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The New Finance of Public Higher Education – Canadian Perspective

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The University of Ottawa is Canada's bilingual university located in Ottawa, the country's capital. UofO has over 30,000 undergraduate students, 4,000 graduate students and an annual budget greater than $600 million.

I'll be speaking about the new funding of public higher education in Canada.

I'll begin with an overview of the Canadian higher education sector: who regulates and funds higher education. I'll describe how the faculty is organized. Then I'll go over the trends in university funding and how this has impacted the quality of education and the challenges faced by faculty associations. I'll review the Ontario experience specifically and how it compares to the United States. Finally, I'll touch on what lies ahead.

Canadian Higher Education Sector

There are 91 Canadian public universities across the country and very few private-for-profit universities.

Canada is a federation of ten provinces and three territories. Provincial governments have exclusive responsibility for all levels of education. There is no ministry or department of education at the federal level. The universities normally derive their authority from provincial legislation. And so, they have derived much of their direct funding from provincial governments. However, there have been steep cuts in public funding of public higher education over the last decade, leading to a reduction in the number of full-time faculty in Ontario and downgrading of the quality of the educational experience.

Now let's review how the faculty is organized. Most of Canada's full-time university professors negotiate collectively through faculty associations. Some are unionized and some are not. Generally, faculty associations that are not unionized have special plan agreements in place to negotiate collectively. For those full-time faculty associations that are unionized, they are separately certified rather than being locals of a larger organization. This is not the case for part-time faculty.

The incidence of faculty unionism [1]is much greater in Canada than in the United States. Canada has a long organizing history, especially in the public sector. Provincial labour laws protect workers' rights to bargain collectively. There is no country-wide counterpart to the Yeshiva decision in Canada. Certified faculty associations have the legal right to conduct work stoppages. Strikes, however, are rare.

[1] Daniel I. Rees, Pradeep Kumar, and Dorothy W. Fisher, "The Salary Effect of Faculty Unionism in Canada," *Industrial and Labor Relations Review*, Vol. 48, No. 3, 1995. "Of the 50 independent, von-vocational universities belonging to the Association of Universities and Colleges of Canada, 44 are obligated to bargain over terms of employment with faculty representatives," p. 441. See also: Karen R. Grant and Penni Stewart, *Canadian Review of Sociology and Anthropology/ Revue canadienne de sociologie et antropologie*, 39.3, 2002, pp. 249-260.

However, from October 26, 2000 to January 10, 2001 Contract Faculty and Teaching/Research/Graduate Assistants--organized as Local 3903 of the Canadian Union of Public Employees staged a strike and shut down York University, an institution that serves 40, 000 students. They contended that they did 40% of all teaching at York yet received only 6% of the campus budget.

Unions have formed independently on a university-by-university basis, in contrast to many U.S. state systems. Faculties began to unionize in the 1970s in response to:

- A declining academic job market and consequent concern for job security in the face of uncertain provincial funding
- A legislative environment that was conducive to the formation of professional unions
- Governance/control issues: faculty conviction that university bureaucracy was increasing in scope and power at the expense of faculty

Compensation played a secondary role in the formation of faculty unions. A 1995 paper by Rees, Kumar and Fisher[2] on the salary effect of faculty unionism in Canada raises the possibility that similar factors in the United States and Canada dampened the ability of faculty unions to fight for higher compensation. Specifically it's been suggested that most universities have "no rents that a union can capture". The decrease in public funding supports this argument.

Some Canadian faculties chose not to become certified unions, but to bargain collectively under a private contractual arrangement called a "Special Plan". The Special Plan is an intermediate institutional arrangement, somewhere between a non-unionized faculty and a certified union.

Under these arrangements, faculty associations negotiate salaries and other terms of employment. Special plans are in many cases indistinguishable from other collective agreements. They typically provide for third-party interest arbitration in the case of salary disputes, and often establish grievance procedures, work rules, promotion requirements, and so on. However, the right to strike comes only with the certification under provincial labor relations legislation.

Based on the Rees, Kumar and Fisher paper, on average, formal certification under a labor relations stature was associated with a 2-3% salary for Canadian faculty in the period 1972-91. The return to entering into a special plan agreement was about 2%. This may be somewhat surprising. It may be that arbitration procedures such as those found in special plans and the right to strike has similar effects on salaries. Moreover, faculty employed under special plans can threaten to certify, and this can influence salary negotiations.

Faculty associations, whether certified or under a special plan, typically belong to the Canadian Association of University Teachers (CAUT) and their provincial counterpart. These associations are not the bargaining agents of the faculty associations. They provide strategic and tactical support to faculty associations. CAUT is the national voice for academic staff, representing 55,000 teachers, librarians, researchers and other academic professionals and general staff.

Sources of Funding

[2] Rees, Kumar, and Fisher cited above.

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Public higher education institutions in Canada obtain most of their direct funding from provincial and federal government sources, with the largest share coming directly from the provinces. The balance is obtained from tuition fees; research grants; contracts with business and industry; government research contracts; donations; and investment income.

The federal government provides indirect support to public higher education through fiscal transfers to the provinces and by funding university research and student assistance.

The federal cash transfers to provinces, however, are a block fund. That is to say that the provinces are responsible for determining how federal money is spent and they are not required to report how these cash transfers have been allocated. Pundits have been calling for a new dedicated cash transfer to higher education institutions, governed by clear guidelines that will ensure transparency and accountability.

Trends in University Funding

The 1990s witnessed steep cuts in public funding: both in federal cash transfers to provinces for public higher education and in provincial transfers to universities.

One of the greatest sources of relative growth in university revenues in recent years has been sponsored research. The real per capita value of federal research transfers has increased by 62% between 1992 and 2004. However, the key problem facing Canada's universities has been the decline in operating grants. As a result, the other greatest source of relative growth in university revenue has been tuition fees.

Focus on Sponsored Research:

More than one-third of the research conducted in Canada is performed at Canadian universities.

Governments have significantly increased their support of research in universities to maintain the country's economic viability, increase productivity, and enhance its level of international competitiveness. One major program is the Canada Foundation for Innovation (CFI). The CFI generally supports 40% of project costs and recipients must raise the remaining 60% from other sources in order to secure CFI. There are several other programs that require private matching funds.

This has led to a need for universities to become more sophisticated fundraisers, and this has led to greater involvement in fundraising activities by management, faculty, and board members. Public higher education institutions are developing a culture of fundraising. In essence, the fund raising campaigns will never end in order to develop and maintain sustainable levels of mission based fundraising.

While governments have promoted stronger links with the private sector, some have cautioned that this poses a potential conflict between corporate interests and research ethics. Also, they have claimed that this poses a threat to fundamental research as a result of a corporate focus on more commercially viable applied research.

Tuition Increase:

Average undergraduate arts tuition fees nearly tripled between 1990 and 2004 as universities relied more on tuitions for their basic operating revenues. University students today are paying a far greater share of the cost of their education than at any other time in the past 40 years. Some would argue that students should not be given a free ride. In fact, the Ontario government made it a policy that students contribute to the cost of their education as they will be reaping future rewards from this personal investment. In 1999, the Ontario policy was that tuition should be 35% of operating revenues. Also, it was mandated, until recently, that 30% of increases in tuition fees be allocated to Student Financial Aid.

The significant increase in tuition fees, however, threatens access to higher education. I'll come back to this issue.

The source of university revenue has shifted in the last decade. Just fewer than 50% of revenues are derived from private sources. This has been referred to as the "creeping privatization" of universities. The trend toward greater privatization is most pronounced in Ontario and Nova Scotia, where in 2002, more than half of all university revenues came from private sources.

Overall Impact

The underinvestment in higher education has resulted in a reduction in the number of full-time faculty, larger class sizes, fewer course offerings, diminished library holdings, and a deteriorating infrastructure. This has had a serious effect on the quality of the educational experience for undergraduate and graduate students.

Like the United States, Canadian universities have responded to cost pressures by increasing their use of part-time and full-time, non-tenured faculty – although on a smaller scale. The career prospects for full-time contract faculty in Canada are questionable. CAUT has dedicated resources to organizing this group of faculty.

Ontario's Experience

Relative to Other Provinces:

On a provincial government funding per-capita basis, Ontario has been 10th out of 10 provinces for over 10 years.

As a result of the funding shortfall, the gap in student-faculty ratios has been increasing. If Ontario could provide the same student-faculty ratio as the other provinces, we would have had an additional 1,700 full-time faculty in 2002-03 to supplement the 12,250 faculty in place that year.

Relative to the United States:

On a per-student basis, total revenue for a US peer set of schools was nearly one third higher for the US institutions compared to Ontario universities. The peer set is a set of 170 peer American institutions selected according to their similarly with Ontario universities in terms of size, degree profile and program mix.

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Impact of Ontario's Lower Investment:

The funding gap has created a quality gap, as demonstrated through the results of the 2006 National Survey of Student Engagement (NSSE):

- The intensity of student-faculty interaction at Ontario universities is at least 25% below that experienced at their U.S. peer institutions
- The degree of active and collaborative learning at Ontario institutions lags at least 15% below that in their U.S. peer group

Finally, Ontario's Task Force on Competitiveness, Productivity, and Economic Progress, in its 2006 annual report, pointed to the "lowest level of educational attainment compared to those living in the peer states, particularly at the university graduate level"; this factor lowered prosperity by 16% in Ontario relative to the median US peer states.

Ontario's Reaching Higher Plan

On the positive front, the new Ontario government introduced in 2005 its Reaching Higher plan to provide substantial new funding to universities. Through this plan, the provincial government committed and additional $6.2 billion to higher education over 5 years. The plan supports the government's strategy to improve access to higher education, enhance quality by adding more faculty and staff, and make higher education institutions more accountable to the public. However, enrolment growth was underestimated, and as such, there is now a significant projected shortfall (over $800 million) over the remaining four years of the Reaching Higher plan.

To compound the funding shortfall, over this decade, Ontario universities will see their student population grow by almost 50%.

Starting this year, each Ontario university will enter into a signed multi-year agreement with the provincial government. The agreements will outline multi-year actions plans to set out how they contribute to sector goals.

The Multi-Year Accountability Agreements provide stability and consistency in operating grants for the next 3 years.

Looking Ahead

In a 2004 paper on the economics of faculty unions, Hosios and Siow[3] (two University of Toronto Economics professors) concluded that Canadian faculty unions have had no effect on university revenues, only a small positive effect on earnings, a negative effect on research output, and lead to earnings redistributions across disciplines and ranks.

Public universities in Canada operate as non-profit organizations and as such, there are no shareholders to retain university earnings. The authors claim that the faculty is the residual claimant of the university and that there are no rents. This implies that the effect of faculty

[3] Arthur J. Hosios and Aloysius Slow, "Unions without Rents: the Curious Economics of Faculty Unions," *Canadian Journal of Economics*, Volume 37, No.1, February 2004.

unionization on the average wage of academics should be small. While the union wage advantage across all industries in North America ranges from 10 to 20%, the situation in higher education is very different as highlighted in the Hosios and Siow paper.

Although compensation is important, the Canadian labour movement in public higher education is focused on the following challenges:

- Job security
- Career mobility
- Establishment of a career path for contract academic staff
- Workload

Advocacy by all stakeholders in public higher education in Canada is essential to ensuring funding realities to achieve the objectives of accessible quality higher education.

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