

Income Contingent Repayment Loan Schemes

An 'income contingent' repayment loan scheme (ICR) is not a student-aid plan but rather a funding model for post-secondary education. It is based on the belief that the individual is the primary beneficiary of a post-secondary education and should bear the full cost. The ICR is neither a progressive and fresh alternative to the Canada Student Loans Program nor is it intended to improve access to post-secondary education.

An Old, Outdated Idea

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

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

"It is not a form of student assistance"

Starting in the mid-1990s, proponents have sought to gain support for ICR by exploiting the student debt crisis and by playing down the social benefits of an educated citizenry. Rather than being up front about their true purpose - to shift the cost of education from the state to the individual - they have tried to 'sell' ICR loan schemes as a flexible and fair student-aid plan that would allow student loan recipients to pay off their loans as their income allowed.

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

The Poor Pay More

Under ICR, borrowers would repay their loans as a percentage of their incomes upon completion of study. Graduates with lower levels of income would repay their loans over a longer period

of time, while those in high-paying jobs could repay their loans quickly and pay less interest. Those who could afford to pay their tuition fees up front would avoid the high interest rate payment after graduation, and end up paying less for post-secondary education. For example, in Australia if a student can afford to pay their income contingent loan at the beginning of every academic year, they receive a 25% discount.

A Lifelong Debt Sentence

ICR would disproportionately hurt women because it would take them, on average, considerably longer to pay back their interest-bearing loans. Because many women leave the workforce due to pregnancy and still earn less than men on average, repayment difficulties would be more pronounced. Under one model considered in Canada in 1994, 43% of women would not be capable of paying off their debt after 25 years of repayment.

The International Evidence

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

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

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

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

ICRs: A Canadian Chronology

1964

The birth of the Canada Student Loans Programme. The Federation's predecessor calls for needs-based grants.

1969

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

1984

The Ontario government's Bovey Commission supports ICR along with increased tuition fees. "From the general public's viewpoint, such a plan reduces the taxation burden for those persons who do not participate directly in the university system."

1991

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

1993

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

1994-95

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

January 25, 1995

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

May 2, 1995

The federal government takes ICR off the table.

1996

The Ontario Tories promise to implement an ICR. Never followed through due to lack of support from the lending institutions.

1997

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

2000

The Canadian Alliance calls for ICR schemes.

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

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

In Canada

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

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

The Ontario government proposed ICR in 1996 to accompany a 20% funding cut to post-

secondary education. It was ultimately unable to implement this promise due to widespread opposition from lending institutions and students.

Income Contingent Repayment in 2004: Gone, But Not Forgotten

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

Ultimately, governments must move beyond student debt-management measures and implement programmes that reduce and eliminate student debt. Income Contingent Repayment is an outdated idea that should be permanently abandoned in favour of policies that will actually increase access to quality post-secondary education—a national system of grants and a substantial reinvestment in Canada's colleges and universities is the only path to genuine equality of opportunity.

"Income-contingent repayment means learning with lifelong debt. It doesn't solve the problem, it just extends the repayment."

- Stephen MacDondald, Executive Director, Learning Assistance Division, Advanced Education and Career Development, Alberta, 1997

"It doesn't reduce debt, it just extends it."

- Jim Vanstone, Director, Student Support Branch, BC's Ministry of Education, 1997.

¹ Robert Green, Assistant Secretary, Programs and Operations Branch, Department of Employment, Education and Training, Central Office, Government of Australia, Letter to the Canadian Federation of Students, November 5, 1991.

² National Union of Students, United Kingdom press release: "NUS reacts angrily to minister dismissing student debt", Friday 15 November 2002. Available on-line at: <<http://www.nusonline.co.uk>>

³ New Zealand University Students' Association, *The Student Loan Scheme: Inequities and emerging issues*. Wellington, 2002.

⁴ New Zealand University Students' Association, *The Student Loan Scheme: Inequities and emerging issues*. Wellington, 2002.

⁵ New Zealand University Students' Association, *Pacific Students and Debt*. Wellington, 2002

⁶ Ian Pool, "The Demography of the Student Loan", transcript of presentation from the Student Debt Summit, Auckland, July 23, 2002.

⁷ Edward Greenspon, Anthony Wilson Smith *Double Vision: The Inside Story of the Liberals in Power* Toronto, 1996, page 193.