

RESEARCH REPORT

OCUFA

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Reaching for the Top:

What results could well-funded Ontario universities achieve?

June 2004
Vol. 5 No. 3

Executive Summary

Recent studies of Ontario's economic future from a variety of perspectives suggest an emerging consensus for setting an ambitious target of greater achievement in our university sector, supporting proposals for significantly increased public funding. This paper looks at what results could be accomplished by setting and meeting such a target.

The paper examines the projected cost of a series of proposed improvements in the scope and quality of university education, including the commitments made by Premier Dalton McGuinty in the past. It compares the totals with suggestions that provincial funding – which has dropped to last among the 10 provinces – should rise at least to the national average (requiring \$861 million more annually) or to the front of the pack (requiring at least \$1.3 billion). Becoming the first-ranked province in Canada would also raise Ontario roughly to the level of peer jurisdictions in the United States for public funding of universities.

After reviewing the needs for additional undergraduate and graduate spaces, smaller class sizes, lower tuition, improved student aid, better library resources and special funds for Northern institutions, the study finds that strong results could be achieved by making Ontario universities the best-funded in Canada, while settling for the national average would stop deterioration and allow some improvements.

Considering recent research on the economic impact of quality university education, the paper finds it likely that substantially increased public support would be amply repaid in benefits to the province and to Ontarians.

Reaching for the Top: What results could well-funded Ontario universities achieve?

Public discussion of Ontario university funding -- an issue dominated for many years by successive crises of budget cuts, tuition increases and preparations for the double-cohort tidal wave -- appears to be entering an important and possibly fruitful new phase.

In recent months, studies of Ontario's economic future from a variety of perspectives have all made a case for setting an ambitious target for achievement in our university sector. A consensus may even be emerging for the merits of setting a similarly ambitious target for public funding, both as a tool for building the provincial economy and as an investment that would be repaid directly in the tax coffers and indirectly to the population through increased competitiveness and prosperity.

A review shows that several different kinds of funding targets have been suggested, all in a range that would permit real, positive change at universities that have been struggling in recent years to fight off negative change. Here are some examples:

- The "Panel on the Role of Government in Ontario," appointed by Premier Mike Harris before he left office, issued its report in April 2004 saying the province "should increase the amount of public money spent on university education until its spending is, on average, the highest per capita in Canada on a per student basis." This recommendation, which would cost well over \$1 billion annually, is all the more striking since it was funding cuts under Harris that dropped Ontario universities to the lowest per capita level in Canada.
- The Ontario Alternative Budget, a project of the Canadian Centre for Policy Alternatives bringing together labour, social action, community and church groups, proposed in its 2004 edition that university spending should be increased by \$1.7 billion to sustain and improve quality while coping with the still-expanding student demand.
- The province's Task Force on Competitiveness, Productivity and Economic Progress, also appointed by the Harris government, reported in November 2003 that public universities in peer jurisdictions in the United States are able to spend more than twice as much as their Ontario counterparts. The task force concluded that Ontarians are \$965 per capita poorer as a result of investing \$425 per capita less in universities each year than their neighbours. Closing that gap completely to match the Americans would imply increased investments of more than \$4 billion, which would have to come from both private and government sources.
- Before any of these studies, current Premier Dalton McGuinty promised during the 1999 provincial campaign that he would raise postsecondary education funding to the national average over the course of his first term in government. This would require an increase of more than \$850 million annually.

This is not to imply a total consensus here on postsecondary policy. To take the high-profile issue of tuition, the competitiveness task force and the Panel on the Role of Government both favour higher tuition, the Ontario Alternative Budget proposes cutting tuition and the McGuinty government has already delivered on its promise to freeze college and university tuition, at least for the next two years. But the growing harmony – among the otherwise discordant voices – on the question of increased public funding for universities indicates that the climate may be right to examine more closely what benefits might be expected from this kind of substantial investment.

These assessments form part of the context for a task force, headed by former Premier Bob Rae, which the Ontario government has asked to conduct a comprehensive review of postsecondary education and make recommendations for a “sustainable funding framework” in time for next year’s provincial budget. It was outside the range of the efforts cited above to get specific about how significant new funding might be spent or why. This paper attempts to take on that task, analysing the available information to look at what positive outcomes could be achieved with a new level of resources. Governments are understandably weary of having success measured by how much something costs, rather than actual results. Here we look for ways to answer the question: **What improvements and achievements could we expect from setting and meeting an ambitious target for Ontario’s investment in university education?**

How much money are we talking about?

Ontario has fallen far enough behind other jurisdictions that it would take substantial new government investment to catch up with best practices elsewhere, and even more to reach the front of the pack. According to the most recent statistics, the province provides roughly \$2 billion in operating grants, which is about half of the universities’ total operating expenses.¹ (Capital spending, which is more difficult to compare across jurisdictions, is discussed separately below).

Moving Ontario to the national average in operating grants per capita would require **\$861 million** in new funding.² Reaching the national average in operating grants as a proportion of provincial personal income would take **\$1.13 billion**.³ Achieving the target set by the Panel on the Role of Government – making Ontario the leader in public investments in university education – would mean **\$1.3 billion** in

¹ Council of Ontario Universities, Compendium of Statistical and Financial Information, May 2004.

² COU Resource Document, 2002, Table 2.4.

³ COU Resource Document 2002, Table 2.5.

new spending.⁴ By moving to the front of the pack in Canada, Ontario would also catch up with the average of the North American peer jurisdictions examined by the competitiveness task force.

In the next section of this paper, as we examine what positive change these levels of new investment could buy, we will see that this would by no means solve all the money challenges of Ontario universities. This stands to reason – Ontario would simply be catching up to the level of universities elsewhere, which themselves are facing well-publicized struggles to meet the escalating demands of today’s economy and society. On the other hand, there is more evidence emerging all the time to suggest that when major investments in university education are made, the benefits to the society, the economy and even directly to government revenues are measurable and substantial.

This case is also outlined in the Liberal 2003 election platform, which states: “The benefits of higher education are clear: the more you learn, the more you earn. And the more you learn, the more productive Ontario becomes.” The platform presented its postsecondary plan appropriately as part of Leader Dalton McGuinty’s vision for the province’s economy.⁵ In the course of examining the potential value of major new university investments, this paper will also look at how Liberal election promises in the area can be fulfilled, and at the expected short-term and long-term benefits to the province.

What are the priorities?

Add 33,000 undergraduate spaces

The much-heralded “double cohort” that graduated from Ontario secondary schools in 2003 is clearly the beginning, not the end, of a period of postsecondary expansion. The demographic bulge of the “baby boom echo” generation is coinciding with steady increases in the proportion of young people who want to enrol in colleges and universities. The Ontario Liberal election platform recognized this reality by committing to making room for 50,000 new students over five years. Roughly one-third of these would likely attend colleges, two-thirds universities. If anything, it would be sound public policy to encourage still more students to get more education past high school. Premier McGuinty clearly agrees, noting recently: “Fifty per cent of the students who begin Grade 9 either do not graduate from Grade 12 or stop their education after Grade 12 -- despite estimates that 60 per cent of new jobs will go to people who study beyond high school.”⁶

⁴ COU Resource Document 2002, Table 2.4.

⁵ Ontario Liberal Party, “Achieving Our Potential,” 2003, pp. 8-10.

⁶ “McGuinty Commits Government to Reach Excellence for Students,” Premier’s Office News Release, April 22, 2004. <http://www.premier.gov.on.ca/english/news/Literacy042204.asp>

Funding this expansion under the current formulas used by the government would cost approximately **\$240 million**. The formulas, of course, are inadequate: that premise underlies this entire paper. If new funding only addresses new spaces, the new students will pay ever-rising tuition (once the current freeze is lifted) and get only glimpses of their professors from the back of large and decaying lecture halls. But this paper will address those affordability and quality issues in other sections, and use \$240 million as the base for the cost of the new undergraduate spaces.

Increase graduate enrollment by 30,000

A task force of the Council of Ontario Universities issued a report in November 2003 on the future needs of graduate education in our province. The task force examined the likely pressure over the next decade, from the labour market, from demography and from the ever-increasing demands of the knowledge economy. “More and more students will be demanding access to graduate education; and the benefits to them as individuals, and to society as a whole, are readily apparent,” the report said.

The COU task force recommended that Ontario increase its capacity to over 64,000, almost double the current full-time equivalent enrollment of 34,410. Even this dramatic expansion would only mean that Ontario’s production of PhDs per capita would catch up to where its neighbours in the United States are today. Studies by the province’s Task Force on Competitiveness, Productivity and Economic Progress have identified the shortfall in graduate degrees as a significant factor in the “prosperity gap” between Ontario and its peer jurisdictions.

Graduate education is significantly more expensive than undergraduate study. The COU’s estimate for the cost of this recommendation is **\$406 million**.

Reduce class sizes

As funding available to Ontario universities has been squeezed in recent years, the ratio of students to faculty has steadily increased, to a level now estimated as high as 24-1, up from approximately 15-1 as recently as 1988. The inevitable result has been inflated class sizes, especially in the first two years of university, but increasingly in the third and fourth years as well.⁷ Research has made clear that interaction with highly qualified faculty, both inside the classroom and out, is central to public perceptions of a quality university education.⁸

⁷ Michael J. Doucet, “Ontario Universities, the Double Cohort, and the *Maclean’s* Rankings: The Legacy of the Harris/Eves Years, 1995-2003,” OCUFA Research Report, March 2004.

⁸ See for example Ekos Research Associates, Public Perceptions on Quality, report for the Council of Ontario Universities, February 2003.

OCUFA, in its “Benchmarks, a Prescription for a Healthy Public University System,” has set a goal of reducing the student-faculty ratio to 18-1, which would bring Ontario much closer to the level of major public universities in the United States. This would require adding about 4,000 full-time professors at a cost of about **\$420 million**. This additional hiring would be in addition to the anticipated need to replace 6,700 tenure-stream faculty in line to retire by 2010.

The Liberal government has promised to hire unspecified “thousands” of new faculty as part of its expansion of the system, and also committed to a Faculty Recruitment Fund “to help our colleges and universities attract up to 800 of the world’s best teaching minds.” Without question, it will be necessary for Ontario faculty salaries to be competitive in what is an international market for scholars if any of this paper’s goals are to be achieved, but it remains uncertain whether a dedicated fund is the best means to that end. The Liberal platform did not specify how much money would be committed to the Faculty Recruitment Fund, or how it would work.

Reduce tuition

Tuition fees, along with other costs of attending university, more than doubled in the past decade as government support declined. The share of the burden of university expenses now borne by the students is at about 40 percent, an all-time high. While overall participation rates have continued to climb, there is no question the high cost of university education has made an increasing impact on public opinion. A survey by Ekos Research Associates found an overwhelming 89 percent agreed with the statement “the cost of attending university in Ontario is becoming too expensive for most parents and students today.” Polling for OCUFA by Feedback Research Corporation found that 77 percent of Ontario parents were concerned their children might not be able to attend university, even if they were qualified and motivated, and that 51 percent of those concerned parents identified higher tuition and costs as the reason. At a time when more than half of new jobs require postsecondary education, this is an unacceptable situation.

Any significant rollback in tuition costs, however, will also be expensive for the public purse. Universities collect more than \$1.5 billion from students in tuition fees. In the early 1990s, the Ontario Conservative Party proposed pegging tuition at 25 percent of the cost of a university education. To achieve that goal now, after more than a decade of exploding tuition, would require at least \$550 million in additional government funding. A more modest goal, proposed in the Ontario Alternative Budget, would cut existing tuition rates by 10 percent, at a cost of approximately **\$150 million**. This could be included in a package of overall quality improvements and be seen as an interim step toward a more significant eventual reduction at a time when greater resources become available.

The Liberal Party, which supported a 10 percent tuition cut in 1999, later changed to a different approach, promising a waiver covering half the cost of tuition for the “neediest” 10 percent of students. This issue is discussed further in the “student aid” section of this paper.

Libraries

As Ontario's universities expand their undergraduate and graduate programs, it will become even more challenging for the university libraries to stay up-to-date, both in their collections and in the newest technologies for accessing scholarly materials and research archives.

Library expenses currently make up an average of 6.1 percent of operating expenses by Ontario Universities, with acquisitions alone consuming 2.6 percent.⁹ If libraries receive 6.1 percent of the increased funding being considered in this paper, it would mean an increase of up to **\$90 million** to their current budgets.

Northern universities

The OCUFA Research Report on Ontario's Northern Universities (April 2002) demonstrates that those institutions manage with significantly less funding per student in basic grants than their southern counterparts. The Northern schools also have more difficulty attracting research dollars and private funding of all kinds, leaving them even more dependent on tuition, even though they serve a population that often faces greater barriers to pursuing university education. In the context of raising Ontario's public funding to new levels, it would be possible to set aside a special Northern fund of **\$20 million** – in addition to the increases that would flow to those universities through the regular formula – to help address those longstanding issues.

Student aid

There is near-total agreement that Ontario's student aid program is overdue for a serious overhaul. Under the Conservative government, debt loads increased to crushing levels for many students, while many others were made ineligible for loans by a tightening of the rules. Top priority should go to reinstating a broad program of **needs-based grants**, but a thorough review of the existing program must also deal with loan forgiveness, interest relief, targeted assistance for students with special needs, work-study opportunities as well as the realities of personal living expenses and what can be expected in parental contributions. As well, the goal of doubling graduate student enrollment can only be achieved with substantial increases in student support.

The McGuinty government has committed to expand student loan eligibility, institute a tuition waiver for the neediest students and improve graduate scholarships at an estimated cost of **\$170 million** at full implementation. Other estimates of the cost of student aid reforms are in the same range.

⁹ 2001-02, COU Compendium, Tables F-11 and F-12.

Capital investment

Annual operating expenses, while a crucial measure of how Ontario compares to other jurisdictions, by no means cover the entire financial picture for universities. Capital expenditure budgets are more variable from year to year, and more difficult to compare. This has been especially true recently, as universities have scrambled to get ready for the “double cohort” of students through the Conservative government’s “SuperBuild” fund, which required private co-sponsors for building projects in a way that has been demonstrated to twist academic priorities.¹⁰ Even though provision for capital investment is outside the scope of this study, it is important to note the urgent need to deal with at least \$1.5 billion in deferred maintenance, before the deterioration of buildings and physical plant causes a health and safety crisis on university campuses. The Liberal government’s new Ministry of Public Infrastructure Renewal has signalled a commitment to improving the quality of university physical infrastructure and engaged in extensive consultations, but has not yet disclosed its plans.

To sum up:

Add undergraduate spaces	\$240 million
Double graduate enrollment	\$406 million
Reduce class sizes	\$420 million
Reduce tuition	\$150 million
Libraries	\$90 million
Northern universities	\$20 million
Student aid	\$170 million
Total	\$1.496 billion

¹⁰ Heather-jane Robertson, David McGrane and Erika Shaker, “For Cash and Future Considerations: Ontario Universities and Public-Private Partnerships,” Canadian Centre for Policy Alternatives, <http://www.ocufa.on.ca/cash.pdf>

What positive results could Ontario expect from this commitment?

As this analysis shows, moving Ontario to the national average in university funding, with \$850 million in increased annual funding, would enable us to move barely halfway to the targets outlined above. This would clearly be a significant improvement over the status quo, and would stanch the deterioration with which our universities have been contending. But it's just as clear that full achievement of excellent results would require Ontario to move beyond the "Canadian average" to assert a leadership role on this continent in university education. Increasing operating grants by nearly \$1.5 billion, to achieve fully the goals set out here, would put Ontario solidly in the first rank among provinces. The costs of such a commitment, even if phased in over many years, would be substantial. But more and more evidence is emerging to show that the benefits from this investment would be even greater.

Different studies of the economic impact of postsecondary education have examined the effects in very different ways, while reaching broadly similar conclusions. The Ontario government's Task Force on Competitiveness, Productivity and Economic Progress, cited above, concluded that by investing \$450 per capita more in universities than Ontario does, our "peer group" of 14 U.S. states plus Quebec produces \$965 per capita more in GDP at purchasing power parity prices – the statistic the task force used to represent standard of living. By implication, if Ontario increased its investment in universities by \$1 billion, the province's GDP should increase, eventually, by more than \$2 billion.¹¹

A study for the Council of Ontario Universities in 2001 looked in greater detail at the connections between Ontario's expenditures on universities and the payback to the provincial treasury. Based on 1998 data, it found the province investing a total of \$2.1 billion annually and reaping \$3.2 billion in direct and indirect returns. This study examined innovation benefits, the earning power of university degree holders, expenditures in the economy by out-of-province students and by the universities themselves, and costs the province avoids because of the greater propensity of university graduates to give to charities and do volunteer work.¹²

¹¹ "Investing for prosperity," Second Annual Report, Task Force on Competitiveness, Productivity and Economic Progress, November 2003.
<http://www.competeprosper.ca/task/ar2003.pdf>

¹²Enterprise Canada, "The Economic Impact of Ontario's Universities," January 2001.
<http://www.cou.on.ca>

In a similar vein, the Association of Colleges of Applied Arts and Technology of Ontario released a study in January 2004 finding that public investments in Ontario colleges repay the taxpayer at an annual rate of 12.7 percent, counting the additional earnings of college graduates as well as improved health, reduced welfare, unemployment and crime.¹³

Looking at both colleges and universities, W. Craig Riddell, in a 2003 paper prepared for the Panel on the Role of Government in Ontario, reviewed the extensive literature, especially in the United States, on the social benefits of higher education. He concluded that a real return to society of 7 to 10 percent annually on the investment “is arguably a conservative estimate.” Riddell noted that such benefits can extend as far as better health and lower crime rates among the children of educated parents. He also examined U.S. research that has been able to distinguish between benefits actually deriving from university education and positive outcomes associated with other qualities of those individuals more likely to get university educations.¹⁴

Looking at all the research, Ontarians can be very confident that if they muster the resources to increase their investment in universities, the benefits to our province will be significant and long-lasting.

¹³ Kjell A. Christopherson and M. Henry Hobison, “The Socioeconomic Benefits Generated by 24 Colleges of Applied Arts and Technology in Ontario,” January 2004, <http://www.acaato.on.ca/new/>

¹⁴W.Craig Riddell, “The Role of Government in Post-Secondary Education in Ontario,” Background Paper for the Panel on the Role of Government in Ontario, August 2003, <http://www.law-lib.utoronto.ca/investing/reports/rp29.pdf>