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Professor C.M.T. Hanly
Dr. D.T. Wright
Subcommittee on Research
Ontario Committee on Student Awards
Toronto, Ontario

Gentlemen:

It is with pleasure that I submit the attached report, prepared at your request by Associates of the Institute for the Quantitative Analysis of Social and Economic Policy, for the use of the Ontario Committee on Student Awards. This report presents the results of our study of programs for financial assistance to students attending post-secondary educational institutions in the Province of Ontario.

Yours sincerely,

A. R. Dobell
Project Director

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FOREWORD

In June of this year the Institute for the Quantitative Analysis of Social and Economic Policy undertook to prepare a study of programs for financial assistance to students attending post-secondary educational institutions. This study was supported jointly by the Ontario Department of University Affairs and the University of Toronto Project on Efficient Allocation of Resources in Higher Education. Principal investigators were Professors Gail C.A. Cook and David A.A. Stager, Associates of this Institute and members of the Department of Political Economy, University of Toronto. It is their report which follows.

In addition to this report certain supporting materials have been prepared. This material includes:

- A computer program designed and implemented by Mr. Michael C. Wolfson for simulation of models of alternative schemes for financial assistance to students, and a user's manual with operating instructions.
- Appendices assembled by project participants, containing historical information and projections on matters relevant to this study.
- A record of responses to the sample survey of Ontario high school students undertaken by Clark, Cook, Fallis and Kent under the general auspices of the Project on Efficient Allocation of Resources

in Higher Education,¹ and certain tabulations of these responses.

Together with the project report, these supporting materials provide a substantial body of evidence relevant to the operation of programs for student assistance. Additional effort in improvement of data and projections, and an analysis of results is undoubtedly warranted; the material assembled here provides a start toward systematic extension of efforts in data collection and utilization. Such further efforts in turn promise substantial increases in present understanding of existing and proposed financing programs.

Perhaps it is appropriate here to comment briefly on the major themes and conclusions of this study as I see them. The fundamental problem is that the claim upon the resources of the community for purposes of post-secondary education is already large, and is growing explosively. The real costs of meeting this claim are the other goals the community must forego in order to free the resources required to mount the educational programs demanded. There is no free education, under any circumstances; there is only the question who pays. Education may be made free to the student while he is a student, but in the rest of the community someone's consumption—of medical services, or transportation, or food,

1. See Chapter IV for documentation on this survey.

or environmental improvements, or something—must be reduced to free the resources required for education. The student, after he has ceased to be a student, may in turn bear a part of this cost, either specifically, as one who has benefited directly from educational opportunities, or generally, as a taxpayer.

The point, then, is that the transfer of resources to education represents a real cost to the community in terms of its other goals foregone, and there is no way to avoid this cost. We must therefore find ways to test very carefully that the benefits of this transfer justify the sacrifices entailed, and to ensure that these sacrifices do not fall disproportionately upon particular groups, especially upon those groups which might be barred from access to the direct benefits of the transfer.

It is worthwhile to go beyond the conventional rhetoric in considering this question of the burden of educational programs. It is worth remembering that the community consists of a complex layering of successive cohorts or generations, all moving through time together, and each engaged in a variety of transfers with the other, and in programs which redistribute income from one to the other. The child undergoes his metamorphosis to student, to working alumnus, to senior citizen. The economist attempts to capture some aspects of these movements through a battery of tools including rates of return, demographic models, and the like.

There is some talk of these in the report which follows; technical problems demand a precise technical vocabulary. But it is important to keep in mind the underlying flows measured by these technical tools.

In particular, it should be kept in mind that there is almost no way (short of work/study or summer employment programs) by which the student, while he is a student, can bear the burden of post-secondary education costs. If purchase of the necessary resources is financed wholly out of direct tuition charges, this has the effect of shifting the burden back on to past saving by the student, or across the generation gap to his parents. If education is financed wholly out of general revenue, through grants to students or direct support to institutions, the effect is to shift the burden to the general taxpayer. If education is financed wholly through a program of loans, the effect is ultimately to shift the burden forward in time, from students to alumni. To speak of a loan program shifting the burden of financing education to the student, then, is simply to be bemused by rhetoric. A loan program does precisely the contrary: it shifts the costs from those who are students today to those who were students yesterday. It enables the student to transfer a command over resources from the future to the present, by persuading those now older to engage in a trade through time with those now younger. And thus it frees the student of dependence on his economic background, on the income or wealth of himself or

his parents, by throwing the burden on to his economic future.

Such transfer programs, like many others, reflect a recognition that an individual may draw upon the resources of the community at some points in his life, and contribute to the resources of the community at others. The operation of such programs depends upon the emergence of some implicit social compact. Those currently contributing their services toward production of the goods and services the community consumes may permit themselves to be taxed to support transfers to retired persons no longer contributing to output, in the expectation that they, when old, may themselves draw in turn upon the efforts of the new younger generation. Similarly, a transfer to those now young, to permit pursuit of education beyond secondary school, can only be sustained on the basis of the willingness of the generation containing the recipients to contribute, in its turn, to such transfers later.

The question is, how widely must participation in the support of such transfer programs be extended? Not all of the generation presently young draws upon the community's resources to attend educational institutions beyond secondary school; indeed most still do not. Must they nevertheless later forego consumption to contribute to the substantial transfers required to that portion of the new younger generation entering post-secondary institutions?

The answer to such a question obviously depends in part upon judgments that each man must make for himself. But

the answer also depends in part upon the extent of the direct material benefits conferred by post-secondary education as compared to the indirect benefits realized by the entire community.

Our research suggests the following observations:

- Costs of programs of post-secondary education and of assistance to students are rising at rates not likely to be sustainable in light of other demands on government resources.
- Summer employment prospects are unlikely to improve as a source of private financing of university costs, and summer employment is in any case an uneconomic method for meeting such costs.
- As access to post-secondary education extends to lower income groups, parental contributions become less likely as a source of finance to meet education costs.

Hence some modification of existing schemes is probably essential.

- The direct tangible benefits to post-secondary education are apparently large, and are apparently perceived to be large by high school students.
- Increasing, through a loan scheme, the extent of support required from those benefiting directly reduces the initial investment required of a student at the same time that it creates a liability

for future payments, and thus need not lower private rates of return to the individual's investment in education.

Thus it seems feasible to increase the extent of contribution to education costs from those benefiting directly.

- Attitude surveys (and other obvious considerations) suggest that it is crucial to avoid the risks associated with conventional loans, when establishing a student assistance program providing for large borrowings.
- Attitude surveys also suggest that it is important to have a dramatic commitment to support of higher education in order to evoke a positive and optimistic attitude from high school students at the early stage in their school career where they set their educational targets.
- So far as we can see, only a contingent repayment assistance scheme can remain financially feasible under a commitment entailing support for fees plus room and board or a salary to cover foregone earnings. Moreover such a scheme facilitates support of part-time or older students who would otherwise be denied opportunity to go on to post-secondary education.

Therefore we conclude that movement toward a contingent repayment system for student assistance is warranted.

•Methods of financing which provide invisible subsidies (through less than full cost tuition charges) distort the allocation of resources in the community. The true costs to the community are never brought into the balance when the decision to enter post-secondary education is made. Thus there is no test whether the direct individual benefits perceived match the sacrifices the community must make to support the entrant in post-secondary education.

•Under a contingent repayment system, tuition fees can be raised to cover full cost without any restriction of access to higher education arising from income or wealth constraints. At the same time, any incentive to investment in education thought necessary in light of concern for external or intangible^{ible} benefits which accrue to society generally as a result of education of individuals can be accomplished by uniform variations in required repayment rates. In this way, the appropriate public subsidy to the education of individuals can be accomplished in a direct and specific manner which treats all individuals in all categories of post-secondary education alike.

Hence we recommend that if some contingent repayment scheme for student assistance is adopted, then consideration be

given to an increase in tuition fees toward a level covering the full costs of tuition, with adjustments in required repayment rates to reflect the degree of public subsidy to post-secondary education deemed appropriate.

In the face of exploding provincial expenditure on higher education, there can be no doubt that something has to give. The report of this project advocates, as I read it, the evolution of a social contract under which those drawing when young, as students, upon the resources of all the community recognize their specific obligation to replenish, according to their ability, a student assistance fund in the future. In this way coming generations may, in their turn, benefit from the opportunity of an education without regard to their present resources, or the constraints of income and wealth inherited from their past, and without visiting on those least able to pay, the burden of supporting those best able to pay.

I should like to take this opportunity to add my own thanks to those extended by Professors Cook and Stager in acknowledgement of much assistance. A great many people have been generous in their contributions to the design and execution of this study; their help has made the conduct of the research for the project a valuable and satisfying intellectual experience. I believe the result is something of which this Institute can be proud, and I am grateful to

those who have helped to make it so. And, finally (and most importantly), we are all grateful for this opportunity to make some small contribution toward the resolution of a very pressing problem of public policy. We hope that the result will prove of value in practice.

A.R. Dobell

