

# Toward a Realistic Conception of Post-Secondary Affordability

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## Two Perspectives on Affordability

The “economics” perspective or “PSE is a investment by students in themselves”

The “consumption” perspective or “how can we find money for next September?”

## Sticker Price or Net Price?

The published level of tuition and fees at Skidmore College for 2009-2010 is US\$**40,420**.

At Carleton, it's C\$**6,102**.

At SUNY-Albany, \$US**6,698**.

The relevant concept for any discussion of affordability, however, is the **net price** actually facing students. Defining and calculating net price



## A year at a public university in the US

2007-2008	Income Quartile			
	Lowest	Second	Third	Highest
Net Tuition & Fees	\$0	\$1,916	\$4,507	\$5,586
Net Room, Board, & Other Expenses	\$9,404	\$10,814	\$10,982	\$11,285
Average Grant Aid	\$7,092	\$4,348	\$2,235	\$1,817
Total Published Cost of Attendance	\$16,496	\$17,078	\$17,724	\$18,688
Source: The College Board, Trends in College Pricing, 2009; National Postsecondary Student Aid Study 2008				

## Lessons from Studies of Housing Affordability

The “residual income” approach to affordability is useful

<http://habitat.ca/foodorshelterp1105.php>

Don't confuse an empirical finding with a normative standard



## Lessons from Studies of Health Insurance Affordability

The use of a normative standard is going to imply “insured non-afforders” and “non-insured afforders”.

Using actual spending behaviour provides an empirical method.



## The “Economics” Approach

Rational, well-informed, far-sighted students maximize their lifetime earnings. This seems far-fetched to some.

$$\sqrt{\heartsuit} = ?$$

$$\cos \heartsuit = ?$$

$$\frac{d}{dx} \heartsuit = ?$$

$$\begin{bmatrix} 1 & 0 \\ 0 & i \end{bmatrix} \heartsuit = ?$$

$$F\{\heartsuit\} = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{\infty} f(t) e^{it\heartsuit} dt = ?$$

My normal approach  
is useless here.

## The “economics” approach, continued

Most economists simply assume that a potential student should evaluate the viability of investing in a post-secondary education.

They thus concentrate on two aspects of that decision: (1) What is the expected rate of return?; (2) Are some students credit-constrained (i.e., unable to borrow as much as they need)?



## Rates of return

First, a crucial point is that each student calculates her or her own rate of return. The average rate of return will not be applicable to all.

Second, simple differences in average earnings capture the results of sophisticated multivariate analyses fairly well.



## Credit constraints

Government student loan programs: original justification was that students could not arrange loans from private sources.

Canada and the US now have an extensive private student loan system, with loans co-signed by parents.

Studies of the proportion of students who cannot borrow as much as they need seem to have settled at an estimate of the proportion of credit-constrained students of about 10%.

## The messy consumption approach

First, even here, there is widespread recognition that PSE is an investment

Concern about liquidity for low-income students

Concern about fairness since low-income students do not get “grants” from parents

Concern about misperceptions of costs and benefits

## Reflections of the consumption approach

Needs assessment formulae

Assumption of family responsibility

Focus on current income

Comparisons to annual family income

Is PSE affordable without borrowing?

## Perceived affordability

Holding net price constant, the preferences of families with respect to PSE will lead to different outcomes

The costs and benefits of PSE are widely misperceived.

## Preferences and PSE

Different families are willing to make different sacrifices to pay for PSE.

A middle-class family with two or three children in school at the same time will have to reduce its consumption significantly if it is unwilling to borrow.

If the new lower consumption is unacceptable, then PSE is unaffordable to that family.



## Misperceptions of Net Price

Complexity is an issue

Three American studies suggest widespread misunderstanding of costs

Tax credits are almost certainly not treated as reduction in net price. Nor are loan remissions.



## Conclusion

PSE is most definitely affordable in Canada. It is not, however, painless.

More could be done to provide grants to low income students, following the American example.

We should not forget that Canada is lucky to have an extensive and low-cost college sector