

Funding Ontario's Universities: What Role Should Students Play?

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Governments have adopted ambitious goals for Ontario's universities in recent decades—in particular, to provide high-quality education to more students and to conduct research that will serve as an engine of economic growth. There is a gap between the cost of meeting these goals and the revenues that governments have been willing to provide, partly because governments have faced their own budgetary constraints and partly because governments have not paid adequate attention to the cost structures within which universities are pursuing these goals or to the overall structure of the higher education system.

Governments could choose one or more of these strategies: support universities in raising more revenues from students, support universities in controlling inflationary costs, support universities in introducing structural changes that will reduce the costs of meeting public goals, or create new pathways to degrees that do not rely exclusively on the traditional research university model. Each of these strategies is worth some attention. Raising more revenues from students can be part of the solution, but the cost of meeting public goals for higher education should not be borne by students alone.

Public discussion about tuition policy tends to revolve around three competing positions. Advocates for each of these positions in Ontario have tended to talk past each other; yet a reasonable tuition policy needs to address all three of these positions.

Position 1: Revenue maximization for universities, provided that access is maintained

Many proposals for tuition policy start with the premise that policy should aim to maximize revenue for the universities, subject to the constraint that access should be protected for low-income students. Some proponents claim that a “free market” in tuition fees will encourage competition and differentiation: some universities would charge high fees for high-quality programs, it is argued, while others would focus on providing better value and fewer frills.

Ontario has had some experience since the mid-1990s with partial fee deregulation accompanied by a provincial requirement that universities devote a portion of the increased revenues to student financial aid. Despite good intentions, universities are not well positioned to be social welfare agencies: their first priority in increasing tuition fees is to pay for inflationary costs; their second priority is to fund scholarships and bursaries that will attract students with high entering grades. Devoting scarce resources to the needs of low- and moderate-income students who do not have top grades does not come easily to universities. Encouraging them to do so has required increasing micromanagement by government.

Nor did partial tuition deregulation lead to the sort of differentiation that might be in the public interest. Universities feared that students might see tuition as a proxy for quality and prestige, and so they engaged in follow-the-leader pricing: when one university raised its fees, the others would follow suit. No university chose to radically alter its operations so it could offer students a high-quality education at a cost significantly lower than its competitors. (Arguably, the universities had little choice, since they began with similar cost structures and faced similar impediments to change.) To the extent that partial fee deregulation led to differentiation, it was because a few universities chose to offer ultra-high cost programming in professional fields such as business and law. If a policy of fee deregulation were introduced again today, we could expect that follow-the-leader pricing would be universal because every university would know that fee deregulation is not politically sustainable in Ontario in the long term, and no university would want to be caught with its fees down when the period of deregulation ended.

Position 2: Consumer protection against oligopolistic pricing

Some participants in tuition debates recognize the need for higher tuition but believe that government has a role in protecting students and their families against oligopolistic pricing. Proponents may argue that a university education is increasingly a necessity rather than a luxury and that universities are highly protected from new competition that might otherwise depress prices. The policy conclusion is that all students—regardless of family income—need to be protected from the desire of universities to increase their prices.

The argument that students and their families need to be protected against oligopolistic pricing will strike many of our university colleagues as odd. Universities perceive themselves to inhabit a highly competitive world. They compete for top students, top faculty, generous donors, major research grants, capital grants from government, and favourable attention from the media.

Many students and their families, however, see this situation differently. Depending on their geographic mobility, students may believe that they have few institutions to choose from, perhaps only one. From the students' perspective, the local university may seem to have them over a barrel.

Position 3: Social inclusion

Proponents of a policy based on social inclusion typically argue that university education is an important public service and should be fully funded from the tax system rather than from user fees. As a first step, they may advocate a tuition freeze. Proponents recognize that a university education creates positive returns for the individual as well as for society, but they note that the same is true for many other public programs that do not charge significant fees directly to the user.

Advocates for a tuition policy that freezes fees as a first step toward eliminating them have some principled arguments in their favour. It is worth pondering why secondary school education in Ontario is free while post-secondary education costs the student thousands of dollars per year: both produce significant returns for the students and society at large.

A policy of free tuition nevertheless has history and international experience against it. The introduction of universal free medical care in the late 1960s has, over time, devoured most of the fiscal space that might be used for other universal initiatives, however worthwhile. While there may be opportunities to increase taxes, the constituency for raising taxes exclusively for the purpose of reducing students' tuition fees is effectively zero. (To test this proposition, imagine the fate of a political party that proposed to raise the HST by 1.5 percentage points in order to eliminate tuition fees for university and college students.)

As well, observation of European systems with very low or free tuition tells us that such a policy is very often associated with low university participation rates and very long times to degree completion. Governments are not fiscally able to provide enough funding themselves to ensure that there are places for all qualified students, and, without the incentive created by significant fees to finish their degree, students often linger longer than they should.

Implication: continued tuition regulation

This discussion of three competing positions suggests some of the practical issues involved in setting tuition fee policy. Partially deregulating tuition fees would please some of the universities, but it is unsustainable: within a few years, the government would need to step in again to curb perceived excesses. Freezing tuition fees as a step to reducing them is also unsustainable: there is no public support for raising taxes to replace tuition revenues, and so the freeze cannot last for more than a brief period.

For lack of a better option, we believe that the government should keep regulating tuition fees. We suggest that the government and the universities need to come to an agreement on an acceptable level of annual inflation in per-student costs. The government then needs to decide how much of this increase it can fund from its own revenues and how much must be funded by the students. Such a policy would put the focus where it appropriately belongs: neither the government nor the students can afford to pay annual increases to fund universities' current rate of inflation. Reducing the rate of growth in per-student costs is the only strategy that will permit a satisfactory policy on tuition fees.

Adapted from *Academic Reform: Policy Options for Improving the Quality and Cost-effectiveness of Undergraduate Education in Ontario*, by Ian D. Clark, David Trick and Richard Van Loon (McGill-Queen's University Press, 2011).