deregulation of tuition to the level of the

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<sup>16</sup> Dalice A. Sim. *Report of the 1999 Survey of Medical Students*. London: Telephone Survey Unit, University of Western Ontario, Department of Epidemiology and Biostatistics, Faculty of Medicine and Dentistry, University of Western Ontario, 1999.

<sup>17</sup> 1997 and 2000, Kwong, Jeff C., and Dhalla, Irfan A., et al. "Effects of Rising Tuition Fees on Medical School Class Composition and Financial Outlook," *Canadian Medical Association Journal*, April 16, 2002; 2004, National Physician Survey 2004 data compiled by Louise Marcus, Assistant Director, Special Projects, Research Directorate, Canadian Medical Association.

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individual institution; and a requirement that institutions provide grants to offset tuition amounts in excess of the provincial tuition grant.

It also includes proposals to make student loan limits responsive to tuition levels.<sup>18</sup>

The tuition grant of up to \$6,000 would be targeted based on the income of the student's family. Up to a threshold level of income, defined as the level of income at which the reduction in the Federal Child Tax Benefit Supplement begins – \$22,615 per year in the report – students would receive the full grant of up to \$6,000 to cover tuition. The grant would be reduced on a sliding scale over the income range of \$22,615 to \$35,000.<sup>19</sup>

This design provides a classic illustration of the fundamental problem associated with targeting financial assistance: the trade-off between coverage and the effective income-based tax back rate on one hand, and costs on the other.

In the Rae design, the tuition grant begins to be reduced (or taxed back) at a relatively low family income. It is also taxed back over a relatively narrow income range: from \$22,615 to \$35,000 -- a \$12,385 gap. Under this proposal, a family's tuition support drops from \$6,000 to \$500 over that income range – a tax back rate of over 44 per cent – and then disappears once income exceeds \$35,000.

Chart 6 illustrates the impact.

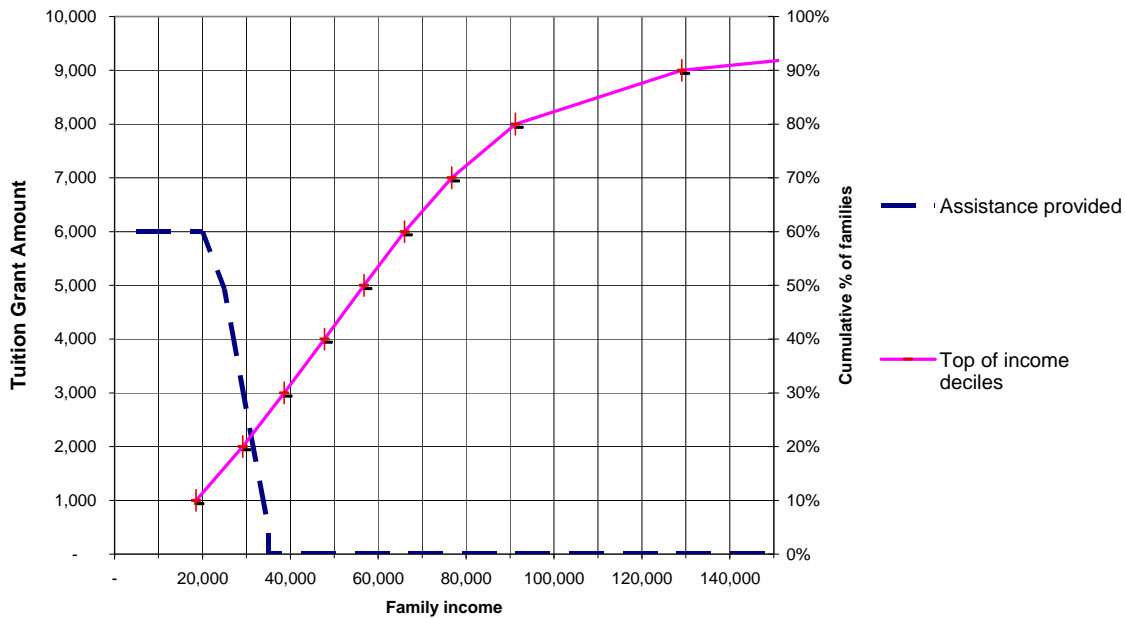
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<sup>18</sup> The Rae report's key recommendations with respect to student financial assistance are driven by its position on tuition, and are clearly designed in response to potential political criticism of its tuition recommendations. In other respects, the report is largely unresponsive to key student financial assistance issues. For example, in the face of widespread criticism of the use of the tax system to deliver assistance, the report actually recommends an increase in tax delivered assistance.

<sup>19</sup> Presumably for administrative convenience, there would be a minimum grant of \$500, with no grant available for students from families with incomes over \$35,000.

Chart 6

### Tuition assistance, by household income Families with children



The dotted line represents the maximum tuition subsidy available to a family, by family income. The left vertical axis indicates the amount of subsidy. The solid line shows a flat amount of \$6,000 up to a family income of \$22,615, falling steadily to zero at a family income of \$35,000.

The solid line and crossed marks show the actual distribution of incomes of families with children in Canada. For each income decile (10 per cent of families, shown on the right axis) the crossed mark indicates the family income at the top of the decile. For example, it shows that family income at the top of the 1<sup>st</sup> decile is \$18,515.

The chart demonstrates both the tight targeting and the extremely high tax back rate in the Rae proposal.

The full amount of assistance will potentially be available to only 10 per cent of families with children; partial assistance will potentially be available to a further 20 per cent of families.

Any family with an income over \$35,000 – approximately 2/3 of families with children – will receive no tuition grant at all.<sup>20</sup>

<sup>20</sup> To put the targeting into perspective, Statistics Canada's low-income cutoff for large cities (more than 500,000 population), for a family of 4 in 2003 is \$37,253 before tax and \$31,424 after tax. (Source: *Low Income Cutoffs from 1994-2003 and Low Income Measures from 1992-2001*. Statistics Canada research paper, pp 19 and 25). In the Rae proposal, assistance is effectively limited to families below the low-income cut-off.

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Implicit in the argument for targeting based on family income is that there is a well-defined very low-income group whose participation in postsecondary education might be adversely affected by substantial tuition increases or for whom higher tuition would create affordability problems. In the regime proposed by Rae, only families with incomes under \$22,000 would receive the full tuition grant; no family with an income over \$35,000 would receive any tuition grant.

In addition to the fact highlighted above that this degree of targeting exposes all but a small proportion of families to the full impact of tuition, the implicit suggestion that issues of access related to income can easily be isolated to a specific income range is not supported by the data.

The February 2005 Statistics Canada study cited above (Drolet, February 2005) notes that there is relatively little difference in university participation rates between students from families with very low incomes and students from families with moderate incomes. “In 2001, 19.5 per cent of youths from families with the lowest incomes participated in university compared to 23.3 per cent of youths from families with incomes between \$25,000 and \$50,000 and 25.0 per cent from families with incomes between \$50,000 and \$75,000.”<sup>21</sup>

This suggests an inaccuracy behind the notion there exists a bright line between students from low-income families and other students.

The tight targeting and high tax back rate limits costs by focusing assistance on a small minority of the potential student population. The system could, of course, be designed with different parameters, both with respect to the tax back threshold and the tax back rate.

For example, the British Government has announced that in England, grants to offset tuition increases will be at the £2,700 maximum (\$Cdn 5,762) up to a household income of £17,500 (\$Cdn 37,348) and will phase out over the income range £17,501 to £37,425, (\$Cdn 37,350 to 79,872) for a tax back rate of approximately 14 per cent.<sup>22</sup>

Such a system would cover such a large portion of the student population and would be so expensive, however, that it would beg the question as to why a government wouldn't simply transfer funding to the institutions directly.

The Millennium Access Grant for first- and second-year students recently announced by the Government of Ontario and the related Canada Access Grant are consistent with the highly targeted Rae model. Needy first-year students would receive a grant of up to

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<sup>21</sup> Drolet. Statistics Canada. February 2005, p.13.

<sup>22</sup> 1 Canadian dollar = 0.468562649 British pound (rate as of 22 July 2005); note that if the U.K. grant rules were applied in Canada, 75 per cent of families with children would qualify for at least partial assistance; this compares with roughly 1/3 with the Rae review's recommendation.

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\$6,000, or the amount of tuition, whichever is lower. Income targeting would be implemented through a restriction that the grant amount could not be more than the amount of the student loan to which the student is entitled. The student loan amount is determined by need, measured by the difference between recognized expenses and expected student and parental financial contributions.

It is also worth noting that because the federal program covers the first year only, and Ontario's program covers the first two years, the assistance will be cut in half in the second year of a student's academic career, and will disappear thereafter. Given the objective is to eliminate barriers facing students from very low income families, it is difficult to see a justification for assuming, implicitly, that those barriers are cut in half after the first year and disappear altogether in the third.

Although the complexities of the student loan program make it difficult to determine with any certainty the degree of targeting involved, the Ministry of Training, Colleges and Universities' announcement indicates that approximately 16,000 first-year college, university, and approved applied program students will receive some assistance from the grants. That would represent less than 15 per cent of first-year students in Ontario. The estimated costs of the program provide a further indication of the extent of targeting. According to the Ministry release, the program is estimated to cost \$100 million over four years – cost shared between the Federal Government's Millennium Scholarship Foundation and the Government of Ontario. With total first-year tuition at colleges and universities of \$500 million, it would appear that program coverage will be approximately 5 per cent of first-year tuition in each of the four years covered by the agreement. When combined with the Canada Access Grant, the two programs will cover 10 per cent of first-year tuition.<sup>23</sup>

#### **IV – Is non-participation by low-income students the result of an information gap?**

The idea that reduced participation rates among students from low-income families is a result of those families having inaccurate information about the true costs and benefits from postsecondary education is a recurring theme for advocates of the high tuition strategy.

In essence, the argument is that because private returns to an investment in postsecondary education are so substantial over an individual's working lifetime, a decision not to make that investment is irrational. This irrationality is, in turn, explained by decision makers'

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<sup>23</sup> Approximately 50,000 first-year students in colleges; average college tuition of \$3,000. Approximately 60,000 first-year students in universities; average university tuition of \$5,500. Grant coverage is up to 50 per cent of tuition. Eligible tuition base would be \$480 million.

The Ministry of Training, Colleges and Universities' news release announcing the program may be found at:

[http://ogov.newswire.ca/ontario/GPOE/2005/08/16/c0596.html?lmatch=&lang=\\_e.html](http://ogov.newswire.ca/ontario/GPOE/2005/08/16/c0596.html?lmatch=&lang=_e.html).

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lack of accurate information concerning the true costs and benefits from postsecondary education.

The view that private returns to postsecondary education would support higher tuition costs, and that issues of access arise from ignorance of those returns, was embraced wholeheartedly by the Rae review.

More recently, a report by the U.S.-based education policy think tank, the Educational Policy Institute, adopts this view as its central theme.

The principal thesis of the report<sup>24</sup> is that Canadians – particularly low-income Canadians – are ignorant of the true costs and benefits of postsecondary education; and that the reason why Canadians are uncomfortable with higher tuition models for postsecondary education finance is that they are ill-informed concerning the actual costs and benefits.

The report's line of argumentation rests on three propositions: first, that the private returns to participation in postsecondary education are such that a rational person would choose to make the investment on cost-benefit grounds; second, that potential students and their families do not have accurate information about the costs and benefits of postsecondary education at the time that they are making decisions about postsecondary education; and third, that low-income families in particular are ill-informed about the true costs and benefits.

The EPI report's estimate of returns to an investment in an undergraduate university arts degree is based on the difference between the average earnings from full-time, full-year employment of Canadians whose highest qualification is high school graduation and the average earnings from full-time, full-year employment of Canadians who have a university degree.

This methodology will tend to produce exaggerated estimates of the incomes of graduates vs. non-graduates, for a number of reasons:

- Using the average, rather than the median (half with higher incomes, half with lower incomes) or the mode (the highest-probability income group) gives inappropriate weight to high-end outliers in the income distribution.
- By not limiting the university graduate group to those with a single undergraduate degree, it includes returns that are not related to the undergraduate degree.
- By including individuals all with undergraduate degrees, including professional degrees, in the comparison, it attributes the additional income arising from professional degrees (which typically have higher tuition levels) to undergraduate arts and science degrees.

The study then compares this additional income with the costs of postsecondary education, to come up with an estimated return on the investment.

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<sup>24</sup> *A Little Knowledge is a Dangerous Thing: How Perceptions of Costs and Benefits Affect Access to Education*. Alex Usher, Educational Policy Institute, July 2005.

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Again the methods used are both questionable and likely to produce exaggerated results.

- The tuition amount is a national average, which includes Quebec's two tuition-free CJEP years of undergraduate education, which will tend to understate tuition costs.
- Foregone income – the income a university student would have earned had he or she entered the workforce rather than attending university – is estimated at the minimum wage, which will tend to understate foregone income.
- Both the university graduate and the non-graduate are assumed to work for the same number of years – 35.
- The interest rate used to discount future income to the present to compare earnings streams over different periods of time is low – 5 per cent; in addition, the report incorrectly states that the interest rate makes no difference to the conclusion.

Other studies produce a much more complex picture of the returns to an investment in an undergraduate degree.

A study published in 2002 as a working paper of the Applied Research Branch of Human Resources Development Canada looked in depth at returns to postsecondary education, broken down by type of institution – college or university – and by academic discipline.<sup>25</sup>

While the study found lifetime average returns in the 16 per cent to 18 per cent range,<sup>26</sup> “consistent with findings of other studies,” it also found a significant degree of variability in returns between colleges and universities, among university disciplines, and among individuals within institutions and disciplines.

Psychology vs. business and commerce could serve as an example. Boothby and Rowe found a median return for psychology of about 5 per cent; the return for women was approximately 12 per cent. The range of returns from the 30<sup>th</sup> percentile to the 70<sup>th</sup> percentile was 5 per cent to 23 per cent for women; -2 per cent to 14 per cent for men.

In business and commerce, average returns for women were just over 15 per cent; returns for men were 10 per cent. From the 30<sup>th</sup> to 70<sup>th</sup> percentile, the range was from 8 per cent to 28 per cent for women; from 9 per cent to 17 per cent for men.

There is a high degree of variability in returns to education which might very well be taken into account in individuals' and families' decisions with respect to postsecondary

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<sup>25</sup> *Rate of Return to Education: A Distributional Analysis Using the LifePaths Model*. Daniel Boothby and Geoff Rowe, Applied Research Branch, Strategic Policy, Human Resources Development Canada, #W-02-8E, June 22, 2002.

<sup>26</sup> Although the EPI study does not calculate a return on a basis that would make it comparable with the results of other studies, the EPI assumptions of costs (including foregone income) of \$20,000 per year for four years and incremental income of \$27,191 (the difference between average earnings with a high school degree and average earnings with a university degree) yield an estimated return over 4 years of study and 35 years of employment of approximately 24 per cent, putting it well above the upper limit of returns found in other studies.

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education. But this variability is not accounted for in the EPI model or in most of the studies based on averages that informed the Rae review's recommendations.

The headlined conclusions from the EPI report are based on a juxtaposition of these returns with the responses to two questions in surveys conducted by IPSOS-Reid for the Millennium Scholarship Foundation in September 2003 and published by the Foundation in April 2004.

The first of these questions asked a random sampling of the Canadian population to guess average tuition for an undergraduate program in their province.

The second presented respondents with data from the 2000 Census of Canada on the average earnings of Canadians whose highest level of education was high school and then asked them to guess the average earnings of Canadians with a university degree.

Comparing the guesses with actual data – the average earnings data cited above – the study observes that the guesses were wrong: that tuition costs were overestimated and that earnings of university graduates were underestimated.

It concludes that Canadians' distrust of proposals to increase university tuition is based on a misunderstanding of the costs and benefits and it implies that if only Canadians were better informed, they would feel more comfortable with the high tuition models.

Most contentiously, it concludes that this problem of ignorance of the facts is most acute among low-income Canadians.

There are significant conceptual and technical problems with every step in this argument.

The original survey was not designed for the purpose to which it was put.

- It is a general survey of all Canadians, not a specific survey of those Canadians – prospective students and their families – for whom questions about costs and benefits are meaningful and relevant. In this context, the responses to questions of fact are best interpreted as responses to trivia questions.
- Both the tuition and earnings questions seek a specific response. In the case of tuition, the question is phrased carefully and with a subtlety that could easily be missed in a telephone survey; in the case of incomes, the question seeks a specific answer without disclosing exactly what it is asking for.

First, with respect to undergraduate tuition, the study computes an average tuition guess for Canada as a whole. But the question asked of respondents was to guess the average undergraduate tuition in their province. When one looks at the actual IPSOS-Reid survey results, it turns out that the accuracy of individuals' guesses about tuition in their province varies significantly from province to province, with by far the largest difference coming in Quebec. Why would that be? Because in Quebec, tuition is zero in the CJEP system, which for many students covers the first two years of study. That brings down the actual average undergraduate tuition as reported by Statistics Canada, while survey

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respondents likely based their responses on their perceptions of university tuition.<sup>27</sup> While this inflates the study's estimates of inaccuracy in individuals' perceptions of the costs of university education, it can hardly be said to reflect an actual misperception of costs. Rather, it reflects the study's misuse of the survey response.

Second, while the survey asks people what they think the average earnings are of everyone with a university degree, the study's analysis of returns attributes the entire differential to the individual's undergraduate degree. That is clearly misleading and inappropriate.

The study's conclusions with respect to information gaps among low-income Canadians have attracted a great deal of attention and interest. The only problem with those conclusions is that they have absolutely no statistical foundation in the survey data upon which they are based.

With respect to both of the questions relied upon in the EPI study, IPSOS-Reid's report on its own survey states clearly:

“No demographic variations in opinion are apparent for this issue.”<sup>28</sup>

The creators of the original survey report that the data do not support statistically valid variations based on the demographic characteristics of the respondents. In other words, it is not statistically valid to draw conclusions from the survey data about the opinions of low-income individuals compared with general opinions.<sup>29</sup>

## **V – Is there room for further tuition increases? Can students and their families afford more?**

Higher tuition advocates point to the fact that the majority of students graduate with relatively little debt, and that many students pay off their debts within two years of

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<sup>27</sup> IPSOS-Reid; Statistics Canada.

<sup>28</sup> IPSOS-Reid, p.6.

<sup>29</sup> There are also technical issues in the EPI study's estimate of returns from university education. In estimating returns, two of the critical elements are the value that is assigned to the income foregone by the student while attending university and the rate of interest or discount rate that is used in comparing current and future earnings. In the EPI study, it is assumed that the income foregone by the university student is four years of pay at the minimum wage. No evidence is offered for this assumption, which clearly introduces an upward bias into the results.

Even more astonishing is the statement in the EPI report that the discount rate used to calculate returns is not relevant to the result (*A Little Knowledge*, p.13). Basic arithmetic tells you that the higher the interest rate used to discount future income, the more important current foregone income and education costs will be in any estimate of returns. The lower the interest rate, the more important future income differentials will be. By using a low discount rate, the study biases the returns calculation towards the postsecondary option. This error also enables the author to ignore the issue of the role of demographic differences and variations in the time value of money considered in making decisions with long-term implications.

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graduation as evidence that a significant proportion of students could pay more without incurring unreasonable amounts of debt.

This ignores the reality that levels of debt for those students are increasing and many students are not able to repay their debts shortly after graduation. As well, the complacent conclusion does not follow from its carefully selected fact base.

The line of argumentation implicitly assumes that the impact of the current level of tuition on student finances is a reliable indicator of the likely impact of future higher tuition levels – in other words, that there is a linear relationship between tuition and affordability.

Even a cursory examination of the available data on student finances shows that cannot be true.

The primary sources of finance for students are: parental savings; parental contributions from current earnings; summer employment; earnings from employment during the school year; and loans – student (public); student (private); parental and other family.

Earnings from student employment are constrained by the labour market; they cannot be expected to increase automatically in response to increases in tuition.

That leaves contributions from parental disposable income and student and parental loans.

Parental disposable income is not distributed uniformly across income groups. Other things being equal, one would expect the amount of additional parental disposable income available to fund tuition increases to have a strong non-linear relationship to income. That means that incremental amounts of tuition are far more likely to be funded from student and parental debt than are current student costs.

It also means that each incremental amount of tuition increase will have a greater impact than the previous increment.

It is also argued that hours worked by students during the school year have not increased, despite tuition increases, and that this indicates that tuition increases are not creating financial distress.

The basis for this argument is a chart in the Millennium Scholarship Foundation's 2004 publication the *Price of Knowledge*, drawn from Statistics Canada labour force survey data.<sup>30</sup>

It shows the hours worked by students employed during the school year averaged about 20 hours for college students and 19 hours for university students during the 1980s,

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<sup>30</sup> *Price of Knowledge: Access and Student Finance in Canada*. Canada Millennium Scholarship Foundation. November 2004.

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dropped during the 1991-02 recession to 18 hours and 16 hours, respectively, and have remained at that lower level since.

To say the least, these data do not support a claim that student employment during the school year has dropped, despite tuition increases. Rather, these data suggest the obvious – that the labour market, and not students, determines the amount of employment available to students.

The critical role of the labour market in student employment is underlined in data from Statistics Canada on the proportion of the student population working during the school year.

These data show that between 1976 and 1990, employment rates for students in both the 15-19 age group and the 20-24 age group increased from just over 25 per cent to more than 40 per cent. The impact of the 1990-91 recession on the two groups, however, was quite different. The employment rate for students in the 20-24 age group stabilized at the 40 per cent level from 1990 to 1997, and then increased steadily to nearly 45 per cent by 2003. For students in the 15-19 age group, the employment rate declined steadily from 1990 to 1997, from 41 per cent to 29 per cent, and then increased to 35 per cent by 2003.<sup>31</sup>

These data are not at all consistent with the suggestion that college and university student employment during the school year has not increased. Rather, the data suggest: that a substantial proportion of students continued to work during the school year, despite the recession of the early 1990s; that the proportion of college and university students working during the school year is growing; and that there has been a substantial reduction in in-year employment opportunities available to secondary school students.

These data also highlight concerns expressed repeatedly by college and university teachers that financial considerations often result in students' education taking a back seat to in-school-year employment, with damaging effects on both performance and student benefit from education. A stable average of 16 to 18 hours per week of employment represents a substantial time commitment by those students who work during the school year — slightly more than the typical class load for an undergraduate student.

## **VI – A high tuition strategy would enhance the funding security and independence of educational institutions**

It was argued in the Rae report that deregulation of tuition at the institutional level and increased reliance on tuition for postsecondary education finance would make the system more flexible and make its funding more secure.

Deregulation of tuition would take the system away from what the report described as a “one size fits all” approach to postsecondary finance. Institutions would be free to differentiate themselves from each other and to price their services to the market.

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<sup>31</sup> *The Canadian Labour Market at a Glance*. Statistics Canada 71-222-XWE, 2004.

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In addition, increased reliance on tuition for funding would make the overall funding environment for colleges and universities more secure.

The idea that deregulated tuition for each institution would find its appropriate level in the academic reputational “market” has its origins in the policy adopted by the U.K. government for postsecondary institutions in England. The theory was that a marketplace would emerge in which institutions with the best reputations would charge the highest fees, while other institutions from the lower ranks would charge less. That has not happened.

The indications now are that universities in England will virtually uniformly charge the maximum permitted by government policy, apparently out of a concern that a failure to charge the maximum would be tantamount to admitting to second-rate status.<sup>32</sup>

The question of whether increased reliance on tuition would make the finances of the system more secure is complex.

The Rae report argues that government funding is insecure, dependent as it is on the provincial government’s annual budgetary processes. The problem with the argument is that it assumes that public funding is independent of other funding sources. There is ample evidence to the contrary. In Australia, increases in postsecondary tuition and fees coincided with a steady decline in government financial support. In Ontario, substantial increases in tuition in the late 1990s coincided with a precipitate drop in public funding.

In both cases, tuition increases did not increase the resources available to postsecondary institutions; they were used as a non-tax source of revenue by the government as they created fiscal space within which it could cut its institutional funding.

As long as there is public funding for postsecondary education, the finances of the college and university systems will be dependent on decisions of the provincial government, and ultimately by the level of public support for investments in postsecondary education. There is no way around that.

## **VII – Is the public prepared to support adequate funding for postsecondary education?**

In considering these arguments, it is important to keep in mind the premise that lies behind them: that the government does not have the resources available to meet the

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<sup>32</sup> In light of the focus in the Ontario debate on the U.K. example, it is perhaps worth noting that neither Wales nor Scotland has implemented the approach mandated by Westminster. The Welsh Parliament has recently decided not to charge tuition to Welsh students attending Welsh universities. Earlier, the Scottish Parliament decided to forego tuition and instead levy a nominal “graduate tax” payable beginning shortly after graduation. Just over 50 per cent of Scottish university graduates would be exempt from the tax.

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financial needs of postsecondary institutions – that we cannot achieve our ambitious objectives for postsecondary education excellence without resorting to higher tuition.

The fundamental question therefore is: will the public, and through it the government, support the level of investment in public postsecondary education that is necessary to achieve our policy objectives for the system?

The evidence from public opinion surveys is that there is substantial public support for greater investment in postsecondary education, and that current levels of investment are not sufficient to meet the generally accepted standard – that postsecondary education should be accessible to all qualified students.<sup>33</sup>

For example, a survey conducted for the Ontario Confederation of University Faculty Associations by Feedback Research Corporation in January 2005 found that 98 per cent of Ontarians believe that postsecondary education should have a high or very high priority for the Ontario government. The survey also found a substantial shift towards the “very high” category from an earlier survey in June 2004.<sup>34</sup>

Sixty-five per cent of Ontarians think that university tuition is too high. That percentage climbs to 71 per cent for families with children. Ninety-two per cent favoured the tuition freeze; 81 per cent believe that a substantial tuition increase on the heels of the freeze would break the “spirit” of the government’s tuition promise.

More than 95 per cent of Ontarians were somewhat (26 per cent) or very (68 per cent) concerned that qualified young Ontarians might be unable to attend university. High tuition was the major reason for concern of 49 per cent of respondents.

More than 50 per cent believe that universities are underfunded, and that increased funding should come from government.

It would appear from the surveys that there is potential public support for significant increases in funding for postsecondary education.

One of the fundamental ideas that underlies that support is the role that subsidized public education plays in Canadians’ sense of intergenerational equity. Public services in Canada are not funded by each generation on a revenue-neutral basis. People in the active workforce pay taxes to provide subsidized public education with the expectation that when that generation retires, the generations behind it will in their turn subsidize the retirement incomes and health care costs of those who supported their education. Subsidized public education is an important part of the “Canadian bargain” among the

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<sup>33</sup> See, for example, independent annual surveys conducted for the Ontario Confederation of University Faculty Associations and the IPSOS-Reid survey for the Millennium Scholarship Foundation cited earlier.

<sup>34</sup> The detailed results are available on the OCUFA web site at <http://www.ocufa.on.ca/polls/OCUFAJan2005S.pdf>.

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generations. Those who advocate a tuition policy which makes each generation responsible for its own education costs put that bargain at risk.

The reaction to Ontario's 2005-06 budget exemplifies the strength of that public support. At a time of fiscal deficit, when many other areas of provincial programming are under extreme financial pressure, Ontario's decision to commit itself to substantially increased funding for postsecondary education has been positively received.

Given these developments, it seems counterintuitive to assume that there is a funding wall for postsecondary education in Ontario at a level that is below the average for Canada outside Ontario.

The \$400 million that would be raised through an increase in average tuition of \$1,000 represents less than 1 per cent of the province's program spending budget.

According to the government's own figures, the current freeze in university tuition costs less than \$42 million in 2004-05 and less than \$58 million in 2005-06. The annual cost of the freeze is roughly 1/10 of 1 per cent of the province's program spending budget.

### **What we don't know might well hurt us – taking the time to get it right.**

This paper began on the premise that, despite recent welcome investments in postsecondary education, the Ontario government still requires a coherent tuition policy.

The analysis in this paper challenges the assertions put forth by higher tuition policy advocates. It anchors the current debate within the context of fiscal policy that resulted in Ontario university tuition doubling, on average, in price between 1993 and 2005. It cites studies that indicate programs with deregulated tuition pose significant barriers to lower-income students.

This paper also challenges myths purported by higher tuition advocates whose positions are based on conceptually weak research which draws conclusions that remain unsupported by the data.

On the critical issue of the impact of tuition on access by students from disadvantaged groups, the argument for the high tuition strategy assumes a degree of certainty and confidence in what we know about the relationships among tuition, participation, student success and career choices. This is not consistent with what the available studies tell us.

In fact, the findings in this paper indicate a move from the current progressive subsidization of postsecondary education toward higher tuition policy would have a dramatic effect on the vast majority of Ontario families. Contrary to higher tuition mythology, families from low- and middle-income groups would lose out if tuition were allowed to rise because they are net beneficiaries from funding out of general revenue. Indeed, the real victims of a shift from general revenue funding to tuition funding would be Ontario families in the middle 50 per cent of the income distribution. A strategy of

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raising tuition and targeting assistance to offset higher tuition to the lowest-income families will have the effect of moving the financial obstacles to participation in postsecondary well into the middle of the income distribution.

The Ontario government has yet to clarify its goal for increasing access to higher education, but if the goal is to ensure every student accepted to an Ontario university doesn't face financial barriers in doing so, then the evidence in this paper suggests adopting a higher tuition policy would be a mistake. This paper shows that even attempts to soften the blow of higher tuition with grants for low-income students fail to address access and affordability problems.

In considering the choice between a high tuition model and an adequate public funding model for postsecondary education in Ontario, it is also important to consider the risks associated with making the wrong choice. This paper raises several important questions which the Ontario government would do well to research and answer before proceeding with any changes to the current tuition freeze. Among the questions to research:

- What is the impact of substantially higher tuition for undergraduate education in Ontario? We still don't know the answer to that question, but we know enough to be concerned about the impact of increases on affordability and accessibility in professional programs where tuition has been increased.
- How will low-income families and their children react to a higher sticker price for postsecondary education coupled with income-tested grants? Ontario should not commit itself to a tuition strategy without better information about how low income affects participation.
- How will middle-income families and their children react to higher tuition offset only by the opportunity to take on even more debt? It would be a mistake to implicitly assume that students from middle-income families are different from students from low-income families, and that they will continue to absorb tuition increases rather than reduce their participation. Ontario should not commit itself to a tuition strategy without better information about how it will affect the plans and aspirations of middle-income students and their families.

If we listen to the proponents of the high tuition strategy and they turn out to have been wrong, access to postsecondary education will decline and participation will be even more unevenly distributed than it is today. Social costs associated with reduced levels of education will increase. And we will lose economic benefits associated with a more highly educated workforce. Our economy will be less competitive.

The stakes in the government's new tuition policy are extremely high. If the goal of government is solely to resolve a public finance dilemma, then higher tuition advocates offer one way out, but it is a solution based on flawed logic and inadequate research.

The risk of getting it wrong is simply too great. It is clearly better to get it right than to get it quickly. And right now, we don't know enough to be sure we are getting it right. There are too many outstanding questions and not enough evidence-based answers.