# Andrew Coyne: Instead of offering free tuition for some, change when and how all students pay for university

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The government of Ontario went to some effort to showcase its planned Ontario Student Grant in its recent budget, and with good reason: it's an intelligent, progressive reform of student assistance, in all the ways that its previous reforms weren't.

Rather than offset the cost of tuition for every student, rich or poor, as under the province's ill-starred "30 Per Cent Off" plan, the new plan would roll a number of existing grants and tax credits into a single grant targeted at those most in need. Families earning less than $50,000 would essentially be tuition free, with lesser reductions for those on incomes between $50,000 to $85,000.

Still, there's a downside to targeting: withdrawing the grant as income rises amounts to an implicit tax increase. A family whose income rises from $85,000 to $90,000 would see its grant reduced by nearly $3,000 — an implicit marginal tax rate of more than 50 per cent, on top of the tax they are already paying. Moreover, the OSG assumes that parental income is the correct measure of ability to pay.

Yet it's not always clear to what degree a student can call on his parents to help defray the cost of tuition. For many students, the impact of the fees will be felt only in the years after they graduate, when it comes time to repay their student loans. Without knowing in advance what their income will be, or even whether they will be employed, this can understandably instil feelings of dread.

So while the OSG is an improvement on previous efforts, it still leaves the system in broad need of reform. The problem isn't so much the cost of higher education — the premium accruing to graduates over the course of their working lives, in higher incomes and lower unemployment, will typically be worth many multiples of the initial investment. Rather, it's an issue of cash flow.

Whatever the numbers might say on average and over time, a student cannot be sure he will be earning enough in a given year, especially early on, to make his student debt payments. Reform efforts, then, should be focused less on reducing fees — indeed, as the primary beneficiaries of higher education, students ought reasonably to bear the full cost themselves — than on changing when and how students pay them.

There's no particular reason why students should have to pay anything up front, at the time they are in school. Nor is it necessary that assistance should take the form of conventional loans, with the relatively short timetables and fixed payments these imply. Rather, imagine a system in which students paid for their education over the course of their working lives, and as a percentage of their incomes.

The idea is not new. Indeed, versions of it are already in place in Australia, New Zealand and Great Britain. It is sometimes called a "graduate tax," sometimes "income-contingent loans." But I think the term that most accurately describes it is "student equity investments."

Consider, as a near parallel, the situation of a startup firm in some knowledge-intensive sector. However optimistic its founders may be about the longer term, they will know their prospects are highly uncertain in the short, making them averse to taking out a loan. Lenders, likewise, will find it hard to assess their credit, in the absence of conventional assets. So instead these firms will often go to venture capitalists for funds, offering a share of their equity in return. It's riskier than a loan, but potentially with a higher payoff.

> *If you made a lot of money, so would the government; if you made a little, your payments would be accordingly the less*

That's more or less what this sort of reform entails. Effectively, the state would become an equity partner in your future. In return for staking you the money with which to finance your education, it would take a small share of your lifetime earnings. If you made a lot of money, so would the government; if you made a little, your payments would be accordingly the less. Pooling risks over the entire student population, it should be possible to manage the portfolio in such a way as to deliver a predictable overall return.

Indeed, it needn't even be the government that does it. Though it would make sense to collect payment through the income tax system, one could imagine the funds being put up by private investors — or even the universities themselves. Rather than simply providing a service to "customers" they might never see again, as investors in your human capital they would have a life-long financial interest in your success, complete with career counselling and the like.

Why not just abolish tuition fees, instead, as we do with primary and secondary school? Because their purposes are very different. The purpose of public schools is to provide everyone, so far as schooling can, with roughly the same starting point in life; the purpose of higher education is to enable those of superior intellectual ability to exploit their potential. The one narrows differences in life chances, the other widens them. Society has an interest in ensuring students of ability are not held back by a temporary shortage of funds, but as the primary beneficiary of a post-secondary degree it is the student who should pay for it, in the end.

But isn’t that what the progressive income tax is for? Yes, but not everyone in the same income bracket received the benefit of a post-secondary education, or at the same cost. The more direct the connection between benefit and payment, the greater the incentive for students to make the most of their investment, and ours.