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Communiqué

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Recent changes to federal student loans program in right direction, says C.D. Howe Institute study

Recent changes to the Canada Student Loans Program (CSLP), the primary federal program for delivering financial assistance to postsecondary students, could lead to lower default rates, reduced costs to government, and greater flexibility in repayment schedules, concludes a study released today by the C.D. Howe Institute.

The study, *Student Loans in Canada: Past, Present, and Future*, was written by Ross Finnie and Saul Schwartz of the School of Public Administration at Carleton University in Ottawa.

Finnie and Schwartz take a detailed look at the workings and experience of the CSLP. They also examine the concept of income contingent repayment and other suggestions to improve the student loan system. At the heart of the study is a detailed analysis, based on Statistics Canada's National Graduates Surveys, of the incidence and amount of borrowing among former postsecondary students, the proportion of loans repaid two years after graduation, and the percentage of graduates who experience repayment difficulties. The study also includes an appendix on recent changes in the provincial counterparts to the federal system, and another that looks at tuition levels (in real terms, recent increases have left levels approximately where they were in the 1960s).

The authors note that the CSLP, which has loaned more than $10 billion to 2.4 million Canadian postsecondary students since its inception in 1964, has contributed significantly to the country's human resource base and helped to bring postsecondary education within reach of many who would not otherwise have been able to attend. Recent reforms to the program, however, are in response to criticisms that some students were receiving too little aid while others received too much, that default rates were too high, leading to excessive costs to the federal government, and that repayment terms were too inflexible, causing undue hardship for some students.

Under the new rules, Finnie and Schwartz point out, the banks are assuming full responsibility for the collection of student loans in return for a 5 percent risk premium, while the government continues to determine who can get a loan and how much and to require banks to lend to all who qualify. This change, Finnie and Schwartz argue, should preserve the fairness and general efficiencies of the student loan system while making repayment collection more efficient. The authors caution, however, that giving financial institutions and students more liberty to work out payment arrangements on an individual basis also increases the possibility that students whose parents or spouses are established clients of a particular institution and those with higher future earnings potential may receive preferential treatment. This and other aspects of the new system should be closely monitored, Finnie and Schwartz say.

The authors note that, through the CSLP, further steps could be taken to help students finance their education and reduce repayment difficulties. These include: raising borrowing limits, extending the existing interest relief provisions, and experimenting with income contingent repayment (ICR) schemes in one or more provinces. Throughout the study, the authors attempt to reconcile both efficiency and equity goals: the CSLP system should be as efficient as possible, while preserving access to the postsecondary education system for all those with the ability to attend, regardless of family background.

The volume also contains comments on the main study by Bruce Chapman, an economics professor at the Australian National University; Paul Davenport, President and Vice-Chancellor of the University of Western Ontario; and Harry Hassanwalia, Deputy Chief Economist at the Royal Bank of Canada.

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Communiqué

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Les récents changements apportés au programme fédéral de prêts aux étudiants représentent un pas dans la bonne direction, affirme une étude de l'Institut C.D. Howe

Les changements qui ont été récemment apportés au Programme canadien de prêts aux étudiants (PCPE), le principal programme fédéral d'aide financière aux étudiants de niveau postsecondaire, pourraient bien entraîner des taux d'impayés plus bas, des frais moindres pour le gouvernement, et des calendriers plus souples de remboursement des prêts. Telle est la conclusion d'une étude publiée aujourd'hui par l'Institut C.D. Howe.

Intitulée *Student Loans in Canada: Past, Present, and Future (Les prêts aux étudiants au Canada : passé, présent et avenir),* l'étude est rédigée par Ross Finnie et Saul Schwartz de la School of Public Administration de l'Université Carleton d'Ottawa.

Finnie et Schwartz se penchent sur le fonctionnement et l'expérience du PCPE. Ils examinent également le concept du remboursement lié aux revenus et les autres suggestions visant à améliorer le programme de prêts aux étudiants. Au cœur de l'étude figure une analyse détaillée, fondée sur l'Enquête nationale auprès des diplômés menée par Statistique Canada, de la fréquence et du montant d'emprunt chez les anciens étudiants de niveau postsecondaire, du pourcentage des emprunts remboursés dans les deux ans qui suivent l'obtention du diplôme, et du pourcentage des étudiants qui éprouvent des difficultés de remboursement. L'étude comporte également une annexe sur les récents changements apportés aux programmes provinciaux équivalents au programme fédéral, et une autre qui examine les frais de scolarité (en termes réels, les hausses récentes n'ont fait que ramener les niveaux de scolarité à ce qu'ils étaient dans les années 60).

Les auteurs remarquent que le PCPE, qui depuis son établissement en 1964 a accordé des prêts de plus de 10 milliards de dollars à quelque 2,4 millions d'étudiants de niveau postsecondaire au Canada, a grandement contribué à la base de ressources humaines du pays et a permis de mettre les études postsecondaires à la portée de beaucoup d'individus qui n'auraient pas été en mesure de se les permettre autrement. Les récentes réformes apportées au programme font suite aux critiques selon lesquelles certains étudiants reçoivent une aide trop modeste tandis que d'autres en reçoivent trop, le taux d'impayés est trop élevé, entraînant des frais excessifs pour le gouvernement fédéral, et les modalités de remboursement manquent de souplesse et s'avèrent trop onéreuses pour certains étudiants.

En vertu des nouvelles règles, Finnie et Schwartz indiquent que les banques assument la pleine responsabilité du recouvrement des prêts aux étudiants en échange d'une prime de risque de 5 %, tandis que c'est le gouvernement qui continue à déterminer qui peut obtenir un prêt, ainsi que son montant, et qui exigera des banques qu'elles versent des prêts à tous ceux qui sont admissibles. Selon Finnie et Schwartz, ce changement devrait préserver l'équité du programme de prêts aux étudiants et son efficience tout en rendant le recouvrement des prêts plus efficace. Toutefois, les auteurs avertissent qu'en accordant aux établissements financiers et aux étudiants plus de liberté pour fixer des modalités de remboursement individuelles, on accroît également l'éventualité que les étudiants dont les parents ou les conjoints sont des clients établis d'un établissement particulier ou ceux qui auront de meilleures probabilités de gagner des salaires élevés, recevront un traitement de faveur. Il importera de suivre cela de près, conjointement avec d'autres aspects du nouveau programme, indiquent Finnie et Schwartz.

Les auteurs indiquent que par le biais du PCPE, on pourrait prendre d'autres mesures pour aider les étudiants à financer leurs études et à alléger leurs problèmes de remboursement. Parmi ces mesures, figurent les suivantes : une hausse des limites d'emprunt, une prolongation des dispositions actuelles de périodes sans intérêt, et une mise à l'essai des programmes de Prêts remboursables en fonction du revenu (PRR) dans une province ou plus. Tout au long de l'étude, les auteurs tentent de rapprocher les objectifs d'efficience et d'équité : le régime du PCPE devrait être aussi efficient que possible, tout en conservant l'accès au système d'éducation postsecondaire pour tous ceux qui ont la capacité d'y participer, quelle que soit leur situation sociale.

Dans le document, figurent également des commentaires de Bruce Chapman, un professeur d'économique de l'Australian National University, de Paul Davenport, président et recteur de l'University of Western Ontario, et de Harry Hassanwalia, économiste en chef adjoint à la Banque Royale du Canada.

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Student Loans in Canada

Past, Present, and Future

Ross Finnie
and
Saul Schwartz

with comments by
Bruce Chapman, Paul Davenport,
and Harry Hassanwalia

Observation 42

C.D. Howe Institute

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Ross Finnie and
Saul Schwartz

Student Loans in Canada:
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Paul Davenport is President and Vice-Chancellor of the University of Western Ontario. He graduated "with great distinction" from Stanford University in 1969 with a BA (Honors Economics), and then received MA and PhD degrees from the University of Toronto. Dr. Davenport's research in economics has centered on the theory of economic growth, analysis of the productivity slowdown in Canada over the past two decades, and federal-provincial fiscal arrangements. He has published widely in these fields in academic journals and books. Dr. Davenport is also a public advocate of the values of higher education, with a particular commitment to maintaining excellence in university teaching and research. He strongly believes that academic priorities should determine budgetary allocations and that universities should invest selectively in areas of quality and distinction.

Ross Finnie was educated at Queen's University, the London School of Economics, and the University of Wisconsin-Madison. He is currently a Visiting Professor in the School of Public Administration at Carleton University and a Visiting Scholar at Statistics Canada. His current work includes a study of the school-to-work transition of recent Canadian postsecondary graduates using the national Graduates Surveys on which the empirical work reported in this book is based. A second major line of research focuses on the income dynamics of Canadians using longitudinally linked tax files of Canadian families.

Harry Hassanwalia has an MBA (Financial Economics) from Concordia University, where he also pursued postgraduate studies in Economics. He joined the Royal Bank of Canada's Economics Department in 1983, was appointed to the position of Assistant Chief Economist in 1986, and to the position of Deputy Chief Economist in 1996. He has had a broad range of responsibilities, with particular focus on financial institutions and the flow of funds in credit and capital markets.

Saul Schwartz has been a professor in the School of Public Administration at Carleton University since 1991. He received his PhD in Economics from the University of Wisconsin. His research interests focus on the impact of public policies on low-income individuals and families.

Chapter 1

Introduction

Just when the opportunities for finding a good job and embarking on an interesting and rewarding career seem to depend more than ever on having an advanced level of education, the Canadian postsecondary education system is in a state of fiscal crisis, largely because of deep and continuing cuts in government transfers. These dynamics, relatively recent as they are, have already led to troubling questions about what universities and colleges should do, for whom they should do it, and the means by which their missions should be financed. Of the many issues relating to these questions of purpose and means, this book focuses primarily on student borrowing through the Canada Student Loans Program (CSLP).

The student loans system is a timely subject for at least two reasons. First, for the past 15 years, governments have been shifting some of the costs of postsecondary education over to students by increasing tuition fees, and this trend continues in the wake of new federal and provincial cutbacks. In Ontario, for example, university fees rose by 20 percent between the 1995/96 and 1996/97 academic years. This mounting financial pressure on students makes it appropriate to evaluate the financial aid system in terms of its ability to deliver assistance to those in need in the most efficient manner possible and to consider any need for reform.

Second, the CSLP, the primary federal program for delivering financial assistance to postsecondary students, has recently undergone several major changes. In the following pages, we both describe this "New CSLP" (our term) and explain the basic structure of the "Old CSLP" (again, our term) as it existed before the 1994 reforms, providing an empirical record of borrowing and repayment patterns under that system. We also make some proposals for further reform. The work should, therefore, be of interest to many people concerned with student loans and related public policy: students, teachers, university administrators, policymakers at both the provincial and federal levels, and individuals interested in the future of postsecondary education in Canada.

Financial Pressure on Students

As noted, much of the current interest in the student loan system unquestionably stems from the recent increases in tuition fees and the resulting financial pressure on students. It is thus useful to provide some documentation of these trends and to place them in historical perspective. To this end, Figure 1 shows the ratio of tuition fees to instructional costs from the early 1970s into the 1990s, while Figure 2 shows the trends in tuition levels alone over the same time period.

For the next 15 or so years, tuition rates grew more slowly than government transfers, and the ratio of tuition to instructional costs fell to a low of about 18 percent in 1980. During the next decade, however, tuition rates began to rise faster than government transfers, increasing the students' share. And with the accelerated tuition increases and government cutbacks of the 1990s, the ratio has climbed rapidly. Thus, recent sharp movements have left the ratio of tuition fees to total instructional costs at approximately the levels that prevailed in the early 1960s.[1]

The pattern for tuition levels themselves is roughly similar. Adjusted for inflation, tuition generally declined through the 1970s,

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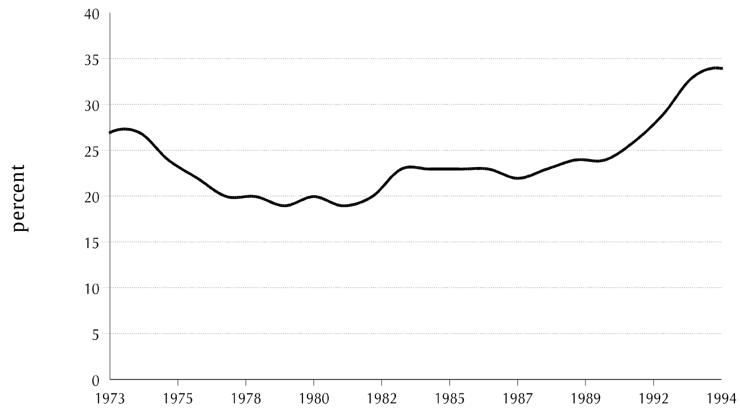
1 This ratio is meant to measure how much of the costs of postsecondary education are paid for by tuition fees. The issue is quite complex, both conceptually and in terms of measurement problems (what exactly are "instructional" costs and how are they to be measured?). But in the absence of better indicators, the tuition-to-costs ratio is a useful indicator of the broad trends in which we are interested. Another measure is the ratio of tuition fees to operating revenues. Stager (1989, 31) estimates that tuition fees made up about 30 percent of university operating revenues in the early 1960s.

Figure 1: ***Ratio of University Tuition Fees to Instructional Expenditures, academic years 1972/73 to 1993/94***

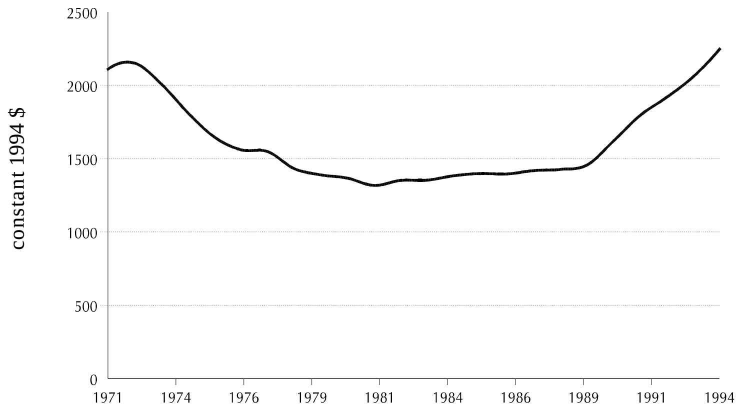


Source: Canadian Association of University Business Officers, *Financial Statistics of Universities and Colleges* (Ottawa: Statistics Canada for the Canadian Association of University Business Officers), various years.

trended upward very gently during the 1980s, and have risen sharply in the 1990s. Currently scheduled increases — including hikes of 20 percent in Ontario and 35 percent in Alberta — will generally return the levels to those of the early 1960s. These recent tuition increases, together with massive cutbacks in provincial student grant programs, have, not surprisingly, led to commensurate surges in student borrowing (see Appendix A).

Thus, although what tuition levels *should* be is an open question — one we address briefly in Appendix B — rates are now higher than at any time since the early 1960s (and still climbing), represent a higher proportion of instructional costs than at any time in the last three decades, and have left students under greater financial pressure than at any time in the recent past. Hence, an evaluation of the student aid system appears appropriate regardless of other policy issues concerning postsecondary education that may be raised in the years to come.

Figure 2: ***Tuition Fees, academic years 1971/72 to 1993/94***



Source: Association of Universities and Colleges of Canada, using data from Statistics Canada.

The Old CSLP

Since its inception in 1964, the CSLP has been an integral part of the college and university experience for many Canadian students. By fiscal year 1994/95,[2] 2.4 million of them had borrowed a total of $10.6 billion (Canada 1996a, 2-71). Having thus enhanced the educational opportunities of generations of Canadians, the CSLP takes an important place in the list of institutions that help define Canada, contributing to the nation's human resource base as well as helping to bring postsecondary education within reach of all those with the will and ability to attend.

By the late 1980s and early 1990s, however, this venerable institution had become increasingly subject to criticisms: that some students were receiving too little aid while others received too much; that default rates were too high, leading to excessive costs to the federal government; and that repayment terms were too inflexible, causing undue hardship for students.

2 Unless otherwise specified, the noncalendar years mentioned here that refer to CSLP reports are the program's fiscal years. Those that refer to its rules are academic years.

Our description of the Old CSLP sets the stage for presenting, in Chapter 3, the results of an empirical investigation of borrowing and repayment patterns. Using the National Graduates Surveys (NGS), we analyzed the experience of three cohorts of postsecondary graduates — those who graduated in 1982, 1986, and 1990. In particular, we looked at the probability of graduating with a student loan, the total amount borrowed, the burden of student debt (as measured by debt-to-earnings ratios), repayment rates as of two years after graduation, and reported repayment problems. Most of the results relate to level of education, gender, major field of study, and cohort, but we also examined how borrowing and repayment patterns vary with province, socioeconomic background (as proxied by parental education), and selected aspects of the educational experience. This analysis thus provides a solid empirical basis for the other sections of the study.

The New CSLP

Then, in Chapter 4, we summarize the significant changes the CSLP has undergone in the past few years.

First, borrowing limits have been raised substantially in the first real increase since 1984. Second, need-assessment procedures have been significantly revised and, for the first time, will operate almost uniformly across all provinces except Ontario. Third, the interest-relief program has been extended to borrowers who have low incomes. Finally and most important, the government is no longer guaranteeing new student loans. Through an agreement reached after lengthy negotiations, financial institutions are accepting responsibility for collection of the loans and for the risk of default, in return for a government payment of 5 percent of the value of loans going into repayment. Provincial authorities will continue to determine who gets a loan of how much, but they will use the standardized eligibility criteria.

We organize our discussion of these changes around the criticisms of the Old CSLP.

ICR Loan Programs

Finally, in Chapter 5, we discuss the concept of income contingent repayment (ICR) student loan systems, an idea that has taken on new life as criticisms of the existing loan system have mounted. ICR comes in many forms, but its defining characteristic is that the rate of repayment depends on earnings in the postschooling years. Advocates suggest that ICR can provide a more equitable, more flexible, and more efficient system of delivering student financial aid.

Many supporters of higher tuition fees couple their proposals with parallel calls for the adoption of an ICR loan system, the two having a certain logical connection and policy synergy (because flexible repayment rates may reduce the burden of a given amount of borrowing, thereby softening the impact of the expected tuition increases). ICR and tuition increases have thus become linked in the current policy debate. We consider ICR and tuition increases as two quite separate issues, however; one can have ICR without tuition increases, and one can have (as, indeed, Canadians have had) tuition increases without ICR.

Conclusion

In the concluding chapter of the book, we offer a summary assessment of the New CSLP and a series of policy suggestions that are intended to guide further reform in the years to come. We find the potential of the New CSLP extremely interesting. It is, for example, almost certain to reduce the number and cost of loan defaults simply by shifting the incentives for collection over to the financial institutions that hold the loans. Similarly, the flexible repayment terms that make ICR so attractive to many may evolve naturally as banks and students negotiate mutually acceptable repayment schedules.

Chapter 6

Conclusion

The Canada Student Loans Program (CSLP) has played an important role in improving the educational opportunities of postsecondary students, having issued loans to more than 2 million Canadians over its 30-odd years of existence. In light of the important recent changes in the program, we conclude by offering summary judgments of the New CSLP with some suggestions about how its performance might be judged in the years to come, several ideas for additional changes, and a broad view of postsecondary schooling in general.

The New CSLP: A Summary

The easiest way to summarize our judgment of the New CSLP is to comment on its new features.

Transferring Collection to the Banks

Will the transfer of collection responsibility to the financial institutions create a near-ICR program or a slippery slope leading to the inequitable treatment of students? To consider the question and its implications, one must return to basic principles.

The received wisdom is that government intervention is essential to the existence of a fair and efficient student loans system. Most students can offer very little collateral, and banks have difficulty in assessing the likelihood that the loans to them will be repaid. Thus, in theory, the private banking system would be reluctant to lend to students without government guarantees, resulting in a general underinvestment in student loans and reduced opportunities for postsecondary studies and the associated losses of private and social benefits. Furthermore, any loans made under a private system would tend go to the select group of students who represented good credit risks, principally those whose parents would be willing and able to provide guarantees — a serious equity problem. These arguments suggest that the government must step in with either direct lending or guarantees to private lenders. That is the rationale for the existence of the CSLP and similar systems in other countries.[1]

The new arrangement, whereby the banks are assuming full responsibility for the collection of student loans in return for a 5 percent risk premium while government retains control over the determination of eligibility and requires banks to lend to all who qualify, represents a new and interesting solution to the old student loans problem. We have already described how these changes should lead to lower default rates, reduced costs to the government, and greater flexibility in repayment schedules than under the old system — benefits that should result from shifting the responsibility for collection to the private sector, which is in the business of managing loan portfolios in the most efficient manner possible. Yet by retaining control over eligibility, the government can ensure that the equity aspects of the student loan system and the efficiencies of risk pooling are preserved. In short, the comparative advantages of the private sector in managing and collecting loans are being exploited while the broader goals of the student loan program are preserved by the government's control over lending.

At least, that is how it looks on paper. In practice, things may not work quite out so well. For example, students who seem more attractive as long-run clients may receive more favorable treatment than others, both when the loan is being taken out and, more important, during the repayment period when flexibility will be the relevant watchword. In particular, those whose parents or spouses are established clients and those with high earnings may receive preferential

1 See Mankiw (1986) for a discussion of these issues.

treatment. The size of the loan is also likely to be a factor. Thus, the risk of passing full management of collection over to the banks and opening up possibilities for efficiency and flexibility is that the door is similarly opened to inequitable treatment and favoritism.

We cannot predict how great this problem may be, but the government should be prepared. We offer two simple suggestions. First, the performance of the new system should be monitored along a number of dimensions, including the equity of treatment across student borrowers, especially with respect to differences by family income and graduates' own earnings. Second, the government should institute an appeal system for students who feel they are receiving unfair treatment, such as excessively rigid repayment regimes. (A system of mandatory arbitration would restrict appeals to those with merit.)

Getting the "Risk Premium" Right

Postsecondary students represent an attractive pool of customers for banks, which, therefore, generally wish to offer good service to *all* their student borrowers, thus enhancing their reputations and helping them build their client base. Indeed, it is useful to think of the banks' participation in the student loans system as having two distinct benefits.

The first is obviously the loan portfolio itself. The second is the access to a desirable client base. The full value of being in the student loan business consists, therefore, of the expected rate of return on the student loans *plus* the value of the future business that may be won by attracting student borrowers. Indeed, one would expect that banks would be willing to pay for the privilege of establishing a business relationship with such an attractive pool of clients (as they clearly do via the heavy advertising and other marketing strategies targeted on students and recent graduates).

This notion of the full value of student loans to the banks puts their recent negotiations with the government over the New CSLP in an interesting light. One should, for example, think of the premium the government pays the banks for student loans as compensation for their riskiness *offset* by the value of the student client base the banks gain by being in the student loan business. The greater the value of that client base, the more the offset of the risk premium. Indeed, at the limit, the net risk premium could even be negative — the banks might be willing to pay for the opportunity of making student loans. Thus, although default rates should certainly enter the negotiations regarding the premium to be paid, they should not be the sole factor in arriving at the final account.

In short, under the Old CSLP, the banks had a very good deal. They collected on the student loans that remained in good standing; they turned defaults over to the government and received full compensation for any losses incurred; and they gained access to an attractive postsecondary student client base. Now, under the New CSLP, the banks are assuming responsibility for the less-attractive student loans but retain the advantages of the better credit risks and of enhanced access to the desired client pool. By negotiating the flat 5 percent risk premium, an amount that presumably reflects the overall net value of student loan activities, the government has presumably been able to reach a fairer price for the overall package — to the benefit of the taxpayer. But no one can yet know if 5 percent is too much or too little. We suggest that close monitoring is in order, well before the five-year period of the agreement is over.

Borrowing Limits

Despite the recent increases in CSLP borrowing limits, we are still concerned about their adequacy. Some students need more than these amounts, and any failure to respond to this need will result in undue hardship and reduced access to postsecondary education. This consideration is especially important for students from lower-income families with limited access to other resources.

Furthermore, our empirical findings indicated that students generally seem to have been supply constrained in their borrowing. The suggestion is that they wanted to borrow more, and that repayment problems were not widespread, which means that they had the capacity to repay *even higher* levels of borrowing. Thus, the higher limits seem to appropriate and feasible.

On the other hand, our findings are based on historical analysis of borrowing and repayment under the lower limits and other conditions of the past decade. Thus, we recommend that any further increases in borrowing limits be monitored carefully to make sure students are not getting in over their heads.

Further Improvements

Although we generally judge the CSLP to be going in the right direction, the program is by no means perfect. Taking several more steps would provide some improvements and safeguards at fairly low cost.

A Pilot ICR System

Whatever one thinks of the New CSLP, the new arrangement with the banks will be in place until 2000, precluding any wholesale move to a federal ICR system in the near future. In this sense, ICR is simply off the federal policy agenda for the next few years. Under the new *Canada Student Financial Assistance Act*, however, the CSLP is allowed to conduct pilot projects for ICR loan programs with interested provinces.[2]

We suggest that a small-scale pilot system be initiated as soon as possible. It would have several rationales. One would be as a test. With an ICR system designed and put into place, analysts could assess its performance and compare the results with those of the New CSLP. The knowledge thus gained could then be used in making future policy decisions, including whether or not to move to a formal ICR system at the federal level or how the New CSLP might be further finetuned.

2 In its 1996 budget, Ontario announced that it was discussing a provincial ICR system with the federal government.

A second reason for instituting a pilot project is that the banks might perform just a little better knowing that their performance was going to be compared with that of the ICR alternative. Just as the growing interest in ICR probably contributed to the creation of the New CSLP, keeping the ICR option alive might lead to an enhanced performance of the current system.

A final reason is that a pilot ICR could provide extra funds for some students. We have already expressed concern about students who need financial assistance beyond what is available from the CSLP. A pilot ICR system could provide part of the solution.

Interest Relief and Loan Remission

We also recommend that the CSLP's provisions for interest relief for those who are unemployed or have low earnings be extended. As already noted, the program is not particularly costly, and a substantial expansion could be funded out of a small portion of the government's savings on default payments that accrue from the new arrangements with the banks.

That said, we emphasize that we generally like the basic design of the current program in that the student remains responsible for the outstanding principal and any accumulation of interest beyond the relief period. That is, the program should remain one that helps individuals get over certain early labor market humps and bumps; it should not be a program of long-term assistance.

In addition to providing direct benefits, the interest relief program should help with the assessment of the performance of the New CSLP. Two effects are possible but will need to be quantified. On the one hand, the hoped-for increases in repayment flexibility should result in fewer graduates' needing government assistance in repaying their loans. On the other hand, lending institutions may encourage potential defaulters to apply for interest relief as a means of forestalling losses. Thus, both the number of applications for relief and their underlying origin would provide useful information regarding the performance of the New CSLP and what it is likely to cost.

Although several provinces have programs that can forgive loans above certain limits, the CSLP has no loan remission program. The government might, however, consider a pilot program. Such an innovation would take the New CSLP one step closer toward being a near ICR-type system. Furthermore, just as it made sense to standardize need-assessment procedures across provinces, it would be reasonable to standardize the loan remission rules in a similar manner.

Need-Assessment Procedures

CSLP loans will continue to be issued to those deemed needy, but it is unclear how the recent streamlining of the eligibility criteria will affect who gets how much. Indeed, the past system is very difficult to evaluate in this regard. Despite the plenitude of anecdotal evidence suggesting that certain students have been able to exploit the system, there is no good empirical evidence on the extent of this problem. Our own analysis, for example, is limited to finding only that the loans system did not seem to be particularly progressive (that is, that there seemed to be no clear pattern in terms of students from lower-income families — measured by parental education — having received more assistance than those from better-off families).

We recognize this issue, which pertains to both the efficiency and the fairness of the system, as an important one. Given the lack of available information, our only recommendation is for a careful study of the issue, probably with the aid of new data better suited to such an evaluation. If such a study found that problems were indeed extensive, government could change the eligibility criteria and/or how they are applied.

More Data on Student Borrowing

The need for better data on student borrowing and repayment is obvious, especially given the major changes that have recently been instituted. We recommend that the government commit itself to a survey that would gather the sort of information already included in the NGS data bases *plus* much more detail about student borrowing.

In addition to information on the educational experience and early labor market outcomes, the data should include the following information on borrowers' backgrounds and their experience in taking out a loan:

- the individual's socioeconomic background;
- the individual's understanding of the CSLP;
- attitudes toward taking out loans for school and toward borrowing in general;
- anticipated earnings, debt load, and other aspects of the expected postschooling financial situation;
- the individual's experience with application procedures and the negotiation of the loan;
- the amount borrowed and the importance of the loan to the individual's postsecondary studies, including his or her access to alternative sources of financial assistance (such as family and jobs); and
- how the loan is spent.

The survey should also gather information on borrowers' experiences in repaying their loans, including:

- the individual's attitude toward borrowing from the perspective of the repayment period;
- the experience of negotiations over the repayment schedule;
- the bank's flexibility over the repayment period; and
- the burden of the loan repayments.

A longitudinal study based on a sample of students at various stages of their postsecondary careers would be best, but cross-sectional data with retrospective information would furnish some of this information at a significantly lower cost.

Postsecondary Education: The Big Picture

A recent report by the Association of Universities and Colleges of Canada (AUCC 1993) provides a summary of the current financial state of postsecondary education in Canada. One of its principal themes is that Canadian universities and colleges are currently in a fiscal crisis that is seriously compromising the quality of and access to higher education. This situation is seen to be the result of a period of steadily increasing enrollments (which recently ended) and declining government spending. The AUCC argues that universities and colleges have thus been forced to reduce the quality of education they offer and to limit access by restricting the number of students admitted to particular courses, programs, or institutions as a whole. This situation is not likely to improve in the foreseeable future.

Consider, however, that studies indicate that, as of the late 1980s (the date of the most recent comparative data available at time of writing), Canada was spending a higher percentage of its gross domestic product on postsecondary education and had a greater proportion of its population going on to the postsecondary level than any other nation of the Organisation for Economic Co-operation and Development (OECD 1992; 1993). At the same time, the OECD analysts judged the performance of the system less than commensurably superior; one of the reports concludes, “Canada spends a lot on education, but does not seem to be getting good value for money” (1992, 76).

The big questions need to be rethought. Who should go on to postsecondary studies, and what are the associated private and social benefits? What makes for a higher-quality education, and what quality are we willing to pay for? How should postsecondary education be funded, and how should it be priced? Should certain levels or fields of study be given preference over others? Is there a better way of delivering postsecondary education, such as eliminating duplicate programs, increasing (or decreasing) the integration of research and teaching, increasing (or decreasing) the number of “mini-career” programs, and so on? Could there be a re-ordering of the functions of the different types of postsecondary institutions — the universities, colleges, and trade and vocational schools? How does secondary schooling fit into these decisions? What of non-academic training programs?

In short, recent CSLP reforms have occurred largely in response to criticism of the Old CSLP and in the context of governments' budget-cutting agendas. Financial assistance for postsecondary students is, however, but one component of a much broader set of questions, and that whole range of issues needs to be addressed — with the student aid system comprising one component of that big picture.