

TRENDS IN HIGHER EDUCATION

The Public Wisdom of Public Funding: **Ontario Universities and the Recession**

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The public wisdom of public funding: Ontario universities and the recession

During this latest recession the enormous losses being incurred by university endowment funds received extensive media attention. Ontario university administrators were sounding the alarm, warning that their institutions would have to cut expenses and take a hard line at the bargaining table as a result of endowment fund losses.

While it is true that in the United States, private universities such as Harvard were facing financial difficulties on account of their endowment funds' sustaining huge losses, it was not true for Ontario universities, which are publicly funded. Indeed, what the recession made clear was just how important public funding is for assuring that Ontario's universities can weather a severe downturn and continue to serve students, just when students, arguably, need to be at school the most, when jobs — especially jobs for young people — are scarce upon the ground.

Public funding of education means that education is not subject to the vagaries of a boom-and-bust economy but, rather, to the democratic process of political and social decision making. Instead of being tossed about by market forces, publicly funded educational institutions are dependent on an electorate's values. In Ontario the electorate has for more than 150 years been firmly on the side of accessible, affordable, high-quality, *public* education.

Ontario governments act accordingly, and the current Ontario government is no exception. Though much concern has been expressed in many quarters about the negative impact of the recession on the province's balance sheet, the McGuinty government has protected universities. It maintained funding for "Reaching Higher" in its 2009 provincial

Budget and made the postsecondary sector a major beneficiary of Ontario's recessionary stimulus spending. As well, and significantly, in its fall Economic Statement, the government spared education – elementary, secondary, and postsecondary – along with employment and health, from its spending restraint program.¹

What was the impact of the recession on Ontario's universities?

Instead of the growth rate usually enjoyed by Ontario – about three per cent -- the recession created a nine per cent gap between Ontario's potential economic performance and its actual performance. But the university sector is not directly involved in the economy, so while the state of the economy might affect the environment in which universities operate, its actual impact will only be felt indirectly, via its impact on universities' sources of revenue.

That indirect impact on university revenue, however, is minimal, for 91.4 per cent of university revenue in Ontario comes from a combination of federal and provincial transfer payments and students' tuition and fees. A further 5.2 per cent comes from the sale of goods and services, such as student residences and food services, which are also largely insulated from recessionary forces. Another 3.3 per cent comes from other sources, and little more than half of that – 2.1 per cent – comes from investments, which *can* be affected by recessionary market forces. In other words, only an average two per cent of all revenue flowing into university coffers can be affected by events in the market economy.

¹Ontario. Ministry of Finance. *Ontario Economic Accounts, October 2009.*

Table 1

Where do Ontario's university revenues come from?

% share of operating costs	
Federal	0.3%
Provincial	48.8%
Other govt.	0.3%
Tuition	36.7%
Fees	5.4%
Sales & misc.	5.2%
Grants & contracts	0.5%
Donations	0.7%
Endowment	0.3%
Other	
Investment	1.8%
Total	100.0%

Consequently, to a significant extent, Ontario university finances are determined, not by market forces, but by political decisions. These may be *influenced* -- but they are not *determined* □ by the state of the economy.

As Table 2 shows, the *political* nature of university funding decisions is demonstrated by the substantial variation among provinces in the mix of revenue sources for colleges and

universities. Moreover, there is no discernable relationship between the portion of overall university revenue that comes from a provincial government and that province's economic health. For example, Ontario – one of Canada's richest governments -- provides only 37 per cent of its universities' revenue while New Brunswick, a much less revenue-rich province, provides 45 per cent.

Table 2

Differences among provinces

show that political choices, not market forces, determine funding

Sources of university revenue, 2008-09						
	Federal government	Provincial governments	Tuition	Sales of goods and services	Investments	Other sources
Canada	9%	46%	21%	14%	3%	8%
Quebec	10%	59%	10%	12%	2%	7%
Ontario	9%	37%	26%	15%	4%	9%
Manitoba	8%	50%	19%	10%	2%	10%
Saskatchewan	9%	51%	15%	15%	4%	5%
Nfld & Labrador	12%	56%	14%	13%	1%	5%
PEI	12%	41%	23%	18%	1%	5%

Nova Scotia	9%	34%	30%	17%	3%	7%
New Brunswick	8%	45%	27%	9%	4%	7%
Alberta	7%	50%	19%	14%	3%	6%
BC	8%	47%	23%	13%	3%	6%

What was the impact of the recession on university revenue?

The impact of the recession on university finances was minor, even negligible. Since investments make up such a small proportion of university operating revenue, the highly-publicized and widespread concerns about the impact of recessionary market conditions on university endowment funds were almost entirely unfounded.²

There is an important lesson to be drawn from this episode, however, one that can be easily overlooked.

What the publicity surrounding the recession's impact on university endowment funds failed to note was that our universities remain stable during recessionary periods by virtue of the fact they are funded by the people of Ontario. Thanks to this publicly funded status -- provided an Ontario government is supportive of higher education -- the province's universities can continue to serve students through difficult economic times, producing an educated workforce and the next generation of society's leaders.

² Two possible exceptions are the University of Toronto and the University of Western Ontario. Both have large funds that lost money during the recession. Even in these cases, however, the funds are not used to underwrite operating budgets but, in the main, student assistance.

Conclusion

Universities are not exempt from the impact of economic changes, but it is vital to look behind the headlines and investigate the impact of economic change on the *specific* sources of revenue that universities rely on.

Ontario universities draw the lion's share of their funding from tuition and from provincial government grants, both of which are determined by political decisions, not market forces.

As a result, since market forces affect only a small portion of university finances, the impact of a recession on Ontario's university sector is minor. So, far from causing alarm about universities' fiscal condition in a downturn, the plunging fortunes of university endowment funds and other private investments serve only to underscore the prudence and wisdom of public funding for the province's higher education system.